Strategic Planning for the Growing Business

1. Introduction

To many people, strategic planning is something meant only for big businesses, but it is equally applicable to small businesses. Strategic planning is matching the strengths of your business to available opportunities. To do this effectively, you need to collect, screen and analyze information about the business environment. You also need to have a clear understanding of your business -- its strengths and weaknesses -- and develop a clear mission, goals and objectives. Acquiring this understanding often involves more work than expected. You must realistically assess the business you are convinced you know well.

2. The Business Environment

Strategic planning focuses largely on managing interaction with environmental forces, which include competitors, government, suppliers, customers, various interest groups and other factors that affect your business and its prospects. Your ability as a small business owner/manager to deal with these groups will vary widely depending on the group and on the timing. For example, you may enjoy greater influence with your local government than with the federal government. Also, you may be able to get more of what you want from a supplier than from a competitor (although size, distance, the percentage of the supplier's business you represent and your record of dependability as a customer can affect this relationship). How you manage these and other relationships is one of the decisions you will make during the strategic planning process.

Because of major changes in the business environment, your familiarity with strategic planning and your ability to implement it is critical. At one time, business owner-managers assessed the environment on a continuum that ran between very stable and very unstable. Businesses, such as the producers of automobiles, furniture and other consumer goods, operated in a relatively stable and predictable world. This also was true of many service firms, such as banks and savings and loans. Typically, the environment included competition that was limited to a stable group of competitors, loyal customers and a relatively slow transfer of information. Many small businesses could thrive in this environment. Other small investors entered fields such as xerography, computers and computer component production, software design and chemical research. Some of these grew rapidly, becoming names with which we all are familiar: Xerox, IBM, Apple and Microsoft. But many more failed.

Today, experts agree that more businesses face an unstable business environment. Improvements in information processing and telecommunications have made major changes in most industries. Along with this, improvements in transportation and the growth of foreign economies (specifically in Europe and Asia) have created a global marketplace and redefined certain industries. In addition, as consumers are exposed to more choices, loyalty has become less important than it once was; a slightly better deal or a temporary shortage of stock can easily result in the loss of customers. Competitors also can change rapidly, with new ones appearing from out of nowhere (often this means the other side of the globe). With the instability of the global market, it is important that you make strategic planning part of your overall business strategy.

3. Proactive Versus Reactive Management

A few years ago, you could establish and maintain a business by reacting to and meeting changes in tastes, costs and prices. This reactive style of management was often enough to keep the business going. However, today changes happen fast and come from many directions. By the time a reactive manager can make the necessary adjustments, he or she may lose many customers -- possibly for good.

Proactive planning is the anticipation of future events. Decisions are based on predictions of future states of the environment as opposed to reactions to various crises as they occur. Proactive planning in an unstable, technology-driven business environment is critical to continuing success in almost any endeavor. Rather than reacting to the situation as it changes, proactive planning requires that you analyze environmental forces and make resource-allocation decisions. By doing this you will take your business where it needs to be in the next month, year and decade. Barry Worth, a consultant specializing in small business management, puts it this way:

> *"Today's entrepreneur must be a business architect. Anything built in today's business environment must have a step-by-step blueprint or plan on how to achieve success (Worth December 1989). The blueprint for today's business owner is a business plan."*

4. The Need for a Strategic Plan

Planning plays an important role in any business venture. It can make the difference between the success or failure of your business. You should plan carefully before investing your time and, especially, your money in any business venture. The need for a plan is best illustrated by the following scenario -- "A Tale of Two Businesses."

Two franchises (A and B) were started by individuals who had worked in management in much larger companies. While Franchise A provided a product and Franchise B a service, the output of both franchise systems had been sold exclusively in the United States before the current owners became involved. The output of both was readily available in other developed countries as well. The franchises opened about the same time and neither franchisee had a strong market presence, nor do they at present. Today Franchise B is bankrupt. By contrast, Franchise A is selling products in the Midwestern United States and in Europe.

What was the deciding difference in the two franchises' success? You probably expect it to be that one had developed a strategic plan and the other hadn't; however, it isn't this simple. Many factors can influence the outcome of a business venture. There were many similarities between the franchises, but there also were many differences. Most notably, Franchise A sold a product and Franchise B a service (although this does not clearly limit options).

