THE PROCESS OF STRATEGIC PLANNING

ARTICLE #1 OF 10
INTRODUCTION TO STRATEGIC PLANNING

Strategic planning is to a business what a map is to a road rally driver. It is a tool that defines the routes that when taken will lead to the most likely probability of getting from where the business is to where the owners or stakeholders want it to go. And like a road rally, strategic plans meet detours and obstacles that call for adapting and adjusting as the plan is implemented.

Strategic planning is a process that brings to life the mission and vision of the enterprise. A strategic plan, well crafted and of value, is driven from the top down; considers the internal and external environment around the business; is the work of the managers of the business; and is communicated to all the business stakeholders, both inside and outside of the company.

As a company grows and as the business environment becomes more complex the need for strategic planning becomes greater. There is a need for all people in the corporation to understand the direction and mission of the business. Companies consistently applying a disciplined approach to strategic planning are better prepared to evolve as the market changes and as different market segments require different needs for the products or services of the company.

The benefit of the discipline that develops from the process of strategic planning, leads to improved communication. It facilitates effective decision-making, better selection of tactical options and leads to a higher probability of achieving the owners' or stakeholders' goals and objectives.

There is no one formula or process for strategic planning. There are however, principles and required steps that optimize the value of strategic planning. The steps in the process described in this series of articles on strategic planning are presented below:

- Current Situation Analysis
- Segmentation Analysis
- Strength, Weakness, Opportunities, and Threat Analysis
- Core Competencies Analysis
- Key Success Factors
- Business Unit Strategy / Business Plan
- Balanced Score Card
- Evaluation

The principles and steps of this process will be discussed in a series of articles following this introduction to strategic planning. The choice, of the planning process that works best, should be driven by the culture of the organization, and by the comfort level of the participants. The strategic planning process must mirror the cultural values and goals of the company.

There are a number of important steps to remember in the process of strategic planning. They include collecting a meaningful and broad data base, creatively thinking about differentiation, defining gaps, assessing core competencies, and understanding the identifying critical resources and skills.

An important distinction in the process is to recognize the difference between strategic planning, or the work being done, and strategic thinking, or the creative, intuitive input. The planning element involves the data collection, goal setting, expectation definition and statement of direction. Strategic thinking includes the intuitive and creative elements. This thinking process takes into account and helps to leverage the values of the internal culture of the business and external characteristics of the market.

Strategic planning can be a challenging process, particularly the first time it is undertaken in a company. With patience and perseverance as well as a strong team effort the strategic plan can be the beginning of improved and predictable results for a company. At times when the business gets off track a strategic plan can help direct the recovery process. When strategic planning is treated as an ongoing process it becomes a competitive advantage and an offensive assurance of improved day to day execution of the business practices.

Use of an outside, independent facilitator can help in the process and in the development of a strategic plan. An outside resource can provide objectivity and serve as a “devil’s advocate” as well as a sounding board for the management charged with plan development. In the final analysis the plan must have the authorship and ownership of the owner and the managers who must execute and follow the strategic plan. It must be their plan.

The strategic plan, to be of real long-term value, must be treated as an ongoing business process. It must be reflective of the owners’ mission and vision. It must evolve and change to reflect changing market and economic conditions. It must be proactive to competitive, market and economic conditions. If those steps are followed, the strategic plan will institutionalize a culture of continuous improvement and disciplined change.

Strategic planning, when treated as a work in progress, rather than as a binder on a shelf, or a file in a computer, provides business with a real and lasting competitive advantage. It will help determine and direct the quality of relationships with suppliers, employees, unions, customers, and bankers.

To get your business to where you desire it to be, start with determination and drive to develop a useful and living strategic planning process. Give it strong support and leadership from the top down. Develop and evolve it with participation and buy-in from the bottom up. Strategic planning is your company's road map to your vision.

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(Article #2 in this series of 10 will deal with step one, <u>Analysis of the Current Situation</u>)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #2 OF 10
CURRENT SITUATION ANALYSIS

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the second in a series of ten articles describing one, proven and tested process for effective strategic planning.

The early step in the process of strategic planning can best be described as building a foundation. The importance of situation analysis is similar to the need to drive the pilings of a skyscraper all the way down to bedrock. This analysis prepares the organization to tackle the work of completing a useful and valuable strategic plan that provides a competitive advantage.

Step one is to be certain clear Mission and Vision statements are in place reflecting the mind, heart, soul, passion and resources of the owner or stockholders. It is important that these statements are consistently described and understood by all of the employees but especially be the key managers of the business.

The Mission statement describes who we are and what we do as a company. The more that statement differentiates the company from its competition, and the more it recognizes its uniqueness and value to customers, the more powerful the Mission statement becomes as a clarifying, directional force. A Mission statement should provide a statement describing the products, markets, corporate culture and overall financial goals of the company.

