

Strategic Planning in Times of Turmoil:

How Banks Should Be Re-Thinking Their Planning Process in Today's Environment

There is no doubt that these are times of turmoil, particularly for banks and other financial services organizations. As banks scurry to adjust strategies and priorities for today's changing market, it is important to recognize that the strategic planning exercises used in the past may be inadequate for—or simply misaligned with—today's tumultuous market.

Thinking about strategic planning in the context of the current economic crisis raises three questions:

1. Is there—or should there be—a difference in the strategic planning process in times of economic turmoil? (Yes).
2. Should there be a difference in the content of a strategic plan in times of economic turmoil? (Yes).
3. If yes, what should those differences be?

With this article, we seek to answer this third question and share our point of view as to how banks should prepare to embark on their strategic planning processes in today's environment and what the focus should be on.

The Strategic Planning Process and Output

At their core, most strategic planning processes have a fairly standard set of processes and outputs:

Strategic Planning Process	Strategic Plan Output
Environmental Scan, including: <ul style="list-style-type: none"> • Economic, social or demographic trends • Financial services/industry-specific trends • Industry success factors • "Buyer values" (i.e., what do customers want?) 	Market Assessment: <ul style="list-style-type: none"> • Opportunities (O) • Threats (T)
Internal scan/key facts about the business: <ul style="list-style-type: none"> • Current performance and "profit pools" (i.e., where does the bank make its profits/best return on capital?) 	Internal Assessment: <ul style="list-style-type: none"> • Strengths (S) • Weaknesses (W)

Strategic Planning Process	Strategic Plan Output
<ul style="list-style-type: none"> • Current capabilities, assets and attributes • Customer segments and facts, e.g.: how well do we serve them; what business do we get from them? 	
Identification of key issues arising from SWOT	Hypotheses about strategic options
Discussion/analysis of strategic options	Strategies to pursue
Discussion of business goals and how to measure progress against them	Measures and target metrics
Discussion of initiatives to support the strategies	Initiatives to implement (with milestones and/or timelines)

The Strategic Planning Process in Times of Economic Turmoil

Assuming your bank follows a somewhat similar process, what is or might be different about that process in an economic downturn? We suggest banks make three key adjustments to the process:

1. *Spend more time and thought on understanding what is happening externally*

In good economic times, the external market analysis is often conducted in a cursory way: put some content together and check the box that says: "External Analysis Completed." After all, in good times, a rising tide raises all ships. The general attitude tends to be that there's no need to spend a lot of time planning; let's just go out and get the business!

Economic downturns change that. Whereas there might be *relative* losers in good economic times—a company doesn't get its rightful or proportionate share of the market gains—there are *absolute* losers in a down market, when business volumes and profits drop for many market players. As a result, in economic downturns, there is a much greater need to be savvy about what's going on in the external world. And the external world encompasses a broad swath: the general economy; the industry; issues among markets and customers; the regulatory environment, etc. Identifying not only the first-order external threats in these areas (e.g., layoffs, real estate crashes, etc.), but also the second-order, "multiplier effects" from these primary threats (e.g., decreased consumer demand for loans, lack of confidence in financial institutions, industry turmoil in industries other than the hard-hit real estate industry), will provide for a much more informed and robust strategic plan output.

2. *Think more carefully through the implications of external events and trends*

Spending extra time and effort in an economic downturn to think carefully through the implications for your bank will pay benefits as well. These implications should have both an external focus (e.g., customer demand and

concerns; regulatory implications; structural changes to the industry) and an internal focus (e.g., value chain elements most affected).

Some planners use a scenario analysis approach to “model” and think through multiple futures based on these implications, including addressing futures that seem highly unlikely (which, just a few years ago, might be a term scenario planners would have used to describe today’s situation). The key benefit of understanding implications and running scenarios is to enable the bank to be able to respond faster and with more forethought when external events actually do occur (as they inevitably will). Moreover, detailed thinking in bad times drives better understanding of the business, which can only provide additional benefit in good economic times (when the strategic planning process might get shortchanged).

3. Translate the above items into the critical risks and success factors, and outline the implications for the strategic plan

This step, like the others, should be part of any strategic plan. However, it takes on more significance in times of economic turmoil. Boards take a keen interest in this particular effort given all of the discussion of untoward risks that are being blamed for the current downturn. This is particularly important for banks and other financial services companies, as they are supposed to be in the business of managing risk.

Risks to be addressed include some or all of the following:

- Strategic/market
- Financial
- Operational
- Credit
- Execution
- Technology
- Regulatory

The Strategic Plan in Times of Turmoil

In addition to changing how you go through the strategic planning process, an economic downturn is also likely to influence what you communicate in the strategic plan. Specifically, there are four changes that need to be made—whether they be wholesale changes or simply areas that require more robust focus—in times of market turmoil:

1. Having two sets of strategies: near-term and longer-term

Inevitably, in an economic downturn, various stakeholders—board members, management, customers, prospects, and regulators—are all concerned about worst case scenarios and getting through the current crisis, and they are keenly focused on risk. Given this, no matter what long-term goals you have, you will need to proactively address what the bank will do in the next 12-24 months to defend its position and make it through the short-term turmoil. Those strategies will typically be focused on the very basics of the business. For a bank, it could be reducing costs, ensuring liquidity or balance sheet strength, addressing asset

quality issues, and staying focused on critical customers and segments. Being proactive about these initiatives will reassure stakeholders that management is attuned to what is happening in the marketplace and has strategies in place to address those items.

At the same time, it is important to at least highlight key strategies for the longer term. After all, this crisis, like others, will come to pass. It's important to communicate that while your eyes are clearly focused on near-term difficulties, you are not taking your eyes off the longer-term priorities and growth opportunities.

2. Having fewer strategies

Especially in times of economic turmoil when financial—and potentially, other resources (e.g., employees, due to layoffs)—are tight, focusing on doing a few strategically important things well will trump doing many disparate things. Focusing on fewer items improves the odds that the strategies will actually get implemented. Prioritizing those activities that are strategically most important ensures the biggest “bang for the buck.”

3. Addressing risks and risk mitigation

Strategies are risky in any market environment, let alone in a period of economic turmoil. As noted earlier, you can be sure your Board—as well as your customers, regulators, and suppliers—will be focused on understanding risks and how the management team is planning to mitigate those risks.

4. Remembering the customer when it's easy to forget about them

Finally, don't forget why you are in the business and who keeps you in business: the customer. To be sure, market- or customer-facing strategies should be part of any strategic plan. However, in times like these, it's easy to focus on the enormity of exogenous economic and industry variables, and on the purely internal things that need to be addressed to respond to those variables and survive in the short-term. But don't lose sight of the customer, what's important to them, and what value you are delivering to address what is important to them to retain their business.

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It is often said that the best defense is a good offense which is good advice for banks in today's tumultuous market. By taking a proactive approach to strategic planning in the current environment, you will be well-positioned to address the economic onslaught successfully and capitalize on the good times when they return.

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