WHITE PAPER

INTEGRATED STRATEGIC PLANNING & METRICS

Contents

Executive Summary

Integrated Strategic Planning + (Execution) Metrics (ISPM) is a coherent, comprehensive system combining strategy, planning, execution, and metrics. Integrating these processes into a single system achieves the maximum impact and produces a framework for continuously reviewing and revising the strategy as conditions warrant. Yet it has flexibility for use at all levels of the organization.

Strategy is determining the most effective employment of resources to achieve a goal. The value of strategy development is the methodical process of determining what we represent, what we do, for whom and how. What is our value proposition to our customers?

Strategic Planning is determining the major actions required to achieve the goal. It is an iterative process involving input and feedback from various levels of the organization, representing all the stakeholders affected by the strategy.

Execution is important than the actual strategy. According to researchers, 85 percent of success depends on execution and 15 percent depends on strategy.

Metrics is the method of measuring our progress towards our goal. But to be meaningful, the metrics must be linked directly to our strategic, operational, and tactical goals. Each successive level's goals must be a sub-set of the overall corporate goals.

Evaluating our linked metrics provides feedback for adjusting our strategy and plans to meet the market challenges.

In summary, the Lean Enterprise Partners ISP+M program team collaborates with all levels of your organization. We provide hands-on coaching and mentoring throughout the entire process. We guide you through the entire process. Working closely — even one-on-one – with your team, we transform your strategy development and execution process into integrated, replicable competitive advantage.

Strategic Planning and Metrics Simplified Version 0.1

ISPM

Integrated Strategic Planning *plus* (Execution) Metrics (ISPM) is a coherent, comprehensive system combining strategy, planning, execution, and metrics. It is a framework for continuously reviewing and revising our strategy as conditions warrant.

Strategic planning is not just an annual exercise. It is a system for a continuous refinement, at all levels. ISPM encompasses the entire spectrum of the planning process — strategic, operational, and tactical while measuring progress towards our goals — metrics.

ISPM spans the organization from the Board Room to the shop floor, from the chairman to the hourly worker on the receiving dock. It shows them how their efforts contribute to the organization and its goals.

Strategy is simply determining the most effective employment of resources to achieve a goal.

The business paraphrasing of military strategy is "the art of distributing and applying business systems to fulfill the firm's strategic goals." Note the word "art" it is not purely an analytical process.

Business strategy is all about competitive advantage – it need only be marginally better than our competitors. Timing and execution are more critical than a perfect strategy.

Proper prior planning prevents "pitifully" poor performance. This is as true today as it was 60 years ago.

A totally integrated strategic planning system leads to optimal performance and results. Understanding the entire planning system is crucial in today's economic environment and global interdependencies.

Your business has survived the most significant set of economic challenges in the past 50+ years. How will your firm respond to the next challenge?

Many firms treat the stages of strategy, planning, execution and metrics as separate unrelated processes. Yet there are few who understand the relationships and dependencies. It is only through those relationships and dependencies the full-effect of the system is realized, achieving the desired outcome.

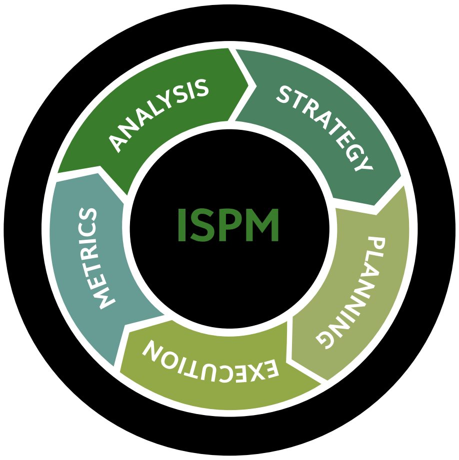
When should you conduct strategic planning? It is not a simple annual exercise, that once completed is either chiseled in stone – inalterable – or put on the shelf – neglected until next year as a Board to-do item.

Plans are reviewed whenever conditions or expectations change, making the plan no longer valid. For example:

- Performance not meeting goals
- Shifts in the competitive environment
- Changes in resource availability
- Changes in the economic climate
- Any significant changes, internal or external, that impacts the strategy

A leader's role is ensuring their team fully understands the firm's goals. Strategic plans typically fail because:

- Nor recognizing our limitations
- Employees not knowing how the strategy applies to their daily work
- Systems not strategically aligned
- Performance metrics not strategically aligned
- Approved projects and programs not supporting strategic goals



Analysis

This initial review determines the level of effort required for our strategy development and execution.

ISPM provides a flexible structure for proactively and pre-emptively reacting to issues and changing conditions by applying the same rigor of analysis, strategy, planning, execution and metrics as typically given to the annual corporate strategy development.to find better, more efficient ways to accomplish the same tasks.

Current State

The ISPM system begins by examining the current state of our business:

- Is the strategy performing as expected?
- Have conditions – internally and / or externally – changed which impact our strategy and execution
- Were the assumptions and calculations valid?
- Do these changes require modifying or changing our strategy?
- What is our strength relative to our competitors?
- What is the health of our business, our industry?
- How have new government regulations impacted our business?
- How will we respond to technology changes?
- What other challenges are looming?
- Where is our business headed?

Context

In the next step, we define our strategy. Without context, strategy is meaningless and offers no substance to the stakeholders — everyone affected by the strategy.

The context of our strategy is framed in these three primary statements:

VISION | The long-view of the firm; how we want the future to unfold — Where are we going?

MISSION | The fundamental purpose of the firm in a succinct manner — Why are we doing this?

VALUES | Shared beliefs among our firmcand its stakeholders. The driving force behind our corporate culture and priorities. It provides a framework for decisions. Who are we and what do we represent?

ISPM includes two additional statements — the Chairman's Intent and the Mantra:

CHAIRMAN'S INTENT | A narrative describing the Chairman's expected outcome from the strategy and how it will be executed.

MANTRA | A concise, easily remembered statement forming a common baseline for evaluation our actions — i.e., an internal advertising buzz phrase, e.g. "the Happiest Place on EarthÆ, WDW.

> Before considering a confrontation (business problem); it is essential to calculate a complete analysis of the situation.
>
> – Sun Tzu, circa 2,000 BCE

Vision Statement

A Vision Statement presents a clear picture of a realistic, attainable future. It is easily remembered because it aligns with our values and culture. Today most firms combine the vision statement with the mission statement.

