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I The Basic Concepts of the Strategic Planning

A. The Strategic Business Unit (SBU)

There is a general, accepted statement that the management of the overall company is responsible for the strategic planning. This is, indeed, true, but as a rule not the whole story. Any effort to prepare a strategic plan for the company as a whole will result in failure unless it is accompanied by strategic plans prepared for smaller, more homogeneous segments of the firm. An appropriate segmentation of the enterprise is, therefore, an essential prerequisite for effective strategic planning. This need has led to the development of the so-called Strategic Business Units (SBU). According to one school of thought, an SBU is composed of a product or product lines with identifiable independence from other products or product lines in terms of

- competition
- prices
- substitutability of product
- style/quality and
- impact of product withdrawal.

The SBU is the smallest organizational unit for which formal strategic plan is formulated. Such a strategic plan describes the role of the SBU has to play within the overall strategy of the corporation and thus becomes a major tool in the balancing of the portfolio of activities of the corporation (after all, the resources are allocated to the SBU level). Taken together, the strategic plans for all the Strategic Business Units constitute a major portion of the overall strategy for the corporation. Therefore, one is not exaggerating in saying that the SBU is one of the focal points in the strategy formulation process.

The figure 1 enclosed visualizes the concept of SBU and its relation to the markets, products and the operating organizations. One should watch out not to create mysticism around the forming of Strategic Business Unit. Most important is to use "pure and utter common sense".

Typical Strategic Business Units in NESTE Battery Division seem to be the following:

- stored energy for automotive need
- stored energy for tractionary need
- stored energy for stationary need
- stored energy for submarines
- machines for battery industry
- components for battery industry

B. The mission -----

The mission is a vision of what management wants the SBU - or the company as a whole - to be, say, 5 to 10 years out, if they had their way. In the mission the management describes mainly in qualitative, but nevertheless clear terms what they would like the business to become in 5 to 10 years time.

II An Overview of the Strategic Planning Process

The whole strategic planning process can be broken down into two parts, an activity carried out to identify major planning issues on the one hand and an ability to formulate a planning response to those issues on the other.

A. Strategic Analysis -----

Important planning issues to be considered in the next planning cycle are identified by first analyzing the determinants of a strategy and then by looking into the interaction between those determinants.

1/ Major determinants of corporate strategy -----

The following factors are commonly accepted as the major determinants of a corporate or SBU strategy:

- the expected developments in the external environment
- the value system of top management (expressed in the mission of the company)
- the internal strengths, resources and limitations of the company or the SBU
- the present strategic posture of the company or the SBU and its most recent performance

The four determinants are interdependent elements of the system: each determinant impacts on all others and in turn is impacted on by all others. In the strategy formulation process described in the following chapter, these very relationships are looked into in a step-by-step fashion.

B. Strategic Synthesis (Strategic Plan)

In the second portion of the strategy formulation process, the strategic synthesis, again in a step fashion a planning response to about ten of the major issues identified in the strategic analysis is generated, i.e. possible courses for action or planning options are identified.

These options are then evaluated, reconciled with the planning guidelines handed down from corporate management (in the case of a SBU) and cast into a preliminary new strategic plan. After the review of the preliminary plan, the final strategic plan is worked out; it consists of the final mission, the objectives, the strategic projects, the strategic functional plans and the financial forecast.

III An SBU Strategic Planning Process

It is now appropriate to look into a detailed, step-by-step process of strategic planning. The chapter is broken in the strategic analysis and the strategic synthesis as it was suggested in the preceding overview.

A. Steps in the Strategic Analysis (see Figure 2)

The part on the strategic analysis will first deal with establishing the four major determinants of a strategy, namely

- the presently pursued strategy
- the mission
- the risks and opportunities in the environment
- the internal strengths and limitations

Hereafter we will ask ourselves to what extent these determinants individually generate planning issues to be added to the inventory of planning issues.

In the second part of the strategic analysis, the interdependence of the determinants will be looked into: each determinant impacts on all others and is in turn impacted on by all others, thus generating further planning issues.

1/ Identification and Evaluation of the present strategic posture

- a/ Determine "what we are presently doing" by trying to identify the typical components of a strategic posture:
 - the mission of the SBU
 - the objectives, including the results achieved lately in every category of objectives

- major functional strategies employed
- the actual strategic projects in the inventory (if there are any)
- all major policies actually pursued

In many cases these components of a strategic posture will only exist implicitly or will have to be deduced from the de-facto behavior of the SBU. In other cases they might exist, but in a different form, so that a recasting may be necessary.

