

STRATEGIC PLANNING GUIDELINES

SUMMARY

Planning is the continuous, formal process employed by management to identify opportunities and market needs, to determine objectives, and to make decisions on the investment of company resources to achieve objectives.

Planning is the rational determination of where we are; where we want to go; and how and when we will get there.

Planning is carried out to determine what must be achieved this week, this month, this year, so that the company will be in a satisfactory situation next month, next year, or five years from now.

The advantages of planning are to: (1) help management to invent the future; (2) promote integration and coordination of functional activities; (3) focus attention on opportunities; (4) enable management to look at investment of resources before the fact; (5) provide for more effective control; and (6) encourage participation by managers at lower levels.

This BMA presents the planning process in outline form.

THE PLANNING PROCESS

I. Where Are We? - The Key Questions

A. What are the major products and services offered by the business? Prepare a separate sheet on each one showing:

1. The nature of the product/service offered
2. Markets served - size and trends
3. Our market position - share, leadership, innovator or follower
4. Our niche in this market-segments we own
5. Sales and profits - five year trends by major product line or service area
6. Assets currently required to maintain this product line or service area
7. People currently required to produce and support this product line or service area
8. The importance of this product/service to the overall business

B. What are our assumptions about the environmental factors that have a current or likely impact on our business?

Environmental factors are those forces over which an organization has little or no control. Environmental changes may create significant opportunities if they are anticipated and if plans are developed

to capitalize on them. In cases where such changes pose a threat, planning can be used to insure the necessary modifications in the way the company does business.

In reviewing environmental factors, focus only on those which could have a significant impact on your business within the next few years. For each environmental factor reviewed, list your assumptions about the likely impact of any changes in this factor on your business, as well as your possible responses. Examples of factors to be reviewed:

1. Economic - the overall state of the U.S. economy; the economic outlook for your customers; the outlook for inflation, interest rates
2. Political/governmental - the impact of any changes in government regulations, tax codes, import/export barriers
3. Social - the impact of demographics on availability of young workers; changing attitudes toward work; entrance of women and minorities into previously "white male only" jobs in your industry
4. Technological - the impact of the computer revolution and new types of equipment; changed requirements for technological training

C. How well do we know the competition?

Competitors vary from one or two to hundreds. Typically, however, any product or service has probably three to seven direct competitors - companies with whom you are most familiar.

At an advanced planning level, companies often purchase comprehensive market research studies to determine their exact position relative to their direct competitors. However, any company, no matter how small, can improve its understanding of competitors by simply rating itself and each competitor on a scale of 1 (poor) to 10 (excellent) on the following factors:

1. Sales or growth over the past three years (estimate for competitors if exact figures are not known)
2. Estimated profitability over the past three years
3. Marketing ability
4. Reputation among customers
5. Punctuality of service
6. Quality of products/service
7. Innovation
8. Pricing position in the market
9. Responsiveness to customer needs
10. Cleanliness
11. Safety
12. Motivation of employees
13. Training of employees
14. Efficient use of money and materials
15. Availability of state-of-the-art equipment
16. Maintenance of equipment

After this review, list your assumptions about any actions which your competitors may take that would have significant impact on your business during the life of your plan.

- D. What are the key result areas of the business, the critical indices that measure how well the company is doing? Typically, key result areas will be expressed in absolutes, ratios, percentages or other appropriate measurements. They are explicitly identified at this point to insure that the planning process includes the key factors on which the success of business depends. Examples of key result areas are:
1. Sales volume
 2. Net profit on sales
 3. Return on investment
 4. Percentage of repeat business
 5. Defect rates
 6. Inventory levels
 7. Bookings to billings ratio (orders in versus orders out)
- E. What are the key strengths of the business, those factors that give your company a clear competitive edge in the marketplace? Examples of strengths are:

1. Quality product/service reputation
2. Good labor relations
3. Technological leadership
4. Effective salespeople
5. Accurate bidding system
6. Strong financial position

- F. What are the key weaknesses, those characteristics that limit your organization's effectiveness, slow down its ability to grow in profitability and volume, and weaken its competitive position? Examples of weaknesses are:

1. Inadequate information on market
2. Late deliveries
3. High defect rate
4. Poor scheduling procedures
5. Too heavy reliance on a few customers

- G. How effective is your company's organization structure? Is the arrangement of responsibilities and authority among staff members consistent with the company's objectives? A review and critique of the organization structure can provide the basis for future improvements in line with new objectives and strategies. Examples of the questions which should be asked are:

1. Are there current job descriptions and standards of performance for all key positions?
2. Is the work organized into logical packages of related activities?
3. Are there too many levels? Too few?
4. Are there recurring problems with communications? With coordination?

- H. What are the major opportunities available to the business? Every key component of a business-market, people, technology, organization and capital-offers opportunities for growth. Which are the most readily available opportunities? Which opportunities offer the greatest potential increase in sales and profits? Examples of major opportunities are:

1. Extension of existing products to new markets, for example exporting
2. Offering new products to existing markets
3. Using new technology to increase efficiency, for example computer integrated manufacturing
4. Overhauling outdated production and administrative systems to reduce costs
5. Forming joint ventures or networks with similar companies to bid on work together

- I. What are the major threats-those areas in the company's operations which present the greatest obstacle to profitable growth? As with opportunities, potential threats should be reviewed in each of the five key components. Examples of threats are:

1. Expansion into an important market by a powerful competitor
 2. Bulk of sales in a declining market
 3. Insufficient capital to finance new technological requirements
 4. Low morale, poor labor relations
 5. A weak system for bidding on large contracts
- J. What are the major strategic issues facing your company. Such issues have usually begun to emerge by this point in the process. Your company should identify which are the critical decisions which must be resolved before the planning can be fully effective. Examples of strategic issues are:
1. What markets will the company serve in the future?
 2. How fast should the company grow?
 3. How will growth be financed?
 4. Will technological changes force the company out of some markets and into others?
 5. How will the company develop its next generation of management?
- K. What is your vision of the future? A dynamic vision is represented in a statement that: 1) describes what you want to become; 2) gives the organization broad, general guidelines on future directions; 3) challenges individuals to develop their talent and skill; 4) captures the imagination of a group; 5) is focused on dreams of the future rather than numbers or objectives.
- L. What are your values? Values are the operational qualities used by organizations to maintain or improve performance. Articulated values are important in an organization's success because: 1) values unify; 2) commitment to values releases energy; 3) values provide discipline.
- M. What is the company's mission, what purpose does it fulfill? A mission statement usually covers, briefly and succinctly, seven areas:
1. What need in society does the company aim to satisfy?
 2. What are the primary market segments served?
 3. What are the principal products/services offered?
 4. What geographic areas are covered?
 5. What functions are performed? (Develop? Market? Manufacture?)
 6. What is the company's position in the industry? (Leader? Largest? High quality? Technologically innovative?)
 7. What are the company's values?
- N. What are the basic policies which will affect the

decisions made in strategic planning? While daily operational policies are important, they are not the issue here. Rather, the focus should be only on policies that will have a significant impact on the planning effort. Examples of policies that should come under review at this point are:

1. Policies that restrict: (a) We will use only U.S. manufactured equipment; (b) We will not sell outside the U.S.
2. Policies that limit: (a) All growth will be financed out of current earnings; (b) No single customer will represent more than 20 percent of our business.
3. Policies that guide: (a) Expansion strategies will stress high quality, technologically advanced products; (b) We will concentrate on opportunities in our existing market region.

II. Where Do We Want to Go? - Objectives and Strategies

- A. Objectives answer the question, "Where does the company wish to be at the end of the planning period?" To be effective, objectives should:
1. Be in writing
 2. Specify the result to be accomplished, not how it will be accomplished
 3. Be realistic and attainable
 4. Be quantified and hence measurable
 5. Set a target date for accomplishment
 6. Be challenging
- B. Examples of objectives:
1. To increase sales of Product X in the West Coast Region by 50 percent in the next two fiscal years
 2. To reduce the ratio of administrative costs to sales by 5 percent yearly for the next three fiscal years
 3. To introduce three new products in Division X in the next 18 months
- C. Strategies are broad general statements of the primary direction the company will follow during the planning period to accomplish its objectives. Strategies outline the way in which resources and strengths will be used to win in a competitive setting. They indicate the areas and activities that will be emphasized to achieve the objectives. In contrast with objectives, which are always quantified, strategies outline a general course of action. Examples of strategies are:
1. Identify and acquire a company to round out Product Line X
 2. Increase market penetration in the Defense Industry

3. Modernize plant and equipment to increase productivity

D. When establishing strategies, ask whether they:

1. Capitalize on the company's strengths?
2. Fully reflect the opportunities that are available?
3. Indicate how your key resources will be used?
4. Involve an acceptable degree of risk?

III. How / When Will We Get There?

A. What are the alternative programs that might lead to the attainment of the objectives?

The process of answering this question should attempt to maximize innovation and creativity. Good ideas are not limited to a few people at the top of the organization. Seeking ideas and suggestions for achieving objectives from lower levels in the organization can build a spirit of commitment to the plan.

B. For each alternative, what is the probability of success and the probable cost?

Select the alternatives with the most promising cost-probability situations.

C. What specific steps are now required to insure that the selected alternative is, in fact, leading the company to its objective?

1. Action plans are the means through which objectives are attained and strategies carried out. Thoughtful preparation of Action Plans is essential for a successful strategic plan.
2. An action plan contains: (a) A sequence of specific steps required; (b) Identification of who will do each step; (c) The date when the step will be completed; (d) The cost of the Action Plan, including the cost of any human or other resources required; and (e) The specific results/benefits anticipated from the Action Plan.

D. Staying On Course - Review and Control.

1. Your plan should be subdivided in time so there are clearly defined checkpoints to determine whether each program is on target. Normally, reviews take place every three months. For a team starting strategic planning, a once-a-month review is appropriate. Reviews should answer the following questions: (a) Where should we be? The Action Plans have previously defined what should have been achieved by this time;

(b) Where are we? The person responsible for the Action Plan reports on progress/problems; (c) Have any of our fundamental assumptions about the environment or competition changed? Significant changes may require a review or revision of Objectives and Strategies. Minor changes can be handled by the next question.

E. What Do We Need To Do To Stay / Get Back On Course?

Every significant unfavorable deviation from plan should require the development and implementation of a new or revised Action Plan to achieve the Objective.

F. Regular Updating of the Strategic Plan

1. The Plan should be updated on a regular basis, normally annually. The questions listed above should be answered again, each time in more depth and detail. Environmental and competitive assumptions should receive especially rigorous reviews. New objectives should be established, extending the life of the plan one more year in the future. New or revised Actions Plans should be created to achieve the new Objectives.

Finally, there should be a careful and candid review of the planning process itself, focusing on such questions as: (a) Are we using our planning time effectively; (b) Are we dealing with the key issues or is there some tendency to sweep major problems under the rug?; (c) Is there openness in our planning group-do we really level with each other about our hopes, our frustrations?; (d) Is our planning opportunity oriented? Are we flexible enough to revise our plans when a new opportunity occurs?; (e) Are we involving enough people in our planning? Do we need some knowledgeable outsiders to shake up our assumptions? Are we getting enough input from the people who are actually doing the work every day?; and (f) Is our planning integrated with all of our operations as a routine part of management? Are our plans, our budgets and our human resource development clearly and closely coordinated?

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