A Simplified, Effective Approach to Strategic Planning

By James Shearer

Strategic planning can be defined as a well-considered description of what leadership wants the company to be in the long term and the series of actions necessary to get there. The concept of strategic planning as a business process, while comfortable for many business leaders, can send chills down the spines of others. This is because strategic planning may have an unwarranted reputation, in the mind of the leader, for being overly complex, impractical, a purely academic exercise, and, ultimately, a waste of time.

In reality, effective strategic planning can be at whatever level of simplicity or sophistication is desired by the leader and appropriate for the needs of the specific organization. For example, a one-person machine shop would benefit from an entirely different level of strategic planning than a multi-national Fortune 500 conglomerate.

The simplified process discussed in this document is targeted at small-to-medium sized businesses (or similarly sized autonomous divisions of larger corporations). The 3-step process includes a clear, simple definition of what the company wants to be, an analysis of what the company now is, and a plan to close the gap between the two.

The Mission Statement

The mission statement is the first step in establishing strategic direction for a company. Simply defined, the mission statement is a concise declaration of "what" the leadership wants the business to do or be and "who" it wants it to do it for. It may also include "how" it does business and the desired results.

Mission statements typically do not change from year-to-year. They are intended to be a stable reflection of the long range purpose of the business and therefore are strategic by their very nature. Although they may be tweaked a bit from time-to-time or, if the business reorganizes or restructures itself, completely redone, they usually reflect an ongoing, long term "reason for being" for the business.

Mission statements may be found in the annual reports or catalog literature of many public companies. They are typically somewhat formal in wording and structure. Rarely are they more than a few sentences long.

For illustrative purposes, the following are some made-up examples of mission statements:

"To profitably provide a broad range of technically advanced, high performance, and highly reliable electronic communication equipment to the commercial airline industry." (For an avionics manufacturer).

"To provide a free, safe, and secure temporary living environment for indigent male adults in (city name)." (For a men's homeless shelter in a major metropolitan city).

"To provide one-of-a-kind, custom designed assembly automation equipment to domestic manufacturers of medium-to-high volume mechanical assemblies." (For an automation design house).

"To provide a full range of banking services tailored specifically to the needs of the small business owner" (A local commercial bank focusing on small business.) And, lastly,

"To provide reliable, competitively priced brake and suspension repair services, through franchised owners, in the New England states." (A regional chain of brake and suspension repair shops).

Note, a "for profit" company may or may not include profitability goals in its mission. Typically, profitability goals are a critical part of annual operational planning more so than strategic planning and direction. However, there is no harm in including them as a reminder of the need to attain or maintain acceptable profitability levels.

<u>An illustration of the importance of the mission statement in defining strategic direction</u>: The chairman of a very successful manufacturer of highly engineered plastic irrigation equipment (sprinklers, valves, etc.) asked himself the following strategic question: Are we a highly capable irrigation equipment designer and manufacturer that happens to predominantly use plastics in our manufacturing processes <u>or</u> are we a highly capable plastic mechanism design and manufacturing company that happens to make sprinklers and valves?

The difference is strategically significant. There was no right or wrong answer to the question but whichever strategic path was chosen (and therefore whichever mission statement was developed to define and support that strategic path) would, of necessity, have a significant impact on the future direction of the business. The two choices would require radically different sales, marketing, and distribution capabilities, different logistics, somewhat different engineering, and certainly different information systems needs. Once the decision was made, the company was able to proceed with one clear strategic direction in mind.

<u>The Vision Statement</u>

Corporate vision can be part of the mission statement or it can be a stand alone. Typically, the vision statement more specifically addresses or defines <u>how</u> the mission will be accomplished. It can include elements such as a corporate culture of empowering employees (to attain new levels of responsiveness and flexibility), establishment of the overall corporate "number one priority" (such as customer satisfaction, shareholder return, etc.), and/or core values such as respect for the environment; fair treatment of employees; and support of family, community, and country. It can also include the company's value proposition or point-of-differentiation – that performance element which sets it apart from the competition. The vision statement usually compliments and further defines the strategic direction for the business.

Point-of-Differentiation

As stated earlier, one very important element to consider in determining the mission/vision is to identify and develop a point-of-differentiation (sometimes called a value proposition) that will make the company better than the competition. Typically the point-of-differentiation is the basic reason customers will consistently come to the company instead of going to the competitors. Point-of-differentiation is part of a well-thought-out mission and vision strategy.

