Rudolf Grünig · Richard Kühn

The Strategy Planning Process

Analyses, Options, Projects

Springer

The Strategy Planning Process

Rudolf Grünig · Richard Kühn

The Strategy Planning Process

Analyses, Options, Projects

Translated from German by Maude Montani

Springer

Rudolf Grünig
University of Fribourg
Fribourg
Switzerland

Richard Kühn
Institute of Marketing and Management
University of Bern
Bern
Switzerland

ISBN 978-3-662-45648-4 ISBN 978-3-662-45649-1 (eBook)
DOI 10.1007/978-3-662-45649-1

Library of Congress Control Number: 2015935730

Springer Heidelberg New York Dordrecht London

Printed on acid-free paper

Springer-Verlag GmbH Berlin Heidelberg is part of Springer Science+Business Media (www.springer.com)

Preface

The strategy of a company defines its future way of doing business. It determines for years to come the target market positions and the competitive advantages of the offers and the resources to construct. Determining the future strategy is an important and complex task. This book illustrates how to approach it.

The book is the result of a fundamental revision and reformulation of the book "Process-based Strategic Planning" (See Grünig & Kühn, 2011, Process-based Strategic Planning) published in six editions. It is published in parallel in German (See Grünig & Kühn, 2014, Strategieplanungsprozess) and in French (See Grünig & Kühn, 2015, Procédé de planification stratégique).

Many of the ideas and examples come from discussions with current and former assistants, PhDs and students. The authors would like to thank them for their interest and their contributions. The book also contains a lot of experiences and approaches from practice. The authors are therefore indebted to the many managers who have allowed sharing their strategic work.

But the biggest thanks are addressed to three people: T. Schulthess coordinated the project and typed the text, M. Montani translated the text from German into English and T. Le designed the figures. The authors would like to express their gratitude to the three ladies for their extraordinary involvement and their excellent work. The authors would also like to thank M. Scofield for carefully reviewing the final version of the manuscript.

Fribourg, Switzerland — Rudolf Grünig
Bern, Switzerland — Richard Kühn
July 2014

Contents

1 Introduction 1
References 4

Part I Idea of Strategic Planning

2 Strategies, Strategic Planning and Success Potentials 7
2.1 Strategies 7
2.2 Strategic Planning 9
2.3 Building and Maintaining Success Potentials as the Main Purpose of Strategic Planning 10
References 15

3 Development of Strategic Planning and Its Integration Into Strategic Management 17
3.1 Development of Strategic Planning 17
3.2 Integration of Strategic Planning into Strategic Management . . . 20
References 22

4 Assessing Strategic Intentions 25
4.1 Concretization Levels of Strategic Intentions 25
4.2 Assessing Success Potentials and Strategies 26
4.3 Assessing Strategic Projects 29

Part II Strategic Documents and Strategy Planning Process

5 Strategic Documents 35
5.1 Categories of Strategic Documents 35
5.2 Company-Specific Combinations of Strategic Documents 38
References 40

6 Strategy Planning Process 41
6.1 Basis of the Process 41
6.2 The Proposed Strategy Planning Process 42
6.3 Adapting the Process 45

6.4 Linking the Process with the Main Analysis and Planning Tools 47
References 52

Part III Initializing Strategic Planning

7 Defining the Current Strategic Businesses 55
7.1 Introduction 55
7.2 Defining and Structuring Markets 55
7.3 Notion and Types of Strategic Businesses 57
7.4 Process for Defining the Current Strategic Businesses 60
7.4.1 Overview 60
7.4.2 Description of the Steps 60
7.4.3 Example of Applying the Process 62
References 65

8 Preparing the Strategy Planning Project 67
8.1 Introduction 67
8.2 Process for Preparing the Strategy Planning Project 68
8.2.1 Overview 68
8.2.2 Formulating Key Issues 68
8.2.3 Determining the Scope of the Project and Defining the Documents to Develop 69
8.2.4 Determining the Boundary Conditions 70
8.2.5 Deciding Whether to Hire a Consultant 71
8.2.6 Fixing the Project Process and the Project Organization 72
8.2.7 Budgeting the Strategy Planning Project 75
References 75

9 Stakeholder Analysis and Revising the Mission Statement 77
9.1 Introduction 77
9.2 Stakeholder Analysis 77
9.3 Notion, Effects and Content of Mission Statements 78
9.4 Process for Stakeholder Analysis and Revising the Mission Statement 80
9.4.1 Overview 80
9.4.2 Description of the Steps 81
References 83

Part IV Strategic Analysis at the Corporate Level

10 Global Environmental Analysis 89
10.1 Introduction 89
10.2 PESTEL Analysis 89
10.3 Scenario Analysis 92

10.4 Process for the Global Environmental Analysis 94
10.4.1 Overview 94
10.4.2 Description of the Steps 94
References 96

11 Analyzing the Relevant Industries 97
11.1 Introduction 97
11.2 Five Forces Model 98
11.3 Strategic Groups Model 103
11.4 Process for Analyzing Relevant Industries 107
11.4.1 Overview 107
11.4.2 Description of the Steps 107
References 110

12 Portfolio Analysis 111
12.1 Introduction 111
12.2 Boston Consulting Group Portfolio 112
12.2.1 Portfolio Matrix 112
12.2.2 Basis of the Portfolio 113
12.2.3 Recommendations for the Businesses and the Portfolio as a Whole 118
12.3 McKinsey Portfolio 121
12.3.1 Portfolio Matrix 121
12.3.2 Basis of the Portfolio 126
12.3.3 Recommendations for the Businesses and the Portfolio as a Whole 128
12.4 Process of Portfolio Analysis 129
12.4.1 Overview 129
12.4.2 Methodological Decisions 129
12.4.3 Establishing the Portfolio 131
12.4.4 Assessing the Portfolio 131
12.4.5 Example of Applying the Process 132
References 136

13 Diagnosing Strategic Challenges at the Corporate Level 137
13.1 Introduction 137
13.2 SWOT Analysis 137
13.3 TOWS Matrix 139
13.4 Process for Diagnosing Strategic Challenges at the Corporate Level 142
13.4.1 Overview 142
13.4.2 Description of the Steps 142
References 144

Part V Developing the Corporate Strategy

14 Developing and Assessing Strategic Options at the Corporate Level 147
14.1 Introduction 147
14.2 Diversification and Concentration as Strategic Key Issues 148
14.2.1 Reasons for Diversification or Concentration 148
14.2.2 Forms of Diversification and Concentration 148
14.2.3 Assessment of Diversification or Concentration Possibilities 152
14.3 Process for Developing and Assessing Strategic Options at the Corporate Level 154
14.3.1 Overview 154
14.3.2 Recapitulating Objectives and Boundary Conditions 154
14.3.3 Developing Options at the Corporate Level 155
14.3.4 Assessing the Options at the Corporate Level 159
References 162

15 Developing and Assessing Strategic Projects at the Corporate Level 163
15.1 Introduction 163
15.2 Types of Strategic Projects at the Corporate Level 163
15.2.1 Overview 163
15.2.2 Direct Implementation Projects 164
15.2.3 Indirect Support Projects 166
15.3 Process for Developing and Assessing Strategic Projects at the Corporate Level 167
15.3.1 Overview 167
15.3.2 Description of the Steps 167
References 170

Part VI Strategic Analysis at the Business Level

16 Analyzing the Relevant Markets 175
16.1 Introduction 175
16.2 Market System Model 175
16.3 Industry Segment Analysis 178
16.4 Dominance-Standard Model 180
16.5 Process for Analyzing the Relevant Markets 182
16.5.1 Overview 182
16.5.2 Description of the Steps 183
References 185

17 Analyzing the Competitive Positions . . . 187
17.1 Introduction . . . 187
17.2 Business Model . . . 187
17.3 Generic Business Strategies . . . 190
17.3.1 Description . . . 190
17.3.2 Success Conditions and Risks . . . 192
17.4 Offer Analysis . . . 194
17.5 VRIO Analysis . . . 197
17.5.1 Basic Reflections . . . 197
17.5.2 Characteristics of Strategically Valuable Resources . . . 200
17.6 Value Chain Analysis . . . 202
17.7 Process for Analyzing the Competitive Positions . . . 203
17.7.1 Overview . . . 203
17.7.2 Description of the Steps . . . 204
References . . . 205

18 Diagnosing Strategic Challenges at the Business Level . . . 207
18.1 Introduction . . . 207
18.2 Process for Diagnosing Strategic Challenges at the Business Level . . . 207
18.2.1 Overview . . . 207
18.2.2 Description of the Steps . . . 208
18.2.3 Example on the Linking of Strengths and Weaknesses with Opportunities and Threats . . . 209
Reference . . . 211

Part VII Developing the Business Strategies

19 Developing and Assessing Strategic Options at the Business Level . . . 215
19.1 Introduction . . . 215
19.2 Network of Success Potentials . . . 216
19.2.1 General Considerations . . . 216
19.2.2 Positioning of the Offer . . . 219
19.3 Process for Developing and Assessing Options at the Business Level . . . 223
19.3.1 Overview . . . 223
19.3.2 Recapitulating Objectives and Boundary Conditions . . . 224
19.3.3 Deciding for Strategy Optimization or Strategy Development . . . 224
19.3.4 Developing Options of the Basic Strategy . . . 224
19.3.5 Developing Options of the Network of Success Potentials . . . 227
19.3.6 Assessing the Business Strategy Options . . . 228
19.3.7 Example of Applying the Process . . . 229
References . . . 231

20 Developing and Assessing Strategic Projects at the Business Level . . . 233
20.1 Introduction . . . 233
20.2 Types of Strategic Projects at the Business Level . . . 233
20.3 Process for Developing and Assessing Strategic Projects at the Business Level . . . 234
20.3.1 Overview . . . 234
20.3.2 Description of the Steps . . . 235
Reference . . . 236

Part VIII Finalizing Strategic Planning

21 Developing the Functional Strategies . . . 239
21.1 Introduction . . . 239
21.2 Content, Categories and Effects of Functional Strategies . . . 239
21.3 Process for Developing the Functional Strategies . . . 244
21.3.1 Overview . . . 244
21.3.2 Description of the Steps . . . 245
References . . . 246

22 Overall Assessment of Strategies and Strategic Projects . . . 247
22.1 Introduction . . . 247
22.2 Process for the Overall Assessment of Strategies and Strategic Projects . . . 247
22.2.1 Overview . . . 247
22.2.2 Description of the Steps . . . 248
References . . . 251

23 Preparing the Implementation . . . 253
23.1 Introduction . . . 253
23.2 Process for Preparing the Implementation . . . 253
23.2.1 Overview . . . 253
23.2.2 Description of the Steps . . . 254
References . . . 259

24 Final Remarks . . . 261

Glossary . . . 265

Bibliography . . . 271

Index . . . 275

List of Figures

Fig. 2.1 Intended and realized strategies 8
Fig. 2.2 Strategic planning and strategies 10
Fig. 2.3 Building success potentials as the purpose of strategic planning 11
Fig. 2.4 ROM model of success potentials 12
Fig. 3.1 The development of strategic planning 18
Fig. 3.2 Gap analysis 19
Fig. 3.3 Ansoff matrix 19
Fig. 3.4 The sub-tasks of strategic management 21
Fig. 3.5 Sub-systems of strategic control 22
Fig. 3.6 Early-warning indicators for a German publisher of university textbooks on medicine and biology 22
Fig. 4.1 Linking assessment objects and assessment approaches 26
Fig. 4.2 Assessment of success potentials and strategies on the basis of Ohmae's strategic triangle 27
Fig. 4.3 Criteria for assessing success potentials and strategies 27
Fig. 4.4 Overview of the investment performance measures 29
Fig. 5.1 Essential content of the categories of strategic documents 36
Fig. 5.2 Strategic documents of a capital goods dealer 39
Fig. 6.1 Strategy planning process 43
Fig. 6.2 Most important analysis and planning tools 48
Fig. 6.3 Strategic analysis and planning toolbox 50
Fig. 7.1 Types of companies according to their strategic businesses 60
Fig. 7.2 Process for defining the current strategic businesses 61
Fig. 8.1 Process for preparing the strategy planning project 69
Fig. 8.2 Possible tasks of a strategy consultant 72
Fig. 8.3 Possible organization for a strategy planning project 74
Fig. 9.1 Possible outline structure for a mission statement 80
Fig. 9.2 Process for determining the value system and revising the mission statement 81
Fig. 10.1 Possible content of a PESTEL analysis 91

Fig. 10.2 Framework of environmental developments for a health insurance company ... 92
Fig. 10.3 Cone model to visualize the scenario analysis ... 93
Fig. 10.4 Process for the global environmental analysis ... 95
Fig. 11.1 Porter's Five Forces model ... 99
Fig. 11.2 The main criteria to assess the five forces ... 100
Fig. 11.3 Strategic groups in the chain saw manufacturing industry ... 104
Fig. 11.4 Process for analyzing an industry ... 108
Fig. 12.1 Boston Consulting Group portfolio ... 113
Fig. 12.2 Norm strategies in the Boston Consulting Group approach ... 118
Fig. 12.3 Examples of Boston Consulting Group portfolios ... 120
Fig. 12.4 McKinsey portfolio ... 121
Fig. 12.5 Hill and Jones' criteria for assessing market attractiveness and competitive strength ... 122
Fig. 12.6 Norm strategies in the McKinsey portfolio ... 128
Fig. 12.7 Process of portfolio analysis ... 130
Fig. 13.1 SWOT analysis grid ... 138
Fig. 13.2 TOWS matrix grid ... 140
Fig. 13.3 Process for diagnosing strategic challenges at the corporate level ... 143
Fig. 14.1 Forms of diversification ... 149
Fig. 14.2 Steps in the value chain for the watch industry ... 150
Fig. 14.3 Products and competences of Canon ... 151
Fig. 14.4 Process for developing and assessing strategic options at the corporate level ... 155
Fig. 14.5 Corporate options matrix ... 156
Fig. 14.6 Criteria for assessing corporate strategy options ... 159
Fig. 15.1 The strategic projects considered in Chap. 15 ... 164
Fig. 15.2 Development of free cash-flow in a successful harvest strategy ... 166
Fig. 15.3 Process for developing and assessing strategic projects at the corporate level ... 167
Fig. 16.1 Market system ... 176
Fig. 16.2 Sub-mixes and instruments of the marketing mix ... 178
Fig. 16.3 Industry segments in the European market for economy cars ... 179
Fig. 16.4 Dominance-standard model ... 181
Fig. 16.5 Process for analyzing a market ... 182
Fig. 16.6 Application of the Dominance-standard model to car dealers ... 184
Fig. 17.1 Business models in the newspaper industry ... 189
Fig. 17.2 Generic competitive strategies ... 191
Fig. 17.3 Success conditions for the generic business strategies ... 193
Fig. 17.4 Stuck-in-the-middle position concerning relative market share ... 194
Fig. 17.5 Offer analysis of a car dealer ... 196
Fig. 17.6 Types of resources ... 197
Fig. 17.7 Value chain ... 203

Fig. 17.8 Process for analyzing the competitive position of a business 204
Fig. 18.1 TOWS matrix grid 208
Fig. 18.2 Process for diagnosing strategic challenges of a business 208
Fig. 19.1 General representation of a network of success potentials 217
Fig. 19.2 Network of success potentials of an international consulting firm 218
Fig. 19.3 Product, service and communication differences 221
Fig. 19.4 Dimensions of product quality 222
Fig. 19.5 Process for developing and assessing strategic options for a business 223
Fig. 19.6 Criteria for assessing business strategy options 228
Fig. 20.1 Process for developing and assessing strategic projects of a business 235
Fig. 21.1 Possible functional strategies 240
Fig. 21.2 Categories of functional strategies 241
Fig. 21.3 Process for developing the functional strategies 244
Fig. 22.1 Process for the overall assessment of strategies and strategic projects 248
Fig. 22.2 Criteria for the overall assessment of strategies and strategic projects 249
Fig. 23.1 Process for preparing the implementation 254
Fig. 23.2 Required strategic documents and their functions 255
Fig. 23.3 Possible structures of the strategic documents 256
Fig. 24.1 Strategy planning process 262

List of Insets

Inset 2.1 Interdependences Between the Different Success Potentials of a Coffee Producer 13
Inset 4.1 Strategy Assessment for a Producer of Playing Cards 28
Inset 4.2 Net Present Value of the Market Entry in Brazil 30
Inset 6.1 Heuristic Principles and Their Use in the Strategy Planning Process 42
Inset 7.1 Defining the Businesses for a Producer of Food and Pharmaceutical Products 62
Inset 11.1 Application of the Five Forces Model to a Capital Goods Producer 100
Inset 11.2 Strategic Groups in the Swiss Watch-Making Industry 105
Inset 11.3 Success Factors and Their Identification 109
Inset 12.1 Market Life Cycle 114
Inset 12.2 Experience Curve 116
Inset 12.3 Determination of the Current Positions of Businesses in the McKinsey Portfolio 122
Inset 12.4 Combining the Boston Consulting Group Portfolio and the McKinsey Portfolio 124
Inset 12.5 PIMS Program 126
Inset 12.6 Portfolio Analysis in a Retail Group 132
Inset 13.1 Linking Strengths and Weaknesses with Opportunities and Threats in a Wine Trading Company 140
Inset 14.1 Diversification-Performance Analysis 153
Inset 14.2 Corporate Options Matrix for Polymer 157
Inset 14.3 Ashridge Matrix for Assessing the Synergy Potentials of a Business Portfolio 161
Inset 17.1 Market-Based View and Resource-Based View 198
Inset 18.1 Linking Strengths and Weaknesses with Opportunities and Threats in an Electricity Company 210
Inset 19.1 Outside-in and Inside-out Approaches for Determining and Assessing Success Potentials 218
Inset 19.2 Outpacing Strategies 226
Inset 19.3 Developing and Assessing Options for Bus Trips 229

Inset 21.1 The Operations Strategy as an Example of a Functional Strategy 241
Inset 23.1 Balanced Scorecard 257

Introduction 1

Providing for long-term company success is the central task of strategic management. It can be broken down into strategic planning, strategy implementation and strategic control. Strategic planning forms the basis for the other two sub-tasks. The development of successful strategies is therefore of central importance when strategic issues are discussed, not only in literature but also in corporate practice.

Increased competitive intensity, caused by deregulation and internationalization, together with accelerated technological change and shorter market life cycles, have considerably increased the risk of making errors. Companies that neglect strategic planning can expect to drift into a hopeless situation. Many managers and researchers therefore consider systematic strategic planning as a condition for securing long-term corporate success. As Bresser (2010, p. 20) shows, numerous empirical studies confirm the correctness of this view.

Many companies today see strategic planning as the task of top management. Despite the great personal commitment of those in charge, results are often unsatisfactory. Strategies are often not sufficiently well based on realities to create success in a competitive environment or they are too vague to provide any genuine guidance for corporate action. For example, there is often a lack of concrete strategic projects for strategy implementation to compel the attention of managers overloaded with daily business. Another common mistake is that companies have too many poorly coordinated—and often even contradicting—strategic documents. This happens in practice, especially in larger corporations, because managers of different organizational units and levels initiate strategic documents at different times.

To find these mistakes in practice may seem surprising in light of the considerable amount of literature on strategy. One might expect the numerous specialized books and articles to aid strategic planning in practice and to lead to the development of effective strategic plans. It seems that the literature on strategy only partially covers the needs of practice:

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_1

- Many scientific publications on strategic management do not primarily aim to support practice. Rather, they serve to explain the differences in company success in terms of chosen markets, competitive strategies and resource positions. The research results they present offer interesting insights for practice. However, given the objectives of these publications, they do not integrate comprehensive procedural suggestions for strategic planning.
- Even works that propose analysis and planning frameworks, and therefore directly meet the needs of companies in the planning of their strategies, often do not offer the necessary support to the executives in charge of planning. The reason for this is that, in practice, various analysis and planning methods must be combined in order to answer different and complex strategic questions. However, a large proportion of the methods-oriented literature is devoted to the presentation of individual analysis and planning methods and their theoretical foundations (see for example Porter 1980; Porter 1985; Prahalad and Hamel 1990).
- Strategy textbooks, which avoid the laborious study of original texts on individual models and methods by summarizing them in one book (see for example Hill and Jones, 2013; Johnson, Whittington, and Scholes 2011), only partially address the problem of the appropriate selection and combination of methods. Furthermore, in describing the different fundamental ideas and techniques, these works often preserve the original terminology and therefore do not offer a comprehensive system of terms.

The principal objective of the authors of this book is to present an integrated system of analysis and planning tools. The book is intended to offer a complete view of strategic planning, using a uniform system of terms and combining the most important methodological approaches within a consistent approach.

There are eight parts to the book:

- Part I provides the reader with an idea of strategic planning. After explaining the key concepts and the purpose in Chap. 2, the development of strategic planning and its integration into strategic management are presented in Chap. 3. The first part concludes with considerations on the evaluation of strategic intentions in Chap. 4.
- Part II gives an overview of the strategic planning process and the resulting strategic documents. In Chap. 5, five categories of strategic documents are introduced and explained. Then, a strategic planning process, which divides the complex task of analysis and planning into six steps, is presented. This process—and therefore Chap. 6—are of great importance, because they dictate the further structure of the book.
- In Part III, the first step of the strategic planning process is discussed. It initiates and lays the foundations for analysis and planning work. In Chap. 7, the existing strategic businesses are defined. On this basis, the project of strategic planning is prepared in Chap. 8. Finally, in Chap. 9, the normative basis of strategic planning

is clarified with the review of the value system and the adjustment of the mission statement.

- Part IV is dedicated entirely to strategic analysis at the level of the company and therefore to Step 2 of the process. Chapter 10 looks at the analysis in the global environment. Chapter 11 then shows how the targeted industries are analyzed. Chapter 12 shows how the current business portfolio is set up and evaluated. In Chap. 13, opportunities, threats and challenges are derived.
- Part V discusses the development of the corporate strategy in accordance with Step 3 of the strategic planning process. Chapter 14 deals with the development and assessment of strategic options. Chapter 15 then shows how strategic projects can be derived from the corporate strategy.
- Part VI looks at strategic analysis at the business level and thus at Step 4 of the process. In Chap. 16, the analysis of the targeted markets is described. An explanation on the analysis of the business and its success potentials then follows in Chap. 17. Chapter 18 brings the external and internal analysis together and derives opportunities, threats and challenges.
- Part VII deals with the Step 5 of the strategic planning process. In this step, the business strategies are determined. Chapter 19 describes the development and evaluation of options at the business level. Chapter 20 then shows how strategic projects are defined at the business level.
- In Part VIII, Step 6 is explained. It represents the completion of the planning work. Chapter 21 deals with the development of functional strategies. They are used to exploit synergies between the businesses. Chapter 22 explains why strategies and implementation projects should undergo a final overall assessment before they are implemented and shows how this task can be performed. Finally, Chap. 23 deals with the elaboration of strategic documents and the preparation of strategy implementation.

This book is mainly addressed to practitioners. It aims to give them the knowledge they need to develop strategies. This book can also be used in executive courses on strategic planning. It is also a suitable basis for introductory courses in strategic planning at universities. It will give students of Business Administration an overview of the complex domain of strategic planning and provide practical approaches to solve planning problems. This book also offers a framework that facilitates the classification and use of extensive specialized literature.

The authors have tried to confront the problems of developing and assessing strategies in all of their real complexity and not to hide difficulty through inappropriate simplifications. The book will require careful reading rather than superficial skimming.

In order to facilitate the study of the text, a number of didactic means have been used:

- Each part is introduced by a short text explaining the content and, if necessary, the reasons for the structure. This enables the reader to skip topics that deal with familiar topics or topics in which he/she is not interested and to concentrate on the parts and chapters that seem to be the most important in light of his/her existing needs.

- Whenever possible, basic ideas and relationships are presented in visual form.
- Further theoretical and methodological considerations are discussed in insets. Insets are also used to present examples. This way, the insets allow deeper insight into the subject. However, reading them is not essential in order to understand the book.
- A glossary gives an overview of the most important terms in strategic planning.
- A subject index enables access to themes of special interest.

The authors hope that, despite the complexity of the subject, this book will remain understandable and helpful. In particular, they hope that the information provided will prove to be useful in practice.

References

Bresser, R. K. F. (2010). *Strategische Managementtheorie* (Vol. 2). Stuttgart: Kohlhammer.

Hill, C. W. L., & Jones, G. R. (2013). *Strategic management* (10th ed.). Mason, OH: South Western Cengage Learning.

Johnson, G., Whittington, R., & Scholes, K. (2011). *Exploring corporate strategy* (9th ed.). Harlow: Pearson.

Porter, M. E. (1980). *Competitive strategy*. New York, NY: Free Press.

Porter, M. E. (1985). *Competitive advantage*. New York, NY: Free Press.

Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review, 68*(3), 79–90.

Part I

Idea of Strategic Planning

Part I is dedicated to the idea of strategic planning. In particular, a clear idea of the purpose of strategic planning is given.

Part I has three chapters:

- Chapter 2 is an introduction to strategic planning. In Sect. 2.1, the different notions of strategy are presented. The notion of strategy on which this book is based is shown and justified. In Sect. 2.2, strategic planning is then discussed. There are also different views of strategic planning. Therefore, the point of view of the authors is shown and justified at the end of this section. Success potentials are the focus of strategies and strategic planning. Their maintenance or development is the main purpose of strategic thinking. Section 2.3 explains what success potentials are and which categories can be distinguished. Finally, the importance of success potentials is demonstrated with the help of an example.
- Chapter 3 sketches the development of strategic planning and discusses its place within the overall field of strategic management. In Sect. 3.1, a preliminary phase and four development phases are distinguished and briefly described. The third phase is the integration of strategic planning into strategic management. Since this book focuses on strategic planning, strategic management will be briefly discussed and the position of strategic planning within strategic management will be clarified in Sect. 3.2.
- Chapter 4 addresses one of the central questions in strategic planning: the assessment of strategic intentions. As a basis, three levels of strategic intentions are distinguished in Sect. 4.1. These lead to a differentiated view: In Sect. 4.2, based on the ROM model, specific criteria for evaluating success potentials and strategies are proposed. Section 4.3 shows that investment performance measures can be used to evaluate specific strategic projects.

2 Strategies, Strategic Planning and Success Potentials

2.1 Strategies

Strategies refer—on the one hand—to strategic plans to guide the company's future and—on the other hand—to the current strategic position. It is therefore necessary to distinguish between intended strategies and realized strategies. As intended strategies can rarely be fully implemented, they normally diverge to a greater or lesser extent from realized strategies. Additionally, in some cases, a company may knowingly or unknowingly abstain from formulating an intended strategy to guide its actions in the long-term. In this case, the realized strategy is the product of a multitude of individual decisions and is also known as an emergent strategy (see Mintzberg, 1994, pp. 23 ff.). Figure 2.1 shows the possible constellations of intended and realized strategies.

Intended strategies, following the topic of this book, are of primary interest. When the term "strategy" is used without any supplementary attribute, it therefore always means an intended strategy.

The term "strategy"—even if it only refers to an intended strategy—can be understood differently. According to Hofer and Schendel, however, the variety of definitions can be reduced to two groups of conceptions (see Hofer & Schendel, 1978, pp. 16 ff.):

- Wide strategy concepts include the overriding objectives of an organization as well as specifications regarding the means to achieve and secure these objectives in the long-term.
- Narrow strategy concepts assume that overriding company objectives as a part of normative management take precedence over strategy. It is thus reduced to guidelines on the manner and means to achieve objectives.

The narrow view of the term has the advantage—according to the tradition of practical-normative management science—that it separates the overriding objectives, which mainly express subjective evaluations, and the rather objective

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_2

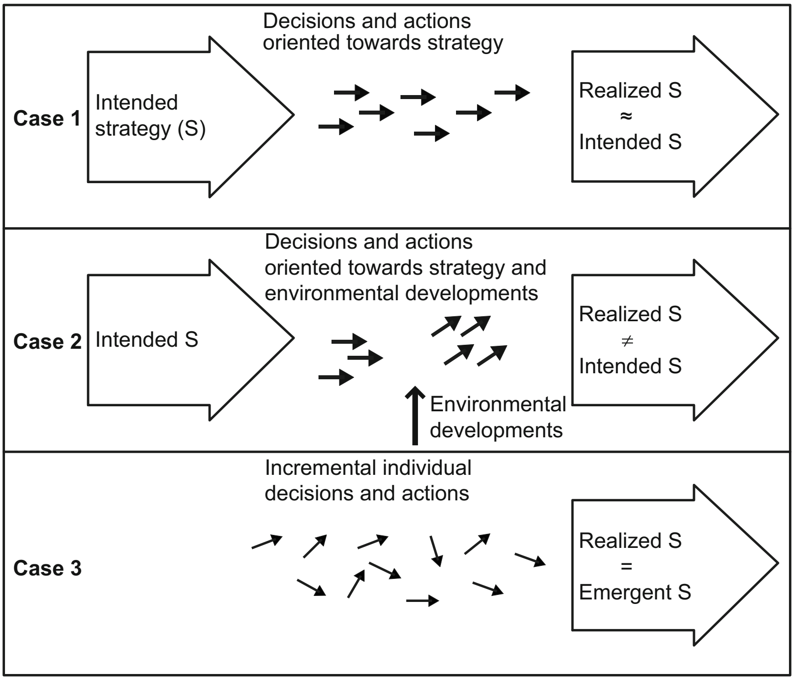


Fig. 2.1 Intended and realized strategies (adapted from Mintzberg, 1994, p. 24)

statements concerning the way to achieve objectives. The interpretation of strategy as a means of securing overriding objectives in the long-term also corresponds to the practice in many companies (see Hofer & Schendel, 1978, p. 20).

An intended strategy—following the narrow concept of the term—is defined as a system of long-term guidelines, which relate to the company as a whole or to important parts of it and which guarantee the permanent achievement of the company's overriding goals.

Based on this definition, an (intended) strategy can be characterized by the following features:

- It is composed of long-term guidelines. These guidelines are normally fixed in the form of documents.
- It relates to the company as a whole or to important parts of it.
- It is determined by the management.
- It shows the success potentials that must be built up or maintained.
- It should guarantee the permanent accomplishment of overriding objectives and values.

2.2 Strategic Planning

Up until now, how strategic guidance comes about has been deliberately left open. A systematic approach, which is notably associated with Ansoff's name in the early literature on strategy (see Ansoff, 1965), can mainly be thought of here. In the literature, this is called "synoptic planning logic". It is characterized by a goal-oriented, systematic approach to the development of strategies and seeks the consistent, holistic management of all corporate activities.

But as Mintzberg (1990, pp. 105 ff.) shows, strategies in reality often emerge in other ways. They can be the result of "visionary processes", of power struggles, or simply of decision-making processes with limited control. Different authors speak in the latter case of an "incremental logic" in strategy development (see Bresser, 2010, p. 17): Strategy arises from many small steps that are not oriented towards long-term overall goals, but towards solving urgent short-term problems. Such behavior corresponds to "muddling through". In Fig. 2.1, incremental strategy development is illustrated by case 3.

The debate between "incrementalists" and "planners" constitutes the oldest controversy in the literature on strategic management and is the subject of many research papers (see for example Raffée, Effenberger, & Fritz, 1994, pp. 383 ff.). As Bresser (2010, pp. 19 ff.) finds after a comprehensive analysis, the results of the majority of studies clearly support the planning approach: Formal planning is linked to positive performance effects not only in stable environments but also in dynamic ones, and this regardless of whether planning takes place in large companies or in small and medium-sized companies.

As Bresser explains (2010, p. 21), formal systematic planning processes allow the structuring of complex problems and, on this basis, the fixing of strategic guidelines. They must—as shown with Case 2 in Fig. 2.1—be adapted to unexpected environmental developments. However, such adaptations do not question the planning logic in the sense of Mintzberg's criticism. The systematic planning approach proves rather to be an important prerequisite for specific adaptations to unforeseen situation developments.

The practical-normative management science perspective, to which the authors of this book feel committed to, clearly emphasizes a systematic approach. Accordingly, it is assumed that strategies are based on systematic analysis and planning processes.

The following features characterize strategic planning:

- It is a systematic process. The mere pretense of results of decisions based on intuition or power is therefore not strategic planning.
- The underlying analysis and the guidelines developed by strategic planning are long-term oriented.
- The planning process looks at the company as a whole and at important parts of it. It deliberately avoids getting lost in details.
- The most important tasks in the process should be performed in large part by the management.

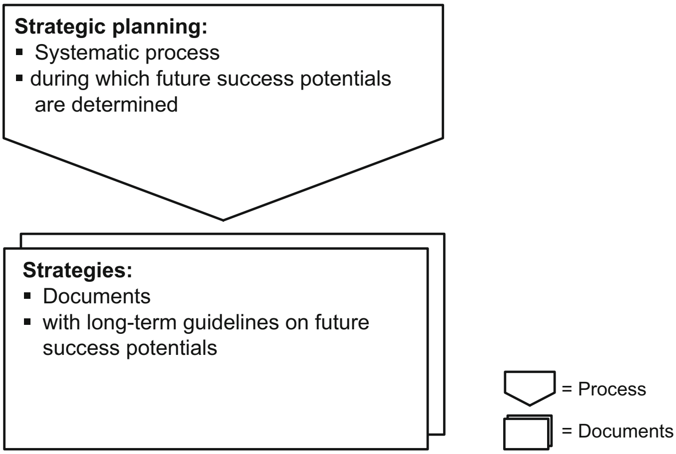


Fig. 2.2 Strategic planning and strategies

- The process concentrates on determining the future success potentials.
- Strategic planning should contribute to the long-term accomplishment of the overriding objectives and values.

Figure 2.2 shows the relationship between strategic planning and strategies.

2.3 Building and Maintaining Success Potentials as the Main Purpose of Strategic Planning

The long-term achievement of overriding objectives and values is enabled through the construction and careful maintenance of success potentials. Following Gälweiler (2005, p. 26), a success potential is understood as a characteristic of the company that determines long-term success to a significant extent. The development and maintenance of success potentials therefore represents a prerequisite for the long-term achievement of goals.

As Fig. 2.3 shows, strategic planning is not primarily concerned with optimizing success during the planning period itself. The focus is rather on the investments for maintaining existing success potentials and for building up new ones. This creates the conditions for success beyond the planning period.

Three levels of success potentials can be distinguished:

- Market Positions: Success potentials include substantial market shares or even positions as market leaders in markets that are large enough and—if possible—still growing.
- Offers: Here, a variety of possibilities for competitive advantages exists: better product quality, recognizably better customer service, more attractive or intensive advertising, long-term price advantages, etc.

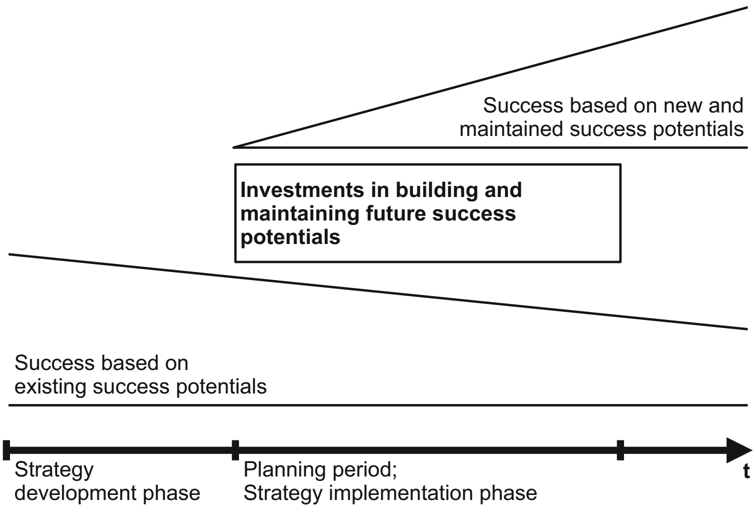


Fig. 2.3 Building success potentials as the purpose of strategic planning

- Resources: This level includes a wide range of possible success potentials. Superior technological means, human resources, information systems and financial resources, but also factors such as company culture, brand image, innovation capabilities, cooperation capabilities, etc. can be mentioned.

In addition, it should be noted that of course "failure" potentials—un-attractive market positions and competitive disadvantages of the offers and of the resources—can exist or develop. To simplify the notation, it will however be assumed in the following text that the negative interpretations of the expressions are implied when using the term success potentials.

It is not easy to judge whether a characteristic is a success potential or a failure potential. This is because a characteristic of a company or its market position must be considered positively or negatively depending on the circumstances. The following examples illustrate this:

- A market share of 7 % is a success potential when the largest competitor has a market share of 5 % and the company's turnover is generated primarily in growing segments and product groups. A market share of 7 %, however, is considered to be more of a failure potential when the largest competitor has a market share of 35 % and its turnover is generated in market segments and product groups with declining importance.
- Durability is a competitive advantage for a machine, for example. However, this may not necessarily be true for an item of clothing. If it is a fashion item, good quality is of little use to the buyer, because he/she gives the piece of clothing away after one season, even if it is still in very good condition.

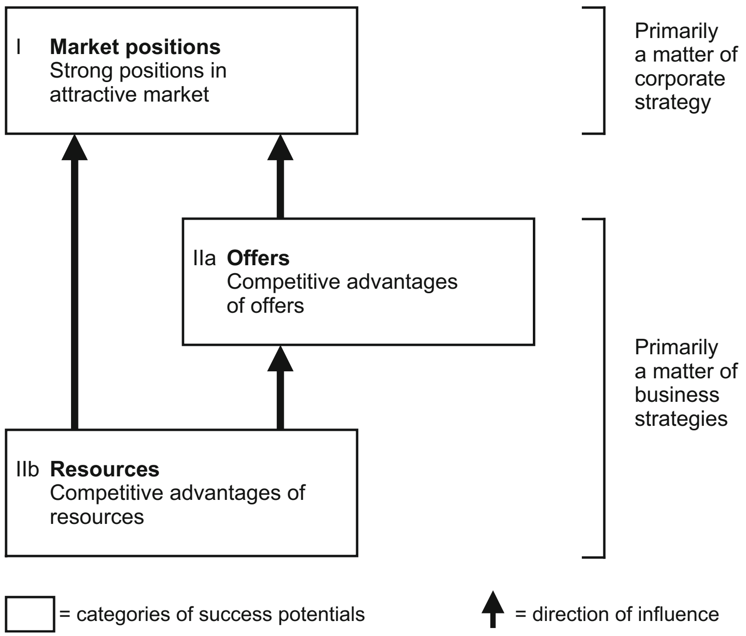


Fig. 2.4 ROM model of success potentials

- Production capacities are only valuable resources when they are well utilized. They are extremely valuable when there is excessive demand for the finished product and when the competition needs a significant amount of time to build equivalent systems. Existing production facilities can, however, become an extreme failure potential in the case of large excess capacities in the market, because they tie up capital, incur high unit costs and limit strategic flexibility.

In general, only a few success potentials determine a company's long-term success. This is confirmed by the empirical research. It shows that differences in success between various companies can be explained mostly with the help of a few influential variables (see for example Buzzell & Gale, 1987, pp. 45 ff.). The limitation to few but important success potentials also corresponds to practical experience. It is often summarized as the "concentration of forces" principle.

The various categories of success potentials are not unrelated but build on each other. Figure 2.4 visualizes this relationship. The figure also shows that the desired competitive positions in sales markets are primarily defined by the corporate strategy, while the other two types of success potentials are mainly set by the business strategies. This view is illustrated by the numbering of the types of success potentials (I, IIa and IIb) in the figure.

In reference to the terms "Resources", "Offers" and "Market positions", the model in Fig. 2.4 is called the ROM model of success potentials.

The arrows in Fig. 2.4 show the dependencies between the three categories of success potentials. The fact that the arrows run from bottom to top, however, does not mean that the definition of the three categories of success potentials is also done from bottom to top. Rather, there are two possible planning approaches (see Inset 19.1):

- With the Outside-in approach, the market positions are defined first and the necessary competitive advantages in the offer are then derived from them. Finally, the necessary resources are determined.
- With the Inside-out approach, the resource strengths are first identified. Based on this, offers that can be produced with the existing resources are sought after. Finally, market positions, which can be achieved on the basis of the advantages in the offer, are determined.

The Outside-in approach begins with the identification of future customer needs and thus corresponds to a rational procedure in a market economy. The procedure is therefore considered to be the normal sequence. The Inside-out approach is especially appropriate when only limited investment is possible. In this situation, it is important to utilize the existing resources in an optimal way and, on this basis, to offer new products and develop new markets.

The strategic problem of a coffee producer shown in Inset 2.1 should illustrate the practical importance of the relationships between the three categories of success potentials.

Inset 2.1

Interdependences Between the Different Success Potentials of a Coffee Producer

Company C Ltd. was founded shortly after World War II. The founder had been a buyer for coffee and tea and then the main buyer in a major food company. He had thus gained excellent knowledge of the market and was able to build up excellent relationships with coffee and tea suppliers around the world. Together with a partner, who—as the marketing director for a manufacturer of branded products—brought the necessary marketing skills, he managed to build up a flourishing wholesale company with food products, tea and coffee. The coffee activity quickly became the main contributor to turnover and produced the strongest contribution margins of the company.

In 1980, the company generated about 2/3 of its coffee turnover in the retail sector and about 1/3 through sales to major consumers (hotels, restaurants, canteens, hospitals, etc.). The undoubted success in the retail sector, which was also reflected by a relatively high market share of 10–15 %, was attributed mainly to the fact that the company had been able to establish its brand “Coffee C” with consumers via a high degree of recognition and an excellent image (= attractive market position). This success in building the brand was largely based on intensive and creative advertising, the need-based range (blends and packaging variations) and the recognized good product quality (= competitive advantages in the offer). These advantages in the offer, in turn, depended on above-average marketing know-how, the motivation and creativity of the marketing team (employees and advertising agency), as well as the specific capabilities of management in the areas of purchasing and product development (= competitive advantages of resources).

Three findings prompted the management to review its strategy in the middle of the 1980s: (1) The company paid increasingly higher prices for its coffee imports, while its larger competitors—as internationally active companies—could take advantage of their greater purchasing power. Apparently, the company’s buying expertise was thus no longer able to compensate for this competitive disadvantage.

(2) In addition, the advertising and sales promotion budgets needed to maintain the market position had grown so large over the years that the company was no longer able to fund them due to its limited capital. (3) The triggered limitations in advertising and sales promotion meant that, despite continued attractive advertising, the market position could only be held by making margin concessions. Even so, market share statistics had been showing declines over the past several 3-month periods.

A rough analysis already showed that the lack of purchasing power in comparison with competitors and the limited financial resources (competitive disadvantages at the level of resources) had led to insufficient advertising intensity and to prices higher than those of the competition (competitive disadvantages in the offer). This, in turn, adversely affected the market share (competitive position). As an opening of the company to non-family shareholders or sale of the coffee business to a third party were not options for the owners, the listed competitive disadvantages represented a permanent feature of the company's situation. C Inc. therefore decided to gradually reduce its activity in the retail sector and to use the freed-up funds to build up the customer group of hotels, restaurants, canteens and hospitals, where the disadvantages in resources would play a less important role.

The following figure summarizes the observations. It shows the relationship between the success potentials and overall success in the retail sector.

Phases / Success potentials	**Phase of success until approx. 1980**	**Phase of emerging failure from approx. 1980**
Competitive position in the retail sector	▪ relatively high market share; ▪ strong brand recognition; ▪ good image	▪ slightly decreasing market share; ▪ maintenance of good image among consumers; ▪ first problems in the retail sector
Competitive advantages and disadvantages in the offer	▪ sufficient intensive, creative advertising; ▪ needs-oriented range; ▪ high product quality	▪ insufficient advertising and sales promotion intensity; ▪ continuous advantages in range and product quality
Competitive advantages and disadvantages in resources	▪ capable, motivated marketing team; ▪ above-average skills in purchasing and product design	▪ disadvantages because of limited financial resources and purchasing power; ▪ continuous advantages in marketing know-how

Success potentials of the coffee producer and its success in the retail sector

References

Ansoff, H. I. (1965). *Corporate strategy. An analytic approach to business policy for growth and expansion*. New York, NY: McGraw-Hill.

Bresser, R. K. F. (2010). *Strategische Managementtheorie* (Vol. 2). Stuttgart: Kohlhammer.

Buzzell, R. D., & Gale, B. T. (1987). *The PIMS principles*. New York, NY: Free Press.

Gälweiler, A. (2005). *Strategische Unternehmensführung* (Vol. 3). Frankfurt: Campus.

Hofer, C. W., & Schendel, D. (1978). *Strategy formulation*. St. Paul, MN: West Publishing.

Mintzberg, H. (1990). Strategy formation. Schools of thought. In J. Fredrickson (Ed.), *Perspectives on strategic management* (pp. 105–235). New York, NY: Harper Business.

Mintzberg, H. (1994). *The rise and fall of strategic planning*. New York, NY: Prentice Hall.

Raffée, H., Effenberger, J., & Fritz, W. (1994). Strategieprofile als Faktoren des Unternehmenserfolges. *Die Betriebswirtschaft, 54*(3), 383–396.

Development of Strategic Planning and Its Integration Into Strategic Management

3

3.1 Development of Strategic Planning

Figure 3.1 provides an overview of the origins and development of strategic planning. As can be seen, a preliminary phase and four phases can be distinguished.

Until the end of the 1950s, multi-year planning was based exclusively on the extrapolation of past trends. Strategic considerations on building and maintaining success potentials hardly existed. The strategic planning of the sixties and early seventies was characterized by a more "strategic" long-term planning. The extrapolation of trends was used to predict gaps between the expected turnover and the turnover necessary to achieve profit objectives. Figure 3.2 shows an example of such a gap analysis. The Ansoff matrix in Fig. 3.3 completed the gap analysis. It helped find possibilities to bridge the gaps in a systematic way (see Ansoff, 1965, pp. 127 ff.).

Strategic planning that focused on future success potentials (see Chap. 2) appeared only around 1970 with the development of portfolio methods. Consulting firms, such as the Boston Consulting Group and McKinsey, began to view the activities of diversified companies similarly to those of securities portfolios. This gave these strategic analyses and planning approaches their name. In portfolio analyses, the activities or businesses are assessed according to their market attractiveness and their competitive strength. Based on this, the business portfolio can be assessed as a whole (see Hedley, 1977; Henderson, 1970).

The market positions of the businesses are the focus of portfolio methods. Phase 1 in the development of strategic planning therefore concentrates on success potential Category I. Portfolio methods are still frequently used in the development of corporate strategies. The two methods, the Boston Consulting Group and the McKinsey portfolio, are presented in detail in Chap. 12.

Portfolio methods allow the definition of market objectives for strategic businesses, as well as to allocate financial resources to businesses in a strategy-oriented way. However, they do not indicate how a business can achieve its objectives or how the allocated funds should be used. Furthermore, portfolio

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_3

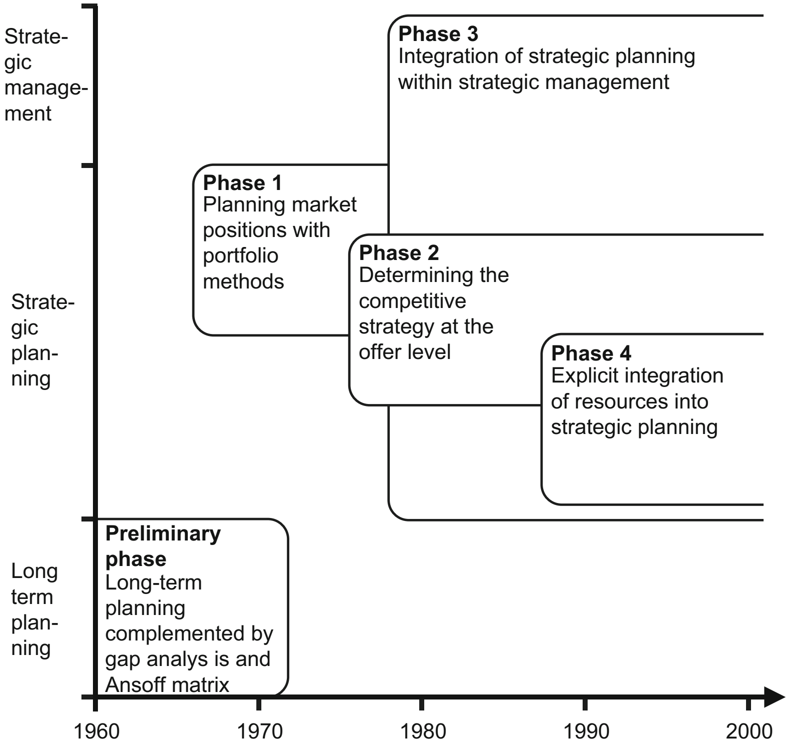


Fig. 3.1 The development of strategic planning

methods do not give the large number of companies, which concentrate on a single area of activity or market, any help in planning their strategy. This apparent gap was closed during Phase 2 of the development of strategic planning. In 1980, Porter published his book "Competitive Strategy", sparking great interest in both science and practice. It shows that businesses are generally only successful when they clearly position themselves on the market by choosing a fitting competitive strategy.

Porter's considerations—and therefore Phase 2 of the development of strategic planning—focus on the competitive advantages of the offer and thus on success potentials IIa. Porter's generic competitive strategies remain an important basis of strategic analysis at the business level. They are presented in detail in Chap. 17.

Phase 3 in the development of strategic planning was initiated by a change in terminology. After the publication of "From Strategic Planning to Strategic Management" (Ansoff, Declerck, & Hayes, 1976), books and articles were more frequently entitled "strategic management" than "strategic planning". On top of the formulation of strategies, the problems of implementation and control were now also looked at. The reason for this widening of view was the finding that even the best intended strategies are useless if they are poorly executed or if they are guiding

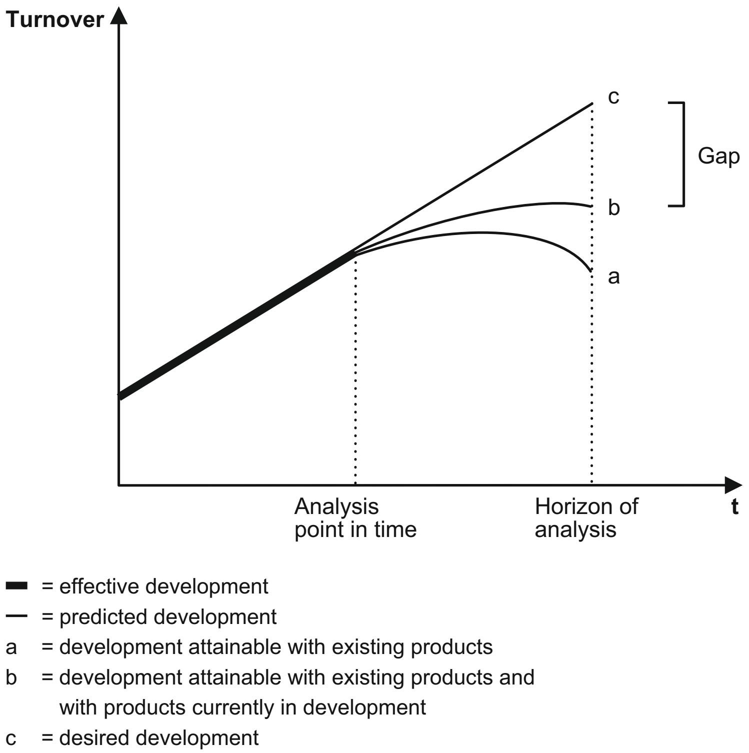


Fig. 3.2 Gap analysis

Markets / Products	**Existing markets**	**New markets**
Existing products	Improved market penetration	Market diversification
New products	Product diversification	Lateral diversification

Fig. 3.3 Ansoff matrix (adapted from Ansoff, 1965, p. 99)

the company's development in the wrong direction due to undetected changes in the environment.

This book focuses on strategic planning and thus does not go into the ideas of Phase 3. The importance of strategy implementation and strategic control is not questioned in any way. However, according to the authors, strategic planning is clearly the most important task of strategic management, because the company's direction of development is determined by it. In addition, general methodological recommendations for strategic planning can be proposed. However, strategy implementation and strategic control strongly depend on the individual case and are therefore only supported by practical-normative management science in a limited way. In order to avoid completely excluding the ideas of Phase 3, they are summarized in Sect. 3.2.

Resources were already implicitly taken into consideration in Phases 1 and 2 of the development of strategic planning. In the 1990s, on the basis of the considerations of Barney (1991), the explicit inclusion of a company's resources in strategic analysis and planning—and thus Phase 4—began: Barney developed criteria to identify strategically valuable resources. His work allows companies to assess their resources and to consciously build up or maintain strengths at the resources level. Barney's criteria for evaluating resources are presented in detail in Chap. 17.

3.2 Integration of Strategic Planning into Strategic Management

As seen in Phase 3, strategic planning does not exist independently. With strategy implementation and strategic control, it forms the three tasks of strategic management (see Coulter, 2010, pp. 6 ff.).

The three tasks of strategic management can be understood as forming three parts of a single process. Strategic planning sets guidelines for the long-term development of the company and thereby provides the basis for strategy implementation. During strategic control, the implementation of strategies is cross-checked. Current-target deviations in the implementation of plans bring about a review of the implementation and, in serious cases, of the strategies themselves. Furthermore, strategic control monitors whether the premises on the development of the environment and the markets correspond to reality. The discovery of discrepancies between the actual development and the planning premises lead to the revision of strategies.

Although the three tasks of strategic management form a process, they do not take place consecutively; there is temporal overlapping. Strategy implementation and strategic control are continuous processes. The temporal overlapping leads to interactions between the three tasks.

A clear distinction is impossible not only between the three tasks of strategic management, but also between strategic and operational management. While strategic planning is based on specific methods and can be clearly distinguished from medium and short term planning, this distinction cannot be made so clearly for strategy implementation and strategic control. Few methods that can be specifically assigned to the strategic level exist for these two tasks. The only exception is early warning systems.

Figure 3.4 provides a summary in graphic form.

As the figure shows, strategic planning plays a key role. Contrary to the other two tasks of strategic management, it is separate from the management of daily operations.

Strategy implementation covers, on the one hand, the realization measures directly derived from strategic guidelines. These include, in the case of a corporate

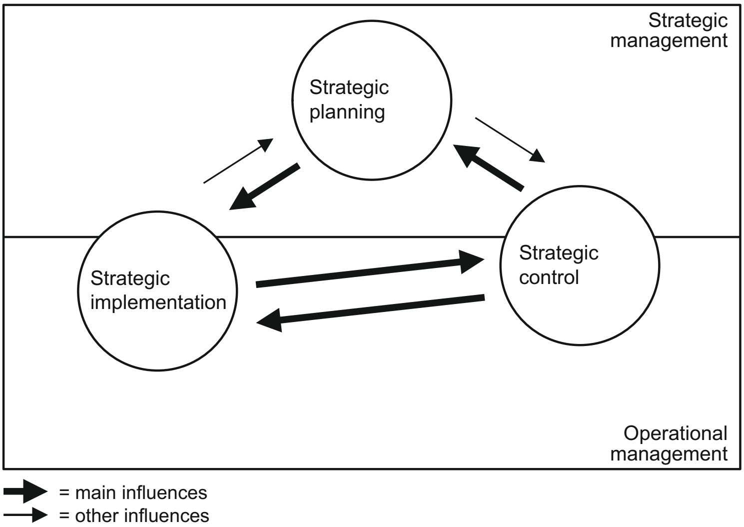


Fig. 3.4 The sub-tasks of strategic management

strategy aiming towards expansion, for example, the entry into new geographic markets, the development of products for export and the increase in production capacities. On the other hand, strategy implementation frequently includes measures in human resources. Those measures should be aimed at increasing motivation and expanding skill sets.

