

CHAPTER 2

Strategic (Long-Range) Planning

The purpose of this chapter is to review the strategic planning process for an organization with the idea of introducing the concepts, steps, issues, and other considerations that must be taken into account in carrying out this activity. Also, to identify some of the significant factors in the planning and budgeting processes that needs to be examined, and to look at the relationship of budgeting to the overall strategic planning process for the organization.

The objectives of this chapter are to

1. identify the basic elements of strategic planning;
2. articulate some fundamental strategies a company may wish to consider;
3. examine the steps involved in the strategic planning process; and
4. introduce some tools that can help make the process easier and more effective for the organization.

<p style="text-align: center;">THE PRESENT AND THE PAST AFFECT THE FUTURE</p>
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Overview to Strategic Planning

The process of developing and implementing strategies has been in existence for a number of years and has been referred to by numerous terms such as strategic planning, strategic management, long-range planning, and budgeting and control. The development of these *budgeting and control management systems* can be traced back to the early 1900s. The emphasis then was on controlling deviations from established budgets and attempting to simplify the management of divergent areas of the

organization. Normally, an annual budget was set up for each work unit, and deviations from that budget were carefully examined and analyzed to determine what had happened and whether remedial action was required. The basic assumption was that what had happened in the past was a predictor of what was to happen in the future.

Long-range planning (which became popular around the 1950s), on the other hand, focused upon anticipating growth and beginning to manage the uncertainties and complexities found in most organizations. The basic assumption here was that historical trends would continue into the future. The planning process involved projecting sales and costs into the future based on data and experience from the past. The planning goal was then to develop actual plans that would address the expected growth or decline within the organization. The time frame normally used in long-range planning was more than the 1-year period for short-term planning and budgeting and control systems—typically 2, 5, or sometimes 10 years would be used depending on the organization and its circumstances.

Strategic planning (which surfaced in the 1960s) focuses on the identification and use of strategic thrusts and competencies within the organization in developing organizational plans. The underlying assumption here is that extrapolations made from past data and experiences alone are inadequate bases for future planning. As the external and internal environments change, there will be departures from past patterns, requiring strategic adjustments such as new or changed products, additional facilities, new markets, and so forth. Strategic planning, then, focuses on the entire environment of the organization, requiring knowledge of all the factors that have an impact upon the organization. Setting up internal operations as discussed in Chapter 1 is one of the best remedies for effective strategic planning, which emphasizes continued recognition of current internal operations and present business conditions, but adds to it the ability to anticipate the need for strategic changes.

Strategic planning, like long- and short-term planning and budgeting and control systems, while subject to continual review and ongoing adjustments, is also normally conducted on a periodic basis, usually annually. A liability of the periodic planning process is that the need for strategic planning and related decision making does not always fall neatly within the predesignated planning period. Accordingly, the strategic planning

process must be flexible to cope with ongoing strategic threats, opportunities, and surprises. In effect, the planning system must work closer to *real time* so that it can effectively deal with changes in the organization's external and internal environments. What is needed is strategic flexibility so that the organization can respond quickly to sudden changes. In addition, strategies also need to be proactive, allowing the organization to create change rather than just respond to it.

The development, evaluation, and implementation of strategic planning and related business strategies are the heart of successful and effective management. Strategic planning is the cornerstone of a management system that assists managers within the organization to

- develop vision for their organizations;
- understand the dynamic and changing environment in which they manage their organizations;
- consider and decide upon strategic alternatives that are responsive to the environmental conditions that affect the organization; and
- adopt strategies that are based upon competitive advantages and that will be sustainable.

To be fully successful in the use of strategic planning techniques, it is helpful to put aside the belief that strategic planning merely represents an automatic extension of what was done last year and is primarily a statement of financial objectives and updated mathematical budget spreadsheet calculations from the prior year. This kind of incremental thinking not only inhibits the strategic planning process, but also prevents organizational creativity and innovation from optimizing strategic change. In reality, the start of the strategic planning process will typically begin outside the organization in the identification of opportunities, constraints, trends, and other changes with the purpose of creating strategies that are responsive to the organization's ever-changing but currently perceived needs.

**STRATEGIC PLANNING USES THE INTERNAL AND
EXTERNAL ENVIRONMENTS FOR ORGANIZATIONAL
GROWTH**

What Is an Organization Strategy?

An organization's strategy, which is often referred to as its competitive strategy, takes into account the following elements:

1. *Products or services*: The scope of the organization is defined by the products or services it offers and chooses not to offer, by the market (customer or client base) or population it seeks to serve or not to serve, by the competitors it chooses to challenge or avoid, and so forth.
2. *Strategic investment thrust*: Although there are many different investment options and variations that can be considered, the following represent the range of possibilities:
 - *Growth or expansion*: Investing to enlarge or enter a new market
 - *Stability*: Investing only to maintain the existing position in the market
 - *Retrenchment or harvest*: Minimizing or reducing investment to deplete or downsize the organization
 - *Divestiture or liquidation*: Curtailing investment by recovering as much of the asset base as possible by closing down or selling off the business
3. *Functional competence*: Specific methodologies upon which to compete may be based on one or more functional area strategies such as:
 - Product line or services offered
 - Market positioning
 - Pricing
 - Distribution or logistics
 - Manufacturing or service delivery
 - Technological competence
 - Quality or reliability
4. *Unique competitive advantage*: A strategic skill is something that an organization does exceptionally well, such as manufacturing, service

delivery, quality control, or marketing and promotion, and which has strategic importance to that organization. A strategic asset is a resource, such as recognized name (brand name), or well-satisfied customer or client base, which creates an exceptional advantage over competitors.

