The Importance of Strategic Planning for Investment Advisers

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Investment managers are facing more competition than ever before. An influx of new products have entered the market and traditional active managers are struggling to stay relevant. It is not safe to assume that because asset flows have been positive in the past, the same will remain true going forward. Meanwhile, fees are in a race to the bottom while operating costs continue to rise, resulting in shrinking profit margins across the industry.

In order to flourish, advisory firm executives must face these realities head on and take a proactive approach to setting their companies on the right path. One of the best ways to do this is through a comprehensive strategic planning process.

This article highlights why strategic planning is important, and how an investment adviser can go about executing the process.

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Strategic Planning is Necessary, Not Optional

Successful strategic planning enables a company to cut through the noise and focus on the most important part of the business: its core strategy. Planning is not a document-producing exercise, but rather a living process that leads to a thoughtful vision of where the company should be.

With no guiding plan, it is easy for employees to go about day-to-day operations without regard for how their activities fit into the larger company strategy. As a result, the business becomes a many-headed monster, shooting at multiple targets, and driving costs out of control. Similar to playing a game of Whack-a-Mole, management will develop a reactionary approach to hiring, strategic transactions, and other important investments. This is very risky business, indeed. Piecing together a series of decisions based on news flashes, current events and gut instinct is unlikely to generate a cohesive business plan when taken altogether.

Strategic planning can alleviate these pitfalls. By defining the firm's core strategy and keeping it at the forefront of business decisions, the best course of action becomes clear as the management team recaptures a measured, logical approach to decision-making. Planning results in more effective cost management and targeted investments that lead to revenue growth.

Success does not come from chasing industry trends, but from following a plan that puts those trends in the context of each company's own profile and mission. In the quest to respond to rapidly changing market forces, the strategic plan should be your reference point.

An Ongoing Process

Strategic planning is not an event; it is a mindset.

Too often businesses only think about strategy when they are about to undertake a major organizational change: an acquisition, a shift in leadership, new ownership, or another similarly transformational moment. Even more problematic is when strategic planning itself

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becomes a protracted endeavor, sucking away employee productivity only to culminate in a big meeting and never to be discussed again.

Initiating annual planning exercises to establish or refine short-term (one-year) and mid-term (two- to three-year) goals, as well as review longer term objectives, is an industry best practice. To keep a strategic plan relevant, regular maintenance is key. Progress should be monitored on a quarterly or semi-annual basis.

Asset management firms spend a lot of time focused on portfolio structure and investment time horizons, and yet these same organizations often neglect to think about the long-term viability of their own business model. Undertaking a strategic planning exercise for the first time can be slightly painful, especially for companies not accustomed to thinking about the big picture. However, the importance of evaluating business resilience in the face of increasing market pressures cannot be underestimated.

Tone from the Top: Senior Level Buy-in is Critical

Strategic planning is a team effort and there will be a meaningful amount of heavy lifting from multiple levels within each department. Senior leadership must set the tone to ensure all stakeholders are on board and the process is given priority in the work pipeline.

The most effective way to ensure cooperation is by demonstrating to all employees that the executive team will be taking action based on the outcome of the process. A unified theme for the exercise that clearly conveys the type of solutions being sought can help keep the process in check. For example, if the key driver is allocating scant resources and choosing a target market, the theme for the year could be “Choosing Your Spots” and all planning teams would keep that theme in mind as they work through the process.

A clear focus will give employees something to grab onto. Leadership communications must convey that this is a serious effort which will impact day-to-day practices, and not just an academic exercise to be filed away in somebody’s desk drawer. A strong plan empowers employees to make decisions on their own while keeping the firm’s core mission in mind.

Strategic Planning Must Be Customized

Planning should not be approached haphazardly. Throwing together a discussion group in a conference room or hosting an expensive offsite meeting may check a box, but will fail to result in any significant takeaways.

Every company is unique in its structure and culture, and will approach strategic planning somewhat differently. It is important to take a customized approach to determining the human capital structures and process procedures that will elicit the most comprehensive results.

Larger firms, for example, may have sufficient resources to designate a person or even a team to run the planning process. With strategy as part of their job description and a reporting line to the executive suite, the team has implicit buy-in from top company leaders that will ensure the process is taken seriously by all participants.

Small and mid-sized managers, however, typically find it challenging to dedicate a team or even an individual exclusively to business strategy. Strategic planning may fall to the COO, who is likely already being pulled in numerous directions. If taking an employee away from his or her day-to-day responsibilities isn’t an option, a common alternative is to hire an external consultant to coordinate and lead the planning effort. In addition, an outside perspective removed from the corporate culture can provide a more neutral assessment of a company’s strengths and weaknesses.

A Bottom-Up, Results-Driven Approach

An effective process brings together all business lines to develop a comprehensive analysis of strengths, weaknesses, opportunities, and threats. Each participant contributes a unique perspective with expertise drawn from their group’s own interactions with the market. This bottom-up approach ensures that those employees who are closest to the relevant business operations are sharing insight directly.

Key inputs to the process include:

- Industry/Competitor Trends
- Client Trends
- Business/Company Trends

The resulting output should yield:

- A clear firm strategy or mission statement
- Key business initiatives with associated financial investment required

Once the process is completed, an analysis of the results taken in the context of the current industry climate can be a starting point to brainstorm both overarching goals as well as specific, actionable solutions.

For example, if lagging sales are a challenge, the strategic plan would map out an improved distribution approach while taking into consideration more general market forces. The key is in asking the right questions: What are the driving factors behind the issue? Is the company focusing on the wrong products? Does the group need a new head of sales? Is it necessary to hire a specialist who is better versed in the technical aspects? What are competitors doing that is working?

Another way to ensure that the process drives results is to use conclusions to inform the firm’s budgeting process. By tying strategic

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initiatives into budgeting decisions, leadership can demonstrate that they are making use of their strategic planning efforts and effectively backing up their words with dollars.

5 Best Practices for Strategic Planning

The planning process is not typically an eagerly anticipated activity, but it is still important to plan with purpose. By remaining open to the idea that the resulting output will lead to better decisions and a more unified approach, employees should find the planning process itself a relief from the daily grind, and an opportunity to share their strategic vision with senior leaders.

1. **Anticipate industry trends.** Yes, a lot can and will change over the next 10 years, but those uncertainties are no excuse to avoid planning altogether. Do the best you can with the information you have available. Spend the time making reasonable predictions about the future. You can adapt your plan as changes arise, but you'll need a starting point.

2. **Think big.** Planning exercises are the perfect time to think about the big picture and the ultimate objective for the business. Is management's goal to groom the company for acquisition? Will the firm be a diversified manager or a specialist boutique? Consider the possibilities.

3. **Set deadlines and closely monitor progress.** Without strictly enforced deadlines, busy employees will put the planning process at the bottom of their to-do list. Don't let the process get lost in the weeds because employees think it is a low priority.

4. **Involve all of your stakeholders.** Work with the COO to identify all contributors. Don't only involve the obvious team leaders; consult everyone who will be affected by the outcomes. The wider cast the net, the more satisfied everyone will be with the results because each will feel they have had a say in the output.

5. **Don't let your plan sit idle.** When you have a final draft, sit down with the head of each business unit and have an interactive conversation. Then, decide on outcomes. What initiatives are you going to invest in? What changes are you going to make? What are the trends and key factors that your company should be considering? The best planning processes lead to action.

In all likelihood, the industry shakeout is only beginning. Those investment advisers that prepare for the future will be the ultimate winners. Investing the time and resources to plan ahead is a strategy that will always pay off.

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