Another difference was that Franchise A had a carefully thought-out plan. The investors knew as they looked for a franchise partner that they wanted to find a product that could satisfy international markets and a franchiser who would support that kind of sales effort. These investors were based in the Midwest, but negotiated for exclusive rights to export the franchiser's product.

Once they had obtained the franchise, and as they began to establish their business domestically, they also began to contact government experts in the U.S. Department of Commerce and the U.S. Small Business Administration, as well as educators and local managers with international experience. Clear plans were developed outlining how they would position, market and distribute the product and which foreign markets would be targeted first. Even as they were building sales in one European market, they were attending trade shows and planning entry strategies in others.

By contrast, the second investor (Franchise B) started his business strictly because he wanted to leave a former employer. Of course many small businesses get started this way; however, in this case no investigation of franchising alternatives was done. The business was located in an area that, as it turned out, contained virtually no consumers for the kind of service being offered. When this mistake was realized, it was too late to move -- the investor simply did not have the money or the desire to risk starting again.

Other examples further show the need for strategic planning and for developing a clear business plan. The owner of a business that seemed to be doing quite well in two locations was about to open in a third. The authors were called in to develop a benefits policy and discovered cash flow problems that could be found only after operations had begun in the new location. After analyzing the situation, an expansion and financial plan was developed for the sound locations only.

In another case, the authors determined that a business had purchased more equipment than was necessary to accomplish the current workload. After careful analysis, plans to make further purchases were put on hold, and the equipment available was used effectively to meet immediate needs.

A business enterprise is too complex to assume that failure to develop a sound business plan will be the cause for problems. Nevertheless, this failure often counts among the factors contributing to business difficulties. As Worth has said, "Being a business entrepreneur today takes constant vigilance in order to be able to take advantage of new opportunities and the availability of new information and technology as they come into being." The first step in doing this is to have a plan.

5. Developing a Strategic Plan

Mission Statement

The first step in the strategic planning process is an assessment of the market. Businesses depend on consumers for their existence. If you are facing a rapidly growing consumer base, you probably will plan differently than if your clientele is stable or shrinking. If you are lucky enough to be in a business where brand loyalty still prevails, you may take risks that others cannot afford to take. Before you begin to assess the market, it is important that you complete a careful assessment of your own business and its goals.

The outcome of this self-assessment process is known as the mission statement. According to Glueck and Jauch (1984, p 51), "The mission can be seen as a link between performing some social function and the more specific targets or objectives of the organization." Another definition states that the mission statement is a "term that refers to identifying an organization's current and future business. It is viewed as the primary objective of the organization" (Rue and Byars 1983, p. 99).

Because these authors are writing for an audience of managers or would-be managers of larger businesses, their definitions may sound a bit lofty. If, however, you go back to the earlier example of a successful small business, you can see it started with a clear direction -- what was to be achieved and, in a broad sense, how best to achieve it. While your own goal may be to survive, make a profit, be your own boss or even be rich, your business must first perform a social function, i.e., I must serve someone. Given this you must determine (1) the ultimate purpose and (2) the specific targets or objectives of your business.

The investors of Franchise A discussed above clearly had determined they wanted a business with the potential for international sales. With this objective they were able to determine the kind of franchise they wanted and the terms. They knew that some goods and services were more likely to be marketable overseas than others. Early research helped them determine which areas of the world would be the best places to start. This, in turn, helped them to further narrow their list of potential products. Also, they were able to assess the financial demands of various approaches to overseas markets. Their financial analysis enabled them to affirm that a franchise would be one of the alternatives with a high profit potential. All of these directions were derived from an initially vague desire to "go international." And, as the investors developed their ideas into a clearly defined business purpose, many issues were discovered that were critical to success.

Defining Your Business

A primary concern in defining a mission statement is addressing the question "What business are you in?" Answering this may seem fairly easy: however, it can be a complex task. Determining the nature of your business should not be strictly tied to the specific product or service you currently produce. Rather, it must be tied to the result of your output -- your social function -- and the competencies you have developed in producing that output.

