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# **STRATEGIC PLANNING: BEST PRACTICES AND BEYOND**

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**Client workshop document (release 2.0)**

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# TODAY'S DISCUSSION

- Background
- Key findings from best practices
- Reinventing strategic planning
- Organizing to do strategic planning
- How to get started

# WHAT DO WE MEAN BY STRATEGIC PLANNING?

## ***Strategy is***

The handful of decisions that...

- Largely or entirely drive most of the subsequent decisions and actions of the firm
- Have the greatest impact on whether the firm's objectives will be achieved

## ***Strategic planning is the process by which those decisions get made, whether***

- Formally
- Informally
- Top down
- Bottom up

# **MANY COMPANIES HAVE ISSUES WITH THEIR STRATEGIC PLANNING PROCESSES**

- **Formal processes are time consuming with little value added**
  - **Few good ideas emerge**
  - **Paper and numbers driven**
  - **More tactical than truly strategic**
- **Informal processes very ad hoc**
  - **More reactive than proactive and shaping**
  - **Insufficiently fact based**
  - **Poor institutional learning**
- **Poor linkages to other processes**  
**(budgeting, people, performance management, capital)**
- **Lack of clarity on roles (corporate center, business units, groups)**

# PLANNING HAS GONE THROUGH 3 ERAS



**1970's**  
**Central planning**



**1990's - 2000**  
**Loose-tight approach**



**1980's**  
**Planning is dead, let 1000  
flowers bloom**

# MCKINSEY IS RESEARCHING PLANNING FROM 3 ANGLES

## ***Best practice cases***

- 26 companies
- Variety of industries

## ***Academic research***

- Strategy
- Organization
- Innovation
- Learning/creativity



Emerging  
views on  
reinventing  
strategic  
planning

## ***McKinsey experience***

- How to improve planning

# WE ANALYZED STRATEGIC PLANNING AT 26 COMPANIES

WORK IN PROGRESS

## Multibusiness



**TEXTRON**



## Other good planning companies



## Technology



- Criteria
  - Reputation for planning
  - Long-term performance
- Sources
  - Interviews
  - McKinsey data and experience
  - Academic work
  - Public data
- Examined at varying depths
- No one company perfect in all aspects
- Can draw “composite” picture

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# SOME COMPANIES GOOD AT USING PLANNING FOR OPERATING STRATEGICALLY...

## *Examples*



## *Characteristics*

- Highly disciplined formal planning processes
- Calendar driven
- Focus on linkages to other processes (e.g., performance management, people, capital)
- Strategy by analysis

# ...OTHER COMPANIES GOOD AT USING PLANNING FOR INNOVATING STRATEGICALLY...

## **Examples**



## **Characteristics**

- Highly fluid, informal processes
- Topic and event driven
- Focus on creating the context and conditions for innovation
- Strategy by experiment

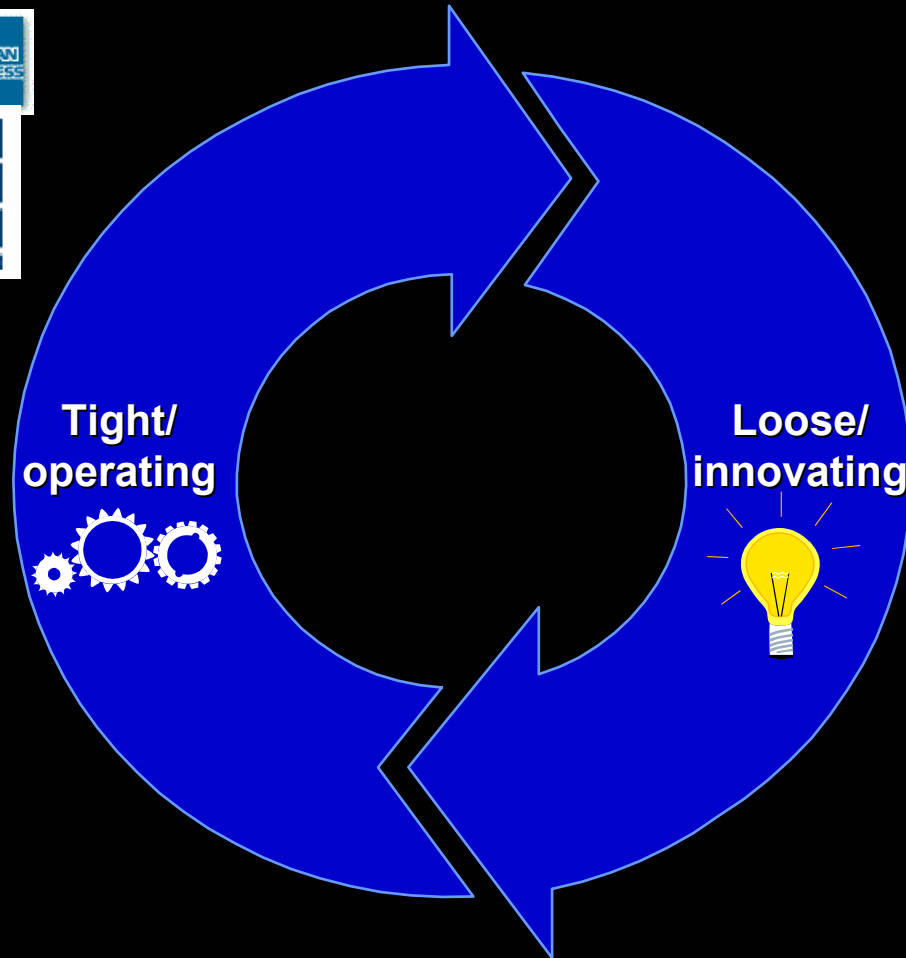
## **... ALMOST ALL SHARE SOME COMMON CHARACTERISTICS**

- **Process creates challenge – brings the market inside**
- **Transparency 2-3 levels down in organization/little filtering**
- **Those who carry out strategy also make it**
- **Emphasis on creating the right conversations, not paper**
- **Fact-based approach**
- **Insight comes from asking right questions**
- **Behaviors/culture matter a lot**
- **Process creates learning, “prepared minds”**
- **Substantial involvement of CEO/senior leadership**

# CAN WE COMBINE THE BEST OF BOTH OPERATING AND INNOVATING STYLES OF STRATEGY DEVELOPMENT?



- Formal
- Calendar driven
- Disciplined
- Tightly linked



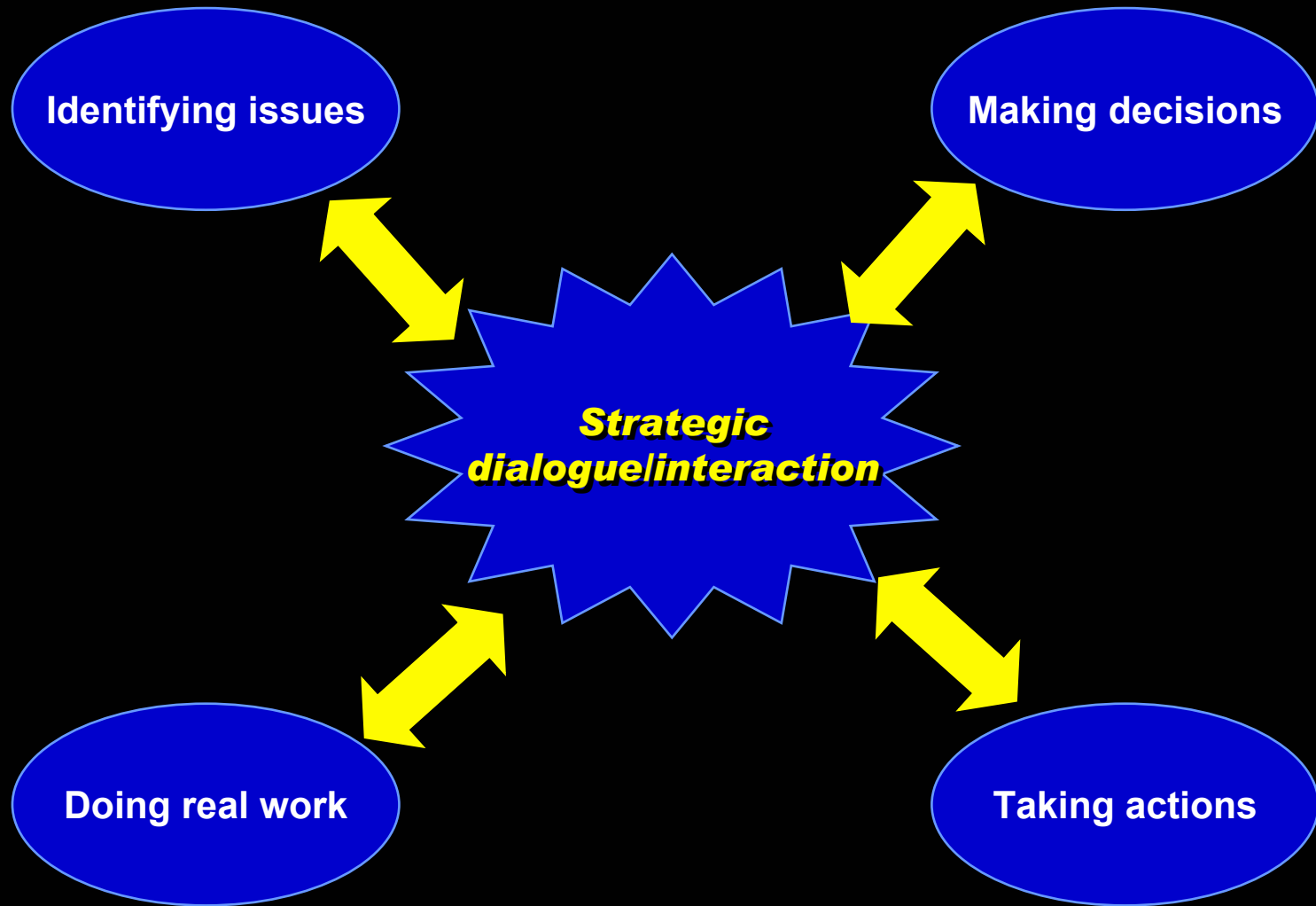
- Informal
- Topic/event driven
- Creative
- Free to experiment



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# STRATEGY DEVELOPMENT IS ABOUT ARCHITECTING THE RIGHT DIALOGUES/INTERACTION

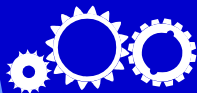


# THREE CORE INTERACTIONS IN LOOSE-TIGHT PLANNING

Calendar driven  
strategy reviews

“How is our strategy  
working? What has  
changed? What  
decisions do we  
need to make?”

**Tight/  
operating**



Clean sheet  
strategy development  
“If we put all  
assumptions aside and  
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what should our  
strategy be?”

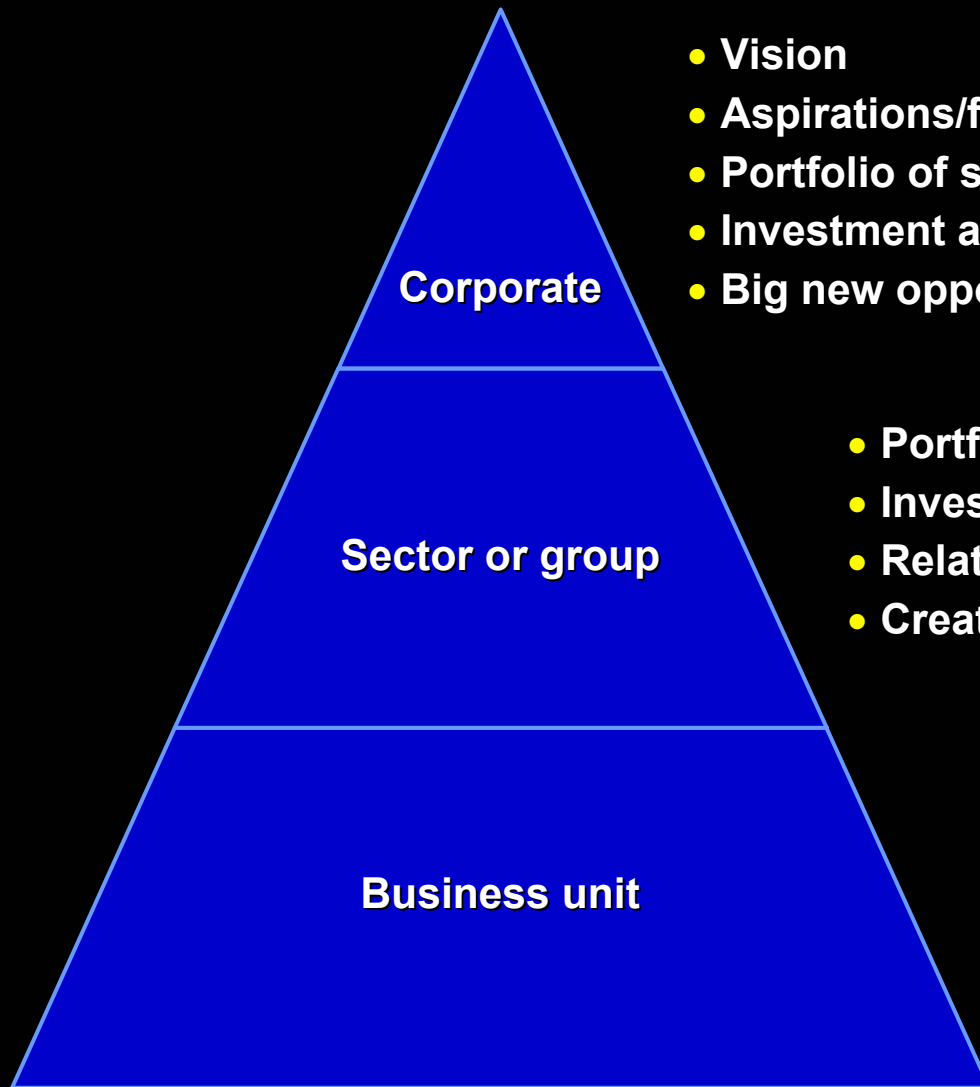
**Loose/  
innovating**



Topic driven analyses/  
experimentation

“What should we do  
about (e.g., internet,  
Asia, deregulation)?  
What experiments  
should we run to find  
out?”

