Belarusian State University

The Basics of Strategic Planning

INDUSTRIAL MANAGEMENT

“CONTROLLING AND AUDIT”

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Main Issues

1. The Essence of Strategic Planning
2. The Strategic Directions of Business Development
3. The Main Factors of Strategic Planning Success

The Essence of Strategic Planning

Strategy and planning

- **<u>Strategy</u>** refers to a <u>general plan of action for achieving one's goals and objectives</u>.
- Strategy and tactics bridge the gap between ends and means / purposes and instruments.
- "strategic" means "of great importance"
- <u>**Planning** is "the activity of preparing a plan".</u>
- <u>**Plan** is a set of intended outcomes (ends) coupled with the actions by which those outcomes are to be achieved (means).</u>

Strategic planning: definitions

- establishing and periodically confirming the organization's mission and its corporate strategy
- setting strategic or enterprise-level financial and non-financial goals and objectives
- monitoring results, measuring progress and making such adjustments as are required to achieve the strategic intent specified in the strategic goals and objectives
- reassessing mission, strategy, strategic goals and objectives, plans at all levels and, if required, revising any or all of them

Planning strategically means

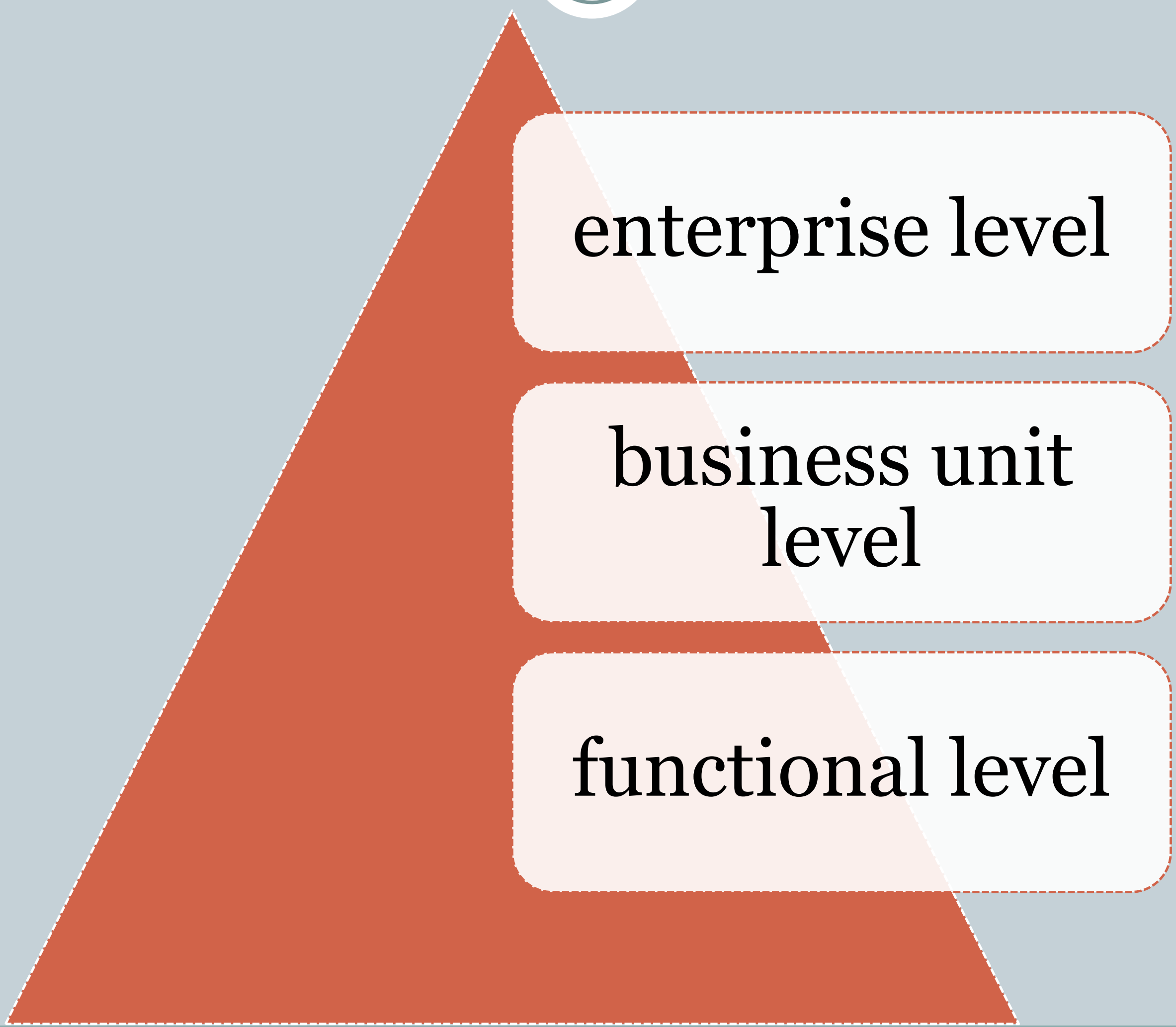
to first roughly <u>formulate the targets giving the principal orientation</u> and

afterwards, beginning with the actual planning process, to <u>carefully analyse the external influence factors, i.e. chances and risks, which are to be expected</u>.

Planning strategically

- The analysis of external factors must be succeeded by an analysis of internal factors.
- The analysis of the company-related present and future strength and weaknesses is conducted in relation to the competitors on the market.

At least three levels of strategy and planning are widely accepted:



At least three levels of strategy and planning are widely accepted

Combinations of ends and means (plans) can be found at all three levels of organization.

Strategies exist at all three levels.

Consequently, one can and should find <u>strategic thinking, planning and management at all three levels</u>.

STRATEGIC PLANNING, STRATEGIC THINKING AND STRATEGIC MANAGEMENT

Contemporary definitions

A strategic planning process delivers a set of defined initiatives (projects) that achieve a desired set of business goals.

