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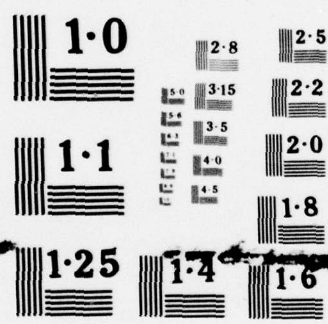

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INTRODUCING A FORMAL STRATEGIC PLANNING SYSTEM IN A BUSINESS FIRM

by
ARNOLDO C. HAX
and
GERHARD SCHULMEYER

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Technical Report No. 8

SLOAN SCHOOL OF MANAGEMENT

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9 Technical Report ~~No. 8~~

6 INTRODUCING A FORMAL STRATEGIC PLANNING SYSTEM IN A BUSINESS FIRM

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FOREWORD

The Alfred P. Sloan School of Management at the Massachusetts Institute of Technology uniquely combines management programs for undergraduate, graduate, and executive development education and research. The work of the School is supported, in part, by government contracts and industrial grants-in-aid. The work reported herein was supported (in part) by the Office of Naval Research under Contract N00014-76-C-1033 and Contract N00014-75-C-0556.

William F. Pounds
Dean

which is wholly-owned by a Japanese corporation

ABSTRACT

The purpose of this paper is to describe the development and implementation of a formal strategic planning system in a European company, A conceptual framework is presented for the design of a strategic planning system. This framework leads to the implementation of a planning process within the business firm and the development of a planning methodology to be applied at the strategic business unit level.

1. Introduction

The objective of this paper is to describe the development and implementation of a formal strategic planning system in a European company, to be designated as the W. Company, which is wholly-owned by a Japanese corporation.

First, a brief conceptual framework for strategic planning is presented. That framework summarizes the overall approach that we use to guide the strategic planning process at W. Section 3 gives a short, historical background of the W. Company, which is helpful in understanding its evolution and stage of development at the time we introduced the planning system. Section 4 describes the competitive environment in which W. operates and provides broad statements of the objectives and strategies for its major businesses. Section 5 contains a discussion of the segmentation of W.'s businesses, leading to the definition of its strategic business units (SBU's). Section 6 identifies the organizational changes that have to be made to provide a meaningful strategic focus to W.'s actions. It also analyzes the resulting strategic business cycle. Finally, a brief conclusion is given.

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2. Description of a Conceptual Framework

2.1 The basic cycle of strategic planning

Many firms have recognized the need to carry out a formal strategic planning process. Normally, a number of activities are scheduled along a full calendar year, starting with the release of general guidelines from corporate headquarters, and culminating with a well defined budget for the following period. The completion of one cycle of strategic planning is followed by the starting of a new one. In this way, strategic decisions may be viewed as a final product of a process that may span many years, rather than as an unexpected and isolated change in direction.

A formal strategic planning system is focused in the one year cycle. In its initial stages, it is important to recognize those structural components that define the setting in which the planning process should be conducted, since they condition the overall strategic actions of the corporation. For this reason, we will refer to these components as the <u>structural conditioners</u> of a <u>strategic planning cycle</u>. There are three such conditioners: the <u>internal structure</u> of the firm, the <u>environmental structure</u> that affects the totality of the firm, and the composition of the <u>strategic business units</u>, which identify the businesses the firm is engaged in.

A formal planning system addresses, first, the characteristics of each one of the three structural conditioners, and then the basic stages of the strategic planning cycle: <u>objective setting</u>, <u>strategic programming</u>, and <u>budgeting</u>. These elements are portrayed in Figure 1.

2.2 Identification of strategic business units

The primary focus of the strategic planning process is directed to

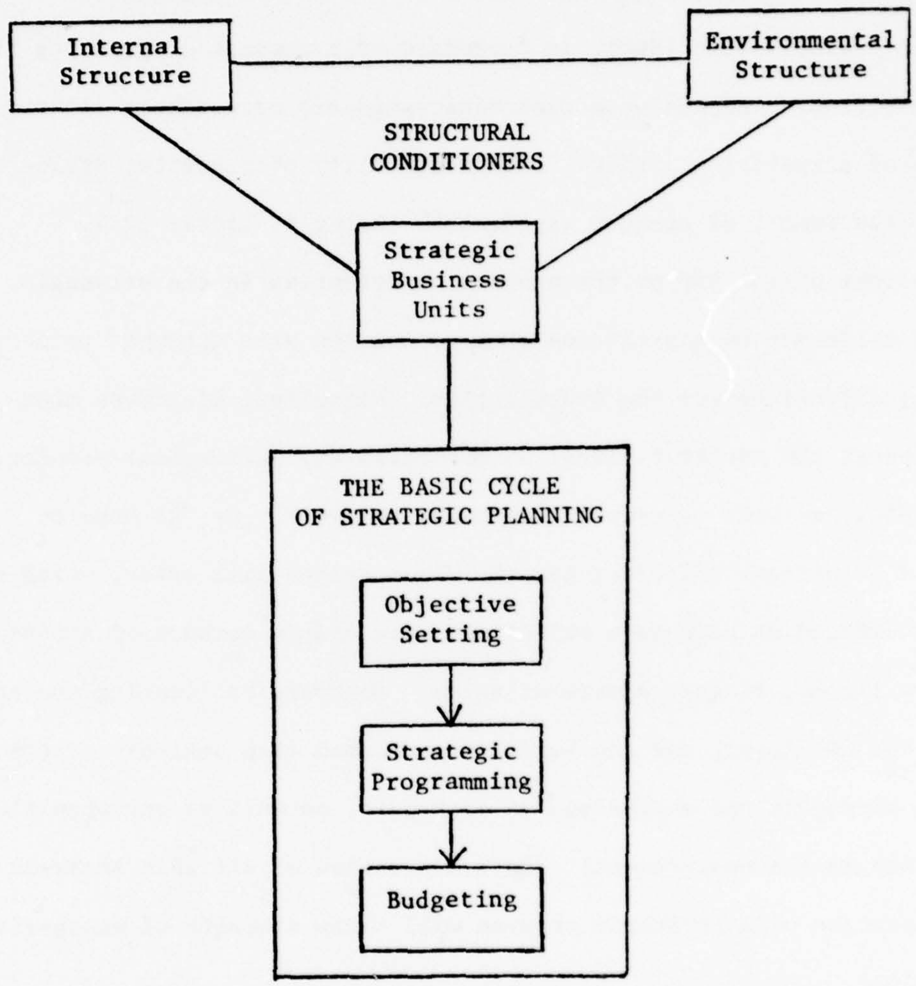


Figure 1: The Fundamental Elements in Formal Strategic Planning

a well defined unit of the organization, which is given the name of strategic business unit, strategic center, or business segment. A strategic business unit (SBU), is "composed of a product or products lines with identifiable independence from other products or products lines in terms of competition, prices, substitutability of products, style-quality, and impact of product withdrawal" (Athur D. Little [2]).