> Define your business goals clearly so that others can see them as you do.
>
> – George F. Burns

Mission Statement

A Mission Statement defines our firm – *why* we are in business. A true mission statement defines the business (not always what you think) who we are, what is our business, and how we deliver value to our customers. *Included are some examples of mission statements:*

Walt Disney Company
"The mission of The Walt Disney Company is to be one of the world's leading producers and providers of entertainment and information. Using our portfolio of brands to differentiate our content,services and consumer products, we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world."

Wal-Mart
"We save people money so they can live better."

Wendy's
"What We Believe":

- *Quality is our recipe – We don't cut corners on our products, service, or employees!*
- *Treat everyone with respect – Be genuine, kind and lend each other a helping hand!*
- *Do the right thing – Honesty and integrity are rules we live by!*
- *Profits means growth – Teamwork is the key to our success!*
- *Give back – Make your community better every day!*

Each example paints a picture in clear concise prose.

Value Statement

Value statements are less common or included in the comprehensive mission statement, as shown in the Wendy's Hamburger example above. The value statement summaries:

- What we as a company represent
- What are the shared values of our employees and stakeholders
- How do we conduct ourselves as representatives of the business
- Who are we as a team
- A guide for social responsibility and environmental stewardship

A Chairman's Intent

A Chairman's Intent is a short narrative describing the Chairman's expected outcome for the strategy and how it will be executed. It is typically expands the mission statements and advocates a strategy. *Below is an example of a Chairman's Intent:*

Sam Walton
"If we work together, we'll lower the cost of living for everyone… we'll give the world an opportunity to see what it's like to save and have a better life."

Compare Sam Walton's intent with Wal-Mart's mission statement — "We save people money so they can live better."

Mantra

Mantra is a concise easily remembered phrase establishing guidance or shared value within our organization. *Below are some examples of Mantras:*

"The Happiest Place on Earth"
"Creativity + Innovation = Profits"
"Quality, Value, Service"
"We do more than inform, we transform"

Compare Sam Walton's intent with Wal-Mart's mission statement — "We save people money so they can live better."

Analytical Elements

Our analytical process focuses on three interrelated areas, depited in the illustration to the right. While each area is discussed separately, there are overlaps and interdependencies.

INTERNAL ANALYSIS
Our internal analysis is a thorough examination of our current and near-term future state (projects and actions already in progress), that may impact on our strategy or its execution. If we are conducting a top-level strategy — annual review — then we examine the entire organization.

The first step is evaluating the current strategy and its effectiveness; reviewing what worked and what did not — conducting a root-cause analysis of the strategy. This includes validating our assumptions and calculations used in developing that strategy.

- How accurate were our assumptions and calculations?
- What was our baseline?
- What caused the differences?
- Did any operational or tactical decisions outside the context of the strategy impact the execution of the strategy?
- Were our operational and tactical plans aligned with our strategy, strategic goals, and strategic plan?
- Did we have the proper metrics?
- Did the metrics indicate problems?
- Did we properly interpret the metrics?
- For all of the above – if not, why not?

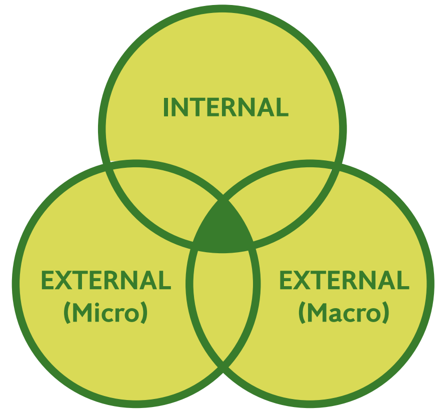
Next we evaluate resources available and resources required for overcoming constraints that jeopardize the successful execution of our strategic plan. Resource analysis encompasses:

- People – always our greatest asset
- Technology
- Physical plant (capacity)
- Materials
- Capital

Lastly, what is our planning horizon for this strategy – is it one-year, three-years, five years, or twenty-years – which depends on the organizational level doing the planning. One of key element a strategy is defining goals and the timeframe for achieving them.

EXTERNAL ANALYSIS
The external analysis evaluates the impact of factors not under our direct control The analysis is predominately economic in nature — though other factors are included — and is divided into two categories:

- **Micro** | Focuses on the impact of our market, industry, prices, supply and demand
- **Macro** | Focuses on the larger scale impacts such as government actions, natural disasters, market shifts, technology changes and international trade.



Analytical Tools

Two available tools used in strategic analysis are SWOT and PEST.

SWOT
A SWOT analysis presents avenues of exploration in determining the overall style of our strategy – defensive, offensive, restrained, or aggressive.

Some examples of SWOT analysis and suggested strategies are:

- S-O pursue opportunities that are a good fit for business
- W-O overcome weaknesses to pursue opportunities
- S-T use strengths to reduce vulnerability to external threats
- W-T establish defensive plan to prevent weaknesses from making it susceptible to external threats

PEST
The PEST — Political, Economic, Social and Technological — tool focuses on the impact of macro-level actions on our organization.

Some examples of SWOT analysis and suggested strategies are:

- **Political** | Tax policies, employment laws, environmental regulations, trade restrictions and tariffs, political stability
- **Economic** | Economic growth, interest rates, exchange rates, inflation rates
- **Social** | Health consciousness, population growth rates, age distribution, career attitudes, empasis of safety.
- **Technological** | R&D activity, automation, technology incentives, rate of technological change.

CASE STUDY:
The earthquake and tsunami in Japan caused a major disruption in the supply of materials used in automobile paints.

Audi was forced to change the color palate for certain models. This major, unforseen disruption impacted Audi's production.

Evaluation Framework–Business Model

A business model is a simple framework for determining how a company intends on making money; giving value to its customers — the value chain proposition — or maximizing the bottomline impact of our strategy. You need a business model for success. The proper business model facilitates the effective evaluation and execution of your strategy and its goals.

The proper business model creates the focus for our firm. It shows the current state of our resources; required future state resources, including capacity, capital, technology, et al. It outlines the roadmap for designing products, services, and business systems which support our strategic goals. It is the vision that engages all stakeholders in achieving the maximum competitive advantage.

Key elements of a business model are:

- Value propositions
- Target customer segments
- Distribution channels
- Value configurations
- Core capabilities
- Parnter network
- Cost structure
- Revenue model

Below is a cursory review of some business models. During our research, we discovered hundreds of active business models within North America.

Many of these prominent models have been around for a long time and have strong credibility.

However, as Bob Dylan once said, "the times they are a changin'."

The Boston Consulting Group Growth Matrix

The Boston Consulting Group Growth Matrix focuses on managing a portfolio of different business units or product lines. It examines the market growth rate and the market share of each business unit relative to competitors.