# **ALL THREE INTERACTIONS NEEDED AT ALL THREE LEVELS OF ORGANIZATION, BUT ISSUES DIFFER**

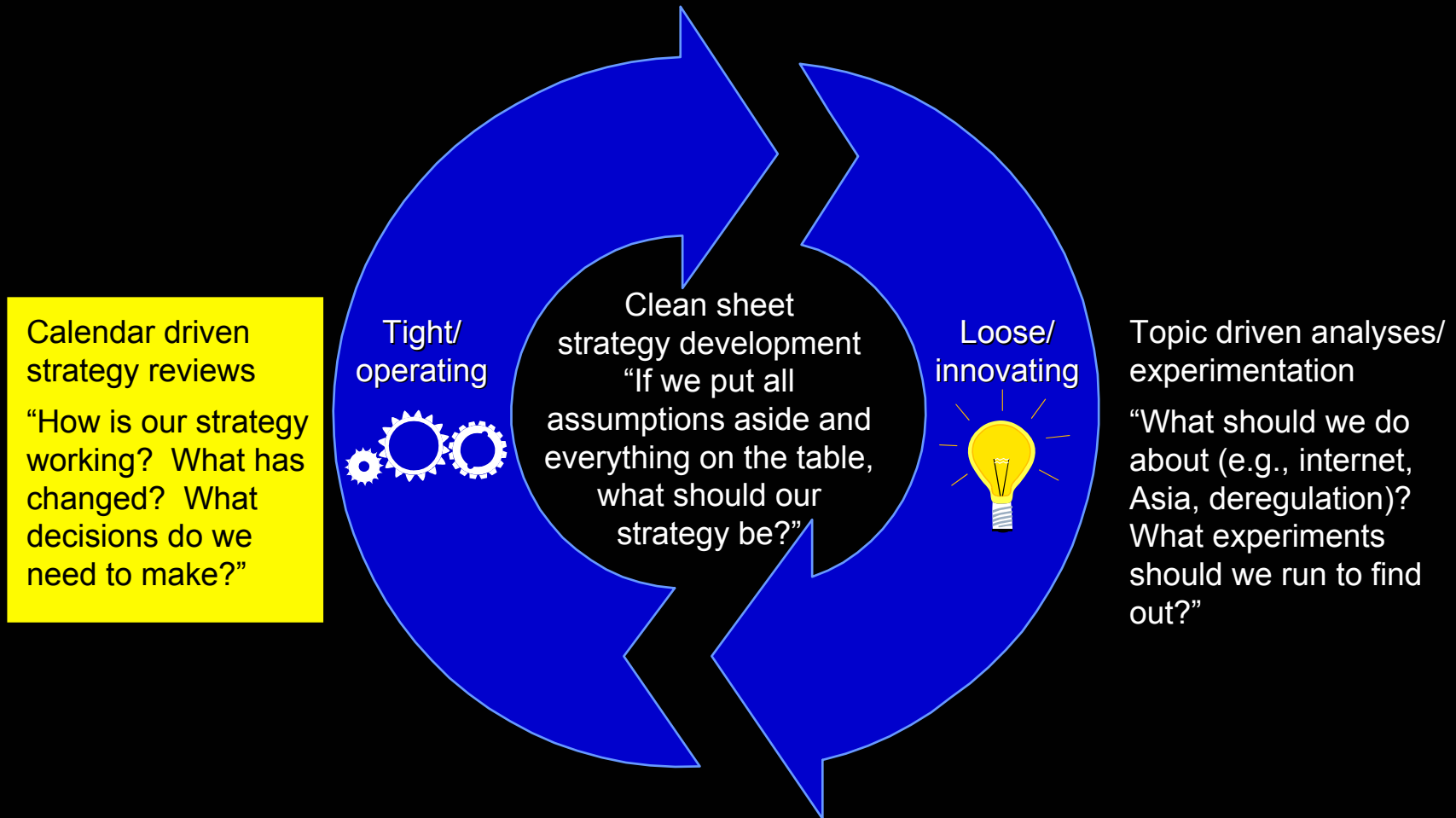


- Vision
- Aspirations/financial targets
- Portfolio of sectors and businesses
- Investment allocation
- Big new opportunities

- Portfolio of businesses
- Investment allocation
- Related growth
- Creating and capturing synergies

- Which products, markets, and geographies to compete in
- How to compete
  - Value proposition
  - Sources of competitive advantage
- Related growth

# THREE CORE INTERACTIONS IN LOOSE-TIGHT PLANNING



# ANNUAL STRATEGY REVIEWS ARE VERY INTENSE AND CHALLENGING

BUSINESS UNIT EXAMPLE



- Disciplined annual cycle
  - Intense preparation
  - Pre-review meetings
- One for every business unit and sector/group
- Separate from budgeting/financial planning reviews
- Full-day, often at business unit site
- Run by CEO and/or other corporate leaders (COO, Vice Chairmen)
- Limited attendance, small enough for real discussion
- Very intense atmosphere
  - Not “dog and pony show”
  - Material sent in advance
  - Engaged, substantive discussion
  - Push-back expected/prepared for by business leaders
  - Immediate feed back
- Focus on real strategy not near-term numbers



# DEFINING THE STANDARDS OF STRATEGY (1/2)

## Strategy Components

### *Vision (guidance)*

- Simple and unambiguous
- Truly compelling
- Inspiring/ mobilizing

### *Playing field (market orientation)*

- Building on deep understanding of
  - Consumers' needs, attitudes/customer
  - Industry trends/ uncertainties
  - Technologies
- Describing market scenarios
- Specifying what the business will NOT do

### *Aspirations/ targets (profitability)*

- Ambitious/ stretching
- Realistic
- Meaningfully improving competitive situation
- Pushing company towards chosen vision
- Solid vs. customers / competitors/ suppliers' reactions
- Fact-based

## Strategic vision and objectives

## Strategic plans

- At a minimum containing level 1 vision
- Compatible between franchises
- Classifying "*Where to compete*" choices
  - Product categories
  - Consumer/customer segments
  - Channel strategies
  - Source of competitive advantage (e.g., professional endorsement)
  - Resources focus
  - Options / robust vs. different scenarios
- Specifying "*How to compete*" choices
  - Clear and distinctive value proposition per product
  - Positioning for each product
  - Complementary role between products and clear role in portfolio
  - Target share of total profit pool
  - Resources and target split by product/market
  - Project returns for each scenario

Cascading process

# DEFINING THE STANDARDS OF STRATEGY (2/2)

## Strategy Components

## Strategic vision and objectives

## Strategic plans

### ***Growth model (profitability)***

- Balancing growth in the core business with the creation of new, fast-growing businesses and with options for the future
- Overall strategy more than aggregation of BU strategic plans

### ***Operating principles (feasibility)***

- Outlining why and how value will be created
- Building on organizational capabilities and competitive advantages
- Outlining necessary supporting investments (e.g., M&A, L&A)

**Cascading process**

- Specifying "*When to compete*" options
  - Timing of each strategic component
  - Fall back positions and triggering criteria
  - Relation to achievement of growth aspirations
- Describing key strategic initiatives to compete
  - Availability of organizational capabilities and actions to bridge gaps
  - Key actions to undergo in market in near term (e.g., product launches)

# EXAMPLE ANNUAL REVIEW MEETINGS



- Annual review process
  - ½ day to full day session
  - Attended by 2-5 business managers plus 6 top corporate executives and staff VPs
  - Welch attends larger units annually, smaller units periodically



- Annual 2-day strategy meeting between each division president and top corporate executives



- CEO personally reviews strategies of 27 operating units for full day once per year

# EXAMPLE ANNUAL REVIEW AGENDA

## Attending:

- CEO
- Group President
- Business President
- Corp. VP Strategy
- Business heads of finance, marketing, human resources, others as needed

9:00 am – 10:00 am

- Review of last year's goals and progress against goals

10:00 am – 12:00 pm

- Changes in environment
  - Competitors
  - Customers
  - Technology
  - Regulation

12:00 pm – 3:00 pm

- Strategy discussion
  - Where, when, how to compete
  - Action plan

3:00 pm – 5:00 pm

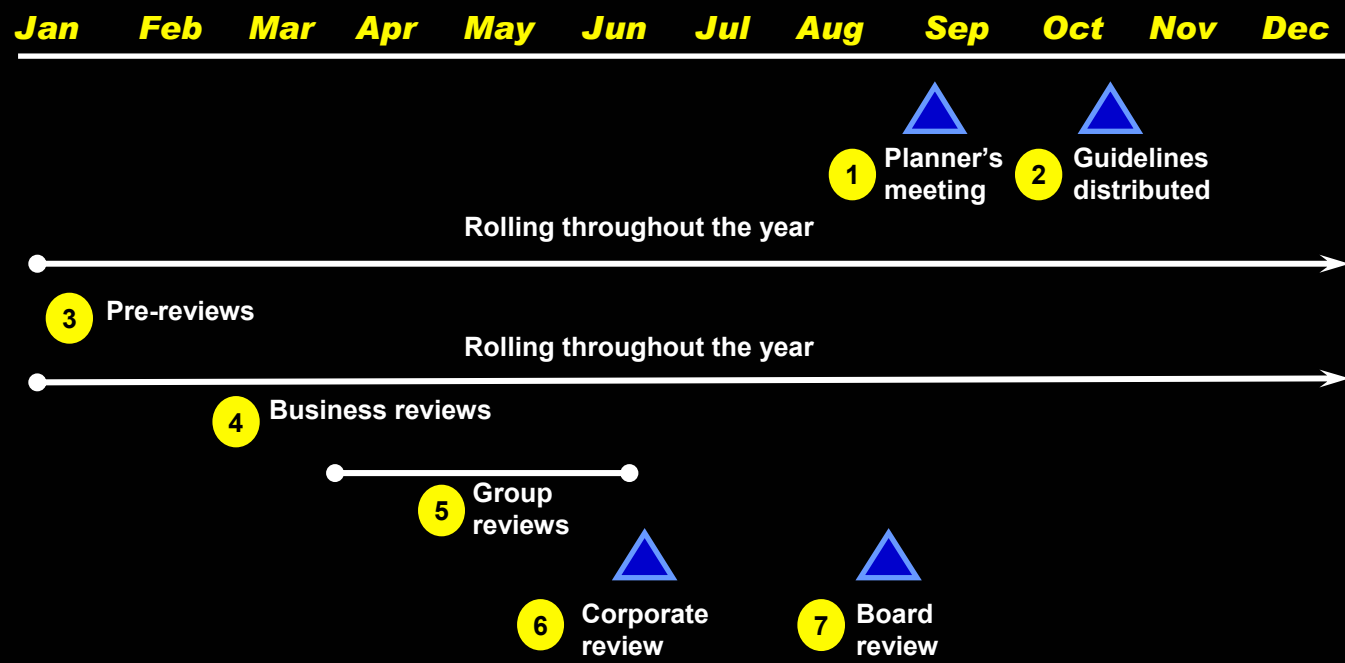
- Key decisions for next 1-5 years
  - Investments
  - People development

