Marketing and the Concept of Planning and Strategy

Three women and a goose make a marketplace.
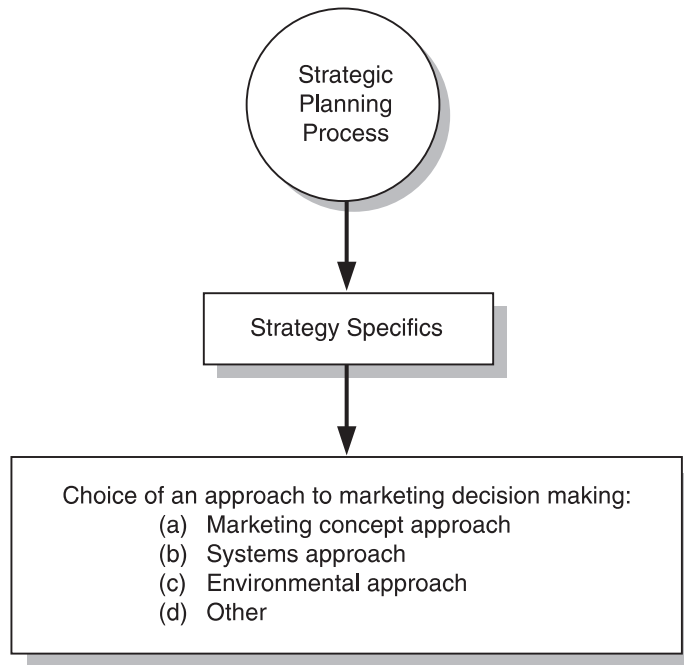
ITALIAN PROVERB

Over the years marketers have been presented with a series of philosophical approaches to marketing decision making. One widely used approach is the *marketing concept approach*, which directs the marketer to develop the product offering, and indeed the entire marketing program, to meet the needs of the customer base. A key element in this approach is the need for information flow from the market to the decision maker. Another approach is the *systems approach*, which instructs the marketer to view the product not as an individual entity but as just one aspect of the customer's total need-satisfaction system. A third approach, the *environmental approach*, portrays the marketing decision maker as the focal point of numerous environments within which the firm operates and that affect the success of the firm's marketing program. These environments frequently bear such labels as legal-political, economic, competitive, consumer, market structure, social, technological, and international.

Indeed, these and other philosophical approaches to marketing decision making are merely descriptive frameworks that stress certain aspects of the firm's role vis-à-vis the strategic planning process. No matter what approach a firm follows, it needs a reference point for its decisions that is provided by the strategy and the planning process involved in designing the strategy. Thus, the strategic planning process is the guiding force behind decision making, regardless of the approach one adopts. This relationship between the strategic planning process and approaches to marketing decision making is depicted in Exhibit 1-1.

Planning perspectives develop in response to needs that arise internally or that impinge on the organization from outside. During the 1950s and 1960s, growth was the dominant fact of the economic environment, and the planning processes developed during that time were typically geared to the discovery and exploitation of entrepreneurial opportunities. Decentralized planning was the order of the day. Top management focused on reviewing major investment proposals and approving annual operating budgets. Long-range corporate plans

EXHIBIT 1-1
Relationship between the Strategic Planning Process and Approaches to Marketing Decision Making

Strategic Planning Process

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Strategy Specifics

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Choice of an approach to marketing decision making:
(a) Marketing concept approach
(b) Systems approach
(c) Environmental approach
(d) Other

were occasionally put together, but they were primarily extrapolations and were rarely used for strategic decision making.

Planning perspectives changed in the 1970s. With the quadrupling of energy costs and the emergence of competition from new quarters, followed by a recession and reports of an impending capital crisis, companies found themselves surrounded by new needs. Reflecting these new management needs and concerns, a process aimed at more centralized control over resources soon pervaded planning efforts. Sorting out winners and losers, setting priorities, and conserving capital became the name of the game. A new era of strategic planning dawned over corporate America.

The value of effective strategic planning is virtually unchallenged in today's business world. A majority of the *Fortune* 1000 firms in the United States, for instance, now have senior executives responsible for spearheading strategic planning efforts.

Strategic planning requires that company assets (i.e., resources) be managed to maximize financial return through the selection of a viable business in accordance with the changing environment. One very important component of strategic planning is the establishment of the product/market scope of a business. It is within this scope that strategic planning becomes relevant for marketers.[1] Thus,

as companies adopted and made progress in their strategic planning capabilities, a new strategic role for marketing emerged. In this strategic role, marketing concentrates on the markets to serve, the competition to be tackled, and the timing of market entry/exit.

CONCEPT OF PLANNING

Throughout human history, people have tried to achieve specific purposes, and in this effort some sort of planning has always found a place. In modern times, the former Soviet Union was the first nation to devise an economic plan for growth and development. After World War II, national economic planning became a popular activity, particularly among developing countries, with the goal of systematic and organized action designed to achieve stated objectives within a given period. Among market economies, France has gone the furthest in planning its economic affairs. In the business world, Henri Fayol, the French industrialist, is credited with the first successful attempts at formal planning.

Accomplishments attributed to planning can be summarized as follows:

1. Planning leads to a better position, or standing, for the organization.
2. Planning helps the organization progress in ways that its management considers most suitable.
3. Planning helps every manager think, decide, and act more effectively and progress in the desired direction.
4. Planning helps keep the organization flexible.
5. Planning stimulates a cooperative, integrated, enthusiastic approach to organizational problems.
6. Planning indicates to management how to evaluate and check up on progress toward planned objectives.
7. Planning leads to socially and economically useful results.

