HIGHPOINT ASSOCIATES: INSIGHTS

FOUR PRINCIPLES FOR SUCCESSFUL STRATEGIC PLANNING

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Four Principles for Successful Strategic Planning

An impactful Strategic Plan centers on making strategic **choices** around a company's most critical go-forward imperatives, and then **aligning** its executive team and **resourcing** around those decisive imperatives. Only then will a strategic plan chart a path toward greater, sustainable profitability. However, all too often, when companies pursue strategic planning, they miss the mark with efforts that are ineffective at best and a waste of time and resources at worst.

If your company is contemplating a strategic planning effort, below are four core principles HighPoint Associates recommends to sidestep pitfalls and get meaningful value out of the effort.

1. UNDERSTAND THE DIFFERENCE BETWEEN *STRATEGIC* PLANNING AND *BUSINESS* PLANNING

More than a few companies embark on a strategic plan and see disappointing impact. A common stumbling block involves assembling a long-term business plan, calling it a strategic plan, and complaining about how the exercise is mostly 'financial,' with limited use beyond the one-time rollup. In fact, a 2018 Chief Strategy Officer Survey noted, "Despite the vast effort put into the strategic planning process – 82% of survey participants say that it is a 'very important' area – most CSOs are dissatisfied with its output."

These unsatisfactory results stem from the significant differences between a strategic plan and a business plan. Strategic plans center on choice around a company's most critical go-forward imperatives, with resource tradeoffs inherent in those choices. They are about saying *No* more than saying *Yes* to business-as-usual funding and selective investments. Because of their very mechanics, business plans cannot contemplate these tradeoffs.

Business Planning's purpose is quite different: Business planning processes – whether one-year, Annual Operating Plan processes or longer-term, three-to-five-year plans – are financial vantage points by product and service line, by market. They answer the *What* for a business: What financial outcomes are you targeting or projecting? Yet, they do little to answer the *How,* beyond calling out clear expectations and gaps.

As an FP&A discipline, business planning is useful for several purposes, including topline and profit targeting, gap identification, new product lines/new market expectations, Margin and Profit mix, and long-term Overhead budgeting.

BUSINESS PLANNING VS. STRATEGIC CHOICE SPOTLIGHT

Nearly all branded consumer businesses are wrestling with how to grow their owned omnichannel differently in the 3-5 year horizon, to offset the pressure from wholesale channel consolidation, and from the Amazon price-matching, profit pool compression effect. **Many of these businesses construct multi-year business plans annually without also constructing a strategic plan addressing the difficulties of the *How:***

- What new capabilities are required to build a different omnichannel approach,
- With what upstream product development to reinforce one's own omnichannel offering,
- With what re-prioritization and de-prioritization of wholesale partners, and
- With what reallocation of funding from the core business?

When businesses do plan for bolder omnichannel plays, they often do so without a choice-driven reallocation. Real, sustainable choices come in reallocating product development, field sales, and marketing funding from traditional wholesale channels, amplifying select product line offerings to align with consumer shifts and to drive engagement and traffic to preferred channels, including owned and more advantageous omnichannel endpoints than where that traffic will otherwise naturally migrate.

None of the above challenges get solved in a business plan, and business planning in the absence of strategic planning may make certain outcomes worse.

Strategic planning is needed to determine more of the *How*, and reallocate resource, time, and the right talent to the most important hows.

How do organizations move from a Business Plan to a decisive Strategic Planning outcome?

Initially, divorce the Business Plan entirely and attack the top three to four-year enterprise challenges.

Decouple the strategic plan from a multi-year business planning exercise. Instead, ask each of your business leaders to address the top defined (by the CEO management team

or CSO consortium) strategic questions facing the company over the next three to five years. Do not ask for more than a handful of areas; even three to four is a heavy ask. Their considerations should contemplate the a) magnitude of the challenge to the core business, b) likely solutions, c) magnitude of the response, and d) potential capability build/partnerships and funding requirements inherent in that response. With that thought pattern, assemble your business leaders in an effort that begins with enterprise-wide trade-offs and debate, rather than within silo business plan projections and incremental solutions.

Crystallize solutions to enterprise challenges, translating them into strategic imperatives.

There are a variety of approaches to ensure the core leadership team is informed, derives realistic solutions, and makes hard decisions against the top enterprise challenges, whether with mutual presentation, small-group forums, facilitated debates, outside support, or other mechanisms. Whatever the strategic planning methodology, aligning executives around strategic choices is not only a necessity for strong strategic planning, but also a pre-requisite for linking any business plan process to a decisive strategic direction.

