# CREATE A STRATEGIC BASELINE IN FIVE STEPS

IMPESTRA

Strategy & Performance


## Abstract

The first step in creating a Strategic Plan is to establish a solid baseline of the Point of Origin. All journeys commence at the starting line. Build yours, so you can measure your progress.

# Create a Strategic Baseline in 5 steps

A critical steps creating a Strategic Plan is establishing a solid, substantiated baseline. It will be used as a starting point to define the future goals and metrics; it also allows for a fact-based analysis of the current situation. Both are part of creating an achievable plan. They also help declaring the assumptions made along with the plan, so they can be revisited later on when the need arises.

Five simple steps can help create a strategic baseline.

## 1 - Define the Strategic Journey

A strategic Journey is comprised of all the activities and achievements that span from the Baseline until the desirable Future State has been reached. Chances are, the actual Future State will be close enough to the original design; but at a time where market changes are happening at an increasingly fast pace, it is safe to assume that the Future State will be noticeably different. And it is a good thing!

The Future State is a description of a desired set of achievements, as they are imagined from the Point of Origin. As things will change along the way, it is important that the ***idea*** of the end goal remains, but that the details evolve in synchronization. Not change would mean getting stuck with an intangible target while everything else is moving. Documenting assumptions and beliefs at the start of the process, is therefore a must: many implicit truths and statements can and will be turned upside down by the time the Plan ends.

The Strategic Journey could be compared to space travel: starting from “ground zero” and aiming at a point in space where the targeted object will be in the future, like a studying asteroid probe sent a year ahead of the position that the asteroid will occupy by the time the probe arrives.

The strategic horizon (the 5 years finish line) can be difficult to describe, because there is no way (yet at least) to see what the future holds and come back to tell the story. A helping factor is that a period of 3 to 5 years, even 10, is not so far in the future that we cannot sketch it out, somehow. Today is not dramatically different from what we knew 5 years ago. Some things evolved in unexpected ways (slowdown of China’s economy), but most core market drivers were already there.

## 2 - Why the Point of Origin and Milestones matter

As the prospective future state starts to take shape, a key part of building a strategic roadmap is the starting point and the milestones along the way. Like a championship battle, multiple games will played, which eventually will deliver the season’s trophy. Some will be big wins, some might be losses. Every step of the way, plays to reach the end goal (the Championship trophy) will be reconsidered, revisited to maximize the chances to win.

The Point of Origin is often overlooked as it appears that “everybody knows” it. Most of the time, this declaration is dead wrong. The Point-of-Origin is not just a snapshot of today’s business and performance indicators. It is a description of today’s situation using the Future State performance and activity metrics.

What matters is not describing the current operating performance with today’s metrics, but to establish a starting point with the metrics that will be used to measure the success of the strategic journey.

For example, today's operating parameters might very well be focused on earnings and an operating turnover cycle that satisfies today's constraints and objectives. These parameters will likely be modified, possibly replaced them with metrics such as capital expenditure burden, innovation level, mobility of products, etc.

Establishing a Point of Origin is fundamentally measuring today with tomorrow's KPIs. The goal is to establish a starting point for the journey, so the progress can be assessed with an independent point of reference, before any action has been taken yet.

The milestones of a 5 years plan are often annual interim goals, a cycle agreeable to planners and controllers alike as it aligns with the budgetary cycle. Breaking down the journey to the prospective "Horizon" goal into big chunks of achievement rarely matches calendar cycles, however. Some might be under a year's effort, others might take more than a year. These are the meaningful thresholds that indicate the progress against the horizon-goal. Annual checkpoints are useful and should be maintained for the sake of budgeting and forecasting, but should not replace milestones embedded into the Plan.

## 3 – Assess Internal Factors

The achievement of strategic goals in stages allows for quasi continuous course corrections, each new threshold being revisited in light of new changes to market forces, capabilities and potential updates to the underlying strategy.

A simple way to look at the potential changes that will come to play is separating internal factors from external factors. Although both are at play in the same time and are inter-related, they differ in the simple fact that an organization can alter internal factors, but hardly affect external factors.