The Mission statement presented below is an example from a company that serves as a distributor to the auto aftermarket.

> Mission Statement
>
> To distribute automotive parts to the automobile repair industry, providing customers with quality products, services, and information; to present our company in an honest and trustworthy manner in all transactions; to empower our employees to conduct the business; and provide our company a reasonable and consistent profit.

The Vision statement is the owner's view of where the enterprise should be in the future. The Vision statement is stated in general terms on key measures of importance. The Vision includes selective items such as sales volume, market share, market penetration, earnings, customer satisfaction, research and development investment, and relationships with strategic partners. Statements on cost position relative to competitors and productivity or efficiency are also appropriate for the key measurement items discussed in the Vision statement.

Following is an example of a vision statement

> Vision Statement
>
> To be the market leader and the low cost distributor of high quality automotive parts in the Ohio and Indiana market. The right material, to the right place, at the right time, for each customer! At a price delivering value for the customer and a fair return for the company.

Each of the vision items add value only if it has been identified as clearly important to the defined outcome and results of the business as defined by the owner and by the expectations and demands of the market.

While the Mission and Vision statements are products of the owners or the stockholders they provide important defining parameters for the key managers as they develop a strategic plan. Each of the elements of the strategic plan that this series of articles discusses must be in agreement with and aligned to the Mission and Vision statements of the business.

The next step in analyzing the current situation is the development of Baseline Feedback. This is the collection and compilation of both the internal and external data that can help to define the current situation. The external data includes market, economic and competitive intelligence, customer and supplier information, and benchmark data from both inside and outside of the directly competitive industry.

The final exercise in the current situation analysis is to measure and gain perspective on the degree of convergence or misalignment of employee perception and opinion of the company mission, visions and strategy. It is very important that each and every employee have a consistent mind set relative to the Mission, Vision, and Strategy of the company.

Have each employee or at least the key managers write his or her own statement of company mission and vision. Compare those employee statements to the official version and see if there is any significant divergence of position. It is that alignment which allows for consistency in decision-making and in execution.

In addition, develop an understanding of customer perspective and opinion of the company. Ask the question for example, how do the most profitable customers view the company versus the views of the least profitable customers? How do the same customers view the key competitors? What products or product lines represent the greatest and least profit contribution and why?

A good tool to use is a simple eight to ten question survey. Have each key manager complete the survey. This will provide a measurement of the degree to which there is common and clear understanding of the current situation, the direction, decision-making and decision processing in the company.

Agreement throughout the organization is a fundamental requirement for optimization of the results. If the analysis in this stop shows divergence then work to narrow the gaps prior to undertaking strategic planning. If there is considerable agreement then there is a strong platform from which to build a strategic plan with high probability of real long-term benefit. A parallel process of using a simple questionnaire outside of the company with customers and suppliers is also recommended and it too can be of real value in the strategic planning and development process.

The Current Situation Analysis step is dominated by data collection and analysis. It is also a time to check the validity and buy-in of the company Mission and Vision. It is a time to get feedback on employee perceptions of the company. And, it is a time to explore the value that customers place on the relationship.

This work process provides the foundation for the work of assembling the next four steps of strategic planning into a working document that becomes the strategic plan, the road map for the business plan, and the guide to long-term success for the company.

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(Article #3 in this series of 10 will deal with step two, <u>Segmentation Analysis</u>)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #3 OF 10
SEGMENTATION ANALYSIS: MATCHING MARKET POTENTIAL AND COMPANY STRENGTH

Strategic Planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the third in a series of ten articles describing one proven, tested process for effective strategic planning.

Step three in the Strategic Planning Process is to conduct a market segmentation analysis. The purpose of this process is to match the company's current or prospective products and services with the market's potential. The alignment of the company's products with the market potential helps focus the strategic planning activities of the company in areas of highest volume potential and highest financial return.

The framework for segmentation analysis suggested in this article has been used successfully by a number of companies. First, before any consideration of the products and services that the company produces, **identify the market segments from the customers' needs perspective**.

Market segments are groups of customers who exhibit similar buying decision processes. For example, one segment of most markets consist of the customers who are very price oriented and buy based on price alone. Other segments may look for services ahead of price. The basic purpose of this process is to find customers who behave in a similar purchasing manner, and to find how their behavior is different from other market segments.

For example, a common method of market segmentation in consumer markets is to use demographic variables such as age, sex, income, and location to describe segments. The needs of a 25 to 35 year old college graduate recently married are very different from the needs of an empty nesting couple aged 60 to 65. The process of segmentation breaks the market into groups who exercise similar purchase patterns and implies how marketers should reach these groups.

