COGENT CONSULTING

Point Of View

Strategic Business Planning
– an Annual Ritual or an Opportunity to Re-think Business Priorities?

Every multinational organization goes through the same annual ritual: The strategic planning process where goals are set, budgets allocated, and responsibilities / accountabilities established by which managers at all levels are ultimately evaluated. When it is all set and done, it is almost time to start the next cycle. Each year, budget owners are incented to sandbag because their performance (and bonus) is typically more dependent on hitting top line targets than maximizing the business. Going over is forgiven, while falling short has severe consequences.

Given the amount of time large corporations spend on annual planning and budgeting activities – and the importance of "getting it right" – **this is one area that, if improved, can pay huge dividends**.

The Annual Business Planning Ritual

Every multinational organization goes through more or less the same annual process:

- Extensive reviews of market data, business performance, and variations to plan
- Development of high level strategies by the smartest, most senior business leaders
- Top down guidance (including a set of templates to be filled in) to each individual market manager
- Roll-ups of local forecasts and budgets
- …

… and then the negotiations begin. Corporate has its requirements to please shareholders – and local managers want to leave room in the revenue forecast for unexpected downsides and pad the budgets for incremental investments not yet identified. At the end, the outcome is a compromise that has little to do with the real business opportunity. Instead, it is a variation of last year's budget with few if any concrete business cases with realistic, risk-adjusted NPV projections that would allow a true optimization of the overall investment portfolio.

This process usually begins in the spring and lasts through late fall – essentially leaving only 4-6 months of the year for senior managers to focus on implementation. Too much time planning; too little time doing!

Elements of a better business planning process

If we step back to rethink what a good strategic planning process would look like, it would probably contain the following elements – organized into an efficient, logical, and educational process:

1. Last year's strategies are analyzed with a focus on **learning what worked, what paid off** financially, what changes in customer behaviors or market dynamics have been achieved – replacing the single minded focus on variance-to-plan analysis (top and bottom line)
2. Future goals and projections are **"zero-based"**; i.e., determined by the real business opportunity and requirements to capture unrealized business potential rather than incremental changes or re-allocations of last year's budget
3. Each major marketing investment is evaluated on its ability to drive growth, generate profits, and mitigate risk → processes are in place to **allocate budgets to concrete business drivers** (not standard cost centers) to better manage budget cuts or spend incremental investments – the budget is evaluated as an **investment portfolio**, balancing risk and returns

4. Business cases for critical initiatives are **realistic, fact-based, and transparent** – not built on instinct, hope, and experience alone
5. Terms, definitions, and metrics are defined the same way consistently so that global leaders can be confident that one market's "market share", "growth potential" or "investment risk" is truly comparable to the same from other markets → the entire organization **speaks the same language** to facilitate collaboration and learning from one another
6. **Assumptions** and beliefs **are documented** about what drives business performance (all the way down to the motivators and barriers to change customer behaviors) → a **measurement culture** exists, always validating assumptions to improve the foundation for future decisions
7. The process is **efficient, avoids unnecessary rework**, fosters teamwork and organizational alignment, and leverages past insights – even when personnel changes mean that last year's budget owner has long moved on and a new person is in charge → time required to establish goals, implementation plans, and organizational commitment is minimized in order to **leave more time to implement** and ensure flawless execution

8-Step Process for a "Zero-based" Business Plan


1. Establish baseline market assessment (i.e. Patient Flow Analysis)
2. Estimate market growth (5-year potential and 1-year projection)
3. Identify market Opportunities and "Barriers" to realizing growth projection
4. Determine Strategic Imperatives (based on local growth opportunities and aligned with global brand strategy)
5. Develop Key Strategies to overcome barriers and capture growth opportunities (aligned with each Strategic Imperative)
6. Identify specific tactics and attendant resource requirements - roll up to regional budget
7. Calibrate and confirm final prioritization of opportunities, strategies, and tactics based on financial analysis
8. Agree on final local and regional initiatives and fine-tune implementation plans

Critical questions: What can your organization improve?

