

# Case Studies in Strategic Planning

HAKAN BÜTÜNER



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# PART I

## SYSTEMATIC STRATEGIC PLANNING (SSP)

Before beginning with strategic planning, businesses must have articulated their *missions and visions*, and identified their basic *policies*.

A *strategic plan* outlines the path between the current status of business and the desired status to achieve. It helps the business to establish its objectives, goals, as well as the decisions to achieve these objectives and goals. It involves a long-term and prospective perspective.

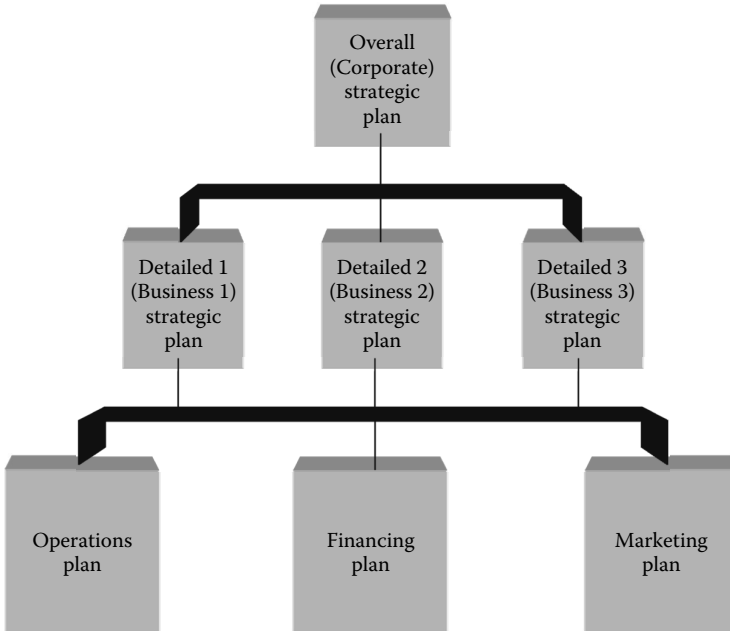
A strategic plan provides guidance for the preparation of functional plans and business budget in such a manner that they reflect the objectives, goals, and grand strategies of the strategic plan during the implementation phase, as well as for basing resource allocation on priorities. Figure P.1 shows the before and after links of strategic planning.

*Functional plans* help in implementation of strategic plans by organizing and activating specific subunits of the business (marketing, finance, production, etc.) to pursue the business strategy in daily activities. The greatest responsibilities are in the implementation or execution of a strategic plan. Functional plans are more specific than a business strategy to guide functional actions taken in key parts of the company to implement business strategy. Figure P.2 shows the relationship between functional and strategic plans.

*Systematic strategic planning* (SSP) is the pattern of procedures by which an organization defines its current status, opportunities,