A sustainable point-of-differentiation is one that is very difficult for the competition to match in the short term and not easily matched in the longer term. Price, for example, may be a point-of-differentiation but it is not sustainable. The competition can literally instantaneously match (or even beat) pricing. However, having a very broad range of highly engineered products, currently unmatched in the industry, has a degree of sustainability. It might take the competition years to match such a well-established, extensive market mix.

If a company identifies a sustainable point-of-differentiation and then successfully implements it as part of their business planning and execution, they will have created a very strong market position that is difficult to assail.

Using Mission and Vision to Define Corporate Strategy

When proper, insightful thought and consideration have been given to the mission and vision statements, including a point-of-differentiation, they will accurately reflect the strategic direction of the business. They will provide a clear definition of what or where the company wants to be for the long haul. The mission and vision can be read by an employee, vendor, customer, stockholder, or analyst to gain immediate insight into what the company is about.

Ultimately, the mission and vision can and should be used by management as a gage to determine if decisions (operational or strategic) are consistent with the stated strategies, goals, and values of the corporation as defined in the mission and vision. Any significant decision or direction not in alignment with the mission and vision should raise an immediate red flag and should be thoroughly challenged before proceeding.

The Four “C’s” of Strategic Planning

The next step in this 3-step approach to strategic planning is to accurately assess the current situation – clearly define what or where the company now is. The management team needs to evaluate the four C’s of strategic planning (sometimes referred to as the four “C’s” of marketing) to accurately and thoroughly determine the current status of the company. The four "C's" are: (1) Company, (2) Customer, (3) Competition, and (4) Channels.

The Company. The company evaluation is typically done with SWOT analysis. This analysis evaluates the strengths and weaknesses of the company and the opportunities and threats facing the company.

One easy way to do this analysis is to gather knowledgeable stakeholders (internal employees certainly but also perhaps a few end-use customers, a key vendor, and maybe a distributor or sales representative, etc.) into a conference room and simply list what the company is good at and what it is not good at. In other words, list the strengths and weaknesses of the company as it now exists. Brutal honesty and candor are a must. Thin skins and egos must be checked at the door! A lack of total candor in this critical step will diminish the planning results and harm the company, perhaps irreparably.

The company might have excellent design engineering, low cost production, and a top notch sales organization. On the other hand, it may have very slow responsiveness to changing customer needs, poor inventory management, and outdated IS capabilities. There may literally be dozens of individual items on these lists. The more comprehensive the lists, the better the results of the planning process will be.

Similarly, this same group, especially with valuable input from any outside stakeholders, can develop comprehensive lists of opportunities and threats. No business today is totally exempt from the impacts of outside influence. There are too many potential opportunities and threats to list but two overriding mega-phenomena are occurring in today's business climate: globalization and technology. Depending on the nature of the business, the impacts of the two may be minimal or they may be significant. But they do exist and their potential impacts on the business as either opportunities to exploit or threats to be countered must be considered.

Again, generating simple but honest lists of the strengths, weaknesses, opportunities and threats is the goal of this step. It will help present an accurate picture of the current status of the company.

The Customer. This evaluation should look at the total customer base and markets served. The markets served can be segmented for a better understanding of the customer base. Segmenting can be by product lines, by geography, by distribution channel, by industry, or any other way that makes sense for the business.

The key here is to assess not only existing customers but potential new customers and customers that have been lost. The analysis should include individual customer trends (such as the growth of Wal-Mart ®, the downsizing of Kmart ®, etc.) and corresponding trends within segments. It could also include analysis of why existing customers remain customers, how other potential customers could become customers, and/or why former customers were lost. Also include some analysis on what is happening in the various channels (the impact of The Home Depot ® and Lowe's ® on local "mom and pop" hardware stores, plumbing distributors, electrical distributors, and builders supply houses is one good example).

The Competition. Know the enemy! Like scouting next week's opponent for a football team, the business team should identify every known competitor and list that competitor's strengths and weaknesses. In addition, consideration should be given to those who are not now but might logically become competitors. In some cases, a company's own vendors or distributors have the potential to become competitors. If they were to do so, what might be the impact on the business?

