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Bridge the Gap Between Strategy and Tactics: Part 1

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The Magic Matrix is a tool showing managers where and why they are making money, and lets them identify areas of high and low potential.

by Jonathan Byrnes

Part 1

Profitability management, the theme of this column, is all about translating great strategies into sound plans—and sound plans into effective tactical actions. Consider again the president's dilemma that I described in my first column: In an operating review, all the VPs made budget, yet the president still didn't make his profit budget.

What went wrong? The VP of Sales had beaten her quota, the VP of Marketing had developed popular new products, and the VP of Distribution had met his service and cost objectives.

But the new customers were located far from the warehouses, the new products competed with the company's most profitable products for scarce capacity on a critical production line, and the warehouses were unknowingly giving service priority to low-profit accounts rather than those that the sales department had targeted.

This scenario occurs in company after company, quarter after quarter. Each functional jurisdiction sets objectives and makes plans, but it is the interaction of these plans that determines whether the president makes budget. Surprisingly, although many companies know that this happens, most have not found a solution. Their managers typically share a loose high-level vision, but cannot reach an effective, detailed alignment.

This fundamental lack of coordination is a long-standing, seemingly intractable problem, and a serious deadweight drag on profits. The root cause is the failure of integrated planning to link strategy and tactics. This problem occurs so often because products, sales, and orders are inherently cross-jurisdictional. Each order is from a customer (sales function) for a product or service (marketing function) to be coordinated by customer service people and filled by operations personnel.

The Magic Matrix is a very powerful, intuitive, easy-to-use model of a company as it interacts with its markets.

Effective integrated planning requires two things: (1) a rigorous, shared analytical framework, and (2) a process for bringing each manager's perspective to bear on maximizing the company's performance both during planning and throughout implementation. The Magic Matrix meets both of these needs.

The Magic Matrix is a spreadsheet chart with key products or services on one dimension, and key market segments or accounts on the other, both arranged in descending order by total revenues. Managers can populate the product-account cells with valuable information ranging from revenues to profitability to sales potential to differentiation. The Magic Matrix is a very powerful, intuitive, easy-to-use model of a company as it interacts with its markets. It enables a management team to look at a shared set of information on the key aspects of their company's accounts, products, and operations, and to develop the most fruitful ways to improve performance.

The Magic Matrix shows a company's managers where and why they are making money, and lets them identify the internal and external areas of high and low potential. They can use the Magic Matrix to frame and test different programmatic, coordinated "lines of attack" on the market. Once they agree on a direction, it provides a forum and format to align, and later adjust, their operating plans. They develop the shared viewpoints and cooperative culture that allows the company to reach its full profit potential.

I gratefully acknowledge Harvard Business School Professor Emeritus Benson P. Shapiro for co-developing and co-authoring the material in this column.

Visualize the business

The Magic Matrix gives managers a very powerful way to visualize their businesses. We favor extensive quantitative analysis because it facilitates precise fact-based decision making. But we have found that the easiest way for many groups to move into Magic Matrix-based integrated planning is with qualitative analysis.

For example, with a relatively small Magic Matrix, a management team can easily identify where its company has competitive strengths. Once the matrix is set up, the product-account cells can be divided into color-coded categories: stronger than competition, weaker than competition, and parity.

The managers can gauge their company's momentum relative to competitors in each cell, and denote it by an upward arrow, a blank, and a downward arrow. The team can quickly assess competitive vulnerabilities and weaknesses, with a strong sense of how the picture is changing over time. The detail is much greater than with a standard SWOT (Strengths, Weaknesses, Opportunities, and Threats) approach used by many companies.

Inevitably, the management team will know the general size of each cell, and someone will say, "That cell is currently our bread and butter, and we are now only at competitive parity. Our competitors are gaining on us. We must do something!" (This is an actual quote from a meeting.) Often the Magic Matrix adds value immediately by providing a framework to coalesce feelings that individuals had experienced, but could not adequately communicate to the whole team.

The Magic Matrix, even in this "lite" form, enables the group to decide how to respond to the opportunities and threats they identify. They discuss whether the problems and opportunities are more amenable to improved products, or improved selling, sales management, marketing communication, or operations efficiency.

One of our clients in the steel business had thirteen product lines that shared some raw materials and much production machinery, and sixty-five accounts, some of which bought multiple product lines. It developed a Magic Matrix for its annual planning process because there was no other way to present and analyze the mass of data. The process led to much more comprehensive and coordinated planning. All kinds of sales patterns of products across customers became clear, as did the purchase patterns of large accounts.

