Mastering Lifecycle Strategy

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The Purpose of Every Strategy (Really)

The company without strategy is willing to try anything.
— Michael Porter

"Strategy" is a term so commonly used that it has lost its meaning. According to Wikipedia, strategy is "a general plan to achieve one or more long-term or overall goals under conditions of uncertainty."[1] And according to famed strategy guru Michael Porter, of Porter's 5 Forces fame, strategy is the act of creating a unique and valuable position involving a set of differentiating actions.[2]

These definitions are partially correct. They are just missing the most important factor that actually defines strategy. What is it? *It's the environment!* Seen through the Organizational Physics lens, the goal of any effective strategy is always the same: *to get new energy from the surrounding environment, now and over time.*

The reason why acquiring new energy from the surrounding environment must always be the strategic goal is because every system, at any given point in time, has finite energy. If no new energy is coming into the system, it quickly fails. *All isolated systems fail.*

For instance, what happens to a person stranded on a desert island with no access to food or water? What happens to a business that ceases to get new sales? Both systems fail for the same reason. They have finite energy in time. If no new energy is coming into the system, the system falls apart and fails.[3]

This is why acquiring new and future energy sources from the surrounding environment is always the strategic goal. It also explains why the best strategies are those that align an organization's unique and evolving capabilities (that's Porter) with growing market opportunities (where the available energy is).

Using the simple 2X2 matrix below as a guide, the strategic goal is to get to the happy place in the upper right quadrant where a business has unique and valuable capabilities that are tightly integrated with growing external market opportunities—and stay there!

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[1] "Strategy." *Wikipedia.* https://en.wikipedia.org/wiki/Strategy (Retrieved on August 4, 2021).

[2] Michael E. Porter. *On Competition.* United States: Harvard Business School Pub., 2008

[3] This principle is based on the first and second law of thermodynamics, two of the most pervasive laws in the universe. You can understand more about these laws and how they apply to individuals, teams, and groups by reading Part I in Organizational Physics: The Science of Growing a Business, also by Lex Sisney.

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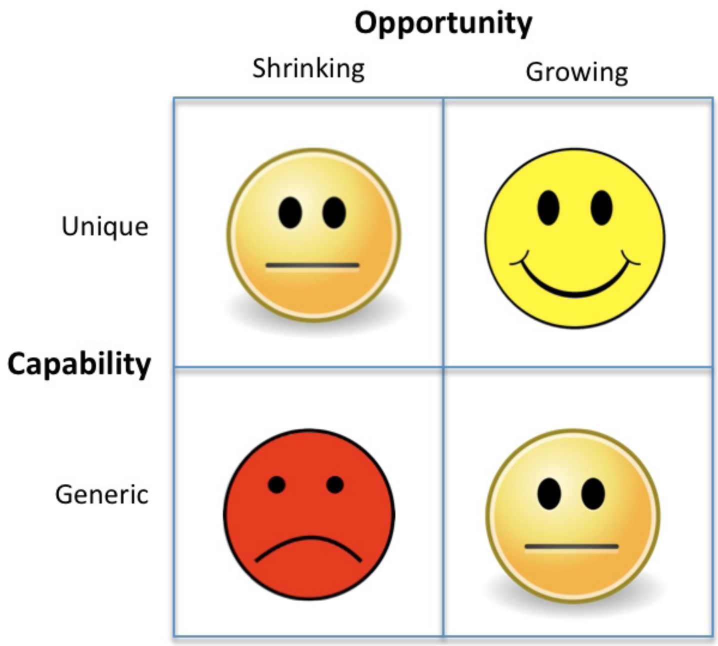

Figure 1. The strategic goal is always the same: to get to the happy place and stay there. :-)

For instance, do a quick lookup of the world's most valuable companies by market cap. What you will find is that they have developed a set of unique and hard-to-replicate capabilities that are tightly integrated with growing external market opportunities. Not only that, they have positioned themselves at the center of their own ecosystems, making it as frictionless as possible to continue to extract new energy back to themselves. This is why Apple services, Amazon Prime, and Microsoft subscription services (2021 Market Cap Leaders) are such economic drivers. Like a tree with deep roots, their business models make it more frictionless to continue to feed new energy back to themselves in a virtuous cycle.

The upper left quadrant of the matrix (shrinking opportunities matched with unique capabilities) represents companies that were once very successful but were unable to evolve and adapt to a changed reality. They are hanging onto their past successes but their existing structures and business models make it hard to adapt to a changed reality. To truly thrive, they will need to realign to a changed external reality.

The lower right quadrant (growing opportunities matched with generic capabilities) is where a host of "me-too" competitors must eke out an existence. Some can make a good—not great—living and only for as long as market demand continues to expand. For instance, my hairdresser became a realtor to take advantage of the property boom. She will do fine for as long as there is a booming market. When the market crashes? She will either need to refine her niche or return to hairstyling.

Life is bad for any company that falls into the lower left quadrant. There is no market demand and there are no unique and valuable capabilities to differentiate them from a host of me-too competitors.

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Like a species struggling through an ecological collapse, life is hard and painful for every company in this zone.

It is a simple picture but it captures the essence of why the strategic goal is always the same—to get to the happy place where your business is serving a growing market with unique and valuable capabilities.[4] It is not enough to get there. The goal is to stay there against changing internal and external conditions. That is the strategic challenge.

Why Lifecycle Strategy

Execution is something, but timing is everything.
— Todd Stocker

The insight that an effective strategy is the act of aligning unique and valuable capabilities with growing external market opportunities reveals why lifecycle theory is so critical to forming and aligning a team on the right top-level strategy.

Lifecycle theory is the self-evident recognition that, while every system is unique in its own way, everything also follows the same trajectory—it is born, grows, ages, and dies. This pattern holds true for your life, for your business, and for the markets it inhabits. Things may last for a relatively long or short period of time, but they all follow the same arc of birth, growth, decay, and obsolescence:

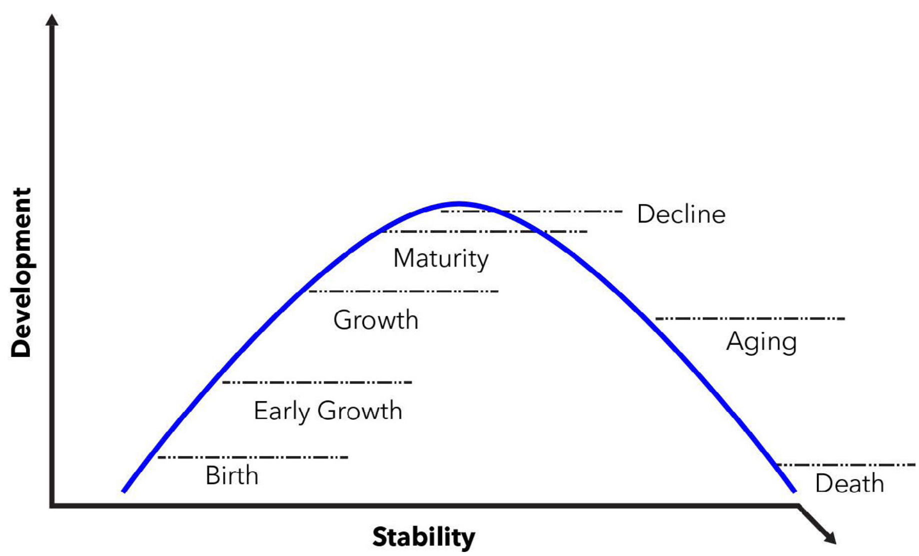

Figure 2. Everything has a lifecycle.

[4] It doesn't matter how valuable and unique you think your capabilities. It only matters what the market is aware of and believes. Influencing *perceptions* is where advertising, marketing, and brand awareness fit into the strategicpicture.

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To help illustrate why lifecycle theory is so universal and impactful, imagine two fathers in separate households. Both fathers are self-aware, loving, affluent, and naturally want the best for their children. The primary difference between them is that one father has studied childhood development stages and the other has not.

The one who has is aware of what is normal and expected at each stage of a child's development. He also knows how and when he must adapt his parenting approach at different lifecycle stages of the child. He realizes that, while every child is different and is going through their developmental stages at their own pace, he must learn to recognize the signs and feedback of the current stage, and to anticipate the next one, and then adjust his parenting style and expectations accordingly.

The other parent who has not studied developmental stages just wings it. He does not adjust his parenting style or expectations appropriately. While he means well, the result is that he is parenting his 13-year old as if they were 3 years old or vice versa. Despite his high-commitment to be a great parent and give his children the best, this family is a mess.

Similarly in business, lifecycle strategy is not a replacement for your love, intelligence, creativity, and commitment to building a world-class company. But if you do not know how to recognize the lifecycle stage of a business, its products, and its customers, then you will steer the company into a mess. You will be like the parent with the best intentions for growth, but the outcome will be failure.