5:00 pm – 6:00 pm

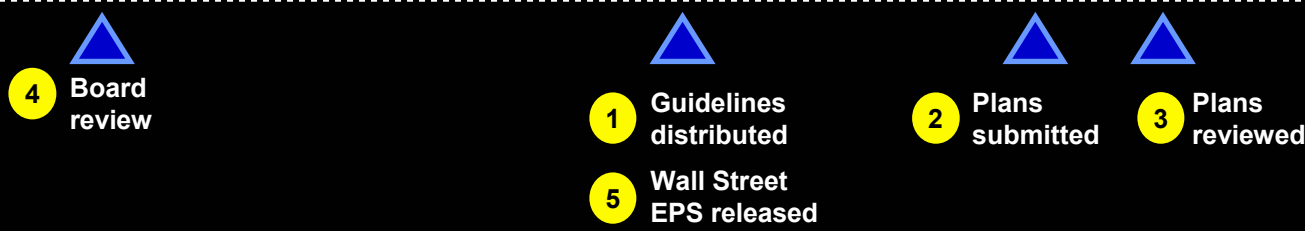
- Action plans and commitments

# EXAMPLE ANNUAL CYCLE

## Strategic Reviews



## Operating/Financial Reviews

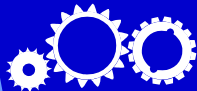


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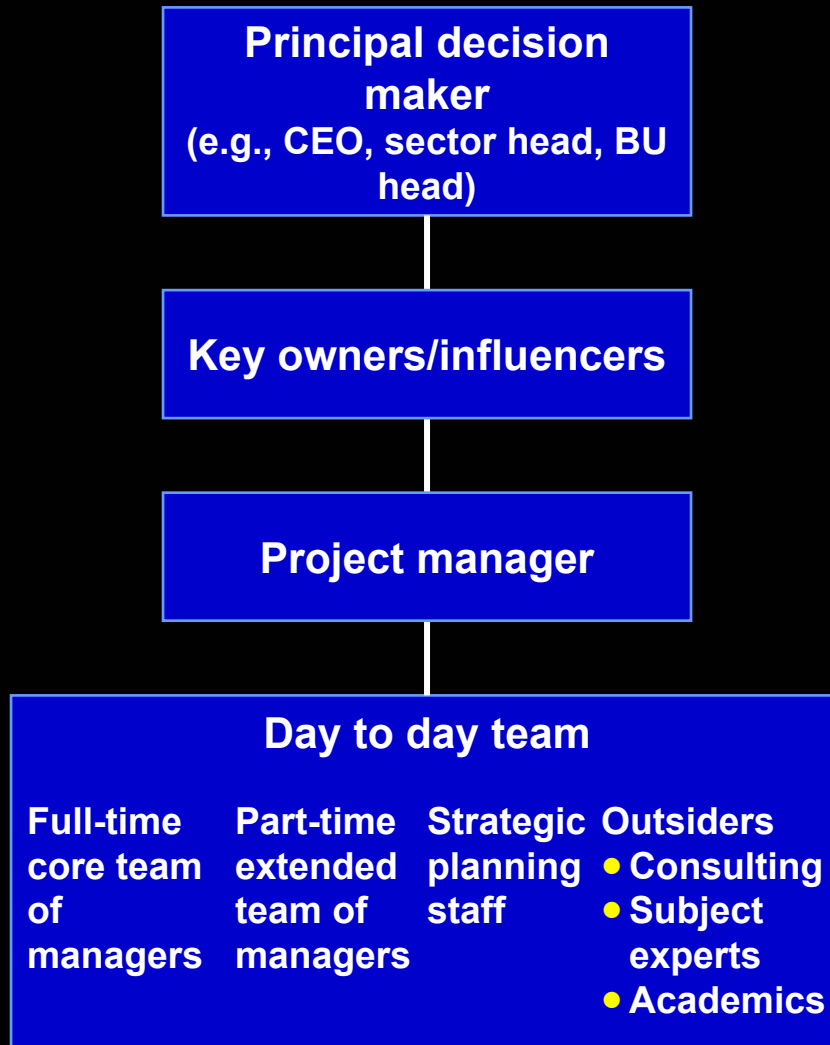
Topic driven analyses/  
experimentation

“What should we do  
about (e.g., internet,  
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## **CLEAN SHEET REVIEWS OFTEN NEEDED WHEN...**

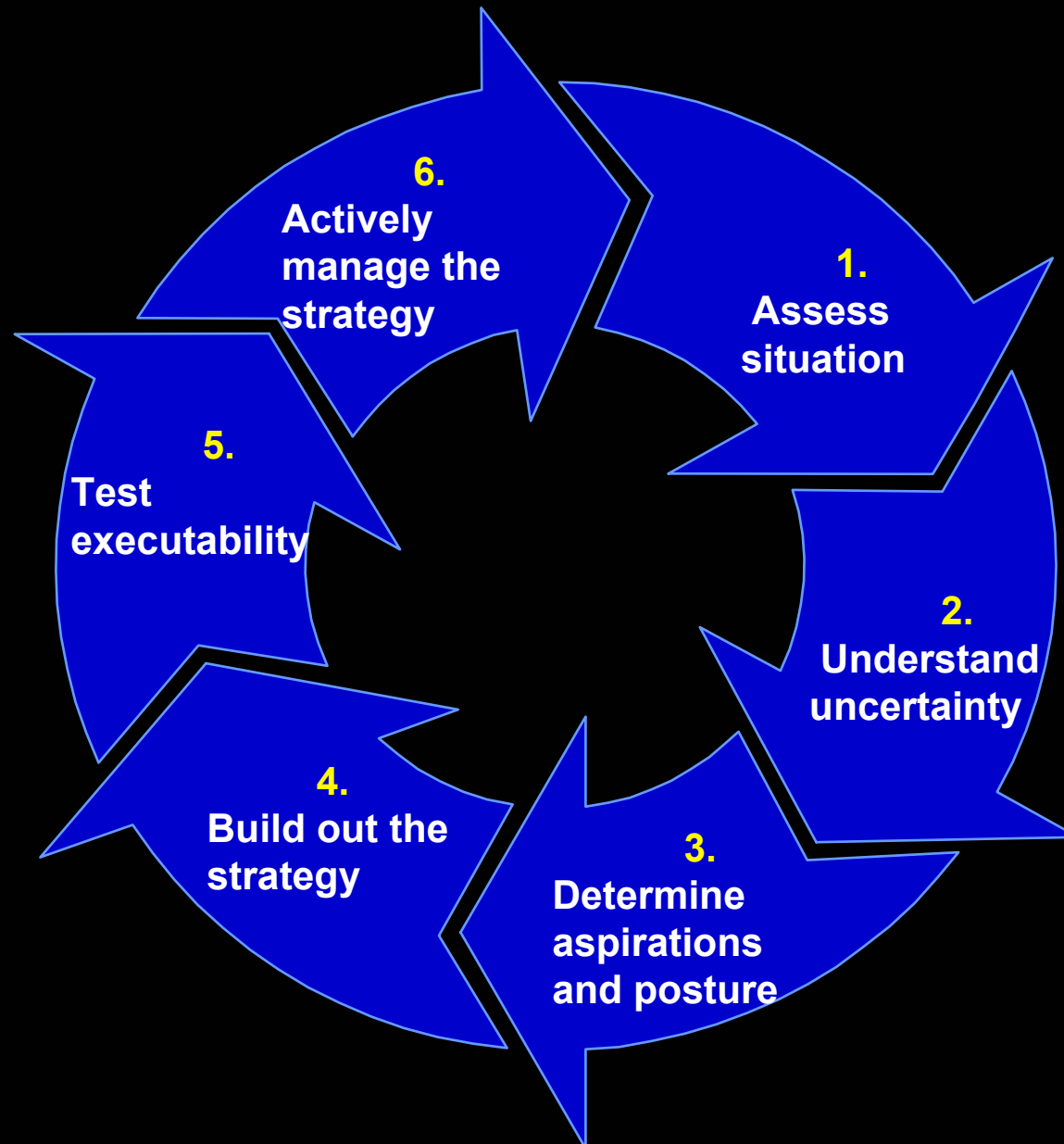
- **Significant changes in the external environment, e.g.,**
  - **Competitor actions**
  - **Customer/consumer needs/tastes**
  - **Technology**
  - **Regulation**
- **Significant changes in internal situation, e.g.,**
  - **Management change**
  - **Major “bet the farm” decisions coming up**
  - **End of a product life cycle**
- **One hasn’t been done in a while (e.g., 3-7 years)**

# EXAMPLE TEAM FOR CLEAN SHEET STRATEGY DEVELOPMENT



- Intense 3-6 month process
- Everything on the table
- Principal personally drives, commits significant time
- Key owners/influencers do real work, don't just review
- Break/re-form mental models
  - External challenge
  - Multiple perspectives
  - Taps external expertise
  - Creative option generation
  - Robust evaluation of upside scenarios

# PROCESS FOR CLEAN SHEET STRATEGY DEVELOPMENT



# CONTENT OF STRATEGY SHOULD BE DYNAMIC AND RECOGNIZE UNCERTAINTY

## **Traditional strategy**



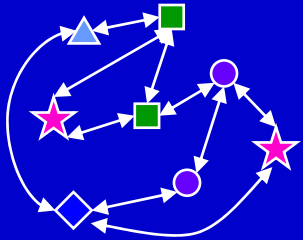
- Understand current state from company perspective
- 
- Assess forces at work
  - Make prediction about future
  - Design a strategy for success in future world
- Emphasis on logical incrementalism
- Clear strategy provides direction
- Value based on NPV

## **Dynamic strategy**

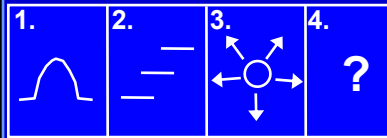


- Understand current state from multiple perspectives – challenges existing mental models
- Assess multiple possible futures
  - Build a robust portfolio of strategies
  - Prepare for the unforecastable
- Portfolio ranging from incremental to change the game
- Vision provides common aspiration and context; multiple strategies provide create tension
- Value as options

# TOOLS FOR MAKING STRATEGY MORE DYNAMIC AND MANAGING UNCERTAINTY



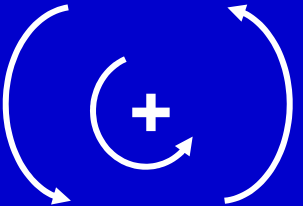
Agent maps/agent-based modeling



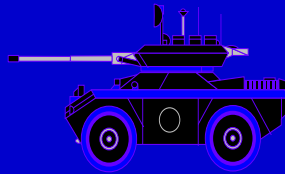
Uncertainty frameworks



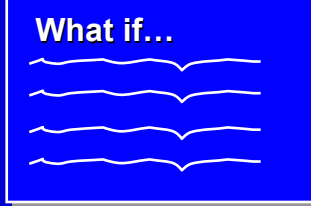
Strategy portfolio management



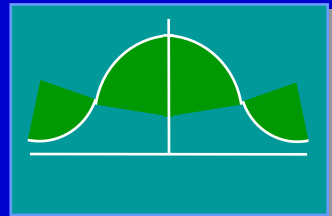
Business dynamics



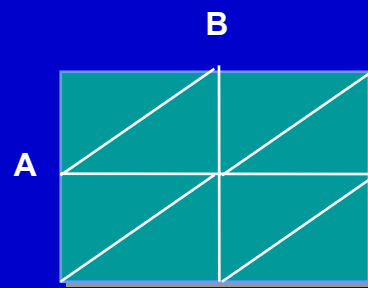
War games



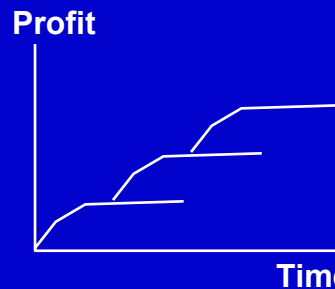
Scenario analysis



Real options valuation



Game theory



Growth frameworks

- New tools can
  - Change thinking
  - Generate new ideas
  - Make strategies more dynamic and robust
- Implement new tools via formal training, bringing in “expert skills,” learning by doing

# SEEK OUT PRODUCTIVE CHALLENGE

## ***Assures good strategies***

- Tests assumptions about the market (customers, competitors, regulation, technologies)
- Adds creative insight
- Checks that full range of strategic choices is considered (from "divest" to "grow at 3x the planned rate")
- Pushes the boundaries on upside potential and downside risks
- Forces honest assessment of business's strengths and weaknesses

## ***Assures good process***

- Verifies that short-term budgets reflect required investment to achieve longer-term strategic objectives
- Forces rigorous, fact-based analysis
- Provides feedback to strategic planning leaders
- Lends credibility to conclusions/direction

# EXAMPLES OF CHALLENGE QUESTIONS

## ***Assumptions/scope***

- Which assumptions about market trends, competitor behavior, new entrants, changes in technology and customer needs have you made? If you are wrong, how would this affect your strategy?
- What have you assumed about what opportunities your competitors are going to go after in the same period?
- What are the most important trends that could force you to change the way you do business now?
- If you had to triple your growth, which new businesses would you enter?
- What is the definition of the market you are in and what is the logic behind that? What new uses for your products/ technologies have you explored?

