

## **Strategic Planning Tool for Directors**

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### Introduction

Successful businesses continuously create new opportunities and seize on new ideas to create strategic advantages for winning. They assiduously monitor both competitors and markets and strengthen what works, divest what doesn't and quickly change direction as market needs and perceptions change. They therefore have to know their core processes and innovate successfully in all functions of the business. Globalisation and the global financial crisis and the subsequent rearrangement of the major governments and businesses have created new opportunities and posed new threats. The need to understand and use new digital data and how it can not only create new opportunities but also enable faster growth and higher efficiency in core processes has never been greater.

All boards must continue to update their strategic plans as the business environment continues to change at increased velocity.

The dynamic growth of Japan after the Second World War continues to amaze people to this day and the reason is clear. Examine their methods and you can see the sharp, acute focus on planning and innovation coupled with a strategic intent aimed at maximising the value proposition for product and service delivery. A very good case study is to analyse Honda, the only car company that made a profit during the global financial crisis. Simply put, the reason for this is that Honda is not really a car company, it is a motor company....they make and sell anything with a motor. Honda's latest product is an executive jet aircraft but their strategic advantage is the motor. They capitalised on their knowledge and skill as designers and manufacturers of motors to pursue a new market...aerospace. They also exploit a unique and clever link between process and product innovation. Honda's innovation is second to none.

### Points to Consider

- Cloud computing and the rapidly changing IT landscape are creating new benefits.
- Innovation and research and development have increasing significance in a faster digital world.
- The Australian dollar is likely to remain strong for many years into the future. Old ideas will then need to be replaced with new ones and core processes for success will change. The only constant is change.
- Future business will be written more and more in Yuan and perhaps Yen rather than the US dollar.
- The Australian carbon tax is the highest in the world and could remain so for some considerable time
- Rapid change creates new opportunities. For instance with the introduction of new digital supply chains companies can tap into data from any position in the chain.
- All strengths must be explored. With the emergence of new markets companies can exploit current products, maybe in a slightly modified way, into new markets.

- Strategic alliance partners can enhance growth and provide new ideas, this will redefine the way we use our human capital.
- Digital data can always be used more effectively to speed up decision making
- Using operational tools like lean six sigma more effectively, will create more agile systems and so enable companies to change direction quickly when customer perceptions change as they surely will.
- Supply chain integration enables smoother more efficient and cheaper product and information flow.
- The ever-changing environment means people skills, knowledge and training must be a top priority.
- The carbon tax and the sharper focus on preserving the planet's finite resources and attributes creates new challenges and opportunities.
- Outsourcing in areas of weakness improves efficiency if managed correctly.
- Understanding the market and the needs of the customer must be a top priority as is constant surveillance of competitors and patents in the field.
- New digital systems enable the fast, efficient and accurate retrieval of profit and loss accounts, cashflow and balance sheets and so if managed correctly, enable accurate decision making at high velocity. Speed is the essence of future success. With a shrinking of the time frame for the availability of data most of the greyness in decision- making due to this will disappear.

The old ideas of yesterday must be quickly replaced by the new ideas of tomorrow. New strategic issues have emerged. Rapid transfer of data and information along the value chain has highlighted that the strategic plans of the past that did not look forwards to the customers, at the same time as they looked at forming strategic alliances with suppliers, were not going to provide the best model for development. As well, the role of innovation and research and development is now more important than ever. Typically world ranked multibillion dollar companies spend in excess of 5 percent of sales on innovation. Australian companies spend less than 1.5 percent. A greater emphasis on research and innovation is needed urgently.

For this reason, future success will depend on strategic business plans extending their measures of how effective organisation is to the total supply chain, and an appreciation of where they are in it. This assumes even greater significance if the smaller players are going to compete with the bigger ones. Strategic alliances will become the route to dominance for many businesses.

Most business plans concentrate on cash flow forecasts, which are derived without close scrutiny of market opportunities or a competitive analysis. In many cases, new directions are set without full consideration of the organisations' ability to achieve them in terms of product, process, people, precision and capital etc. In addition, new directions are often set within the constraints of existing competitive activity without considering an imaginative concept of where the organisation would like to be. Often market opportunities go unnoticed, for example, Kodak invented the digital camera but stuck to old film technology, Sony persisted with the walk-man even though market researchers said that there was no

market for it. They created the market. Clearly the risks and the uncertainties are high. This is the main reason business systems and processes must be flexible.