The role of the SBU as the subject of attention in the strategic planning cycle may be appreciated when contrasted with attempts to provide strategic objectives for the overall firm. Normally, objectives that are stated at the corporate level do not carry any operational meaning; for example, "we want to grow at 7 percent per year", or "we have to achieve a 12 percent ROI after taxes". Expressions like these, which are commonly offered as corporate objectives, are simple motherhood statements with very little, if any, practical value. However, by lowering the attention to the SBU level, one can begin to perform a rich analysis of the existing strengths and weaknesses of each unit, as well as opportunities and threats in the environment. The condensation of all this analysis in the formulation of a strategic program will carry a wealth of managerial information.

The identification of an SBU demands an exhaustive analysis of the segmentation of the overall businesses of a firm. There are several criteria that can be used to characterize a business unit (Abell and Hammond [1]). Some firms define an SBU as a reasonable autonomous profit center with its own general manager. This normally calls for a self-standing unit in terms of manufacturing, sales, research and development, and other functional departments. Some other firms conceive an SBU as having a clear market focus and identifiable strategy and an identifiable set of competitors.

In either case, the important concept to bear in mind is that the business strategy is delegated to the SBU level.

The crucial issue to be addressed in defining an SBU is finding the largest monolithic segment that allows for a proper assessment of internal strengths and environmental opportunities, and that can be treated as a separate entity in terms of the resource allocation process. Of foremost importance is the ability for strategic business managers to operate an SBU with a high level of independence with respect to other business units in the firm, in order to respond in an effective way to competitive pressures.

In Section 5 of this paper we will provide a detailed discussion on the segmentation of the W. Company's business leading toward the identification of its SBU's.

2.3 The basic strategic planning cycle

The internal structure, the environmental structure, and the definition of SBU's constitute the fundamental premises that have to be recognized when initiating the strategic planning process. Our attention now will be focused on the generic tasks to be undertaken for the development of formal strategic planning.

a) Process description of the strategic planning cycle

A first conceptualization of this process may be established by distinguishing two hierarchical levels in business firms: the corporate or central level, and the business or SBU level.

The primary roles assumed by the corporate level are; first, to provide initial expectations, guidelines and directives; and second, to consolidate and sanction the proposals being presented from the business level.

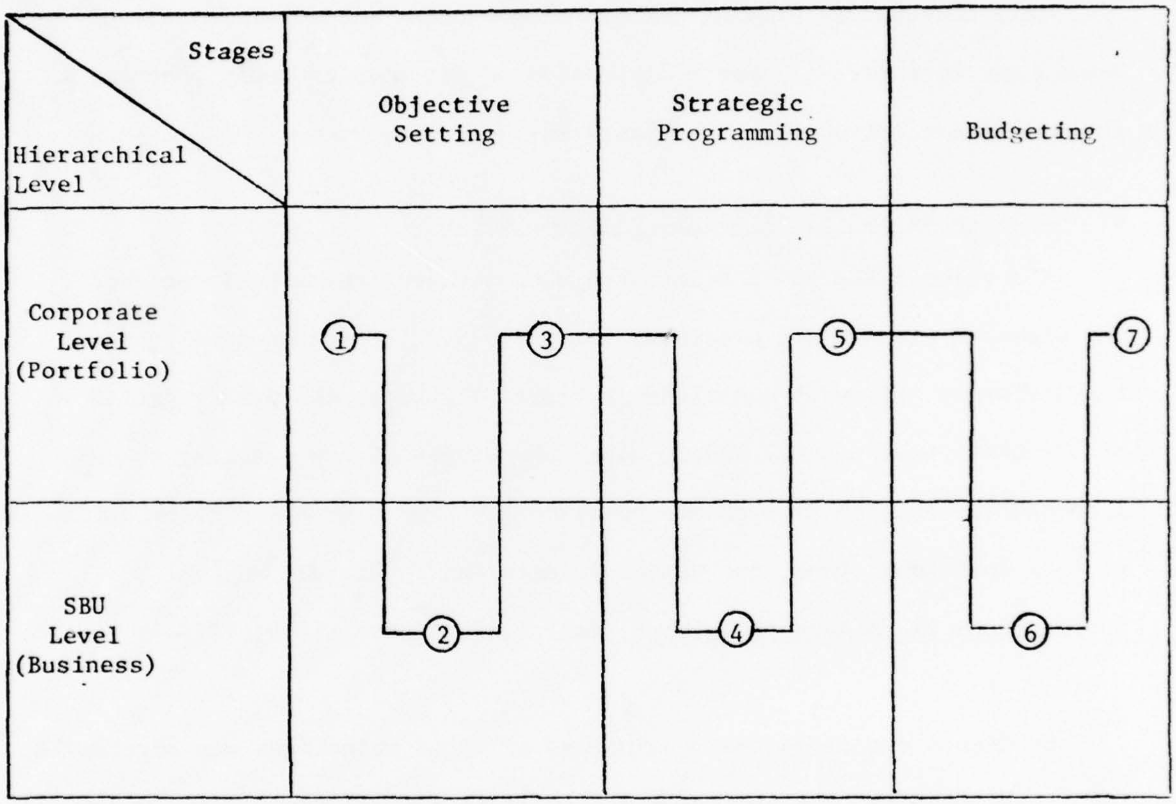
At the SBU level, the initial guidelines provided by the corporation are first translated into broadly defined strategic options (action programs). In turn, these are reviewed by corporate officers in order to insure their consistency with corporate resources and goals. After this initial stage, more specific and detailed strategic programs emerge at the SBU level, that must go to a second round of corporate consolidation. The process finally terminates with the preparation of detailed budgets.

