



## **Stiernberg Consulting White Paper Strategic Planning September 2010**

### **The Tactics of Strategic Planning**

#### **Contradiction or Critical Success Factor?**

##### **Why Plan When We Can't See the Future?**

One of the challenges in today's volatile market is figuring out how to deal with the uncertainty factor. Have you ever asked yourself questions like these?

- Where is our industry headed?
- Is my company prepared?
- Are my competitors prepared?
- Is it possible to prepare?
- Why bother planning three years ahead if we don't even know what's going on in the next few months?

These are the kinds of scary issues that keep many executives up at night. But these same challenges can also inspire top companies to get lean, mean, and competitive. Those leading companies have something in common: they do strategic planning and then work their plans. They are also finding that their plans become increasingly valuable as the industry evolves.

Gone are the days of masking problems with increased sales ("We're hitting the numbers so why change anything?"). Also gone are the opportunities to solve problems or grow in new directions by simply throwing products and people at them. It's time to turn up the heat on strategic planning.

##### **What Is Strategic Planning?**

Strategic planning is the art and science of making the right decisions about your business. The art portion implies creativity, flexibility, and risk. The science portion implies structure, precision, and control. While they might appear to conflict, the two positions are actually complementary to one another, especially in a creative industry like ours.

The result or “product” of strategic planning is the plan itself: a system of documents (“The Book”) that incorporates the following elements or “chapters”:

1. Description of your company, business structure, and industry. This section includes the company "foundation": mission, vision, values, and brand positioning statement. (15%)
2. Description of your products (goods and services) and how they are different from those of competitors. (15%)
3. Market overview and marketing strategy: size and growth of target segments, competitive environment, promotional strategy, distribution, salesforce, customer profiles. (35%)
4. Management team and organizational overview: experience, history, and staffing needs. (25%)
5. Financial summary: sales revenue, expenses, capitalization, cash and income forecast, balance sheet. (10%)

*Note: The %'s shown above indicate the relative weight or importance of each section. Where do the percentages come from? They're guidelines put together by leading investor groups for evaluating business plans. Note that while all five elements are critical, the highest importance is placed on the marketing strategy. This is the section of the plan that answers the question "How are you going to hit the numbers?"*

The Book is designed to be modular in order to 1) drive specific initiatives, 2) inform the various stakeholder groups (employees, owners, investors, alliance partners, suppliers, etc.), and 3) allow sections to be updated as necessary without each revision being a huge production.

### **Tool vs. Monument**

Some companies only do planning when they need to secure financing, or when someone at “corporate” demands that the strategy be written down and quantified before they will sign off on a big expense. Plans created under these conditions frequently become a monument to the history of the company and are less actionable. They often end up being formulaic, with little in the way of lack foresight and creativity.

It doesn't have to be that way. A well-crafted strategic plan is a dynamic tool that is referred to often, updated semi-annually, and implemented companywide. Here are eight tactical applications of your strategic plan:

1. Road Map. The plan shows the road ahead for the company, including multiple paths to the destination. The destination is the long-term success of the company. The road map is how to get there.

2. **Measuring Stick.** The plan includes both financial and non-financial objectives and describes methodologies for measuring success.
3. **Opportunity Management Tool.** The plan serves as a filter for new and existing opportunities (customer segments, product lines, hiring people, promotional techniques, etc.). If the opportunity falls within the scope of the company strategy, the plan is used to evaluate it vs. other opportunities. If the opportunity clearly falls outside the scope of the plan, it makes it easy to say “No thanks” politely and without burning bridges.
4. **Stress Management Tool.** When your team knows where it’s going and how it is going to get there, the stress level goes down immediately. This has value at all levels of the organization.
5. **Catalyst for Best Work.** Like the rules of a sport or the chord chart for a song, the “players” can do a better job with structure and guidelines than they can if structure and guidelines are vague, contradictory, or absent altogether. This is why key elements of the plan need to be shared companywide.
6. **Competitive Weapon.** Since relatively few of your competitors have written strategic plans, you have a competitive advantage just by having one. By having a great plan, you are in a position to rock and dominate.
7. **Fundraising Tool.** The plan will be shared with key funding sources on a selective basis. Banks require it for maintaining and enhancing lines of credit. Other sources of funding (cash or credit) include vendor partners, suppliers, and financial investors.
8. **Teambuilding Tool.** The best people want to work for a company with A) a clear mission, B) a positive vision of the future, C) values that are consistent with their own, D) well-defined upward mobility paths, and E) the resources to win competitively. Key elements of your plan will be shared with the team, including both current and prospective hires.

