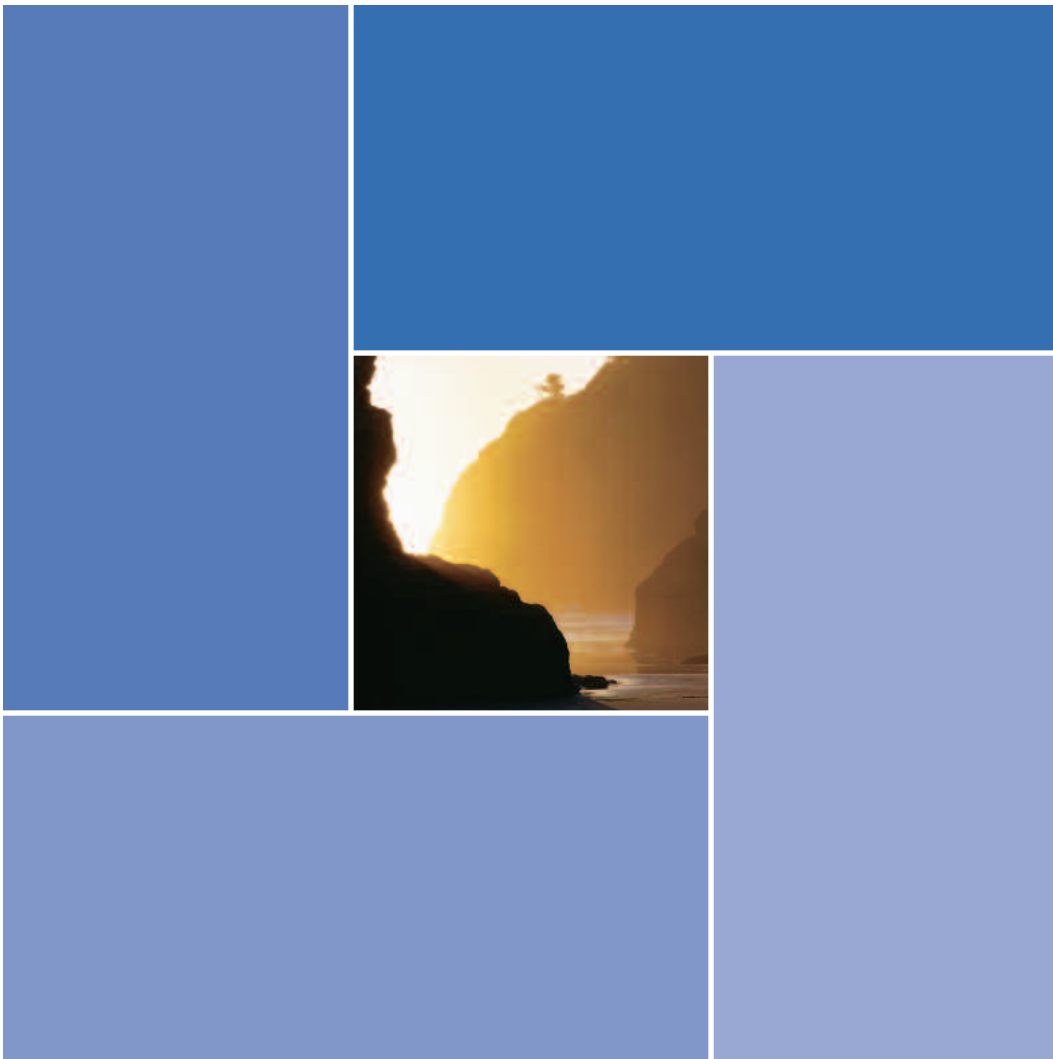


# Closing the Business Planning Gap

How to Avoid the Disconnects that Threaten Growth





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How to Avoid the Disconnects that Threaten Growth

Corporate executives beware:

Failure to balance the right planning practices may undercut your growth and profitability.

But finding the right balance can close the gap between your planning goals and your business results.