With strategic imperatives in place, re-visit the Business Plan and link for accountability.

Once the mandate of the top strategic imperatives is clear – with the corresponding magnitude of solution required – only then can a business plan effectively be commissioned. Often, these strategic imperatives necessitate talent and organizational upskilling or a different structure for constructing and executing the business plan. Regardless of whether there is organizational change, the business plan should include critical forcing mechanisms and reallocation targets upfront, prompting business owners to understand that business-as-usual budgets will not be available for select aspects of the business. Their business plan projections should reflect the corresponding impacts, both on the benefits of the focal imperative activations and on the businesses receiving less resource. Seeing decisive strategic choices translate into the more visible "cold hard steel" of the multi-year business plan will bring them to life. This is where the business plan graduates from a modest-value financial exercise to a rallying force behind the strategic imperatives.

2. CAP THE NUMBER OF STRATEGIC IMPERATIVES AND ENSURE THE CORE BUSINESS IS A PRIMARY FOCUS

"A great company is **more likely to die from indigestion from too much opportunity than starvation from too little.**… Packard's Law states that no company can consistently grow revenues faster than its ability to get enough of the right people to implement that growth and still become a great company." - Jim Collins, Author of *Good to Great* and *Built to Last*

When it comes to the final outcome – aligned, strategic plan imperatives – less is most certainly more. Five is a good maximum to hold one's executive team to: Businesses must optimize talent and assets around those few imperatives that offer the greatest competitive and financial returns, and that fit most closely with the firm's capabilities and potential. Audacious goals are applaudable, and even necessary to prompt transformational thinking, but too many are a guaranteed recipe for failure. And when strategic imperatives are translated into annual goals, they are multiplicative. An excessive total of 15-20 strategic imperatives will result in 60-80 goals at the second level of the executive team. No matter the size of the company, this is unmanageable and will diffuse a business' talent and resources to the point of ineffectiveness.

One of the most common and consequential challenges HPA sees business leaders wrestle with is decisive direction. That is, identifying those top strategic planning imperatives, their 1-year and 3-year high-impact targets, that promise the greatest returns and align with both a business' core capabilities and its potential. It may sound counterintuitive, but the first step in successfully expanding a business is to cull choices from the clutter of competing priorities and narrow focus to those handful with the greatest likelihood of future-proofing a business. In the words of Peter Drucker, "Concentration is the key to economic results. No other principle of effectiveness is violated as constantly today as the basic principle of concentration." He also stated, "Our motto seems to be, let's do a little bit of everything."* *Doing a little bit of everything* is neither the purpose nor the power of a sound strategic plan.

Too few strategic imperatives is rarely the challenge. Too many, and those strategic imperatives are sure to burden resources and diffuse attention to the point of being ineffectual.

Focal strategic imperatives always start with the core business.

While devoting mental resources to adjacent businesses is a healthy part of strategic planning, it cannot be done at the expense of growing and protecting the core business. As much or more energy should be devoted to what could go wrong with the core – changes with its customers, resellers, and competitors, including technology disruption, while also prioritizing the most important imperative(s) around that set of core business dynamics – as should be devoted to adjacent

opportunity considerations. Too often, firms will treat their core business as a given in a strategic plan and expend all mental energy on adjacent businesses that depend on a healthy core.

3. SECURE LEADERSHIP ALIGNMENT AROUND STRATEGIC IMPERATIVES

Distilling competing strategic priorities down to 3-5 key imperatives that future-proof a business is an accomplishment, and it depends on an executive team aligning around those down-selected imperatives referenced earlier.

Why is leadership alignment vital?

A leadership team that feigns alignment during its down-select meetings makes two central errors: First, an inability to effectively disagree and sharpen one another's prioritization robs the imperatives of the healthy debate that pinpoints and refines the best answers. HPA experience suggests executives who perceive greater debate and decisiveness in a strategic plan effort will more effectively align around the down-selected choices. Iron sharpens iron. After beneficial sharpening, leaders can move forward fully bought into the decisions. Second, a lack of genuine commitment to the top 3-5 imperatives translates into re-definition of those imperatives outside of the Board Room, with ensuing confusion among the next level of leadership. How can senior leaders sell in change and motivate buy-in and execution throughout the organization if they have not successfully done so among themselves?

