

Long-Term Strategy

Adapted from an AF seminar presentation by Greg Wolf

The business planning process is comprised of three distinct aspects: 1) long-term strategy, 2) the annual strategic plan, and 3) the action plan. While the names might vary, all business planning efforts should encompass these three aspects or views. Business planning really is about managing the risk/reward relationship. We seek rewards in business, not all of them monetary, and we try to manage the risk of failure or the risk of not achieving what we want to achieve. One reason business planning is difficult is because it requires us to think deeply about our long-term objectives. Having a business plan, of course, doesn't guarantee we'll be successful or that we couldn't find success without one. But the forethought that's required to document a long-term strategy really does enhance our potential for success.

The word comes from a Greek word that is defined as "the general's view of the battlefield."¹ In a battle, the general was not on the frontlines. He was positioned behind the lines where he could see what was happening on the battlefield. This view would be supplemented by intelligence reports from scouts dealing with details such as the enemy's position, potential opportunities, and escape

routes. The general could analyze the data from different sources, develop contingency plans, and make big-picture decisions. Similarly, we take a general's big-picture view as we work on long-term business strategy.



Figure 1 shows the relationship among the three aspects of a business plan. The daily action plan can't exist alone. It's nested within the annual strategic plan, which is nested within the long-term strategy of the business. Not only are these three aspects nested within one another, but they also follow a logical order. As you work through the daily action and annual plans, you fulfill your long-term strategy day by day.

Long-term strategy tends to be the most neglected part of business planning.

It's easy to approach business planning thinking only about its financial aspects in the next year. Many people may think a business plan consists of a set of financial projections, a balance sheet (to tell them where they're at and what their resources are), and a set of cash flow projections for the year ahead. This article will show you that a business plan isn't complete without long-term strategy.

Your long-term strategy isn't necessarily something you work on every week or even every year. Generally, this type of strategic planning is done either during start-up

¹ Ebener and Smith, *Strategic Planning*

or at three- to five-year intervals. Some details of your long-term strategy won't change over ten or twenty years. As business owners, you should be referencing them regularly, but they aren't the kinds of things you update at weekly or monthly meetings.

Obviously, it's ideal to work on long-term strategy when starting a business, but most of us are already engaged in business and don't have that opportunity. However, the cyclical nature of business planning means that it's never too late to begin evaluating and documenting your long-term strategy.

Before discussing the three components of long-term strategy—company culture, market strategy, and business framework—let's consider our focus in long-term strategy planning.

Our Focus in Long-Term Strategy

Research. Long-term strategy focuses on research as opposed to random or intuitive guesswork or assumptions. I'll give you an example from personal experience. Before my family opened Family Food Store in the rural town of Sawyer, Kansas, we tried to figure out our market. There were maybe 125 people within city limits and about 400 within the entire ZIP Code area. Before we ever opened, we took into consideration the population and size of our trade area as part of our market research.

Another aspect of our research was determining how many people drove past our location on U.S. Highway 281 every day. Was it realistic to think that we could get one in ten to stop at our store? If so, is it conceivable that we could get them to spend an average of \$20 each? We researched other things too, but the point is that doing the math was part of our market research. This type of data-driven research should be conducted not only before starting a business, but also on an ongoing basis.

Collaboration. Involve others in planning your long-term strategy, so that it is an "our plan" and not a "me plan." My wife and I did a lot of talking about the future of the store we were hoping to open and the reasons behind it. We also sought assistance from someone familiar with the business planning process. Back then we had never heard of Anabaptist Financial, but we got help from a small business development center in our state.

Unity. Even collaboration based on good research is not enough. Collaboration strengthens our plan by

introducing diverse viewpoints and experiences, but unity of vision is essential for a business to really thrive. Too often, businesses struggle with conflict. Some of this is normal due to diverse personalities learning to work together, but lasting success calls for a shared vision in those things that matter most.

Company Culture

The first component of long-term strategy is the definition of company culture, which includes your business's history, vision, mission, and values. The more experience I gain in business, the more I realize how important company culture is. For some of us, the term *company culture* sounds like business jargon or maybe something too professional for us.

Company culture, however, is simply a practical description of a business's personality. It isn't something easily or quickly created, although it can be changed over time through careful leadership. Rather, it's something that *is*, and all companies have it. In essence, it's "the values and behaviors that contribute to the unique social and psychological environment of an organization. It includes an organization's expectations, experiences, philosophy, and values that hold it together, and is expressed in its self-image, inner workings, interactions with the outside world, and future expectations. It is based on shared attitudes, beliefs, customs, and written and unwritten rules that have been developed over time and are considered valid."²

In smaller businesses especially, company culture is closely tied to the personalities of the founders and owners. This makes it a two-edged sword: businesses can thrive on a culture that flows out of personality strengths, but they can also struggle in areas of weakness.