There are many ways to segment markets. In addition to demographics, many marketers of consumer products use buying behavior patterns, psychographic segmentation variables, and lifestyle variables. There is no exact way to segment a market; it is a combination of science and art in understanding the buying behavior of your current and potential customers.

In business-to-business markets, the type of customer or customer channel, is a common segmentation variable. For example, retail automobile customer segments, such as automobile dealers, and retailers of automotive parts exhibit very different buying patterns for automobile repair products and services. The differences between these segments buying behavior patterns create unique segments.

Multiple market segmentation schemes are recommended. It is usually the responsibility of the marketing function of a company to develop a precise definition of the market segments. Ultimately in the strategic planning process, these segments will be prioritized and targets will be selected.

The second step in the segmentation process is assessing and assigning the market potential for each segment and determining whether that potential is growing, leveling off, or declining. This analysis allows the company to evaluate and select the market segments of highest potential for volume and profit contribution.

The third step is to match or fit **the products and services** of the company to the various market segments. For example, consumer food products such as single servings fit older aged market segments; other food products fit a family with young children. This matching process provides a way of identifying where the company is strong or weak and where the greatest market potential lies. This process may also have implications for new product development or market growth of the company.

From this last step in the process, management has a framework that allows analysis of:

- Market Segments and Market Potential (without company bias)
- Matching of Existing Products and Services to Segments
- Implications of where the company needs to focus product or market development
- Penetration or market share of various market segments
- Implications for functional tasks such as the sales planning and advertising
- Identification of products, services or market segments to be emphasized, diminished or discontinued

At the conclusion of this step management has a completed current situation analysis, and an outside analysis of market segments and their potential. An important point is that the segmentation scheme and the identification of market segments have come from the unique behavior of the market or customer. It is not an internally generated definition of market and product potential. The company products and services are now objectively matched to the market segments.

At the end of this phase, data collection and organization of the market factors is complete. The next articles will describe the further steps of SWOT analysis, Core Competency Analysis, Key Success Factors Analysis and Business Strategy Statement Development and The Balanced Scorecard.

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(Article #4 in this series of 10 will deal with SWOT analysis)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #4 OF 10
SWOT ANALYSIS

Strategic Planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the fourth in a series of ten articles describing one proven, tested process for effective strategic planning.

SWOT(Strengths, Weaknesses, Opportunities and Threats) analysis is a valuable, proven, effective tool to use in the discovery and evaluation stage of strategic planning. It is an audit of the organization and the environment around the company. The SWOT analysis is most productive when it involves the input of a cross section of key managers in the process. Since SWOT analysis is an exercise dependent on judgment, the input from multiple sources provides an opportunity to assure all of the points of view and important issues are considered. Thinking of and using the SWOT analysis as a team sport, in contrast to an individual sport, will add value while expanding the horizon of the SWOT "thinking" exercise.

STRENGTHS / WEAKNESSES, and OPPORTUNITIES / THREATS are a convenient, easy way to identify the relative position of your company to the market, the customer and to the competition. The SWOT analysis tool lends itself to the evaluation of the business overall as well as to specific functional areas within the business.

Involving multiple people in the process expands the strategic thinking. It also improves the opportunity to gain new perspective on the relative effectiveness of the company. Bringing people into the SWOT process from both inside and outside of the company leverages the analysis even further. The views of customers upstream and suppliers downstream from the company add maximum value to a SWOT analysis.

Collecting SWOT input can be done from individuals or from groups working together. Experimenting with the process of collecting SWOT information will help to build a useful, comfortable and trustworthy process for your organization.

Strengths are those company attributes or activities that you do better than most, or better than anyone else, in your competitive environment. Include categories important to success in your business. Supply Chain, Marketing, Operations, Technology, Product Development and of course People are all SWOT candidates. Build your selection of areas based on your industry requirements for success. Think and analyze questions such as: What do we do well? What do we do better than most? Following are some examples of company strengths:

SWOT: Strengths

- Well Established Reputation
- Financial Resources
- Certain Market Segments are Served Profitably
- Geographic Location to Customers
- Geographic Location to Suppliers
- Management Experience in the Industry
- Marketing Support Levels
- Management Information Systems

Weaknesses are the attributes and activities that, if substantially improved, would provide the company additional probability for success. In this area it is important to obtain two distinct views of the current situation. First, get multiple views from key functional managers within the company. Multiple points of view will help to assure that differing points of view are aired and all key weaknesses are surfaced. Second, get the perspective outside the company by bringing customers and suppliers into the discussion. Often weaknesses are seen differently from outside the company. The key questions are: What do we do not so well? What should be improved? Are there mistakes we need to avoid? Do others see our weaknesses as we do, or differently? Remember, it is important to be honest and realistic in your evaluation. Following are some examples of company weaknesses:

SWOT: Weaknesses

- Lack of Expertise in Certain Growing Markets
- Lack of Clear Strategy
- High Outside Sales Turnover
- Out of Touch with Marketplace
- No Marketing/Advertising
- No Focus on Margin Management
- Sales/Price Controls Lapsed Since 1997
- Lack of Technological Expertise
- Too Much Inventory
- Too Many Products and Market Segments
- Serving Unprofitable Markets
- Did Not Invest in Technology
- Did Not Exploit Product and Market Opportunities

Opportunities are often the product of fundamental trends or conditions developing or appearing outside of the company. Some examples are changes in Specialization, Consolidation, Diversification, Economic Conditions, Lifestyles, and Technology.