Management theorist Peter Drucker suggests that if the railroad companies of the early 1900s or the wagonmakers of the 1800s had defined their business purpose as that of developing a firm position in the transportation business, rather than limiting themselves strictly to the rail or wagon business, they might still enjoy the market positions they once did (Rue and Byars 1983, p. 101).

The obvious concern here is to ensure that you do not define your business too narrowly, leaving yourself open to economic changes or competitive challenges that make you vulnerable. The primary reason the service company mentioned earlier (Franchise B) failed was that it lacked a consumer base. These consumers were already being served by the current market. In another example, an entrepreneur developed a device to provide greater security for homes and vehicles. But, by focusing on the product rather than the service it was meant to provide, he failed to consider other services that already provided essentially the same level of protection at lower costs.

Your Firm's Philosophy

Once you have defined your mission statement, the next step is to define the firm's basic philosophy. Such a statement will help explain to your employees and associates how you would like to see the firm operate. Are you a risk taker, or would you prefer to build your business slowly from a solid base? How will you relate to customers, suppliers and competitors? What type of community involvement do you plan for your business, e.g., participation in recycling and volunteer activities?

These questions, and many more, need clear answers to help your employees make operational decisions and conduct themselves in a manner consistent with your wishes. Much has been written about this concept in business literature under the term corporate culture. A clear explanation of your business's philosophy in the mission statement will provide a basis for the development of a consistent business culture.

Your Firm's Goals

The next step is to set clear goals to guide and maintain the business on a path consistent with its mission. Daniel Robey provides an excellent list of the key functions of business goals (Robey 1982). To summarize his comments, goals serve to:

- Justify or legitimize the organization's activities.
- Focus attention and set constraints for member behavior.
- Identify the nature of the organization and elicit commitment.
- Reduce uncertainty by clarifying what the organization is pursuing.
- Help an organization to learn and adapt by showing discrepancies between goals and actual progress (providing feedback).
- Serve as a standard of assessment for organization members.
- Provide a rationale for organization design.

At one time, it was widely assumed that the owner of a company set that firm's goals. Glueck and Jauch refer to this as a "trickle-down" theory because it was assumed that others in the organization simply accepted these goals. Chester Barnard, believing that it was naive to assume such ready acceptance, suggested that organizational objectives arose from a consensus of the employees (Gleuck and Jauch, pp. 78-79). This "trickle-up" theory, however, is also naive in assuming that an organization is simply the sum of individual perspectives, and that it can achieve direction from an unguided and usually disparate group of people. Modern theories spring from combinations of these two approaches, suggesting goal development is a complex goal-bargaining process that enjoys some advantages of both basic theories.

Bargaining, while seeming a rather negative and poorly developed goal-setting approach, has the advantage of involving most, if not all, employees in the process. As a result, it is more likely that key concerns, internal as well as external, will be taken into account. By involving employees, you improve their understanding of and commitment to the firm.

Pierce and Robinson captured the complexity of goal setting in this statement: "Strategic choice is the simultaneous selection of long-range objectives and grand strategy....When strategic planners study their opportunities, they try to determine which are most likely to result in achieving various long-range objectives. Almost simultaneously, they try to forecast whether an available grand strategy can take advantage of preferred opportunities so that the tentative objectives can be met. In essence then, three distinct but highly interdependent choices are being made at one time. Usually several triads or sets of possible decisions are considered (Pierce and Robinson 1985, p. 231).

To improve the structure of this strategic approach, most experts suggest that a repetitive method be used in developing goals. This begins with the owner and perhaps a few key employees agreeing on a long-term direction for the business and suggesting major goals in line with this direction. Then, other employees are asked to suggest specific objectives, which are then reviewed before being implemented. Goals become the shared purposes of the owner and employees and thus, it is much easier to get the support of employees and their clear understanding of what needs to be accomplished.

Goals are defined as broad, ideal conditions. A possible goal could be "To become the leading small-package delivery service in the Kansas City metropolitan area." In defining goals it is important to understand (1) how the goal was derived and (2) how it provides guidance.