A management team may invest time, resources, and offsite travel in a standard strategic planning effort, and can still be as misaligned at the end as when it started. One of Amazon's Core Leadership Principles is "Disagree and Commit," with a pledge to challenge options in meetings, but once the meeting ends, the final decision must move forward with full commitment. Often, company culture behaves just the opposite in matters of strategic choice: Participants purport alignment during critical decision-making meetings, then immediately undermine that alignment with ensuing re-definition of imperatives. As noted above, in our experience, *executive teams that perceive greater decisiveness in a strategic plan effort will more effectively align around down-selected choices*. This may be counterintuitive. When a Board or CEO demands decisiveness, the quality of the content – and alignment around that content – improves.

With alignment, you may drive the necessary change throughout your organization at an accelerated pace, and as importantly, sustain that change longer term. *Without* alignment, achieving buy-in throughout the organization will be impossible, with imperative redefinition, confusion, and miscommunication likely results.

Let's start with the reality that achieving strategic alignment is hard. And it should be. Good strategy is decisive and requires both trust and conflict among the leadership team to land on the best, well-refined, and debated three to five strategic imperatives. Here are a few insights on how your company can realize this:

Consider leadership team size and makeup.

HighPoint regularly observes 15-20 person management teams engaged in overall strategic planning and determination of key imperatives. In addition to obvious concerns around C-level spans of control with these structures, this is simply too many to achieve the necessary sharpening and alignment. The ideal core leadership team size is approximately six to eight people. Without this smaller, more intimate group, candor goes out the door: Either there are too many voices competing for airtime or team members remain quiet and disengaged when confronted by the difficulty of having meaningful conversations in a room of 20. Either result? Engagement tanks.

When it comes to *who* should be in the room, core vs. outsider balance and thought diversity are as important as size. HighPoint recommends a mix of Level-1 corporate executives (C-suite) and Level-2 functional and/or Business Unit leaders, mixing depth of vision and business understanding.

Another critical area of diversity is to ensure the inclusion of leaders who have a deep understanding of the core business and those who are more recent "outsiders," bringing extra-industry perspectives that complement the core. Group think is to be avoided, and this balance prevents unchallenged conversation. These "inside-outsiders" bring valuable and fresh perspectives that may balance the institutional understanding of core business leaders. And core business leaders are essential to ensure the all-important central business is not neglected, and any adjacency conversations link to the innate strengths and capabilities of the organization. Regardless of insider or outsider, everyone on the team should be a high-potential talent, ambitious, and concerned about the company's five-year future, with the energy and engagement level to drive follow-on execution. Leaders who are calcified in their respective areas, or likely to jump ship in a year or two, will not be sufficiently engaged in the alignment conversation. Lastly, which we'll discuss further below, this senior strategy decisions team must consider their first team to be this group, not the Business Unit or function they run day-to-day.

Make meetings matter.

Before any gathering of the leadership team, an agenda highlighting key decisions needed and pre-read materials should be distributed a minimum of 24 hours in advance, setting an expectation that all participants come fully prepared with any challenges. At Amazon, everyone comes to their meetings with the pre-read document and, in the first 10 minutes, may (re)read that document silently before open a "disagree and commit" discussion ensues. Preparation and agendas both ensure the leadership team is capable of participating in robust, sharpening conversations that elicit conflict, build trust, optimize decisive imperatives, and achieve commitment. These prepared, meaningful discussions will also reinforce the leadership team's identity with one another as their #1 team, rather than their respective Business Unit silos. An optimized meeting will then culminate with final decision points at least 15 minutes before the end of the meeting (either the meeting chair or the CEO/most senior leader can assume this role). This will leave time for follow-on refinements and success metrics discussion, and to affirm full commitment to next steps.

Foster and enforce commitment and accountability.

Without appropriate leadership team makeup and meeting practices, commitment and accountability can be minimal. Assuming these practices are in place, 'disagree and commit' ultimately means accountability for execution. It is the final responsibility of the CEO or COO to ensure leadership team accountability to the aligned 3-5 strategic imperatives. This again should reinforce that each member of the leadership team should explicitly understand and accept their first loyalty and accountability to their established leadership team and not their direct report teams.

With 3-5 strategic imperatives, it is ideal for each and every member of the 6-8 person decision-making team to be assigned to at least one of the identified strategic imperatives, and not necessarily one that is most relevant to that leader's day-to-day area. If there is an imperative that is monumental and vital to future success, consider assigning your best and brightest senior talent to drive that imperative full-time, with the assurance of a return ticket so they don't feel displaced from the core business or in a dead-end role. Further, ensure you leave adequate time to identify both near-term and long-term metrics of success. The metrics discussion makes the imperatives feel real and even uncomfortable to the leadership team, and are a dry run on commitment levels translation. The C-level leader will then host an at least biweekly cadence on each of the imperatives moving forward.
As Bill George and Peter Sims write in their book, T*rue North: Discover Your Authentic Leadership*, "The most empowering condition of all is when the entire organization is aligned with its mission, and people's passions and purpose are in synch with each other." George and Sims were referring to a company's core purpose, but this also holds true with adoption of decisive corporate strategy. Simply put, alignment at the organizational level is impossible if alignment and commitment at the leadership level are not accomplished upfront.

