



Strategic planning during an economic downturn

By Tom Ziemba, PhD

Recently we entered a period of economic challenges which are upending organizations in all manufacturing industry sectors and across all positions in the value chain. Business paradigms that were solid a year or two ago may not be responsive to the new economic environment.

Adjusting the business model on the fly, while it may yield short-term benefits, often results in poor resource allocation and misalignment among the organizational components. Investing the time and resources to take inventory and craft a new strategic plan, or revalidate the existing business model, is one of the core management actions that provides a sense of direction and optimism during a period of economic uncertainty.

Strategic planning usually involves the development of specific tactics to promote efficiency and growth. The top five growth strategies identified by Illinois manufacturers and wholesale distributors are listed here based on a recent RSM McGladrey survey of companies in Illinois¹. Industry trends are shaped by the economic environment which impacts the attractiveness of one or more of these growth initiatives.

- Acquiring new customers (77 percent)
- Increasing sales in domestic markets (72 percent)

- Increasing sales to current customers (67 percent)
- Increasing sales in international markets (39 percent)
- Increasing the number of new products (38 percent)

During an economic downturn, the strategic planning process and focus takes on a different character. In addition to the five growth strategies, underlying themes that become more prominent include building organizational agility, leveraging core competencies, careful risk assessment, and initiating long-term changes in systems and processes. As an example, this may be an opportune time to accelerate the implementation of lean manufacturing, improve customer support, enhance supply chain management, provide employee cross training to build capabilities or further differentiate your company from the competition.

Do the typical growth patterns make sense when sales drop and/or competition for fewer purchasing dollars intensifies? A key to effective planning is to anticipate the buying trends of your company's current or prospective customers. Early recognition of the patterns in your company's industry or the industry representing your company's customer segments is critical in positioning your company for the future. As stated by Slywotzky and Morrison in their book, *Profit Patterns*², "Seeing pat-

terns superimposing a structure on the chaos allows us to map the landscape and direct our strategy toward the most profitable opportunities." During an economic downturn, the "patterns" become more complex as "usual" buyer behavior gives way to behaviors such as hyper price sensitivity or seeking free "value-added" services from suppliers.

Strategic planning approach

A *Balanced Scorecard*³ provides a framework and process for developing the long-term plan. It requires the development of long-term goals along four dimensions:

- 1) Customer/market/product components
- 2) Infrastructure requirements (e.g., facilities, IT, logistics, pricing, customer service, staff capabilities),
- 3) Innovation (e.g., product development, climate of innovation)
- 4) Financial expectations

The customer, infrastructure and innovation goals determine the potential financial results. The customer related goals define the potential for the company, while the infrastructure goals describe the investment needed to meet the customer strategies. Innovation is built into the plan as a vehicle to attain the customer specific goals. Financial expectations flow from the potential opportunities identi-

fied along the other dimensions.

Specific goals are identified for each category based on a review of company, competitor, economic and market centric factors. Given the rapid change in the marketplace today, the goals are limited to predicting the company's performance three years into the future.

Features of the approach

The following features result in the preparation of a comprehensive plan and ensure managers, employees and other stakeholders are aligned around the strategy.

Workshop process to build the plan

The Planning Team participates in a series of workshops organized by the *Balanced Scorecard* categories. The defined objectives for each planning workshop build alignment around the plan. Each successive workshop builds on the conclusions made in the prior one.

Management generated plan

The management team develops and owns the plan. As such, the team determines if they have the key capabilities needed to develop a plan. These include skills or competencies such as research, profitability analyses, systems thinking, strategic orientation, or long-term planning.

Comprehensive input from stakeholders

A structured and efficient fact-finding process promotes input from a variety of sources including employees, managers, Board members and/or owners and other stakeholders. The fact-finding process is particularly impactful during an economic downturn. It provides an opportunity for employees to engage customers in identifying their requirements, signals to employees that the "future" is positive, and provides a general uplift for all those involved.

Roles and responsibilities

The participants in the planning process determine the final quality of the plan. The following are the various roles and responsibilities in the planning process.

Board of Directors

Board members provide input and guidance on the organization's direction on behalf of stakeholders. They

endorse the strategic plan and advise management on the plan's implementation.

Planning team

Typically, the team consists of the CEO and his/her direct reports. However, the planning process is an excellent vehicle to provide experience for high-potential, second-tier leaders.

The team crafts the strategic plan with input from various constituencies and sources. The Planning Team is responsible for the plan's implementation.

Resource teams

Three to six teams of managers and functional leaders participate as a fact-finding and research resource. These teams research one issue such as competitor practices or product profitability and present their findings at the appropriate workshop. Members of the resource team then become the conduit to implementing the strategic goals.