Objectives to Achieve Goals

Accomplishing a goal requires establishing and achieving several specific objectives, which must:

- Be clear, concise and attainable.
- Be measurable.
- Have a target date for completion.
- Include responsibility for taking action.
- Be arranged according to priority.

An objective to the above-stated goal could require that the dispatcher develop a route structure capable of providing three-hour service to any area within 20 miles of the city's center, with the service beginning within six months.

An objective has to fit within a hierarchical network of other objectives that together contribute to the firm's ultimate goals and mission. For example, a subsidiary objective to the one mentioned above may be "To purchase three new or late-model used delivery vans within five months." Another objective could specify expanding staff to drive the additional vehicles and to handle the expected increase in dispatching chores. This system of setting priorities is called a hierarchy of objectives.

Anthony Raia provides a list of guidelines to help you avoid pitfalls in setting objectives (Rue and Byars, p. 107). Some of the most important include:

- Test your objectives for challenge and achievability.
- Do not build in cushions to hedge against accountability for results.
- Adjust the objectives to the available resources and the realities of organizational life.
- Do not keep your head either in the clouds or in the sand.
- Establish performance reports and milestones that measure progress toward the objective.
- Do not rely on instinct or crude benchmarks to appraise performance.
- Put your objectives in writing and express them in clear, concise and unambiguous statements.

- Do not allow them to remain in loose or vague terms.
- Limit the number of statements of objectives to the key result areas (for your business).
- Do not obscure priorities by slating too many objectives.
- Review your statements with others to assure consistency and mutual support.
- Do not fall into the trap of setting your objectives in a vacuum.
- Modify your statements to meet changing conditions and priorities.
- Do not continue to pursue objectives that have become obsolete.

The formulation of a mission, goals and objectives is a complex, repetitive and continual process. As a small business owner-manager, your first reaction may be that you don't have the time or the resources to accomplish this. This may be true; however, you must develop a process that you can implement and be comfortable with. You will need to be aware of this process, the relationship of goals to ultimate performance and the need to be specific and consistent. A carefully thought-out set of goals provides the base on which the rest of strategic planning will proceed. The time you put into carefully assessing what you hope to achieve and how you will measure it will reduce the time required to assess and control performance.

Environmental and Industry Analysis

In determining appropriate goals, you will need to consider the position of your business within its industry and the broader business environment. Several trends may affect your business prospects. Examples may include shifts in population (e.g., the purchasing status of "baby boomers"), trends in the economy, technological developments, legislation (e.g., safety or antipollution regulation) and the activities of special interest groups. As you clarify your mission and goals, you will find that some factors are important while others may not require your attention.

There are several approaches to dealing with fluctuation and change in your business environment. James Thompson presents a list of general strategies that provides a good "first cut" at the complicated process of making strategic choices related to the business environment (Miner 1982, p. 147). He argues that most organizations search for certainty in an uncertain, fluctuating environment. Depending on the business' resources and the specific situation, a business may adopt one of four approaches to the business environment.

Buffering can be used when you have an abundance of resources, sometimes referred to as organizational slack. However, this is a luxury few efficiently run businesses enjoy. If, for example, you possess a technological edge, you may be able to relax your vigilance in the confidence that you have the resources to adapt to changes that may occur. You are then able to concentrate on other environmental factors that may affect areas of your business in which you don't have such an advantage.

Smoothing is a useful approach when you enjoy surplus resources in one area but your ability to meet demand is overtaxed in others. A good example is a chimney cleaning service that was unable to meet demands for chimney repair and service during the winter months, but had to lay off employees during the spring and summer months. In an attempt to change the environment, the owner developed advertising and pricing strategies aimed at attracting more business during slow times. In addition the owner assessed the skills of his employees. He found that by doing general masonry jobs in slow times, he could retain workers while actually increasing the size of his business. This example also provides a clear illustration of how a small business can manage, and even change, its environment.

Forecasting is something that all businesses must do. When you don't have the resources to use a buffering strategy or when conditions make smoothing impossible, you must anticipate environmental changes. The immediate need of most businesses is to monitor the competition. Other events that you can anticipate with an effective forecasting system include:

- Technological breakthroughs.
- New competitors (either a company "purchases in to" your industry or a new competitor enters from an overseas market).
- Changes in the cost and availability of raw materials.
- Changes in consumer taste.

