

# Chapter 1

## What Is Strategic Planning Really?

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### *In This Chapter*

- ▶ Figuring out what a strategic plan is
  - ▶ Checking out the key parts of a strategic plan
  - ▶ Getting the most out of your strategic planning process
  - ▶ Heeding the warnings that you need a strategic plan
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**W**hat will your business be like in three years? Do you have a road map to get from today to your envisioned tomorrow? Will you be a few steps closer to realizing your vision by next year? No one can predict the future. But if you don't change anything, the future won't be any different than the past.

One sure-fire way to impact your company's future (and profitability) is to dust off a timeless tool — the strategic plan — and intentionally drive your organization forward. No one strategic model fits all organizations, but the planning process includes certain basic elements that all businesses can use to explore their vision, goals, and next steps of an effective strategic plan. A good strategic plan achieves the following:

- ✔ Reflects the values of the organization
- ✔ Inspires action to achieve a big future
- ✔ Explains how you'll win in the market
- ✔ Clearly defines the criteria for achieving success
- ✔ Guides everyone in daily decision making

Effective leaders aren't sitting around waiting for something to happen. They're anticipating what lies ahead. Managers and business owners aren't waiting for their competitors to swoop in and put them out of business. Instead, they're using their strategic plans to get ahead of the game. So the fact that many people avoid strategic planning because they consider it complex, costly, and time-intensive is just odd. Most of the time, businesses shelve the plan before it can be implemented, even knowing that some other company may invade their market.

Strategic planning doesn't have to be mysterious, complicated, or time-consuming. In fact, it should be quick, simple, and easily executed. And strategic planning isn't just something you cross off your list of to-dos — you must create a culture of strategic thinking, so your strategic planning doesn't become an annual retreat but, instead, a part of daily decision making.

In this chapter, I explore the ins and outs of strategic planning by answering common questions related to strategic planning, discussing the strategic levels of management, and introducing the key elements of a successful strategic plan.

## *Clearing Up the Confusion about Strategic Planning*

Many people are confused by the terms *strategy*, *strategic plan*, and *strategic planning*. Well, I'm here to help you get a clear picture. For the moment, forget what you've heard about this subject. I promise that strategic planning makes a huge difference to your organization both tangibly and intangibly, so keep reading!

In the following sections, I not only define what strategy is and how it relates to strategic planning, but I also show you why a strategic plan is important and how you can implement one in your organization by digging in to the key elements of planning.

### *Defining strategy*

*Strategy* means consciously choosing to be clear about your company's direction in relation to what's happening in the dynamic environment. With this knowledge, you're in a much better position to respond proactively to the changing environment.

The fine points of strategy are as follows:

- ✓ Establishes unique value proposition compared to your competitors
- ✓ Executed through operations that provide different and tailored value to customers
- ✓ Identifies clear tradeoffs and clarifies what *not* to do

- ✓ Focuses on activities that fit together and reinforce each other
- ✓ Drives continual improvement within the organization and moves it toward its vision

Knowing what strategy is can also be explained by looking at what strategy *isn't*. Dr. Michael Porter, the leading strategy guru and professor at Harvard University, says strategy *isn't* the following:

- ✓ Agility
- ✓ Alliances/Partnering
- ✓ Aspirations
- ✓ Best practice improvement
- ✓ Downsizing
- ✓ Execution
- ✓ Flexibility
- ✓ Innovation
- ✓ The Internet (or any technology)
- ✓ Learning
- ✓ Mergers/Consolidation
- ✓ Outsourcing
- ✓ Restructuring
- ✓ A vision

### Surprising strategic-planning stats

Consider the following statistics from the Balanced Scorecard Collaborative (I cover the Balanced Scorecard in Chapter 12):

- ✓ 95 percent of a typical workforce doesn't understand its organization's strategy.
- ✓ 90 percent of organizations fail to execute strategies successfully.
- ✓ 86 percent of executive teams spend less than one hour per month discussing strategy.
- ✓ 60 percent of organizations don't link strategy to budgeting.

So what's the upshot of these surprising revelations? Strategic planning matters to the life of your business.