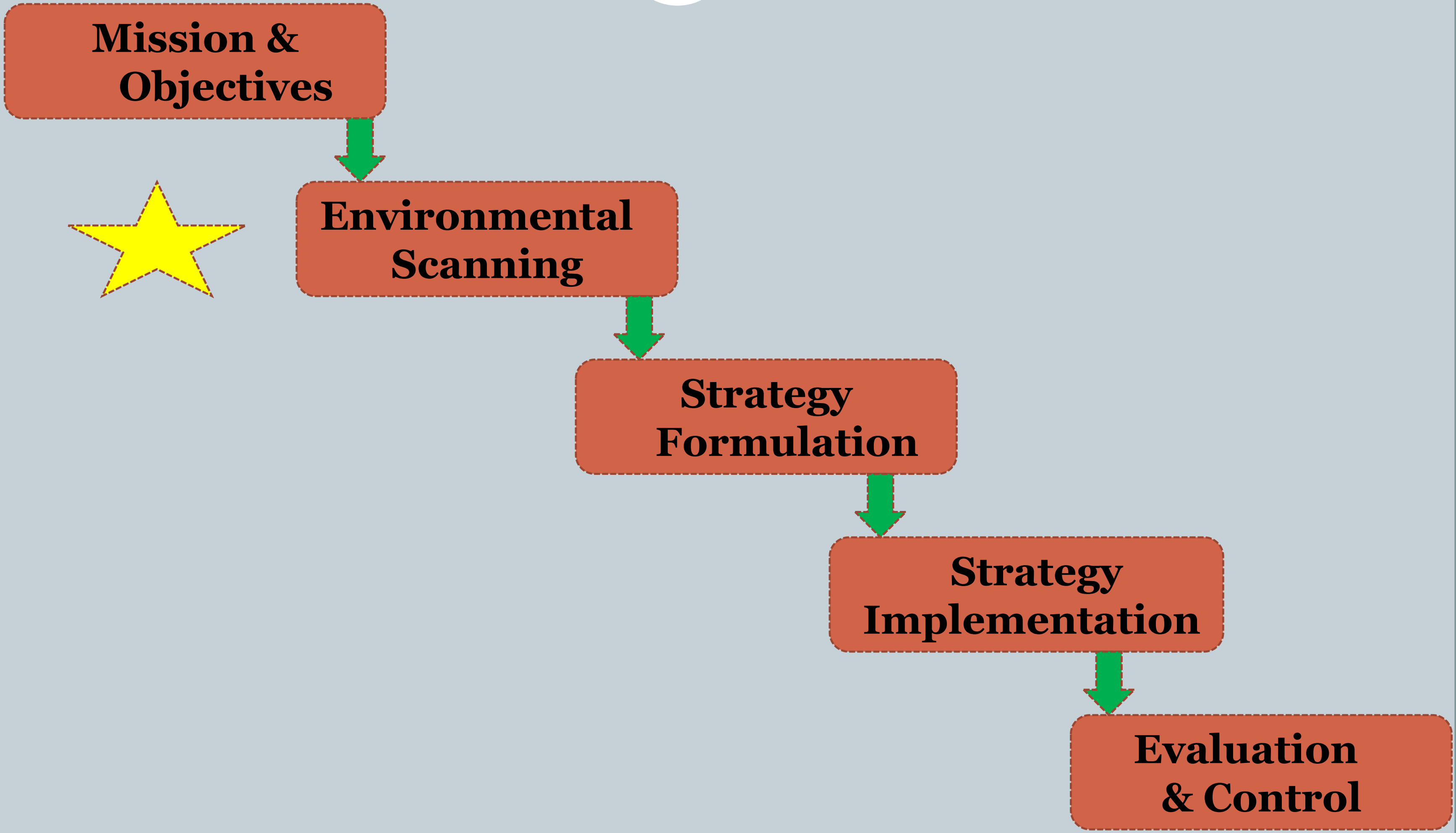
Strategic planning is the process of elaborating a plan of both offensive and defensive actions intended to maintain and build competitive advantage over the competition through strategic and organizational innovation.

The importance of strategic planning

The firm must engage in **strategic planning** that clearly defines objectives and assesses both the internal and external situation

- to formulate strategy,
- implement the strategy,
- evaluate the progress, and
- make adjustments as necessary to stay on track.

A simplified view of the strategic planning process is shown by the following diagram:



Environmental scanning

Internal analysis of the firm	**SWOT-Analysis**
Analysis of the firm's industry	**Porter's 5 Forces**
External macroenvironment	**PEST-Analysis**

Internal analysis of the firm	**Opportunities** (external, positive)	**Threats** (external, negative)
Strengths (internal, positive)	**Strength-Opportunity strategies** Which of the company's strengths can be used to maximize the opportunities you identified?	**Strength-Threats strategies** How can you use the company's strengths to minimize the threats you identified?
Weaknesses (internal, negative)	**Weakness-Opportunity strategies** What action(s) can you take to minimize the company's weaknesses using the opportunities you identified?	**Weakness-Threats strategies** How can you minimize the company's weaknesses to avoid the threats you identified?

Analysis of the firm's industry

External macroenvironment analysis

GAP analysis

- GAP analysis developed by Ansof is regarded as one of the classic methods within the framework of long-term company planning.
- The intention of this procedure is to discover deviations between desired and expected developments.
- The distance between the upper and the lower limitation of the gap can be presented by the help of different measure dimensions: it is possible to talk about a profit, a turnover or a performance gap.

Gap analysis can be conducted on strategic level and operation level.

The gap is likely to be the smaller, the better the existing strategic potential is already used.

I. State Descriptions

1. Your Current State

2. The Future State

The first step in gap analysis is identifying your current and future desired state.

