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STRATEGIC PLANNING MODEL FOR A MEDIUM-SIZED BUSINESS

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This paper proposes to establish a strategic planning model through a seven steps process designed to facilitate the formation, implementation and evaluation of strategies necessary for survival. It is not an attempt ot disscuss exhaustively each step in the process but to establish a planning framework only.

Many retailing business are entering a difficult stage in its business life cycle. The development of franchising businesses helps accelerating retail business into the doldrum so much so that independent business operator feels that their existence is seriously threatened with major corporations taking over retailing functions and numbers of retailing business are closing shop.

Given this pessimistic outlook, this paper proposes a strategic planning model that guides business operators through a seven-step process designed to facilitate the formation, implementation, and evaluation of strategies necessary for survival.

The Planning Model

The model depicted in Figure 1 represents a summary of the types of information gathering planning processes a business operator should use to meet increased competiton and adapt to unstable economic, political, and financial conditions. This planning model addresses four major needs of a business operation:

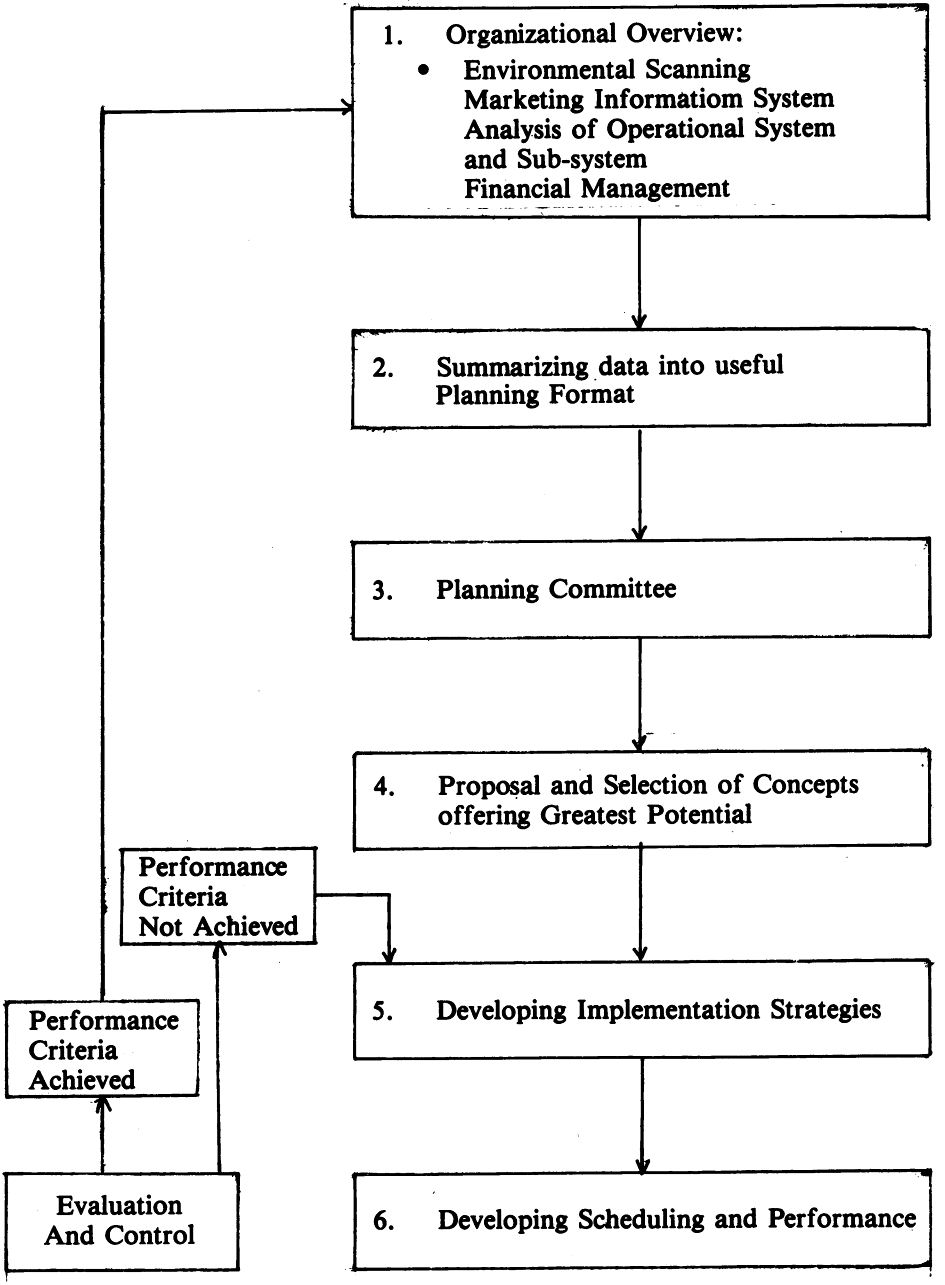
1) the need for an accurate assessment of the environment;