## *Understanding the importance of a strategic plan*

Simply put, a *strategic plan* is the formalized road map that describes how your company executes the chosen strategy. A plan spells out where an organization is going over the next year or more and how it's going to get there. Typically, the plan is organization-wide or focused on a major function, such as a division or a department. A strategic plan is a management tool that serves the purpose of helping an organization do a better job, because a plan focuses the energy, resources, and time of everyone in the organization in the same direction.

If you're thinking, "Hey, I've got this great book on business plans, so I'll just use that to form my strategic plan," be aware that strategic plans and business plans aren't the same concepts.

A *strategic plan* is a management tool that C-level managers need to master and is for established businesses and business owners who are serious about growth. It also does the following:

- ✓ Helps build your competitive advantage
- ✓ Communicates your strategy to staff
- ✓ Prioritizes your financial needs
- ✓ Provides focus and direction to move from plan to action

A *business plan*, on the other hand, is a planning tool for new businesses, projects, or entrepreneurs who are serious about starting a business. A business plan

- ✓ Helps define the purpose of your business
- ✓ Helps plan human resources and operational needs
- ✓ Is critical if you're seeking funding
- ✓ Assesses business opportunities
- ✓ Provides structure to ideas

## *Implementing the strategic management process*

In order to create a strategic plan you can execute, you have to implement a strategic management process. The planning process typically includes several major activities or steps. People often have different names for these major activities. They may even conduct them in a different order. Strategic

planning often includes using several key terms as well. See Chapter 3 for specific guidelines and checklists to help you with your process.



Don't be concerned about finding the perfect way to conduct a strategic planning process. (Perfection doesn't really exist, does it?) Modify the info in this book to fit with your organization's culture and timing.

The difference between strategic planning and strategic management can be profound to an organization when understood. *Strategic planning* usually refers to the development of a plan. *Strategic management* refers to both strategy development *and* execution. Strategic management is a business process. Strategic planning is an event. Although I refer to strategic planning throughout this book, understand that I mean developing *and* executing because every executive I know wants to drive results. And you do that by instilling a business cycle from developing to implementing to adapting and then repeating.

## *Identifying the components of a solid strategic plan*

Several different frameworks can help you develop your strategic plan. Think of the frameworks as different lenses through which to view the strategic planning process. You don't always look through two or three lenses at once. Normally, you use one at a time, and often you may not know that you're using certain frameworks embedded in your process. If you're trying to explain to your planning team how pieces of the puzzle fit together, first you must understand the following components of the strategic plan:

- ✔ **Strategy and culture:** Your organization's culture is made up of people, processes, experiences, ideas, and attitudes. Your strategy is where your organization is headed, what path it takes, and how it gets there. You can't have strategy without culture or vice versa. Your culture is like your house, and if it's not in order, the best strategy in the world can't take your company anywhere.
- ✔ **Internal and external:** Similar to the strategy and culture framework, you have an internal and external framework. The strategy is external because you gather information from your customers, competitors, industry, and environment to identify your opportunities and threats. (I discuss how to identify your opportunities and threats in Chapter 10.) Through employee surveys, board assessments, and financial statements, you identify your company's strengths and weaknesses, which are internal. (See Chapter 7 for more info on finding your strengths and weaknesses.)
- ✔ **The Balanced Scorecard perspectives:** Businesses use the Balanced Scorecard framework to develop goals and objectives in four areas (instead of departments): financial, customers, internal business processes, and people. The financial, internal business processes, and

people areas are internal. The customer area is external. Chapter 12 elaborates on this framework and the Balanced Scorecard.

- ✓ **Market focus:** Growth comes from focusing on your customers and delivering superior value to them consistently year after year. Built in to your strategic plan is a market-focus framework because of how critical this aspect is to your organizational growth. Chapters 8 and 9 show you how to make your current customers happy and how to find new customers.
- ✓ **Where are we now? Where are we going? How will we get there?** Because it's easy to confuse how all the elements of a plan come together and where they go, this framework is a simple yet clear way of looking at the whole plan. I explain this framework in Chapter 3.

