Practical Strategic Planning

Converting Concepts into Business Results

"Practical" in the same phrase as "Strategic" strikes me as an oxymoron – something like the "benevolent dictator." This is understandable given most people's experience with anything labeled as "strategic." When I apply the word "practical" in this context, I specifically mean – "capable of being put into use" and "disposed to action as opposed to speculation or abstraction."[1] In my experience, there are a few simple concepts and tools that transform strategic planning from an abstract exercise into an effective method to fundamentally change the organization and generate superior business results.

Let's start by clarifying what is meant by the following terms:

> Mission – defines the purpose of the organization (why do we exist). It may also outline the organizations responsibilities to key stake holders and/or its major objectives.
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> Vision – describes the desired future state of the organization – typically focusing on business results and perceptions of stake holders.
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> Strategy – "the pattern or plan that integrates an organization's major goals, policies and actions into a cohesive whole. A well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents."[2] Strategic planning examines fundamental assumptions about products, markets and business structure over a period of years with few, if any, constraints.
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> Business Plan - the analysis and resulting projects that transform strategic objectives into executable actions. Business plans generally address how to grow revenue and margin (markets, segments, product attributes, distribution, support, etc) and where to invest in critical competencies, people and business processes to support this growth. These topics are considered within a framework of the products, markets and business structure that exists or can be developed in the short term.

In summary, strategy defines the objectives, approach and desired results while business plans provide the details on how achieve these expectations. In order to be effective, the strategy must be coupled with a detailed business plan AND key managers have to be held accountable for the projects in that plan.

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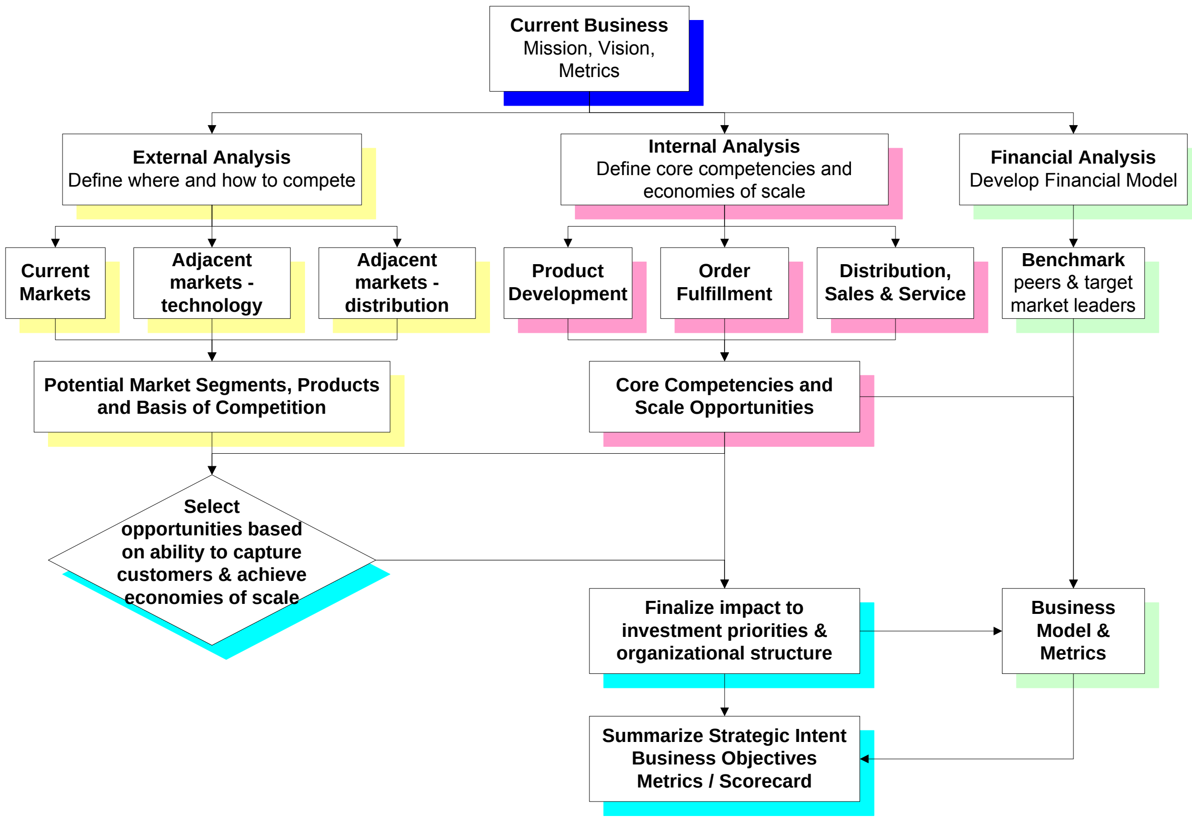
1 – Merriam Webster Dictionary
2 – Quinn, 1980