# EXAMPLES OF CHALLENGE QUESTIONS

## **Choices**

- What strategic choices are you making with this plan? What choices or ideas are you rejecting? What is the rationale? Under what situation would you choose differently?
- Are you pursuing growth aggressively enough? Are you compromising growth by inadequate resourcing?
- Can you reverse a basic assumption held by the industry? How and to what benefit?
- How are your plans the same or different from your competition? How will you assure a distinctive value proposition?

# EXAMPLES OF CHALLENGE QUESTIONS

## **Process**

- How many customers did you interview? How many non-customers?
- How were markets around the world understood/involved?
- What main approaches were used to develop creative/breakthrough strategies?
- How have you ensured that the strategic initiatives have been resourced?

# CHALLENGE EVENTS

ILLUSTRATIVE

## Example 2-day “challenge event”

### Day 1

### Day 2

- Challenge existing worldview, assumptions, strategies
- In-depth preparations
  - Teams led by business leaders
  - Extensive external input
  - Explicit focus on “contra views”
- Very intense atmosphere
  - Engaged, substantive discussion
  - Push-back expected/ prepared for by business leaders

#### “War games” among major competitors

- Competitor 1
- Competitor 2
- Competitor 3

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Key take-aways

#### New entrants and non-traditional competitors

- “Shapers”
- Change one game
- Break-through new business system designs

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Key take-aways

#### “Disruptive technologies”

- Current evolution of ecologies of technologies
- Potential disruptive technologies
- How they could affect current strategies/ business models

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Key take-aways

#### Evolving regulatory landscape

- Key stakeholders
- Alternate strategies

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Key take-aways

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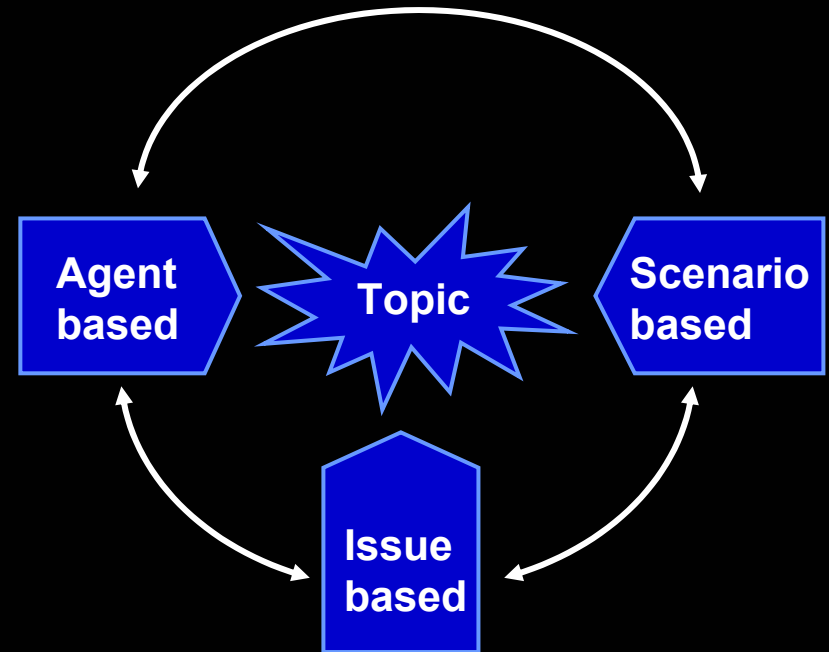
“What should we do  
about (e.g., internet,  
Asia, deregulation)?  
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out?”

# TOPIC-DRIVEN STRATEGY – PROCESSES AND LENSES

## Processes

Intensity	Number of people	
	Few	Many
Low	Ad-hoc “hallway” strategy	Special meetings/ conferences
High	Task forces/ SWAT teams	“Conversations”

## Lenses




# EXAMPLE OF SPECIAL MEETINGS/CONFERENCES – MONSANTO'S GLOBAL FORUM



- Objectives
  - Open up mental models
  - Raise issues
  - Set context for future work
- “Diagonal slice” of the global organization (500 people)
  - Plant operators
  - BU heads
  - Field sales managers
  - Functional leaders
  - Technology experts
  - Senior executives
- Extensive pre-reading and preparation
- 3 days off-site
- 4 clear themes for breakout groups (generating large set of ideas)
  - Anticipating the future
  - Innovating and growing
  - Securing the base
  - Globalizing
- Provocative use of scenarios
- Numerous outside participants

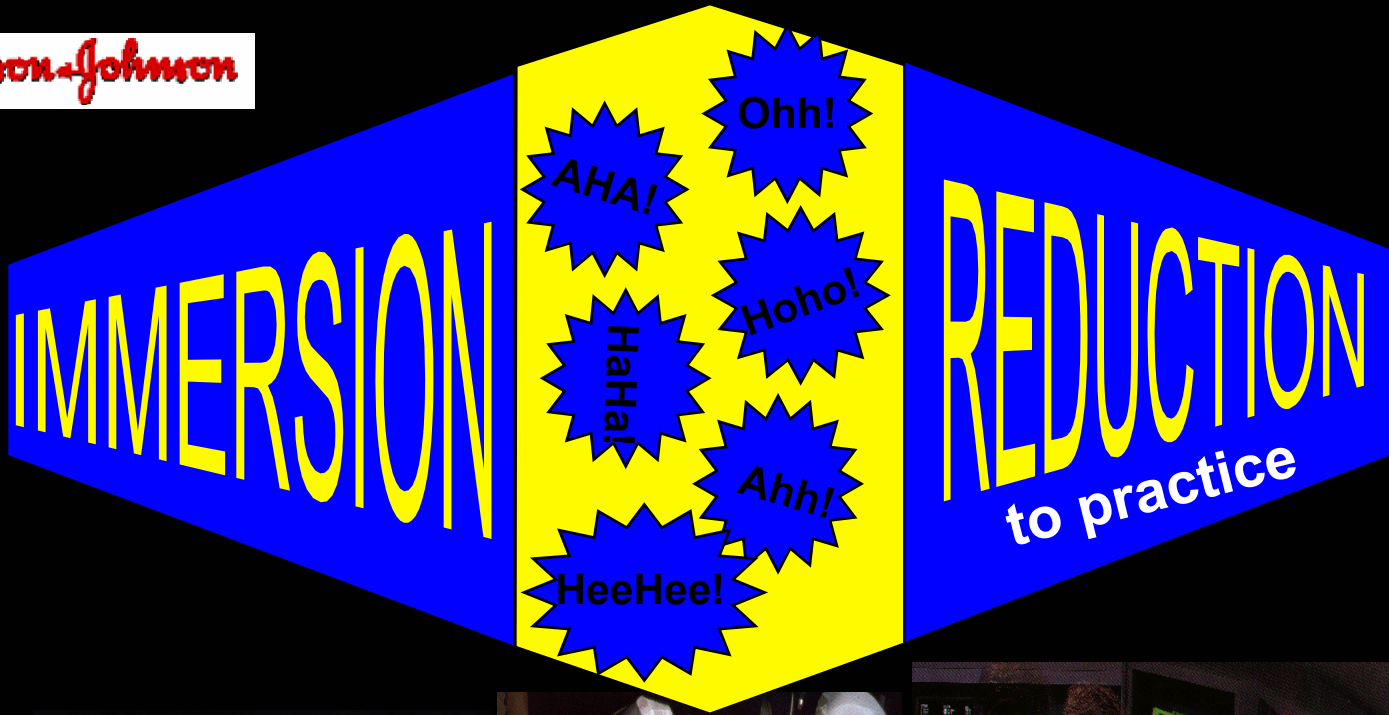
# EXAMPLE – J&J “CONVERSATIONS” A VEHICLE FOR “OUT OF THE BOX” THINKING



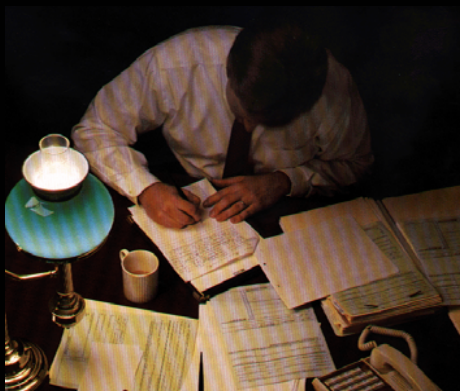
- 
- An illustration of three people (two men and one woman) sitting around a dark brown table, engaged in a discussion. The woman on the left is wearing a pink jacket and glasses, holding a document. The man in the middle is wearing a grey suit and a blue tie. The man on the right is wearing a grey suit and a blue tie, also holding a document. Above them are several small blue ovals, suggesting a flow of conversation or ideas. A large blue oval on the right contains a bulleted list.
- A gathering of the best, most talented and creative people in the organization regardless of position
  - Free form discussion of “peers” – a “rap session”
  - Discussion around relevant/important issues with recommendations for action