- b/ Output: description of present strategic posture (what we are presently doing).

2/ Mission development

- a/ What would the managers of the SMU like to see the SBU become within the next 5-10 years ? A mission for the SBU is developed along the dimensions spelled out on pages

- b/ Output: preliminary mission of the SBU. If at this point in time any planning issues become visible, they should be added to the inventory. It is, however, more likely that the major portion of the mission related planning issues will evolve when the mission compared to some of the other determinants of a strategy (e.g. the present strategic posture).

3/ Environmental Analysis

- a/ Conducting the environmental analysis

Establish environmental domains

In order to discharge the task of environmental analysis in a meaningful manner, the rather amorphous phenomenon "external environment" has to be broken down into more homogeneous and manageable subcategories. The following breakdown has been successfully tested:

- natural environment (encompasses physical and biological environment)
- social/cultural environment
- technological environment
- political environment (including government)
- economic environment (concentrates on general economic environment; the competitive environment is dealt with in a separate step)

The lines between the environmental domains remain fluid on purpose. The main objective of the breakdown is to avoid overlooking major aspects of the environment in the analysis

rather than enable the company to "pigeon hole" the different environmental changes correctly.

Establish major changes in each category of the environment; make use of environmental forecasts prepared on corporate level

Types of factors in the environment to be considered

There are three categories of factors to be monitored in each of the above mentioned environmental domains:

- events (important occurrences in the different environmental domains; discontinuities)
- trends (basic, underlying direction of a development observed in one of the environmental domains)
- constituent demands (expectations generated by different pressure groups as part of the environment, e.g. consumer groups, environmentalists, international unions, etc.).

As examples for the type of analysis to be conducted in this step, the trend analysis and the constituent analysis are here dealt with in some detail.

Trend Analysis

A trend has been defined as the basic, underlying direction of a development observed in one of the environmental domains. The formulation of trends identified in this step should therefore specify:

- the development of interest
- an indication of the direction it is taking (e.g. increasing from level X to level Y)
- an indication of the intensity of change (high or low rate of change)
- a relevant time horizon (number of years)
- a geographic dimension (where the trend is occurring and how wide spread it is).

In the analysis, one should distinguish between two types of trends, namely industry-related trends and general trends. The first category covers developments which appear to be linked direct to a specific industry. The second covers developments which tend to fall outside of the traditional bounds of an industry or which have no obvious linkage with any specific industry. In a brainstorming session the users of this strategic formulation process are asked to generate lists of trends

in both categories for each of the environmental domains listed earlier, i.e. trends they suspect may be relevant for the SBU under discussion. In order to keep the amount of detail manageable, the outcoming list of trends may have to be reduced to about 4-5 major general trends and 4-5 major industry trends, which will be used in the subsequent analysis.

Constituent Analysis

A constituent has been defined as an individual or group likely to be influenced or affected direct or indirect by an organization's behavior. The constituent is capable of taking action which could impact favourably upon the organization.

Again in a brainstorming session, about eight to ten key constituents are to be identified. Of those, three are selected which are considered most important. They are analyzed further particularly with regard to their demand and expectations. For example, the following questions are asked: "What do we think the external actor expects of the SBU over the next, say, five years? What demands will he impose upon the SBU?" A sample set of expectations for the constituent "International Trade Unions" might appear as follows

- 35-hour week
- increased degree of participation in decision-making
- board representation
- release of corporation-wide information to union
- etc.

Three demands for each of the three most important constituents will be selected for use in the impact analysis later on.

b/ Output: key environmental assumptions, threats

and opportunities

After a similar analysis has been conducted also for the third category of developments in the environment, namely the events, a list of key environmental assumptions can be prepared. Three different types of impacts of the key environmental assumptions on the SBU are conceivable:

- negative impacts: threats
- positive impacts: opportunities
- zero impact: stabilizing or irrelevant force

4/ Competitor Analysis

Of concern to us here are those major competitors whose actions in the market place can be important to the future success of the SBU.

Questions to be asked:

What will be the competitor's strategy ?

What resources are at his disposal to implement the strategy ?

