Something About Strategy Planning

For many many years I have been engaged in strategy planning. When I was a partner and director in PA consulting Group, I worked with it for clients and of course for PA itself. Since then, as an independent advisor on strategy and management, and as a non-executive board member.

Planning for the future has changed and become considerably more difficult since the early 80ies, but it does not make planning less important. If you find that planning a company's future is impossible, you will leave that very company's future to chance. The way we plan, and the contents of the plans has changed, but is as vital as when the future was more predictable.

I have often thought of putting some of my experience on print as an ultra short ABC of strategy planning. A simple guide for practical people, who do not have the time or interest in studying all the books on strategy, or who after reading them with great enthusiasm, found that there was no operational and practical procedure designed to cover the whole strategy process. A framework applicable in all cases, and which ensures that you don't fall off the track. A framework, you yourself can fill in with the specific methods and techniques necessary in the situation.

My intention has been to make it brief at the cost of examples and detailed explanations. Actually, strategy planning is in theory quite simple, yet in practice quite difficult. My experience tells me that the difference between successful and unsuccessful companies often is that management of the latter underestimate the importance of the simple things.

I hope that this essay can inspire to more successful strategy processes.

Bjarne Nielsen

Content

Strategy Planning is perhaps the most difficult management task

A (business) strategy explains how, in principle, management wants to reach a goal for the company which is vital for its long term success. Goal and strategy and other important elements which I will mention later, make up the strategy plan. It is the framework for daily operation. It may be written down in a nice document, or its elements may in rare cases be a so vibrant and integrated part of the every day operations that written documentation is unnecessary. Regardless of the degree of documentation, a strategy plan is indispensable because it states:

- ⇨ The company's future destination (and the reason behind)
- ⇨ The pace decided for reaching the destination (and the reason for it)
- ⇨ How the journey should be in principle (and why)
- ⇨ How the journey will be in practice (and why)

Strategy Planning is "a game about the future", in which the whole company is at stake, and in which the possibilities for regretting a move or going back are often not realistic or very costly. The difference between good and bad strategies may mean life or death for the whole company. Therefore, Strategy Planning is perhaps the most difficult – but perhaps also most important – among management tasks.

It is possible to increase your chances for winning the game. Good strategy plans are based on a combination of many professional disciplines and competences. And during the process you will need both left and right half of your brain. On the one hand: analytic sense, systematics, facts and experience; on the other: creativity, unorthodox thinking, intuition and new voices. However the process must be structured and controlled, and that is what this note is about.

You cannot buy a good strategy plan

The first thing you have to realize is that you cannot buy the good strategy from a consultant, or leave the task to a strategy department. Consultants (and strategy departments) may, however, be valuable sparring partners. They can contribute to design the strategy process, they can supply resources, methods, tools and their special knowledge – and they can make good analyses and calculations. A collaboration with consultants thus may make a positive difference during a strategy process.

The importance of strategic decisions combined with always insufficient information when to decide, makes it crucial that the top management team is heading the strategy process. The choices of strategy become safer when management has been involved in the analyses prior to the development of the strategy. Also it is vital for the later implementation of the strategies, that they fit the personal style and competence of management. Once management has made its decision, it will be supported 100%, and when it starts to fail, corrective measures will be taken. No third person will be blamed for given poor advice.

A comparison to the Sirius Patrol[1] is relevant. The members of the patrol are deeply dependent on their sledge and on the dog pack. That is why the crew builds its own sledge, so they know how to repair it, if (when) it breaks down on the way. And they know where its weak points are. They have also chosen the dogs, so they know which and what to keep an eye on.

The basis should be facts, knowledge sharing, time and hard work

No strategy plan is also a kind of strategy planning. All companies have a strategy plan. Some just don't have it in writing, and others don't have it as a result of a formalised strategy process. But once in a while it pays of to be a little more structured by both undertaking a systematic strategy process and take pains to document the proceedings. It pulls the organisation together by creating clarity about goals and means.

Actually good strategies are developed in a kind of trial and error process. The more you are occupied with strategy planning the better you become at it. You try to understand e.g. what drives the market and get ideas as to how your own company may do better. You may not hit bull's eye, but you learn. To learn both as an individual and as a management team collectively and thereby develop better strategies, at least three tings are essential:

First you must not compromise concerning facts. Some give up too fast if they cannot find the facts they seek, or if getting them proves too costly or time consuming. They often then go to the other extreme and base their strategies on pure guesswork. In providing data you should be creative, and make assumptions which can be qualified substantiated and explained. Next time you become more sure, because you have something to build on, and because you in the meantime are aware of the need for specific data.

