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Strategic planning and middle-market businesses

Advisers take a seat at the table

Michael Dundas

This paper examines the relatively recent wave of business strategic planning triggered by the COVID-19 pandemic, and which could deliver favourable returns for many years, as businesses sought external advice and formalised planning—often for the first time.

It draws on Pitcher Partners' 2021 Business Radar Report: *Understanding the businesses that drive Australia's economy*. The report found that COVID-19 drove middle-market businesses (that is, those with annual revenue of between \$2 million and \$500 million) to expand the scope of their strategic planning, with the results linked to improved performance and confidence.

The report was based on a survey of more than 400 Australian middle-market businesses conducted with strategic growth consultancy Forethought.

In terms of respondents and the role of strategic planning, the report found that:

- 44% said the pandemic had led them to make more frequent updates to their strategic plans
- 40% increased the frequency of short-term planning
- 37% increased the frequency of long-term planning
- 28.5% were more willing to engage expert professional advice.

Macroeconomic shifts make their presence felt

The global pandemic encouraged businesses to reconsider the impact of macroenvironmental shifts on their performance. Upon the closing of borders and the consequential slowing of trade, many businesses were forced to re-evaluate their reliance on one export market or a supply chain focused on one destination, with it being more apparent than ever that this was no longer a viable option if they wanted to thrive in the future.

Prior to the pandemic, one in three businesses said they ignored macroenvironmental shifts in their planning processes although this has since fallen to one in five.

Now, a third of businesses said that they focused strongly on the potential impact of wider issues and megatrends, with 30% engaging expert advice to better prepare for possible macroeconomic shifts and ways that they can take advantage of new markets, and opportunities that arise as a result.

The benefits of advice

Unexpected positives in uncertain times

While the drive for improved strategy was enlivened during COVID-19 crisis, the long-term benefit of better planning is already clear.

In what was a surprising finding, 40% of middle-market businesses reported that COVID-19 had a positive impact on their business, and 16% a very positive impact.

Those who experienced the most positive effects were significantly more likely to have a formal short-to-mid-term strategic plan in place, resulting in the business being in a far stronger position to recalibrate to the challenges presented by COVID-19.

They were also more likely to involve a professional adviser in strategic planning and to have boosted that engagement since COVID-19 began.

Engaging expert advice helps ensure a level of objectivity in decision-making, with a financial expert bringing a broader understanding and expertise around businesses, industries, and macroeconomic factors.

Those who sought professional financial advice reaped the benefit of non-bias in their decision-making process which many business leaders have found difficult to achieve. This is a prominent issue within family business structures, with two in five family business owners recognising that the influence of family distorted their decision-making, resulting in poor judgments.

Navigating the unknown

With the support of financial experts, leaders found new confidence in their business. Further, they were able to successfully navigate unforeseen challenges while simultaneously continuing to plan and execute strategic decisions in favour of the business, rather than failing to form or action plans due to family conflict or bias.

New leaders, new structures, new viewpoints

A recent example of this involved a middle-market family business that was experiencing difficulties during the transition of leadership from first-generation owners to its second-generation leaders.

A main area of contention was the distinct difference between the way the old- and the new-generation leaders believed the business should be run, with the new leaders having a more advanced and open-minded view towards taking advantage of business opportunities compared with the previous generation that was more hesitant towards change.

Fortunately, by the time the pandemic hit, the business had already established an advisory Board and structured recurring meetings where participants had become accustomed to sharing their views and exploring the value propositions of various ideas openly.

While the advisory structure did not appear to be delivering tangible value in the first 18 months, when the pandemic hit, there was sufficient progress in taking different opinions into account that the business was much better prepared to identify any crisis at hand. From this, it was able to commit to a plan of action quickly and change its direction if need be—something that would have previously been too daunting and too difficult to complete.

As a result, the business was able to redesign its service model—a task that without the advisory Board would have been near impossible. The redesign had a positive

impact on the business, contributing to a large increase in sales and profit margins, despite it occurring in the middle of a pandemic.

The many dimensions of advice

Sharing the burden

Many business leaders suffer from professional loneliness as they hold the burden of either not feeling as though they have peers to turn to for advice on critical decisions, or from fear of judgment, shame or lack of understanding from their confidants.

