Developing a Strategic Plan

Brian Flanagan CMC FIMCA, Director, PlanWare.Org

1. Introduction

If you don't know where your business is going, any road will get you there.

Senior business managers are often so preoccupied with immediate issues that they may lose sight of their ultimate objectives. This is just as likely to happen when the business and economy are doing well as when they are depressed. That's why a periodic business review or preparation of a strategic plan is so important. It may not be a recipe for success, but without it a business is much more likely to fail or decline.

A strategic plan should not be confused with a business plan. The former is likely to be a (very) short document whereas a business plan is usually a substantial and detailed document. A strategic plan provides the foundation and frame work for a business plan.

A strategic plan is not the same thing as an operational plan. The former should be visionary, conceptual and directional in contrast to an operational plan which is likely to be shorter term, tactical, focused, implementable and measurable. As an example, compare the process of planning a vacation (where, when, duration, budget, who goes, how travel are all strategic issues) with the final preparations (tasks, deadlines, funding, weather, packing, transport and so on are all operational matters).

This paper is addressed at businesses but it is equally applicable to not-for-profit and non-trading organisations. In a diversified organisation, each main business unit should have its own strategic plan.

2. Strategic Planning Framework

A critical review of past performance by the owners and management of a business and the preparation of a plan beyond normal budgetary horizons require a certain attitude of mind and pre-disposition. Some essential points that should to be observed during the review and planning process include the following:

- Relate to the medium- or long-term
- Be undertaken by owners/directors
- Focus on matters of strategic importance
- Be separated from day-to-day work
- Be realistic, detached and critical
- Distinguish between cause and effect
- Be written down and reviewed periodically.

To develop the appropriate framework for a review it is necessary to clearly identify the current nature, objectives and strategy of a business. Correctly defined, these elements can provide the basis for a critical examination and serve as the building blocks for future planning. The key elements of a strategic plan and relationship to SWOTs (strengths, weaknesses, threats and opportunities) and past performance are illustrated in the following diagram.

→ Past Plans & Results →	Vision Mission Objectives Values Strategies Goals Programmes	← S W O T S ←

3. Assess Past Plans & Results

Statements on vision, mission, objectives, values, strategies and goals are not just elements of future planning. They also provide benchmarks for a historic review. Most managers will find it exceedingly difficult to develop a future strategy for a business without knowing its current strategies and measuring their success to date.

The starting point for a strategic review must be to determine a company's existing (implicit or explicit) vision, mission, objectives and strategies. These should then be judged against actual outcomes or performance along the following lines:

- Was that vision realised?
- How has the company's mission and objectives changed over the past, say, three years? Why have the changes occurred? Why have no changes occurred? Identify primary reasons and categorise these as either internal or external.
- Describe the key strategies (formal or informal) followed over the past few years.

Critically examine each strategy by reference to activities and actions in key functional areas (finance, operations, HR etc.) covering such matters as:

- How has the company been managed?
- How has the company been funded?
- How has the company sought to increase sales and market share?
- How have productivity/costs moved?

Take each element of strategy and quantify by reference to actual performance. Ask of each *why not*?, *why only*?, or *why so*? and locate the reasons for any significant differences between the actual and desired performance.

Cut through the symptoms of problems and reach the underlying causes. Questions that can help reveal the real causes include the following:

What stopped the business from ……?

What caused that cause?

Why didn't the business achieve xx%+ return on total assets (or owners' equity)?

By way of an example, consider why this company may be unable to increase its market share:

Because it cannot penetrate major customers because its product range is too narrow because the company doesn't have the capability to produce additional products because of short-comings in R & D because of a lack of expertise and resource because R & D is not an immediate priority because of a lack of profits because of a high interest burden because the company is over-reliant on borrowings because the shareholders won't/can't raise additional permanent capital.

The moral in this case is that market share could not be increased due to under-capitalisation!

4. SWOTs are Key

Having built up a picture of the company's past aims and achievements, a SWOT (strengths, weaknesses, opportunities and threats) analysis can commence.

Strengths and weaknesses are essentially **internal** to the organisation and relate to resources, programmes and organisation in key areas such as sales/marketing/distribution; management; systems/expertise; manufacturing efficiency/capacity; products/quality/pricing etc. If a start-up is being planned, the strengths and weaknesses are mainly related to the promoter(s) - experience, expertise and management abilities - rather than to the proposed venture.

The aim is to build up a picture of the outstandingly good and bad points, achievements and failures and other critical features within the company.