Second, you must continuously record the proceedings of the planning process. That is necessary for an effective sharing of knowledge, so that others can get an idea of what is going on and thereby contribute with input to the process. Talking together is fine, but the spoken word is not sufficiently clear and committing. When the "cartoon bubbles" are gone there may be quite different perceptions of what was said. Power Point presentations are often imprecise and superficial. Only with normal text (a "Word" document) can you be sure to have the necessary information. Name an editor and start the strategy documentation from day 1.

[1] The Sirius Patrol enforces Denmark's sovereignty over Norht East Greenland. 6 special selected recruits are during 6 month periods skiing and walking some 3,000 km. in the world's largest nature reserve. They carry their equipment on sledges pulled by dog packs.

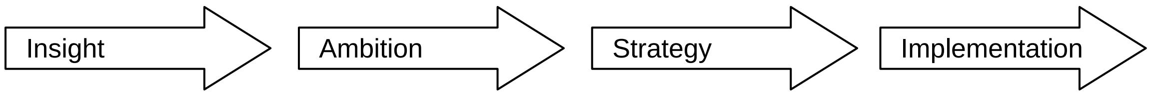
Third, do not think that strategy planning is a matter of a 2-days seminar. You may have to, in rare cases, but if it is a long time since you last did some serious strategy planning, it will take months and quite many resources.

The strategy process has four phases

Of course you can jump right into it, play it by ear and include a couple of spectacular innovation exercises at some exotic conference centre. But a structured process with clear tasks, deadlines, demands as to a result, responsibility etc. increases the likeliness for a good strategy plan. And – perhaps even more important – it is a fairly inexpensive insurance against catastrophic strategies.

Really there is nothing new under the sun. Whether you are a fan of Porter's "Five forces" or of the concept of "Blue Ocean Strategy" or other relevant tools of analysis, a strategy process has a simple, logic sequence. Like A comes before B, and B before C. Before you look for the blue ocean and sail out on it, it is wise to know the limitations of your boat, and also it is practical to be able to navigate and know about the waters you are about to experience.

So although all companies have to find their own way of strategy planning, it is a process in four phases. What distinguishes good strategy processes are the various tools used during these phases, the degree of involvement from others than top management, the degree to which the process is guided by hypotheses and the time employed. However these differences are not discussed in this note. The four phases, which will be briefly described in the following paragraphs, are:



The quality of one phase is influenced by the quality of the work in the other phases. Often, you will need to go back to earlier phases, because you have learned something later in the process. Still it is necessary for an effective process, that you finish one phase before beginning the next.

Phase 1 - Insight

This phase calls primarily for systematics and hard work. The most important output is the strategic agenda of the company – i.e. the themes and issues to be addressed to create a successful development. It is about understanding the present and the future in order to set up goals and develop strategies in the next phases. Good strategies are based on profound insight in what drives, and can be expected to drive the profit in a certain market. The following nine steps will form a good foundation for insight:

1. Define the strategy domain – i.e. the area of strategic planning – decide on the yardstick for success (value creation) and unravel the power structure in relation to the approval and accept of the strategic plan.
2. Prepare a calculation model to be used continuously during the strategy process to calculate and illustrate value creation.
3. Elucidate and understand the company's present value creation – i.e. who, what, where, why, and how much value is created (use the calculation model).
4. Describe and understand the nature of the market and competition, and of the company's competitive position.
5. Identify the factors (value drivers) in the company and in the external world which have significant influence on the value creation of the company – and make assumptions about their future development.

6 Prepare one or more projections of the company's value creation based on the above and on present plans.
7 A SWOT analysis may be useful.
8 Based on the above, prepare a list of all the issues which worry management with regard to future value creation and conclude on the strategic agenda of the company.
9 Make a list over possible strategies to meet the challenges on the strategic agenda.

Sometimes it is useful to begin this phase by (a first shot at) step 8, and use the result of that (the hypotheses about the strategic agenda) to focus the efforts in the phase.

Phase 2 - Ambition

To set up strategic goals you should begin by setting a goal for the fundamental purpose of the company or organisation. For a private enterprise that is not difficult as the ultimate success criteria is the value of the company to the owners: the shareholder value. Some instead speak of stake-holder value – but good companies cannot create competitive, long term shareholder value without long term competitive stakeholder value. Shareholder value is what is left, when everybody else have got their part of value creation. Therefore in a private company shareholder value is the mother of all goals. This goal should of course be broken hierarchical down into a number of operational sub-goals.