THE STRATEGY DETERMINES THE PLAN

Strategies for Competitive Advantage

As you can imagine, there are many different strategies that an organization can adopt to achieve an advantage over competition. However, many types of strategies share similar characteristics that drive the strategy and provide the competitive advantage. Among these differing strategies to be considered, many would fall into the following two categories:

Differentiation Strategy

Differentiation strategy is when the product or service to be provided is differentiated from the competition by various factors which increase the value to the customer or client, such as enhanced performance, quality, prestige, features, service, reliability, or convenience. Differentiation strategy is often, but not always, associated with higher price. The desire is to make price a less critical factor to the customer.

Low-Cost Strategy

Low-cost strategy achieves a sustainable cost advantage in some important element of the product or service. Low-cost leadership position can be attained through high volume (high market share, perhaps), favorable access to lower cost raw materials or labor markets, or state-of-the-art manufacturing procedures. Low-cost strategy need not always be associated with charging lower prices, as lower product or service costs could also result in increases in profits, marketing, advertising or promotion, or product development investment.

Although most planning strategies usually involve differentiation or low-cost strategy, there are many other kinds of strategy that could be

exploited. Examples include specific organizational competencies such as creativity and innovation, global perspectives, entrepreneurial spirit, research capability, sophisticated systems, automation and IT computer systems, and so forth. Within this framework the following three strategies which are not easily categorized as either differentiation or low-cost strategies could be considered in formulating strategic long-range plans.

Focus

This strategy involves organizations that focus on either a relatively small customer base or a restricted part of their product or service line. For example, a retailer selling to tall men or small women, or a CPA offering personal financial planning services to highly compensated individuals would be employing a focus strategy. The particular focus is usually the driving force in the planning effort, though differentiation or low cost may also be part of the strategy.

Preemption

A preemptive strategic move is the first implementation of a strategy into a business or service area that, because it was first, produces a distinct competitive advantage. Normally, for such a preemptive move to create an advantage, competitors should be inhibited or precluded from matching or countering the move. Some examples might be tying up the major distributors in a new market area before the competition can make a move, becoming the sole source for a particular product such as a new computer software package, or being the only professional firm in town that is a member of a professional practice management association (assuming such membership provides a distinct advantage). Being able to pull off such a preemptive move will put your competitors at a substantial disadvantage.

Synergy

The benefits of synergy (where the total is greater than the sum of its parts) can occur when an organization has an advantage due to its connection with another organizational entity within or outside the com-

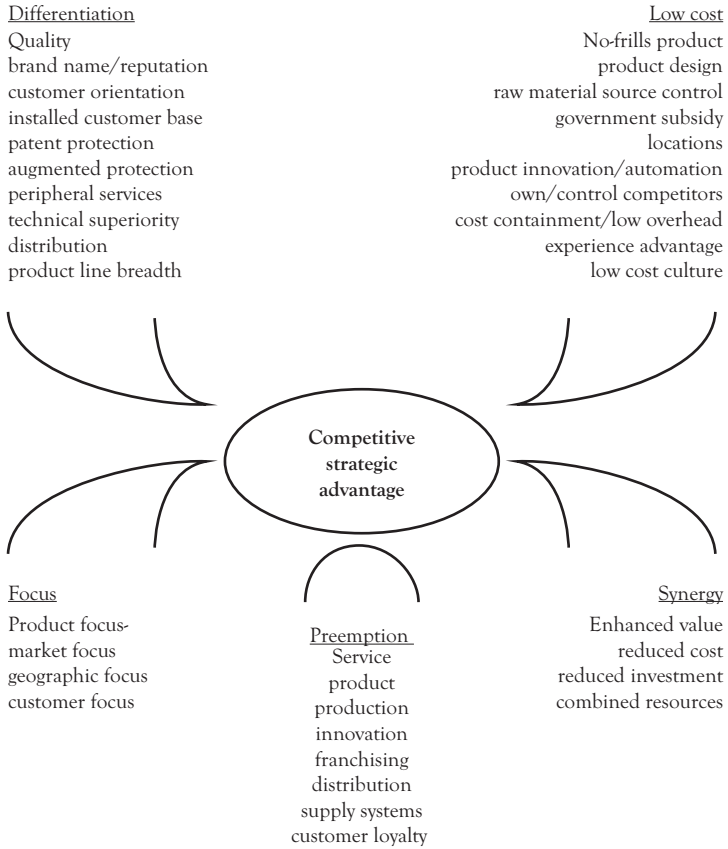


Figure 2.1 Strategies for competitive advantage

pany. The two entities may share sales and marketing efforts, research and development capabilities, office and support staff and facilities, warehousing, and so on. With the element of synergy, the two or more entities may be able to offer the potential customer the products or services that are desired, which neither might be able to do alone. For example, a more traditional retail electronics seller might link together with a computer software development firm to provide clients with full computer systems development services. The combination could create a synergy that would not exist if each worked separately. Figure 2.1 shows these strategies graphically.

In developing specific strategies for an organization, unique characteristics and trends relevant to the business must be identified. This normally requires some front-end analysis to be able to determine exactly what

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strategies would likely be most effective. Some factors to consider include the following:

- *Market orientation*: The organization's awareness of its external environment, including customers, competitors, and the marketplace. The goal here is to develop customer sensitive strategies that utilize the organization's market strengths.
- *Proactivity*: Attempting to influence events in the environment as opposed to merely reacting to forces as they occur. Examples would be lobbying for changes to a law that would significantly affect the organization, or trying to exploit a situation that at first glance appears to have totally negative implications (e.g., providing environmental cleanup, toxic waste disposal, or waste management services).
- *Information systems*: Identifying existing information systems and their ability to provide accurate and timely data for an effective strategic planning process. This includes determining what information is required, how to provide it, processing and analysis requirements, and so forth. Another factor to consider is the ability to provide online data so that strategic changes can be made more responsively.
- *Entrepreneurial style*: Entrepreneurial style emphasizes the organization's need to be more responsive to opportunities and not let unwieldy management systems bog down the decision-making process.
- *Multiple strategies*: Use of multiple strategies rather than a single strategy with related financial projections may help the development of the most effective overall strategy. The focus, however, should be on the strategy development and not on the financial projections.
- *Implementation capability*: While proper strategy development is extremely important, it provides no more than a theoretical set of alternatives unless they can be implemented. For the process to work, the strategy must first fit the organization's needs and opportunities and then must be capable of being implemented effectively.

