



RAFFLES LEGACY LEARNING

BUSINESS STRATEGY MASTERCLASS

BOOK TWO - DEVELOPING YOUR OWN STRATEGY

PHASES OF STRATEGY I



MASTERCLASS COURSEBOOK



PORTFOLIO & PROFIT PERSPECTIVE

Clear strategies require a fresh look at the collection of businesses being pursued and the value of the entire portfolio as a system as well as a collection of individual business units.

The era of businesses attempting to be all things to all people in all places at all times is well and truly over.

As businesses evolve, a new approach to the management of the portfolios of businesses and activities can lead to an optimal configuration of assets and activities, internal and external.

- **Competitive Business Unit Portfolio:** Restructuring your portfolio of businesses properly to focus only on the strategic business units (SBUs) you choose to pursue, can create great economic value for your stakeholders. By eliminating low yield activities, adding or increasing investment in growing and profitable businesses, and focusing the organization in the areas that matter most, you can lift the performance of your overall business.
- **Business Process Portfolio:** Restructuring your internal portfolio of activities can also lead to a more efficient business model. Analysis can lead to spinning off processes, outsourcing, combining entities, re-engineering, and pursuing corporate transformation programs.





Explanation: Traditional Portfolio Imperatives and Current Situation

Industry Growth (unit volume)	High	III. Question Mark	Attractive Middle Ground	I. Star
	Low	IV. Dog	Middle Ground	II. Cash Cow
		<ul style="list-style-type: none"> Invest or Exit 	<ul style="list-style-type: none"> Drive to leadership 	<ul style="list-style-type: none"> Focus Invest
		<ul style="list-style-type: none"> Exit or Minimize 	<ul style="list-style-type: none"> Optimize returns and performance Review potential to create leadership options vs. exit 	<ul style="list-style-type: none"> Maintain leadership Harvest cash for reinvestment
		Weak		Strong
		Relative market share		



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Current Business Portfolio

Future Market Attractiveness	High	III. Question Mark	Attractive Middle Ground	I. Star
	Low	IV. Dog	Middle Ground	II. Cash Cow
		<ul style="list-style-type: none"> Ladies' watches Note : no sports watches 		
		<ul style="list-style-type: none"> Perso leather Italian property 	<ul style="list-style-type: none"> Men's watches (luxury) 	<ul style="list-style-type: none"> Pocket watches
		Weak Follower		Strong Leader
		Current competitiveposition		



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Competitive Business Unit Portfolio

		SECTOR			
Industry Attractiveness (unit growth)	Hi	Sport watches	Urban watch (competitor)	Rural Watch (competitor)	Sportius (competitor)
		Luxury watches	Tempo Meister (competitor)	ROYAL Raffles	Zurich-Swiss (competitor)
	Lo	Leather goods	Raffles (Perso)	Media Classa (competitor)	Lusso leather (competitor)
		Pocket watches	Tempo Meister (competitor)	Zurich-Swiss (competitor)	ROYAL Raffles
		Italian property	Raffles (Perso Property)	Secando Property (competitor)	Palazzi (competitor)
		Weak Follower	Middle Ground	Strong Leader	
Current competitive position					


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Explanation: Competitive Business Process Portfolio

Often, strategy is driven almost exclusively through an integrated approach to the corporate and SBU portfolio, focusing on opportunities to grow, buy, or sell businesses.

However, corporate portfolio and SBU strategy need to be balanced by a thoughtful approach to the internal processes and practices of a business as well. Great industrial success stories in the past such as The Ford Motor Company, Dell Computer, Federal Express and countless Japanese businesses have been driven by **how** a company operates as much as **what** new businesses it creates.

By innovating within the portfolio of processes, companies may be able to improve relative operating performance and enterprise value dramatically.