Strategy is about setting overall policies and plans to deliver new directions for the business. Such directions mean little if the plan to achieve them does not include measures of ensuring the organisation either has the inherent skills and capabilities needed or intends to develop them as part of the strategy. Businesses of the future must be fast, flexible and aim to act on real time digital data. The organisations' skills and capabilities are usually defined in terms of the "organisational effectiveness". A planning model must address both issues; that is, strategic issues and operational issues, and translate them to objectives, actions, policies and process strategies. This means that we need to change the way we view our organisation structure. It has to be process based as well as functionally based.

The traditional functional model of the organisation is rigid and generally results in poor communication between the various departments and hence a poor innovation performance. The core process organisational model, illustrates that anything that happens in any operation will have an impact on all other functions e.g. marketing impact and innovation impact etc. and vice versa. The process model actively encourages the usage of cross-functional teams for innovation, problem solving and improvement inside and outside the business. This has been shown to be most effective throughout the most successful businesses around the world. The role of innovation and research and development requires a sharp and constant cross-functional focus.

Innovation in this context as most appropriate to business may be defined as the taking of opportunities and the creation of newness to improve existing services, products and processes. It involves:

- Thinking outside the square
- Using all professional disciplines
- Using advanced concepts and advanced technology
- Continuous Improvement of existing processes....Kaizen, and the birth of new ones.
- It applies to marketing, process, products, finance and all parts of the business

Innovation is in fact newness and originality in doing things. Innovation therefore includes 'Eureka Ideas' Research and Development, Commercialisation, and Kaizen. To be successful in the future all parts of the business must undergo continuous innovation.

As a general rule, innovation is about step function changes and gradual continuous improvement. The strong link between product and process innovation is an imperative.

## **Steps to take formulating a Strategic Plan**

The best way to formulate a strategic plan is to carry out a market, product and competitive analysis identifying the best market segments that will grow, the best products and services to satisfy these customer demands and then identify and define a "Strategic Advantage for Winning"....your SAW. These then must be aligned with your core processes and a SWOT (Strengths Weaknesses Opportunities Threats) analysis carried out. The total environment must be analysed and any potential threats, chaotic

or otherwise, examined...customers, competitors, governments, governance etc.

Such issues as profitability, liquidity, gearing and funding for growth will become more important at a later stage of the analysis while gross margin and net profit in the early stages are of great importance in determining the strategic direction that should be selected at the time when market opportunities and competitive position and other strengths, weaknesses, opportunities and threats of the organisation are analysed.

In summary the basic steps in setting new directions for a company are:

1. Revisit the existing strategic plan and analyse what worked and what did not.
2. Analyse the plan with respect to cloud computing and the high velocity of change in the IT landscape.
3. Define the current core processes for the business and test relevancy in a rapidly changing global world.
4. Analyse the performance of all products in all markets.
5. Prepare strategy maps to aid analysis. These can be redefined but must include maps of competitive advantage versus product and market and growth for the company and the major competitors.
6. Plot and analyse the people process examining the people achievement versus people capability to see if the company has the correct skill set now and for the future.
7. Plot and analyse innovation strategy maps for all functions and these should consider growth, newness, of process and product in all functions of the business.
8. Plot and analyse a technology strategy map to assist in assessing the companies ability to perform processes at levels approaching the continuous lean six sigma methods of the large Japanese manufacturing and service companies.
9. Analyse growth by product and market sales and gross margins and net profit is needed.
10. When the analysis is complete new Strategic Advantages for Winning (SAW) must be defined for each segment of the business.
11. Priorities for the new directions of the business need to be set and an action plan with an appropriate timetable defined.
12. Next redefine our vision, mission and comparative advantage and then define the strategic advantage by product and market.
13. Revisit the draft plan and ensure that it is agile since this is one of the secrets of future successful enterprises.
14. Ensure that all the experts in the company are familiar with the total plan not just in the areas of their expertise.
15. Cross check with people capability and achievement to ensure that the plan is achievable with existing resources or outsource or hire as appropriate.

## Conclusion

The board is responsible for the strategic direction of the company. The opportunities and risks are now greater than ever. A flexible efficient innovative company with unique selling points and offering significant comparative advantages will ensure a successful Strategic Advantage for Winning.

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