Planning in corporations emerged as an important activity in the 1960s. Several studies undertaken during that time showed that companies attached significant importance to planning. A Conference Board survey of 420 firms, for example, revealed that 85 percent had formalized corporate planning activity.[2] A 1983 survey by Coopers & Lybrand and Yankelovich, Skelly, and White confirmed the central role played by the planning function and the planner in running most large businesses.[3] Although the importance of planning had been acknowledged for some time, the executives interviewed in 1983 indicated that planning was becoming more important and was receiving greater attention. A 1991 study by McDonald's noted that marketing planning is commonly practiced by companies of all sizes, and there is wide agreement on the benefits to be gained from such planning.[4] A 1996 survey by the Association of Management Consulting Firms found that business persons, academics, and consultants expect business planning to be their most pressing management issue as they prepare to enter the next century.[5]

Some companies that use formal planning believe that it improves profits and growth, finding it particularly useful in explicit objective setting and in monitoring results.[6] Certainly, the current business climate is generating a new posture

among executives, with the planning process being identified by eight out of ten respondents as a key to implementing the chief executive officer's (CEO) chosen strategy.[7] Today most companies insist on some sort of planning exercise to meet the rapidly changing environment. For many, however, the exercise is cathartic rather than creative.

Growth is an accepted expectation of a firm; however, growth does not happen by itself. Growth must be carefully planned: questions such as how much, when, in which areas, where to grow, and who will be responsible for different tasks must be answered. Unplanned growth will be haphazard and may fail to provide desired levels of profit. Therefore, for a company to realize orderly growth, to maintain a high level of operating efficiency, and to achieve its goals fully, it must plan for the future systematically. Products, markets, facilities, personnel, and financial resources must be evaluated and selected wisely.

Today's business environment is more complex than ever. In addition to the keen competition that firms face from both domestic and overseas companies, a variety of other concerns, including environmental protection, employee welfare, consumerism, and antitrust action, impinge on business moves. Thus, it is desirable for a firm to be cautious in undertaking risks, which again calls for a planned effort.

Many firms pursue growth internally through research and development. This route to growth is not only time-consuming but also requires a heavy commitment of resources with a high degree of risk. In such a context, planning is needed to choose the right type of risk.

Since World War II, technology has had a major impact on markets and marketers. Presumably, the trend of accelerating technological change will continue in the future. The impact of technological innovations may be felt in any industry or in any firm. Therefore, such changes need to be anticipated as far in advance as possible in order for a firm to take advantage of new opportunities and to avoid the harmful consequences of not anticipating major new developments. Here again, planning is significant.

Finally, planning is required in making a choice among the many equally attractive alternative investment opportunities a firm may have. No firm can afford to invest in each and every "good" opportunity. Planning, thus, is essential in making the right selection.

Planning for future action has been called by many different names: long-range planning, corporate planning, comprehensive planning, and formal planning. Whatever its name, the reference is obviously to the future.

Definition of Planning

Planning is essentially a process directed toward making today's decisions with tomorrow in mind and a means of preparing for future decisions so that they may be made rapidly, economically, and with as little disruption to the business as possible.

Though there are as many definitions of planning as there are writers on the subject, the emphasis on the future is the common thread underlying all planning theory. In practice, however, different meanings are attached to planning. A distinction is often made between a *budget* (a yearly program of operations) and a *long-range plan*. Some people consider planning as something done by

staff specialists, whereas budgeting is seen to fall within the purview of line managers.

It is necessary for a company to be clear about the nature and scope of the planning that it intends to adopt. A definition of planning should then be based on what planning is supposed to be in an organization. It is not necessary for every company to engage in the same style of comprehensive planning. The basis of all planning should be to design courses of action to be pursued for achieving stated objectives such that opportunities are seized and threats are guarded against, but the exact planning posture must be custom-made (i.e., based on the decision-making needs of the organization).

Operations management, which emphasizes the current programs of an organization, and planning, which essentially deals with the future, are two intimately related activities. Operations management or budgeted programs should emerge as the result of planning. In the outline of a five-year plan, for example, years two through five may be described in general terms, but the activities of the first year should be budgeted and accompanied by detailed operational programs.

A distinction should also be made between planning and forecasting. Forecasting considers future changes in areas of importance to a company and tries to assess the impact of these changes on company operations. Planning takes over from there to set objectives and goals and develop strategy.

Briefly, no business, however small or poorly managed, can do without planning. Although planning per se may be nothing new for an organization, the current emphasis on it is indeed different. No longer just one of several important functions of the organization, planning's new role demands linkage of various parts of an organization into an integrated system. The emphasis has shifted from planning as an aspect of the organization to planning as the basis of all efforts and decisions, the building of an entire organization toward the achievement of designated objectives.

There is little doubt about the importance of planning. Planning departments are key in critiquing strategies, crystallizing goals, setting priorities, and maintaining control;[8] but to be useful, planning should be done properly. Planning just for the sake of it can be injurious; half-hearted planning can cause more problems than it solves. In practice, however, many business executives simply pay lip service to planning, partly because they find it difficult to incorporate planning into the decision-making process and partly because they are uncertain how to adopt it.

Requisites for Successful Planning

If planning is to succeed, proper arrangements must be made to put it into operation. The Boston Consulting Group suggests the following concerns for effective planning:

- There is the matter of outlook, which can affect the degree to which functional and professional viewpoints, versus corporate needs, dominate the work of planning.
- There is the question of the extent of involvement for members of the management. Who should participate, and to what extent?

