STRATEGIC PLANNING: BEST PRACTICES AND BEYOND

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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 - 1980’s
Central planning

1980’s
Planning is dead, let 1000 flowers bloom

1990’s - 2000
Loose-tight approach

Woodstock
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

Multibusiness

- **TEXTRON**
- **ABB**
- **Alldied Signal**

Technology

- **Johnson & Johnson**
- **Intel**
- **Compaq**
- **Hewlett Packard**

Other good planning companies

- **Rubbermaid**
- **Unilever**
- **Pepsi**
- **General Mills**
- **Coca-Cola**
- **Sara Lee**
- **Capital One**
- **Boeing**
- **IBM**
- **Microsoft**
- **Motorola**

- **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**
TODAY’S DISCUSSION

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• How to get started
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**

- GE
- Monsanto
- Johnson & Johnson
- Capital One
- Microsoft

**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
THAT'S AGREED THEN—OUR STRATEGY IS TO DO NOTHING UNTIL A NEW BUSINESS STRATEGY COMES ALONG.
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STRATEGY DEVELOPMENT IS ABOUT ARCHITECTING THE RIGHT DIALOGUES/INTERACTION

- Identifying issues
- Making decisions
- Doing real work
- Taking actions

Strategic dialogue/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 everything on the table, 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

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

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

Business unit
- Which products, markets, and geographies to compete in
- How to compete
  - Value proposition
  - Sources of competitive advantage
- Related growth
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ANNUAL STRATEGY REVIEWS ARE VERY INTENSE AND CHALLENGING

- 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 feedback
- Focus on real strategy not near-term numbers
### DEFINING THE STANDARDS OF STRATEGY (1/2)

<table>
<thead>
<tr>
<th>Strategy Components</th>
<th>Strategic vision and objectives</th>
<th>Strategic plans</th>
</tr>
</thead>
</table>
| **Vision (guidance)** | • Simple and unambiguous  
• Truly compelling  
• Inspiring/mobilizing | • At a minimum containing level 1 vision  
• Compatible between franchises |
| **Playing field (market orientation)** | • Building on deep understanding of  
– Consumers’ needs, attitudes/customer  
– Industry trends/uncertainties  
– Technologies  
• Describing market scenarios  
• Specifying market 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  | • 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)

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| **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 | • Specifying "When to compete" options  
– Timing of each strategic component  
– Fall back positions and triggering criteria  
– Relation to achievement of growth aspirations |
| **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) | • 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) |

**Cascading process**
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

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

Attending:
• CEO
• Group President
• Business President
• Corp. VP Strategy
• Business heads of finance, marketing, human resources, others as needed
EXAMPLE ANNUAL CYCLE

Strategic Reviews

Jan  Feb  Mar  Apr  May  Jun  Jul  Aug  Sep  Oct  Nov  Dec

1  Planner's meeting
2  Guidelines distributed

Rolling throughout the year

3  Pre-reviews

Rolling throughout the year

4  Business reviews

5  Group reviews

6  Corporate review

7  Board review

Operating/Financial Reviews

4  Board review

1  Guidelines distributed
2  Plans submitted
3  Plans reviewed

5  Wall Street EPS released
THREE CORE INTERACTIONS IN LOOSE-TIGHT PLANNING

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

Tight/operating

Loose/innovating
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

- **Principal decision maker** (e.g., CEO, sector head, BU head)
- **Key owners/influencers**
- **Project manager**

**Day to day team**
- Full-time core team of managers
- Part-time extended team of managers
- Strategic planning staff
- Outsiders
  - Consulting
  - Subject experts
  - Academics

- 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
1. Assess situation
2. Understand uncertainty
3. Determine aspirations and posture
4. Build out the strategy
5. Test executability
6. Actively manage the strategy

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

Example 2-day “challenge event”

Day 1

“War games” among major competitors
- Competitor 1
- Competitor 2
- Competitor 3

Key take-aways

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

Key take-aways

Day 2

New entrants and non-traditional competitors
- “Shapers”
- Change one game
- Break-through new business system designs

Key take-aways

Evolving regulatory landscape
- Key stakeholders
- Alternate strategies

Key take-aways

- 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
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TOPIC-DRIVEN STRATEGY – PROCESSES AND LENSES

**Processes**

<table>
<thead>
<tr>
<th>Intensity</th>
<th>Few</th>
<th>Many</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low</strong></td>
<td>Ad-hoc “hallway” strategy</td>
<td>Special meetings/conferences</td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Task forces/SWAT teams</td>
<td>“Conversations”</td>
</tr>
</tbody>
</table>