**Figure P.1** Strategic planning—before and after.

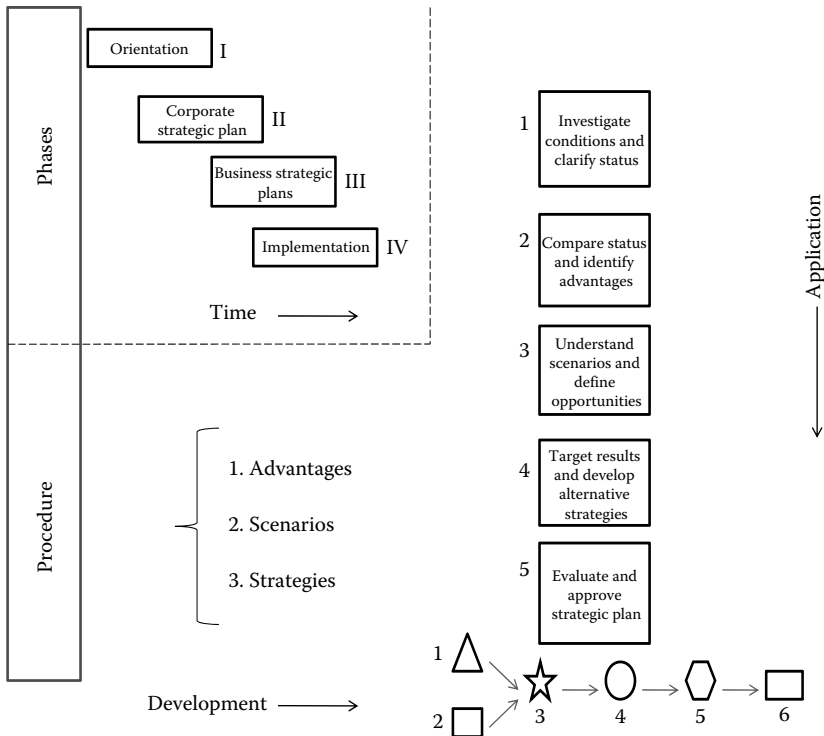


**Figure P.2** Relationship between functional and strategic plans. (Reprinted from Harrison, J.S. and St. John, C.H., *Foundations in Strategic Management*, South-Western Publications, Evansville, IN, 2001.)

long-term goals, and the strategies for which to achieve them. SSP is based on the principles of *PxD (Planning by Design)*, which is generated by Muther (2011).

SSP consists of a framework of phases through which each project passes, a pattern of sections for straightforward planning, and the fundamentals involved in any strategic planning project. Figure P.3 illustrates SSP full version.

The techniques to be used for strategic planning should not be perceived as a procedure of systematic, and the techniques used should be continuously repeatable and modifiable depending on the characteristics of individual cases.



**Figure P.3** SSP—reference table.

Certain working forms (in the forms of key documents and output) are used in applying the techniques in each section or steps of the SSP pattern.

In Phases II and III, the planning specialist follows a method of procedures to achieve alternative strategic plans.

In holdings/large businesses, the planning specialist uses Phase II in full SSP version to develop the overall strategic plan. The planning specialist may repeat Phase III of the full version to develop detailed strategic plans of each business/division of the holding/large business or use shortened SSP version instead if the business is small.



# SYSTEMATIC PATTERN OF STRATEGIC PLANNING

Phases II and III are comprised of the five sections of systemic strategic planning (SSP) illustrated in Figure 1.1. For the sake of this book, only the first four sections are applied for the example cases; the fifth section is not explained as it has already been discussed in detail in my previous book titled *Systematic Strategic Planning*.

## 1.1 Investigating Environmental and Internal Conditions

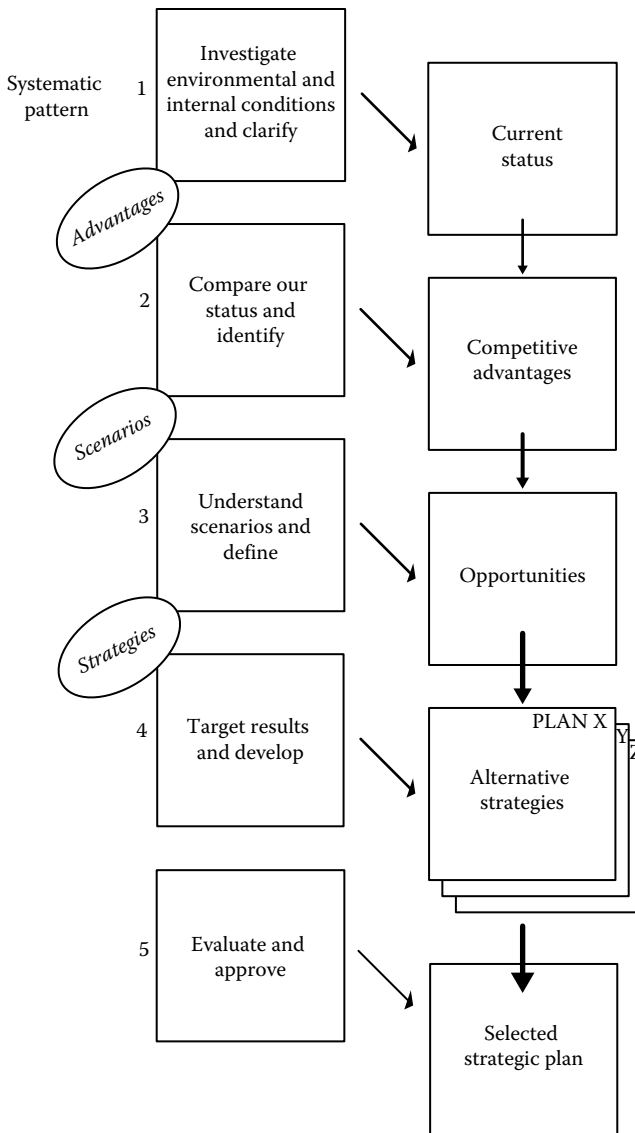
The aim of the first section of SSP is to answer the question “*where are we?*” This requires a comprehensive status analysis. Status analysis essentially covers the following assessments:

- Analysis of the internal structure of the organization (analysis of the duties and authorities, performances, problems, potentials, institutional culture, human resources, technology level, etc., of the organization)
- Environmental analysis (analysis of external conditions as well as the environment in which the organization operates and related parties—target group of the organization and parties affected negatively/positively by the organization’s activities)
- Analysis of future developments and their impact on the organization

During and after status analysis, the internal strengths and weaknesses of the business, and the positive and negative developments originating from external factors are identified.

### 1.1.1 Internal Analysis

When an internal status analysis is performed within the business, the past performance of the business is evaluated and its strengths



**Figure 1.1** SSP—five sections.

and weaknesses are put forth. The purpose is to identify the potential of the business taking into consideration its current performance and problems.

Diagnosing a business' key strengths and weaknesses requires the adoption of a disaggregated view of the business. Examining the business across distinct functional areas is one way to disaggregate the

business for internal analysis purposes (*see the Functional Approach form in Chapter 3*).

Therefore, the business should examine past performance (*see the Business History Summary Table in Chapter 3*) to isolate key internal contributors to favorable (or unfavorable) results. What did we do well, or poorly, in marketing operations, and financial operations, and financial management that had a major influence on past results? Was the sales force effectively organized? Were we in the right channels of distribution? Did we have financial resources to support the past strategy? The same examination and questions can be applied to the business' current situation, with particular emphasis on changes in the importance of key dimensions over time.

Quantitative tools cannot be applied to all internal factors, and the judgment of key planners may be used in evaluation. Company or product image and prestige are examples of internal factors more appropriate to qualitative evaluation.

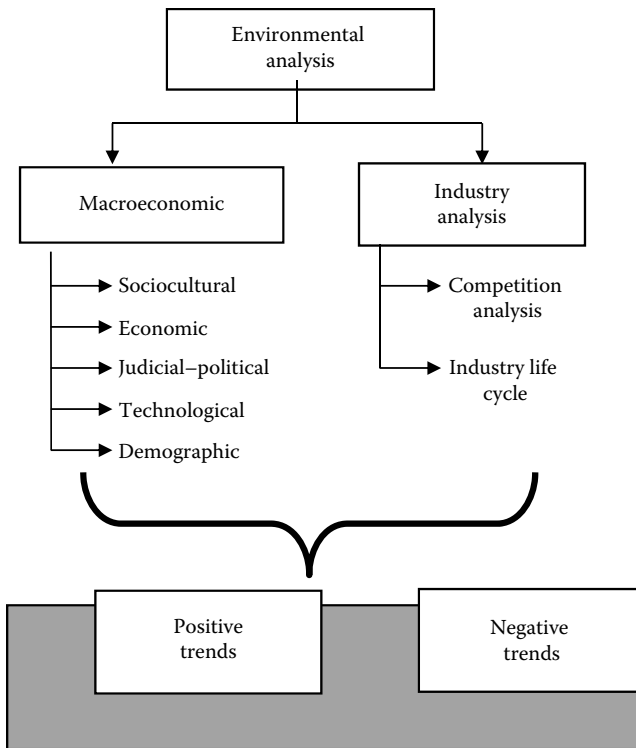
The considerations revealed by Functional Approach are grouped under various functional headings such as overall management, human resources, operations/technology, marketing, finance and accounting, and their distinction as things done well and poorly.

