STRATEGIC PLANNING: A PRACTICAL PRIMER FOR THE ENTREPRENEUR

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ABSTRACT

Entrepreneurs are known for opportunity recognition. However, once a commercial entity is formed to take advantage of an opportunity, the leadership priority shifts from entrepreneurial to strategic. A strategic perspective leverages limited resources to position a business for future success relative to rivals in a competitive environment. Oftentimes, the talents needed for one priority are counter to those of the other.

This article intends to simplify one's transition from entrepreneurial to strategic. It walks an entrepreneur through the strategic management planning process using a fictional business. The various tasks in the process (mission, vision, internal analysis, external analysis) are illustrated with examples from a typical restaurant. The examples show how the strategic management tasks are interrelated and ultimately lead to a philosophical approach to managing a business.

INTRODUCTION

Entrepreneurs are primarily concerned with recognizing opportunities and seizing the initiative (Baron & Ensley, 2006). However, once seized, the organization needs to be able to survive in a competitive environment. For this follow-on survival, one needs strategic management skills in addition to the entrepreneurial skills already held (Ireland, 2007).

Strategic planning is beneficial to the small business. Studies show that it is strongly related to small business financial success (Katz & Green, 2007; Wheelen and Hunger, 2004). For example, Schwenk and Shrader (1993) applied meta analysis to the result of previous studies on formal strategic planning and the performance of small firms. The researchers found that even though the size of the effects of strategic planning for specific studies is not that large, the overall relationship between formal planning and performance is significant and positive.

Rue and Ibrahim (1998) found that greater planning sophistication is positively related to growth in sales though there was no significant relationship between planning and return on investment. Last, a study by Baker, Lon and Davis (1993) of high growth INC firms showed that 86% conducted strategic planning. Some 94% of these reported an improvement in profits. Ibrahim, Angelidis & Parsa (2008) showed similar results in small, family-owned businesses. In this article

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we intend to provide entrepreneurs a practical primer to strategic management in a very easy to understand format by following the process using a fictional restaurant in an urban environment.

PURPOSE

Entrepreneurs pour their hearts and souls into new ventures for years until they finally start to pay off (Mitchell et al., 2002). Perhaps they have heard of strategic planning but haven't really had time to pursue it as a process. The problem is that few know much about strategic management and have fewer still have ever participated in the process. And, unlike in larger organizations that may have strategic management departments, the onus for everything in smaller, start-up organizations, falls to the owner/manager.

Therein lay the purpose of this article—to remove some of the mystery associated with strategic management and to provide practical guidance towards taking the next step in managing an on-going business. A summary of the strategic planning process and a list of suggestions for conducting the process are provided. We think you will find that the process is pretty much common sense and easier to accomplish than originally thought.

The importance of strategic management to a business can be summed up with the old saying—"If you don't know where you are going, any road will take you there". Prudent use of the information contained in this article will help ensure that you and your company will find the road to success and will continue to follow it year-after-year.

THE STRATEGIC MANAGEMENT PROCESS

Your first step in learning the strategic management process should be to put yourself at ease. Although, the name itself invokes a grandiose scheme that may seem bigger than life, strategic management is, in fact, little more than an exercise in time management. It's all about how to achieve what's important when faced with conflicting demands and limited resources. Second, don't get caught up in the hype of strategic management. Too many organizations go through the motions but lose sight of the intent. These companies are ridiculed in mainstream culture such as in the Dilbert comic strip. Remember the intent of strategic management is to set your company up for future success.

The following discussion includes descriptive steps in the strategic planning process. The first phase of strategic management is planning followed by implementation. We concentrate on the planning process here by showing how things *should* progress while giving some practical examples.

Mission

This is your starting point. Equally important as knowing where you are going, you need to know where you are starting from—where you are today (Collins & Porras, 1996). A good mission

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statement would include your company's name, its major product/service offering, its major customer(s), and its source of competitive advantage. It needs to answer the question of "Why are we in business?"

For illustration, assume a fictitious restaurant, Mama's. Mama's provides lunch service in an urban downtown setting. A good mission statement would be:

"Mama's restaurant provides workers in the central business district a home-cooked lunch. Our success rests on our unique, relaxed, home-style atmosphere where you can "get away" from the work environment, if just for a moment".

After reading this mission, one can easily picture what the business does. It would be difficult to develop a similar understanding if the mission was simply "To make money". In a capitalistic economy, it's a goal of most businesses to make money. The issue at hand is to structure and position your company so that it has the best opportunity to make more money than the competitors.

Vision

We can all remember President John F. Kennedy's vision of "A man on the moon by the end of the decade" and Martin Luther King's vision of "I have a Dream". Both are simple yet extremely powerful.

