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Strategies for Growth

Strategic Planning Best Practices

A Strategic Leadership White Paper by Ken Naglewski

Right now, many companies worldwide are caught in the vice of accelerating change in the world economic order and perhaps even more rapid changes in how business is being done. While always important, effective strategic planning is a must-do item on the CEO's "to do" list. In Part I of this two-part article, Ken Naglewski of Seabiscuit Partners, LLC, provides a penetrating look at what is strategy and a perspective on best practices.

During a recent engagement, a distressed-debt investor retained my firm to perform strategic reviews of an 11-company portfolio of distressed debt it was considering acquiring. Manufacturing, distribution, transportation and services were represented. Annual revenues ranged from $35 million to $400 million. Debt facilities are typical of the credits in an asset-based lender's portfolio. The recent recession reduced revenues of all these companies and each is currently wrestling with changed market dynamics.

Each 3-day review focused on scrutinizing the strategy and business plan, opining on the adequacy of plans and suggesting adjustments. The process included analyses of background information as well as discussions with senior management.

Not surprisingly, the strategic planning processes within this portfolio were all over the board. Strategic plans ranged from nonexistent – to an overly complex plan prepared by a consulting firm that appeared to be beyond the capabilities of the management team and the infrastructure.

Two interesting observations regarding strategy emerged.

- While all the CEOs recognized the importance of strategic planning, five companies did not have any specific plans in place other than hoped for financial projections; and
- The management teams' concept of what constituted a strategy (versus a "vision", "mission statement" or tactics") was unclear and elusive.

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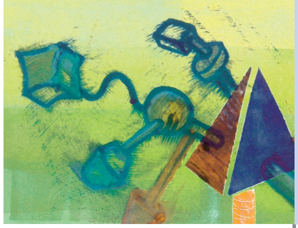

What is Strategy?

An Internet search shows that strategy is far from uniformly defined. The word strategy is derived from the Greek word Strategos. This word is a combination of the Greek words "stratos", meaning army, and the word "ago", meaning to lead; a rough English translation is a military general. Hence, strategy has a military foundation. Up until the 20th Century, when pioneers in business thinking began writing about business strategy, written works pertaining to strategy had a military association. Carl von Clausewitz's 1757 book "On War" is particularly noteworthy.

For this article I asked several colleagues for their off-the-cuff definition of strategy.

- **Large Company CEO** – "Strategy is what you do to get a competitive advantage."
- **Private Equity Firm Senior Partner –** "Using your competitive advantages against the competition's weaknesses".
- **CEO/Small Business Owner/s –** "You need to look ahead and see what you have to do to be competitive"- The anticipation and interpretation of today and tomorrow, then formulate a plan and see it to fruition".
- **Senior Workout Officer of a Major Bank –** "Doing everything I can to be paid back." (a tongue in cheek definition)
- **Business Strategy Consultant/s –** "Need to know who you are and how you can differentiate yourself from competitors."… "Strategy is defining how you can compete in a changing market."
- **University Professor-** "The essence of strategy is making all functions of the business fit together to attain your objectives."
- **Best Selling Author-** "A business strategy is a set of guiding principals that, when communicated and adopted in the organization, generates a desired pattern of decision-making."

In their own way, all of these definitions are appropriate. Using the combined wisdom of my colleagues my definition of strategy for this article is…

"Strategy is the art of determining when and where to deploy or not to deploy resources and organizational energy to obtain a goal."

This definition appears to satisfy most situations where the word is used; including "a do-nothing strategy"; and in some situations doing nothing or not following the crowd is a strategy. Maytag's initial refusal to distribute its products through certain big-box retailers for fear of cheapening its brand is an example.

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The Asset Revolution, and the Sources of Volatility

by Ken Naglewski

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The Strategic Landscape

Noted management thinker Peter Drucker said, "The only thing we know about the future is that it will be different". The world certainly changed since Drucker's 1967 observation; and all facets of the economic order are continuing to change at an accelerating rate. The "shelf life" of winning strategies is much shorter than the past. Today's CEOs need to identify, assess and react appropriately to a plethora of social, economic and technological changes and, importantly, they need to make a decision on how the dynamics will change in the planning horizon.

Meg Whitman, former CEO of Ebay said…
"Strategy used to be a once a year thing, now we look at strategy every two weeks."

Executive managers must not only assess and anticipate changes with reasonable accuracy, but, even more importantly, they must react quickly. They should determine where the market and its value drivers are heading and be there first with the right products and services. If not first, be a fast follower.

How Much Does Strategy Matter?

Lou Gerstner, recognized "savior' of IBM wrote - "It doesn't matter what your strategy is, as long as you have one." With respect to the talented Mr. Gerstner, he might have been a bit glib on this matter. Specific strategy does matter.

Notable Strategic Blunders

We need only look at the most recent and rapid deterioration of Blockbuster to see what happens when management fails in the most important part of a CEO's job description – develop and maintain a sustainable, winning strategy. Blockbuster was the king of home television movie viewing. In a relatively short time Netflix seemingly came out of nowhere and strategically outflanked and literally destroyed Blockbuster's dominant market position.