II. Bridging the Gap

1. Gap Identification

2. Gap Description

This is where you identify and describe the gap before finding ways to remedy it.

III. Factors and Remedies

1. Factors Responsible for Gap

2. Remedies, Actions and Proposals

You can use this data to come up with remedies and action plans to tackle the performance gap.

Peculiarities of strategic planning

- Strategic planning <u>is a step by step process</u> with definite objectives and end products that can be implemented and evaluated.
- It is a process <u>by which we look into the future</u>, paint a picture of that future based on current trends, and influence the forces that will affect us.
- Strategic planning looks <u>three to five years ahead</u>: what the business environment will be like in those years.

Strategic planning horizon

To determine your strategic planning horizon, one needs to have some sense of how clearly one can see the future environment in which the organization will be operating.

There are three critical elements to consider here:

- 1. How much **information** is available in our environment?
- 2. How **quickly does the environment** change?
- 3. How well do we **gather and understand information** about the future of our environment?

The first question – how much information is available –

- usually varies with two factors:
- the **size** of your industry
- the **amount of government regulation** involved in what you do.

- The bigger the market – and the more regulation – the more likely it is that there will be good data available for your planning, and some of that data will be well-researched forward-looking data.

The second question – how quickly does the environment change

- Strategic environments may change rapidly due to technology and regulation.
- Other forces, such as economic policy, may cause strategic environment to change even more quickly than you thought possible.

➢ As a rule, the more your activities are based on technology or a specific economic relationship, the more likely it is that change will affect your strategy quickly and unpredictably.

The third question – how well do we gather and understand information

How you approach information about the future?

- Spend a good deal of time and money researching where your environment is heading – you can have some confidence in the information used in your planning – at least to the time horizon that your research can adequately address.
- If you do not, but you have very good forecast data available to you from, for example, a trade association, you also can have greater confidence in a longer-term plan.

Tools of strategic planning

STRATEGIC PLANNING IS A SET OF TOOLS THAT HELP IN MANAGING THE ENTERPRISE

Strategic issues, regardless of their importance, typically consume no more than 20 percent of the organization's resources (although they frequently command 80 percent of top management's time and attention)

The Strategic Directions of Business Development

Market Segmentation

- is the identification of portions of the market that are different from one another.

- Segmentation allows the firm to better satisfy the needs of its potential customers.
- The marketing concept calls for understanding customers and satisfying their needs better than the competition. But different customers have different needs, and it *rarely is possible to satisfy all customers by treating them alike*.

Mass marketing

- refers to <u>treatment of the market as a homogenous group</u> and offering the same marketing mix to all customers.
- Mass marketing allows ***economies of scale*** to be realized through mass production, mass distribution and mass communication.

Target marketing

- on the other hand recognizes the diversity of customers and does not try to please all of them with the same offering.
- The first step in target marketing is ***to identify different market segments and their needs***.

Bases for Segmentation in Consumer Markets

Consumer markets can be segmented on the following customer characteristics.

- **Geographic** (by region, size of metropolitan area, population density, climate, etc.)
- **Demographic** (age, gender, family size, family lifecycle, generation, income, occupation, education, social class, etc.)
- **Psychographic** (activities, interests, opinions, attitudes, values, etc.)
- **Behavioralistic** (benefits sought, usage rate, brand loyalty, user status: potential, first-time, regular, etc., readiness to buy for occasions: holidays and events that stimulate purchases, etc.)

Bases for Segmentation in Industrial Markets

- In contrast to consumers, industrial customers tend to be fewer in number and purchase larger quantities.
- Industrial markets might be segmented on characteristics such as:
- **Location** (shipping costs may be a purchase factor for vendor selection for products having a high bulk to value ratio, so distance from the vendor may be critical)
- **Company type** (company size, industry, decision making unit, purchase criteria, etc.)
- **Behavioral characteristics** (usage rate, buying status: potential, first-time, regular, etc., purchase procedure: sealed bids, negotiations, etc.)

Value chain

- To better understand the activities through which a firm develops a competitive advantage and creates shareholder value, it is useful to separate the business system into a series of value-generating activities referred to as the **value chain**.
- In his 1985 book "*Competitive Advantage*", Michael Porter introduced a generic value chain model that comprises a sequence of activities found to be common to a wide range of firms.

Characteristics

- The value chain is an essential element of the strategic analysis of costs.
- Porter identified primary and support activities.
- The **primary activities** are directly related to the creation of a good or service while the **support activities** help in enhancing the efficiency and work to obtain a competitive advantage.

Value Chain Analysis for Manufacturing Firms

Support Activities

Firm Infrastructure
(general management, accounting, finance, strategic planning)

Human Resource Management
(recruiting, training, development)

Technology Development
(R & D, product and process improvement)

Procurement
(purchasing of raw materials, machines, supplies

Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service
(raw materials handling and warehousing)	(machining, assembling, testing products)	(warehousing and distribution of finished products)	(advertising, promoting, pricing, channel relations)	(installation, repair parts)

Margin

Primary Activities

Porter's generic strategies: "Cost Focus" and "Differentiation Focus"

Cost advantage:

- by better understanding costs and squeezing them out of the value-adding activities.

A firm may create a cost advantage either by reducing the cost of individual value chain activities or by reconfiguring the value chain.

Differentiation:

- by focusing on those activities associated with core competencies and capabilities in order to perform them better than do competitors.

A differentiation advantage may be achieved either by changing individual value chain activities to increase uniqueness in the final product or by reconfiguring the value chain.

Porter identified 10 cost drivers related to value chain activities:

1) Economies of scale
2) Learning
3) Capacity utilization
4) Linkages among activities
5) Interrelationships among business units
6) Degree of vertical integration
7) Timing of market entry
8) Firm's policy of cost or differentiation
9) Geographic location
10) Institutional factors (regulation, union activity, taxes, etc.)

A firm develops a cost advantage by <u>controlling these drivers better than do the competitors</u>.

