



Commercial Insights with Regions Bank

Episode 8: Managing the Unknowns in Your Strategic Planning

If COVID taught us anything, it's that you can't plan for everything. But you can change the way you plan. How can your strategic plans anticipate and account for the inevitable "unknown unknowns" in today's business environment? Learn how to develop an agile plan and increase your business' ability to adapt.

Episode Transcript

Alan Register:

So really, an unknown unknown—I think of it as, well, what is still out there? After you've run all of your scenarios, what is still out there that could really have an impact on your business? And I think we're looking at something like that in this current day and age through the global pandemic.

Chris Blose:

This description of an "unknown unknown" comes from Alan Register, a Commercial Banking District Director for Regions Bank.

An "unknown unknown" is that disruptive event you can't specifically plan for because you don't specifically know what it is—yet. Go back in time to late 2019, and businesses in most industries might've classified a global pandemic in exactly that fashion. Even if they had considered it, they weren't fully sure of the risks or the impact.

But now it's 2021, and we're all a little wiser from experience. That's why Register is joining us today to talk about strategic planning.

If you're a business decision-maker, you know some of the tools of the strategic planning trade already, from SWOT analysis to organic growth planning. Today, we'll talk about taking that process further, and using what we've learned from a year of the unknown in planning for the future.

Chris:

Well, Alan, thank you so much for joining us today. We really appreciate you offering your perspective.

Alan:

Thank you, Chris. It's good to be with you.



Chris:

So we're here to talk about strategic planning today, and I'd like to start with some of the basics. So in a non-pandemic year, when things are "normal," yeah, what did you view as some of the core elements of strategic planning? What should companies be looking at?

Alan:

Really looking, I think, first of all, what are your core competencies? What are you good at? Taking a look at, what are other opportunities out there in the marketplace? It could be through a weaker competitor. It could be through growing into a new particular territory a new product set that you might have. And so, taking a look at core competencies, taking a look at, what are opportunities?

And then also, obviously, taking a look at, well, what are the threats? What are the risks that I need to account for and try to deal with? And then you gather those things together and you, you look at it and you say, "Okay, well, how does this, how does this dictate our future? Where do we go from here? What are the things that we need to be looking at going forward, given all of this context that we've just developed around our business?"

Chris:

And in terms of best practices, is there kind of a time frame for that? You know, how far out are companies typically planning when they're doing strategic planning?

Alan:

Typically, three years. Maybe three to five years. Probably not much longer than that. Although certainly, things are contemplated beyond five years. But when you think about real, real hardcore strategic plans, probably a three-year time frame is pretty typical.

Chris:

Well, and I think that sort of time frame makes sense when you realize the disruption that can occur, and the shifts that can take place in a matter of three years. With that in mind, I'd like to dive into the unknowns a little bit. And we've heard this phrase, the unknown unknowns in relation to the pandemic. How do you define that, and how has that affected the process of strategic planning in the past year?

Alan:

So really, an unknown unknown, I think of it as, well, what is still out there? After you've run all of your scenarios, what is still out there that could really have an impact on your business? And I think we're looking at something like that in this current day and age, you know, through the global pandemic.

So when we, when we think about things that are out there on the horizon, really, it's almost like you're trying war-game it. You're trying to figure out, okay, what are the things that could really impact my business? Either positively or negatively, that could impact my business? And then, assuming those impacts occur based on the probability, based on the severity or the opportunity of those impacts, well,



how does that influence capital expenditures, hiring, organic growth, growth through acquisition—all of those things that we've referenced earlier?

Chris:

I think something that's interesting too, and this has come up frequently on the podcast, is that COVID has presented challenges and opportunities depending on what type of business you are or what industry you're in. So how has that played out in terms of strategic planning for different types of companies?

Alan:

I think that as it relates particularly to COVID, there are certain industries, clearly hospitality, most particularly restaurant, that have been impacted pretty negatively by the global pandemic. When you have to shut down for days or weeks at a time, and then when you do reopen, you reopen it 50% capacity. And of course, that depends on which state or market you happen to be in.

