STRATEGIC PLANNING

MISSION, GOALS AND OBJECTIVES

These set the direction for the organization, and provide a test to see whether a specific strategy "fits" the company. They also form the basis of the company's communications with its employees, customers, competitors, government and other stakeholders.

Mission:
Answers the questions:

- Who are our customers (note: they are not necessarily members!)?
- Where can they be located (ultimate geographic scope)?
- What problem do we solve for them?
- What social purpose (if any) do we fulfill?

The mission statement should be generic, and able to "stand the test of time." It should provide a framework for thinking about what the association does, in terms of the problem it solves or the benefits it delivers. Note that a well-defined mission statement can lead naturally to brand development; a good example of this was Dofasco with their "Our product is steel; our strength is people" statement. The last half of this statement reflects very accurately their attitude (at the time) to their employees, although it does not reflect the strong customer focus the company had.

For Taylor Enterprises, our mission statement is

Goals:
- Specific, qualitative things the company hopes to achieve or become
- Should not be quantitative or time related
- Should flow from the mission statement, and elaborate on it

Objectives:
- Specific, quantitative, time-related things the company plans to achieve or become.
- Flow from the goals and support them
- Objectives can exist in finance, marketing, production, products, human resources, or any other area of the company
- Form the basis for action planning
- Should provide "milestones" in achievement of strategy and tactical plan

ENVIRONMENTS

General External Environment - four factors:
- Technology
- Social/Demographic

- Economic
- Political/Governmental

Specific External Environment - four factors:
- Competition
- Customers
- Labour
- Supplies

Internal Environment (Resources) - four factors:
- Finance
- Human Resources
- Products/Product Lines
- Production/Operations (Facilities)

EXTERNAL ENVIRONMENT

General External Environment

Technology

Determine what relevant technological information is available
Determine what stage technology is at:
- Invention (creation)
- Innovation (introduction into use)
- Diffusion (spread beyond first users)

Examine at least these areas for technological predictions:
- Future form of product group (what inventions or innovations could occur here)
- Future raw material form (any change in raw materials, e.g. from natural to synthetic)
- Future processing technology (spread of robotics, invention of new machinery/equipment, uses of computers for control of process)
- Technological development in unrelated areas (satellite technology which affects makers of stationery and writing tools)
- Stages of technology (how quickly will product or process grow from invention to diffusion stage)

Social/Demographic

Predict changes in:
- Distribution of income (shifts from low to middle to high income groups)
- Education (trend today towards universal completion of high school plus larger portion in university/college; counter with literacy and numeracy problems)
- Health (longer lives, medical trends)
- Urbanization (move from rural/farm areas to urban areas)
- Family formation (what is the rate of formation, and at what age does head of household form family)

These changes are evolutionary rather than revolutionary, so a critical observer could pick out possible changes

Indicators of possible change include:
- Population characteristics (birth rate, age groupings, sex)

- Family values (importance of family, cohesiveness of family group, change from extended to nuclear family, etc.)
- Attitude towards purchases (who influences decisions: spouse, children, parents, peers)
- Attitude toward management and work (how is work seen - creative and fulfilling, or dull and a "necessary evil;" how are relationships between management and labour - confrontational or amicable)

Economic

Exogenous variables (government variables):

- Employment policies (is job creation a priority and if so, in what geographic or industry areas)
- Inflation control policies (is inflation control a priority? What is government doing to control inflation - raising interest rates, encouraging unemployment, imposing wage/price freeze, etc.)
- Import/export policies (how does government limit imports through tariff barriers, etc.? Does it encourage export through loan guarantees/financial assistance, export marketing programs, etc.? What about free/freer trade?)

Endogenous variables (GDP/Gross National Income - overall flow of goods and services in the economy)

- Consumer consumption variables:
- Durable products - discretionary income
- Nondurable products - disposable income
- What is the division between discretionary and disposable income? What trend is observable? Within each income type, what are trends for different kinds of goods/services?

Business investment considerations:

- Government policies (investment tax credits, scientific research tax credits, regional or industry-based financial incentives, target industries)
- Consumption level (what is likely to happen to level of consumption of given product/service)
- Price level (going up, down or remaining steady? Why?)
- Innovation (what technological changes are taking place and how do they relate to economic factors)
- Profits (what are profit levels generally, and will they grow, shrink or remain steady)

Political/Governmental

Sources of political force:

- Competing social philosophies, e.g. capitalism versus socialism versus communism
- Social unrest or disorder, e.g. racial, inflation, unemployment, deteriorating physical environment
- Vested interests of business groups (e.g. lobbying groups, cartels/oligarchies)

Groups through which political force may be exerted:

- Legislation and regulation through operating agencies, ministries, commissions or departments (MTC, CRTC, various farm marketing boards)
- Organizations exerting pressure through lobbying and media activities (e.g. Greenpeace, Operation Dismantle, CFIB, etc)
- Non-organized common interest groups, e.g. students, workers, minority
- groups

Types of influence on business operations:

- Elimination of private enterprise
- Confiscation
- Expropriation
- Nationalization
- Operational restrictions
- Discrimination (e.g. on hiring of equity groups, pay and employment equity)
- Direct competition (e.g. new competition legislation; government entering business as a competitor)
- Regulation/product standards
- Damage to property (liability insurance; government run insurance plans)

Specific External Environment

Competition

Industry organization

- Number of firms - too many companies may lead to shake out in industry or cutthroat competition for market share
- Size of firms - is industry dominated by one or two giants, or several large firms tending to operate in concert? Is industry very diffuse - many small competing firms, heavy local bias (versus regional, national, international)

Willingness to change behavior

- New products - is industry willing to encourage or allow new product creation? What is commitment to innovation within industry? What can competitors do to discourage innovation?
- New firms - does industry permit new venture start- ups? Relates to stage of product and industry evolution - established industries or products nearing end of lives often very restrictive

Ability to change behavior

- Financial resources - do financial requirements pose a significant barrier to entry to new firms? Is industry physical plant so aged that replacement is prohibitively expensive?
- Technology - does current state of technology allow developments or adaptations of new products, services or companies?

Basis of competition

- Price - typical of mature industries/products. Product is a commodity and differentiation based on price
- Product - differentiation based on product features and benefits - typical of products or industries in introduction or growth stages
- Distribution - is availability of goods a major issue (e.g. convenience goods)? What about number of "hands" between originator and end user?

Customers

Nature of demand

- Type of demand
    - Direct or derived - is demand dependent on outside factors, or does it exist on its own?
    - Durable or nondurable - demand for durables is cyclical, so new users are important; demand for nondurables is frequent, so maintaining customer base is critical

    - Luxury or necessity - relates to market potential, ease of reaching market, income considerations and basis of competition

Market Potential

- Stage of product life cycle (e.g. introduction, growth, maturity or decline) is related to overall trend in market potential
- Responsiveness of market - what factors determine overall market potential?
    - Price responsive
    - Income responsive
    - Product responsive
    - Population responsive

Predictability of demand

- Seasonal - e.g. snow or water skis - dependent on particular selling season
- Cyclical - e.g. homes, televisions - dependent on need to replace existing product
- Trend - is market growing, shrinking, steady or erratic? Why?

Labour

- Supply - what is supply of labour with appropriate skills?
- Wage rates - what are prevailing wage rates, and how do they relate to skill levels? Are they skewed up or down by a dominant employer?
- Productivity - what is productivity level of labour supply? Relates to attitudes to work and management, as well as skill level and wage rates
- Stability - is labour force highly mobile and tending to follow jobs? Is there a high turnover within the labour force?
- Unionization - does labour force tend towards unionization? Are tactics adopted conciliatory or confrontational?

Supplies

Supplies include money, from financial backers, lenders, etc., as well as more traditional supplies.

Production capacity of supplier industry - has implications for availability and pricing of inputs

- Under capacity - can suppliers service existing demand without expanding current capacity?
- Over capacity - are suppliers operating at/near capacity? Is demand likely to increase, and if so, how will suppliers be able to meet increase?

Raw Materials

- Availability - are raw materials readily available or do they need to be sourced from new suppliers (has implications for production scheduling and costing)
- Price - what are price trends for supplies - increasing, decreasing, stable or erratic? Why? What are the implications for industry?

INTERNAL ENVIRONMENT

Finance

Availability of industry averages here is useful.

- Profits - Vertical analysis to show gross, pretax net and after-tax net profits as percentage of sales. Also review expenses as percent of sales. Use figures for several years if possible, to reveal trends.

- Growth - Develop trend information on growth in sales, profits (and expenses), assets and equity.
- Stability - Prepare debt/assets ratio and calculate times interest earned, as indicators of whether company is carrying too much debt.
- Liquidity - Calculate current ratio and acid test ratio to assess organizations ability to pay current debts without impairing its ability to continue in business?
- Efficiency - Prepare information on age of payables, receivables and inventory, and on total assets turnover, to see if organization is making efficient use of its resources and managing its current cash well. Trend data and industry comparisons are most helpful.
- DuPont Analysis - Relevant only if you are a very large company (e.g. sales in excess of $100 million)

Human Resources and Management Systems

- Depth - Is there sufficient depth of knowledge and experience in the staff and management team, and how much depth is appropriate?
- Ability/capability - does the management team have the necessary skills? Are members of that team in areas where their skills are suitably used? Is the size of both management and staff appropriate? Will management be able to grow with the company?
- Sufficiency of systems - What systems are in place (financial controls, market information, communications within organization)? How effective are they? Is organization making efficient use of people to maintain its systems?