Seeing or recognizing the development of trends or changes comes from a number of important activities that are expected of the key leaders, managers and owners of the business. Two suggested activities include reading industry and general interest publications and constantly benchmarking inside and outside your own company and industry to identify and evaluate potential opportunities. Following are examples of company opportunities:.

SWOT: Opportunities

- Growth Through Market Segmentation
- Regional Growth Trends
- Inside Sales Optimization Through Training
- Realign Key Management Responsibilities
- New Distribution Model Needed
- Master Technology Strategy

<u>Threats</u> are the obstacles the company faces in trying to accomplish its Mission, Vision and Strategic Goals. Threats may include items such as competitor first mover advantage on new technology or new products. Threats may come from changes in government regulation, or lender covenants. Recognition of real or perceived threats is important in the development of a strategic plan and critical to avoiding surprises that hinder goal achievement. Following are examples of threats:

SWOT: Threats

- Distribution Channel is Maturing
- Consolidation and Strength of Competition
- Misreading Trends in Market Segmentation
- Gas Prices and Consumer Market Changes
- Maturing/Dying Markets in Areas of Core Competency
- Banking Covenents

A thorough SWOT analysis, with participation across the company and across key external relationships will provide an important building block for the Strategic Plan. It will be a joint exercise that yields consensus and a map for predictable performance.

Along each step of the SWOT process prioritize and value each of the items. This will focus the organization's attention and set financial parameters or values that the SWOT analysis represent.

You can make SWOT a valuable, proven, effective management tool for your company by following these few simple guidelines.

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(Article #5 in this series of 10 will focus on CORE COMPETENCIES of the company.)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #5 OF 10
CORE COMPETENCY ANALYSIS

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the fifth in a series of ten articles describing one proven, tested process for effective strategic planning

The next step in the strategic planning process is to assess the core competencies of the firm. Core competencies are a set of unique internal skills processes and systems that provide competitive advantage in the market.

A good way to think of core competency analysis is to list the values of both product and services from the point of manufacturer or distribution to consumption. In what activities or skills does your company add value better than competitors? Are you better at research? Distribution? Marketing or Selling? Or perhaps manufacturing? In what functional disciplines does your company add value for the customer?

Core Competency Analysis provides an opportunity to insightfully look at the skills, processes and systems of the company. The benefit of the analysis to the company includes the following.

- A disciplined approach to identifying those activities that the business must undertake to compete in the market.

- A process for evaluation and prioritization of the collective know how of the business.

- A process for identifying values and prioritizing the activities of the business in a way that lends itself to making strategic decisions on the use of company resources or the need for new or additional resources.

Core Competency Analysis provides a review format useful in identifying the need for improvement in key strategic activities, practices and systems. When completed the core competency analysis separates those strategic functions best done inside the company and those that are candidates for outsourcing.

The activities kept inside are those strategic activities that the company does extremely well and, importantly, add real or perceived value to the business and give the business a competitive advantage.

The candidates for outsourced activities are those that the company does not do particularly well and add little or no value to the business. Often these activities are candidates to be conducted by strategic partners or alliances, guided by prescribed directives and managed with mid-level oversight.

Three important criteria in trying to identify Core Competencies include consideration of the following questions.

- Does the activity provide unique or valued potential access to the market?
- Does the activity add value to the real or perceived perspective of customer benefits?
- Is it difficult for competition to imitate the activity?

In each company or industry there are different sets of core competencies that are important to the success of the business. In most instances the list of important competencies is relatively short. However, this short list, when well selected and developed, provides the opportunity to leverage the strategy of the company. Having the discipline to keep the list pared to a few highly valued competencies will increase the company's focus on the important activities and add to the value of these distinctive competencies.

While the core competencies vary by industry and by company, following is a selected list of skills, processes or systems that might be considered as core competencies:

SERVICE LEVELS	DESIGN
EFFICIENT SYSTEMS	PRODUCT INNOVATION
PRODUCT DEVELOPMENT	MARKETING
SUPPLY CHAIN	SPEED TO MARKET
SALES FORCE	CUSTOMER SERVICE
TECHNOLOGY	STRATEGIC ALLIANCES
MANUFACTURING PRACTICES	ENGINEERING

The more unique and the better the company performance is on its own list of core competencies the more unlimited the economic value will be for the company and for the customer. The reverse is also important, that is, the more similar the company competencies are to its direct competitors the lower the economic value for the company. The more distinctiveness and uniqueness can be built into the company core competencies the more market leverage and margin performance the company can anticipate. And, in addition, more customer loyalty will also develop.