**THE CORRECT STRATEGY
WITH THE CORRECT IMPLEMENTATION
CREATES THE CORRECT SOLUTION**

Benefits of Strategic Planning

It is evident that effective strategic planning can be a long and arduous process for management staff that already has enough to do on a daily basis—as they may tell you. And it can become extremely frustrating in today’s environment because of constant changes that make attractive future directions difficult to identify, let alone predict. The process itself requires communication, cooperation, and interaction among all the functions within the organization and can cause internal conflicts and resistance. Many times the alternative of simply waiting for and reacting to conditions as they occur seems more efficient, effective, and simple for producing results. What then are the benefits of implementing strategic planning?

1. Evaluation of strategic choices
2. Long-range vision
3. Effective resource allocation
4. Establishing an effective organizational communication system, both horizontally and vertically
5. Development of strategic management and related control systems
6. Enabling the organization to cope with change
7. Allowing proactive strategy development
8. Providing for online decision making
9. Identification of the needs for managing a complex organization
10. Enhanced strategic analysis and decision-making capability

The Strategic Planning Process

In addition to a discussion of the basics of strategic planning and some of the benefits that can accrue from its effective use, we should also deal with some of the mechanics of the strategic planning process. An overview of the strategic planning process is presented as follows that depicts

the external and internal analyses (often referred to as a *situation audit*) that provide the inputs into strategy development, strategic decisions, and related strategic management.

External Analysis

External analysis involves a review of the relevant elements external to the organization, focusing on the identification of opportunities, threats, strategic questions, and alternatives. As much as there are many external factors that can be considered, it is important that the external analysis not be overdone, since this could result in substantial costs in terms of time and resources. Some elements that could be reviewed in an external analysis include the following:

Customer analysis involves identifying the business's customer or client base and their needs. Particular emphasis should be placed upon products or services desired, quality and service considerations, special requirements, and so forth.

Competitive analysis includes the identification of competitors, both existing and potential. Areas that could be included in competitive analysis are intensity of competition, competitors' performance, their objectives (i.e., are they the same as yours?) and strategies employed, strengths, weaknesses, and so forth.

Industry analysis focuses on determining the potential of the industry in general and the products or services within the industry. For instance, will your organization and others be able to earn sufficient profits, or is the industry or product or service so competitive that attractive profits are unlikely to be attained? Elements that can be included in the analysis are industry size or potential, growth prospects, competitive intensity, barriers to entry (or to exit), threat of substitution, the power of suppliers and customers, cost structure, distribution or marketing channels, and industry or product or service trends, and key success factors (such as quality, service, customer relationships, etc.)

Environmental analysis focuses on factors outside the organization that may create opportunities for or threats to it. This analysis must

necessarily be limited so that it doesn't become excessive in terms of time and scope. Areas that could be included are technological changes (impact of new developments), regulatory issues (effect of new or pending legislative initiatives), economic factors (effects of general economic conditions), cultural or social considerations (what's *in* or *hot* in the market), demographic trends (age patterns, socioeconomic changes, population pattern shifts, etc.), or geographic factors (rust or sun belt patterns, urban, suburban or rural changes, weather, transportation considerations, etc.)

Internal Analysis

Internal analysis involves achieving a detailed understanding of those areas of strategic importance within the organization. An examination of corporate strengths and weaknesses and their impact on the strategic issues is a relevant part of this process. The appropriate considerations can be categorized as follows:

Performance analysis which evaluates the performance of the organization in terms of financial results (e.g. return on investment) as well as other performance measures such as market share, product line analysis and performance, cost information, product development, management systems, personnel capability, and so forth.

Determination of strategic options which focuses on a review of those elements of the organization that influence strategy choices, such as past and current strategies; strategic problems which, if uncorrected, could cause significant damage (e.g., insufficient professional staff or other resources); organizational capabilities and constraints; financial resources and constraints; flexibility to change; strengths and weaknesses (build on strengths or neutralize weaknesses); and so forth.

**EXTERNAL AND INTERNAL ANALYSIS
PROVIDES THE CORRECT STRATEGY**

A graphic overview of these processes is shown in Figure 2.2.

EXTERNAL ANALYSIS

- customer analysis
- competitive analysis
- industry analysis
- environmental analysis
 - technological
 - regulatory
 - economic
 - cultural/social
 - socio-economic
 - geographic
- OPPORTUNITIES, THREATS & STRATEGIC QUESTIONS

INTERNAL ANALYSIS

- performance analysis
 - return on investment
 - market share
 - product line analysis
 - cost structure
 - systems
 - personnel capability
- determination of strategic options
 - past & current strategies
 - strategic problems
 - organizational capabilities & constraints
 - financial resources
- STRENGTHS, WEAKNESSES & STRATEGIC QUESTIONS



STRATEGY IDENTIFICATION AND SELECTION

1. Define the corporate mission
2. Identify the strategic alternatives
 - by product or service
 - by strategic investment thrust
 - growth/expansion
 - stability
 - retrenchment/harvest
 - divestiture/liquidation
 - by functional competence
 - functional area strategies
 - by unique competitive advantage
 - organizational proficiency or competence
3. Select the strategy
 - consider strategic questions
 - evaluate strategic alternatives
4. Implement the strategy
 - develop operating plans
5. Review the strategies and replan as required
 - install timely & accurate information/control systems

