BUSINESS PLANNING AND STRATEGIC PLANNING REVISITED

Article by Herb Rubenstein, President, Sustainable Business Group

Introduction

Recently, it came to my attention that a well known consulting firm is now charging between $300,000 and $350,000 to write business plans for non-profit organizations. Given the large dollars going into the drafting of business plans and the confusion over the difference between a "business plan" and a "strategic plan", I wanted to devote this article to explaining the basic elements of business planning and strategic planning and to make some distinctions between the two.

The first thing to realize about a business plan or a strategic plan is that it must be based on, and informed by, what the organization and its employees know. While this seems obvious, whenever consultants are brought into the strategic or business planning process (which is often) much of the knowledge of the organization and its employees is never transferred properly to the business plan or strategic plan writer.

Business Plans say "How"-- Strategic Plans say "What and Why"

Clearly, Peter Ellis's version of a "strategic" plan is what most people would call a business plan. Peter's position is that unless and until one knows all of the fundamental cost and economic prospects for a business idea or strategy, that idea or strategy does not merit inclusion into a strategic plan. Simpson's view is that strategic plans should be more general and point out the direction for an organization and explain, in qualitative terms (with some quantitative support) why an organization should focus on certain broad new markets, products, services, improvements in innovative engineering or business processes, enhanced customer service regimens, or other breakthrough opportunities.

Big debates are no accident and it is no accident that the business plan/strategic plan debate broke out at a conference of Continuing Legal Education Administrators. First, these dedicated professionals do not regularly prepare detailed business plans. They can never predict how many people will show up for a course, can never know if a new set of courses will take hold in the marketplace and can't even predict the quality of first time educational providers or instructors. However, these administrators are masters of the art of strategic planning. They can determine, with great qualitative precision, what new areas to teach, new formats for courses, new systems of planning and marketing courses, and they work very closely with State Bar Associations to set the exacting requirements for credentialing new courses. All of these elements are included in the robust strategic plans of CLE administrators around the country.

So, in this crowd of people who are primarily strategic planners, not business plan writers, a business plan writing specialist is sure to start a serious debate when discussing drafting business plans.

A few years ago our firm was approached to consider a research and planning project where an popular island off the coast of Virginia was seeking advice regarding whether it needed a new bridge to connect it to the mainland. In order to develop a strategic plan for the island to help them make a decision on whether to repair the old bridge or build a new one, there is a huge amount of technical engineering, environmental, sociological, demographic, economic and physical planning/zoning work that must go into the strategic plan. Certainly detailed cost studies are an important element of this process giving strong weight to the Ellis argument.

But, in this instance, clearly the development of a strategic plan to guide a community does not require the voluminous financial analysis that would be required to develop a business plan for this endeavor. A business plan would have to have great precision on all cost and financing options, all expected revenue impacts, all economic impacts to the community in the short and long run and requires certainty in a way that a strategic plan is not required to achieve. So, Dan Simpson’s argument shows great merit in this situation. The idea of a bridge or road requiring a strategic plan is not new. Today, with roads and bridges often being built and owned by private companies and paid for by tolls, POV’s (Pay occupancy vehicles – one pays a fee to drive in the HOV – high occupancy vehicle reserved lanes), and with transportation dollars in short supply from governments, each major road project needs both a strategic plan to help manage the “conversation” and decision making process leading up to the decision, and a business plan to help actually guide and manage the project.

The Difference is Elementary

One element of confusion in the business plan/strategic plan debate is now non-profits are writing “business plans” where they did not do this often in the past. The primary difference between a for-profit business plan and a non-profit business plan is the metrics and goals in a non-profit business plan will be different. Unlike a for-profit business plan, in a non-profit business plan, many of the metrics used and goals identified will not be financial. These goals and metrics help define and support the mission of the organization and propel the organization to undertake activities that may not prove to be financially rewarding to the organization. A for-profit business plan must include some return on investment analysis for almost every dollar the organization spends. Key elements of a non-profit organization’s business plan would include:

Creating a revenue model (including a “fundraising model” and income model)

Assessment of hiring needs to meet current and expected contractual and mission specific demands

Securing effective public relations support to get its message out

Accurately assessing the social need for the organization’s services and products

Development of a marketing plan to seek new revenue and non-revenue generating activities that will allow the organization to fulfill its mission more fully than is allowed under present funding constraints

Creating realistic expense and revenue budgets

Building in feedback systems to inform the organization as to the success or lack of success in realizing its business plan and its goals.

Creating a for-profit business plan requires a razor sharp analysis of the market and demand factors, competitive forces, profit margins, cost factors as the company or activity scales, detailed analysis of marketing, advertising and distribution costs, and strong analytical work in the area of human capital and organizational capacity. For-profit business plans must be able to provide clear direction to show the company how to make a profit at many different levels of supply and demand. This is not the case, in large part, in the non-profit world.