According to Fig. 3.5, strategic control includes three tasks (see Steinmann & Schreyögg, 2005, pp. 279 ff.):

- Realization checking traces the implementation of the strategic projects and shows when results, costs or actual timing differ from plans.
- Strategic monitoring on the basis of an early warning system checks whether the environmental changes are according to the premises behind the strategies. For this purpose, indicators are defined, and their values are tested continuously or at regular intervals. If the actual variable values differ from the planning premises, a problem is discovered early on. Figure 3.6 shows the problem indicators for Bigler Ltd, a German publisher of university textbooks on medicine and biology. All five indicators show problems before they strongly affect the turnover and the contribution margin of the publisher. They enable the necessary measures to be taken on the basis of strategic analysis and new planning.
- As all the premises behind strategies cannot be systematically controlled with indicators, strategic scanning is also needed. It is a holistic—often more intuitive—grasp of the situational change by management. Understood in this way, strategic scanning can only be carried out by managers who are open and generally interested in change.

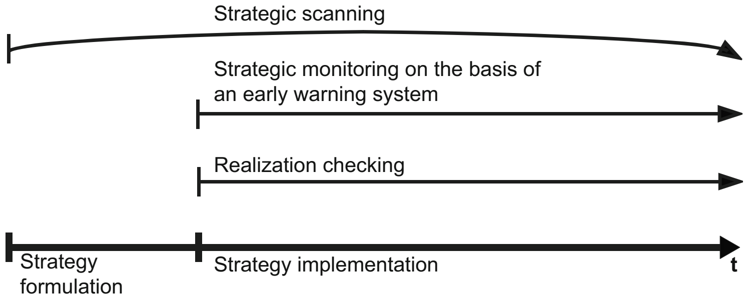


Fig. 3.5 Sub-systems of strategic control (adapted from Steinmann & Schreyögg, 2005, p. 280)

(1) Number of study places in German-speaking universities ▪ for biology as the main branch ▪ for biology as the secondary branch ▪ for medicine
(2) Percentage of English textbooks used in 10 randomly-selected German-speaking universities ▪ for the study of biology ▪ for the study of medicine
(3) Percentage of the 50 most well-known German-speaking scientists publishing their German textbooks mainly or exclusively at Bigler Ltd in comparison with the percentages of the competitors ▪ biologists ▪ medical doctors
(4) Number of new publications compared to the whole of deliverable books for Bigler Ltd in comparison with competitors ▪ for biology books ▪ for medicine books
(5) Average number of copies over all editions of Bigler Ltd in comparison with competitors ▪ for biology books ▪ for medicine books

Fig. 3.6 Early-warning indicators for a German publisher of university textbooks on medicine and biology

References

Ansoff, H. I. (1965). *Corporate strategy. An analytic approach to business policy for growth and expansion*. New York, NY: McGraw-Hill.

Ansoff, H. I., Declerck, R. P., & Hayes, R. L. (1976). From strategic planning to strategic management. In H. I. Ansoff, R. P. Declerck, & R. L. Hayes (Eds.), *From strategic planning to strategic management* (pp. 39–78). London: Wiley.

Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Coulter, M. (2010). *Strategic management in action* (5th ed.). Upper Saddle River, NJ: Pearson.

Hedley, B. (1977). Strategy and the “Business Portfolio”. *Long Range Planning, 10*(1), 9–15.
Henderson, B. (1970). The product portfolio. *bcg perspectives 66*.
Porter, M. E. (1980). *Competitive strategy*. New York, NY: Free Press.
Steinmann, H., & Schreyögg, G. (2005). *Management* (Vol. 6). Wiesbaden: Gabler.

4 Assessing Strategic Intentions

4.1 Concretization Levels of Strategic Intentions

As seen in Chap. 2, the purpose of strategic planning is to construct or maintain success potentials. The building up and maintenance of success potentials always requires a long-term commitment of financial resources. From a management science perspective, this commitment can be seen as an investment. Therefore, it seems reasonable to use investment performance measures to assess possible success potentials. However, the use of these methods requires that the expenditures necessary for constructing and maintaining the success potentials and the resulting incomes can be estimated at least roughly.

The use of investment performance measures depends on the degree of concretization of strategic intentions. According to the authors, three concretization levels can be distinguished:

- First, possible specific success potentials are examined and their importance for the long-term success is assessed. At this first stage, a pre-selection is made from a large number of possible success potentials.
- Then, crucial success potentials are combined into coherent strategies. This assembly is based on the ROM model introduced in Chap. 2. The achievement of attractive market positions requires that offer advantages fulfilling customer needs can be realized. These advantages in the offer are in turn based on resource and process advantages that should be maintained or built up.
- Finally, the guidelines set in the strategies must be made concrete enough so that at least a rough idea emerges on the measures and means necessary to implement them. Strategic projects are defined to this end. It is only at this third concretization level that the conditions for strategy implementation are created.

For the first two levels, the use of investment performance measures to assess strategic ideas is only exceptionally possible. Most of the time, income or expenses cannot be determined precisely enough. For instance, if a modern production

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_4

Assessment approaches / Assessment objects	**Substitute criteria**	**Investment performance measures**
Specific success potentials	Recommended	Impossible
Strategies	Recommended	Impossible
Strategic projects	Not reasonable	Recommended

Fig. 4.1 Linking assessment objects and assessment approaches

facility is evaluated as a success potential at the resource level, the rough investment can usually be determined when specifying the type of plant, the planned capacity and the location. However, it will be more difficult to estimate the expected returns. In contrast, it is generally possible to forecast at least roughly the expected return for a target market position on the basis of figures on market volume and margin. However, without knowledge of the offer and resource advantages necessary to reach this market position, statements on the necessary financial resources can hardly be made. Investment performance measures as "ideal" methods usually cannot be applied to assess specific success potentials and strategies. Substitute criteria must therefore be used for these assessments.

Strategic projects, however, specify the necessary measures and investments sufficiently enough in order to estimate the related expenses. At the same time, they also need to develop concrete ideas about the effects. This allows returns to be predicted at least roughly. The conditions to apply investment performance measures are thus typically met.

Figure 4.1 summarizes these ideas.

In the following sections, the basic ideas of the two assessment approaches will be presented. Detailed information concerning their application can be found in Parts IV to VIII of this book.

4.2 Assessing Success Potentials and Strategies

For specific success potentials and strategies, the application of investment performance measures, as presented in Sect. 4.1, fails due insufficient data. In the strategy literature, the use of substitute criteria is therefore proposed to assess market positions, offers and resources (see Thompson & Strickland, 2003, pp. 114 ff. and pp. 328 ff.).

The approach to assess specific success potentials and strategies is based on the strategic triangle of Ohmae (1982) shown in Fig. 4.2. Two types of substitute criteria result from the triangle:

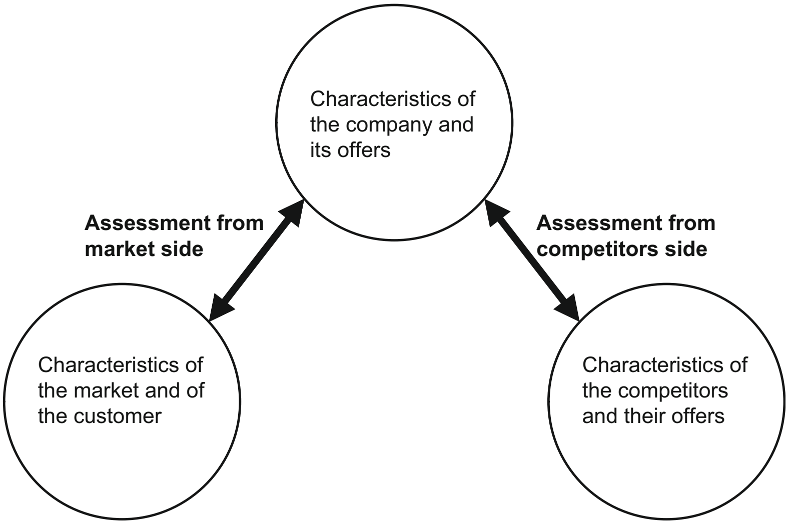


Fig. 4.2 Assessment of success potentials and strategies on the basis of Ohmae's strategic triangle (adapted from Ohmae, 1982)

Types of criteria / Success potentials	**Assessment from market side**	**Assessment from competitors side**
Market positions	Assessment of the market attractiveness of the targeted market	Assessment of the strengths of the attained or attainable market position
Offers	Assessment of the characteristics of the offer to cover customer needs	Assessment of the relative strengths of the offer compared to the competitors
Resources	Assessment of the ability of resources to produce customer value	Assessment of the uniqueness and sustainability of resource advantages

Fig. 4.3 Criteria for assessing success potentials and strategies

- Criteria to assess from the market and customer point of view
- Criteria to assess the strengths and weaknesses compared to competitors

The assessment from the market and from the competition side is carried out at each level of the ROM model based on other criteria. Figure 4.3 shows the six proposed substitute criteria.

At this stage, the substitute criteria are formulated only roughly. Thus, the link to the two strategic assessment axes is clearly visible. They will be illustrated during application in the following parts of the book. To give a first impression of the use of the criteria in practice, they are applied to a producer of playing cards in Inset 4.1.

Inset 4.1

Strategy Assessment for a Producer of Playing Cards

Playing Cards Inc. is a small company based in eastern Switzerland. A few years ago, the company was taken over by a holding company. Despite having a turnover of only 30 million Swiss francs, the company has a wide range of products. The offer includes:

- Jacquard paper and accessories for textile manufacturers
- Games and playing cards for children and adults
- Tarot cards and esoteric literature for a small but growing customer group

With the exception of certain games and the esoteric books, the products are produced at the company's own facilities.

In the first few years after the takeover, Playing Cards Inc. increased its turnover and produced handsome profits. However, things then began to change. Playing Cards Inc. began to temporarily show losses, mainly due to stagnating turnover in two of the three product groups, but also to rising costs in production and marketing. The managers of the holding company became alarmed and whereas the management of the subsidiary had previously enjoyed a good deal of freedom, the board of the holding company now began to intervene. It decided to review Playing Card Inc.'s strategy.

A detailed strategic analysis was carried out:

- At the level of the market positions, the question was the following: In which of the three businesses—textile accessories, games and playing cards, tarot cards and esoteric literature—should the company aim for growth and which should be merely consolidated at existing levels of activity or even downsized? To make this judgment, it was necessary to assess the attractiveness of the markets. It was also necessary to evaluate whether there was a chance to reach a large enough market share in the different individual markets.
- At the offer level, the three product groups were assessed separately. On the basis of this evaluation of existing success potentials, the ways to construct competitive advantages and to eliminate competitive disadvantages had to be identified and examined.
- At the resource level, the capacities and capabilities were analyzed, again separately for each business. Of interest here was the question of how suitable existing or constructible resources were for building the basis of competitive advantages in the market offer. In addition, resource strengths had to be assessed in terms of how they could be defended in the long term against

competitors. For strategic resource weaknesses, the question was whether these could be overcome, given the limited financial means of the company.

- The final overall evaluation focused on the coordination of the business strategies and the feasibility of the investments linked with the business strategies. Financial constraints were revealed. They led to the sale of a business in the context of a management buy-out.

4.3 Assessing Strategic Projects

As presented in Sect. 4.1, strategic intentions are gradually made concrete. Strategic projects constitute the final stage. They represent the basis for the implementation of the strategic intentions.

The spectrum of strategic projects is very wide. Examples include the entry into a new geographic market, the development and introduction of a new product group and the modernization of production facilities. One can also think of "withdrawal projects", such as streamlining the product range, giving up a country market or the withdrawal from a customer segment. Despite their diverse contents, strategic projects have the following points in common: they are concrete and show the measures and investments necessary for their realization. Their financial impacts can thus usually be at least roughly predicted.

Because the financial effects can be estimated, it is possible to assess strategic projects with the help of investment performance measures. Many of such measures exist. Figure 4.4 gives an overview.

A method, which is simple and therefore frequently used, is the net present value method. The method discounts all revenues and costs of a project with a discount rate at the decision point. A positive net present value indicates that the project is

Measuring the profit effect / Nature of the approaches	**Overall profit of the investments**	**Annual profit of the investments**	**Annual return of the investments**
Static approaches	Accumulated profit *	Average yearly profit	Return on Investment
Dynamic approaches	Net present value	Annuity	Internal rate of return
Approaches of a complete financial plan	Final net worth	Annual withdrawal	

* = possible,but rarely mentioned in the literature and rarely applied in practice

Fig. 4.4 Overview of the investment performance measures economically viable. If two mutually exclusive projects both present positive net present values, the one with the higher net present value should be selected.

Inset 4.2 shows the application of the net present value method in the assessment of a strategy in the form of a project.

Inset 4.2

Net Present Value of the Market Entry in Brazil

X Inc. is a company based in Portugal with approximately 350 employees. The family company produces different polymer systems to fix electrical cables in buildings. The wide range of products allows applications in many types of buildings, ranging from factories to residential buildings to villas.

Many years ago, X Inc. began to export its products to Spain and France. As was the case in the domestic market, the two export markets have been stagnating for several years and the prospects do not look good. Therefore, the idea of entering the booming Brazilian market was born. The strategy, made concrete in a project plan, is to first enter the region of Sao Paolo. The regions of Rio de Janeiro, Brasilia and Porto Alegre are to be built up in a second stage only after achieving a positive EBITDA in Sao Paolo. The following figure shows the expected turnovers and EBITDAs for the years 20XX to 20XX+6 and the resulting net present value. The net present value calculation is based on a discount rate of 10 %.

Text	20XX	20XX +1	20XX +2	20XX +3	20XX +4	20XX +5	20XX +6
Turnover Sao Paolo		500	1,000	2,000	2,400	2,760	3,040
Turnover Rio, Brasilia and Porto Alegre				600	1,200	2,400	2,900
EBITDA Sao Paolo	-200	-400	-200	200	300	400	500
Result contribution Rio, Brasilia and Porto Alegre				-300	0	600	700
Total EBITDA	-200	-400	-200	-100	300	1,000	1,200
Discounted EBITDA values	-200	-364	-165	-75	205	621	677
Net present value	404						

Figures in 1,000 EUR

Net present value of entering Brazil

The calculation shows that entry leads to a positive net present value of EUR 404,000 after 6 years. With each additional year, the net present value will continue to increase, even if the turnover growth rate slows down.

Part II

Strategic Documents and Strategy Planning Process

Following a summary of the most important ideas of strategic planning in Part I, methodological considerations are introduced in Part II. Strategic documents are presented and a process for their elaboration is proposed. This strategic planning process is then specified and explained in detail in Parts III to VIII.

Part II comprises two chapters:

- Chapter 5 deals with strategic documents. In Sect. 5.1, five categories of documents are first distinguished and briefly described. With the help of an example, Sect. 5.2 shows afterwards how the documents can be combined.
- Chapter 6 presents a proposal for structuring the strategic planning process. After explaining the basis in Sect. 6.1, the process and its steps are presented in Sect. 6.2. Section 6.3 then shows how the recommended process can be adapted to a specific situation in a company. Finally, Sect. 6.4 links the recommended process with the most important analysis and planning tools.

Strategic Documents

5

5.1 Categories of Strategic Documents

In Chap. 2, intended strategies were defined as long-term guidelines, which apply to the company as a whole and to important parts of it and which set guidelines for constructing or maintaining success potentials. These guidelines are generally done in writing and take the form of documents that serve as management tools.

Companies normally use several documents to set out their strategic objectives. Hofer and Schendel (1978, pp. 27 ff.)—they establilshed strategic management as a topic of business administration (see Nag, Hambrick, & Chen, 2007, p. 935)—propose four categories of strategic documents:

- Mission statements
- Corporate strategies
- Business strategies
- Functional strategies

This distinction has become widely accepted and is therefore adopted in this book. Strategic project plans are however introduced as a fifth category of strategic documents. They form the basis for the implementation of the intended strategies.

Figure 5.1 provides an overview of the five categories of strategic documents.

The mission statement usually describes the purpose and the overriding goals and values of the company. It also normally gives a broad indication of the area of activity. The mission statement is not a central strategic document, as its main purpose is not to ensure the maintenance or construction of strategic success potentials. However, the overriding objectives and values expressed in it represent the framework for the development of strategies. As mission statements are usually limited to a small number of rather abstract principles, the restrictions of the strategic freedom of action generally remain limited. Exceptions to this arise when the mission statement expresses particularly important values, e.g. important ecological beliefs.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_5

Content \ Documents	Mission statement	Corporate strategy	Business strategy	Functional strategy	Strategic project
Overriding objectives and values	***				
Market positions	*	***	***	*	*
Competitive advantages of the offers		*	***	*	*
Competitive advantages of the resources		*	***	***	*
Measures		*	*	*	***
Investments		***1)			***2)

*** = main content
* = possible complementary content
1) = rough investment budgets or investment priorities of businesses
2) = precise investment objects and investment budgets

Fig. 5.1 Essential content of the categories of strategic documents

Detailed information on the mission statement and its development can be found in Chap. 9 of this book.

Corporate strategies determine the future areas of activity of the company and their market positions. Corporate strategies ensure that attractive markets, in which the company can achieve strong market positions, are served. Concretely, corporate strategies define the areas of activity—referred to as “strategic businesses” in the strategy literature—to be built up, developed, maintained or reduced.

Corporate strategies are one of the two central categories of strategic documents. They usually refer to the company as a whole and constitute the framework of the strategic management instruments. In large diversified companies, it may also be useful to develop corporate strategies for significant parts of the company, such as for divisions.

The market position targets in the corporate strategy are generally defined in terms of approximate market shares. As substantial investments are often needed to achieve the targets, the corporate strategy should also include rough guidelines on the investment budgets of the businesses. This will ensure that the targets are realistic and not just wishful thinking.

Due to the central importance of corporate strategies, their content and development are presented in detail in Part V of this book. The definition of the current strategic businesses, which represents an important basis of the corporate strategy, is described in Chap. 7.

Business strategies are the second major category of strategic documents. A business strategy determines the competitive advantages of the offer as well as of the resources, which need to be constructed or maintained to achieve the target market position. A business strategy can also identify competitive disadvantages and specify measures to reduce them.

A business strategy usually covers all three levels of the ROM model (see Chap. 2):

- Market positions are usually described more specifically in business strategies than in corporate strategies. In addition to a general market share target for the business, quantitative targets can be defined for individual groups of customers or for individual distribution channels. It can also be useful to formulate specific qualitative objectives, such as objectives in terms of image.
- The definition of competitive advantages in the offer is at the heart of business strategies. One should not think solely of positive differences in products or of price advantages. Competitive advantages can also be found in sales, communications or additional services, such as training and customer financing. The marketing mix (see Kühn & Pfäffli, 2012, pp. 9 ff.) provides a good overview of the starting points for competitives advantages of the offer.
- Finally, the target competitive advantages at the resource level are specified. They must ensure that the business can realize the advantages of the offer and reach the target market positions.

Part VII shows what business strategies contain and how they are developed.

Functional strategies are the fourth category of strategic documents. They are developed for functions with a high degree of complexity, which are important for the success of the company and therefore represent strategic success potentials. Functional strategies often concern several businesses. Typical examples include IT strategies for banks and logistic strategies for traders. Functional strategies ensure that a complex task is carried out effectively and efficiently. If the task is fulfilled for several strategic businesses, the use of synergies is of great importance.

From the content point of view, functional strategies focus on the lowest level of the ROM model: They serve to optimize the use of processes and resources. In addition to financial aspects, the target market positions and the advantages of the offer form the most important boundary conditions.

The importance of functional strategies are discussed and illustrated with the help of an example in Chap. 21.

The fifth category of strategic documents is strategic project plans. They are created in relation to the development of corporate strategies, business strategies and functional strategies and serve for the implementation of these strategies.

Strategic projects focus on the planned measures and the necessary investments. Strategic project plans thus assume an interface function. They link strategic intentions with specific implementation steps.

Strategic projects are explained in detail in two chapters: Chap. 15 discusses the project plans to implement the corporate strategy and Chap. 20 explains the projects for the realization of business strategies.

5.2 Company-Specific Combinations of Strategic Documents

In practice, several strategic documents are often used in combination. Figure 5.2 shows the strategic documents of a Swiss investment goods dealer:

- In the document called vision, the objectives and the main boundary conditions of the owners are set.
- The corporate strategy defines the market objectives for the three divisions and estimates rough investment budgets. It also discusses the expansion of the group's activities through the setting up of another division.
- The business strategies of the divisions are of central importance. They include all three levels of the ROM model and thus contain a detailed description of the target market position, the competitive advantages of the offer and the competitive advantages of resources.
- The company has a central IT system. The functional IT strategy thus not only provides specifications for the IT division, but also for the three trading divisions.
- Quick deliveries and a wide range of varieties and dimensions are the two key success factors of the stainless steel division. To ensure that the deliveries are possible with minimal inventory, the stainless steel division has a functional strategy for logistics.
- For the implementation of the strategies, there are projects. The range of possible projects is wide and can only be explained with the help of a few examples. A strategic project resulting from the corporate strategy is the acquisition of a wholesaler in another category of capital goods. A project of the pump division refers to the acquisition and integration of a trader from western Switzerland that has been supplied by the division up until now and is facing a succession problem. The logistics strategy of the stainless steel division results in a project to merge two regional warehouses. In the truck division, there is a project for the acquisition of trading rights for additional trucks manufacturers.

The example shows a coherent system of strategic documents. The documents are complementary and thus generate positive synergies. This is not always the case in practice. Especially in large, decentralized companies, documents may overlap

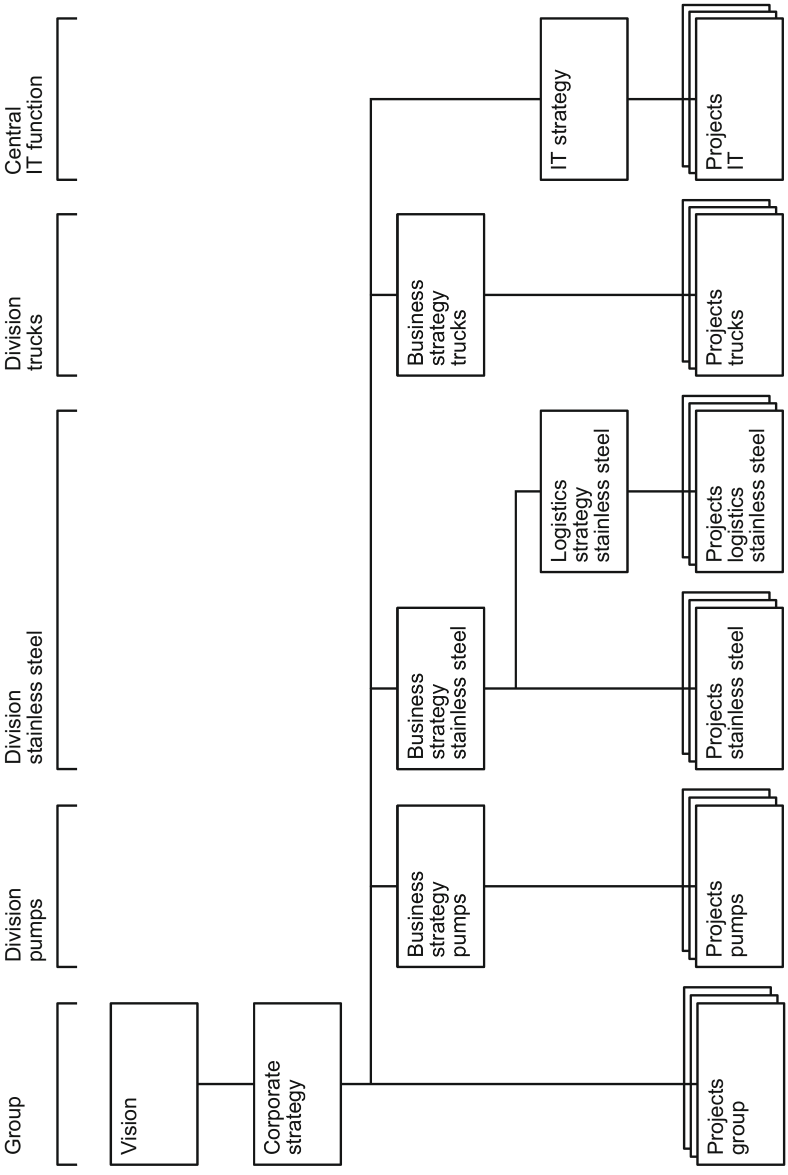


Fig. 5.2 Strategic documents of a capital goods dealer

or contradictions may exist. This creates negative synergies, not only on the factual level—but as experience has shown—it also affects the motivation of the managers who are responsible for the development and the implementation of strategies.

The documents required for successful strategic management depend on the specific situation of the company. In practice, it is advisable to gain at least a rough idea of the expected strategic documents already at the start of the strategic planning project. This is why the determination of the necessary strategic documents represents a sub-task in the preparation of the strategic planning project (see Chap. 8).

References

Hofer, C. W., & Schendel, D. (1978). *Strategy formulation*. St. Paul, MN: West Publishing.

Kühn, R., & Pfäffli, P. (2012). *Marketing: Analyse und Strategie* (Vol. 14). Zürich: Werd.

Nag, R., Hambrick, D. C., & Chen, M.-J. (2007). What is strategic management, really? Inductive derivation of a consensus in the field. *Strategic Management Journal, 28*(9), 935–955.

6 Strategy Planning Process

6.1 Basis of the Process

We live in a time of constant and sometimes barely predictable change. Accordingly, reliable forecasts and long-term planning are difficult. Nevertheless, the authors adopt—as explained in Sect. 2.2—a synoptic planning logic and propose a systematic approach for the development of strategies. This position is justified as follows:

- Forecasting difficulties are not solved by abandoning analysis and planning. Whether a planned strategy exists or not, companies need to invest in resources. These investments determine the long-term competitive position of the company. The risks associated with isolated investment decisions appear considerably greater than the risks of a strategy based on uncertain forecasts.
- There is no contradiction between strategic targets and rapid and flexible decision-making. On the contrary, correctly understood and unbureaucratically applied strategies generally increase the quality of situational decision-making. Strategies can prevent companies from unknowingly slipping into markets that offer little hope of success or from fragmenting their limited resources by pursuing many incoherent new ideas. Dynamic markets do not change the fact that a company needs a clear vision in order to build up and defend competitive advantages.

The suggested process of strategic planning is based on five elements:

- the approaches for explaining strategic success as for instance the PIMS program introduced in Inset 12.5
- the considerations for assessing strategic intentions in Chap. 4
- the strategic planning processes recommended in the literature
- the heuristic principles according to Inset 6.1
- the practical experience of the authors as strategy consultants

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_6

Inset 6.1

Heuristic Principles and Their Use in the Strategy Planning Process

The strategic planning process proposed in this book primarily uses five heuristic principles. They are briefly described in the following text. The text also shows how they are applied in the planning process.

In order to solve a complex decision problem, the heuristic rule of factorization (see March & Simon, 1958, p. 193) recommends breaking it down into sub-problems to be tackled either in sequence or in parallel. By dividing the problem of strategic planning into steps and sub-steps, this principle is applied extensively.

The principle of modeling (see Klix, 1971, p. 724) requires that the sub-problems are defined in such a way that proven methods for their solution can be used. This principle is especially applied in the definition of Steps 2 to 5. For each of these tasks, there are proven analyses and planning tools that can be applied.

Another heuristic principle that is important for the recommended planning process is sub-goal reduction (see Newell, Shaw, & Simon, 1965, p. 259). To evaluate alternative solutions, it suggests replacing general objectives, which are difficult to apply, by sub-goals that are concrete and easier to apply by the decision maker. The idea of sub-goal reduction is notably applied by the idea of assessing success potentials and strategies with the help of substitute criteria presented in Chap. 4.

The heuristic principle of generate-and-test (see Herroelen, 1972, p. 227) recommends developing (generate) and assessing (test) only one solution, which appears to be reasonable, instead of developing and assessing several alternative solutions. If it meets the minimum objectives, it is accepted as the solution to the problem. However, if the assessment leads to an unsatisfactory result, the search for a solution continues. The heuristic principle of generate-and-test is used in the proposed process in the development of strategies and strategic projects (generate) and their assessment (test). If the result of the assessment is unsatisfactory, there is a heuristic loop, during which strategies and strategic projects are revised.

The principle of bounded rationality (see Simon, 1966, p. 19) waives the search for optimal solutions and looks for satisfactory solutions instead. The principle is applied in all of the steps and sub-steps of the process

6.2 The Proposed Strategy Planning Process

Figure 6.1 shows the recommended strategic planning process. As the figure shows, the complex task of analysis and planning is divided into six steps.

The occurrence of loops at any time is typical of a heuristic process. The loop in Fig. 6.1 only represents a particularly important example. The possibility of

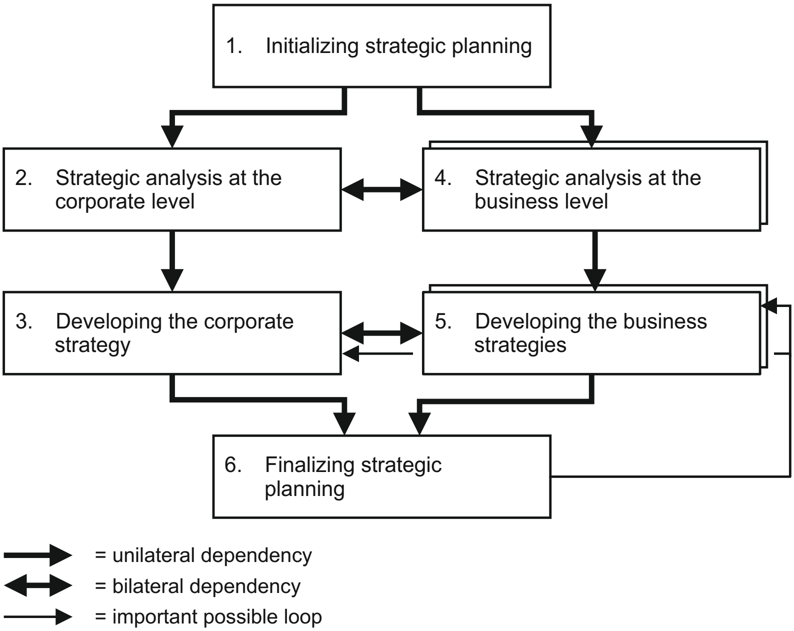


Fig. 6.1 Strategy planning process

heuristic loops in the whole process signifies that all of the results of the planning steps should be considered as provisional until the work is completed.

The six steps are briefly explained below. A detailed discussion of the tasks of the steps follows in Parts III–VIII.

In Step 1, "Initializing strategic planning", favorable conditions for the development of the strategies are created. Three bases have to be built up:

- The definition of strategic business provides a strategic view of the company.
- During the preparation of the strategy planning project, the analysis and planning work is put into chronological order and assigned to working groups.
- Finally, by clarifying the overriding goals and values, the normative basis of the strategic planning project is formed.

Step 2 covers the analysis at the company level. It sets the stage for the subsequent development of the corporate strategy and includes four sub-problems:

- First, important developments in the environment of the company have to be identified.
- Changes in the competitive situation of the relevant industries are then analyzed.
- Third, the current portfolio of businesses is assessed.
- Finally, future opportunities, threats and challenges are derived from the analysis.

The results of Step 2 form the basis for the development of the corporate strategy in Step 3. The step consists of two sub-tasks:

- First, the options of the future corporate strategy are developed and assessed. The best-ranked option represents the planned corporate strategy.
- In order to implement the future corporate strategy in an effective and efficient way, strategic projects are then defined.

Step 4 creates the conditions for the determination of the business strategies. Three tasks are tackled in parallel for the different businesses:

- The first sub-problem is the analysis of the market or markets served by the business.
- Second, the current success potentials of the business are analyzed.
- Future challenges can be derived from the external and internal analysis. They show the need for action, and thus create the basis for Step 5.

Step 5 involves the development of the necessary business strategies. The development of a business strategy covers two sub-tasks:

- First, options of the future business strategy are developed and evaluated. As with the corporate strategy, the best option is the planned business strategy.
- To ensure implementation, strategic projects are then planned.

The finalization of the strategic planning in Step 6 includes three sub-tasks:

- If necessary, functional strategies are developed. Functional strategies are particularly useful if strategically relevant tasks, such as the provision and operation of IT services, are executed across several businesses.
- Once all of the strategies and projects necessary for their implementation are available, a final overall assessment must take place. Here, the financial feasibility and the risks are of particular importance. If financing is not possible or if too many risks are associated with the strategies, the strategies and the strategic projects need to be revised. Accordingly, there is a heuristic loop in the strategic planning process, as depicted in Fig. 6.1.
- The final task consists in elaborating the documents and preparing the implementation of strategies and projects. Successful implementation is only possible if the management knows and supports the strategies. Therefore, their motivation is of special importance.

Finally, the order of Steps 2–5 in Fig. 6.1 should be briefly discussed:

- The development and evaluation of strategic options requires knowledge about the current situation and an idea about possible developments. Therefore, the development of the corporate strategy is prepared by carrying out strategic analysis at the corporate level. The same procedure is also recommended for the business level. At the corporate level, the focus is on environmental developments and the attractiveness of industries, whereas at the business level, analysis deals primarily with the competitive situation and with the strengths and weaknesses of offers and resources.

- Steps 2 and 4, as well as Steps 3 and 5, exist in parallel. Thus, the strong interdependencies that exist between the company level and the business level are expressed in both analysis and planning. Accordingly, the analysis results and the strategies need to be coordinated.

The work at the corporate level and at the business level can be coordinated using two different approaches:

- Either analysis and planning is done first at corporate level. Based on this, the business strategies are subsequently determined. In a heuristic loop, the corporate strategy is revised.
- Or one can proceed the other way round: First, the analysis and planning are carried out at the business level. Then, they are coordinated and prioritized by the corporate strategy. This usually leads to adjustments of all or at least some of the business strategies.

Both approaches are possible and used in practice. The appropriate approach depends on the individual case. In a company with distinct hierarchical thinking, the first approach is in the foreground. If the businesses are very different and top management knows their competitive situation only roughly, it is usually better to first analyze and plan at the business level.

6.3 Adapting the Process

The strategic planning process described in Sect. 6.2 represents a standard approach. It must therefore be adapted to the specific needs of the individual company before it is applied.

The need for adaptation exists for two main reasons:

- The proposed process is based on a company of intermediate complexity. It can be simplified if there is little complexity, and it must be extended with additional steps for large companies with a high degree of complexity.
- The proposed approach is based on the assumption that we are dealing with a "classical" strategic planning project. Such a project is intended to examine the strategies pursued so far and, based on this, to formulate strategies for the future. This is a common case, however, it does not represent the only possible purpose of a strategic planning project. It is also possible that a strategic planning project is initiated by a specific question. This then usually leads to steps being omitted and/or added.

In the following text, the adjustments of the process necessary for these reasons will be briefly explained.

The proposed process is based on a company that has several businesses. Accordingly, the process proposes the development of one corporate strategy and several business strategies. This is for example the case when a company offers several product groups in one geographical and industry market. The process can also be used without being adjusted when a product group is sold in several geographical markets. Adjustments are necessary, however, in the following cases:

- If the company offers only one product group in one geographical market, strategic planning mainly consists in the development of a business strategy for this product group. Therefore, Steps 2 and 3 are omitted and Steps 4 and 5 become easier, because analysis and planning is only done for one business.
- If the company offers several product groups in one industry market but in several geographical markets with different demands and/or competitive situations, a hierarchy of analysis and business strategies results: In addition to the international analysis and business strategies, country-specific analyses and business strategies are necessary. Step 4 “Strategic analysis at the business level” and Step 5 “Developing business strategies” must be differentiated accordingly. The question is also whether the country-specific or the international level should be considered first.
- If the company operates in one national market but in several industry markets, there may be a hierarchy of corporate strategies. In addition to the corporate strategy of the company, corporate strategies for divisions serving industry markets are often necessary. Steps 2 and 3 must therefore be divided. This raises the question of whether the analysis and planning at the corporate or at the division level should be done first.
- The most complex situation is when several industry markets and several geographical markets are served at the same time. This means that Steps 2 and 3, as well as Steps 4 and 5, must be divided. The question of the order in which the various business and corporate strategies are developed arises. If a bottom-up approach is chosen, the analysis and planning at the level of the business-country combinations take place first. The international business strategies and the corporate strategies of the divisions follow. The corporate strategy of the company represents the last step in this approach. If a top-down approach is chosen, the four categories of strategies are developed in the reverse order.

In addition to a simpler or more complex structure, a specific issue can also lead to adjustments in the process. This is illustrated briefly with the help of two examples:

- If the main objective of strategic planning is the building up of new geographical markets, a sub-division of Step 4 “Strategic analysis at the business level” can be useful: In addition to the analysis of the existing businesses and their markets, potential new markets should be analyzed and assessed in parallel.

- If the strategic planning project focuses on a single loss-making business, there are two implications: Steps 4 and 5 are easier, because they only concern one business. At the same time, it would be useful to tackle Steps 4 and 5 before tackling Steps 2 and 3. This allows to first develop the business strategy and then to examine the implications of the new business strategy on the corporate strategy.

More reasons for adapting the process are discussed by Jennings and Disney (2006, pp 76 ff.).

6.4 Linking the Process with the Main Analysis and Planning Tools

In the strategy literature, numerous individual methods are proposed. These are suitable to deal with more or less narrowly defined analysis and planning problems. To make matters more difficult, different terms are sometimes used for the same or similar methods.

As there are so many more or less specific and partially overlapping methods of analysis and planning, it is not easy to give an overview. The following attempt to do so is practical and not academic. Figure 6.2 shows the methods that the authors, in their experience as strategy consultants, consider as important. The following remarks are necessary:

- Methods with similar objectives and procedures, and which are rarely perceived in practice as being different, are combined in a single category.
- Methods that focus only on the collection of data, such as the Delphi method or the Structured interview, were not included in the list. Similarly, statistical procedures for data analysis or forecasting, such as regression analysis or the extrapolation of trends, were excluded. The reason for this is that they can be considered as supporting tools, which are used in strategic analysis and planning only in combination with one of the methods listed in Fig. 6.2.

To get a better overview of the methods, they are matched on the one hand to the four activities “environmental analysis”, “industry and market analysis”, “internal analysis” and “planning”. However, there are methods, such as The Boston Consulting Group portfolio, which link activities and can thus be assigned to multiple columns. On the other hand, the methods can be classified according to the six steps of the strategic planning process. The two classifications can be combined in a matrix as shown in Fig. 6.3.

All tools are explained in detail in Parts III–VIII. Therefore, Sect. 6.4 only attributes the tools to the six steps. This allocation is based on the authors’ subjective assessment of the suitability of the methods.

- Ashridge matrix
- Balanced Scorecard
- Boston Consulting Group portfolio (Market growth - market share portfolio)
- Business model
- Corporate options matrix
- Defining strategic businesses
- Diversification matrix (Ansoff matrix)
- Dominance-Standard model
- Financial planning tools
- Five Forces model (Structural analysis of an industry)
- Generic business strategies (Generic competitive strategies)
- Industry segment analysis (Customer segments - product groups analysis)
- Investment performance measures
- Market System model
- McKinsey portfolio (Market attractiveness - competitive strengths portfolio)
- Mission statement revision procedure
- Network of success potentials (ROM model)
- Offer analysis (Strengths and weaknesses analysis)
- PESTEL analysis (Global environmental analysis)
- Project planning technique
- Scenario analysis
- Stakeholder analysis (Value system analysis)
- Strategic Groups model (Structural analysis within an industry)
- Success factors identification
- SWOT analysis
- TOWS matrix
- Value chain analysis
- VRIO analysis (Resource analysis)

Fig. 6.2 Most important analysis and planning tools

In Step 1 "Initializing strategic planning", four methods can be used:

- In order to obtain a strategic view of the company, strategic businesses are defined.
- The strategy planning project is then set up using a project planning technique.
- In order to create the normative basis for the strategy planning project, a stakeholder analysis is carried out. It forms the basis for the revision of the mission statement using the corresponding heuristic procedure.

Nine tools are used in Step 2 "Strategic analysis at the company level":

- The PESTEL analysis and the scenario analysis are used to analyze the current situation and the future development of the environment.
- To assess the competitive situation in the relevant industries, the industry specific success factors, the Strategic Groups model and the Five Forces model are used.

- In order to obtain an overview of the current situation, the Boston Consulting Group portfolio or the McKinsey portfolio are recommended. The portfolio methods proposed are therefore only used as analysis methods. They could also be applied to plan the future corporate strategy in Step 3. However, this is not recommended. From the point of view of the authors, more aspects must be incorporated into the development and assessment of strategic options. A different approach is therefore proposed for this task.
- A synthesis of the results of strategic analysis can be obtained with the help of the SWOT analysis or the TOWS matrix.

For the development of the corporate strategy in Step 3, the use of the following methods is proposed:

- The corporate options matrix can be used as methodological support for the development and assessment of options. From the content point of view, corporate strategy options are often based on the diversification matrix. For the evaluation of the synergies between the businesses, the Ashridge matrix can be applied.
- The best option becomes the future corporate strategy. It is implemented by strategic projects. To plan these projects, a project planning technique can be used. For the project evaluation, investment performance measures can be applied.

As in the strategic analysis at the company level, numerous tools can be used in Step 4 “Strategic analysis at the business level”:

- The relevant markets are analyzed with the help of the Market System model, the Dominance-Standard model, the industry segment analysis and the PESTEL analysis.
- In order to assess a business, five methods are recommended: The Business model and the generic business strategies allow an overall evaluation of the current situation. With the offer analysis, the company’s products and services are compared with the products and services of the strongest competitor. The VRIO analysis and the value chain analysis allow resources to be assessed.
- With the help of the SWOT analysis or the TOWS matrix, conclusions of the analysis can be deduced.

For the development of the business strategies in Step 5, five tools are recommended:

- The development and assessment of business strategy options are based on the Business model and the generic business strategies. The chosen option is made concrete with the help of the network of success potentials.
- As is the case with the corporate strategy projects, the planning of the implementation projects can be supported by a project planning technique. To evaluate projects, investment performance measures can be used.

<table>
<tr><th>Activities / Steps</th><th>Global environmental analysis</th><th>Industries and markets analysis</th><th>Internal analysis</th><th>Planning</th></tr>
<tr><td>Step 1: “Initializing strategic planning”</td><td></td><td></td><td>Stakeholder analysis</td><td>Defining strategic businesses
Project planning technique
Mission statement revision procedure</td></tr>
<tr><td rowspan="3">Step 2: “Strategic analysis at the corporate level”</td><td rowspan="2">Scenario analysis
PESTEL analysis</td><td>Success factors identification
Strategic Groups model
Five Forces model</td><td></td><td rowspan="3"></td></tr>
<tr><td colspan="2">Boston Consulting Group portfolio
McKinsey portfolio</td></tr>
<tr><td colspan="3">SWOT analysis
TOWS matrix</td></tr>
<tr><td>Step 3: “Developing the corporate strategy”</td><td colspan="3"></td><td>Corporate options matrix
Diversification matrix
Ashridge matrix
Project planning technique
Investment performance measures</td></tr>
</table>

Fig. 6.3 Strategic analysis and planning toolbox

Steps \ Activities	**Global environmental analysis**	**Industries and markets analysis**	**Internal analysis**	**Planning**
Step 4: "Strategic analysis at the business level"		Market System model Dominance-Standard model Industry segment analysis PESTEL analysis	Business model Generic business strategies Offer analysis VRIO analysis Value chain analysis	
		SWOT analysis TOWS matrix		
Step 5: "Developing the business strategies"				Business model Generic business strategies Network of success potentials Project planning technique Investment performance measures
Step 6: "Finalizing strategic planning"				Financial planning tools Balanced Scorecard

Fig. 6.3 Strategic analysis and planning toolbox (continued)

In the context of finalizing the strategic planning in Step 6, two tools are useful:

- For examining the financial feasibility of strategies and strategic projects, a financial planning tool can be applied.
- The implementation of the strategies in the daily business is often based on balanced scorecards.

References

Herroelen, W. S. (1972). Heuristic programming in operations management. *Die Unternehmung, 26*(4), 213–231.

Jennings, D., & Disney, J. (2006). The strategic planning process and its context: The role of psychological type. *Journal of General Management, 31*(3), 75–93.

Klix, F. (1971). *Information und Verhalten*. Bern: Haupt.

March, J. G., & Simon, H. A. (1958). *Organizations*. New York, NY: Wiley.

Newell, A., Shaw, J. C., & Simon, H. A. (1965). Report on a general problem-solving program. In R. D. Luce, R. R. Bush, & E. Galanter (Eds.), *Readings in mathematical psychology* (Vol. II, pp. 41–50). New York, NY: John Wiley.

Simon, H. A. (1966). The logic of heuristic decision making. In N. Rescher (Ed.), *The logic of decision and action* (pp. 1–20). Pittsburgh, PA: University of Pittsburgh Press.

Part III

Initializing Strategic Planning

In Part III, Step 1 of the strategic planning process is described. In this step, strategic planning is initialized. Before the analysis and planning work begins, favorable conditions must be created. The experience of the authors has repeatedly shown that good preparation of the analysis and planning work is worth it. For this reason, the time invested in Step 1 results in a high return.

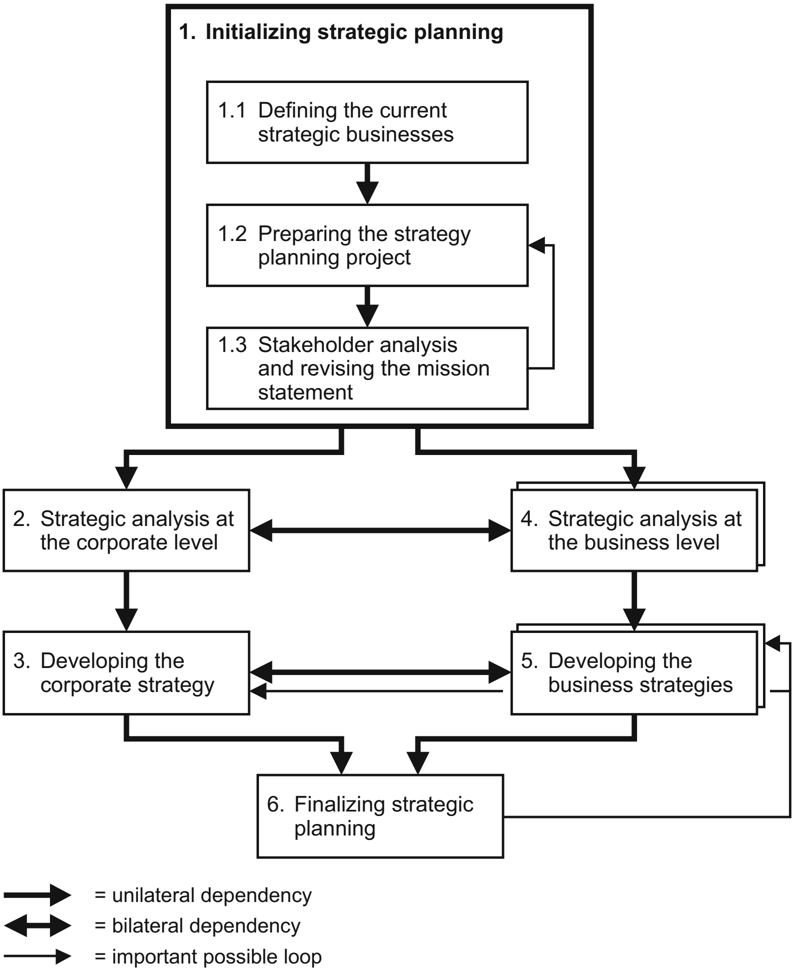
The initialization of strategic planning in Step 1 consists of three sub-tasks. They are tackled in Sub-steps 1.1 to 1.3:

- First, by defining the existing businesses, a strategic view of the company is created.
- Based on the strategic businesses, the process can then be planned and the project organization can be fixed.
- Finally, by clarifying the overriding objectives and values, the normative basis of the strategy planning project is created.

The following figure shows Step 1 and its three sub-steps in the strategic planning process.

Part III has three chapters:

- Chapter 7 looks at Sub-step 1.1 “Defining the existing strategic businesses”. The chapter is composed of four sections: After an introduction, basic considerations on defining and structuring markets follow in Sect. 7.2. Based on this, the notion of a strategic business is presented and two types of strategic businesses are distinguished in Sect. 7.3. Finally, a process for defining strategic businesses is proposed in Sect. 7.4.
- In Chapter 8, Sub-step 1.2 “Preparing the strategy planning project” is then explained. The chapter has two sections: The introduction explains the reason why strategy planning should be seen as a project. Section 8.2 then describes the process for preparing a strategy planning project.



Step 1 in the strategic planning process

- In Chapter 9, Sub-step 1.3 “Stakeholder analysis and revising the mission statement” is discussed. Following an introduction, the stakeholder analysis is explained in Sect. 9.2. Considerations on the effects and the structure of mission statements follow in Sect. 9.3. Finally, Sect. 9.4 presents the process for assessing the value system and revising the mission statement.

Defining the Current Strategic Businesses 7

7.1 Introduction

The definition of a company's existing strategic businesses provides a strategic view of that company. The resulting strategic businesses represent the core elements of strategic analysis and planning. Defining the strategic businesses is therefore the first activity in the proposed process of strategic planning.

This chapter is composed of four sections: After the introduction, considerations on defining and structuring markets follow in Sect. 7.2. These considerations allow the definition of strategic businesses and the distinction of two types of businesses in Sect. 7.3. Based on the findings of Sects. 7.2 and 7.3, a process for defining the existing strategic businesses is proposed in Sect. 7.4. An inset shows how the process is applied.

7.2 Defining and Structuring Markets

Markets and submarkets are the competitive arenas (see Day & Nedungadi, 1994, p. 35) of the businesses. This is the reason why we explain how to define and structure markets before discussing the strategic businesses.

Markets are in practice usually defined by the offer (see Grant, 2013, p. 77; Kühn & Pfäffli, 2012, p. 34) and the geographical area concerned (see Kühn & Pfäffli, 2012, p. 34). Accordingly, we can speak of the Swiss beer market or the European car market.

It is possible to include customer groups in the definition of a market. This allows a narrower definition of the offer. An example is the coffee market for hotels, restaurants and canteens. However, a disadvantage of using customer groups as an additional criterion for defining markets is that specific customers cannot always be unambiguously attributed to a particular customer group. This is for example the case with customer segments in food, such as health-conscious customers, brand-conscious customers and price-conscious customers. It may not be possible to place

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_7

all the customers reliably into the appropriate segments. As a result, indicators like market volume and market growth cannot be calculated as precisely as they can for markets which have been defined simply by offer and geographical area.

The main difficulty in adopting an offer-based approach to market definition is that offers can be characterized broadly or narrowly. Take the example of a fruit juice manufacturer. The company might have to decide whether the relevant market for its products is “non-alcoholic cold beverages“, “soft drinks“, “fruit-based soft drinks“ or “fruit juices“. Sadly, there is no simple rule which will allow a company to correctly define the strategically relevant offer. Strategic planners must make a subjective assessment to identify the offer which seems best suited to defining the market. Perhaps the key to doing this is to consider the company’s direct competitors. The specification of the offer must include all competitors with offers that have a significant impact on the company’s sales. Too narrow a market definition might exclude important competitors and lead planners to overestimate the strength of the company’s position. In contrast, if the market definition is too broad, then unwanted irrelevant “competitors” will be included in the analysis, creating extra planning costs. Experience suggests that sales and marketing executives typically know who their most important competitors are and can use suitable categories of the offer to define markets appropriately. In cases of doubt, a broader definition should be preferred to a narrower one, so that all possible relevant competitors are included.

Some writers have argued that it is useful to use broad needs, like the need for security, to define relevant markets. In this approach, the “security market” would include all the various offers that address the need for security: security guards, alarms, insurance, safes, safety doors and so on. Those who advocate this approach argue that it allows competition from substitute products to be included in the analysis. But this view is misguided. There is no genuine relationship of competition between these different offers. A firm providing security guards is not going to base its future strategy on an assessment of the strengths and weaknesses of the market leader in safes. In addition to this, with a wider variety of products and services, market analysis becomes problematic and a clear view of the strategic situation cannot emerge. Furthermore, the influence of substitution products can be incorporated into the strategic analysis at a different stage, when predicting future market developments.

It is essential to include a geographical delimitation in the definition of a market. Unless this is done, it is impossible to characterize the demand, or to assess competitors, with sufficient precision. This in turn makes it impossible to apply the central constructs of market attractiveness and competitive strength.

Markets are often heterogeneous. Thus their division into submarkets creates a better understanding. There are different possibilities for defining submarkets:

- In practice submarkets are often defined using product groups or service groups. An insurance company, for example, will divide its market into different forms of insurance, such as household insurance, car insurance, accident insurance, health insurance, legal protection assurance and life insurance.

- Customer groups are used to structure the market if they have different needs and requirements. Banks distinguish, for instance, often the submarkets “Individuals”, “Wealthy individuals”, “SMEs”, “Big companies” and “Institutional investors”.
- Geographically-based submarkets are justified if success in different country markets requires differentiation in the offer. If we take Europe and the US on the one hand, and the emerging nations on the other, we find significant differences in requirements concerning quality and price. A manufacturer of construction piping, for instance, distinguishes two submarkets: “industrialized countries” and “emerging countries”.
- It is also possible to apply a two-dimensional approach. From a practical point of view, mainly product-customer combinations and product-country combinations are important.

Sometimes the market being analyzed is homogeneous: All the competitors may have very similar offers and there may not appear to be any customer groups with specific needs. Here it makes no sense to set up submarkets. Smaller companies are often confronted with such markets. Take, for example, the case of labor-intensive services, such as those provided by sanitary installation firms. These companies may offer a comprehensive set of products and serve a market limited to a specific region. Although medium-sized and large companies sometimes operate in markets that cannot be divided into submarkets, consider the manufacturers of products like cement, finished lumber or steel. Their markets offer little scope for differentiation among products and for the development of specific customer needs.

To sum up this discussion, we recommend the following rules for defining and structuring markets:

- Markets should be defined as a specific category of offer within a defined geographical area.
- It is vital that the category of offer selected for the definition of the market includes the principal competing offers. Additionally, by applying the geographical limitation, it must be possible to determine relevant key figures for the market, in particular market volume and market growth.
- Heterogeneous markets should be divided into submarkets.

7.3 Notion and Types of Strategic Businesses

By applying the ROM model (see Chap. 2), we define a strategic business as a specific offer which:

- makes a significant contribution to the company’s success
- occupies a particular position in a market and
- uses specific resources.

Typically companies have more than one strategic business. A medium-sized printing company, for example, might comprise the businesses “Book printing for publishers”, “Packaging printing for producers of consumer products” and “Commercial printing for businesses and public administration”. Diversified corporations like Siemens or Unilever will have hundreds of such strategic businesses. Companies with only a single strategic business, that is, which only have one specific offer in a single market, will almost certainly be small, such as specialized retailers or small craft-based companies.

The definition of strategic businesses should provide a strategic view of the company. This strategic view needs to be a different one than that provided by the organizational structure. Sometimes a strategic business will, in fact, correspond to an existing organizational unit. But it is essential to understand that strategic businesses, a priori, are not to be equated with organizational units. Strategic businesses are identified according to markets, offers and resources. Organizational units and organizational structure are often based on different criteria. Examples of such criteria are coordination between functions and existing managers.

A final point is worth noting. Not all offers deserve to be called “strategic” so that strategic planning may not include all the various offers that a company makes. To be included within strategic planning, an offer must be of strategic importance. This means, it must have the potential to make a significant contribution to corporate success or, in the case of strategic planning for a division or country organization, to the success of that unit.

