

# MANAGEMENT OUTLOOK

VOLUME 4, ISSUE 2

MANAGEMENT MAGAZINE



## STRATEGIC PLANNING ASSISTS BENCHMARKING & PERFORMANCE MONITORING



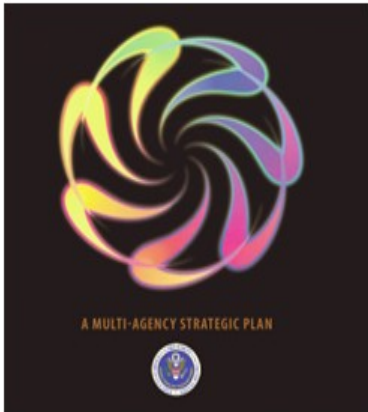
Entrepreneurs and business managers are often so preoccupied with immediate issues that they lose sight of their ultimate objectives. That's why a business review or preparation of a strategic plan is a virtual necessity. This may not be a recipe for success, but without it a business is much more likely to fail. A sound plan should:

- Serve as a framework for decisions or for securing support/approval.
- Provide a basis for more detailed planning.
- Explain the business to others in order to inform, motivate & involve.
- Assist benchmarking & performance monitoring.
- Stimulate change and become building block for next plan.

A satisfactory strategic plan must be realistic and attainable so as to allow managers and entrepreneurs to think strategically and act operationally

### **Basic Approach to Strategic Planning**

- 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 predisposition. Some essential points which should be observed during the review and planning process include the following:
- Relate to the medium term i.e. 2/4 years
- 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 reviewed periodically
- Be written down.



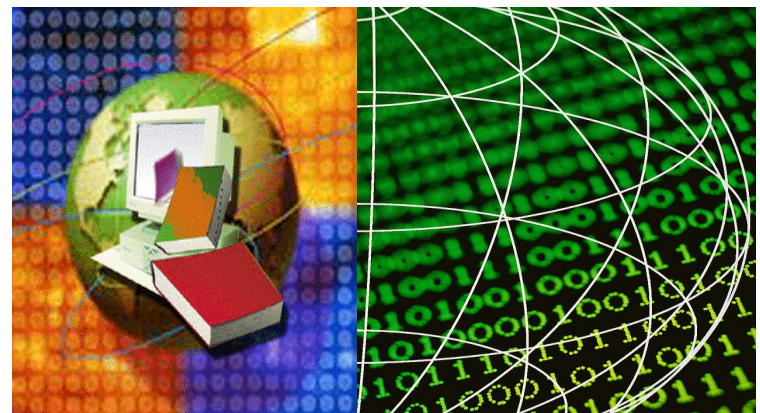
A strategic plan should not be confused with a business plan. The former is likely to be a (very) short document whereas a business plan is usually a much more substantial and detailed document. A strategic plan can provide the foundation and frame work for a business plan.

As the precursor to developing a strategic plan, it is desirable to clearly identify the current status, objectives and strategies of an existing business or the latest thinking in respect of a new venture. Correctly defined, these can be used as the basis for a critical examination to probe existing or perceived **Strengths, Weaknesses, Threats** and **Opportunities**. This then leads to strategy development covering the following issues discussed in more detail below:

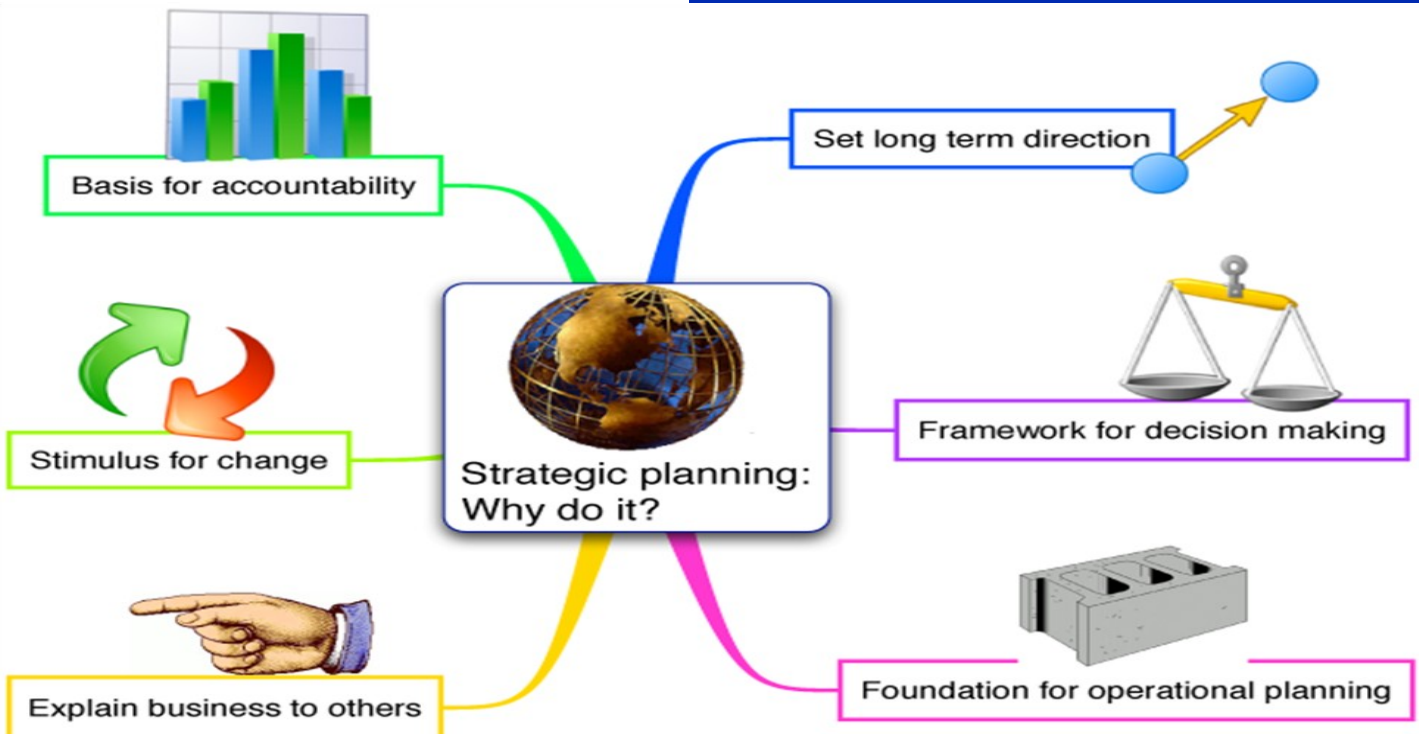
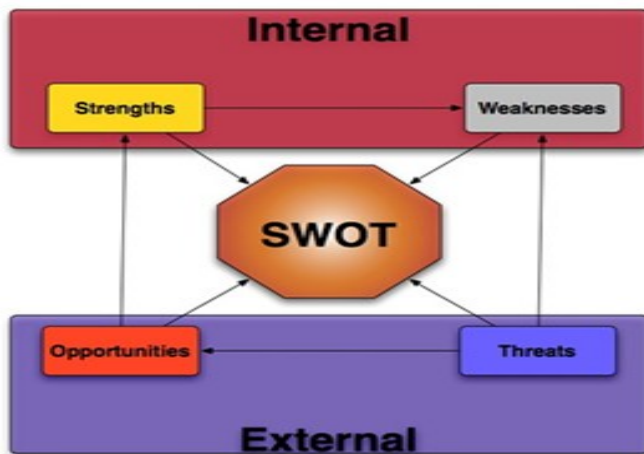
- Vision
- Mission



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).



**Mastering Your Enterprise Strategy**  
The Three Hierarchical Levels of Strategy



Values  
Objectives  
Strategies  
Goals  
Programs

**Key Steps towards a Strategic Plan**

The preparation of a strategic plan is a multi-step process covering vision, mission, objectives, values, strategies, goals and programs. These are discussed below.

**The Vision**

The first step 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 likely physical appearance, size, activities etc. Answer the question: "if someone from Mars visited the business, what would they see (or sense)?" Consider its future products, markets, customers, processes, location, staffing etc. Here is a great example of a vision:

*I will come to America, which is the country for me. Once there, I will become the greatest bodybuilder in history..... I will go into movies as an actor, producer and eventually director. By the time I am 30 I will have starred in first movie and I will be a millionaire..... I will collect houses, art and automobiles. I will marry a glamorous and intelligent wife. By 32, I will have been invited to the White House.*  
Attributed to Arnold Schwarzenegger who was elected Governor of the State of California in 2003.

**The Mission**

The nature of a business is often expressed in terms of its **Mission** which indicates the purpose and activities 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 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" (assuming that the business is not a mint !). Also, some people confuse mission statements with value statements (see below) - the former should be very hard-nosed while the latter can deal with 'softer' issues surrounding the business. The following table contrasts *hard* and *soft* mission statements.