Where does your organization stand in terms of having a business planning process that truly supports the business? **Ask some questions and judge for yourself:**

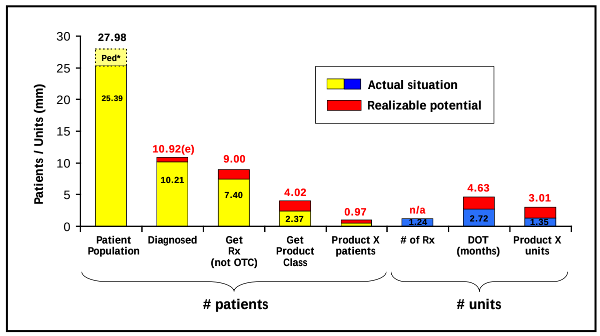
- How many business planning meetings have you had where both the "global head" and the "local market manager" walked away happy because they had an honest dialogue that generated a better mutual understanding of the business opportunity – and both sides felt they truly benefited from new insights and actions that will drive the business forward?
- How many times did you feel, you'd rather meet with customers, develop marketing strategies, coach a team member, or focus on any other job responsibility that more directly drives business results, than sitting through another business review / planning meeting?
- What % of your business planning meetings are spent rehashing the basic facts, establishing agreement on the current situation – rather than focusing on the future and generating ideas of how to move forward?
- How confident are you that a local market manager's proposed budget is "realistic" – how often do you suspect it may be conservative or overly optimistic? How do you know?
- When it comes to making budget cuts or spending additional resources, how do you decide where this should be done? Do you have the tools to project the top line impact of making those cuts or incremental investments? Can you easily generate an ROI or NPV comparison for several different investment options?

If you are not totally satisfied with how you answered the questions above, then you should do something about that annual ritual in your organization. If you feel that the process could improve, we can almost guarantee that the ROI on a better strategic planning process is higher than most other investments you could make – think about the return on having more time to act vs. plan; the return on having more insight into the real growth potential across different markets; the return on having consistent, objective business cases for each investment to allow you to optimize the overall investment mix, … the return on *knowing* you are doing the right things the right way.

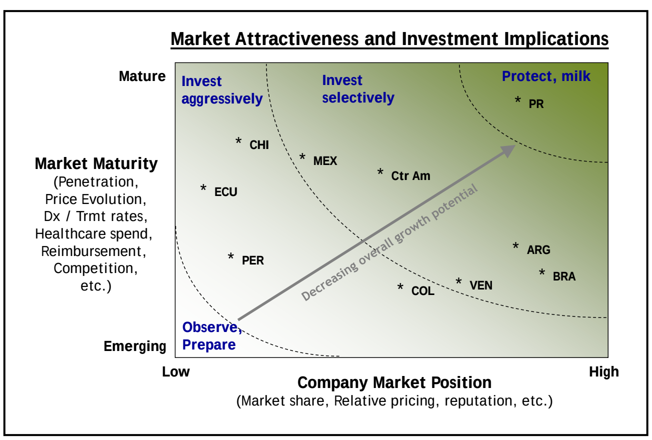
A case in point

The VP responsible for a major pharmaceutical company's Latin America business realized that the business planning and budget setting process did not generate the insights needed to drive more aggressive business growth. One franchise in particular caught his attention: A mature respiratory product, with revenues of several hundred million dollars, had been generating single digit growth for years. He did not feel that each local team had identified the true upside potential in their markets. He had no good way to identify those markets which were approaching the maximum of their potential vs. those that had a lot more room for growth. And he did not have the transparency to see what marketing investments were made across the region that could be consolidated and improved through a collaborative, region-wide initiative.

Cogent Consulting developed and implemented a logical, stepwise process that began with a thorough market assessment based on a patient flow analysis to establish a current performance baseline and detailed cross-market benchmarks to identify market differences and quantify growth opportunities. Each local team followed the same process, worked with common frameworks, used analytical models provided by Cogent, and ultimately identified their own priorities for driving growth. The process was collaborative, efficient, fact-driven, and generated a clear plan for each market and the region.



In the end, the process generated more ambitious growth strategies – with a return to double digit annual growth (which was actually achieved) and a plan to triple the business in 5 years. Each market identified unique strategic priorities ranging from market expansion, product positioning, prescriber penetration, HCP education, to patient compliance. Investment requirements were defined for each market and common initiatives were identified that got regional support. For the VP, transparency into upside potential and ROI enabled him to develop his region using a classic portfolio management approach – over-investing in growth markets while milking some of the more successful, mature businesses.



If you would like to discuss how Cogent's Strategic Business Planning Platform can improve and streamline your annual planning process, please contact us at info@cogentconsult.com.