### 1.1.2 Environmental Analysis

Intention of environmental analysis:

- To determine the developments and trends in the macroeconomical (demographic, economical, judicial-political, technological, sociocultural) environment that effects the business and its industry at most
- To understand the powers that effect competition in the industry (new businesses, customers, suppliers, substitutes, competitors, government, financial institutions, etc.)
- To foresee the trends that these powers would create in the industry

*Environmental analysis*, which is illustrated in Figure 1.2, considers the general trends in the world, changes in the environment in which the business operates, and particularly the expectations of the group served by the industry. Environmental analysis does not only identify



**Figure 1.2** Environmental analysis.

the current status but also lays the basis for forecasting the change of scenarios in the future. If a business that is in interaction but cannot control many processes in the environment fails to follow up this change, then strategic planning would not make much sense. Key considerations in environmental analysis are as follows:

- Current global status and development trends in the field of the business
- Current domestic status and development trends in the field of the business
- Critical issues that closely concern the business among the basic trends and problems in the world and in the country; how and in what direction these issues will affect the industry in which the business operates
- Basic negativities and uncertainties faced by the business due to the conditions of the industry



*1.1.2.1 Macroeconomic Analysis* Macroeconomic variables are the variables that affect businesses and their industry and are not under the control of businesses. Macroeconomic variables are

- Demographic
- Economic
- Judicial–political
- Technological
- Sociocultural

The variables to be evaluated in order to compose changes and developments are specified later. This review should primarily be conducted at a global scale, and then at regional and country scales.

After collecting information about the present state, efforts must be made to identify trends in variables and the continuation of these trends. The purpose is to ascertain the impacts of variables in the macroeconomic environment on stakeholders.

In order to analyze the effects of trends and developments within these variables on the industry, the *Macroeconomic Analysis form in Chapter 3* can be used. While composing this matrix

- On vertical axis—trends determined on variables
- On horizontal axis—stakeholders of business
- On elements of matrix—the anticipated effects of trends on the stakeholders should be input

The macroeconomic analysis table summarizes the status of the variables with respect to customers', governments', financial institutions', suppliers', shareholders', and employees' points of view. If the macroeconomic factors

- Turn into a better condition, then mark as +
- Remain unchanged, then mark as blank
- Turn into a worse condition, then mark as –

*1.1.2.2 Competition Analysis* Porter (1998) stated that if a business is producing a product or service with market considerations like global and domestic market conditions, development/evolution trends of the demand for the subject product and/or service, price movements,

changes in quality and standards, competition, etc., are laid down as a result of a comprehensive analysis of the powers in the industry.

The powers that affect a business at most are the groups that create competition within the industry:

- Rivalry among existing companies
- Threat of potential new entrants
- Bargaining power of customers
- Threat of substitutes
- Bargaining power of suppliers
- Bargaining power of other stakeholders (government, trade unions, financial institutions, etc.)

The influence of these powers determines the strength of competition within the industry. In an industry where the power of these groups is high, the potential of profitability will be low. When one of these groups has a higher power, this will have negative implications for the industry, whereas a lower power will have positive implications. Now, let us analyze these powers (*see the Competition Analysis form in Chapter 3*):

### *Rivalry*

Competition in an industry is high if

- The number of active businesses is high
- The growth rate of the industry decelerates or accelerates rapidly
- The characteristics of products/services are not very different
- The fixed costs are high
- The cost of leaving industry is high

### *Threat of potential new entrants*

Entry barriers are high at the rate

- Of having low costs due to the size of the companies within the industry
- Of having brands within the industry
- Of having high investment requirement
- Of accessibility to distribution channels being hard

- Of having high learning curve effect
- Of having various limitations by the government for the new entrants

### *Bargaining power of customers*

Customer is powerful if

- It purchases in large quantities of the products/services of the supplier
- It has the potential of producing products/services by vertical integration
- There are alternative suppliers
- The cost of changing supplier is not high
- It is sensitive to price and service variations
- The purchased product/service does not bear an importance for its production/operation

### *Threat of substitutes*

Substitutes are products/services that cover the same requirements in different ways. In industries where substitutes are plenty and the customers have low product-changing costs, companies can face with less profit.