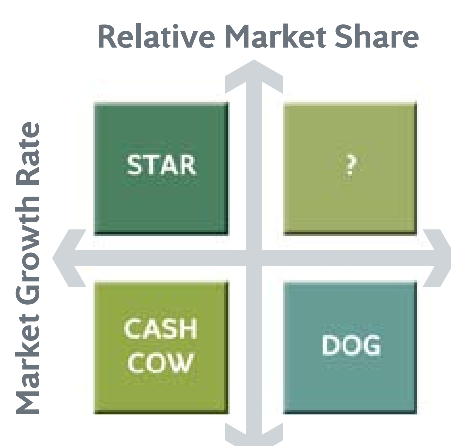
Strategic implications of the BCG matrix:

STAR | generates cash, but industry growth requires investment to maintain

QUESTION MARK (aka problem child) | requires resources to grow market share, but success is unknown

CASH COW | requires little investment and generates cash

DOG (aka pets) | may not require substantial cash, but ties up capital



GE Matrix —9 Block

The GE model also focuses on portfolio management. While similar to the BCG growthshare matrix, it improves on the BCG matrix by generalizing the axes as "industry attractiveness" and "business unit strength." The BCG model uses market growth rate as proxy for industry attractiveness and relative market share as proxy for strength of business unit. The strategic implications of the GE matrix suggest strategies shown below.

Both of models have their limitations. They do not consider the interaction among business units, nor do they address the core competencies generating value creation. The BCG and GE models are best when used as a quick synopsis of each business unit.

	High	Medium	Low
High	Grow	Grow	Hold
Medium	Grow	Hold	Harvest
Low	Hold	Harvest	Harvest

Porter's Generic Strategies

	ADVANTAGE	
TARGET SCOPE	Low Cost	Product Uniqueness
BROAD (Industry wide)	Cost Leadership Strategy	Differentiation Strategy
NARROW (Market Segment)	**Focus Strategy** (low cost)	**Focus Strategy** (differentiation)

Michael Porter is considered a leading authority on corporate strategy and the competitiveness of nations. He chaired the Harvard Business School program or new CEO's.

Porter's generic strategies for profitability are based on the relationship between attractiveness of our firm's industry (target scope) and our firm's business strength (advantage).

This relationship provides us with a guiding principal for generating value to our customers.

PORTER'S GENERIC STRATEGIES:

COST LEADERSHIP | To acquire and / or maintain cost leadership. Ingredients for cost leadership:

- Improve process efficiencies
- Obtain a stable source of low cost materials
- Optimal use of outsourcing
- Vertical integration
- Cost avoidance

DIFFERENTIATION | A product or service offering unique attributes to our customers and is perceived as better or different from our competitors.

Ingredients for differentiation:

- Cover extra production costs by higher price
- Highly skilled and creative product development team
- Strong reputation for quality and innovation
- Sales team which communicates the perceived strengths of our products

FOCUS (low cost) | Due to lower volume of goods or services sold, our firm needs to focus entirely on that business unit or product line. Typically a focus market has a high degree of customer loyalty and this discourages other firms from competing directly against us. Focus low cost strategy uses the same key elements as cost leadership.

FOCUS (differentiation) | Combines focus elements with differentiation elements.

COMBINATION OF GENERIC STRATEGIES | Porter argues that the generic strategies are not necessarily compatible and attempting to seek advantage on all fronts may achieve no advantage at all.

According to Porter, long-term success requires we must select one of the generic strategies. Otherwise, using more than one may cause our firm to be "stuck in the middle."

Porter's Generic Strategies and Industry Force

	Generic Strategies		
Industry Force	Cost Leadership	Differentiation	Focus
Entry Barriers	Ability to cut price in retaliation deters potential entrants	Customer loyalty can discourage potential entrants	Focusing develops core competencies which act as entry barrier
Buyer Power	Ability to offer lower price to powerful buyers	Large buyers have less power to negotiate because of few close alternatives	Large buyers have less power to negotiate because of fewer alternatives
Supplier Power	Better insulated from powerful supplier	Better able to pass on supplier price increases to customers	Suppliers have power because of low volume—differentiation better enables passing costs to customers
Threat of Substitutes	Can use low price to defend against	Customers attached to differentiating attributes, reducing threat	Specialized products and core competency protect against substitutes
Rivalry	Better able to compete on price	Brand loyalty keeps customer from rivals	Rivals cannot meet differentiational-focused customer needs

Global Strategy

Global competitive advantages come from a combination of strategic objectives versus the source of the advantage. The matrix below shows the combinations.

A global industry is where our firm competes in most of the major world markets and our competitive advantage depends on economies of scale and scope across those global markets.

Not all industries or firms are suited for globalization. The following drivers are indicators of our potential for globalization.

Cost Drivers
- Proximity to strategic resources
- Country cost differentiation
- Economies of scale
- Transportation cost

Customer Drivers
- Common needs across global markets
- Global customers
- Global channels of distribution
- Transferrable marketing

Competitive Drivers
- Global competitors
- Competitors leverage their global position

Government Drivers
- Trade policies
- Technical standards
- Regulations

	Sources of Competitive Advantage		
Strategic Objectives	National differences	Scale economies	Scope economies
Efficiency in Operation	Exploit factor cost difference	Scale in each activity	Sharing investments and costs
Flexibility	Market or policy-induced changes	Balancing Scale with strategic & operational risks	Portfolio diversification
Innovation and Learning	Social differences in management and organization	Experience — cost reduction and innovation	Shared learning across activities

Types of International Strategy

After we determine our industry and/or firm is ready to go global, there are two primary strategies — their characteristics are:

Mutil-domestic strategy
(product differentiation)

- Product customized for each market
- Decentralized control — local decision making
- Effective when large differences between countries or regions
- Advantages
  – Product differentiation
  – Local responsiveness
  – Minimized political risk
  – Minimized exchange rate risk

Global strategy
(product differentiation)

- Product same in all markets
- Centralized control — little decision authority at local level
- Effective when small differences between countries or regions
- Advantages
  – Cost
  – Coordinated activities
  – Faster product development

Additional considerations and strategies are warranted if we compete in a global market. Contact LEP for additional information on some of these considerations and strategies.

Balanced Scorecard

Robert Kaplan and David Norton originally conceived the Balanced Scorecard as a performance measurement system. It considered the following.