- There is the problem of determining what part of the work of planning should be accomplished through joint effort and how to achieve effective collaboration among participants in the planning process.
- There is the matter of incentive, of making planning an appropriately emphasized and rewarded kind of managerial work.
- There is the question of how to provide staff coordination for planning, which raises the issue of how a planning unit should be used in the organization.
- And there is the role of the chief executive in the planning process. What should it be?[9]

Though planning is conceptually rather simple, implementing it is far from easy. Successful planning requires a blend of many forces in different areas, not the least of which are behavioral, intellectual, structural, philosophical, and managerial. Achieving the proper blend of these forces requires making difficult decisions, as the Boston Consulting Group has suggested. Although planning is indeed complex, successful planning systems do have common fundamental characteristics despite differing operational details. First, it is essential that the CEO be completely supportive. Second, planning must be kept simple, in agreement with the managerial style, and unencumbered by detailed numbers and fancy equations. Third, planning is a shared responsibility, and it would be wrong to assume that the president or vice president of planning, staff specialists, or line managers can do it single-handedly. Fourth, the managerial incentive system should give due recognition to the fact that decisions made with long-term implications may not appear good in the short run. Fifth, the goals of planning should be achievable without excessive frustration and work load and with widespread understanding and acceptance of the process. Sixth, overall flexibility should be encouraged to accommodate changing conditions.

Initiating Planning Activities

There is no one best time for initiating planning activities in an organization; however, before developing a formal planning system, the organization should be prepared to establish a strong planning foundation. The CEO should be a central participant, spearheading the planning job. A planning framework should be developed to match the company's perspective and should be generally accepted by its executives. A manual outlining the work flow, information links, format of various documents, and schedules for completing various activities should be prepared by the planner. Once these foundations are completed, the company can initiate the planning process anytime.

Planning should not be put off until bad times prevail; it is not just a cure for poor performance. Although planning is probably the best way to avoid bad times, planning efforts that are begun when operational performance is at an ebb (i.e., at low or no profitability) will only make things worse, since planning efforts tend initially to create an upheaval by challenging the traditional patterns of decision making. The company facing the question of survival should concentrate on alleviating the current crisis.

Planning should evolve gradually. It is wishful thinking to expect full-scale planning to be instituted in a few weeks or months. Initial planning may be

formalized in one or more functional areas; then, as experience is gained, a company-wide planning system may be designed. IBM, a pioneer in formalized planning, followed this pattern. First, financial planning and product planning were attempted in the post-World War II period. Gradual changes toward increased formality were made over the years. In the later half of 1960s, increased attention was given to planning contents, and a compatible network of planning data systems was initiated. Corporate-wide planning, which was introduced in the 1970s, forms the backbone of IBM's current global planning endeavors. Beginning in 1986, the company made several changes in its planning perspectives in response to the contingencies created by deteriorating performance. In the 1990s, planning at IBM became more centralized to fully seek resource control and coordination.

Philosophies of Planning

In an analysis of three different philosophies of planning, Ackoff established the labels satisfying, optimizing, and adaptivizing.[10] Planning on the basis of the **satisfying** philosophy aims at easily achievable goals and molds planning efforts accordingly. This type of planning requires setting objectives and goals that are "high enough" but not as "high as possible." The satisfying planner, therefore, devises only one feasible and acceptable way of achieving goals, which may not necessarily be the best possible way. Under a satisfying philosophy, confrontations that might be caused by conflicts in programs are diffused through politicking, underplaying change, and accepting a fall in performance as unavoidable.

The philosophy of **optimizing** planning has its foundation in operations research. The optimizing planner seeks to model various aspects of the organization and define them as objective functions. Efforts are then directed so that an objective function is maximized (or minimized), subject to the constraints imposed by management or forced by the environment. For example, an objective may be to obtain the highest feasible market share; planning then amounts to searching for different variables that affect market share: price elasticity, plant capacity, competitive behavior, the product's stage in the life cycle, and so on. The effect of each variable is reduced to constraints on the market share. Then an analysis is undertaken to find out the optimum market share to target.

Unlike the satisfying planner, the optimizer endeavors, with the use of mathematical models, to find the best available course to realize objectives and goals. The success of an optimizing planner depends on how completely and accurately the model depicts the underlying situation and how well the planner can figure out solutions from the model once it has been built.

The philosophy of **adaptivizing** planning is an innovative approach not yet popular in practice. To understand the nature of this type of planning, let us compare it to optimizing planning. In optimization, the significant variables and their effects are taken for granted. Given these, an effort is made to achieve the optimal result. With an adaptivizing approach, on the other hand, planning may be undertaken to produce changes in the underlying relationships themselves and thereby create a desired future. Underlying relationships refer to an organization's internal and external environment and the dynamics of the values of the actors in these environments (i.e., how values relate to needs and

to the satisfaction of needs, how changes in needs produce changes in values, and how changes in needs are produced).

CONCEPT OF STRATEGY

Strategy in a firm is

the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

Any organization needs strategy (a) when resources are finite, (b) when there is uncertainty about competitive strengths and behavior, (c) when commitment of resources is irreversible, (d) when decisions must be coordinated between far-flung places and over time, and (e) when there is uncertainty about control of the initiative.

An explicit statement of strategy is the key to success in a changing business environment. Strategy provides a unified sense of direction to which all members of the organization can relate. Where there is no clear concept of strategy, decisions rest on either subjective or intuitive assessment and are made without regard to other decisions. Such decisions become increasingly unreliable as the pace of change accelerates or decelerates rapidly. Without a strategy, an organization is like a ship without a rudder going around in circles.

Strategy is concerned with the deployment of potential for results and the development of a reaction capability to adapt to environmental changes. Quite naturally, we find that there are hierarchies of strategies: corporate strategy and business strategy. At the corporate level, strategy is mainly concerned with defining the set of businesses that should form the company's overall profile. **Corporate strategy** seeks to unify all the business lines of a company and point them toward an overall goal. At the business level, strategy focuses on defining the manner of competition in a given industry or product/market segment. A **business strategy** usually covers a plan for a single product or a group of related products. Today, most strategic action takes place at the business unit level, where sophisticated tools and techniques permit the analysis of a business; the forecasting of such variables as market growth, pricing, and the impact of government regulation; and the establishment of a plan that can sidestep threats in an erratic environment from competitors, economic cycles, and social, political, and consumer changes.

