# CREATING GREAT PLANS:
## *PLANNING PROCESSES THAT WORK!*

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 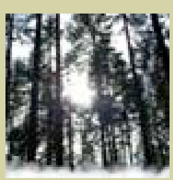  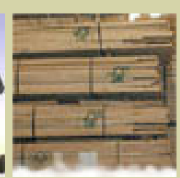 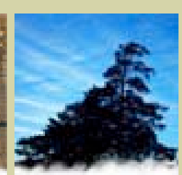

# Creating Great Plans
## *Planning Processes that Work!*

### Executive Summary

Planning is THE most critical activity an organization undertakes. For over twenty years research has demonstrated that the key characteristic that distinguishes "excellent" or truly successful companies from the herd is the existence of a formal written plan. Many companies have great ideas. Those that write them down and figure out how to implement them usually win out in the end.

Yet, research also shows that it is really not the planning document that is important, but rather the planning process. Everyone knows that a lot can change a few months, weeks, or sometimes even days after you've formulated a plan. The key, however, is that through the planning process the greatest number of people in the organization possible know not only what you are trying to do, but also why and how you are trying to do it.

There are basically two approaches to planning, and both have merit in different circumstances. The first, and most common approach is for leadership of the organization to develop a plan and then educate the rest of the people in the organization as to what is expected of each of them. Alternately, more and more organizations are developing the plan with the input of as many participants as possible. The idea here is that the greater the input individuals have, the greater the "buy-in" and commitment to meeting that plan. It has been our experience that the most successful plans, and those that are also the most flexible, are those developed with the broadest participation. These plans are the most successful in the face of change as a result of the fact that individuals have a deeper understanding of what the organization is seeking to achieve and are thus able to adjust more quickly to different approaches of how to get there. This approach also tends to stimulate creativity within an organization.

This paper discusses what we see as the ideal way to develop a plan within an organization in order to achieve dramatic levels of success. There is a clear bias here for planning processes that include the greatest number of people, and indeed, it can be suggested that everyone in an organization has a role in creating a great plan.

### Background

The July newsletter included an extensive article on visioning. If you haven't read that article, and haven't invested at least a full day in the past two years completely reviewing your vision, then consider this the point when we say, "insert vision here!" The basic goal of a good plan is to fulfill a vision. Without the vision there is nothing to plan for, and you end up with a plan that reads like: "we will increase sales by five percent" and we will "implement cost savings programs designed to save $250 thousand in the coming fiscal year." A plan such as this may be functional at modestly adjusting the status quo, but hardly motivational and unlikely to stimulate real change within an organization. So, as you read the rest of this article realize that it is based on the assumption that you have an exciting, motivational vision, and now you just need to figure out how to achieve it.

**Introduction**

In general there are some basic processes an organization must go through to create a formal plan. Every business school text has examples, and later this year the latest and expanded, version of "the green planning book" called "*Keys to Success: A Guide to Strategic, Marketing and Business Plans for Small and Medium Sized Wood Products Companies*" will be available. This publication is a joint publication of Dovetail Partners and the US Forest Service. With these resources available, we won't spend much time on the details of writing individual plans here. Our goal in this article is to focus on what makes the planning process, and thus ultimately the plans, great.

**Creating Great Plans – who to involve**

Great plans are derived through highly structured processes that attain the highest level of involvement by members of an organization as is *reasonable*. Reasonable is defined as *at least* the next "level" of employee below that which created the plan the year before. So if the CEO did the plan alone last year, the CEO and *at least* all his/her direct reports should do it this year. If the whole leadership team created the plan last year, the whole leadership team plus all their direct reports should create it this year. Thus within seven years it is possible to go from a CEO-only created plan to one that includes every employee. The seven-year timeline arises from the belief that no company should have more than seven layers of management, based on the time periods within which a decision must be made. The following time-based management table provides an example of how the layers of management may be defined.

| Level | Management Period | Example title |
|---|---|---|
| 1 | Today | Line worker/customer service individual |
| 2 | Tomorrow | Production Lead or Customer service Mgr |
| 3 | Next Week | Asst. Production Mgr |
| 4 | This Month | Production Mgr |
| 5 | Next Month | Operations/Sales Mgr |
| 6 | This Year | President |
| 7 | Future years | CEO |

Each company can adjust the above chart based on its unique needs, (e.g. they may have individual employees in charge of all they do today and for setting up for tomorrow) but still have seven layers because they have someone worrying about getting everything ready for the current week. Also, in many companies individuals may wear several hats, e.g. an individual might be President and CEO. That just means they are responsible for all decisions affecting performance in both time periods (both this year and the future, in this case). It should be noted that these decision-levels exist in all companies, even if there are only three employees!