- his ability to conceive and design
- ability to produce
- ability to finance
- ability to market
- ability to perform

a/ Steps of the analysis:

Describe for each competitor the strategy he has been following in the past as you perceive it.

Describe major resources he has had in the past which he has used in following this strategy.

Predict what his major resources will be in the future; develop a list of major strengths and limitations from this assessment.

Match these strengths and limitations to result of earlier environmental analysis (applies for competitor as well as for us); try to deduce the statement of the strategy which he is most likely to pursue.

b/ Output: list of key competitor assumptions.

c/ Develop a list of opportunities and threats based on anticipated competitor actions; to be added to those previously developed in the environmental analysis.

d/ Output: additional opportunities and threats which supplement the opportunities and threats identified in the environmental analysis.

5/ Analysis of SBU resources

a/ It is conducted along the same dimensions as the competitor resource analysis:

For the present: What is our ability

- to conceive and design ?
- to produce ?
- to finance ?
- to market ?
- to perform ?

For the future (3-5 years): What will our ability

- to conceive and design
- to produce
- to finance
- to market
- to perform

be, if no steps are taken to add to them ?

Contrast the strengths and limitations of SBU with those of its fiercest competitor (can be done graphically); will reveal the Strategic Business Unit's future relative strengths and limitations.

b/ Output: list of relative strengths and limitations of SBU. Check them for potential planning issues. If there are any, they should be added to the inventory of planning issues.

6/ Completing the List of Planning issues

The five analytical steps discussed above have produced the following outputs:

First, four statements on:

- the present strategic posture of the SBU
- preliminary mission for the SBU
- a list of threats and opportunities in the environment including competitive threat and opportunities
- the strengths and limitations of the Strategic Business Unit's resources

Secondly, a preliminary list of planning issues. By combining all the analytical outputs produced so far in the first five steps, these impacts are analyzed in the following step. The following "down to earth" questions are asked in order to complete the list of planning issues.

a/ Compare the mission to "what we are presently doing".

- what steps would have to be taken to achieve congruence between the mission and what we are presently doing ?
- check these necessary steps against
 - o the external analysis (environment, competitors)
 - o the internal analysis (SBU resources)

Are these steps realistic in the light of the internal and the external analysis ?
Are any modifications needed ?

Outcome of step 6a: Further planning issues to be added to the inventory.

b/ Compare the results of the external analysis (threats and opportunities) to

- what we are presently doing
- the mission
- the internal analysis (internal strengths and limitations).

What steps are suggested by the comparison between results of the external analysis to the present strategic posture ? (What threats were detected, we might want to fight off ? What opportunities have been uncovered we have not been utilizing so far ?).

Would these steps have to be modified in the light of the internal analysis of the mission ? (that means, are the detected opportunities in agreement with our mission or are we really in a position to capitalize on them as far as our internal capabilities are concerned ?).

(The outcome of this sequence should be added to the list of planning issues).

Does the comparison of the external analysis with the mission give any hints that our preliminary mission is not realistic ? Will we have to modify it ? Do we have to "dig-up" more opportunities to achieve the mission (hints for a second round of external analysis ?).

c/ Compare the results of the internal analysis (strength and weakness analysis) to

- what we are presently doing (present strategic posture)
- the mission
- the external analysis.

What steps are suggested by this comparison ?
 In this analysis we went to make sure that all "distinctive competences" of the SBU are properly utilized.

Other conceivable questions in this context:

Are there any indications that we do not have the required internal resources to achieve the mission to fight off detected threats, to capitalize on the uncovered opportunities ?

Are there any measures to be taken, projects to be established to deal with these shortfalls Which ones ? Add them to the list of planning issues.

Are there any hints that in the light of our internal analysis (present and foreseeable internal resources) our mission is unrealistic ?

The output of the analytical steps 1-6 is the inventory of strategic issues as they are seen from the SBU management's point of view.

In all probability, this list, however, is too long and at the same time incomplete. The necessary "sorting out" and "rounding out" take place in the next step.

Tasks of this step is to:

- scrutinize
- complete
- evaluate
- reformulate

the list of planning issues. It is our aim to reduce the list to about six to ten important issues, which will become the planning tasks of the planning cycle presently under way.