Without the awareness and insight provided by lifecycle theory, you would be left wondering what you did wrong simply because you applied what seemed to be sound logic—but just at the wrong time. But with a basic understanding of lifecycle theory, you and your leadership team now have a shared pattern language, as well as a map to follow, to guide your strategic decisions. Let us see how that map works in practice.

The Organizational Physics Strategy Map

You can go as fast as possible through each stage, but you can't skip a stage.
— Jeff Bezos

In the work I do, I have a key saying that "strategy starts with where." Meaning that where a business or business unit currently is in its lifecycle development actually dictates what its go-forward strategy must be. Not could be. *Must be*. Jeff Bezos put it perfectly when he said, "You can go as fast as possible through each stage, but you can't skip a stage."

It can be tricky to navigate new terrain and that is why I created the Organizational Physics Lifecycle Strategy Map ("Strategy Map''). The Strategy Map is a proven way to translate the complexities of lifecycle theory into an easy-to-follow guide that helps a leadership team to more easily (re)orient to

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the right top-level strategic imperatives for the business and its business units depending on their stage:

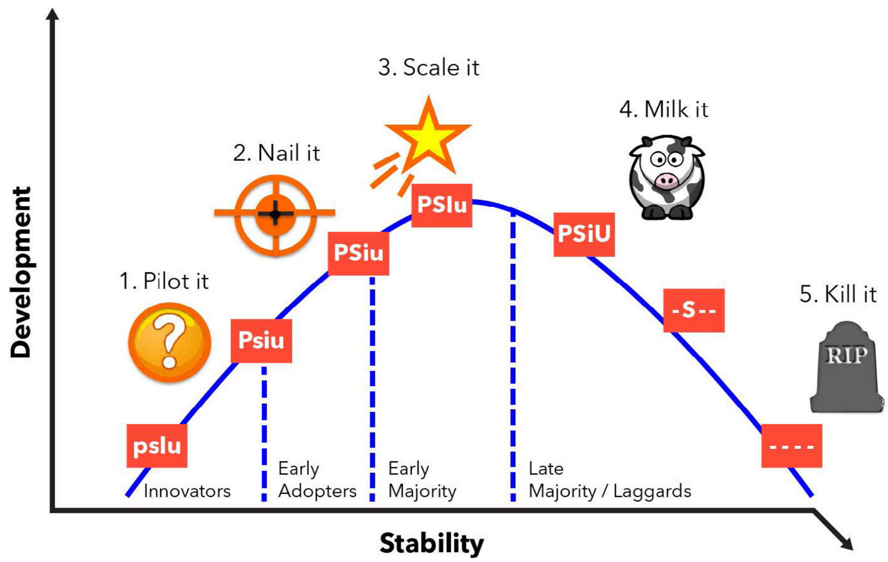

Figure 3. The Organizational Physics Strategy Map.

Starting your annual strategic planning and alignment sessions with shared recognition about where a business and its business units are now on this Strategy Map, including their current level of execution risk, makes it measurably easier to identify and communicate the right top-level strategy. It also makes it much faster and easier to cascade improved departmental and individual objectives and key results (OKRs) throughout the entire organization. This is because the *why* behind the strategy becomes much clearer to everyone who understands the map.

The Strategy Map consists of three interdependent lifecycles:

- **The Product Lifecycle** in the top row is the assets the business makes available for sale. It progresses from Pilot It to Nail It, Scale It, Milk It, and Kill It.
- **The Customer Lifecycle** in the bottom row are the customer segments the business is selling to. These progress from Innovators to Early Adopters, Early Majority, and Late Majority/Laggards.
- **The Execution Lifecycle** in the red boxes with white lettering refers to the dominant forces, representing the focus, approach, activities, key performance indicators, and mindset that should be present within a business at each stage of its development. This four letter code “PSIU” stands for the Producing, Stabilizing, Innovating, and Unifying forces that should be dominant for each stage of development.

The core concept behind the Strategy Map is that the better the alignment between these three lifecycles—Product, Customer, and Execution— the greater the probability of sustained business success. The more misalignment, the greater the execution risk to the business and the increased probability of making a strategic blunder.

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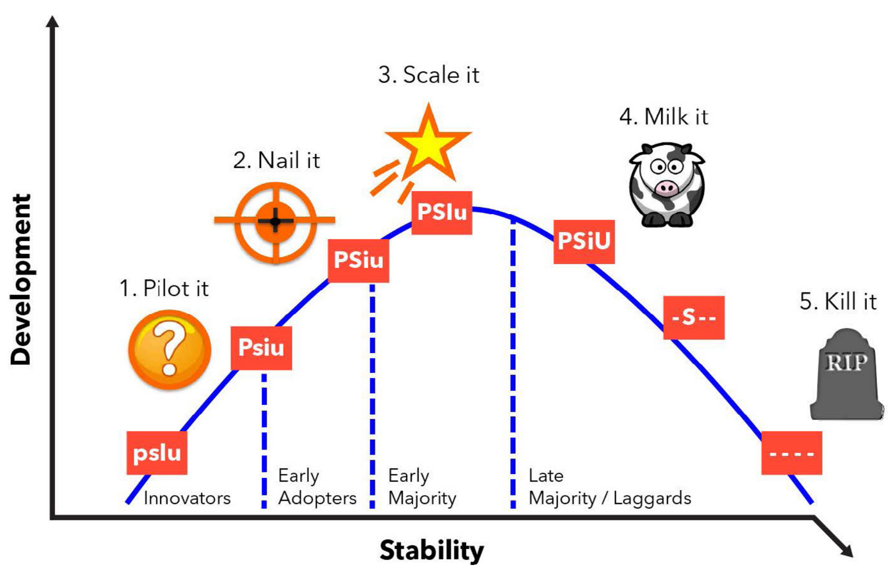
No map is the actual terrain but a good map can be incredibly useful at helping to orient where you are now, and then guiding you to where you want to be. The same is true for the Strategy Map. If you can first locate where a business is on this map now, this will reveal what should be happening at the business' current stage of development and what its next set of key strategic moves should be to get to the next stage. The Strategy Map also reveals the current level of strategic execution risk and how to avoid strategic missteps.

Lifecycle stage alignment is created through a combination of awareness and timing. *Awareness* is important because, if a leadership team does not recognize the environmental signals telling them what stage a product, market, or business unit's capabilities are at now, they will make sub-optimal decisions. These will seem perfectly appropriate and textbook—but they are just not for the current lifecycle stage!

Timing is critical to successful strategy because no business exists in isolation. It can only exist in integration with its surrounding environment. If the environment zigs and the business strategy leads the company to zag, that business is going to fail. Smart leaders have a keen sense of timing. They know when to pump the breaks and when to put their foot on the accelerator.

Aligning the Product, Customer, Execution Lifecycles

The series of pictures below shows how to conceptually align a business, its products, and its customer segments together at different lifecycle stages. Let's begin by taking a look again at the Organizational Physics Strategy Map for reference:



The top row of the Strategy Map represents the **Product Lifecycle**, or how the organization should identify, design, develop, deploy, and manage its current and future products and services. Every

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successful Product must journey through a series of stages, starting from Pilot It, to Nail It, to Scale It, to Milk It, and when beneficial or necessary, Kill It. The goal is to drive a new product or solution from Pilot It to Nail It and into Scale It, and to keep it in the Scale It stage for as long as possible before having to Milk It and/or Kill It by selling it off or closing it down because the environment has shifted. Funds from cash cow products in the Milk It stage can be used to fund or acquire new innovative products in the Pilot It stage.

The bottom row represents the **Market Lifecyle** or the types of customer segments that the business is selling to. Different customer types have different buying criteria. Innovator customers seek out innovative, cutting-edge concepts and solutions. Early Adopters seek out newer products that can be shown to solve their core problem or need, and to solve it fast. Early Majority customers want the full solution set and strong reference cases from the Early Adopters in the prior stage. The Late Majority just want something proven that gets the job done and they won't invest a lot of time, energy, or money into it.

The parabola in the middle is the **Execution Lifecycle** and the boxes represent the dominant PSIU forces—Producing, Stabilizing, Innovating, Unifying—that should be present at the business or business unit that is accountable for each product-market stage. This is important because different stages of business development require a different dominant PSIU force. A capital letter is used to show the dominant force(s) required at each growth stage and that predictably arise at later stages as the organization ages.

WHAT IS THE DIFFERENCE BETWEEN A BUSINESS AND A BUSINESS UNIT?

The core business is the main business or business unit. For example, if yours is an expansion-stage business with one core market and product line, the core business is the only business unit. But if you start to spin out distinct new products and/or markets and need to create more autonomy and focus for the unit accountable to them, that would create an additional business unit. To be clear, not all strategies require multiple business units.

A sound strategy is one that aligns each corresponding stage of the Product, Market, and Execution lifecycles together and navigates through each stage in sequence without skipping a stage. If you attempt to skip or bypass a stage, then it is much like treating a 3-year-old as if they were 13, or vice versa. Bad things are going to happen.