Another advantage of developing a short list of distinctive, unique core competencies is that it will lead to improved access to new markets and success in new products. These benefits further leverage the well-developed competence list.

The final steps in this part of the analysis are to prioritize every activity or function; and, also to assign a dollar value or dollar cost to each activity. This step allows the company to focus on those competencies that avoid cost and bring the most value to the business.

The analysis of Core Competence creates a realistic view of the skill sets, processes and systems the company is uniquely good at performing. It helps to generate focus on the value adding activities. And, finally it helps in the decision process used to determine which activities are candidates for outsourcing.

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(Article #6 in this series of 10 will deal with Key Success Factors)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #6 OF 10
KEY SUCCESS FACTORS

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the sixth in a series of ten articles describing one proven, tested process for effective strategic planning

Key Success Factors are those functions, activities or business practices, defined by the market and as viewed by the customer, that are critical to the vendor/customer relationship. Key Success Factors are defined by the market and by the customer, not by the company. They revolve around skills, processes and systems. Outstanding performance in those areas results in “order winners”.

In article five, Core Competencies were discussed. Core Competencies focused on the internal activities, practices and functions. When these competencies are aligned with the Key Success Factors the value of the business relationship blossoms and grows for the benefit of both the company and the customer.

Another way to think of Key Success Factors is to view the business from the market and customer perspective. What functions, activities or business practices are valued and demanded by the market conditions and by the customer needs? What is it that the company must do to compete in the market and to be perceived by the customer as adding value to the business relationship? What factors are important in the customer decision process that generate an order? Why does the customer select your company over the competition?

In considering these questions, from the market or customer’s perspective, there are three variables to consider. The first variable is to consider if the function, activity or business practice has significant customer value or market differentiating qualities. If the answer is no, stop doing those activities immediately. If the answer is yes for any function, activity or business practice then attempt to quantify the value the company brings to the customer versus the value the competitors bring to the customer on the same issue.

The second variable is to think and sort the issues in terms of order qualifiers. That is, the function, activity or business practice must be done to complete the business transaction; but does not particularly add value. Theses activities are, in a way, the price of admission, the activities that must be undertaken in the process of doing business and all competitors are about equal in the eyes of the customer.

The third variable is best thought of as “order winners”. That is the function, activities or practices are conducted in a superior fashion compared to the competition and are highly valued by the customer. It is this third variable that sets a company apart from the competition and squarely aligns the company’s total offering with the customer’s total need. These are Key Success Factors. Examples of Key Success Factors might include the following:

Key Success Factors

- Strategic Market Segmentation
- Understand Competitor's Strengths and Weaknesses
- Respond to Customer's Needs and Wants
- Efficiencies Through E-Commerce/Technology
- Reliable Delivery
- Strong Service
- Solid Sales and Support Staff
- Reduces Costs, Operates Lean
- Utilize Employees Strategically

In the process of analysis of Key Success Factors it is important to have a realistic view of both the drivers of the market and of the customer's needs. It is also key to understand and to define the position of the company as compared to competitors for the Key Success Factors.

Key Success Factors can exist in both the functional areas of the company and in the condition or circumstances of the company. Functional Key Success Factors might include such things as the following: Manufacturing – proprietary processes, Marketing – after sale service or highly trained sales force, Supply Chain – on time, perfect order delivery, Technology – on line, real time information exchange between the company and the customer.

Examples of Key Success Factors relating to the condition or circumstances would be as follows: favorable market image or reputation, low cost operations (not limited to manufacturing), location relative to customer, exclusive processes in manufacturing or supply chain.

The final step in the analysis of Key Success Factors is to determine the total value of the Key Success Factors that the company brings to the customer versus the Key Success Factors that the competitors bring to the customer. Arrange the Key Success Factors in order of priority from the viewpoint of the customer and focus on those functions, activities and practices that bring the most value to the customer, and are considered most important to the customer, and are most differentiated from the competitors.

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(Article #7 in this series of 10 will deal with Business Unit Strategy)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #7 OF 10
BUSINESS UNIT STRATEGY

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the seventh in a series of ten articles describing one proven, tested process for effective strategic planning

In the first six articles of this series we described the analysis that needs to be undertaken to be in a position to develop a clear, distinctive and differentiated Strategic Statement for the business.

