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Strategic Planning for the Time-Challenged

by Howard Muson

A simplified, action-oriented approach to planning works best for many smaller and mid-sized companies.

Planning consumes valuable management time and resources, both of which are usually stretched thin in smaller and mid-sized companies. But planning doesn't have to be the monster that ate the company. In fact, smaller companies may need to do it more than larger companies precisely because it helps them set priorities for allocating scarce capital and limited management time.

For companies in markets with larger competitors, it may actually be a matter of survival. The sea is filled with small fry who will be gobbled up unless they have a strategy for checking threats from the sharks.

Planning for a smaller or mid-sized company is fraught with questions. How much management time must be set aside to develop and implement a successful plan? How far ahead can we really see with any degree of clarity? How can we achieve a balance between the need for structure and goals, and the need for flexibility in reacting to market shifts? How do we ensure buy-in from key stakeholders?

Perhaps the most critical question is how we prevent the buzz of daily business from diverting us from what we want to achieve over the long term. Or as Stephen Covey, the author of the best-seller *The 7 Habits of Highly Effective People*, might put it, how we reserve time for the important while taking care of the urgent.

Keep Things Simple, but Not Too Simple

By the time a company reaches $50 million to $100 million in annual revenues, it should have a strategic planning process in place that's starting to become a way of life, Eric Flamholtz, a professor of management at UCLA, writes in his book, *Growing Pains: Transitioning from an Entrepreneurship to a Professionally Managed Firm*.

"Generally a minimum of two or three years will be needed to institutionalize the process of learning the planning system's mechanics. During the second and third years, people should increase their planning skills."

Mid-sized companies generally have a three- or a fiveyear plan, often supplemented by a more detailed oneyear plan. How frequently you review progress on your plan and make mid-course corrections will depend upon how fast your markets are changing. Firms in mature markets, for example, may need to review the plan only once a year. Computer, Internet, and telecommunications companies may want to reassess their plans as often as monthly.

Smaller and mid-sized companies can devote as much or as little time to planning as they wish, says Peter Duncan, vice president of the Center for Simplified Strategic Planning (CSSP) in Southport, Connecticut. Along with Michigan State University, CSSP conducts seminars across the country in time-efficient, results-oriented planning for smaller companies.

Duncan estimates that senior leaders who get the best results devote at least 10 percent of their time to strategizing and overseeing an action plan, roughly two days a month. The basic questions to be covered, he says, are simple:

- What will we sell?
- To whom will we sell?
- How do we beat or avoid the competition?

Many companies start with a so-called SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis, which describes the strong and weak points of the business as well as opportunities and threats in its markets. Duncan defines three steps in the process:

- A situation analysis (Where are we today?)
- Strategy formulation (Where do we want to go?)
- Implementation planning (How do we get there? How much will it cost? What is the timetable? Who is responsible for what?)

UCLA's Flamholtz stresses another element that often gets scant attention—infrastructure. What will be needed organizationally to support the plan's growth targets? How many new people will have to be hired? What kinds of skills and training will they require? To what extent do our IT capabilities have to be expanded?

"Traditional strategy focuses on markets and products," says Flamholtz. "Most people don't understand that you win with infrastructure—your operational systems, your information systems, your culture."

Craft an Inspiring Vision

An effective strategic plan is built on a vision of the future that guides and energizes the company's work.

Reinhold Würth is the former CEO of a German company, the Würth Group, which is a worldwide market leader in making screws and other fasteners. In 1979, when Würth had revenues of $286 million, CEO Würth set new sales goals of $667 million for 1986 and $1.33 billion for 1990.

"It is amazing how quickly such goals develop a life of their own and become part of the corporate culture," he told consultant Hermann Simon. The company reached the $1.33 billion goal in 1989, Simon writes in his book *Hidden Champions*. When Würth then upped the ante, establishing a goal of $7 billion by the year 2000, he said that employees accepted it and adjusted their activities to it without thinking twice.