An early **Pilot It** stage business unit (psIu) must naturally be very innovating. Its sole focus should be on establishing what makes its approach innovative and disruptive. It should be aligning with other innovative thought leaders and innovative customers who can validate its approach and help to shape its destiny. It is expensive to raise children—and this new business unit isn't making money either. It's too new! The funding to support it has to come from the parent company, if it has one, or from investors if it does not.

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An early **Nail It** stage business unit (**P**siu) must naturally have a very high producing force. The product is beyond prototype and it should be working with early adopter customers who expect results quickly. It must prove at this stage that it has verified product-market fit, it understands the customers' true buying criteria, and there is a real future market opportunity to pursue.

The **mid- to late Nail It** stage business unit (**PS**iu), if it is going to move forward, must stabilize how it sells, services, and delivers. If not, it will lack the foundation, resources, wherewithal, and operating margins to meet changing customer needs at Scale It. It is expensive to raise a teenager and send them to college, and this Nail It stage unit isn't cash-flow profitable yet. It still needs financial support to find its footing and ultimately break through.

A **Scale It** stage business unit (**PSI**u) has broken through into the prime of its life. It is producing results for early majority customers, it has the foundation to operate efficiently and effectively at scale, and thus, it can truly innovate aggressively once again by adding new line extensions and/or markets to its core offering. It is now both mature and agile enough to launch new products and/or business units and achieve a state of perpetual renewal.

A **Milk It** stage business unit (p**S**i**U** to p**S**iu) has reached its plateau and, under its own inertia, it is on a downward trajectory. The customers are of the late majority and are looking for pricing deals. The market growth rate is gone because the problem has been solved. There are a lot of me-too competitors. A Milk It stage business unit is a lot like a grandparent who spends more and more time trying to maximize their own life extension, reflecting on their past accomplishments, and providing college funding to their grandkids (if they have enough to share beyond their own basic needs).

WHY IS THE UNIFYING FORCE SMALL ON GROWTH AND LARGE ON DECAY?

You may be asking why the Unifying force has not been shown as high in the growth stages. The reason why is that in the early start-up stages, a healthy Unifying force will have an external orientation towards the customers and markets. But as it ages, that Unifying force will turn inward towards politics, career paths, and conformity. I sometimes show this U upside down to illustrate this point. Any system that is more concerned about its internal politics and status than it is with being relevant and aligned towards a changing external world is on a path to failure. Unless you design against it, that will happen naturally as an organization ages.

The Goal is Perpetual Renewal

As humans, our bodies and minds are going to age and decay. Some faster than others. But a business can actually avoid such a descent and achieve a state of perpetual renewal over many generations or even centuries. Perpetual renewal is accomplished by getting and keeping the core business into

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a robust Scale It stage—but one that is not so robust that it grows stagnant and begins to age. Like a surfer riding a perpetual wave crest without falling into a trough, the goal is to continuously innovate and launch new products, services, and business units that go through their own lifecycle stages like this:

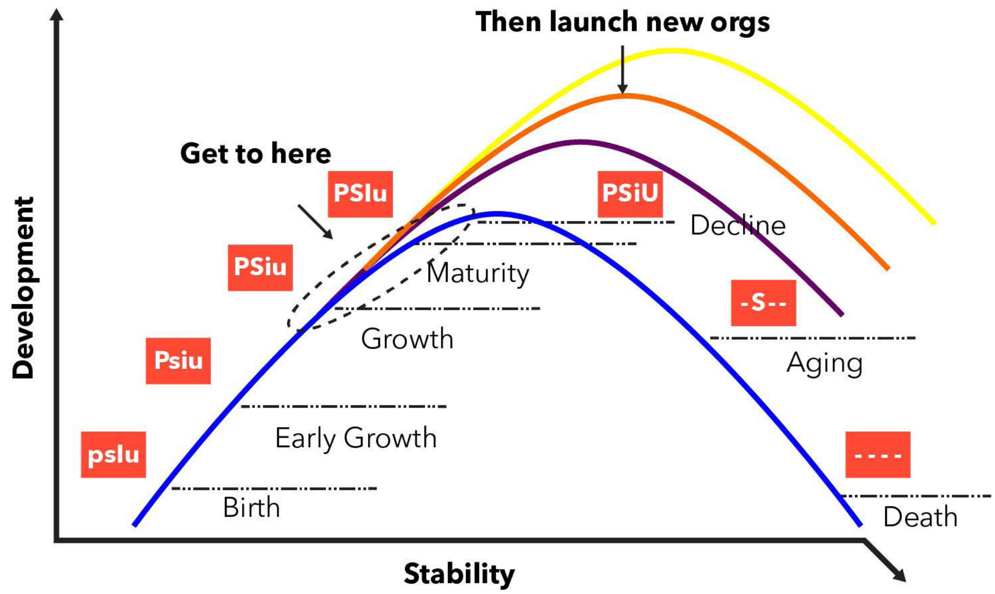

Figure 4. The strategic goal is perpetual renewal.

I hope that three things are clear from the Strategy Map overview. One, you do not manage all products, markets, and business units the same way! You need the right map, awareness, timing, operating model and structures to execute across different lifecycle stages. Managing one core business is hard. Managing multiple business units gets progressively harder. This is why Jim Collins in his book *Good to Great* wrote, “First who. Then what.” Meaning, if you don’t have the core dedicated leadership and talent to drive a new business unit forward, then you probably should not be pursuing that strategy.

Two, do not skip a stage! Pilot It, Nail It, Scale It and when you have to, Milk older products and investments in order to fund new initiatives, which in turn go through their own lifecycle stages. Do this successfully over time and you will achieve a state of perpetual renewal.

Three, the more misaligned your product, market, and execution lifecycles are to each other, the greater your likelihood of strategic failure! The reason why is that each lifecycle stage requires close alignment among products, markets, and the execution capabilities. The greater the misalignment, the greater the execution risk. Let me show you why using 4 key strategic alignment indicators.

> The more misaligned your Product, Market, and Execution lifecycles are to each other, the greater your likelihood of strategic failure.

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The 4 Key Strategic Alignment Indicators

There are four key indicators that will tell you if you are on the right strategic path or headed into a strategic folly. The indicators are market growth rate, competition, pricing pressure, and net cash flow.

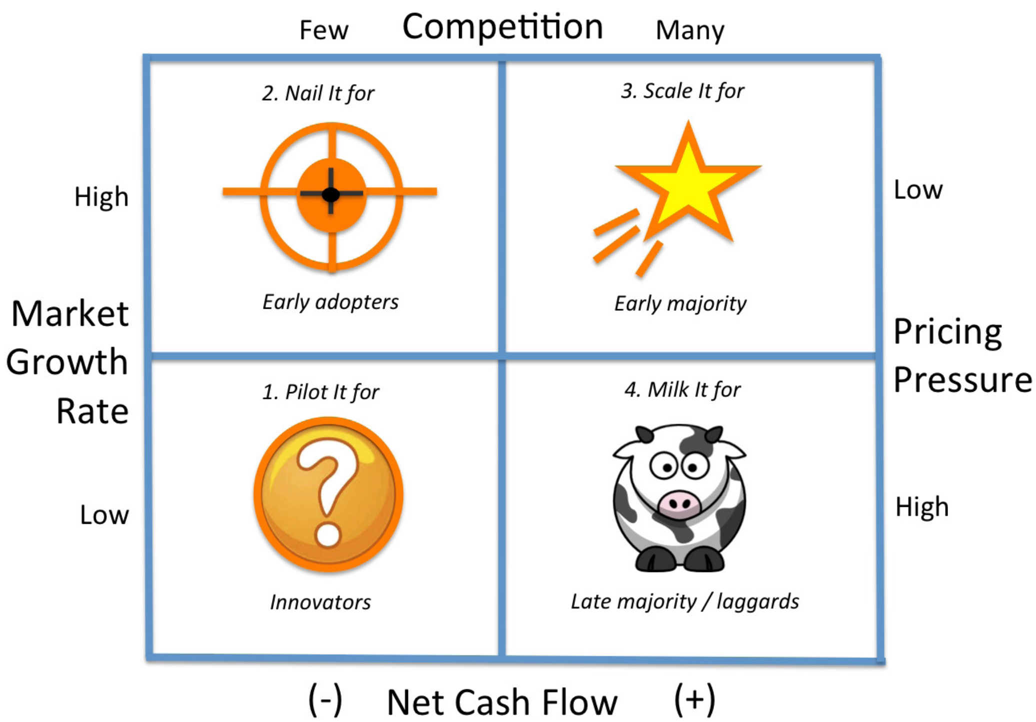

Figure 5. The 4 Key Strategic Alignment Indicators

Let's take a visual walk around the figure above and see how the key indicators work. First, notice that when you are piloting your product for innovators in the lower-left quadrant 1, the business is in negative cash flow. The total resources invested in the product to date exceed the return. The market growth rate should be low because it is still defining the problem and the solution for the market. Therefore, the competitors within its defined niche should be few in both number and capabilities. Consequently, the pricing pressure will be high because the business has not fully defined the problem or proven its solution, so it has no real leverage to charge enough money for it at this stage and funding must come from external sources, either investors or proceeds from another business unit).

