

# The 7 Strata of Strategy: Growing Your Business

By Verne Harnish

It's no secret that the recession has decimated the building industry the last few years. But Jeff Booth's company, BuildDirect.com, isn't hurting. It sells building materials at a steep discount through its website, thanks to arrangements to ship directly from manufacturers. "It's almost like an online Costco of building materials," says Booth, president and CEO. Expecting his sales to increase by more than 20% this year, Booth has increased his staff by about 10% to 53 people.

What makes BuildDirect.com thrive in a struggling industry is its growth strategy. And my recent research involving more than 3,000 CEOs and executives from around the world confirms that strategy is their #1 focus this decade, as companies rethink their fundamental approach to changing markets.

The challenge is balancing all the complexities of strategy while keeping it coherent and simple. Your strategy must tell a simple story, yet touch on what I call the Seven Strata of Strategy. Booth and his partner are masters' at all seven strata – principles that every business must master and integrate to achieve its potential in today's uncertain global economy. Here's a checklist that you can use at your own company.

- 1. Choose the words you want to own in your marketplace.** If you don't know how you want your customers to find you, then don't expect them to track you down. BuildDirect.com optimizes its site to appear high in natural web searches for terms such as "laminated flooring," "porcelain flooring" and "hardwood flooring," which are key product areas. How? It publishes unbiased content – which includes these keywords – to help site visitors tackle their building projects.
- 2. Offer a unique brand promise.** This is the experience you are promising your customers that differentiates you from the competition. BuildDirect.com's is simple: "Best price, best quality and product expertise," says Booth. It's normally a three-part promise, with one of the promises – "best price" in BuildDirect.com's case – that is most top-of-mind. And it's critical that you know how to measure daily whether you're keeping your promises. Booth's team has various KPIs (Kept Promise Indicators!) it monitors, like competitors' pricing, to make sure it is keeping its promises.
- 3. Make it hurt to break your promise.** There should be some pain in your system if you let your customers down. This keeps your team laser focused on keeping your promises. BuildDirect.com has a 30-day money back guarantee that includes paying return shipping (from \$300 to \$500 for a typical order), says Booth. The company offers the policy to customers who are unhappy for any reason. Nonetheless, says Booth, "Nobody uses it." Why? The company works really hard to keep quality up and prices down.

- 4. Create a one-PHRASE strategy.** Underlying the brand promises you express is a one-PHRASE strategy that drives your business model. As you know from reading my recent column on the topic (now live on Gazelles.com), this isn't necessarily a selling point you make to your customers, but it supports delivering on your promises. Southwest Airlines' "Wheels Up" one-PHRASE strategy has kept every strategic and tactical decision, like no-advanced reservation seating, directed at keeping its planes in the air and generating profits so it can keep airfares low. I strongly suggest you keep your one-PHRASE strategy relatively secret, which is why I'm not sharing BuildDirect.com's.
- 5. Support your one-PHRASE strategy with differentiating actions.** Underlying the one-PHRASE strategy is a set of specific actions that represent HOW you execute your business differently from the competition. BuildDirect.com, for instance, requires a minimum order of a pallet of material. It carries no name-brand products and instead create its own. And it doesn't give anybody terms, instead requiring full payment on order (cash in advance). Competitors might share one or two of these same actions, but it's the unique combination of all three for BuildDirect.com that truly defines its differentiation.
- 6. Establish your "X Factor."** To establish and hold onto your competitive edge, you need to aim for at least a 10x underlying competitive advantage over your rivals. At his previous lawn care company, Happy Lawn, founder Barrett Ersek reduced the typical sales process from three weeks to three minutes by using the latest digital technology and tax map data to estimate lawn measurements while customers were on the phone – instead of having sales people visit prospects' homes to take manual measurements, write up quotes and then schedule appointments. It's not surprising that industry giant ServiceMaster recently bought the company, which had \$10 million in sales, from him. At Holganix, Ersek's new company that manufactures and distributes organic fertilizer, he's identified another X-Factor. But like the one-PHRASE strategy, it's best to keep it secret, really secret.
- 7. Measure your profit per X and BHAG.** And last, there is a key metric that defines the essence of your business model and is tied to your long range goal. Jim Collins calls this metric your Profit/X and your benchmark your Big Hairy Audacious Goal (BHAG). In the retail building supply industry, the key metric is same-store sales growth. Most BHAGs are opening some number of stores within 10 years. At BuildDirect.com, the business model is built around focusing on profit per "building product category." And it has a specific formula for how to maximize this. To reach *Fortune 500* status by 2023, Booth figures the company needs to build out 20 specific product categories, ranging from \$500 million to \$2 billion in revenue. Given its mastery of these seven strata of strategy, I wouldn't be surprised to see BuildDirect.com listed in *Fortune* even sooner.