For strategic planning it is vital to know whether decisions made for one strategic business will have a significant impact on other strategic businesses. If this is the case, then the businesses involved will have to be considered together, and not separately. For example, it may not be possible simply to give up an unprofitable activity if the production involved takes place together with the production for another profitable strategic business. The fixed costs of production would then have to be borne by the remaining business alone, and this would affect its profitability. Another example would be a case where two businesses serve the same market, perhaps offering different brands. Unless the competitive strategies of the two businesses are established jointly, there is a risk that the two strategic businesses might compete with each other and cannibalise each others sales. In order to deal with problems of this kind, we propose a distinction between two kinds of strategic business: strategic business units and strategic business fields.

Strategic business fields enjoy a large degree of autonomy with regard to all three elements in the ROM model. Thus a strategic business field can be defined as

- a specific offer which makes a significant contribution to the company’s success
- and whose strategy can be planned independently, as it is not closely linked to any other strategic business in the company, either in terms of its market or in terms of the resources it uses.

In contrast, strategy planning for strategic business units has to be carried out in coordination with that of other units. Thus a strategic business unit is defined as

- a specific offer which makes a significant contribution to the company's success
- whose strategy must be coordinated with strategies for other units, as they serve the same market and/or as they depend on the same resources.

If several business units serve the same market, which is often the case in practice, they serve different submarkets.

When making judgments about the resource autonomy of businesses, the demands must not be set too high. To be qualified as a business field, a business needs only the resources which are relevant for its competitive strength. And in no case is it required for the business field to be financially autonomous. The whole purpose of a corporate strategy is to shift financial resources among strategic businesses: Businesses in saturated markets with a strong market position produce free cash flows which can be made available for investment in strategic businesses serving growing markets and therefore attractive in the long term.

Using this distinction between strategic business units and strategic business fields, we can identify three types of company:

- The first type is represented principally by small companies, typically independent retailers or craft-based firms. These small companies usually represent a single strategic business which cannot usefully be further sub-classified. The company uses a set of specific resources to offer a single product or service group in only one geographical market.
- The second type of company includes many medium-sized companies, and certain larger companies. These companies have a number of different offers. However, these offers are sold in the same market and/or use a shared set of resources. As a result the companies have a number of interlinked strategic business units, whose strategies must always be coordinated.
- The third type embraces many medium-sized companies and the majority of large companies. These have a number of different businesses which are autonomous in regard to the markets served and resources used. Typically these different business fields can be sub-divided into strategic business units.

Figure 7.1 presents these three types:

- In order to keep the chart simple, only two business fields and two business units per business field are included.
- As the chart shows, the second type of company has three sub-types: (1) companies with a number of strategic business units that serve the same market, (2) companies with a number of strategic business units using the same resources, (3) companies with a number of strategic business units that serve the same market and use the same resources. If we apply this classification to the third type of company, we find six different cases, but here we include only a single case. In our chart the strategic business units within the first strategic field share both market and resources while for the second strategic field they are only linked by shared resources.

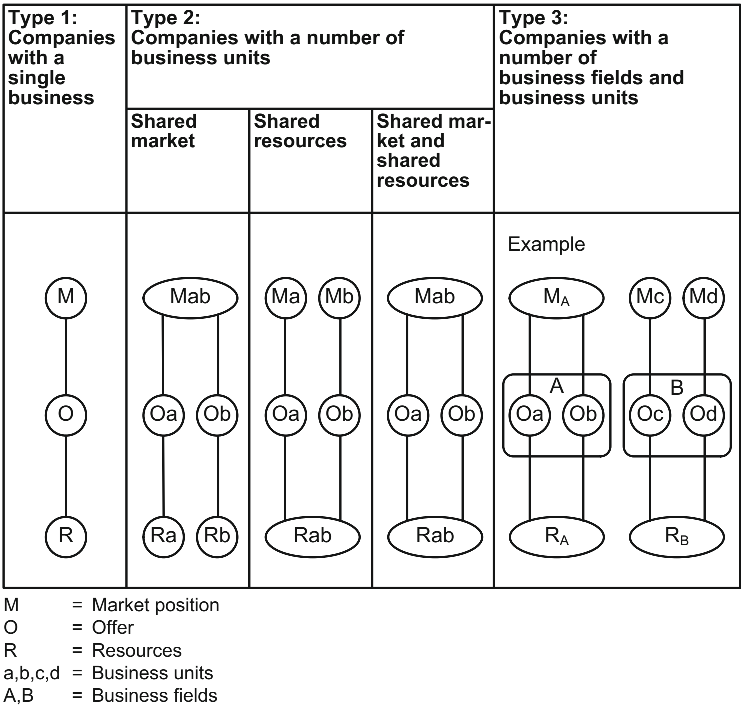


Fig. 7.1 Types of companies according to their strategic businesses

7.4 Process for Defining the Current Strategic Businesses

7.4.1 Overview

As Fig. 7.2 shows, our recommendation is to define the current strategic businesses in a three-step process.

The following sub-section explains each of the three steps in turn. We will then illustrate this process with an example.

7.4.2 Description of the Steps

In Step A, the existing market-offer combinations are determined. As the description of the step shows, there is a link between an external point of view and an internal point of view:

- The external view consists in the determination of the relevant markets. As shown in Sect. 7.2, a market is a competitive arena that is delimited by an offer

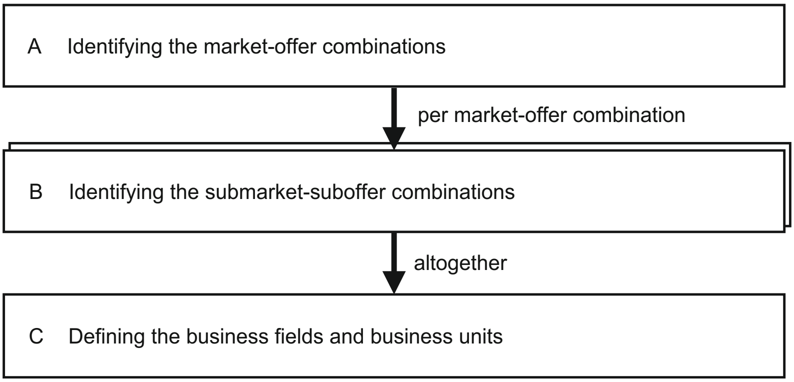


Fig. 7.2 Process for defining the current strategic businesses

category and a geographical area. The definition must include the competitors, which significantly influence the market success of the considered company. This is normally already the case with a relatively narrow market definition. Broadly defined markets, such as the food market, usually include different competitive arenas. For example, competition does not take place in the food market, but it takes place in the market for long-life baked goods, in the yogurt market, etc.
- The external view is clearly the main focus. But the markets should be defined so that the result is a clear and comprehensible breakdown of the company's offer.

Step B examines for each market-offer combination if it should further be divided into submarket-suboffer combinations. This only makes sense if two conditions are met:

- The market must be heterogeneous. As previously shown, such a market can be divided into product groups, customer groups, regions or combinations of these criteria (see Sect. 7.2). If submarkets can be distinguished, their strategic relevance is examined. This is only the case if at least one of the following conditions is met: (1) Competitors have different market positions in the submarkets. It is even possible that individual competitors are active in only one or a few submarkets. (2) The submarkets have significantly different growth rates.
- The company serves more than one submarket.

In Step C, the strategic business fields and business units are defined. The starting point is the market-offer combinations and the submarket-suboffer combinations defined in Steps A and B. To form the existing businesses, it must be examined, if the combinations share strategically relevant resources. Furthermore, the strategic importance of the market-offer combinations and the submarket-suboffer combinations is evaluated.

As shown in Sect. 7.2, a market-offer combination or a submarket-suboffer combination is rarely completely autonomous in terms of resources. Such a combination should already be considered as independent if it has the resources on which its competitive advantages are based. The examination of autonomy can give the following results:

- A market-offer combination is independent from the resources point of view and therefore constitutes a business field.
- A market-offer combination shares resources with other market-offer combinations. It is therefore a business unit.
- A submarket-suboffer combination is independent from the resources point of view. As it targets the same market as other submarket-suboffer combinations, it only constitutes a business unit and needs to be coordinated with the other business units at the market level.
- Several submarket-suboffer combinations share resources. These are businesses units, which must be coordinated at the market and at the resources levels.

The formed business fields and business units are finally assessed in terms of their strategic relevance. Often, a measure of relevance is defined as a percent of turnover. However, such a measure of relevance should not only be applied to current turnover; it should also consider future sales potential. If a strategic business is below the set limit, there are two possibilities: Either it can be linked to another strategic business in a meaningful way. If this is not the case, it is reduced to a secondary activity without strategic relevance.

7.4.3 Example of Applying the Process

Inset 7.1 outlines the application of the process to a producer of food and pharmaceutical products.

Inset 7.1

Defining the Businesses for a Producer of Food and Pharmaceutical Products

X AG is a medium-sized Swiss company. It has four divisions, which are relatively independent in terms of management and resources. The following figure gives an overview of the divisions and their offers.

Division	Products	Share of turnover	Markets
Baby food	Milks	27%	Switzerland
	Dry mixes	12%	Switzerland
	Glass jars	11%	Switzerland
General food	Soya-based ready meals	10%	Switzerland
	Muesli	5%	Switzerland
	Organic muesli	3%	Switzerland
Tube feedings	Tube feedings for hospitals	13%	Switzerland
Pharmaceuticals	Remedies for rheumatism	4%	Switzerland
	Ginseng products	15%	Germany, Switzerland, USA

Divisions and offers of X-AG

The determination of the market-offer combinations in Step A gives the following result:

- An analysis of the Swiss market for baby foods shows that most consumers use milks, dry mixes and baby food in glass jars. Furthermore, it is clear from the analysis that, with one exception, all competitors offer all product groups. It was therefore decided to choose “baby food” as market-offer combination.
- The “general food” division is divided into two market-offer combinations: “ready meals” and “muesli”. The first combination is more broadly defined than the offer, because soya-based ready meals are in direct competition with other ready meals.
- The “tube feeding” market-offer combination is also defined more broadly than the offered product group. The Swiss market for tube feeding is selected as the relevant competitive arena, and tube feeding for individuals is therefore included. Subsequent strategic analysis and planning should show if an extension of the offer to this second customer group makes sense.
- Finally, the “pharmaceutical products” division is divided into two market-offer combinations: “remedies for rheumatism” and “ginseng products”.

The division of the six market-offer combinations into submarket-suboffer combinations in Step B leads to the following result:

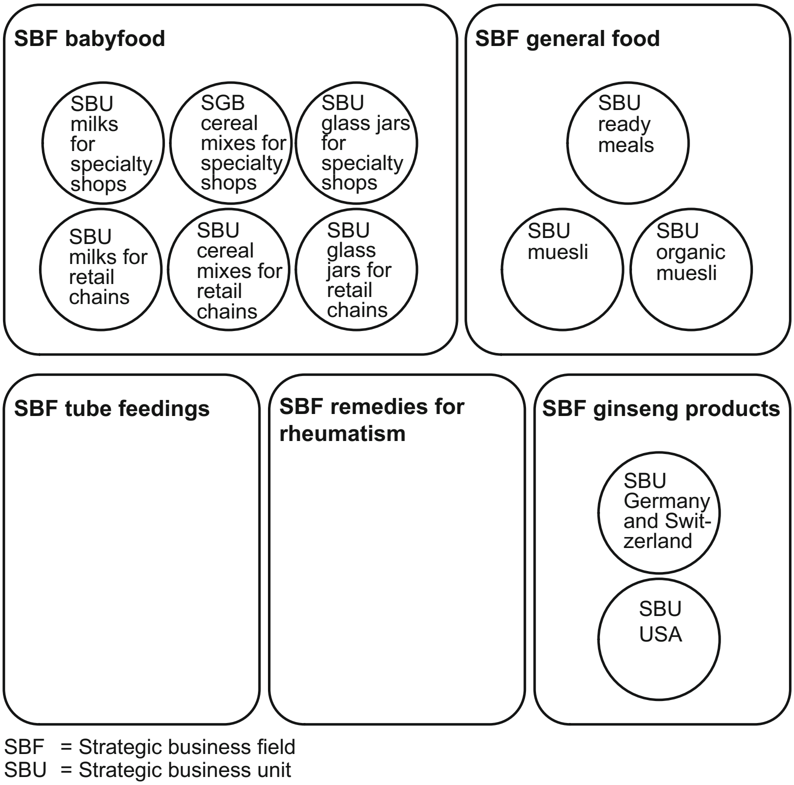
- With 50 % of turnover, "baby food" has three suboffers for which X AG uses specific marketing measures and achieves different market shares. In addition, the three product groups are distributed to retail chains under private label brands. Given the situation, it is decided to differentiate the following six submarket-suboffer combinations: "milks for specialty shops", "milks for retail chains", "dry mixes for specialty shops", "dry mixes for retail chains", "glass jars for specialty shops" and "glass jars for retail chains". The sub-division is thus based on the criteria of products and customer groups.
- The "ready meals" market-offer combination is not divided because X AG only serves one submarket.
- The "muesli" market-offer combination is divided into the "organic muesli" and "other muesli" submarket-suboffer combinations. The latter combination is simply referred to as "muesli".
- The "tube feeding" is not divided because X AG is only active in one submarket.
- The "remedies for rheumatism" market-offer combination targets a homogeneous market. A sub-division makes therefore no sense.
- Finally, it is decided to split "ginseng products" into two submarket-suboffer combinations: "german-speaking Europe" and "USA". This is partly due to differences in the range and in communication. The two geographical sub-markets also differ in their competitive situation.

The determination of the existing business fields and business units in Step C gives the following result:

- The "baby food" market-offer combination is independent from the resource point of view and therefore constitutes a business field. The business field consists of six business units. They correspond to the six submarket-suboffer combinations.
- The "ready meals" and "muesli" market-offer combinations are relatively closely linked at the level of resources. Product development, production, quality control, marketing and sales are shared at the level of the "general food" division for both market-offer combinations. Accordingly, the offers of the "food" division are grouped into one strategic business field. The business field consists of the three business units "ready meals", "muesli" and "organic muesli".
- The "tube feeding" and "remedies for rheumatism" market-offer combinations both have largely autonomous resources and therefore represent business fields.
- "Ginseng products" is also independent with regards to resources and therefore represents a business field. As shown in Step B, it is useful to divide it into the business units "German-speaking Europe" and "USA".

It is decided that a strategic business must generate at least 5 % of sales. This is the case for all businesses except "organic muesli" and "remedies for rheumatism". However, because of their future potential, both offers are still defined as businesses.

The following figure summarizes the result of Step C.



The strategic businesses of X-AG

References

Day, G. S., & Nedungadi, P. (1994). Managerial representations of competitive advantage. *Journal of Marketing, 58*(2), 31–44.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Kühn, R., & Pfäffli, P. (2012). *Marketing: Analyse und Strategie* (Vol. 14). Zürich: Werd.

Preparing the Strategy Planning Project 8

8.1 Introduction

In most companies, short and medium term plans are produced or reviewed on an annual basis. Planning guidelines or traditional practices determine at what point in the year a specific plan is developed or updated, how this work is done and who is involved in it. Because of this experience with short and medium term planning, most managers associate planning with a regularly, almost routinely occurring activity. It would be problematic to understand and manage strategic planning in this way. Decisions about markets, competitive strategies or investments in key resources are much too important to be approached in a routine manner. Strategic decisions

- deal with complex problems
- occur on an irregular basis
- are unique in their scope, in their individual questions and in their boundary conditions
- have a significant influence on the fate of the company.

This characterization of strategy development includes all of the features that are normally used to describe projects. It is therefore obvious that strategy development should be interpreted as a project.

When a company's management undertakes work to review or develop a strategy, it will be quickly confronted not only with content issues, but also with methodological problems:

- There are often differing views as to which documents need to be produced and their contents.
- Sometimes disagreements exist about the overall procedure and the methods to apply.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_8

- Another contentious issue may be the quality of the information needed to support strategic decisions. Linked to this are different opinions about the intensity of data collection and the necessary time and financial expenses.
- Finally, the use of a consultant, as well as his function, can be controversial.

If questions relating to the procedure are discussed at the same time as the content issues, the strategy development process can become inefficient and can lead to unsatisfactory results. In order to be able to focus on the substantive aspects of strategy development, it therefore makes sense, from a practical point of view, to prepare the analysis and planning work. This way, procedural questions can be clarified before tackling the substantive problems.

In the following section, a process for preparing the strategy planning project is proposed.

8.2 Process for Preparing the Strategy Planning Project

8.2.1 Overview

It is recommended to prepare a strategy planning project in six steps according to Fig. 8.1. The following sub-sections explain the tasks of each step.

8.2.2 Formulating Key Issues

As shown in Sect. 8.1, strategy planning is considered as a unique task and therefore as a project. Accordingly, the authors argue that strategy planning should not be integrated into the annual planning activities. A new strategy should only be developed if there is a reason for doing so. At the beginning of each strategy planning project, the need for a new strategy must therefore be demonstrated. This can be done by formulating issues. "Start with the issues" (Dye & Sibony, 2007, S. 42).

The issues that can lead to a strategy planning project are very diverse. The following examples show the wide range of possibilities:

- European low-cost airline: How can the business become profitable again?
- Swiss private bank: What are the consequences of the FATCA (Foreign Account Tax Compliance Act)?
- Automobile manufacturer: What is the importance of hydrogen as an energy source?
- Danish toy manufacturer: How can growth, which is at least equivalent to the market growth, be ensured in the Chinese market?
- Swiss retailers: What are the consequences of the entry of Aldi and Lidl in the Swiss market?

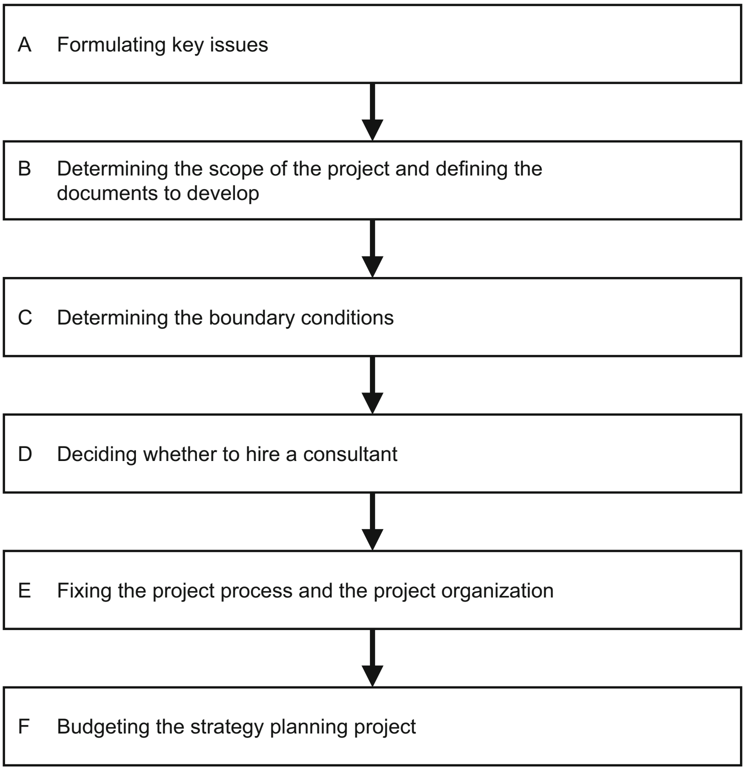


Fig. 8.1 Process for preparing the strategy planning project

- Italian machine manufacturers: How can the transition to digital control be achieved?

8.2.3 Determining the Scope of the Project and Defining the Documents to Develop

In order to focus the analysis and planning work, the scope of the strategy project should be determined. The issues formulated in Step A create a good basis for this. Only the areas that are concerned due to the issues should be included in analysis and planning.

Parts III–VIII of this book assume that the long-term direction of the entire company is included in the strategy planning project. However, this does not exclude the elimination of individual businesses or functions. For example, if the company decides to sell a business, the inclusion of this business makes little sense. If the issues relate exclusively to emerging markets, the continuation of the status quo can be expected in mature markets.

The scope of the strategy project makes it possible to identify the strategies to develop. Especially in complex organizations with multiple divisions and numerous businesses, the specification of the strategies to develop contributes significantly to clarifying expectations. Is only one corporate strategy expected or must corporate strategies be developed at the level of the company and at the level of divisions? Should both business field and business unit strategies be developed? Or does strategic behavior at the business unit level merely form a part of the business field strategies?

8.2.4 Determining the Boundary Conditions

By determining the boundary conditions, the strategy planning project is channeled. This prevents unnecessary work. This not only saves time and money, but it also prevents negative effects on the motivation of the involved persons.

Two types of boundary conditions can be distinguished:

- procedural and organizational boundary conditions, which affect the strategy planning project
- substantive boundary conditions, which relate to the strategies to develop.

Without making any claim to be exhaustive, the following points should be considered for procedural and organizational boundary conditions:

- Quality level of the analysis: Data collection in the context of strategic analysis can take place at different levels. Level (1) is limited to the knowledge available in the working group. In Level (2), additional available secondary data is analyzed. Furthermore, additional data for strategic planning can be collected by conducting primary surveys. This corresponds to Level (3). It is important to know the targeted level of quality in order to select the consultant in Step D and to fix the process and the organization of the strategy planning project in Step E. It is therefore recommended to decide on this in Step C. Level (1) represents the normal case. Therefore, it must be explicitly determined if, and if so, in what areas Level (2) or even Level (3) are targeted.
- Temporal requirements: The project's completion is often determined on the basis of the board meeting schedule or of the beginning of budgeting. Such a requirement is an important boundary condition for the planning of the project process in Step E.

There are three types of substantive boundary conditions for the strategies to develop:

- First, normative requirements are possible and also frequently encountered in practice. For example, one possible boundary condition is that the family owners of a company want to remain the sole shareholder in the future. Limitations are

also possible in the area of activity, such as a regional bank that prohibits lending abroad. Such boundary conditions are set or confirmed in Sub-step 1.3 “Stakeholder analysis and revising the mission statement” (see Chap. 9).
- Second, financial boundary conditions generally exist. They provide a maximum amount that can be invested on average per year in the implementation of the strategy. It is very important to know this key boundary condition from the beginning and to keep it in mind during all of the steps of the strategy planning project. Otherwise, a significant amount of energy is put into the development of good but financially unfeasible strategies. However, restrictive financial boundary conditions often prevent the discussion of interesting strategic options from the beginning. They lead to a situation where only variants that are very close to the current strategy remain open. When defining the financial boundaries, it is therefore recommended not to think too cautiously and not to exclude, a priori, the use of external financial sources.
- Finally, minimal economic expectations are often defined. It is for instance possible to fix a minimal EBITDA value per business.

8.2.5 Deciding Whether to Hire a Consultant

Consultancy firms are frequently used in the context of strategy projects. If this possibility is being considered, it is best to clarify the functions the consultant should fulfill before selecting one.

As Fig. 8.2 shows, a consultant can make contributions at three levels:

- At the level of project management, the consultant can assist the client by planning the project, presiding working sessions or taking over the project leadership. The latter function is especially transferred to a consultant when internal company conflicts require an external and thus neutral leader of strategy development. The serious disadvantage of this solution is that conflicts usually reappear after the completion of the project, thus compromising the implementation of the strategy.
- The methodological contributions may include specifying the methods to use and providing stronger or weaker support in their application. Especially smaller consulting firms frequently focus their support to customers on such contributions.
- Large and medium-sized, often internationally operating strategy consultancy firms mainly contribute to the development of the content. Excellent knowledge of the theoretical foundations of strategies and access to empirical data allows them to provide support for the evaluation of strategic options. Thanks to their network, larger consulting firms can also provide expertise on specific markets and technologies. It is problematic, however, when consultants are hired to independently carry out analyses and to develop strategies. The delegation of the main work to an external person is not only a costly solution. There are two other significant disadvantages: On the one hand, the increase in knowledge

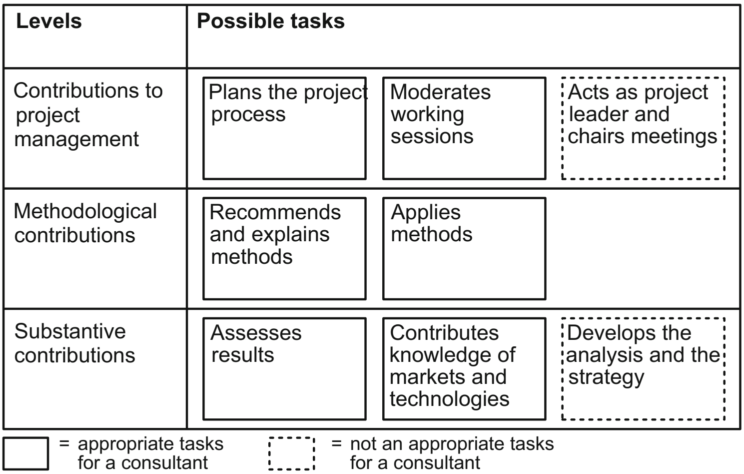


Fig. 8.2 Possible tasks of a strategy consultant

resulting from the work is not in the company but with the consultant. On the other hand, due to their low level of involvement in the planning process, company executives are less committed to strategies than when they develop the strategies themselves. A high level of commitment is however crucial for the implementation of strategies.

Clear ideas about the consultant's functions not only facilitate the choice of the appropriate consultant. It also considerably helps to define the contractual arrangements with the selected consultant. Precise agreement on scope and costs is also important in order to ensure good cooperation and to avoid disappointment.

8.2.6 Fixing the Project Process and the Project Organization

Based on the results of the previous steps, the project process, the schedule, the project organization and the team are fixed in Step E.

The company may already have an established and valued process for developing strategies. If the project is externalized, it is likely that the consulting firm will submit a proposal for the procedure. Last but not least, the authors hope that the process recommended in Sect. 6.2 proves to be helpful.

The project process should be made concrete with the help of a schedule. The following points should be considered:

- Rapid projects are certainly desirable. However, it makes no sense to formulate unrealistic timelines. The members of the working groups also have their regular duties to perform during the project and are therefore not able to devote themselves entirely to strategic planning. According to the experience of the

authors, the project lasts a relatively long period of time if a comprehensive analysis is necessary. The same applies to projects during which a strategy is being developed for the first time.
- The availability of key personnel represents an important boundary condition for the determination of the schedule. Therefore, it may make sense to determine the schedule only once the project organization and the people involved have been determined.
- If the project completion deadline is specified, it is recommended to create the schedule from finished to start. If time is scarce, it is suggested to spend enough time in planning and to shorten the analysis.

The project organization creates the human and structural conditions in order to be able to carry out the tasks with the required quality. Figure 8.3 shows a possible project organization. This proposal is based on a planning project that includes the development of a corporate strategy, several business strategies and several functional strategies. The project organization therefore corresponds to a strategic planning project, according to the process proposed in Sect. 6.2.

Even more important than the project organization is the selection of the involved persons. “Bring together the right people” (Dye & Sibony, 2007, p. 43). In the following text sections, we discuss the skill sets of the project leaders and of the members in the working groups.

The selection of the project leader, of the leaders in the working groups and of the project coordinator should fulfill the following criteria:

- If possible, the project leader and the leaders in the working groups should be the line managers. “Those who carry out strategy must also make it” (Beinhocker & Kaplan, 2002, p. 53). Having the same persons in charge of planning and of implementing is especially recommended from the motivation point of view. It also has two other advantages: On the one hand, the managers can use the acquired knowledge in their daily work. On the other hand, uniting planners and implementers increases the likelihood that the strategies produced will be concrete and realizable.
- In larger strategy projects, a project coordinator should be determined. For the duration of the project, he should be freed from some of his normal duties and be able to dedicate a considerable amount of his time to the project, if possible more than 50 %. Otherwise, he will not be able to manage project tasks such as organizing meetings and workshops, preparing and distributing documents, keeping the project on schedule and controlling the costs.

The composition of the working groups should fulfill four conditions:

- They should cover broad knowledge and experience (see Baer, Dirks, & Nickerson, 2013, p. 197; Johnson, Whittington, & Scholes, 2011, p. 506). Especially knowledge about markets, technology and accounting is needed.

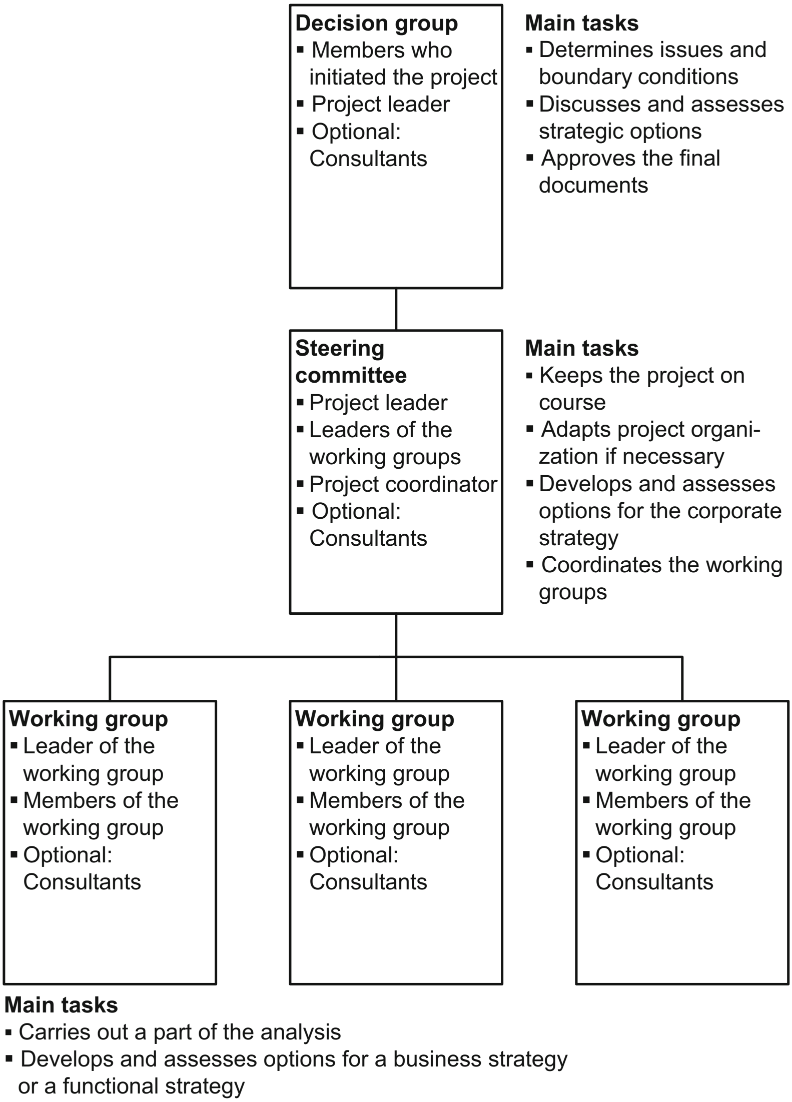


Fig. 8.3 Possible organization for a strategy planning project

- "There is considerable evidence that managers are reluctant to exit from a losing course of strategic action" (Hayward & Shimizu, 2006, p. 541). To counteract against this threat, persons who were not involved in the development of the current strategies should be integrated. "We find it useful to include individuals who did not create, and therefore are not emotionally bound to the status quo" (Lafley et al., 2012, p. 60).

- Thirdly, each working group must have expertise on strategic analysis and planning methods. Often, this methodological knowledge can only be guaranteed by bringing in consultants.
- Finally, the working group also needs to have the required working capacity in order to carry out activities like for example obtaining and summarizing market data, in a reasonable amount of time. This third requirement suggests that, in addition to managers, junior staff such as trainees should be included in the working groups.

8.2.7 Budgeting the Strategy Planning Project

The final sub-task in project planning is the budgeting of the costs. As a general guideline, the strategy planning project should be budgeted according to the same principles as other company projects.

The budget should include all of the costs involved in producing the strategies. In addition to the external costs, the hours worked by company employees must also be budgeted. It is these internal hours—and not consulting fees—which usually lead to high strategic planning costs.

The costs of strategy implementation are not included in the budget of the strategy planning project. They usually extend over several years, are allocated to numerous implementation projects and result in a multiple of the strategy planning costs. An overview of the costs associated with strategy implementation only appears in Step 6 of the procedure proposed in Sect. 6.2.

References

Baer, M., Dirks, K. T., & Nickerson, J. A. (2013). Microfoundations of strategic problem formulation. *Strategic Management Journal, 34*(2), 197–214.

Beinhocker, E. D., Kaplan, S. (2002). Tired of strategic planning? *Mc Kinsey Quarterly* (special edition about risk and resilience): 49–57.

Dye, R., & Sibony, O. (2007). How to improve strategic planning. *McKinsey Quarterly, 3*, 40–48.

Hayward, M. L. A., & Shimizu, K. (2006). De-commitment to losing strategic action: Evidence from the divestiture of poorly performing acquisitions. *Strategic Management Journal, 27*(6), 541–557.

Johnson, G., Whittington, R., & Scholes, K. (2011). *Exploring corporate strategy* (9th ed.). Harlow: Pearson.

Lafley, A. G., et al. (2012). Bringing science to the art of strategy. *Harvard Business Review, 90* (9), 57–66.

9 Stakeholder Analysis and Revising the Mission Statement

9.1 Introduction

As stated in Chap. 2, the purpose of future strategies is to guarantee the permanent accomplishment of overriding objectives and values. Overriding objectives and values are usually found in the mission statement. This is also the reason why Chap. 5 introduced the mission statement as a category of strategic documents according to Hofer and Schendel (1978, p. 27 ff.). “Clear vision and mission statements are needed before alternative strategies can be formulated” (David, 2011, p. 46).

The mission statement, however, can only fulfill its function as the normative framework of strategy development when it reflects the objectives and values of the important stakeholders. It is therefore recommended to carry out a stakeholder analysis before proceeding with strategic analysis and planning.

The following text is divided into three sections: Sect. 9.2 shows how the value system of a company can be determined. The effects and the structure of mission statements are then discussed. The chapter concludes with a recommended process for analyzing the value system and revising the mission statement.

9.2 Stakeholder Analysis

A company has numerous stakeholders with different objectives and values. Accordingly, the first issue is to identify which stakeholder groups should be included in the assessment of the value system (see Haberberg & Rieple, 2008, p. 697 ff.; Wheelen & Hunger, 2010, p. 124 f.). The answer depends on the ownership, the legal form and the size of the company:

- In family-owned SMEs, it is usually sufficient to include the owners and the management.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_9

- In listed public companies, it seems mandatory to consider the Board of Directors (or Supervisory Board) and the management. However, it may be useful to increase the number of stakeholders and to also include shareholder groups, management staff, trade unions and public authorities in the analysis.
- If it is a state-owned company or a company of public interest, the number of stakeholders to include should be even greater. For example, the Swiss Federal Railways could include politicians focused on traffic issues or a pharmaceutical company could include insurance companies in the analysis of the value system.

When in doubt, it is recommended to include the stakeholders in a broad way. By integrating the different groups, a comprehensive overview of the expectations towards the company is produced. However, the inclusion of a stakeholder group in the analysis of the value system does not mean that its objectives and values will be part of the mission statement and thus of the normative base of the company. The project group can deliberately decide against individual objectives and values. However, it should then expect the overlooked stakeholders to express resistance towards future strategies.

To determine the objectives and values of the various stakeholders in an efficient way and to be able to compare them, a list of value dimensions with all possible responses should be created. It forms the basis for the first part of the stakeholder survey.

9.3 Notion, Effects and Content of Mission Statements

Sometimes referred to as “vision”, “charter” or “policy”, the mission statement is the foremost normative corporate document. It has three important characteristics:

- A mission statement does not include any specific time limit for its validity. It will need to be revised or replaced if, due to changes in the environment or in the company itself, it obstructs the success of the company.
- A mission statement is composed of a system of interrelated principles. A principle is defined here as a prescriptive statement that limits, to a greater or lesser extent, the space within which certain categories of decisions may be taken.
- As the foremost corporate document, the mission statement creates a framework for the future development of the company as a whole. The guidelines set out in the mission statement must be respected when developing strategies. However, the mission statement also includes issues that are not of primary relevance to strategic planning but mainly affect other areas. Examples would be statements concerning staff development or principles concerning the use of natural resources.

In the literature, a number of different effects is attributed to the mission statement (see David, 2011, p. 50). They are summarized in the following four points:

- The guidelines set out in the mission statement coordinate dependent decisions and thereby make them more consistent with each other. However, as the framework set by the mission statement is usually a rather wide one, this coordinating effect is generally limited. The corporate strategy, which defines objectives for the strategic businesses and provides an investment framework, normally has a much greater effect in this regard.
- The mission statement provides an orientation for the company's managers. Thus, uncertainty in decision-making is reduced. A decision-maker can assume that he is acting in the true interests of the company if his decision lies within the framework set by the mission statement.
- The mission statement can increase the commitment of managers, especially if they were heavily involved in the development of it and if the different points of view could be discussed.
- Finally, the mission statement can also be used as a tool to communicate the corporate identity. In this case, it is not only addressed to the decision makers in the company. It may target all staff, as well as customers, suppliers, investors and other stakeholders of the company.

It is obvious that, in a book on strategy, the last effect is of less interest. In the following text, the mission statement is therefore primarily seen as a strategic management tool. Its public relations and communication aspects are not considered.

The authors propose to make a distinction between five types of contents for mission statements:

- The mission statement should begin by specifying the purpose of the organization. It should answer the questions: "Why was the company founded?" and "How does the company see itself?". This declaration of the raison d'être is an important framework condition for the company's future strategic direction, especially in non-profit organizations.
- Based on the purpose, the overriding objectives and values of the company should be specified. The importance of generating and distributing profit should be shown. The objectives and values, which rival the pursuit of profit and therefore constrain the generation and distribution of profit, must be listed. This second area of content generally imposes more limiting boundary conditions for future strategies than declarations of the company's purpose.
- Third, an outline of the company's activities should be given. The industry or industries, the targeted level of vertical integration and the geographic regions that build the framework for the company's activities should be named.
- The fourth area of content can indicate any principles that are specific to particular tasks. These may be necessary if the company wants to make a

- Introduction
- Corporate identity / Purpose / Raison d'être
- Overriding objectives and values
  - Importance of generating and distributing profit
  - Objectives and values, which constrain the pursuit of profit
- Areas of activity
  - Products and services
  - Geographical markets served
  - Targeted level of vertical integration
- Optional: Principles governing specific tasks
- Optional: Principles addressed to specific stakeholders

Fig. 9.1 Possible outline structure for a mission statement

statement about how certain tasks should be carried out. For example, companies often declare to collaborate only with suppliers who meet the minimum social and environmental standards.

- A fifth category of possible principles concerns the relationship of a company with its various stakeholders. Companies often indicate what their expectations are of their staff and also specify their own obligations towards their workforce. However, it is also possible to describe relationships with customers, suppliers, authorities, etc.

If a company wishes to formulate both, principles addressing specific tasks and principles addressing specific stakeholders, there can be difficulty in ordering the statements. For example, the principle that a company should only buy from suppliers with minimum social and environmental standards can be placed either in the "procurement" task or under the stakeholder group "suppliers". The simplest solution to this problem is to include all such principles either in the task category or in stakeholder category.

Figure 9.1 summarizes what has been said above on the content of the mission statement in the form of a possible outline structure.

9.4 Process for Stakeholder Analysis and Revising the Mission Statement

9.4.1 Overview

To analyze the stakeholders and to revise the mission statement, six steps are recommended. Figure 9.2 shows the six steps.

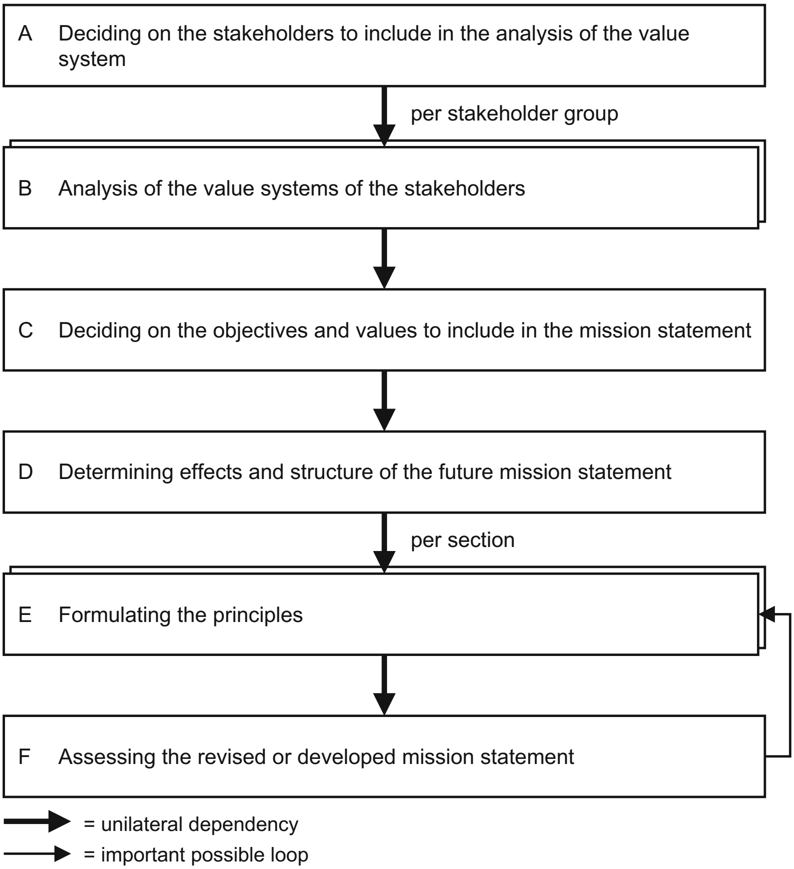


Fig. 9.2 Process for determining the value system and revising the mission statement

9.4.2 Description of the Steps

In Step A, the stakeholder groups to include in the assessment of the value system are determined. As noted in Sect. 9.2, when in doubt, a broad inclusion of stakeholders is recommended: It appears to be important for the strategy group to know the objectives and values of the various stakeholders and, based on this, to be able to assess their expectations towards the company.

In Step B, the objectives and values are then determined for each stakeholder group. In order to identify similarities and differences, this determination must be based on a standard grid with value dimensions and the possible responses for these dimensions. As values and attitudes are considered interviews are recommended. Additional questions can thus be asked and a sufficiently precise understanding of each stakeholder's attitude towards the company can be obtained. Possibilities include individual interviews or a joint survey of several representatives of a stakeholder group.

Step B usually produces different objectives, values and expectations of the various stakeholder groups. This leads to a difficult question: Which of these objectives and values should be integrated into the future mission statement and thus form the normative framework of the future strategies? This question is answered in Step C. According to Haberberg and Rieple (2008, p. 697 ff.), it is recommended to consider stakeholder groups who fulfill three conditions simultaneously:

- The group exerts power and can thus shape the future of the company.
- At the same, the stakeholder group must also be morally legitimate to influence the development of the company.
- Finally, only goals and values of stakeholders who express an interest in the company should be included in the mission statement.

Step D is the definition of a framework for the subsequent task of formulating the principles. First, the primary effects and the target audience are defined. Next, a rough structure for the mission statement, the themes to be addressed and the approximate number of principles for each of the themes must be fixed. A suggested outline structure was presented in Fig. 9.1. If a mission statement exists, which is normally the case, these decisions on the effects and structure provide a basis for deciding whether it is wiser to revise the existing document or to produce a completely new one. If few changes and additions are necessary, revision will suffice. If, however, a large number of corrections are necessary, the authors recommend starting from scratch and producing a new document. Otherwise, there is always the risk that a great deal of effort will produce only an unsatisfactory patchwork which satisfies no one.

Step E, the revision or new formulation of principles, is the most difficult and time-consuming one. In practice, there are a number of different ways to formulate principles. For example, a small working group may produce draft documents that can then be discussed in one or more larger groups. An alternative approach is to organize a large-scale workshop during which several working groups develop principles on the various mission statement topics, which are subsequently discussed in plenary.

Finally, the resulting future mission statement is assessed in Step F:

- On the one hand, the principles must be checked for clarity and consistency. The more concise the mission statement is, the more important it is that the messages sent by the different principles are unambiguous and present no contradictions. It is, however, possible that a principle modifies the statement of another and thus intentionally weakens it. For example, the creation and distribution of profit may be an important goal for a company, but this goal may be restricted by a commitment to above-average contributions to a company employee' pension scheme.

- On the other hand, the resulting future mission statement must also be re-examined in the light of the framework set out in Step D. This is necessary, because the formulation of principles may assume a dynamic which does not sufficiently consider the framework. The result is then a mission statement which does not correspond to the original expectations.

In many cases, the assessment of the mission statement leads to a heuristic loop and to the revision of individual principles.

References

David, F. (2011). *Strategic management* (13th ed.). Upper Saddle River, NJ: Pearson.

Haberberg, A., & Rieple, A. (2008). *Strategic management*. New York, NY: Oxford University Press.

Hofer, C. W., & Schendel, D. (1978). *Strategy formulation*. St. Paul, MN: West Publishing.

Wheelen, T. L., & Hunger, J. D. (2010). *Strategic management and business policy* (12th ed.). Upper Saddle River, NJ: Pearson.

Part IV

Strategic Analysis at the Corporate Level

Part IV of this book is devoted to the second step of the recommended planning process: strategic analysis at the company level. The objective of strategic analysis is to determine the initial situation, predict future developments and deduct challenges. In Step 2, this task is carried out in view of developing the corporate strategy. As shown in Chap. 5, a corporate strategy focuses on determining the target market positions. The analysis to prepare this strategic key decision has to deal with the competitive situation and the current market positions. The development of the environment should, however, also be included in the analysis. It provides the framework for future activities.

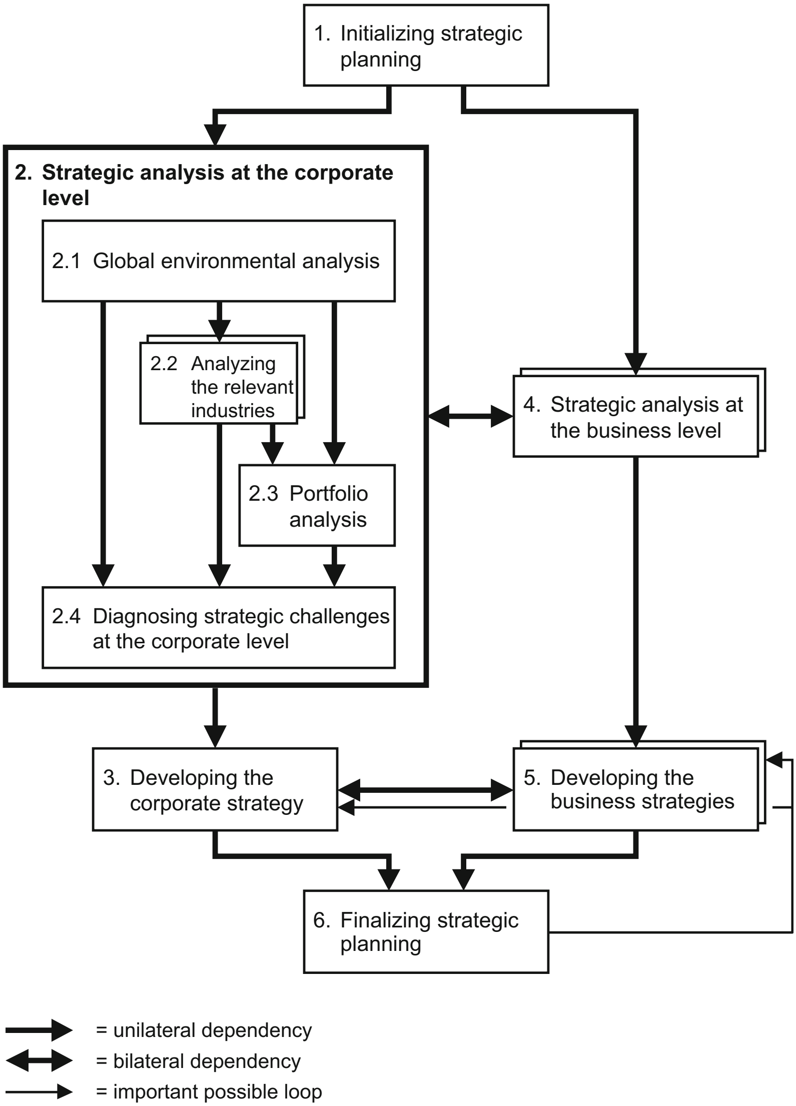
Strategic analysis at the company level in Step 2 can be divided into four sub-steps:

- The global environmental analysis shows the developments in the spheres surrounding the company.
- With the help of industry analysis, the current and future competitive situation in the relevant industries is clarified. This includes industries in which the company is currently active or those that could be interesting as future fields of activity.
- The analysis of the business portfolio provides an overview of the attractiveness and the strength of the company's market positions.
- Finally, the key strategic challenges are derived.

The following figure shows Step 2 and its four sub-steps in the strategic planning process.

A chapter is dedicated to each of the four sub-steps:

- Chapter 10 explains how to carry out an analysis of the global environment. After introductory remarks, the PESTEL analysis is presented in Sect. 10.2. The scenario analysis is then explained in Sect. 10.3. The chapter concludes with the recommendation of a procedure.



Step 2 in the strategic planning process

- Chapter 11 shows how to assess the competitive situation in industries. After introductory remarks, the Five Forces model and the Strategic Groups model developed by Porter are presented. On the basis of these models, a procedure for the analysis of the relevant industries is recommended in Sect. 11.4.
- Chapter 12 looks at the analysis of the portfolio of the strategic businesses. In Sect. 12.1, the purpose and the general idea of portfolio analysis are explained. The Boston Consulting Group portfolio and the McKinsey portfolio are then

presented in Sects. 12.2 and 12.3. Section 12.4 concludes the chapter with a recommended procedure to carry out a portfolio analysis.

- Finally, Chapter 13 shows how to derive strategic challenges from the analyses. After an introduction, the SWOT analysis and the TOWS matrix are explained and assessed in Sects. 13.2 and 13.3. A procedure to derive strategic challenges at the company level is proposed in Sect. 13.4.

Global Environmental Analysis 10

10.1 Introduction

Environmental analysis looks at all aspects that affect the company and its markets. Thanks to this analysis, an image of the current and especially of the future environmental conditions can be produced. For the vast majority of companies, the analysis is limited to the environment of a few industry markets and of a few countries. This is, for example, the case for a Swiss chocolate producer. Here, the environment of the chocolate market in Switzerland and the important export markets will be analyzed. The production conditions in Switzerland are also relevant. Large international companies such as General Electric must, however, include the environment of many industry markets and numerous countries in the analysis. This means, that big enterprises normally carry out several environmental analyses in parallel.

The environment of most of the companies is complex and dynamic. An environment analysis is therefore a difficult task (see Volberda et al., 2011, p. 53). The analysis is often carried out with the help of the PESTEL analysis and the scenario analysis (see Linch, 2000, p. 109). They are briefly presented in Sects. 10.2 and 10.3. On this basis, Sect. 10.4 presents a proposal to carry out a global environmental analysis.

10.2 PESTEL Analysis

The term "PESTEL" comes from the names of the six main environmental spheres of the company and its competitive arenas:

- Political environment
- Economic environment
- Sociocultural environment
- Technological environment

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_10

- Ecological environment
- Legal environment

The method is often mentioned in the literature, but concrete proposals for action are rarely given (see Carpenter & Sanders, 2009, p. 109 ff.; Johnson, Whittington, & Scholes, 2011, p. 51; Wheelen & Hunger, 2010, p. 146 ff.). This is not surprising, because—contrary to other methods such as the industry segment analysis or the portfolio analysis—no process exists. By producing a list of potentially relevant environmental factors, the method merely provides indications of the elements to consider during an environmental analysis. Figure 10.1 shows the list of possible factors developed by Carpenter and Sanders (2009, p. 110).

In order to gain strategically relevant insights from the PESTEL analysis, three points should be considered:

- Making many general statements with little relevance for future strategies must be avoided. Therefore, the elements with a significant influence on the development of the company and its markets must be identified in each of the six environmental spheres. These elements then form the objects of the analysis. Especially in SMEs, it is recommended to focus on a few topics. However, the authors are aware that the selection of the elements to include in the analysis is tricky. If important elements are forgotten, a complete picture of the environment and its development is not provided. If too many elements are included, the result is a general picture of the future in which strategy relevant developments are not clearly enough visible (see Linch, 2000, p. 110).
- The statements should not only refer to the past and the present. The analysis only provides a framework for the intended strategy if it forecasts the future. A PESTEL analysis is suitable for this purpose if the strategy planning team can base itself on a probable development. Courtney, Kirkland, and Viguery (1997, pp. 68 ff.) aptly speak, in this case, of a clear enough future. However, if several scenarios are possible, a PESTEL analysis alone is no longer able to show the development of the environment in a clear enough way. In this case, it must be combined with the scenario analysis presented in Sect. 10.3.
- The elements included in the PESTEL analysis should not only be analyzed in parallel. They should be linked together. The developments of the various relevant elements can reinforce each other or cancel each other out. Therefore, the way an element's predicted development affects the changes in the other elements should be discussed. According to the nature of the PESTEL analysis, the influences of the examined elements on the other elements are measured primarily using a qualitative approach. If a larger number of such influences is identified, they can be visualized in a framework (see Porter, 1991, p. 97 ff.). Figure 10.2 shows such a framework for a Swiss health insurance company. As shown in the figure, relatively few truly relevant elements in the environment are identified. Due to the limited number of important factors, it is also easier to establish a relationship between them.

Political environment

- How stable is the political environment?
- What are local taxation policies and how do these affect your business?
- Is the government involved in trading agreements such as EU, NAFTA, ASEAN, or others?
- What are the foreign-trade regulations?
- What are the social-welfare policies?

Technological environment

- What is the level of research funding in government and industry and are those levels changing?
- What is the government and industry's level of interest and focus on technology?
- How mature is the technology?
- What is the status of intellectual-property issues in the local environment?
- Are potentially disruptive technologies in adjacent industries creeping in at the edges of the focal industry?

Economic environment

- What are current and projected interest rates?
- What is the level of inflation, what is it projected to be, and how does this projection reflect the growth of your market?
- What are local employment levels per capita and how are they changing?
- What are the long-term prospects for gross domestic product per capita and so on?
- What are exchange rates between critical markets and how will they affect production and distribution of your goods?

Ecological environment

- What are local environmental issues?
- Are there any pending ecological or environmental issues relevant to your industry?
- How do the activities of international pressure groups affect your business?
- Are there environmental-protection laws?
- What are the regulations regarding waste disposal and energy consumption?

Sociocultural environment

- What are local lifestyle trends?
- What are the current demographics and how are they changing?
- What is the level and distribution of education and income?
- What are the dominant local religions and what influence do they have on consumer attitudes and opinions?
- What is the level of consumerism and what are popular attitudes toward it?
- What are the attitudes toward work and leisure?

Legal environment

- What are the regulations regarding monopolies and private property?
- Does intellectual property have legal protections?
- Are there relevant consumer laws?
- What is the status of employment, health, and product-safety laws?

