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IN FOCUS STRATEGIC PLANNING

A Good Strategic Plan Can Be One of Your Strongest Assets

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Planning creates significant advantages in facing challenges and staying on the path to success.

A strategic plan provides a navigational map for your business during stable as well as turbulent times. It helps identify the most efficient route for achieving goals. It helps you spot landmarks–interim results–that signal you're on the right path. It provides insight on how to manage scarce resources so that you arrive on budget. It gives clear direction so that your entire team ends up in the same place, feeling like vital contributors to the journey.

In a strong market, a good map helps a business determine quickly where to invest to accelerate growth and maximize returns. In less stable times, it helps make decisions on what is critical to a business's future, including key programs, top customers and certain capabilities, so cutbacks don't undermine business in the long term.

Do you really need a plan to tell you who your best customer is? Most companies think it's obvious. But is your best customer your largest volume account, the one growing the fastest or the one with potential for a synergistic partnership down the road? Your plan will guide you in answering these questions.

One of the most misunderstood things about strategy is exactly what it is. It is not a science, but an art, subject to multiple definitions and interpretations. Here are some practical considerations in determining what is really a strategy:

• Does it force a choice? Many people can articulate a general direction they want to pursue for their business. Can you be equally articulate about what you won't do? Will you sell to customer A but not B, even though B buys products in your category but not in your specific targeted segment? What if you want to grow by expanding business to Europe? Would you add a customer in Australia if the opportunity arose, even though you'd have to ship some of the product created for Europe to cover the order? Since you can't be all things to all people, clarity about what you won't do is sometimes the best indicator of a well-defined strategy.

• Does it define your business or increase your effectiveness? "Strategy" is often confused with "best practice." Strategy is a statement of how you will differentiate yourself in the marketplace; best practice describes how you will increase effectiveness in executing your strategy.

Southwest Airlines' strategy is to serve price-minded customers looking for relatively short, frequently offered flights without much service. This strategy has stayed relatively consistent over time. However, Southwest does everything in its power to increase effectiveness in delivering that strategy by incorporating new technology and new practices, (e.g., computer system enhancements, more on-time departures). Companies need both a strategy and plans for improving operations, but must see the distinction between the two.

• Does it affect how you spend your money? Strategy defines your critical path to success and therefore should guide investment in resources. It will influence what new equipment, people, programs or processes you need to add or develop. Conversely, it will illuminate what you can do without in order to fund what you need. Too often the annual budget is a minor adjustment up or down from last year. That rarely leaves any significant source of funding for new ideas or needed shifts in direction. Occasionally some budget line items should be eliminated entirely to fund programs consistent with strategy.

So what makes a strategic plan effective? Since it's an art, each one will vary with the nature of the business and the needs of the business leader. However, the process of creation requires some fundamental steps to ensure the plan is sound and implemented:

• Do thorough homework. The future is just an educated guess, so the better educated the guess, the more confidence you will have in your map's credibility. Every plan requires extensive homework before you can determine the best focus or point of differentiation for your company.

Conduct historical analysis. Examine past successes and failures and determine what you have learned about your company's strengths and weaknesses. Strengths are competencies to leverage as your point of difference in the market. Understanding your strengths helps determine what you can do differently and better than others.

Conduct margin analysis. Know where you make your money. Focus on those parts of your business where you have the potential to generate the best return. Remember, not all revenue dollars are created equal. Study your customers. Determine who your customers are today and who they should be, based on the industry's direction and your identified competencies. Are you aligned with the best customers for your future growth?

Understand your industry. Identify and evaluate industry trends. Determine how they will change the market and, given your focus, how you might respond. Develop contingency plans and alternative actions so you're ready if the market moves.

Know your competitors. Learn who you compete with and what they do well, whom they serve and what makes them unique. Then determine if your strategy will be defensible over time against their actions.

• Communicate the plan. People can't