



‘Think Slowly, Act quickly’

**Formal Strategic Planning and
improved business performance**

1 Introduction

The ancient Greek proverb, “Think Slowly, Act quickly”, extols the virtue of taking time to weigh up the options before acting, but stresses the need to carry out the selected strategy without delay. Thinking helps us to reduce the risk in deciding what we should do and, therefore, significantly improves the probability of success.

This simple proverb encapsulates the value of Formal Strategic Planning for business managers. In this short paper we will set out the nature of Formal Strategic planning, describe the barriers to successful planning and outline the stages of the Planning process.

2 What is Formal Strategic Planning?

So what is Formal Strategic Planning? Formal Strategic Planning is the process of defining company capabilities and matching these to opportunities in the business environment so as to obtain a competitive advantage. Strategic Planning can be thought of as anticipatory decision-making – that is, Strategic Planning is concerned with the future of the business.

Lets’ put ‘Strategic Planning’ into context by defining the two terms:

Planning *n.*

a formulated and especially detailed method by which a thing is to be done.

(Concise Oxford Dictionary)

In essence, Strategic Planning seeks to apply a logical and objective approach to deciding how a company’s capabilities will be matched to opportunities in the market place so that the firm’s corporate objectives can be met.

Strategy *n.*

In game theory, business theory, etc., a plan for successful action based on the rationality and interdependence of the moves of opposing or competing participants.

(Concise Oxford Dictionary)

This definition takes into consideration the ‘moves’ of others – for our purposes, customers and competitors.

We would add one other element to the ancient Greek proverb – that of ‘Monitoring; i.e.:

Think slowly, Act quickly and Monitor and respond to what happens.

In Planning this is known as - the ‘holy trinity’ of successful Planning:

Plan ► Implement ► Monitor ► Plan

It is therefore, cyclical – planning leads to implementation leads to monitoring leads to planning.

Finally, we are including ‘formal’ in our definition of strategic planning. We do this to distinguish our approach from ‘informal’ planning. In essence, the formality refers to the process which we shall describe in Section 5, below

3 What’s the point of spending time on Formal Strategic Planning?

It is fair to say that the significant rate of change that has occurred and continues in all facets of our lives means one can never completely predict the future. So what’s the point of spending time on Strategic Planning when some unforeseen event can make all that work irrelevant? There are two main reasons:

- ◇ Firstly, the process of planning helps managers to identify some factors that will influence the future success of the business and allows them to take appropriate action. Eliminating such factors can give the manager more time to deal with unforeseen events.
- ◇ Secondly, developing a Plan forces a manager to evaluate the potential associated with different courses of action. Consequently, when new opportunities emerge the manager has something to compare these with.

Fundamentally, the point of formal strategic planning comes in the payback. Research demonstrates that businesses that adopt formal strategic planning outperform businesses who do not in the same industries and over the same time frames.

There are two other important issues to deal with:

What about ‘Luck’? – managers often ask the question, ‘what about luck, isn’t this part of success in business?’ It is true that luck plays an important part in business success and the important point to make is that effective planning can help put the business in the right place to take advantage of luck. To paraphrase that famous English philosopher, Alan Shearer, a good striker makes his own luck!

Senior Management belief – Senior management must believe that the process of formal strategic planning will reduce risk in decision-making and contribute to the success of the business. Without this belief, the process can easily lose staff enthusiasm and rigour and ultimately becomes a pointless bureaucratic exercise, which becomes marginalized in the business. There is a difference between belief and acceptance and staff can distinguish between the two.

4 The barriers to successful Formal Strategic Planning

There are a number of common barriers that have been identified that militate against the effective (and commercially successful) execution of Formal Strategic Planning. We can identify them so that we may avoid them:

- ◇ **Ownership** – it is important that those who have to implement the Plan are given the opportunity to contribute to its development; a ‘top down’ approach is rarely as effective as an inclusive approach.

- ◇ **Lack of Rigour** – The planning process requires a significant amount of information, (both from within the firm and from the market place) if the full benefits are to be realised. Lack of rigour in gathering, analysing and interpreting data can seriously undermine the effectiveness of the planning process. Managers need to obtain thorough and objective information to reduce risk in decision making. Poor analysis can actually mislead managers and give them false confidence.