B. Steps in preparing Strategic Plan

Since the mission is not a plan in a narrow sense (i.e. it lacks the strict commitment which is an indispensable element of a conventional plan), but a vision of the future of the company, it has to be accompanied by the strategic plan. This document, which has a time horizon of 3 to 5 years (depending on the time typically needed to plan and carry out major investment projects in the industry of the firm in question), comes closer to what is traditionally understood by a plan, although it is far less extrapolating than plans in many cases are.

In this section of the document emphasis will be given to the characterization of the elements of a strategic plan on the SBU level. In principle, the components of the strategic plan on the corporate level (for the company as a whole) are very similar, however.

In successful companies experienced in strategic planning and employing the SBU concept, the strategic plan is composed of the following elements:

- the mission of the SBU
- its objectives
- the strategic projects
- the functional strategic projects
- its policies
- the SBU long-range (financial) forecast

Every one of these components needs to be discussed in some detail.

1. The Mission of the SBU

"That business purpose and business mission are so rarely given adequate thought is perhaps the most important single cause of business frustration and business failure", writes Peter Drucker.

This quote drives home the point of the paramount importance of a clear understanding of "the business we are in".

a/ What is a Mission ?

A mission is an expression of the socio-economic purpose of the SBU. Since an SBU (or for that matter the corporation as a whole) is not an end in itself, its purpose must lie outside the company. With respect to the definition of business purpose and business mission there is, therefore, only one starting point: it is the customer. The customer defines the business; it is defined by the want the customer satisfies when he buys a product or a service. The question "what is our business" can, therefore, only be answered by looking at the business from outside, from the point of view of customers and market. Management as a rule, and understandably, considers its product or its service to be important; if it did not, it could not do a good job. This, however, is insufficient. To the customer no product or service, and certainly no company is of much importance; what matters to him is the satisfaction of his wants, his needs. It is, therefore, highly appropriate to say: "A product is what a product does".

It is more and more accepted that the only way to cope with the problems of identifying the mission is to define it in customer need terms. Rather than defining their business in narrow product terms, more and more companies adopt a definition based on the basic generic needs that they intend to sense, serve and satisfy.

b/ How to arrive at a generic need definition ?

A meaningful way to formulate a mission in accordance with this concept is to give an answer to the following set of questions:

- what customer needs do we serve ?
- whose needs do we serve ?
- what does the customer buy ? What is value to the customer ? What value do we provide to those whose needs we serve ?

While the first two questions are by and large selfexplanatory, the last set requires some elaboration.

As was said earlier, the customer never buys a product or a service; the customer buys the satisfaction of a want, a need; he buys what is "value" to him.

It is more and more accepted that defining the mission, the "business we are in", in enduring customer need terms is highly preferable to define it in today's narrow products and technology.

Defining the "business you are in" in need terms not only opens the eyes of the manager to new opportunities for innovation, but it also alerts him to threats from unanticipated sources of competition in the form of other satisfiers of the same need which may be fundamentally different from his products and thus may go unnoticed for a long time.

c/ What should our mission be ?

While it is extremely important to ask "What is our mission?", this question is only a starting point and will have to be accompanied by a second question: "What should our mission be?" If you cannot answer this question, you cannot prepare a strategic plan.

2. The Objectives of the SBU (See Figure 3)

In the first section of this chapter the mission or purpose of the SBU was discussed; it was defined as the function the SBU is fulfilling in response to the needs of a party external to the SBU, namely those of the customers.

On the other hand, organizations do set targets or objectives of their own and strive for their realization. Objectives of this type may be defined as aims or ends of action of an SBU.

The relationship between the mission and the objectives of an SBU is rather complex. Before it can be discussed any further, the nature of objectives should be described.

a/ For what areas should an SBU have objectives ?

While there is little doubt that an SBU should have more than one objective, there is no shared understanding for which areas an SBU should establish objectives (a normative list of objectives). There is, however, one intriguingly sensible approach gaining more and more acceptance; it suggests that objectives are needed in all areas on which the survival of the SBU hinges. The specific targets in any objective area depend on the situation and strategy of the individual SBU; but the general areas for which objectives are needed are rather similar for all businesses since all businesses depend on the same factors for their survival (Drucker).