Then definitely, that's going to impact everything. That's going to impact your level of employment, your level of revenue, and it impacts your level of expenses as well. So trying to contemplate those things and figure out, "Okay, how do I not only get through this, how do I just survive this, much less, try to thrive in the middle of it?" And I would say that a lot of restaurant owners were probably in that boat.

On the other hand, you have other industries that have done very well through the pandemic.

So a lot of your home improvement, operations have done well. Dimensional lumber has done well. Transportation has done well.

And again when we think about going back to the strategic planning aspect of all of this, how much of this was predicted? And probably very little was predicted. I think this will change the process of strategic planning going forward in a pretty significant way. And I think about that this way, Chris. If you think about a scatter plot graph, where let's say on the Y-axis, you're representing the probability of an event occurring, and on the X-axis, you're trying to estimate the severity, or if that event occurred, what would the severity of it be? Or what would the impact of it be on your business?

And then you think about a scatterplot graph. So in other words, those items that are in the top right-hand corner, well, they have a very high probability of occurring, and they have a very high impact if they do occur. That might be something like supply chain disruption.

And so, that's up in the upper right-hand corner, and you're really thinking through that. You're really contemplating that. And you're drawing out diagrams of, "Okay, if this happened, what would occur then?" That sort of thing. And then you come all the way down to the bottom left-hand corner of that graph, where you have, "Well, what's the probability of this occurring, and what would the impact be?"



And the chances are, that's where a global pandemic used to reside on a lot of the scatterplot graphs, was in that lower left-hand column. And going forward, that probably won't be the case, because it has been so disruptive to so many industries, again, positively and negatively. Going forward, you know, I would think that it may not be a global pandemic, but what if the heat wave affects customers' ability to get to your business? Or prolonged cold or things like that, that just sees exhaustion as forces that change the way that we have to assess risk in our business, and also the way we assess opportunity in our business?

And then that, I think you'll see driving much more of the strategic planning process going forward. Whereas perhaps it was probably just focused on, "Hey, core competencies, opportunities in the marketplace." Kind of a typical SWOT analysis, strengths, weaknesses, opportunities, and threats, and we built our strategic plans around that. Well, now I think strategic planning is going to be a much more robust and kind of fulsome process to, again, as I say, war-game out different scenarios and how those scenarios might impact our business.

It strikes me that some of those scenarios that might have been bottom left quadrant, as you mentioned, or bottom left of that graph, they're going to move to top right. Or even items that were never thought of before?

Chris:

So the shape of that graph changes. Is there a time element to this too? Are people going to be looking at pandemic more now versus five years, or is this just something that's eternally a concern now?

Alan:

Yeah, that's a good question. I think it will vary from business owner to business owner. I would guess that that will be a part of everybody's scatterplot for at least, I don't know, the next five to eight years, something like that. And I'm really just going back to the Great Recession. How long did that last in strategic plans?

I think there are some—particularly in financial institutions' strategic plans—where that's still very much contemplated.

I would just say that as we come out of COVID and the economy gets back to normal, whatever that normal ends up looking like, again, it really just comes back to that probability and the severity of the event occurring. And that's going to be greater for certain industries than for others. For the ones where it's a greater impact, should that occur? Well, that might be something that should be in every year's strategic planning. For those where it's not as impactful, maybe, maybe five years out, they move it back into the bottom left-hand quadrant. That would be my estimation of that.



Chris:

That makes sense. Strategies will adapt. I think another interesting thing to have watched this past year or so is how people have adapted, both as companies and as individuals. So are there questions or analysis that companies can do to make themselves more adaptable for future events?

Alan:

So, Chris, I think about that this way. This was recently, I saw a Ted Talk by a lady named Natalie Fratto. A little six-minute Ted Talk, where she talked about the importance of what she refers to as the adaptability quotient. Now, this young lady is somebody that in the prior 12 months, had interviewed 273 potential startup companies.