It is also worth mentioning that the planning process tends to produce a significant amount of information. Generally, 20% of the information gathered accounts for 80% of the information needed to reduce risk in decision-making – one must be able to see the ‘wood for the trees’.

- ◇ **Lack of ‘Environmental sensitivity’** – we are using ‘environment’ in this context to describe the environment in which the business exists. This will include the interaction with customers, intermediaries, competitors and suppliers but also broader issues like the political, economic, societal and technological environment. Managers must guard against trying to fit the world outside to the Plan. Change is endemic to all market situations and planning processes must be reviewed in the light of the changes in the business environment.
- ◇ **Company wide appreciation** – all employees need to appreciate the broad issues involved in the plan so that they can contribute (i.e. share the same agendas as other staff) to its success. Failure to do this can mean that different members of staff are not ‘signing from the same hymn sheet’.
- ◇ **‘We Plan every day, what’s different about this?’** - This is absolutely true, all managers, indeed everyone plans at different levels and for different outcomes all the time. Formal Strategic Planning is different in two main ways:
 - the process is well defined and interrelated
 - the process demands the rigorous use of information to reduce risk.

Moreover, whilst it is easy to understand, the process of developing a Formal Strategic Plan for a business is complex. One problem that managers face is being too close to their business to be objective. It is easy to believe that there is no need for rigorous research because we already know everything that’s necessary to produce an effective Plan. For instance, in practice a manager’s perception of the strengths of his business and the weaknesses of his competitors often vary considerably from those of the customers.

5 The Formal Strategic Planning Process

We have described Formal Strategic Planning as a process – a series of interrelated steps that lead to the development, implementation and monitoring of a series of actions defined by the Plan. There is no doubt that a written document is necessary to:

- ◇ Provide an ‘audit trail’ so that colleagues can see where the Plan has come from

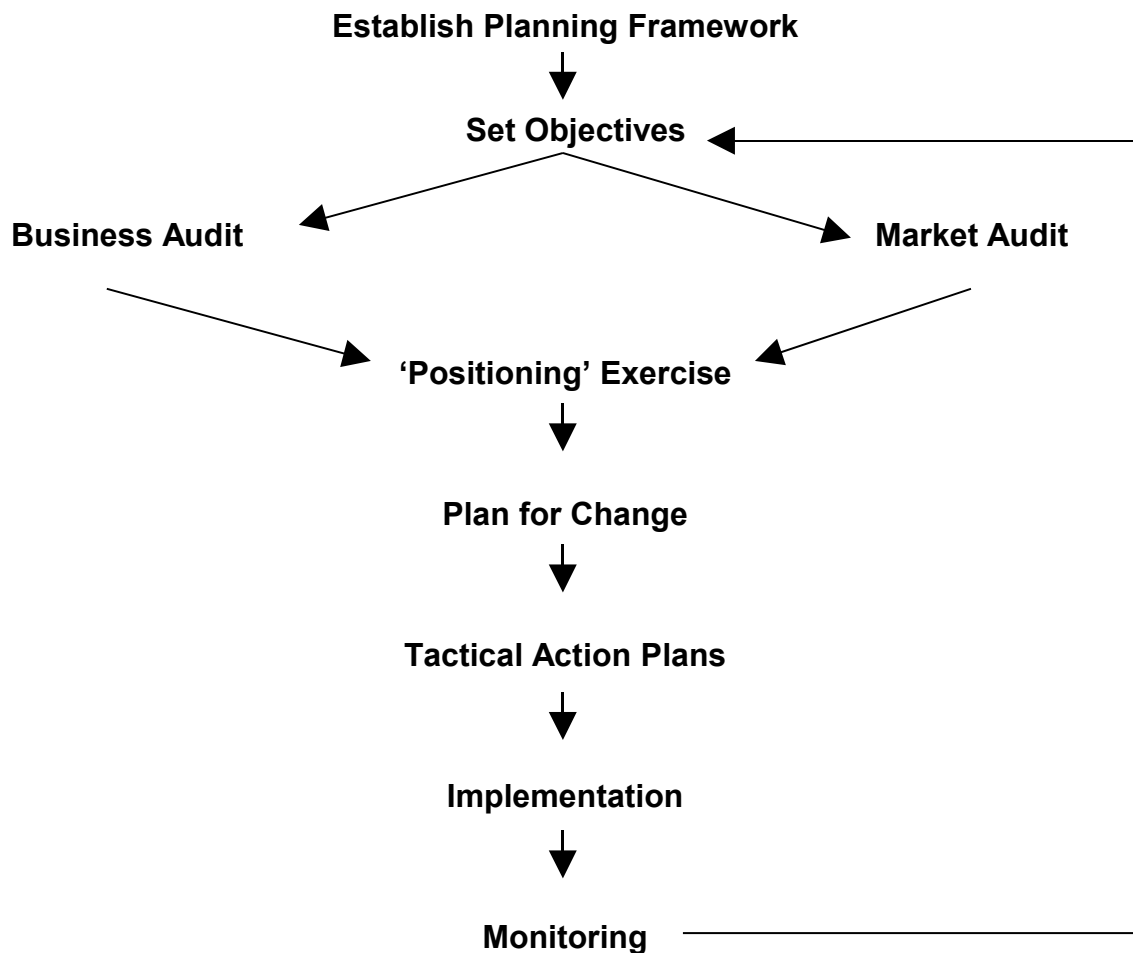
- ◇ Act as a common denominator between colleagues including new entrants to a business.