Fig. 10.1 Possible content of a PESTEL analysis (adapted from Carpenter & Sanders, 2009, p. 110)

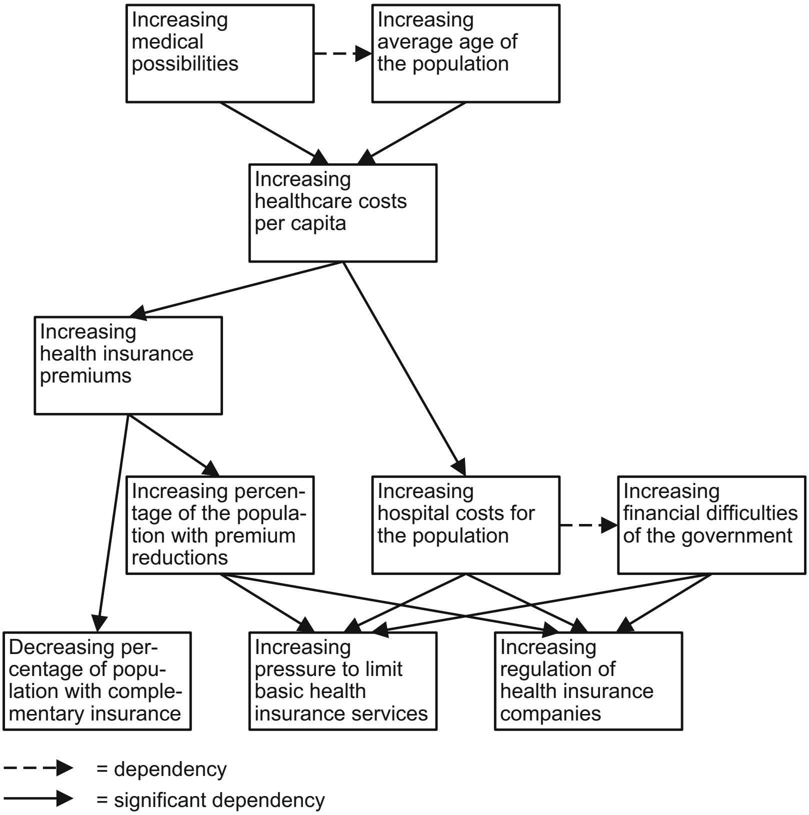


Fig. 10.2 Framework of environmental developments for a health insurance company

10.3 Scenario Analysis

It is often impossible to predict changes in the environment over several years in a reliable way. Unexpected events may lead to a reversal of trends and to surprising paths of development. Therefore, it may be useful to base strategic planning on several possible future scenarios. Courtney et al. (1997, p. 68 ff.) speak of alternate futures. A scenario analysis is a good approach to sketch out these alternate futures.

Scenario analysis was first developed for the planning of military strategy. The method began to be adopted by companies for strategic planning at the beginning of the seventies. This was notably triggered by the oil crisis of 1973–1974, which clearly highlighted the limits of existing planning tools. Royal Dutch Shell successfully pioneered the scenario technique, which gave it an advantage in predicting the oil crisis before its competitors and in integrating into its own plans (see Broetzmann & Goetz, 2009, p. 9; Von Reibnitz, 1987, p. 11 ff.).

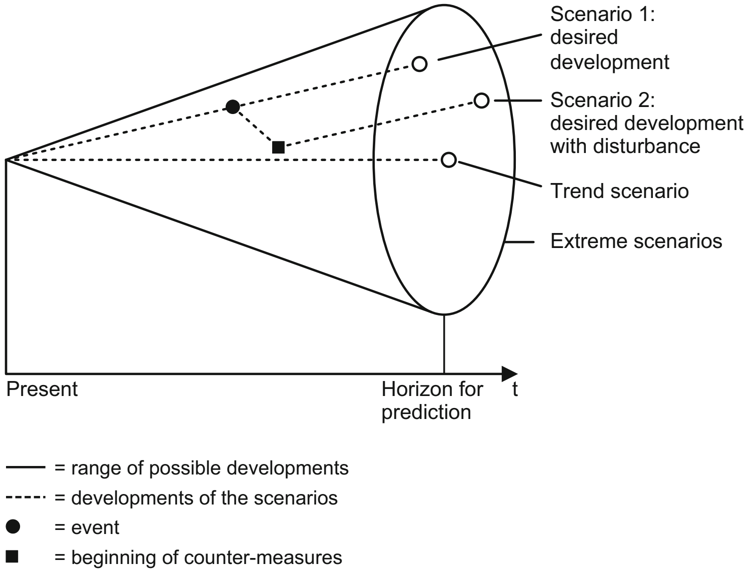


Fig. 10.3 Cone model to visualize the scenario analysis (adapted from Von Reibnitz, 1987, p. 30)

A scenario is a possible future constellation of a company's environment. Depending on the selected procedure, a scenario also shows the developments that lead to this constellation.

Scenarios can be visualized with the help of the cone shown in Fig. 10.3 (see Von Reibnitz, 1987, p. 29 ff.). The figure shows, as time moves further away from the present, the range of possible future constellations increases; the cone expands. The diagram includes three sample scenarios:

- The trend scenario is the result of the continuation of current development on the company's environment into the future.
- Scenario 1 is another possible path of development. If this line of development is more favorable to the achievement of the overriding objectives than the trend scenario, the company will try to steer the development in this direction. While the possibilities for SMEs to influence their environment are marginal, large international companies do have the power to partially influence environmental trends.
- Scenario 2 first follows Scenario 1. However, an event then leads to a different development. This is undesirable from the point of view of the company; the event is considered by the company to be a disturbance. Therefore, counter-measures are planned in Scenario 2. These will steer the development back in the desired direction of Scenario 1.

Scenarios can be developed using an analytical or a qualitative approach:

- With the analytical approach, the relevant variables are identified and causally linked with each other. Then, a trend scenario is simulated based on the previous development of the variables. Other scenarios can be simulated by assuming for selected variables future developments, which do not correspond to past trends. The most famous example of a quantitative scenario analysis is the study by the Club of Rome on the development of the Earth (see Meadows et al., 1979; Meadows, Randers, & Meadows, 2010).
- When using a qualitative approach, the most important uncertain variables and their possible future values are first identified. By combining the values of these variables, few possible scenarios are produced. Unlike the quantitative approach, they only show possible future situations. The path of development that goes from the current situation to the future situation is usually excluded in the qualitative approach. For example, following the Fukushima nuclear disaster, a Swiss energy company carried out a qualitative scenario analysis. The openness towards Europe and the intensity of regulation were considered as uncertain variables. The four resulting scenarios were "Isolated Switzerland and minimal regulation", "Isolated Switzerland and intensive regulation", "Switzerland integrated in Europe and minimal regulation" and "Switzerland integrated in Europe and intensive regulation". As the description of the scenarios shows, there are four clearly distinguishable future possibilities. They constitute boundary stones in strategy development. A strategy, which promises success in these four scenarios, can also be successful in less extreme situations. De Wit and Meyer (2010, pp. 706 ff.) describe a similar procedure at United Parcel Service.

It is obvious that the analytical procedure is very costly. Therefore, even large companies generally select a qualitative approach. It seems essential for strategic planning to be based not only on one environmental development, but on several possible developments. To achieve this openness in thinking, a qualitative approach is sufficient. There is thus no need to incur the high cost of simulation.

10.4 Process for the Global Environmental Analysis

10.4.1 Overview

As Fig. 10.4 shows, the process for analyzing the global environment can be divided into three steps.

10.4.2 Description of the Steps

Before beginning with the actual analysis, several methodological decisions must be made in Step A:

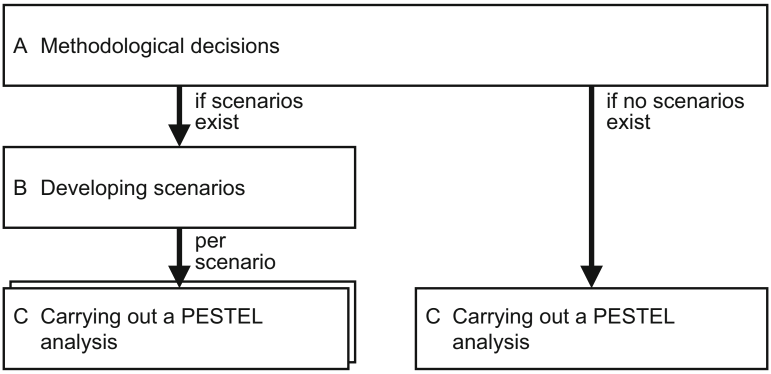


Fig. 10.4 Process for the global environmental analysis

- The main question is whether or not scenarios should be developed. As already shown in Sect. 10.3, scenarios lead to a more open attitude towards future developments. If there is great uncertainty regarding the changes in the environment, the development of scenarios is recommended. As most of the companies are active in uncertain environments, a scenario analysis should correspond to the standard case.
- If the strategy group concludes that scenarios are useful, the procedure for their development must be determined. As the cost of an analytical scenario analysis is very high, this approach should only be chosen in the exception.

If the strategy group decides to develop scenarios, they then do so in Step B. If it chooses not to, it can proceed to Step C.

The following statements on Step B are based on the qualitative approach, which corresponds to the common case:

- To develop scenarios, the most important uncertain variables are first identified. Sometimes it is a single element of the environment. More than three items should never be selected. In general, it is not difficult for companies to identify one to three root causes of uncertainty.
- Then, two to three possible values are selected for each of these elements. It is important that they clearly differ from each other and that they cover the range of possibilities.
- The scenarios are obtained by combining the values of the uncertain variables. For example, if two values of two variables are combined, four scenarios result. They are sufficient in order to show the range of possible environmental developments and to protect strategic planners from a false sense of security.

Another qualitative approach is proposed by Johnson, Whittington, and Scholes (2011, pp. 51 ff.).

If a scenario analysis is not carried out, the changes in the global environment are identified with the help of a PESTEL analysis in Step C:

- First, the key elements in the political, economic, social, technological, ecological and legal environment of the company are determined.
- Then, the current situation and the expected changes are determined for each of these elements.
- Finally, the effects that the developments of the different elements have on each other are determined. As shown in Sect. 10.2, the analysis is carried out mainly in a qualitative manner with the help of a framework.

The PESTEL analysis also represents an approach to make the scenarios developed in Step B more concrete: On the basis of the assumed changes in the uncertain variables in a scenario, the development of the other elements of the environment can be estimated. This then leads to a more concrete idea of the situation in a scenario.

References

Broetzmann, F., & Goetz, J. (2009). The revival of scenario planning. *Performance, 2*(3), 6–13.

Carpenter, M. A., & Sanders, W. G. (2009). *Strategic management* (2nd ed.). Upper Saddle River, NJ: Pearson.

Courtney, H., Kirkland, J., & Viguerie, P. (1997). Strategy under uncertainty. *Harvard Business Review, 75*(6), 67–79.

De Wit, B., & Meyer, R. (2010). *Strategy* (4th ed.). Andover, MA: Cengage Learning.

Johnson, G., Whittington, R., & Scholes, K. (2011). *Exploring corporate strategy* (9th ed.). Harlow: Pearson.

Linch, R. (2000). *Corporate strategy* (2nd ed.). Harlow: Pearson.

Meadows, D., Randers, J., & Meadows, D. (2010). *Limits to growth. The 30-year update*. Oxon: Earthscan.

Meadows, D. H., et al. (1979). *The limits to growth* (2nd ed.). New York, NY: Universe Books.

Porter, M. E. (1991). Towards a dynamic theory of strategy. *Strategic Management Journal, 12* (S2, Special issue), 95–117.

Volberda, H. W., et al. (2011). *Strategic management. Competitiveness and globalization*. Andover, MA: Cengage Learning.

Von Reibnitz, U. (1987). *Szenarien: Optionen für die Zukunft*. Hamburg: McGraw-Hill.

Wheelen, T. L., & Hunger, J. D. (2010). *Strategic management and business policy* (12th ed.). Upper Saddle River, NJ: Pearson.

11 Analyzing the Relevant Industries

11.1 Introduction

In the context of developing the corporate strategy, guidelines for the investments in each business have to be formulated. Investments should be made in businesses serving attractive markets. Market attractiveness is influenced considerably by the competitive intensity among competitors.

In order to correctly assess the competitive intensity among competitors, the bargaining power of buyers and suppliers must be assessed. The threat of new competitors and the threat of substitute products also have to be considered. Finally, competitive intensity depends on aspects such as the capacity utilization of the competitors and their possibilities for differentiation. These aspects, which go beyond the sales market, are summarized under the concept of industry. Accordingly, the analysis of competitive intensity among companies in an industry is called an industry analysis.

Industry analysis looks at all of the industries that are relevant for the company:

- First, the industries in which the company operates have to be analyzed. The determination of strategic businesses is a good basis for identifying the served industries. It can be assumed that there is an industry behind every defined market (see Sect. 7.4).
- In addition, the industries that are interesting for a possible entry should also be analyzed. Such industries may already have been identified during the preparation of the strategy planning project (see Chap. 8). However, it is also possible that attractive new industries are only identified during the discussion of strategic options in Sub-step 3.1 (see Chap. 14). In this case, there is a heuristic loop; the considered strategic options force strategy planners to go back to the analysis phase and to examine additional industries.

To analyze an industry, Porter developed two models: the Five Forces model (see Porter, 1980, p. 3 ff.) and the Strategic Groups model (see Porter, 1980, p. 126 ff.).

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_11

In spite of scientific criticism (see Bresser, 2010, p. 46 ff.), both models are often and successfully applied in practice:

- The Five Forces model allows an industry and its competitive intensity to be roughly assessed. To this end, the current situation and the future development of five characteristics of industry structure are grasped. In industries with a relatively homogeneous competitive structure—in industries where competitors have similar success potentials—this analysis shows if the industry is attractive or not. This would be the case, for example, for cement production or wheat wholesaling.
- However, when an industry brings together competitors that differ significantly in their success potentials, the Five Forces model does not provide a picture that is differentiated enough. This is for example the case for the watch-making industry. In this industry, there are very different companies with very different competitive positions. In such cases, the formation of Strategic Groups leads to a differentiated picture of the industry. This allows separate analysis of the competitive positions of the different groups. For this purpose, the Five Forces model can again be used.

In Sects. 11.2 and 11.3, Porter's two models are presented. Then, a procedure for the analysis of relevant industries is proposed in Sect. 11.4.

11.2 Five Forces Model

The Five Forces model explains why the average return of an industry is higher or lower than the average return of all industries. The underlying reasoning is as follows:

- Competition between competitors in an industry can be described in terms of five characteristics or forces. Competitive intensity varies according to the constellation of these five forces.
- Competitive intensity is reflected in the average rate of return for an industry, compared with the average return of all industries.

Figure 11.1 shows Porter's model with the interaction between the five competitive forces. They are as shown below: (1) the bargaining power of buyers, (2) the bargaining power of suppliers, (3) the threat of new entrants, (4) the threat of substitute products and (5) the rivalry among competitors (see Porter, 1980, p. 3ff.).

Competitive intensity increases and industry return decreases when the bargaining power of buyers and suppliers is high, when the threat of new entrants and substitute products is high, and when the rivalry among competitors is intense.

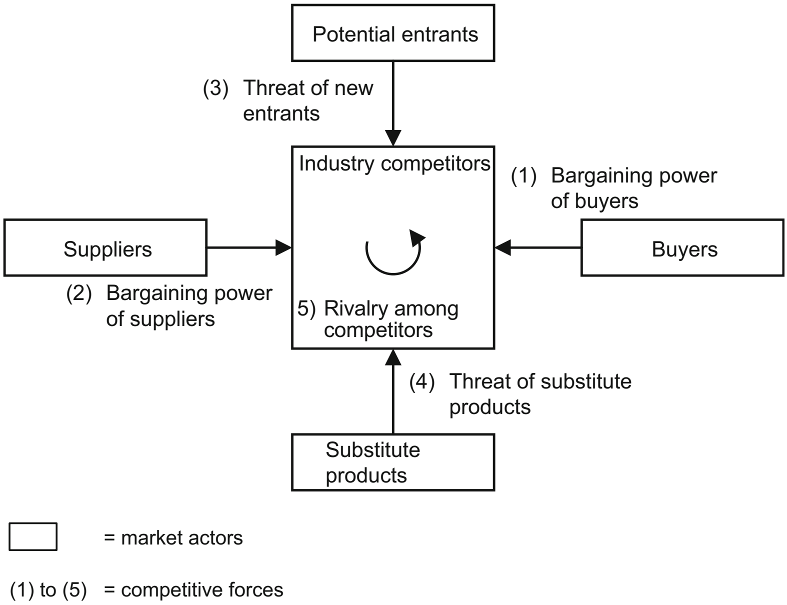


Fig. 11.1 Porter's Five Forces model (adapted from Porter, 1980, p. 4)

Figure 11.2 shows the main criteria that can be used to assess the competitive forces (see Porter, 1980, p. 5 ff.).

Inset 11.1 shows the application of the Five Forces model to a small capital goods producer and the far-reaching consequences that flow from it.

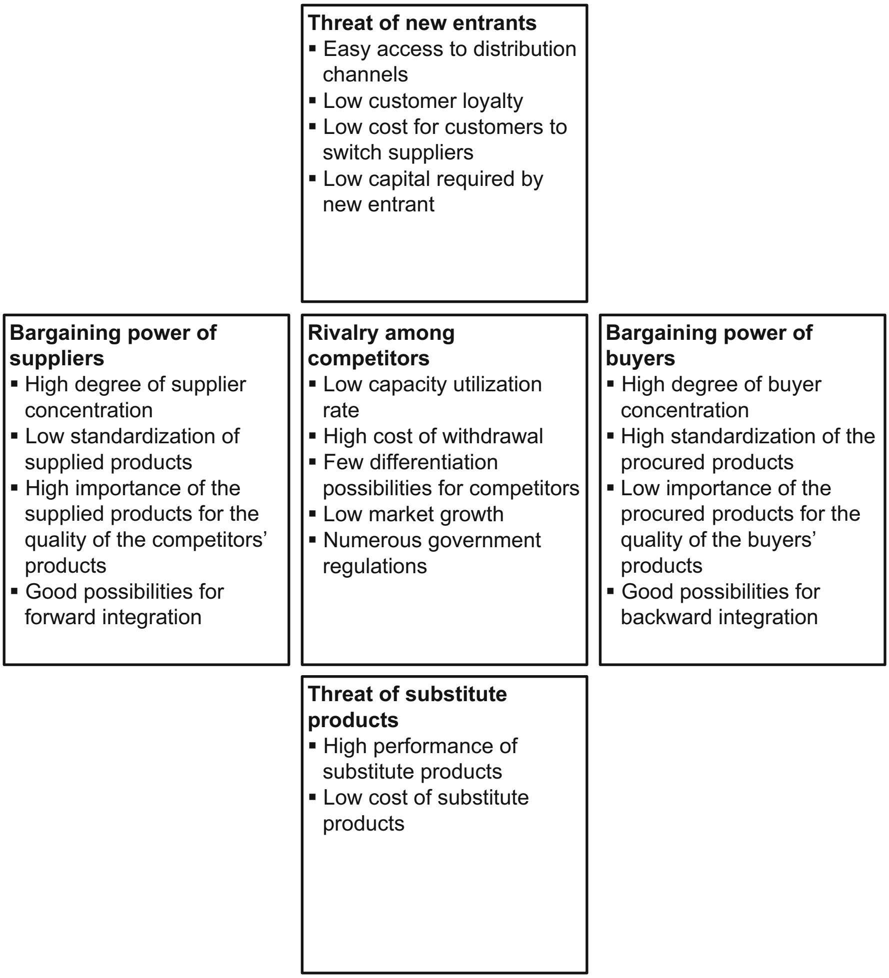


Fig. 11.2 The main criteria to assess the five forces

Inset 11.1

Application of the Five Forces Model to a Capital Goods Producer

In 20XX, Messrs. G and M bought S Inc., a firm based in the Bern region. At the time, this company had a turnover of 4.75 million Swiss francs. The company had three businesses, which were each analyzed using Porter's Five Forces model.

By far the greatest turnover, 3.25 million Swiss francs, came from sales of smaller machines for pick & place of printed circuit boards. The analysis produced the following picture for this activity:

- The products covered only one submarket of the market for pick & place machines and were all produced for only a few customers. Accordingly, their bargaining power was high.
- As the components used were standard parts offered by many suppliers, they had insignificant bargaining power.
- The machines were designed for the assembly of SMD boards. These boards, onto which components are soldered, represented a new technology with great potential for growth. Accordingly, large corporations were interested in producing such machines. Panasonic, Philips and Siemens had all already entered the market and further powerful competitors could be expected.
- The most important substitute product for the SMD board was the older through-hole board, into which components had to be inserted. These products did not represent an important threat.
- Rivalry between competitors was likely to intensify. In addition to a technological race, a fierce price war was expected. Thanks to their higher development budgets, the big producers of pick & place machines would have a long-term advantage.

The Five Forces analysis painted a positive result for the cable processing machines, which had a turnover of 1.35 million Swiss francs:

- At the time the analysis was carried out, 100 % of production was exported through a Swiss distributor. So, for the product group of cable processing machines, there was also a large degree of dependence on a single customer. However, in contrast to the pick & place machines for printed circuit boards, the matter could be corrected in a fairly simple way. As S Inc. retained all the rights to the machines, it could export them directly. As a result, closer contacts with the final customers would be established, but it would also reduce the bargaining power of customers.
- The suppliers of standard parts did not have a strong position.
- The company was operating in the market for benchtop machines, i.e. the smaller cable processing machines. This market did not appear to be very attractive to new competitors. It was a niche market with limited market volume and rather modest growth rates. Furthermore, significant entry investments in comparison to the annual contribution margin were needed.
- There were two substitute products for the benchtop machines: On the one hand, cables can be cut and stripped by hand. Here however, low investment is accompanied by labor costs, which are considerable even for operations in countries where wages are low. On the other hand were the so-called terminating machines. They cut and strip the cables, but also mount the electrical connectors at the end. The disadvantage is that they require much higher investments and are less flexible. Terminating machines are designed for specific applications and can only be used in assembly line production. Benchtop machines, however, can be used in assembly lines and in workshop production.

- Finally, rivalry with direct competitors was judged to be tolerable. Direct competition between competitors was mitigated by the possibilities for product differentiation; competition was not exclusively focused on price.

Movement detectors based on radar technology produced only a modest turnover of 150,000 Swiss francs. The view of future prospects produced by analysis of the market did not look too promising:

- The movement detectors were sold to manufacturers of automatic garage doors and mobile warning light systems for construction sites. For the customers, the movement detectors did not represent costly components, so pressure on the competitors was not very high.
- Suppliers, too, were not a source of pressure. As for the other two product groups, S Inc. needed only to purchase standard products.
- As the movement detectors depended on the outdated radar technology, the risk of entry of new competitors was practically non-existent. In fact, some competitors had already abandoned the market.
- New sensor technology represented a major threat. Systems based on this technology had already been introduced and were not only more reliable and ecologically less damaging, but also cheaper.
- By 20XX, competition was no longer within the industry, but between these products and their superior substitutes.

The following figure summarizes the application of the Five Forces model in graphic form. The study led Messrs. G and M to a radical conclusion: They chose to gradually withdraw from the two businesses "pick & place machines" and "movement detectors" and to concentrate on the cable processing machines.

Businesses / Five forces	**Pick & place machines**	**Cable processing machines**	**Movement detectors**
Bargaining power of buyers	+ +	+	+
Bargaining power of suppliers	0	0	0
Threat of new entrants	+ +	0	0
Threat of substitute products	0	+	+ + +
Rivalry among competitors	+ + +	+	+ +

+ + + = high influence on the competitive intensity or high competitive intensity
0 = marginal influence on the competitive intensity or marginal competitive intensity

Assessment of the five forces in the future

The turnover development, presented in the following figure, shows how their decision to focus on the business with the best competitive situation was rewarded. Turnover in cable processing machines increased more than tenfold in a period of 7 years. As the remaining business produced higher contribution margins than the other two businesses, the decision to focus has significantly improved profitability.

Businesses / Years	Pick & place machines	Cable processing machines	Movement detectors	Total
20XX	3,250	1,350	150	4,750
20XX+1	1,750	3,650	100	5,500
20XX+2	1,650	4,900	50	6,600
20XX+3	1,400	8,550	0	9,950
20XX+4	2,050	10,850	0	12,900
20XX+5	550	10,750	0	11,300
20XX+6	0	15,300	0	15,300
20XX+7	0	18,350	0	18,350

Turnover in thousands of Swiss francs

Turnover development

11.3 Strategic Groups Model

Examining competitive intensity in an industry with the Five Forces model provides an explanation of higher or lower average rate of return in an industry compared with the average return of all industries. In many industries, however, the average return is not a significant indicator because the variation among the returns of the different competitors is high. There are many industries where this variation of returns between companies is considerably higher than the variation between the different industries (see Rumelt, 1987, p. 141f.). In such cases, the Strategic Groups model can help. It explains different rates of return within an industry. It is based on the following lines of reasoning:

- In many industries, competitors can be summarized into strategic groups of companies with similar competitive positions.
- The competitive positions of the different strategic groups are not all equally attractive.

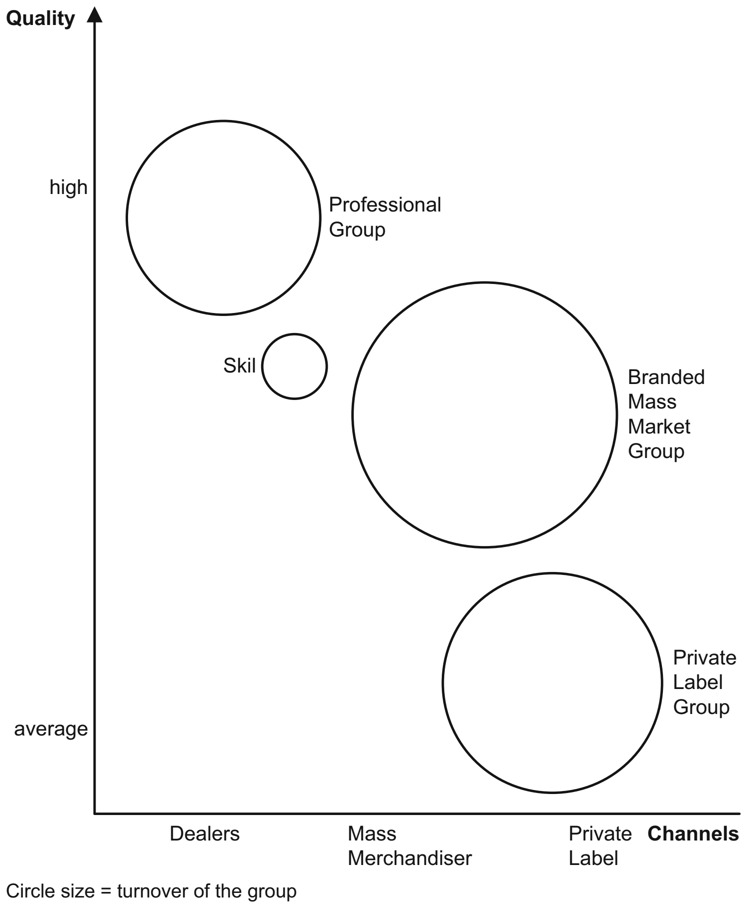


Fig. 11.3 Strategic groups in the chain saw manufacturing industry (adapted from Porter, 1980, p. 153)

- Differences in profitability within an industry can be explained partly by these strategic groups and their different competitive positions.

A strategic group is a group of competitors that are usually positioned similarly on all three levels of the ROM model. Accordingly, the companies of a group are in direct competition, whereas they are less in competition with the companies of other groups. The Strategic Groups within an industry can be visualized on a two-dimensional chart. The two axes represent the most important success factors in the industry. Figure 11.3 shows the Strategic Groups for the chain saw manufacturing industry. As the figure based on Porter (1980, p. 153) shows, the two most important competitive dimensions in this industry are channels of distribution and quality image. Next to three groups with multiple competitors, Skil forms a group by itself. Apparently, no other company has a comparable network of success potentials.

The strategic groups in an industry can be formed in an analytic or in a qualitative way:

- Cluster analysis is the main analytical method for the formation of strategic groups. It requires costly data collection. It is therefore not surprising that this approach is more likely to be used in scientific studies than in strategy planning projects. For example, Lewis and Thomas (1990, p. 385 ff.) determine with the help of a cluster analysis the Strategic Groups in the UK food retail industry and compare them in terms of their profitability.
- In the context of strategy planning projects, the qualitative approach is preferred due to temporal and financial conditions. With this approach, the industry-specific success factors (see Inset 11.3) are identified with the help of experts. They form the basis for the determination of the success potentials of each competitor. The competitors with similar success potentials are later summarized into strategic groups. The formation of strategic groups is thus based on a comprehensive and subjective assessment.

Inset 11.2 shows the strategic groups in the Swiss watch-making industry. The formation of groups is based on the qualitative approach ordinarily used in strategy planning projects.

To assess the competitive position of the strategic groups, the Five Forces model can be used. This is possible regardless of whether the groups are formed using the analytical or the qualitative approach.

Inset 11.2

Strategic Groups in the Swiss Watch-Making Industry

In 2011, the Swiss watch-making industry exported nearly 30 million watches. Exports from China, including Hong Kong, amounted to 1.085 million watches during the same period. However, at USD 21.8 billion, Swiss exports were significantly higher in terms of value than those of the Chinese, including Hong Kong, which totaled USD 12.5 billion (see Weber, Bertschy, & Lenz, 2012, p. 15). This clearly indicates that the Swiss watch-making industry focuses on expensive and very expensive watches. In this submarket Switzerland has a dominant position.

The formation of strategic groups is based on expert interviews and on a publication by Weber et al. (2012). The procedure thus corresponds to the qualitative approach usually used in strategy planning projects.

First, the success factors (see Inset 11.3) in the watch-making industry and their possibilities are identified. The following figure shows the result.

Then, the positions of the important competitors as regards to the seven success factors are determined. The figure shows the positioning of Rolex. The allocation of the companies to price categories and production depth is based to a large extent on Weber et al. (2012, p. 38 and p. 47).

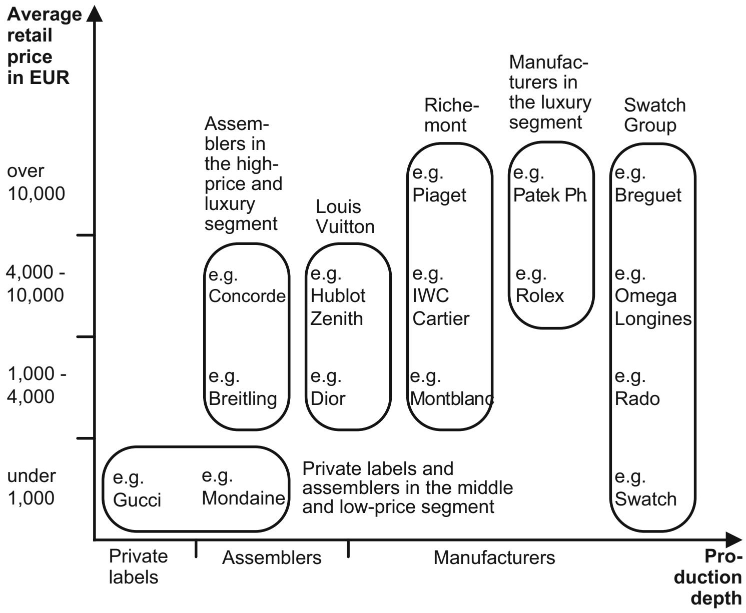
Finally, the strategic groups are formed and visualized on a chart. The second figure shows the result.

<table>
<tr><th>Industry-specific success factors</th><th colspan="60">Important possibilities</th></tr>
<tr><td>Retail</td><td colspan="12">Own specialized retailers</td><td colspan="12">Independent specialized retailers ∗</td><td colspan="12">Department stores</td><td colspan="12">Duty Free shops</td><td colspan="12">Electronic shops</td></tr>
<tr><td>Wholesale</td><td colspan="30">Own distribution</td><td colspan="30">Agents ∗</td></tr>
<tr><td>Average retail price</td><td colspan="15">below 1,000 EUR</td><td colspan="15">1,000-4,000 EUR</td><td colspan="15">4,000-10,000 EUR ∗</td><td colspan="15">over 10,000 EUR</td></tr>
<tr><td>Production depth</td><td colspan="20">Private-label offerer</td><td colspan="20">Assembler</td><td colspan="20">Manufacturer ∗</td></tr>
<tr><td>Focus of marketing measures</td><td colspan="30">Pull-strategy ∗</td><td colspan="30">Push-strategy</td></tr>
<tr><td>Types of watches</td><td colspan="12">Chrono-meters ∗</td><td colspan="12">Compli-cations</td><td colspan="12">Design watches</td><td colspan="12">Fashion watches</td><td colspan="12">Jewelry watches ∗</td></tr>
<tr><td>Clock mechanism and display</td><td colspan="20">Mechanical ∗</td><td colspan="20">Quartz analog</td><td colspan="20">Quartz digital</td></tr>
</table>

∗ = competitive position of Rolex

Industry-specific success factors and their possibilities

As can be seen on the chart, the average retail price and the production depth are chosen as axes. From the perspective of industry experts, these are two particularly important success factors. As the figure also shows, the three watch groups Swatch Group, Richemont and Louis Vuitton exist individually next to the other three groups of competitors. They have positions regarding price range and vertical integration that are unique in the industry.



Strategic groups in the Swiss watch-making industry

11.4 Process for Analyzing Relevant Industries

11.4.1 Overview

As explained in Sect. 11.1, industry analysis is carried out in parallel for all relevant industries. On the one hand, this is done for the industries in which the company does business. On the other hand, the industries in which the company could enter in the future are also examined.

Figure 11.4 gives an overview of the recommended process for analyzing an industry.

11.4.2 Description of the Steps

In Step A, the heterogeneity of the analyzed industry is assessed. On the basis of the ROM model (see Chap. 2), the following questions should be answered:

- Are there competitors that, consciously or unconsciously, only operate in a part of the industry market?
- Are there differentiation possibilities for the offers? Are there competitors that only concentrate on a part of the industry offer?
- Do competitors differ in the quantity of available resources? Do competitors have significantly different types of resource endowments?

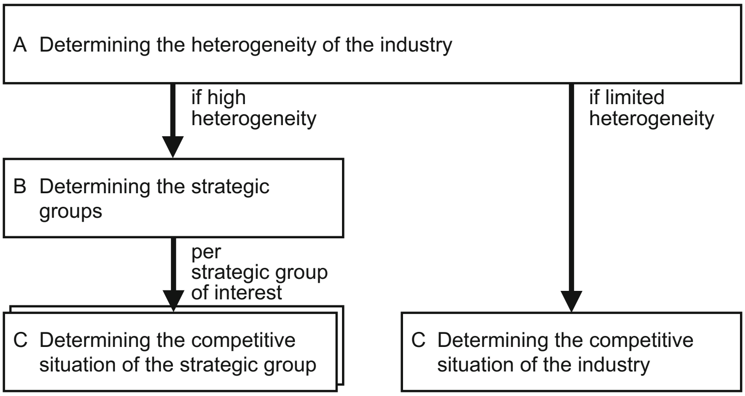


Fig. 11.4 Process for analyzing an industry

If several of these questions are answered with "yes", this indicates a heterogeneous industry. An assessment of the competitive situation at the level of the industry as a whole would in this case produce a superficial image and thus would not create a sufficient basis for the development of the corporate strategy. Therefore, the industry is divided into Strategic Groups in Step B. This step consists of three sub-tasks:

- First, the industry-specific success factors and their possibilities are identified. Inset 11.3 explains the success factors and shows how they are identified.
- The success factors and their possibilities form the basis for determining the strategic positions of the major competitors.
- Finally, the Strategic Groups are formed and visualized in a chart. To do so, two success factors, which are considered to be especially significant and are not correlated (see Porter, 1980, p. 152 f.), are selected. On the one hand, they form the axes of the chart. On the other hand, they have a special significance in the formation of the Strategic Groups. However, the positioning of competitors relative to the other success factors should also be considered when forming the groups.

There is an obvious analogy between the formation of Strategic Groups on the supply side and the definition of submarkets on the demand side. In both cases, a multi-faceted view creates good conditions for future analysis and planning. There are often substantial correlations between the submarkets and the Strategic Groups. The watch market, for example, is typically divided into submarkets using price. As can be seen from the formation of Strategic Groups in Inset 11.2, there is a relationship between the groups formed and the price categories. However, the inset also shows that competitor groups differ not only in the prices of their watches, but also in their resource endowments. There are also two watch-making groups, the Swatch Group and Richemont, which cover a wide range of prices with their offer.

In Step C, the competitive situation is determined using the Five Forces model. In the case of a homogeneous industry, this is done for the industry as a whole. If the industry is heterogeneous, the situation must be analyzed from the perspective of individual Strategic Groups. In addition to the strategic group to which the company belongs, the groups to which the company could possibly switch are examined.

Inset 11.3

Success Factors and Their Identification

In the early 1960s, Daniel (1961, p. 111 ff.), who was working on the design of information systems, discovered that the success of a company depended on a small number of factors. His idea of "critical success factors" was later transferred to strategic planning by Leidecker and Bruno (1984, p. 23 ff.). In this context, however, one usually speaks of strategic success factors.

A strategic success factor is a variable which significantly influences market attractiveness or competitive strength. The use of the controllable success factors through the building of corresponding success potentials (see Sect. 2.3) influences the longterm success.

General and industry specific factors can be distinguished:

- General success factors apply to all industries and companies. They are identified via empirical research. The PIMS Program is the most important study on the determination of general success factors (see Inset 12.5).
- Industry-specific success factors relate to an industry that is more or less narrowly defined (see Hofer & Schendel, 1978, p. 77). They can also be identified with the help of scientific studies. As there are many industries, the probability that recent empirical studies can be used is relatively small. For this reason, the industry-specific success factors usually need to be determined by the company itself in the context of the strategy planning project.

In the following text, a procedure to identify industry-specific success factors in the context of strategic analysis is presented. It is based on Grant (2013, p. 79 ff.) and consists of three tasks:

- First, the customers' requirements for the products and services are determined. "What do our customers want?" (Grant, 2013, p. 79). In order to avoid fixing the customer's decision criteria based on a distorted internal perspective, it is recommended to include customers as well as non-customers. This can be done in the form of semi-structured interviews or workshops.
- An internal working group determines the dimensions for which competition takes place, either subsequently or in parallel. "What does the firm need to do to survive competition?" (Grant, 2013, p. 79). The question formulated by Grant can be divided into two sub-questions: Which are the need-oriented offers? Which resources enable the company to provide such offers?

- Finally, the results of the previous tasks are linked to a list of industry-specific success factors. The two ways to identify success factors lead, in most cases, to two lists that are not completely identical. There are two reasons for this: First, the customers only consider the offer, whereas the internal working group includes the resources. Second, some of the customer's requirements can be "fulfilled" in different ways. If the customers assess, for instance, the quality as important, this demand must not necessarily be fulfilled by objective performance differences. It can also be influenced by an appropriate use of advertising or customer relationship management. Since customers systematically underestimate the effects of certain marketing tools or even completely eliminate them from their considerations, the appropriate success factors are missing in customer surveys. The alignment of the results of the external and the internal identification of success factors thus requires market intuition and expert knowledge.

References

Bresser, R. K. F. (2010). *Strategische Managementtheorie* (Vol. 2). Stuttgart: Kohlhammer.

Daniel, D. R. (1961). Management information crisis. *Harvard Business Review, 39*(5), 111–121.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Hofer, C. W., & Schendel, D. (1978). *Strategy formulation*. St. Paul, MN: West Publishing.

Leidecker, J. K., & Bruno, A. V. (1984). Identifying and using critical success factors. *Long Range Planning, 17*(1), 23–32.

Lewis, P., & Thomas, H. (1990). The linkage between strategy, strategic groups, and performance in the U.K. retail grocery industry. *Strategic Management Journal, 11*(5), 385–397.

Porter, M. E. (1980). *Competitive strategy*. New York, NY: Free Press.

Rumelt, R. P. (1987). Theory, strategy and entrepreneurship. In D. J. Teece (Ed.), *The competitive challenge. Strategies for industrial innovation and renewal* (pp. 137–158). Cambridge: Ballinger.

Weber, R., Bertschy, J.-P., Lenz, C. (2012). *Swiss watch industry 2012*. In Vontobel (ed). Zürich: Equity Research Switzerland.

Portfolio Analysis 12

12.1 Introduction

The term "portfolio" has its origins in securities administration. It was transferred to strategic analysis, because of the analogy that exists between an investment portfolio and a diversified company. In both cases, the objective is to assess a combination of several investments.

Portfolio methods in strategic analysis assess the businesses of a company or of a division on the basis of market attractiveness and competitive strength (see De Wit & Meyer, 2010, p. 305 f.) They thus create an overview of a diversified company or division. Their use is justified if the company or the division has a certain degree of heterogeneity and therefore consist of several strategic businesses.

Portfolio methods were launched by consulting firms in the 1970s:

- The first method of this type was the well-known market growth-market share portfolio developed by the Boston Consulting Group. As its name suggests, the approach uses real market growth to measure the market attractiveness of the businesses. The competitive strength is evaluated using the relative market share (see Hedley, 1977, p. 9 ff.; Henderson, 1970).
- Criticism of the relatively simple approach for assessing businesses led to the development of the McKinsey portfolio. It uses not only one, but several criteria to assess market attractiveness and competitive strength (see Hofer & Schendel, 1978, p. 32 f.).
- Other approaches followed, such as Hofer's industry evolution matrix (see Hofer & Schendel, 1978, p. 33 f.) or the Ashridge portfolio (see Grant, 2013, p. 369 f.). However, the other proposals have not achieved the same notoriety as the portfolios of the two consulting firms. The Ashridge portfolio, which is mentioned relatively frequently in the literature, uses two internal dimensions to label the axes, and therefore does not constitute a portfolio method according to the understanding of the authors. The Ashridge approach assesses how individual businesses fit into the company as a whole and thus fulfills an important task.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_12

It is introduced in the context of the development and assessment of corporate strategy options in Chap. 14.

As mentioned in the title of the chapter, portfolio methods are used to assess the current situation. They are viewed, similarly to Hill and Jones (1992, p. 273 ff.), as analysis tools. Some practitioners also use the methods as planning tools. However, from the point of view of the authors, there are more appropriate tools to develop a corporate strategy. Therefore, the portfolio approaches are only presented as analysis methods.

In Sects. 12.2 and 12.3, the Boston Consulting Group portfolio and the McKinsey portfolio are presented. Based on this, a proposal for portfolio analysis is presented in Sect. 12.4.

12.2 Boston Consulting Group Portfolio

12.2.1 Portfolio Matrix

The Boston Consulting Group portfolio has two axes: the vertical axis represents real market growth and the horizontal axis represents relative market share, which is determined in comparison with the strongest competitor.

Both the real market growth and the relative market share are calculated based on value and not on quantity:

- In many markets, there are offers for very different products, and this excludes a quantitative determination of market growth from the beginning on. However, even if it is possible to determine growth quantitatively, this should be avoided. With this approach, qualitative growth, which is often observed at the end of the growth phase and in the maturity stage, is not visible. It is nevertheless important to consider qualitative growth, because higher prices can be obtained by differentiating products and services. The market may thus become more attractive at the end of the growth phase and in the maturity phase, despite small increases in quantity.
- The relative market share is the horizontal dimension of the portfolio and represents the cost position. As the cost position is a term of value, the relative market share should be measured as a term of value too.

A logarithmic scale is used to present the relative market share in the portfolio matrix. The reason for this lies in the experience curve, which is introduced in Inset 12.2 (see Hedley, 1977, p. 12).

Each axis is divided into two sections:

- For the vertical axis—real market growth—it is recommended to use the relevant growth rate over the past years as the line of separation. An international diversified group will select global economic growth, a national construction

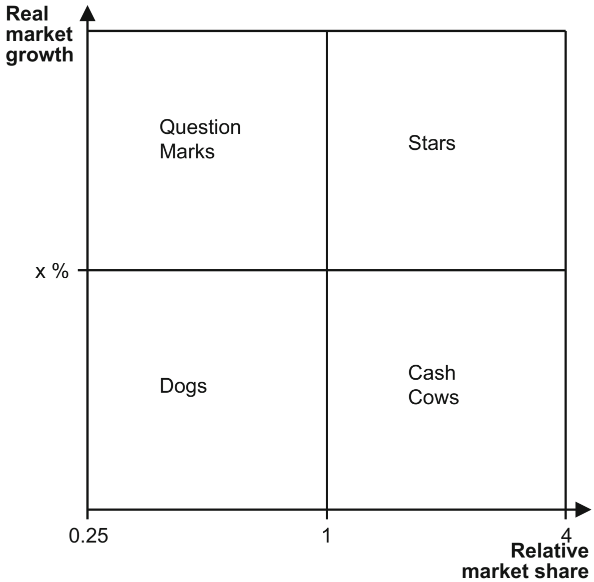


Fig. 12.1 Boston Consulting Group portfolio

company will select growth in the construction industry in the relevant country, etc.

- The horizontal axis—relative market share—is divided using a value of 1. The relative market share shows the relationship between the market share of the company and the market share of its largest competitor. Businesses with a relative market share of more than 1 have a dominant position in the relevant market or submarket.

As shown in Fig. 12.1, the resulting four squares of the matrix are usually labeled dogs, question marks, stars and cash cows. These labels are more or less self-explanatory.

12.2.2 Basis of the Portfolio

The market life cycle justifies market growth as the variable to assess market attractiveness. It is presented in Inset 12.1.

The choice of relative market share as the variable to measure competitive strength is justified in the literature by the experience curve (see Hedley, 1977, p. 10). It is explained in Inset 12.2.

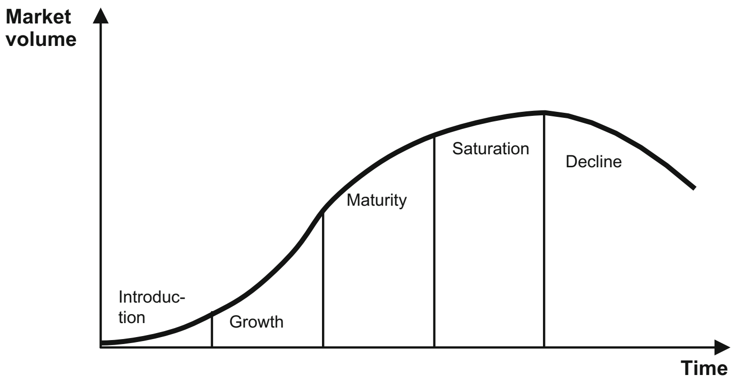
Inset 12.1.

Market Life Cycle

The inset is based on Kühn and Pfäffli (2012, p. 59 f.).

The following figure shows the typical development of market life cycle. It has five phases, which are usually distinct: introduction, growth, maturity, saturation and decline.

A market life cycle is triggered by an innovation in the offer that promises to satisfy a customer need, which is not met or insufficiently met by existing offers. In the introduction phase, the first mover or movers try to realize first sales by offering a first version of the product, which is often still experiencing problems, to users interested in product innovations. Here, the company must generally work on changing habits and reducing purchasing resistance on the consumer side. The fulfillment of this task requires significant marketing investments, which are lost if the breakthrough to the growth phase does not succeed. Due to marketing investments—which may exceed sales in the introduction year—and the development costs which still need to be amortized, competitors often make losses in the introduction phase, despite high prices. However, costs generally decrease over time due to improvements in the production process and the distribution of the fixed costs on larger sales volumes. As the company has only uncertain information on customer needs and on the acceptance of the new offer, innovations often turn out to be flops.



Market life cycle

In the growth phase, the number of competitors and product varieties usually increases. New entrants are attracted by above-average growth rates that promise higher profits. The increase of product varieties depends, on one hand, on the number of new entrants which use them to achieve competitive advantages. On the other hand, first movers develop product varieties to better meet the demand.

The greater diversity corresponds to a customer need; following their experience with the first generation of products, customers develop more specific requirements. This leads to the formation of market segments. The broadening of distribution and the intensification of competition are also typical of the growth phase. For example, in the smartphones market (iPhone, Samsung, Blackberry, etc.), the number of product varieties and the pressure on prices increased when several providers entered the market.

In the maturity phase, declining volume growth rates lead to even more intense competition, which is often experienced as a critical turning point. Declining growth rates result from the fact that there are natural boundaries for demand in all markets. Declining growth rates are usually enough to fuel competition. One competitor's increase in sales more frequently lead to a decrease in sales for other competitors. Often, competition is exacerbated by the fact that the imitation of successful products reduces product differences or even eliminates them. This increases the importance of marketing communication, additional services and especially price. The consequences are increasing marketing costs and shrinking margins, which notably affect companies with stagnating sales. Today, the maturation phase often begins after only a few years, because the growth phase is shorter due to professional marketing. This was, for example, the case in the market for flat screens.

The saturation phase once again aggravates the problems of the maturity phase. The result is often cut-throat competition that triggers structural adjustment. However, sooner or later, the competitive situation often becomes less intense, because all of the competitors realize that gains in market share are only possible with exorbitant costs. This leads to a situation in which market shares remain stable and in which competition continues to be hard, but not excessive. Such a development can, for example, be observed with stereo systems.

Broadly defined markets often remain in the saturation phase for many years. Examples include the detergent market, the furniture market or the market for shoes. For more narrowly defined markets, however, shorter saturation phases and earlier onsets of decline can be expected. This is triggered by changes in needs and/or the appearance of substitute products. Examples can notably be found in markets where technological developments play a role. An example is the market for portable audio devices, which is strongly threatened by phones.

It is generally not possible to determine the duration of the development phases. It varies depending on the benefits that the new offers promise to potential product users, the extent of the behavioral changes that are necessary for product users, the intensity of competitors' marketing efforts and many other factors. It must also be noted that the growth curve reflects the long-term development trend. In reality, economic influences and gradual product and process improvements cause fluctuations.

Finally, it is important not to confuse the market life cycle, which is important for strategic planning, with the product life cycles, which are important at the operational level. Market life cycles relate to broadly defined product groups (for example orange juice or yogurt), while product life cycles are based on specific product varieties (for example orange juice enriched with fiber or a yogurt enriched with vitamins). New product varieties are introduced in each market development phase and are often replaced after a short time by successor products. Market life cycles are long term and are based on many short product life cycles.

Inset 12.2.

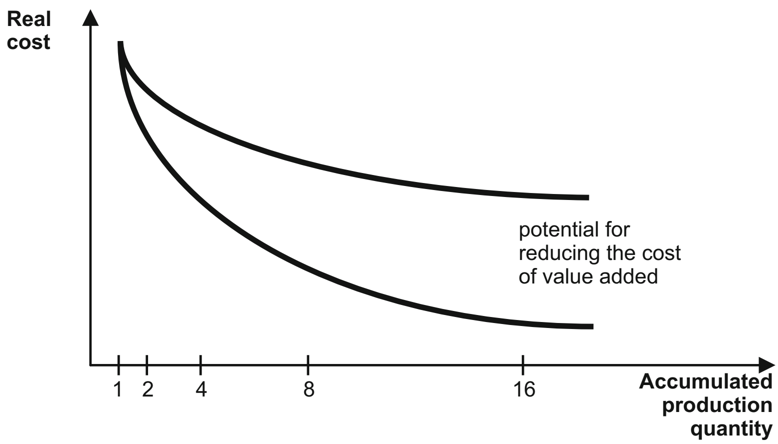
Experience Curve

The inset is based on Hill and Jones (2013, p. 123 ff.).

The experience curve shown in the following figure was discovered in the aircraft production industry and was subsequently confirmed in a large number of industries. According to the experience curve, with every doubling of accumulated output, there is a potential for a reduction in real costs of added value per unit of 20–30 %.

When determining and interpreting specific experience curves, the following should be considered:

- The experience curve refers to costs, which are adjusted for inflation. It only includes costs associated with added value. However, savings on the purchased products should also be possible, because suppliers also benefit from the effects of the experience curve.



Experience curve

- The experience curve does not create an automatic effect, but only a potential for cost reduction. To capitalize on this, cost awareness, rationalization measures and reengineering projects are necessary.
- The experience curve applies to both individual companies and whole industries. It is only valid as long as technology does not fundamentally change. In the production of television sets, for example, the introduction of color television sets triggered a new experience curve.

The importance of the experience curve is given by the relationship between the cumulated production quantity, the market share relative to the largest competitor—the relative market share—and the cost position. As the following figure shows, a greater cumulated production quantity leads to a higher relative market share and cost advantages. These cost advantages can be used to realize interesting strategic options. They can be used, for example, to lower prices or to invest in advertising in order to increase sales at the expense of competitors. They can also be used to produce a greater free cash flow, which can then be invested in another market.

Companies	**Variables**	**Value at the end of year 1**	**Value at the end of year 2**	**Value at the end of year 4**
Company A with a production quantity of 1,000 units per year	Cumulated production quantity	1,000	2,000	4,000
	Relative market share	0.5	0.5	0.5
	Value added costs	1	0.7 - 0.8	0.49 - 0.64
Company B with a production quantity of 2,000 units per year	Cumulated production quantity	2,000	4,000	8,000
	Relative market share	2.0	2.0	2.0
	Value added costs	0.7 - 0.8	0.49 - 0.64	0.343 - 0.512

Relationship between cumulated production, relative market share and costs of value added

12.2.3 Recommendations for the Businesses and the Portfolio as a Whole

The characterization of the four sections of the portfolio suggests the strategic behavior that the businesses in each area typically follow. These are called norm strategies. A description of the norm strategies in the form of keywords is given in Fig. 12.2.

Since norm strategies depend strictly on the position of a business in the portfolio and do not take into account the specific conditions in individual markets nor the specific strengths and weaknesses of the businesses concerned, they inevitably remain very abstract. The guidelines expressed therein should not be interpreted as part of the company's strategy. They are merely the results of strategic analysis and thus provide an indication for strategy development. Their appropriateness is assessed later during the development of business strategies. If they are valued positively, they have to be made considerably more concrete. It can be assumed that the norm strategies for stars and cash cows provide sensible guidelines in almost all cases. However, the norm strategies for question marks and dogs must always be reviewed critically. The heterogeneity of demand in many markets means that even market positions with a relative market share lower than 1 can be attractive in the long term. This is always the case when a competitor has built up a strong position in a submarket. In this situation, companies in second, third or far lower places should nevertheless consider the option of following a cash cow or star strategy. Many industries provide examples of this, including the markets for cars and for cigarettes. In both of these markets, a number of

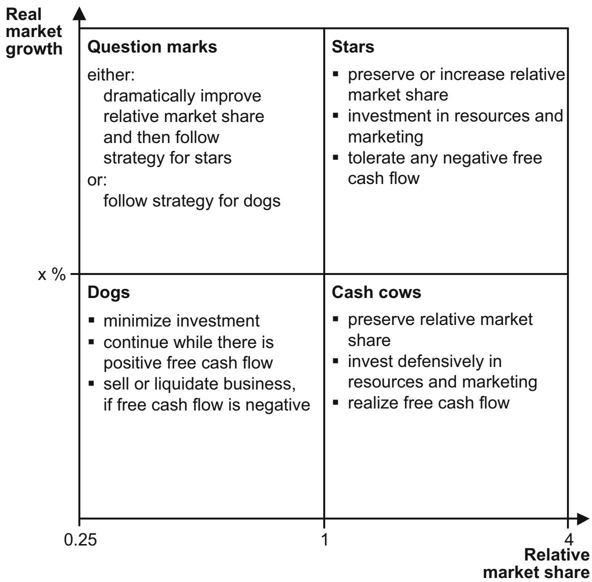


Fig. 12.2 Norm strategies in the Boston Consulting Group approach

competitors can maintain attractive market positions because of their uniquely profiled market offers.

Norm strategies are implicitly based on the assumption that the businesses are strategically independent business fields (see for example Grant, 2013, p. 369). When determining strategies for business units, the impact on the costs and market positions of other business units belonging to the same business field must be considered. The liquidation of a business unit may lead to higher costs for the remaining business units or reduce their sales prospects. Therefore, norm strategies should be applied with particular caution when evaluating a portfolio of business units.

Furthermore, the over-interpretation of the expression "cash cow" should be avoided. Cash cows are crucial for the company's success in the medium term. In markets which are not declining but stagnating at a high level (see Inset 12.1), a cash cow business can secure above-average profits in the long-term. Cash cow businesses should therefore be provided with adequate resources so that they can be retained as the company's profit base for as long as possible. In the case of financial constraints, investments necessary to maintain the position of cash cow businesses should therefore be prioritized over offensive investments in star businesses.