## *Answering the most frequently asked strategic planning questions*

Strategic planning can create a ton of questions. If you already have a long list of questions, you're not alone. The following sections provide the answers to the most commonly asked questions.

### *Who uses strategic plans?*

Everyone uses strategic plans — or at least every company and organization that wants to be successful. Companies in every industry, in every part of the country, and in most of the Fortune 500 use strategic plans. Organizations within the nonprofit, government, and small to big business sectors also have strategic plans. See Chapter 2 for statistics on how widely strategic planning is used as a management tool.

### *Does every strategic plan include the same elements?*

A strategic plan usually consists of the following elements:

- ✓ A mission statement and a vision statement (see Chapter 6)
- ✓ A description of the company's long-term goals and objectives (see Chapter 12)
- ✓ Strategies the company plans to use to achieve general goals and objectives (see Chapter 12)
- ✓ Action plans to implement the goals and objectives (see Chapter 13)

The strategic plan may also identify external factors that can affect achievement of long-term goals. Plans may vary in detail and scope (depending on how big the organization is), but for the most part, a strategic plan includes these basic elements.

***Just exactly what is strategic planning?***

The term *strategic planning* refers to a coordinated and systematic process for developing a plan for the overall direction of your endeavor for the purpose of optimizing future potential. For a profit-making business, this process involves many questions:

- ✓ What's the mission and purpose of the business?
- ✓ Where do we want to take the business?
- ✓ What do we sell currently? What can we sell in the future?
- ✓ Who shall we sell to?
- ✓ What do we do that's unique?
- ✓ How shall we beat or avoid competition?

The central purpose of this process is to ensure that the course and direction is well thought out, sound, and appropriate. In addition, the process provides reassurance that the limited resources of the enterprise (time and capital) are sharply focused in support of that course and direction. The process encompasses both strategy formulation and implementation.

***What's the difference between strategic planning and long-range planning?***

The major difference between strategic planning and long-range planning is emphasis. *Long-range planning* generally means the development of a plan of action to accomplish a goal or set of goals over a period of several years. The major assumption in long-range planning is that current knowledge about future conditions is sufficiently reliable to enable the development of these plans. Because people assume the environment is predictable, the emphasis is on the articulation of internally focused plans to accomplish agreed-on goals.

The major assumption in strategic planning, however, is that an organization must be responsive to a dynamic, changing environment. Therefore, the emphasis in strategic planning is on understanding how the environment is changing — and will change — and on developing organizational decisions that are responsive to these changes.

***Does every company need a strategic plan?***

Every endeavor or enterprise already has a strategy. These strategies range from some vague sense of the desires of the owner to massive, overly sophisticated master plans. So the question isn't whether every company needs a strategy but rather whether the company's strategy needs to be well thought out, sound, appropriate, and doable. The answer is yes.

***We're highly successful already, so why should we plan?***

Success is strong evidence that a company has had a sound and appropriate strategy. Note the past tense. There's absolutely no guarantee that yesterday's sound and appropriate strategy will continue to be successful in the future. Indeed, assuming so without adequate study poses great danger. Therefore, no matter what your past or current successes are, you need a strategic plan.

***Can a smaller company afford the time for strategic planning?***

Experience shows that the top management team devotes approximately 2 to 4 percent of its time to practical strategic planning. In reality, structured strategic planning isn't something more to do; it's a better way of doing something already being done. Indeed, in the long run, you save time. Chapter 16 talks specifically to small and privately-held businesses.



Strategic planning can become a time trap. You can get caught in a long slog of planning if you get too mired down in the details. From the outset, you need to establish that the plan is a living document and isn't written in stone. Doing so helps you avoid strategic planning becoming a time trap.

***Why plan in a world that's highly uncertain?***

Your efforts in forward planning can become pointless, especially if you fear that the plan may be overwhelmed by unanticipated events and developments. Uncertainty is, indeed, a major problem in forward planning. However, the greater the uncertainty, the greater the need is for good strategic planning because you want to try to be ready for the unknown. Chapter 15 helps you deal with your uncertainty in strategic planning.

