Traditional strategic planning dooms companies to failure.

The purpose of this article is two-fold:
1) Help traditional companies succeed when faced with successfully growing startups.
2) Help startups succeed when competing against traditional companies.

What is traditional strategic planning?

Wikipedia (April 20, 2020 definition)

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. Strategy has many definitions, but generally involves setting strategic goals, determining actions to achieve the goals, and mobilizing resources to execute the actions. A strategy describes how the ends (goals) will be achieved by the means (resources).

Advice from strategy advisors

The following are some example of the advice from advisors regarding strategic planning. Remember, it is up to the boards of directors to approve the strategy and for the CEO and management team to execute.

McKinsey Article "How to Improve strategic planning"[1]
1) Start with the issues. E.g. ask CEOs what the issues are, ask CEOs what the 12-month priorities are, interview middle and lower management to identify the issues.
2) Bring together the right people.
3) Adapt planning cycles to the needs of each business.
4) Implement a strategic-performance-management system.
5) Integrate human-resources systems into the strategic plan.

BCG (Boston Consulting Group) article "Your strategy process needs a strategy" [2]

There are five broad approaches to strategy:
1) Classical – analysis, planning, and execution
2) Adaptive – continual experimentation and scaling up of what works. General Electric was the example of a company adopting an adaptive strategy in 2011. I observed that GE's adaptive strategy took 2011 revenues of $146.5 billion and profits of $13.1 billion to 2018 revenues of $121.6 billion and a loss of $22.8 billion.
3) Visionary – use of imagination to create a game-changing product, service, or business model.
4) Shaping – collaboration in environments that are simultaneously unpredictable and malleable.
5) Renewal – execution of necessary radical changes when the environment is harsh or there has been a protracted mismatch between the firm's strategy and its environment

My observations of traditional strategic plans
1) They are inwardly focused and driven by financial objectives set by the board.
2) Limited facts regarding how users/customers behave and perceive the company. However, there are lots of opinions and anecdotes.
3) Significant time is spent on vision and mission.
4) The bulk of the effort is on allocating financial resources.
5) The implicit assumption is that only need to improve what works last year.

What are the results of traditional strategic planning?

Few companies survive

Most public companies will not survive. [3]
1) A Fortune 500 company will survive an average of 16 years.
2) The typical half-life of a North American public company is 10 years.
3) Global public companies with $250 million+ market cap have a typical half-life of 10 years.
4) 50% of all U.S. companies survive for 5 years.

Few companies generate significant value.
1) McKinsey analyzed the world's 2,393 largest corporations from 2010 to 2014. The top 20% generated 158% of the total economic profit (i.e. profit after cost of capital) created by those corporations. This was an average economic profit of $1,426 million per year. The middle 60% generated little economic profit, an average of $47 million per year. The bottom 20% all generated negative economic profit, with an average loss of $670 million per year.[4]
2) Mark Leonard, CEO of Constellation Software, said in his final annual CEO letter. "Qualified and competent Directors are very rare, and not surprisingly, the track record of most boards is awful. According to the 2017

Hendrik Bessembinder study of approximately 26,000 stocks in the CRSP database, only 4% of the stocks generated all of the stock market's return in excess of one – month T-Bills during the last 90 years. The other 96% of the stocks generated, in aggregate, the T-bill rate over that period. This means that 4% of boards oversaw all the long-term wealth creation by markets during that period. Even more disturbing, the boards for over 50% of public companies saw their businesses generate negative returns during their entire existence as public companies." [5]

What is the approach used by successfully growing startups?