Balanced scorecard - factors examples:

- **Finance**
  – Return on investment
  – Cash Flow
  – Return on capital employed
  – Financial results

- **Internal Business Process**
  – Number of activities per function
  – Duplicate activities
  – Process alignment
  – Process bottlenecks
  – Process automation

- **Learning and Growth**
  – Level of expertise for job
  – Employee turnover
  – Job satisfaction
  – Training learning opportunities

- **Customer**
  – Delivery performance
  – Quality performance
  – Customer satisfaction
  – Market share
  – Customer retention

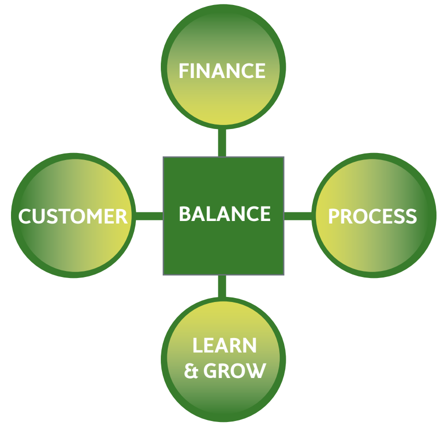
Today the Balanced Scorecard is used in evaluating our organizational strategy against those four perspectives. It explores not only the impact on each area, but the logical connections between the four perspectives.

Each perspective contains:

- Objectives
- Measures
- Targets
- Initiatives

The Balanced Scorecard can be used as a strategic management tool by:

- Clarifying the strategy
- Communicating strategic objectives
- Planning, setting targets, and aligning strategic initiatives
- Strategic feedback and learning



Component Business Model (CBM)

This model was developed by IBM for analyzing an enterprise. It maps the business components or "building blocks." CBM is a single page evaluating:

- Alignment of our strategy with our capabilities and investments
- Identifies redundant or overlapping business capabilities
- Analyzes sourcing options for the different components (buy or build)
- Prioritizes transformation options
- Create a unified roadmap after mergers or acquisitions.

CBM organizes business competencies along columns and "operational levels" along rows. Business competencies are defined as large business areas with characteristic skills and competencies.

Three operational levels are "Direct", "Control" and "Execute" — they separate strategic decisions (Direct), management checks (Control), and business actions (Execute) on business competencies.

MIT Business Model Evaluation

The MIT Business model evaluation examined the types of business models in use by the largest 1,000 firms surveyed.

The study divided the firms into four archetypes based on one) rights being sold and two) how the business transforms the asset — resulting in the table below.

Four basic business model archetypes emerged based on rights being sold and how the business transforms the asset.

What rights are being sold?	How much does the business transform the asset?	
	SIGNIFICANT	**LIMITED**
Ownership of Asset	Creator	Distributor
Use of Asset	Landlord	
Matching of buyer and seller	Broker	

Taking the four archetypes against the type of asset involved resulted in 16 detailed business model types below.

16 Detailed Business Model Archetypes

Basic Business Model Archetype	What type of asset is involved			
	FINANCIAL	**PHYSICAL**	**INTANGIBLE**	**HUMAN**
Creator	Entrepreneur	***Manufacturer***	Invetor	Human Creator
Distributor	Financial Trader	***Wholesale / Retailer***	IP Trader	Human Distributor
Landlord	***Financial Landlord***	***Physical Landlord***	***Intellectual Landlord***	***Contractor***
Broker	***Financial Broker***	Physical Broker	IP Broker	HR Broker

* These models are illegal in US and most places because they involve selling human beings.

The seven highlighted (bold italics) boxes represent nearly all the business models in current use in 2004 when the survey was completed.

Other Business Models

BRICKS AND CLICKS is a company integrates both offline (bricks) and online (clicks) presences.

COLLECTIVE is a relatively large numbers of businesses, tradespersons or professionals in the same or related fields pools resources, shares information or provides other benefits for their members.

LOYALTY used to increase the loyalty of customers and other stakeholders in the expectation that corporate objectives will be met or surpassed.

MULTI-LEVEL MARKETING is a marketing strategy where the sales force is compensated not only for sales they personally generate, but also for the sales of others they recruit.

NETWORK is the effect that one user of a good or service has on the value of that product to other people. When network effect is present, the value of a product or service is dependent on the number of others using it – e.g. Skype

PREMIUM is the concept of offering high end products and services appealing to discriminating consumers. Brand image is an important factor in the premium business model, as quality is often a subjective matter. This business model seeks a higher profit margin on a lower sales volume.

PROFESSIONAL is where an open source software vendor generates revenue from paid professional services, maintenance and support provided along with the software.

RAZOR AND BLADES (aka Freebie marketing) is a business model wherein one item is sold at a low price (or given away for free) in order to increase sales of a complementary good, such as supplies (inkjet printers and ink cartridges) or software (game consoles and games).

SUBSCRIPTION is a business model where a customer must pay a subscription price to have access to the product / service.

Business Model Visualization

In the past most business models were matrices or flow charts. Recently several updated / new have become more commonplace and are gainng respect and validity. This seems to be especially true in many of the newer Internet-based business ventures.

One model visualization gaining traction in Europe is the Business Model Canvas. This is an newer twist on the old Post-It notes method. The Business Model Canvas consists of nine cells, each representing a component of the business. Note, while all businesses have these components, not all components are critical to the business model and are therefore not presented in detail.

Software is available for plotting the nine area using the Business Model Canvas. The nine cells and some of their elements are:

KEY PARTNERS | Who are they, who are our key suppliers?

KEY ACTIVITIES | What key activities do our value propositons require?

KEY RESOURCES | What key resources do our value propositions require?

VALUE PROPOSITIONS | What value do we deliver to the customer — which one of our customer's problems are we helping to solve?

CUSTOMER RELATIONSHIPS | What type of relationship does each of customer segments expect us to establish and maintain with them?

CHANNELS | Through which channels do our customer segments want to be reached – which ones work best?

CUSTOMER SEGMENTS | For whom are we creating value — who are our most important customers?

COST STRUCTURE | What are the most important costs inherent in our business model — which key resources are the most expensive?

REVENUE STREAMS | What value are our customers really willing to pay — for what do they currently pay?

NEW BUSINESS MODELS

Localized Low-cost

One-off Experience

Beyond Advertising

Markets are Conversations

Low-budget Innovation

Community-funded

Sustaiability-focused

Twisted Freemium

Unlimited Niches

In-crowd Customers

Establish the Goals

"We choose to go to the moon. We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard, because that goal will serve to organize and measure the best of our energies and skills, because that challenge is one that we are willing to accept, one we are unwilling to postpone, and one which we intend to win, and the others, too."