The **external** threats and opportunities confronting a company can exist or develop in the following areas:

- The company's own industry where structural changes may be occurring
- The marketplace which may be altering due to economic or social factors
- Competition which may be creating new threats or opportunities
- New technologies which may be causing fundamental changes in products, processes etc.

Against an uncertain and shifting background, the objective must be to prioritise the key SWOTs and use them to help identify possible strategies as follows:

Build on Strengths	Address Weaknesses
Exploit Opportunities	Avoid Threats

5. Elements of a Strategic Plan

Once the SWOT review has been completed, a future strategy may be readily apparent or, more likely, a series of strategies or combinations of tactics will suggest themselves. These can then be filtered and moulded to form the basis of a realistic strategic plan which is consistent with an updated vision, mission, goals etc.

The first consideration is to develop a realistic **VISION** for the business. This should be presented as a pen picture of the business in three or more years time in terms of its physical appearance, size, activities etc. *If someone from Mars visited the business, what would they actually see?*

The nature of a business is often expressed in terms of its **MISSION** which indicates the purposes of the business, for example, to *design, develop, manufacture and market specific product lines for sale on the basis of certain features to meet the identified needs of specified customer groups via certain distribution channels in particular geographic areas*. A hard-nosed statement along these lines indicates what the business is about and is infinitely clearer than saying, for instance, *we're in electronics* or, worse still, *we are in business to make money* or even *our purpose is to satisfy customers*. Every word in a mission statement should be carefully screened before inclusion.

The third key element is to explicitly state the business's **OBJECTIVES** in terms of the broad results it needs/wants to achieve in the medium/long term. Aside from presumably indicating a necessity to achieve regular profits (expressed as return on shareholders' funds), objectives should relate to the expectations and requirements of all the major stakeholders, including employees, and should reflect their underlying reasons for being involved with the business.

The fourth element to consider is the **VALUES** governing the operation of the business and its conduct or relationships with society, customers, employees etc. Beware that if a business tries to integrate its values into its mission, it usually ends up with a well-intended but meaningless statement suitable for public consumption but of no practical use to management.

Next are the **STRATEGIES** - the rules and guidelines by which the mission, objectives etc. will be achieved. These can cover the business as a whole including such matters as diversification, organic growth, or acquisition plans, or they can relate to primary matters in key functional areas, for example:

> *The company's internal cash flow will fund all future growth.*
>
> *New products will progressively replace existing ones over the next 3 years.*
>
> *All assembly work will be contracted out to lower the company's break-even point.*

The **GOALS** then follow. These are specific time-based measurements to be achieved by implementing strategies in pursuit of the company's objectives, for example, to achieve sales of €3m, or €30m, in three years time.

The final element is the **PROGRAMMES** which set out the implementation plans for the key strategies.

It goes without saying that the vision, mission, objectives, values, strategies and goals must be inter-linked and consistent with each other. This is much easier said than done because many businesses, set up with the clear objective of making their owners wealthy, often lack strategies, realistic goals or concise missions.

6. Conclusion

Notwithstanding that "battles are often lost for want of nails", companies rarely succeed or fail for minor or trivial reasons. The causes are usually substantial and are often self-evident, at least to an outsider. For example, the business was well/badly financed; management was weak/strong; a major new product opportunity was identified/lost; legislation changed for the better/worse; a major competitor went bust/expanded; the company always/never re-invested.

It should be possible in the course of a 3-4 page document (or 12-16 page presentation) to set down the main elements of a business's vision, mission, objectives, goals, strategies, SWOTs etc. The compilation of a short report along these lines is likely to prove much more difficult than a lengthy dissertation that mixes up details and principles, and confuses the broad picture. Mark Twain is quoted as saying that he wrote a long letter as he didn't have time to write a short one. So also with a strategic plan which is best compiled as a team effort with several drafts.

For further guidance:

- See PlanWare's white papers on Developing a Strategic Business Plan and Devising Business Plan Strategies.
- Try PlanWare's free Online Strategic Planner which has been used to help create thousands of plans and on which this paper has been based

Brian Flanagan is a director of Invest-Tech Limited. Its main trading arm is PlanWare.Org which specialises in business planning matters. PlanWare offers an extensive range of tools for preparing business plans, making financial projections, cashflow forecasting and strategic planning along with extensive white papers and other free resources. It has customers in over a hundred countries.

Contact Details:

Brian Flanagan, Invest-Tech Limited, 27 Ardmeen Park, Blackrock, Co Dublin, Ireland

Tel: +353-1-283083   Fax: +353-1-2782391 Email: brian@planware.org