Porter identified several drivers of uniqueness:

- Policies and decisions
- Linkages among activities
- Timing
- Location
- Interrelationships
- Learning
- Integration
- Scale (e.g. better service as a result of large scale)
- Institutional factors

Business and financial risks

- Every business experiences two kinds of risk – business and financial.

- ***Business risks*** are the risks <u>resulting from the nature of the products or services you sell</u> and from <u>the degree of operating leverage</u> employed.
- ***Financial risks*** are the risks over and above the basic business risk, <u>resulting from using debt.</u>

- Both kinds of risk can be planned and managed.

Strategic Portfolio Management

- **Strategic Portfolio Management** enables top management to create, define and manage the portfolio of strategic options that best delivers the organisation's vision, balancing short and long term objectives, risks and costs.
- **Strategic Portfolio Management** is about deciding where best to focus the organisation's finite resources in order to meet strategic objectives, considering the business as a portfolio of activities and making tradeoffs across the portfolio.

Portfolio management

- **Portfolio management** is about determining strengths, weaknesses, opportunities and threats (SWOT) in the choice of alternatives:
- debt vs. equity,
- domestic vs. international,
- growth vs. safety,
- and many other trade-offs encountered in the attempt to maximize profit.

Use a portfolio management approach to help you <u>understand, quantify and manage your business risks.</u>

The portfolio matrix

- A pre-condition for portfolio-analysis is the differentiation of company activities into strategic business units.
- These strategic business units must clearly differ from each other and they have to be independent product/market combinations with inherent chances and risks.
- **The portfolio matrix is an important prerequisite for carrying out portfolio analysis.**

Portfolio management techniques are very useful in the following situations:

If you are a one product/service company and want to appropriately <u>expand and diversify your business</u>

If you are a multi-product/service company and need <u>to allocate limited resources or improve profitability</u>: You don't want to put all your eggs in one basket (or have too many baskets), but you need to stay focused on a few things that aren't too far from your core competencies.

Functions of Business portfolio management

enables organizations to manage multiple projects or individual projects for optimal results

works by identifying an organization's best project managers and using best management practices, strategic priorities and valuable lessons learned in a project management office

allows the organization to evaluate and balance conflicting demands for project resources

helps manage risk and provide cost-effective allocation of resources to the most deserving projects

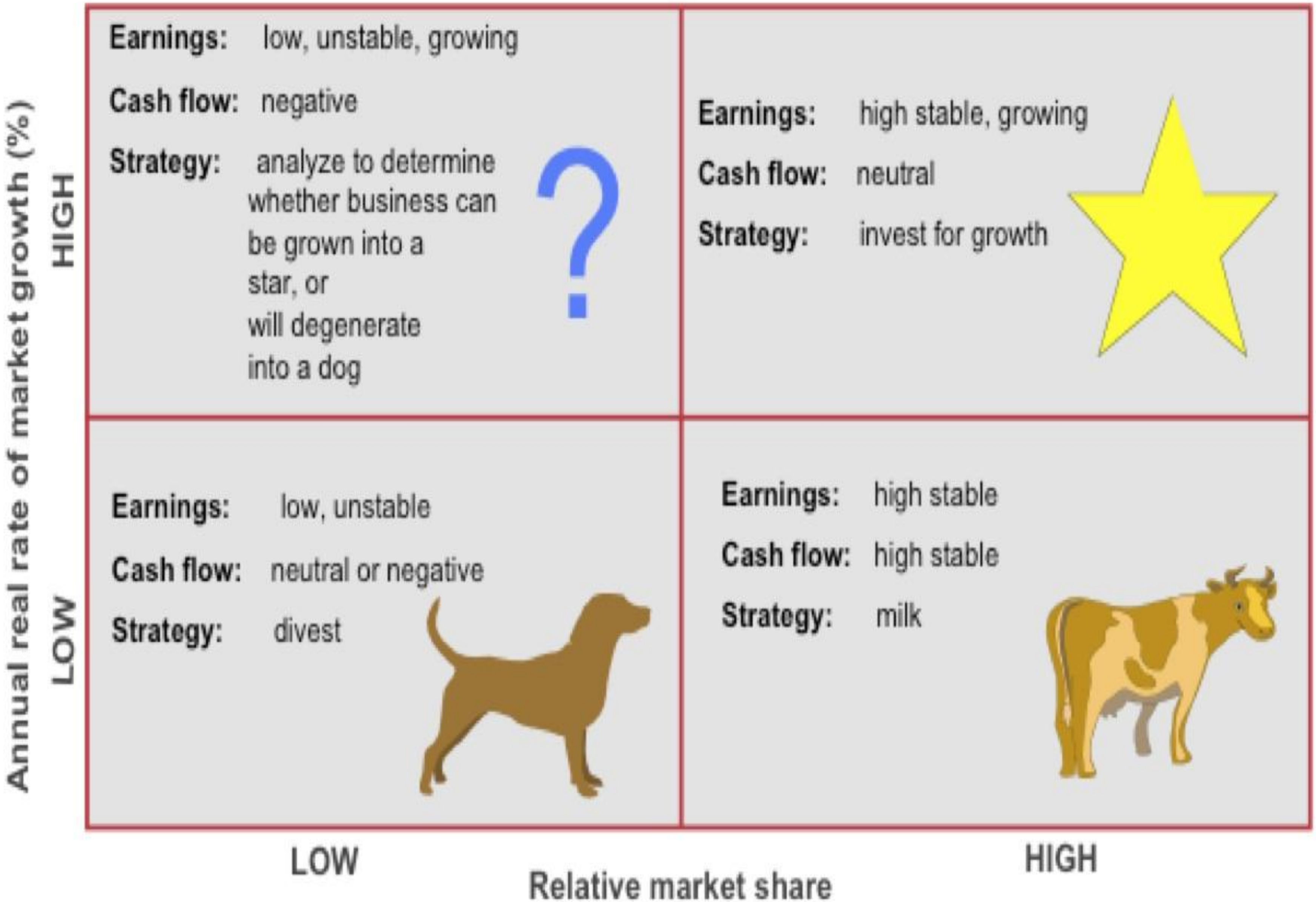
Business portfolio management provides an opportunity for an organization to:

- **Prioritize** which projects should be done first and receive adequate funding
- **Assure** that scopes of work and work breakdown structures are clearly written
- **Track** that timelines and budgets remain on schedule
- **Validate** that all milestones are completed on time and within budget to meet their sponsors' quality requirements

The BCG Growth-Share Matrix

- The BCG Growth-Share Matrix **is a portfolio planning model** developed by Bruce Henderson of the Boston Consulting Group in the early 1970's.
- It is based on the observation that a company's business units can be classified into **four categories** based on combinations of market growth and market share relative to the largest competitor, hence the name "growth-share".
- **Market growth** serves as a proxy for industry attractiveness, and relative market share serves as a proxy for competitive advantage. **The growth-share matrix** maps the business unit positions within these two important determinants of profitability.


High
Market Growth
Low
QUESTION MARKS
Low Market Share
and
High Market Growth
Don't know what to do
with opportunities;
decide whether to
increase investment.
STARS
High Market Share
and
High Market Growth
Doing well, great
opportunities.
DOGS
Low Market Share
and
Low Market Growth
Weak in market,
difficult to make profit.
CASH COWS
High Market Share
and
Low Market Growth
Doing well in no growth
market with limited
opportunities.
Low
Market Share
High



Source: Robert M. Grant, *Contemporary Strategy Analysis: Concepts, Techniques, Applications* (5th edition, Blackwell, 2004), Ch. 6

The Main Factors of Strategic Planning Success

The 7-S model can be used to:

- Improve the performance of a company
- Examine the likely effects of future changes within a company
- Align departments and processes during a merger or acquisition
- Determine how best to implement a proposed strategy

The McKinsey 7-S model involves seven interdependent factors

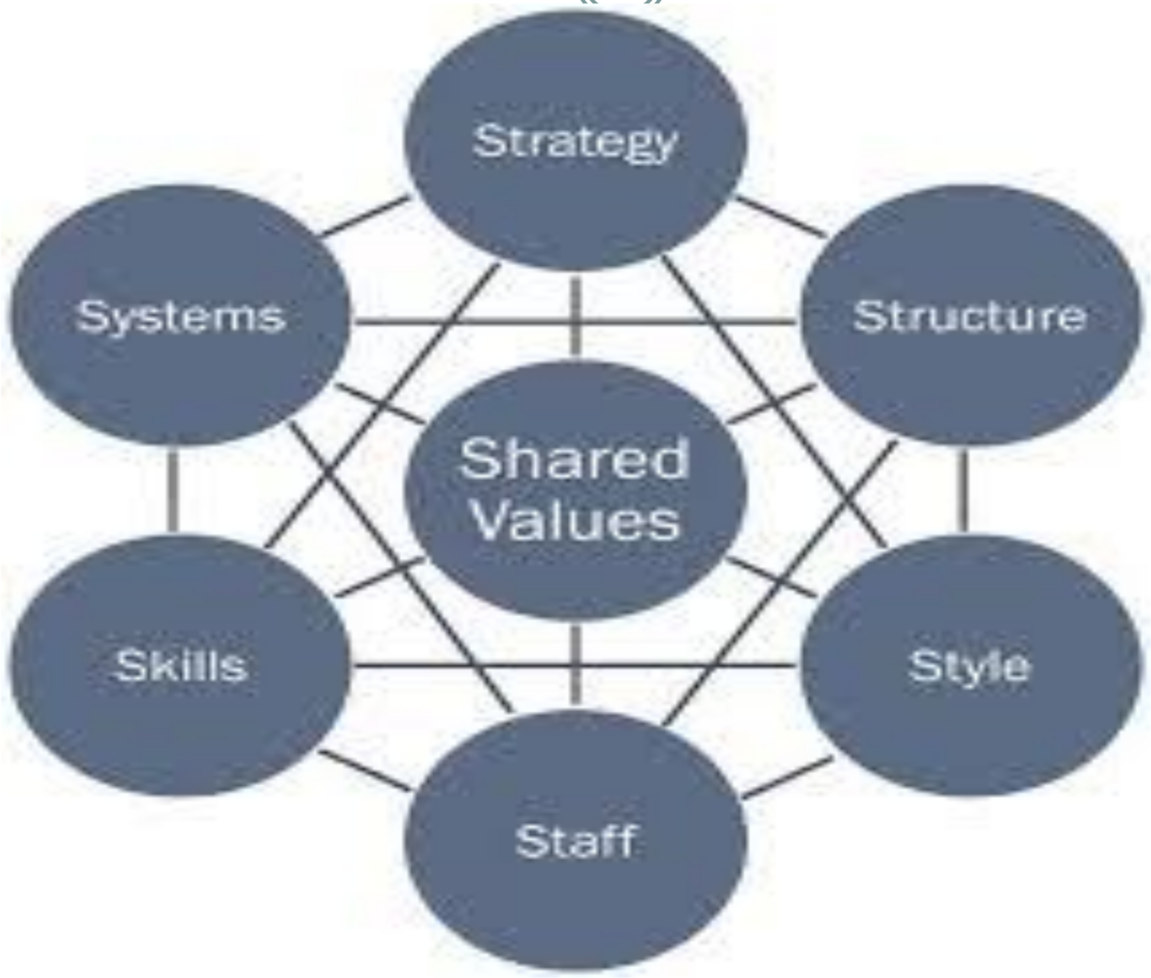
- The factors are categorized as either “hard” or “soft” elements.