Figure 2 illustrates the interaction existing between corporate and SBU levels in the realization of the strategic planning process, along the three major stages of objectives setting, strategic programming, and budgeting.

Although the previous discussion merely recognizes two hierarchical levels in the planning processs, some corporations tend to insert one or more intermediate levels to coordinate the activities of related business units. Section 6.2 addresses the definition of the strategic planning cycle for the W. Company, which involves four hierarchical levels.

Moreover, the process captured in Figure 2 does not detail the role played by hierarchical levels below the SBU. These levels, typically functional units, contribute the detailed disciplinary knowledge required to flesh out the strategic programs and budgeting stages. By collapsing the role played by the SBU manager and the functional departments into one single hierarchical stage in our discussion, we are stressing the need to reconcile two main issues in the strategic planning process: the corporate portfolio, and the development of each individual business of the portfolio.

Another notion emerging from Figure 2 is the recognition that strategic planning is neither a top down nor a bottom up process. Rather, it



Major Tasks:

1. Formulation of general guidelines
2. Formulation of broad strategic action programs
3. Consolidation of action programs
4. Generation, evaluation, and selection of strategic programs
5. Consolidation of strategic programs
6. Development of tactical programs and budgets
7. Consolidation of budgets

Figure 2: The Basic Strategic Planning Cycle: Process Description

involves a complex iterative interaction among the hierarchical levels in the firm. The full extent of this interaction is not captured in that figure, which presents only the major tasks that the formal planning process is supposed to complete along one realization of a planning cycle.

This interactive view of the planning process was first formalized by Vancil and Lorange [7]. For a discussion of pitfalls commonly observed in the practice of planning, see Lorange [6].

b) Major tasks in the strategic planning cycle

The major tasks to be undertaken when implementing a full cycle of the planning process are presented in Figure 3. The sequence of these tasks closely follows the outline in Figure 2 showing the participation of different hierarchical levels along the stages of the planning process. (The numbers in both figures are consistent.) For a detailed description of each individual task, the reader is referred to Hax and Majluf, Applications of Management Science, Vol. 1, Jai Press, Inc., 1979.

Section 4 describes the development of broad objectives and strategies for the W. Company, and Section 6.2 identifies the principle tasks undertaken in the planning cycle of the W. Company.

1 Internal Scrutiny:
Corporate Level
(Past Performance and
Future Projections)

Strengths and Weaknesses

Environmental Scanning:
Corporate Level
(Past Performance and
Future Projections)

Opportunities and Threats

Corporate Gap Analysis
and Formulation of
General Guidelines

2 Internal Scruinty:
SBU Level
(Past Performance and
Future Projections)

Strengths and Weaknesses

Environmental Scanning:
SBU Level
(Past Performance and
Future Projections)

Opportunities and Threats

SBU Gap Analysis and
Formulation of Broad
Strategic Action Programs

3 Consolidation of Action
Programs at Corporate Level

4 Generation of Specific
Strategic Programs at
SBU Level

Evaluation of Alternatives:
- Base Case
- Scenario Planning
- Contingency Planning

Selection of Strategic
Programs at SBU Level

5 Consolidation of Strategic
Programs in Corporate Portfolio

6 Budgeting at SBU Level

7 Consolidation of Budgets
at Corporate Level

Figure 3: The Basic Strategic Planning Cycle: Major Tasks

3. A Brief Background of the W. Company

The W. Company was founded in 1923 in Stuttgart, West Germany, as a family-owned company. At the beginning, the Company concentrated on developing and manufacturing radios. The expansion of the Company's product line was closely linked with the technological developments of the electronic industry in Germany. W. never had its own basic research unit.

From the start of World War II, until the 1950's, the Company's sales were well below 10 million DM, and extremely small business even at that time in this industry. With the introduction of TV-broadcasting in Germany in 1955, W. entered that market and total sales escalated to 20 million DM by the early 1960's.

A major change in the Company's strategy took place with the entry of the grandson of the founder into a top management position. W. changed its policy from a trend-follower with low profitability and low profile, to a high quality brand position with a very contemporary design. The distribution policy changed from a very broad coverage to a highly selective dealer network, while at the same time building an export market. Technologically, it remained dependent on the large component manufacturers, since the Company did not have resources to fund its own basic research.

This strategy of high quality, excellent design, and selective distribusion resulted in a rapid increase in sales to 100 million DM by 1971. To absorb the sales growth, considerable investment was made in 1973 to expand production capacity. Unfortunately, the economic recession, in 1974, strongly affected the electronic market and sales leveled off at 140 million DM, which was insufficient to provide adequate returns to the new capacity investments. This situation, compounded by an erosion of quality standards resulting from the expansion of color television businesses and the product variety in the audio businesses, forced the family to sell the Company.

W. was acquired by a Japanese corporation, which sought an opportunity to establish a manufacturing base in Europe. The strategy behind this acquisition was to provide research and development and production support to the W. product brand, which was positioned at a different market than the existing Japanese brand.

The former owner of W. was kept in place as general manager, while given added resources to strengthen the development of the W. brand. However, he did not adjust himself to the new conditions imposed by the large multinational Japanese corporation and resigned in 1976. By then the Company had lost its direction and had a significantly weakened brand position.

A professional manager was hired to assume the responsibilities of restructuring the W. Company. His charter included the building of all the managerial talent required to regain the W. brand's identity, which was very much in danger. The task of hiring the appropriate managers and structuring their responsibilities took about a year to be consolidated. After this was accomplished, a commitment to introduce a formal strategic planning process in the Company was made.

To facilitate that effort, three professors from the M.I.T. Sloan School of Management were invited to conduct a one week workshop with all the top managers of W. The primary objective of the workshop was to provide an educational experience leading to action in the Company. To satisfy this objective, two basic goals had to be accomplished. First, the fundamental concepts, techniques, and processes related to Planning and Control were instructed. Second, a complete cycle for the Planning and Control process was conducted with the active participation of the executives represented in the workshop. This led to a recognition of the major activities which had to be undertaken in the development of a formal Planning and Control system at W.

