

Creating Value through Strategic Planning

In business, the word 'Strategy' is often overused and may describe a range of activities and initiatives that are not necessarily strategic in nature.

Strategic planning is long term , high level planning that enables an organisation to create shareholder value by understanding their unique capabilities.

Long-term, as a planning concept, varies greatly across industries, and a rule of thumb is to ask whether the completion date of a proposed initiative extends beyond your operating budget timeframe , if so it is probably strategic.

High level planning means the Board and senior management must drive the development of strategic thinking and planning. Strategic planning must seek to determine, utilise and maintain an organisational focus on processes and activities that are unique or innovative in that organisation, and that cannot be easily copied by competitors. Once determined, strategic options can be assessed against the predetermined criteria, which is top of mind for the organisation's leadership team.

Strategic Frameworks

Change Fundamentals view strategic capability as an organisations ability to excel at one of three broad categories:

- Marketing;
- Research and Development; or
- Operational Efficiency

A strategically capable organisation must excel at one these capabilities and be proficient at the other two.

Marketing:

You excel at determining your customer needs and wants before your competitors do. This can be achieved through objective and continuous market and customer research. The information is collected, summarised and acted upon to create products and services that benefit the customer and the organisation. Additional objectives include retaining customers for life and knowing how to attract and retain new clients without being a price taker.

Research and Development:

You are highly adept at developing innovative services and products that are unique and desirable to your current and future clients. This strategy requires a specific and orderly approach to R&D. The organisational view is, research and development is a revenue centre - not a cost centre. The products and services you develop are highly sought after, and often you will know your client's needs before they do.

Operational Efficiency:

Your ability to manage production costs, inventory levels and control the supply chain is exceptional. You have modern production facilities which allow you to maintain a specific quality standard whilst minimising input costs. As an exceptional inventory and supply chain manager, stock levels reflect your immediate needs and any expected seasonal requirements in advance. Furthermore, you have good relationships with your suppliers and you are able to predict shortfalls and price increases in materials and other inputs.

Strategy in Practice

In order to create shareholder value, an organisation needs to look carefully at capital investment and acquisition strategies to determine whether these expenditures will actually realise that value. For example, imagine you are considering an acquisition: Directors will want to create value over and above the current profit generated by that company. So if your unique capability is managing production costs and maintaining a specific quality standard, it would make sense to acquire a business that is not so good at this strategy.

The reason being, the parent company will be able to improve the operating efficiency of the target business, which flows to the bottom line over and above current performance. This outcome clearly creates shareholder value in terms of market price and dividend payable and leverages a strategic parenting advantage.

Now consider a capital expenditure proposal, imagine you are very good at developing innovative products. If you are going to spend money on a new manufacturing facility ask yourself whether the investment enhances your strategic capability or focuses on an area of the business that you may not excel at. If it will enhance your current strategic capability then your expenditure aligns with your strategic plan.

Summary

Strategy is long-term and guides the macro decision making of the Board and senior management in an organisation. There are three broad categories of strategic advantage, and an organisation needs to excel at one and be proficient at the other two. To have a broad strategic focus you are excellent at marketing, product development or operational efficiency.

Determining your strategic strength allows an organisation to make acquisitions that create shareholder value by leveraging the strategic parenting advantage or spending on capital investments that enhance the current strategic plan.

What next

Change Fundamentals are confident you will be able to create value through strategic planning using our facilitated process. Interested in reviewing or developing your strategic plans and need further information? Visit our services page or contact Change Fundamentals for a confidential discussion.