It must be clear what success is to the company and how success is measured – all along the strategy process, as well as in daily operations. Analyses, strategy possibilities and choice of strategies must focus on real goals and be measured with the right yardstick. Shareholder value comes from cash-flow, not from turnover! And it matters how much capital you tie up to create your profit. In the table overleaf, please choose the company you would like to be the leader, of all others equal:

Company		**A**	**B**
Turnover	m. USD	500	650
Profit before tax	m. USD	100	150
Capital employed	m. USD	400	1,000
Profit ratio	%	20	23
ROCE[2]	%	25	15

So, how high should your ambitions be? What should the company yield to its shareholders? How much should its value be in e.g. 5 years? The answers depend on the balancing of various elements incl. which level of ambition managements feels comfortable with, and which possibilities there are for growth and alternative investment possibilities.

The ambition phase is a phase which unfortunately often results in a lot of hot air. It can be divided in five steps:

1 Begin by checking and possible adjusting the raison d'être of the company in business society. What is the mission of the company through which it aims at fulfilling its purpose: to create shareholder value?
2 Consider if the owners and management have basic values and beliefs which may limit and guide the choice of strategies, e.g. concerning Corporate Social Responsibility.
3 Then decide how ambitious you want to be concerning the future development of the company. The higher the ambition, the higher the risk.

[2] Return On Capital Employed

4 Decide the vision which briefly expresses what the very long term future company looks like. A good vision may release a lot of energy in an organisation.
5 Set up specific goals which must be fulfilled to move closer to the vision.

Phase 3 - Strategy

This is a very difficult phase – but it is easier, if the two previous phases have been well worked though. It is much easier to develop good strategies, when you have the necessary insight in the company and the surrounding world, and when you have clear and relevant goals. The probability for developing good strategies also rises if you let yourself expose to new impressions, different thoughts etc. It is not fruitful to isolate oneself. The strategy phase can be divided into the following five steps:

1 Set the scene for which type of strategies should be pursued. It depends much on how much scope for action you have? Is the company in a crisis, in a consolidation phase, or growing?
2 Develop many possible strategies (this is a very creative task).
3 Evaluate, list by priority, calculate consequences and test the strategies individually and collectively (this is absolutely not a creative task, when not considering the collection of data and the test method).
4 Choose (here also intuition, and courage is needed)
5 Test the choices (again).

In order to structure the creative development of strategies, you may proceed by how low the strategy possibilities are, e.g. the following six classes going from “low” to “high” (from easy to difficult):

A More of the same. Is it sufficient? If not …
B Find out how to stop the diluting or destruction of value. Is it sufficient? If not …
C Find out how much trimming of the existing company could bring. Is it sufficient? If not …
D Find out how much investments in the trimmed company could contribute. Is it sufficient? If not …
E Find out how much new products and/or markets could contribute. Is it sufficient? If not …
F Find out how much acquisition of business is necessary. Is that realistic? If no, you should lower the ambition – go back to phase 2!

When strategies are up for decision, I have often heard the argument: “We cannot prove that this will pay off, but it is strategically right to do it”. This remark at best reflects a wrong attitude, at worst a disrespect for the values managed.

Strategic decisions must (as is the case with most other business decisions) be made on clear assumptions about present value of future cash-flow. The person in charge of finance has a special responsibility for that calculation models, management reports, decision information etc. reflects the financial realities.

Phase 4 - Implementation

Unfortunately many strategy processes stop after phase 3 – and that is often the reason why after a couple of years you can see that the strategies were not followed. The strategies must be broken down into specific projects and initiatives. That is why this phase demands high competence in execution – i.e. to make things happen in the daily operations.

It is necessary to prepare operational implementation plans which describe in detail, who does what when where and why – and what it takes of resources. Each single project must be specified in a standardised project description with a one-page summary. And everything must be converted to economy in the current budget of the company and in a 3 – 5 year calculation of financial consequences of the strategy plan. Finally, the project portfolio must be tested. Does each project have a clear purpose, goal and delivery requirement which contributes to deliver the strategy? Are the projects collectively sufficient? Can some projects be downgraded or postponed in order not to stress the organisation unnecessary? It is a big (and to some boring) job, in which details count.

Once the strategy plan – including the implementation plan- has been agreed upon, it forms the background for regular follow-ups on the results. Often that requires adjustment of meeting structures and reporting systems.