Starbucks Outwits Bigger Rivals

The company with big, hairy, audacious goals has to do serious strategizing. Take Starbucks, which in 1994 defined an ambitious mission: "To become the leading brand in specialty retail coffee in North America by the year 2000." The company's revenues were then around $165 million.

"The idea was to become the dominant player in the market before a larger player like Nestle's got wise to their game and rolled in to swamp the market," recalls Eric Flamholtz, an advisor to Starbucks at the time. A market scan revealed that McDonald's, for example, was offering a specialty coffee in Australia that was expected to be rolled out in North America.

The key to blocking potential competitors was to control Class A real estate sites in the major markets, Flamholtz says. But how big did the company have to get to achieve its goal? Would having a thousand stores nationwide with a total of a billion in revenues make Starbucks the dominant player? Some members of the senior team didn't think that would be big enough. To become the dominant player by 2000, the team decided they needed two thousand stores bringing in a total of $2 billion.

The company achieved its goal in 5 ½ years, a half year early, according to Flamholtz. Becoming the leading brand, however, was a means to an end, not the end itself. "Once you are the dominant player, it's your game to lose," Flamholtz says. "No one can take it away from you."

Würth is one of over 120 German *Mittelstand* companies that Simon studied in the 1990s. These highly successful, innovative companies were either No. 1 or No. 2 in their markets worldwide and yet all maintained an almost secretive, low profile.

"The goal and vision of typical hidden champions are clear, but they are rarely elaborate," Simon writes. "They are qualitative rather than quantitative. This seems different from the typical approach of large corporations in which a great deal of attention is given to details, precise numbers, or shaky long-term forecasts."

Pursue a Limited Number of Goals

Companies fail at strategic planning for a wide variety of reasons:

- The top managers lack understanding of the requirements of the process or the skills to carry it out.

- The CEO doesn't offer strong enough support. Many chief executives make the mistake of delegating the planning to a committee. Unless employees know that it's a high priority for the boss, forget it; they'll pursue their own agendas.

- The plan doesn't spell out specific steps for tracking progress on goals and objectives and making sure that key tasks are being accomplished.

- The leaders are perfectionists, viewing planning as an Everest to be climbed. They develop overly ambitious objectives, or too many of them, then despair when they can't make progress on all of them.

While some companies are overly perfectionist in their planning, others are too lackadaisical. In Peter Duncan's experience, companies don't devote enough thought at the front end of the process to laying out steps for implementation. The tasks to be accomplished are vague, and the process lacks structure. Typically:

- The CEO says, "We need a plan. Let's get the senior management team together and go somewhere offsite and we'll figure this out. Then we'll break the huddle and go back and do it."

- People come out of the meetings charged up, with a list of 10 things they plan to do in the next two or three years. They vow, "We'll get together quarterly and see how we're doing."

- Within 6 or 8 months, the day-to-day work has overwhelmed the strategic initiatives. Little progress is evident and the team becomes dispirited.

- At about that point, someone says, "We have to have one of those off-site meetings again and really do it right this time!"

Collect Good Data

Good data is essential to forging agreement among top managers on what market segments the company can compete in and should get priority. This sounds easy, but it's not. One company that found this out was Mannington Mills, a CSSP client in Salem, New Jersey.

Mannington Mills is an innovative company that manufactures floor coverings of all kinds—vinyl, carpet, porcelain tile and wood. With close to a half-billion dollars in annual revenues, it has two divisions, one for commercial flooring, the other for residential. Each of the divisions designed its own plan, with about 12 to 14 managers participating along with the few top corporate executives.

According to president and CEO Thomas S. Davis, "We looked at the markets we play in by product and by channel. We defined market size and channel size and then looked at how we stacked up against competitors. We pulled all the data together and formed a matrix that laid out the market by segment and competitor."

"It was a heck of an exercise," Davis recalls, "and it took a long time—especially the first time around because the participants had not reached a consensus on the data before the meeting. We learned our lesson and the process went much more smoothly with the second business."