Culture is unique for every organization, and it's one of the hardest things to change. The secular business world is often a dog-eat-dog world, but that's not what we want in our businesses. Put thought into shaping your long-term strategy for culture, documenting who you are and the way you want to do things.

The culture in your business shapes the way you do business. It affects the way you treat employees, customers, and the wider community. It affects the level

² "Definition.docx - the Values and Behaviors That Contribute to the Unique Social and Psychological Environment of an Organization Organizational Culture." Course Hero. December 21, 2021. <https://www.coursehero.com/file/77154797/definitiondocx/>.

of your employees' commitment to collective objectives.

I like to think of company culture as the company's "soul," that is, the collective mental, volitional, and emotional state of the company. One way to measure a company's culture is by how much it attracts people to come work in the company. Do we have companies that our employees and maybe even our children want to get away from? A thriving company culture plays a significant role in whether people really enjoy working in the company.

As a business owner, you need to decide what kind of culture you'd like and work toward it. While your company culture already exists, it is also aspirational, meaning that you hope to shape and improve it over time. Consider whether Ephesians 4:31–32 describes your company culture: "Let all bitterness, and wrath, and anger, and clamour, and evil speaking, be put away from you, with all malice: And be ye kind one to another, tenderhearted, forgiving one another, even as God for Christ's sake hath forgiven you."

How would your employees characterize your company's culture? Is it a dog-eat-dog or tit-for-tat culture? Or is it a type of brotherhood, a place where discipleship and community flourish? Are your employees weary of coming to work and battling their coworkers in a toxic culture? Or is your culture one of encouragement where everyone feels welcome and respected?

Be proactive about defining and shaping your company culture so that it doesn't remain simply as ideal. Communicate your company culture by incorporating it in your employee manual, company vision, company mission, and other business documents.

As mentioned before, company culture can be divided into the company history, vision statement, mission statement, and values.

Company history. Understand your company's history, learn from it, and tell your story. If you don't know where you came from, you'll struggle knowing where you're going. Losing your cultural heritage puts you at risk of drifting to a place you did not intend to go, so be sure to incorporate your heritage and its values within your company culture.

Company vision. This vision expresses the direction that the business is headed. When we talk about having a vision for the future of the company, we're not claiming sovereignty over our lives. We are simply intentionally planning

for the future and expressing a desire that we can share with others. In all of our plans for the future, we want to say that if the Lord wills, we will do this or we will do that.

Company mission. The mission statement expresses how we're going to fulfill our vision, and it often touches our purpose and values. Our purpose on earth is to glorify God, and yet we believe that a mission statement should tie into our daily business activities. A business mission statement shouldn't say merely that "We want to glorify God." Rather, it should say specifically, "We glorify God through serving our customers in the heating and air conditioning industry" or whatever it might be.

Company values. This is a list of core values that characterize our conduct. We desire that Scriptural truth governs all that we do, but we benefit from highlighting key values to characterize the culture we want to build both internally as well as externally, such as in customer service. Businesses often organize their value statement as an acronym of some kind, simply to help people remember it more easily.

Market Strategy

The second component of long-term strategy is market strategy, which is at the heart of the business plan and affects everything in it. Your market strategy guides the choices you make in how you engage the marketplace with the resources you have. In other words, which customers are you going to serve, and what are you going to try to serve them? What problem in the marketplace will you solve? What need will you fill?

Economic analysis. This is simply considering your economic resources and creating a system to maximize them. I grew up on a farm and intended to be a farmer. Yet farming is changing. It's becoming radically more capital intensive and consolidated. When I was sixteen, we farmed about 1,000 acres in northwest Kansas. We weren't considered a small farm. Now it's quite common for farmers in Kansas to farm over 10,000 acres.

Consider the resources you have available. We had a limited amount of equity when we opened our store, and we had a strong desire to not go deeply in debt, especially through financing anything other than real estate. That represented an awareness of our internal economic resources. There are also external economic resources to consider. What is the state of the macroeconomy, or what is sometimes called the general economy, within which you

operate? Are customers' household incomes growing? If you serve businesses, where are they in the business cycle (growing, consolidating, or struggling)? How much market share is available in the potential market? Is the labor pool strong and stable? All of this and more makes up an economic analysis.

Market analysis. This detailed analysis looks more deeply at your specific market, focusing especially on customers and competition. Who do you intend to serve with your products and services? Are there problems in the market that you can satisfy? And who else serves them in your market? How will you reach potential customers in the market? What is the scope and span of your market? Are you strictly a local business? Or a regional multi-facility company? Or are you wholesaling across the country and even overseas? All of this matters as you move forward with your business planning process.

One market problem we wanted to satisfy by starting Family Food Store was that there was no place to eat within about 15 miles. Part of our market strategy was deciding how to open a food store and attract people outside of our small town.

Part of our analysis included learning from the Kansas Department of Transportation that about 2,000 vehicles, on average, drove by our store on U.S. Highway 281 each day. Getting these people to stop at our store would be the lifeblood of our little business.

