

ONLINE OCTOBER 28, 2014

Free Your Strategy from Annual Planning

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BY KEN FAVARO

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Something happens to successful companies as they grow into behemoths ruling the corporate world: Their strategies are taken prisoner by bureaucratic planning processes, internal battles for scarce resources, external skirmishes to win market share, and intense short-term performance pressures. This creates a void that they fill with lofty statements about their vision, mission, purpose, and goals, while their people are left to grapple with the huge gap between such statements and their own everyday experience. Fifty years after strategy went mainstream in the corporate world, it seems to have lost its power to drive smarter, faster decision making and execution.

For example, consider the following strategy statements from five of the world's top airlines:

- *We are committed to providing every citizen of the world with the highest quality air travel to the widest selection of destinations possible.*
- *We are dedicated to providing air transportation services of the highest quality and to maximizing returns for the benefit of its shareholders and employees.*
- *[We aim] to be recognized worldwide as the airline of choice.*
- *We exist to deliver the world's best in-flight experience.*
- *We fly our customers at convenient times to the best located airports across the world.*

Can you name the airline behind each one? More importantly, can you imagine these strategies helping their respective organizations produce consistently better decisions or execution than their peers? Or can you say anything, based on these statements, about how these companies are trying to differentiate themselves, either by who they serve, what they offer, or what makes them able to do what they do better than anyone else? You've likely answered no to all three of these questions—and so have I.

The statements above are really just compromises, bromides, and non-strategies. And that's because *strategy* in these companies has been imprisoned by their annual planning processes, the real objective of which is to achieve agreement on how to divvy up corporate resources, rather than make choices that profitably differentiate their enterprises. Then, being somewhat embarrassed that “here's how we've cut the cake this year” probably doesn't fit staff or shareholders' idea of a strategy, they cobble together something that seems just “big picture” and aspirational enough, while also being agreeable to pretty much anyone.

This is a lost opportunity, because there is no better tool than strategy to increase a company's agility and coherence. Budgeting is too oriented to the short term, whereas visions have the opposite problem. Metrics and targets can have both a short- and long-term timeframe,

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but they tend to promote growth at the expense of profitability (or vice versa) and the enterprise at the expense of its parts (or the other way around). When these other tools—budgeting, visions, metrics, targets, and others—become de facto substitutes for strategy, companies end up with plenty of aspiration, actions, and accountability, but little direction and differentiation. This is a recipe for mediocre decision making and execution, which is exactly what we see from companies with “strategies” such as those of the airlines above.

How can business leaders rehabilitate strategy as a positive, driving force in their companies? The first step is to separate strategy from plan. These are very different animals. A plan describes how you intend to implement the strategy choices you've made. It's a commitment to action, resources, and performance. But a strategy is the result of making choices that answer these fundamental questions:

- What businesses should we be in, and how do we add value to them?
- Who are our target customers, and what is our value proposition to them?
- What capabilities make us best at how we add value to our individual businesses and how well they deliver their value propositions?

It is all-too-common to have many plans and very little strategy, because strategy is difficult. Those questions above may be easy in concept, but I see many companies struggle to find distinct and compelling answers to them. (Go ahead: Answer these questions for your business, and then compare your answers to a colleague's. Chances are, they're not the same.)

The next step is to decouple strategy development from plan formulation. When formulating plans, the

focus is on efficiency and internal matters (“what actions, resources, and performance will we commit to?”). Developing strategy is, in contrast, a creative act. It requires innovation, external focus, and significant iteration. If the two processes are mashed together, plan formulation will usually dominate and strategy will be relegated to high-level packaging.

The final key to unlocking the true power of strategy is to free it from the calendar. The typical strategic planning process happens at a certain time each year, with a kickoff and a wrap-up. This is fine for updating annual plans, but it is horrible for strategy—because it guarantees that the big strategic issues and opportunities are addressed superficially within the arbitrary confines of the annual planning calendar, or that they are tackled haphazardly throughout the year. Either way, annual planning is not producing meaningful strategies.

Strategy cannot wait for the planning process to roll around each year, because it should never be static: The future may be uncertain, but you can be sure that your customers and competitors aren't sitting idly by. To ensure that your company is always moving forward, strategy development must be an ongoing, deliberate, and purposeful process that is governed by a rolling agenda of strategic issues and opportunities.

When strategy is incarcerated in annual-planning prison, business leaders lose a uniquely powerful tool for driving business model innovation; for reconciling the short term and long term, growth and profitability, and whole and parts; and even for driving better execution. I hope you will join me in a clarion call to business leaders everywhere: “Free strategy!” +

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is published by PwC Strategy& Inc.
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