A point worth stressing is the role played by six young professionals who were hired directly from universities to provide staff support to the W. managers in this effort. These trainees were assigned to gather all the necessary data prior to the seminar, which they attended. After the seminar, they were in charge of providing day-to-day support to the management team in all the aspects pertaining to the design and implementation of the formal planning system.

4. The W. Company's Objectives

4.1 The overall audio and video businesses

Prior to providing a statement of the W. Company's objectives, it is important to understand the overall nature of the audio and video businesses. The market of consumer electronics can be divided into five major product categories:

- Color television (CTV)
- Home video
- Hifi
- Mono-radio, including portable radios and clock radios
- Accessories.

In the world market there are three regions of supply and three main regions of consumption:

- Japan and Southeast Asia
- North America
- Europe.

Figure 4 summarizes the position of the three major suppliers in the world market by product category.

It is important to recognize the position of each of the product categories in each of their respective life-cycles. Color television, hifi, and mono-radio are in a mature stage; accessories, especially tapes, are in a rapidly growing stage; home video is in an embryonic pahse.

Regarding the position of the W. Company in those markets, W. only produces color television and hifi's, each product category producing roughly the same sales volume. However, the Japanese mother company has a complete product coverage.

The W. Company's total color television line is based on one screen

Production Category \ Markets / Industry	American Industry			Japanese Industry			European Industry		
	USA	Jap	Eur	USA	Jap	Eur	USA	Jap	Eur
CTV	+	--	--	o	++	-	--	--	++
Home video	--	--	--	++	++	++	--	--	-
Hifi	o	-	o	++	++	++	-	--	o
Mono-radio	-	-	-	++	++	+	--	--	-
Accessories	+	-	o	+	++	o	-	--	+

++ leading

\+ strong position

o average

\- weak position

-- no position

Figure 4: Significance of Industry Groups in the Main Markets

size (26") and one chassis. Model differentiation is mainly done through design and feature changes. The 26" screen size represents 78% of the total European continental color television market, which explains W's concentration on that size screen. In research and development and manufacturing, there are close ties to the mother company, but in marketing and sales, both brands compete with each other in the European market. All color television models are final-assembled in the W. Company's own facilities, because of technological differences and certain patent and import restrictions. W. has considered an extension of the product range, including entering into the home video business, adopting different screen sizes, and adding a monitor business.

The product range of the W. Company in hifi is much wider and spans from single-end components to low-end compacts. Audio products range from those which are completely designed and manufactured by W. to those which are totally procured from the mother company. The support being given from Japan is essential to W., as the audio business is characterized by large product variety and short product life-cycles. Also, W's and the mother company's brands compete in the audio market.

4.2 The primary objectives of the W. Company

There are three primary objectives of the W. Company:

a) W. should have an active presence in both the audio and video businesses. This is desirable because of great synergism between then two businesses. From a production standpoint, efficiencies are obtained from joint parts procurement, incoming inspection, automatic parts insertion, etc. From a market and sales point of view, synergism is obtained through the sharing of distribution channels, sales forces, and consumer groups.

b) W. should keep a sound business base in Germany. This results from long term strategic interests of the mother company and from existing patents and imports constraints which prevent certain Japanese products from penetrating in some European markets. For example, Japanese manufacturers cannot export color television sets of 26" or 22" to Europe, and face import restrictions for tuners in France and Italy.

c) W. should improve its current profitability. In color television, this implies achieving at least a minimum sales volume to sustain a reasonable profitability with its one chassis product. In audio, it is required to offer a broad product line which keeps up with fast changing trends, needed for recognition as a hifi manufacturer.

4.3 W.'s distinct positioning

W. operates in a competitive environment, which in the color television business is dominated by large European manufacturers and in the hifi business is dominated by large Japanese manufacturers. What can a middle size company like W. do? Since it is impossible for such a company to compete across the board with the leading corporations, it is mandatory to assume a distinct positioning in those businesses. This is what is currently referred to as "finding a niche".

There are three primary elements of W.'s business position: attractive design, high quality, and a total user's concept. A brand-image study conducted by W. showed that the Company had a very strong image for its very unique and attractive design, which was one of the strongest historical features of W.'s line. However, the study also indicated a fairly poor ranking on technical quality. In color television, quality is mainly attributed to good picture image and high reliability. In the hifi business, quality encompasses a much wider range of issues linked with advanced technology, features, outside finishing, and performance.

Maintaining its tradition for good design is an obvious strategy for W. to build upon, since a broad discriminating market exists willing to pay a premium price for a product with superior aesthetic design. Moreover, by channeling its efforts in this direction, W. will be confronted by only three potential competitors, only one of which operates in both the color television and hifi businesses.

With the additional available resources generated by the Japanese mother company, it makes sense to adopt a second dimension of strategic positioning concerning a high quality image.

The third dimension for the distinct company position, as an umbrella for all products, is the so-called user's concept. In an industry which is plagued by an extraordinary segmentation of individual products, W. has the philosophy of the concept of the total package, targeted to individual customer groups. Rather than selling speakers, tuners, amplifiers, cassette recorders, etc. as independent products, W. has developed total systems for well defined market groups. For example, there are W. system components primarily oriented toward the youth market - low in price, fashionable, and aggressive in design. There are low priced concepts for more conservative target groups at a lower end of the income level, who are seeking a complete one piece solution. There are middle price components with clean and functional designs for those with high aesthetic standards looking for long lasting goods. The total systems produced and marketed by W. cover a wide range of values from US$600 - US$8000.

All different product families are made under the same standards, as far as design and quality are concerned, however they reflect the specific needs for the different target groups. The advertising and merchandising is done along the different system positionings, maintaining some common guidelines to keep a distinctive company identity.