List all known information and, if it is important but unknown information, assign someone to research and get the information. The more information known about the competition, the more opportunities the company has to exploit any weaknesses or develop unassailable strategies of their own.

The Channels. This is an evaluation of how the company gets its products or services to a paying customer. Typical channels include wholesale distribution, direct to retail, direct to customer, mail order, and internet direct. It can also include an evaluation of the internal sales organization's abilities to implement the channel strategy. Does the sales strategy include a direct field sales force, manufacturer's commission representatives, inside direct sales, a simple order desk, website, or some hybrid combination? Again, for the existing channels and sales approach, what are the strengths, weaknesses, opportunities, and threats?

In some cases the line between a customer and a channel is blurred. For example, a company might sell a product line directly to a mass merchandiser such as Sears ® or The Home Depot ® who in turn sells to an end-user. In this case, Sears ® or The Home Depot ® is both a customer and a channel of distribution to get the product into an end-user's hands.

No harm is done in this apparent duplication. Looking at Sears ® or The Home Depot ® as both customer and channel can provide interesting and valuable insights into how best to maximize company sales performance.

The goal of the four C's analysis is to get a thorough, comprehensive, and accurate picture of the current situation – to know exactly what and where the company now is, including a complete understanding of the marketplace(s) it is striving to serve.

The Gap

The development of the mission and vision has already defined what and where the company wants to be. The four C's analysis has defined the current status - what and where the company now is. By comparing the two, the management team has effectively completed a gap analysis - the gap has been clearly identified and very well defined.

More on the Point-of-differentiation

As stated earlier, to maximize success, a company needs a point of differentiation – some "thing" or "way of doing business" or "capability" that separates it from the competition in a favorable, positive, and memorable way. Years ago, certain companies built their initial reputations on points of differentiation - things that made them better than their direct competition. Those points may or may not still exist today but they did for a time and they were very instrumental in the early success of the businesses.

- Nordstrom's ® department store was known for outstanding, friendly, knowledgeable sales personnel and a "do what it takes to delight the customer" mentality.
- McDonald's ® had very consistent, very fast, and very inexpensive food.
- Toyota ® had a well-deserved reputation for quality far above other "inexpensive" car manufacturers.
- Ben & Jerry's ® had a corner on the super-premium ice cream market through quality, variety, and clever, fun names.
- Southwest Airlines ® had arguably faster ground turnarounds, arguably better on time performance, and a reputation for being less stuffy and more fun than other airlines.
- Seven Up ® was "the un-cola."

Creating a sustainable point of differentiation that separates the company from the competition is an important consideration and element in a successful, long term strategic plan. The more significant the differentiation, the more advantage the company will have (and the more sustainable the differentiation, the longer that advantage will exist).

The Implementation Plan

The purpose of the implementation plan is to close the gap between where the company is and where it wants to be strategically. The management team should develop projects, corrective actions, action plans, and tasks that, when completed, will close the gaps identified in the planning process.

For example, if improved product innovation is an element identified as necessary to consistently achieve the mission and vision, then a new process must be developed and implemented that improves the introduction of successful new products. Processes such as Concurrent or Simultaneous Engineering or the use of advanced CAD/CAM software may be considered.

If improved inventory management is necessary to increase competitiveness, then perhaps new MRP-type software is required. If the operational side of the business works in a vacuum, separated from the marketing and customer side, perhaps a new organizational model is needed. If delivery is poor, increased capacity, improved forecasting, and/or an improved external customer service focus are possible corrective actions.

The leader and management team must determine and plan implementation of the projects, actions and tasks that will close the gap(s) defined in the strategic analysis. When developed to address and correct specific, well-defined issues, the individual actions and tasks in the implementation plan can frequently be kept easy to implement and elegant in their simplicity.

Summary

Breaking down the goal of generating a strategic plan into the three simple steps of (1) What does the company want to be, (2) What is the company now, and (3) How should the gap between (1) and (2) be closed is a highly effective way to introduce simplified strategic planning concepts into an organization.

The development and implementation of the strategic thought process and the successful introduction of resulting new capabilities or enabling strategies will provide solid underpinnings for future growth and expansion. Consider that highly effective strategic planning itself could become a sustainable point-of-differentiation that will set the company apart from its competitors.