As the business is demonstrating thought leadership and winning over the innovators, it must uncover the real customer need and begin to Nail It for early adopters in the upper-left quadrant 2. Notice that this business is still in negative cash flow at this stage. It is taking considerable investments of time, energy, and money to fund early-stage product development.

But as the business makes progress, more and more early adopter customers jump on board and the

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market growth rate begins to increase. The competitors should still be few but, because the business is proving that it is solving the core customer problem, the pricing pressure lessens and the business should be able to charge more for its solution at this stage. That is, it no longer has to give the product away cheaply or for free like it did at the prior stage because it is showing that its approach solves a real problem and creates value to its customers.

As the business fully Nails It in quadrant 2, it must standardize how it sells, services, and delivers so that it can make the move into quadrant 3 and truly Scale It. The market growth rate should be high now and increasing. Also, the number of competitors entering the market will be growing because they see the increasing market demand and either think they have a way to do it better or they are content to be a “me-too” competitor in a growing pie. Alternatively, they might feel they need to act to defend their existing turf.

If the business has done the sequence right so far, it has established thought leadership at the Pilot It stage, proven its solution at the Nail It stage, and standardized the product early in the Scale It stage, which increases its operating margins. Now is the time to add new high-value line extensions and add-on products and services that increase the life and perceived value of the product in the marketplace. This will help the business to avoid the final product/market stage, the commodity trap in quadrant 4, for as long as possible.

By executing against this sequence, the business should now be in a market leadership position and the pricing pressure, even though there is a lot of competition, should still be low for it relative to its competitors. Just think of how, in spite of many iPhone competitors, Apple still keeps the price of its iPhone high relative to the competition. Others can compete on price but Apple does not have to yet—at least not until the market is in a true commodity phase. In this stage, the business is finally in positive net cash flow for this product/solution and it has the standards, resources, leadership, and market demand. All of its past hard work should be paying big dividends.

Quadrant 4 is known as the “commodity trap.” The goal is to avoid this commodity trap for as long as possible by continuing to create high-value product extensions in quadrant 3. But when a business unit ultimately arrives at quadrant 4 (all ultimately do), the market growth rate is slow because the fundamental problem has been solved for most customers. For example, if everybody has an iPod, there is no longer a growth market for the product. During the preceding stages, a lot of competition has emerged and they are still attempting to compete, often on price. Consequently, the pricing pressure is really high. Despite these challenges, if the business has done the preceding product/market sequence correctly, it should now have a cash cow that can print money to use for other growth investments until it must finally be sold or killed off.

The 5 Types of Execution Risk

No strategy is without risk. And when it comes to strategic execution, there are basically only 5

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general categories of execution risk. They are Normal Execution Risk, the Face Plant Risk, the Flame Out Risk, the Lost Opportunity Risk, and Stagnation Risk. Basically, the more aligned the product, customer, and execution lifecycles remain, the lower the execution risk. It is never riskless, just less risky. The more a company tries to "cheat" and skip a stage, the greater the execution risk. Let us breakdown each category of risk and what to do about it.

NORMAL EXECUTION RISK

This normal execution risk path goes the "long way around," as depicted in the figure below:

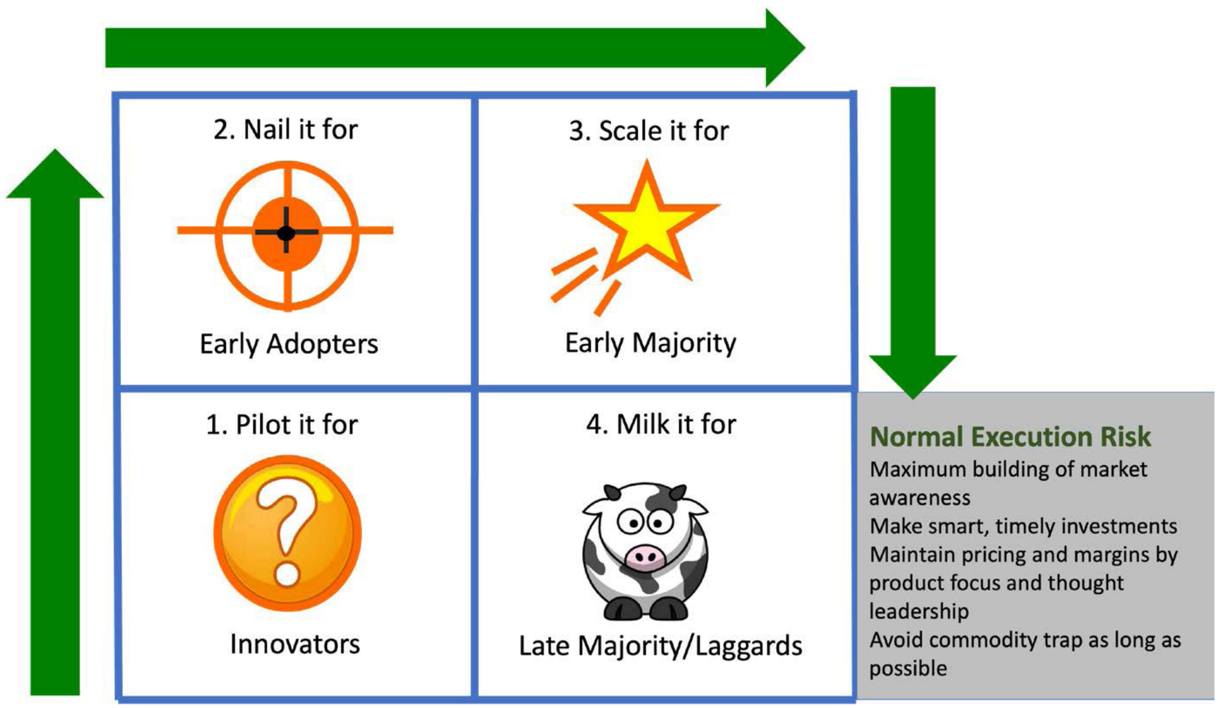

Figure 6. Normal execution risk. Go as quickly as possible the long way around.

Basically, if you pilot your product for innovators, nail it for early adopters, and scale it for the early majority, you create maximum building of market awareness; you make smart, timely investments relative to market readiness; you maintain pricing and margins; and you avoid the commodity trap for as long as possible. That is the path to fast and sustained strategic execution.

Just because success requires taking the long way around doesn't mean that it has to take a long amount of time. As the late great UCLA basketball coach John Wooden said, "Be quick, but don't hurry." There is real, hard work to be accomplished. It needs to be completed in the right sequence and there will be many ongoing, necessary adjustments to the strategy. But no matter what, you have to follow the sequence. No skipping, no shortcuts, and no racing ahead before it is time.

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THE FACE PLANT RISK

The Face Plant Risk happens when an entrepreneur is innovating on a product but targeting straight into a commodity market. The company foolishly spends resources to solve a problem that the market views as already having been solved. The company does not establish thought leadership in quadrant 1 and doesn't nail it and prove that it can solve the underlying problem in quadrant 2. Therefore, it does not understand the true customer spending priorities and it fails to create a product that meets them. It never establishes profit margins in quadrant 3 and so it comes into a commodity market against better-financed and more robust solutions, quickly getting crushed by those vendors with a more complete service offering.