Each functional area of a business (e.g., marketing) makes its own unique contribution to strategy formulation at different levels. In many firms, the marketing function represents the greatest degree of contact with the external environment, the environment least controllable by the firm. In such firms, marketing plays a pivotal role in strategy development.

In its strategic role, marketing consists of establishing a match between the firm and its environment. It seeks solutions to problems of deciding (a) what business the firm is in and what kinds of business it may enter in the future and (b) how the

chosen field(s) of endeavor may be successfully run in a competitive environment by pursuing product, price, promotion, and distribution perspectives to serve target markets. In the context of strategy formulation, marketing has two dimensions: present and future. The present dimension deals with the existing relationships of the firm to its environments. The future dimension encompasses intended future relationships (in the form of a set of objectives) and the action programs necessary to reach those objectives. The following example illustrates the point.

McDonald's, the hamburger chain, has among its corporate objectives the goal of increasing the productivity of its operating units. Given the high proportion of costs in fixed facilities, McDonald's decided to increase facility utilization during off-peak hours, particularly during the morning hours. The program developed to accomplish these goals, the Egg McMuffin, was followed by a breakfast menu consistent with the limited product line strategy of McDonald's regular fare. In this example, the corporate goal of increased productivity led to the marketing perspective of breakfast fare (intended relationship), which was built over favorable customer attitudes toward the chain (existing relationship). Similarly, a new marketing strategy in the form of McDonald's Chicken Fajita (intended relationship) was pursued over the company's ability to serve food fast (existing relationship) to meet the corporate goal of growth.

Generally, organizations have identifiable existing strategic perspectives; however, not many organizations have an explicit strategy for the intended future. The absence of an explicit strategy is frequently the result of a lack of top management involvement and commitment required for the development of proper perspectives of the future within the scope of current corporate activities.

Marketing provides the core element for future relationships between the firm and its environment. It specifies inputs for defining objectives and helps formulate plans to achieve them.

CONCEPT OF STRATEGIC PLANNING

Strategy specifies direction. Its intent is to influence the behavior of competitors and the evolution of the market to the advantage of the strategist. It seeks to change the competitive environment. Thus, a strategy statement includes a description of the new competitive equilibrium to be created, the cause-and-effect relationships that will bring it about, and the logic to support the course of action. Planning articulates the means of implementing strategy. A strategic plan specifies the sequence and the timing of steps that will alter competitive relationships.

The strategy and the strategic plan are quite different things. The strategy may be brilliant in content and logic; but the sequence and timing of the plan, inadequate. The plan may be the laudable implementation of a worthless strategy. Put together, strategic planning concerns the relationship of an organization to its environment. Conceptually, the organization monitors its environment, incorporates the effects of environmental changes into corporate decision making, and formulates new strategies. Exhibit 1-2 provides a scorecard to evaluate the viability of a company's strategic planning effort.

EXHIBIT 1-2
A Strategic Planning Scorecard

- Is our planning really strategic?

  Do we try to anticipate change or only project from the past?
- Do our plans leave room to explore strategic alternatives?

  Or do they confine us to conventional thinking?
- Do we have time and incentive to investigate truly important things?

  Or do we spend excessive planning time on trivia?
- Have we ever seriously evaluated a new approach to an old market?

  Or are we locked into the status quo?
- Do our plans critically document and examine strategic assumptions?

  Or do we not really understand the implications of the plans we review?
- Do we consistently make an attempt to examine consumer, competitor, and distributor responses to our programs?

  Or do we assume the changes will not affect the relationships we have seen in the past?

Source: Thomas P. Justad and Ted J. Mitchell, "Creative Market Planning in a Partisan Environment," *Business Horizons* (March–April 1982): 64, copyright 1982 by the Foundation for the School of Business at Indiana University. Reprinted by permission.

Companies that do well in strategic planning define their goals clearly and develop rational plans to implement them. In addition, they take the following steps to make their strategic planning effective:

- They shape the company into logical business units that can identify markets, customers, competitors, and the external threats to their business. These business units are managed semi-autonomously by executives who operate under corporate financial guidelines and with an understanding of the unit's assigned role in the corporate plan.
- They demonstrate a willingness at the corporate level to compensate line managers on long-term achievements, not just the yearly bottom line; to fund research programs that could give the unit a long-term competitive edge; and to offer the unit the type of planning support that provides data on key issues and encourages and teaches sophisticated planning techniques.
- They develop at the corporate level the capacity to evaluate and balance competing requests from business units for corporate funds, based on the degree of risk and reward.
- They match shorter-term business unit goals to a long-term concept of the company's evolution over the next 15 to 20 years. Exclusively the CEO's function, effectiveness in matching business unit goals to the firm's evolution may be tested by the board of directors.

Strategic Planning: An Example

The importance of strategic planning for a company may be illustrated by the example of the Mead Corporation. The Mead Corporation is basically in the forest products business. More than 75 percent of its earnings are derived from trees,

from the manufacture of pulp and paper, to the conversion of paperboard to beverage carriers, to the distribution of paper supplies to schools. Mead also has an array of businesses outside the forest products industry and is developing new technologies and businesses for its future, primarily in storing, retrieving, and reproducing data electronically. In short, Mead is a company growing in the industries in which it started as well as expanding into areas that fit the capabilities and style of its management.

Although Mead was founded in 1846, it did not begin to grow rapidly until around 1955, reaching the $1 billion mark in sales in the late 1960s. Unfortunately, its competitive position did not keep pace with this expansion. In 1972 the company ranked 12th among 15 forest products companies. Clearly, if Mead was to become a leading company, its philosophy, its management style and focus, and its sense of urgency—its whole corporate culture—had to change. The vehicle for that change was the company's strategic planning process.