4.4 Description of W.'s broad strategies

Having explained the principle objectives of the W. Company, we now turn out attention to the broad strategies that would allow W. to attain its major objectives. The primary issues to be addressed are: what markets to serve, what products to use in those markets, what new products to develop, and what production technologies to use.

a) Markets. As far as the geographical locations to be covered, W. will concentrate on Europe as the main target area. In Germany, France, and Italy, W. is committed to have its own sales force and logistics capabilities. In other European countries, W. will be represented by qualified agencies. Some flexibility has to be maintained to seize opportunities available within Europe as they emerge. From a pricing standpoint, W. will concentrate on the middle and high ends in color television and hifi. In the remaining product categories, there is an intent to penetrate in the home video market as soon as possible. In the accessories business, it should be studied whether the available resources from the mother company can be utilized by the W. brand.

b) Color television product line. W. should concentrate on the one chassis color television line to achieve high productivity resulting in low costs. During the first stage, production should be concentrated in one of W.'s plants, to permit high manufacturing volumes. All color television products should meet the highest standards in picture quality, design, and reliability. The high end products should also present the state-of-the-art in tone quality and features for convenience, including tuning and remote control. W. should provide both wood and plastic cabinets to satisfy specific consumer needs. The total user concept applied in the audio business should be included in the development of the home video business. It is expected that W. will enter the small screen size color television market on an OEM basis by 1980, maintaining the same criteria for design, quality, and user concept.

c) Audio product line. The total user concept should be the anchor of W.'s strategies in this business. All income levels should be covered, but special emphasis should be given to the youth segment. The high priced products should integrate all state-of-the-art features and technologies, while the low priced products should concentrate on trend features and trend specifications. All products should have a high standard in design, quality, finishing, and reliability. By 1980, middle and high priced products should be developed and manufactured by W. Middle to low priced products, which can only be manufactured competitively in large quantity, should be based on the mother company's concepts, and manufactured in low cost countries. All W. products should be distinctly different from the mother company's products and should satisfy the German standard for hifi products (DIN 45500).

d) New products. Home video and accessories are the new product categories to be introduced in 1979/1980. They should be distributed through the existing channels, and be consistent with W.'s strategic position.

Accessories, especially video and audio tapes, microphones, headphones, and pick-up systems, should constitute a new business entity ready to develop other businesses.

e) Production. The two existing W. plants should be integrated into the overall international production capabilities of the mother company. One plant, concentrating on the production of color television, is expected to double its output over the next two years. This will require a change in the plant layout and a significant capital investment, whose pay-back period should not exceed three years. The second plant should concentrate on manufacturing high priced audio products and speakers for the W. brand, as well as speakers and tuners for the mother company.

5. Segmentation of the W. Company's Businesses

A fundamental step in the development of the planning system is the recognition of the various business segments in which the company is engaged. We found it useful to consider two differement dimensions in which to perform this segmentation for the W. Company. The first dimension is the traditional product/market structure. The second looks at the customer needs which are satisfied by the various W. products.

5.1 Segmentation based on product and market structure

To characterize W.'s business segmentation based on this dimension, we identified three hierarchical levels of increasing detail for each one of the three major industries in which W. operates: audio, video, and accessories.

1st LEVEL	2nd LEVEL	3rd LEVEL
audio	product group	individual product line
video	product group	individual product line
accessories (in planning stage)	product group	individual product line

a) First Level of Segmentation: Industry Characteristics

The broadest classification of W.'s businesses is in accordance with their respective industrial characteristics: audio, video, and accessories (in the planning stage). These three different industries have distinct characteristics, not only from a technological point of view, but also from their saturation levels, consumption needs, life-cycle considerations, competitive structure, etc.

The video industry, composed primarily of color television and home video, has the following general characteristics:

- long model life-cycle (3 years)
- few competitors (10-15)
- relatively stable market shares
- regional different standards
- dominance of local industry
- high saturation, mature markets
- uniform price structure
- small product differentiation.

The primary characteristics of the audio industry are:

- short model life-cycle (below 1 year)
- many competitors (more than 100 for most categories)
- fluctuating market shares
- international standards
- dominance of Japanese industry
- still growing markets, but starting to mature
- high product variety with fashion trends
- high differentiation performance and price.

b) Second and Third Level of Segmentation for Audio Industry

A second level of segmentation recognizes the different product groups in a given industry. For the W. Company, the audio product groups are divided into three major categories:

- middle and high priced product lines developed and manufactured by the W. Company;
- middle and low priced product lines based on product concepts of the mother company and manufactured in low cost areas; and
- speaker product lines.

Each of these product groups can be further segmented into individual product systems, based on distinct user concepts. This differentiation is captured at the third level of segmentation, which defines the individual strategic business units (SBU's) for the audio industry.

c) Second and Third Level of Segmentation for the Video Industry

A similar criteria for the second and third level of segmentation can be applied to the video industry.

The second level represents four major product groups:

- the color television, one chassis product line, developed in partnership with the mother company and manufactured with W. Companys own resources;
- OEM (Original Equipment Manufacturing) product lines, which constitutes a new business area for W.;
- home video product line, a category just being developed, with market characteristics similar to color television; and
- video monitor product lines for semi-professional and professional use.

Each of these product groups are further differentiated at the third level of segmentation, based not only on different user concepts, but also based on the specific markets they serve. This last differentiation emerges from the different specifications of the broadcasting specifications of the various European countries. As was the case in the audio industry, the third level defines the different SBU's for the video industry.

d) Accessories

This business entity is still in the planning stage and a detailed business segmentation has as yet to be developed.

The segmentation just proposed is extremely helpful in identifying specific objectives for the development of each individual business of the W. Company in accordance with the opportunities that each business provides. The SBU's identified as a result of this segmentation process constitute the primary focus for strategic planning and for the allocation of the overall resources of the Company to each SBU.

5.2 Segmentation based on a discretionary spending analysis

An entirely different view of W.'s businesses starts with the recognition that W. is competing for funds which fall into the broad category of discretionary spending. We therefore looked at how the various product lines of W. contribute to satisfying consumer needs associated with discretionary spending. The areas of such spending were classified as follows:

- travelling
- entertaining
- hobby
- physical exercise
- fashion
- education
- convenience
- art
- status symbol
- home improvement.

Since W. products directly belong to the entertainment category, we dropped this dimension as a discriminator among the different product lines. Moreover, the art and physical exercise categories were also dropped since W. products did not seem to contribute there.

For the purposes of this analysis, W. products were classified in the following ten categories:

- CTV Line "Object"
- CTV Line "Integral"
- CTV Portables
- Home Video Recorder
- System Component Line "JPS"
- Compact Line "40/41"
- Component Line "Module"
- Component Line "Lab Zero"
- Speaker Line "Direct"
- Compact Line "Concept".