A business must first be able to create, reach and satisfy a customer; there is, therefore, need for marketing objectives. Business must be able to innovate or else their competitors will obsolesce them; there is need for an innovation objective. All business depend on the factors of production of the economist, that is, on the human resources, the capital resources and the physical resources; there must be objectives for their supply, their employment and their development. The resources must be employed productively and their productivity has to grow if the business is to survive; there is need, therefore, for productivity objectives. Business exists in society and community and, therefore, has to discharge social responsibility for its impact on the environment; therefore, objectives in respect to the social dimension of business are needed. Finally there is need for a profit objective, otherwise none of the other objectives can be obtained, because all entail risks and therefore require a profit to cover the risk of potential losses.

In the light of all this, objectives have to be set in the following eight key areas:

- marketing (as seen from the company; an example would be market share)
- innovation
- human organization
- financial resources
- physical resources
- productivity
- social responsibility
- profit requirements

b/ Objectives must be operational

Objectives must be capable of being converted into specific assignments and operational tools. In order to meet this requirement they should have several characteristics:

- they must have a clearly defined content (e.g. labour productivity)
- they must contain a measurable yardstick (e.g. increase by 10 %)
- they must contain a timeframe (e.g. "by 1984")

The complete objective would then read:
"Increase labour productivity up 10 % by 1984."

In many cases it may be prudent to add another characteristic: identification of the person responsible for achieving the objective.

The more of these attributes are present, the more operational an objective is.

From all of this can be concluded that objectives are a secondary concept, to a large extent influenced by or derived from "what our business is" or "what our business should be", the primary concept; they are commitments through which the mission of an SBU is to be carried out.

3. The Strategic Projects (See Figure 3)

"For years we have made strategic plans and nothing happened afterwards; now we use strategic projects as a vehicle to carry out what we really want to do with our plans; these clearly defined action programs allow for pinpointing responsibility, establishing a timetable for their execution and make sure that the contributions by the different functions in realizing the project are worked into the functional plans". This is the way planners employing the concept of the strategic project characterize that approach.

a/ Purpose and method

Projects may originate at several points in the planning cycle and for that matter at several points in the SBU or company. First of all - as was already mentioned - they may be an outgrowth of mission discussion; any navigational change decided on there may be implemented with the help of a strategic project. They may, however, also originate in the strategic plan proper (e.g. building a large new plant in a geographical area the company has never been active in before) or grow out of problems which become evident in the existing business (e.g. the organization structure of an SBU is no longer adequate due to a change in the economic conditions; the reorganization will be designed and implemented in the form of a strategic project)

A strategic project may be introduced at any point in time and it will proceed independently of the annual planning cycle. Once every year, however, all strategic projects are presented in the strategic plan. When preparing that plan, all projects are reviewed in an overall context and their priority is reassessed. Thus the strategic plan gives a "snap-shot" of a continuously moving process intended to adapt the SBU (or the company as a whole) to changes in the environment and to the objectives chosen.

Making use of a project team (with a member of top management supervising it) and of the other established techniques of project management allows pinpointing of responsibility and establishing a carefully timed sequence of steps to be implemented in the process.

Relationship to functional strategic plans

Functional projects frequently cut across Strategic Business Units. Employing the project management approach prevents that the planning of a major strategic move is fragmented and possibly unbalanced (and thus jeopardized) by planning along functional or even SBU lines. With the help of the project approach management can make sure that somebody has an eye on the whole project on the one hand, and that on the other hand, annual "slices" of the project, portions to be dealt with in a given year, are worked into the appropriate years of the functional plans and strategies (financial plans, production coordination, personnel plans, R&D plans, etc.) thus creating in fact a matrix. Figure 4 indicates how the projects permeate the functional strategic plans and SBU strategies.

5/ Policies

A policy is management's expressed or implied intent to govern action in the achievement of an SBU's objectives and the fulfillment of its mission. They can take the form of principles or decision rules used in selecting and applying means to accomplish the objectives and to fulfill the mission.

6/ The SBU Long-range Forecast

This component is the expression in financial terms of the other elements of the strategic plan reaching 3-5 years into the future. In accordance with the practice in companies experienced in corporate planning, it is suggested that this component of the strategic plan

- is restricted to key data only (i.e. no complete projected income statements and balance sheets for the coming three to five years are prepared)
- avoids pseudo-exactness in the figures (i.e. the data are as rough as is justifiable).

