

# Strategic Planning

## How Value is Created for Middle Market Companies

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In talking with many owners of middle market companies over the years, I have found they often view strategic planning as something they should be doing but can't find the time, or they perceive it as an academic exercise designed for large companies that is not practical or applicable to their operations.

In my experience, both perspectives can be correct: a strategic planning program can be either very useful or it can be an impractical academic exercise, depending significantly on the design of the process and its ability to create an enhanced level of excitement and success in the business.

A successful strategic plan should:

- Crystallize a vision
- Systematically analyze opportunities, competitors and risks
- Facilitate the development of compelling value propositions
- Lead to a clear understanding of where to focus efforts and resources
- Create a direction and framework for the management team
- Create metrics to track progress toward achieving objectives

The strategic plan should be something the team understands and in which they have a sense of ownership.

There are a few basic steps that can make the difference between a highly useful and productive end result and a process that produces a document destined to be filed on the shelf. The three fundamental questions the leadership of a business needs to answer before they proceed to develop a strategic plan are:

- **What business are we in (and not in)?**

This question is answered in the mission statement where the nature and scope of the business is defined.

- **What do we want to strive for?**

Frequently this question is addressed in a vision statement but can also be included in the mission statement.

- **What kind of company do we want to be?**

This very fundamental question is addressed in the articulation and day-to-day execution of the core values of the business.

Once these fundamental questions have been addressed, the following are the basic steps that, if done well, will lead to a highly useful and innovative strategic plan that can be the roadmap for a business to achieve an enhanced level of excitement and success.

1. Gather the Facts
2. Conduct the Analyses
3. Draw Conclusions
4. Create Objectives and Strategies
5. Commit to Actions

One of the most common pitfalls that even experienced management teams fall into is they start to create objectives and strategies and even actions before they complete the job required in steps one through three. The frequent result is a suboptimal plan. While the consequence to the business is usually not catastrophic, it can be insidious in that the business never achieves its full potential and no one knows what could have been.

### Gather the Facts and Analyze

The first two steps of the planning process require discipline and patience as well as a commitment to “get it right”, not just to “get it done”. In many businesses that have not engaged in a rigorous planning process, there is an abundance of opinion but very few actual facts. These opinions are many times accurate and well founded, but I have also found there can be misconceptions on important issues. It is critical to gather the facts on a range of basic issues from market price levels to competitors’ capabilities to customer needs and wants before undertaking the analysis segment of the process.

Once the facts have been collected, the analyses of step two should include:

- **Market Analysis** - size, rates of growth, driving forces, trends, technology changes, under-served needs and wants (white space) by: product, service and/or customer segment.
- **Competitive Analysis** - comparing the capabilities of your business and that of the market leaders to the buying decision criteria of the customer.
- **Operational and Financial Analysis** - defining what the business does very well; i.e. the core competencies as well as the areas for improvement. To the extent possible, key operational and financial metrics should be compared to industry norms.
- **Business Environment Analysis** - identify those external factors that can have a positive or negative impact on the business and what the outlook is for those factors from multiple sources.

Typically, the results of these analyses are summarized into a SWOT analysis (Strengths, Weaknesses, Opportunities and Threats). This is a critical step where management insight is paramount.

This is also the point in the process where management determines the evolving market and competitive factors that are creating opportunities on which the business can capitalize, which of those opportunities should be pursued first and what operational issues need to be addressed. The prioritization of operational issues in turn may require realignment of staff, changes in compensation or other policies. It is also in this step that market, competitive or other external challenges need to be anticipated so plans can be made to deal with those challenges.

### Create the Value Proposition

A critical step in the strategic planning process is the creation of compelling value propositions.

A compelling value proposition is one that a customer finds of sufficient and unique benefit to cause them to place orders on a sustained basis.

If the proposal represents a change in supplier, product or service, the value proposition must be sufficiently compelling to overcome the customer’s organizational and personal resistance to change.

To be truly compelling the value proposition must be real in the judgment of the customer. In order for it to be real, it must be derived from an understanding of the driving forces that shape the customer’s business objectives, which then create their needs and wants. A compelling value proposition cannot be created with an “inside out” perspective nor can it be created “after the fact” - it must be built in, from the customer’s perspective, as a company develops or evolves its product and service offerings.

A compelling value proposition will likely be somewhat different for each customer (even within each customer) but it will be derived from the company’s basic capabilities, as developed through the strategic planning process.

### Create Objectives and Strategies

Once the analyses are complete and opportunities and issues have been prioritized, management needs to make the important determination of what is possible for the business to achieve by setting both financial and non-financial objectives. This is another critical step where management's judgment is paramount.

If management sets the objectives too low, they are potentially self-limiting the development of the business as well as the people involved in the business. On the other hand, objectives that are overly aggressive subject the business to undue and probably unwise risks. Consequently, establishing objectives is best done as a team effort so at the completion of the process the management team has a sense of ownership in the objectives as well as a sense of obligation to their achievement.

Following the establishment of the financial and non-financial objectives, management needs to create the strategies that will, when successfully executed, result in the achievement of those objectives. In this critical step, management creativity is vital as this is the step of the process where the value propositions are quantified for each target market and resources are allocated. While this exercise is the culmination of all the preceding steps, it is particularly building on the insights from the analyses and the judgments made in the process of setting the objectives.

### Commit to Actions

The organization must have a bias toward action and excellence in implementation. It is my observation that when a business fails to achieve its objectives it is more often due to suboptimal execution than overly optimistic objectives.

The implementation plan needs to have clear milestones and actions that when fully completed, result in the execution of the strategies and achievement of the objectives.

The process of tracking action item implementation must be simple and diligent. All the people who are responsible for action items must know that they are accountable for successfully completing them on time; it needs to be part of the culture of the business. If there is a single most important factor in creating value in a business, it is creating a culture where people know they are held accountable.

### Value Creation

Creating and implementing a well conceived strategic plan for a small or mid-sized company is the fundamental process by which management can fully capitalize on the potential of its business. While the process need not be complicated or overly time-consuming, it does require a special combination of characteristics within the management team: vision, patience, discipline, insight, judgment, creativity and a bias toward action.

The challenge of doing strategic planning is to successfully harness these characteristics in an efficient process that produces objectives and strategies in an actionable format. It is not an undertaking to be feared or dreaded, but should be viewed as the fundamental means to create excitement and value in a business enterprise.



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