For example, for the first time ever the company's top management realized that its largest customer was also the largest single customer in each and every one of its thirteen product lines. Because the product managers had previously focused separately on each line, no one had ever realized how vulnerable the company was.

Today's deficient planning systems lead to endemic problems in many companies, including low profits, low growth, commoditization, chronic pursuit of too many opportunities with too little focus, misallocated resources, and competitive followership.

The Magic Matrix eliminates these problems because it provides: (1) an integrated planning architecture; (2) a detailed, fact-based approach; (3) an organizational process for cultural convergence; (4) a roadmap to implement the process; and (5) a "Global Positioning System" to measure tactical progress against the strategic plan.

Magic Matrix-based planning

There is a typical way to approach Magic Matrix-based integrated planning: first, by analyzing revenue and profitability patterns, then proceeding on to more sophisticated applications. The former is core integrated planning, the latter is advanced integrated planning. Both can be approached in either a qualitative or quantitative manner.

Here is an overview of the planning process. Next month's column will explain how to use these planning steps to maximize your company's profitability and prospects.

Core integrated planning is a five-step process, which includes these key Magic Matrices:

- Revenue matrices show the distribution of revenues in the product-account cells.
- Unit and Price matrices show the distribution of unit sales, prices, and relative prices (e.g., price per

horsepower).

- Potential, Penetration, and Capacity matrices show account purchasing potential relative to sales and production capacity and utilization.
- Profitability matrices show the distribution of profit dollars and percentage profitability, and resource productivity (e.g., ROI of a critical asset). These combine to give a richly textured view of profitability.

The Magic Matrix enables managers to go far beyond core integrated planning into much more sophisticated, powerful advanced integrated planning. Here are six applications:

Outsmarting the Competition. The Magic Matrix allows managers to identify major competitive opportunities and threats and devise effective ways to maximize their company's positioning.

Reaching for Growth. Align the organization around possible growth scenarios to maximize organizational readiness and market impact.

Dodging Environmental Bullets. Managers can use the Magic Matrix to stress test their product line and account mix to determine how much damage would be done by a major recession, change in trade policy, or other economic dislocation.

Minimizing the Commodity Threat. The Magic Matrix lets managers track and analyze the impact of the commoditization process so they can act early to transform commodities into specialty products.

Optimizing the Go-to-market Strategy. With the Magic Matrix, managers can understand the role and impact of various go-to-market decisions on all aspects of the company's business so they can prioritize and integrate these decisions.

Leveraging the Strategic Initiatives. The Magic Matrix enables managers to gauge the impact of major company-wide programs on specific products, accounts, and even cells.

Integrating the planning process

Cultural convergence is a particularly important result of using the Magic Matrix for integrated planning. As a company's managers work together to develop data, analysis, decisions, and plans, they gain a rich joint understanding of the company's business. Their plans optimize the interaction of their respective activities.

But, just as important, even the best tactical plans are only guidelines for future actions. Every day, managers must make independent decisions on how to implement the plans as the business changes and evolves. This is analogous to the legal system, in which broad laws are legislated, but case law, which is developed decision by decision, actually guides implementation.

The Magic Matrix, even in this "lite" form, enables the group to decide how to respond to the opportunities and threats they identify.

The Magic Matrix lets the management team together build implementation "case law" through the process of analyzing and trying out various strategies and tactics during the planning process. With a common understanding of this case law, every manager's day-to-day tactical decisions will be much more sensitive to the whole company's needs, and much more congruent with the company's strategy.

The Magic Matrix transforms integrated planning into a crisp, informed, well-coordinated process. It can give today's managers the integrated, cross-jurisdictional edge they need to compete successfully.

December's column provides a step-by-step explanation of how to use the Magic Matrix both for core and advanced integrated planning to bridge the gap between strategy and tactics.

See you next month.

A more complete version of this series is available from Harvard Business School Publishing (#9-999-008), and can be ordered by calling 800-988-0886 or online at www.hbsp.harvard.edu. This material will form one primary component of the Harvard Business School Sustainable Marketing Leadership Executive Program offered for one week in mid-November 2003.

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Exhibit 1

The Magic Matrix

<u>Vertical Dimension:</u>

Account Management
Target Market Selection
Account Selection
Channel Segments
Go-to-Market Approaches
Supply Chain Management

<u>Horiz. Dimension</u>:

Product Line Mgmt.
Operations Mgmt.
Capacity Mgmt.

	Account 1	Account 2	Account 3	Account 4	All Other	**Total**
Product/ Service A						
Product/ Service B						
Product/ Service C						
Product/ Service D						
All Other						
Total						

<u>Cells</u>:

Order Cycle Mgmt.
Pricing
Customer Service