And a lot of your typical questions are, "Well, tell me about a time when you did this. Tell me about a time when you did that." And she kind of tried to turn that on its ear a little bit. Because a lot of times answers to those questions may inform you of someone's IQ. Or perhaps even their EQ, their emotional quotient, but she in this talk, really emphasizes how she chooses companies to invest in based on their adaptability quotient.

And so, the questions that go along with that are, the basic one is, "How well do you react to the inevitability of change? We all know that change is going to occur. How well do you react to that?" And the way she digs into this is really through what-if questions. So when she interviews these companies that she may potentially invest in, she's asking them, "What if you woke up tomorrow and you had no customers? What would you do? What if you woke up tomorrow and your largest customer fired you? What would you do? What would you do if you woke up tomorrow and you had a brand-new opportunity to add what would be your largest customer? How would you react to that? What would you do?"

She's trying to understand, how do you manipulate info? How do you unlearn certain activities? How do you go about exploring and learning new things? What are the questions that you then ask? And she's saying this obviously to the young entrepreneur or to the new entrepreneur, "How do you go about those things?" And if you think about that, it's always been important. But given where we are today with a lot of the change that I think is on the horizon, when we think about coming out of this pandemic, and we have a new administration in Washington. There's always change associated with that.

So we know that change is inevitable. How do we adapt to that, and how well do we adapt to that? Because it's really just a nonnegotiable anymore, that we simply must be able to the extent possible, look out into the future, find those things where we think we can be successful, and then figure out, how do we get there? And if those things change and we have to adjust, how well do we adjust?

Chris:

I'm curious too, because obviously, the word change is used often in tandem with adaptability. How much of this is about having a solid change management and/or risk management in place as part of your strategic planning?



Alan:

Well, again, we go back to the unknown unknown. And as we try to prepare for risk and try to plan for risk, mitigate risk, manage risk, that's all a function of really looking out into the future and seeing all of these factors that could come into play that could impact our business. So I'll go back to the scatterplot. You know, what's the probability of this risk occurring? What's the impact if that risk does occur? And then, you look at where you have that on your scatterplot graph, and if that's in the upper right-hand quadrant, wow, that's someplace you really need to spend a lot of time and energy and introspection around.

And then I think the next exercise would be, look at those things in the bottom left-hand corner. Or maybe even in the bottom right-hand corner. So in other words, probability in the business owner's mind is very low, but impact might be high. That's where I'm referring to the bottom right-hand column. Looking at those things and, and saying, "Well, what if these ended up in that upper right? How would we adapt to the impact should that probability increase to where it really becomes reality? And that's why that strategic plan just needs to be so much about risk assessment.

Because, if you're not assessing those risks and you're not prepared should those things occur then you could find yourself in a real quandary as a business owner. Again, trying to not only thrive, but you're just trying to survive now.

Chris:

And I think our minds are all on that right now, and we're all maybe moving a little bit from reactive to proactive now, because we are preparing for a post-COVID world. But I'm curious. We've talked a lot about risk, we've talked a lot about adaptability. What about those elements of just normal core strategic planning? How have those changed? Let's take, for example, leaning into your core competencies or just how you manage growth in your business. Are you seeing changes there as well?

Alan:

I think one of the things that we are seeing there as companies are going through this, looking at those areas of their business where perhaps they're not as profitable, maybe they're just not as good at it. Maybe there are so many unknown risks there that during a time like this, you pull back and say, "Okay, what are our core competencies? What are we good at? What are we profitable at? What are we comfortable at? What are areas of our business where we really do feel like we have a pretty good assessment of the risks that are out there?"

And, and really homing in and focusing on those things, saying, "We are going to leverage these core competencies through this difficult time."

Chris:

So if I'm a decision-maker and I'm preparing myself for what's coming next, I'm ready to look at a post-COVID environment, what do you think are the core lessons that I should carry forward from all of this?