– President John F. Kennedy, September 12, 1962

This was the impetus for the US space program strategic plan. President Kennedy established a specific achievement by a specific time — "go to the moon in this decade" — no ambiguity; a clear concise goal. A dream with a deadline.

Neither strategy nor tactics makes sense without a goal. Without goals our strategy is merely a concept, a nice idea. Goals are the driving force, and once established, we can begin the process of eveloping the appropriate strategy for achieving them.

Begin with the end in mind.
– Stephen Covey

The most common term for realistic goals is SMART goals. While the specific acronyms vary, the concept is solid. The goals must be realistic, attainable, within a specific timeframe and with resources available to get the task done.

We can test these goals during the strategy development phase using various gaming and modeling techniques

Determine the Strategy

At this point, we analyzed the current situation and checked the resources available to bear on it. We looked internally and externally at the factors impacting our business and subsequently our strategy. We evaluated the analytical findings within a framework of our appropriate business model. We first established our vision, mission and values, and then it is time to develop the strategy.

Sun Tzu said the that in the art of strategy, the primary ingredients of a successful strategist are stretegy, skill and study.

Kenichi Ohmae is one of Japan's best known strategists. He was born in Japan and as a young man attended MIT, where his received his doctorate degree. He gives us great insights into the thought processes of Japanese business — primarily incremental (or continuous) improvement not revolutionary improvement.

According to Ohmae: strategic thinking in business must break out of the mindset of responding like a deer in the headlights – losing focus and attacking the lights directly. Strategy is not a sometimes thing. Ohmae says it must be backed up by the daily use of imagination and constant training. Strategy cannot be based only on optimism or responding only to unexpected obstacles. The habit of thinking strategically must be practiced as Sun Tzu suggested over 2,000 years ago.

Rick Hansen once said, "The goal set must be challenging. At the same time, it should be realistic and attainable, not impossible to reach. It should be challenging enough to make you stretch, but not so far that you break." Becoming an effective strategist means constant practice in strategic thinking. It is a perishable skill, which atrophies without constantly simulation and practice. There are no standard, ready-made strategies that can be pulled off the shelf and made to fit the situation.

"Strategy is a matter of long-term philosophy, not of short-term expedient thinking," Kenichi Ohmae said. He identifies the keys for developing a successful strategy are:

Flexible thinking. Understanding the full range of alternatives, weighing the costs and benefits of each alternative. The continuous use of "what if" we try this, what are the consequences, do they satisfy our goals? What is the alternative? What if we try that?

The perils of perfectionism. To beat one's competitors you must only be marginally better than your competitor. The crucial element is timing. A perfect plan executed too late is useless and bound to fail. The key is having a strategy executed at the right time to give you an edge while being prepared to counter our competitor's responses.

Keeping details in perspective. Its partner is timidity. Frequently, decision-makers get mired in the details and lose sight of the goal, leading to analysis paralysis. Another complication is the desire for perfect information or more commonly, more information. This delays the decision and is the genesis for displacing blame (and responsibility) from the decision-maker to things outside their control.

Probing for keys factors of success (KFS). "What is the secret to success in your industry?" First we must identify the key factors for success, and then test them for validity. Through this method we can ascertain the actual keys for success.

Challenging the constraints. Think of what can be done, not what cannot be done. If we selfconstrain ourselves, we already limit our options and may overlook a better solution. Start with the question: "What alternatives would be open to you, if there were no constraints?" Then, strategize how to remove the constraints that block your "new" path.

Strategic schizophrenia. Just as too many cooks spoil the meal, too many planning staffs complicate the process. There should be a consolidated process, where each level has a single process in developing their strategy and conducting their planning. The strategic planning process need not be rigid; rather, a flexible framework for executing the process.

Attitude. Think of what we can do and strip away all the constraints that prevent us from executing that strategy.

Ohmae believed that, "corporate performance is the result of combining planning and execution. It resembles a boat race. No matter how hard each crew member rows, if the coxswain doesn't choose the right direction, the crew can never hope to win. Conversely, even if the coxswain is a perfect navigator, you cannot win the race unless the rowers strive hard in unison."

Paraphrasing military strategy, business strategy is "the art and science of distributing and applying business systems to fulfill the firm's strategic goals." Note the word "art;" strategy is not purely an analytical process. Business strategy is all about competitive advantage.

Strategy conceptualizes how we will accomplish our goal(s).

The value of strategy development is the methodical step-by-step process of determining what do we do, for whom do we do it, and how do we excel in the current market environment.

Again we are not striving for the perfect strategy, only the strategy that outperforms our competition.

At a major engineering developmental firm, they had a sign over the entrance which read, "Perfection is the enemy of good enough." The engineers wanted more features built into their projects, continuously exceeding specifications. However, time and monetary constraints would not allow it.

Building a successful strategy requires determining the strategic relationship between our customers, our corporation and our competitors.

Selecting the appropriate relationship indicates the appropriate basket of strategies which form the baseline for our business strategy. The baskets are just like a farmer's market. You select the various ingredients and mix them in proper proportions for a satisfying meal, or strategy.

In developing our strategy, we must:

- **Decide What's Important**
  Foundation of all strategy is deciding what is most important to your organization.

- **Set Goals that Lead the Way**
  Well-defined goals are among the most effective communication tools for a leader.

- **Align Systems**
  One of the greatest barriers in pursuit of the goals is the organization itself; the systems that make up the business — policies, processes, technologies, measure and people, often at cross-purposes.

- **Work the Plan**
  Lived by everyone in the organization, every day; where the individual worker connects their daily work with the long-term goals of the business.

- **Innovate Purposefully**
  Think continuous improvement.

- **Step Back**
  Gain perspective on the factors that affect your performance — review, report and revise.

In summary, a strategy is an idea, a conceptualization on how we will achieve our stated goal(s). It must holistic, involving the entire organization. It should be the most effective use of resources to achieve our goal.

STRATEGY FORMAT

LEP recommends writing our strategy in the StratML format — an XML vocabulary and schema for strategic plans. It is widely used in the US and foreign governments. It is the standard format for the UN and numerous NGOs (non-government organizations).

Some of the advantages to using StratML are:

- Facilitates sharing, indexing, linking, reuse, and analysis of the strategic plan elements
- Enables strategic alignment linking goals and objectives throughout the business
- Facilitates stakeholder feedback
- Facilitates the updating and maintaining elements of strategic plan without the entire plan being reviewed.
- Provides more agility and responsiveness to changing circumstances.
- Electronic (soft) copies can be compared and current version available on internal network.
- It is searchable and there are electronic templates available.
- Facilitates interaction of key groups, including suppliers, key customers, employees, higher headquarters and other stakeholders.