Figure 2.2 Overview of the strategic planning process

Strategy Identification and Selection

The five steps of an external and internal analysis are as follows:

1. Define the corporate mission
2. Identify the strategic alternatives
3. Select the strategy
4. Implement the strategy
5. Review the strategies and replan

Corporate Mission

The recommended first step in an effective external and internal analysis is to *define the corporate mission*: “Why are we in existence and what is our purpose?” A good mission statement usually defines the areas in which business is conducted, how the business is conducted, and what makes it unique. In addition, the mission statement can state growth directions, organizational philosophy, behavioral standards and ethics, human relations philosophies, financial goals, and so forth. The following is an example of an organizational mission statement—the Ritz-Carlton Credo:

The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission. We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed yet refined ambience. The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests. We are ladies and gentlemen serving ladies and gentlemen.

MISSION STATEMENTS CAN BE INSPIRING BUT IMPRACTICAL

Management’s efforts at motivational slogans are wasted if words cannot be turned into action

American management has spent countless man-hours and consulting dollars to create these inspirational slogans that they insist are mission statements. They emerge from the think tank armed with no more than a few simple declarations, hoping their articulation will confer flexibility in the organization and lend meaning to the everyday activities of the work force. Many so-called mission statements are ambitious visions of a utopian business state—nebulous, feel-good credos designed to inspire employees but lacking any actionable component. Others are sincere attempts to reestablish a sense of direction for companies seemingly rudderless. But the best of them, experts say, are clear, simple compelling statements of values and beliefs—and nothing more.

(Continued)

The mission statement should provide some direction and gives some sense of purpose and some feeling of a positive future state. The mission statement should cause you to ask, “How am I going to do that?” But it shouldn’t *tell* you how to do that—that’s up to the customers. As a kind of corporate mantra, mission statements have gained a lot of popularity in recent years as management searches for more clever ways to inspire, unify, and motivate employees. Their popularity signals a return to corporate roots, a reflection of management’s realization that it may have strayed too far afield in expansionary times. The most common shortcoming of the corporate mission statement, experts say, is its lack of precision. Many mission statements fail in their attempt to articulate the basic principles intended to serve as guideposts to employees. They suffer from an overambitious attempt to be all things.

Strategic Alternatives

The second step, *identify the strategic alternatives*, could include the following considerations:

- Strategic investment thrust (i.e., growth or expansion, stability, retrenchment or harvest, or divestiture or liquidation)
- Competitive advantage strategies, such as in functional areas (sales, service, quality), or use of assets and skills, differentiation, low cost, focus, preemption, and synergy, each discussed previously

Select the Strategy

Some criteria to consider in the third step of the strategy identification and selection process, *select the strategy*, include the following:

- Responsiveness to opportunities and threats
- Use of competitive advantage
- Consistency with mission statement and objectives
- Feasibility and realism
- Compatibility with the internal organization
- Consistency with other company strategies

- Organizational flexibility
- Use of organizational synergy
- Exploitation of organizational strengths and competitor's weaknesses, and
- Minimization and neutralization of organizational weaknesses and competitor strengths

Implement the Strategy

Step four, *implement the strategy*, involves converting the selected strategies into operating plans. These operating plans consist of the organizational and departmental goals, objectives and detail plans that are necessary to move the organization toward meeting their strategic goals and objectives. To support these operating plans, resources must be allocated that are sufficient (but not excessive) to ensure successful working of the operating plans. This is the process of budgeting.

Review the Strategies and Replan

Finally, the fifth step of the process, *review the strategies and replan*, as required, involves development and implementation of an adequate and timely information system that allows management to measure progress toward strategic plans and related operating plan goals, objectives, detail plan activities, and budgets.

Tools for Internal Analysis

An integral part of organizational internal analysis is the assessment of the strength of each element of its product or service mix. This type of evaluation—*portfolio analysis*—attempts to examine the business in the following areas:

1. Evaluation of business position and market attractiveness.
2. Resource allocation—which organizational units should receive resources, which generate resources, and from which resources should be withheld.
3. Establishment of strategic recommendations based on strategic investment allocation decisions.

There are many methods in use to help managers carry out their strategic planning responsibilities. Two of the more established and recognized are the BCG (Boston Consulting Group) product portfolio matrix and the strengths, weaknesses, opportunities, and threats (SWOT or WOTS-up) analysis. While these tools provide help in evaluating strategic alternatives and providing general direction to managers, it must be clearly recognized that every organization is unique, and strategic development must be specifically fashioned to meet the needs of the particular organization at a specific time in its development. Tools and techniques provide assistance and direction—they do not provide prescriptive solutions to the organization's needs.

The BCG Product Portfolio Matrix

The BCG matrix model is easy to understand, uses appealing terminology, and can be easy to quantify if the organization has necessary market growth and market share information for its products and services. The model assumes that market growth and market share is a strong indicator of product or service strength. An example of a product portfolio matrix is shown in Figure 2.3. Note that the matrix is sectioned into four quarters and that the products are represented by different sized circles (with the size of the circle representing the relative sales volume). Each of the quadrants is identified with the following terminology:

- a. *Question marks*: having a low share of a high growth market. These products typically generate negative cash flow because of their development needs and their relatively low volume, and their future success is not clear. The products in this segment are sometimes further subdivided into *problem children* (those with slim chances of long-term success) or *prize heifers* (those with strong success probabilities). These products represent the long-term future success of the company, and must therefore be carefully evaluated, screened, culled, and developed as deemed proper by corporate management.
- b. *Stars*: having a high market share of a rapidly growing market. These are the bright lights in the company's portfolio of products. They get the press coverage, generate excitement among the stock market