The original sense of the term portfolio implies that, in addition to the norm strategies for individual businesses, there are also recommendations for the portfolio as a whole. The basic idea is to create a portfolio with a balance between mature cash-producing businesses and future-oriented businesses which require investment. This ensures, on the one hand, that the company is investing in markets which promise to be highly attractive in the future. On the other hand, the businesses in mature markets guarantee that the company is at least partly self-financing (see Hill & Jones, 1992, p. 289).

The cash cows in the BCG portfolio should produce a considerable proportion of the turnover. In addition, the portfolio must include stars, which will produce turnover and cash in the future. A few question marks are also desirable, because they give the company room for maneuver. Businesses in the dogs area should be avoided, because they do not produce cash and do not have any future potential. Businesses in the dog area that follow a clear niche strategy are an exception to this rule. From the return point of view, they are often comparable to cash cows and should therefore be treated accordingly.

Figure 12.3 presents three examples of unbalanced portfolios and an example of a balanced portfolio. The first portfolio lacks businesses which will guarantee long term survival. The cash cows, which are currently achieving a financial surplus, are accompanied by only a single question mark. It is operating in an industry with positive market growth and is therefore attractive for the future, but the business has a poor competitive position. In the second example, there are numerous options for the future but a lack of businesses providing the free cash flow needed to exploit the potential of the stars and question marks. The third portfolio is neither satisfactory in terms of current free cash flow nor of future potential. Finally, the fourth example presents a sensible balance between businesses generating funds and those that have future potential.

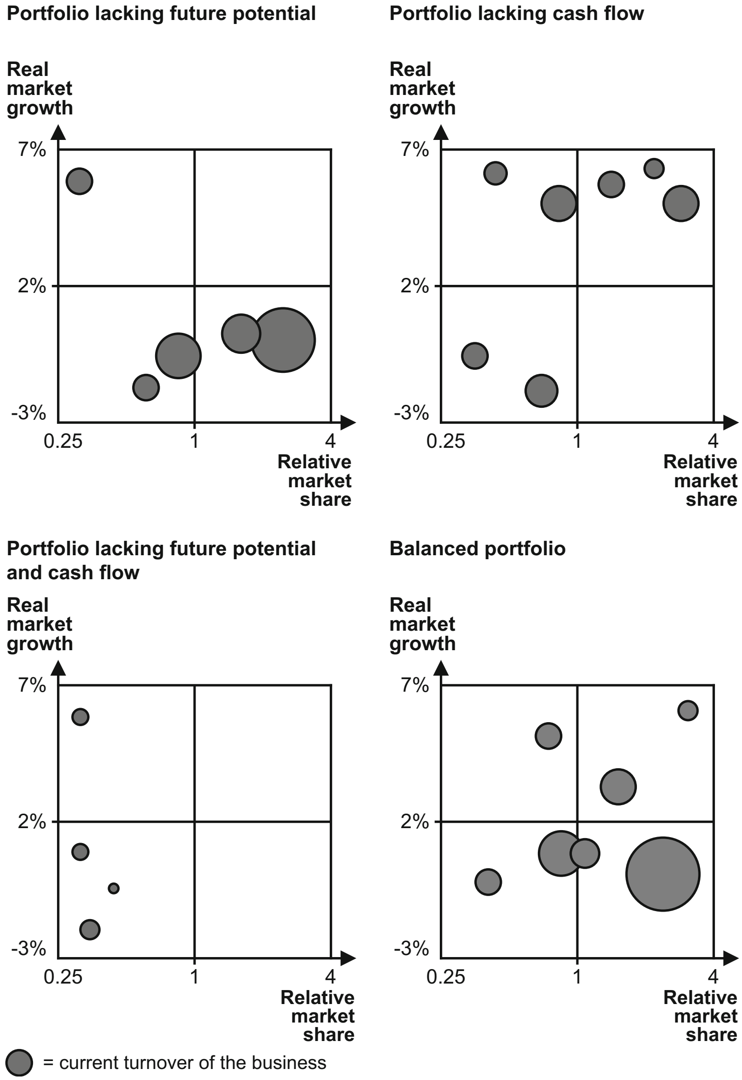


Fig. 12.3 Examples of Boston Consulting Group portfolios

12.3 McKinsey Portfolio

12.3.1 Portfolio Matrix

As Fig. 12.4 shows, the McKinsey portfolio differs from the Boston Consulting Group portfolio in two ways: it uses a matrix with nine squares instead of four squares and uses slightly different names for the squares. However, the difference in the names of the axes and the associated procedure for positioning the businesses is much greater: The McKinsey portfolio, by using market attractiveness and competitive strength to describe the axes, uses two multidimensional constructs.

For positioning the strategic businesses in the portfolio, two procedures are available. It can be based on judgments and thus be largely subjective. This approach not only lacks reliability, but also has the disadvantage that it almost inevitably leads to manipulations. In line with personal interests, individual businesses will be positioned either too favorably or not favorably enough. It is therefore recommended to determine the market attractiveness and competitive strength of businesses in an analytical way. To do so, a three-step procedure is suggested (see Hill & Jones, 1992, p. 281 f.; Thompson & Strickland, 2003, p. 331 ff.):

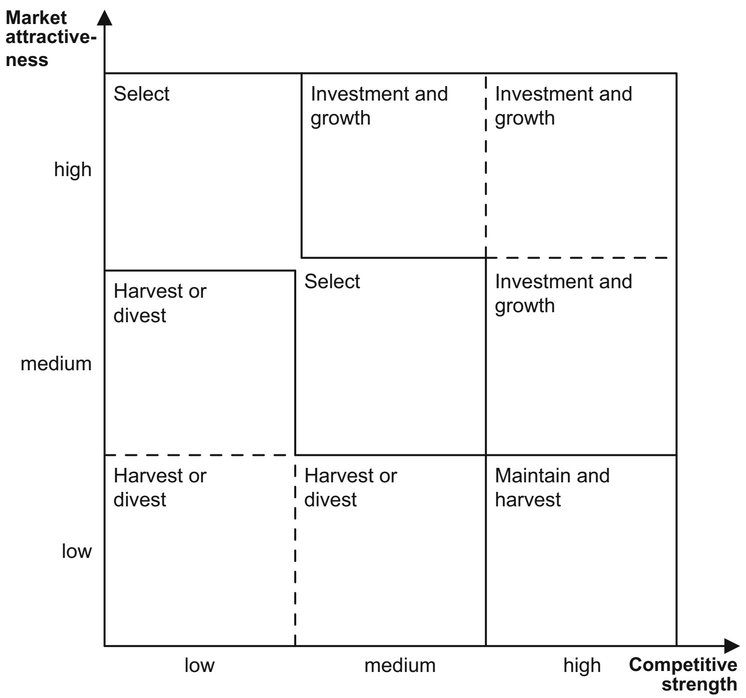


Fig. 12.4 McKinsey portfolio

Criteria for assessing market attractiveness	Criteria for assessing competitive strength
Market size	Market share
Market growth	Technological know-how
Industry profitability	Product quality
Capital intensity	After-sales service/maintenance
Technological stability	Price competitiveness
Competitive intensity	Low operating costs
Cyclical independence	Productivity

Fig. 12.5 Hill and Jones' criteria for assessing market attractiveness and competitive strength (adapted from Hill & Jones, 1992, p. 281 f.)

- First, the assessment criteria are determined and, if wished, weighted. Various sets of criteria can be found in the literature. An interesting proposal is made by Hill and Jones (1992, p. 281 f.). They recommend two sets of seven criteria, as shown in Fig. 12.5.
- Then, each business is rated with each of the criteria using a predetermined scale. For each individual assessment, a brief justification should be given.
- Finally, the industry attractiveness and competitive strength of the businesses are calculated by adding the values of the individual ratings.

Inset 12.3 gives an example of the determination of the current positions in the McKinsey portfolio.

As the McKinsey portfolio remains subjective to a certain extent, even with an analytical determination of the current positions of the businesses, a comparison with the Boston Consulting Group portfolio can be useful. Inset 12.4 shows how this can be done.

Inset 12.3

Determination of the Current Positions of Businesses in the McKinsey Portfolio

A company has three strategic business fields, which must be positioned in a McKinsey portfolio. The strategy planning team decides to measure industry attractiveness using the three criteria "market size", "market growth" and "competitive intensity". Competitive strength is determined based on the criteria of "market share", "product quality" and "value-added costs". The two criteria "market growth" and "market share" are given a double weighting.

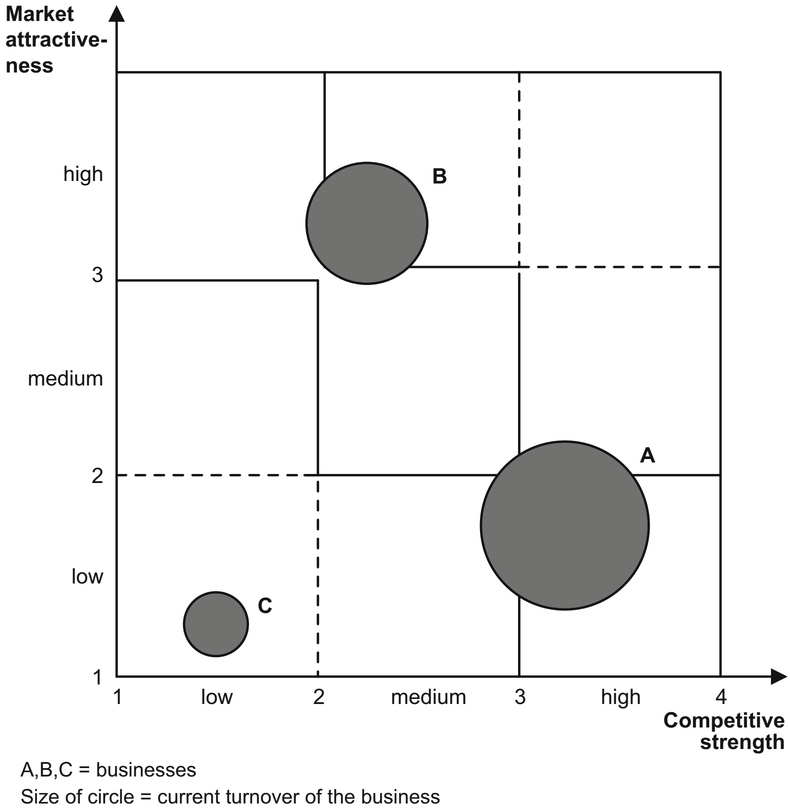
The following figure presents the results of the 18 individual ratings. The ratings are based on a scale of 1–4. A value of 1 means "totally unattractive" or "clear competitive weakness". A value of 4 signifies "very attractive" or "clear competitive strength".

Criteria	Weighting of criteria	Business A		Business B		Business C	
		Unweighted value	Weighted value	Unweighted value	Weighted value	Unweighted value	Weighted value
Determination of market attractiveness							
Market size	0.25	4	1	2	0.5	2	0.5
Market growth	0.5	1	0.5	4	2	1	0.5
Competitive intensity	0.25	1	0.25	3	0.75	1	0.25
Overall	-	-	1.75	-	3.25	-	1.25
Determination of competitive strength							
Market share	0.5	4	2	2	1	1	0.5
Product quality	0.25	3	0.75	3	0.75	2	0.5
Value-added costs	0.25	2	0.5	2	0.5	2	0.5
Overall	-	-	3.25	-	2.25	-	1.5

Determination of industry attractiveness and competitive strength

In order to be understandable, the ratings must be justified very briefly. If a quantitative criterion is used, such as market size, it is useful to give the underlying value.

The completed table allows the current portfolio to be created, as shown in the following figure.



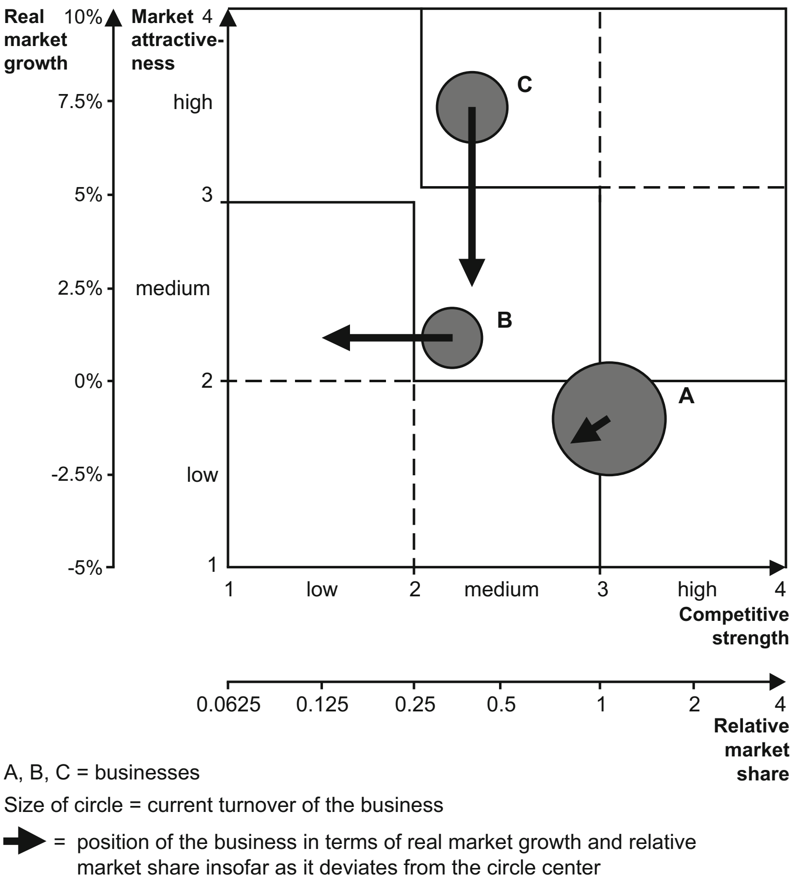
Current portfolio

Inset 12.4.

Combining the Boston Consulting Group Portfolio and the McKinsey Portfolio

From a technical point of view, the combination of the two portfolio approaches consists in supplementing the McKinsey portfolio with information on the two variables of the Boston Consulting Group portfolio. To do so, two scales must be used on the two axes of the matrix.

The following figure gives an example of such a portfolio.



Combined portfolio

This presentation makes it possible to immediately recognize any lack of correspondence between industry attractiveness and real market growth on the one hand, and competitive strength and relative market share on the other. For example, business C has high industry attractiveness, but a real market growth of only 2.5 %. A second example of a discrepancy is found when looking at business B. Competitive strength is rated as average, but relative market share is only 0.2.

There are two essential advantages to supplementing the McKinsey portfolio with the "hard facts" of the Boston Consulting Group portfolio:

- The risk that the positions of the businesses are manipulated can be reduced substantially. The two most important quantitative criteria "real market growth" and "relative market share" must be explicitly applied.

Discrepancies between quantitative data and qualitative assessments become apparent and must then be justified.
- The values of the Boston Consulting Group are useful in order to assess whether the portfolio is financially balanced, something that is always difficult to judge with the McKinsey portfolio.

12.3.2 Basis of the Portfolio

As shown in the previous section, the strategy planning group must select useful criteria in order to assess industry attractiveness and competitive strength. General success factors are recommended for this purpose (see Inset 11.3).

The PIMS (Profit Impact of Market Strategies) program is the most important study on general success factors and therefore a good basis for the selection of criteria for the determination of industry attractiveness and competitive strength. Inset 12.5 presents the program.

Inset 12.5.

PIMS Program

This inset is based on Buzzell and Gale (1987).

The PIMS (Profit Impact of Market Strategies) program was initiated in 1972. It is based on a large database containing information on strategic businesses—mainly from the U.S. and the industrial sector. Each year, quantitative data from more than 2,600 businesses were included (see Buzzell & Gale, 1987, p. 35 ff.).

With the help of multiple regression analysis, variables that have a significant impact on ROI (return on investment) and ROS (return on sales) are identified. As the analysis is based on businesses that are active in different industry markets, these variables should be interpreted as general success factors. The following figure shows the most important general success factors identified by the program. They can explain 40 % of the ROI and ROS differences between the businesses (see Buzzell & Gale, 1987, p. 45 ff.).

The PIMS program has been given considerable attention in strategic planning and strategy consulting. It has also influenced the development of strategic analysis and planning tools. At the same time, however, it has been criticized. Criticism refers primarily to the scientific procedure and the disclosure of statistical results (see Kreilkamp, 1987, p. 379 ff. and p. 398 ff.).

General success factors	**Influence on ROI and ROS**
External success factors	
Real market growth	+
Market development phase	
▪ Growth	+
▪ Decline	-
Increase in sales prices	+
Concentration of purchases with few suppliers	+
Typical customer purchase amount	
▪ low	+
▪ high	-
Importance of products for customers	
▪ low	+
▪ high	-
Rate of unionization	-
Industry exports	+
Industry imports	-
Standardized products	+
Internal success factors	
Market share	+
Quality of products compared to competitors	+
Share of sales of new products	-
R&D expenses as a % of turnover	-
Marketing expenses as a % of turnover	-
Value-added as a % of turnover	+
Fixed assets intensity	-
Average age of plant and equipment	+
Labour productivity	+
Inventory as a % of turnover	-
Capacity utilization	+

\+ = positive influence
\- = negative influence

General success factors of the PIMS program (adapted from Buzzell & Gale, 1987, p. 46 f.)

12.3.3 Recommendations for the Businesses and the Portfolio as a Whole

In the McKinsey portfolio, the positions of the businesses in the different areas of the portfolio also lead to recommendations for strategic behavior. These guidelines, also referred to as norm strategies, are summarized in Fig. 12.6. As with the Boston Consulting Group approach, they should not be applied as planned strategies without further reflection but they should be critically reviewed as guidelines.

The proposed delineation of the areas and their associated norm strategies are not completely identical to what is traditionally found in the literature. In the literature, the bottom right hand corner square is generally attributed to the select group. However, this view is difficult to understand, because the businesses' strong standing requires it to hold the position and harvest the free cash flow.

As with the Boston Consulting Group approach, statements on the overall portfolio can also be found for the McKinsey approach. Similar to the Boston Consulting Group portfolio, a balance in the McKinsey portfolio between mature cash-producing businesses and growing businesses requiring investment is recommended. However, this recommendation is less easy to apply in the McKinsey portfolio. This is because the link between the types of businesses and

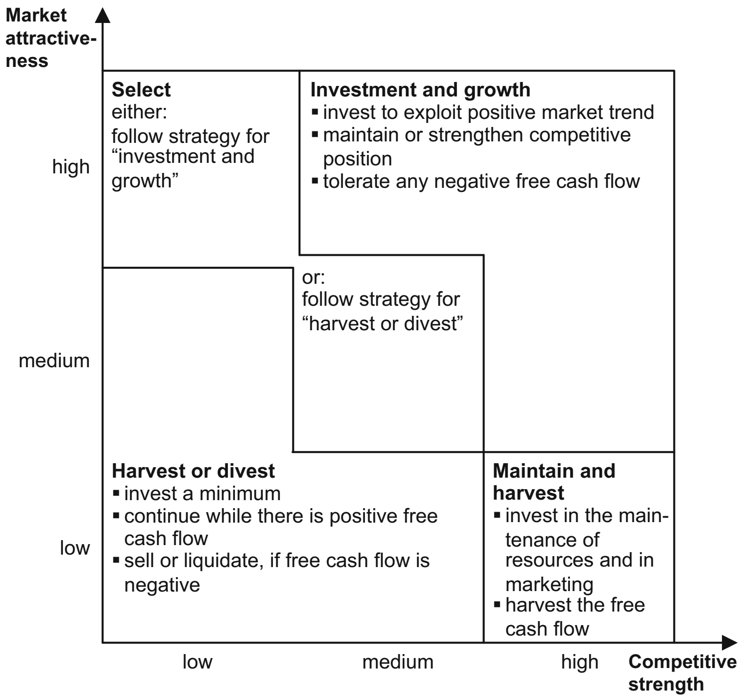


Fig. 12.6 Norm strategies in the McKinsey portfolio

their free cash flow is less clearly established than in the Boston Consulting Group approach.

A balance in the portfolio must be achieved between the businesses in the "investment and growth" area and the businesses in the "maintain and harvest" area. The proportion of businesses from other areas should not be too high, because they represent businesses which neither produce cash, nor help to ensure the future of the company.

12.4 Process of Portfolio Analysis

12.4.1 Overview

As Fig. 12.7 shows, a three-step procedure is recommended for portfolio analysis.

In the following sub-sections, the three steps are explained. In the last sub-section, an example illustrating the application of the process is given.

12.4.2 Methodological Decisions

Before starting the actual portfolio analysis, two methodological decisions must be made.

The more important methodological decision concerns the selection of the portfolio method to be used. If the discussion is limited to the methods presented above, there are three possibilities:

- Use of the Boston Consulting Group portfolio
- Use of the McKinsey portfolio
- Use of both methods in combination

The use of both methods in combination is complex and therefore more likely to represent an exception. Normally, the planner will choose between the two approaches described in Sects. 12.2 and 12.3. The following advantages and disadvantages should be weighed:

- In the Boston Consulting Group portfolio, the current positions of businesses can be determined using clear criteria. In contrast, the current positions in the McKinsey portfolio depend on the criteria selected to measure industry attractiveness and competitive strength, on the weighting of these criteria and on the rating of the businesses for the qualitative criteria. Since the managers of businesses assume that the current position of their business in the portfolio will have an impact on the allocation of funds, they will promote a favorable current position. This means that the already delicate and complex rating of the company's businesses becomes even more difficult due to political considerations.

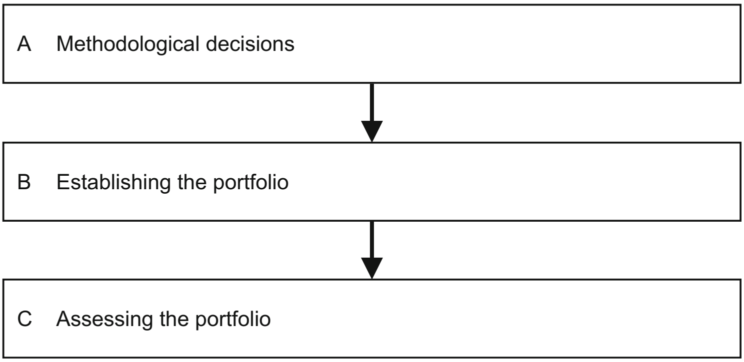


Fig. 12.7 Process of portfolio analysis

- The Boston Consulting Group portfolio uses two important success factors: real market growth and relative market share. However, there are also a number of other determinants of long-term success that are not taken into consideration in the Boston Consulting Group approach.
- The Boston Consulting Group method is more suitable to assess the financial balance of the portfolio than the McKinsey approach. This is because there is a clear relationship between the two dimensions of the Boston Consulting Group matrix and the generation and use of funds. In contrast, the relationship between the dimensions of the McKinsey portfolio and financial cash flow may be limited, depending on the choice of the underlying criteria and their weightings (see Hill & Jones, 1992, p. 279).
- The Boston Consulting Group approach does not provide help for the analysis of new strategic businesses. However, the McKinsey method provides only limited help for such evaluations.

In general, the Boston Consulting Group portfolio is usually to be preferred. Its use is simple and less open to subjective factors when rating the businesses. The fact that the method is limited to two assessment criteria can be compensated during the development of the business strategies.

In addition to the selection of the portfolio approach, the number of necessary portfolio plans is determined in Step A. This problem is usually solved rapidly. For example, if a small watch manufacturer has four strategic business units, they can easily be accommodated in a single portfolio matrix. A graphics firm with the three strategic business fields “graphic design”, “photolithography” and “printing”, the last of these sub-divided into four business units, also presents no difficulties. In this case, the two business fields “graphic design” and “photolithography” and the four business units within “printing” can also be represented in a single portfolio. The question if more than one portfolio plan is necessary only arises if more than approximately ten businesses exist.

In the case of a greater number of businesses, it is recommended to analyze the businesses with the help of a hierarchy of portfolio matrices. For example, for a chemical corporation with four business fields, “pharmaceuticals”, “fertilizers”, “paints” and “vitamins”, which all have several business units, it would be appropriate to use five portfolio matrices on two hierarchical levels. The first level would be a portfolio showing the four business fields. At the second level, there would be four portfolios representing the business units of the four business fields.

The following text is based on the case of a company of medium complexity, which can present its strategic businesses in a single portfolio matrix.

12.4.3 Establishing the Portfolio

In Step B, the current portfolio is established. The methodological foundations for the Boston Consulting Group portfolio were presented in Sect. 12.2 and those for the McKinsey portfolio were presented in Sect. 12.3.

Before establishing the portfolio, it is useful to compile all of the basic information in a table and to check it for consistency. The table should include the following information on the strategic businesses:

- Relevant market
- Real market growth or industry attractiveness
- Relative market share or competitive strength
- Turnover

The relevant markets of the businesses were set in the context of the definition of businesses (see Sect. 7.4) and can therefore be used here. They provide the basis for checking the other values for plausibility and consistency.

12.4.4 Assessing the Portfolio

The assessment of the portfolio in Step C is mainly concerned with the question of balance. A portfolio is balanced when a company or a division has, on the one hand, strong positions in mature markets. The corresponding businesses should be able to generate free cash flow. On the other hand, a balanced portfolio also includes businesses and activities in growing markets. Investments in these businesses secure the company’s future.

In addition to the central question of balance, the authors recommend an evaluation of the portfolio on the basis of three other aspects:

- There are often small activities, which do not represent strategic businesses due to their limited importance. They are therefore not shown in the portfolio. However, they should at least be included in the evaluation. Will they develop?

Do they support the market position and/or the profitability of the strategic businesses? Or do they only absorb management capacity?

- In markets with high competitive intensity, positive synergies can be an important competitive advantage, and negative synergies can be a decisive competitive disadvantage. Therefore, an assessment of synergies should complement the business portfolio analysis.
- The financial figures of the businesses are also included in the assessment. For the business units, we look at contribution margins, whereas for the business fields, the financial performance is evaluated by EBITDA and free cash flow. The authors know a case of a capital goods producer, which transfers financial results to its portfolio using a color code for the circles of the businesses.

As is the case in the analysis of the global environment and the relevant industries (see Chaps. 10 and 11), portfolio analysis is not limited to the current situation. In Step C, the strategy planning group should therefore look at future changes in the market growth or the market attractiveness of the served markets. Based on this, the consequences of the identified changes in the relative market share or the competitive strength of the businesses should be discussed.

12.4.5 Example of Applying the Process

Inset 12.6 presents a portfolio analysis in a retail group based in the East of Switzerland.

Inset 12.6.

Portfolio Analysis in a Retail Group

Baer is a large department store in downtown St Gallen which has belonged to the family of the same name for three generations. Thanks to its full range of goods, it has been able to defend its dominant position in the region. The following figure presents the range of goods and the turnovers of the previous year. The store's competitors are retail chains on the one hand, and small specialized stores on the other. With an estimated total market volume of 800 million Swiss francs in the St. Gallen urban area, the Baer department store has a market share of 24 %. In contrast, its largest competitor only has a market share of 19 %. The average real market growth across all product groups is estimated to be approximately 1 %, while the growth rate of the Swiss economy is about 2 %.

With an eye on the increasing ecological awareness among consumers, the owners of the store accepted an offer of franchising rights three years ago from The Body Shop for the cantons of St. Gallen, Appenzell and Thurgau. The Body Shop stores sell products, which are based on natural ingredients and have been developed without animal testing. Body Shops have been opened in Rohrschach, Wil and St. Gallen. The turnovers for the three shops confirm the positive assessment of the market. With a real market growth of 4 % for natural cosmetics, the Body Shops this year had turnover figures of 1.0 million Swiss francs in Rohrschach, 1.5 million Swiss francs in Wil and 2.5 million Swiss francs in St. Gallen.

Product groups	**Turnover in millions of CHF**
Textiles, clothing and shoes	70
Personal-care products	10
Food	20
Household goods	40
Sports goods	25
Home electronics	20
Fashion jewelry and accessories	2
Books and magazines	2
Flowers	1
Miscellaneous	2
Total turnover	192

Turnover of the product groups of the department store

Some years ago, the owner of the store at the time, Fritz Baer, decided to make his advertising department independent of the store, hoping to widen its horizons and foster a more entrepreneurial mode of thinking among employees. The agency which was set up, Kreativ, at first only accepted very little outside work in order to use temporary overcapacity. The number of external contracts has steadily increased and they now constitute 60 % of its turnover of 2.4 million Swiss francs. With overall spending on advertising stagnating in the region, there is now a bitter struggle for business. With a market share of 7 % for the region, Kreativ is more than three times smaller than its strongest competitor, a national agency based in Zurich.

The following figure shows how the activities within the Baer Group can be grouped into strategic business fields and strategic business units. As the figure shows, “fashion jewelry and accessories”, “books and magazines” and “flowers” have not been included as business units due to their minor importance.

Strategic business fields	Strategic business units
Department store	Textiles, clothing and shoes Personal-care products Food Household goods Sports goods Home electronics
Body Shops	-
Advertising agency Kreativ	-

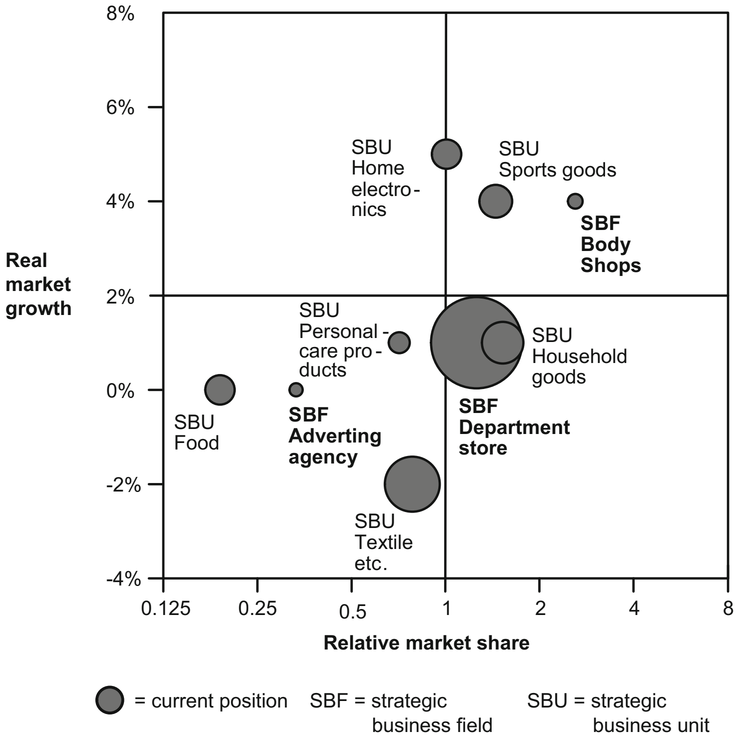
Strategic businesses of the group

Business fields and business units	Relevant area	Average real growth rate for the last three years	Unconso-lidated turnover in mio. CHF	Turnover of the strongest competi-tor in mio. CHF	Relative market share
Department store	St. Gallen urban area	1%	192.0	150.0	1.28
▪ Textiles etc.		-2%	70.0	85.0	0.82
▪ Personal-care products		1%	10.0	13.0	0.77
▪ Food etc.		0%	20.0	100.0	0.20
▪ Household goods		1%	40.0	24.0	1.67
▪ Sports goods		4%	25.0	16.0	1.56
▪ Home electronics		5%	20.0	20.0	1.00
Body Shops	Eastern Switzerland	4%	5.0	1.7	2.94
Advertising agency	Eastern Switzerland	0%	4.0	13.3	0.30

Data for the current portfolio

In Step A, the Boston Consulting Group approach is selected as the portfolio method. It is also decided to incorporate the business fields and the business units into a single portfolio.

In Step B, the current portfolio is established based on a compilation of the relevant data on the businesses. The previous figure and the following figure show the underlying data and the portfolio.



Current portfolio of the group

The assessment of the current portfolio in Step C is based on the assumption that real growth will, at best, remain at the current level. Managers even expect a slowdown by one to two percentage points.

With its department store, the Baer Group has a strong position in the cash cow area. Thanks to the Body Shops, the sports goods and the home electronics, it has three businesses with future potential. Therefore, the portfolio as a whole is considered to be balanced.

There is a need for action in the department store’s range of products. In addition to the weak position of the “food” business unit, there are product groups representing one percent or less of turnover. It is also decided to have a closer look at the “advertising agency” business field. The financial future, as well as the advantages and disadvantages of an in-house agency, will be analyzed. Finally, the creation of positive synergies between the “department store” and “Body Shops” business fields will be investigated.

References

Buzzell, R. D., & Gale, B. T. (1987). *The PIMS principles*. New York, NY: Free Press.
De Wit, B., & Meyer, R. (2010). *Strategy* (4th ed.). Andover, MA: Cengage Learning.
Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.
Hedley, B. (1977). Strategy and the "Business Portfolio". *Long Range Planning, 10*(1), 9–15.
Henderson, B. (1970). The product portfolio. *bcg perspectives 66*.
Hill, C. W. L., & Jones, G. R. (1992). *Strategic management* (2nd ed.). Boston, MA: Houghton Mifflin.
Hill, C. W. L., & Jones, G. R. (2013). *Strategic management* (10th ed.). Mason, OH: South Western Cengage Learning.
Hofer, C. W., & Schendel, D. (1978). *Strategy formulation*. St. Paul, MN: West Publishing.
Kreilkamp, E. (1987). *Strategisches Management und Marketing*. Berlin, New York, NY: Walter de Gruyter.
Kühn, R., & Pfäffli, P. (2012). *Marketing: Analyse und Strategie* (Vol. 14). Zürich: Werd.
Thompson, A. A., & Strickland, A. J. (2003). *Strategic management* (13th ed.). New York, NY: McGraw-Hill.

Diagnosing Strategic Challenges at the Corporate Level

13

13.1 Introduction

The analyses carried out in the Sub-steps 2.1, 2.2 and 2.3 usually result in many aspects, which should be considered when developing the corporate strategy. These different analysis results may point in different directions. In order to gain an overview and to create a coherent starting point for strategy development, a synthesis of the analyses seems necessary. It is therefore recommended to summarize strategic analysis in a few key challenges. “Before a strategy can be developed, the problem it is supposed to address needs to be formulated” (Baer, Dirks, & Nickerson, 2013, p. 197).

In practice, strategic analyses are often summarized with the help of a SWOT analysis. This widely-used approach is briefly presented and assessed in Sect. 13.2. Section 13.3 then presents the TOWS matrix, a further development of the SWOT analysis. It forms the basis for the recommended procedure presented in Sect. 13.4.

13.2 SWOT Analysis

As Fig. 13.1 shows, the SWOT analysis consists of a simple grid that enables the findings of strategic analysis to be summarized in a structured way. Kay speaks of the SWOT analysis as an “organizing framework” (1995, p. 358). The analysis results are divided, on the one hand, into internal and external statements and, on the other hand, into positive and negative statements.

Following Pearce and Robinson (2009, p. 159), the four resulting statement categories are defined as follows:

- Strength: Competitive advantage compared to competitors and in terms of market requirements
- Weakness: Competitive disadvantage compared to competitors and in terms of market requirements

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_13

Strengths	**W**eaknesses
Opportunities	**T**hreats

Fig. 13.1 SWOT analysis grid

- Opportunity: A mainly positive element of the environment from the company perspective
- Threat: A mainly negative element of the environment from the company perspective

Thanks to the SWOT analysis, the obtained analysis results can be easily organized and an overview can be obtained. It is therefore very popular among executives (see Kay, 1995, p. 358).

However, the wide dissemination of the SWOT analysis in practice must not conceal the fact that difficulties and disadvantages are associated with it:

- In general, it is easy to divide the analysis results into internal and external elements. This is not the case for the distinction of strengths and opportunities on the one hand and of weaknesses and threats on the other. For example, high economic growth in China represents an opportunity for many European and North American companies, because it provides business opportunities. But market growth can also represent a threat. If an SME is already active in China, the market growth attracts large competitors to enter China and thereby jeopardizes the market position that has been built up. Disruptive technological change can be an opportunity or a threat too. As Gilbert and Bower (2002, p. 94 ff.) show, it depends on the attitude of the management towards it. Due to these difficulties, Grant (2013, p. 11) does not distinguish between positive and negative analytical results. He only differentiates between internal and external elements. According to the authors, most analysis results can be allocated to the positive or the negative statements. However, this requires thorough work, which is not the case with many SWOT analyses. An analysis result such as above-average economic growth in China can only be qualified as positive or negative when it is placed in a broader context. If the company can export to China at prices which cover its costs, it is an opportunity. If this is not the case, it is neither an opportunity nor a threat. If the company is already highly active in China and if new competitors must be expected due to growth, it is a threat.
- If the SWOT analysis is not used to summarize the results of other analyses, but is used alone, superficial and highly subjective statements must be expected. "Managers rely [in this case] on preconceived, often inherited and biased views" (Johnson, Whittington, & Scholes, 2011, p. 106).

- The SWOT analysis grid shown in Fig. 13.1 only provides for the structured collection of the analysis results which have already been obtained. However, it does not offer any additional insights (see Kay, 1995, p. 358). The SWOT analysis is therefore often reduced to a “listing exercise” (Barney, 2011, p. 10). To avoid this, the opportunities and threats must be linked with the strengths and weaknesses. The TOWS matrix presented in the following section establishes these links.

13.3 TOWS Matrix

The TOWS matrix shown in Fig. 13.2 was developed by Weihrich (1982, p. 54 ff.). A comparison of Figs. 13.1 and 13.2 immediately shows the difference between the SWOT analysis and the TOWS matrix: The TOWS matrix not only lists the strengths, weaknesses, opportunities and threats. It also links the strengths and weaknesses with the opportunities and threats. These links bring additional knowledge and create a good basis for identifying strategic challenges. In fact, the TOWS matrix is nothing more than an intelligent SWOT analysis!

The linking of strengths and weaknesses with opportunities and threats can be done in an analytical way or a verbal qualitative way (see Weihrich, 1982, p. 62 ff.):

- An ordinal scale can be used to make an analytical link. The simplest applicable scale only includes three values: “+”, “0” and “−”. A plus sign means that a strength is able to seize an opportunity or to avoid a threat. A zero indicates that a strength or weakness is not related to an opportunity or a threat. Finally, a minus sign signifies that a weakness questions the use of an opportunity or that it amplifies a threat.
- With the verbal qualitative approach, texts are used to link the strengths and weaknesses with the opportunities and threats. It may be useful here to link several strengths and weaknesses with several opportunities and threats.

The authors are critical of the analytical approach and have a clear preference for the verbal qualitative approach:

- As concrete examples show, the use of an ordinal scale can be very difficult or even impossible.
- Both approaches are strongly influenced by subjective judgments. However, the links on an ordinal scale convey a precise and thus incorrect impression.
- Finally, analytical links are of little help. Ordinal links do not provide the strategy planning team with any concrete indications for strategic action. The verbal qualitative approach, however, can identify the future challenges in concrete terms.

Inset 13.1 illustrates the recommended verbal qualitative approach with the help of an example.

Internal elements / External elements	**Strengths**	**Weaknesses**
Opportunities	Linking strengths with opportunities	Linking weaknesses with opportunities
Threats	Linking strengths with threats	Linking weaknesses with threats

Fig. 13.2 TOWS matrix grid (adapted from Weihrich, 1982, p. 60)

Inset 13.1.

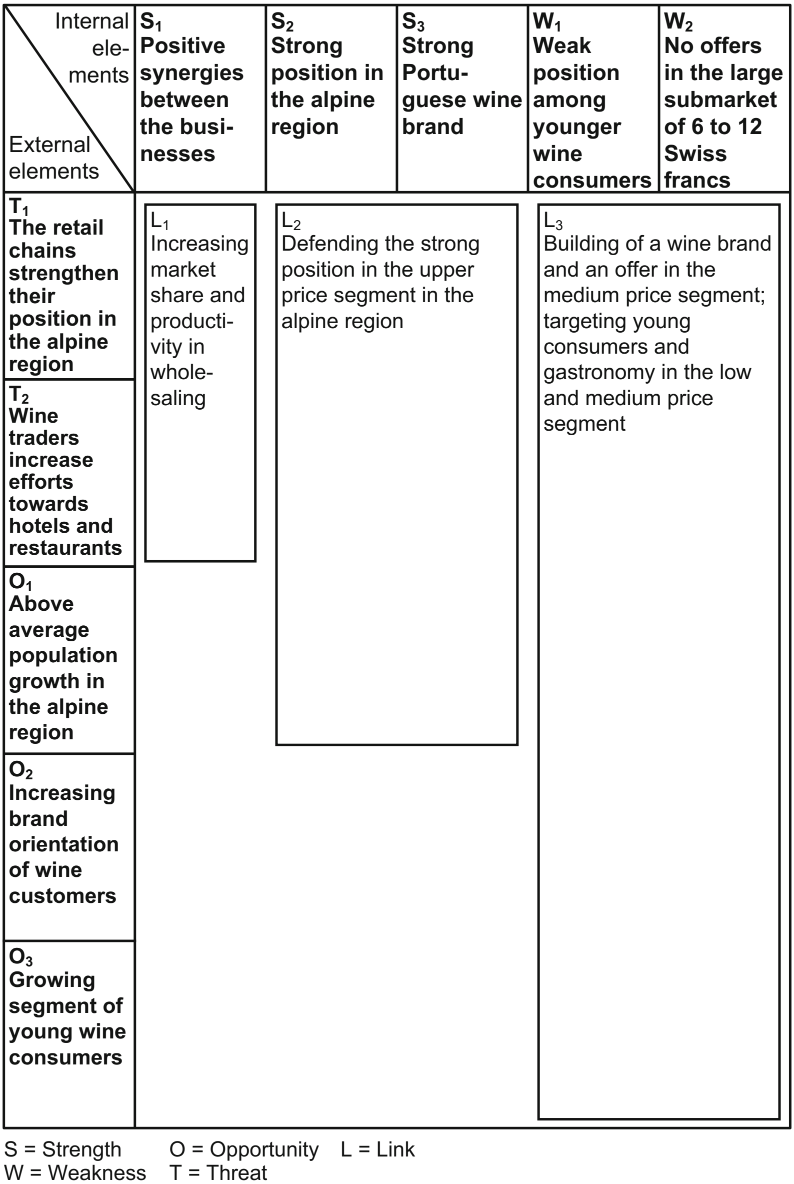
Linking Strengths and Weaknesses with Opportunities and Threats in a Wine Trading Company

Vino Ltd. is a well-known wine trading company in the Swiss Alps:

- Wholesaling is the main activity. Vino Ltd. selects domestic and foreign wines, and its own sales force sells them to hotels and restaurants, as well as to retailers. In addition to independent retailers, customers include a retail chain. Long-standing relationships have been established with some of the suppliers. However, every year, Vino Ltd. tries to include new wines from new suppliers in the range.
- Vino Ltd. is also active at the retail level thanks to its own stores and direct marketing. The stores are located in regional centers in the Swiss Foothills and Alps. Direct marketing includes mailings and telemarketing. Vino Ltd. has succeeded in building a loyal customer base. Its regular customers live mostly in the Alps and are mainly retired.
- A few years ago, a long-standing supplier could be taken over. It is a large Portuguese winery, whose name is well known in Switzerland, due to the efforts of Vino Ltd.

Vino Ltd. covers a price range—in retail prices—of 12–60 Swiss francs.

The following figure shows the main strengths, weaknesses, opportunities and threats of Vino Ltd. and their links. As the figure shows, useful relations only arise when several strengths and weaknesses or several opportunities and threats are considered at the same time.



Linking strengths and weaknesses with opportunities and threats

13.4 Process for Diagnosing Strategic Challenges at the Corporate Level

13.4.1 Overview

The recommended process is shown in Fig. 13.3. In the following section, the three steps are explained.

13.4.2 Description of the Steps

In Step A, the major strengths, weaknesses, opportunities and threats are identified. To avoid statements, which are superficial and strongly influenced by personal interests, this task must be based on the analyses carried out:

- The global environment analysis mainly shows opportunities and threats. They are the result of developments in the company's environment. For example, increasing regulation in major markets can put pressure on margins and thus represent a threat. Another example is the appearance in emerging markets of a middle class with purchasing power. It can create new sales prospects and thus represent an opportunity. If the environment analysis shows several potential development scenarios, they normally lead to different opportunities and threats.
- Opportunities and threats can also be identified based on the analysis of the relevant industries: Competitive arenas with below-average competitive intensity represent opportunities, and markets with high or increasing competitive intensity represent threats. Industry analysis also produces strengths and weaknesses: Strong positions in attractive industries or strategic groups can be interpreted as strengths. However, weak positions in attractive industries and strategic groups, as well as strong positions in unattractive industries and strategic groups, constitute weaknesses.
- Portfolio analysis allows opportunities and threats, as well as strengths and weaknesses, to be identified. As shown in Chap. 12, portfolio approaches always include information on the market attractiveness and on the competitive strength of the businesses. Therefore they have an external dimension, from which opportunities and threats can be identified, and an internal dimension, which allows strengths and weaknesses to be identified. If a Boston Consulting Group portfolio is established, the strengths and weaknesses are limited to market positions. A portfolio analysis using the McKinsey approach, however, is able to show strengths and weaknesses at all three levels of the ROM model (see Chap. 2). In addition to strengths and weaknesses at the business level, portfolio analysis provides an overview of the current situation. A balanced portfolio is a strength, whereas a lack of cash cows or stars represents a weakness.

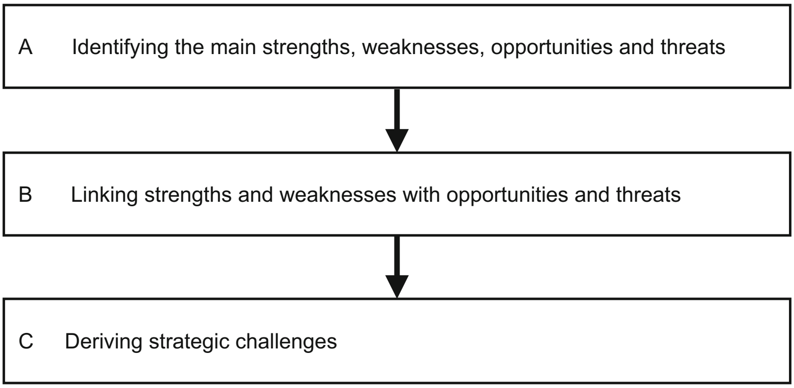


Fig. 13.3 Process for diagnosing strategic challenges at the corporate level

In Step B, the strengths and weaknesses are linked with the opportunities and threats. Inset 13.1 shows how this can be done.

Finally, a few central challenges are identified in Step C. They serve as reference points when developing the corporate strategy (see Part V). In certain circumstances, challenges can be clearly identified in Step B, and Step C is no longer necessary. This is the case, for example, for the company presented in Inset 13.1: The three links can be directly used as guidelines for subsequent strategic planning at the corporate level. In large diversified companies, however, there may be a much greater number of links in Step B. In such cases, it is useful to consider the linking of strengths and weaknesses with opportunities and threats from a distance and to summarize them into a few key challenges.

During their consulting work, the authors have frequently encountered the same strategic issues at the corporate level. These challenges, considered to be typical for Western European companies, are briefly presented below:

- Stagnating domestic markets indicate that the company should consider emerging markets.
- High competitive intensity in the served markets and declining EBITDA margins require rationalization and the relocation of production to countries with lower costs.
- Many weak market positions indicate that the company should focus its future activities.
- An outdated product portfolio compared to competitors requires development projects or the acquisition of innovative companies. For example, pharmaceutical companies are faced with this challenge from time to time. The same can be said for aircraft and automobile manufacturers.
- Consolidation, which can be observed in many industries, may push a company to decide whether to participate in the consolidation process or to specialize.

References

Baer, M., Dirks, K. T., & Nickerson, J. A. (2013). Microfoundations of strategic problem formulation. *Strategic Management Journal, 34*(2), 197–214.

Barney, J. B. (2011). *Gaining and sustaining competitive advantage* (4th ed.). Upper Saddle River, NJ: Pearson.

Gilbert, C., & Bower, J. L. (2002). Disruptive change: When trying harder is part of the problem. *Harvard Business Review, 80*(5), 94–101.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Johnson, G., Whittington, R., & Scholes, K. (2011). *Exploring corporate strategy* (9th ed.). Harlow: Pearson.

Kay, J. (1995). *Foundations of corporate success*. Oxford: Oxford University Press.

Pearce, J. A., & Robinson, R. B. (2009). *Formulation, implementation and control of competitive strategy* (11th ed.). New York, NY: McGraw-Hill.

Weihrich, H. (1982). The TOWS matrix: A tool for situational analysis. *Long Range Planning, 15* (2), 54–66.

Part V

Developing the Corporate Strategy

Part V of this book is dedicated to the third step of the recommended strategic planning process. It looks at the development of the corporate strategy. By developing the corporate strategy, a diversified company determines its future businesses and their target market positions. The projects that are necessary to implement the future corporate strategy are also determined.

This brief description of the corporate strategy is already enough to show its importance. It is certainly not an exaggeration to claim that a corporate strategy determines a diversified company's course for many years.

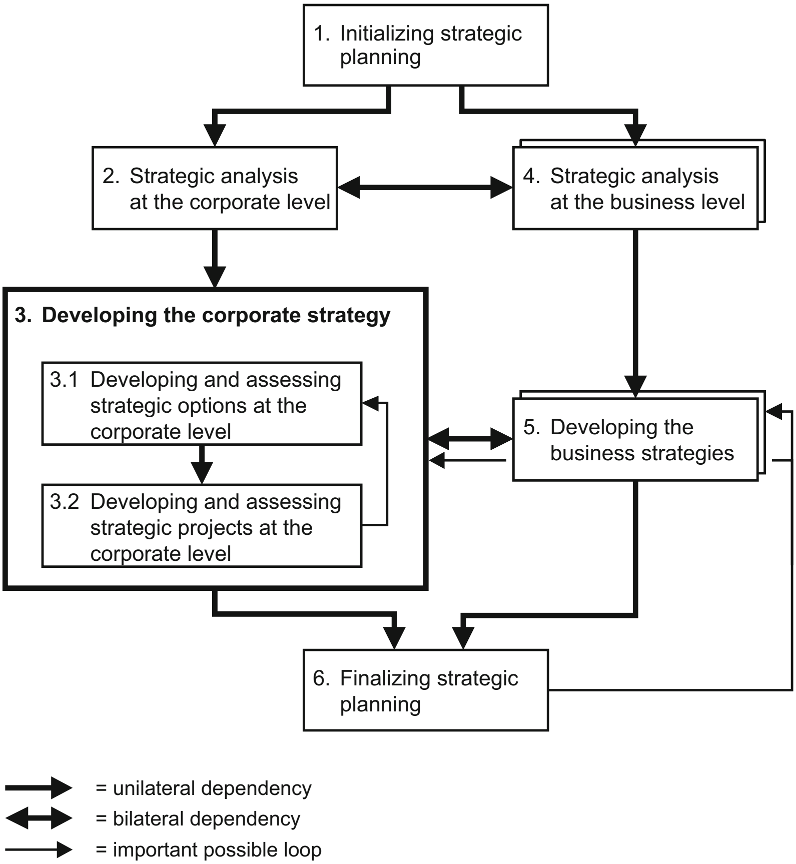
The development of the corporate strategy in Step 3 can be divided into two sub-problems:

- First, options for the future corporate strategy are developed and assessed in Sub-step 3.1. The development and assessment of options increases the quality of the future corporate strategy. Given the importance of the corporate strategy, the additional cost associated with the development of options appears to be justified.
- The option judged to be the best forms the future corporate strategy. In Sub-step 3.2, the projects necessary for its implementation are defined.

The following figure shows Step 3 and its two sub-steps in the strategic planning process.

A chapter is dedicated to each of the two sub-steps:

- Chapter 14 explains how to develop and assess corporate strategy options. After introductory remarks, diversification and concentration are considered in Sect. 14.2. This constitutes a central issue for any corporate strategy. Section 14.3 then shows how to develop and assess corporate strategy options.



Step 3 in the strategic planning process

- Chapter 15 looks at the development and assessment of implementation projects. After introductory remarks, different types of strategic projects are distinguished in Sect. 15.2. Then, a process for the development and assessment of strategic projects at the corporate level is presented in Section 15.3.

14 Developing and Assessing Strategic Options at the Corporate Level

14.1 Introduction

Chapter 14 is targeted at companies or divisions which

- are active in more than one industry market and/or
- are active in more than one geographical market and/or
- have more than one product group in their offer.

These diversified companies or divisions face three key questions:

- Should the range of the company's activities, and thus its portfolio of businesses, be reduced, maintained or extended?
- What are the target market positions for each of the businesses that are to be achieved by the end of the planning period?
- What investment funds will be allocated to the businesses so that they can achieve their objectives?

These three questions are crucial for the development of a corporate strategy. It is recommended that planners should envisage and formulate more than one way of responding to them. In this way alternatives may be compared. The development of different options and the evaluation of these options will certainly have a positive effect on the quality of the future corporate strategy. The time and expense which this work necessarily incurs is more than justified by the importance of the corporate strategy for the future development of the company or division concerned.

Section 14.2 looks first at the range of the company's future activities, which implies considering diversification or concentration of the activities. Section 14.3 then gives an account of how corporate strategy options can be developed and evaluated.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_14

14.2 Diversification and Concentration as Strategic Key Issues

14.2.1 Reasons for Diversification or Concentration

If a company's existing activities are successful, and the future outlook is also positive, then neither diversification nor concentration is wise:

- Extending the activity of the current businesses always involves less risk than diversification. It also allows a company to concentrate its activities, one of the key principles of strategic management.
- Abandoning a business, on the other hand, is a very grave decision. It creates insecurity among staff and can lead to substantial write-offs.

But there are many companies, especially in Western Europe and North America, which are operating primarily in stagnating or shrinking markets. These are competitive arenas characterized by high competitive intensity and extreme pressure on margins. In these situations, only those with the strongest market positions can hope to grow by stealing market share from the competition. And even these companies will often be unable to make such a strategy profitable. In this situation growth through diversification is a prime option.

When businesses are failing to break even and there is no prospect that any viable investment program might put them back into the black, then divestment to concentrate the company's activities becomes a priority. A strategy of concentration should also be considered if the company does not have sufficient resources, either to hold on to strong market positions or to strengthen weak positions.

It must be stressed that it is perfectly possible for both concentration and diversification to be recommended at the same time. It may be necessary to both clean up a portfolio with loss-making businesses by divestment and at the same time to try to identify diversification opportunities in order to introduce businesses into the portfolio with a potential for growth. Indeed, it is often the divestment of loss-making businesses that can free up resources for new businesses.

Dranikoff, Koller, and Schneider (2002, p. 75 ff.) generally propose an active portfolio management including acquisitions and sales of businesses. They don't even exclude selling of successful businesses in this context.

14.2.2 Forms of Diversification and Concentration

Figure 14.1 provides an overview of the various forms of diversification. The grid is an extension of the Ansoff-Matrix (see Chap. 3). This section reviews these different forms of diversification and the difficulties associated with them.