However, the written document should not be seen as the *raison d'être* of Planning. The important idea behind Formal Strategic Planning is that it seeks to make our actions more effective – it should not be thought of as simply the process of producing a document.

Model One presents a simple schematic of our approach.

Model One

The Formal Strategic Planning Process: a schematic



Source: Eric Davies ©

Below, we describe the nature of the stages of the planning process.

Step One Establishing the Planning Framework

Most businesses operate within a planning framework – for wholly owned subsidiaries this can be set by their parent company. Independent businesses will need to respond to the needs of their shareholders. Additionally, the business might perceive the needs of other interested parties (e.g. the workforce, local community, etc) as part of the planning framework. Constraints also form part of the planning framework – i.e. the resources at the disposal of the business.

Step Two Set Objectives

The business will need to establish a set of objectives for the planning period. It is likely that setting objectives will start with a description of a series of qualitative objectives (such as a Mission Statement). These will need to be '*operationalised*' i.e. made quantitative so that performance against these objectives can be measured. Ultimately, phrases like 10% turnover growth, improve operating profit from y% to z %, achieve market leadership in a defined market/segment, etc are used as quantitative objectives for the planning period.

Three important points :

- ◇ Firstly, these objectives will be the basis for developing strategic and tactical objectives – the macro/micro relationship
- ◇ Secondly, the ultimate objective of (say) increasing operating profit may need to be broken down into timed stages – e.g. orders received from segments that are known to deliver the required levels of operating profit, etc
- ◇ Thirdly, we must consider these objectives in the context of the Market Audit (i.e. the audit of the market environment within which the business operates). Basically, we must assess how realistic these objectives are in terms of what is possible, given the market conditions.

Step Three The Business Audit

This is a review of the Strengths and Weaknesses of the business.

The data is drawn from internal records and from the knowledge and experience of managers within the business.

There are three key areas to consider :

1. The knowledge & perceptions of the management team
2. an objective analysis of the business performance over the last 3 years (Turnover and Operating Profit trends, Turnover/Orders received and Operating Profit trends by Segment, Turnover/Orders received and Operating Profit trends by Procurement route, Turnover/Orders received and Operating Profit trends by Order Value and Top Ten clients, last 3 years)
3. Review of the marketing mix - i.e. 'what do we currently do?'

Step Four The Market Audit

This is the review of the client's business/market environment in terms of the opportunities and threats facing the enterprise. There are two levels:

➤ **Level One Immediate environment**

This includes:

- Customers/potential customers
- Intermediaries (Professional Advisers)
- Competitors.