The first six steps of the Strategic Planning Process work are primarily about data gathering, analysis, describing and understanding the business from the views both inside and outside the company. It is a process driven and developed around fact gathering, valuing, and defining. It is developed with top down support and direction and bottom up input and analysis.

Depending on the scope and complexity of the business, the next step is to develop a Strategic Statement or statements for multiple elements of the business. Those elements of the business include the overall business, each operating division of the business and each key functional area of the business. So there would be an overall company Business Strategic Statement, a Division Strategic Statement, and Functional Strategic Statements. The Functions might be Manufacturing, Marketing, Logistics or Supply Chain, Human Resources or other functions important to the success of the business.

The levels of Strategic Statements might look like the following:

- Corporate Strategic Statement
- Division Strategic Statements
- Functional Strategic Statements
    - Operating
    - Marketing
    - Technology Systems
    - Research and Development
    - Etc.

Each one of the Strategic Statements must be in agreement with the overall corporate or company Strategic Statement and aligned with each other. The writing of an effective Business Unit Strategic Statement focuses on creativity and differentiation rather than on process. It is developed and written around the intuitive, differentiating elements of the business discovered in the first six steps of the process. The Business Unit Strategic Statement must take into account both alignment of the Mission and Vision Statements with customer or consumer needs and differentiation compared to the competitors' strategic statement or position. The elements of uniqueness and of value adding are important to the final product of the Strategic Statement.

Following is a Strategic Statement for an automotive distributor company:

> Strategy Statement
>
> To become the "first look" two step distributor in the Ohio/Indiana market, specifically for high volume dealers and retailers. With product emphasis on brake and under hood products, customer emphasis will be on specialty performance, franchised shops, body shops, general repair shops, and automobile dealerships.
>
> Transform the Company into a value added link in the supply chain of automotive parts returning a minimum of %5 ROA through:
>
> > Acquisition and disposition of locations
> > Conversion to two-step distribution
> > Value-Add VMI solutions
> > Focused sales and marketing strategies

The Strategic Statement of the Business describes what, to whom and how the business product or service is to be brought to the market. It is stated in broad, descriptive, general, non-tactical terms. It focuses on differentiating the business from the competition. It aligns the Business with its strengths and opportunities and with its customers and consumers needs. Importantly, the Strategic Statement differentiates the business from the competition. A well-crafted Strategic Statement will be brief but clear to the employees inside the company as well as externally to the suppliers and customers of the business. It will provide a description that draws boundaries and establishes clear direction to guide the managers of the business, as they make tactical and executional plans for the day-to-day activities of the business.

If a Division or Divisions Strategic Statement is called for it is important to be sure those statements are totally in agreement and in sync with the Business Unit Strategy. If conflict or contradiction exists between the Strategic Statements of the Business and the Divisions it is a clear sign of the misalignment of the core strengths, resources, skills, and goals and objectives within the organization.

Once the Business and the Divisions or Business Unit Strategies are completed, the next step is to develop Functional Strategies for those functions central to the operations for the businesses. Again, these functional strategies must be aligned and in agreement with the Business and Divisions Strategies. Alignment will help to direct the functional managers to conduct activities and execute tactical plans that are consistent with the

Business Strategy and Division Strategy. Alignment of all of the Strategy work will help to assure efficient and effective use of the strengths, skills, and resources of the Business.

Following the completion of the basic elements of developing a Strategic Statement for the company, divisions and functions will be the development of an Annual Business Plan.

This work will be done from the bottom up, it will be focused on and consistent with the direction defined by the Strategic Planning Process described in articles one through seven.

The Business Plan will be built around the tactical and executional elements of conducting business. It will establish annual goals and objective important to achieving the longer term Strategic Plan. It will define specific goals and objectives that are measurable and meaningful. These goals and objectives will consist of both traditional financial goals such as revenue, income, cash flow, and key financial ratios. In addition it will include key sales and marketing goals such as volume, market share and market penetration or frequency of purchase or use. It will also include goals and objectives for key functional areas such as manufacturing or supply chain. The Business Plan will detail the tactical activities to be undertaken to achieve annual business goals.

The selective mix of long term Strategic Goals and near term Annual Business Plan Goals will become the source for selecting the few key metrics to become the "Balanced Scorecard" covered in the next article in this series.

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(Article # 8 in this series of 10 will deal with The Balanced Scorecard)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #8 OF 10
THE BALANCED SCORECARD

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the eighth in a series of ten articles describing one proven, tested process for effective strategic planning

The measurement system of the business affects both the behavior of the managers and the employees and the results they achieve for the business. What the business measures, tracts, and reports are generally what it gets for results.

In sports "score" is kept to determine who wins, who performs, what records are set and who is the champion. In business "score" is kept to report results, to effect behavior, to reward and to recognize performance. But, it is also kept to determine progress against the long-term goals of the Strategic Plan and the short-term goals of the Annual Business Plan.