Based on the existing end-users and geographic markets, two kinds of related diversifications are possible:

<table>
<tr><th>Markets / Products and services</th><th>Existing end-users and geographic markets</th><th>New customers in existing geographic markets</th><th>Similar customers in new geographic markets</th><th>New customers in new geographic markets</th></tr>
<tr><td>Existing products and services</td><td>Improved market penetration</td><td>Customer diversification (∗)</td><td>Geographical diversification (∗)</td><td>Geographical and customer diversification (∗)</td></tr>
<tr><td>New products and services at the same level of the industry value chain</td><td>Horizontal diversification (∗)</td><td colspan="3" rowspan="3">Related lateral diversification (∗)
Unrelated lateral diversification</td></tr>
<tr><td rowspan="2">New products and services at a different level of the industry value chain</td><td>Vertical forward diversification (∗)</td></tr>
<tr><td>Vertical backward diversification (∗)</td></tr>
</table>

(∗) = related diversification

Fig. 14.1 Forms of diversification (adapted from Grünig and Morschett, 2012, p. 70)

- New products and services can be introduced. Such horizontal diversifications happen frequently in practice. For example, Switzerland's giant retail firms were able to increase their sales significantly by introducing specialist retail outlets for electronic goods, sport, and DIY. Such horizontal diversification carries little risk. The position in the value chain is a familiar one—retail sales—and the customers are not an unknown quantity either. Only the products are new. In cases where the company determines that the introduction of such products would not be straightforward, then the new product groups can be introduced with the help of a partner firm. This is what Migros Switzerland decided to do when they diversified into DIY. Their partnership with OBI secured Migros expertise for the relevant products as well as economies of scale in procurement.
- In most industries the creation of value takes place across a number of steps in the value chain. In this context Porter speaks of a value system (1985, pp. 59 ff.). Figure 14.2 illustrates the value chain in the watch industry. Forward or backward integration extends the depth of the company's value creation. With this vertical form of integration, the end-users and their needs remain unchanged.

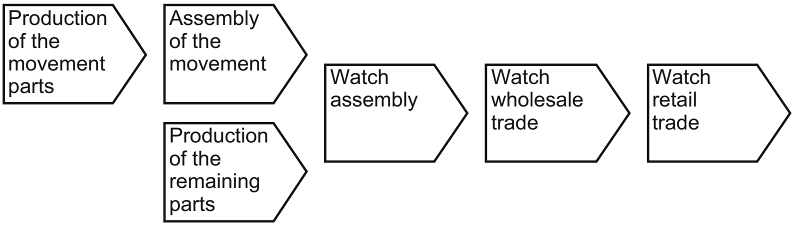


Fig. 14.2 Steps in the value chain for the watch industry

But there will be new and potentially significant challenges at each new step of the value creation. The Swatch Group has decided that, in the medium term, it will no longer supply its competitors with an unlimited range of components. As there are few alternative suppliers, many of the watch producers will be forced into backward integration, a step which brings with it a huge requirement for investment and great technical challenges. This industry can also provide examples of forward integration. Omega, for instance, has opened a range of signature stores, which have contributed to its margins as well as strengthening its marketing.

Existing products and services also offer possibilities for related diversifications:

- New customer segments may be targeted. One Swiss retailer acquired a distributor for hotels, restaurants and canteens, thus bringing in a new and growing customer group for its products. However, these new customers have different requirements for the products and services. Meeting these requirements may need investment and the adjustment of processes. For example, hotels, restaurants and canteens will require catering-sized packages, with a different form of distribution and adapted marketing methods.
- Geographic diversification is frequently observed. An example of this is the way in which numerous European and North American companies have established positions for their products and services in the BRICS and other growing markets. Geographical diversification often implies new customer groups. Take Swiss producers of heavy machinery. In Western Europe and North America these companies can sell directly to end-users. But in new markets the political, legal and cultural context is quite different. Here it often makes no sense to try to sell directly to the user; a better strategy may be to cooperate with a local representative. Entry into a new geographical market always carries risk. Even companies with extensive international experience and who have thoroughly researched their new market have no guarantee of success. One example is Carrefour, a French retailer which failed twice to enter into the Swiss market, and another is Nestle, which failed to establish its milk products in Vietnam. For SMEs the rate of failure is much greater, and a very long list of flops could be added here. There is, in fact, no way to avoid the risk of failure in a new market.

Our conclusion from this is that it is essential to set quantitative objectives and to withdraw promptly if these repeatedly fail to be met.

Up to now the diversification forms we have reviewed have all been based on existing end-users and markets or on existing products and services. These forms of diversification are known as related diversifications. But the next category is lateral diversification, which exists in both a related form and an unrelated form.

When new products or services target new customers or new geographic markets, then we speak of lateral diversification. Here both the offer and the market represent a new area for the company. This means that the company cannot draw on experience with existing activities in regard to the offer or the market. The only relevant experiences can be found at the resource level.

- We can speak of related lateral diversification in cases where the new offer is founded on existing resources (see Sects. 17.5 and 17.6). Prahalad and Hamel (1990, pp. 79 ff.) explain that competences often allow companies to make a success of new product groups in new markets. The classic example is Canon. As Fig. 14.3 makes clear, cameras, photocopiers, printers and calculators all depend on the same technological resources (Prahalad and Hamel, 1990, p. 89). But although the resources required may be familiar, the company faces a new competitive arena. Here they will find established companies with years of experience and strong customer relationships. As a result, even if it has a "related" form, there are always considerable risks with lateral diversification.
- In large conglomerates like General Electric we can observe activities which have no essential connection with one another on any level of the ROM model (see Chap. 2). These represent unrelated lateral diversification. It comes as no surprise to learn that such conglomerates manage their portfolio in the same way as one might manage an investment portfolio, continually restructuring and

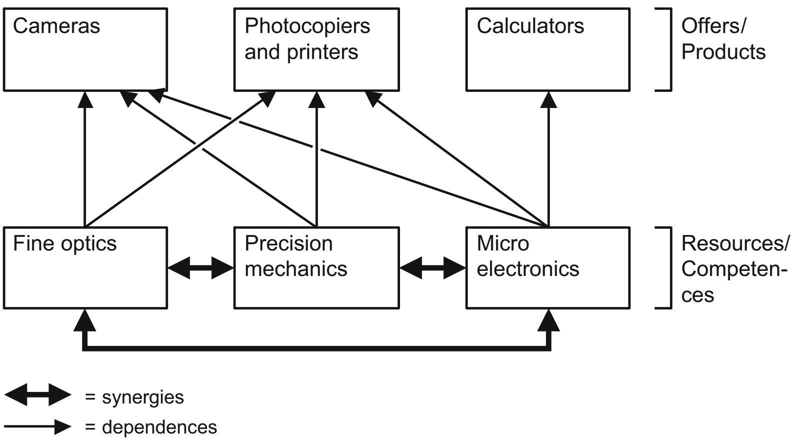


Fig. 14.3 Products and competences of Canon (adapted from Prahalad and Hamel, 1990, p. 90)

rebalancing it. High risk is attached to unrelated lateral diversification, as at every level of the ROM model the company will be treading new ground. We recommend avoiding this form of diversification. It can only be risked if it proceeds via an acquisition and if the company has solid experience in assessing candidates for acquisition.

As with different forms of diversification, there are varying forms of concentration:

- Abandonment of products or services
- Reduction in the depth of the value chain
- Abandonment of customer groups
- Withdrawal from geographical markets
- Combinations of these four

The risk of concentration lies in losses of turnover and in extraordinary amortizations and depreciations. But these risks are typically smaller than the risks of diversifications.

Here are examples of each form of concentration:

- The Swiss banking giant UBS announced that it was giving up the majority of its investment banking activity.
- Automobile manufacturers have for years now been systematically reducing the depth of their value creation. A number of firms now concentrate exclusively on assembly operations and marketing.
- The coffee roaster we introduced in Inset 2.1 decided to abandon its services to retail customers and concentrate exclusively on supplying hotels, restaurants and canteens.
- Carrefour made two unsuccessful attempts to enter the Swiss market, on each occasion withdrawing after a couple of years.
- A firm selling radio transceivers decided to tackle its lack of success with a radical form of concentration. It abandoned production and retail sales. The transceivers were now purchased from a competitor and assembled into systems. These systems were only sold to customers with special requirements including transport firms, police and emergency services, and military organizations.

14.2.3 Assessment of Diversification or Concentration Possibilities

To assess possible diversification, the following criteria are important:

- The attractiveness of the new industry or strategic group (see Porter, 1987, pp. 46 f.): Diversification almost always involves entering a new competitive arena, which means becoming part of a new industry or a new strategic group. The attractiveness of an industry or of a strategic group can be assessed with the Five Forces model and the Strategic Group model (see Chap. 11). The criteria proposed by Hill and Jones can be used to evaluate the market or submarket (see Sect. 12.3).

- Adjusting the portfolio of businesses: diversification is often proposed in cases where the existing portfolio fails to offer sufficient promise of growth (see Sect. 14.2.1). Accordingly, a diversification option must be evaluated in terms of its contribution to the portfolio. The diversification should have a positive impact on the balance between mature and future-oriented businesses (see Sect. 12.4.4).
- Synergies with existing activities: "Either the new unit must gain competitive advantage from its link with the corporation or vice versa" (Porter, 1987, S. 46). The importance of positive synergies among the activities of a company is confirmed by a large number of empirical studies. Inset 14.1 presents a meta-analysis of such studies (see Palich, Cardinal, & Miller, 2000, pp. 155 ff.).
- Return (see Porter, 1987, pp. 47 ff.): Once a diversification option has been worked out in detail, it becomes possible to assess it in economic terms. The rate of return on the proposed investment is often calculated with a tool like Net Present Value (see Sect. 4.3).

These four criteria can also be applied to assess a concentration option:

- Is the abandoned industry or strategic group, one which is unattractive and is also unlikely to gain significantly in attractiveness in the future?
- Will the concentration option lead to a better balanced portfolio?
- Will the proposed abandonment of a business be possible without any significant negative effects on the remaining businesses?
- Will the concentration option have a positive effect on corporate performance?

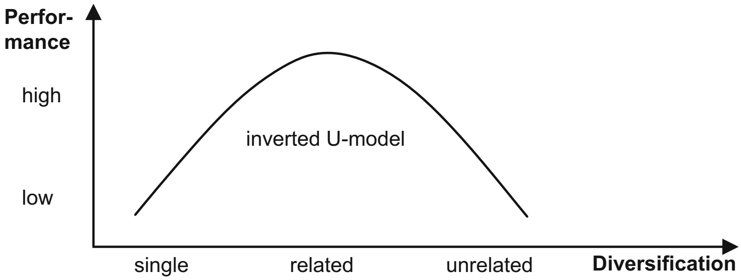
Inset 14.1.

Diversification-Performance Analysis

The inset is based on Palich et al. (2000, pp. 155 ff.)

There are a large number of empirical studies on the effects of diversification on performance. The meta-analysis of Palich, Cardinal and Miller summarizes 55 of them.

The meta-analysis has the possibility to include a large number of observations and provides a clear result. An extension of the range of activities increases the performance—measured by profitability and growth—as long as there are positive synergies between the activities. But if diversification continues too far and leads to the formation of a conglomerate, then performance falls. The lack of positive synergies is accompanied by increased costs for management and coordination. This inverted U model is presented in the figure below, visually summarizing the results of the meta-analysis.



Inverted U Model as finding of the meta-analysis (adapted from Palich et al. 2000, p. 157)

Palich, Cardinal and Miller's meta-analysis leads to a key conclusion for management practice: everything depends on positive synergies. It makes sense to broaden the range of activity, to increase the level of diversification, as long as positive synergies are created. Such synergies can be found in very different areas, from cost synergies (for instance shared production facilities or shared procurement) to shared technological know-how and to market-oriented synergies (for instance shared "umbrella" brand and cross-selling).

14.3 Process for Developing and Assessing Strategic Options at the Corporate Level

14.3.1 Overview

Figure 14.4 presents an overview of the recommended process. In the sub-sections below each of the three steps will be reviewed.

14.3.2 Recapitulating Objectives and Boundary Conditions

Before beginning to work on the development of corporate options, it is necessary to bring back to mind the agreed upon goals and boundary conditions. This first step is vital in order to avoid wasting time on developing options which do not respect these conditions and which therefore have no chance of being approved.

A number of conditions will have resulted from Step 1 "Initiating strategic planning" (see Part III):

- The overriding corporate goals and values have been set and this imposes a normative framework. The corporate strategy must support the long-term realisation of these goals and values.

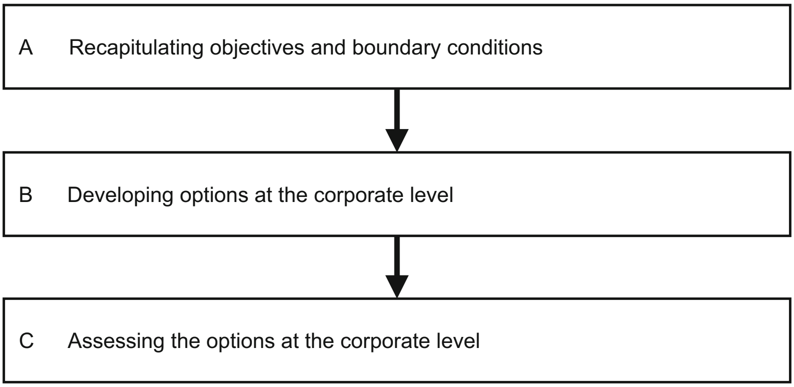


Fig. 14.4 Process for developing and assessing strategic options at the corporate level

- Issues have also been formulated and the strategic options must offer ways to deal with them.
- The strategic businesses of the corporation have been defined. The strategic options must address the future of these businesses, if only somewhat loosely. The detailed planning of future strategies for individual businesses will come later in the planning process, in developing the business strategies.
- Finally, a financial framework will have been set for implementing the various strategies. The strategic options must work within this framework.

Step Two provided a strategic analysis at the corporate level (see Part IV). It led to a summary of the strategic challenges faced by the company. The strategic options must address these challenges.

14.3.3 Developing Options at the Corporate Level

In Step B two or three options for the future corporate strategy are developed. As these are options at the corporate level, planners should not aim for a high level of detail. These corporate strategy options should indicate in approximate terms the future targets for the existing businesses and general thoughts about diversification. It seems wise to formulate corporate strategy options that leave some space for the individual business strategies which are to be determined later, rather than largely preempting the later discussions.

The development of corporate strategies can usefully begin with the listing of measures which the planners consider to be essential, whatever the final corporate strategy should be. For example, imagine a regional retail bank offering savings accounts, loans and payments for individual customers and which is the leading bank in its regional market. Maintaining its position must be the bank's first priority. One can hardly imagine drawing up a corporate strategy for this bank which did not include maintaining this leading competitive position. Another must might be the need to deal with activities that are running at a loss. For example, a car parts distributor was making profits in Austria and Switzerland, but losing money in Spain. The divestment of the business in Spain was a priority and was therefore included as part of every corporate strategy option.

In practice, it is often the case that measures, which are considered to be essential and must therefore be part of any corporate strategy option, will already consume a large proportion of the financial resources available for the implementation of the corporate strategy. If this is so, then it becomes all the more important to make the best possible use of the remaining resources:

- In general, sharing resources equally among the businesses is unlikely to produce a strong effect. It is better to concentrate the resources and to invest in a small number of growth projects. In some cases all available resources might be used for a single project.
- Typically there will be a number of different ideas for the introduction of new activities or the strengthening of existing businesses. As a result, different options must be developed. Step C involves assessing these different options. The option which is assessed most positively should be selected as the new corporate strategy.

A matrix can be used to present the corporate strategy options. This makes it easier to gain an overview of the options and to compare them. Figure 14.5 presents this matrix:

Option / Description	**Option A**	**Option B**	**Option C**
Indication or short description			
Current businesses to maintain			
Current businesses to develop			
Current businesses to reduce			
Current businesses to divest			
New businesses to introduce; diversifications			

Fig. 14.5 Corporate options matrix

- Usually it is best to produce only a small number of options. They should, however, each be distinct.
- The basic idea underlying each option should be summarized in a short phrase or sentence. This summary must emphasize the elements which distinguish this one option from the others. Typically what needs to be made clear is the particular growth target where the available cast will be invested in.
- For each corporate strategy option it is necessary to make clear what the broad objectives will be for each of the existing businesses and what diversification ideas are part of the proposal.

Inset 14.2 offers an example of how this corporate options matrix was used on behalf of an international producer of synthetic parts.

Inset 14.2.

Corporate Options Matrix for Polymer

Based in France, Polymer produces synthetic parts for industrial machinery and producers of consumer electronics devices. The company has three business fields:

- In France the company produces synthetic cogwheels for industrial machines. These wheels are high quality products, very small or tiny in size (Business field 1). For these niche products Polymer is the leader in the European market (Business unit 1.1). And a few years ago the company made a successful entry into the markets of Japan and South Korea. In these markets the company is today the third strongest competitor (Business unit 1.2).
- For consumer electronics Polymer produces housings (Business field 2). A production facility in France supplies virtually all the producers of high quality appliances around the world. Polymer only supplies housings for genuine premium products. This is a small market, but a profitable one, and Polymer is the undisputed market leader.
- Five years ago the company opened a facility in China which manufactures standard quality housing for HiFi equipment. These products are sold under a separate brand to producers of such equipment in China and South-East Asia (Business field 3). However, here the targets in the business plan for turnover and contribution margin have not been achieved. In fact, the losses have been dramatic and, now in its fifth year, this business field continues to show a large shortfall. Customers prefer to use Chinese competitors. Their products are clearly of inferior quality but remain some 10 %–20 % cheaper, despite Polymer's price reductions.

The figure below shows the matrix with three corporate strategy options for Polymer:

- There is much that the three options have in common. They all stipulate that the company's leading positions in Business Unit 1.1 "Cogwheels Europe" and in Business Field 2 “Housing for consumer electronics” must both be maintained. They also all propose, at least, maintaining the position for Business Unit 1.2 “Cogwheels Asia”.

Option / Description	**Option A**	**Option B**	**Option C**
Indication or short description	Increase market share for cog-wheels in Asia	Enter North American market for cogwheels	Move into housings for PC and tablets
Current businesses to maintain	▪ Cogwheels in Europe ▪ Electronics housings	▪ Cogwheels in Europe ▪ Cogwheels in Asia ▪ Electronics housings	▪ Cogwheels in Europe ▪ Cogwheels in Asia ▪ Electronics housings
Current businesses to develop	Cogwheels in Asia		
Current businesses to divest	HiFi housing in China	HiFi housing in China	HiFi housing in China
New businesses to introduce; diversifications		Cogwheels in North America	Housing for PC and tablets

Matrix of corporate strategy options for Polymer

- After 5 years without success, Business field 3 “HiFi housings in Asia” must absolutely be shut down now. The write-offs that this divestment will mean will be extraordinarily costly for the company. As a result the financial performance for the coming years will be severely affected and this, in turn, will reduce the resources available for new initiatives.
- With the closure of the Chinese facility representing significant costs, only a single growth project can be afforded. Three proposals are on the table. (A) Business field 1.2 “Cogwheels in Asia” is strengthened. The objectives would be to improve the company’s market positions in Japan and South Korea and to enter the markets in South-East Asia. (B) The company would enter the North American market for its cogwheel products. This would create a new third business unit within Business Field 1. (C) This option proposes that the company should manufacture housings for PCs and tablet computers. The plan involves targeting only the premium segment. To begin with, production would take place in the existing facility in France. The result

of Option C would be that Business Field 2 would have two business units: “Housing for consumer electronics” and “Housing for PCs and tablets”.

14.3.4 Assessing the Options at the Corporate Level

Step C is the evaluation of the corporate strategy options. In most cases it is not possible to use an investment appraisal; this is because the strategic options will not have been formulated in sufficient detail to allow a reliable calculation of the financial outcomes. Chapter 4, above, explains how and why replacement criteria are used to assess the various options.

Figure 14.6 gives an overview of the assessment criteria recommended by the authors. As the figure shows, two assessment tasks can be distinguished:

- The first task includes the assessment of the target market positions of the different strategic businesses.
- Then, the target portfolio associated with the option is assessed. The portfolio is assessed for the end of the planning period based on the assumption that the strategy option can be implemented.

The assessment of the target positions of the individual businesses should not only cover the current businesses, but also planned diversification. Two criteria are used:

- First, the future attractiveness of the markets served by the businesses is assessed. Here, market growth is of central importance. In addition to future market growth, it is often useful to assess changes in competitive intensity and the associated evolution of margins.
- Second, the strength of the businesses at the end of the planning period, in particular the probability that they can achieve the targeted market share, is assessed. The achievement of market share objectives depends on the building

Assessment of the target position of each business	Assessment of the target portfolio
▪ Market attractiveness, especially market growth ▪ Competitive strength, especially market share	▪ Balance ▪ Potential for synergies ▪ Robustness

Fig. 14.6 Criteria for assessing corporate strategy options

up of necessary strengths and the elimination of identified weaknesses in the offer and at the resource level. If the portfolio analysis (see Chap. 12) was carried out using the McKinsey approach, the assessment should be quite easy. However, if a Boston Consulting Group portfolio was created, the information to soundly assess the strengths and weaknesses of the businesses may be missing. It may therefore be necessary to carry out a rough analysis of strengths and weaknesses. This takes time. But an incorrect assessment of businesses would have serious consequences and must therefore be avoided.

The crucial task in the evaluation of corporate strategy options is the evaluation of the target portfolio. There are three areas to examine:

- It is always necessary to evaluate the balance of a portfolio (see Chap. 12). There must be a balance between businesses in mature markets, which produce free cash flow, and businesses in growing markets, which will require investment.
- As we have seen, empirical research has demonstrated the direct link between the synergies in a portfolio and the corporate performance (see Inset 14.1). Accordingly, for each option, the resulting portfolio must be assessed from this perspective too. One way of approaching this is to use the Ashridge Matrix, which is presented in Inset 14.3.
- An important aspect which is seldom highlighted is the question of the robustness of the resulting portfolio. According to Fink, Schlake, and Siebe (2000, pp. 40 ff.), an option can be considered to be robust if it guarantees at least the survival of the company in all anticipated future scenarios. Obviously, it is very hard to make this kind of assessment. A fully grounded assessment requires a simulation exercise (see Chap. 10). But it is already of considerable benefit if the strategy planners discuss this question. This involves juxtaposing the target portfolio for each option with the conditions in each scenario. Our experience shows that such discussions usually offer sufficient insight to allow a rough assessment of robustness.

In principle, the option which is most positively evaluated should be selected as the new corporate strategy. But two important issues must be noted:

- If none of the options achieves a satisfactory result in the evaluation, then, following the principle of "generate-and-test" (see Inset 6.1), new options must be developed.
- If all goes well and an option can be chosen, then it should at first be treated as a temporary choice. Typically the following work on developing business and functional strategies, will lead to changes in the corporate strategy, whether major or minor. It is only after the overall evaluation carried out in Step 6 "Finalising the strategic planning", that the proposed corporate strategy becomes a definitive choice.

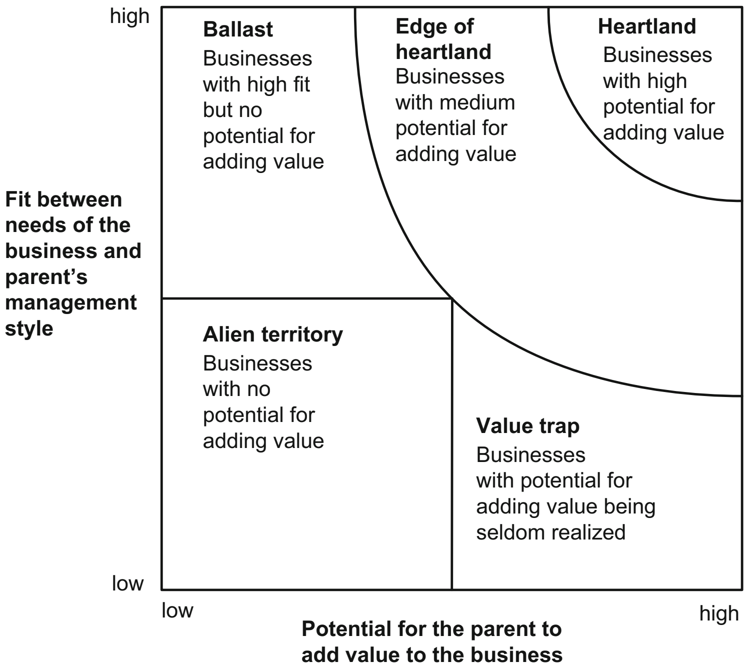
Inset 14.3.

Ashridge Matrix for Assessing the Synergy Potentials of a Business Portfolio

The inset is based on Campbell, Goold, and Alexander (1995, pp. 120 ff.).

A diversified corporation can only be justified if value is added to the businesses by the corporate level. If no added value is created, then the individual businesses could just as well function as independent companies.

Campbell, Goold and Alexander of the Ashridge Strategic Management Center investigated the precise conditions under which the corporate level can create extra value for a business, and thus justify its existence. To address this question they developed the "parenting-fit matrix for a diversified company" (Campbell et al., 1995, p. 129). This is generally referred to in the literature as the Ashridge Portfolio (see for example Grant, 2013, pp. 369 f.). But it is rather unfortunate that it should be referred to as a "portfolio", as the two dimensions of the matrix each represent internal perspectives.



Ashridge matrix for assessing the synergy potentials of a business portfolio (adapted from Campbell et al., 1995, p. 129; Grant, 2013, p. 370)

The figure above presents the Ashridge Matrix. The abscissa represents the assessment of the corporate level's ability to add material value to an individual business. The central question is whether industry-specific success factors (see Inset 11.3) are under control at the corporate level. The ordinate indicates the degree of fit between the management style of the corporation and the needs of the individual business. Campbell, Goold and Alexander recognized that synergies are not solely a question of material contributions, but that soft factors are also important. Accordingly, they included this in their approach. However, in practice any evaluation of the degree of fit between a corporate management style and the needs of a particular business remains a difficult undertaking and will rely principally on subjective elements.

If a strategic option has many businesses in the "heartland" and the "edge of heartland" areas, this indicates good potential for synergies. In contrast, if the businesses are spread across the matrix, or worse, clustered in the bottom left, this clearly speaks against the option.

References

Campbell, A., Goold, M., & Alexander, M. (1995). Corporate strategy: The quest for parenting advantage. *Harvard Business Review, 73*(2), 120–132.

Dranikoff, L., Koller, T., & Schneider, A. (2002). Divestiture: Strategy's missing link. *Harvard Business Review, 80*(5), 74–83.

Fink, A., Schlake, O., & Siebe, A. (2000). Wie Sie mit Szenarien die Zukunft vorausdenken. *Harvard Business Manager, 2*, 34–47.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Grünig, R., & Morschett, D. (2012). *Developing international strategies*. Heidelberg: Springer.

Palich, L., Cardinal, B., & Miller, C. (2000). Curvilinearity in the diversification—performance linking: An examination over three decades of research. *Strategic Management Journal, 21*(2), 155–174.

Porter, M. E. (1985). *Competitive advantage*. New York, NY: Free Press.

Porter, M. E. (1987). From competitive advantage to corporate strategy. *Harvard Business Review, 65*(3), 43–59.

Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review, 68*(3), 79–90.

Developing and Assessing Strategic Projects at the Corporate Level

15

15.1 Introduction

Strategic project plans are one of five categories of strategic documents (see Chap. 5). According to the authors, strategic intentions can be effectively and efficiently implemented only with the help of strategic projects. They constitute an essential link between strategic ideas and the concrete actions necessary to realize them. "Too often, elegantly conceived strategies fail to help a company because managers do not define the projects . . . that are required to implement high-level statements of strategy" (Christensen, 1997, p. 154).

In the following text, different types of strategic projects are distinguished and briefly described. Then, an approach is recommended to develop and assess projects at the corporate level.

15.2 Types of Strategic Projects at the Corporate Level

15.2.1 Overview

Before presenting the different types of projects, the strategic projects at the company level are first defined. As Fig. 15.1 shows, Chap. 15 only deals with projects which directly result from the corporate strategy. Projects to implement the business strategies and the functional strategies, which are only an indirect result of the corporate strategy, are excluded. They are explained later in Chaps. 20 and 21.

The implementation of strategies can be divided into two categories: direct implementation measures and indirect support measures. The former measures contribute to achieving strategic goals, such as developing a new market. The indirect support measures create favorable conditions and thus increase the effect of the direct implementation measures. Examples include the adjustment of the organizational structure and staff training.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_15

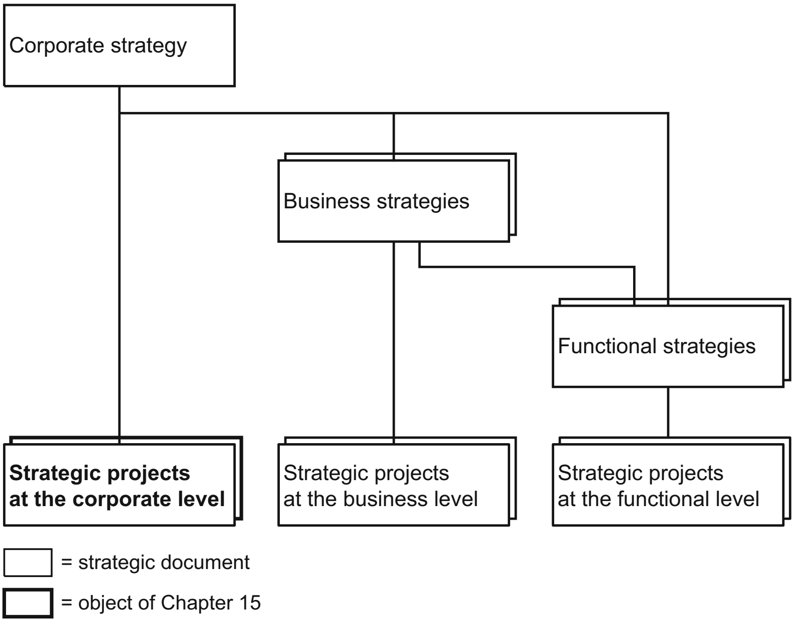


Fig. 15.1 The strategic projects considered in Chap. 15

15.2.2 Direct Implementation Projects

Direct implementation measures at the company level consist almost exclusively of projects that modify the company's business portfolio. They can be divided into diversification projects and concentration projects.

Diversification can take place through acquisitions, joint ventures or building new businesses from scratch (see Miller & Dess, 1996, p. 254 ff.):

- The advantage of an acquisition is that a new business is quickly in place. From the very beginning, the new business benefits from the necessary know-how, whether this business relates to a new level in the value chain, to new products and/or to a new geographic market. The risks lie in an overly optimistic assessment of the acquired company, in too high a price for the acquisition and in problems of integration (see Miller & Dess, 1996, p. 254 ff.).
- Joint ventures are advantageous when partners have complementary skills and resources. However, in cases where they involve the sharing of strategically important skills, the danger exists that know-how will be transferred to the partner company, which is often also a competitor.
- Diversification can also be the result of the company's own research and development. In the pharmaceutical industry and in the capital goods industry, the development of new products is often the fruit of the company's own work. However, there is always a risk associated with such developments. If the

development project is considerable in relation to the company's size, there are even substantial risks. An impressive example is the failure of the former Bührle Group in its attempt to develop an anti-plane missile. Although the company had a strong market position in the field of anti-aircraft cannons, and the management at the time saw the new product as a diversification into a closely related product, the project brought the company to the brink of extinction. The investment required exceeded by many times the planned budgets and the final product was a weapon system that proved so inferior to its competitors that it was impossible to sell.

Diversification ideas are made concrete and implemented with the help of projects. From the content point of view, these projects often aim to develop a business strategy. Therefore, the explanations in Part VI "Strategic analysis at the business level" and Part VII "Developing the business strategies" are significant.

There are also several ways for abandoning strategic businesses:

- The sale leads to a rapid adjustment of the business portfolio. If it is a loss-making business, the "hole" can quickly be "filled". In case of significant losses, it can make sense to sell a business at a symbolic price or even at a negative price. A producer of steel products, for instance, alleviated its French subsidiary from debts, to be able to sell it. This led to a win-win situation. The seller got rid of the losses, the buyer made an economically wise acquisition and the employees did not lose their jobs. When selling a business, there are two main potential buyers: Competitors can increase their absolute and relative market share by acquiring the business. A management buy-out may also be considered. The disadvantage of a sale is that it is difficult to predict how much it will bring in. Obtaining a good price often depends on whether there is more than one potential buyer with a genuine interest and thus a competitive situation arises.
- Where there is no great interest in acquiring the business, a harvest strategy is often the best choice. Figure 15.2 shows the development of free cash flow of a successful harvest strategy (see Hill & Jones, 1992, p. 302). As only the bare minimum is invested in marketing, product development and infrastructure, free cash flow initially rises. However, the lack of investment brings a continuous loss of market share, which leads, at a certain point, to a rapid decrease in free cash flow. The success of a harvest strategy depends on whether the managers can be motivated for this thankless task. It is also important to conceal the strategy from customers for as long as possible.
- Liquidation should only be chosen when neither of the other two strategies is possible. Liquidation not only means writing off fixed and current assets, but also can bring extra costs in redundancy arrangements and environmental clean-ups.

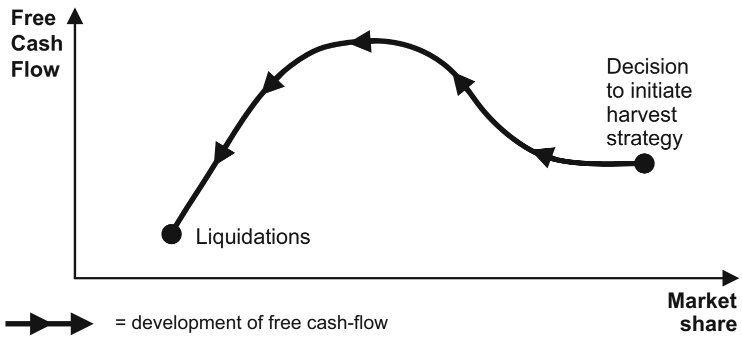


Fig. 15.2 Development of free cash-flow in a successful harvest strategy (adapted from Hill & Jones, 1992, p. 302)

15.2.3 Indirect Support Projects

Whereas direct implementation measures focus on modifying the business portfolio, indirect support projects cover a wide range of measures. From a practical point of view, three types of measures can be distinguished:

- Projects to adapt management systems and structures
- Personnel-related projects
- Projects to exploit synergies

Strategies often require the adjustment or development of management systems and structures. If this is not done, the impact of direct implementation projects can be significantly reduced. Often, reporting must be adapted to the future business structure. If this measure is not taken, strategy implementation cannot be monitored. In addition, the future strategic businesses should not be simply virtual entities, but correspond to real areas of responsibility for managers. Therefore, adjustment to the organizational structure is often required according to Chandler's principle that "structure follows strategy" (1962, p. 14).

As explained in Sect. 15.2.2, diversification into new businesses often takes place through acquisitions. A quick and smooth integration of the acquired company represents an important condition for success. As Grant (2013, p. 365) points out, key persons in acquired companies often leave, because their attitudes do not fit with the culture of the buying company. In order to replace them, the company must be able to rely on a pool of managers. To do so, an extensive management development system is needed. In the absence of such a system, its development will be an important support project.

Finally, projects to exploit synergies are possible at the corporate level. They increase the performance of the company and thus the strategic room for manoeuver. Important synergy potentials, such as across-business logistics, are often tackled with the help of functional strategies (see Chap. 21) and not with projects. However, there are also less important possibilities for synergies in every company. For example, a cash management system for all businesses can reduce credits.

15.3 Process for Developing and Assessing Strategic Projects at the Corporate Level

15.3.1 Overview

The development and assessment of projects to implement the corporate strategy is Sub-step 3.2 in the strategic planning process. As Fig. 15.3 shows, the task can be divided into five sub-tasks. They are described in the following sub-section.

15.3.2 Description of the Steps

The starting point for the definition of implementation projects is the temporarily selected corporate strategy. It is essential that all members of the planning team

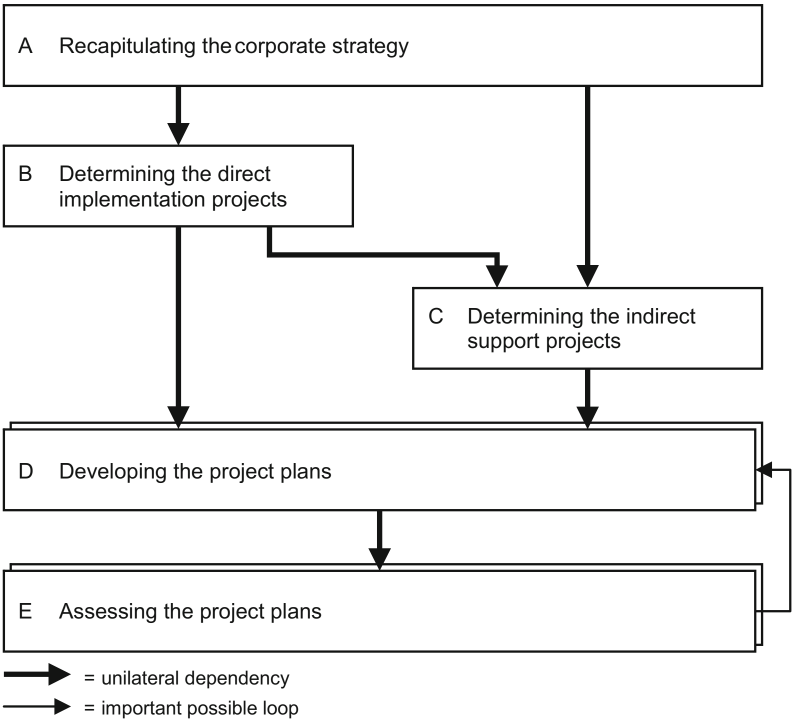


Fig. 15.3 Process for developing and assessing strategic projects at the corporate level

know and understand the document. Therefore, it is recommended to discuss the corporate strategy in Step A before defining the projects. This is especially important if it does not yet exist in the form of a text, but only in the form of a presentation.

In Step B, the projects needed for direct strategy implementation are defined. These projects change the business portfolio. If a clear corporate strategy exists—this should be the case if it was developed according to the process recommended in Sect. 14.3—Step B usually does not represent a problem. From a practical point of view, it makes sense to define a strategic project for each planned diversification and/or concentration. As the corporate strategy of a company or a division usually requires only a few direct changes in the business portfolio, few implementation projects usually result.

In Step C, indirect support projects are derived from the corporate strategy and the direct implementation projects. The task is much more open than the one in Step B. In general, there are numerous possibilities:

- to improve management systems and structures
- to create favorable conditions for the implementation of strategy at the human resources level
- to exploit synergy potentials.

However, the aim is not to define ten or more strategic projects to support the implementation of the corporate strategy. The indirect support projects should rather be defined according to the principle "focus on the essentials". Measures should be identified, which can significantly facilitate strategy implementation or which promise significant synergy gains. Therefore, there are usually only a few indirect support projects.

The projects defined in Steps B and C are planned in Step D. Four issues should notably be answered:

- What are the expected effects? The objectives associated with the project should be formulated in a precise way so that they are verifiable. For example, market share objectives or sales objectives can be formulated for the various products and years when entering a new market. In addition, the year in which positive free cash flow should be achieved for the first time can be specified.
- What measures should be taken and what is the deadline for their realization? When describing the measures and fixing their deadlines, one should aim to be as concrete as possible. The project process must thus be considered in detail. This allows potential tension to be identified and eliminated already in the planning phase. Detailed planning also creates a good basis for the controlling in the implementation phase.
- What levels of income and expenditure are associated with the project? The budgeting of income and expenditure should cover the entire project period. In order to assess the economic viability of the project in Step E, but also to be able to plan liquidities, the financial implications of the project should be planned on

a yearly basis. In some cases, it is even possible to plan on a semesterly or quarterly basis.
- What is the project organization and which persons are involved in which way? As the wording of this question shows, an organigram is not enough. To ensure the feasibility of the project from a human resources point of view, planning which persons are required in which phase and to what extent is crucial. The results should be discussed with the people involved and with their superiors. The project leader is critical for the success of the project. He must have the necessary qualifications and the necessary temporal and on-site availability. For example, it is hardly possible to successfully build up the Indian market if the project leader is located in Germany due to other tasks and cannot contribute any experience related to emerging markets.

In Step E, the strategic projects are finally assessed. The assessment consists of two elements:

- After the detailed planning of the project in Step D, it should be evaluated from a distance, whether the project can really make its intended contribution to the implementation of the corporate strategy. The risks, which could lead to an unsatisfactory outcome of the project, should notably be identified.
- As explained in Chap. 5, the authors also argue for an economic assessment of projects with the help of investment performance measures. This should be possible without restriction for direct implementation projects. Inset 4.2 shows an example of how entry into a new market could be assessed using the net present value method. Investment performance measures also appear to be possible for many indirect support projects. However, there are projects, such as the establishment of a management development system, whose benefits cannot be quantified in terms of income. Accordingly, only the net present value of expenses could be calculated, which makes little sense.

In regard to the application of investment performance measures for assessing the economic viability of a strategic project, a critical point is briefly discussed. It concerns the period to consider when using investment performance measures:

- Most strategic projects cause excess expenditures in the beginning, as is typically the case with investments. It may take several years until income surpluses are generated. Often, the first year during which income surpluses are generated also represents the end of the project. For example, the newly established market is transferred to the corresponding sales region following the achievement of a positive free cash flow.
- If investment performance measures are used for the duration of the project, they are often based almost only on years of excess expenditures. Accordingly, a negative result is calculated, which does not correspond to the reality. It is therefore essential that the first "normal" years following the buildup phase are incorporated into the investment performance calculation.

References

Chandler, A. D. (1962). *Strategy and structure: Chapters in the history of the industrial enterprise*. Cambridge: MIT Press.

Christensen, C. M. (1997). Making strategy: Learning by doing. *Harvard Business Review, 75*(6), 141–156.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Hill, C. W. L., & Jones, G. R. (1992). *Strategic management* (2nd ed.). Boston, MA: Houghton Mifflin.

Miller, A., & Dess, G. G. (1996). *Strategic management* (2nd ed.). New York, NY: McGraw-Hill.

Part VI

Strategic Analysis at the Business Level

Part VI of this book is dedicated to Step 4 of the strategic planning process. It deals with strategic analysis at the business level. As stated in the introduction on strategic analysis at the corporate level (see Part IV), analyses should determine the initial situation, predict future developments and derive the resulting strategic challenges. In Step 4, these tasks are made concrete at the business level.

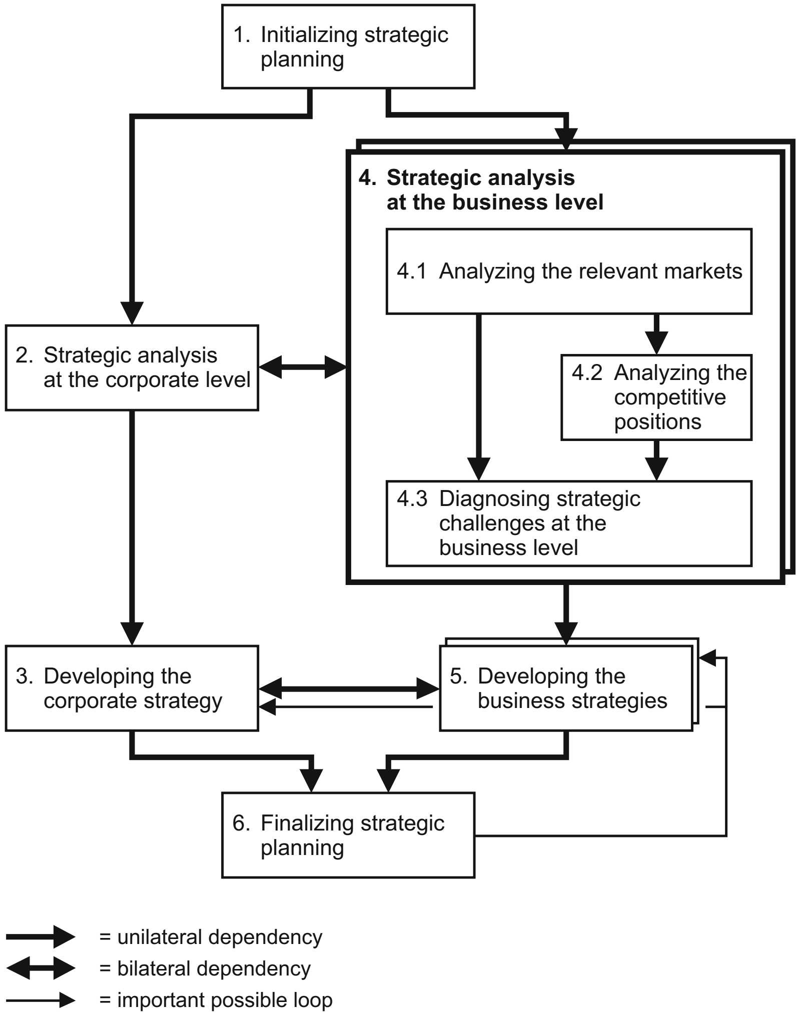
Even small and medium-sized companies usually have several strategic businesses, and large diversified companies often have many strategic businesses. Accordingly, most companies need to carry out Step 4 several times in parallel. A specific analysis is generally carried out for each of the businesses defined in Sub-step 1.1 (see Chap. 7). If the corporate strategy (see Chap. 14) provides for the setting up of new businesses, analyses are also carried out for these potential businesses.

Business strategies mainly determine the competitive advantages of the offer and the resources, which are decisive for the market success of a business. Therefore, the determination and critical assessment of the competitive advantages of the offer and of its underlying resources are the main focus of the strategic analysis of businesses. However, an assessment of competitive advantages is only possible on the basis of a market analysis.

To carry out strategic analysis at the business level, three sub-steps are recommended:

- Market analysis determines the market structure and shows the expected market development.
- The analysis of the business' competitive position includes reviewing the business model and the generic business strategy. It also includes an assessment of the current competitive advantages at the offer and the resource levels.
- Based on the market analysis and on reviewing the business' competitive position, the main strategic challenges for the examined business are then derived.

The following figure shows Step 4 and its three sub-steps in the strategic planning process.



Step 4 in the strategic planning process

Each of the three sub-steps is presented in a separate chapter:

- Chapter 16 deals with market analysis. After introductory remarks, a model for describing a market as a system is presented in Sect. 16.2. The introduction of the industry segment analysis follows in Sect. 16.3. Then, Sect. 16.4 explains the difference between dominant and standard success factors. Finally, a procedure for market analysis is proposed in Sect. 16.5. It integrates the approaches presented in Sects. 16.2, 16.3 and 16.4 and returns to the PESTEL analysis previously introduced in Chap. 10.

- Chapter 17 explains the analysis of competitive positions. After a short introduction, five approaches are presented which are suitable for the analysis of the competitive position of a business: Sect. 17.2 presents the business model concept. In Sect. 17.3, Porter's generic competitive strategies are then explained. Section 17.4 describes a method to carry out an analysis of the offer. It is based on the dominance standard model (see Sect. 16.3). In Sect. 17.5, the VRIO framework, which is used to identify strategically valuable resources, is presented. The value chain analysis follows in Sect. 17.6. Finally, Sect. 17.7 combines the tools in a procedure.
- Chapter 18 shows how a synthesis of the analysis results can be made and strategic challenges can be derived from it. The TOWS matrix, which is used for this purpose, was already presented in Chap. 13. Therefore, after an introduction, a procedure for the identification of the strategic challenges at the business level is directly proposed and illustrated with the support of an example.

Analyzing the Relevant Markets 16

16.1 Introduction

The target markets were defined as a basis for the definition of strategic businesses (see Sect. 7.4). Now, all of these markets are thoroughly examined. In addition, the markets that are important in view of diversification (see Chap. 14) are considered. This means that the analysis described in the following text must be carried out in parallel for several markets.

In Sects. 16.2, 16.3 and 16.4, three tools are introduced: the Market System model, the industry segment analysis and the Dominance-Standard model. A procedure to carry out market analysis is then recommended in Sect. 16.5.

16.2 Market System Model

Markets are complex systems: Many companies and groups of people exchange information and sell and buy goods and services. Therefore, it makes sense to analyze the sales market of a business with the help of the systems approach. Thus, the relationships between market actors become visible, and a basis to forecast the development of the market is created (see Kühn & Pfäffli, 2012, p. 24).

Figure 16.1 shows the market as a system. It is a general representation, which cannot be applied to any market without certain modifications. For instance, suppliers in B2B markets often decide not to use middlemen. Their own staff can directly serve the limited number of potential customers. The same is true for many service markets. Here, the immaterial nature of the offers requires direct contact between the service providers and the "consumers" of the services. In other cases, several levels of trading may need to be considered. This is, for example, the case when consumer goods are sold through importers to retail companies abroad. The representation of the market as a system must therefore be adapted to the real structures of the examined market.

The elements of the Market System are briefly described as follows:

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_16

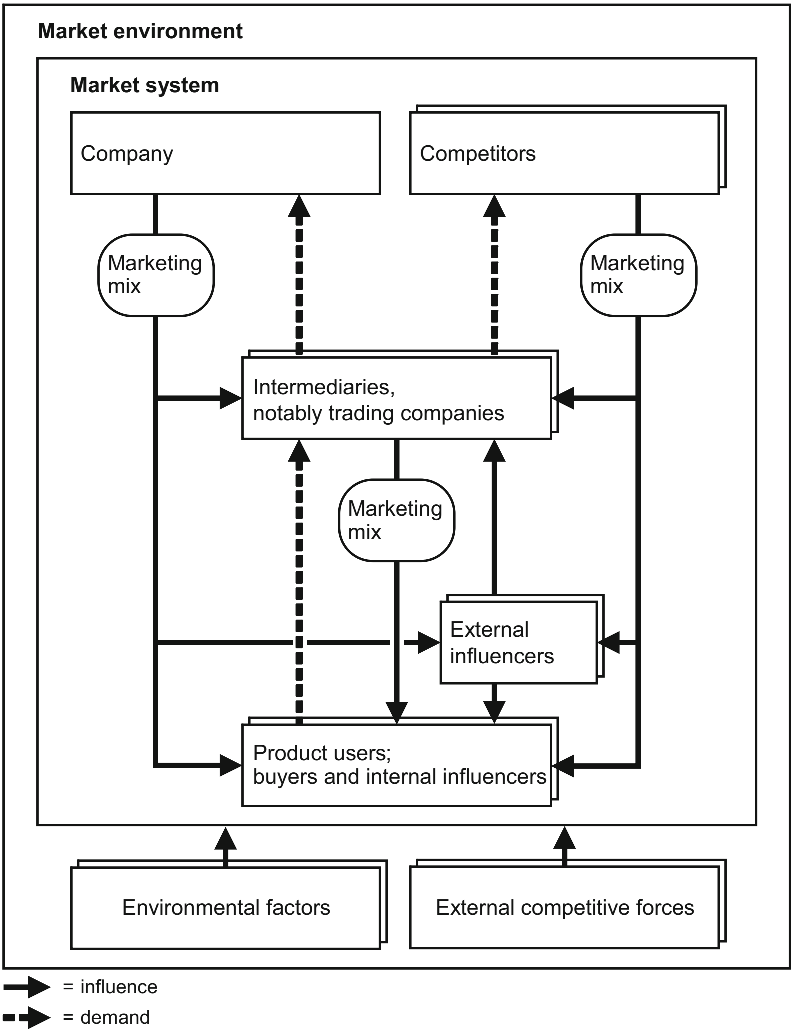


Fig. 16.1 Market system (adapted from Kühn & Pfäffli, 2012, p. 25)

- The “company” and “competitors” elements do not need a detailed explanation. It should only be pointed out that the analysis of the competitive position discussed in Chap. 17 assumes that market analysis covers the main direct competitors of the business. These are generally the market’s most powerful competitors and the competitors that have comparable offers.
- To describe the demand, the term “product user” is deliberately used instead of the term “consumer”. It can be used in consumer goods markets, as well as in capital goods and service markets. Product users are organizations or individuals that buy the offers to meet individual needs (for example households as

consumers of food and insurance services) or to use them to produce their own offers (e.g. companies as buyers of raw materials or consulting services). If we analyze the product users, we usually refer to organizations (for example, households, companies, government entities) and not to individuals. In these cases, it makes sense—as indicated in Fig. 16.1—to distinguish buyers from internal influencers. For example, the future users of software packages often advise the IT department in charge of procurement.

- The “intermediaries” element includes companies that purchase products as traders and resell them to their customers. Intermediaries also include organizations that arrange contracts between suppliers and product users for a commission. Examples include independent agents and brokers that act as intermediaries in service and in export markets. In certain markets, individuals and companies also fulfill sales intermediary functions that are not called “traders” or “agents” in everyday language. This is the case, for example, for self-dispensing doctors who sell medicine or for car dealerships that provide insurance contracts.
- External influencers include individuals and institutions that are involved in market activities as experts or media professionals. They influence purchasing decisions through their opinions or by advising product users and traders. This fifth element of the Market System is neglected in the literature, even though it strongly determines purchasing decisions in many markets. Doctors and midwives in the market for children’s food, engineering firms in the market for household installations or specialized journalists in the tourism industry can be mentioned as examples. Only individuals or organizations, which represent target groups for marketing measures, should be defined as external influencers. For example, public authorities, which influence the market by regulating it, do not represent a target group for marketing actions. They are part of the political environment.

Purchasing decisions are mainly influenced by the marketing mixes explicitly listed in Fig. 16.1:

- The term “marketing mix” was first used by Borden (1964, p. 2 ff.). With the word “mix”, he wanted to emphasize that the marketing activities of a company designed to influence demand should not be considered as individual measures, but act as a whole, as a “mix”. To be successful, there should not be any contradictions between the marketing measures directed at a target group. It is well known that a price that is low can damage the quality image of an offer, or that an unskilled sales consultant can make consumers question their trust in the products.
- The most widespread representation of the marketing mix was developed by McCarthy. His “Four Ps model” distinguishes the four components “product”, “price”, “promotion” and “place” (see McCarthy, 1964, p. 75 ff.). Figure 16.2 shows a more recent representation of the marketing mix. It mainly differs from

Offer (Product)	Price and conditions (Price)	Communication measures (Promotion)	Sales and distribution (Place)
▪ Product (quality, design, packaging, etc.) ▪ Brand (name, design) ▪ Additional services (customer service, advice and bonuses) ▪ Product range (width, depth) ▪ Etc	▪ Price (price level, price differentiation, individual prices) ▪ Conditions (rebates, payment conditions) ▪ Special prices (promotion prices, package prices) ▪ Etc.	▪ Advertising (mass media, panel, internet) ▪ Direct advertising (letter, telephone, SMS, social media) ▪ Product PR ▪ Sponsoring ▪ Promotions ▪ Etc.	▪ Distribution channels (own, other, including e-commerce) ▪ Sales measures (in person, telephone, internet) ▪ Delivery deadlines ▪ Delivery conditions ▪ Etc

Fig. 16.2 Sub-mixes and instruments of the marketing mix (adapted from Kühn & Pfäffli, 2012, p. 10)

the original by integrating new forms of communication. As the figure shows, there are a variety of specific instruments for each sub-mix.

A market is not a closed system:

- Market activities and developments are affected by the six spheres presented in the context of the PESTEL analysis (see Sect. 10.2). However, they can be defined more narrowly and more concretely in the context of market analysis than in the global environmental analysis.
- External competitive forces which influence the market also exist. We think mainly of substitute products, of the suppliers of the competitors and of the threat of new entrants.