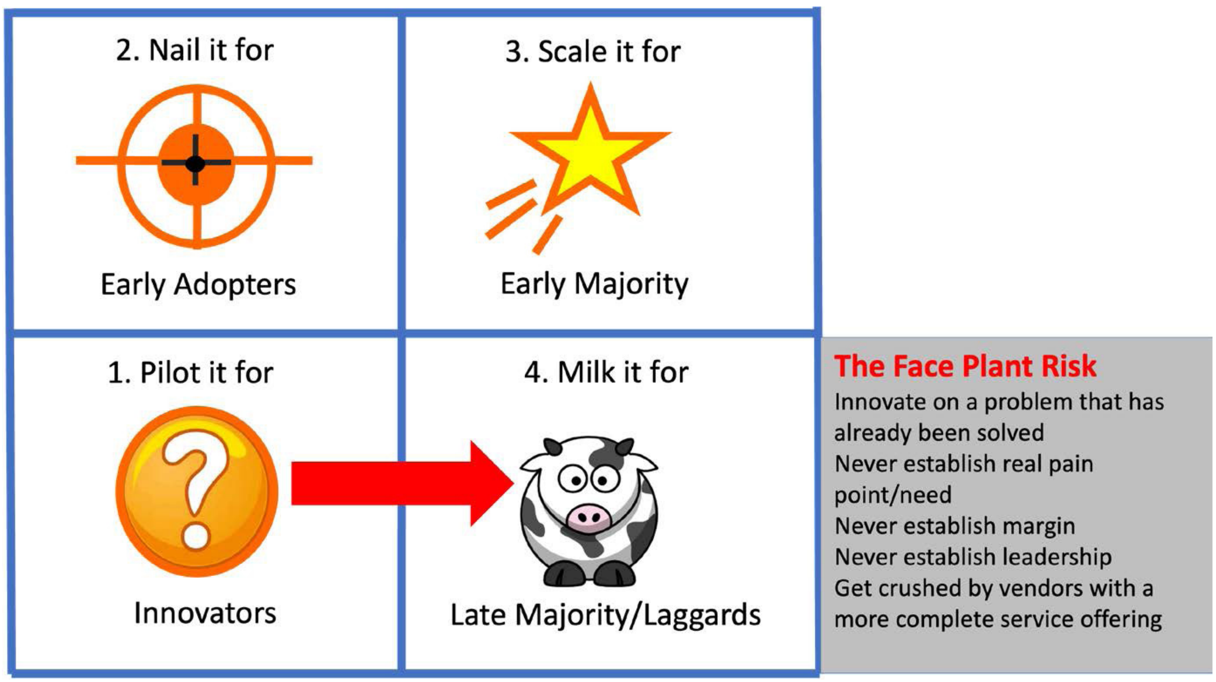

Figure 7. Avoid the Face Plant Risk.

It is obvious that you do not want to pilot a product directly into a commodity market. After all, no one in their right mind would invest innovation dollars into land-based telephones today. (Note: Some entrepreneur may, in fact, invest in new land-based phones but they would do so by discovering a disruptive opportunity in the process of going the long way around the strategic path).

What happens to many entrepreneurs who fall into the Face Plant trap is that they are so focused on product development and product features, that they do not simultaneously validate and develop a market. They have a product in search of a problem. If the company is not testing, selling, and validating its early product prototypes with innovators and early adopters, then it runs a high risk of falling directly into a commodity trap.

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THE FLAME OUT RISK

The next increased strategic risk is what I call the Flame Out Risk. The Flame Out occurs when a company tries to scale prematurely. Usually this happens when the founding team, in a hurry to get cash flow from sales or because they believe the market window is closing, attempts to aggressively ramp up sales without having nailed the product/solution first.

Because the company has not nailed the product and proven to the world that they have done so, they do not understand the customer's real pain and spending priorities. They make a big marketing push and create a lot of market noise, but this does not translate into real adoption and sustainable revenue and profits. In fact, it often results in dissatisfied early majority or later-stage customers who are upset because the product does not do what it promises or what they need and it is rife with bugs and errors.

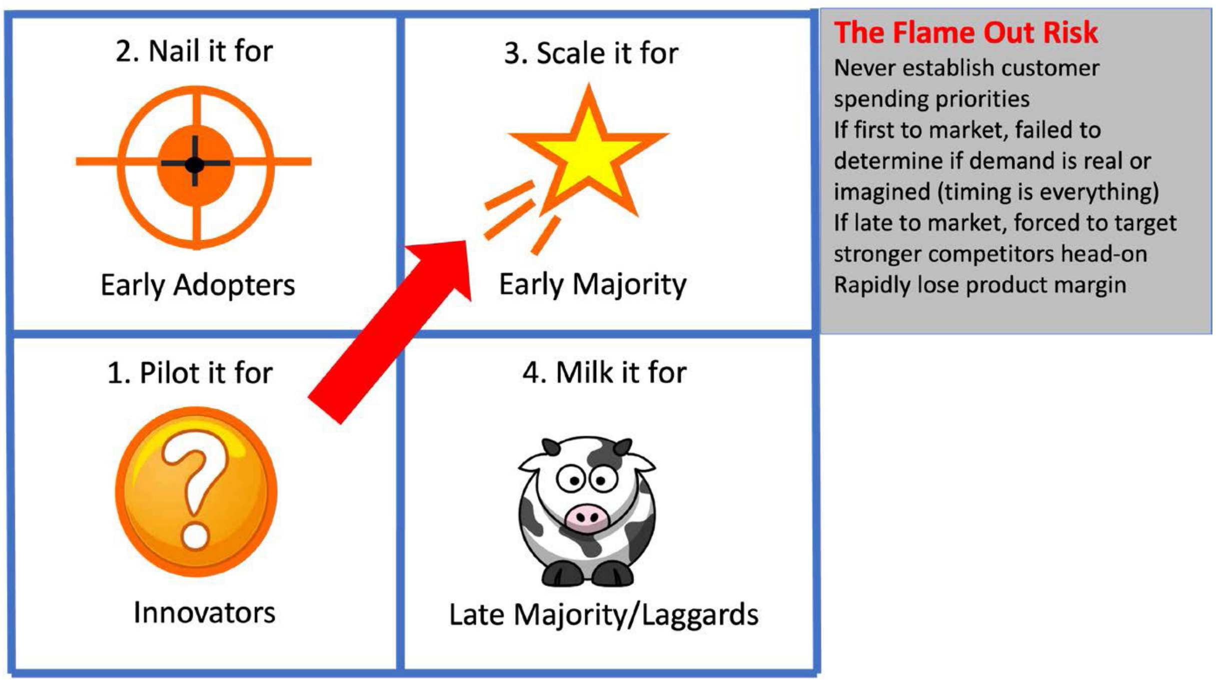

Figure 8. Avoid the Flame Out Risk.

In life and in business, timing is everything. So how do you know that you have nailed it and should proceed to the Scale It stage? The only real indicator of having nailed it is that the early adopter clients have purchased the product and they come back to buy or use more.

For example, a classic strategic mistake is when a company believes they have nailed it because the product meets the founder's vision or because a lot of companies are expressing early interest in their solution. Then, in the race to get a return on investment and to respond to the apparent demand, they quickly launch into scale mode without truly understanding the customers' pain points or true spending priorities. The company spends enormous sums of money, launches in a big way, and causes a lot

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of market noise but fails to convert interest into paying, repeat customers. This could be because the market is not ready or the features are not aligned right. Essentially, the company presupposes demand when the demand isn't really there—so the company flames out.

Once a product is really nailed, it becomes possible to scale. The company standardizes its learning and is now in the race to achieve dominant market share. The demand from the market should be increasing. In fact, it will feel like the company is being pulled into the market by customer demand, rather than having to create demand through outbound marketing. Remember, early majority clients buy during scale mode and the evidence they use to make purchases is the endorsements and data from early adopters in the Nail It stage. First you have to nail it; then you can scale it.

Another important factor in nailing it before scaling it is aligning with market timing. In your own investigations and efforts to really solve the core business problem, you may find that the market really is not ready yet or that a critical piece of underlying technology has not matured enough. You may find a host of other indicators that tell you to dial down or dial up your expansion plans. Do not be the company that does a global launch based on a vision of the future that does not exist yet. To avoid the Flame Out, spend the time and invest the resources to nail the product and validate product and market fit first.

That said, there is a risk of spending too much time nailing the product rather than scaling it. This risk shows up when a company is spending too much time and capital designing the ideal product with every feature and function under the sun for its early adopter clients. Or else it is designing a product for the wrong type of customer for this stage of the lifecycle. Instead, the company must only prove that it solves the core customer problem with its minimal viable product. Then it can focus its efforts on developing features and functions that meet the needs of the next customer stage, the early majority, through standardization and scale.

THE LOST OPPORTUNITY RISK

The Lost Opportunity Risk occurs when a company pilots it for innovators and nails it for early adopters but cannot execute quickly or efficiently enough to get to scale. The market window closes because some other company executes more quickly or efficiently, nails it, then scales it, captures the leadership position, and reaps the benefits. The lost opportunity company then tries to compete on price and pushes the product into the market as if it were a commodity. But because they have not standardized their product and established market leadership, the product has not created the brand awareness and margins to be successful. It is like a fruit that dies on the vine.