Effective forecasting is possible only when probabilities can be predicted; for example, you have a pretty good idea of what the odds are that shortages will occur in a raw material, or what the chances are that a law will pass providing new sources of assistance to small businesses. Unfortunately, many trends and changes are very difficult, if not impossible, to anticipate, even with the best forecasting system.

As a result you may find that you must resort to Thompson's fourth approach - rationing. An unanticipated technological breakthrough or a sudden change in the spending habits of your customers may force you to reallocate resources. In this situation, goals may need to be delayed or foregone altogether, and parts of your business may need to be reduced. All needs of the business will not be completely met, but you will move to a base from which you will have the best chance to recover. With time you will rebuild to compensate for any losses incurred.

Information Needs

The most important consideration in developing an effective approach to forecasting and planning is the development of your information system. In the world of personal computers, you may equate information systems with microchips and programming, but the concept as used here is much broader, referring to the way you gather, screen, analyze and use information that may affect your business. This publication is part of your information system. You are using it to inform yourself of modern approaches to managing, improving and possibly enlarging your business.

Too many businesses still have information systems that might be described as "shoebox" systems. Information about the business and its environment are collected in various documents that are stored in shoeboxes, or it is picked up through contacts between the owner and customers. The owner "analyzes" this information and the results are used to make further decisions.

The problems with this system are obvious. First, no effort has been made to determine what critical elements -- internal or external to the business -- should be assessed. Second, assessment is based entirely on what strikes the owner as memorable or important. Unfortunately, what is remembered is not necessarily what is important. Memory is influenced by preconceptions and perceptions, and by how busy, tired or distracted the owner was at the time an event occurred. An additional problem with this informal approach is that, should the owner want to verify his or her impressions of some series of events, it would be time consuming -- if not impossible -- to locate the records that would allow a full analysis. While "seat-of-the-pants" decision making based on this type of information system sometimes works remarkably well, much is left to chance.

Setting up an effective information system is integrally related to your mission and goals and to the specific environmental factors defined in your strategic purpose. Collect enough information, but don't collect too much -- this leads to information overload, where decision makers are so swamped they become incapable of making sense of the information, or of using it to make good decisions.

Developing a good system is a dynamic process. It is easy to determine what information you need to collect and how to obtain it. However, as the environment and your situation change, the information you need also changes. Items that were once important now are not. Other considerations, impossible to anticipate at the time you developed your system, have become critical.

Employees should be involved in determining what information is needed and where to obtain it. They are often the first line for data collection. They can provide insights and perspectives that you may not have considered. Together, you will be able to develop a reasonably thorough list of concerns that the information system should address.

In any information system, a variety of sources should always be used. You already collect much information in the documents you use to conduct everyday business. Other sources may include periodicals (particularly those published specifically for your industry), newspapers (or clipping services), books and experts in areas of concern.

Once you have collected the data, you will need to condense and analyze it. This is the information reporting system. You already produce reports for various government agencies and banks, which are nothing more than a presentation of the data you collect in a way that is useful to the particular agency. A good information system will provide information to employees in your business in a form that they need to make effective decisions and carry out their jobs. It will provide enough information, but not more than is necessary and useful. As the type of data collected changes over time, so will the reports needed. As a result, report requirements must be periodically reassessed so time is not spent producing useless reports.

Finally, information should be stored for easy retrieval to accommodate new situations that may require different analyses. In data processing, this system of storage is referred to as the company's database. Whether you rely on an electronic or a manual system, storing information so it is easily retrievable requires considerable forethought. Much of the business software available today focuses on storing data in ways that allow it to be retrieved in many different forms and later combined for analyses that were not originally anticipated or necessary.

Internal Business Analysis

Once you've begun to collect the necessary information about your external environment, you will be able to consider how to best fit your business into the situations that surface. To do this you must clearly understand the strengths and weaknesses of your firm. For a long time, people assumed that small businesses were always at a disadvantage because they were small. Today, there are few commercial areas that don't have room for smaller competitors if they are focused and efficient. The primary task in the business analysis phase is to identify those factors that may give you a competitive advantage. If you hold a patent or an exclusive license on a particular product or service, you may enjoy a competitive advantage. Flexibility is a major advantage that small businesses often enjoy over larger rivals. You may be able to respond more quickly and with less cost to mood swings or taste changes in the market. Also, small businesses can often move into new product or service lines more quickly than larger firms.