A good vision need not be as powerful as those above; but, it should be useful. The business's vision should paint a clear picture of the company in the distant—one that can easily be seen in the mind. In general, Vision development should be easy for an entrepreneur. After all, the vision is simply a representation of the opportunity which was recognized and led to the formation of the business in the first place.

In general a vision is often less defined than the mission and more goal-oriented. Visions provide a unifying motivation. While flexible, three to five years is a reasonable time frame. A good vision should inspire and motivate the entire company. Building on Mama's example, a decent vision could be, "When the harried workers think of lunch, Mama's is the first choice that comes to mind". This vision provides sufficient direction for managers at Mama's to use when setting priorities.

Now that we know where we are (e.g., the mission) and where we want to go (e.g., the vision), it's time for a reality check. The owner/manager needs to evaluate his company relative to competitors to see what he need to do in order to make sure that he can reach his desired future. This issue is addressed in the next part of the process and has two steps. We start by looking inside the business with an internal evaluation of what the company has and then look outside at the external environment to see how the company compares to competitors.

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Internal Evaluation

Internal evaluation involves some serious soul-searching. You need to look around and take inventory of everything that you have at your disposal. Put yourself in Mama's shoes and the inventory should contain everything: people, buildings, desks, chairs, chicken roasters, refrigerators, freezers, etc.—these are resources. Now look at what you're doing with those resources: preparing meals, serving meals, cleaning up after meals—these are activities.

The internal evaluation process should provide a very detailed description of the business, what it has and what it does. The more detail the better. In fact, the soul-searching session will be more effective if you can remain objective and refrain from assigning adjectives during the identification phase. To illustrate by building on Mama's example, one resource could be the restaurant's address/location. While the location may be a reason for success, avoid any claims of 'prime' location for the moment. Simply list everything; the list will be pared down and prioritized later.

Mama's resources would include: a chef with credentials from a particular culinary institute; two hostesses; five wait staff; 1,000 square feet seating area with thirty tables; a lease on the property; a kitchen capable of producing fifty meals per hour; etc. Mama's activities would include: receiving the ingredients to the meals; preparing the meals; serving the meals; cleaning up after the meals; greeting incoming diners; seating the diners; taking orders; delivering the meals; disposing of the waste; paying the employees; developing menus; etc.

The more detail is better because we have to evaluate each of these activities to see where we rank relative to competitors. We want to find out what Mama's does better than her competitors. Furthermore, why should potential diners choose Mama's over her competitors: Papa's, Uncle Joe's or Aunt Jane's? This is the question we want to answer next, and the more activities we have in our description, the more options we have in our next step—external evaluation.

External Evaluation

It is important research the trends in the industry in which you are operating. In Mama's case, restaurant industry trends which may impact her restaurant include eating habits, technology, regulations at all levels of government and a rise in the cost of doing business, e.g., labor, utilities, insurance, and supplies. Information about the restaurant industry may be obtained from the National Restaurant Association or a state restaurant association.

The local economy and trends need to be considered by all small businesses in the area. Mama needs to study changes in population, demographics, consumer lifestyles, and economic development factors. An assessment of the local economy and population changes in population may be procured from the local economic development agency for her city, county, etc. or the business research unit located in a nearby university. Trade newspapers, attending area Chamber of

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Commerce meetings, and in Mama's case, attending area restaurant association meetings could be most informative.

You now need to identify your Industry; this is you and all the competitors fighting for the same group of customers (Porter, 2008). Your company's intent should be to attract those customers instead of allowing them to freely seek out your competitors; this is critical to your company's success. Simply, you need to determine what the customers want. You then need to perform those internal activities which are the bases for what the customers want; and, you need to do so better than the competitors.

Of course, this is much easier said than done. You'll have to rely on marketing research to identify what your target customers want and how they decide among various competitors. In Mama's target market, the potential diners come from occupants of the office buildings in the central business district; this is consistent with her mission statement. Mama hired a consultant to survey the potential customers to see what criteria they use when deciding where to eat lunch. The consultant identified three factors: within three blocks walking distance; a relaxed atmosphere; and, good tasting food. Mama, being familiar with the area around her restaurant, identified three other restaurants that may be able to satisfy the above criteria: Papa's, Uncle Joe's and Aunt Jane's.

The task at hand is to make sure that Mama's is better able to provide the above three factors better than the other three restaurants can. In other words, Mama wants to make sure she has a competitive advantage. Therefore, we need to evaluate each of Mama's activities relative to the corresponding activities of the other three competitors. The initial intent is to see which activities Mama's performs better (i.e., her strengths) and where Mama's doesn't perform as well (i.e., her weaknesses) relative to her competitors' performances.