Other well-known and once robust companies failed or declined because of changes in market dynamics and failure to adapt timely. Amazon blindsided Barnes & Noble to take leadership as the world's largest bookseller and was the likely catalyst that drove Borders into bankruptcy, and perhaps oblivion. The Great Atlantic & Pacific Tea Company- once known as "America's Food Store" - now languishes in bankruptcy while highly profitable upstart Whole Foods has become a "destination" food chain.

Wal-Mart literally kicked Sears Roebuck off the DOW. IBM (pre Lou Gerstner) once the reigning heavyweight champion of information technology, got caught flat-footed when it did not recognize that personal computers and workstations were a sunrise industry eroding the black-box magic of its mainframe computers. A bit more market intelligence and a lot less strategic arrogance might have served IBM well.

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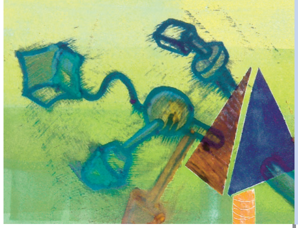

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Bene Diagnoscitur Bene Curator

Sound strategies together with disciplined tactical execution are an explosive success combination. Starting business in 1973 as a traditional brick and mortar brokerage firm, Charles Schwab took quick advantage of deregulation of the securities industry in 1975. Arguably, it became the leading brokerage firm and captured market share from stalwart competitors. Hundreds of other small, independent firms having the same opportunity fell by the wayside. Apple, led by Forbes' "CEO of the Decade Steve Jobs", created the market for its products and services while leaving competitors scrambling.

Is Strategic Planning Difficult?

Possessing the insight to develop a winning strategy is an art; and like any art there are masters, journeymen and novices. And, to a large extent, developing organizational strategy is a political process. Some leaders seem to flawlessly set the appropriate strategic direction and provide the leadership and political skills to obtain buy in from all stakeholders. Ellen Kullman of Du Pont reengineered the company into a nimble, strong worldwide competitor by establishing a strategy refocusing its large economic resources toward providing products and solutions addressing global issues.

Not all companies get it right. The Big Three of the American Auto Industry once had what seemed like unassailable market shares. Sears was once the nation's dominant retailer. But, something happened. Things changed and what they were doing was not working anymore. They needed to change and they needed to be out front and ahead of the curve. For the American auto industry, change came—but only after great losses to the American economy and tremendous losses for the industries' stakeholders. Sears lost it dominant strategic position and was acquired by Kmart (now Sears Holdings), and it continues to try and find an identity.

The Culprits

Charles Darwin said, "It is neither the strong that survive nor the most intelligent, it is those who are most responsive to change." Companies, like people, find it difficult to alter their mental models.

- **Strategic Arrogance –** Call it what you like—arrogance, ego, hubris or wishful thinking—the belief that past success; particularly great success, sets a company apart from the potential negative impacts of changing market dynamics is one of the primary causes of the inability to change. Trapped in the limelight and aura of past glories, organizations tend to react to new dangers by looking in the rearview mirror for solutions. Often, the not-invented-here syndrome becomes a concrete wall. When Lou Gerstner took the helm at IBM, many IBM people cringed that the board brought in an "outsider" to "save" IBM.

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- **Tribal Survival Tendencies –** A company's unique culture, reward systems and self-identity frequently render it incapable of reacting rationally to a changing environment. When danger appears on the horizon, they circle the wagons and fight back, often heroically, with strategies and tactics that have worked in the past. Sears, for example, had the resources and brand identity to adapt to changed market conditions long before Wal*Mart and big-box retailers rose to prominence and grabbed big chunks of Sears' market share.

- **Trying to Turn the Titanic –** In some cases strategy, strategic direction and mindset are so imbedded in the fabric of the organization (e.g., processes, systems, capital deployment and reward schemes) that trying to change course is as difficult as trying to have an ocean liner make a sharp turn. An example is the airline industry. As a group, this industry has cumulative losses since inception. The only airline with a cumulative profit is Southwest Airlines. Major hub-and-spoke airlines trying to emulate Southwest's strategy with a low-cost business unit (e.g., United Airlines' "TED" and Continental's "Continental Lite") failed. Trying to adopt Southwest's culture and business model was much more challenging than lowering fares and a new name.

The Quintessential Essence of Strategic Thinking

For either a military conflict or competitive business, the quintessential essence of strategy is distilled to three, and only three, elements…

- **"Where are we now?"-** First, understand your company and its value proposition from a bottom up perspective. A nonexclusive list of questions that need to be asked includes an Internal Review…What do we do well? What do our employees think? Our competition? Are we looked at as a strong competitor or a lightweight? How do our customers feel about us? Do we have a strong value proposition? A review of Resources: How strong is - our infrastructure, our brand, and our reputation? **Making a dispassionate and realistic assessment of an organization is the foundation for developing a winning strategy.** Realistic assessments are best done by impartial and independent outsiders because it's nearly impossible to see yourself in a dispassionate manner.

