



SOCIETY OF ACTUARIES

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Playing to Win

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What do you think of when someone says “business strategy?” The term likely elicits two responses. One, you think about all-day meetings—days of your life you will never get back. Or two, you think about obscure business speak—“creating holistic synergies...” At a minimum, you may have a desire to flip to the next article in the newsletter.

Please allow me to set your fears at ease—this article will only take a few minutes (not days) to read and we’ll look at strategy without the business speak. I’ve recently read *Playing to Win* by A.G. Lafley (current Procter & Gamble CEO) and Roger Martin (author and former dean of Rotman School of Management, University of Toronto). It’s a delightful book on strategy AND it’s not what you might typically think about when the words “business strategy” are mentioned.

So what is different about Lafley and Martin’s approach? The winning is strongly linked to delivering superior value to your customers... i.e., you win when your customer wins.

Peter Drucker said, “The purpose of a business is to create a customer.” Contrast this with what is taught in every Economics 101 class, “the purpose of a business is to maximize profit.”

What Lafley and Martin show us (in this book and Martin’s articles) is that the way to maximize profit (the Econ 101 definition) is to maximize customer satisfaction. The ideas are related, but those that put the profit maximization ahead of making the customers happy will not win in the long run.

I think Johnson and Johnson’s credo is a great example of this idea. I’ve include the entire credo below (highlight is mine).

Our Credo

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs, everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers’ orders must

be serviced promptly and accurately. Our supplies and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens – support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

Notice the order in the credo:

1. Customers
2. Suppliers and Distributors
3. Employees
4. Communities
5. Shareholders

The shareholders are listed LAST! Does J&J care about their shareholders? Absolutely, but they ensure that the shareholders win by taking care of 1-4 on the list above.

“When we operate according to these principles, the stockholders should realize a fair return.”

I’ll end this with a few questions, what do you think would motivate your employee base (or yourself)? A: Solving an important problem for your customer, somehow making their lives better, etc. or B: Improving returns for shareholders?

I get excited about discovering and meeting our customer’s needs. I want to help ensure that they are delighted. And better yet, when we meet customer’s needs, we improve returns for shareholders.

As Jeff Bezos wrote in his letter to Amazon shareholders this year, “Take a long-term view, and the interests of customers and shareholders align.”

What should we be teaching students in economics? The purpose of the firm is to maximize profits? Or should it be that the purpose of the firm is to maximize customer value? Which one would attract the best and the brightest into business? Again, I believe we could dramatically change the experience of most business school students by focusing on improving the lives of customers.

Strategy is about winning and winning is about delighting customers. Given this approach, who wouldn’t want to learn more about strategy? □

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65%	65%
80%	80%
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