We can now revisit Mama's activities and see if, and where, she has a competitive advantage. Recall, the customers' first decision criterion was convenience. After evaluating her location relative to those of the three competitors, we can see if more potential customers are within a three block radius or not. The second criterion was atmosphere. After hiring an objective evaluator to visit all four restaurants, Mama found that hers rated as the most relaxed. This evaluation demands further measure since it is so critical. She really needs to come up with objective measures for defining a 'relaxed atmosphere'. The third criterion was quality food. Again, an objective evaluator could be hired to taste the offerings. A simple proxy measure for food quality could be the credentials of Mama's chef relative to those of the chefs of the competitors.

Due to space constraints, we'll limit our coverage here. To be really useful, you should evaluate all of your activities against very specific measurement criteria in order to see where you rank relative to your competitors or industry standards (Barney, 1997). You may find other sources of competitive advantage as well as areas, not necessarily linked to the competitive advantage but where you need to improve your business such as reducing costs.

We'll now shift our focus to the longer term considerations. What else is going on around your company that you haven't considered yet? How will those events change the way you're conducting the business in the long term?

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Other External Considerations

Consider the price of gas. Mama's is not immune to rising gas prices; it affects the cost of her ingredients. Mama is faced with two choices; she can raise her menu prices or simply absorb cost increases and not make as much profit. In Mama's marketing research report we should have noted that price was not one of the major decision criteria on the part of potential diners. Therefore, Mama could raise prices to compensate for increased costs without losing customers. Of course, there is some price level where the other criteria will start to play less of a role; this needs to be considered during the marketing research process.

In general, we refer to external factors that can have a positive impact on businesses as opportunities and the negative ones as threats. Since these opportunities and threats affect all businesses, your company's specific competitive advantage will allow you to benefit more than your competitors when all are faced with the same opportunity.

For instance, the increase in corporate downsizings has increased stress and lowered the number of employees. On the positive side (from Mama's perspective), increased personal stress also increases the need for one to seek whatever relaxation one can find during the day. A restaurant that provides an oasis of relaxation will enjoy a correspondingly higher demand than those without such an atmosphere. On the negative side, the corporate downsizings have reduced the total population of potential diners. However, since Mama enjoys a higher demand than the competitors, she will most likely lose fewer customers than the other three.

The evaluation of the general environment is the least well defined in strategic management. One must be very creative and insightful in order to notice changes. In fact, it would really help if you could predict the future. However, since that's impossible, your next best bet is to stay alert to what's going on around you by scanning the environment. By paying close attention to as much media as you can afford, you become more sensitive to changes. Although you won't be able to actually predict a change, you may be able to notice subtle changes before your competitors. You can then take action before anyone else and give yourself a competitive edge.

Putting it all together in a Plan

It's now time to put these pieces together into a coherent and comprehensive strategic plan. The theme in any strategic plan is to fit all the pieces together. Ask yourself the following questions and then develop a to-do list of objectives that will set your company up for future success:

- *Do I have sufficient resources to accomplish my current mission and achieve my future vision?*
- *Do I have sufficient strengths to ensure that I remain competitive?*
- *Do I have too many weaknesses such that they will overwhelm any advantages I may have?*

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- *Are there enough opportunities and not too many threats such that I can achieve my future vision?*

If you can answer all questions, yes, then your priority is to simply monitor the situation and note if anything changes. If you answer no to any of the questions, then you need to establish a detailed action list to correct the situation. Based on your understanding of where each of the pieces fit into the bigger picture, you can develop an action plan to correct the situation.

Developing a plan may be difficult for Mama's management due to the lack of time, unfamiliarity with strategic planning or planning skills (Wheelen & Hunger, 2004). An excellent source of free help is available from a nearby Small Business Development Center (SBDC). The nearest SBDC to Mama's may be found on the Internet.

Actually accomplishing the necessary tasks is the basis for the second phase of strategic management, the implementation phase. But, until the actions are identified, the plan can't be carried out. The entire process strategic management process becomes iterative and enduring. It's easy to see that strategic management is a philosophy or way of thinking.

SUMMARY

Strategic management is all about positioning your company relative to your competitors so that your performance will be better than theirs. This process is accomplished through discrete but interconnected steps where you identify resources and activities. You then compare your activities against your competitors' activities to see whose are better; these become strengths for the owner. Your strengths that correspond to what the customers want become your competitive advantage. You then use your competitive advantage, in the face of changing environmental conditions, to out-perform your competitors.

All too often we hear about: putting out the fires; crises management; and, reactive vs. proactive. We 'know' that we should plan; it's just too easy not to plan. Through the use of this primer, we hope that you how have a better understanding of the practical application of strategic management tools. Even more so, we hope that you recognize how naturally strategic management fits with a common sense perspective of running an on-going business. Finally, combining an understanding that one should plan with the planning structure that strategic management provides, we hope that many will embrace the strategic management philosophy and enjoy a positive influences on their bottom lines.

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