The nature of the technology used to make your product may often yield competitive advantages. If you employ individuals skilled in areas unique to your business, their skills will often yield cost advantages that may offset disadvantages in other areas. For example, your competitor may be further ahead in using computer-aided scheduling, but you are able to rely on specialists in your own firm and can market your product as a unique value while you move to minimize the technological differential. Once you are clear about the areas in which you are ahead, assess your weaknesses.

Having done this, you can develop a strategy that has the best chance of succeeding. Instead of simply trying to compete for customers on a single dimension, such as price, or to catch up in one area of technology, you are now able to consider alternatives derived from a combination of factors. You may, for example, see that a traditional competitor has an apparently insurmountable cost advantage from adopting a technology that yielded unforeseen benefits. An effort to compete strictly on the basis of price while attempting to catch up technologically is probably doomed to failure. On the other hand, a move into other product lines that take advantage of the skills used by your firm may give you a better chance for survival. Eventually, this strategy may give you the time needed to acquire the technology to compete in your original product area.

Finalizing a Plan

When you have a clear grasp of the competitors, customers, suppliers and situations you face, and you combine this with a realistic understanding of your own strengths and weaknesses, you can develop a strategic plan with a strong chance of success. You may decide that you have the strengths to compete with other businesses "head-to-head" in their best markets. You may choose to target a market that has not been touched by your competitors. You may see opportunities to influence local or state legislation in a way favorable to your needs. Or you may realize that you are constrained by a combination of circumstances that severely restrict your opportunities and leave you only limited chances for success. You should, however, under any of these scenarios, be able to make better choices.

Before you develop a detailed plan to implement, attempt to identify several possible alternative approaches. Frequently, when an individual or organization faces a problem or opportunity, solutions will appear to "pop up." You've faced similar situations before, you have a "gut feeling that the way to solve the problem is to...." While your first idea may, in fact, work, the odds are it won't be as effective as other possibilities. The reason that this obvious choice may not be the best option is that it is usually based on experiences that, while appearing similar, are actually very different. You may struggle a bit to identify other possible approaches. No alternative will be perfect. But once you have considered several and listed the advantages, disadvantages and overall chances of success for each alternative, you will be in a better position to settle on a plan with greater potential.

6. The Business Plan

The business plan is a succinct document that specifies the components of a strategy with regard to the business mission, external and internal environments and problems identified in earlier analyses. A business plan is not written each time a modification to a strategy is made. It should be written when you develop a new venture or launch a major new initiative. The business plan serves several important purposes:

- It helps determine the viability of the venture in a designated market.
- It provides guidance to the entrepreneur in organizing his or her planning activities.
- It serves as an important tool in helping to obtain financing (Hisrich and Peters 1989, p.126).

A well-written business plan also will provide broad parameters upon which progress toward goals can be assessed and control decisions made at a later time.

A typical business plan begins with a brief introduction followed by an executive summary. The executive summary is prepared after the total plan has been written. Its purpose is to communicate the plan in a convincing way to important audiences, such as potential investors, so they will read further.

An industry analysis usually follows the executive summary. This section communicates key information -- the collection of which was discussed earlier -- that puts the venture or plan into the proper context.

The marketing plan is the first step in developing any new strategy. It is developed within the context of the company's goals and should be based on a realistic assessment of the external environment, as discussed earlier. The marketing plan is written first because marketing decisions typically determine resource needs in other areas. Obviously, a decision to seek a large share of a market will require a significant commitment of resources of various kinds. How you choose to promote and distribute your product or service will have clear ramifications for your organizational, production, human resource and financial plans.

The organizational plan details how your business is to be configured to most effectively support the marketing objectives. What kinds of skills are needed to carry out your plan? What sorts of skills do you have among managers and employees? What tasks will be done by which employees? What tasks will be contracted out? Many businesses, for example, hire the services of an advertising firm to improve their product promotions but handle their customer relations internally. Roles and responsibilities of each employee need to be clearly specified, as discussed in the section on goal setting.