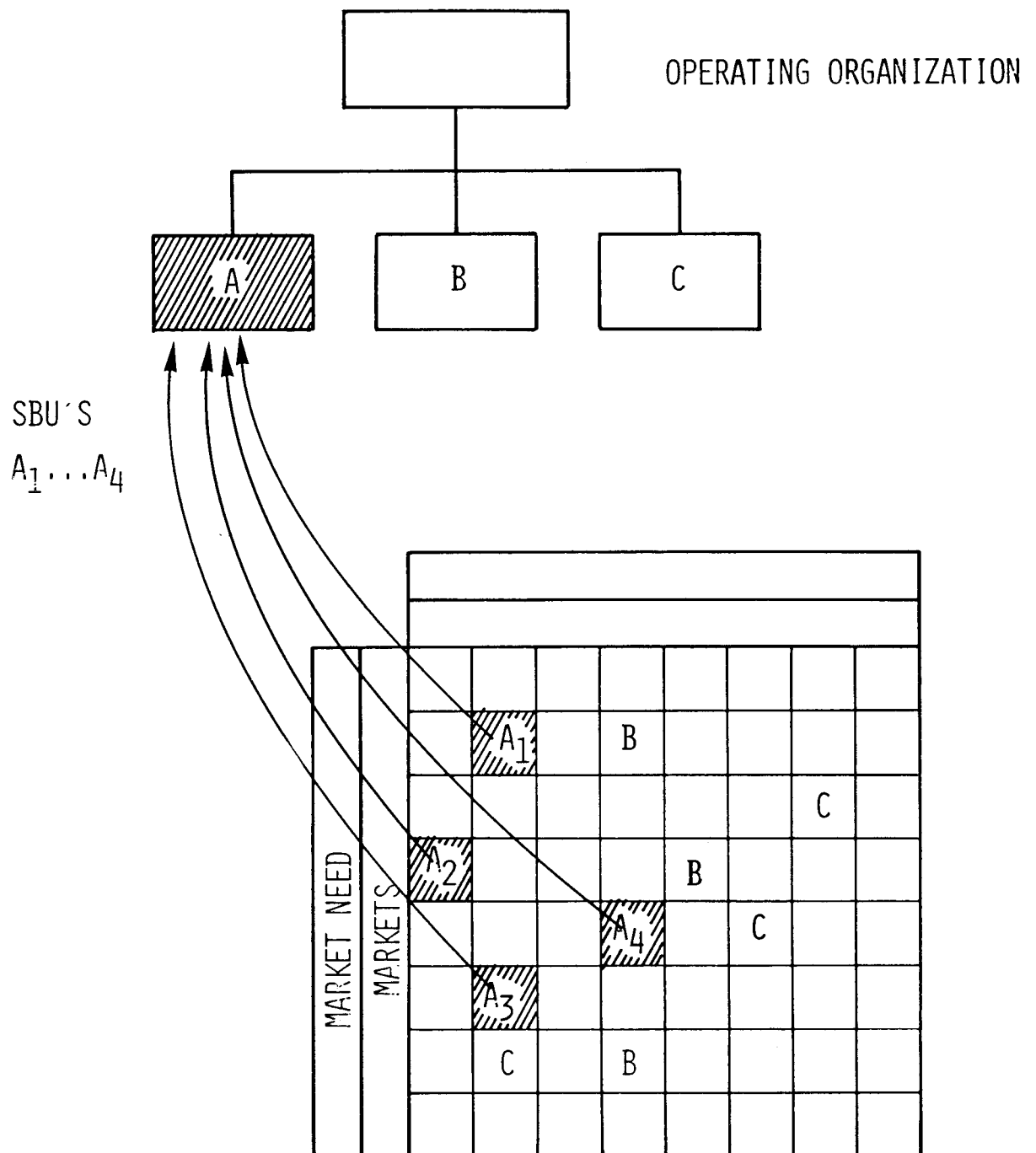
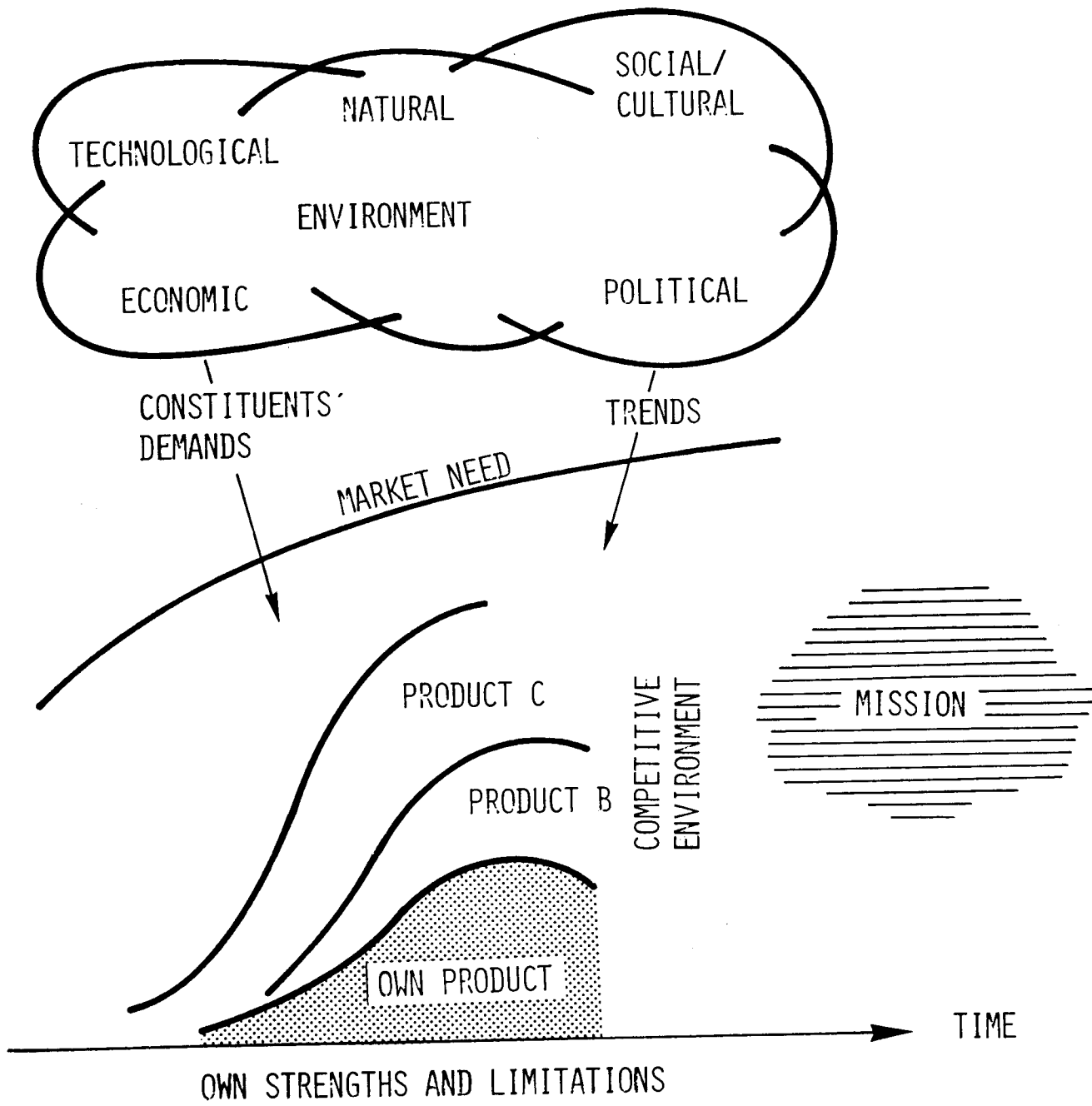