Typically, CSSP's Peter Duncan says, people come to the first planning meeting with a bundle of reports and documents under their arms and say, 'This is how we view the world.' But some managers have different data and a different view of the market. "There's no common ground."

For this reason, the senior leaders at their initial planning session should decide what questions need to be answered and what further data should be collected to get agreement. Duncan then urges his clients to take a "time out" of from four to six weeks to fill in the gaps in data before the next meeting.

Develop an Action Plan

Duncan's approach calls for an action plan that spells out tasks and specific deadlines along with accountabilities. "We have a book for each business," Mannington Mills's Davis says. "The managers meet every six to eight weeks to see that the work is moving forward." The document is "all set up so you can exchange data online. When you come back the next year, you dust it off, tweak it, make it better. It's not like you're starting over."

The action plan keeps the vision in the forefront of the company's work by giving employees a clear picture of what they have to do in their jobs to accomplish it. "What you really get out of this thing is tremendous alignment," Davis says. "It creates a lot of energy and activity. Suddenly you don't have to manage because people understand where you're going without someone having to dictate it to them."

Exhibit 1

A Candy Box Maker's Action Plan

Strategies express management's vision of the direction the business intends to take in the next three to five years. In contrast, objectives are specific, measurable, and time-related statements of desired near-term results. They translate the broad strategies into "bite-sized," tangible goals.

Exhibit 1 is list of objectives for a small company that manufactures boxes for the candy and bakery industries. It lists each objective, its priority, and the initials of team leaders responsible for achieving it. An item with a priority of 1-3 is considered critical; priorities of 4-6 are important; and those 7-9 are beneficial. Dates for completion of each item remain blank until management can devote time and money to it. Of the 10 items on the list, number 4 appears to be the weakest, because it is neither results-oriented nor measurable.

Action Plan

Item	*Priority*	*Objective*	*Date for completion*	*Team leader*
1	1	Have new computer system online by	__ /__ / __	DB/PM
2	1	Begin EDI processing with both Acme and Jones by	__ /__ / __	BT/RM
3	2	Achieve employee motivation by establishing new participative management,		
		and an incentive program, to encourage employees to reach at least 5%		
		bonus by	__ /__ / __	BS/LL
4	3	Spruce up and maintain plant and office by	__ /__ / __	SB/RM
5	3	Acquire specialty-packaging manufacturer with nonfood packaging		
		experience by	__ /__ / __	SB/TR
6	3	Launch new advertising campaign with new sales materials by	__ /__ / __	GT/DK
7	5	Reduce costs 2% by establishing cost control process by	__ /__ / __	CG/SB
8	5	Obtain a major account ($500K+) in nonfood interior packaging by	__ /__ / __	BT/DK
9	7	Complete cross-training of all first-line manufacturing personnel by	__ /__ / __	BK/SB
10	7	Decide on entering Canadian market by	__ /__ / __	GT/CG

Write It Down, but Don't Make It Gospel

Most strategic plans become written documents. Without a written plan, there's a good chance of disagreements— after the fact—about what was agreed to. That will undermine the unity of the senior team.

However, there is another point of view that says putting too much in writing leads to rigidity and can be mistaken as inviolable. Satyam Cherukuri, president and CEO of Sarnoff Corporation in Princeton, New Jersey, would like to keep the process flexible, as strategic planning from his perspective is an ongoing "series of approximations." According to Cherukuri, the typical approach of large, top-down, military-style organization—"Decide on a plan, damn it, and stick to it!"—can be a deadly mistake, especially in a fast-changing, technology-based business. Cherukuri acknowledges that leaders have to articulate a purpose and define where they expect to take their company in the future. Without a crystal ball, however, any long-term plan needs to be adjusted periodically to keep pace with dynamic market situations, he argues.

Sarnoff, a $100-plus million revenue high-tech company, is in the business of innovation on a contract basis for its commercial and government customers. Its markets include semiconductors, defense, security, and healthcare. In addition, Sarnoff has spun out about 20 companies in the last 10 years and will continue doing such spinouts when market conditions are right.