# Closing the Business Planning Gap

How to Avoid the Disconnects that Threaten Growth

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**THE ISSUE...** Traditional business planning often fails to deliver expected results. Yet organizations continue to behave as if little needs to change with how they plan.

Executives deserve to know: Which planning practices are most important to success? What should they emphasize or de-emphasize to conduct planning that actually leads to growth?

**THE INSIGHT...** A fundamental “Planning Gap” separates planning perceptions and actual performance, undercutting growth and profitability:

1. The practices executives *think* are most important to successful planning are out of sync with what *really* is important to financial performance and growth.
2. *Inventiveness* and planning practices to enable inventiveness are the most crucial to growth and financial results, but are generally underprioritized.

## THE ISSUE

## Why Doesn't Traditional Business Planning Lead to Superior Performance?

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“Most firms swear by their planning even when it doesn't work. They rely on the same practices, in the same way, year after year.”

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Three recent studies confirm that what top executives want most for their businesses – growth – isn't a goal they can count on their planning to deliver:

- In the Conference Board's *CEO Challenge 2006*, “sustained and steady top-line growth” (39.4%) emerged as the top challenge facing CEOs, while “profit growth” (27.2%) ranked fourth.
- In a global McKinsey & Company survey of top executives conducted during the summer of 2006, almost a third of the respondents indicated their company produces a strategic plan that reflects the company's goals and challenges, *but is not effective*.
- In the 2006 Monitor Analysis, “executing the strategy” was the number one concern of the 354 senior executives surveyed.

CEOs want to grow, lack effective plans and struggle to execute. Since planning is the common denominator, it's only fair to ask: *Is something wrong with how businesses plan for the future?*

In part, the answer lies with how organizations plan. Most firms swear by their planning even when it doesn't seem to work. They rely on the same practices, in the same way, year after year. Instead of improving plans to enable (rather than obstruct) superior performance, too many organizations treat planning as a ritual that is off-limits to serious change.

To help guide organizations in how to overcome the limitations of traditional planning, Market Strategy Group has completed a study that examines which planning best practices matter most to superior business performance.

Specifically, when the goal is growth – top-line, bottom-line or both – how should an organization go about its planning? Focusing on that core question, the study also addresses these key issues:

- 1. Are business leaders tackling their unique strategic planning challenges in the best possible way?**
- 2. What should executives emphasize (or de-emphasize) in planning going forward?**
- 3. What can executives do to effectively and efficiently assess their own planning processes, and if necessary, make changes?**

The central finding is that a counterintuitive “Planning Gap” prevents executives from planning more successfully. Closing the gap positions an organization to change the ineffective planning that undercuts performance.

## Executives Undervalue the Planning Practices that Lead to Superior Growth and Profitability

“... executives inadvertently create a Planning Gap that must be closed if they are to meet expected goals.”

The Market Strategy Group study reveals a significant disconnect between the planning practices that *actually* improve business performance, and what executives *think* is important.

The analysis shows that many practices executives consider important turn out to have surprisingly low correlation with actual financial performance.

Conversely, an important cluster of practices is highly correlated with planning that actually leads to business growth and profitability. *But these practices are vastly underappreciated by executives and planning practitioners.*

The research does show that each of the 20 generally-accepted “best practices” exhibits a positive correlation with results (Figure 1). This suggests that a smart organization would do best to excel in *all* practices.

But by undervaluing the practices that contribute *most* to superior performance, executives inadvertently create a Planning Gap (Figure 2) that

must be closed if they are to meet expected goals.