Traditional financial measures alone do not adequately report results of the more complex, competitive business environment of today. So the scorecard of the past becomes the "Balanced Scorecard" of today. The measured results today move beyond the traditional goals of income, cash flow and financial ratios. They add process performance measurements around issues like continuous improvement, supply chain management, and customer satisfaction.

Significant improvement in these new measures will focus behavior to "do the right things" and will result in improved traditional financial results.

A balanced view and narrowly focused use of financial measures and operational measures will drive managers and employees to make better operational decisions. It will also encourage and direct managers to undertake tactical activities that are consistent with the goals of the Strategic Plan and the expectations of the stakeholders of the business.

Following are examples of financial goals appropriate for consideration on the Balanced Scorecard:

Financial Goals

- 3% Increase in Sales for the current Year
- 13% Increase in Sales for next three Years
- Inventory Reduction to $7M in the current year
- Inventory Reduction to $18million in the next three years

- Maintain Current Profit Margins 27%
- Increase Inventory Turns from 1.9 to 2.6 incurrent year
- Increase Inventory Turns to 4.3 times within three years

The next lists are examples of non-financial goals related to metrics not directly reported on traditional financial statements. However, these metrics are related to process and execution issues that can substantially impact and influence the financial metrics. Examples might include the following:

Non-Financial Goals

- Improve Customer Satisfaction Levels to 9.8 from 9.5 (10point scale)
- Improve On-Time Delivery to 99.7% from 98.5%
- Reduce Obsolete Inventory from 3% of Sales to 1% of Sales
- Reduce the number of stock keeping units by 10%
- Reduce employee turnover by 25%

Promise to Employees

To create a positive working environment where each associate can grow professionally and financially through continuous education, job stability, and competent management. (measure through employee surveys)

Throughout the first seven articles in this series we focused on both the internal and external perspectives of the company. We tried to define how we see ourselves, how others see us and what do we need to do to improve.

In their Harvard Business Review article, Kaplin and Norton define four distinct perspectives. First, how do we look to our shareholders (financial results)? Second, how do we look to outsiders, customers and suppliers (satisfaction results)? Next, what must we excel at (internal business process results)? And fourth, can we continue to improve and create value (innovation and learning results)?

During the process of developing a Strategic Plan and Strategic Statements for the business and for the functions we defined what is important to do and to measure. From this work we can develop the Balanced Scorecard elements important for the business and appropriate for driving behavior and results.

If the Scorecard measurements selected for the business are grounded in the long term Strategic Plan and focused on the near term Annual Business Plan then the opportunity exists for breakthrough results. Improvements can be anticipated in both the traditional financial measures and in the process and performance measures around the issues of product, process, employee, customer, supplier, and market development. The selected metrics must be a balanced mix of both financial and non-financial measures, and must be few but important to the sustainability of the business.

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(Article # 9 in this series of 10 will deal with the Evaluation Process)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #9 OF 10
EVALUATION

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the ninth in a series of ten articles describing one proven, tested process for effective strategic planning.

The previous eight articles explained the process of developing the strategic plan. The products of the process are both a strategic plan and an annual business plan backed up with a selective, specific Scorecard to measure the progress and results.

The evaluation process needs to be on going and continuous. The evaluation process provides a clinical check-up on the progress of the business compared to both the near term Business Plan and the long-term Strategic Plan. The evaluations process provides a timeframe to determine if the hurdles set up through the scorecard are being met. In addition, the evaluation process provides a time to determine if results are still meaningful and do they add to the goals of continuous improvement for the company and add real value to the customer?

During the strategic planning process there was a constant focus on both the internal and external factors impacting the business. During the evaluation process there needs to be a continuous measurement of the circumstances both inside and outside of the company. Significant changes in conditions or in performance signal the need to consider adaptation to the near term Business Plan to steer the business back on the course set by the Strategic Plan and the Scorecard. Any changes in the near term Annual Business Plan must still conform to the parameters of the long term Strategic Plan.

In cases where the changes cannot be accommodated in the near term Business Plan then consideration for Strategic Plan changes are likely called for. In this case a repeat of part of all of the Strategic Planning Process will help to get the business back on course and in a position to meet its goals and satisfy customer needs.

Remember, changes in the Strategic Plan are normally driven only by significant changes in the external or internal conditions identified in the Strategic Planning Process or by some new material condition in the business environment. Minor or insignificant changes in the marketplace can usually be addressed by changes in the near term Business Plan.

In cases of significant changes it may be necessary to revamp the Strategic Plan and Scorecard. These types of significant changes in the business environment are less

common in traditional product and service companies and more common in high technology, new technology, or rapidly changing market conditional situations.
The process of evaluation of the strategic plan needs to be ongoing. It calls for attention and sensitivity to the environment inside and outside of the company. It is the responsibility of both the Senior Management and Middle Management to keep tuned in to conditions and to sound the signal when significant occurrences are identified or anticipated.

