The CEO Challenge for August 2010

The Opportunity Cost of that Special Deal

Based on the conversations I've been having recently, I know you'll recognize this scenario. Your star sales rep has uncovered an interesting revenue opportunity, but it's off strategy for your company. It might require more customization than you typically provide. Perhaps it's a new industry for you, or you'll need to hire new people with different skill sets in order to fulfill it. It may also be a test program with promises of future business if the stars are aligned.

Whatever the case, during difficult times, a CEO is more likely to say yes to these kinds of deals -- typically called "bluebirds" because they're beautiful but very troublesome. After all, it's revenue, right? Absolutely, and revenue is precious right now. Perhaps this bluebird is really a symbol of a real market trend, so you have to pay attention.

BUT … there's also an opportunity cost. When you just accept new business reactively, you're no longer driving your strategy forward. Without strategy, your company won't be aligned toward specific goals. And when you remove alignment, you replace it with chaos.

So this new off-strategy bluebird deal brings in two things: 1) Some revenue and 2) Some chaos. When the deal is over, the revenue disappears. And guess what? The chaos stays.

So how do you decide whether the opportunity is a real market trend that you should pursue or a bluebird that will do more harm than good?

Do you have comments, questions or feedback on this article? Please share your thoughts at http://www.therevenuegame.com/ceochallenge/8/opportunitycost/.

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OPPORTUNITY ANALYSIS

You don't need me to tell you to start out by carefully analyzing the opportunity. The first step is to thoroughly understand WHY this company is asking for this solution. As you evaluate, here are some of the things you should keep in mind.

First, is the market really telling you about a different way to create value for customers, or is this a one-time deal? If this is a common problem, other companies in your niche will also experience it. Or you may have discovered a problem in a new niche.

Second, is there a gap in the market? Why has the company come to you to solve this problem? Are your competitors unable to handle it? Why or why not? You may have an expertise that the market is finally recognizing. On the flip side, maybe all of your competitors had good reasons to turn the opportunity down.

Third, how large is the niche, and what would you need to do to compete and win? If you've determined that the market is asking for a new solution, size the opportunity. Then decide what your company needs to do to win new business and dominate the niche.

NOW CONSIDER THE COSTS

The first thing you should evaluate is the cost of failure. Frankly, if you've never done it before, there's a good chance you'll screw it up. That failure will affect customer relationships, market perceptions, and employee morale.

What about differentiation? When you stray from your brand and core competency, you risk losing your differentiation, which in turn confuses your customers and employees. For more on this topic, check out Jane's article "What are you selling?"

Bluebirds also create margin pressure because, more often than not, they force you to build a cost model that isn't scalable. If the deal seems to offer incredibly high margins, be careful … there are always significant hidden costs.

Ultimately, chaos is the most devastating result of strategy deviation. Companies that can't stick with a strategy encounter problems with misalignment, teamwork, morale, revenue growth, profits, branding and much more. We talk more about the Cost of Chaos here.

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Finally, let's not forget opportunity cost. If you take this deal, you may be investing precious resources in a project that isn't a great fit instead of pursuing one that is.

SOLUTION

To ease the analysis, I tell CEOs to think about matching up the deal to the existing strategy and infrastructure. Here are the specific questions I'd ask.

ACTION PLAN: Is this a good deal or a bluebird?

1. **Survival:** Do we truly need the deal to survive?
2. **Strategy:** How far off-strategy will this deal take us?
3. **Branding:** How far is this deal from our brand and offer?
4. **Niche(s):** How far right or left of our defined target niche will this deal take us?
5. **Problem solved:** How far is this project from the problems we normally solve?
6. **Expertise:** How deeply do we understand the language and needs of this new area? Do we even know what we need to know?
7. **Upside:** Exactly what is the upside, and what's the probability that we'll realize that upside?
8. **Cost:** What are all of the hard costs and timeframes for each?
9. **Investments:** What structure / infrastructure will we need to execute this project without sacrificing our brand promises?
10. **Buyers:** Are the buyers the same buyers we deal with now, and is that an advantage or disadvantage for us in the short-term and long term?
11. **Competitive positioning:** What do we gain competitively if we succeed and what would we lose if we fail?
12. **Tactical execution:** Do we have the skills and staffing to execute, and what impact will the project have on them (financially, expertise, opportunity cost)?
13. **KPIs:** How will they be impacted and how will that affect the company's progress toward short- and long-term goals?

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14. **Channel conflict:** Do we have partner or channel overlap that makes this deal risky or safe? How do partners feel about the opportunity?

15. **Assumptions:** What are the key assumptions we're making, and what risks do we face if our assumptions are wrong?

16. **Exit:** If we're preparing for a transaction, exit, valuation or ESOP report, does this deal have any impact?

CONCLUSION

It's never easy to turn down a revenue opportunity, especially if the deal may lead to greater opportunities in the future. The key is to instill discipline in the review process so that your company can be confident pursuing the deal or, if necessary, turning it down.

Have you found yourself in this situation recently? What did you do, and did you make the right decision? What other variables did you include in your analysis?

Please share your thoughts and experiences with us here!

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