Result of the strategy process

When the strategy process is over, all essential information is in the strategy document. This document is so to speak a contract between management and the owners (and with other important stakeholders) about the future development of the company. The document ensures that knowledge is kept for sharing and as foundation for the development of even better knowledge as time passes and you learn. If the strategy document is long, a shorter edition may be used as a communication tool vis-à-vis the organisation and the surrounding world. Further the strategy process will result in the following:

- ✓ The management team has a shared perception of what the success criteria are and of what breeds and influences success
- ✓ The management team has a shared perception of the company's strategic agenda
- ✓ The management team has a shared perception of where the company is going, and how it gets there
- ✓ The management team has a deeper engagement and an increased awareness with regard to strategic thinking and action
- ✓ No manager is in doubt about his or her task in forming the company's future

We can all recognize a good strategy in the clear light of hindsight, but we can also through structure and systematics increase the likeliness for developing good strategies ourselves!

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These are my principles.
If you don't like them, I have others!
Groucho Marx

Bjarne Nielsen
Advisor on Strategy and Management
Strategy – Execution – Value Creation
Constantiavej 4 B, DK-2960 Rungsted Kyst
www.nielsencompany.dk
Tel: +45 40 90 46 24; e-mail: bjarne@nielsencompany.dk

Appendix - Word list

Purpose. The purpose of a private company is to create value (profit) to its owner. Therefore it is an owner's duty to decide, how much profit he or she wants in relation to other values he or she may find important. Then management has a clear goal to steer after. Often the possibilities for setting profit goals (shareholder value goals) are limited to a narrow band. Too low or too high goals may put the company at risk.

Especially in many listed companies it is management which on behalf of the shareholders make the decision. In the public sector and in private non-profit companies, profit is not a purpose. Instead it may be a well functioning public sector – incl. maintaining law and order and serving citizens and enterprises. An often seen problem in strategy planning – especially in the public sector – is that the goals are not made clear. Therefore we often find goals, strategies and projects which fail because they are not anchored in reality.

Mission. The mission statement describes in ultra short form, how the company fulfils its purpose. What it is and what is does – its role in society. To a private company "making money to the shareholders" is not a business raison d'être. There must be a mission in society with regard to supplying products and services that somebody is willing to pay for. An example: I am on the board of directors of a small company, the mission of which is: "To make it easy to get everyone involved in using energy rationally". A clearly stated mission can be an excellent guide for the organisation.

Vision. A company does not need to have a grandiloquent vision. Running the company with a competitive profit is also a kind of vision – though many will think it is not visionary! But rather that than the high-flying unrealistic visions like "we want to be the world's best", which one sees too often.

A healthy and strong vision can make a great difference in relation to mobilising and guiding the energy in the organisation. Thus there is no doubt that the Scandinavian Airline SAS's vision from the beginning of the 80ies "One of five in 95" had great importance to SAS's success during many years, and meant that SAS many years later actually became part of one of the few big airline alliances, Star Alliance

A vision tells briefly what type of company management wants to build in the long run. To use a metaphor: are we talking about building a cathedral, a village church or something completely different. Most employees get more energy from being engaged in building something than from cutting stone for something they do not know what is.

Values - Value System. Values represent the most basic control of the company. Really values are not something one says or writes down, it is something one does. Values are the often subconscious and autonomous basis for our acts; it is what makes us know right from wrong. But nowadays – as you know – values vary increasingly from person to person.

The company's values are present in the company as a result of especially management's behaviour and dispositions through many years. They are difficult to change. Values manifest themselves in attitudes, customs and acts – acts again create customs, attitudes and values. To capture the values on print may support that people comply, but in reality only acts and behaviour move things.

Strategic Goal. Strategic goals express what the company is committed to deliver to its stakeholders within the plan period in order to be successful. In commercial companies shareholder value is the mother of all goals. All other goals are derived form this. For the sake of communication you can describe goals that cannot directly be measured – however if you do not for the sake of daily operations make them measurable the inauguration speeches become empty phrases. You get what you measure.

Business Model. A business model is the way in principle on which the company creates shareholder value. Dell and HP both develop, manufacture and sell computers, but they have very different business models.

(Business) Strategy. A strategy is a description of how, in principle, a management wants to obtain a goal for the company that is decisive for its long term success.

Strategic Project. Strategies do not happen by themselves. They must be broken down into a number of strategic projects which are carefully limited and described, and which collectively deliver the strategy. Strategic projects either aim at improving the company's capability to deliver in a broad sense, or aim directly at achieving goals.

A graphic illustration of concepts and process