When top managers began to discuss ways to improve Mead, they quickly arrived at the key question: What kind of performing company should Mead be? They decided that Mead should be in the top quartile of those companies with which it was normally compared. Articulation of such a clear and simple objective provided all levels of management with a sense of direction and with a frame of reference within which to make and test their own decisions. This objective was translated into specific long-term financial goals.

In 1972 a rigorous assessment of Mead's businesses was made. The results of this assessment were not comforting—several small units were in very weak competitive positions. They were substantial users of cash that was needed elsewhere in businesses where Mead had opportunities for significant growth. Mead's board decided that by 1977 the company should get out of certain businesses, even though some of those high cash users were profitable.

Setting goals and assessing Mead's mix of businesses were only the first steps. Strategic planning had to become a way of life if the corporate culture was going to be changed. Five major changes were instituted. First, the corporate goals were articulated throughout the company—over and over and over again.

Second, the management system was restructured. This restructuring was much easier said than done. In Mead's pulp and paper businesses, the culture expected top management to be heavily involved in the day-to-day operation of major facilities and intimately involved in major construction projects, a style that had served the company well when it was simply a producer of paper. By the early 1970s, however, Mead was simply too large and too diverse for such a hands-on approach. The nonpulp and paper businesses, which were managed with a variety of styles, needed to be integrated into a more balanced management system. Therefore, it was essential for top management to stay out of day-to-day operations. This decision allowed division managers to become stronger and to develop a greater sense of personal responsibility for their operations. By staying away from major construction projects, top managers allowed on-site managers to complete under budget and ahead of schedule the largest and most complex programs in the company's history.

Third, simultaneously with the restructuring of its management system, seminars were used to teach strategic planning concepts and techniques. These seminars, sometimes week-long sessions, were held off the premises with groups of 5 to 20 people at a time. Eventually, the top managers in the company became graduates of Mead's approach to strategic planning.

Fourth, specific and distinctly different goals were developed and agreed upon for each of Mead's two dozen or so business units. Whereas the earlier Mead culture had charged each operation to grow in any way it could, each business unit now had to achieve a leadership position in its markets or, if a leadership position was not practical, to generate cash.

Finally, the board began to fund agreed-upon strategies instead of approving capital projects piecemeal or yielding to emotional pleas from favorite managers.

The first phase of change was the easiest to accomplish. Between 1973 and 1976, Mead disposed of 11 units that offered neither growth nor significant cash flow. Over $100 million was obtained from these divestitures, and that money was promptly reinvested in Mead's stronger businesses. As a result, Mead's mix of businesses showed substantial improvement by 1977. In fact, Mead achieved its portfolio goals one year ahead of schedule.

For the remaining businesses, developing better strategies and obtaining better operating performance were much harder to achieve. After all, on a relative basis, the company was performing well. With the exception of 1975, 1984, 1989, and 1994, the years from 1973 to 1997 set all-time records for performance. The evolution of Mead's strategic planning system and the role it played in helping the good businesses of the company improve their relative performance are public knowledge. The financial results speak for themselves. In spite of the divestitures of businesses with sales of over $500 million, Mead's sales grew at a compound rate of 9 percent from 1973 to reach $5.1 billion in 1997. In addition, by the end of 1993, Mead's return on total capital (ROTC) reached 11.2 percent. More important, among 15 forest products companies with which Mead is normally compared, it had moved from twelfth place in 1972 to second place in 1983, a position it continued to maintain in 1994. These were the results of using a strategic planning system as the vehicle for improving financial performance.

During the period from 1988 to 1993, Mead took additional measures to increase its focus in two areas: (a) its coated paper and board business and (b) its value-added, less capital-intensive businesses (the distribution and conversion of paper and related supplies and electronic publishing). Today Mead is a well-managed, highly focused, aggressive company. It is well positioned to be exceptionally successful in the rest of 1990s, and beyond.

Strategic Planning: Emerging Perspectives

Many forces affected the way strategic planning developed in the 1970s and early 1980s. These forces included slower growth worldwide, intense global competition, burgeoning automation, obsolescence due to technological change, deregulation, an explosion in information availability, more rapid shifts in raw material prices, chaotic money markets, and major changes in macroeconomic

and sociopolitical systems. As a result, destabilization and fluidity have become the norm in world business.

Today there are many, many strategic alternatives for all types of industries. Firms are constantly coming up with new ways of making products and getting them to market. Comfortable positions in industry after industry (e.g., in banking, telecommunications, airlines, automobiles) are disappearing, and barriers to entry are much more difficult to maintain. Markets are open, and new competitors are coming from unexpected directions.

To steadily prosper in such an environment, companies need new strategic planning perspectives. First, top management must assume a more explicit role in strategic planning, dedicating a large amount of time to deciding how things ought to be instead of listening to analyses of how they are. Second, strategic planning must become an exercise in creativity instead of an exercise in forecasting. Third, strategic planning processes and tools that assume that the future will be similar to the past must be replaced by a mindset obsessed with being first to recognize change and turn it into competitive advantage. Fourth, the role of the planner must change from being a purveyor of incrementalism to that of a crusader for action. Finally, strategic planning must be restored to the core of line management responsibilities.

These perspectives can be described along six action-oriented dimensions: managing a business for competitive advantage, viewing change as an opportunity, managing through people, shaping the strategically managed organization, managing for focus and flexibility, and managing fit across all functions. Considering these dimensions can make strategic planning more relevant and effective.