Strategic Planning Process

Virtually all planning methodologies assess both the external environment and the internal capabilities of the company. Strategic planning, in particular, requires that we:

1. Look further into the future to anticipate market trends, competitors' actions and required internal competencies.
2. Challenge assumptions about current customers, products, business processes and corporate structure to determine where additional revenue growth and operational efficiency can be achieved.

An effective way to envision this analysis and decision making is:



External Analysis – What are the trends in the current market and how can they be used to outmaneuver the competition? What other markets can be profitably addressed with current products or their underlying technology? What other products or services might be added to leverage the existing distribution channel?

Internal Analysis – What unique internal competencies do we have or need to develop? Where do we have economies of scale based on design competence, supply chain, manufacturing expertise or the distribution channel?

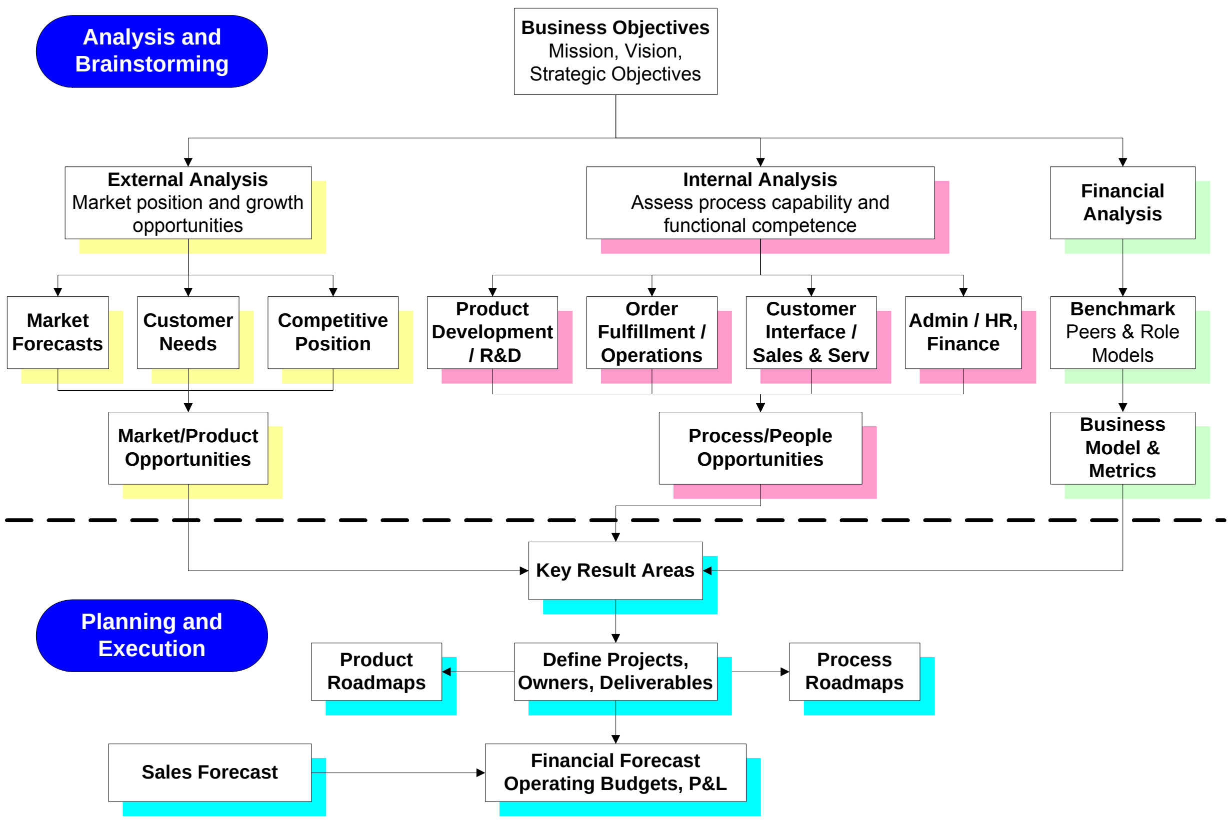
Financial Analysis – What is our current level of performance (Profit, ROA, Cash Flow, etc) versus peer companies? Versus market leaders? Versus investor / board of directors expectations?