1) Focus on a target market with a large number of potential users and cash paying customers. e.g. people doing Google searches are users, people paying for ads are customers.
2) Making assumptions regarding users/customers, based on research. These assumptions include: the number potential customers with urgent needs they are willing to pay for, the benefit to the users/customers if their needs are addressed, the degree to which the benefit is greater than the current situation and the benefit achieved from competitors, and the price the customers might be willing to pay. Document your assumptions regarding the users/customers value propositions.[6]
3) The most critical part of understanding is interviewing potential users/customers. This may range from 100 to 300 potential user/customer interviews. This also provides validation that the potential users/customers believe the solution provides more value that the competition. Note that interviewing is very different from sales calls.
4) Quickly create a minimal solution and get it into users/customer hands. Keep experimenting and changing the initial solution until there are a group of delighted users/customers. Then start charging customers. At this point the solution delivery and sales process are not cost-efficient. At this point the startup doing things that do not scale.
5) Continue experimenting in stages, expanding the solution to meet a larger subset of the target users/customers, and growing the number of paying customers. The solution is still not cost efficient.
6) Implement user/customer focused metrics. There is a never-ending process understanding user/customer needs and measuring user/customer delight relative to the competition. Remember what happened to Blackberry – the number of people who needed keyboards on their phones disappeared.
7) Determine when the solution has reached the point of being able to delight the full scope of target users/customers.
8) At this point, make the solution delivery and sales processes cost efficient and rapidly grow the company.
9) Keep exploring and experimenting with new types of users/customers, new distribution channels, and new partners.
10) Resource allocation decisions driven by fact-based metrics on what large numbers of users/customers perceive as valuable. I recall reading a quote from Google's CFO, when meeting with a product team. "Why aren't a billion people using this? If there are a billion people using this, why aren't we making money?"
11) The sales process is designed based on understanding users/customers and enabling them to achieve value. Most traditional sales processes are designed to sell a solution.
12) The investors, board of directors, advisory board, coaches, and mentors have skills, experience, and networks which the founders and management team lack. The founders and management team have a passion to learn and change.

Why do successful startups doom companies with traditional strategic planning?

Successful startups have a combination of factors driving long-term success while traditional companies with traditional strategic planning have a combination of factors driving long-term failure.

1) They constantly document their key assumptions and validate or invalidate those assumptions. Tradition companies don't document their key assumptions and don't constantly validate them, which inevitably leads to crises . "The assumptions on which the company has been built and is being run no longer fit reality."[7]
2) Their investment decisions start with and are focused on enabling customers to meet urgent needs. Traditional strategic planning often starts what the company's opinions and needs are e.g. financial objectives, vision, mission, etc.
3) They have ongoing measurement of how users/customers are achieving value. Traditional strategic planning lacks these facts.
4) They have ongoing measurement of how users/customers perceive the startup relative to competition. Traditional strategic planning lacks these facts.
5) They explicitly assume is that user/customer needs and the competition are constantly changing. Traditional companies assume that change is limited.
6) They are constantly conducting experiments with users/customers, channels, and partners to learn what is valuable to change and what isn't. Traditional strategic planning is focused on a small number of large projects. Traditional companies don't have a culture that enable and supports the fact that most experiments fail.
7) They have a passionate curiosity and desire to learn.

8) They minimize what they have to invent by drawing upon proven solutions which don't impact the user/customer perception of competitive value.
9) They have investors, board directors, advisors, and coaches which provide skills, experience, knowledge, and networks the startup lacks. Traditional companies have board directors who lack skills, experience, knowledge and networks that company management lacks or is weak in.

The external environment has also changed dramatically, enabling startups to take customers from traditional companies.
1) There is unlimited capital (e.g. at least $1.5 trillion of uninvested private equity capital) available to fund startups and rapidly growing early stage companies.
2) The investors passionately support the concept of experimentation and realize that most experiments will fail and most startups will fail – a very different mindset from traditional companies
3) The investors are focused on picking talented founders and putting in additional value-added talent to support the founders.
4) It fast, easy, and low cost to get the infrastructure needed to launch a company e.g. financial systems, CRM, billing, etc.
5) It's become easier to connect with potential customers via social media.
6) Customer needs and expectations are rapidly changing.

Your next steps.

If you are a traditional company with a traditional strategic planning process.

Assess your strategic planning outcomes:
1) The trend for your economic profit generation.
2) Revenue and free cash flow growth.
3) Market share growth.
4) New channels, new partners, new types of users and customers.

How does your planning process compare to the above approach used by successfully scaling startups?