# CONVERSATIONS: A PRACTICAL APPLICATION OF THE CREATIVE PROCESS

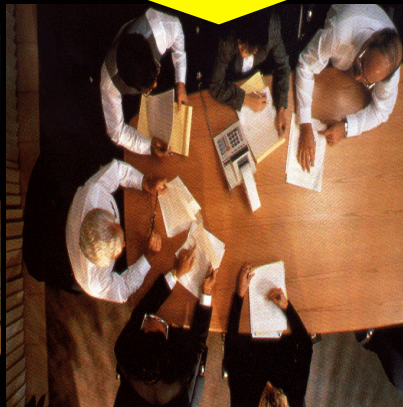
*Johnson-Johnson*



Designed  
to  
generate  
creative  
insight



- Preparation
- Incubation



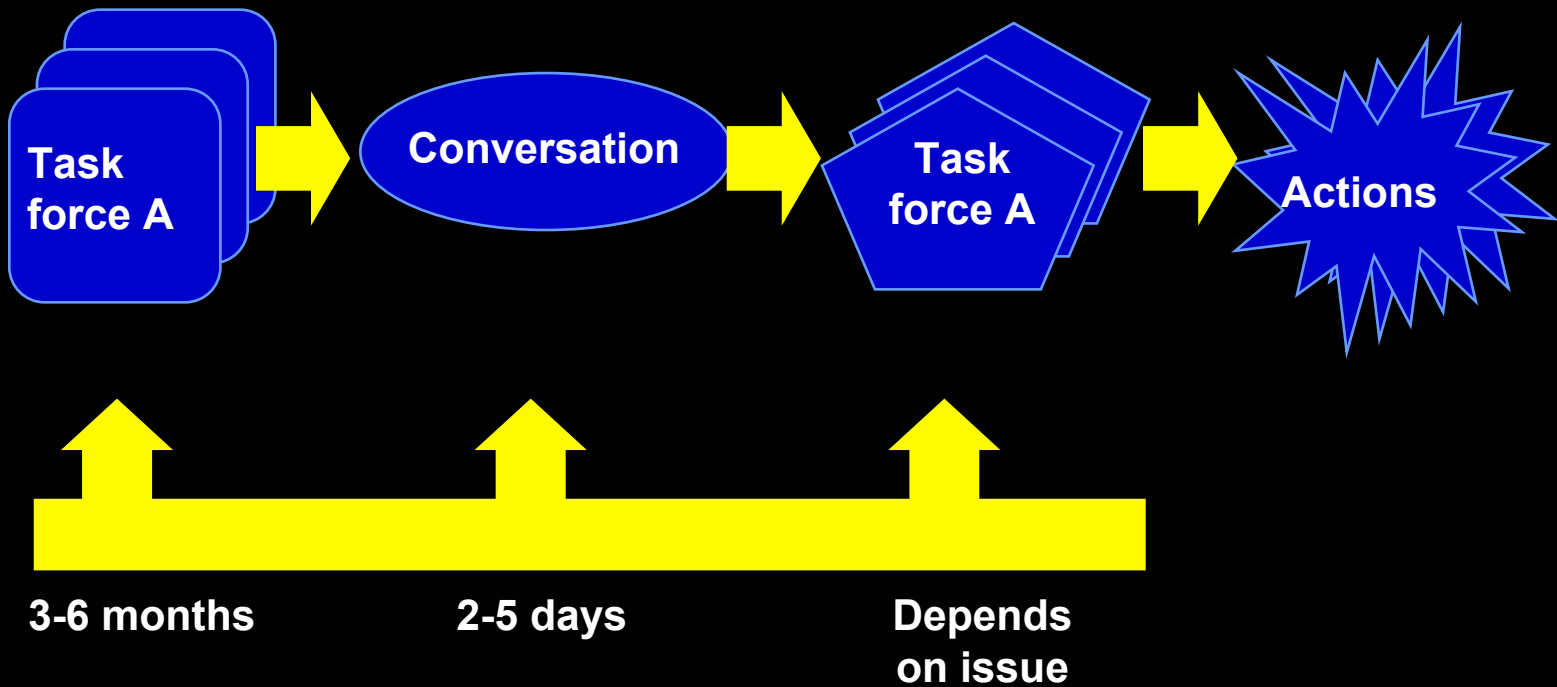
- Illumination



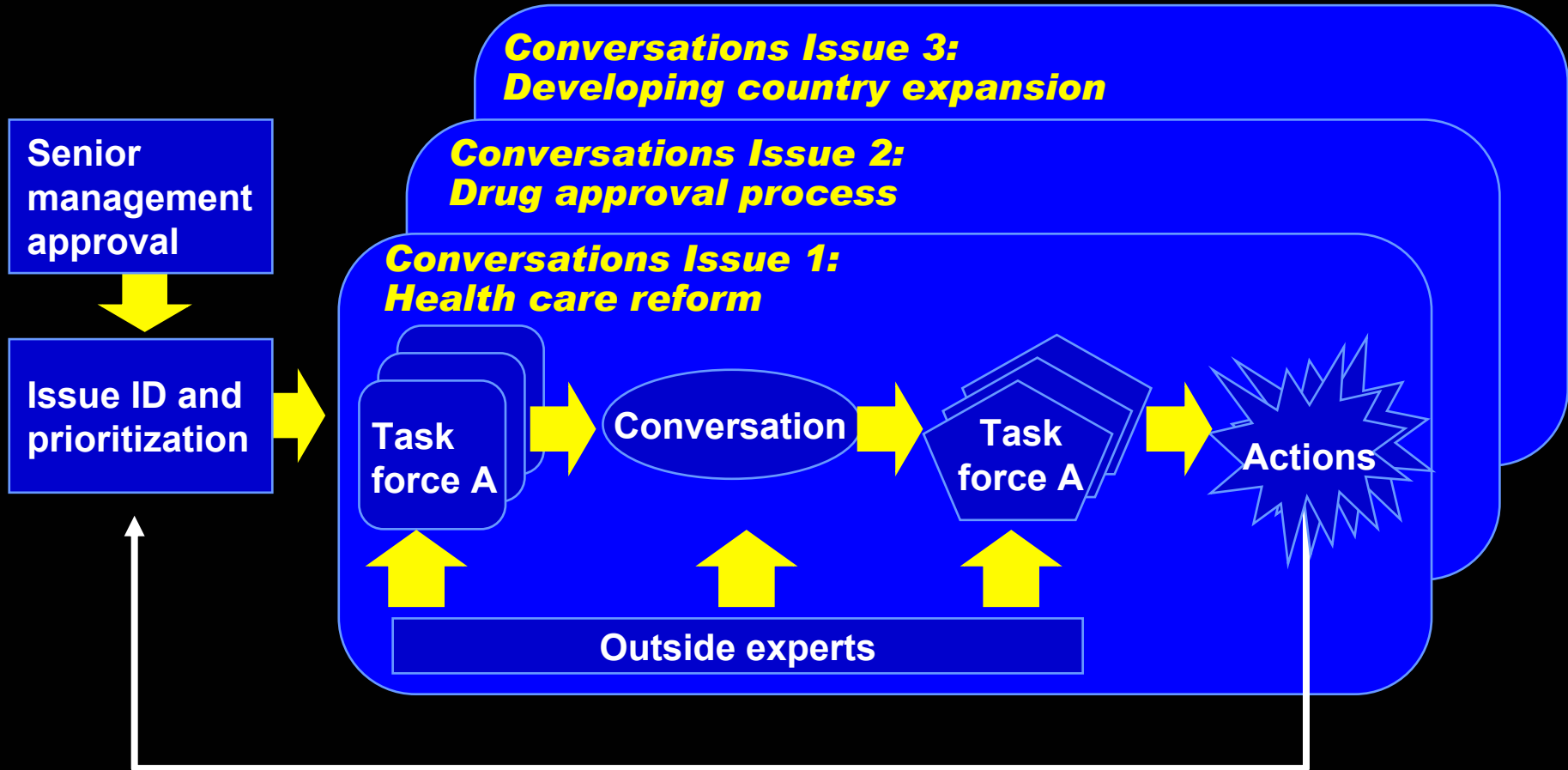
- Evaluation
- Elaboration

# CONVERSATIONS PROCESS AND TIMING

*Johnson+Johnson*



# CONVERSATIONS PROCESS FLOW

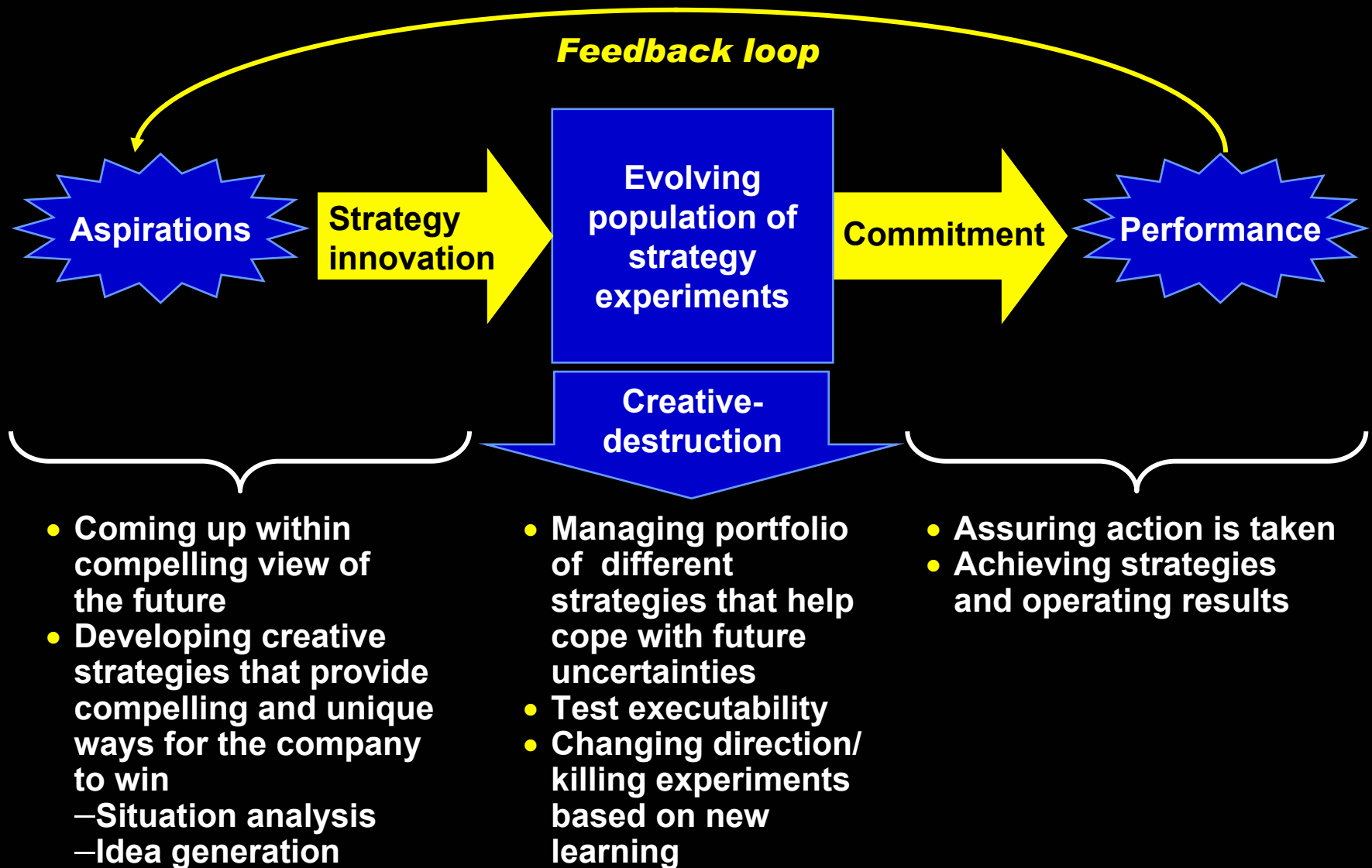


# KEY SUCCESS FACTORS IN “CONVERSATIONS”



1. Generating issues and “problem finding” rather than problem solving. Improving the quality of inputs rather than outputs
2. Looking at an issue from multiple different lenses, to “see the world as others see it”
3. Deep conversation coupled with periods of reflection
4. Long time periods (5-6 months of preparation). Action planning does not take place until AFTER the conversation itself.
5. Senior executives do real work
6. Experiential learning (such as external site visits)

# STRATEGY EXPERIMENTATION CRITICAL FOR GROWTH/MANAGING UNCERTAINTY



# **“READY-FIRE-AIM”**



**“Taken together, the Microsoft sites constitute the third-most-popular network on the Internet after America Online and Yahoo...”**

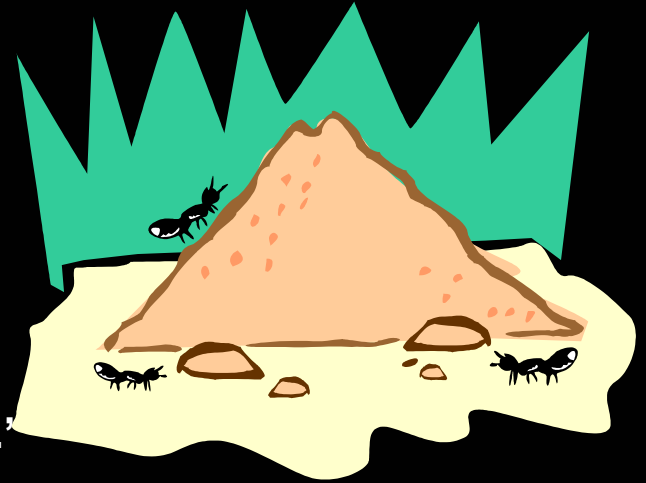
**Not that all this was planned. Microsoft is the master of the so-called ready-fire-aim business model. The company introduces a hastily conceived product and then... hunts down the bugs until a version of the product finally wins the minds, if not the hearts of the computing masses.”**

**– New York Times  
November 16, 1998**

# “FORAGING FOR GROWTH”



- “We have lots of people exploring, experimenting on a small scale.”
- “It’s okay to have lots of small failures.”
  - “If we’re forced to make a big bet, we failed earlier”
  - “We really learn from failures and reuse their components”
  - “We differentiate between failed experiments and failed people”
- “Swarm behind stuff that works”
  - “A bee convinces other bees to go to new food source by dancing – the more excited the dance the more food. Capital One looks for excitement.”