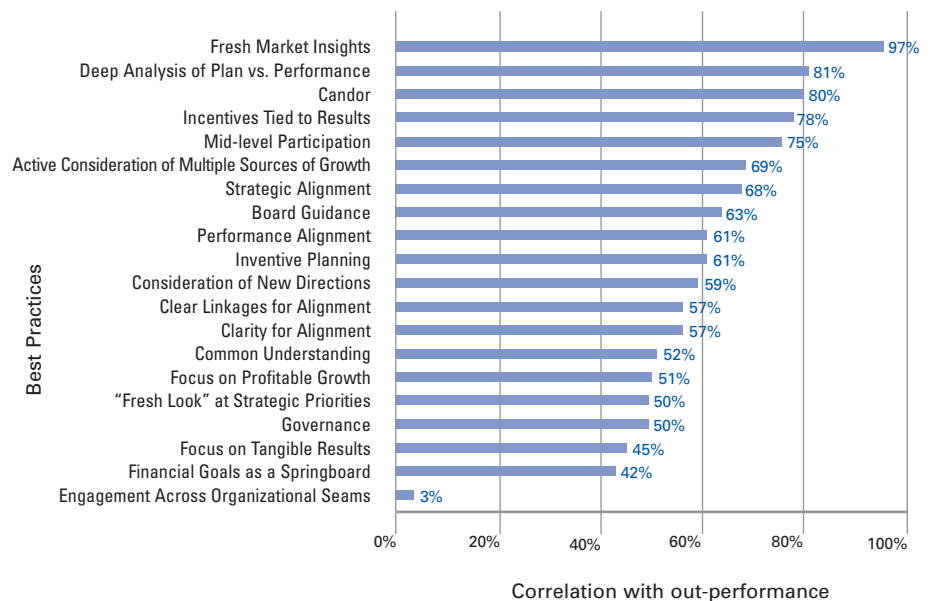
The strongest mismatch leaps out in connection with the top-ranked planning practice, “Fresh Market Insights.” It displays the highest correlation (97%) with above-average growth and economic performance.

Yet only 10% of respondents rate “Fresh Market Insights” among the practices most important for achieving strong business results.

“Deep analysis of plan vs. performance” suffers a similar fate, with only 15% of respondents ranking it as a top practice for achieving results. Yet it shows the second highest correlation (81%) with actual economic out-performance.

Mismatches like these suggest that executives could attain greater economic impacts from their planning if they rebalanced their efforts to ensure that (1) no practice is unnecessarily undervalued, and (2) top-rated practices receive priority attention and effort.

Figure 1: Positive Impact of All Best Practices



## INSIGHT #2

## Planning Practices Must be Rebalanced to Emphasize *Inventiveness*

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“Inventiveness is a set of six practices that involves continually re-examining, refreshing and renewing planning inputs and outputs.”

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Further evidence of the Planning Gap arises from analysis showing that planning executives undervalue Inventiveness, a set of best practices that enables superior business performance from planning.

Inventiveness is a set of six practices (see sidebar on page 9) that involves continually re-examining, refreshing and renewing planning inputs and outputs. It has the highest correlation (72%) with above-average growth and financial performance among practice sets (Figure 3).

On a cumulative basis, however, only 14% of respondents rate Inventiveness practices as most important to achieving results from planning.

In other words, a disconnect appears yet again. Inventiveness is critical to enabling an organization to demonstrate above-average growth and economic results, but is not viewed as important by executives.

Because it is strongly correlated with enabling organizations to outperform their industries, Inventiveness should merit higher priority from planning executives. As a starting point, there needs to be a willingness to alter the planning process – to steer focus away from the ritual of planning and rebalance practices to achieve a change in overall approach. Through that rebalancing comes a stronger likelihood of actually achieving desired performance and results.