➤ **Level Two General Level**

This includes:

- The Political 'climate', e.g. changes in legislation that may affect the client's customers such as emissions control, etc
- The Economic 'climate', e.g. the effect of the credit crunch, economic slowdown and energy prices on the client's customers, etc
- The Social (or cultural) 'climate', e.g. society's attitudes to sustainability, etc
- The Technological 'climate', e.g. the effect of digital technology, etc

Generally, there are three elements to this stage:

Secondary (or Desk) research

This is a review of secondary sources in the public domain. These sources will include government statistics (notably Office for National Statistics), trade statistics and public domain commercial research.

The analysis will review direct data (i.e. such as the value of Orders Received for M&E) and indirect (i.e. overall activity in the construction industry, etc) to establish:

- The overall market (direct & indirect) facing the client including recent trends
- An evaluation of the segment sizes and trends.

Review of competitor published accounts/public domain information

This is a review of competitors' recent published accounts and any published data both from the competitors themselves (e.g. promotional materials, web sites, etc) and from third parties (e.g. financial/business/technical press articles) to establish the strengths and weaknesses of the competition.

Primary qualitative attitudinal research

This involves a series of structured interviews with key decision makers drawn from the client's major customer list. The objective is to obtain information regarding the respondents' perceptions of the strengths and weaknesses of the major 'players'. This gives us the clients' view, not the managers' view.

Step Five 'Positioning' Exercise

This is the heart of the formal strategic planning process and decisions made at this stage have a significant effect on the overall success of the Plan.

The task is to **match** the business's strengths to opportunities in the market place to obtain the best return on effort.

There are two distinct tasks:

- Firstly, we need to rank the market segments in terms of their attractiveness to the business.
- Secondly, we need to rank the business, against the competition, in terms of attractiveness to the market segments.

The 'Positioning' Matrix is presented in Model Two.

In simple terms, those markets/segments that fall into Cell 1 of the matrix offer the best return on effort; those that fall into cell 4 offer the worst return on effort.

Model Two

The 'Positioning' (or targeting) Matrix

Market/Segment Attractiveness

		Hi	Lo
Business Attractiveness	Hi	1	2
	Lo	3	4

Source: Eric Davies ©

The 'positioning' exercise commences with the development and circulation of a consolidated SWOT analysis report. This document is a concise summary of the key issues emanating from the Business Audit and the Market Audit.

The Planning 'Team' (normally a mix of senior managers) uses the SWOT report to help them reduce risk in decision making when responding to the two tasks set out above.

The 'positioning' exercise identifies a series of **target segments** and enables the Planning Team to consider a series of strategic options – i.e. actions that can be instituted in a number of segments, simultaneously, or on a prioritised basis.

Step Six The Plan for Change

This document defines the strategies that shall be adopted to achieve the client's corporate objectives. Each **target segment** is isolated in terms of the specific objectives and the action necessary, subdivided into the classic business disciplines to achieve these objectives.

Step Seven Tactical Action Plans

These are working documents focusing on a one year period. These are succinct; action oriented 'To Do' lists based on the substantial work of the planning process.

The Tactical Action Plans need to :

1. Set operational variables
2. Establish time limits and deadlines
3. Communicate and assign tasks
4. Develop sales forecasts
5. Determine action plans for individuals
6. Prepare Budgets.

Step Eight Monitoring

It is important to set up monitoring procedures to ensure that the Plan stays on track. These are likely to include direct measures (such as comparisons of actual and planned quantitative objectives) and indirect measures (such as attitudinal measures of customers' attitudes, etc).

6 Summing Up

Formal Strategic Planning is about the relationship of a business to its market place and focuses on Customers, Intermediaries and Competitors. Research, from across the world, points to Formal Strategic Planning as central to the profit performance and longevity of any business.

Moreover, in times of economic slowdown Formal Strategic Planning can mean the difference between survival and extinction.

Formal Strategic Planning is not some sort of academic theory, it's based on the proven techniques of successful businesses – it's distilled best practice. Formal Strategic Planning reduces risk in decision-making and therefore increases the probability of success.

If nothing else, Formal Strategic Planning helps managers get the right mix of thinking and acting!

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