Often when companies that are struggling are evaluated, it is discovered that decision-makers are attempting to manage non-continuous timelines. Take the example of a president who is also "helping out" as customer service person, when there is also a customer service manager in the firm. Next thing you know, with the best of intentions, the president has made promises that conflict with the plans of the customer service manager in some way. Resolving this takes time, energy, and often the first person to recognize the problem is the customer – who now only wants to talk to the president! Sound familiar? Ultimately, recognition that individuals should only stretch themselves into adjacent time periods under extreme circumstances forces better training and better plans. In the previous example it would be far better to plan for plenty of people to take customer service calls with the contingency plan that the customer service manager helps out when necessary … not the president.

A time-based management table provides structure to the process of empowering people. It is relatively straightforward to say to an assistant production manager, "your job is to be sure we have everything we need to be great at what we do next week!" And it emphasizes that every individual in an organization should have the training and authority to make all decisions that must be made for their respective time period. So a customer service person should never have to ask a boss about a decision for a client that is waiting on the phone. Many organizations also have dollar limits on decisions of this type, e.g. a production manager can spend up to $5000 to resolve an issue.

Once you know who is going to be involved in the creation of the plan, the next key is to define both the structure and the order of the process. In general, the best plans are created *in the following order*:

- Strategic Issues and company approaches are defined
- Marketing Plan is created
- Operation Plan to support the Marketing Plan is developed
- Financing and budget issues are addressed
- Organizational Plan is created

**Strategies**

Every company has a few key strategic issues they need to address. A strategy can be defined as a plan the impacts the direction of the organization. Strategic issues occur for both the organization as a whole and specific to any organizational system or department. Great companies identify a few key issues and hold onto those like pit bulls. Examples of strategic issues and organizational strategies are given below.

| *Strategic Issue* | *Strategy* |
|---|---|
| Slow economy | Add Sales staff |
| Excess manufacturing space | Expand day shift rather than add second shift |

| | |
|---|---|
| Shortage of summer staff | Recruit teachers and college students |
| Poor at developing new products | Expand through acquisition |

Perhaps the best question that can be asked to help define a core strategic issue is, "*if we accomplish only one thing next year, what would we want it to be?*" You can also narrow that question down by department to help identify additional issues. For example, you could ask, "if the sales department only accomplished one thing this year what would that be?" Interestingly, if you ask the heads of all departments to provide input for each other, you will find some very interesting answers. For example, the operations manager might respond to the above question about sales with, "we have so many problems finding new production employees right now, that if we could just keep the sales volume the same for next year (or only grow them in one specific product), we would be able to better train the existing ones and it would have a huge positive impact on overall company profitability!" Then, the consideration of whether or not to grow sales becomes a strategic issue, rather than just a traditional tactic (e.g. we always try to grow sales by five percent).

By involving as many people up front in defining the major issues and the major strategies that the organization will employ, the greater the opportunity for both creativity and the coordination between departments. And you are significantly less likely to have groups or individuals developing activities that conflict with each other.

Finally, the number of strategic issues that the organization works on in any given year should be limited to no more than six. Although there are always many things that are important, the organization must prioritize these and focus on a few key ones each year.

**Marketing Plan**

The marketing plan is the first of the more traditional "core" business planning activities. Generally you would start with an emphasis that the needs of the customer and the marketplace drive the organization's sales, operational, and financial activities. In our August newsletter, we provided a brief overview of marketing tools that you could use in creating and implement your marketing plan. A good plan:

- Clearly defines who your customers are, why you chose them, and how you are going to find more similar to those you like best (and perhaps replace those you don't like!)
- Describes the key products and/or services that are your focus for the year, which products/services you will phase out (if any), and what processes you will use to add offerings
- Identifies any changes in channel strategy and how you will improve the efficiency in the way your offerings reach the end customer
- Discusses your pricing strategies for the year and any changes in approach from previous years
- Describes your promotional plan for the year, including any proactive publicity programs

From reading the marketing article in the last newsletter, you may recognize the above as an augmented form of the traditional 4-P's of marketing. The addition is that of a customer evaluation component – vitally important in today's rapidly changing marketplace. A final piece of the marketing plan is in the description of how each of your plan's components links to overall corporate strategies and to the company vision. Making this link ensures that the company's outreach activities start out in the right direction. There is no way the rest of the plan can work if marketing starts out on the wrong page.