2) the need for adequate and reliable marketing information;

3) the need for a thorough analysis of the strengths and weaknesses of its operational system;

4) the need for a complete financial assessment of its future.

Figure 1 : Strategic Planning Model for Medium-size Business Operators



This planning model is designed to help an operator to collect enough external and internal information concerning the environmental, marketing, operational, and financial systems for him to formulate, implement, and evaluate strategic plans.

This planning model involves several key steps. First, it involves scanning the environment in order to determine and assess what environmental factors are liable to affect the operation. Second, it elicits adequate marketing information through a marketing information system. Third, it requires a thorough analysis of the strengths and weaknesses of an entire business operation through the use of a management system and sub-system approach. Fourth, it includes compiling and analyzing financial information to determine target goals for financial and operating ratios, and suggestion such as a pricing strategy to ensure the achievement of these goals. Fifth, all datas obtained are combined into a rational decision-making format where relevant information and variables are considered before making decisions and developing strategic plans. It should be noted that no attempt will be made to discuss exhaustively each step in the process. My purpose is to establish a planning framework only.

Step One

Environmental Scanning

Environmental scanning, simply stated, is the process of looking beyond the four walls of an organisation. It involves determining the present environment in which the operation exists and, more importantly, what changes are anticipated in that environment. Environmental scanning is one of the most difficult and challenging aspects of strategic planning since it depends upon the perception one has of the environment. In general, the broader and more comprehensive the perception of the environment the planner possesses, the better his contingency plans for dealing changes in that environment.

The environment has several key variables liable to affect the typical organisation: the general economy, inflation, the money supply and interest rates, government regulations, and changing life styles and markets. Each of these key variables will inevitably become more complex and dynamic, thus making the scanning process increasingly difficult, yet much more critical for survival. Thus, an operator must make every attempt to broaden his perception of the environment in order to include all the variables, and he must constantly monitor these variables for changes. To do this, he must also ensure the relevance and accuracy of information pertaining to each variable and to the environment in general.

The availability of information sources about the environment as well as the accuracy of that information present problems for the business operator. Several possible sources of information relative to the environment are identified in Figure 2. In actual practice, each source should be assessed for its reliablility and validity. The continuous evaluation of current sources and a determined effort to find new ones are essential to useful environmental scanning.

Figure 2: Environmental Scanning

Sources of Information:	
Personal:	Customers, Investors, Suppliers, Bankers, Professional and Business Associates
Interpersonal:	Publications such as trade journals and newspapers. Trade associations and their publications. Consultants.

Once the variables most likely to affect the organisation have been identified and the reliablility of the information assured, one can develop likely scenarios suggested by each variable. This process enables an operator to structure his thinking so as to develop strategies that will most likely help him succeed.

An understanding and appreciation of the environment and the scenarios it is likely to produce in interaction with the key variables, are critical to the process of developing plans for the future.

The environment will continue to have a tremendous impact upon the business, so it is far better to assess that impact in advance and have contingents plans for meeting it than to ignore it.

Marketing Information

Marketing information systems data collection is designed to gather information related to the target market of the operation, both current and potential. Valid, reliable, and comprehensive marketing information is absolutely necessary for establishing strategic plans. Without this information, an operator might easily lose track of his most promising market segments. On the other hand, focusing specifically on promising target markets, he can develop a successful marketing plan.

An operator should gather both internal and external marketing information, and information related to demographic, geographic, psychographic, and behavioristic variables. Examples of specific information such as buying habits and price-value perceptions, are shown in Figure 3. This information should provide a better understanding of current and potential customers and will help in the formulation of strategic plans.