### *Bargaining power of suppliers*

Suppliers are powerful if

- The industry is composed of limited suppliers
- Their products/services are unique and exclusive
- There is no substitutes in the market
- They have the potential to compete with the current customers through vertical integration
- The purchases compose a small portion of their income

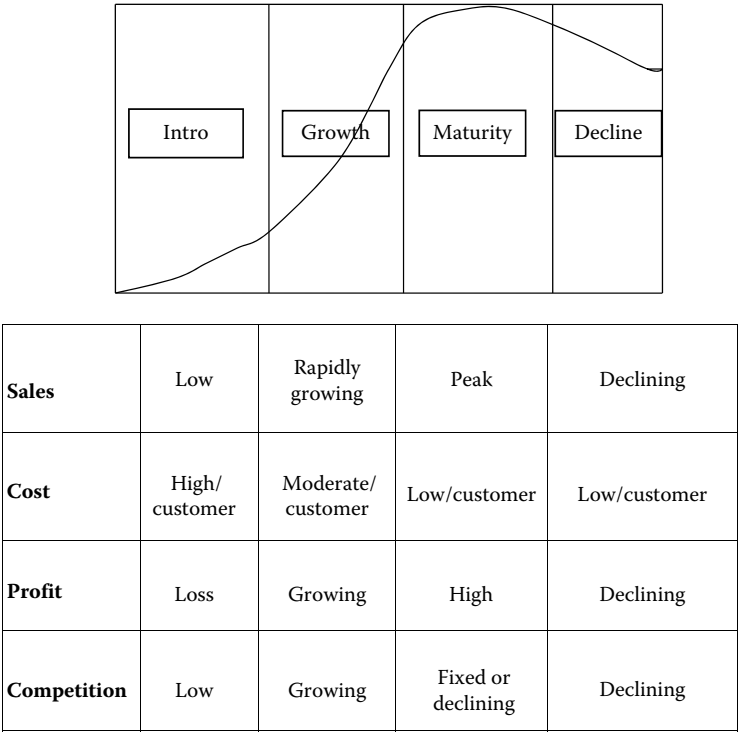
The results of analyses conducted in the light of these and similar considerations will be given in summary (Porter 1998):

- Each force needs to be evaluated in terms of—does it make the market

- High
- Moderate or
- Low attractiveness?
- Each force needs to be evaluated in terms of its relative importance

When the industry changes significantly, it is frequently not because of one competitive force but because of changes to two or possibly three forces combining together (see *Evaluating Competitive Forces and Competitive Forces Status forms in Chapter 3*).

*1.1.2.3 Industry Life Cycle* Vernon (1979) stated that each industry passes through the phases of introductory, growth, maturity, and finally regression. The phase that the industry is in facilitates the estimation of impacts and trends of powers defined in competition analysis. Figure 1.3 shows the industry life cycle.



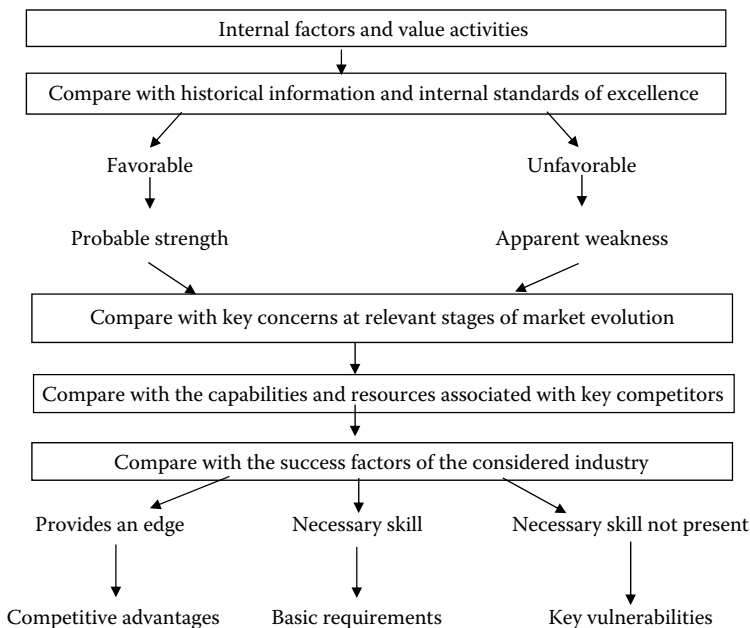
**Figure 1.3** Industry life cycle. (Reprinted from Vernon, R., *Oxf. Bull. Econ. Stat.*, 41(4), 255, 1979.)