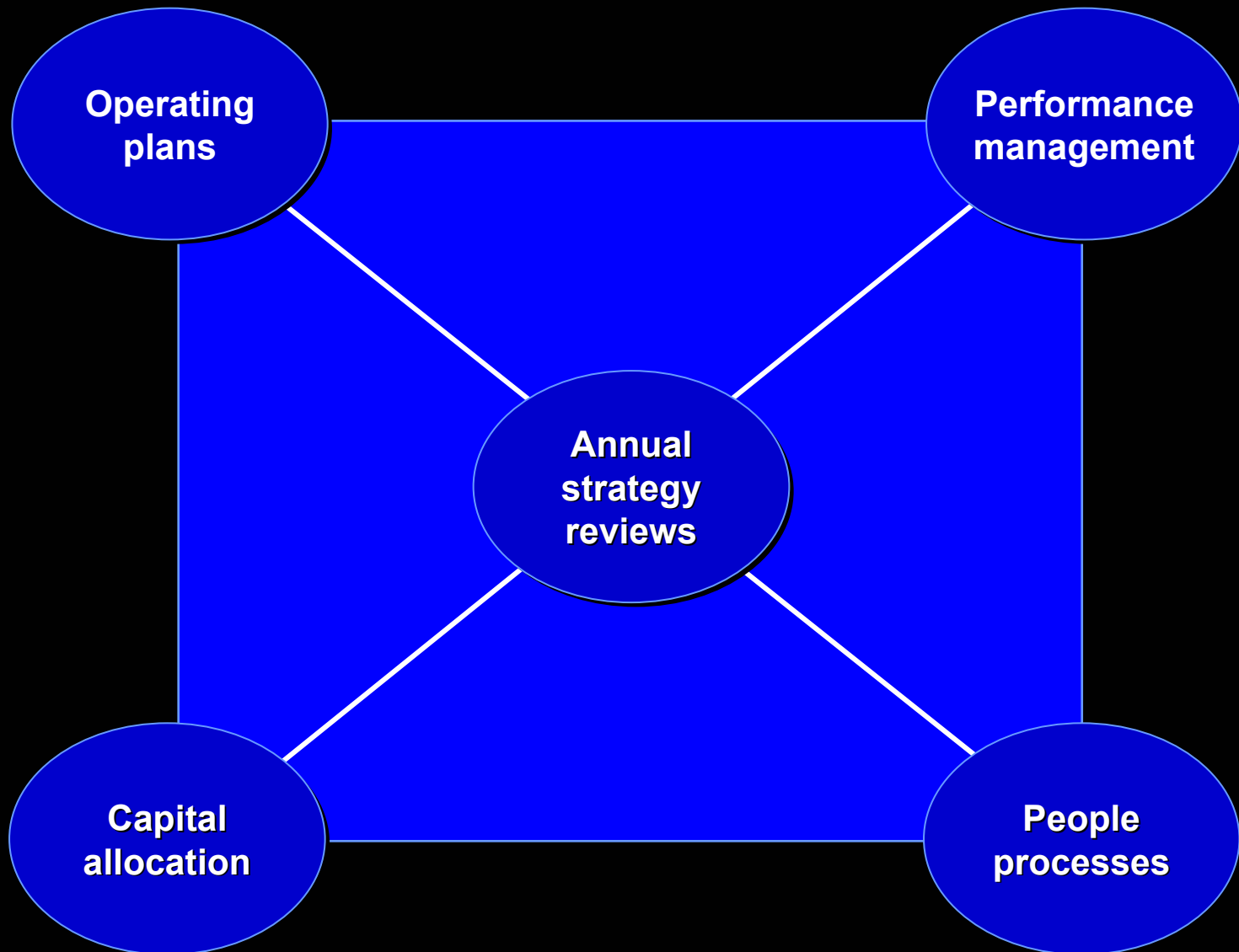
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- **Organizing to do strategic planning**
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# ORGANIZING TO DO STRATEGIC PLANNING

- Link with other management processes
- Role of top management
- Role of strategic planning group

# ANNUAL STRATEGY REVIEWS TIGHTLY LINKED TO OTHER KEY MANAGEMENT PROCESSES



# SEPARATE REVIEWS FOR STRATEGY AND OPERATING PLANNING

<b><i>Company</i></b>	<b><i>Strategic planning process</i></b>	<b><i>Operating planning process</i></b>
	<b>S1</b>	<b>S2</b>
	<b>Planning conferences</b>	<b>Operating reviews</b>
<b>TEXTRON</b>	<b>Strategic operating reviews</b>	<b>Multi-year plan</b>

# STRATEGIC PLANNING VS. OPERATIONAL PLANNING

## ***Strategic planning***

## ***Operational planning***

### ***Purpose***

- Ensure businesses, groups, and corporate have well thought-out strategies

- Provide operating targets and performance forecast

### ***Content***

- 5-7 year assessments of markets and competitive environments; strategies on where, when, and how to compete; 5-year financial projections

- 1-year detailed financial goals and assumptions (e.g., 1997 results and 1998 forecasts)

### ***Typical timing***

- Rolling calendar of reviews with group leaders and top management team throughout the year

- Prepared once during year; reviewed by group leaders and top management team during 1-2 week period

# PERFORMANCE MANAGEMENT-AGGRESSIVE TARGETS AND FOLLOW-UP CRITICAL



- “Once we fix our goals, we don’t consider it acceptable to miss them.”  
– *Chuck Knight, CEO*



- Aggressive targets are set for growth and profitability
- Pay scales show real differentiation by performance



- CEO writes 3-4 page letter after strategy review meetings to solidify agreement on targets and plans
- “[The letters] help us focus on the work we need to get done.”

– *Lawrence Bossidy, CEO*



- CEO personally takes detailed notes in review meetings
- Notes are circulated, incorporated in compensation goals
- CEO starts next year’s meeting with last year’s notes

# **BUSINESS STRATEGY ALSO TIGHTLY INTEGRATED WITH HR PLANNING**

<b><i>Event</i></b>	<b><i>Questions addressed</i></b>
Key driver reviews	What position/skills are strategic?
Business level talent reviews (done with strategic reviews)	Do we have the line business talent?
Corporate office talent reviews	Do we have the right corporate support?
Company wide review of “top 500” plus high- potentials	Do we have tomorrow’s leaders?
Board of Directors <ul style="list-style-type: none"><li>• Executive review</li><li>• Succession planning</li></ul>	How are today’s leaders performing?  Do we have a strong succession plan?

# CEO AND COO/CFO SHARE RESPONSIBILITIES IN STRATEGY AND PERFORMANCE MANAGEMENT

## ***CEO drives strategy and is corporate architect***

- Leads strategic planning process
- Drives strategic thinking

## ***COO/CFO oversee operational performance***

- Set goals and operational targets
- Manage operational effectiveness
- Resolve operational crises



- Grove focuses on direction of market and industry, strategic imperatives
- COO Barrett manages capital expenditures, monitors financial targets, and directs operations



- Hardymon drives annual business strategy reviews and corporate strategy review
- COO Campbell drives operating plan, goal setting, and operations reviews



- Goizueta drove overall strategy with a special focus on international marketing
- Ivester concentrated on financial performance, marketing issues, and operations, especially bottling
- Both worked closely as “co-strategists”

# CEO ROLE – BUSINESS AND GROUP STRATEGY

**Actively reaches  
into business and  
group strategy**



***“More than half of my time each year is blocked out strictly for planning”***

**– Chuck Knight**



**Managers spend 3 days every 6 months with CEO and top corporate team**



***“You’re either the best at what you do or you don’t do it for long.”***

**– Jack Welch**



***“Oh my god, now I’ve got to go eyeball to eyeball with this guy.”***

**– Employee referring to Gerstner**

**Creates intense  
challenging  
environment**

**Demands  
accountability/  
follow-through**

**TEXTRON**

**Hardymon and Campbell personally take detailed notes, start next year’s meeting with notes**



**Bossidy sends letter out summarizing “promises” after each review**

# CEOs INVEST SIGNIFICANT TIME IN PLANNING

**Example CEO time allocation – major multi-business company**

**100% = 3,600 hours**

**100% = 1,188 hours**

Developing people

20

Doing strategic planning

33

Monitoring business and group performance

22

25

Corporate strategy

35

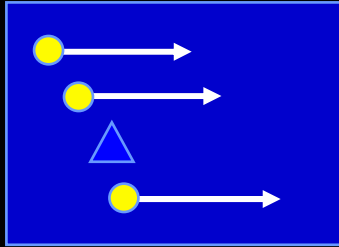
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Managing stakeholder relations, e.g.,

- Talking to customers
- Communicating with investors

Business and group strategy

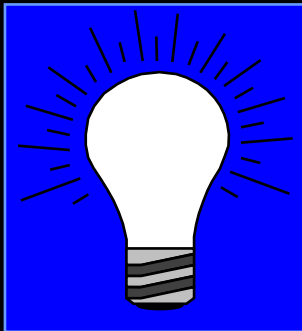
# 3 ROLES FOR CORPORATE STRATEGIC PLANNING STAFF



**Architects and keepers of the process –  
“Convenors of conversations”**

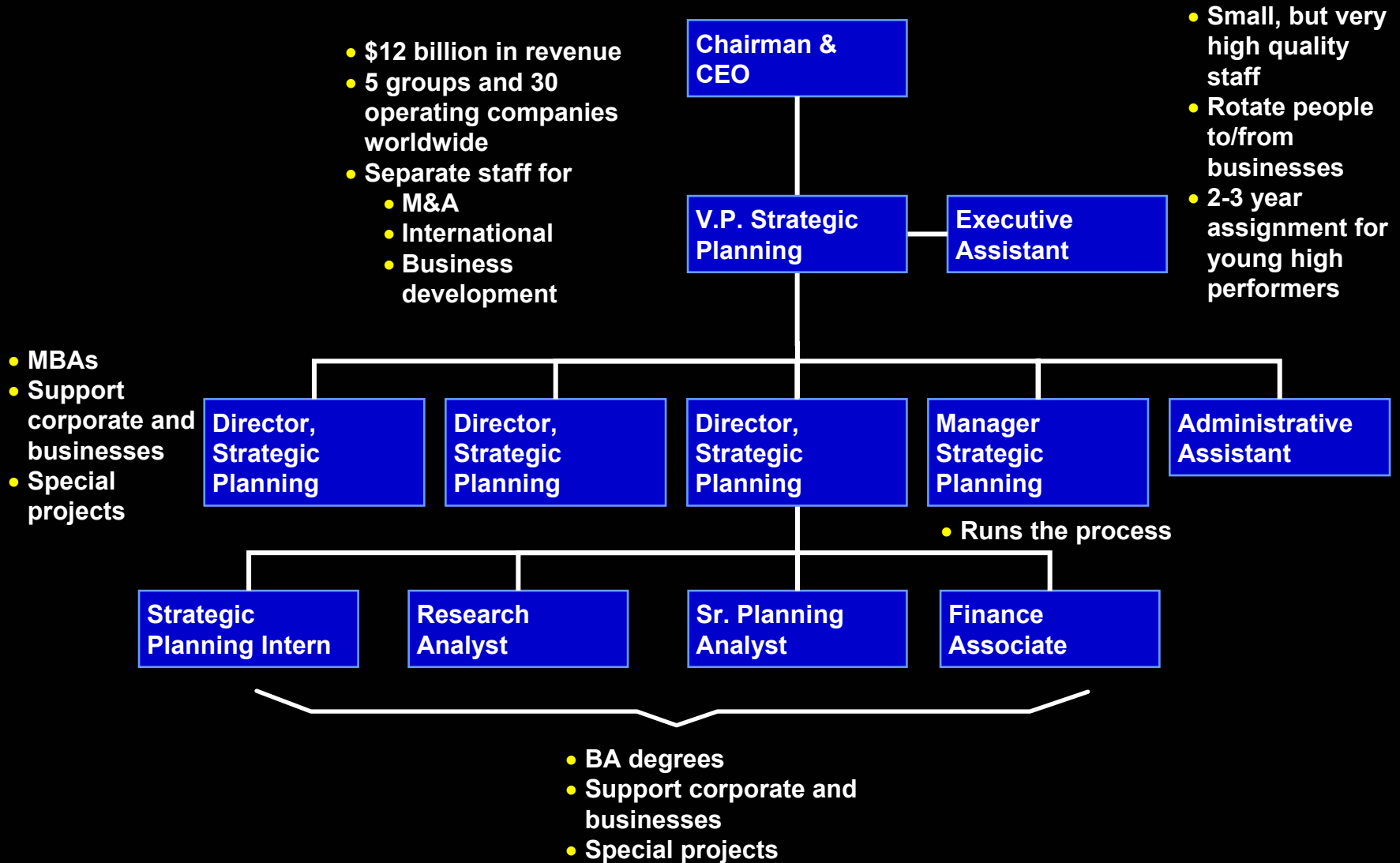


**Pool of high quality expertise for the  
corporation, sectors/groups, and  
business units**



**Counselors to the CEO/senior leadership**

# STRATEGIC PLANNING ORGANIZATION – BEST PRACTICE COMPANY EXAMPLE



# OTHER MODELS FOR CORPORATE PLANNING STAFF

## EXAMPLES

### **Motorola**

- Small corporate planning staff (2 year rotation of high potential managers) responsible for market information excellence
  - Quarterly economic market analyses
  - Connection to investors/VCs
- Corporate planning function ensures rigor
  - Sets planning guidelines
  - Assists with analysis
  - Challenges/reviews plans
  - Performs corporate roll-up to identify/measure gaps
- Bi-annual review of all plans with corporate board
- Business unit heads lead strategy planning process