16.3 Industry Segment Analysis

The industry segment analysis (see Porter, 1985, p. 231 ff.) divides a market into product-customer combinations. The analysis is carried out in four steps:

- First the customers in the industry market are classified into groups of buyers with similar needs and product requirements. At the same time the products are broken down into categories. These customer segments and product categories can be presented in tabular form.
- The next step is to identify and exclude from the analysis all the cells which are of little practical relevance. To do this correctly, the market volume and market growth must be identified for each combination of customer segment and

Customers / Products	Low-income families	Young, first time car-buyers	Buyers of a second vehicle	Senior citizens	Companies purchasing for sales fleet	Crafts-people, etc.	Car hire firms and car sharing clubs	Farmers
Micro cars			X	X				
Sub-compacts		X	X	X	X	X	X	
Compacts	X	X	X	X	X	X	X	
4 WD sub-compacts		X	X	X	X	X	X	
4 WD compacts	X	X	X	X	X	X	X	X
Cheap mini-vans	X						X	
Cheap cabriolets		X	X	X				
Second-hand cars	X	X						X

X = significant in terms of market volume

Fig. 16.3 Industry segments in the European market for economy cars

specific product. The combinations which have insignificant volume and below-average market growth can then be eliminated from further inquiry.

- If possible, the remaining cells are grouped together. This is done by grouping together those cells which are often demanded or offered together.
- The final step is to analyse the industry segments—the single or the grouped cells—by identifying the customer requirements and the important competitors and their market positions.

Figure 16.3 shows the industry segment analysis of the European market for economy automobiles. Industry statistics are available for most European countries so that planners can establish the key numbers for the different product categories. The company's specialists can then make estimates to allow the total sales to be attributed between the different customer segments. An industry analysis of this kind is an ideal way to understand a market and can serve for instance as the basis when a company is deciding for or against entry into the European market for economy vehicles.

16.4 Dominance-Standard Model

As outlined in Inset 11.3, every industry has a limited number of variables, which determine the competition between competitors. They are referred to as industry-specific success factors and can be divided, based on the ROM model (see Chap. 2), into success factors at the level of the offer and success factors at the level of resources. In the context of market analysis, success factors at the level of the offer are notably of interest. They are often referred to as market-specific success factors. The market-specific success factors are always marketing instruments. In addition, there exist also marketing instruments without strategic relevance which do not constitute success factors.

The Dominance-Standard model proposed by Kühn (1985, p. 16 f.) distinguishes four categories of marketing instruments:

- Dominant success factors or marketing instruments combine high to very high importance with significant possibilities for the company to distinguish itself from the competition and thus to build strategically important competitive advantages. It should be noted that, in practice, the dominant instruments are designed differently by the various competitors. Due to the high importance for sales, it is usually worth it to invest significant financial and human resources in them.
- Standard success factors or marketing instruments also have high to very high importance for sales. Contrary to dominant factors, however, they do not offer any profiling possibilities. As the name suggests, they are standards. A competitor must achieve them in order to survive in the market. They may be technical standards that result from deliberate industry-wide standardization or the imitation of successful competitors. However, they may also be "psychological" standards. They are the result of product user habits and the corresponding adjustments of the offer. The numerous technical standards in the construction industry or the packaging sizes and shapes for consumer goods such as cigarettes or milk products are examples. Standards are important because when they are not achieved, it will most likely lead to failure, and when they are surpassed, the customer is not interested or even confused.
- Complementary marketing instruments have a lower importance for sales. They enhance the effect of the dominant instrument or complete the package of measures needed to serve the market. Often, there are certain possibilities for the company to distinguish itself from the competition. However, the

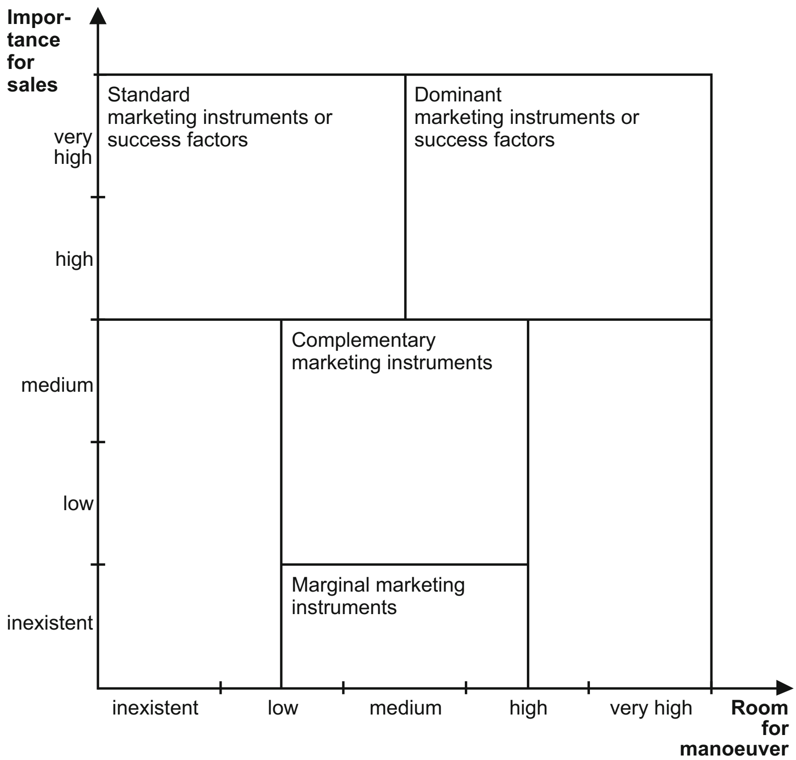


Fig. 16.4 Dominance-standard model (adapted from Kühn & Pfäffli, 2012, p. 43)

corresponding competitive advantages are limited. Due to their low importance, complementary marketing instruments do not constitute success factors.

- Marginal marketing instruments are practically irrelevant for sales success. They are used to describe the marketing instruments that are not used in a market. They, therefore, do not represent success factors.

As Fig. 16.4 shows, the four categories of marketing instruments differ in terms of their importance for sales and in their room for manoeuver. The ordinal scales selected to divide the axes show that no clear boundaries exist between the categories of instruments.

Marketing professionals usually have the experience needed to allocate the marketing instruments to the four categories. An example of the application of the Dominance-Standard model is presented in Sect. 16.5.

It is important to assess the marketing instruments from the market perspective and not from the company perspective. Accordingly, the result is valid for all of the competitors. The marketing instruments selected by the company to build competitive advantages will be decided in the context of the development of the business strategy (see Chap. 19).

16.5 Process for Analyzing the Relevant Markets

16.5.1 Overview

Market analysis should be carried out in parallel for all of the markets that were considered to be relevant in Step 1.1 “Defining the existing strategic businesses” (see Sect. 7.4). In addition, the markets to be entered in regard to diversification (see Sect. 14.2) should also be examined.

International markets are particularly challenging. According to the authors’ experience, it is very difficult to directly develop a cross-national view. But it is very time-consuming to analyze all country markets and then to derive an overview. Faced with this dilemma, it is recommended to first analyze a limited number of country markets. If clearly distinguishable groups of countries—for example mature and emerging markets—exist, a typical representative should be selected for each group. On the basis of the specific conditions in individual countries, it is usually possible to understand the market as a whole.

Figure 16.5 shows the recommended process. In the following sub-section, the five sub-tasks are briefly described.

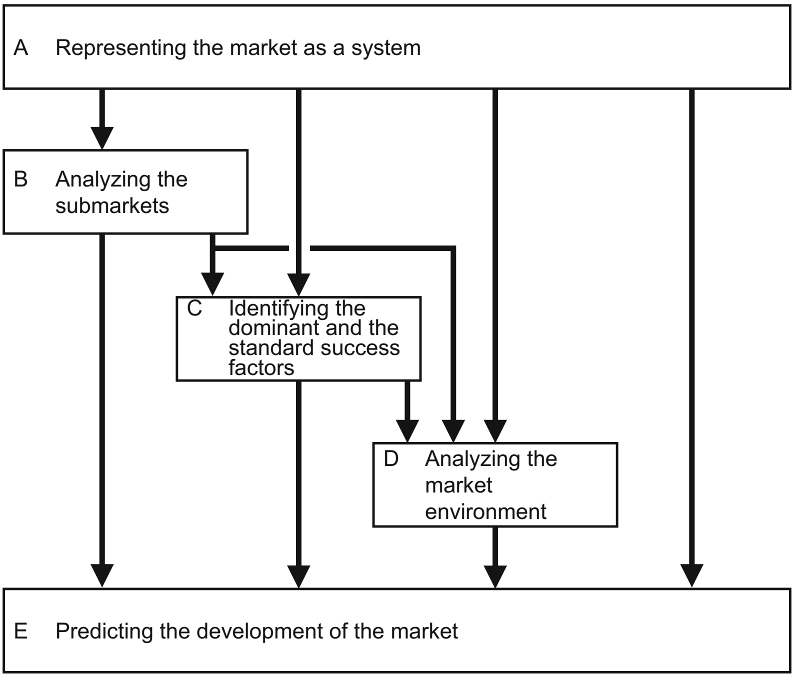


Fig. 16.5 Process for analyzing a market

16.5.2 Description of the Steps

The use of the Market System model (see Sect. 16.2) in Step A usually does not present any great difficulties. However, it is worth mentioning some critical points, where the authors have seen errors occur:

- The standard structure shown in Fig. 16.1 must be adapted to real situation. The adjustments notably concern the intermediaries.
- The elements can be briefly described. In general, it is enough to specifically name the competitors, to distinguish the different types of intermediaries and to specify the relevant groups of external influencers.
- The marketing instruments used by competitors form the basis for the determination of the success factors in Step B. It is, therefore, worthwhile to list them in more detail. The task includes not only analyzing the measures of the company, but also examining the competitors' marketing mixes.

In general, the project group has enough knowledge and experience to represent the market as a system. If this is exceptionally not the case, for example, because knowledge of an important country market is lacking, employees or consultants with in-depth market knowledge are called in.

Most markets are not homogeneous entities, but can be divided into submarkets. During the definition of the strategic businesses (see Chap. 7), the question of whether a market could be divided further into submarkets was already examined. The served submarkets, which may represent strategic business units of the company, were the focus of interest. In the context of market analysis, all submarkets are now relevant. In Step B, market volumes, growth rates and competitive situations in the submarkets have to be analyzed.

As shown in Chap. 7, submarkets can be formed using product groups, customer groups or countries. It often makes sense to choose a two-dimensional approach. In this case, two of the three possible combinations are paramount:

- If a market covering several countries is analyzed, the formation of product-country submarkets is useful. The market volume, market growth and competitive situation of a product can vary from country to country. The two-dimensional formation of submarkets reveals these differences and therefore gives a differentiated picture.
- The analysis of a country market is often carried out with the help of an industry segment analysis (see Sect. 16.3). This analysis divides a market into product–customer combinations.

In Step C, the Dominance-Standard model (see Sect. 16.4) is applied to the examined market. The starting point is a compilation of the marketing instruments applied by the company and the competitors. The dominant and standard tools are selected from this list. They correspond to the market-specific success factors. The importance for sales and the room for manoeuver should be discussed for each

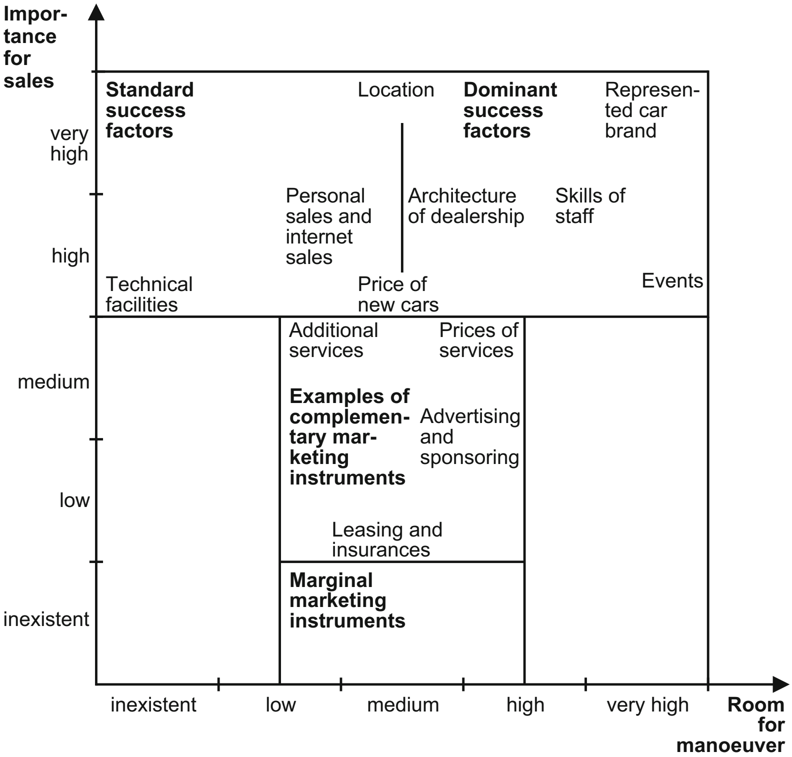


Fig. 16.6 Application of the Dominance-standard model to car dealers (adapted from Kühn & Pfäffli, 2012, p. 43)

marketing instrument. It may be useful to carry out the assessment, as shown in Fig. 16.4, on the basis of an ordinal scale.

Figure 16.6 shows the result of Step C for car dealers. As the figure shows, there are only a few standard and dominant success factors. The other marketing instruments, which are only given as examples in the figure, do not have any strategic importance. This situation is typical in most markets. There are usually only a few market-specific success factors (see Grant, 2013, p. 79 ff.).

To complete the picture, the market environment is analyzed in Step D:

- On the one hand, changes in environmental factors are identified. A PESTEL analysis (see Sect. 11.2) is carried out for this purpose. As this analysis only deals with the environment of a market, it is generally reduced to a few specific influence factors.
- On the other hand, the external competitive forces are examined. The main focus is on developments in the area of substitute products, on changes in the bargaining power of suppliers and on the threat of new competitors.

In Step E, the development of the market is predicted on the basis of the three previous analyses. There are five main aspects:

- The future phase in the market life cycle (see Inset 12.1) forms a broad framework for the planned business strategy.
- The expected development of the volume of the market and the submarkets creates the basis for the formulation of quantitative objectives.
- Forecasts for the evolution of margins can be derived from the expected future competitive intensity. Future margins often limit the resources available for strategy implementation.
- Restrictions concerning the design of the offer are derived from the analysis of the environment. New regulations in the financial sector or in the pharmaceutical market, for example, form important boundary conditions for the business strategies of the competitors in these industries.
- Finally, the working group should consider the merging of previously separate competitive arenas. An example is the emergence of the "TIME" industry market, which includes the former competitive arenas "telecommunication", "information technology", "media" and "entertainment" (see Hacklin, Battistini, & von Krogh, 2013, p. 65 ff.).

References

Borden, N. H. (1964). The concept of the marketing-mix. *Journal of Advertising Research, 4*(2), 2–7.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Hacklin, F., Battistini, B., & von Krogh, G. (2013). Strategic choices in converging industries. *MIT Sloan Management Review, 55*(1), 65–73.

Kühn, R. (1985). Marketing-Instrumente zwischen Selbstverständnis und Wettbewerbsvorteil. *Thexis, 2*(4), 16–21.

Kühn, R., & Pfäffli, P. (2012). *Marketing: Analyse und Strategie* (Vol. 14). Zürich: Werd.

McCarthy, J. (1964). *Basic marketing. A managerial approach*. Homewood, IL: Irwin.

Porter, M. E. (1985). *Competitive advantage*. New York, NY: Free Press.

Analyzing the Competitive Positions 17

17.1 Introduction

In the context of market analysis (see Chap. 16), the company was deliberately pushed to the side. With the analysis of the competitive positions, the perspective is now different. The company's ability to successfully serve the relevant markets is at the center of interest. More specifically, the analysis concerns the offers and the resources of the company and the related possibilities to achieve or defend interesting market positions.

The analysis of the competitive position is carried out separately for each individual business. If a company has several businesses in one market, the positive and negative synergies should be considered too.

To describe and assess competitive positions, five tools are used. They are introduced in Sects. 17.2–17.6. The Business model and the generic business strategies allow an overall determination and assessment of competitive positions. The offer analysis, the VRIO analysis and the value chain analysis are used for the specific identification and assessment of competitive strengths and weaknesses at offer and resource levels. In Sect. 17.7, a process to carry out an analysis of a competitive position is then presented.

17.2 Business Model

The Business model approach was developed by Zott and Amit (2007, 2008, 2010). They define the Business model as "a structural template of how a focal firm transacts with customers, partners and vendors" (Zott & Amit, 2008, p. 3). With reference to the Market System model (see Sect. 16.2), the Business model can be explained as follows:

- It includes all of the elements, which the company selects as target groups, and whose behavior it would like to influence through products and communication.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_17

- It roughly describes product information and financial flows that are established with these elements.
- The Business model shows how revenue is generated.

In practice, Business models often focus on sales markets. Most companies obtain products and services from various factor markets, which individually do not cause any substantial expenses, and are therefore of little strategic importance. However, if a factor market or a supplier is of paramount importance for the company’s success, it should be integrated into the Business model. For example, a car dealer, which specializes in the exclusive distribution of a particular car brand, should include the relationships with “its” supplier into the Business model.

Standardized Business models have been developed in many industries. For example, the Business model of manufacturers of branded food products often includes sales through wholesalers, discounters and specialty stores to private households, as well as sales through wholesalers to hotels and restaurants. The Business model of a typical pharmacy includes the procurement of products through wholesalers and a turn around to sell to customers in stores.

For the last few years, however, many “traditional” Business models have been changing. “Recent advantages in communication and information technologies . . . and the rapid decline in computing and communication costs, have . . . opened new horizons for the design of Business models” (Zott & Amit, 2007, p. 181). For example, new Business models have emerged in the pharmacy market with online pharmacies and discount pharmacy chains. Even the Business models of independent specialized pharmacists have evolved with product range extensions and close Internet links to wholesalers. Companies such as Amazon, Dell, Google and Facebook have transformed complete industries with their new Business models. They have managed to break standards and to make the Business model a dominant success factor. In a methodologically well-founded empirical study, Zott and Amit show that novelty centered Business models are strongly correlated with success (see Zott & Amit, 2007, p. 181 ff.).

The newspaper industry is an industry in which a new Business model has fundamentally changed the competitive situation. As Fig. 17.1 shows, the publishers of free newspapers are willing to abandon the income generated by the sale of single copies and subscriptions. However, as the newspaper is free, it appeals to many readers, making it attractive to advertisers.

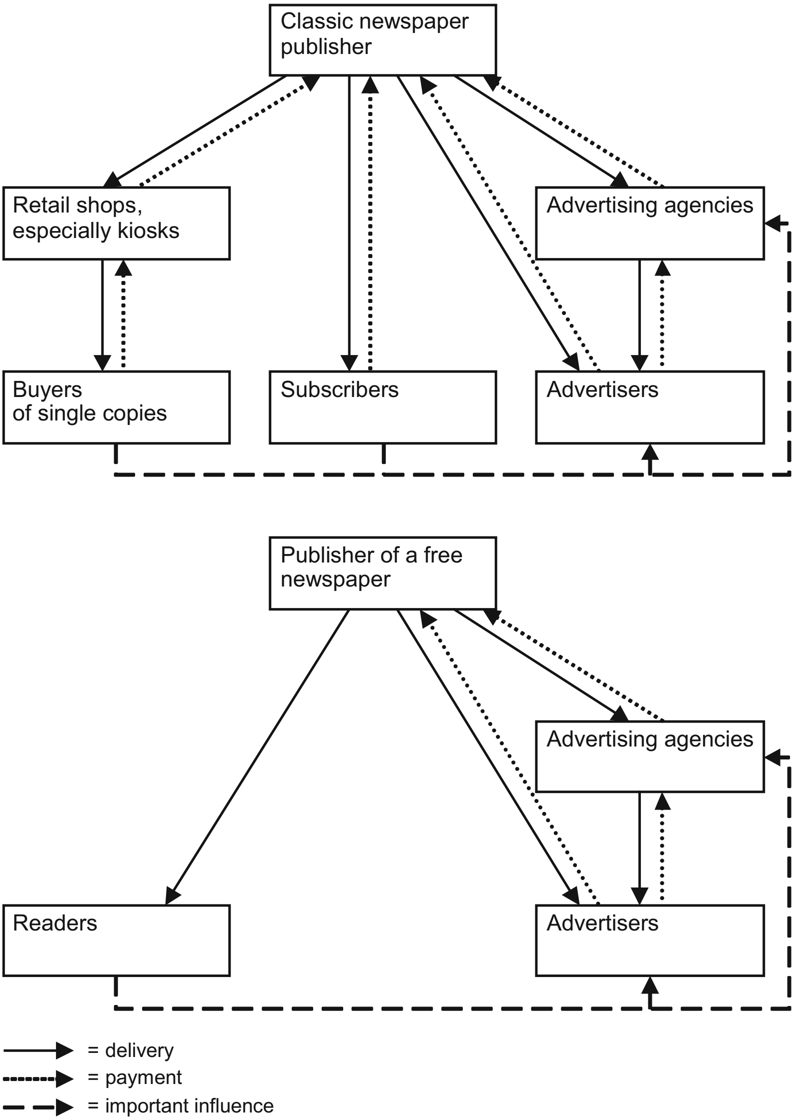


Fig. 17.1 Business models in the newspaper industry

17.3 Generic Business Strategies

17.3.1 Description

A business strategy defines the competitive advantages to build or maintain in order to achieve the market position defined in the corporate strategy. In general, there are many ways to build competitive advantages. However, they can be combined into a few basic strategies. These are commonly referred to as generic business strategies.

The insight that there are only a limited number of possible strategic behaviors for businesses can be attributed to Porter (1980). According to his analysis, a sustainable competitive advantage can only be attained through low costs or through differences in the offer. Porter links these two basic types of competitive advantages with the target scope of the offer, thus deriving three generic competitive strategies (see Porter, 1980, p. 35 ff.):

- the cost leadership strategy
- the differentiation strategy
- the focus strategy

Based on Porter's analysis, four generic business strategies are distinguished:

- whole market price strategy
- whole market differentiation strategy
- submarket price strategy
- submarket differentiation strategy

Figure 17.2 shows the four generic business strategies.

This proposal differs from Porter's in two points:

- Instead of a cost leadership strategy, the authors speak of a price strategy. This term is recommended because, while a favorable cost position is a precondition for a low price policy, it in no way requires it. Cost advantages can also be used to further develop products or build up a brand image. They can further be used to develop new businesses or to increase dividends.
- Contrary to Porter's proposal, the two submarket business strategies are not combined. There are fundamental differences between the two types of focus strategies. These differences are apparent in the different kinds of resources required for each and in specific risks.

With a whole market price strategy, a company seeks to distinguish itself from competitors mainly in terms of price. Ideally, the price should be significantly lower than the prices of all competitors or at least of the most relevant competitors. The market offer covers a rather limited range of standardized products, for which there is significant demand. Nevertheless, the products should fulfill the usual quality requirements of the market and not act as cheap deals. However, the market offer

Fig. 17.2 Generic competitive strategies (adapted from Porter, 1980, p. 39)

Competitive advantage / Scope of market coverage	**Lower price**	**Product and image advantages**
Whole market	Whole market price strategy	Whole market differentiation strategy
Submarkets	Submarket price strategy	Submarket differentiation strategy

generally does not have the characteristics allowing a distinction from the offers of the competitors. This enables consumers easily to swap out one product for another. This interchangeability is usually intentional and leads in extreme cases to the "slavish" imitation of competitors' products. This comparability should contribute to the strengthening of the effect of the price difference.

In a whole market differentiation strategy, the market offer stands out from the competition through its uniqueness. A wide range of advantages can be used to achieve differentiation, such as a quality advantage, innovative features of the offer, or an attractive image created through marketing communication. It is clear that there are usually many differentiation possibilities. Unlike the one-dimensional price strategy, differentiation is usually based on several marketing instruments. Although the construction of such a multidimensional competitive advantage requires more time, it can generally be more easily defended.

Submarket price and differentiation strategies differ from the corresponding whole market strategies mainly by focusing on a small part of the overall market. They take advantage of the fact that many markets are heterogeneous structures, which—as shown in Sect. 7.2—can be divided into submarkets. Special skills may be necessary to serve a submarket. If the companies pursuing a whole market strategy do not fulfill these requirements, it constitutes a separate submarket. Such a submarket is called a niche.

17.3.2 Success Conditions and Risks

The conditions for success for the four generic business strategies are summarized in Fig. 17.3. Whole market strategies require significant financial resources. Therefore, a minimum size represents a critical prerequisite for success especially in large-volume markets. Suppliers who do not fulfill this requirement must focus on one or a few submarkets. It is important that the selected submarkets impose conditions, which are fulfilled only partially by suppliers pursing a whole market strategy. At the same time, submarkets should not be too large. Otherwise, there is the risk that the powerful companies pursuing a whole market strategy could be drawn towards them. A limited size is especially important if a submarket price strategy is pursued. Suppliers covering the overall market have economies of scale and economies of scope and can engage in cutthroat competition when a submarket is attractive to them.

Each of the four generic business strategies also has its specific risks (see Porter, 1985, p. 22):

- For whole market and submarket price strategies, there are three main risks. (1) The first is that the basis for cost advantage disappears. This can happen, for example, when new technologies are introduced in an industry. (2) The second risk is that the difference in quality of products and services becomes too great compared to suppliers following a differentiation strategy. This usually leads to a decline in the number of buyers who remain price-oriented. (3) Finally, the interchangeability of the offer entails the risk of a price war.
- For whole market and submarket differentiation strategies, there are three main dangers: (1) The first main danger is the disappearance of the basis for the strategy. For example, the differentiation feature can lose importance for the buyer, or more and more competitors may start to offer the same product or image features as those that were intended as the basis for differentiation. (2) The second important risk of differentiation strategies lies in a too large price difference, compared with suppliers following a low price strategy. In this situation, an increasing number of buyers content themselves with a standard product. (3) Finally, there is the danger for companies pursuing a whole market differentiation strategy that submarkets become increasingly occupied by specialists, thus leading to a decisive reduction in market volume.
- There are also specific risks for submarket strategies: (1) A key risk is that technological developments and/or market developments excessively erode the submarket or cause it to disappear completely. (2) A second risk is the opposite tendency. If competitors are able to develop even more specific offers, the existing submarket may subdivide.

However, there are also risks if no generic strategy is chosen. In this case, the business is located in a stuck-in-the-middle position. Two types of this position—a position that is usually not promising, and must thus be avoided—can be distinguished (see Porter, 1985, p. 16 f.):

Condition for success / Generic business strategies	**Market-related conditions for success**	**Company-related conditions for success**
Whole market price strategy	▪ Low price is important for a significant proportion of customers ▪ High price elasticity	▪ Large production volume and economies of scale ▪ Ability to develop, produce and market low-cost products ▪ Cost-conscious culture
Whole market differentiation strategy	▪ Heterogeneous market ▪ Advantages in the offer such as quality, design, image, etc. are important for a significant proportion of customers	▪ Size of company allows whole market to be served ▪ Competencies to construct target advantages in the offer ▪ Financial resources to defend advantages in the offer
Submarket price strategy	▪ Existence of a customer group which is limited in terms of volume and is sensitive to price	▪ Appropriate company size ▪ Ability to develop, produce and market low-cost products ▪ Cost-conscious culture
Submarket differentiation strategy	▪ Heterogeneous market ▪ Submarket with special requirements	▪ Appropriate company size ▪ Competencies to meet special requirements

Fig. 17.3 Success conditions for the generic business strategies

- On the one hand, companies get into a stuck-in-the-middle situation when they do not opt clearly enough for a differentiation strategy or for a price strategy. Price leaders especially face the danger that over time additional products, product features and services will transform the original price strategy into a stuck-in-the-middle position.

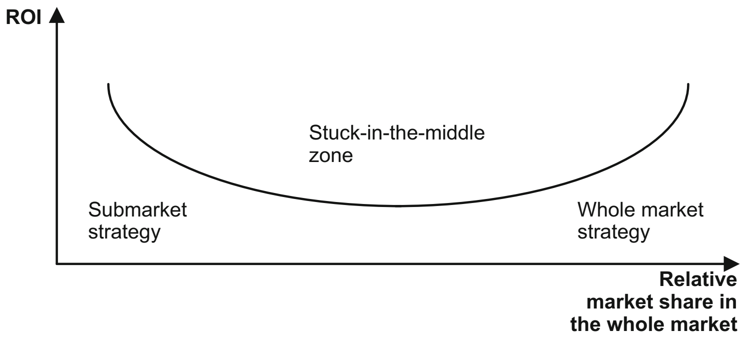


Fig. 17.4 Stuck-in-the-middle position concerning relative market share (adapted from Porter, 1980, p. 43)

- On the other hand, a stuck-in-the-middle situation can occur with respect to the relative market share. Figure 17.4 illustrates this position. Companies pursuing a submarket strategy can notably get in this situation. Their success in a niche leads them to extend their business activities. As a result, the company leaves the niche, often without even realizing it. A part of its offer is now in the whole market where it must compete with large competitors following a whole market strategy.

In some cases, businesses can be successful in spite of their stuck-in-the-middle position. This is the case, on the one hand, if competitors do not have a clear commitment to either differentiation or price strategies. On the other hand, there are markets whose structure allow or even demand a mixed strategy. This is particularly the case in certain areas of the retail sector.

17.4 Offer Analysis

The offer analysis recommended in the following text combines the strengths and weaknesses analysis with the Dominance-Standard model (see Sect. 16.4).

In order to be able to realistically assess the strengths and weaknesses of an offer, it must be compared with the offers of competitors. This is time-consuming. Therefore, the comparison is usually limited to a maximum of three competitors. A comparison with an "average competitor", which is sometimes observed in practice, is not recommended. Since such a competitor does not exist, information on its offer can also not be obtained. Accordingly, the analysis is based on speculation and can lead to incorrect assessments.

The strengths and weaknesses analysis is based on the market-specific success factors. In order to be able to correctly assess the comparative results and to draw the right conclusions, a distinction must be made between standard success factors and dominant success factors. In this respect, the Dominance-Standard model is of great importance:

- Standard factors, where the offer shows weaknesses, must always be considered. The failure to achieve strategically relevant standards implies almost always heavy consequences.
- If standards are surpassed, this is not perceived or considered positively by the customer. Therefore, it should be examined whether it is possible to save costs by returning to the standard.
- Dominant success factors, where the offer has strengths, are the basis for success. They provide starting points for strategic investments.
- Dominant success factors, where the offer shows weaknesses, are usually critical. In the context of strategic planning, the way to avoid them should be discussed in depth. However, there are exceptions to this rule. Not all dominant factors may be actively used as competitive instruments. For example, many companies that pursue differentiation strategies have weaknesses in terms of price. In these cases, the company should consider whether the strengths in the offer compensate for price weaknesses or whether the price gap compared to the competitors is too great.
- Finally, dominant success factors may exist which show neither strengths nor weaknesses. In this case, the question arises on whether these factors will be used as competitive instruments in the future. If yes, the building up of competitive strengths becomes a strategic issue.

Figure 17.5 shows the offer analysis of a car importer. It represents a premium brand in Switzerland and has a national network of car dealerships with integrated sales branches. The example is based on the Dominance-Standard model for car dealerships (see Sect. 16.3). With regard to the development of the business strategy, the following conclusions result from the analysis:

- Strategically relevant weaknesses can be seen in the standard factor “technical facilities” and the dominant factors “locations”, “represented car brands” and “skills of staff”. The weaknesses in the success factors “locations” and “represented car brands” are serious and can barely be corrected in the short term. But it would be wrong to accept the weaknesses as irreversible facts. Rather, the planners of the business strategy should look for ways to gradually reduce these competitive disadvantages.
- The dominant success factors “architecture of dealerships” and “events” show strategically interesting strengths.
- For the success factors “prices of new cars” and “personal and internet sales”, there are no significant differences in comparison to the competitors.

With “skills of staff” and “architecture of dealerships”, the example considers two success factors that are not included in the classical marketing instruments (see

Success factor	Use of the success factors		Company strengths and weaknesses*	Type of success factor
	Company offer	Competitors offers		
Location	regional roads and in cities	mainly motorway access roads	-	standard/ dominant
Represented car brands	premium brand X; medium reputation	premium brand Y; market leader	-	dominant
Architecture of dealership	modern; trendy showrooms	varying, incl. older dealerships, average showrooms	+	dominant
Skills of staff	average skills	highly skilled	-	dominant
Technical facilities	minimum standards fulfilled	up to date	-	standard
Price of new cars	high	very high	0	standard/ dominant
Personal sales and internet sales	well developed	internet sales lacking	0	standard
Events	very many	very few	+	dominant

* scale = ++, +, 0, -, --

Fig. 17.5 Offer analysis of a car dealer

Sect. 16.2). This is due to the fact that a car dealer mainly provides services. The marketing mix of services is generally understood to be broader than the marketing mix of production companies, and also includes employee behavior and infrastructure. As a consequence, Magrath (1986, p. 44 f.) distinguishes seven Ps in the marketing mix of service companies instead of the four Ps in the classical marketing-mix (see Sect. 16.2): “product”, “price”, “promotion”, “place”, “personnel”, “physical facilities” and “process management”.

17.5 VRIO Analysis

17.5.1 Basic Reflections

The VRIO analysis was developed by Barney (1991, p. 99 ff.) to identify strategically valuable resources, building on the basic ideas of the resource-based view. The resource-based view and its opposite, the market-based view, are considered in the strategy literature as central theoretical concepts to explain strategic success. Inset 17.1 presents the two approaches.

The concept of resources is essential to understand the resource-based view. It is understood in a broad way and includes:

- assets, processes and human resources,
- which are under the control of the company and
- form the basis of realized or potential offers.

The creation of an exhaustive list of all of the kinds of resources is neither possible nor useful. However, as Fig. 17.6 shows, five categories can be distinguished. In this way, this complex object can, at least, be structured. The examples

Tangible assets
- Plants, logistics centers, computer hardware, etc.
- Financial resources such as liquid assets and credit facilities

Intangible assets
- Information and legal rights such as data, brands, patents, licenses and contracts
- Image of the company name and of the brands
- Company reputation with suppliers, banks, etc.
- Quality and size of customer base

Processes
Production process, development process, etc.

Individual human resources
- Knowledge and skills of managers and employees
- Motivation of managers and employees

Collective human resources
- Features of corporate culture
- Primary competencies such as quality competencies, procurement competencies and marketing competencies
- Metacompetencies such as the ability to innovate, to cooperate and to change

Fig. 17.6 Types of resources

listed in the figure only illustrate a variety of resources and do not claim to be complete.

Inset 17.1.

Market-Based View and Resource-Based View

There are two key theoretical approaches to explain strategic success. They shaped, on the one hand, planning practice because they contributed to the development of various analyses and planning methods. On the other hand, the two theoretical approaches served as a basis for numerous empirical studies.

The market-based view has its origins in industrial economics (see Bain, 1959) and is strongly influenced by Porter (1980). It can be summed up simply by the Structure-Conduct-Performance paradigm:

- Each industry is characterized by a specific market structure. For example, Swiss meat producers are in the presence of a few large customers, particularly the slaughterhouses of the major retail chains.
- The structure of the industry has a strong influence on the conduct of the competitors. For example, meat producers usually concentrate on a single customer. Breeding regulations are followed strictly in order to avoid price deductions (for example due to too high or too low actual weight) or being removed from the list of suppliers (for example for violating feeding regulations).
- Finally, market structure and behavior both determine the performance of a competitor. It often depends more on structural factors than on competitive behavior. This also applies in the example of the farms. If a large number of small suppliers sell a largely standardized product such as animals for slaughter to a few large customers, low profit margins are no surprise.

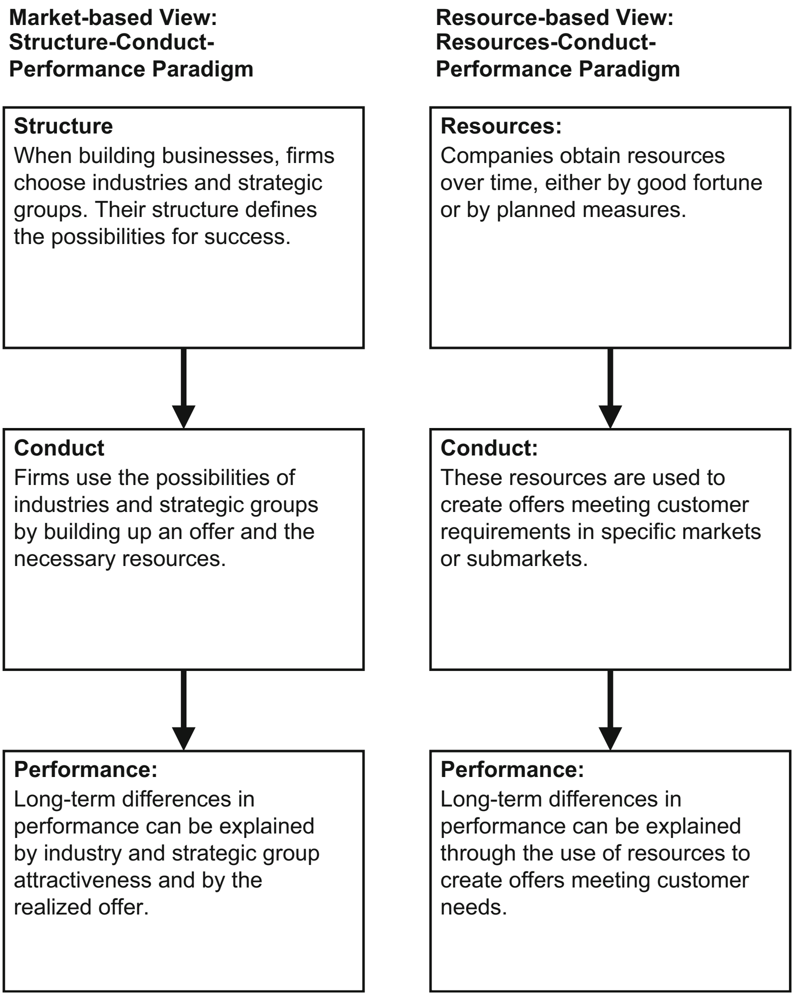
The resource-based view is based largely on the work of Rumelt (1984), Wernerfelt (1984) and especially Barney (1986, 1991). The explanatory model is expressed by the Resource-Conduct-Performance paradigm:

- A company's resources constitute the basis of its strategic success. These have been developed over a long period of time or have been deliberately built up. Of special strategic value are resources, which are scarce or unique.
- Resources are used to create products and services that stand out from those of competitors and therefore allow companies to reach advantageous market positions.
- Success is the result of competitive advantages at both the resource and offer levels.

The following figure summarizes the two paradigms.

Empirical studies have shown that both explanatory models contribute to the explanation of strategic success (see for example Bresser, 2010, p. 44 ff.; Crook et al., 2008, p. 1141 ff.; Newbert, 2007, p. 121 ff.). It is, therefore, not surprising that both approaches are incorporated into the strategic planning process of companies via planning methods:

- The market-based view led, amongst other methods, to the Five Forces model and to the Strategic Groups model (see Chap. 11)
- Criteria for the identification of strategically valuable resources (see Sect. 17.5.2) came from the resource-based view. However, the value chain analysis (see Sect. 17.6) should also be—as Grant rightly claims (2013, p. 121 ff.)—attributed to the resource-based view.



Market-based view and resource-based view paradigms

17.5.2 Characteristics of Strategically Valuable Resources

A resource is valuable if it makes an essential contribution to sustained competitive advantage. According to Barney (1991, p. 105 ff.), such resources are:

- able to create customer value (Value)
- rare (Rarity)
- imperfectly imitable and substitutable (Imitability)

The "VRIO" acronym contains the first letters of these three characteristics, with an O added for "organization": A company must be organized in a way it can fully exploit the potential of its strategic resources (see Bresser, 2010, p. 77 f.).

The characteristic "value" assumes that only the resources, which can cause customer value, are of strategic relevance. This is the case if offers with competitive advantages can be created. This requirement is difficult to assess, because it does not directly concern the resources themselves. To assess the values, a link with market and offer analysis is necessary. This means, that the resource-based view needs to include a market-focus. It requires an assessment of how far the offers produced conform to customer needs. Because of this a number of researchers have concluded that the future development of strategic planning depends on achieving a synthesis of the resource-based view and the market-based view (see for example Mahoney & Pandian, 1992, p. 371 ff.).

Resources, which can be acquired easily or built up quickly, can hardly help to produce unique market services. Any competitor can establish the same resources and use them to launch similar offers. Advantages in the offer, therefore, are based mainly on rare resources. Rarity is a relative idea here. Machines and skills for the production of large, flat metal girders can be, for example

- generally available in the metal processing industry
- available to a small number of competitors
- available to a single competitor only

The production of large, flat metal girders should be assigned to the middle group. Not every metal processing company can afford the very expensive machines and the specialists required to mill the flat surfaces of large girders accurately enough. However, these facilities and skills will not exist in just one company.

The rarity of resources is determined by their procurability and their integration in the company:

- A resource that is easy to procure and that does not require special integration into the company can be considered as generally available. It is, therefore, unsuitable to produce a competitive advantage. An example of such a resource would be a truck.

- If a resource is available only from specialist suppliers, if there are long delivery times, and if special measures are needed to integrate the new resource into the system, then it belongs in the second category. Buying, installing and putting into service a specialized milling machine and selecting and introducing the needed specialists, will each require time and expertise.
- Unique resources are usually closely integrated into the company. An example is a registered trademark for a consumer good and the brand image associated with it. From a practical point of view, it is only possible to purchase the brand together with the company behind it. High innovative achievements can also not be purchased independently from the company. They are the result of well-established processes.

In order to defend advantages in the offer in the long term, the underlying resources must be protected against imitation and substitution.

Imperfect imitability notably depends on the following interrelated factors (see Barney & Hesterly, 2012, p. 119 ff.):

- A resource is the result of a long process. For example, the attractive locations of Migros stores or the brand image of Lindt were not created overnight, but are the product of decades of investment.
- Where resources are the result of the interplay of many factors, in particular "soft" ones, imitation becomes considerably more difficult. Consider, for example, the research and development departments of producers of airplanes, rockets and satellites. They comprise a complex network of scientists, plants, patents and processes.
- Finally, resources are well protected against imitation if doing so entails considerable risks. A customer service network, for example, is only strategically valuable if it has achieved a certain level of intensity. A company seeking to imitate it will have to make very large investments before it can profit from it, thus incurring a high risk.

To produce sustained competitive advantages, a resource must not only be protected against imitation, but must also be imperfectly substitutable. In the field of technology especially, imperfectly imitable resources are often substituted by new technologies and by this lose all value. For example, the transition from mechanical to electronic watches meant that the expertise required to produce cheap mechanical watches was substituted.

The dividing line between imperfect imitability and imperfect substitutability is fuzzy. Classification is of academic interest. In practice, what is important is to be mindful of both sources of danger to resource advantages.

The fourth characteristic—"Organization"—refers to the importance of the integration of resources into the company. Elements of the management system, such as IT and the salary system only represent limited possible sources for competitive advantages. Only their integration into the company decides whether they are strategically valuable or not (Bresser, 2010, p. 78).

The VRIO analysis is mainly carried out at the level of individual businesses. This is why the approach is presented in the context of Step 4 “Strategic analysis at the business level”. However, a VRIO analysis can also be interesting for the company level, because it can form the basis for diversification (see Sect. 14.2).

From a practical point of view, a final critical remark is needed: The VRIO approach only identifies strategically valuable resources. It is unable to uncover weaknesses and gaps. But their identification and elimination can be strategically as important as the maintenance and buildup of strengths.

17.6 Value Chain Analysis

The value chain was developed by Porter (1985, p. 33 ff.) to identify and analyze the activities or processes in a business or in a focused company. Similarly to the VRIO analysis (see Sect. 17.5), the value chain is used to analyze competitive advantages at the level of resources. Contrary to VRIO analysis, however, the value chain only analyzes the resource category of processes.

Figure 17.7 shows the recommended value chain (see Grünig & Morschett, 2012, p. 79; Zentes, Swoboda, & Morschett, 2004, p. 221 f.). It includes six categories of primary activities, three categories of support activities and a category of management activities. The proposal differs from the value chain developed by Porter (1985, p. 37) in two points:

- To coordinate and develop the primary and the support activities, management activities are needed. They are added as a tenth category and cover a wide range of processes, such as leadership, planning, organization, etc.
- The procurement of raw materials, components and trading goods is classified as a primary activity and not as a support activity.

The margin also shown in Fig. 17.7 represents the added value that the business or the focused company can achieve. “Margin is the difference between total value and the collective cost of performing the value activities” (Porter, 1985, p. 38).

The ten categories of activities represent a common framework in order to determine the specific individual activities or processes of a business. The concrete meaning of a category depends on the industry and the individual business. In the pharmaceutical industry, for example, “technology development” means the development of new active ingredients and dosage forms. The term “research and development” would be more appropriate to describe these activities. In retail banking, however, technology development means the development of new offers and new sales channels. The term “research and development” would not be appropriate for these activities.

There are two methodological challenges associated with the identification of the activities or processes in the value chain:

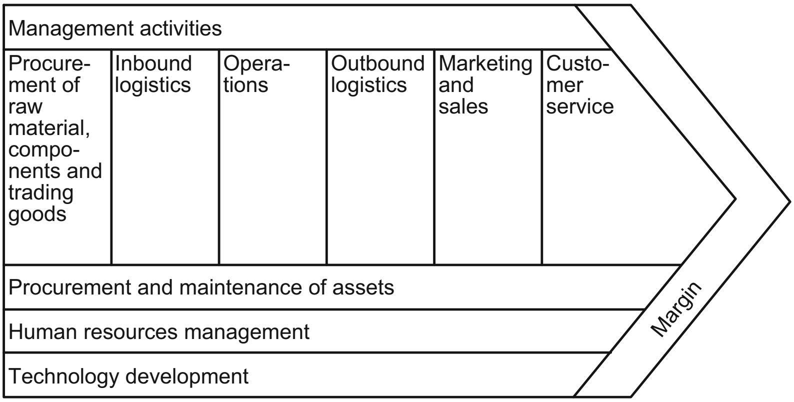


Fig. 17.7 Value chain (adapted from Porter, 1985, p. 37)

- On the one hand, a reasonable level of detail must be determined. Activities with a high potential for differentiation and those generating a substantial proportion of total costs must be listed separately (see Porter, 1985, p. 45).
- On the other hand, the activities or processes must be assigned to the correct category. For example, the processing of orders can be assigned to outbound logistics or to marketing and sales (see Porter, 1985, p. 45 ff.). If order processing mainly provides a technical service, it should be assigned to outbound logistics. If, however, it plays an important role in customer relationships and loyalty, it is better assigned to marketing and sales.

The value chain analysis identifies or builds up activities that enable competitive advantage at the offer level. In the case of a differentiation strategy, processes are built up or maintained which lead to advantages at the product level. If a price strategy is pursued, the design of processes must result in cost advantages over the competitors.

17.7 Process for Analyzing the Competitive Positions

17.7.1 Overview

An analysis of the competitive position is carried out for each of the existing businesses (see Chap. 7). If the company has business fields, which are divided into business units, the analysis must be carried out at both levels. It is recommended to select a bottom-up approach and to first examine the competitive positions of the business units. The subsequent analysis of the business fields can build on the results of the analysis of the business units. In addition, any synergies between the business units should be examined.

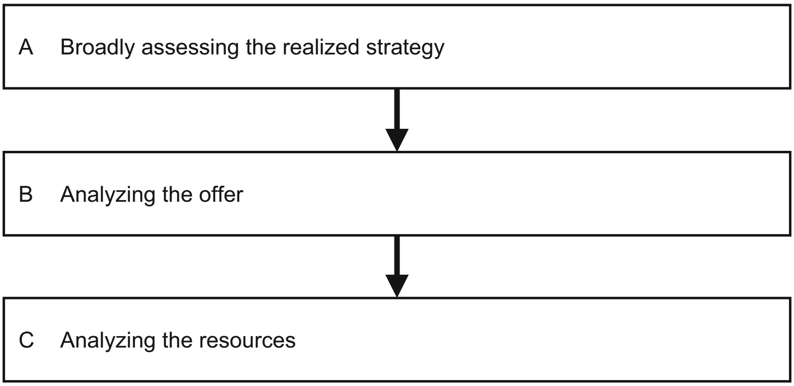


Fig. 17.8 Process for analyzing the competitive position of a business

Figure 17.8 shows the process for the analysis of the competitive position of a business. In the following sub-section, the three sub-tasks are described.

17.7.2 Description of the Steps

In Step A, an overall assessment of the realized business strategy is carried out. The Business model and the generic business strategies constitute the methodological basis. As Zott and Amit (2008, p. 1 ff.) show empirically, the approaches are complementary. Together, they provide a good overview of the current strategic situation:

- If a standard Business model dominates in the industry, a short statement on this is sufficient. However, if different Business models are used, a visual comparison (see Sect. 17.2) is recommended. It is also important to include new competitors in this comparison. This is because these companies are often the ones that use innovative Business models. It is generally not possible to quantify the flows of revenue and expenses that are associated with a Business model. However, a comparison of the models usually suffices to show differences that can be interpreted as either strengths or weaknesses.
- The assessment of the generic business strategy begins with the identification of the pursued option. It is possible that not a generic business strategy but a stuck-in-the-middle position is identified. If the business pursues a generic strategy, the question must be answered of whether the business meets the requirements to successfully implement it (see Sect. 17.3.2). If a stuck-in-the-middle position exists or if the conditions for success of the pursued generic strategy are only partially met, a comparison with the competitors should be carried out. Both of the points become weaknesses only if the main competitors are better off.

In Step B, the offer of the business is examined in more detail. An offer analysis is to be carried out for this purpose. All of the related methodological issues were addressed in Sect. 17.4. Additional explanations are therefore unnecessary.

Finally, Step C is dedicated to the resource analysis:

- Strategically valuable resources are identified with the help of the VRIO approach. Following Arend and Lévésque (2010, p. 913 ff.), a strict application of the four criteria is recommended. This means that a business usually only has a few strategic resources. No single resource may meet the four requirements simultaneously. If there are valuable resources for strict requirements, they deserve special attention. Investments in the further development of the resource and in additional protection measures should be a high priority.
- The critical final remarks on the VRIO approach (see Sect. 17.5.2) have already shown that identification of the strategically valuable resources alone is not sufficient. The analysis must also assess the resources that are behind the offers. This is not only a question of strengths, but especially one of weaknesses. Are there resources that are insufficient from the qualitative and/or quantitative point of view? Are there processes with many interfaces or with unclear responsibilities? Can processes be made more cost-effective by relocating them? The value chain analysis can provide a good overview of the main processes in the business. It may also show some opportunities for simplification. However, the value chain analysis often represents only a starting point. There can be potential for optimization within the single activities or processes listed in the value chain.

References

Arend, R. J., & Lévesque, M. (2010). Is the resource-based view a practical organizational theory? *Organization Science, 21*(4), 913–930.

Bain, J. S. (1959). *Industrial organization*. New York, NY: Wiley.

Barney, J. B. (1986). Types of competition and the theory of strategy: Toward an integrative framework. *Academy of Management Review, 11*(4), 791–800.

Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Barney, J. B., & Hesterly, W. S. (2012). *Strategic management and competitive advantage* (4th ed.). Upper Saddle River, NJ: Pearson.

Bresser, R. K. F. (2010). *Strategische Managementtheorie* (Vol. 2). Stuttgart: Kohlhammer.

Crook, T. R., et al. (2008). Strategic resources and performance: A meta-analysis. *Strategic Management Journal, 29*(11), 1141–1154.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Grünig, R., & Morschett, D. (2012). *Developing international strategies*. Heidelberg: Springer.

Magrath, A. J. (1986). When marketing services, 4 Ps are not enough. *Business Horizons, 29*(3), 44–50.

Mahoney, J. T., & Pandian, J. R. (1992). The resource-based view within the conversation of strategic management. *Strategic Management Journal, 13*(5), 363–380.

Newbert, S. L. (2007). Empirical research on the resource-based view of the firm: An assessment and suggestions for future research. *Strategic Management Journal, 28*(2), 121–146.

Porter, M. E. (1980). *Competitive strategy*. New York, NY: Free Press.

Porter, M. E. (1985). *Competitive advantage*. New York, NY: Free Press.
Rumelt, R. P. (1984). Towards a strategic theory of the firm. In R. Lamb (Ed.), *Competitive strategic management* (pp. 556–570). New York, NY: Prentice Hall.
Wernerfelt, B. (1984). A resource-based-view of the firm. *Strategic Management Journal, 5*(2), 171–180.
Zentes, J., Swoboda, B., & Morschett, D. (2004). *Internationales Wertschöpfungsmanagement*. München: Valen.
Zott, C., & Amit, R. (2007). Business model design and the performance of entrepreneurial firms. *Organization Science, 18*(2), 181–199.
Zott, C., & Amit, R. (2008). The fit between product market strategy and business model: Implications for firm performance. *Strategic Management Journal, 29*(1), 1–26.
Zott, C., & Amit, R. (2010). Business model design: An activity system perspective. *Long Range Planning, 43*(2–3), 216–226.

18 Diagnosing Strategic Challenges at the Business Level

18.1 Introduction

In Sub-step 4.1, the market or markets targeted by the business were analyzed. Then, the competitive position of the business was examined in Sub-step 4.2. Both analyses usually result in many aspects, which should be considered when developing the business strategy in Step 5. In order to create a good starting point for the development of a business strategy, a summary of the analysis results is developed in Sub-step 4.3. In this summary, the numerous individual results, which appear to be relevant, are summarized into a few key challenges.

The methodological foundations were already created in Sub-step 2.4 "Diagnosing strategic challenges at the corporate level" (see Chap. 13) was explained. They will not be explained again here. As a conclusion, the TOWS matrix (see Weihrich, 1982, p. 54 ff.) an intelligent SWOT analysis was recommended. It links the strengths and weaknesses with the opportunities and threats. The grid underlying a TOWS analysis is shown in Fig. 18.1.

In Sect. 18.2, a process to identify strategic challenges at the business level is recommended. It is then explained with the help of an example.

18.2 Process for Diagnosing Strategic Challenges at the Business Level

18.2.1 Overview

Strategic challenges are determined in parallel for each business. Figure 18.2 shows the recommended process. An explanation of the two sub-tasks follows in Sect. 18.2.2.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_18

Internal elements / External elements	**Strengths**	**Weaknesses**
Opportunities	Linking strengths with opportunities	Linking weaknesses with opportunities
Threats	Linking strengths with threats	Linking weaknesses with threats

Fig. 18.1 TOWS matrix grid (adapted from Weihrich, 1982, p. 60)

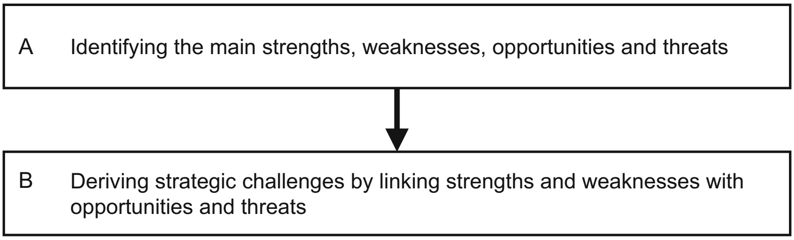


Fig. 18.2 Process for diagnosing strategic challenges of a business

18.2.2 Description of the Steps

In Step A, the major strengths, weaknesses, opportunities and threats are identified. To avoid making statements that are superficial and heavily influenced by personal interests, this task must be based on the analyses that were carried out.

The analysis of relevant markets (see Chap. 16) mainly allows opportunities and threats to be identified:

- Important findings can be deducted from the forecasted development of the market. A market that continues to grow obviously offers significant opportunities. In a market entering the maturity or saturation phase, a tougher competitive situation with increasing marketing costs and shrinking margins can be expected.
- The analysis of the market environment can reveal threats, such as the entry of foreign competitors or new regulations.
- The analysis of submarkets shows submarkets with above-average growth as opportunities and submarkets with stagnating or even declining volume as threats. In addition, strengths or weaknesses can be identified on the basis of market share. Significant market shares in growing submarkets are, for instance, strengths.