A product line not considered in this approach is the CTV Monitor line, as it has a very specific market outside of the general consumer business.

Figure 5 depicts what specific consumer need, in addition to entertainment, is partially fulfilled by each product line. The classification of a CTV table set as a status symbol, a CTV Portable as a convenience item, or a System Component Family as a fashion item, leads to quite different segmentation from the one suggested before. Since this positioning concept is very central to the W. Company, we found it important to consider this dimension in the structuring of the formal palnning process.

5.3 Strategic Resource Units

In order to ensure that the consumer needs dimension is brought into strategic planning thinking at W., seven so-called Strategic Resource Units (SRU's) were formed along the seven areas of discretionary spending identified in Figure 5. Each of these groups is composed of eight people, from different hierarchical levels and functional areas, interested in the given segments.

The Strategic Resource Units work under the given guidelines of the general Company's strategies. Their objective is to find out to what degree existing product lines can be improved in their positioning to fit better into certain consumer need categories and to identify potential consumer needs which are not yet covered properly.

Frequent discussions in these groups and bi-annual presentations to the W. Company's operating committee should ensure that the structuring of the business in consumer concepts is maintained as a specific strength of the W. Company.

Product Lines / Consumer Needs	CTV Table "Object"	CTV Table "Integral"	CTV Portable	Home Video Recorder	"JPS" System Compnents	Compact Line "40/41"	"Module"	"Lab Zero"	Speaker Line "Direct"	Compact Line "Concept"
Travelling			X							
Hobby				X	X		X	X	X	
Fashion			X		X		X			
Education	X	X		X						
Convenience	X	X	X	X		X				X
Status Symbol	X			X	X		X	X		X
Home Improvement	X	X		X		X				X

The crosses indicate a certain contribution of the individual product line to consumer needs to each category. The circle marks a significant and direct contribution. If there is no circle for a product-line, the entertainment need is dominant.

Figure 5: Contribution of W. Product Lines to Consumer Needs for Discretionary Spending

6. The Organizational Structure

6.1 A business orientation in the organizational design

Prior to the introduction of strategic planning in the W. Company, its organization was structured in a very conventional functional form, as presented in Figure 6. A change in this organizational structured was needed in order to facilitate the implementation of a strategic planning process, with a strong commitment toward the development of the various business segments of W. This change called for a formal recognition of audio, video, and subsequently, accessories, as distinct entities of the total Company's business.

A straightforward solution to facilitate the emphasis on the development of this business would have been to adopt a fully divisionalized structure having audio, video, (and subsequently, accessories), as autonomous units with full and independent functional support. This solution, however, was unacceptable due to the small size of the W. Company. A compromise between a fully functional and fully divisionalized structure had to be found.

The solution accepted is shown in Figure 7, which recognizes three different types of managerial functions:

- service functions, which are finance, and personnel and organization;
- operational functions, which are production and sales; and
- business functions, which are audio, video, and subsequently, accessories.

There is a strong need to integrate these functional activities, which is accomplished by the strategic planning process, by committee work, and by various coordinating mechanisms.