Develop the production plan and human resources plan along with the organizational plan. Again, you must decide whether or not you will handle all production internally or contract all or part of it to other firms. What equipment will you need to meet the marketing plan? What will be the costs of manufacturing the product? What will be the future capital needs of the enterprise?

Human resource needs are clearly affected by decisions made in production planning. What human resources do you have? Will they be adequate to handle new or changed plans? What additional skills are needed? Will you seek employees who are already trained, or will you hire less skilled individuals and train them? If the latter, what resources will be needed for training, and how long will it take to obtain the desired levels of productivity?

The financial plan underpins this entire system of plans. Three financial areas are generally discussed (Hisrich and Peters, pp 126-7). First, forecasted sales and related expenses need to be summarized. Monthly figures generally need to be estimated for a period exceeding one year, although the appropriate period will vary depending on the nature of the product and the stability of the market.

Second, cash flow figures need to be estimated over the same period. A business needs to pay its bills in a timely fashion; many successful ventures end when suppliers refuse to extend additional credit to a business that hasn't paid its bills. Finally, a projected balance sheet that shows the financial condition of your business at a specific time needs to be prepared.

Usually an appendix is included in a business plan. This generally contains supporting information, documents and details that would interfere with clear communication in the body of the plan. Examples of this type of information include price lists, economic forecasts, demographic data and market analyses.

7. Implementing the Strategy

Implementation is usually thought of as something you do at the end of the strategic planning process. "Okay, now we have this strategic plan; let's do it." If you think about what has been discussed in this publication, it becomes apparent that you will be considering the practical problems of implementation throughout the planning process. Frequently, a suggested alternative will be rejected because it would be difficult to implement. Or a preferred approach to marketing or production would be beyond the financial means of you or your investors.

The two primary issues that need to be considered in the final implementation process are communication and scheduling. Successfully implementing a plan depends on effective communication. Employee resistance often can be reduced, if not eliminated, if plans are openly presented and concerns are dealt with up front. In addition, to carry out new policies and procedures effectively, employees need to have a clear understanding of what is happening and what is expected of them. Better informed employees are more likely to do as you instruct them, thereby reducing the need for complex and costly control systems.

One key element in effective communication is involving your employees -- those who must carry out the plan -- as much as possible in the actual planning process. People who are involved in planning will have a solid grasp of the plan and their part in it when it is implemented. If employees are genuinely involved in the process, they are more likely to accept the result as a plan they helped develop. This result is often referred to as "ownership."

Successful implementation also depends on a realistic schedule for the transition. It is too easy to assume away the difficulties of a major change and to anticipate that everything will be on track and running smoothly. How many times have you seen a news report about schedule and cost overruns on a government project? This kind of error can be disastrous if you are working within tight margins that can be quickly eradicated when costs and sales don't reach expectations on time. Realistic schedules require that you factor in training time, periods of low productivity, increased error rates and slowdowns as you correct organizational oversights. Schedules also should include planned checkpoints for carefully assessing progress toward full implementation.

Every business needs to develop systems for measuring and controlling progress toward strategic goals; no matter how loyal your employees or how strong the camaraderie, individual and organizational goals are not always the same. Three features distinguish effective control systems from ineffective systems.

Standards

These are your specific operative goals. The need to carefully set clear and measurable goals was emphasized earlier. (The processes of planning and controlling are most closely related for this reason.) Cautiously interpret how well your business performs relative to your goals. It is too easy to assume that, if you are not meeting your goals, the business simply is falling short.

You also must reassess your original goals. Are the goals reasonable? Is it possible that you overestimated the firm's capabilities? Has something changed in the environment -- a new law, a new competitor, an economic downturn -- that has completely changed the playing field? If, for whatever reason, your goals are now too high, your employees, if forced to continue to pursue them, will become exasperated rather than motivated.