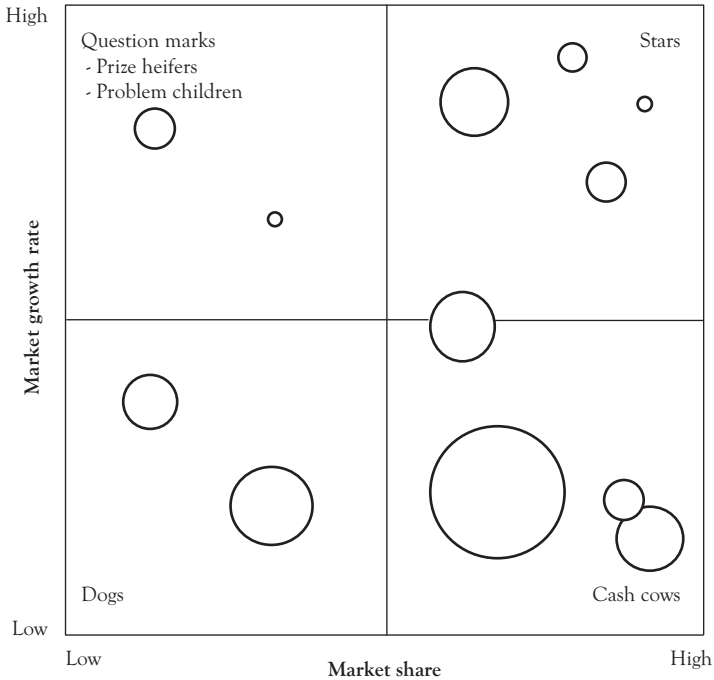


Figure 2.3 BCG product portfolio matrix

analysts, and add luster to the company's annual report. They are typically quite profitable, but do not generate significant positive cash flow because of their continuing development and promotion cash needs. Without a reasonable amount of stars in the overall portfolio, the company's immediate future is clouded.

- c. *Cash cows*: having a large share of a low growth market. These products are the engine room of the company—strong, steady, dependable, but often dull, prosaic, and unexciting. They are mature, well known in the market place, generally fully developed, and generate substantial cash for the organization. They provide the cash fuel needed to fund the development of stars and prize heifers. Without a stable of cash cows, the company may be unable to adequately fund new product development.
- d. *Dogs*: having a low share of a low growth market. These seem to be the losers in the mix, and often they are. However, they may be necessary to maintain product continuity or to keep a full range of

products in place. They are likely to generate low or negative cash flow and must be carefully managed to avoid a destructive impact on the company's overall cash position or market image. If they generate some positive cash flow and enhance the overall portfolio in some other way, they may be worth keeping. Or it may be possible to regenerate interest in the product with an infusion of development or marketing effort. Otherwise, a graceful demise should be planned.

Once the products or services have been categorized, the next step is to analyze the strategic implications. In general, the primary strategy is to utilize the cash from the cash cows and fund the prize heifers and the new stars. The prize heifers should be managed into stars, and problem children should be turned into potential stars or abandoned. The stars must be managed to become the company's future cash cows, and the current cash cows should be milked and fed so that their largesse will continue as long as possible. The dogs need to be reinvigorated if feasible—if not, plans for their elimination must be put in place.

The BCG product portfolio matrix model provides schematic assistance for the organization's management of cash and the identification of strategies for product or service investment and disposition. It can help to determine which products are cash users and which are cash providers (and why); and it can help the organization intelligently determine how available resources should be deployed among products to maximize long-range future success.

**MILK THE COWS,
REACH FOR THE STARS,
LET THE DOGS OUT**

Exercise

Examine the product portfolio mix depicted in the BCG product portfolio matrix exhibit and determine what kinds of strategic alternatives you might suggest for the company. What are its strategic strengths and what weaknesses can you see based on the information provided? Where do you think the company should concentrate its strategic efforts?

Suggested Response

This company very likely is experiencing excellent financial results—good profitability and good cash flow—because of the significant impact of cash cow products. Anyone reviewing the financial reports, including company management, is likely to be happy with the results and complacent about the future of the company because of its financial success.

However, the product portfolio matrix analysis shows a different set of prospects for the company. The relatively small amount—in number and volume—of stars is disturbing with regard to the immediate future of the company since there is not a lot of follow-up strength to the present cash cows (which will eventually move into the dog category). Additionally, the long-range prospects of the company may be even more at risk. The number of products is distressingly low and should be of great concern to company management. With only two products in this category, if even one is a problem child, risk notches up significantly.

While it is necessary to have more information about the specifics of the company and its products (nature of the products, their prospective life cycles, their growth prospects, their profitability, etc.), it appears that significant effort needs to go into new product development to build up the stars and *question marks*. This improvement in long-term new product prospects is essential to the company's long-term viability.

The dog category needs to be reviewed to determine if these products continue to add value to the company. If so, they can be maintained. As long as they are not creating a drain on company resources, they do not represent an issue of immediate concern. But if they are draining cash or other resources, they need to be phased out or reinigorated back to star or cash cow status.

An interesting and significant aspect of the product portfolio matrix approach is that it shows information that is not discernible from the company's financial statements. Financial statements show historical, not prospective, information. That is one reason that a financial analysis of the company is itself not enough to present a comprehensive picture of what is going on. While clever and extensive financial analysis can be useful in determining possible future scenarios, the future remains unknown to us all. But the product portfolio matrix gives a much more reliable

look at company prospects as they relate to sales and products than does a financial review.

SWOT or WOTS-Up Analysis

This analytical process is an acronym for strengths, weaknesses, opportunities, and threats. SWOT analysis assists the organization in determining what are the environmental conditions, internally and externally, that must be dealt with and also how best to deal with them. The more competent the organization compared to its competitors, the greater the chances for success.