### **Why Don't More Companies Do Strategic Planning?**

We estimate that about 5% of businesses have a written strategic plan. That percentage may be even lower in our industry. Keep in mind that most companies have a budget and methodology for keeping track of products (goods and services), revenue, expenses, staff headcount, etc. But these spreadsheet “plans” typically look one fiscal calendar into the future—seldom longer.

It’s easy to rationalize that it is not necessary to do planning beyond a simple budget. Here are the top three myths (really excuses...):

Myth #1: Strategic planning is only for big companies. We don't need it. We've been successful and will keep doing what we are doing.

Reality #1: While most (not all) big companies implement some sort of planning, the need to make good business decisions in a systematic way applies to all businesses. In addition, dynamic changes in the market are driving companies of all sizes to plan, so that business can be managed and successful results achieved by design, rather than by accident.

Myth #2: I'd love to do some planning, but I'm spending all my time putting out fires. I'll get to it when things settle down.

Reality #2: Things will never settle down. If planning had been done before, there might not be so many fires to put out. Take the time to plan now.

Myth #3: I know that my competitors don't do much planning, so all I need to do to stay ahead of them is keep cranking out product and sell more.

Reality #3: You may be right that many of your competitors don't plan, but don't underestimate them. Market dynamics from 2008 to the present have forced the issue. The rules have changed and the companies that want to do more than just survive are heavily into strategic planning. Oh, and about product—remember that it does not sell itself.

Myth #4: Our financial metrics are our plan.

Reality #4: While financial metrics are vital, they only show a small part of the whole picture of the company. A strategic plan answers the question, "How did you get the numbers?"

## **Ten Reasons To Do Strategic Planning Now**

What market conditions are driving the current need for applied strategic planning? Here are ten market dynamics in our industry, any one of which represents a catalytic need for creating or refreshing your strategic plan. How many can you relate to?

1. New opportunities—targeting new markets. Revenue in most industry segments was down in 2009 and has (thankfully) stabilized or stopped getting worse in 2010. Many companies have looked at new customer groups or markets as growth opportunities. Do you know how business is conducted in those areas? How end-users make purchase decisions? Who the entrenched competitors are? What are the critical success factors?

2. Competitive threats. Your competitors are coming after you, invading your territory, acting irrationally, and doing “whatever it takes” to grab market share and mindshare away from you.
3. Volatile economy. The global stock markets are up one day, down the next. This has both a financial and an emotional impact on you, your customers, and the industry. And maybe your funding source (bank, finance company, equity fund, angel investor) is about to pull the plug on your credit line, even though you are current on payments and keeping them informed.
4. Dynamic socio-political environment. War, politics, and demographic changes are all having an impact on our industry. There are competing factions at home and abroad. Sometimes this spells opportunity for your business, other times risk.
5. New sales and marketing partners. Manufacturers are changing distribution policies. Channel partners are evaluating their vendors. While personal relationships are very important, the complexity of our industry and its current set of risks mean that the rules and traditions of buying and selling are changing. Can your salesforce and marketing engine meet the demands of your customers today and tomorrow?
6. Shifting purchasing criteria. Linked to economic and technological factors, end-users are making buying decisions in different ways. In order to even be considered, AV and music products need to be 1) high quality, 2) high performance, 3) inexpensive, 4) easy to use, and 5) convenient to buy. There are multiple competitive products out there that come close in all five areas. Are you ready to compete? Is your product planning and product management team capable of delivering the next generation of salable product?
7. Shifting buying influences and importance of brands. Blogs, forums, and social media platforms have taken on new importance relative to brand building. AV system designers and spec writers have more choices than ever when it comes to influencing what gets sold into a system. End-users are more informed, and access to information is easier than ever before. Is your brand messaging on target? Do you reach the right people with that message? Do you control the message, or do your competitors “reposition” you routinely?
8. Availability of resources. In addition to funding challenges, many businesses in our industry are facing scarcity or shortages of the resources that they need to do business today. This ranges from the raw materials and parts needed to build gear to the skilled people that are necessary throughout your organization. Are your current suppliers up to the task, or do you need to explore alternatives?
9. New media platforms, networks and mobile technologies. The iPhone is the metaphor for technological change in the converged industries of entertainment technology, music products, and AV systems. Is your business prepared to take advantage of new technology, or are you stuck in the 20<sup>th</sup> century? Do you have an app for that?