**Lenses**

- **Agent based**
- **Topic based**
- **Scenario based**
- **Issue based**

**Number of people**

- **Few**
- **Many**
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

- 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

EXAMPLE – J&J “CONVERSATIONS” A VEHICLE FOR “OUT OF THE BOX” THINKING
CONVERSATIONS: A PRACTICAL APPLICATION OF THE CREATIVE PROCESS

IMMERSION

- Preparation
- Incubation

REDUCTION

- Illumination
- Evaluation
- Elaboration

Designed to generate creative insight
CONVERSATIONS PROCESS AND TIMING

Task force A → Conversation → Task force A → Actions

- Task force A: 3-6 months
- Conversation: 2-5 days
- Task force A: Depends on issue
CONVERSATIONS PROCESS FLOW

Senior management approval

Issue ID and prioritization

Conversations Issue 3:
Developing country expansion

Conversations Issue 2:
Drug approval process

Conversations Issue 1:
Health care reform

Task force A

Conversation

Task force A

Outside experts

Actions
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

Feedback loop

Aspirations

Strategy innovation

Evolving population of strategy experiments

Commitment

Performance

Creative-destruction

- Coming up within compelling view of the future
- Developing creative strategies that provide compelling and unique ways for the company to win
  - Situation analysis
  - Idea generation
- Managing portfolio of different strategies that help cope with future uncertainties
  - Test executability
  - Changing direction/killing experiments based on new learning
- Assuring action is taken
- Achieving strategies and operating results

Situation analysis

Idea generation
“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
• “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.”
TODAY’S DISCUSSION

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• How to get started
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

- Operating plans
- Performance management
- Capital allocation
- People processes

Annual strategy reviews
## SEPARATE REVIEWS FOR STRATEGY AND OPERATING PLANNING

<table>
<thead>
<tr>
<th>Company</th>
<th>Strategic planning process</th>
<th>Operating planning process</th>
</tr>
</thead>
<tbody>
<tr>
<td>GE</td>
<td>S1</td>
<td>S2</td>
</tr>
<tr>
<td>Emerson</td>
<td>Planning conferences</td>
<td>Operating reviews</td>
</tr>
<tr>
<td>Textron</td>
<td>Strategic operating reviews</td>
<td>Multi-year plan</td>
</tr>
</tbody>
</table>
## STRATEGIC PLANNING VS. OPERATIONAL PLANNING

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Strategic planning</th>
<th>Operational planning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>• Ensure businesses, groups, and corporate have well thought-out strategies</td>
<td>• Provide operating targets and performance forecast</td>
</tr>
<tr>
<td><strong>Content</strong></td>
<td>• 5-7 year assessments of markets and competitive environments; strategies on where, when, and how to compete; 5-year financial projections</td>
<td>• 1-year detailed financial goals and assumptions (e.g., 1997 results and 1998 forecasts)</td>
</tr>
<tr>
<td><strong>Typical timing</strong></td>
<td>• Rolling calendar of reviews with group leaders and top management team throughout the year</td>
<td>• Prepared once during year; reviewed by group leaders and top management team during 1-2 week period</td>
</tr>
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</table>
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**

<table>
<thead>
<tr>
<th>Event</th>
<th>Questions addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key driver reviews</td>
<td>What position/skills are strategic?</td>
</tr>
<tr>
<td>Business level talent reviews</td>
<td>Do we have the line business talent?</td>
</tr>
<tr>
<td>(done with strategic reviews)</td>
<td></td>
</tr>
<tr>
<td>Corporate office talent reviews</td>
<td>Do we have the right corporate support?</td>
</tr>
<tr>
<td>Company wide review of “top 500” plus high-</td>
<td>Do we have tomorrow’s leaders?</td>
</tr>
<tr>
<td>potentials</td>
<td></td>
</tr>
<tr>
<td>Board of Directors</td>
<td></td>
</tr>
<tr>
<td>• Executive review</td>
<td>How are today’s leaders performing?</td>
</tr>
<tr>
<td>• Succession planning</td>
<td>Do we have a strong succession plan?</td>
</tr>
</tbody>
</table>
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

Creates intense challenging environment

Demands accountability/ follow-through

“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

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

- Developing people: 20%
- Doing strategic planning: 33%
- Monitoring business and group performance: 22%
- Managing stakeholder relations, e.g.,
  - Talking to customers
  - Communicating with investors

100% = 1,188 hours

- Corporate strategy: 35%
- Business and group strategy: 65%
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

- $12 billion in revenue
- 5 groups and 30 operating companies worldwide
- Separate staff for
  - M&A
  - International
  - Business development
- Separate staff for
  - M&A
  - International
  - Business development