Addressing the portfolio of internal activities can lead to:

- reduced costs
- improved service
- accelerated innovation
- freed up capital
- focus on the essential
- improved opportunities for SBUs

Traditional Business Process Portfolio Imperatives

		III. Capable	I. Crown Jewels
In-house capability vs. external alternatives	High	<ul style="list-style-type: none"> • Keep in house • Consider offering as third party service to gain scale 	<ul style="list-style-type: none"> • Invest to create clear leadership • Set and monitor key performance indicators
	Low	IV. Non-core <ul style="list-style-type: none"> • Outsource if quality suppliers available • Discontinue if possible 	II. Critical <ul style="list-style-type: none"> • Invest to improve • Careful consideration of outsourcing
		Low	High
		Importance for vision realization and competitive advantage	


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Business Process Portfolio

Industry Total Profitability Perspective

It is no longer enough to analyze only the traditional view of profits earned by a business in a modern industry. A 360-degree view of profit – and profit opportunities along the value chain – is essential.

All sources of current and potential profit – taking into account both external and internal profit pools – need to be analyzed, understood and acted upon. Many car companies, appliance manufacturers and electronic goods retailers, for example, now make far more money in services, warranties and finance than on new product sales. The same is true for elevator companies.

		III. Capable	I. Crown Jewels
In-house capability vs. external alternatives	High	<ul style="list-style-type: none"> • Building security • Logistics 	<ul style="list-style-type: none"> • Product design • Manufacture • Service
	Low	IV. Non-core <ul style="list-style-type: none"> • Production of marketing material • Payroll administration 	II. Critical <ul style="list-style-type: none"> • Advertising design • Copy writing • HR Management system • Tax management
		Low	High
		Importance for vision realization and competitive advantage	


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To be comprehensive in understanding where the money is being made, a company needs to look at its internal sources of profit, and also beyond its own borders and even beyond those of its stage in the industry value chain.

Where are the best margins being made in the industry as a whole?

How will this change in the future?

Can a company go after the most profitable segments of business in the industry value chain? How to do this? To be effective in focusing on high return investment and action, strategies must address:

The external profit pool – documenting and analyzing the potential to participate in (or withdraw from) various stages of the industry's profit pool.

The internal profit pool – documenting and analyzing the true sources of profitability within the current (and future) business model.



Industry Profit Pool*

COMPETITOR	REVENUE (US\$ MM)	REVENUE TREND	MARGIN	EBIT (US\$ MM)	EBIT TREND	COMMENTS
Component Suppliers	500	➡	7%	35	⬇	Competition from Asia
Zurich Swiss	1250*	⬆	18%	225	➡	New Leader
Raffles	1000*	⬇	15%	150	⬇	Lack of range limits growth
Sportius	250	⬆	20%	50	⬆	Sports watch leadership
Tempo Meister	150	⬇	10%	15	⬇	Decline/quality problems
Others	200	➡	5%	10	➡	Lack of presence in owned distribution
Independent Distributors	1200*	⬆	6%	72	⬆	Developing own brands to capture share of profit pool
Secure Logistics	200*	⬆	40%	80	⬆	Growing global business
Service	300	⬆	50%	150	⬆	Repair, restore, maintain
Retail	3000	⬆	15%	450	➡	Globally fragmented

*Luxury watches only

Total Profit Pool

US\$ 1,237MM



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Raffles Internal Profit Pool (watches only)

PROCESS STAGE	REVENUE *	MARGIN* (%)	EBIT (US\$ MM)	FUTURE PROFIT POOL TRENDS
Design	5	40	2	Increasing
Component manufacture (dials, cogs, casing)	150	2	3	Declining due to price
Assembly	200	5	10	Declining due to cost
Distribution	90	22	20	Declining due to competition
Direct sales	100	23	23	Increasing due to sales mix
Retails sales/owned outlets	400	20	80	Stable
Services/repair	20	50	10	High growth potential
Insurance	0	30	0	High growth potential
Antique watch restoration and sale	5	50	2	Attractive growth ?
Total	1000		150	

*Management analysis based upon comparable margins in similar companies



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