Products/Product Lines

- Variety - how many products/product lines does the firm have? Is it reliant on only one line? Is there unnecessary redundancy? Is there a fit with the firm's expertise?
- Market Fit - are the product lines appropriate to the market? Are changes in the market reflected in changes in products/product lines?
- Expandability - Would it be appropriate for the organization to expand its product lines? What would the cost be? How would the expansion relate to the organization's mission or goals?

QUALITY - is it there? Can it be developed?

Production/Operations/Facilities

- Modernity - are the organization's facilities at or close to "state of the art?" Do they meet necessary safety/ecological standards?
- Capacity - is the organization operating at or near capacity? Can its capacity be increased easily, and at what cost? How efficient would the organization be at the increased capacity?
- Locations - How are the organizations facilities located relative to sources of supplies and to markets? Is there a work flow between different facilities, and how does location affect that? How easy is it to manage diverse facilities?
- Workflow - does workflow within the individual facilities make sense? Can it be optimized? (Often reflects on human resources as well)
- Productivity - How is the organization's record for defects, down time and changeover time? Can it be improved? How?

PLANNING BASE

The planning base is a tool which assists managers in predicting the future, as it affects her/his organization. The planning base reflects the manager's judgment of what factors (external and internal) are important and when they are important (short term, medium term or long term).

The planning base deals with three time horizons: short term (up to 1 year), medium term (1 to 3 years) and long term (3 to 5 years). It is important that the manager recognize that, as the time frame lengthens, the reliability of data decreases. Thus, while specific actions can be planned for short term and some medium term factors, planning for other medium and long term factors must be more general.

The planning base may be represented as:

	SHORT TERM	MEDIUM TERM	LONG TERM
EXTERNAL			
General			
Specific			
INTERNAL			

Within each environmental area, plot significant factors as threats/opportunities or strengths/weaknesses. This gives you, as a manager, a way of identifying and monitoring factors crucial to the success of your organization.

STRATEGIES

There are five classic strategies:

Growth

- *Internal* - all action to expand company takes place internally. Options are: development of new products or product lines; development of new businesses (both this and previous growth strategy can involve existing areas of business or new areas); horizontal integration, either upstream or downstream; increasing market penetration in existing market; expanding current products to new markets.
- *External* - all action to expand company takes place externally, usually through acquisition. Varieties are the same as for internal. Issues are fit of expansion/growth with company expertise and perceptions of that expertise; and fit with mission.

Status Quo/Do Nothing
"Lazy" strategy - assumes nothing will change externally, so why change internally? This is rarely an appropriate strategy for any length of time.

Retrenchment

- Often misunderstood as a reaction to trouble. While this may be the case, it can also be a reaction to rapid growth. Retrenchment includes paring unprofitable operations, products/product lines, facilities; layoffs or re-assignments; refinancing.

- Retrenchment also has limits as a strategy – it is not appropriate as a long term approach, since a firm can only retrench so far before running out of things to retrench.

Sell-Out

This consists of selling the entire company, as opposed to divisions, product lines, etc. It may be the ultimate "exit strategy" for an entrepreneur, although Management/majority owners in larger companies may undertake a sell-out to take advantage of synergies (access to resources, greater market coverage, etc.) generated by a merged company.

Needless to say, sell-out is not a long-term strategy for a firm either, but may be an interim stage or the end of the line for existing owners/managers.

Combination

Most times, no one pure strategy is appropriate. In that case, the planner may opt for some combination of two or more strategies. They might be sequential (the whole company might retrench preparatory to adopting a growth strategy) or concurrent (one division can maintain status quo before growing, while another must retrench, then do nothing for a while, before finally growing).

As a general rule, a combination strategy of some sort is at least an option.

STRATEGY SELECTION

For each potential strategy, sketch out one or more possible scenarios. Discuss the pros and cons of each, and how each fits with the firm's mission, goals and objectives. The strategic option which best meets the requirements of the mission, goals and objectives, while dealing with issues identified in the SWOT analysis is the best choice.

IMPLEMENTATION

Once a strategy has been chosen, you need to outline an implementation plan. The best strategy in the world can fail because of poor implementation. An implementation plan should identify resources to be used, the task to be accomplished (but not the details), the criteria for success for the task, the person responsible, and the timeline(s). From this, action plans will be developed, so it may also be appropriate to identify milestones in the implementation. It is key that everyone understand what must be done, when, what should be used, and what the measures for success are.