***How can we be confident that our planning will be successful?***

Even in the presence of a structured strategic planning process, formulating unsound, inappropriate strategies and/or failing at implementation is quite possible. But this book helps you avoid these many pitfalls. Flip to Chapter 15 to discover how to move from uncertainty to certainty in your planning. Strategic planning is worth the effort because it helps you run your organization better. You can be confident that the information and best practices outlined in this book result in a successful strategic planning process. I promise!

***What is strategic thinking?***

Strategic thinking means asking yourself, "Are we doing the right thing?" It requires three major components:

- ✓ Purpose or end vision
- ✓ Understanding the environment, particularly of the competition affecting and/or blocking achievement of these ends
- ✓ Creativity in developing effective responses to the competitive forces

## Identifying the Levels of Strategic Management

After you've decided that strategic management is the right tool for your organization, clarifying what you intend to achieve with the outcome of the planning process is critical to a successful process. Strategic planning means different things to different people, so agreement is critical to reaching the desired end state. Here are four different levels of strategic management, each building on the previous one:

- ✓ **Level 1 — Articulated Plan:** The plan has established the mission, vision, goals, actions, and key performance indicators (KPIs) for the next 24 to 36 months.
- ✓ **Level 2 — Strategic Differentiation:** The plan has a strategic focus on delivering a unique value proposition developed from a clear understanding of market position and customer needs.
- ✓ **Level 3 — Organizational Engagement:** Everyone knows the strategic direction, understands his role, and commits to accountability. An execution/governance process is in place.
- ✓ **Level 4 — Organizational Transformation:** High-performing team, driven by shared values, consistently drives decision making based on the agreed-upon strategy with data, structure (organizational and process), and systems in place to support the activity.

As you're getting ready to embark on your strategic management process, pass these levels around to your management group. Gain consensus and agreement on which level your organization is working toward.

## Getting Acquainted with the Strategic Plan's Key Elements

A company's strategic plan is the game plan that management uses for positioning the company in its chosen market arena, competing successfully, satisfying customers, and achieving good business performance. Most business owners and executives have countless excuses for not having a formal strategic plan. I've heard everything from "We're too new" to "We're not big enough" to "We've never had one; why start now?"

If these excuses sound familiar, check this out: Studies indicate that roughly 90 percent of all businesses lack a strategic plan. Of those that have a plan, only 10 percent actually implements it. So if you're part of the 90 percent, ask yourself these questions:

- ✔ Can our company be more focused?
- ✔ Can we deliver more value?
- ✔ Can our employees be more efficient?
- ✔ Can our company be more successful?

I'm guessing that the majority of you answered *yes* to all the above (and that's okay). In the following sections, I help you understand how each part of a strategic plan can change how you answer the questions.

## ***Vision: Bringing things into focus***

You get results from what you focus on. Everyone knows this fact, but most companies are busy tending to the urgent problems of the day and not focusing on key long-term issues. Unless your staff can focus on a common vision, the company can't go anywhere. A strategic plan helps direct energy and guide staff toward a shared goal in an ever-changing world.

Orit Gadiesh, chairman of Bain & Company, says, "In the current environment, companies can't afford *not* to have a set of guiding principles — a vision that communicates *true north* to the entire organization." Can your company be more focused? Yes, and to help find your true north, check out Chapter 6.

## ***Strategy: Explaining the value you deliver***

A strategy provides the vehicle and answers the question, "How do we provide value to our customers better than our competitors?" A good strategy focuses on efficiency through the following:

- ✔ Achieving performance targets
- ✔ Outperforming your competition
- ✔ Achieving sustainable competitive advantage
- ✔ Growing your revenue and maintaining or shrinking your expenses
- ✔ Satisfying customers
- ✔ Responding to changing market conditions

Basically, strategies keep your whole company acting together while strengthening the company's long-term competitive position in the marketplace. See Chapters 8 and 9 for creating more value for your customers.

## *Goals and objectives: Empowering employees*

Goals and objectives make up the road map that empowers your employees to be more effective (and you, too, for that matter). Don't let these elements be just a paragraph on the break room wall or bullet points in a memo; let them shine as primary guidelines for leading the organization to higher levels of performance. Goals and objectives provide the framework for independent decisions and actions initiated by departments, managers, and employees into a coordinated, company-wide game plan. Head to Chapter 12 to develop your goals and objectives road map.