Figure 2: What Matters Most – Practices

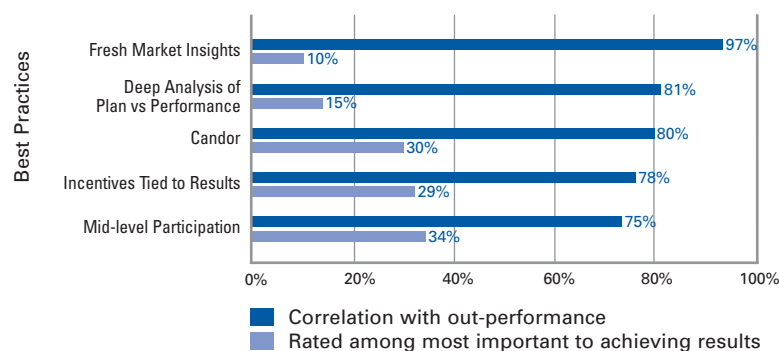
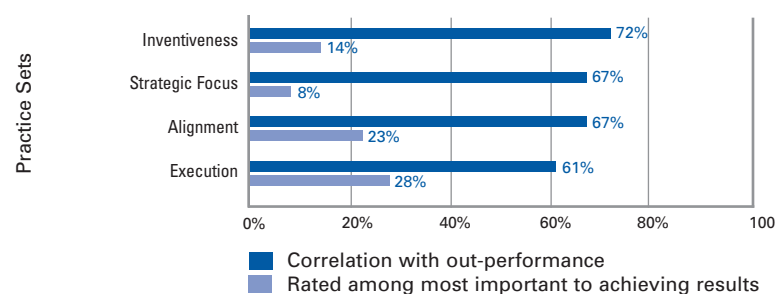


Figure 3: What Matters Most – Practice Sets



## Four Initial Action Steps can Rebalance Planning Efforts

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“Many organizations avoid drilling into why their performance falls short of plan.”

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The Market Strategy Group research speaks to key reasons why planning fails to deliver results for many organizations. If you recognize implications here that apply to your organization, use the following four initial action steps to begin the path to improvement.

### 1. Determine where and how your performance is “trapped” by merely average planning.

Excelling in *all* planning best practices is the surest way to close the gap between planning that produces expected results and planning that doesn't. If planning in your organization typically produces results that fall short of goals, complete a simple assessment to learn where to focus corrective action:

- Use the Assessment Tool and Work Sheet on pages 10-12 to engage your management team in a self-assessment of planning practices.
- Uncover planning gaps and prioritize improvements.

### 2. Focus first on fresh market insights – seek them out and be sure they are heard, not discarded.

Any weakness in the top-rated practice, “Fresh Market Insights,” needs to be a priority for correction. Ironically, while there is usually no shortage of market insights surfaced during planning, there often is:

- Difficulty using the insights to forge creative approaches.

- Difficulty giving serious consideration to unpopular or adverse market insights – a predisposition not to hear inconvenient information.

To gauge whether this common failing afflicts your organization, ask:

- Is leadership routinely asking for and demanding the consideration of fresh external insights?
- Is an insight really given fair consideration if it diverges from conventional wisdom?
- Have any programs been launched or killed after full, rigorous debate because of external market insights?

A response of “No” to any of these questions means that finding ways to bring in and act on fresh market insights needs to be a top planning priority.

### 3. Examine where your current plan has worked and where it has fallen short – and learn from it.

Many organizations avoid drilling into *why* their performance falls short of plan. They neglect to conduct not just a “root-cause analysis,” but an integrated, *in-depth analysis of plan versus performance*. As a result, they can't benefit from the critical learning that leads to improvement. To determine whether this is true of your organization, ask:

- Is analysis of plan vs. performance a regularly conducted habit, or does it occur only when results fall short?

- Are the disconnects between plan and performance examined to seek linkages between better operating practices and the financial results achieved? Does this assessment flow downward?

If not, an improved analysis of *plan vs. performance* should become a planning priority.

#### 4. Introduce inventiveness into your planning process.

Inventiveness is the combination of practices that matter most to achieving above-average growth and financial performance from planning. To bring inventiveness into your planning and strengthen your organization's ability to approach the business from new angles, make it a priority to:

- Seek out fresh market insights, and ensure they are heard by all.
- Examine the gaps between your plan and resulting performance – and learn *why* they occurred.
- Take a fresh look at strategic priorities that can drive the organization – and planning process in new directions.
- Respect your financial goals, but don't use them to turn planning into a budgeting exercise with preordained outcomes. Treat goals as a springboard, not a straitjacket.
- Insist on candor.
- Strive for a planning process that relies less on ritual and encourages sincere exploration of possibilities.

