

How to Develop a Profitable Strategy Over the Long-Term

By: Mark Payton / February 2022



The strategy should be Business as Usual, not something to be forced on an organization. Having a strategic plan in place will help your business or company differentiate itself and stand out in a crowded space. This, in turn, will allow for sustainable profitability over the long term. Today's main issue concerning the construction and engineering industry is that most business leaders fail to differentiate strategy from operations. Not understanding what strategy is (and isn't) in the first place is the major downfall that puts many companies smack dab in the middle of the mediocre middle.

For those of you who wish to grow beyond that, develop a superior strategy, and actually stand out. Strategy isn't something esoteric. It's also not something to implement solely for long-term projects or only for "new" things. In my experience, companies frequently say that they don't need a strategy for "business as usual" since they are going to do what they've always done. They typically follow this by stating that they only need a strategy for new things – such as entering a new market or providing a new service.

What this indicates is a lack of understanding of what strategy actually is – and its value. Similarly, saying that your strategy is "pivoting to growth" isn't a strategy but a slogan – unless it's supported by a clear set of strategic choices different from your standard operations.

In order to reach the upper echelon of success, you'll also want to be crystal clear about the new tradeoffs being made.

Strategy is not merely a financial exercise either – i.e., as long as they make their numbers, the businesses can do whatever they want. This is a bit of an exaggeration, of course, but that point is that it doesn't lead to sustainable and superior performance.

Instead, it leads to short-term thinking, bidding on work that seems profitable at the time.

Simply put:

Strategy means positioning yourself to perform similar activities in better or different ways than your competitors and, most importantly, choosing what not to do!

It means making clear tradeoffs and choices so you can:

- Differentiate yourself from your competitors
- Allocate resources (time, people, money) most effectively to support those choices
- Produce a sustainable advantage and superior performance

Can you commit to the success of your business instead of settling for average results?

These choices are hard-wired into the organization's culture and quite difficult to reverse – they require commitment to succeed.

These are the two critical points in implementing a true strategy that works:

1. Sustainability
2. Superiority

This is what differentiates a winning strategy from just winning work or operational standards (more on this later).

Frequently, companies default to a strategy of we can do everything for everyone. This is not actually a strategy. It's neither sustainable nor does it lead to superior performance. Companies usually do this to avoid missing out on what they see as an opportunity – and confuse winning work with a winning strategy. They also do this because they confuse a laundry list of capabilities for things where they consistently perform well, exceed clients' expectations – and make money.

In other words:

All this really does is make you end up spending your limited money, time, and effort on too many things – and limits your ability to do what you do best. The reality is you should focus on doing fewer things well so you can specialize, stand out, and grow your bottom line. Having a bias due to misappreciation of your differentiators and how you are perceived by your clients instead of focusing on where you can be successful will certainly dilute your efforts. Not only that, but you'll end up wasting a lot of your very limited resources on things where you're highly unlikely to be successful, if at all!

So, what should you do to develop a superior and sustainable strategy that allows you to stand out and leads to long-term profitability?

Successful firms are very clear on their real sources of competitive advantage that their strategy is based on.

For example:

If your strength is in cost reimbursable construction, don't switch over to lumpsum construction. If you're a market leader in a good market – don't leap to the newest shiny object. Instead, focus on what you do best.

It's also essential to distinguish between strategy and desired outcomes or objectives. It's critical that you understand clearly what your primary objectives are up front when crafting your strategy. This will ensure that these are the outcomes that you arrive at.





For example:

Developing a strategy based on revenue growth, which results in lower profitability, when profit improvement is your main objective, is a poor excuse for a strategy. Outcomes are not the strategy itself, but the end result you're looking to obtain.

These results are measured using Key Performance Indicators (KPIs) that will measure the effectiveness of your strategy. These outputs are based on what's important to your company and its stakeholders such as:

- Revenue growth
- EPS growth
- Consistent earnings
- EBIT
- Consistent delivery

The strategy is the set of choices that you will make to achieve these outputs.

Lastly, focusing on operational effectiveness alone is not enough. It is necessary to compete but not sufficient. Usually, this means focusing on best practices – but anyone can copy best practices and it leads to competitive convergence – everyone ends up looking alike.

In this case, your clients can't determine why you're different – and then makes their decision based on price. Is this a strategy? Perhaps, but not a very effective one.

Here are some questions to consider:

Are you making the hard choices necessary for an effective strategy?

Do you have a clear view of what they are, and the tradeoffs required?

Is your strategy only focused on "new initiatives" and ignoring the need for an effective strategy for "business as usual" as well?

Are you overly focused on cost-cutting or transformation -without a clear idea of what tradeoffs you're making?

Are you overly focused on operational excellence?

How are you stacking up in this assessment?

If you feel confident that your organization is already implementing a strategic and sustainable strategy or you are well on your way, good for you! You're in a rare category of companies that have done the work and that should be commended.

If, however, you need some assistance in developing a sustainable strategy that places you as a profitable market leader, feel free to Contact Us. We're always happy to help!