What are your customer metrics?
1) New customer value achievement leading indicator (e.g. for Slack it was 2,000 team messages sent within 60 days).
2) New customer success metric (e.g. % of new customers achieving new customer value achievement indicator within 60-90 days).
3) Net Promoter Score.
4) Customer churn.
5) Customer retention.
6) Customer acquisition costs.
7) Lifetime customer value.

What changes to your planning process do you need to start experimenting with and learning from?

If you are a startup
1) Follow the approach used by successfully growing startups.
2) Ensure that your investors, board of directors, advisory board, coaches, and mentors have skills, knowledge, and networks that you lack or are weak in.
3) Start your metrics with assumptions regarding your user/customer value achievement leading indicator and your user/customer success metrics.
4) Once you have revenue paying customers, start with customer churn and customer retention metrics.
5) Understand your customer acquisition costs and lifetime customer value. You'll need this understanding to make your startup efficient and scalable later on.

Read the research supporting the value of experimentation in the Further Reading section below

Footnotes

[1] Renée Dye and Oliver Sibony, "How to improve strategic planning", McKinsey Quarterly, August 2007, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-to-improve-strategic-planning

[2] Martin Reeves, Julien Legrand, and Jack Fuller November 14, 2018 BCG website, https://www.bcg.com/en-ca/publications/2018/your-strategy-process-needs-a-strategy.aspx

[3] "Corporate Longevity", Credit Suisse, February 7, 2017

[4] Chris Bradley, Martin Hirt, and Sven Smit, "Strategy to beat the odds", McKinsey Quarterly February 2018, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/strategy-to-beat-the-odds

[5] https://battleinvestmentgroup.com/effective-directors/

[6] https://koorandassociates.org/understanding-customers/what-is-a-value-proposition/

[7] Peter Drucker, Harvard Business Review, November 2009, Page 90

Further reading – Research supporting the value of rapid learning and experimentation

The Marshmallow Challenge is to build the largest freestanding structure with a marshmallow on top and using 20 spaghetti sticks, one yard of tape, and one yard of string. This is done in small teams.

1) MBA students build structures with an average height of 10 inches.
2) Lawyers average 15-inch structures.
3) CEOs average 22-inch structures.
4) Kindergarten students average 26-inch structures.

What's the difference in behaviour between MBA students and kindergarten students?

MBA students

1) First sort through who is the leader.
2) Then identify and debate options.
3) Then agree upon a single plan.
4) Then build the structure.
5) The final step is putting the marshmallow on top.
6) Very often the structure collapses at this point.

Kindergarten students

1) No time spent determining who is the leader, identifying or debating options, or creating a plan.
2) Immediately start to build something, with the marshmallow on top.
3) Keep experimenting and learning, building multiple structures until the time is up.

Major incentives result in MBA students teams almost always building structures which collapse.

1) Incentives, without the right mindset, produce worse results.

Teams made up of CEOs and executive assistants did better than kindergarten students.

1) Achieved about 30 inches.
2) The researchers have the hypothesis that the addition of a very different skill set: facilitation and process, enabled the CEOs to perform better than they could with only fellow CEOs.

My observations

1) The passion to begin learning and experimenting as quickly as possible is critical when the team is doing something that has not be done before.
2) Understand the range of skills needed. That's why teams of CEOs and admin assistants performed much better than CEOs alone.
3) Understand when your startup is doing something new and unknown vs something that has been done before with a base of proven knowledge. In the Marshmallow Challenge teams of architects and structural engineers did the best of all because they knew how to design weight bearing structures. Your startup must know what skills, experience, knowledge and networks are needed in management, investors, board of directors, advisors and coaches. Your startup needs to know where the gaps are, which are critical gaps, and how to close those gaps. Your startup will also draw upon a broad range of existing proven solutions – not everything needs to ab an innovation.

https://www.forbes.com/sites/nathanfurr/2011/04/27/why-kindergartners-make-better-entrepreneurs-than-mbas-and-how-to-fix-it/#5047f0871394 https://hbr.org/2014/12/innovation-leadership-lessons-from-the-marshmallow-challenge

Tom Wujec's TED Talk regarding findings from the Marshmallow Challenge
https://www.youtube.com/watch?v=H0_yKBitO8M