### Six Practices for Inventiveness

Inventiveness refreshes the dynamic of planning. It is achieved through the combination of six related practices:

#### 1. Fresh Market Insights

Inventiveness hinges on access to fresh insights – from the external marketplace as well as from internal sources. When effectively incorporated into the planning process, fresh insights provide top executives with new and valuable points of view.

#### 2. Deep Analysis of Plan vs. Performance

Going beyond traditional root-cause analysis, this practice drills deep into the organization to fully understand plan versus performance, and looks inventively at the connections between market goals, internal operational programs and financial targets. A thorough understanding of these relationships will help to shed light on what did or didn't succeed, and why.

#### 3. "Fresh Look" at Strategic Priorities

Inventive companies are open to shaping their strategic priorities based on fresh market and internal insights. Rather than limit themselves to addressing the same issues year after year, they are willing to explore new ideas and pursue emerging opportunities, identifying themes that drive planning in new directions.

#### 4. Financial Goals as a Springboard

Planning must be grounded in the stated financial goals, but not hindered by them. Certainly, financial targets must guide planning efforts. However, they shouldn't be used to steamroll the process toward a preordained and possibly unrealistic or unachievable outcome. Inventive organizations find room to maneuver in support of, or occasionally in the face of, stated financial goals... and when necessary, revise goals accordingly.

#### 5. Candor

Candor is not a new idea, but it is essential to being inventive in ways that earn a premium in financial performance. Candor is critical to unify the fresh insights described above, as well as the findings of plan vs. performance analysis, so they can be carefully examined without preconditions or bias. Moreover, candor is necessary to ensure the adoption of fresh approaches as the leadership team creates its business plan. Without candor, fresh insights fall on deaf ears and real improvement never happens.

#### 6. Inventive Planning

Inventiveness needs to be regularly focused on the planning process itself. Instead of viewing planning as a ritual or a repetitive budgeting exercise, organizations need to periodically hold up their planning techniques to withering and candid scrutiny. They need to be open to reinventing their process for plan development.

# Assessment Tool

**a.** Rate how effective your organization is at each of the 20 practices. Use a scale of 1 to 5, where 1 is Extremely Effective and 5 is Extremely Ineffective.

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**b.** Rate how important each of the 20 practices is for your organization. Use a scale of 1 to 5, where 1 is Extremely Important and 5 is Extremely Unimportant.

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**c.** Prioritize the top improvements that will close the Planning Gap in your organization. Typically these will be practices of average to high importance and average to low effectiveness. Use the Assessment Work Sheet on page 12 as your guide and/or a place to record your results.



## INVENTIVENESS

18

### Fresh Market Insights

We incorporate fresh external and internal insights into the planning process.

2

### Deep Analysis of Plan vs. Performance

We examine what worked, what didn't and why. We seek to learn what might work better if we were more inventive.

14

### Candor

We foster dialogue without precondition – enabling a climate for inventiveness – so we can build on fresh market-driven or internal insights.

10

### Inventive Planning

We ensure planning doesn't grow stale, becoming a ritual. We seek new ways to ensure the planning process stimulates inventive thinking.

6

### "Fresh Look" at Strategic Priorities

We take a fresh look at our strategic priorities and near-term goals – resetting them if appropriate and seeking out inventive ways to achieve them.

16

### Financial Goals as a Springboard

We create room to maneuver in support of stated financial goals. Financial goals are a springboard to growth, not a straitjacket.

## STRATEGIC FOCUS

8

### Active Consideration of Multiple Sources of Growth

Traditional sources – line extensions, market expansions, etc. – are considered along with new, novel and innovative opportunities.

15

### Board Guidance

Our Board of Directors participates in the planning process by offering guidance and advice, not just reaction.

12

### Consideration of New Directions

Each planning cycle, we consider new strategic directions for the organization – actively considering a range of alternatives.