- **“Hard”** elements are easier to define or identify and management can directly influence them: strategy statements; organization charts and reporting lines; and formal processes and IT-systems.
- **“Soft”** elements can be more difficult to describe, are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements if the organization is going to be successful.

The McKinsey 7-S model

"Hard" Elements	"Soft" Elements
• Strategy • Structure • Systems	• Shared Values • Skills • Style • Staff

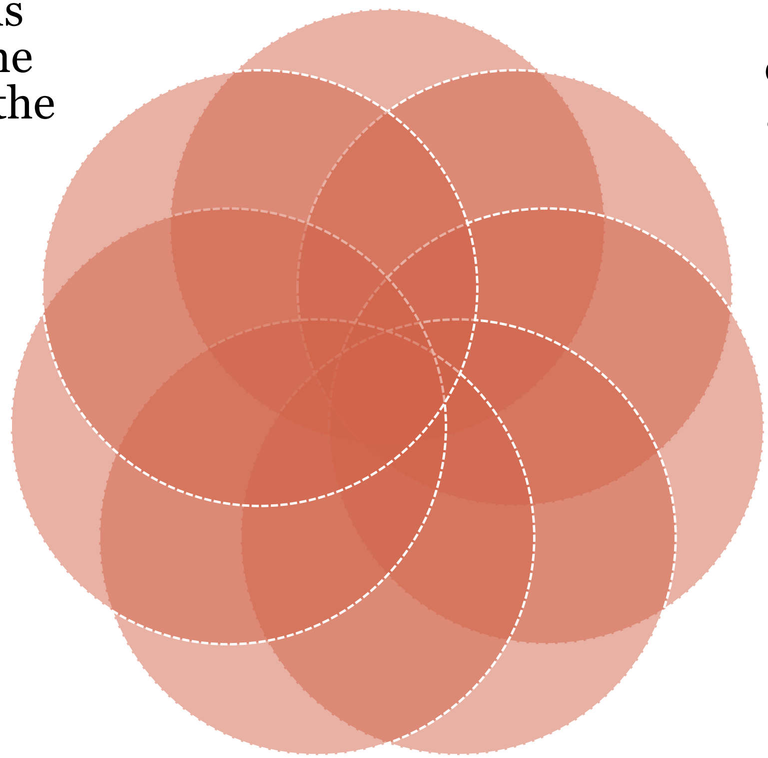
„Diamond“ model



Strategy: the plan elaborated to maintain and build competitive advantage over the competition

Skills: the actual skills and competencies of the employees working for the company

Structure: the way the organization is structured and who reports to whom



Staff: the employees and their general capabilities

Systems: the daily activities and procedures that staff members engage in to get the job done

Style: the style of leadership adopted

Shared Values: the core values of the company that are evidenced in the corporate culture and the general work ethic

How to use the model

The 7-S model helps analyze the current situation (Point A), a proposed future situation (Point B) and to identify gaps and inconsistencies between them. It's then a question of adjusting and tuning the elements of the 7-S model to ensure that your organization works effectively and well once you reach the desired endpoint.

The 7-S model is a good framework to help you ask the right questions – but it won't give you all the answers. For that you'll need to bring together the right knowledge, skills and experience.

Supply these with your own questions, based on your organization's specific circumstances and accumulated knowledge.

The PIMS Model

- The main function of **Profit Impact of Market Strategy** (PIMS) is to highlight the relationship between a business's key strategic decisions and its results.
- Analyzed correctly, the data can help managers gain a better understanding of their business environment, identify critical factors in improving the position of their companies, and develop strategies that will enable them to create a sustainable advantage.
- **Profitability is strongly linked to strategic position.**

http://pimsonline.com/about_pims_db.htm

- The PIMS database is "a collection of statistically documented experiences drawn from thousands of businesses, designed to help understand what kinds of strategies (e.g., quality, pricing, vertical integration, innovation, advertising) work best in what kinds of business environments. The data constitute a key resource for such critical management tasks as evaluating business performance, analyzing new business opportunities, evaluating and reality testing new strategies, and screening business portfolios“.

The key strategic factors influencing business performance are:

Competitive Position

- **Market Share**
- **Relative Market Share**
- **Relative Quality**
- **Relative Price**

Market Environment

- **Marketing/Sales**
- **Customer Concentration**
- **Customer Purchase Amount**
- **Industry Concentration**

Stage of Lifecycle

- **New Products/Sales**
- **R & D/Sales**
- **Real Market Growth**

Capital and Operating Structure

- **Investment**
- **Value Added**
- **Capacity Utilization**
- etc.

The Role of PIMS

PIMS principles are taught in business schools and the data are widely used in academic research.

As a result, PIMS has influenced business strategy in companies around the world.

Facts

comprehensive, long-term study of the performance of strategic business units (SBUs) in 3,000 companies in all major industries

the PIMS project began at General Electric in the mid-1960s. It was conducted at Harvard University between 1972 and 1974

the PIMS database is available to individuals for a subscription price

the main function of PIMS is to highlight the relationship between a business's key strategic decisions and its results

Economies of scale

- how running a bigger business can increase the profit.
- Economies of scale are when some of the **costs can be spread out** through all of the units that are sold, such as **fixed costs** — things one has to pay for whether you make anything or not.

Economies of scale: examples

- **Advertising** works the same way: if you pay for advertising you have the same problem at low levels of sales and the same advantage at high levels of sales.
- **Software** has enormous economies of scale, because once the money has been spent to develop the software (eg. programmer time) the **marginal cost** per unit sold is relatively low.
- *Marginal cost means "how much more it costs to provide one more unit"*

Economies of scope

- is a similar but different concept: it's not about making a lot or a little of the same product, but about making ***different but compatible products***.
- you can probably use a lot of the same equipment, so you save money per unit because you're increase the *scope* (range of products) within similar categories.
- customer already trusts the firm so is more likely to buy other products from the same company: expanding the range of products is successful as long as they stick to new products that can leverage their existing resources (eg. use the same factories, marketing methods, distribution channels, retailer relationships) and appeal to the same customer base.
- it's probably a **bad idea to expand** the business with a product where **there aren't economies of scope**.