Strategic Planning

Our strategy defines our goals and conceptualizes how we will achieve them. Now, we must convert it into a plan that can be executed — the strategic plan. Our strategic plan outlines the high-level actions required for execution. The strategic planning process is similar to planning a major (business-wide) project.

The strategy provides the direction for our plan. It determines the milestones and deliverables. We lay out the major steps (Level One tasks) needed in the execution of our strategy, in the timeframes indicated and with the allocated resources. The Level One tasks are sequenced for the most effective use of resources and ensuring precedent tasks are completed before moving on — building the proper foundations for follow-on tasks. For example, we cannot expand production until we increase capacity.

The strategic planning process cannot be completed without input from other stakeholders —– anyone affected by our plan. It is an iterative process. Therefore, having a schedule is imperative. Additionally, the strategic planning process requires greater granularity at each succeeding level.

The Waterfall Effect of Planning

Corporate Level *Strategic Plan*

Corporate clevel strategic plan is fundamentally concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses. Corporate strategy looks at:

REACH | Defining the issues that are corporate responsibilities; include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and mangaged.

COMPETITIVE CONTACT | Defining where in the corporation competition is to be located.

MANAGING ACTIVITIES AND BUSINESS INTERRELATIONSHIP | Develop synergies by sharing and coordination staff and other resources across business units.

CAPITAL PROJECTS | Highlights the requirements for capital projects that support the corporate strategic goals. Projects not supporting the corporate goals should only be approved if they are required by some outside requirement, such as regulatory — identified in external analysis process.

CORPORATE STRATEGIC GOALS | Establish strategic goals which are specific to the corporate strategy.

> "To solve a problem or to reach a goal, you... don't need to know all the answers in advance. But, you must have a clear idea of the problem or the goal you want to reach ."
>
> – W. Clement Stone

Divisional Level *Operational Plan*

Operational issues are less about coordination and more about developing and sustaining a competitive advantage.

POSITIONING | The business against rivals

ANTICIPATING | Changes in demand and technologies and adjusting the strategy to accomodate them.

INFLUENCING | The nature of competition through operational strategic actions such as vertical integration and through political actions such as lobbying.

Plant Level *Tactical Planning*

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively.

Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be based. Once the higher level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

Each succeeding level's plan and goals should show a direct linkage to the overarching corporate plan and goals. In our experience, the linkage becomes more tenuous at each successive level.

CASE STUDY:

In an audit of a midwestern utility, we found over 200,000 man-hours (nearly 100 fulltime equivalents – FTEs) on projects or programs not required by government agencies nor supported the utility's strategic goals.

Strategic Plan Testing

There are multiple ways for developing and testing our strategy and strategic plan. We will discuss three of the more popular methods. At LEP we use the testing methodology best suited for your business and needs.

Three common methods are:

- (Shell Oil) Scenario Testing
- Business (war) Gaming
- Computer Simulation

(Shell Oil) Scenario Testing

When LEP's chief strategist attended Shell Oil's strategic planning training in the UK, Shell used a series of scenarios labeled: TINA – There Is No Alternative. The scenarios helped us examine and explore the different faces of TINA.

In 2005, changes in the geopolitical crisis of security and trust, plus the increasing schisms within the energy markets between users and suppliers, the shifts in more renewable energy sources, and overall changes in global demand, Shell changed to TINA's offspring — TANIA — There Are No Ideal Answers.

Shell scenario testing begins with analysts generating various simulation games for policy makers. The analysts combine known (or at least highly probable) facts about the future, such as geopolitical conditions, industrial capacities, raw material reserves, demographics, and geography.

The analysts also furnish a series of plausible alternatives to conditions or other key factors. Then using various economic gaming techniques, the various scenarios are tested, plans adjusted and retested until a satisfactory (not perfect) strategy and plan is generated. Remember TANIA!

Some of the gaming techniques are:

- Game Theory
- Monte Carlo Simulation
- Cooperative Game Theory
- Experimental
- Behavioral
- Market Games
- Social Preference

Scenario testing can also furnish additional benefits:

- Additional factors that are difficult to formalize
- Novel insights into the future (ah ha moments)
- Shifts in our values
- Unprecedented changes

The greatest weaknesses of scenaio testing include:

- Massive shifts in technology (game changers)
- Significant unforeseen geopolitical shifts (uprising in Middle East)
- Natural disasters
- Errors in the 'future facts"

Business (war) Gaming

Business gaming is very effective in several ways. It helps:

- Managers hone their competitive intelligence
- Allows testing of alternative scenarios
- Test their native instincts
- Produce creative, previously unconsidered or dismissed solutions
- Leads to consensus
- Most importantly, insights and answers leads to greater commitment

Business gaming is very effective in several ways. It helps:

In military war games, we evaluate a strategies' effectiveness – executing plans, making spot decisions, and countering our competition's moves and counter moves. In the business game, we simulate competition in a market, with multiple competitors, alliances, and

As in the scenario testing, analysts provide facts and plausible information to the two opposing teams. Each team is given slightly different resources, goals, and information.

LEP acts as a monitor and go-between the two teams. After each round LEP evaluates the "moves" and "counter-moves' of each team. The effects on the markets – supply and demand – are calculated and new parameters given to each team. There are a redetermined number of rounds — usually three-five, that generate the greatest benefit.

Computer Simulation

Computer simulations are used more often as the today's computers allow running most simulations on high-end PCs or work stations.

We begin by building a representative model of our business. The level of detail drives the number of parameters required and hence the level of complexity. Remember we are not looking for the perfect solution

Once the computer model is built, we modify the parameters to simulate our strategies and plans. After each run of the model simulation, the results are evaluated, usually in a time series against previous results.

The policy teams then evaluates the effects of the changes and determines the next series of plan adjustments.

The computer simulation runs are much quicker than either the scenario testing or business (war) games — once the business model is created — therefore, it is used more frequently. The major time and expense is developing a realistic model of our business.

Recently the scenario testing is being run on computer models as well; which is probably the best combination.

CASE STUDY:

During the planning process for Desert Shield (1990), General Schwarzkopf needed information on the delivery profile of combat forces.

The computer simulator required 24-hours to populate and 24-hours to run, giving a 95% accurate solution. However, time was critical. LEP's strategist developed an 80% model which required less than three hours for populating and running.

Which model did General Schwarzkopf use?