Unfortunately, many business operations, continue in business for some time without the benefit of this type of information. For example, the business operator often dreams up a concept and then tries to find a location and market to bring the dream to life. Frequently, when the concept fails, he begins to make changes and adjustments often utilizing a hit-or-miss approach in the hope of finding the right concept.

Figure 3: Marketing Information/Data Collection

Demographic Variables:	Age, Sex, Income, Occupation, Race, Religion.
Geographic Variables:	Location of home, population size of a town.
Psychopraphic Variables:	Life-Styles, personality, family size, education level.
Behaviouristic Variables:	Buying habits, types of stores patronized, frequency of patronizing product perception price-value perception.

Source of Supply
Competitive Situational Analysis.

Operational Analysis

Operational analysis focusses attention on the management of operational system and sub-systems by making use of an operational audit. In order to provide the consumer with product- service mix desired, and at a reasonable price, while assuring a satisfactory financial performance, an operator should evaluate the strengths and weaknesses of the internal operation.

Figure 4 identifies the sub-systems that need to be fully analyzed, either by the operator or his consultant. The performance criteria applied to each sub-system depends upon the type of operation planned. Generally speaking, this is the area in which experienced operators have an advantage. In most cases, they tend to have an understanding of the fundamental aspects of the operations side of the business.

Figure 4: Analysis of Operational System and Sub-System

The analysis would include the following sub-systems:

- Purchasing
- Receiving
- Storage
- Inventory Control
- Requisition
- Receipt and payment
- Production – Standardization
  – Labour Cost
  – Quality Products

Financial Management

The financial management responsibilities discussed here are associated with current and future operational successes. To complete this step of the process, the management must have a thorough understanding of the financial management process including the ability to formulate plans for the financial future of the organisation

At this point, one should analyse the appropriate financial structure for the concept being developed. Careful thought must be given to the appropriate amount of debt and equity financing required. Sources of financing must be determined. Projected financial statements must be developed in order to make a sound professional judgement as to where the organisation is heading and whether or not it will get there on financially sound footing.

Key financial performance goals should be established, including target sales figures, ratios for cost of goods sold, and other operating costs, as shown in Figure 5. In addition, acceptable and realistic ranges should be established for each. performance area. The successful completion of this part of the process helps one determine the financial feasibility of the operation.

When the financial requirement have been established, the information gathered must be matched with the marketing and operations information developed previously. Now, one can begin to answer such questions: Is the market large enough to support our needed sales? Can the management keep costs within the projected ratio ranges?

Figure 5: Financial Management

The analysis should include:

- Net present value of a future stream of cash flows
- Desired financing package, structure, leverage
- Financial performance criteria i.e. ROI
- Breakeven analysis
- Working capital management
- Cash budgeting

Step Two

Step Two requires the summarization of quantitative and subjective information into a useful planning format. The first step tends to generate a large quantity of data. In its raw form, this data is of limited value. When interpreted, however, it becomes a major component in the formulation of strategic plans, as will shown in later steps of the model. A two-part approach is recommended. First, all quantitive information should be translated into tables, charts, graphs, and other visual formats which may include market share trends, types of customers, percentages, and trends in the financial status of the operation. Second, a narrative that summarizes the most significant subjective data should be developed. This narrative will provide the planners with a better understanding of how the environment and the individual key variables influencing that environment might affect the operation.

The business operator often has difficulty preparing such a summary because he is too involved in the operations to be able to visualize emerging trends. Success is said to based on good ideas and extra personal effort, not on studying raw data. Despite these beliefs, the operator should begins to accept the use of information in the decision making process. Step Two is included in this model specifically for this reason. The use of outside resource personnel, for example a consultant familiar with strategic planning, and the use of quantitative data in decision making activities are also desirable.

Step Three

Step Three draws together a committee constituting the owner and his management staff. This committee will be charged with the responsibility of developing strategic plans for the future (Figure 6). The Management and the owner should formulate these plans together, utilizing the information gathered in Step One to discuss, debate, and plan a concept. If the management does not have input into the formulation of these plans, the probability of success is reduced. Expertise in operations, marketing, finance and human resource management should be represented on this committee, in order to achieve realistic plans that take into consideration all aspects of the operation. If the owner and management do not possess expertise of these areas, consultative assistance may be utilized.

