

Best Practices in Strategic Planning: Documenting Your Strategic Assumptions

Hopefully by now you're in the process of updating and rationalizing your strategic growth plans for 2010 and beyond. If you haven't developed a strategic plan for your business, you should know that research has shown that companies with strategic plans grow their revenues and profits faster and more efficiently than those who don't! The challenging economy also requires increased focus to succeed which a strategic plan provides.

One of the best practices to effective strategic planning is documenting your assumptions, yet many companies fail to articulate and document them when planning. Now, why is documenting these assumptions important? Because it's the assumptions we make that drive the strategies for the business and the goals we set. We all make assumptions when developing our plans; we assume how much our industry will grow; we assume how many of our existing customers will continue to buy from us; we assume the increased sales and marketing activities will translate into new customers and we assume all those operating efficiencies we're planning will increase profits.

One of our clients in the distribution business made the assumption that fuel and energy prices in 2008 were going to increase 8%. Since fuel costs were a large component of their operating costs, they created goals of decreasing energy consumption and specifically decreasing the number of miles their trucks drove to reduce fuel costs to offset the 8% increase. Now, without first documenting this assumption and quantifying how much fuel costs would increase, they would not have been able to define specific goals to offset the increased costs. The good news was that operations decreased fuel consumption and energy costs by 10%. The bad news was that their energy costs increased 12%! Their assumption was directionally correct but low.

Now here's the value of documenting the assumptions. Upon analyzing how our client made the assumptions in 2008, they learned to improve how they made assumption and therefore the assumptions they made for 2009 were better and the objectives set were more in line with actual events. This improved their business performance and there were fewer surprises.

So while you're developing your growth plans for 2010, we encourage you to not only document your assumptions, but to challenge each assumption made. Then, when you conduct your strategy reviews, you review first the assumptions you made to make sure they're still valid, and then you review how well you've accomplished the goals. Obviously if you assumed that fuel was only going to increase 8% and it increased 12%, your profits would not be as planned. In this case, operations actually exceeded their goal of reducing energy consumption, but didn't achieve their overall cost reduction objective because they had an incorrect assumption about energy costs.

If you would like learn how Growth Strategy Partners can help you develop a more robust strategic growth plan in only two days, please contact us at 781.837.3276. Because if you don't know where you're going, any road will get you there.