We wanted to go beyond just solving a problem—or at least we wanted to think about market problems in a different way. We wanted to create a unique food experience, one worthy of drawing people a significant distance simply to experience our store. I can't think of a group of people that would understand this better than people of our heritage, the Anabaptist people. We're often associated with food, the environment surrounding food, and the experience of food.

As plain people, we were aware of the fact that there was going to be an association with us that we neither wanted to explicitly promote or avoid. Our heritage would simply be part of the experience for people coming in our store. The solution our store offered was not just a place to eat, like another McDonald's along the highway, but a unique experience of interacting, along with a different set of values than might be experienced at a fast-food restaurant.

Market niche. Regarding market strategy, you first view

the broad economic scene before you. Then you study your market, especially customers and competition. And then you can narrow your focus onto the market niche you have chosen. This defines who your customer is, what your key products and services are, and what your customer uniquely values about you.

Defining market niche is a challenging task of choosing between options. You can't be all things to all people. We had considered offering discount/salvage groceries, which is common among some of our plain communities and appealed to our sense of frugality. We love good deals! However, the bent-and-dent model would have been a catastrophic failure because it didn't appeal to the type of customer we needed to attract. Furthermore, we didn't have a facility or labor force suited for that kind of volume. With our deli and baked goods store, we chose the path of lower volume, higher margin, higher value, and a focus on experience rather than transactions.

Defining market strategy involves ambiguity, risk, uncertainty, and complexity. It's challenging when the market is drying up and you're not sure what to do. You may need to think about other ways that you can engage, perhaps in the same market with a new product or a new service or perhaps a new approach to reinvigorate the company.

Defining market strategy is a role of ownership, focusing on revenue generation. My friend and fellow Anabaptist Financial advisor Leonard Meador says, "If every business owner doesn't sit on a rock for 30 minutes a week, the business won't grow." His point is simply that we need to occasionally get away from the day-to-day management of our business and just think about our long-term strategy, especially whether or how we could develop new customers and revenue streams.

Turning revenue, our sales, into net profit is a management task. The ownership role is to think about the future. It's one thing to have a business plan that exceeds your expectations; it's another to keep it fresh and growing into the future. Sitting on a rock and thinking about the business is symbolic of this ownership task.

Business Framework

The third component of long-term strategy is the business framework. This component defines areas of your business besides company culture or market strategy that call for long-term strategic planning.

Executive summary. This isn't exactly a component of a business plan, although it's typically presented as the first page of the plan. It's a synopsis, a one-paragraph or one-page summary that encapsulates your entire business plan. If you have a 40-page business plan, you can present a one-page executive summary to a lender (or whomever) so they can figure out exactly what this plan is about, and if it's worth reading further. The executive summary should both inform and inspire the reader.

Ownership plan. Another integral part of long-term strategy is the ownership plan. You really should have a plan for the disposition of your business *before you ever open the door*. Realistically, not many of us do. We more often become practitioners, jumping in and starting to serve customers without taking time to do what seem like formalities.

Then our business takes off and we come to realize we didn't put enough thought into ownership. Who's going to own it? How are they going to acquire it? What are the parameters by which they buy it, and how much are they going to pay for it? Those are all vital questions that come up later down the road, often in the context of conflict.

As business advisors, we sometimes get into situations so messy that we don't know how to advise. We just wish that somebody would have created an ownership plan before they got into conflict with other owners about somebody joining or leaving the business.

Financial overview. This section varies by business interests and needs, but it can include overarching projections, alternative scenarios, goals, and objectives. It's appropriate to think about projecting revenues and sales into the future, but P&L and cash flow projections are one-year tools that fit best in the annual strategic plan. Long-term

strategy is more about overarching projections, largely on the revenue side. What kind of revenue can we generate in the location? And then year by year we'll plan our cost structure.

For example, our financial overview may document that we intend to maintain a 20% annual growth in sales over the next five years. Further, we want to focus on efficiencies that will increase our gross margin percentage from 25% to 30% over that same five-year period. And lastly, we want to make good on our desire to operate debt-free by paying off all non-real estate debt in that period as well. This long-term planning is more abstract than the annual budget. However, the annual budget must contain the essential steps to make this long-term plan possible.

Conclusion

Annual planning is a vital and practical aspect of business planning. Success with an annual plan might be described as *doing things right*, while long-term strategy could be described as *doing the right things*. Business failure can include failing financially, but it can also include failing to accomplish the essence of what you really want for your business. This is especially important for those of you who aspire to "business as mission" and want your business to faithfully represent the kingdom of God on the earth.

The reason we are in business is so vastly more important than just projecting a positive cash flow, important as that is. We aspire for our endeavors in business to unfold intentionally, not accidentally. The business planning process is what we use to apply that intention to our business.

"In all thy ways acknowledge him, and he shall direct thy paths" (Proverbs 3:6).



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