**The Operating Plan**

The operating plan should be developed specifically to address the goals of the marketing plan, while recognizing and creating contingencies for variations in that marketing plan. That is, if marketing says they are hiring three new sales people to grow sales by twenty percent, operations should use their experience and judgment to decide how to gear up to provide the service required while still recognizing the relatively speculative nature of sales forecasts. From an operations point of view it is critical to know how quickly the sales and marketing team can react to changes in the plan. That is, how will they know the sales plan is working and how quickly can they modify (e.g. hire more/different sales people) to adjust to changes? Operations needs to know this in order to optimize their staffing, equipment, and material plans; and contingency plans need to be developed for any extreme variations ("what if they're really successful and grow more than planned?" or "what if the new sales occur in big batches rather than small increments?").

Obviously, sales and operations need to work hand in hand, and the more complex the system and the more potential variation there is, the more closely the two need to work – especially in the planning process! Some companies have gone so far as to redefine organizational responsibility based on product line, and paired an operations person and a sales person with joint responsibility for the success of that product line. The idea is to benefit from the creative tension that arises between the two potentially conflicting activities of sales and production.

**Financing & Budgets**

Financial plans and budgets provide numerical feedback and benchmarks for the sales and operational systems. If the marketing and operational plans are done independently, it is often only through the budgeting process that strategic issues of conflict arise. For example, sometimes even small increments of sales growth in a certain area can have a large impact on operations, such as creating the need for new equipment or new management personnel. It is very possible that certain increases in sales actually decrease profitability, if only temporarily. It is through the financial planning and budgeting process that these impacts are explored and pointed out.

It is also through the financing and budgeting process that potential modifications in the plan become apparent. For example, impacts on profitability might only be clear when the complete budget is put together. Also, the necessity of purchasing equipment to meet sales projections might drive increases in sales forecasts to meet financing requirements at the bank. In general, the marketing, operating, and financial planning portions of the plan become an integrated feedback loop that repeats itself until all issues are addressed. This is not to suggest you do the plan over and over until you get it right, but to recognize that modifications may become necessary in some situations, and these situations will become apparent through the communication process between the various plan components as budgeting proceeds.

Also it is valuable to point out that an essential element of a great plan is that financials support your sales and operating activities, not vice versa. This may sound simple, but it is rarely done in practice. A great many companies create plans by first generating financial goals and then figuring out how to implement them. In fact, it is really common for companies to create financial goals, determine if the have the capital equipment to meet those production levels, and then identify what sales and marketing activities are necessary to meet those production goals. From a planning and customer point of view that approach is completely backwards! The customer's needs in that scenario don't enter in until long after the company has already decided what it is going to do. That is too late. Today, customer's needs are often changing so fast that if they aren't considered first the market may be missed completely. The backwards approach also leaves a firm with the result that they are "selling what they make" not "making what they sell;" a critical difference in the long-term success of most companies.

**Organizational plan**

Remember the movie Office Space, where the star has eight bosses all checking on his TPT forms? Scott Adams has also made a fine living spoofing office organization in his cartoon "Dilbert." These things are funny because so much of what they portray is so true. It is not uncommon to go into a company, large or small, and ask someone who they report to and to get a response that they either don't know or that they report to multiple people.

The organizational plan component is generally the most important part of the planning process, and the most neglected. At its heart the organizational plan describes the roles and responsibilities of every individual and group within the company. At its simplest, an organizational plan can be an organizational chart, that shows who reports to whom, and is posted for all to see. From that base, the organizational plan can be expanded to include a clarification of who is on what committee and a definition of the exact role of each committee or team.

The basis behind the organizational plan is to create the ability to hold people accountable for their component of the plan. You can hold both individuals and teams accountable IF you know and have stated up front who is responsible for what. That is why the organizational part of the planning process is so important, as without it, no one is responsible.

**Conclusion**

The best plans have broad involvement and are synchronized between financial, operational and marketing departments, but are driven by the needs of the customer. Through this approach, the lines of accountability are clear. In general, it is better if the involvement is broad and shallow than if it is narrow and deep. That is, it is better that everyone in the organization knows your vision and your core strategies for achieving the vision than having only your leadership team involved in great detail. If people know why you are trying to do things, they can be very creative at helping the end result along.

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