Hard	Soft
What business is/does	Reason for existence
Primary products/services	Competitive advantages
Key processes & technologies	Unique/distinctive features
Main customer groups	Important philosophical/social issues
Primary markets/segments	Image, quality, style, standards
Principal channels/outlets	Stakeholder concerns

Compare the following statements:

Hard Statement	Soft Statement
X Corp. designs, develops, assembles and markets systems for data base management. These systems integrate its proprietary operating system software with hardware supplied by major manufacturers, and are sold to small, medium and large-sized companies for a range of business applications. Its systems are distinguished by a sophisticated operating system, which permits use without trained data-processing personnel.	Our mission is to enhance our customers' business by providing the very highest quality products and services possible. Our customer support strategy is based upon total, no-compromise customer satisfaction and we continually strive to offer a complete package of up-to-date value added solutions to meet our customers' needs. We value above all our long term customer relations.

*The company will engage in research, development, and manufacture and sales of integrated electronic structures to fulfill the needs of electronic systems manufacturers. This will include thin films, thick films, semiconductor devices, and ..... A variety of processes will be established, both at a laboratory and production level ..... as well as the development and manufacture of special processing and test equipment required to carry out these processes. Products may include dioded transistors ..... Principal customers for these products are expected to be the manufacturers of advanced electronic systems ..... It is anticipated that many of these customers will be located outside California.*

When drafting a mission statement, critically examine every noun, adjective and verb to ensure that they are focused, realistic and justified.

### **The Values**

The next element is to address the **Values** governing the operation of the business and its conduct or relationships with society at large, customers, suppliers, employees, local community and other stakeholders.

### **The Objectives**

The third key element is to explicitly state the business's **Objectives** in terms of the 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 the underlying reasons for running the business. These objectives could cover growth, profitability, technology, offerings and markets.

### **The Strategies**

Next are the **Strategies** - the rules and guidelines by which the mission, objectives etc. may be achieved. They 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.

Use SWOTs to help identify possible strategies by **building** on strengths, **resolving** weaknesses, **exploiting** opportunities and **avoiding** threats.

### **The Goals**

Next come the **Goals**. These are specific interim or ultimate time-based measurements to be achieved by implementing strategies in pursuit of the company's objectives, for example, to achieve sales of \$3m in three years time. Goals should be quantifiable, consistent, realistic and achievable. They can relate to factors like market (sizes and shares), products, finances, profitability, utilization, efficiency.

### **The Programs**

The final elements are the **Programs** which set out the implementation plans for the key strategies. These should cover resources, objectives, time-scales, deadlines, budgets and performance targets.

It goes without saying that the 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 which are set up with the clear objective of making their owners wealthy often lack strategies, realistic goals or concise missions.

### **Use Hindsight when Strategic Planning**

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.

### **Assess Current Position**

The starting point must be to determine a company's **existing** (implicit or explicit) vision, mission, objectives and strategies. Then judge these against actual performance along the following lines: Is the current vision being realized? How has the company's mission and objectives changed over the past say, three years? Why have the changes occurred or why have no changes occurred? Identify primary reasons and categorize them as either internal or external. Describe the actual strategies followed over the past few years in respect of products/services, operations, finance, marketing, technology, management etc. Critically examine each strategy statement by reference to activities and actions in key functional areas 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?