Economies of scope

Economies of scope are relevant to entrepreneurs both when deciding whether or not a second product or product line makes sense, and also in deciding whether a business idea is viable.

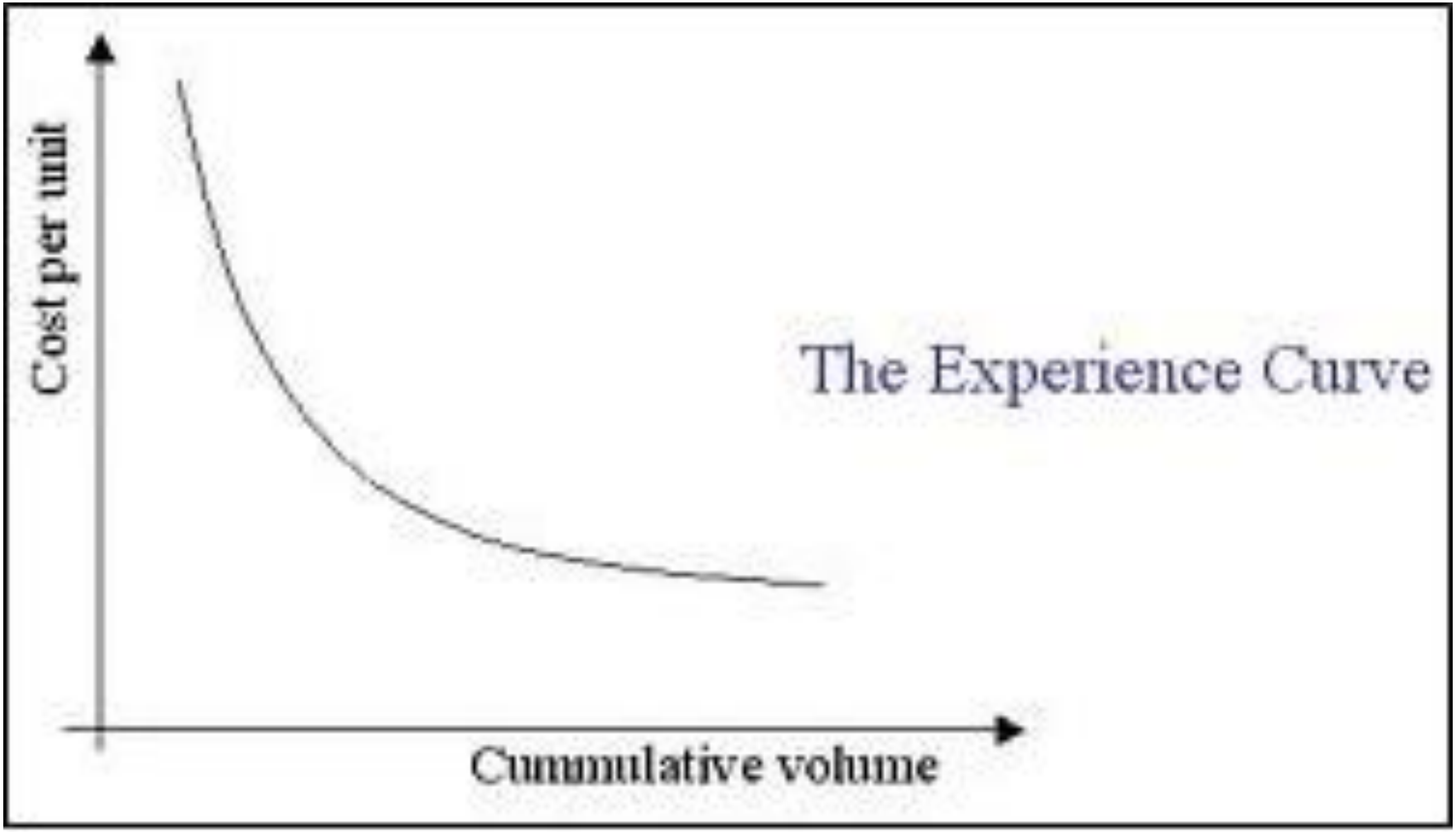
If the first product of a business naturally leads to other related products with good economies of scope, that can have a positive effect on economies of scale.

Economies of diversification

- Economies of scope often result from a related diversification strategy and may even be termed "economies of diversification"
- diversification as their corporate-level strategy in an attempt to exploit economies of scope between their various business units
- cost-savings result when a business transfers expertise in one business to a new business: operational skills and know-how in manufacturing or even plant facilities, equipment, or other existing assets, including intangible assets like expertise or a corporate core competence

The experience curve

- The experience curve is an idea developed by the Boston Consulting Group (BCG) in the mid-1960s.
- Working with a leading manufacturer of semiconductors, the consultants noticed that the company's unit cost of manufacturing fell by about 25% for each doubling of the volume that it produced.
- This relationship they called **the experience curve: the more experience a firm has in producing a particular product, the lower are its costs.**



Costs decline by 20-30% in real terms each time accumulated experience doubles.