### **Emerson Electric**

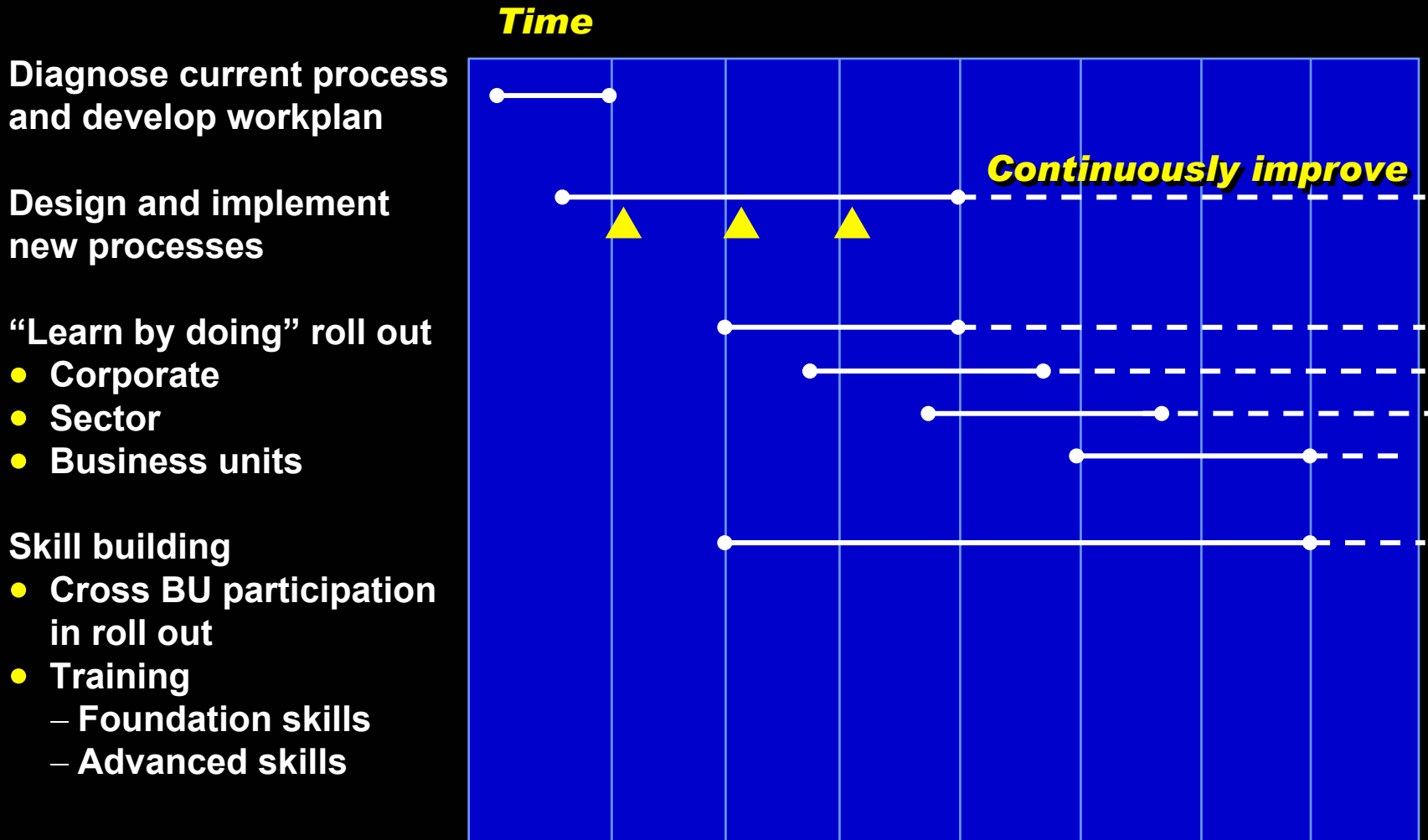
- Small corporate planning staff recommends business unit targets based on
  - Independent market knowledge/analysis
  - Gap analysis of corporate strategic roll-up
- Corporate planning staff responsible for focusing Board on issues vital to the business
- 1-2 day reviews of each strategy plan (bi-annual)
  - Open, honest, sometimes confrontational
  - With corporate senior management and planning staff
- Business unit presidents responsible for strategic planning

- Challenge and information excellence viewed as critical
- Decentralized plan development is engine of growth
- Gap analysis ensured at the top
- Use of corporate staff for analytical challenge (and management development)

# TODAY'S DISCUSSION

- Background
- Key findings from best practices
- Reinventing strategic planning
- Organizing to do strategic planning
- **How to get started**

# EXAMPLE PROGRAM FOR BUILDING STRATEGIC PLANNING CAPABILITIES



# SKILLS OF INDIVIDUAL MANAGERS MAY NEED TO BE DEVELOPED



## ***Foundation skills***

- Competitor analysis
- Customer analysis
- Environment scan
- Core capability assessment

## ***Advanced skills***

- Dynamic thinking
- Tools (e.g., agent maps, causal loops)
- Options valuation

# **RAISING THE LEVEL OF PLANNING – PITFALLS TO AVOID**

- **Underestimating the challenge of the change**
  - Overestimating starting point
  - Cultural/mindset change
  - Push-back from sectors, business units
  - Underscoping timeframe, resources
- **Failure to pilot new processes before roll-out**
- **Insufficient staff/consulting support to business units**
- **Poor communications with the organization**
- **Staff exercise, lack of business unit involvement**

# **RAISING THE LEVEL OF PLANNING – KEY SUCCESS FACTORS**

- **CEO/senior executive buy-in/leadership**
  - Belief in importance of strategy
  - Conviction of need to “raise our game”
  - Willingness to “break some eggs”
- **Understanding of starting point and step-by-step approach**
- **Customize general ideas to specifics of management style, strengths/weaknesses, industry**
- **Learn by doing on real problems**
- **Attention to “soft” issues – it is cultural mindset change as much as process change**
- **Appropriate time/resources invested**
- **Involvement of those who have “lived it” somewhere else**
  - Executives with expertise at best practice companies
  - New hires
  - Consultants

## **ADDITIONAL RESOURCES**

- 1. Contact strategy practice hotline – Sallie Honeychurch at (404) 335-4111**
- 2. Tools**
  - A. StrategyNet at <http://practice.intranet.mckinsey.com/strategy>**
  - B. Growth practice binder on “Developing a Growth Strategy” – good summary of tools available across the Firm with nearly 400 pages of detail (or see Growth Knowledge Net at <http://growth.web.mckinsey.com>)**
  - C. “Conversations” detailed description of conversations process PD Net# 17558**
  - D. “The Business Unit Strategy Handbook” (The Touchstone) draft 5, November 1996, PDNet 14815 (five forces, cost curves, SCP, etc.)**
  - E. The Microeconomics Frameworks book, September 1995. Electronic version is available on StrategyNet and hard copy is available from George Mantilla-FI at (212)415-1835**

## **APPENDIX – SELECTED COMPANY EXAMPLES**

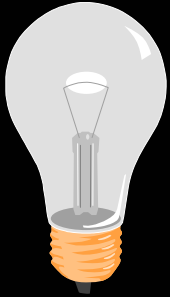
# 3 TYPES OF STRATEGIC PLANNING PROCESSES AT CONSUMER PRODUCTS COMPANY

EXAMPLE

	<b>Approach</b>	<b>End-products</b>
<b>Multi-year</b>	<p>Every other year, brainstorm on key themes</p> <ul style="list-style-type: none"> <li>• Q1 and 2</li> <li>• Top management and branch discuss 1/2 day with BU</li> <li>• BU supports discussion with ~30-page issue driven presentation</li> <li>• Examples of theme: <ul style="list-style-type: none"> <li>– What to do with “X” brand?</li> <li>– Growth opportunities in new distribution channels?</li> </ul> </li> </ul>	<p>BU decisions on key strategic issues for 2 years</p> <ul style="list-style-type: none"> <li>• Develop “brand X”</li> <li>• Develop alternate distribution channels</li> </ul>
<b>Annual</b>	<p>Annual strategic planning</p> <ul style="list-style-type: none"> <li>• Q3</li> <li>• Top management and branch challenge BU on detail of action plans</li> <li>• 3 year horizon plan with no direct link to budget (20-30% difference allowed) to allow creativity; fixed plan redone every year (not rolling)</li> <li>• Plan includes analysis of: <ul style="list-style-type: none"> <li>– Past performance</li> <li>– Environment and risk factors (\$ x-rate, M&amp;A. . .)</li> <li>– Scenarios: action plan’s impact along various risk factors</li> </ul> </li> </ul>	<p>BU 20-pages action plan for the year (e.g., develop vending machines) and KPIs:</p> <ul style="list-style-type: none"> <li>• Sales growth, market share growth, profit, ROCE, EVA growth. . .</li> </ul>
<b>Crosscutting</b>	<p>Ad-hoc task-forces on cross cutting themes</p> <ul style="list-style-type: none"> <li>• Growth initiatives</li> </ul>	<p>Key strategic issues to pursue</p>

# BENEFITS OF “3 TYPES” APPROACH AT CONSUMER PRODUCTS COMPANY

EXAMPLE



- Unleashing creativity through cross-functional/cross-BU thinking
- No calendar tyranny
- Focus on actions and issues, not numbers



- Top management gets enough exposure to business unit to:
  - Coach and stretch managers
  - Identify high potential performers
  - Understand BU business perspective
- Little staff and bureaucracy

# BUSINESS PLANNING AND OTHER MANAGEMENT PROCESSES AT MAJOR INDUSTRIAL COMPANY

EXAMPLE

← January-June → ← June → ← July-January →



## Calendar-driven planning

### BU prepares strategic plan:

- 5-year projections
- 2-year budget
- BU analyses customers, competitors, marketing opportunities, . . .
- Center provides interest and exchanges rates assumptions, format of plan, . . .

### Business review presentation from BU manager

- To CEO, Sector and Division heads, 2/3 VPs, 2/3 center staff
- 1/2 to 1 day
- Harsh/challenging discussion ("how do you change the industry")

### Top down target setting:

- Agreements on targets for BU vs. benchmarks:
  - Net income
  - Profit margin
  - Inventory
  - ROIC
- CEO sets corporate target, division targets accordingly. . .
- Consolidation of plans and targets at all levels by dedicated staff

### BU prepares tactical plan:

- 1-year projection
- 1-year committing budget
- BU analyses cost reduction opportunities, product mix. . .

## Topic-driven planning

### Cross business, cross-functional task forces on:

- Globalization
- Quality
- Service
- Benchmarking

## Monthly financial reporting for on-going coaching and strategy monitoring

### BU:

- Sales
- Profits
- New orders
- Balance sheet

## Management reviews/ compensation committees

- Analysis of the organization

- Performance appraisals
- Development plans
- Staffing plans
- Analysis of the organization

# CEO'S FIVE KEY QUESTIONS FOR BUSINESS REVIEWS: OUTLINE FOR FIVE-PAGE BUSINESS PLANS

EXAMPLE

*Major industrial company example*

- 1. What are your market dynamics globally today, and where are they going over the next several years?**
- 2. What actions have your competitors taken in the last 3 years to upset those global dynamics?**
- 3. What have you done in the last 3 years to affect these dynamics?**
- 4. What are the most dangerous things your competitors could do in the next 3 years to upset those dynamics?**
- 5. What are the most effective things you could do to bring your desired impact on these dynamics?**

# LINK BETWEEN PLANNING AND PEOPLE MANAGEMENT AT MAJOR INDUSTRIAL COMPANY

EXAMPLE

*"I spend my time managing the people equation. . . It's people first, strategy second", CEO*

## Preparation of management reviews

### Employee evaluation

Performance evaluation, qualifications, development needs and career interests

### Individual promotability

Subordinates rated as

- High potential
- Promotable
- Advanceable
- More time needed
- Not advanceable
- Unsatisfactory performance

### Organization and staffing

Succession plan for the manager and his/her direct reports

## Review meetings

Organization review meeting

- 1-week process; 1/2 day per sector, 1/2 hour per corporate staff component
- Annual late spring, with follow-up revision late fall
- Top management involved: CEO, Vice-chairman, 1 staff from Executive Management Group, Sector executive