The Evaluation Process is best conducted with both a formal and informal component. The formal component may be a quarterly, or other timely period, evaluation of conditions. The informal process is the discipline of the managers to practices of being in the field, visiting customers, and suppliers. It is a continuous process of benchmarking both inside the company and outside of the company and it's industry, including companies and industries not in a directly competitive set; and it is being sensitive to changing conditions within the company.

The on-going Evaluation Process is the early warning system for the company. A well-established formal and informal process and practice in this area can be of significant value to the company. It keeps the near term Business Plan on tract and the long term Strategic Plan vital and effective in steering the company through constant environmental change while delivering consistent and predictable results.

The final decision that comes out of the Evaluation Process is to determine the extent to which the Strategic Plan and Scorecard needs adjustment to continue to be effective as a working tool keeping the company on course. The final test is to determine if the company is meeting the expected results for the owners, employees and most importantly, the customers.

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(Article #10 in this series of 10 will summarize the entire Strategic Planning Process)

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #10 OF 10
SUMMARY AND CONCLUSION

Strategic planning pays dividends to companies when approached in a disciplined process with top-down support and bottom up participation. The following is the tenth in a series of ten articles describing one proven, tested process for effective strategic planning.

Over the first nine articles in this series of articles, we have attempted to provide an overview of the process and development of and effective strategic plan for any business.

The goal was to begin to apply a workable framework and process; one that when applied would result in a product helpful to guiding and directing the management to do what is consistent, right and effective for the long term success of the company and satisfaction of the customer and employees.

A well-crafted Strategic Plan can and should help to avoid the "Christopher Columbus Syndrome". That is, "when he started he did not know where he was going; he did not know where he was when he got there, and when he returned, he did no know where he had been".

The Strategic Plan is simply a tool to be thought of as a guide or map. It has a starting point, (today's conditions and environment). It has an ending point, where the company wants to be, (terms of success), in the future. And it has a middle or process. That is the hard work part. The middle part is coming to terms with all of the elements that may be either supportive of or in the way of getting from the start to the end. It is a process that answers the question of how is the best, most likely way to be successful as defined by the stakeholders and "allowed" by the customers and embraced by the employees.

While we presented one way to conduct the process of Strategic Planning it is by no means the only way. The process has to fit the culture, resources and style of the company. It must reinforce the confidence of management to make consistent, workable decisions.

The benefit of a Strategic Planning discipline is that it facilitates effective decision making, better selection of tactical options and it leads to a higher probability of achieving the owners' or stakeholders' goals and objectives.

One important distinction needs to be restated in the Strategic Planning Process. There is a difference between strategic planning, or the work being done, and strategic thinking, or the creative, intuitive input. The planning element involves the data collection, goal setting, expectation definition, and statement of direction. Strategic thinking includes the intuitive and creative elements. It comes from the experience or "gut feel" for the company and the industry.

Think of Strategic Planning as a series of concentric circles. The vision, mission strategy and tactics are included in the circles moving from vision on the outside to tactics on the inner most circle. All are in alignment and consistent with each other. Now add two more circles. The first is the customer circle. If the company vision, mission, strategy and tactics are in alignment with that of the customer then this circle will also be aligned. To the extent it is misaligned there is conflict between the company and the company's customers. The third circle is represented by the competition. This circle, in the best situation, will be totally misaligned with the company and the customer meaning the company is uniquely positioned and valued by the customer. To the extent the competitive circle overlaps the company circle there is more head to head competition and more leverage for the customer to apply.

Strategic Planning, to be of real long-term value, must be treated as an ongoing business process. It must be reflective of the owners' mission and vision. It must evolve and change to reflect changing market and economic conditions. It must be proactive to competitive conditions. Effective Strategic Planning can institutionalize a culture of continuous improvement, effective decision making, and disciplined change.

Strategic Planning, when treated as a work in progress, rather than as a binder on a shelf or a file in the computer, provides business with a real and responsive competitive advantage. It will help determine and direct the quality of relationships with suppliers, employees, unions, customers, and bankers.

Use of an outside, independent facilitator can help in the process and in the development of a strategic plan. An outside resource can provide objectivity and serve as a "devil's advocate" as well as a sounding board for the management charged with plan development. In the end it must be the work and product of management; it must have the authorship and ownership of the owners and managers of the business. It must be their plan.

To get your business where you desire it to be, start with a determination and drive to development of a useful and living strategic planning process. Give it strong support and leadership from the top down. Develop and evolve it with participation and buy-in from the bottom up and from the outside customers and suppliers of the company. Use strategic planning as your company's roadmap to your vision.

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