Scheduling

Strategic, organizational and tactical planning is a complex endeavor. It is an iterative process requiring input and feedback between the various levels of our organization. Without a predetermined schedule with tasks, deadlines, and designated resources — people and materials, the endeavor becomes bogged down and / or a last-minute crisis. Without a schedule, the effectiveness of the process is diminished significantly.

Think of the planning process as a project plan that includes using a project manager to coordinate all the tasks. Using a project plan (Gantt chart) is an effective means of communicating tasks, assignments and deadlines. The Gantt chart also displays the effects of slippages in the overall planning process when certain tasks are not completed on time; critical path elements.

Remember each task or activity is assigned to a single individual who is responsible for coordinating the various sub-tasks required. The single individual is "on-the-hook" for timeliness, quality, and thoroughness of the task. Tasks or activities in a scheduling protocol include:

- Agreement on planning approach, timelines, and deliverables
- Data collection
- Data analysis
- Strategic thinking sessions conducted around strategic drivers and business model
- Strategic planning sessions
- Planning team-endorsed: 1) vision statement, 2) mission statement, 3) core values and 4) over-arching goals to leadership for approval
- Refined plan elements presented to Board for approval
- Vision statement and goals distributed to divisions for development of strategy / initiatives (operational planning)
- Division prepare operational plan
- Operational plans approved by division leadership
- Operational plan actions and goals distributed to operational units for development of tactical actions, initiatives, and goals
- Tactical plans approved by operational unit leadership
- Strategic, operational, and tactical plan merged into comprehensive plan.
- Contingency and other plans should be developed as well
- Completed comprehensive plan presented to Board for approval
- Strategic plan launched and executed
- Operational plans launched and executed
- Tactical plans launched and executed
- Metrics reviewed on a periodic schedule, measuring progress towards each level's goals.
- Adjust plans as needed for achieving goals – PDCA / PADA cycles
- Periodic review of baseline assumptions and conditions — if no longer valid, either implement contingency plan or revise strategy, strategic plan, operational plan, tactical plan

The US GAO has a scorecard for Strategic Plans. It evaluates and scores all Federal agency strategic plans with the exception of military war plans. This is a graded process and agencies not making grade, must redo their plans. Some of the key grading factors are:

- Mission statement. Is it results-oriented?
- General goals and objectives. Are they measurable and related to the mission?
- Strategies to achieve goals and objective. Are they linked to daily operations?
- Program evaluations. Do they define how programs are evaluated and used?
- Treatment of major management problems and high-risk areas. Does it acknowledge and address problems, such as fraud, waste, abuse and mismanagement?
- Were stakeholders consulted?

Risk Management

The last step before execution is risk evaluation and mitigation. The review should be conducted at all levels of the organization, especially at the strategic level. Risk mitigation strategies fall into four broad categories:

Avoidance – changing part of our plan

Mitigation – diminishing the impact

Shared – buying insurance

Acceptance – willing to chance it

A detailed review of risk management is outside the scope of this paper. Please read the LEP paper on risk

CASE STUDY:
We were developing a computer model simulatingvthe parts distribution network for an automobile manufacturer. During the demonstration, the client requested a real-world current issue be tested.

Results: the model indicated the client's proposed strategy made the situation worse for several months.

The model optimization run suggested an alternative strategy, which would reduce the negative impact to just a few weeks.

The client implemented our recommendation and model proved accurate.

Execution

How much does execution matter? Apparently, quite a bit: according to these researchers, 85 percent of your sustainable success depends on execution, and 15 percent depends on your strategy.

This ratio is found in "High performance Work Systems and Firm Performance" by Becker and Huselid and "What Really Works" by Joyce, Nohria, Roberson.

This means execution is SIX times more important than the strategy itself.

The five critical elements for the successful execution of your plan are:

FOCUS
The focus is about ensuring organizational commitment and alignment to the strategy.

RESOURCES
The resources domain involves allocating financial and other resources required to fund strategy and operations, and monitoring those resources continuously to ensure goal achievement.

OPERATIONS
The operations domain entails analyzing the drivers of business performance and linking operational processes to the execution of strategy.

PEOPLE
The people domain is about ensuring employee readiness and personal goal alignment, and aligning HR processes and systems to support the strategy.

INFORMATION
The information domain involves developing a technology platform to enable core processes and support the analytic needs of the enterprise.

Remember, gaps between strategy and execution that are neglected tend to grow into chasms. Closing the gaps between strategy and execution may be the most important thing you can do for the future of your company.

How to Evaluate Any Current or Proposed Activity, Project, Program or Business Action

Does this activity contribute directly to our corporate strategy?

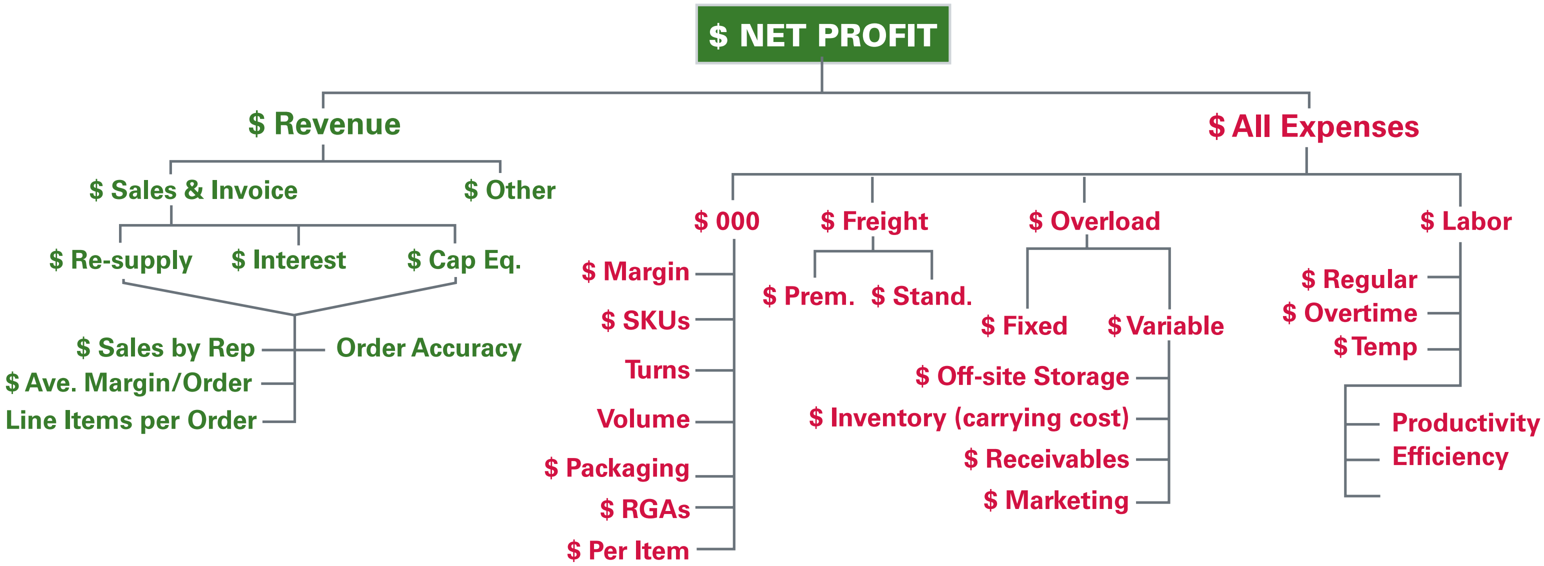
- ☐ **No, but it's required by law or regulatory compliance**
- ☐ **No, but it's required for operating the business (HR)**
- ☐ **No, it does not contribute at all.**
- ☐ **Yes. Let's move forward!**