Measurement-control systems must include quantifiable measures for monitoring performance. The lack of effective measurement systems is where control systems often fail. If you can set performance standards for profits and units produced, if you can tie standards directly to the goals of the plan, then building an effective measurement system is less difficult. Unfortunately, there are many tasks, particularly in management, that are difficult to assess. The output of these tasks, while critical to the overall success of the plan, is not usually measurable in clear units. Payoffs often only come after a long interval.

Corrective measures-corrective actions must be carefully directed at the cause of discrepancies between planned and actual results, and the cause of problems is often very difficult to identify. It is fairly easy, for example, to blame an individual worker for goal failures. However, in complex business systems, where labor and sophisticated technology interact, production systems require careful coordination by managers who must deal with vast amounts of information. In the modern business world, it is becoming harder to identify the source of problems with one agent.

In setting up an effective control system, you need to make five key design decisions:

- Will you use behavior or output controls? As noted earlier, output controls are easier to develop if they can be directly related to the goal. Unfortunately, for many jobs, output controls don't make sense because of the indirect link between day-to-day work and long-term output.
- Do you have adequate means of measuring progress? Frequently, it is wise to use multiple measures of job and organization performance. Too many standards, however, can become cumbersome and costly.
- Have you properly focused your controls? As noted earlier, interdependencies between various tasks, technologies and phases of the production system can be quite significant. If your target of control is too narrow (e.g., "The guy just isn't willing to make a reasonable effort."), you may be missing a more complex situation and find that your remedies don't really work.
- Have you determined proper intervals between assessments? You need to find a happy medium in this area. It might seem ideal to continually monitor fulfillment of the plan – and

information technologies do, in fact, enable you to do this in some situations. The cost of frequent measurements can, nevertheless, become prohibitive.

- Should you reward or punish to correct discrepancies? Both of these usually are used. However, overuse of punishment can lead to negative feelings and, eventually, failure to meet goals. Additionally, negative controls -- punishment systems -- require much more time to administer. This is because you constantly need to watch for deviations from desired behaviors if you are to catch and effectively punish offenders. A reward system, on the other hand, links appropriate actions to rewards, increasing the likelihood that you will observe positive contributions without the need for careful or frequent monitoring of day-to-day activities.

As you can see, control, like implementation, cannot be treated as an afterthought if you are to be successful in whatever strategy you choose. The standards are determined early in the strategic planning process as you set clear operative goals. Effective measurement and correction systems are crucial if you hope to encourage consistent performance that will lead to the realization of your strategic goals.

8. Summary

Strategic planning has become more important to business managers because technology and competition have made the business environment less stable and less predictable. If you are to survive and prosper, you should take the time to identify the niches in which you are most likely to succeed and to identify the resource demands that must be met. In larger businesses the steps outlined in this publication may be carried out by teams of experts or may involve the interplay of ideas among hundreds, even thousands, of managers. These guidelines are equally applicable to the entrepreneur sitting down with several key employees to discuss what can be achieved in the next two to three years, and what it will cost. The amount of time spent on each step and the resources devoted to this process will vary greatly from business to business, but it is vital to understand and employ these steps. The questions in Appendix A will help you recall the steps involved in developing a strategic plan.

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Appendix A : A Self Assessment Questionnaire

1. Have you developed a clear sense of direction or mission?
2. Have you clearly defined the nature of your business?
3. Do you have a clear philosophy for conducting your business affairs?
4. Are your business goals obtainable?
5. Are your objectives logically related in a hierarchy that will lead to goal achievement?
6. Are your objectives clear, measurable and tied to goal achievement?
7. Do you periodically reevaluate your objectives to be sure they have not grown obsolete?
8. Have you developed a logical and planned approach for collecting data on your environment?
9. Are data stored or filed in ways that allow easy retrieval of useful information?
10. Are reports produced that are seldom or never used?
11. Do you periodically review your information system to make certain it is useful and up-to-date?
12. Can you list four or five key strengths of your business?
13. Are you aware of key weaknesses in your business?
14. In developing your final strategy, did you consider three or four possible alternatives?
15. Are you involving your employees in planning decisions?
16. Did you take time to communicate the final plan to employees and deal\ with their concerns?
17. Is your timetable for implementation of the plan realistic?
18. Have you scheduled definite checkpoints for assessing progress toward goals?
19. Have you developed effective ways of measuring progress?