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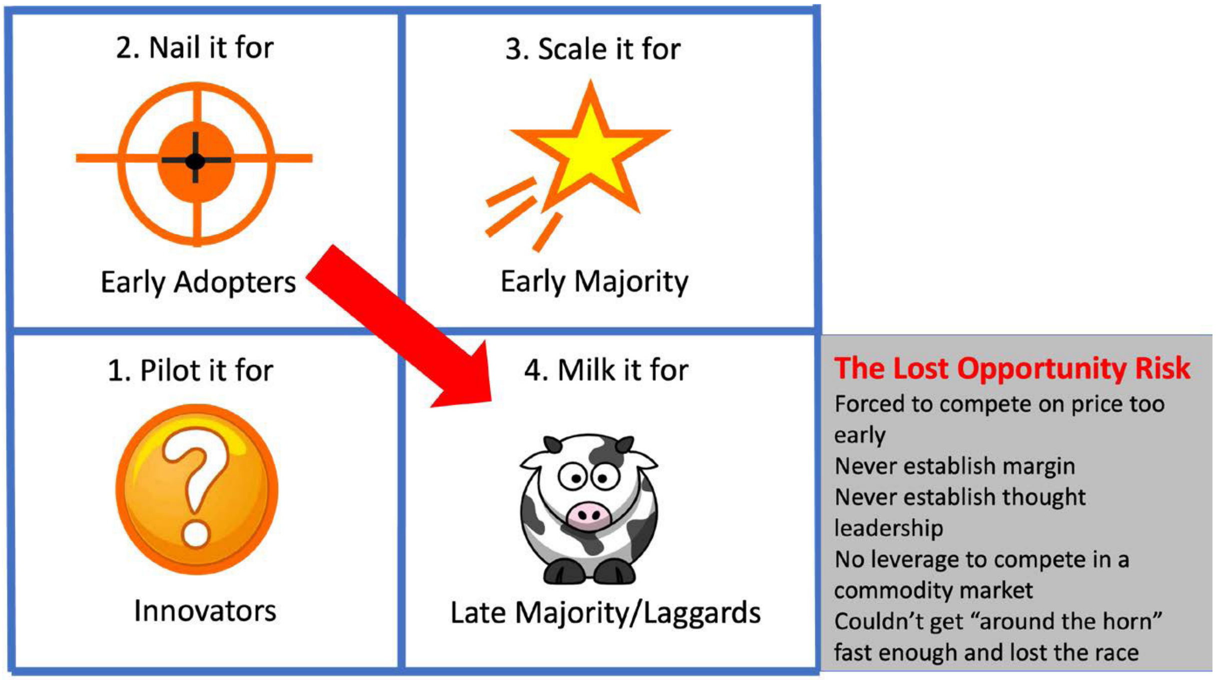

Figure 9. Avoid the Lost Opportunity Risk.

For me, this is the saddest strategic execution failure. All entrepreneurs are in it for the opportunity. Entrepreneurs absolutely hate to miss an opportunity, especially one into which they invested so much passion, sweat, and tears. It is gut-wrenching to recognize that the business will never really make it to scale and some form of lucrative success. Sure, it may turn out to be a nice lifestyle business but you will always be playing a distant third or fourth to the market leaders. And that is not a game that entrepreneurs truly want to play.

What usually happens in this scenario is that the entrepreneur eventually loses their passion for the opportunity. If the business is operational and backed by investors, then the entrepreneur gets fired or kicked out and a professional manager attempts to find an exit, usually by selling to a larger competitor for a bargain price. If the business is operational but the founders still have control, they will continue to operate the business in the hopes of selling it one day but their entrepreneurial fire will be gone. The business will be a former shell of itself and its once promising potential. The opportunity is lost even if no one openly admits it.

The right course of action when dealing with a lost opportunity is to admit it. You are too late. You will never be one of the market leaders in that particular space, nor will you have the margins, cash flow, and terrific success that you are seeking. It is time to gather your resources and find a new opportunity (based on past learning and insights) and pivot into a new strategy that you can leverage into a scalable growth phase.

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STAGNATION RISK

The risk of stagnation occurs any time a business falls over into the downward slope of the Strategy Map into the Milk It stage. This is so because inertia in life and business is a real thing. What was effective at a prior stage becomes a trap in a later one.

To restate: the strategic goal is never to drive a product or business unit into the Milk It stage. The goal is to avoid the Milk It stage for as long as it is possible and sensible to do so. But the reality is that all products, markets, and business units that were successful in the past ultimately end up in the Milk It stage. (Those that were not successful die a premature death.) It is why you are no longer using a flip phone.

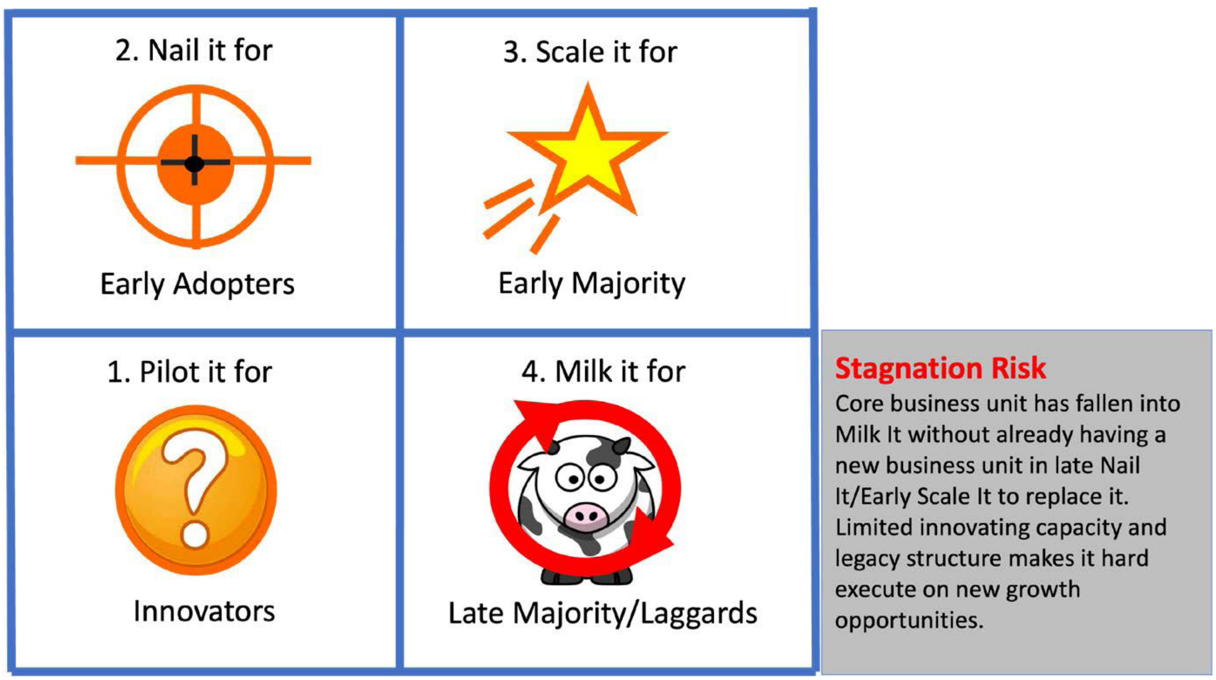

Figure 10. Avoid Stagnation Risk.

Former growth products and/or business units that reach the Milk It stage can be managed in a straightforward way. The mission of these entities is to maximize cash flow back to the core business or mothership so that it can fund new initiatives and enable a state of perpetual renewal. This requires a mindset in the Milk It stage business unit that is all about efficiency and a shorter-range focus. New investments are limited to those that can generate short-term ROI and the team is incentivized to stay on board until end of life when it is time to Kill It or sell it off. It may not be very exciting work, but it is important work for the longevity of the entire organization.

The real problems in strategic execution arise if the mothership or core business itself slips into the Milk It stage. In this case, the mothership is the problem, and it prevents the successful launch and

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growth of new Pilot It and Nail It stage initiatives. Having the core business in Milk It also makes it much more unlikely to engage in successful post-acquisitions and integrations. Why? You already know why! The inertia of the status quo will dominate and over-control, or even sabotage, the new initiatives.

This is why you do not usually find breakthrough innovations gaining traction and growth within a legacy, downward-spiral business. The ideas might percolate. The team knows what it should do, but the inertia of the status quo is working against its own transformation. It is also why, when laggard businesses attempt to ignite innovation by buying a start-up, the start-up team finds it very exasperating to work in such a stodgy and political environment and they quit as soon as they vest. It is hard to drive innovations against such inertia.

If you ever find yourself leading a mothership that is on the downward side of the Execution Lifecycle, then you will need to go through with the hard work of dismantling the status quo and realigning the organization towards a new and realistic growth strategy, which requires a new structure, culture, and more. Or you will need to find ways to neutralize the legacy structure and environment of the mothership to give the new units as much autonomy as possible until they are strong enough to take over the mothership themselves one day. It is not easy but it has happened before.

Comparing Lifecycle Strategy to Other Strategy Models

As I am writing this, there are over 50,000 books on business strategy for sale on Amazon. I am sure that you have already read most of the bestsellers, but you may or may not have come across Lifecycle Strategy. Although it is one of the most powerful strategic alignment models out there, it is not among the most popular. One reason is that many readers want shortcuts. Lifecycle Strategy is anything but a shortcut.

The other reason is that most alternative forms of setting top-level strategy focus on what to do. Lifecycle Strategy, on the other hand, is agnostic about *what* to do and is focused more on *how* to accomplish it. The answer is that you drive sustained strategic execution by paying attention to the environmental signals revealing where a business, its products, and customers are now in their development and then seek perpetual alignment.

To help put LIfecycle Strategy in context, I have included a brief comparison with some of the most popular forms of setting business strategy: *Michael Porter's 5 Forces, Blue Ocean Strategy, the Innovator's Dilemma, and Crossing the Chasm*.