The major difference between a strategic planning process and a business planning process is a business planning process builds on a strategic planning process. The business plan is more tactical and is more quantitative/financial in nature. A strategic plan focuses on identifying and clarifying:

What your organization intends to accomplish by when

State clearly the vision, mission and measurable goals of the organization

Performing a gap analysis: A gap analysis has three parts:

Identify the present situation with clarity and gain an understanding of the history that has led to the current situation with the goal of refining the mission and vision statements and developing a clear sense of new goals for the next five year period;

Identify the desired or expected future with numerical precision and realistic timeframes;

Determine how and by when this future can or will be realized and at what cost.

What resources are now available to your organization or can be recruited including volunteer, in-kind and related resources and how to account for them financially

Determination of the strategic approach to insure how these factors can be best combined to accomplish the organization’s mission

What courses of action will be taken in order to direct the organization toward accomplishing these goals including what mergers, acquisitions and strategic alliances will be formed to accomplish your goals

What critical issues need to be addressed before rapid growth can be contemplated and planned for. For example, operating deficiencies, governance, board performance, leadership and staff performance, public relations, financial performance, etc.

To develop a strong, implementable business plan, anyone taking on such a project for a company or non-profit must follow these steps, at a minimum.

Document review and analysis – Review all previous business and strategic plans, all budgets, all significant internal memoranda, all Public Relations generated by outside sources (newspapers, etc) and internally generated information (ad copy and brochures) about the organization since its inception. Other key documents such as job descriptions, survey results and membership data will also be reviewed, where available.

Learn what the entire organization knows and use it in the business plan.

Project kickoff meeting – Hold meetings with all key leaders of the organization to finalize the planning of the project, discuss findings of the document review, set schedule. At this meeting a reasonable timeframe, budget and allocation of research, writing and quality assurance responsibilities will be developed.

Agree on the Outline: Begin to address the questions listed above and agree on outline for the business plan Deployment of Agreed Upon Strategic Development Planning Tools:

Ongoing Meetings with key leaders and key stakeholders: These meetings will be held weekly or as needed to share information, to update all parties on progress, provide preliminary findings and to refine the scope of the project as necessary to meet current needs.

Document Preparation and Review:
Prepare key planning documents and sub-plans on such areas as:

Operating budgets including revenue and expenses

Develop revenue/resource model citing the optimal mix of funding from various sources including volunteers and in -kind contributions

Competitive Analysis

Identify Appropriate entrepreneurial activities for organization, including

New products/ services that will help attract and sustain revenue

Strategic alliances and partnering opportunities to expand offerings

Create revenue and cost projections for each income producing idea

Develop Marketing and Communication Strategies and Public Relations, including

Develop Case statement/Value proposition

Message development

Cultivation strategies

Prepare overall capital, budget and financial plans

Analyze all Technology requirements

Analyze all infrastructure requirements

Develop feedback systems and identification of evaluation measures of organizational success

Implementation Planning and Assistance: Strategic plans and business plans do not stop the day they are written. They are living documents that must change as the organization learns more about its successes and failures. Business plans will include recommendations for tactical strategies to implement the business development plan, and some work and some fail. Developing systems to catch failures rapidly is a key element in promoting the success of a business plan.

A business plan, much more than a strategic plan, must develop the proper timing and sequencing for each activity to be undertaken and each sub-activity necessary to accomplish all major activities in the business plan. “Prioritization” and sequencing are major roles of business plans that are not key elements of a strategic plan. To emphasize this point, we paraphrase Marvin Bower, the former head of McKinsey & Company, from his book, Perspectives on McKinsey:

Any consultant can figure out what needs to be done quite quickly, however few can figure out exactly what order is best for an organization to begin implementing things so that the best result is achieved and the goals of the plan can be reached or exceeded.

Conclusion

Now that some light has been shed on the difference between a strategic plan and a business plan, remember that many people will not make such a clear distinction. There has been a new movement among non-profits, especially, to develop a hybrid document, called the "Strategic Business Plan." At $300,000 a pop for a business plan, it is no surprise that an organization would want to get as much bang for its buck as possible. What is most important in drafting both strategic and business plans for the writer or team assigned to the project is that they understand all of the knowledge, expertise, capacity, objectives and needs of the company or organization, and feed these properly into the plan.

Whether an organization wants to develop a strategic plan first, or skip this phase and go straight to the creation of a business plan, the planning process must be as much a research oriented process as it is an analytical or creative process. Research, analysis and creativity, in that order are the essential ingredients in either a business plan or a strategic plan. Significant resources are necessary to do an adequate job in each of these three categories and to make the plans a contribution to the organization.

About the Author

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The headquarters of the Sustainable Business Group is Denver, Colorado. He is co-author of Breakthrough, Inc. – High Growth Strategies for Entrepreneurial Organizations (Prentice Hall/Financial Times, 1999). He also served as an Adjunct Professor of Strategic Planning George Washington University, and has been an Adjunct Professor of Entrepreneurism at George Mason University and Colorado State University. He has his law degree from Georgetown University, his Master of Public Affairs from the LBJ School of Public Affairs, a graduate degree in sociology from the University of Bristol in Bristol, England and was a Phi Beta Kappa/Omicron Delta Kappa graduate from Washington and Lee University in 1974. His email address is herb@sbizgroup.com and he can be reached at 303 910-7961. For more information about the Sustainable Business Group, see www.sbizgroup.com