Internal factors include the organization's structure and leadership, culture, performance, products or services, agility and resilience. Here is an overview of how they come to play:

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| **Structure** | How the organizational structure is optimized to achieve the strategic goals, make and execute decisions, communicate and captures feedback. The degree of centralization decentralization or distribution of the organization bears on its capacity to take ownership and achieve goals, adjust course and deploy resources. |
| **Leadership** | The skills, acts and cohesion of the leadership team (Executives and Senior Leaders) as well as their continued, loud and clear engagement in support for the strategic goals are critical to the success of a strategy or a transformation. The Governance structure (including the Board) complements the Leadership drive in providing additional support, funding and engagement. |
| **Culture** | The culture of an organization helps cement the journey's efforts by leveraging or amplifying key traits such as passion, innovation, integrity, accountability, dedication, empowerment, strive for excellence, customer centricity, teamwork, competitiveness, etc.<br>Some aspects of a culture can be amended or changed with a deliberate change program, provided time and resources are freed up to do so. |

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| **Performance** | An organization's performance is a great asset in any strategic journey. The history of operational performance, customer satisfaction, financial performance, project and program execution are, together, strong indicators of how likely the journey is to succeed.<br>Markets have a tendency to follow a leader's performance achievements, which then can become a standard or baseline creating increase pressure of competitors. |
| **Products & Services** | The two sides of Products and Services include the generation of the revenue and profit to the business, and the response to the evolving customer needs and demands. The adequacy, attractiveness, innovation and other unique attributes of the products creates market demand and drive market share. |
| **Agility** | Capacity to engage and complete a change (adaptive, corrective or transformative) in response to a decision or market need on time to realize most of expected positive effects. For example, the response to an emerging market trend or cycle should be implemented before the cycle reaches its apex. |
| **Resilience** | The ability to bounce back and resume progress after a setback or loss. The ability to learn quickly from mistakes and failures to recreate positive dynamics. |

Assessing Internal factors implies both understanding how they can help or hinder the success of the execution, but also which ones are strengths that can be leveraged to achieve higher goals. Agility might not be an original strength, but deciding to make it a strength could change the perspective on how the business is managing market dynamics, which might be a critical success factor in the new strategy.

## 4 – Assess External Factors

External factors are primarily competitive factors, as described by Michael Porter. Their scope is however larger than the organization's boundaries. Most businesses are nowadays based on a comprehensive eco-system, comprised of suppliers, producers and distributors. Market drivers and competitive forces should be considered from a holistic perspective; a factor impacting a member of the eco-system might very well impact other members of the eco-system as well, directly or indirectly (e.g.: inflation rate, price of oil or raw material).

Market dynamics are a key driver of strategic agility. Market Turbulences (Frequency, amplitude and predictability of changes) might require extensive efforts to simply keep up with the latest variance. In the same time, a low level of turbulence in a market can indicate that it is ripe for a disruptive change.

A short cycle of changes requiring frequent adaptive changes could help keep in synch with the customer demands, reducing the chances of a major overhaul. No market can be completely immune, but continued adaptive and innovative changes certainly reduce both the likelihood and potential impact of an upset.

An amplifying factor in market dynamics is the competitive response to changes. Customer change cycle is an inbound pressure, to which a business responds with changes to the products, services or business model. The timeliness of the response to the market can in turn set up new customers' expectations. The automobile, air transportation and healthcare industries for instance have vastly different response cycles to changing demand. Minor changes can be implemented rapidly if they represent a competitive advantage, while major changes can take years when it comes to the size of planes, emissions reduction or electronic exchange of health and payment information.

Assessing the current situation from the vantage point of the new strategy can bring precious information on pre-requisite actions or changes, which in turn would increase the chances of success.

## 5 - Tailor Agility to Actual and Future Market Conditions

The combination of the natural market turbulence and the responsiveness to market changes define the intensity of market dynamics.

A Strategic Plan in a highly dynamic environment should be packed with options and adaptive capabilities, while a less volatile environment allows for more straightforward plans with less attention paid to adaptive changes.

This disposition is important as it will determine how flexible the Plan must be to remain achievable. Long term plans with no flexibility in volatile market conditions are not conducive of success. The degree of strategic agility (as defined here) should be tightly coupled to the degree of turbulence of market dynamics.

A good strategic plan is built on a solid baseline, which includes:

1. Defining the Journey (future goal)
2. Establish Point of Origin and key Milestones
3. Assess Internal forces
4. Asses External Forces
5. Tailor Agility to Market Conditions

From this Point of Origin, the Vision for the future can be cast and a Roadmap designed, with a foundation that will remain relevant throughout the Strategic Execution.