Alan:

Did it prove out that you are really good at what you thought you were good at? Did it prove out relative to, “Well, did the risk that I identified and assessed, and monitored, managed and mitigated, did I do a good job at that?” And so, you’re really looking back saying, “Did I prove up my theories? Did that work out?”

I think that’s probably the main thing that business owners are looking at right now, is—we got through this, and we got through this because we had a really good process going into this, where we did do good risk assessment. We did do very good opportunity assessment, core competency assessment.

And so, we got through it, and we proved it up. And now we’re ready to move forward. And there may be opportunities on the horizon related to, say, a weaker competitor that did not do that very well.

Chris:

But I assume that if you’re on the flip side of that, if you are the, the weaker competitor, it comes down to reassessing where those processes went wrong and asking some of those what-if questions you mentioned.

Alan:

Yes, absolutely. So going back and doing a post-mortem on, what did we miss, and how did we miss it? Why did we miss it? Do we not have the right voices in the room? Did we not have the right kind of data available to us to really assess that risk? What are the different factors that kept us from being successful?

And, you know, Chris, I go back to the restaurant industry. And I was talking to a restaurant owner a couple of months ago about this, where they are able to do curbside service. And this is in a state that is still under quite a few limitations. This particular restaurant is able to do curbside service. And that’s a good thing. They’ve been able to survive. Because they’re able to do curbside service, but they’re not thriving because they really make their money on their alcohol sales.

So if the consumer is coming to the business to buy, let’s say chicken wings, well in their business, that’s essentially a loss leader. It’s a loss leader to get that person into the restaurant and purchase alcohol, which is where a lot of their margin comes from. So that’s one where they went through the process of surviving, but they’re not thriving at all. In fact, they’re just trying to get to the other side of the pandemic to where they are still a viable business. Can reopen, can rehire and, and move on down the road.

Chris:

And that’s an example of that kind of temporary strategic plan where you really are in reactive mode.



Alan:

Yeah, that's triage. I mean, that really is when you think about it. And there are a lot of businesses, I think, particularly early on during the pandemic, going back to our shutdown in the U.S. in mid-March of last year. Yeah. There was a lot of triage going on, particularly the first few days and weeks.

Chris:

Well, and then even for the ones that were in triage in the beginning, I assume they're hopeful that soon they're going to move into a little bit more of a—not normal, because things are different naturally—but into where they can really do strategic planning for the future using all of these sort of tools and processes that you've mentioned today.

Alan:

I believe this about our economy. I think coming out of the Great Recession, we came out with obviously a better economy. But I think we also came out with better business owners and managers. Because those difficult times cause you to make difficult decisions. And, and really, like I said before, to be introspective and try to figure out, "Okay, what did I miss? And how would I have changed this decision, and change that strategy or that tactic," or what have you.

I think this will be the same, Chris. I really believe that coming out of this, that businesses will be those who make it through, that they will be stronger. Because they have had to really stop and think—like we talked about earlier—"What am I really good at? And do I really need to be over here in this business where I'm not particularly good and not particularly profitable, and I really don't know all of the risks? Or at least I can't assess them in a way that makes me comfortable. Let me focus on core competency. Go do what I do and do it well."

And so, I do think we will have business owners who are just naturally better at running their business. Because that's what adversity does.

Chris:

There's been no shortage of adversity for businesses in the past year, but, as Alan Register noted, there's been no shortage of adaptability, too.

So if you're looking to shore up your strategic planning for a post-COVID world, focus on adaptability. Go beyond simple SWOT analysis and ask hard "what if" questions about potential events—both positive and negative—that could affect your business. Then run through hypothetical scenarios of how you would react. Examine both your risk-management and change-management plans, and make sure they are aligned with your core strategic planning.

In other words, adapt for adaptability.



Thanks to Alan Register for joining us today, and thank you for listening. Get related resources for commercial business and listen to future episodes at regions.com/commercialpodcast. And be sure to subscribe to this podcast on your favorite podcast service.

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