## 1.2 Identification of Competitive Advantages

The organization's strengths and weaknesses are compared with the key factors in the market development phases, capacities, and resources of main competitors and the industry's success factors, to identify competitive advantages. Figure 1.4 summarizes the development of a business profile (Pearce and Robinson 2011).

The result of the second section should be a determination of whether key internal factors are as follows (*see the Comparison with Main Competitors and Industry Average and Competitive Advantages—Success Factors—Key Vulnerabilities forms in Chapter 3*):

1. *Competitive advantages*: Factors providing the business with an edge compared to its competitors, and therefore, key factors around which to build the business' strategy.
2. *Basic business requirements*: Factors that are important capabilities for the business to have but are also typical of every



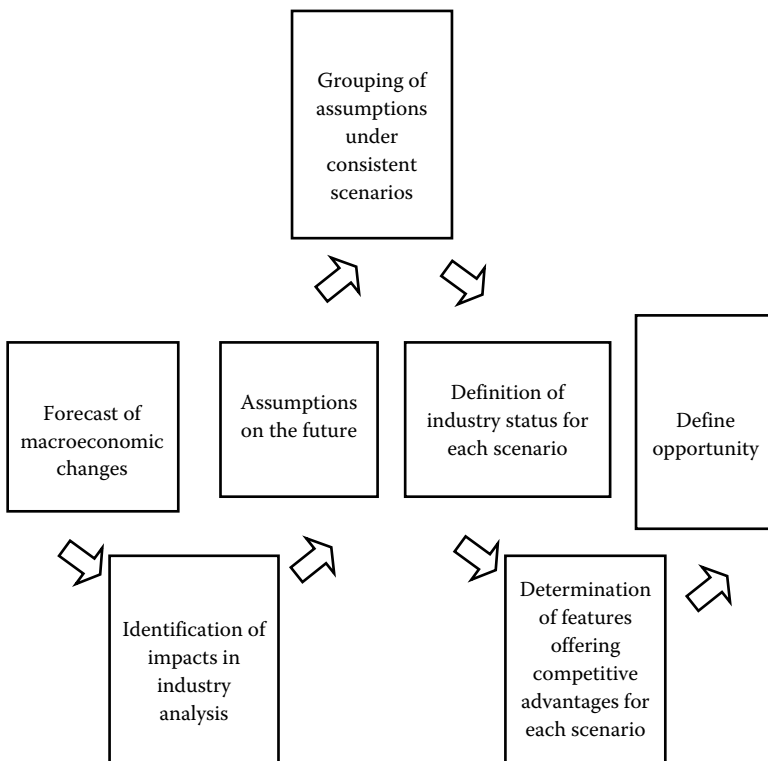
**Figure 1.4** Competitive advantages and success factors. (Reprinted from Pearce, J.A. and Robinson, R.B., *Strategic Management: Formulation, Implementation and Control*, McGraw-Hill Higher Education, Columbus, OH, 2011.)

viable competitor; do not represent a potential source of any strategic advantage.

3. *Key vulnerabilities*: Factors on which the business currently lacks the necessary skill, knowledge, or resources to compete effectively. This assessment is also a key input because businesses will want to avoid choosing strategies that depend on factors in this category, and businesses usually target key vulnerabilities as areas for special attention so as to remediate and change this situation.

### 1.3 Understand Scenarios and Define Opportunities

Figure 1.5 shows the procedure of identifying opportunities.



**Figure 1.5** Procedure of identifying opportunities.

### 1.3.1 Scenarios

First of all, the scenarios to be created by trends revealed by environmental analysis for the industry must be developed; that is, alternative scenarios must be developed for the future. Thus, assumptions are grouped under various scenarios, their potential positive and negative impacts on the industry are identified, and the potential status in the industry is defined. Scenarios are as follows:

- Internally consistent views of the future
- Focus on discontinuity and change
- Explore the impact of the change on key players and how they respond to the environment

The opportunities and threats that may be offered and posed for the organization by positive and negative scenarios revealed by scenario analysis must be identified. Furthermore, identification of the organization's competitive advantages and weaknesses relative to competitors and industry standards could lead this section to an efficient result.