Chairman & CEO

V.P. Strategic Planning

Executive Assistant

Director, Strategic Planning

Director, Strategic Planning

Director, Strategic Planning

Manager Strategic Planning

Administrative Assistant

Strategic Planning Intern

Research Analyst

Sr. Planning Analyst

Finance Associate

- Runs the process

- Small, but very high quality staff
- Rotate people to/from businesses
- 2-3 year assignment for young high performers

MBAs
- Support corporate and businesses
- Special projects

- BA degrees
- Support corporate and businesses
- Special projects
**OTHER MODELS FOR CORPORATE PLANNING STAFF**

**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

Diagnose current process and develop workplan

Design and implement new processes

“Learn by doing” roll out
- Corporate
- Sector
- Business units

Skill building
- Cross BU participation in roll out
- Training
  - Foundation skills
  - Advanced skills

Continuous improvement
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


   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

<table>
<thead>
<tr>
<th></th>
<th><strong>Approach</strong></th>
<th><strong>End-products</strong></th>
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<tbody>
<tr>
<td><strong>Multi-year</strong></td>
<td>Every other year, brainstorms on key themes</td>
<td>BU decisions on key strategic issues for 2 years</td>
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<tr>
<td></td>
<td>• Q1 and 2</td>
<td>• Develop “brand X”</td>
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<td></td>
<td>• Top management and branch discuss 1/2 day with BU</td>
<td>• Develop alternate distribution channels</td>
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<tr>
<td></td>
<td>• BU supports discussion with ~30-page issue driven presentation</td>
<td></td>
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<tr>
<td></td>
<td>• Examples of theme:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– What to do with “X” brand?</td>
<td></td>
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<tr>
<td></td>
<td>– Growth opportunities in new distribution channels?</td>
<td></td>
</tr>
<tr>
<td><strong>Annual</strong></td>
<td>Annual strategic planning</td>
<td>BU 20-pages action plan for the year (e.g., develop vending machines) and KPIs:</td>
</tr>
<tr>
<td></td>
<td>• Q3</td>
<td>• Sales growth, market share growth, profit, ROCE, EVA growth. . .</td>
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<tr>
<td></td>
<td>• Top management and branch challenge BU on detail of action plans</td>
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<tr>
<td></td>
<td>• 3 year horizon plan with no direct link to budget (20-30% difference allowed) to allow creativity; fixed plan redone every year (not rolling)</td>
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<tr>
<td></td>
<td>• Plan includes analysis of:</td>
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<tr>
<td></td>
<td>– Past performance</td>
<td></td>
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<tr>
<td></td>
<td>– Environment and risk factors ($ x-rate, M&amp;A. . .)</td>
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</tr>
<tr>
<td></td>
<td>– Scenarios: action plan’s impact along various risk factors</td>
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<tr>
<td><strong>Crosscutting</strong></td>
<td>Ad-hoc task-forces on cross cutting themes</td>
<td>Key strategic issues to pursue</td>
</tr>
<tr>
<td></td>
<td>• Growth initiatives</td>
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</table>
BENEFITS OF “3 TYPES” APPROACH AT CONSUMER PRODUCTS COMPANY

- 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

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

Management reviews/compensation committees

January-June

Preparation of long-term strategic plan

Target setting

Preparation of short-term action-oriented plan

June

July-January

Business review presentation from BU manager

Top down target setting

BU prepares tactical plan

BU prepares strategic plan:
CEO’S FIVE KEY QUESTIONS FOR BUSINESS REVIEWS:
OUTLINE FOR FIVE-PAGE BUSINESS PLANS

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

"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
STRAIGHTIC PLANNING PROCESSES
AT FINANCIAL SERVICES FIRM

September-December
- Plan formalization
- Discussion of plans
- Performance follow-up

January-September
- Target setting
- Presentation of objectives and areas of focus
- Approval of objectives and plan (20 pages 1 year budget + 3 year projections)
- Annual performance review
- Next year’s plan

Calendar-driven
- Policy and planning committee
- Strategic planning group
- BUs

Preparation of BUs strategic plan and budget

Analytical support

Cross-BU topic driven, e.g.
- Diagnostic of improvement opportunities
- Design solution
- Implement solution
- Maintain and improve performance

Other processes:
- Capital allocation/budget
- Career management/HR

Qualitative “Quarterly performance memo” from CEO

“Annual report card” with KPIs

“Quarterly performance memo”

“Quarterly performance memo”

Key role of strategic planning group focused on growth

Systems reflect focus on cost-cutting

Short-term bias in strategic thinking

Regular performance monitoring by top management

Budgeting merged with strategic planning
STRATEGIC PLANNING PARTICIPANTS
AT FINANCIAL SERVICES FIRM

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

### 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%

### Value drivers used as KPIs
- Public and frequent performance monitoring
- Direct link between incentives and KPIs
APPENDIX – MORE DETAILED STANDARDS OF STRATEGY
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