4

### Focus on Profitable Growth

We plan and execute to achieve both top-line and bottom-line growth consistent with our markets.

17

### Common Understanding

Everyone in the organization can articulate our strategic direction and how they contribute to it.

20

### Focus on Tangible Results

We are aligned around key tangible results we must create, and how we will work together to realize them.

# Your Organization's Assessment

Use the Assessment Work Sheet below to guide and/or record your assessment of the top improvement priorities required for your organization to close the Planning Gap. Drive these practices throughout your organization.

		Effectiveness				
		1 <i>Extremely Effective</i>	2 <i>Somewhat Effective</i>	3 <i>Average Effectiveness</i>	4 <i>Somewhat Ineffective</i>	5 <i>Extremely Ineffective</i>
Importance	1 <i>Extremely Important</i>					
	2 <i>Somewhat Important</i>			<b>HIGH PRIORITY AREAS</b>		
	3 <i>Average Importance</i>					
	4 <i>Somewhat Unimportant</i>					
	5 <i>Extremely Unimportant</i>					



## CONCLUSION

The Planning Gap between growth goals and the results typically delivered by planning arises from disconnects between how executives view and treat planning, and how planning practices should best be applied and implemented.

While all planning best practices are important, those that are *most* important to achieving desired results tend to be undervalued. To ensure that goals are met, executives need to find the right balance – striving to excel in all practices, but making particular effort to ensure the practices which matter most receive the attention and emphasis they deserve.

### Study Methodology

To ascertain which business planning practices are most closely linked to superior performance, Market Strategy Group conducted the following research:

#### 1. Identify Generally Accepted Planning Practices

Create a set of 20 generally accepted planning “best practices” ([Appendix A](#)) through discussions with organizations about their practices, review of literature and input from our internal planning experts.

#### 2. Quantitative Executive Research – Test the Practices

Interview senior business executives across multiple industries to hear their views on strategic planning. Test their use of, and preference for, the practices identified above.

#### 3. Analysis

Using statistical methods, determine which practices are most likely to result in growth that outperforms the industry and peers ([Appendix B](#)), and the extent to which executives prioritized these over other practices they might employ.

# Appendices

Appendix A <sup>1</sup> Commonly Accepted Planning “Best Practices” Tested		
	<b>INVENTIVENESS</b>	<b>72%</b>
18.	During the planning process, top executives hear <b>fresh market insights</b> and points of view.	97%
2.	Quarterly or better, we perform <b>root cause analysis</b> on differences between performance versus plan.	81%
14.	<b>Candor</b> akin to “ <i>telling the emperor he has no clothes</i> ” is a way of life both as we plan and as we execute	80%
10.	At least once a year, we <b>review</b> the planning process itself to look for ways to <b>improve</b> it.	61%
6.	<b>Each planning cycle</b> , we take a <b>fresh look</b> at both our long-term direction and our near-term operational and financial goals.	50%
16.	Our annual plan is guided by strategic and <b>financial goals that serve as a springboard</b> , not a straitjacket, for what is achievable.	42%
	<b>STRATEGIC FOCUS</b>	<b>67%</b>
8.	During planning we evaluate <b>multiple sources of growth</b> – both traditional sources such as line extensions, market expansion, diversification, and the like, as well as “new to company, new to world” opportunities.	69%
15.	Our <b>Board members participate</b> in the strategic planning process by offering guidance and advice, not just reaction.	63%
12.	Each planning cycle, we consider <b>new alternative directions</b> for the organization.	59%
4.	We plan and execute with a <b>focus on</b> how to drive rapid, profitable <b>growth</b> .	51%
	<b>ALIGNMENT</b>	<b>67%</b>
9.	Our <b>operating budget</b> and planning is done <b>in lockstep</b> with our strategic plan	68%
5.	Results of our plans are tracked against a <b>scorecard</b> that measures business performance from financial, customer and internal perspectives.	61%
13.	On two sheets of paper or less, we can <b>communicate</b> our strategy and the results we seek.	57%
1.	Our plans define <b>clear linkages</b> between our financial goals, customers, processes and people.	57%
17.	<b>Everyone</b> in the organization <b>can articulate</b> our strategic direction and how they contribute to it.	52%
20.	Our planning creates a <b>focus</b> that the entire organization executes against and that leads to tangible results.	45%
	<b>ABILITY TO EXECUTE</b>	<b>61%</b>
19.	Everyone in the organization has <b>incentives</b> specifically <b>tied to</b> delivering <b>results</b> that support our strategic direction.	78%
11.	Our planning process engages the talented <b>middle of the organization</b> , not just senior “veterans.”	75%
3.	A <b>governance team</b> oversees our planning process and a single executive “owns” it.	50%
7.	Our planning process engages <b>cross-functional teams</b> to own and execute specific growth initiatives.	3%
<sup>1</sup> Number next to practice reflects order asked during survey. Percentages used to rate are correlation with business out-performance.		