Managing for Competitive Advantage. Organizations in a market economy are concerned with delivering a service or product in the most profitable way. The key to profitability is to achieve a sustainable competitive advantage based on superior performance relative to the competition. Superior performance requires doing three things better than the competition. First, the firm must clearly designate the product/market, based on marketplace realities and a true understanding of its strengths and weaknesses. Second, it must design a winning business system or structure that enables the company to outperform competitors in producing and delivering the product or service. Third, management must do a better job of managing the overall business system, by managing not only relationships within the corporation but also critical external relationships with suppliers, customers, and competitors.[11]

In turn, the notion of white-space opportunities is proving especially compelling for highly decentralized companies such as Hewlett-Packard Co. HP Chairman Lewis E. Platt now believes his most important role in strategy formulation is to build bridges among the company's various operations. "I don't create business strategies," argues Platt. "My role is to encourage discussion of the white spaces, the overlap and gap among business strategies, the important areas that are not addressed by the strategies of individual HP businesses."[12]

As an example, Hewlett-Packard Co. brings its customers and suppliers together with the general managers of its many business units in strategy sessions aimed at creating new market opportunities. In each case, HP defines a "business ecosystem," the framework for its managers to explore and analyze. In an ecosystem, companies sometimes compete and often cooperate to come up with innovations, create new products, and serve customers. Most of the business managers are so busy minding their current businesses that is is hard to step out and see threats or opportunities. But by looking at the entire ecosystem, it provides a broad perspective to them. It gets people out of their boxes.

A session on the ecosystem for the automotive industry saw HP assembling managers from divisions that make service-bay diagnostic systems for Ford Motor Co., workstations in auto manufacturing plants, and electronic components for cars. The company also invited customers and suppliers. What could all these divisions do together to create new value for the industry? "Many of the opportunities came right out of the mouth of customers." Possibilities included creating "smart" highway systems or building integrated systems that would collect service problems and immediately feed them back to Detroit. It changes the vision of the business future and managers start thinking about how they can get increased value from all the pieces of the company.

By inviting such a broad range of people to the strategy table, HP gained viewpoints that would normally not be heard. Yet those opinions are critical to creating future products and markets.[12]

Viewing Change as an Opportunity. A new culture should be created within the organization such that managers look to change as an opportunity and adapt their business system to continuously emerging conditions. In other words, change should not be viewed as a problem but as a source of opportunity, providing the potential for creativity and innovation.

Managing through People. Management's first task is to create a vision of the organization that includes (a) where the organization should be going, again based on a clear examination of the company's strengths and weaknesses; (b) what markets it should compete in; (c) how it will compete; and (d) major action programs required. The next task is to convert vision to reality—to develop the capabilities of the organization, to expedite change and remove obstacles, and to shape the environment. Central to both the establishment and execution of a corporate vision is the effective recruitment, development, and deployment of human resources. "In the end, management is measured by the skill and sensitivity with which it manages and develops people, for it is only through the quality of their people that organizations can change effectively."[13]

Electronic Data Systems Corp., which manages large-scale data centers, has opened its strategic-planning process to a broad range of players. In 1992, EDS launched a major strategy initiative that involved 2,500 of its 55,000 employees. The company picked a core group of 150 staffers from around the world for the yearlong assignment. The group ranged from a 26-year-old systems engineer who had been with EDS for two years to a sixty-something corporate vice-president

with a quarter of a century of EDS experience. The staffers identified potential "discontinuities" that could threaten or pose opportunities for EDS. They isolated the company's core competencies—what it does best and how that differentiates it from the competition. And they crafted a "strategic intent"—a point of view about its future. As has been said, "We discovered that in order for us to make information technology valuable to people, we had to be able to go into a company and offer consulting to provide more complete solutions, and we couldn't do that without building a business strategy."[13] So EDS began to create a management-consulting practice, acquiring A.T. Kearney Inc. for $600 million. Similar approaches have been used by a wide range of companies, including Marriott Hotels and Helene Curtis Industries.

Shaping the Strategically Managed Organization. Management should work toward developing an innovative, self-renewing organization that the future will demand. Organizational change depends on such factors as structure, strategy, systems, style, skills, staff, and shared values. Organizations that take an externally focused, forward-looking approach to the design of these factors have a much better chance of self-renewal than those whose perspective is predominantly internal and historical.

Managing for Focus and Flexibility. Today, strategic planning should be viewed differently than it was viewed in the past. A five-year plan, updated annually, should be replaced by an ongoing concern for the direction the organization is taking. Many scholars describe an ongoing concern for the direction of the firm, that is, concern with what a company must do to become smart, targeted, and nimble enough to prosper in an era of constant change, as strategic thinking.[14] The key words in this pursuit are focus and flexibility.

Focus means figuring out and building on what the company does best. It involves identifying the evolving needs of customers, then developing the key skills—often called the *core competencies*—making sure that everyone in the company understands them. Flexibility means sketching rough scenarios of the future (i.e., bands of possibilities) and being ready to pounce on opportunities as they arise. The point may be illustrated with reference to Sears. From 1985 to 1994, about $163 billion of stock market value was created in the retail industry. Some 25 companies were responsible for creating 85% of that wealth, and many of them did it with "business designs" that featured stores outside shopping malls, with low prices, quality merchandise, and broad selection. While Wal-Mart Stores Inc. generated $42 billion and Home Depot Inc. added $20 billion in value, Sears's retail operations captured less that $1 billion in that 10-year period. How did it happen? Like so many American business icons, Sears lost sight of its customers. They did not know whom they wanted to serve. That was a huge hole in the company's strategy. They were also not clear on what basis they thought they could win against the competition.

A major strategy overhaul led to the disposal of nonretail assets and a renewed focus on Sears's core business. The company renovated dowdy stores, upgraded women's apparel, and launched a new ad campaign to engineer a

major turnaround at the department-store giant. One of the things that got the company in trouble was its lack of focus on the customer. Extensive customer research discovered high levels of brand loyalty to Sears's hardware lines. The research also suggested that by segmenting the do-it-yourself market and focusing on home projects with a low degree of complexity, say, papering a bathroom or installing a dimmer switch, Sears could avoid a major competitive collision with Home Depot and other home-improvement giants. Customers, the Sears research showed, desired convenience more than breadth of category in such hardware stores.