The *internal* environmental conditions and considerations can be classified as follows:

- a. *Strengths*: which are resources or capabilities the organization can take advantage of to achieve strategies, goals, and objectives.
- b. *Weaknesses*: which are limitations, faults, or defects within the organization that may prevent it from achieving its strategies, goals, or objectives.

The *external* environmental conditions and considerations, normally beyond the control of the organization, can be classified as follows:

- a. *Opportunities*: which are favorable conditions in the organization's external environment. These may be trends or changes of some kind, or overlooked needs that justify the demand for a product or service and allow the organization to enhance its position.
- b. *Threats*: which are unfavorable conditions within the organization's external environment that are potentially damaging to its strategy or its position in the market.

Effective use of SWOT analysis involves identification of as many as possible of the company's strengths, weaknesses, opportunities, and threats and then finding a strength that can be exploited to take advantage of an identified opportunity. This is a classic example of niche strategy. A strength can also be used to create a demand in the market if conditions

	Internal	External
Positive	<p>Strengths</p> <ul style="list-style-type: none"> - strong sales/marketing - brand name recognition - customer preference - high quality image - strong post-sales service - abundance of cash 	<p>Opportunities</p> <ul style="list-style-type: none"> - economic upswing - increased consumer income - international interest - positive health benefits identified - principal competitor has class action suit filed
Negative	<p>Weaknesses</p> <ul style="list-style-type: none"> - large inventories - excess capacity/personnel - resistance to change - heavy reliance on single product line - relatively high sales price - unproductive research 	<p>Threats</p> <ul style="list-style-type: none"> - increased domestic competition - technological advancements - market saturation - aging population - takeover interest - growing overseas sales and manufacturing capability

Figure 2.4 Exercise: SWOT or WOTS-up analysis

permit (i.e., consumers are truly interested). On the other side of the analysis, the company can take steps to eliminate or reduce internal weaknesses, and should make a strong effort to mitigate, avoid, or somehow cancel identified threats. An example of a SWOT analysis is shown in Figure 2.4.

While this example is an admittedly limited SWOT analysis—a more realistic situation would generate much longer lists in each quadrant—it is interesting to speculate on possible strategies. For example, if the company were to embark on a new product development campaign, it could be viewed as follows:

- *Strengths*: Each of the company strengths would be beneficial to new products developed and marketed; and the abundance of cash could be the source of funds to pay for the development activities.
- *Weaknesses*: With the possible exception of large inventories, each of the weaknesses could be addressed and overcome, at least in part, by a successful and innovative new product development program.
- *Opportunities*: A well-designed new product program could take advantage of each of the items listed in the opportunities

column, including taking advantage of a competitor's misfortune—if that is consistent with the company's ethical standards.

- *Threats*: Most of the threats could be addressed as well. For example, aging population could be turned into an opportunity by developing a product for that segment of the population. In addition, any takeover interest by others is (temporarily) to be mitigated by using up the abundance of cash on product development, though success in the program could ultimately increase takeover interest even further. But that is a future problem to be addressed by another SWOT analysis.

In summary, an effective product development program can address possibly 80 or 90 percent of the factors listed in this SWOT analysis. This is an unrealistically high *hit ratio* in practical terms. But the idea of developing a strategy or strategies based on a SWOT analysis is almost certain to lead to broader and more effective results than trying to develop answers to specific individual concerns. That is the beauty of a SWOT analysis, along with its simplicity and the fact that it works—even in the absence of significant amounts of quantitative marketing data.

<p>WOTS-UP DOC SEIZE THE OPPORTUNITY</p>
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Review of the Elements of Strategy Development

There are many elements that can be researched and analyzed in the development of the organization's strategic plans. However, one can take this approach too far and never get to the development of the actual strategic plan. However, there are some areas that should be included in your review of factors related to your strategic planning, such as:

- a. Customer analysis
 1. What are the major market segments?
 2. What are customers' motivations and unmet needs?

b. Competitor analysis

1. Who are existing and potential competitors?
2. What strategic groups can be identified?
3. What are their levels of sales, growth, market share, and profits?
4. What are their strengths, weaknesses, and strategies?

c. Market analysis

1. How attractive is the industry and its submarkets?
2. What are the structures, entry and exit barriers, growth prospects, and profitability potential?
3. What are the alternative distribution channels and their relative strengths and weaknesses?
4. What industry trends are significant to strategy?
5. What are the current and future key success factors?

d. Internal analysis

1. What are our present performance levels?
2. What has been our strategy?
3. What are our assets and skills?
4. What are our weaknesses?
5. What are the characteristics of our organization such as structure, personnel, culture, values, and systems?
6. What is our cost structure?
7. Does a cost advantage exist or can one be developed?
8. What are our strategic problems, constraints, and questions?
9. What are our strengths and weaknesses relative to our competition?

e. Environmental (external) analysis

1. What environmental threats, opportunities, and trends exist?
2. What major environmental scenarios can be conceived?
3. What are the major strategic questions and information need areas?

f. Strategy development

1. What alternative growth directions should be considered?
2. What should be our business mission?
3. What investment level is most appropriate—growth or expansion, stability, retrenchment or harvest, or divestiture or liquidation?

4. What competitive advantages should be developed?
5. What skills or assets need to be developed or maintained?
6. What are the key strategic questions?
7. What strategies best fit our strengths, goals and objectives, and our organizational style and culture?