4. DRIVE SUCCESSFUL EXECUTION WITH APPROPRIATE METRICS AND NEXT-LEVEL ORGANIZATIONAL ENABLEMENT

Identify and assign metrics.

The initial conversation about and up-front definition of metrics needs to kick off immediately on the heels of the debate and decisiveness surrounding strategic planning imperatives. As with strategic imperatives, when it comes to assigning metrics, fewer is better. HighPoint recommends identifying the top two to three metrics (not including sub-metrics or sub-business-unit derivations) linked to the successful outcome of each down-selected imperative. Metrics should never be an afterthought, nor should they be left to Business Units or divisional finance leads to figure out retroactively. First-level metrics must be defined with the executive leadership team that drove the choice of down-selected strategic imperatives and who are the most informed on their intended outcomes. Strategy project leads or others may join later, but persons outside the core management team will not have the full context of the leadership team's sharpening discussion around narrowing its top imperatives. Ensuring Business Units have metrics guideposts as they translate their equivalent metrics and milestones at the Business Unit level is also critical.

Assure next-level organization alignment.

Decisive imperatives communicated throughout the organization (alongside compelling vision) are a first step in the right direction. As a sound strategy comes to life with effective execution, below is a non-exhaustive checklist of key success factors HighPoint recommends to ensure imperatives are well-understood, localized, and executed:

A. Cascade imperatives and choices with active management.

Once strategic imperatives have been established and aligned at the corporate level, cascade the associated objectives, results, and metrics throughout each organization in the enterprise. In that cascading, it is critical

as objectives and results are translated to also ensure Business Units and Functional Groups are speaking with one another about if one group requires another's delivery for their own share of the overall strategic imperative. This must be mapped out and agreed to upfront.

- ***Maintain rigorous choice alignment with flexibility in the enterprise strategy framework***

  Once the strategic imperatives have been established and aligned at the corporate level and across Business Units, there can be no wholesale re-votes at the business level. That said, local empowerment and translation are both critical. Business Unit microstrategies must similarly involve choice but cannot be contradictory to the enterprise-level strategy. While recognizing 100% alignment is rarely the outcome, feedback loops are healthy.

- ***Identify and callout interlocking interdependencies***

  Cascade the associated objectives, results, and metrics throughout each organization in the enterprise. A variety of approaches work here, including the Objective Key Result (OKR) annual and quarterly cadence. In that cascading, it is critical as objectives and results are translated to also ensure Business Units and Functional Groups are speaking with one another about interlocking interdependencies. In other words, if one group requires another's delivery for their own share of the overall strategic imperative, this must be mapped out and agreed to upfront.

- ***Project Manage the strategic imperatives***

  For critical strategic imperatives, HighPoint recommends an ongoing Corporate and BU leadership cadence, at least monthly – but ideally, bi-weekly – to address, *How are we doing, What obstacles have arisen*, and *What are sensible, achievable solutions?* This will go a long way in maintaining focus and keeping momentum behind the enterprise imperatives.

B. Ensure organizations are equipped with the talent and tools to support the cascaded imperatives.

- ***Business Unit Leadership activates the new imperatives with visible choices***

  Small yet visible changes in management practice and direction can either reinforce or undermine the importance of the imperatives. These sometimes subtle cues are an essential overlay to all action. For instance, in one HighPoint client's strategic imperative meeting in which it was agreed that a new, imperative-affiliated metric would replace an old one, the Business Unit leader changed the agenda of his operational leadership team meeting the next day, centering it on a review of that top metric.

- ***Talent, culture, structure, systems, and process evolve to fit the new imperatives***

  Business Unit teams must be able to answer affirmatively to, "Can our organization achieve the strategic imperative(s)?" As an example, if data analytics will play a role, the right talent or skills training needs to be in place to enable this competency. The 7S Framework and other like models are good references in answering this question.

SUMMARY

Interested in pursuing a Strategic Plan that is significantly different from, and more impactful than, a business plan? A well-defined strategic choice effort, executive team alignment, next-level committed resources, and well-understood performance metrics will maximize a business's probability of improving its forward course.

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