In short, in order to identify opportunities and threats, the organization's competitive advantages and weaknesses must be matched with potential positive (attractive) and negative (risky) scenarios that may be encountered in the industry.

*1.3.1.1 Assumptions on Future* Assumptions imply the external factors that are not under the direct control of the business preparing the strategic plan but that can affect the progress and success of the strategic plan. After reviewing sociocultural factors, technological factors, political environmental, legal conditions, macroeconomic factors, and variables originating from international system in the environmental analysis, the tendencies of related parties such as competitors, customers, and suppliers must reflect onto the systematic pattern of strategic planning as assumptions.

First, key external variables are identified. Assumptions are made for the values of quantitative and qualitative variables (through brainstorming or statistical models). Brainstorming and/or statistical models are popular estimation techniques:

- Brainstorming is a non numerical estimation technique. While conducting scenario analysis, instruments like participatory meetings bringing together various groups concerning the business are used. For the efforts to be made in this scope, it is possible to outsource specialized services, such as the use of facilitators (moderators) who will neutrally facilitate participatory meetings.
- Statistical models are numerical techniques including relations and other econometric models. However, it is based on historical data, and error margin increases as the structure of relations changes in time.

*1.3.1.2 Grouping of Assumptions* Position the key assumptions that underpin an issue. Write the assumption in shorthand on a yellow post-it and position relative to others on the grid. Test out relative and absolute positioning (*see the Certainty-Importance Grid in Chapter 3*).

*1.3.1.3 Generating Scenarios* Generate scenario stories by testing out judgments and identifying interdependencies (*see the Developing Alternative Scenarios form in Chapter 3*):

1. Prepare a list of basic assumptions.
2. Rank the assumptions according to probability of actualization and importance.
3. Convert the classification of each assumption into quantitative values ( $A = 4$ ,  $E = 3$  ...); multiply the values, and select two or three assumptions with the highest value.
4. Use the selected assumptions individually or as a group to diversify the basic scenario.

### *1.3.2 Opportunities and Threats*

The opportunities and threats that may be offered and posed for the business under the positive and negative scenarios to come out from scenario analysis must be identified. Moreover, determining the strengths and weaknesses of the company compared to its competitors will be able to carry the analysis to a satisfactory result. In short, competitive advantages and weaknesses of the business need to be



matched with the potential positive (attractive) and negative (risky) scenarios in the industry.

While developing strategies for the future, opportunities will have a significant influence while threats will be monitored closely by the business and measures will be taken against these threats.

Opportunities, by definition, arise in cases where the unresolved problems and unsatisfied expectations and needs are identified for use of products and/or services in the market, and if solutions can be produced for these.

By testing out total market attractiveness of each positive scenario, you would be able to screen out investment opportunities even before considering what kind of competitive strengths you might be able to attain. The *attractiveness* is the net benefits less the costs (not just the benefits).

Besides market attractiveness of a scenario, to position a business effectively on the GE grid, you also need to take some view of its competitive position with respect to the particular scenario. The following 10 key criteria will usually suffice:

- Brand, image, and reputation
- Simplicity of product/market focus, or alternatively a relevant and broad offering
- Relative market (or niche) share
- Product and service performance
- Distribution channels
- Cost base
- Responsiveness (but this does not mean reactivity)
- Technical and nontechnical competencies
- Financial strength
- Management skills

The aforementioned factors can be scored as *strong*, *average*, or *weak*. Also, the relative importance of the factors can be assessed by weighting some factors as being more important than others. Rasiel (1999) stated that the GE Grid (*see the Business Opportunities form in Chapter 3*) enables you to

- Position a business, having determined market attractiveness of a scenario and competitive position of a business with respect to the particular scenario

- Evaluate business opportunities
- Reposition a business (from right to left on the GE grid, or even [by shifting the business' market focus] diagonally northwest)
- Challenge the adequacy of investment to achieve such a repositioning (both long-term investment and revenue costs with longer-term benefits)
- Compare your positioning with other key competitors operating in the same or different market segments

Not all opportunities are equally valuable. A business with limited resources cannot pursue every opportunity with which it is faced. It must select those opportunities that are going to be the most rewarding. The key decisions in screening and selecting opportunities relate to the size of the opportunity, the investment necessary to exploit it, the rewards that will be gained, and the risks likely to be encountered. Specifically, the decision should be based on the answers to the following questions (*see the Selection of Opportunities—Prioritization form in Chapter 3*):

- *Market attractiveness*: Is the market (or segment) inherently attractive (consider key growth drivers and competitive forces)?
- *Competitive advantage*: Are we likely to have (and be able to sustain) a competitive position?
- *Financial attractiveness*: Are we likely to make enough money out of it?
- *Implementation difficulty*: Do we have the capability, resources, and commitment to implement it effectively?