FIGURE 1

THE CONCEPT OF STRATEGIC BUSINESS UNIT AND ITS RELATION TO THE MARKET, PRODUCTS AND OPERATING ORGANIZATION.

FIGURE 2

THE ELEMENTS OF STRATEGIC ANALYSIS



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FIGURE 3

A FORM DEFINING OBJECTIVES AND STRATEGIC PROJECTS (= ACTION PLAN)

SBU
DATE:

OBJECTIVES	STRATEGIC PROJECTS	YARDSTICK	TARGET		WHO IS RESPONSIBLE
			NOW	MEASURE TARGET	
ISSUE 1 PRODUCTIVITY OF PRODUCT LINE A IMPROVED BY 5 % BY JUNE 1984	1A REORGANIZING SALES GROUP	PRODUCTIVITY: SOLD UNIT SALESMAN	150	170 JAN -84	UK
	1B REPLACING THE "AA" MACHINE BY A NEW "EE" TYPE	YIELD	17	20 FEB -84	NN
	1C REDUCING THE STOCK OF FINISHED GOODS	AMOUNT OF GOODS IN STOCKH	100,000 UNITS	85,000 UNITS JUNE -84	LA
ISSUE 2 EXPORT MARKET FOR 150,000 UNITS DEVELOPED IN GB BY THE END OF -83	2A				
	2B				

