

# The importance of “Plan B”

## Tony Manning

*Management is about laying bets, often on things that may only happen years into the future. But too often, executives stake everything on “Plan A” only to discover that the assumptions on which it was based no longer apply. When that happens, they’d better have “Plan B” ready, or they’ll lose everything.*

The most critical decision facing any company is where to focus its resources – and, by implication, where *not* to aim. Sometimes this is quite easy, as there are few attractive options or maybe none. More often, it demands hard choices.

Every opportunity comes with a cost. They cost money to pursue, and while you’re chasing after one thing you have to forget about others. If you don’t have clear priorities, and if you don’t apply “enough” time, energy, or money to them, you can laugh them off. You simply won’t get what you want.

This is obviously risky. For no matter how hard you try to size up most opportunities, you can’t be certain about their payoff. It may turn out to be smaller than you expect, or take longer to arrive. In the meantime, other, better opportunities may appear.

Complicating things further is the fact that you can’t be equally good at everything; attacking every opportunity means that you’ll always be “sort of” effective. Excellence will be not just elusive, but impossible. And in this tough, hyper-competitive world, anything less is the kiss of death.

If strategy is about matching opportunities with capabilities, winning is about being utterly single-minded and totally committed to a clear course of action. So making smart calls and focusing your resources is the name of the game. It is especially vital now, in this time of extreme and unusual turbulence and change.

An immediate challenge is to know what kind of bet to lay in almost any sector of the South African business arena. What are your growth prospects? Can you grow organically, or must you aim for acquisitions? Will your chosen market expand, or is it as big as it’ll get? Should you go for market share, or try to capture more sales from today’s customers?

Economists keep telling us faster growth is just around the corner. Politicians tell us the good times are about to roll. Investment analysts assure us that prospects are good, that “the fundamentals” are in place for better times ahead.

But what if they’re all wrong? What if they’re talking to their book, saying exactly what you might expect them to say – and quite mistaken?

For some years now, social commentators have said that the economy needs to grow by 6% a year just to prevent joblessness getting worse. Yet since 1994, when this economy was “normalized”, growth has staggered along at less than half that rate. In a time of unprecedented global expansion, SA has made too little progress. So what is outlook if the current slowdown in the world economy continues, and if the slump lasts as long as some experts think it will? Or what if things turn out to be even bleaker – if growth here not only fizzles in the short term but then fails to rise above, say, 2% in the long term?

Can't happen, you say? Gloom and doom we don't need, you say. Well, that's your opinion, and you're entitled to it. But if it's also the assumption on which you're laying your business bets, think again.

In theory, the South African economy should by now be in fine fettle. If the optimists had been right, virtually every sector would now be expanding and every company would be inventing heavily just to keep up with the flood of opportunities.

Instead, while "the fundamentals" all look good, there's more than enough alarming news to grab our attention. Recent examples:

- In his Governor's address to the 2001 annual general meeting of the SA Reserve Bank, Tito Mboweni said, "From the beginning of 2001 a decline in the growth of export volumes resulted in a weakening of activity in most sectors of the economy, with the exception of the mining and financial service sectors."
- Sun International reports "a deterioration in the trading environment in the past six months, brought about by increased pressure on domestic disposable income and a decline in foreign visitors to South Africa."
- *Business Day* reports that "optimism earlier this year for a strong growth in fixed bricks-and-mortar investments in SA appear to have been misplaced, with a sharp drop in the value of announced projects in the first half of this year."
- A report from the National Institute for Economic Research warns that manufacturing is in a low-tech rut, and that the only reason services are growing as a factor in this economy is that everything else is doing poorly.

Now, factor in the impact of HIV/AIDS. What will happen to productivity, to consumer and government spending, to foreign direct investment, and to tourism when people start dying in really large numbers, when the ranks of 16-to-50-year-olds are decimated and the proportion of orphans and old people rises? How will companies compete, as their costs soar and they are distracted by the need to counsel and care for employees? What will be the consequences for education – and for SA's ability to keep up in the information age – when teachers stay away or die and when kids are forced to be breadwinners?

Or what about the management deficit? Of all the challenges facing SA, this is surely the most serious. For without management, nothing else is possible. Plans and investments cannot be made, budgets go unspent (or get wasted), important projects come off the rails.

Or what about?...

Not long ago, smart people could tell you convincingly why the good times would get better and why companies everywhere could look forward to fabulous growth. So around the world, smart executives laid mega-bets on technologies, customers, and business models that would deliver fabulous wealth. They put all their faith in "Plan A" and didn't for a second consider the need for "Plan B".

As Clem Sunter discovered when he started delivering Anglo American's "high road and low road" scenarios in the late 1980s, people don't like to hear bad news. They are even less comfortable thinking about it. But if all of history is marked by ups and downs, by periods of prosperity interrupted by war, famine, poverty, and other woes, it makes no sense to expect everything to go your way forever.

Jack Welch, who retired as chairman of General Electric on September 7, was the ultimate pragmatist. He was able to deliver a total return to shareholders of 25% from 1982 to 2000 because he insisted that his people confront reality and deal with things as they are, not as they

might wish them to be. He demanded stretch and boldness when his executives tabled “Plan A”. But he also wanted the assurance that they had thought about “Plan B” and could roll it out in a hurry if the need arose.

There are many reasons to be hopeful about the future of this wonderful country. The one thing you can be sure of is that it will be better or worse than you think. So while it might make perfect sense to bank on the most positive outcomes, that’s a business decision that must be based on meticulous fact-gathering and analysis and on careful thought. Above all, it must be based on the realization that every firm does not face the same future, and that good news for one may be a warning signal to another. And of course, it must be constantly reviewed.

“Plan A” is the one to work at first, and the one to work at with everything you’ve got. But “Plan B” should be close to hand, just in case.

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