- **"Where is the market heading?"-** The next critical part of developing a winning strategy is making an educated prognosis as to where the market is going to be in the strategic planning horizon. An External Review: Such a prognostication is not an easy endeavor, and one many organizations do not attempt. Looking ahead we often see a montage of conflicting scenarios. While no one has a crystal ball, the CEO and the organization need to sort out the important from the unimportant; the likely from the unlikely and the facts from opinions.

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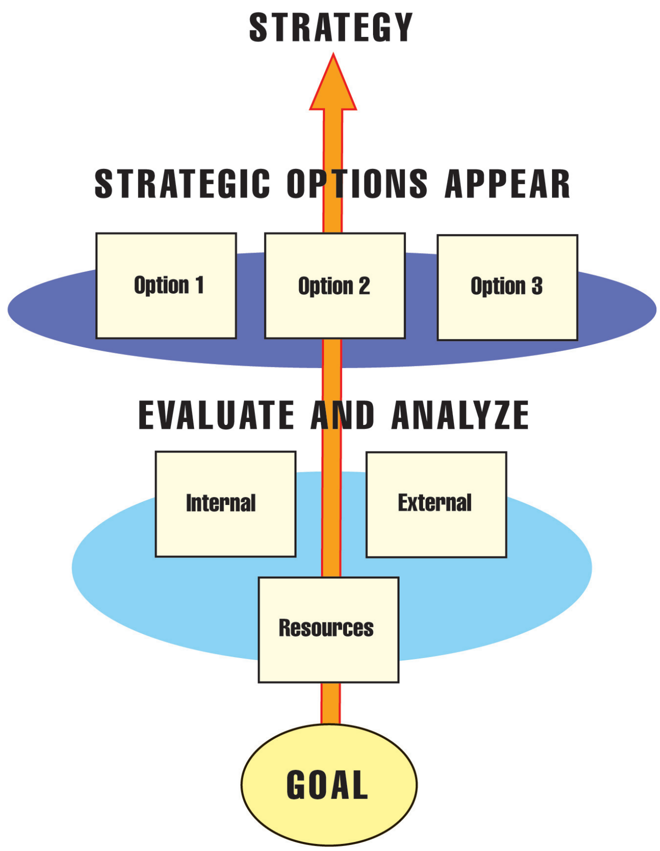
- “What will we do?”- Finally, what are our strategic options? And, what is the best option? Do we stay the course, adjust the sails slightly or go in a new direction? While there are thousand of texts books, articles, and other mediums on strategic planning each CEO stands alone in making the final decision on what strategy to espouse. Final judgment on where to allocate economic resources and organizational effort is the CEO’s litmus test.



A Perspective on Best Practices for Strategic Planning

All organizations are different in terms of culture, current situation and core competencies. But, there are certain key tenets of strategic planning basic to all organizations.

- **Strategic Planning is Formal Function –** Planning an organization’s future is perhaps the most critical element of the CEO job description. Strategic planning needs to be a recognized critical function, not an ad hoc activity, and a key function of the overall management system.

- **Business Intelligence –** An area where non-military organizations can learn something from the military is the realm of gathering intelligence. Military units from a company-sized unit to the Joint Chiefs of Staff have an intelligence officer with the responsibility of advising line commanders on all aspects of intelligence. The purpose of military

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intelligence is to gather and analyze data on all aspects of the situation and to advise commanding officers. While non-military organizations have plenty of "C-level" executive officers, they do not typically have a "Chief Intelligence Officer". Large organizations should have such a position. Smaller organizations may outsource intelligence gathering to a part-time retired executive or an intelligence consulting firm.

- **Participative Strategy Development –** While I am not a proponent of consensus decision making; an excellent practice is to obtain the opinions of as many key employees as practical. At AT&T, employees are asked to review its strategic plan. They also obtain customer input through focus groups.

- **Strategy Dissemination –** Once developed, organizational strategy should be made known to all key employees expected to execute. A key point of strategy is that employees can make decisions within the context of the overall strategic plan. They can't do this if they don't know what the plan is. One senior vice president lamented, "Our competitors know our plan, but we have managed to keep it secret from our employees." At Southwest Airlines everyone knows that the company's strategy is not to be a low-cost airline, but to be "the low-cost airline."

- Integrated Strategic Planning – Once an overall organizational strategy is developed it needs to be integrated into the fabric of the organization. The sub-strategies of all business units, divisions and departments should be developed within the context of the overall strategy. The same for financial, marketing and operational strategies. Developing a strong strategy attuned to where the market is and where it is going is the first step. The next major job for a CEO is to make certain the efforts and decisions of the entire organization and its performance measurement systems are in lockstep with the strategy.

The Buck Stops Here

Each company is unique and there is no "one-size-fits-all" strategic planning process. The size, culture, market pressure and current situation are all different. But the basic concepts discussed in this article will enhance identification of strategic options and gain organizational-wide support for new strategies; particularly important if new ideas and strategies are a radical departure from current strategies.

Strategy development is a process – an artistic process and a political process. Strategic success comes to organizations that can adapt and change course as necessary. The final judgment of where an organization will allocate capital resources and organizational energy is the CEO's litmus test; and the CEO stands alone in making that decision. Therefore the best intelligence gathering is necessary to provide the most informed decision support for those final strategy decisions made by CEOs seeking to fulfill their mandate. ■