The experience curve: characteristics

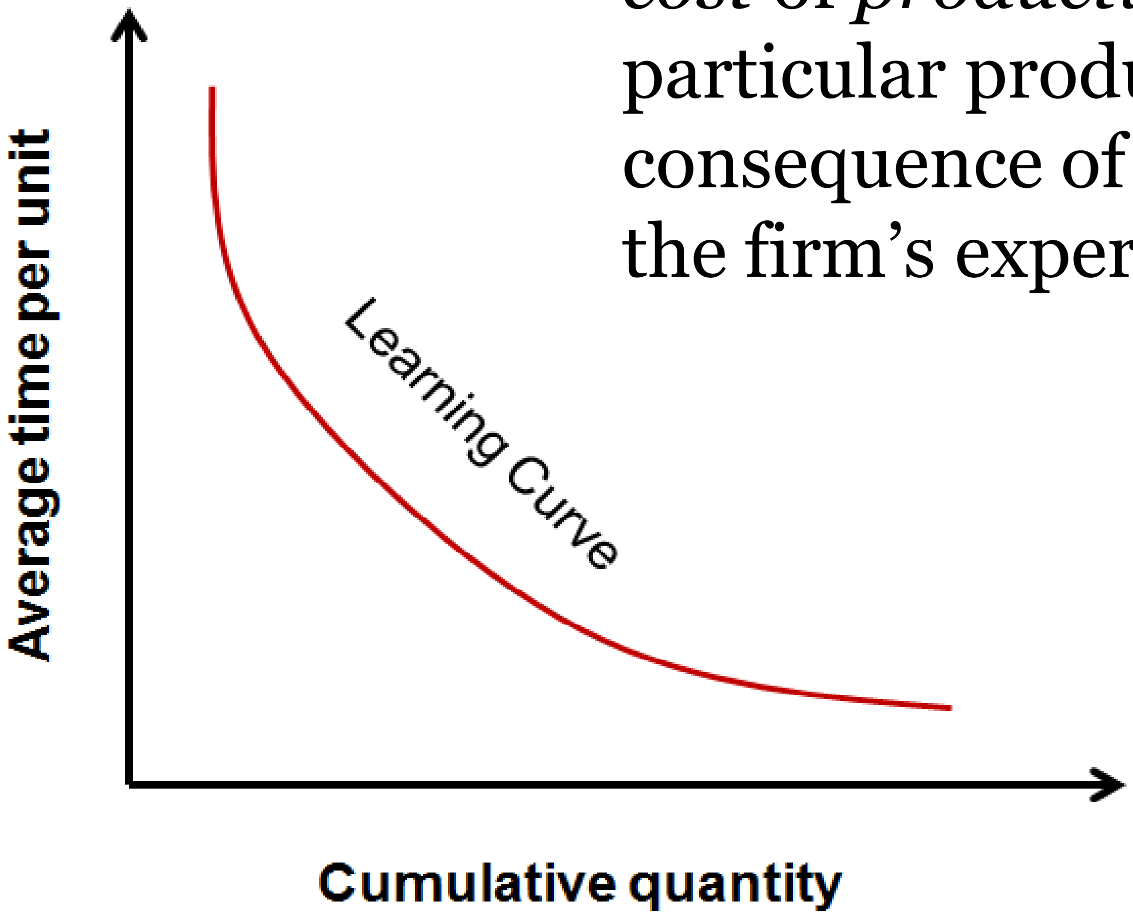
There is no fundamental economic law that can predict the existence of the experience curve, even though it has been shown to apply to industries across the board.

And if it is true in service industries such as investment banking or legal advice, the lower costs are clearly not passed on to customers.

The learning curve

- The learning curve is also referred to as the experience curve, the cost curve, the efficiency curve or the productivity curve.
- The higher the cumulative volume of production, the lower the direct cost per new unit produced.
- Therefore, the experience curve will be convex and have a downward slope, as shown in the diagram.

There is a reduction in the *average cost* of *production* of a particular product, as a consequence of an increase in the firm’s experience.



Cumulative output increase

- The time and cost of producing a unit of output will be reduced, as *learning economies*, *economies of scale*, *economies of scope*, etc. appear <u>due to the cumulative output increase.</u>
- If direct costs decrease as the cumulative output increases, this will mean that firms that have been producing more and for a longer period, will have <u>lower direct costs per unit and thus dominate the market.</u>

The difference between learning curves and experience curves

learning curves only consider **time of production** (only in terms of labour costs)

experience curve is a broader phenomenon related to **the total output of any function** such as manufacturing, marketing, or distribution

	Learning curve	Experience curve
Conception:	microeconomics	macroeconomics
Origins:	Theodore P. Wright, 1936	Bruce D. Henderson, mid-1960s
Variable considered:	average time (labour cost) per unit	direct costs: production, labour, distribution, etc. (includes learning curve effects)
Measures:	labour productivity	total efficiency

Customer relationship management (CRM)

- Every business unit emphasizes on **a long-term relationship with customers** to nurture its stability in today's blooming market. Customer's <u>expectations are now not only limited to get best products and services, they also need a face-to-face business in which they want to receive exactly what they demand and in a quick time</u>.
- Usually an organization consists of various departments which predominantly have access to customer's information. <u>A CRM system piles up this information centrally, examines it and then makes it addressable within all the departments.</u>

Customer relationship management

- **Customer relationship management is a concept or strategy to solidify relations with customers and at the same time reducing cost and enhancing productivity and profitability in business**.
- An ideal CRM system is a centralized collection all data sources under an organization and provides an atomistic real time vision of customer information.
- A CRM system is vast and significant, but it be can implemented for small business, as well as large enterprises also as the main goal is to assist the customers efficiently.

CRM

- **CRM system provides a well defined platform for all business units to interact with their clients and fulfill all their needs and demands very effectively and to build long-term relationship.**
- CRM is not just for sales. Some of the biggest gains in productivity can come from moving beyond CRM as a sales and marketing tool and embedding it in your business – from HR to customer services and supply-chain management.

Customer relationship management (CRM)

- is a strategy for managing all your company's relationships and interactions with customers and potential customers. It helps you stay connected to them, streamline processes and improve your profitability
- When people talk about CRM they are usually referring to a CRM system as a tool which helps with contact management, sales management, productivity and more.
- CRM enables you to focus on your organisation's relationships with individual people – whether those are customers, service users, colleagues or suppliers.

Thanks for Your attention!