Decision Making – What is the expected financial return for the current business? For the top several new product / new market opportunities? What is the impact of enhanced internal skills, business processes or organizational structure? What is the risk profile for the best financial scenarios? What level of investment and risk are we willing to assume?

The final result of this assessment and decision making is a clear statement by the executive team of where the corporation is headed, why this is critical to competitive success, the expected outcomes and what's in it for the employees who have to execute the plan. A compelling vision or statement of "Strategic Intent"[3] is essential to enlisting both the intellectual and emotional commitment of the employees.

Business Planning Process

A similar approach to developing the business plan follows the outline below:



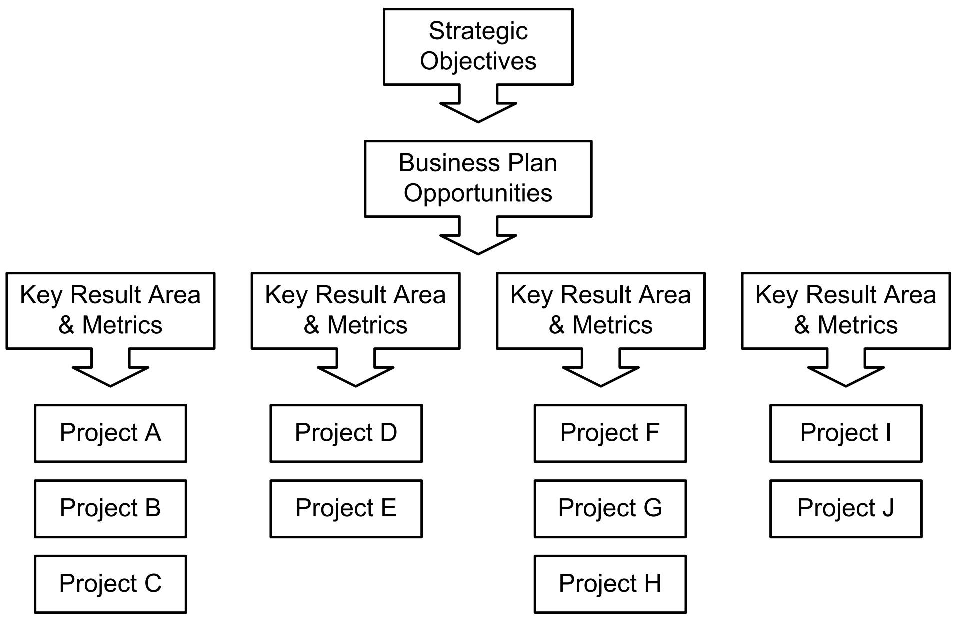
Notice that the major elements are the same – external, internal and financial analysis. Key differences are:

- This analysis uses the strategy and existing constraints as a starting point – identifying gaps and improvement opportunities to meet strategic objectives.
- Specific projects and accountabilities are defined.
- The financial impact of these actions – both investment expense and impact on operating results – is built into the financial plan.

3 – As defined in the work of Vijay Govindarajan, Professor of International Business, Amos Tuck School of Management, Dartmouth College.

Key Result Areas

In particular, the concept of the "Key Result Area" (or KRA) is incorporated. A KRA is simply a focus area for action – it can be a technology or product, a metric such as customer satisfaction or quality, a business process such as lean manufacturing or an employee skill set. It is simply an area where the company must excel to ensure success – either to sustain an existing strength, correct a weakness or support a new element of the strategy. The structure of these KRA's can be viewed as:



Whatever the area of focus, each KRA will include a clear definition and set of metrics. Most importantly, it will be broken down into one or more projects which specifically defines what is to be accomplished, who will lead and when results are to be delivered. It is this level of detail that defines accountability and provides a mechanism to communicate the impact of the business plan to the balance of the organization. The final step in making this process effective is that the business unit leader ensures appropriate priority and resources for the projects and routinely reviews progress.

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Strategic Planning has had a mixed reputation with its confusing nomenclature, complex analyses and tendency to be an annual initiative. The approach outlined here addresses these issues by:

1. Defining the key elements and steps in developing a strategic plan.
2. Differentiating between the multi-year framework provided by strategy and the annual perspective of a business plan tailored to a specific product line.
3. Demonstrating how the use of Key Result Areas can both communicate priorities and provide accountability for specific projects and business results.