Metrics

Metrics, like strategy, are part art, part science. A well-crafted metric system provides feedback for measuring the success of our various plans and gives us insights where adjustments are required. Just like our plans cascade down the chain, so do our metrics cascade. Our strategic goals are expanded at the operational level. The operational goals are expanded at the tactical level.

Performance at each level feeds the metrics for the next level up the chain. Therefore, the periodicity of the metrics changes at each level. The lower the level the more frequent the metric is measured and actions adjusted - PDCA.

One of the most common metric systems is the Key Performance Indicators (KPI) — the critical concept — KPIs must focus on results and provide information not data points. Here is a sample of direct linkage



PDCA

At each level in our organization we have a series of Plan, Do, Check, Act (PDCA) cycles, where the periodicity of measuring increasing for each successive level downward. Each successive level gives us greater granularity in the goals and hence in the metrics. The frequency of the PDCA cycles is normally:

- Corporate – Strategic – Quarterly
- Divisional – Operational – Monthly
- Plant – Tactical – Weekly

> "No plan survives first contact"
>
> – Various

While these are standard review periodicities, the key for a success strategy execution is adjusting the strategy and plan when condition change radically that impact our business.

Selecting the proper metrics is vital in the execution of our plans and receiving the necessary feedback for adjustments. Furthermore, metrics drive behavior, so our metrics must drive the desired behaviors. Choosing the wrong metrics can lead to unintended consequences.

"Because what gets measured, gets managed" everyone quickly understands the key drivers to the metric and how it influences their job and their compensation. They "game" the system.

We must constantly monitor the effectiveness of our metrics — are they achieving the desired outcomes? If not, then we must understand why not and make the appropriate changes.

The most difficult metrics are the ones that directly impact someone's compensation package, e.g. sales staff. Changing in mid-year or during the "evaluation period" will surely cause push-back. It is imperative the metrics be thoroughly tested before implementing.

If changes are required, seek input from those impacted by the change. Thoroughly test the changes by running them parallel to existing metrics and evaluate the differences. With feedback from the impacted group and determining the new metrics achieve the desired results, phase in the new metrics over a period of time.

Properly crafted metrics have additional benefits. Metrics, besides monitoring and adjusting our plans, they:

- Clarify expectations
- Direct behavior
- Increase objectivity
- Make performance visible
- Focus attention
- Promote consistency
- Facilitate feedback
- Improve decision-making
- Promote understanding
- Improve execution

Additional Planning

After successfully completing our strategic, operational, and tactical plans, it is time for considering the other critical business planning systems, such as:

- Contingency planning
- Disaster planning
- Succession planning

Summary

The Integrated Strategic Planning *plus* (Execution) Metrics program at Lean Enterprise Partners is a coherent, comprehensive system combining strategy, planning, execution, and metrics. By integrating all these processes into a single system, we achieve the maximum impact and produce a flexible framework for continuously reviewing and revamping our strategy. It is a system for a continuous improvement of our business strategy — at all levels.

It spans the organization from the Board Room to the shop floor, from the Chairman to the hourly worker on the receiving dock. It provides a framework and process for developing a comprehensive strategy for your organization, disseminating the strategy throughout the organization, and allows everyone within the organization to understand how their efforts contribute to the organization and its goals.

Lean Enterprise Partners conducts it ISP+M program in partnership with all levels of your organization. Providing hands-on coaching and mentoring throughout the entire process. We guide you through the analytical process and business model selection. Working closely, even one-on-one with your team, we assist in developing your strategy and converting it into an actionable strategic plan.

We work at all levels in converting the strategic plan into operational and tactical plans, ensuring linkage at all levels. We guide you through selecting the appropriate metrics at all levels, again, ensuring the proper linkage. We demonstrate how all the pieces interact and why it is critical ALL components and processes interact for the effective execution and adjustments of your plan.

Our trained strategic planners have over 20-years direct strategic planning experience.

About the Author

Charles Woodcock is LEP Director of Operations — Strategy and Supply Chain

A trained strategist, analyst, and certified Project Management Professional (PMP) with over 20 years' experience in Strategic / Contingency Planning, Logistics Management (Supply Chain), and Analysis. Charles has led Strategic Planning sessions in multi-national corporations (Fortune 500 and Global 2,000).

Additionally, Charles has guided businesses through start-up process process, from concept development, strategic planning, business planning, funding, and initial operation. He has assisted other small-mid-size businesses (SMB) expand into multiple locations.

- Government – federal / state
- Chemical industry
- Oil exploration, and distribution
- Discreet manufacturing
- Process manufacturing
- Food service – preparation, distribution and retail
- Maritime
- Automotive
- Telecommunications
- Non-profit organizations
- Financial services
- Insurance
- Information technology

Charles has held line and executive management positions in logistical functions– including distribution centers, airfreight operations, and seaport operations, where he managed multi-national workforces US and overseas locations.

Charles was a key member of the Program Management Office (PMO) which won a Malcolm Baldrige Award.

About LEP

Established in 1998, LEP is transforming businesses by solving today's challenges and planning tomorrow's success. We base our success on helping companies achieve real change and strategy for sustainable success.

LEP has a solid, distinguished reputation for:

- Skilled consultants and staff who are truly experts selected for your specific needs
- Implementing sustainable, holistic solutions
- Guaranteeing and achieving a ROI of 300% for you in the first year.

Communicate. Innovate. Accelerate.

Contact Us

lep-llc.com
(312) 836-3785
info@lep-llc.com