After successfully testing the concept of hardware outlets, the company is now making a billion-dollar capital bet that Sears can gain growth in this new market. It hopes to have 1,000 freestanding, 20,000-square-foot hardware stores built in five years, with 200 of them running by 1998, at a cost of $1.25 million per outlet.[15]

Managing Fit Across All Functions. Different functions or activities must reinforce each other for a successful strategy. A productive sales force, for example, confers a greater advantage when the company's product embodies premium technology and its marketing approach emphasizes customer assistance and support. A production line with high levels of model variety is more valuable when combined with an inventory and order-processing system that minimizes the need for stocking finished goods, a sales process equipped to explain and encourage customization, and an advertising theme that stresses the benefits of product variations that meet a customer's special needs. Such complementaries are pervasive in strategy.

STRATEGIC BUSINESS UNITS (SBUs)

Frequent reference has been made in this chapter to the business unit, a unit comprising one or more products having a common market base whose manager has complete responsibility for integrating all functions into a strategy against an identifiable competitor. Usually referred to as a **strategic business unit (SBU)**, business units have also been called strategy centers, strategic planning units, or independent business units. The philosophy behind the SBU concept has been described this way:

> The diversified firm should be managed as a "portfolio" of businesses, with each business unit serving a clearly defined product-market segment with a clearly defined strategy.
>
> Each business unit in the portfolio should develop a strategy tailored to its capabilities and competitive needs, but consistent with the overall corporate capabilities and needs.
>
> The total portfolio of businesses should be managed by allocating capital and managerial resources to serve the interests of the firm as a whole—to achieve balanced growth in sales, earnings, and assets mix at an acceptable and controlled level of risk. In essence, the portfolio should be designed and managed to achieve an overall corporate strategy.[16]

Identification of Strategic Business Units

Since formal strategic planning began to make inroads in corporations in the 1970s, a variety of new concepts have been developed for identifying a corporation's opportunities and for speeding up the process of strategy development. These newer concepts create problems of internal organization. In a dynamic economy, all functions of a corporation (e.g., research and development, finance, and marketing) are related. Optimizing certain functions instead of the company as a whole is far from adequate for achieving superior corporate performance. Such an organizational perspective leaves only the CEO in a position to think in terms of the corporation as a whole. Large corporations have tried many different structural designs to broaden the scope of the CEO in dealing with complexities. One such design is the profit center concept. Unfortunately, the profit center concept emphasizes short-term consequences; also, its emphasis is on optimizing the profit center instead of the corporation as a whole.

The SBU concept was developed to overcome the difficulties posed by the profit center type of organization. Thus, the first step in integrating product/market strategies is to identify the firm's SBUs. This amounts to identifying natural businesses in which the corporation is involved. SBUs are not necessarily synonymous with existing divisions or profit centers. An SBU is composed of a product or product lines having identifiable independence from other products or product lines in terms of competition, prices, substitutability of product, style/quality, and impact of product withdrawal. It is around this configuration of products that a business strategy should be designed. In today's organizations, this strategy may encompass products found in more than one division. By the same token, some managers may find themselves managing two or more natural businesses. This does not necessarily mean that divisional boundaries need to be redefined; an SBU can often overlap divisions, and a division can include more than one SBU.

SBUs may be created by applying a set of criteria consisting of price, competitors, customer groups, and shared experience. To the extent that changes in a product's price entail a review of the pricing policy of other products may imply that these products have a natural alliance. If various products/markets of a company share the same group of competitors, they may be amalgamated into an SBU for the purpose of strategic planning. Likewise, products/markets sharing a common set of customers belong together. Finally, products/markets in different parts of the company having common research and development, manufacturing, and marketing components may be included in the same SBU. For purposes of illustration, consider the case of a large, diversified company, one division of which manufactures car radios. The following possibilities exist: the car radio division, as it stands, may represent a viable SBU; alternatively, luxury car radios with automatic tuning may constitute an SBU different from the SBU for standard models; or other areas of the company, such as the television division, may be combined with all or part of the car radio division to create an SBU.

Overall, an SBU should be established at a level where it can rather freely address (a) all key segments of the customer group having similar objectives; (b) all key functions of the corporation so that it can deploy whatever functional expertise is needed to establish positive differentiation from the competition in

the eyes of the customer; and (c) all key aspects of the competition so that the corporation can seize the advantage when opportunity presents itself and, conversely, so that competitors will not be able to catch the corporation off-balance by exploiting unsuspected sources of strength.

A conceptual question becomes relevant in identifying SBUs: How much aggregation is desirable? Higher levels of aggregation produce a relatively smaller and more manageable number of SBUs. Besides, the existing management information system may not need to be modified since a higher level of aggregation yields SBUs of the size and scope of present divisions or product groups. However, higher levels of aggregation at the SBU level permit only general notions of strategy that may lack relevance for promoting action at the operating level. For example, an SBU for medical care is probably too broad. It could embrace equipment, service, hospitals, education, self-discipline, and even social welfare.

On the other hand, lower levels of aggregation make SBUs identical to product/market segments that may lack "strategic autonomy." An SBU for farm tractor engines would be ineffective because it is at too low a level in the organization to (a) consider product applications and customer groups other than farmers or (b) cope with new competitors who might enter the farm tractor market at almost any time with a totally different product set of "boundary conditions." Further, at such a low organizational level, one SBU may compete with another, thereby shifting to higher levels of management the strategic issue of which SBU should formulate what strategy.

The optimum level of aggregation, one that is neither too broad nor too narrow, can be determined by applying the criteria discussed above, then further refining it by using managerial judgment. Briefly stated, an SBU must look and act like a freestanding business, satisfying the following conditions:

1. Have a unique business mission, independent of other SBUs.
2. Have a clearly definable set of competitors.
3. Be able to carry out integrative planning relatively independently of other SBUs.
4. Be able to manage resources in other areas.
5. Be large enough to justify senior management attention but small enough to serve as a useful focus for resource allocation.