However, those who formed strong professional relationships with their advisers benefited from having a trusted person from whom they could seek advice and act as a sounding board to share their ideas and seek solutions regarding their concerns. By having an adviser with whom to consult, business leaders are better placed to make sound decisions based off facts, rather than emotions.

Challenging the familiar

An example of this was with a heavy industries client who had established an advisory Board and sat in on its quarterly advisory meetings. Despite the advisers of the Board having limited technical understanding of the business, this did not hinder the ability of the advisory Board to support the business leader in making confident business decisions.

The majority owner of the business said that it was not important for the Board to completely understand every element of the business straight away.

“I didn’t need them for that because that is where I am strong. The value they brought was giving me a forum to talk about what is on my mind, with a group of people with the professional skills to challenge, engage and help me process the questions that I didn’t have an answer to. This has been invaluable”, the majority owner said.

This statement echoes the importance of having advisers, with their knowledge and experience, as an invaluable resource to support, guide and challenge business owners in ways previously unexplored.

Succession planning

The report highlighted that 62% of the middle-market businesses intended to increase their focus on succession planning, with 67% deciding to engage professional advice to do so.

A succession plan provides business owners with the confidence that their estate and legacy will be preserved for the future, with financial advisers taking an active role in the end-to-end process, from the succession plan establishment to aspects of its execution upon the owners passing.

Succession plans are pronounced in the construction and property development industry where 39.5% of respondents stated that they have engaged an expert professional, and 47.3% had implemented a succession plan.



The quote

Those who sought professional financial advice reaped the benefit of non-bias in their decision-making process which many business leaders have found difficult to achieve.



The quote

The takeaway for middle-market businesses is the value of incorporating good financial advice and regular strategic planning into their processes.

Consultation, confidence and decision-making

Planning has brought about a surge in business confidence with 52% of the most confident businesses claiming to have a formal mid-to-long-term strategic plan in place and a further 32% having a short-to-medium-term plan.

The increase in agile strategic planning has seen growth in businesses' ability to adjust their focus to consider likely and unlikely events that without proper planning would sway their business off course. These plans also include effective guidance on how to react rapidly and/or be proactive when it comes to unforeseen circumstances.

Only 16% of highly confident businesses said they made strategic decisions on an ad hoc basis.

Strength through strategy

The message that can be drawn from the report is that despite all the challenges caused by the pandemic over the past two years, businesses that utilised trusted advisers and had the discipline to consider their medium-term strategic plans on a recurring basis, tended to emerge stronger.

Businesses that became more strategic throughout the pandemic reported improvements on a range of measures. They were less likely to report a fall in revenue and were better equipped to take advantage of opportunities. Although all strategic planning delivered benefits, businesses with mid-to-long-term plans were more likely to identify opportunities arising from of the pandemic including:

- increased flexibility (30.9% were mid-to-long-term planners compared with 14.1% of other businesses)
- improvements in work-life balance (28.9% versus 10.6%)
- cost reductions (28.7% versus 15.3%)
- improvements in technology (24.6% versus 13.9%).

As previously noted, the converse was true for businesses without a strategic plan in place.

Ad hoc decision making was linked with decreased revenue, difficulties in maintaining customer engagement, and greater technological challenges.

Businesses that did not have planning in place consistently reported higher levels of staff dissatisfaction and incurring higher costs than businesses with a clear strategic direction.

Agility and opportunity

The report indicated that a lack of agile planning also put organisations at a higher risk of stunted growth. A lack of planning hinders a business's ability to be proactive in taking advantage of new market trends while it emphasises leader's inability to tackle unexpected challenges with ease—putting them substantially behind their competitors.

The takeaway for middle-market businesses is the value of incorporating good financial advice and regular strategic planning into their processes.

Strategic planning is not Google Maps for business, where you define a fixed path and stick to it. By engaging financial advisers for support and assistance, fresh perspectives can be gained, and prudent decisions can be made. As a result, businesses will be in a better position to continue a journey of growth and development, unscathed by external or internal challenges.

The benefit of strategic planning is the habitual discussions, testing of ideas, setting goals and seeking expertise and advice which enhance a business's ability to be proactive and align themselves with opportunities or be prepared for uncertainty. **FS**