Figure 6: Planning Committee

With individuals representing expertise in the following areas:

- operations
- marketing
- finance
- research and development
- human resource management

Step Four

Step Four suggests several alternative concepts be proposed following the initial formation of the planning committee. The concepts developed at this time should be unconstrained and free flowing. The central purpose is to allow the committee to brainstorm in order to generate concepts that might result in a highly successful operation. The committee should resist the temptation to rush toward decision. Instead, the committee should strive for a consensus. Several techniques, including the delphi process or the nominal group process, could be used to ensure that any decision made reflects the thinking of all the committee members. Following their proposal, the alternative concepts should be subjected to a thorough analysis, and the most probable outcome of each indicated. Numerous analytical techniques could be used here, including proforma financial statements, net present value projections, sales and revenue projections, and an analysis of the costs and benefits of each concept. The marketing and operational impacts should also be analysed thoroughly **(figure 7).**

The analysis of alternative concepts must be undertaken with a high regard for the impact of the environment. What is the most probable impact of the ecomony, inflation, money supply and interest rates, and government regulation upon each alternative? All of these variables should be weighted carefully before a decision is made. A concensus should then be reached on the concept likely to offer the greatest short and long term success. This decision should be based upon the generated information, experience, and the intuition of the committee members. The objective of the committee is to plan for a single concept that reflects both the internal strengths and weaknesses and the external environment. The selected concept should naturally reflect the product-service mix the consumer desired, and should be within the current or potential financial and capacity limits of the organisation.

Figure 7: Proposal and Selection of Concepts Offering the Greatest Potenstial

The analysis of the concepts and the selection of a single concept should be based upon:

- Proforma financial statements
- Net present value projections
- Sales/Expense forecasts
- Cost/Benefit analysis
- Marketing impact
- Operational impact
- Impact of environmental variables

Step Five

Having selected the concept which offers the greatest potential, the committee must initiate a general strategic plan designed to bring the concept to fruition. Thus, the committee members must develop implementation strategies for each major area of major managerial responsibility: operations, marketing, finance, and human resource management (Figure 8). Questions for each of these areas should be addressed and strategies delineated. For example: How can the product be developed? What is the best method of promotion? What are the best sources of financing? Should new equipment be leased or purchased? What are the best sources of labor? How many employees should be hired? What new product or service ideas should be tested? How would these ideas best be tested?

Step Five calls for the operation of the concept. It is suggested that specific implementation strategies be developed across the four areas of management responsibility. An operator's failure to develop adequate strategies in each of these areas will diminish the probability of the concept's success.

Figure 8: Development of Implementation Strategies

Develop inplementations strategies for the concept in each of the following areas:

- Operation
- Marketing
- Finance
- Research and Development
- Human resource management

Step Six

Following the development of the implementation strategies, Step Six suggests that two activities be completed prior to the implementation of the plans. First, an implementation schedule should be developed. Not all of the strategic plans can be implemented at the same time. Instead an orderly schedule should be established detailing how the plans for each of the four areas of management responsibility will be actualized. Second, a series of performance criteria for evaluating the relative success of the four areas of management responsibility will be defined. The performance criteria for return on investment and assest, degree of operating leverage, ratios relative to financial leverage, degree of consumer satisfaction, and market share should be carefully evaluated. Specific sales objectives should be established based on breakeven analysis. These criteria must be examined in relation to current and future economic trends. Are they going to be satisfactory in times of ecomomic instability, inflation, recession, or growth?

Step Seven

Step Seven represents the formal evaluation process, during which the results of the implementation of the plans are evaluated against the performance criteria established. If the criteria and standards have been met, the planning model has been successful and the implementation of the strategies should continue. If, however, the evaluation indicates that the plan has failed to fully achieve the desired results, the planner should return to Step One to ascertain the reason(s) for the deviation from the desired performance criteria(see Figure 1).

Step Seven also implies some experimentation with the concept. This is where the medium-size businesses are at a disadvantage. They generallly cannot afford to invest in prototype operation to research and develop the concept further. Usually medium-size business is under-capitalizes, so the operator cannot afford to wait for the concept to catch on and develop. Consequently, a great deal of time should be spent on evaluating the concept fully, utilizing each step of the planning process before fully committing funds to development of a single concept.

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