The definition of an SBU always contains gray areas that may lead to dispute. It is helpful, therefore, to review the creation of an SBU, halfway into the strategy development process, by raising the following questions:

- Are customers' wants well defined and understood by the industry and is the market segmented so that differences in these wants are treated differently?
- Is the business unit equipped to respond functionally to the basic wants and needs of customers in the defined segments?
- Do competitors have different sets of operating conditions that could give them an unfair advantage over the business unit in question?

If the answers give reason to doubt the SBU's ability to compete in the market, it is better to redefine the SBU with a view to increasing its strategic freedom in meeting customer needs and competitive threats.

The SBU concept may be illustrated with an example from Procter & Gamble.[17] For more than 50 years the company's various brands were pitted against each other. The Camay soap manager competed against the Ivory soap manager as fiercely as if each were in different companies. The brand management system that grew out of this notion has been used by almost every consumer-products company.

In the fall of 1987, however, Procter & Gamble reorganized according to the SBU concept (what the company called "along the category lines"). The reorganization did not abolish brand managers, but it did make them accountable to a new corps of mini-general managers who were responsible for an entire product line—all laundry detergents, for example. By fostering internal competition among brand managers, the classic brand management system established strong incentives to excel. It also created conflicts and inefficiencies as brand managers squabbled over corporate resources, from ad spending to plant capacity. The system often meant that not enough thought was given to how brands could work together. Despite these shortcomings, brand management worked fine when markets were growing and money was available. But now, most packaged-goods businesses are growing slowly (if at all), brands are proliferating, the retail trade is accumulating more clout, and the consumer market is fragmenting. Procter & Gamble reorganized along SBU lines to cope with this bewildering array of pressures.

Under Procter & Gamble's SBU scheme, each of its 39 categories of U.S. businesses, from diapers to cake mixes, is run by a category manager with direct responsibility. Advertising, sales, manufacturing, research, engineering, and other disciplines all report to the category manager. The idea is to devise marketing strategies by looking at categories and by fitting brands together rather than by coming up with competing brand strategies and then dividing up resources among them. The paragraphs that follow discuss how Procter & Gamble's reorganization impacted select functions.

Advertising. Procter & Gamble advertises Tide as the best detergent for tough dirt. But when the brand manager for Cheer started making the same claim, Cheer's ads were pulled after the Tide group protested. Now the category manager decides how to position Tide and Cheer to avoid such conflicts.

Budgeting. Brand managers for Puritan and Crisco oils competed for a share of the same ad budget. Now a category manager decides when Puritan can benefit from stepped-up ad spending and when Crisco can coast on its strong market position.

Packaging. Brand managers for various detergents often demanded packages at the same time. Because of these conflicting demands, managers complained that projects were delayed and nobody got a first-rate job. Now the category manager decides which brand gets a new package first.

Manufacturing. Under the old system, a minor detergent, such as Dreft, had the same claim on plant resources as Tide—even if Tide was in the midst of a big

promotion and needed more supplies. Now a manufacturing staff person who helps to coordinate production reports to the category manager.

Problems in Creating SBUs

The notion behind the SBU concept is that a company's activities in a marketplace ought to be understood and segmented strategically so that resources can be allocated for competitive advantage. That is, a company ought to be able to answer three questions: What business am I in? Who is my competition? What is my position relative to that competition? Getting an adequate answer to the first question is often difficult. (Answers to the other two questions can be relatively easy.) In addition, identifying SBUs is enormously difficult in organizations that share resources (e.g., research and development or sales).

There is no simple, definitive methodology for isolating SBUs. Although the criteria for designating SBUs are clear-cut, their application is judgmental and problematic. For example, in certain situations, real advantages can accrue to businesses sharing resources at the research and development, manufacturing, or distribution level. If autonomy and accountability are pursued as ends in themselves, these advantages may be overlooked or unnecessarily sacrificed.

SUMMARY

This chapter focused on the concepts of planning and strategy. Planning is the ongoing management process of choosing the objectives to be achieved during a certain period, setting up a plan of action, and maintaining continuous surveillance of results so as to make regular evaluations and, if necessary, to modify the objectives and plan of action. Also described were the requisites for successful planning, the time frame for initiating planning activities, and various philosophies of planning (i.e., satisfying, optimizing, and adaptivizing). Strategy, the course of action selected from possible alternatives as the optimum way to attain objectives, should be consistent with current policies and viewed in light of anticipated competitive actions.

The concept of strategic planning was also examined. Most large companies have made significant progress in the last 10 or 15 years in improving their strategic planning capabilities. Two levels of strategic planning were discussed: corporate and business unit level. Corporate strategic planning is concerned with the management of a firm's portfolio of businesses and with issues of firm-wide impact, such as resource allocation, cash flow management, government regulation, and capital market access. Business strategy focuses more narrowly on the SBU level and involves the design of plans of action and objectives based on analysis of both internal and external factors that affect each business unit's performance. An SBU is defined as a stand-alone business within a corporation that faces (an) identifiable competitor(s) in a given market.

For strategic planning to be effective and relevant, the CEO must play a central role, not simply as the apex of a multilayered planning effort, but as a strategic thinker and corporate culture leader.

DISCUSSION QUESTIONS

1. Why is planning significant?
2. Is the concept of strategic planning relevant only to profit-making organizations? Can nonprofit organizations or the federal government also embrace planning?
3. Planning has always been considered an important function of management. How is strategic planning different from traditional planning?
4. What is an SBU? What criteria may be used to divide businesses into SBUs?
5. What are the requisites for successful strategic planning?
6. Differentiate between the planning philosophies of satisfying, optimizing, and adaptivizing.

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