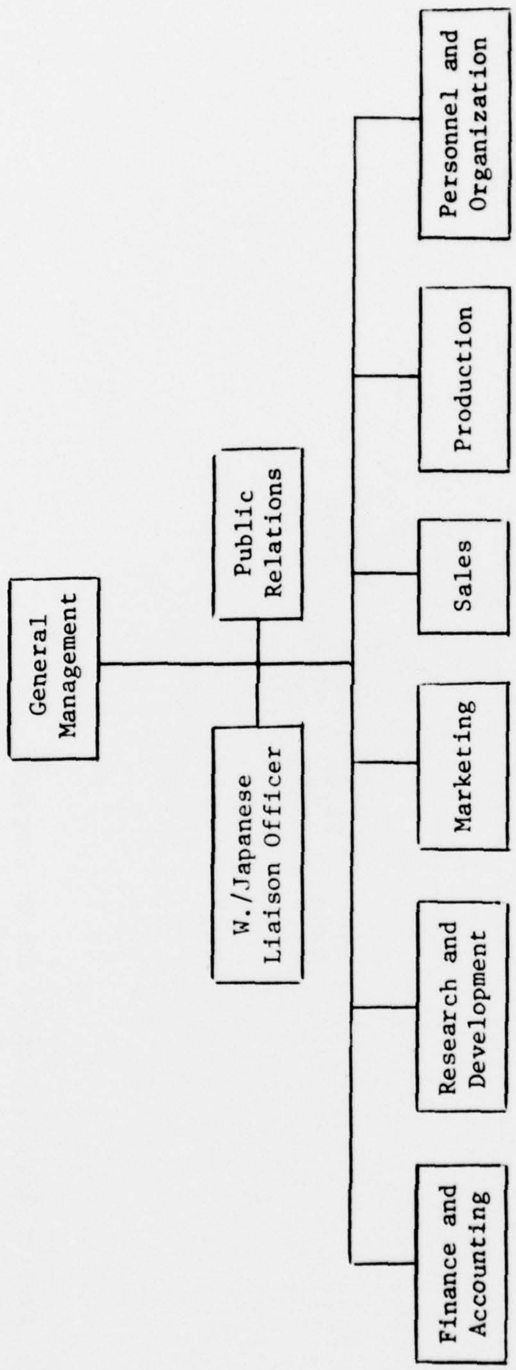


Figure 6: Original Organization of the W. Company

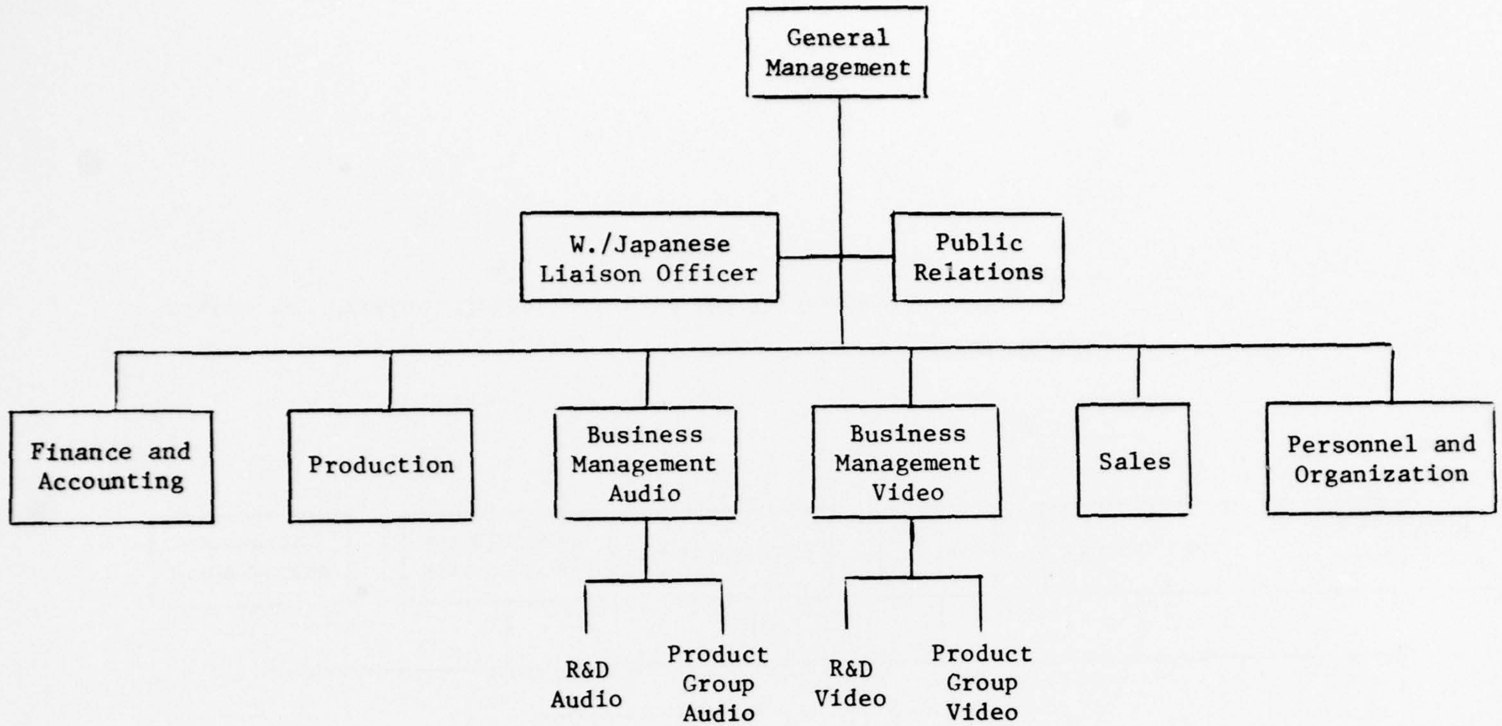


Figure 7: Present Organization of the W. Company

The business function managers are the key individuals responsible for the coordination of their corresponding business strategies. The audio and video functions are further differentiated to reflect the second and third segmentation levels of each of these businesses, as described in section 5.1.

The primary organizational responsibilities are as follows:

a) General Manager. His major role is to contribute to the definition of broad objectives for the W. Company; to set up the initial guidelines for the planning process; to provide consolidation, validation, and final sanctioning of resource allocation among business and functional areas; to approve the operational budget; and to monitor overall performance of the W. Company.

b) W.'s Operating Committee. This is the key coordinating body of W. The Committee is composed of the General Manager and the managers of each function of W. (service, operational, and business). The Committee formulates specific Company objectives, balances the portfolio of the total Company businesses, oversees the preparation of the Company budget, and develops and implements appropriate control instruments. This Committee has the strongest influence in shaping W.'s strategic directions. Each of the six functional managers has one trainee in his personal staff. These trainees are essential to provide technical inputs to the planning process. Clearly the managerial responsibilites rest on the functional managers, but the trainees are a great source of technical support in the detailed matters pertaining to the preparation and evaluation of the strategic programs and budgets. Moreover, since the trainees meet regularly among themselves, they provide an important second level of coordination in the planning process, which assures consistency and uniformity in the individual programs and budgets.

c) The Business Managers. Their primary responsibility is to coordinate all managerial activities pertaining to their individual businesses. They are responsible for setting strategic objectives and allocating resources among the various product groups within their businesses. In the budgeting process, they are ultimately responsible to obtain a well balanced marketing and research and development funding to support their corresponding businesses.

d) Product Group Managers and R&D Managers. Each Business Manager has Product Group and R&D Managers reporting to him. It is at this level in the organization hierarchy where the SBU responsibility is located. Product Group Managers and R&D Managers are trained to influence the direction of the individual product lines, within their product groups, in accordance with the market needs and technological developments. This close linkage between R&D and Product Management is necessary in an industry characterized by a very high speed of technological innovation. The focus of responsibility for a given SBU normally resides in the Product Group Manager. However, in those product lines strongly affected by rapid technological changes, the responsibility might shift to the R&D Manager. This requires, for both the Product Group Manager and the R&D Manager, to work very closely and to feel jointly responsibility for the development of the SBU's. Often the technical developments, more than real consumer needs, influence the cost structure of a product line, which is paramount to the success of an SBU.

e) The Strategic Resource Units. As previous discussed, the SRU's are not formally integrated in the hierarchical structure. They are, rather, ad hoc groups of people who generate creative ideas involving and identifying the total potential of the Company's employees in the strategic planning process.

6.2 The formal planning cycle

As we have indicated in section 2, the implementation of strategic planning rests heavily on the definition of a formal planning cycle. The cycle identifies the inputs to be made by the key organizational levels in accordance with a well prescribed sequence.

Figure 8 illustrates the planning cycle adopted by W. Due to the need for final approval by the Japanese corporation, and the strong coordinational requirements because of the rapid rate of change in the technological environment of W., it is not surprising to detect a high degree of complexity in the planning cycle. The numbers in Figure 8 characterize key decision points which can be briefly summarized as follows:

1 - Formulation of planning guidelines for the W. Company by the Japanese corporation.

2 - General mid-range objectives for the business and line functions at W.'s Company level.

