Strategic Planning Made Easy

by Lori Williams

Companies often have trouble maintaining growth, even in favorable economic conditions. The modern business landscape is ever changing: The information highway remains supercharged; technology continues to develop at warp speed; distribution channels change unexpectedly; and new competitors spring into action every day. And if growing a business wasn't challenging enough, business leaders now face another uphill battle. Whether or not current economic uncertainty gives way to a full-blown recession, most economic pundits agree that a business slow down is unavoidable.

In today's complex business environment, strategic thinking is essential for sustaining a long-term competitive position. Corporations recognize this necessity and invest ample resources towards strategic planning efforts. However, small-to-mid-sized companies often fail to engage in strategy development activities. As a result, subtle changes in the competitive landscape go unnoticed and once a new technology, process or change in cost structure enters the marketplace, the incumbent's competitive advantages disappear. In response, the corporation goes into reactive mode and ends up playing catch up instead of proactively embracing new opportunities.

The dearth of strategic planning in smaller-sized companies is often attributed to an absence of time and understanding. Owners and company executives tend to become absorbed with the daily operations of the company and focus on immediate tasks instead of long-term goals. Some company owners may recognize the importance of strategic planning but simply lack clear understanding of the process. While vast libraries exist on the subject of strategic planning, many authors focus on the concerns of large corporation and key in on issues that non-applicable to smaller organizations.

Strategic planning shouldn't be complicated. In its simplest form, a strategic plan is a clear vision of a company long-term position based upon the value-add it provides to customers and shareholders. Strategic plans require knowledge of fundamental industry shifts and how customers and competitors are expected to respond to those changes. Flexibility is an inherent characteristic of strategic plans, which should be easily adaptable to the current market. Evaluating strategic options is based on identifying choices that are most capable of providing value for all stakeholders and align with the organization's vision and core competencies.

So, where to begin? First, become aware of the major changes impacting your industry and begin to align those changes with your organization's core competencies. Your answers to the following three questions can help develop your starting point.

1. What business are we in?

The answer to this question isn't always the most obvious. It is not necessarily tied to the product or service your company offers. For example, insurance companies have long recognized that they are in the business of selling security and assurance. Small retail outlets such as 7-Eleven stores understand that they are in the business of selling convenience. Whole Foods realized that it was in the business of social responsibility and identified a large consumer base that would respond to this message. As a result, the market chain has been rewarded with higher margins than commonly seen in a traditional grocery store. Companies who understand what business they are in are more adept at identifying niches, following trends and responding to market demand. This flexibility makes them more successful at formulating sustainable businesses models.

2. What changes are occurring in our industry?

New technologies can change the competitive landscape overnight. Moreover, competitors may emerge from the most unexpected places. Today, candy bar companies compete with digital music providers for teenagers' discretionary income.
Make it a point to maintain a constant dialogue with your customers, suppliers and industry experts. Schedule quarterly meetings with your sales staff to learn what they are hearing in the marketplace.

3. How can we continue to make money?

Recognizing the core competencies of your organization is critical to building strategic flexibility. The best way to preserve your competitive edge is to continually innovate. Upgrade your technologies, hone your internal processes or develop more efficient distribution channels. Core competencies can be repackaged, stripped down, re-bundled and reconfigured in order to appeal to a changing marketplace. Technology companies have a firm understanding of this concept. New electronic gadgets are introduced to the market and are quickly followed by advanced models. These products are in turn succeeded by stripped-down, less expensive models that appeal to a large consumer base. Fast food chain McDonalds built an entire marketing campaign around the Happy Meal, a shining example of a product bundling strategy at work.

By answering the three questions above, your organization can begin to think in a more strategic manner. Independent of size, all companies must participate in strategic planning activities. In the new economy, knowledge has trumped raw materials as the essential business resource. Strategy development and execution is crucial for long term business success. Don't get blindsided by your competition. Playing catch-up has never put a business in a good position. Markets are not destroyed overnight, even though executives may feel that a loss is swift and unexpected. Markets deteriorate slowly over time and leaving a trail of clues along the way. More often than not, these clues go unnoticed. Usually the cause of a company's failure was a inability to identify looming changes in the business environment and adjust corporate strategy accordingly.

One of the contributing factors to the lack of business acumen is an executive's false belief in continuity. Companies are firmly convinced of their own perpetuity, and envelope themselves in a misguided sense of security and invincibility. This is especially true of generation businesses or legacy organizations. Where once a business model could be counted on to provide a successful foundation for at least a decade, today's companies may need to revamp themselves in as little as a year or two. Creative destruction is constantly reshaping our business landscape. As a result, companies cannot expect to operate from a position of assured continuity.

Financial Considerations

Strategy without financial analysis is incomplete and subject to failure. Continual growth under any economic condition requires a strong financial plan. CEOs often find themselves in right-brain, left-brain quandary – how do you commingle visionary optimism with cost-conscious pessimism? Executives often adopt strategies that do not consider the financial implications. Ineffective strategic plans are void of comprehensive ROI analysis. Smaller firms are particularly at risk, since they may lack a qualified CFO. Controllers with only basic accounting procedures are missing the advanced analytical skills that are required for close financial examination of a strategic plan.

Industries are not created or destroyed equally. Some companies are better positioned for economic uncertainty. Executives who strive to become increasingly strategic in their financial decision-making and engage in vigilant oversight of the company's financial condition have an edge over their competitors. Financial vigilance includes evaluating the company's fundamental economic position by analyzing the industry, customer profitability, financial performance, cost structure, availability of capital, debt leverage and retained earnings.

The balance sheet will reveal your debt leverage and the strength of your borrowing power. Retained earnings examine the past performance of your business model and your management team. If the retained earnings reveal past negative growth, the business model's ability to take an additional hit will be questionable at best.

Revenues and costs should be carefully monitored. A revenue loss may be attributed to an overall reduction in demand or foregone market share due to a competitor's introduction of a new product. Operationally, the cost to bring the product to market may increase or it may become necessary to invest in new technology or human capital. If additional costs cannot be passed onto the consumer, pricing power squeezes margins and net profit is ultimately reduced.

Cost structures delineate your profit margin and your company's ability to absorb overhead costs. Higher margins allow greater cost flexibility. Additionally, a reduction in overhead may be easier than cutting production cost, particularly if inflation is a competing factor.
In the case of a company with less favorable financial position, innovation may be the only solution. Since negative growth and declining retained earnings impact the balance sheet and reduces a company's ability to obtain debt or equity investment, your company may need to form a strategic alliance or joint venture to allow reorganization without a substantial reinvestment of funds.

So how do you ensure that your firm's desire for high product quality and superior customer service transfers to the entire partnership? Incorporate best practices and monitor processes as you would if they were operating directly under your sole supervision. Meet with each partner to share your goal of creating a seamless existence and work together to adopt common procedures, forms and processes across the organization. Your partners will likely be more than happy to support the goal, since it is in their best interest to do so. If conformation proves impossible, look elsewhere. There is always another firm willing and capable to take their place.
The following outline provides a brief summary of key takeaways to help you develop your company plan:

- Watch for future trends and be prepared to change your strategy
- Use technology to reduce cost and drive efficiencies
- Strategic alliances (if well formed) can provide a competitive advantage
- Keep a close eye on your financial position
- Profit margins are not guaranteed - competitors can change everything.

What's the bottom line? Regardless of economic conditions, your industry, business model or financial position, company executives should have a growth strategy that is inclusive of financial performance measures.

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