## 1.4 Strategic Objectives, Main Goals, and Main Strategies

### 1.4.1 Strategic Objectives

Strategic objectives are the conceptual results that the business aims at achieving within a certain timeframe. Strategic objectives and main goals answer the question “*what do we want to achieve?*” within the SSP.

### 1.4.2 Main Goals

Main goals are specific and measurable subobjectives specified for achievement of strategic objectives. Unlike strategic objectives, goals are expressed in quantifiable terms and cover a shorter term. Multiple goals may be established to achieve a strategic objective.

Main goals are the qualitative and quantitative expression of strategic objectives within a defined timeframe (*see the Strategic Objectives—Goals form in Chapter 3*). For this reason, they are measurable subobjectives intended for outputs to be achieved. Goals should be expressed in terms of quantity, cost, quality, and time.

### 1.4.3 Main Strategies

Strategies are instruments for achievement of long-term goals. It is a course of action selected from a series of options in order to achieve a goal established against uncertainties.

Alternative strategies are developed by searching for an answer to the question “*what should businesses do to be competitive and lasting in their own industries and markets?*”

Determination of a suitable strategy for a business begins in identifying the opportunities and risks in its environment. This (discussion) is concerned with the identification of a range of alternative strategies, the narrowing of this range by recognizing the constraints imposed by business capability, and the determination of one or more strategies at acceptable levels of risk. While evaluating the opportunities defined on the basis of analyses conducted, various strategies we can implement come out:

- You should have a single strategy for a single opportunity.
- If there are multiple opportunities, you can have multiple strategies.

Based on using both the techniques of generic competitive strategies and components of strategy, the main strategy(ies) can be identified. Accordingly, this will lead you to the selection of the corresponding grand strategy(ies.)

*1.4.3.1 Generic Competitive Strategies* The fundamental basis of above-average performance in the long run is *sustainable competitive advantage*. There are two basic types of competitive advantage a business can possess: low cost or differentiation. Any strengths or weaknesses are ultimately a function of relative cost or differentiation (Porter 1998).

The two basic types of competitive advantage combined with the scope of activities for which a business seeks to achieve them lead to three *generic strategies* for achieving above-average performance in an industry (*see the Generic Competitive Strategies form in Chapter 3*).

Each involves a different route to competitive advantage, combining competitive advantage sought with the scope of the target. The specific actions required for each generic strategy vary widely from industry to industry. Broad target is defined as one that

1. Covers a great diversity of customer needs and market segments
2. Covers a wide and perhaps complex range of products and services
3. Covers both (1) and (2)

*1.4.3.2 Components of Strategy* In conjunction with its objectives, the firm may choose one, two, or all of the strategy components with respect to its current product-market position (Ansoff 1970). This can be illustrated by means of a matrix (*see the Components of Strategy form in Chapter 3*).

*1.4.3.3 Grand Strategies* Grand strategies, often called business strategies, provide basic direction for strategic actions. Grand strategies indicate how long-range objectives will be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides major actions:

- Are we going to stay in the same ring of value chain? Are we going to continue doing the same work with the same system? (Constancy.)

- Are we going to enter new business areas with additional functions, products, and/or markets? (Expansion.)
- Are we going to leave the business completely? Are we going to leave some of the business? (Reduction.)

Any of the 12 principal grand strategies (Pearce and Robinson 2011) serves as the basis for achieving major long-term objectives of a business, identified according to the techniques of generic competitive strategies and components of strategies:

- Concentration
- Market development
- Product development
- Innovation
- Horizontal integration
- Vertical integration
- Joint venture
- Concentric diversification
- Conglomerate diversification
- Retrenchment/turnaround
- Divestiture
- Liquidation