3 - Specific mid-range objectives for the product groups by the Business Managers.

4 - Strategic programs recommended for specific product lines and consolidated into product group strategies by SBU managers.

5 - Evaluation and approval of resource allocation for each SBU. Consolidation of SBU plans into a general business strategy.

6 - Review of business plans. Consolidation of Company strategies. Allocation of Company resources.

7 - Corporate review. Approval of Company strategy. Allocation

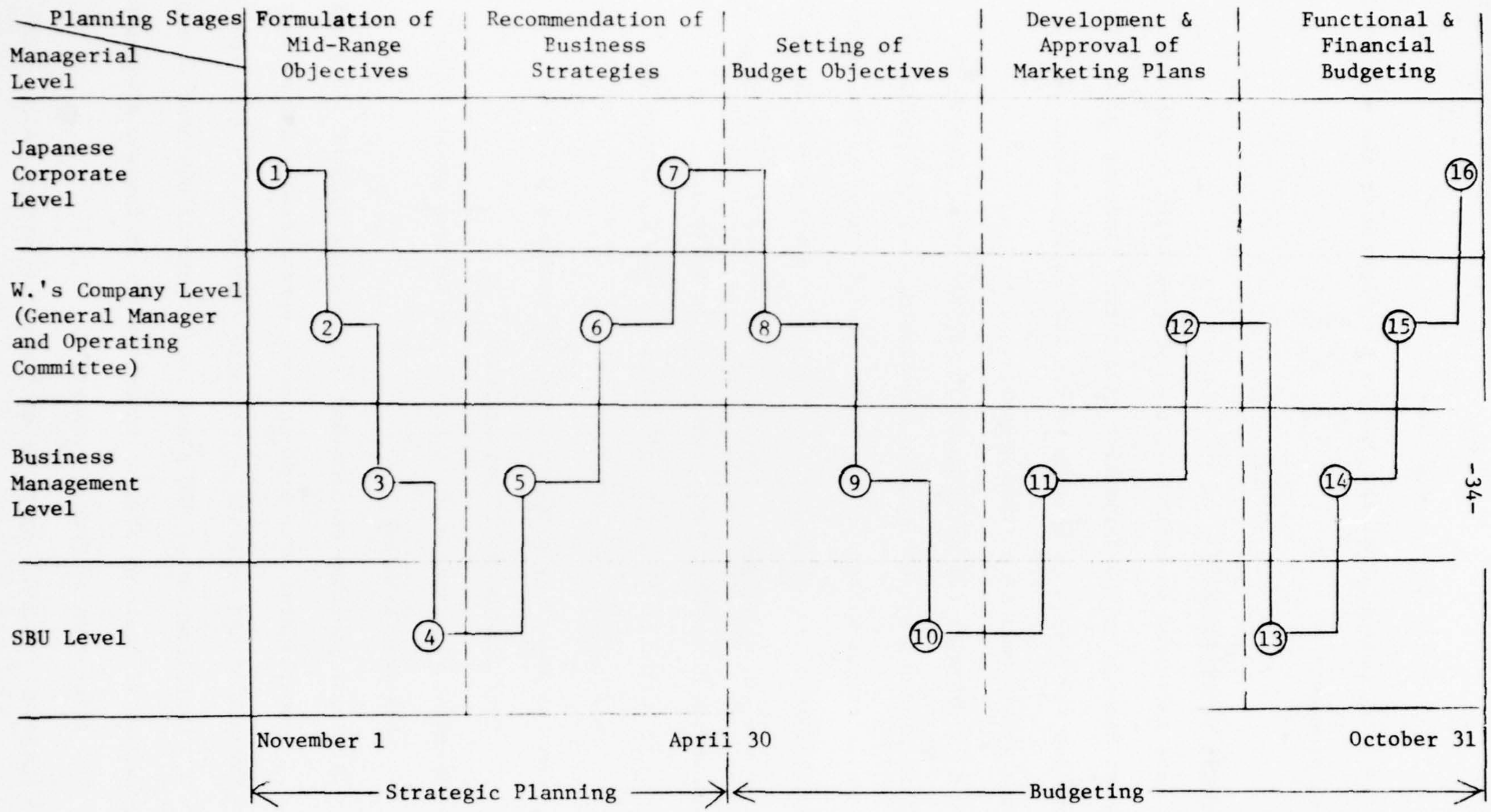


Figure 8: W.'s Formal Planning Cycle

of corporate resources.

8 - Definition of Company's budget objectives.

9 - Development of marketing strategies for the audio and video businesses.

10 - Development of marketing plans for product groups.

11 - Consolidated marketing plans for the audio and video businesses.

12 - Company review and approval.

13/14 - Functional and financial budgeting, involving business, service, and operational functions.

15 - W. Company's review for all functions approval.

16 - Company budget approval by Japanese corporation.

7. Conclusions

The major emphasis throughout this paper has been to describe, in fairly conceptual terms, the efforts undertaken to develop and implement a strategic planning process at W. It is important to underscore that, from the outset, we had a framework to provide us with concrete guidelines in this difficult task. At several stages in our work, we found a great need to refer back to that framework to redirect our efforts. We wanted to share broad concepts and ideas with our readers, skipping the host of technical details that would have, perhaps, obscured our message and divulged confidential information. We had also decided not to elaborate on the variety of tools pertaining to portfolio analysis, business profiles, competitor analyses, financial analyses, and budget preparation. To do so would have lengthened this paper to a prohibitive limit. Moreover, such tools have received extensive coverage in other published sources (for example [1],[3],[4],[5]).

The most important outcome of this task, which was initiated by an intense one week seminar with the total involvement of the key managers of the W. Company, was a strong attitudinal change on the part of those managers. When we started our project, we met a group of very competent managers with strong functional orientations. They were extremely knowledgeable in their respective fields of specialization (research and development, production, sales, marketing, finance), but they had little awareness of the broad and complex managerial tasks necessary to provide a strategic direction to the W. business. After a full year of intense work, which includes an important educational experience, a significant reorganization, and an active participation in an orderly planning process mostly oriented to motivate creative thinking, those managers had developed a mature understanding of the general management problems. This seemed to us to be the most significant pay-off resulting from the implementation of a formal strategic planning system.

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