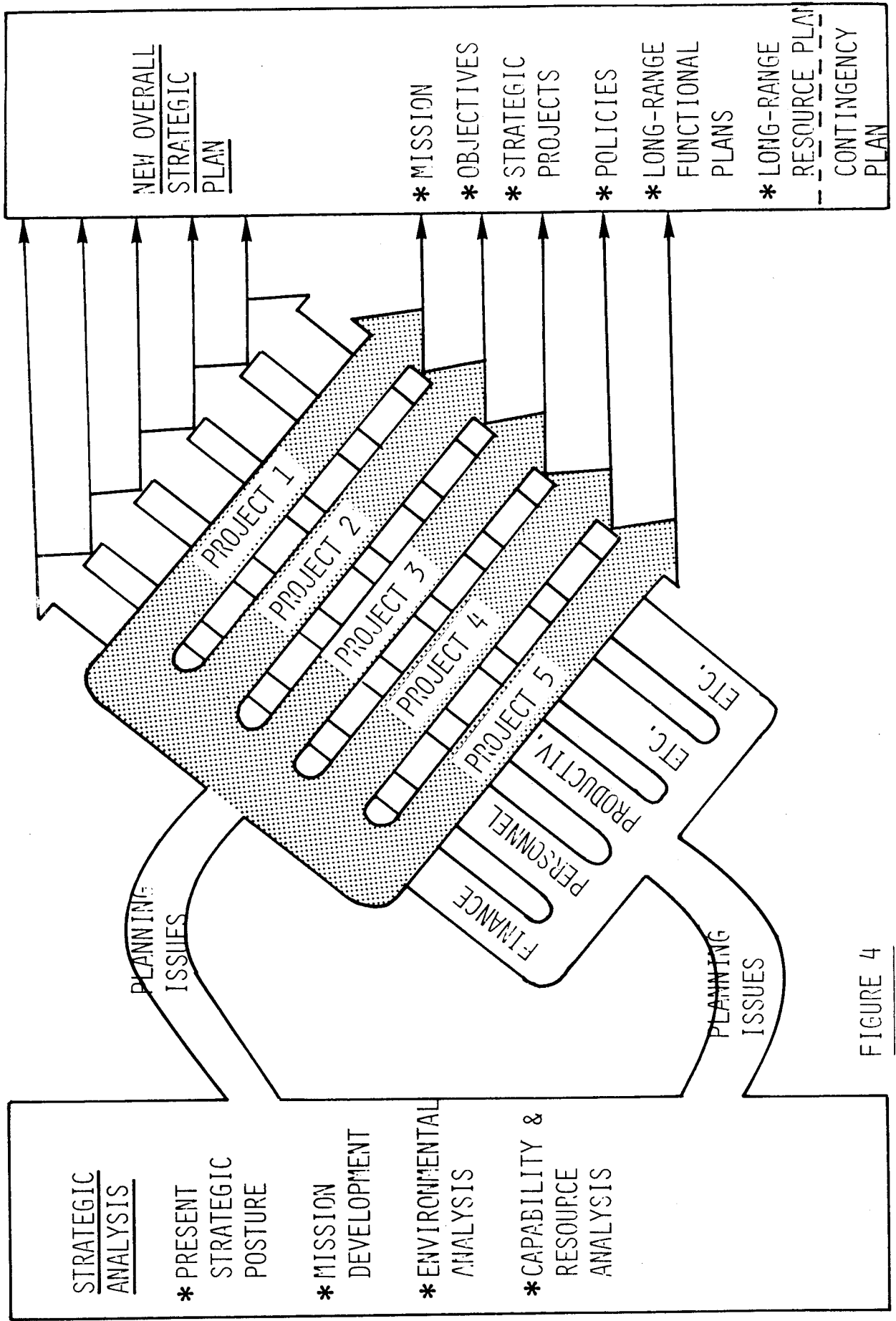


FIGURE 4
DESCRIPTION OF STRATEGIC PLANNING PROCESS