Cherukuri's vision for the company looks five years ahead. The vision is to be "the global choice as a provider of innovation." Innovation is defined as "the introduction of a product or service that creates a disruptive advantage in the market because of its functionality and/or cost." He and his six direct reports review the five-year plan quarterly. The plan is not distributed in document form. Instead, Cherukuri has a PowerPoint presentation that he uses to explain the plan to various constituencies.

Generally, the presentation tells them: "Here is what our vision is. This is how I think we will get there. This is how we are building our capabilities in order to do it. Here are some of the barriers we face, and these are some of the steps we're taking to overcome those barriers."

Process Is Important

Experts seem to agree on the fine points of an effective planning process:

- The core planning team should probably include no more than 6 to 10 persons, the maximum number for full and productive discussion, according to research studies.

- Some participation in the early planning by line managers and senior staff is essential to obtaining their buy-in.

- Although the CEO has to be an active participant in the planning, he or she should appoint a process leader to chair the meetings and oversee agenda details. The person should have sufficient stature and objectivity for the job. (Company trainers and human resources managers often make good facilitators.)

- Many CEOs make the mistake of turning over the implementation of the plan to a committee. Only the CEO can drive the process.

- Communicate details of the plan to different stakeholders selectively. The board of directors and senior managers have to see the whole thing, but lower level employees may need just a summary of objectives and what's most relevant to their work. If you let key suppliers and customers know about your goals and objectives, be careful not to give away points of strategy that could be leaked to competitors.

God Is in the Details

Carl Guerreri, founder of Electronic Warfare Associates (EWA), is one CEO who believes in spelling out everything in the strategic plan, from company values down to how many new customers each division is responsible for bringing in each year.

EWA, a defense and IT technology firm in Herndon, Virginia, had $130 million in revenues last year. In their planning, Guerreri and his staff make shrewd estimates of how government spending may change and what contracts they can expect to capture. The company has a very detailed plan—with a total of 40 pages, excluding budgets.

Guerreri first became excited about strategic planning years back while attending the Owners and Presidents Management (OPM) program at Harvard. After returning to Herndon he assembled his senior executives for a twoday meeting to begin work on a plan. When he asked for their ideas, however, he was met with stony silence.

EWA's plan has evolved over a period of 25 years. It took 10 to 15 years to win full acceptance for the process in the ranks, Guerreri says, but now the presidents of his nine divisions know the routine and prepare for it throughout the year.

The direct involvement of the chief executive is especially critical in smaller companies, Guerreri believes. He is definitely the driver at EWA. Guerreri launches the process annually by writing a statement of vision, objectives and company philosophy. The statement spells out specific growth targets. It may lay down guidelines such as, "Profit will be more important than growth in the next two years." EWA's plan calls on each operating unit to develop one or two new customers every year.

Guerreri follows closely the next phases of the planning, providing a final reality check on what is submitted by the nine presidents. For example, if one of them expects to expand his business by $30 million, Guerreri may question whether he can do it with only the 30 new employees he has requested.

"Planning is really hard," Guerreri says. "A lot of people resist it because it provides a metric they can be measured against. It takes time, but it yields results."

Make Your Own Luck

Whether your company wants a very detailed plan or one that's fairly simple and basic, you have to be careful that it doesn't become a straitjacket. Everyone interviewed for this Executive Action report agreed with a caution sounded by the man who is perhaps the dean of strategic planning, Henry Mintzberg of McGill University. Mintzberg once noted that real strategy is made informally—"in hallway conversations, in working groups, and in quiet moments of reflection on long plane flights—and rarely in the paneled conference rooms where formal planning meetings are held."

Chance favors the prepared mind, however, and having a plan gives your company a framework and structure for reacting to contingent events. Peter Duncan tells a story attributed to (among others) golfer Lee Trevino, who after making a hole-in-one was asked by a reporter whether he wasn't just lucky. "Well, it probably was a lucky shot", Trevino agreed. "But the funny thing is, the more I play this game the luckier I seem to get."

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