**ANALYZE, ANALYZE, ANALYZE,
PLAN, PLAN, PLAN,
AND THEN EXECUTE**

Situational Analysis: Planning Questions

In analyzing the present situation of the subject organization, the following are some suggested questions that could be used to assist in gathering data as to the specific situation that the company finds itself in.

a. Industry

1. Does the organization have a clear idea of the market in which it is operating?
2. What is happening to the industry in which the organization is operating? Is it growing or declining? What are the expectations about it? Compared with last year?
3. What is the current size of the market and the organization's market share? Has the organization acquired a greater market share over the past years or has its share declined? Compared with last year, what changes have there been in the organization's market share? Has market share declined or grown compared with last year?
4. Compared with last year, has the competitive position changed?
5. How much of an idea does the organization have of the impact of political and economic trends upon their prospects?
6. What are the chances of legislative controls changing during the planning period?
7. How good an idea does the organization have of the likely changes in the social environment over the planning period?
8. Does the nature of the product sold in the industry vary from year to year?

9. How do you rate the ability of the company to define likely future sales?
10. Over the past years how closely have the organization's products followed the price trends in the market?
11. What degree of seasonality is apparent in the industry?
12. How extreme are the long-term fluctuations in the demand for the particular product or service?
13. How much money is the company spending on research and development in relation to competition?

b. Market

1. How clear an idea does the organization have of the functional divisions in the market and the type of product or service that it demands?
2. When was the last time that the organization sought customers' views on its products?
3. What are the effects on the profitability of the business in lowering and raising price on volume of sales?
4. Is the organization knowledgeable of the effects of lowering price on volume?
5. How does the quality of the organization's products or services compare with competitive products or services selling at more or less the same price?
6. How much of the organization's product range is sold at a significant discount (i.e., 25 percent off list price)?
7. How closely has the organization analyzed the potential profitability of a change in credit policy?
8. How closely has the organization analyzed inventory levels to achieve the level of service that it considers necessary in the market place?
9. Has the organization considered potential financial and marketing benefits in its product distribution methods?
10. Does the organization know the costs of current delivery methods and of individual deliveries?
11. Have alternative distribution methods been considered?
12. How much of overall sales are provided by products more than 10 years old? Five years old? Three years old?

13. What is the level of control over new product development?
14. To what extent are brand opportunities exploited?
15. To what extent do major customers (5 to 10) contribute to the organization's sales and profitability?
16. What amount of sales are achieved from outside the organization's immediate geographic area?
17. What system exists for evaluating the effectiveness of the sales effort?
18. What are the specific service standards established for employees?
19. What system exists for monitoring operational performance?
20. Has the organization considered the potential for improving the speed of service by technological innovation?

c. Production

1. What percentage of production is accurately estimated in terms of direct costs like material, labor, machine time, and so forth?
2. What proportion of the total cost of production of the normal production run is made up of startup or setup costs?
3. To what extent is the capacity of the existing plant or machinery fully utilized?
4. Are the amounts of raw materials and components effectively evaluated as to minimums required to maintain production?
5. Does the organization evaluate the range of products it produces in relation to the effects on production efficiency?
6. How much of the finished goods inventory is over six months old?
7. What system of quality control is used over products and services?
8. Does the organization evaluate in-house manufacture versus outside purchase opportunities?
9. How many suppliers does the organization depend on for the bulk of its raw materials and components?
10. How much of the organization's products and services are produced in the most efficient method?
11. How much has labor productivity increased over the last year?
12. By how much would replacing the current machinery improve efficiency?
13. To what extent could production efficiency be improved by better physical layout or a change in facilities?

14. Does the organization consider using outside help to improve production processes?

d. Financial analysis

1. How easy is it to manage and understand the accounting system?
2. How accurately is cash flow analyzed and controlled?
3. How have overheads, expressed as a percentage of sales, changed over the last three years?
4. What measures are used to assess the various elements of operational performance?
5. What is the change in the level of bad debts over the last three years?
6. What system is used to evaluate capital investment opportunities and how are decisions made?
7. Is the tax and pension planning structured to maximize the return to the organization?
8. Does the organization have a stated policy relative to additional financing and borrowing?

e. Personnel

1. To what extent are employees involved in the planning process?
2. To what extent do employees feel involved in what the organization is doing?
3. Is there a form of profit sharing among the employees?
4. To what extent is the nature of each individual job defined and the authority and responsibility that go with it?
5. How does the organization review personnel requirements for the future?
6. How many (number or percent) have done exactly the same job for over 10 years? 5 years? 3 years?
7. What are the organization's recruitment procedures?
8. How many employees have received no training over the last year? Two years? Three years?
9. What is the level of absenteeism for illness over the past few years? Level of accidents?
10. What are the employee grievance procedures?
11. How well does the organization understand its legal obligations relative to personnel concerns?

**I KNOW THE QUESTIONS,
NOW I NEED SOME ANSWERS**

Potential Areas for Competitive Advantage

The following areas could be considered individually or together while identifying areas for competitive advantage.

1. Reputation for quality
2. Customer service or product support
3. Name recognition or high market profile
4. Good management
5. Low cost production capability
6. Strong financial resources
7. Customer orientation
8. Breadth of product line
9. Technical superiority
10. Solid base of satisfied customers
11. Segmentation focus
12. Product characteristics
13. Continuing product innovation
14. Market share
15. Distribution systems
16. Low cost and high value
17. Understanding or knowledge of the business
18. Pioneer in the industry
19. Operations adaptable to customer needs
20. Effective sales force
21. Flexibility and entrepreneurial culture
22. Marketing skills
23. Strong market image
24. Engineering or research and development capability
25. Good human relations—staff and customers

**TO THINE OWN SELF BE TRUE,
BUT KNOW THY COMPETITORS**

Characteristics of a Customer-Driven Organization

As previously mentioned, one of the major reasons for the organization to be in business is customer service. To follow up on this principle, the company may want to become a customer driven organization. If so, here is a checklist of various areas to consider.

a. Understanding the customer

1. Maintain contact with the customer.
2. Know product or service attributes that are important to the customer.
3. Understand important elements of customer choice.
4. Understand different segments of customer business and adjust strategies accordingly.
5. Listen to customer and work on solving problems.
6. Identify and address unmet customer needs.

b. Knowing the customers' perceptions of your company

1. Know how the organization is perceived by customers and clients.
2. Know why the organization is perceived as it is.

c. Delivering quality or value

1. Does the organization truly care about what the customer receives in quality and value?
2. Do quality and value measure the impact on goal and objective setting within the planning system?
3. Is Customer satisfaction measured regularly?
4. Is the organization responsive to customer input and feedback; are customer suggestions and complaints included in organizational strategic planning?