## Appendix B Out-Performance Profiles of Respondent Companies

Performance of respondent companies was assessed using an out-performance index based on the difference between the firm's 3-year revenue growth less that of its industry, plus the firm's profit growth percentage less that of its industry.

Company	Industry	Revenue (millions)	Company Growth	Industry Growth	Company Profit	Industry Profit	Out-Performance
A	Property & Casualty Insurance	\$ 4,460	10.4	11.1	22.6	5.84	16.06
B	Wireless Network Operators	\$ 9,900	6.0	2.3	13.36	9.18	7.88
C	Enterprise Telecommunications Equipment	\$ 750	30.9	-0.3	10.82	-11.2	53.22
D	Pharmaceuticals Manufacturing	\$ 33,510	10.1	2.4	19.95	19.84	7.81
E	Lighting & Other Fixture Manufacturing	\$ 1,280	8.5	3.1	9.02	5.76	8.66
F	Container Leading	\$ 730	6.2	6.8	10.4	6.23	3.57
G	Medical Devices	\$ 1,990	12.6	16.1	20.65	14.87	2.28
H	Medical Products Distribution	\$ 4,890	5.9	10.9	1.3	2.85	-6.55
I	Cigarettes, Cigars, & Smokeless Tobacco Products	\$ 3,710	3.6	1.8	17.63	16.71	2.72
J	Printing & Imaging Equipment	\$ 5,580	7.1	3.1	9.51	5.76	7.75
K	Periodicals Publishing	\$ 2,390	-1.1	25.2	-4.97	12.19	-43.46
L	Regional Banks & Thrifts	\$ 429	1.5	8.6	10.63	17.46	-13.93
M	Networking & Connectivity Software	\$ 49	13.9	3.8	0.22	1.24	9.08
N	Property & Casualty Insurance	\$ 16,540	-1.2	11.1	8.55	5.84	-9.59
O	Computer Products Distribution & Support	\$ 875	-1.5	9.3	-2.72	1.01	-14.53
P	Home Storage & Organizational Products	\$ 1,380	4.7	7.6	5.69	0.99	1.8
Q	ATMs & Other Self-Service Terminals Manufacturing	\$ 2,680	9.5	3.1	3.05	5.76	-3.69
R	Grocery Retail	\$ 2,640	2.9	-5.4	4.37	-1.02	-13.69
S	Auto Parts Manufacturing	\$ 1,630	15.6	-2.3	0.47	0.9	17.47



## About Market Strategy Group, LLC

Market Strategy Group assists clients to achieve or get back on track toward achieving **Smart Growth** – double-digit growth in operating profit.

Our goal is to deliver what clients value most: insights and results that drive growth.

Our professionals have served literally dozens of successful organizations, including leaders in:

- **Pharmaceuticals, Biotech and Health Care**
- **Communications and High Technology**
- **Services**
- **Manufacturing**

For more information about how you can partner with Market Strategy Group to improve business planning for growth, please contact:

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