# Don’t Invest In Initiatives, Invest In Strategies

Few companies recognise the power of investing in strategies rather than initiatives. Most companies I know demand detailed discounted cash flow statements for all proposed projects. These projections must show significant payback before the initiative is considered for investment.

So what’s the problem with this approach? Why is a focus on detailed initiative appraisals unhelpful? There are two major problems:

1. There is no explicit link to strategy. An initiative may make money in itself, but it can also divert focus and resources away from the company’s core strategy. This is one reason why Herb Kelleher of Southwest Airlines would respond to apparently profitable initiatives (for example introducing in-flight meals) by demanding “And how does that help us become the low fare airline?”
2. They are open to “creative” management assumptions. Managers can tweak assumptions to create acceptable financial proposals even for dubious initiatives. For some managers, this has become an art form!

A better way is to focus investment decisions on your overall strategy. It is far more difficult for managers to manipulate the financial forecasts of an overall strategy than it is to influence the projections of individual initiatives.

More importantly, focusing investment decisions at a strategic level requires you to make clear and consistent choices. Strategy is, at heart, about creating a system to support and deliver a distinctive proposition. In other words, it is not the individual elements or initiatives that create value, but the combination of those elements working together that determines a company’s success.

This point was brought home to me a few years ago during a meeting at Walgreens, America’s leading drugstore chain. I asked their senior managers how they could possibly get a decent payback on their drive-thru pharmacies (*“Don’t they lead to lost in-store impulse sales?”*) and their 24-hour opening (*“How can you possibly get enough business to justify a pharmacist at 3am?”*).

Their reply was revealing. The senior manager simply said, *“I don’t know whether these initiatives make money in themselves, but they were both essential to our goal of being the most convenient drugstore in the US.”*

By focusing resource allocation decisions on the overall strategy, the initiatives became essential elements of Walgreen’s agenda, whatever their economics may have looked like in isolation. Just as importantly Walgreen’s management was willing to offset investment in these elements by reducing investment elsewhere – for example, low-cost store fit-outs, and lower in-store staff service levels.

So how do you control investment in initiatives without demanding detailed discounted cash flow forecasts? First you need to estimate the overall resource levels required to deliver the strategy over the next few years. Then, you ask three key questions any proposed initiative:

1. Is the initiative critical to your strategy?
2. Can you afford the investment?
3. Is this the most efficient way to fund this initiative?

Asking these questions will help you determine the best way forward for your business and not just default to allocating resources to the individual initiatives with the highest cash-flow projections.

Making investment decisions solely at the level of detailed initiatives can hinder the longer-term performance of your business. By focusing, instead, on the value and investment of your overall strategy you will make the choices and trade-offs necessary for ultimate success.