Conclusion

Strategic (long-range) planning usually encompasses a future period of three to five years or more, although the actual period will vary according to the particular business. Traditionally, upper management handles the strategic planning process, though other operating personnel as well as outside assistance can be used to improve the resultant quality of the

plan. In long-range planning, all aspects of the business's activities are addressed, including areas such as

- organizational expansion or contraction;
- products or services to be provided, including additions, changes, and deletions;
- markets in which to conduct business;
- capital investments and expenditures;
- facility requirements;
- research and development activities;
- personnel and employee relations and benefits;
- return on investment;
- sales, expenses, and profits;
- financing needs.

Long-range planning is a complex undertaking because of the unpredictability of the future. The farther out the planning period from the present, the greater the risk of uncertainty. Because of this uncertainty, and because even ordinary conditions change over time, long-range plans must be periodically reviewed and adjusted by management.

Management also needs to take other risk factors into account in planning the future, such as

- economic conditions: inflation, growth or recession, unemployment, interest rates, national budget deficit, trade deficits, value of the dollar, and so forth;
- changing market conditions;
- technological advancements and developments;
- political factors: legislative changes, tax changes, regulation or deregulation, environmental action, minimum wage, employee benefit concerns, antitrust activity, and so forth.

The company's long-range planners will have to collect, analyze, and interpret all available information to be used in forecasting the future. Sources include internal historical data and reports related to sales and costs, product line analyses, financial data, personnel data, information

regarding production and delivery of goods and services, and so forth. In addition, the planners may use more sophisticated mathematical forecasting models and other analytical techniques such as break-even analyses, return on investment calculations, and ratio, change, and trend analyses to provide data for the decision-making process.

As an output of the strategic planning process, top management should develop broad goals for the long-term operations of the organization, and these goals should be communicated to all lower levels of management and other operations personnel as appropriate. Long-term goals address areas such as

1. desired size and scope of operations;
2. customer relations;
3. personnel and employee relations;
4. products or services to be offered: existing, new, eliminations, changes, new product development, or product enhancements;
5. quality control considerations;
6. capital investment plans;
7. customer base: existing, new, changes, eliminations;
8. research and development activities;
9. marketing or sales efforts;
10. capital structure and sources of financing.

By providing long-term direction, top management establishes an effective framework within which operations management and staff can make informed and intelligent decisions relative to developing their own divisional or departmental plans and budgets. Top management should also request operating personnel to identify present problems and causes together with related recommendations for corrections, and should get the latest updated information regarding changes and trends, sales and costs, production or delivery conditions, personnel needs, and so forth.

If effective communications systems have not been established between top management and the remainder of the company, the strategic planning process may result in long-term goals that do not fully relate to the organization's needs. Also, operating personnel may then have to work with goals that they disagree with and believe will not work. This

can prove to be disastrous in today’s competitive marketplace where businesses of all sizes need to become more effective planners if they hope to grow and prosper—or simply survive.

This chapter has provided a discussion of the long-term strategic planning processes—leading toward the short-term plan and its corresponding budgets. In the succeeding chapters, we will explore each of these elements in greater detail so that you will be able to implement the procedures into your own organization.

INTERNAL OPERATIONS BEGETS STRATEGIC PLANNING WHICH BEGETS SHORT-TERM PLANNING WHICH BEGETS DETAIL PLANS AND BUDGETS

An overview of the organizational planning cycle is shown in Figure 2.5.

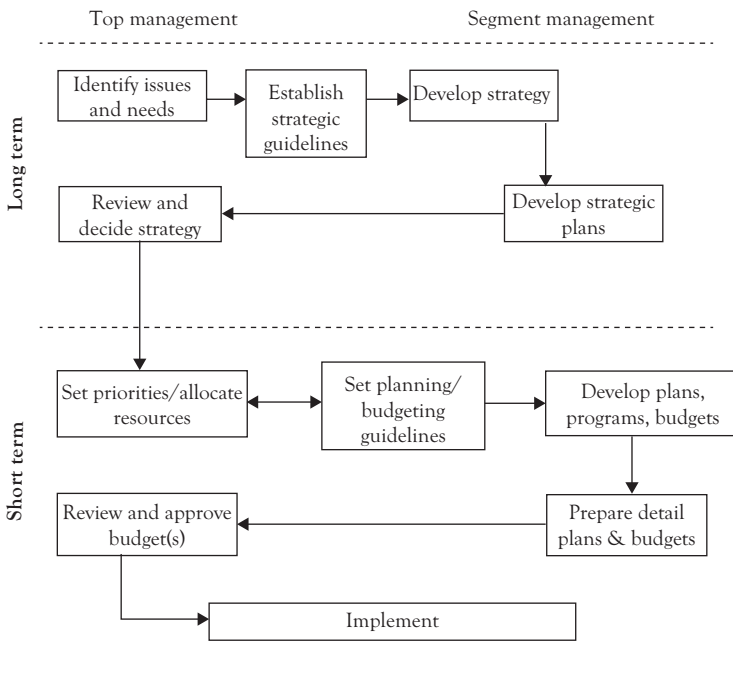


Figure 2.5 Organizational planning cycle

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