Outside advisors

The outside facilitator can manage the planning process and bring an outside perspective for the Planning Team's consideration. In addition, the facilitator can provide the context for the plan, challenge the status quo, and organize the planning process.

Planning process

Middle market and mid-sized companies who view the planning process as a significant organizational

development process, as well as a blueprint for the future, will obtain the most benefit from the strategy development activities. The following workshop sequence has proven to be very effective in elevating the Planning Team's knowledge of the planning process, their markets, and the capabilities of the organization.

Workshop 1:

Planning foundation — Validation of the current business model as well as the mission, vision, values, competencies and differentiators

Workshop 2:

Marketplace analysis — Review of customer trends, opportunities, competitor practices, and potential

Workshop 3:

Infrastructure review and financial plan — Operational and human capital requirements, as well as the financial investments and expected ROI

Workshop 4:

Strategy review and implementation — Implementation plan with accountabilities

The workshops are separated by a period of time (two to three weeks) to review the strategies flowing from the workshop and conduct the analyses needed to support the review in the next workshop.

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Planning themes

During a period of economic uncertainty, factors such as increased customer intimacy, identifying ways to enhance the customer's value chain, and cost management will likely be emphasized in the planning process. The table below highlights the shift in emphasis in the strategic plan during a period of economic uncertainty. A representative subset of all the planning themes addressed during the planning process is illustrated for six components of the business model.

Strategic plan content

Typically, five to ten strategies are identified for each category of the balanced scorecard. Goals are established for each strategy anchored by metrics which define goal achievement. The result of the strategic planning process is documented for ongoing review during the three-year performance period. The following list presents the organization of the final planning document:

- Validation of core competencies, values, and mission
- Summary of customer trends and patterns and competitor review
- Customer/product strategies for each customer segment

- Proposed business model
- Risk assessment
- Financial projections (profitability/revenues)
- Three-year high level strategy and strategic plan
- Strategic goals for each category of the balanced scorecard
- Strategy map
- Implementation plan with timelines and accountabilities

Maximize the ROI of the planning process

The following principles establish the context for the planning process for it to be successful.

Change orientation — The strategic plan requires the organization to make changes to at least one or more components of their current business model. Resistance to change is natural, but the speed to which the change can be implemented, has a major impact on realizing the benefits of the plan.

Implementation accountabilities — Each major strategy must be supported by smaller, more discrete strategies and goals with specific staff assigned to implement projects supporting the plan.

Goal integration — The Balanced Scorecard provides the framework to adjust the infrastructure and other internal operations to meet the proposed marketplace strategies. It is critical that the internal systems, whether they are human

capital or fixed assets, are configured to support attainment of the strategy.

Management talent — Key to the success of the implementation of the plan are the capabilities of the leadership team. Often, because components of the business model change based on the requirements of the new plan, new leadership competencies are needed and some existing competencies may have limited application.

In conclusion, the basic framework of the strategic plan and the process remain the same regardless of the economic environment at the time the plan is developed. The most notable modification during a period of economic uncertainty is emphasis on specific planning themes (e.g., emphasize customer retention over growth). ■

References

1. RSM McGladrey, 2008
Manufacturing and Wholesale Distribution Survey.
2. *Profit Patterns*, by A. Slwotzky and D. Morrison, Times Business Random House, 1999 (p. 9)
3. *The Balanced Scorecard*, by Robert S. Kaplan and David P. Norton, 1993

To learn more about RSM McGladrey's Strategic Planning Services, please contact Tom Ziembra at 847-413-6953 or email tom.ziembra@rsmi.com.

Business Model Component	Normal Economic Environment	Economic Downturn
1. Select Customers	<ul style="list-style-type: none"> • Target specific customer segments 	<ul style="list-style-type: none"> • Broaden customer base • Anticipate customer/industry trends
2. Differentiator in the Marketplace	<ul style="list-style-type: none"> • Specific product features • Customer service • Price or value added 	<ul style="list-style-type: none"> • Competitor practices • Adopting a product portfolio concept
3. Attract and Retain Customers	<ul style="list-style-type: none"> • Customer service 	<ul style="list-style-type: none"> • Customer intimacy • Value chain partner
4. Go to Market	<ul style="list-style-type: none"> • Multiple channel utilization 	<ul style="list-style-type: none"> • Sales force effectiveness
5. Configure Resources	<ul style="list-style-type: none"> • Build supporting infrastructure 	<ul style="list-style-type: none"> • Efficiency • Process improvement
6. Capture Profit	<ul style="list-style-type: none"> • Growth • Market share • Innovation • New products 	<ul style="list-style-type: none"> • Cost reduction • Capture wallet share • Customer partnerships • Enterprise risk assessment