## Outputs

Personnel decisions

- Promotions
- Transfers

Development plans

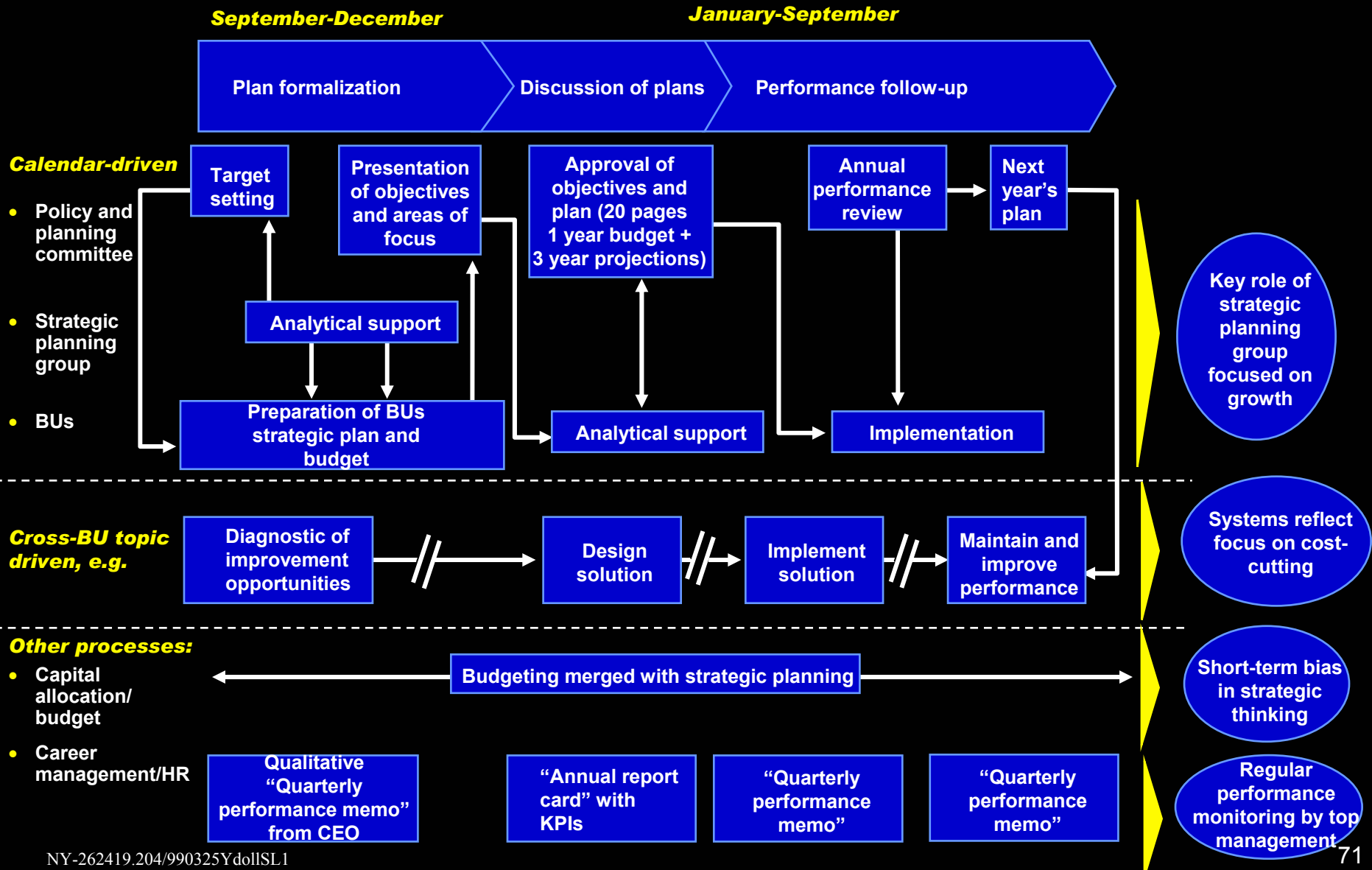
Sector and staff component issues and resolution

Changes to organization structure

Recruiting plan to fit skill gaps

# STRATEGIC PLANNING PROCESSES AT FINANCIAL SERVICES FIRM

EXAMPLE



# STRATEGIC PLANNING PARTICIPANTS AT FINANCIAL SERVICES FIRM

EXAMPLE

## Calendar-driven planning

### Decision-making

#### **Policy and planning committee:**

Top 10-15 people (CEO + Division heads)  
+ head of strategic planning group

### Input/Buy-in

#### **Strategic planning group**

(~30 people)

- Hired by BU's to help on strategic planning
- Works like a small consulting firm

### Working team

- BU heads
- BU strategic planning department

- **Stretch:** Top executives meet extremely frequently and are updated continuously on BU's activity
- BU-led process, but central support is key

## Topic-driven planning

- Ad-hoc task forces (e.g., reengineering task forces):
  - Central structure with managers for half of their time
  - One executive reengineering owner for each new process design
  - One steering committee for each new process design
  - “Program office” (= a dozen experts in HR, finance, R&D and communication) to manage the process and the roll out
  - High level of involvement of COO (kept informed of all problems arising in Steering Committees)

- **Creativity:** High cross-functional and cross-businesses mobilization over a short period of time (~1 year)
- Efficiency
- Key role of internal consultancy group

# STRATEGIC PLANNING LINKED TO PERFORMANCE MANAGEMENT AT FINANCIAL SERVICES FIRM

EXAMPLE

## General principles

- Based on team performance vs. individual performance
- Measured according to “what should have been done given the circumstances” measured according to budget targets
- High-involvement of top management
  - CEO spends several weeks per year grading senior managers

## End-products

- Annual report card:
  - Performance evaluation of managers made public
- Quarterly performance memos:
  - Sent by CEO to bonus-eligible managers
  - Discuss key issues and CEO’s view on critical decisions
  - No grades

## Examples of KPI’s

- Shareholders: Revenue growth, ROE adjusted for capital intensity of BU
- Specific KPI’s per BU
- Customers: Market shares, customer surveys, including not only satisfaction but also desired outcomes
- Employees: address all levers of employee satisfaction (meritocracy, management effectiveness, respect, discrimination, . . .) through surveys, statistical analysis, focus groups, qualitative feedback

## Compensation

- Bonus depends on satisfaction of:
  - Shareholders for 50%
  - Customers for 25%
  - Employees for 25%

Public and frequent performance monitoring

Value drivers used as KPIs

Direct link between incentives and KPIs

## **APPENDIX – MORE DETAILED STANDARDS OF STRATEGY**

# STRATEGIC PLAN OUTLINE

- 0. Executive summary
  - I. State the strategic direction of the business
  - II. Identify the compelling challenges and risks facing the business
  - III. Develop a winning strategy

# **I. STATE THE STRATEGIC DIRECTION**

**A. Articulate vision**

**B. Goals. State the essential goals you must achieve over the next 5 years that take company toward envisioned future, e.g.,**

- Increase market share 10%
- Improve operating margins 2%
- Enter 2 new markets
- Launch 3 new products on time

## II. IDENTIFY THE COMPELLING CHALLENGES AND RISKS

### A. Define the company's current position in terms of customers, products/services and market segments

- Who are our current customers?
- Potential customers?
- How many are there?
- What segments do they divide into?
- What do we sell them?
- What are their needs?
- How do they buy?
- Market penetration?

## II. IDENTIFY THE COMPELLING CHALLENGES AND RISKS

- A. Define the company's current position in terms of customers, products/services and market segments
- B. Identify its competitive position in terms of customers, products/services and market segments

- Identify competitors
- Potential competitors
- Current share
- What do customers value
- Product/service benchmarking (price, quality, service)
- Financial benchmarks (cost, R&D spending, capital)
- Compare strengths
- Compare weaknesses

## II. IDENTIFY THE COMPELLING CHALLENGES AND RISKS

- A. Define the company's current position in terms of customers, products/services and market segments
- B. Identify its competitive position in terms of customers, products/services and market segments
- C. **Assess the future direction of the industry, including customer trends, competitor actions, technology changes, globalization, etc.**

- Market growing or shrinking
- Prices rising or falling
- Costs rising or falling
- Customer needs changing
- Changing competitor strategies
- New competitors
- New products/services
- Key technology trends
- Which geographies changing

## II. IDENTIFY THE COMPELLING CHALLENGES AND RISKS

- A. Define the company's current position in terms of customers, products/services and market segments
- B. Identify its competitive position in terms of customers, products/services and market segments
- C. Assess the future direction of the industry, including customer trends, competitor actions, technology changes, globalization, etc.
- D. **Determine the major opportunities and threats facing the business**

- What 3 opportunities could double the business?
- What 3 threats could sink it?
- What are likely/unlikely scenarios?

### **III. DEVELOP WINNING STRATEGY**

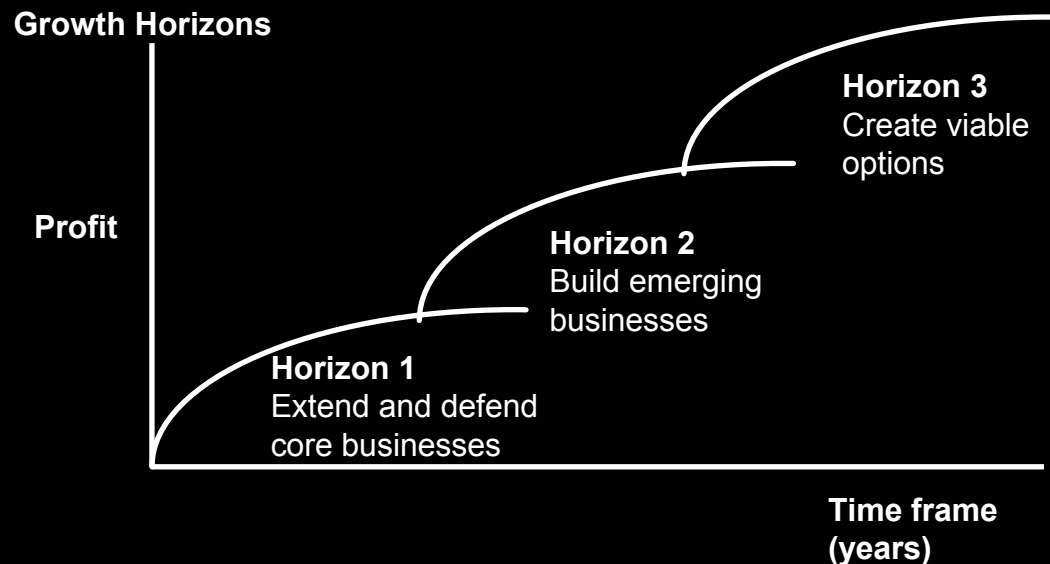
#### **A. Articulate the actions that will be taken to capture the opportunities and defend against the threats**

What are the major initiatives over next 5 years, e.g.,

- Develop new products
- Improve old products
- Serve new customers
- Cut costs
- Improve productivity
- Expand geographically
- Build capacity
- M&A
- Develop new technologies

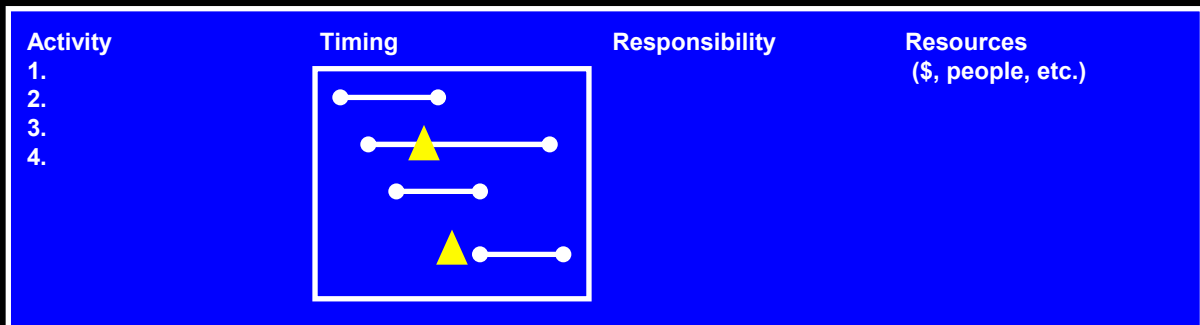
### III. DEVELOP WINNING STRATEGY

- A. Articulate the actions that will be taken to capture the opportunities and defend against the threats
- B. Identify how the company is also building its long-term growth options, what investments are required, what skills it must build, risks, and what returns it expects to generate



### III. DEVELOP WINNING STRATEGY

- A. Articulate the actions that will be taken to capture the opportunities and defend against the threats
- B. Identify how the company is also building its long-term growth options, what investments are required, what skills it must build, risks, and what returns it expects to generate
- C. Translate those actions into an operational plan that includes specific steps, timing, responsibility, and the resources required**



### III. DEVELOP WINNING STRATEGY

- A. Articulate the actions that will be taken to capture the opportunities and defend against the threats
- B. Identify how the company is also building its long-term growth options, what investments are required, what skills it must build, risks, and what returns it expects to generate
- C. Translate those actions into an operational plan that includes specific steps, timing, responsibility, and the resources required
- D. **Translate the operational plan into 5 year financial and operational forecasts for the business as a whole**

- Not quarterly budgets
- Show long term implications of strategy
  - If we do what we say, where will we be
  - What do we have to believe to achieve goals

### III. DEVELOP WINNING STRATEGY

- A. Articulate the actions that will be taken to capture the opportunities and defend against the threats
- B. Identify how the company is also building its long-term growth options, what investments are required, what skills it must build, risks, and what returns it expects to generate
- C. Translate those actions into an operational plan that includes specific steps, timing, responsibility, and the resources required
- D. Translate the operational plan into 5 year financial and operational forecasts for the business as a whole
- E. Test the reasonableness of the strategies and forecasts by examining sensitivities to assumptions and looking at alternative scenarios