10. Changing laws, regulations, and product certifications. Ten years ago RoHS (Reduction of Hazardous Substances) regulations were instituted to assure compliance with European environmental safety standards. Now global regulations are changing relative to (e.g.) speech intelligibility in emergency communications systems, green product packaging, and fire safety codes.

### **Five Key Applications for Scenario Planning**

A critically important outgrowth of the strategic planning process is scenario planning. Scenario planning is the process of modeling multiple outcomes (“scenarios”) and evaluating them before locking into a tactical implementation plan. Scenario planning allows you to do “what if?” analysis in advance of deploying cash and personnel resources. This approach is faster, cheaper, and more effective than the trial and error method.

Here are five relevant applications of scenario planning:

1. **Product planning.** Whether your product (what you get paid for) is hardware, software, or service, you need to plan for future technology, economic changes, and changing customer needs. Scenario planning helps you anticipate the future market and plan products accordingly.
2. **New market development.** It’s always tempting to look at adjacent market segments and say, “All we need to do is go after it.” It’s not that easy. Better to do the market intelligence and understand the product needs, business models, and competitive environment before leaping ahead. (Note: See our white paper “Is the Grass Greener” (Q3 2009) for details on how to approach new markets.)
3. **Organizational optimization.** Your current staff got you to where you are today, but can they take you to where you want to be in the future? Three years from now, your business will likely need more and different people than what you have today. What is the “right size” staff that everyone is talking about? By applying scenario planning, you can create multiple organization charts, with or without the names of the people associated with the functions and job titles. This allows you to anticipate needs as well as drive succession planning.
4. **Mergers, acquisitions, and strategic alliances.** Do you plan to grow organically and incrementally, or would buying or merging with another firm allow you to become more competitive? What is the profile of the prospective alliance partner? Should we manufacture the product internally or source externally? Scenario planning allows you to explore the alternatives quickly and confidentially, before you approach prospective partners.
5. **Exit Strategy.** While your company may not be for sale now, what if things change? How do you build value of the company in anticipation of selling for the right price? Scenario planning answers the question “What’s it going to take?” relative to achieving your target valuation.

## **Results Trump Process: Five Success Tips for Optimizing Strategic Planning**

Many executives in our industry understand the need for process and structure in strategic planning, but tend to approach it with suspicion. We've all been "burned" by the endless meetings that don't go anywhere. That's why "The Office" is a hit television show—it's too much like real life in the business world.

In business, results trump process – meaning that the outcome is more important than how you got there. With that in mind here are five success tips for optimizing your strategic planning process, preventing problems, and assuring best results.

1. Get executive commitment first. If the boss or owner is not behind it, strategic planning won't work. Conversely, when the CEO or President leads the charge, things happen faster and better.
2. Do the brainstorming in person. E-mail and conference calls with far-flung staff can be used for some things, but face-to-face is best for development of (for example) mission statements, product road maps, SWOT analyses, and integrated marketing and sales programs. Do it in real-time and in a neutral environment (like an offsite meeting space) with minimal distractions.
3. Involve the organization, but do so selectively. While it is good to get input from department heads in addition to owners and executive, there are downside risks. Involving too many people tends to slow things down and dilute the results. Seek input, but don't design by committee.
4. Focus on critical success factors, not the fine-level operational details. Since the plan is a living, breathing document, it will never be perfect. Each time you do one, it gets better. Make sure that the team understands this. Obsess over the important issues, not the grammar and punctuation.
5. Appoint a task team. In most organizations, no one person has the time or expertise to do all the planning and create the Book (plan documentation) single-handedly. Better to assign the production to two people (a scribe and a financial person) who will draft the plan and crunch the numbers, subject to team consensus and executive approval.

### **A Final Thought**

Strategic planning is your most cost effective business tool and competitive weapon. A little planning goes a long way. There is a time-management rule of thumb that says "Double the planning time and cut the implementation time in half." That means, the more you plan, the more results come sooner and more efficiently. Start now.

## **About This Series**

Stiernberg Consulting monitors market conditions, talks with industry stakeholders, and identifies trends and issues on a continuous basis. Our White Paper Series brings the results of these efforts to the industry. Topics range from market dynamics to best practices. All white papers are offered free of charge.

## **About Stiernberg Consulting**

Founded in 1993, Stiernberg Consulting provides business development services in three primary areas: Planning, Market Intelligence, and M&A advisory work. We offer targeted programs and custom services geared to business growth and the development of results-oriented action plans. We serve the multi-faceted entertainment technology, music products, and AV systems industry worldwide. Please visit <http://www.stiernberg.com> for complete details.

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