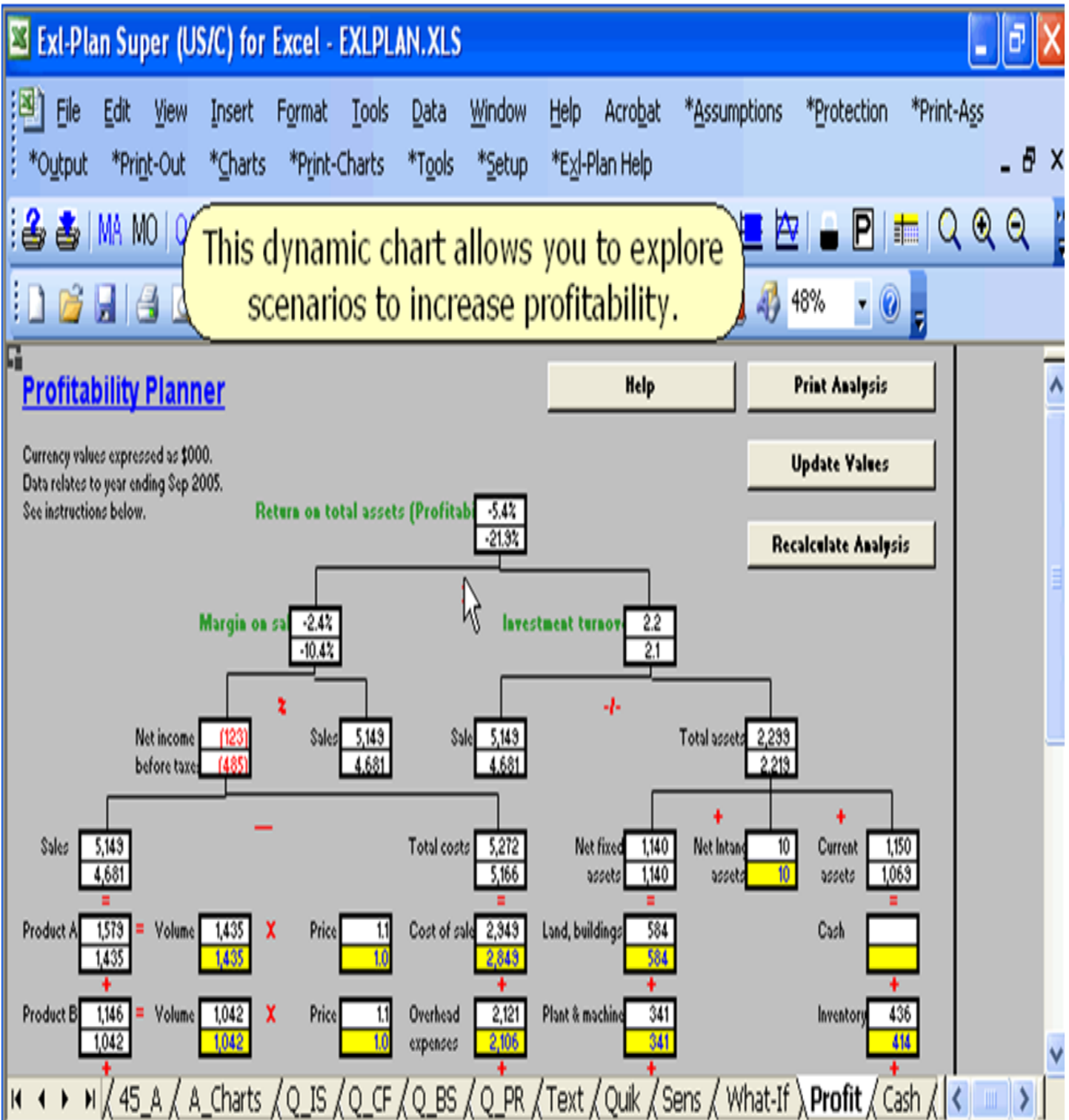
Take each element and quantify by reference to actual performance. Ask of each "why not"?, "why only"?, or "why so"?, and locate the reasons for differences between the actual and desired performance.

### **Drill Down**

A useful technique for exploring performance shortfalls is to review the business's financial return and to drill down through the components of this return to locate and assess the key determinants of performance. For example, *return on shareholders' funds* is a key measure of profitability which can be expressed as:

$$\frac{\text{Net income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Shareholders' funds}}$$

Take each item in this formula, explore its contents and derive performance measures or ratios. For example: Sales break down into sales values, units, prices, discounts, commissions, bad debts and so on. Net income is derived by deducting costs (materials, labor, power etc.), expenses, interest and depreciation from sales revenue. Shareholders' funds are based on the value of fixed assets, current assets, current liabilities, debt etc.



Use of cascading ratios is illustrated in this DuPont-type profitability chart which is automatically generated by more powerful versions of Exl-Plan to show the impact of specific changes in key variables and assumptions on overall profitability.

Subject the resultant ratios to critical examination and attempt to compare them with industry norms. The paper entitled Managing Working Capital explains key working capital ratios.

Note that the Exl-Plan financial planners generate exten-

sive ratios based on projected P&Ls, cashflow forecasts and balance sheets for 1-3-5-7 years ahead.

**SOURCE: PLANWARE**

Next issue will be on SWOTs - Keys to Business Strategies, Simple & Short Strategic Plans, Using the Strategic Planning Worksheet & Strategic Planning Worksheet.