PORTER'S FIVE FORCES

Michael Porter is a Harvard academic who is most famous for his concept of "Five Forces" that impact business strategy. These 5 Forces are Supplier Power, Buyer Power, Competitive Rivalry, Threat of

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Substitution, and Threat of New Entry. All 5 forces are well accounted for in Lifecycle Strategy. Supplier power and buyer power influence Pricing Pressure in the lifecycle matrix. The Threat of Substitution, Competitive Rivalry, and New Entries are captured within Competition. You should consider these dimensions when answering the Top Level OKR survey included with this manual and that, when combined with actual market data, will give you a good indication of the health of your current markets.

BLUE OCEAN STRATEGY

Blue Ocean Strategy is a book published in 2004 by W. Chan Kim and Renée Mauborgne. It got a lot of popular attention using the metaphor that business strategy should point towards wide open blue seas where there is little competition and lots of opportunity. Duh! The Blue Ocean contrasts with the Red Ocean, which is filled with fierce competition from other whalers and has lots of blood in the water.

Another way to think about the concept of a Blue Ocean Strategy is to get to the happy place in the upper right quadrant where your business is serving a growth market with unique and valuable capabilities. The secret to getting into that upper right quadrant or Blue Ocean and staying there is to pay attention to the lifecycle stage indicators of your products, customer segments, and execution capabilities. Alway manage them appropriately for the lifecycle stage. From a position of strength, it is possible to enter new oceans.

THE INNOVATOR'S DILEMMA

The Innovator's Dilemma by Clayton Christensen was published in 1997 and it is an awesome book. It highlights that companies can do the perfectly correct thing by listening to their customers and still fail. The solution to the Innovator's Dilemma is also embedded in Lifecycle Strategy. It is why you don't attempt to pilot a new product for early majority or late majority customers. Go where the market is headed! Ask and listen to innovative and early adopter customer segments and pilot and nail new concepts for them first. See Part III in my book *Organizational Physics* for more insights into this dilemma. See my book Designed to Scale for insights into how to structure new business units to execute on new market opportunities.

CROSSING THE CHASM

Crossing the Chasm is an amazing book by Geoffrey Moore published in 1991. If you are familiar with this work already, I do not need to highlight for you that the Customer Lifecycle is inspired by his work. Geoffrey Moore originally applied the Customer Lifecycle to high-tech products to show that the behaviors and mindset required to sell to innovator and early adopter customers are radically different than those required to appeal to and secure early majority customers.

My approach is to take this same thinking behind the Customer Lifecycle and apply it to all industries, not just new and high-tech products. To wit: if you look closely enough, you will find that the buyer personas of your own customer segments are different, even if you do not sell high tech products. We

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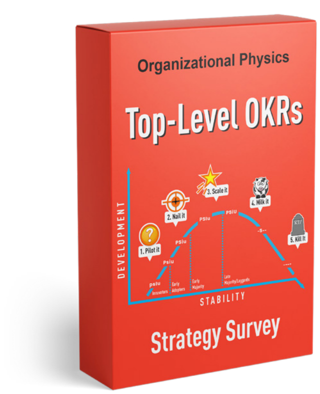
are asking you to pay attention and to sacrifice priorities to delight the main core customer for each lifecycle stage.

How to Track Progress Over Time

Tracking lifecycle stage progression over time is pretty easy. Just retake the Top Level OKR survey before each annual strategic planning cycle. The team can see a collective view if the business or business unit has progressed from one stage to another, its current level of execution risk, or if it still remains at its current stage.

In my experience working with several hundred companies, it is realistic for a company to move ½ stage within a year's time. Meaning, if a business is currently in the mid Nail It stage, and if the team is focused and executing well together, then expect it to move into the late Nail It/Early Scale It stage within a year. Sometimes faster, sometimes slower. It is uncommon to power through one whole stage in under one calendar year. It is possible, just not common. Accomplishing that feat has much to do with market timing, resource availability, the organizational structure and decision-making processes, and the commitment and acumen of the leaders at the top. Seek progress, not perfection.

Summary



In summary, the secret to successful strategy is to manage each business appropriately for its lifecycle stage. A company that does this well, now and over time, is able to achieve a state of perpetual renewal. A company that does not do this well will soon find itself on a trajectory towards failure. In strategy, as in life, awareness and timing are critical.

Use the insights from the Organizational Physics Strategy Map and the Top Level OKR process to set and communicate the right strategy for the lifecycle stage. Doing so will help to quickly build shared consciousness across the organization about where its core business and any business units are now in their lifecycle development, and therefore, what the next-stage strategy must be to move up the lifecycle curve.

As the head goes, the body follows. Once the Top-Level OKRs are set for the year (which includes the top 3 to 5 three-year Strategic Imperatives as well as the most important Annual Goals for each imperative), the next step is to use the Top-Level OKRs as the pole star toward which all other quarterly departmental and individual OKRs should point.

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How this works in practice is to set new Top-Level OKRs together with your leadership team. Then cascade those Top-Level OKRs to the rest of the organization so that each individual and department sets their quarterly OKRs to support one or more of the Top-Level OKRs. At the end of each quarter, each department and individual conducts a quarterly OKR retrospective and sets new quarterly OKRs for the coming quarter. Just prior to the annual strategic planning session, repeat the Top Level OKR survey with your Leadership Team to reorient where the business is now, to assess its current level of execution risk, and to track its lifecycle stage progression over time. Consistent realignment over time equals results.

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Appendix A: Top Level OKRs Sample Calendar

Q1	JANUARY	FEBRUARY	MARCH
Week 1	Finalize Top Level OKRs and Leadership Team Annual Goals		
Week 2	Set Q1 Company-wide OKRs	Monthly All Hands Meeting	Monthly All Hands Meeting
Week 3	Annual All Hands Meeting		
Week 4			
Q2	**APRIL**	**MAY**	**JUNE**
Week 1			
Week 2	Review Q1 Company-wide OKRs and set Q2 OKRs	Monthly All Hands Meeting	Monthly All Hands Meeting
Week 3	Quarterly All Hands Meeting		
Week 4			
Q3	**JULY**	**AUGUST**	**SEPTEMBER**
Week 1			
Week 2	Review Company-wide Q2 OKRs and set Q3 OKRs	Monthly All Hands Meeting	Monthly All Hands Meeting
Week 3	Quarterly All Hands Meeting		
Week 4			
Q4	**OCTOBER**	**NOVEMBER**	**DECEMBER**
Week 1			
Week 2	Review Company-wide Q3 OKRs and set Q4 OKRs	Monthly All Hands Meeting	Monthly All Hands Meeting
Week 3	Quarterly All Hands Meeting	Send Entropy Survey and Top Level OKR Survey to Leadership Team.	Conduct Year in Review and begin Top Level OKRs process with Leadership Team.
Week 4			

Figure 11. Top Level OKRs example calendar.

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Appendix B: Research from the Field

Research on Lifecycle Theory is limited but pointed. I will speak from my own experience. In my work as an organizational structure and design consultant, I have helped a lot of companies set their next-stage growth strategy and Top Level OKRs using the Organizational Physics Strategy Map as a starting point.

Prior to starting this work with a company, I first surveyed their leadership team and key influencers (usually about 15 to 25 people in a given company) to identify sources of entropy that are harming strategic execution and growth. One of these survey categories is called Strategic Clarity/Priorities and for reference, the survey question is stated as follows:

> *On a scale of 0 (no problems and thus no opportunities for improvement) to 5 (big problems and thus big opportunities for improvement), rate the organization's current level of Strategy Clarity/Priorities. Remember that it's not enough to choose a strategy—you have to sacrifice for that strategy and communicate it clearly to the entire ecosystem, including the management team, employees, investors, and partners. A "0" indicates that your strategy is clear, powerful, and well communicated. Everybody "gets it." A "5" indicates that the strategy and priorities are unclear or unbelievable. Nobody gets it or is buying into it.*

The first chart below shows a cohort analysis of a dozen companies that conducted a Top Level OKR process using the Organizational Physics Strategy Map process. Their averaged scores for the Strategic Clarity/Priorities category were as follows where "0" equals good or high strategic clarity and "5" equals bad or poor strategic clarity:

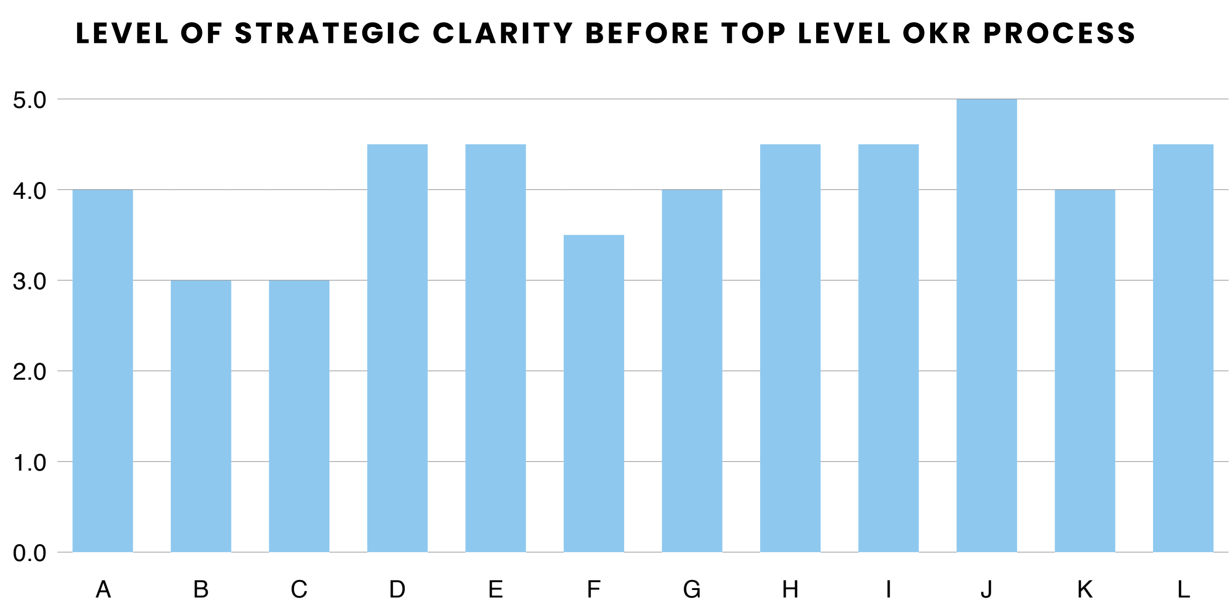

Figure 12. The level of strategic clarity before the Top Level OKR process. 0=good / 5=bad.

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Between 7 to 13 months after completing their initial Top Level OKR process using the Organizational Physics Strategy Map, each company re-took the survey to determine if they had improved in their level of Strategic Clarity/Priorities as a company. These were the results:

LEVEL OF STRATEGIC CLARITY AFTER TOP LEVEL OKR PROCESS

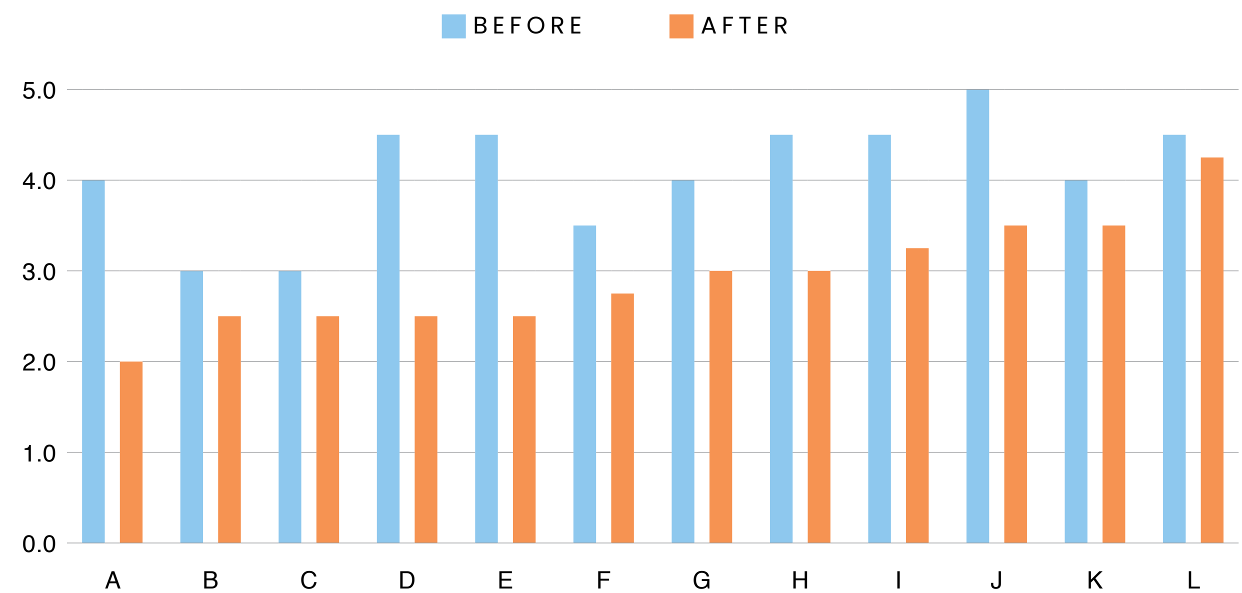

Figure 13. This cohort showed an average 27% improvement in strategic clarity and priorities measured between 9 to 12 months after completing the initial Top Level OKR process.

Company A in this cohort showed the greatest improvement, driving a 50% improvement in Strategic Clarity/Priorities. Company L did the worse, only showing a 6% improvement, compared to the group average of 27% improvement. Of interest, Company A was sold for a high multiple within 18 months of doing this process.

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About the Author Lex Sisney

Organizational Physics (https://www.OrganizationalPhysics.com) founder and head coach Lex Sisney is a business scaling expert and a wizard at organizational structure and design. He works with CEOs and leadership teams of expansion-stage companies who are committed to growing their business without compromising their values.

Lex is one of the world's foremost experts in organizational structure and design. He has personally helped to transform several hundreds of companies, in 16 countries, and in industries as diverse as software-as-a-service (SAAS), machine learning, manufacturing, energy, consumer goods, health care, biotech, payments, hospitality, import/export, distribution, field services, mobile, publishing, and more.

Lex conducting a Strategic Alignment & Organizational Design Workshop in Capetown, South Africa.
Photo Credit: Gregor Röhrig

Through his own challenges founding and leading fast-growing companies, Lex began a quest to find a simple, effective paradigm for other founders and CEOs to achieve market-leading, differentiated, and profitable positions for their companies. After years of work in this field, Lex discovered that organizational success can be distilled to some simple, yet powerful principles clearly explained by the classic laws of physics – laws that were true 10,000 years ago and will be just as true 10,000 years from now. His unique approach combines a powerful theoretical framework with practical methods to guide organizational leaders toward greater success and work/life satisfaction.

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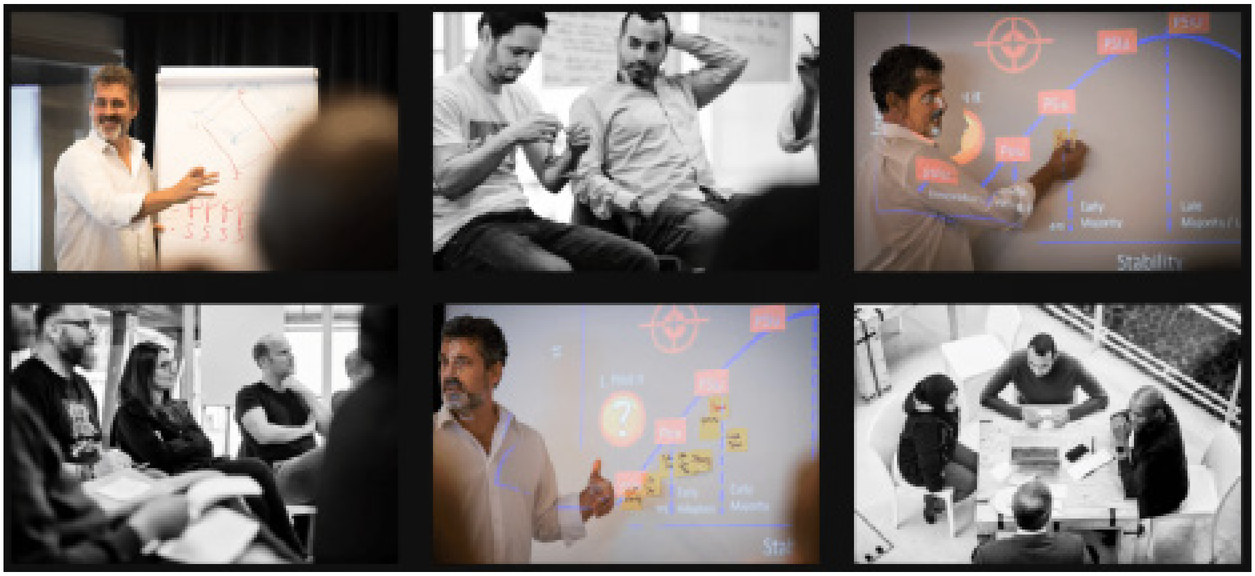

Photo Credit: Gregor Röhrig

Lex is the author of

- *Designed to Scale: How to Structure Your Business for Exponential Growth*
- *Organizational Physics: The Science of Growing a Business*
- *How to Think About Hiring: Play Smarter to Win the Talent Game*
- *Ready for Enlightenment? An Insider's Guide to the Biggest Trip of Your Life*

In addition, thousands of entrepreneurs and managers visit Lex's Organizational Physics blog each month for insights into scaling a business and building high-performing teams.

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