## *Execution and evaluation: Ensuring success*

A strategic plan is a living, dynamic document. It drives your business and must be integrated into every fiber of your organization so every employee helps move the company in the same direction.



All the best missions and strategies in the world are a waste of time if they aren't implemented. To be truly successful, the plan can't gather dust on the bookshelf. You know what shelf I'm talking about. If you ran a white glove over the shelf, you'd find layer upon layer of dust. You really should clean more often.

Okay, so, no, strategic planning success isn't about cleaning; it's about keeping the plan active so it doesn't gather that proverbial dust. Know what your end result looks like and where your milestones should be. Plan your near term actions and evaluate your progress each quarter. Are you where you thought you'd be if you'd been on target? Or, if you're off target, how far are you off? The course correction to put you back on track becomes your next action plan.

When your company has a clear plan and acts accordingly to the plan, you're going to go from where you are to where you want to go, ensuring your success. Check out Chapter 14 for more on this topic.

## *Seeing the Signs: Why You Need This Book*

Planning for the future is important, but very few businesses actually do it. Instead of listing the benefits of business planning and strategic planning (see Chapter 2 for those), I opted to include some warning signs that tell you

whether you need a new strategy for your strategic planning process. So if any of the following statements apply to you, you need this book.

- ✔ Someone asks where your business will be in one year, and you don't have an answer. You ask your partners or management team the same question, and you hear wildly different answers.
- ✔ You have some idea where you want to go in the next year, but you don't have any idea what you're going to do to make next year a reality.
- ✔ Your company won't hit its revenue goals this year. Although many reasons may exist for the shortfall, you're not sure how to grow the top line.
- ✔ Your brochure, website, sales collateral, and so on have inconsistencies. You can't understand the content. More importantly, neither can anyone else. You find that when you explain your business to a potential client, you tell different stories about how you provide value.
- ✔ You're ignoring your competition. You don't know who your number-one competitor is and what it's doing, who its clients are, what products it offers, what its pricing is, or what its key message points are. When your customers ask you to explain why your company is different, you don't have a good response.
- ✔ Everything on your to-do list is a priority. You don't know where your time is best spent.
- ✔ Friends and colleagues can't refer you because they aren't sure exactly what value your business provides and to whom. They often ask, "What is it you do again?"
- ✔ You're presented with a business opportunity and are unsure how to evaluate whether it's something your company should pursue. In fact, you normally pursue all opportunities for fear you may miss the big one.
- ✔ You enjoy what you do, but you aren't passionate about your business. You'd quit everything and follow that passion tomorrow if you could.
- ✔ Your business development consists largely of attending networking events, but you spend most of your time talking to people you know. You rely solely on word-of-mouth for new customers.
- ✔ You don't know why your customers buy from you. The majority continues to do business with your company, but you're not sure what keeps them coming back. You've never really asked.
- ✔ You find your clients contracting with other companies for services you provide. When asked, they say they didn't know you offered those services.
- ✔ You ask your employees what success looks like, and they don't have a consistent answer. And your incentive plan doesn't sync up with performance expectations.
- ✔ You complain when your customers call because you just don't have time to talk to them. You notice your staff complaining, too.

- ✔ You don't do market research or solicit customer feedback because you (think you) know your market. You've been in the industry for years and you (think you) know customers' need and wants.
- ✔ You determine your pricing by looking at your competitor's prices and discounting slightly. All your prices are based on your competitors' offerings.
- ✔ You can't articulate what your company does best but find that it's a good point of discussion at a cocktail party.
- ✔ You're asked why you're in business, and your only response is *profit*.

Do any of these statements sound familiar? If so, it's time to get serious about your business and get focused. Having a strategic plan and a succinct strategy that brings clarity and focus to your organization ensures that your time, resources, and actions aren't wasted. If every part of your organization isn't pointed in the same direction, you can end up going in circles and frustrating yourself and your employees. Why not get strategic now and make it your most successful year ever!

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