

ARE YOU A FOX OR

AS YOU PONDER A UNIFIED, LONG-TERM STRATEGY FOR YOUR COMPANY, ASK THESE ESSENTIAL QUESTIONS

By Mark Hodges

In his landmark 2001 book, *Good to Great*, business guru Jim Collins presented the odd-sounding but important Hedgehog Concept, which is inspired by the famous essay by philosopher Isaiah Berlin, “The Hedgehog and the Fox.” That essay, among other things, offers insights into human psychology based on a saying of ancient Greek poet Archilochus: “The fox knows many things, but the hedgehog knows one big thing.” Collins builds on the hedgehog/fox concept, relating it to companies and the business world. While the fox’s approach to strategy has no unifying idea, the hedgehog focuses on one single organizing concept.

In Collins’ version of the hedgehog concept, there are three key components essential to creating an effective, unifying strategy for any company. And these essentials, which will take a company from merely good to being truly great, have special relevance for home builders.

1 WHAT ARE YOU DEEPLY PASSIONATE ABOUT?

All of us in home building know that to succeed in our business, particularly in these challenging times, requires hard work, resilience, and a tolerance for risk. But it also requires passion. Ask yourself what, specifically, are you passionate about as you lead your company? Is it customer delight? Creating a great place to work? Designing great products? Achieving operational excellence?

It’s a question that only you can answer—and a question you must answer if you are to build a great company. Be careful, though. The task here isn’t to create a new passion but to find what’s already there and discover what truly makes you passionate about your business.

As a lead judge for *Professional Builder’s* National Housing Quality Award, I’ve visited numerous award applicants and



have been struck by the passionate commitment of several companies in different areas, which drove each of them to exceptional performance and employee commitment. For some, it was customer delight, for others, it was having the best home designs. One company, in particular, was driven by a focus on operational execution, even-flow production, and cycle-time reduction. Their extraordinary achievement of a 49-day construction schedule allowed them to dramatically outperform their competitors due to the lower costs of production, resulting in unassailable price competitiveness that earned the company a 40 percent-plus market share. Their passion for scheduling and production efficiency gave them an untouchable competitive advantage.

2 AT WHAT CAN YOU BE THE BEST IN THE WORLD, OR BEST IN YOUR MARKETS?

No business leader I know is satisfied to just be pretty good at his or her business. Yet few have a deep understanding of their company’s strengths, core competencies, and, most importantly, potential for greatness. As you create a strategy for your company’s future, you must come to a deep understanding, not just of what you want to be the best at, but what

A HEDGEHOG?



you can be the best at. Then, use that awareness to turn your strengths and competencies into world-class performance. This will provide the unique competitive advantage that will propel your company's growth and prosperity.

It will require honesty, courage, and determination if you're to make the changes necessary to achieve best-in-industry performance. At the company I mentioned above, there was not only great passion for production efficiency and cycle times, the company also devoted intellect, research, process design, training, measurement, and market positioning to leverage its ability to be the very best at building homes quickly, on schedule, and at dramatically lower cost. That passion translated into a focused strategy to become the best at operational execution—and it succeeded.

3 WHAT IS THE KEY DRIVER FOR YOUR ECONOMIC DECISIONS?

There are countless benchmarks for measuring a company's economic and financial performance. What's important here is that you must select the single driving economic denominator from which all your strategies and tactics will derive. Is it pure bottom-line profit? Is it ROIC? IRR? Could it be profit

per community? Profit per closed home? Many possibilities exist, based on your unique operating model, financial resources, and personal goals. Selecting your economic denominator is an essential step in building your growth strategy, as your future economic and tactical decisions will be made accordingly, guiding you on how to invest your financial resources, manage your operations, and even compensate your team members.

Collins cites the example of Walgreens' chosen economic denominator: profit per customer visit. This driving objective is a simple idea, yet it guides the company's most important strategic decisions: where to open new stores, how many stores to open, what products to offer at what prices—all with one simple and actionable economic objective.

PARTS OF A WHOLE

Each of these three elements of the Hedgehog Concept must be carefully examined and their interconnectedness understood. If your company is an average performer in your chosen niche and isn't capable of being the best in your market, you might build a moderately successful company, but not a great one. If you're the best at something, but you don't have passion for what you're doing, long-term success may elude you. And if you're passionate about your business, but it isn't built on a solid economic foundation and driven by clear goals, then you may have a personally satisfying experience, but you won't produce great results.

Are you a fox or a hedgehog? Like the hedgehog, if you face threats by the foxes out there (some of whom may be your direct competitors) you'll need to become the best in the world at one thing: protecting your company's future. Understanding and acting upon what makes you passionate about your business, discovering what you can do better than anyone else, and deciding upon your key economic driver are keys to this protection—and to achieving your goal of becoming a great company. **PB**

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