The analysis of the competitive positions (see Chap. 17) shows strategically relevant strengths and weaknesses:

- Business models, which generate supplementary cash flows with new target groups represent strengths. In contrast, traditional Business models in markets in which competitors successfully introduce new Business models should be interpreted as weaknesses.
- Analysis of the generic business strategy can show strengths and weaknesses. A price strategy that is based on sustainable cost advantages, for example, should be classified as a strength. In contrast, a stuck-in-the-middle position in a market with high-profile suppliers represents a weakness.
- The analysis of the offer is deliberately designed as a strength and weaknesses analysis.
- The focus of the resource analysis lies on the determination of resource strengths, which are particularly important for the long-term maintenance of existing businesses and for the possible development of new businesses.

In Step B, the main strengths, weaknesses, opportunities and threats are linked to a few key challenges. To do so, a TOWS matrix is developed. The example in Sect. 18.2.3 shows how this can be done.

During their work as consultants, the authors have often come across the same strategic issues at the business level. The challenges, which can be considered as typical for Western European companies, are briefly presented below:

- Internationally active competitors that enter the market lead to declining margins and threaten the strong position of the companies focused on the domestic market. This forces them to consider internationalization.
- Weak market positions in growing submarkets indicate that the company should invest in innovation.
- Limited financial resources do not allow the company to reach the necessary standards in the market as a whole with regards to the advertising budget or the number of sales representatives. Therefore, the company should question its coverage of the whole market and consider whether it should focus its offer on a submarket, for example, on a specific market segment.
- There is a lack of competitive strengths in the offer. The business is therefore in a stuck-in-the-middle position. Based on an analysis of the customer needs, of the offer and of the resources, profiling approaches should be looked for.
- Individual strategically relevant resources are not enough to ensure—in accordance with the pursued differentiation strategy—the required higher quality of the offer. Accordingly, measures should be discussed in order to eliminate resource weaknesses.

18.2.3 Example on the Linking of Strengths and Weaknesses with Opportunities and Threats

Inset 18.1 shows how strategic challenges are derived in an electricity company with the support of the TOWS matrix.

Inset 18.1.

Linking Strengths and Weaknesses with Opportunities and Threats in an Electricity Company

Hydropower is a medium-sized Swiss electricity company. The production portfolio is made up exclusively of storage power plants. Power is sold to electricity distributors, mainly to two public utility companies.

The following figure shows the main strengths, weaknesses, opportunities and threats of Hydropower and their links. As seen in the figure, useful relations only arise when several strengths and weaknesses or several opportunities and threats are considered at the same time.

Internal elements / External elements	S_1 **Expertise in hydroelectric power plants**	S_2 **Modern, largely amortized storage power plants**	S_3 **Financial strength**	W_1 **No pumped-storage power plants**
T_1 **Licenses expire in 10 to 20 years**	L_1 As an attractive potential partner, hydropower can enter into negotiations with the licensers at an early stage			
O_1 **Excess capacity of wind and solar power in good weather conditions**			L_2 With excess wind and solar energy, pumped-storage power plants can increase the capacity of storage power plants	
O_2 **Uncovered demand in poor weather conditions**		L_3 Storage power plants are environmentally friendly and complementary to wind and solar energy		
O_3 **Political controversy about nuclear, coal and gas power plants**				

S = Strength O = Opportunity L = Link
W= Weakness T = Threat

Linking strengths and weaknesses with opportunities and threats

Reference

Weihrich, H. (1982). The TOWS matrix: A tool for situational analysis. *Long Range Planning, 15*(2), 54–66.

Part VII

Developing the Business Strategies

Part VII of this book explains Step 5 in the recommended strategy planning process. It includes the development of strategies for the existing businesses and possibly for new businesses to set up. A business strategy defines the target market position, the Business model, the generic strategy, the target competitive advantages of the offer and the necessary competitive advantages of resources for each strategic business. According to the ROM model (see Chap. 2), the various elements of the business strategy should be harmonized. A coherent strategy, which takes into account the customer's needs and the strengths and weaknesses of the company's key competitors, must be formulated. This requires not only analytical thinking, but also creativity.

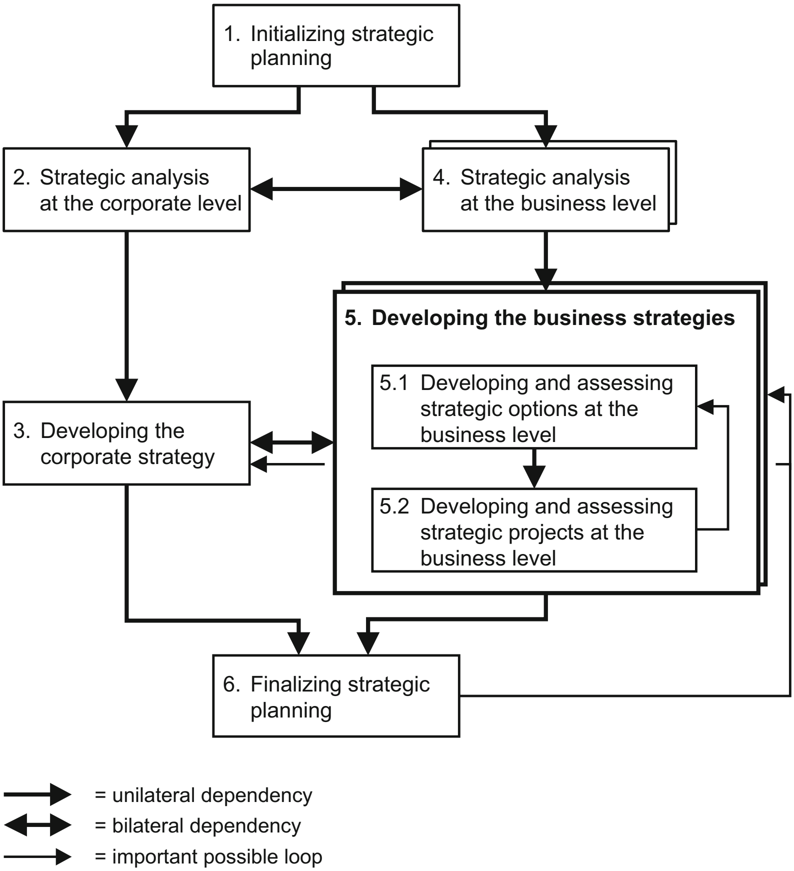
The development of a business strategy can be divided into two sub-problems:

- First, options of the future business strategy are developed and assessed in Sub-step 5.1. Options generally concern the entire business strategy. However, if the analysis of an existing business shows that the current business strategy can also be successful in the future, only options for optimization are proposed and assessed.
- The best-rated option constitutes the future business strategy. In Sub-step 5.2, the realization projects and support projects required for its implementation are determined.

The following figure shows Step 5 and its two sub-steps in the strategy planning process.

A chapter is dedicated to each of the two sub-steps:

- Chapter 19 deals with the development and assessment of business strategy options. Following an introduction in Sect. 19.1, the network of success potentials is presented in Sect. 19.2. In Sect. 19.3, a process for the development and assessment of business strategy options is presented. It is based on the



Step 5 in the strategic planning process

methodological remarks made in Sect. 19.2 and on methods that were already introduced in Chap. 17.

- The best strategy option is selected as the future business strategy. Its implementation is the subject of Chap. 20. After a brief introduction, different types of strategic projects at the business level are distinguished in Sect. 10.2. A process to determine implementation projects at the business level is then recommended in Sect. 20.3.

19 Developing and Assessing Strategic Options at the Business Level

19.1 Introduction

Business strategies form the “core” of the company’s strategy. Every company has at least one strategic business and therefore needs at least one business strategy. It formulates specific guidelines to maintain or develop success potentials for all three levels of the ROM model (see Chap. 2). However, most companies have several strategic businesses and therefore need to develop the corresponding number of parallel business strategies.

A business strategy must answer five key questions:

- What role should the business have in the business portfolio of the company and which market position should be targeted?
- Which Business model will generate the necessary earnings?
- With which generic business strategy can the company distinguish itself from the competitors?
- Which competitive advantages in the offer should be built-up or maintained? Which customer groups and which competitors should these advantages target?
- Which resources are required? How can competitive advantages at the resource level be built-up or maintained?

To achieve high quality business strategies, options are developed and compared. The best-rated option constitutes the future business strategy.

The development of business strategy options is mainly based on three methodological elements:

- Business model
- Generic business strategies
- Network of success potentials

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_19

The first two tools were already introduced in the context of analyzing the competitive positions (see Chap. 17). The success potential network is explained in Sect. 19.2. In Sect. 19.3, a process for the development and assessment of strategic options at the business level is then recommended.

19.2 Network of Success Potentials

19.2.1 General Considerations

Figure 19.1 shows an abstract representation of a network of success potentials.

- As the figure shows, most of the influence arrows point upwards. They generally also remain within a category of success potentials or extend to the category immediately above it in the hierarchy. Competitive advantages at the resource level are thus usually the basis for other resource advantages or for competitive advantages in the offer. Advantages at the offer level in turn strengthen other competitive advantages in the offer or form the basis for attractive market positions.
- An exception is the direct influence of resource advantages on the market position (arrow a). A luxuriously appointed jeweler's shop in a top location, for example, greatly contributes to the image customers have and thus to the market position of the jeweler concerned.
- A second exception is the influence of the market position on the offer (arrow b). This can be interpreted as follows: Stable features of the market position can be the basis for competitive advantages in the offer. For instance, a high market share makes it possible for a food manufacturer to be represented in supermarket chains with a comprehensive product range rather than with isolated products. This in turn represents an important competitive advantage in the offer.

The strategic value of a success potential network depends significantly on its synergies:

- At the offer level, this means that the elements of the marketing mix should form a harmonious whole. The positioning of the offer, introduced in Sect. 19.2.2, forms the basis.
- Resources must be designed in terms of quality and quantity so that they enable the construction or maintenance of the targeted advantages in the offer. At the same time, the company must ensure that they work together efficiently (see Sirmon et al., 2010, p. 1388).

The identification of success potentials is usually carried out by working in the opposing direction to that of the influences in the success potential network, as shown in Fig. 19.1. Starting from the market position objectives, the competitive advantages in the offer are specified first, and the success potentials at the resource

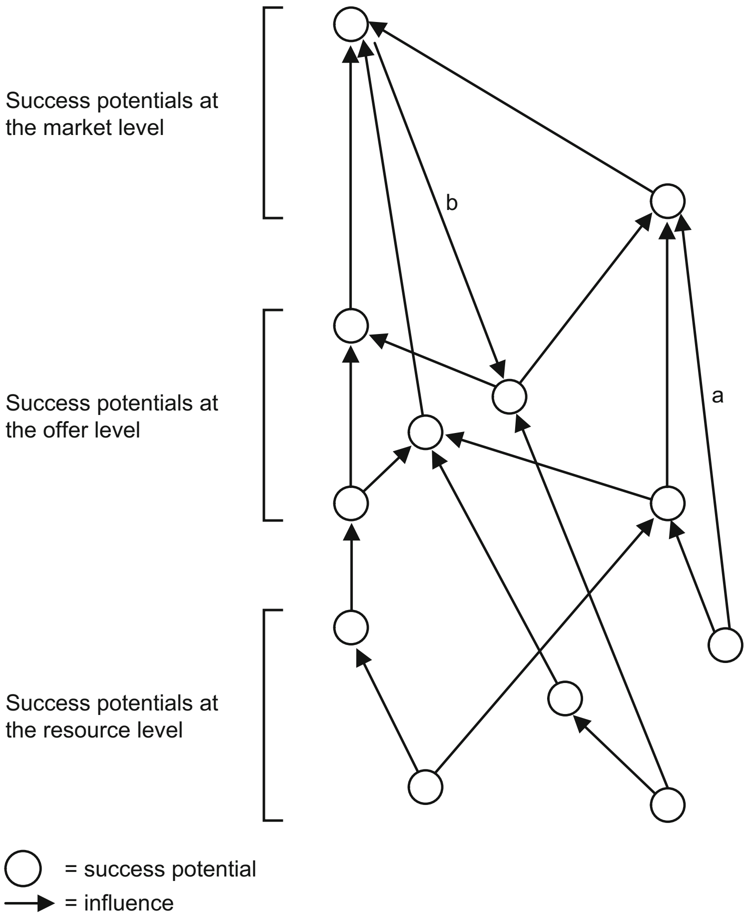


Fig. 19.1 General representation of a network of success potentials

level are then determined on this basis. This procedure is called the outside-in approach. Inset 19.1 compares it to the inside-out approach, which is used when new activities are discovered on the basis of existing resources.

To illustrate this, the success potential network of an international consulting firm is presented in Fig. 19.2. The company has a worldwide network of branches and is the market leader for consulting in strategy development and organizational change of international corporations. As the figure shows, success is mainly based on two sub-systems of success potentials:

- On the one hand, the company succeeds in hiring highly competent consulting staff. Thanks to the pyramid structure of employees, labor costs are relatively low, despite the high quality. As a by-product of the up-or-out principle, former

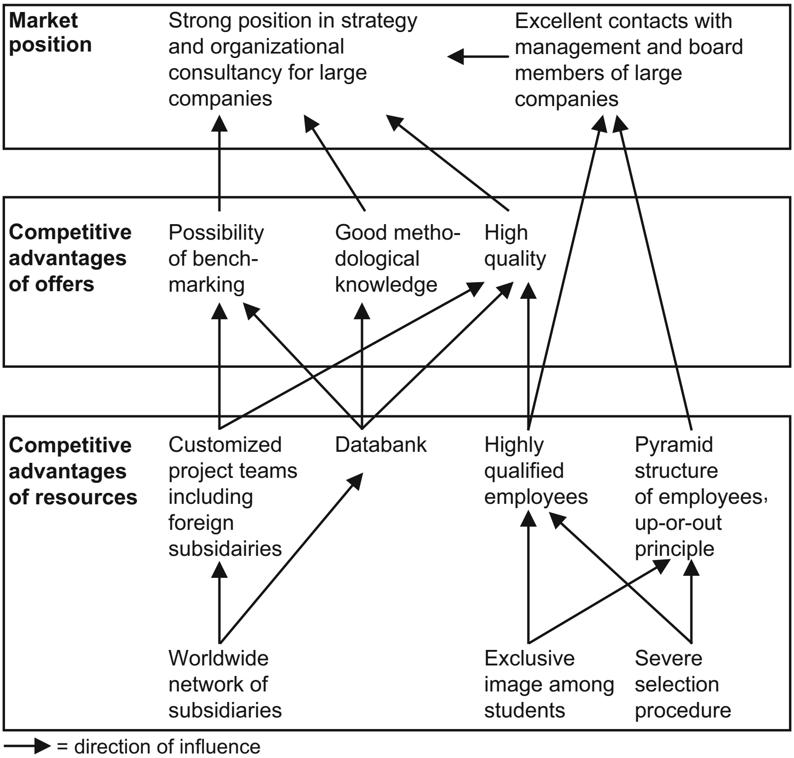


Fig. 19.2 Network of success potentials of an international consulting firm

employees often occupy management positions in customer companies and pursue a career there. This network of former employees represents a large potential for acquisition.

- On the other hand, the company makes optimal use of its extensive accumulated knowledge. For each issue, best practices can be referred to. A central database contains current information on many industries and markets. By putting together customized project teams, it can draw on the expertise of consultants from various overseas branches.

Inset 19.1.

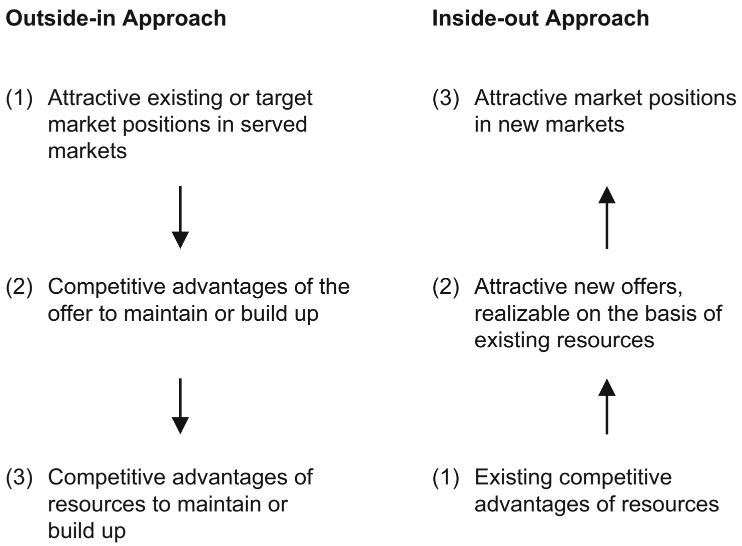
Outside-in and Inside-out Approaches for Determining and Assessing Success Potentials

The inset is based on De Wit and Meyer (2010, p. 254 ff.).

The outside-in approach is based on the market-based view. It begins by determining market position objectives, derives the competitive advantages in the offer from these and finally determines the necessary resources. The outside-in approach is generally used when the underlying offers and resources of existing market positions are analyzed and if possibly improved. As this is usually what strategy projects focus on, it is considered to be the typical approach.

The inside-out approach is based on the resource based-view. It begins by identifying strengths at the resource level. Then, possible success potentials in the offer are identified and assessed. Finally, the market positions, which could be achieved with these advantages in the offer, are determined. The inside-out approach is chosen when it is a question of identifying markets which could be successfully served with existing resources. This question arises when companies look to diversify. As strategy projects are much more frequently concerned with existing market positions than with diversification, the inside-out approach is considered as exceptional approach.

The following figure illustrates the two approaches.



Outside-in and inside-out approaches for determining and assessing success potentials

19.2.2 Positioning of the Offer

With the determination of the competitive advantages in the offer, the company occupies a specific position in the industry market. It distinguishes itself from competitors and thus positions itself among potential customers. Therefore, one also speaks of the strategic positioning of the offer when determining the competitive advantages of the offer.

The strategic positioning of the offer is geared towards the needs of customers and the offers of direct competitors. Depending on the selected market coverage, the positioning of the offer refers to the needs of all customers or to the needs of one or a few submarkets. The positioning of the offer answers two questions:

- Which customers and competitors should the positioning target?
- Which differences from the offers of the competitors should be built or maintained in order to achieve a promising market position?

The answer to the first question usually does not present any difficulties: It is the result of the planned market coverage and the direct competitors specified in the analysis. For price strategies, the answer to the second question is also not a problem, because the marketing instrument to which the difference from the competitors refers is a priori clear. However, the search for effective market differences compared to the offers of the competition is a challenging task for differentiation strategies. The determination of the differences compared to the competitors is especially difficult in mature and saturated markets. This is related to the fact that, in such markets, it is difficult to realize and communicate clear advantages in the quality of the market offer.

In the case of a differentiation strategy, there are two approaches to create effective differences from the offers of competitors (see Kühn & Pfäffli, 2012, p. 67 ff.): product or service differences and communication differences.

A product or service difference is

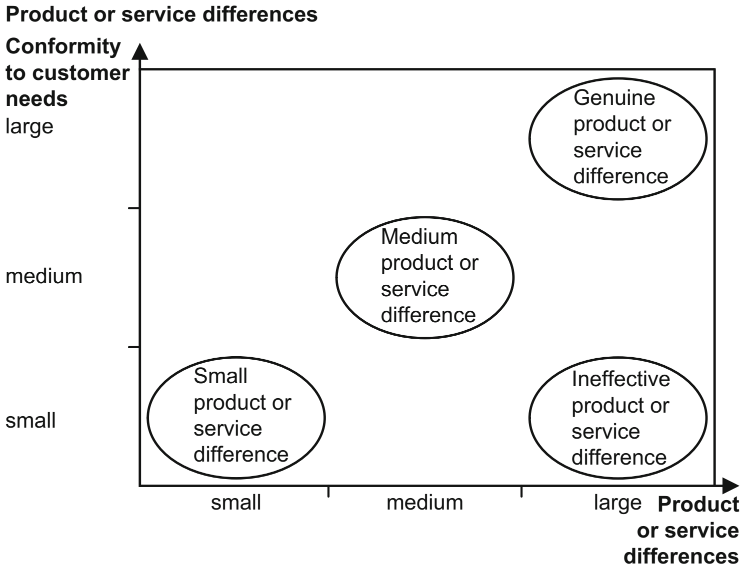
- an objective attribute of the offer which is unique (principally of the core product or service, but also of additional services),
- which the buyer perceives as an advantage and which thus leads him to favorable reactions.

A communication difference is

- a "psychological attribute" of an offer, produced or strengthened by communication (advertising, PR, personal relations with customers),
- which the buyer considers to be an advantage and which thus leads him to favorable reactions.

Figure 19.3 distinguishes different intensities of such differences. Genuine product or service differences and communication differences are ideals which are not very common in practice. In reality, medium or small differences predominate. They are, therefore, in many markets only effective as a series or as a package (see Wiggins & Ruefli, 2005, p. 888).

In many cases, a combination of a product or service difference with a communication difference can be seen: When a company launches a new offer, it can often count on a product or service advantage. But this difference will become smaller as competitors catch up. If the company is not successful in building up the corresponding communication differences to create a permanent advantage in its image, then losses in market positions are inevitable and can even lead to



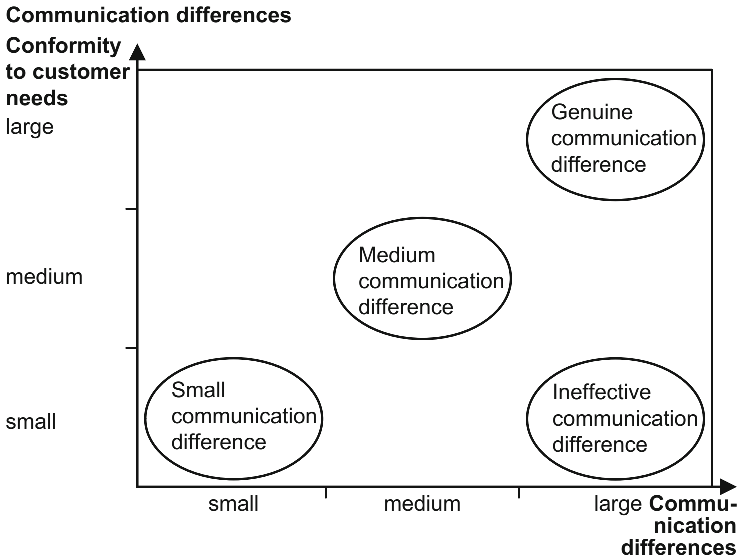


Fig. 19.3 Product, service and communication differences (adapted from Kühn & Pfäffli, 2012, p. 67)

disappearance from the market. The extent to which it is possible to maintain a brand or company image in the long term without a product or service difference, simply through communication differences, depends on the industry. At least with consumer durables and capital goods, it is necessary to regularly support the

- Performance
- Features
- Reliability
- Easy to use
- Conformity to norms and standards
- Durability
- Aesthetics and design
- Safety
- Perceived quality

Fig. 19.4 Dimensions of product quality (adapted from Garvin, 1987, p. 101 ff.)

maintenance of a positive image with product differences (see Kühn & Pfäffli, 2012, p. 69).

In most industry markets, there are a large number of positioning approaches and therefore of possible competitive advantages in the offer. This is especially true for segmented markets (see Kühn & Pfäffli, 2012, p. 36 ff.). In these markets, product or service differences and communication differences can be established not just on the level of the whole market, but also for individual customer groups.

In addition to product, service and communication differences, the intensity of communication and of customer relationship play an important role. Intensive advertising and good relations with customers can compensate weak product, service and communication differences. Wealth management is a good example. By inviting clients to sporting and cultural events, consultants build up personal relationships. These often prove to be more important than the performance of the managed securities portfolio.

Product, service and communication differences as well as the intensity of communication and customer relationships include a larger number of dimensions with many possible attributes. Product differences can be determined, for example, based on the different aspects of product quality (see Garvin (1987, p. 101 ff.). As Fig. 19.4 shows, quality is a very elastic term. In a business strategy, it is therefore of little help to define the quality of products as a competitive advantage without specifying what is meant.

Competitive advantages in the offer can be targeted either at the end-user or at sales intermediaries:

- Producers of branded goods use positioning to create consumer demand for their products. The expectation is that a customer at the kiosk will ask for Marlboro cigarettes, or that a customer in a watch shop will ask for an Omega watch.
- However, positioning can also be targeted at sales intermediaries. In this case, the aim is to “impose” products on consumers to some extent, thanks to good distribution and a good position on the shelves.

19.3 Process for Developing and Assessing Options at the Business Level

19.3.1 Overview

Options are developed and assessed for each business. If a company has business fields and business units (see Sect. 7.3), options are first developed and assessed at the business unit level. The subsequent development and assessment of options at the business field level serves mainly as a means to ensure positive synergies between the business unit strategies.

Figure 19.5 presents the process for the development and assessment of strategic options for a business. The five steps of the process are explained in the following sub-sections. The application of the process is then illustrated with the help of a practical example.

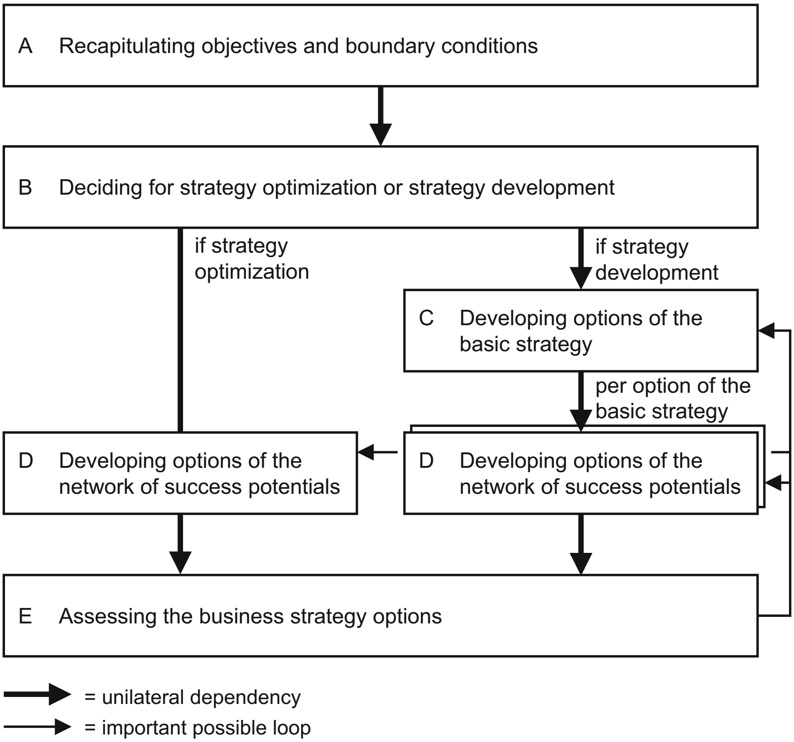


Fig. 19.5 Process for developing and assessing strategic options for a business

19.3.2 Recapitulating Objectives and Boundary Conditions

In Step A, the objectives and boundary conditions are summed up or formulated.

If the business strategies are developed based on the corporate strategy, the objectives defined in the corporate strategy are summed up for the business:

- What is the role of the business: a cash generator or a growth business?
- What are the market share objectives?
- What are the requirements with regard to margin, EBITDA, EBIT and profit?

It is also possible that business strategies are developed before the corporate strategy. In a focused company, a corporate strategy is usually not developed at all. In these two cases, the project group must develop the objectives itself.

During the preparation of the strategy planning project (see Chap. 8), financial and human resources boundary conditions for strategy implementation are often defined. They also have to be summed up in the context of Step A. If this is not done, a lot of time and energy will be invested in the development of a strategy, which could prove to be unfeasible under the boundary conditions.

19.3.3 Deciding for Strategy Optimization or Strategy Development

If the business is new, it is clear from the outset that a complete strategy must be developed. However, if the strategy is developed for an existing business—which is normally the case—the strategy group must choose between strategy formulation and strategy optimization in Step B.

In case of a strategy development, the basic strategy is questioned. With strategy optimization, however, it is only a question of optimizing the competitive advantages at the offer and resource levels.

Strategic analysis (see Part VI) shows whether strategy development is necessary or whether optimization is enough. If market analysis (see Chap. 16) shows significant threats and/or the analysis of the competitive position (see Chap. 17) points to significant weaknesses, this leads to fundamental challenges (see Chap. 18). These can only be countered by reformulating the business strategy. However, if only punctual threats and/or weaknesses appear, it is usually enough to strengthen the competitive advantages and to reduce the competitive disadvantages.

19.3.4 Developing Options of the Basic Strategy

The options developed in Step C may differ in the business model (see Sect. 17.2) and/or in the generic business strategy (see Sect. 17.3) and in the target submarkets.

The existence of alternative Business models depends on the industry:

- Options notably exist in industries in which different Business models have been used in parallel successfully. This is the case in book wholesaling for example; in addition to working closely with retailers, Internet sales with direct delivery exist. Various combinations can also be observed. A competitor may consider whether it wants to switch from a Business model to a combination. It may also consider a change. However, this is associated with considerable risks and therefore occurs less in practice.
- The situation is more difficult if a standard model, which is applied by all successful competitors, exists in an industry. An option is only available if the project team discovers an alternative Business model. Its introduction would correspond to breaking the industry standards. This requires significant financial resources and is associated with considerable risks. They can only be taken if the company can handle a financial failure.

Whether options exist with regard to the Business model is mainly a question of the industry. However, whether variations exist with regard to the generic business strategy mainly depends on the company itself. As shown, generic business strategies are based on a two-dimensional approach (see Sect. 17.3.1). The question of strategic options should be discussed separately for each of the two dimensions "type of competitive advantage" and "scope of market coverage":

- Differentiation and especially price strategies can only be successfully realized if certain conditions are satisfied (see Sect. 17.3.2). Since it is impossible in most cases for a single business to change the conditions, a transition from a differentiation strategy to a price strategy or vice versa is very difficult. Mixed strategies such as "a little cheaper than the quality leader" or "slightly better than low-cost providers" are not an option either. They correspond to a stuck-in-the-middle position and lead to poor performance (see Sect. 17.3.2). However, in certain industries, the market leader successfully switches back and forth between a broad-scope price strategy and a broad-scope differentiation strategy. This procedure, which Gilbert and Strebel (1987, p. 28 ff.) call "outpacing", is presented in Inset 19.2.
- The scope of market coverage is mainly a question of the size of the business. Small businesses usually focus on one or a few submarkets. These can be customer groups, product groups, distinct regional submarkets or combinations of these three starting points (see Sect. 7.2 on the formation of submarkets). Large competitors, however, usually pursue a broad-scope strategy. Their fixed costs force them to achieve contribution margins in a larger number of submarkets.

It is, thus, usually given whether a submarket or a broad-scope strategy is pursued. But, room for maneuver exists in most cases with respect to the main target submarkets. This applies regardless of whether a broad-scope strategy or a submarket strategy is pursued.

In summary, it should be noted that both the Business model and the generic business strategy—with its two dimensions "type of competitive advantage" and "scope of market coverage"—often provide very little room for strategic options. In most cases, only the main targeted submarkets provide room for maneuver. It is, therefore, obvious to first start there. More radical options—they include the Business model and the generic strategy—should only be considered if no satisfactory option is found at the level of the target submarkets. They then include the Business model and the generic business strategy.

Inset 19.2.

Outpacing Strategies

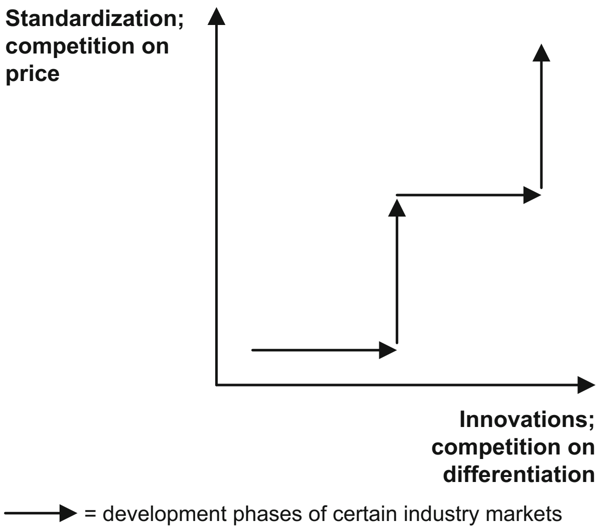
The inset is based on Gilbert and Strebel (1987, p. 28 ff.).

The development of certain industry markets is characterized by an alternation between standardization and the breaking of product standards due to innovations (rejuvenation).

- Important innovations, introduced by the leader in the industry, are more or less quickly copied by competitors. What were originally special features in an innovative product become standards. Suppliers who cannot provide these standards may go out of business. The suppliers who can meet these standards will engage in a bitter price war, because price is now the main distinguishing feature.
- Sooner or later, one of the suppliers is able to break the standards due to an innovation and thus to introduce a rejuvenation of the products and services produced by the industry. The innovation means that previously standard success factors become dominant success factors. The competition in the industry now shifts again from price to differentiation. This phase will continue until the most important competitors manage to copy the innovator and a new, improved, standard is installed.

The following figure visually summarizes these explanations.

This cyclical development leads Gilbert and Strebel to an interesting conclusion in regard to strategic behavior; companies seeking a long-term leading position in their industry market must be able to switch between a price strategy and a differentiation strategy. The authors refer to this as an outpacing strategy—a "leave others behind" strategy—because it allows the leader to always remain ahead of the rest of competitors: As soon as competitors catch up to the innovation, the leader can switch to a price strategy due to low unit costs. Once competitors have improved their cost structure and can offer similarly low prices, the industry leader introduces a new innovation that breaks previous industry standards. This introduces a new phase, in which competition is once more based on product performance.



Possible development of an industry market

Gilbert and Strebel illustrate their idea with the help of the example of the diaper manufacturing industry. Until the mid-sixties, cloth diapers were primarily used. In 1976, Procter and Gamble revolutionized the market with Pampers, disposable diapers made of paper. When competitors brought similar disposable diapers onto the market a few years later, Procter and Gamble began to lower their prices. Their rivals were not able to compete, because of their unfavorable cost structure. In 1983, Kimberly succeeded in developing a superior form of disposable diapers. Although these were sold at a 25 % premium, it took only two years for Procter and Gamble's market share to fall from 60 to 50 %. In 1985 the market leader launched its own version of the Kimberly product at a lower price and succeeded in re-establishing price-based competition in the industry.

19.3.5 Developing Options of the Network of Success Potentials

The starting point for the development of options of the network of success potentials in Step D is the basic strategy. It was either determined in Step C or the existing basic strategy continues to be pursued.

An option of the network of success potentials is composed of competitive advantages of the offer and of the resources. In most cases, it should not be difficult to develop two to three options. Since all of the options are based on the same basic strategy, they do not differ fundamentally from each other. Nevertheless, it seems useful to develop alternatives. Experience shows that the superior quality of the solution selected justifies the effort associated with developing options.

19.3.6 Assessing the Business Strategy Options

Figure 19.6 shows the decision criteria, which are recommended for the assessment of the business strategy options in Step E. They are briefly commented in the following text.

If basic strategy options were developed in Step C, the business strategy options generally differ in terms of the main submarkets served. The more attractive these submarkets, the more positively the corresponding option should be assessed. The attractiveness of a submarket mainly depends on the growth rate and the development of the margin.

Second, the market positions, which can be achieved with the business strategy options, are assessed. Here, it is mainly a matter of estimating the market share in the whole market and in the primarily served submarkets at the end of the planning period. This assessment is difficult. Nevertheless, the analysis of the competitive positions (see Chap. 17) provides a clear overview of competitors and their strengths and weaknesses. On this basis, it should at least be possible to carry out an ordinal assessment of the business strategy options.

If the strategy of a business unit (see Sect. 7.3) is concerned, the consequences of the strategies on the other business units of the same business field are assessed. If there are significant negative consequences for the other business units, adjustments may need to be made.

The best-rated option constitutes the future business strategy. However, this statement is not an absolute one:

- If no option receives a satisfactory overall assessment, other options must be developed according to the heuristic principle of "generate-and-test" (see Inset 6.1).
- However, even if an option is evaluated positively, it is also considered as temporary. Only a positive overall assessment of the strategies and strategic projects in Sub-step 6.2 (see Chap. 22) leads to the approval of the business strategy

- Attractiveness of the target submarkets
- Attainable market position
- If business unit: Compatibility with the strategies of the other business units in the same business field

Fig. 19.6 Criteria for assessing business strategy options

19.3.7 Example of Applying the Process

Inset 19.3 shows the application of the process for the development and assessment of business strategy options with the help of an example of a provider of bus trips.

Inset 19.3.

Developing and Assessing Options for Bus Trips

Car Inc. is a major provider of bus trips based in the Swiss Plateau. In addition to the core business of car trips, the company takes over school transportation and garbage collection for municipalities.

The current situation in the "bus trips" business—which is discussed in the text below—can be summarized as follows:

- The offer includes beach holidays, cultural tours, event trips (sports events, Christmas markets, exhibitions and concerts), hiking tours and private group tours (weddings, trips for clubs, etc.). The destinations are located in Switzerland as well as in Italy, Germany, France, Austria and Spain. They have good relationships and attractive contracts with three and four star hotels.
- Marketing focuses on customers in the cantons of Aargau, Solothurn, Bern, Fribourg and Neuchâtel. Individuals represent the most important group of customers. Companies, clubs and schools are also targeted.
- The company has a significant fleet of modern, well-equipped buses with bathrooms, bars, video monitors, etc. It is known for its friendly, competent chauffeurs and guides, many who have been working for the company for many years and are well-respected by passengers.
- A well-maintained customer database is systematically used for direct marketing, especially for the distribution of brochures presenting the offers. The extensive well-designed catalogs for the summer and winter seasons are particularly important. In addition, sales take place via four travel agencies in good locations in regional centers in the served market. Ads in regional newspapers and on regional radios complement marketing communication. There is also a website that provides information on the latest offers. However, bookings cannot be made on the site.
- Car Inc. has a leading market position in the regional market it serves. Its most important competitor has a similar offer, but generally works with slightly lower prices. In addition, there are different competent smaller providers. They generally only serve a local market.

The management of Car Inc. wishes to revise its strategy due to the deterioration of its market position and its profit situation. The following strategic challenges are observed in Step A as a result of the analysis:

- Gradual aging and the decrease in number of individuals as regular customers and insufficient targeting of other customer groups
- Clear weaknesses in the area of electronic communication and no use of the Internet for bookings
- Lack of growth impulses

The project group is of the opinion that the threats and weaknesses are significant and therefore decides in Step B to question the basic strategy.

The development of basic strategy options in Step C gives the following result:

- The Business model and the generic business strategy—a broad scope differentiation strategy—should be maintained.
- Geographical growth is rejected. The neighboring regions are well covered by strong competitors.
- However, two groups of customers that could be targeted more are identified. (1) On the one hand, private customers between 18 and 30 years old could become more important. To successfully serve them, the building up of an appropriate offer would be necessary. It would have to be marketed with a special catalog. Buses would also have to be converted (design, hi-fi and video equipment, etc.). (2) On the other hand, potential is identified in group travel. In addition to systematically addressing companies, clubs and schools, the different buses would have to be modified so that customers can better communicate with each other during the ride.

The discussion of options for the network of success potentials shows for both alternatives of Step C the same two sub-options:

- The existing advantages in the offer are optimized. This is possible without making major changes at the resource level.
- An electronic travel agency is established; "click" instead of "brick". Significant investments in resources are associated with this change.

The assessment of the two options and sub-options in Step E leads to the following result:

- Offers for a younger target audience are obvious. However, due to this customer group's well known resistance to bus trips, the sales potential appears to be too uncertain to justify the significant investments and the high marketing expenses that must be expected. The second option is more positively assessed: Performance differences allow the successful targeting of companies, clubs and schools. It seems realistic that this group of customers, which has been less targeted up until now, can be better served by setting up specialized sales and expanding the customer database. There is no doubt with regards to the human resources and financial feasibility. It is, therefore, decided to convert two buses and to target the B2B submarket more intensively.
- A controversial discussion takes place on setting up of the electronic travel agencies. The option is associated with development and investment risks which should not be underestimated. Nevertheless, the project group decides to take the risk. In view of the general development of the market, the project

is considered to be essential. Car Inc.'s main older target audience also increasingly uses the Internet. The human resources feasibility is considered to be critical. The group therefore decides to first hire qualified staff and to tackle the project only then.

References

De Wit, B., & Meyer, R. (2010). *Strategy* (4th ed.). Andover, MA: Cengage Learning.

Garvin, D. A. (1987). Competing on the eight dimensions of quality. *Harvard Business Review, 65*(6), 101–109.

Gilbert, X., & Strebel, P. (1987). Strategies to outpace the competition. *Journal of Business Strategy, 8*(1), 28–36.

Kühn, R., & Pfäffli, P. (2012). *Marketing: Analyse und Strategie* (Vol. 14). Zürich: Werd.

Sirmon, D. G., et al. (2010). The dynamic interplay of capability strengths and weaknesses: Investigating the bases of temporary competitive advantage. *Strategic Management Journal, 31*(13), 1386–1409.

Wiggins, R. R., & Ruefli, T. W. (2005). Schumpeter's ghost: Is hypercompetition making the best of times shorter? *Strategic Management Journal, 26*(10), 887–911.

20 Developing and Assessing Strategic Projects at the Business Level

20.1 Introduction

Strategic projects are one of the five categories of strategic documents (see Chap. 5). They constitute the link between the intentions set out in the strategy and implementation (see Project Management Institute, 2013, p. 10).

In the following text, two types of strategic projects for the implementation of business strategies are distinguished. Then, a process for the development and assessment of projects at the business level is proposed.

20.2 Types of Strategic Projects at the Business Level

To implement strategies, direct implementation projects and indirect support projects are needed. Direct implementation projects define concrete goals, measures and means to implement strategic intentions. A typical example is a project to develop and introduce a new generation of products with additional performance differences. Indirect support projects help create favorable conditions for the implementation of direct implementation measures. For example, the introduction of performance-related compensation of sales representatives can strengthen sales efforts.

Direct implementation projects can be divided into three groups on the basis of the ROM model (see Chap. 2):

- When it is decided in the business strategy to build up submarkets from scratch or to abandon certain submarkets, implementation takes place mostly with the help of projects.
- The implementation of a business strategy almost always includes adjustments to the offer. They can be radical and lead to extensive implementation projects. But even limited adjustments also usually initiate implementation projects. An example of a significant change in the offer is the modification of the product

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_20

range. For example, various suppliers of capital goods and consumer durables have restructured their offer in recent years. Emerging markets and price-conscious buyers in Western Europe and North America are served with a low-cost standard range. High-priced premium products target large segments of clients who are sensitive to quality and design in Western Europe and North America, as well as a small group of clients in emerging markets. Examples of minor adjustments in the offer and of associated minor projects include the development of Internet sales as an additional channel or the realignment of marketing communication.
- Adjustments to the offer often require investments in resources. They must also be supported with the help of implementation projects. The new standard line in the product range of many manufacturers of capital goods and consumer durables often requires a new production facility in an emerging market and therefore the planning of a complex construction project. Internet sales often involve investments in software and hardware, and they often lead to adjustments of outbound logistics processes. Project plans should be prepared in order to fulfill these tasks.

Indirect support projects are possible in many different areas. From a practical point of view, however, there are two main areas:

- Projects to adapt management systems and structures: For example, if a business field goes from serving the whole market to serving specific customer segments, adjustments in the organization of sales representatives and in reporting are necessary. In this case, sales representatives don't serve all of the customers in an area anymore, they only target one customer segment in a larger geographic area. Reporting must also be adapted. It must deliver figures on customer segments instead of figures on regions.
- Projects in human resources: A new business strategy frequently creates a need for training. For example, the introduction of a new generation of machines may require several weeks of training for maintenance personnel. It may include staff of representatives in addition to employees. A new strategy may also often require the adjustment of salaries based on performance. For example, an adaptation of performance-based salary components may be necessary following a transition from an undifferentiated to a segment-specific sales organization.

20.3 Process for Developing and Assessing Strategic Projects at the Business Level

20.3.1 Overview

The definition of projects to implement business strategies is Sub-step 5.2 in the strategic planning process. This task is carried out in parallel for each business.

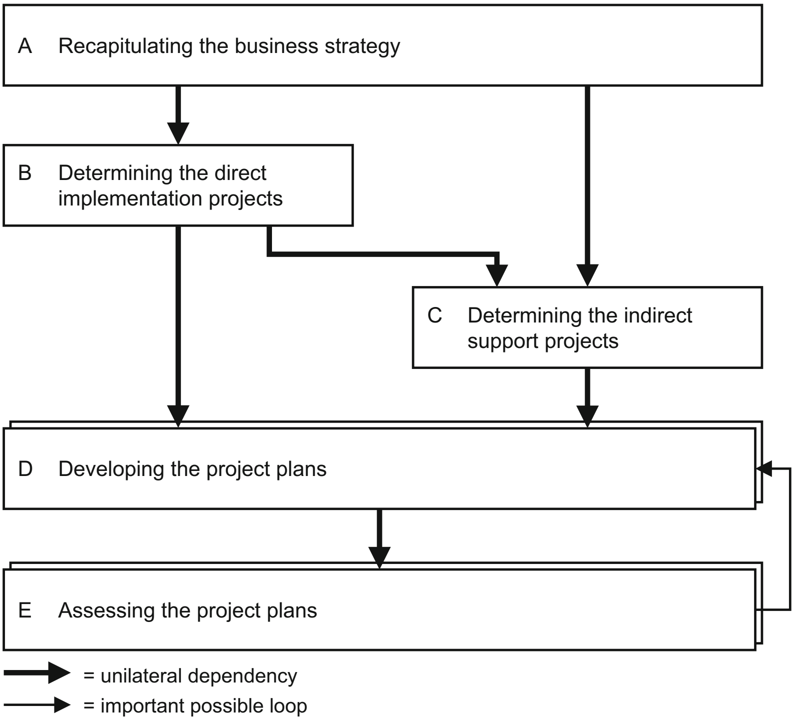


Fig. 20.1 Process for developing and assessing strategic projects of a business

As Fig. 20.1 shows, the task of developing and assessing projects to implement a business strategy can be divided into five sub-tasks. They are explained in the following sub-section.

20.3.2 Description of the Steps

The starting point for the determination of implementation projects is the business strategy. To ensure that all members of the planning team interpret this document in the same way, it is recommended to discuss the business strategy in Step A before defining the projects.

In Step B, the projects needed for the direct implementation of the business strategy are determined. These projects develop and maintain the success potentials of the business at the different levels of the ROM model. If a clear idea exists on future success potentials exists—this should be the case if the business strategy was developed according to the process recommended in Sect. 19.3—the course of action is quite clear. In this case, Step B is only a matter of grouping the necessary changes into meaningful projects.

The business strategy and the direct implementation projects constitute the basis to derive indirect support projects in Step C. The task in Step C is much more open than the one in Step B, due to the variety of possible measures to support the implementation of a business strategy. However, the authors recommend determining the indirect support projects according to the principle of concentrating on essentials. Accordingly, the project group should only seek to turn measures, which have a crucial importance for strategy implementation, into tangible projects.

The projects defined in Steps B and C are planned in Step D. To this end, the following four issues should be discussed and answered in detail:

- What are the project's expected effects?
- What measures should be taken and what is the deadline for their realization?
- What are the income and expenditure associated with the project?
- How is the project organized and who is strongly involved in the project?

Further explanations are found under Project Management Institute (2013, p. 55 ff.).

Finally, the strategic projects are assessed in Step E. The assessment is based on two aspects:

- It should first be assessed, whether the project can really make the expected contribution to the implementation of the business strategy. The risks that could lead to an unsatisfactory outcome of the project should notably be identified.
- As shown in Chap. 4, the authors also recommend an economic assessment of projects with the help of investment performance measures. For direct implementation projects, the use of such methods should not present any difficulties. Inset 4.2 illustrates, for example, the use of the net present value approach to assess an entry into a new country market. Investment performance measures are also possible for certain indirect support projects. However, there are also projects, such as the introduction of a new reporting system, whose benefits cannot be easily quantified in terms of income. Here, only the net present value of expenses can be determined, which makes little sense. If investment performance measures are used, they should not be limited to the project implementation period. According to the experience of the authors, one-time expenses are mainly incurred during this period. In order to assess the economic viability of a project, the revenues, which are incurred only during the first following years after the completion of the project, must also be considered.

Reference

Project Management Institute. (2013). *A guide to the project management body of knowledge* (5th ed.). Newton Square: Project Management Institute.

Part VIII

Finalizing Strategic Planning

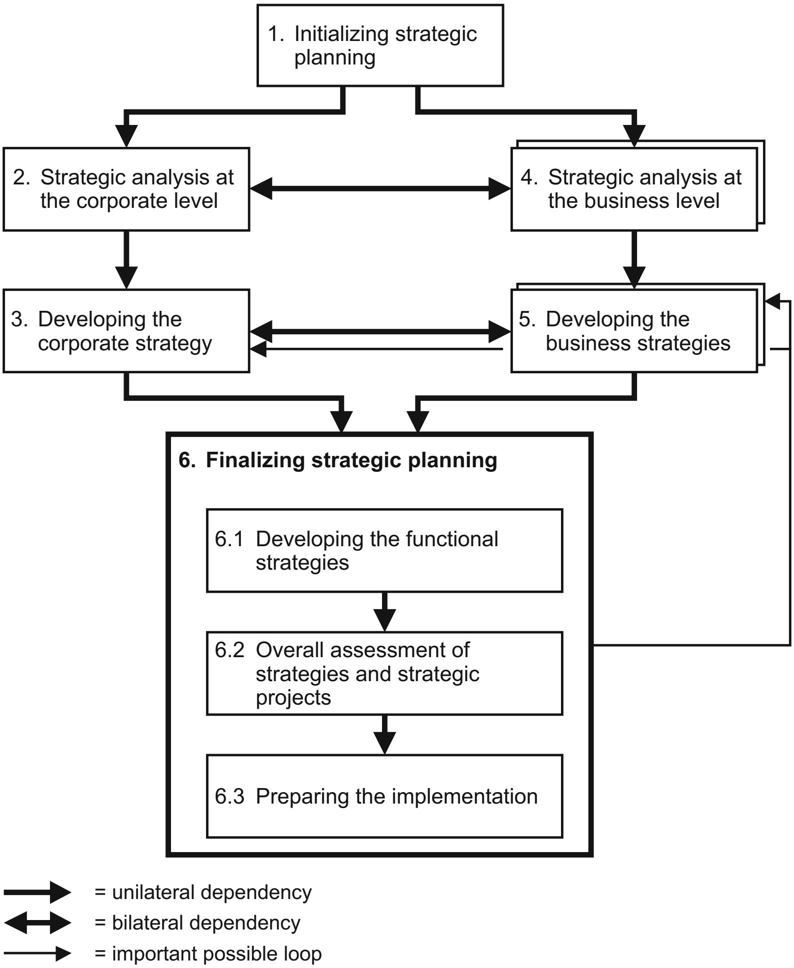
In Steps 2 to 5, strategic analysis and planning is carried out at the corporate and at the business level. The resulting strategies show the direction in which the company should develop in the coming years. Step 6 now looks at the finalization of strategic planning. This task, which is dealt with in Part VIII, consists of three sub-problems:

- In Sub-step 6.1, the functional strategies are developed. They are used to deal with complex individual tasks and to realize synergies and therefore support the successful implementation of corporate and business strategies (see Coulter 2010, p. 137).
- Before strategies and strategic projects are approved, they must undergo an overall assessment. The main focus is not the individual strategic documents, but their combined effect. This task forms the content of Sub-step 6.2.
- Finally, the conditions for the successful implementation of strategies and strategic projects are created in Sub-step 6.3. Final documents are created and approved. One must also ensure that employees, especially managers, are informed and involved.

The following figure shows Step 6 and its sub-steps in the recommended strategic planning process.

Part VIII has three chapters:

- In Chap. 21, the development of functional strategies, and thus Sub-step 6.1, is discussed. The chapter has three sections: After an introduction, the content, the categories and the effects of functional strategies are explained in Sect. 6.2. Then, a process for the development of functional strategies is proposed in Sect. 6.3.
- Chapter 22 deals with Sub-step 6.2 “Overall assessment of strategies and strategic projects”. In the introduction in Sect. 22.1, the need for a final overall assessment is justified. Then, a process for the overall evaluation of strategies and strategic projects is proposed in Sect. 22.2.



Step 6 in the strategic planning process

- Finally, Chap. 23 is devoted to Sub-step 6.3, the preparation of implementation. After an introduction, a procedure to complete the strategy planning project is proposed in Sect. 23.2. It includes the development, approval and communication of strategic documents and ensures that the strategy is adhered to during daily business.

Developing the Functional Strategies 21

21.1 Introduction

"Specific functional strategies should be supporting the business-level and the corporate-level strategies" (Coulter, 2010, p. 137). Coulter's statement clearly and concisely summarizes the importance of functional strategies from the authors' point of view; functional strategies complement and support the two main categories of strategic plans.

The supporting and complementary role of functional strategies means that they do not have the same significance as corporate and business strategies. "Functional strategies are not of particularly great magnitude" (Haberberg & Rieple, 2008, p. 60). This subsidiary role is also reflected in the recommended strategic planning process: The development of the corporate strategy is the object of Step 3, and the development of the business strategies is looked at in Step 5. However, the development of the functional strategies is only considered in Sub-step 6.1.

In Sect. 21.2, the content, the categories and the effects are first discussed. The operations strategy is briefly presented as an example of a functional strategy. Then, a process to develop functional strategies is given in Sect. 21.3. Functional strategies are possible in very different areas, ranging from marketing to IT. The presentation of an approach for the development of each of them would therefore be far beyond the scope of this book. Therefore, the text focuses on the determination of the necessary functional strategies.

21.2 Content, Categories and Effects of Functional Strategies

Functional strategies are possible in a large number of areas. The necessary functional strategies depend on the industry and on the needs of the individual company. It therefore appears to be impossible to give a complete overview. Nonetheless, areas for which functional strategies could be useful can be named based on literature (see Coulter, 2010, pp. 138 ff.; Hill & Jones, 2013, pp. 117 ff.;

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_21

Functional strategies for main tasks	Functional strategies for support tasks	Functional strategies for building and maintaining resources
▪ Marketing strategies ▪ Operations strategies	▪ Procurement strategies ▪ Communication strategies ▪ Compliance strategies ▪ Quality control strategies ▪ Research and development strategies ▪ Logistics strategies	▪ Human resources strategies ▪ Financing strategies ▪ IT strategies

Fig. 21.1 Possible functional strategies

Wheelen & Hunger, 2010, pp. 286 ff.) and practical experience. As Fig. 21.1 shows, they can be grouped into three categories based on their content (see Coulter, 2010, p. 139).

Another way to categorize functional strategies is to distinguish between business-specific and cross-business functional strategies. The marketing strategy of a product group is an example of a business-specific functional strategy. A typical example of a cross-business functional strategy is an IT strategy, which is applied to the entire company, not only in SMEs, but also often in large firms.

Thompson and Strickland only consider business-specific functional strategies. "The term functional strategy refers to . . . the . . . plan for a particular functional activity . . . within a business" (Thompson & Strickland, 2003, p. 56). The authors argue—similarly to most of the literature (see for example Coulter, 2010, p. 137; Hofer & Schendel, 1978, p. 29)—that cross-business functional strategies can also be useful.

If the two approaches to distinguish different types of functional strategies are combined, the six categories shown in Fig. 21.2 result. All six categories of functional strategies are possible and actually appear in practice. However, if a company has several largely independent businesses—so-called business fields (see Chap. 7)—company-wide functional strategies for the two main tasks are hard to imagine. The businesses would lose their autonomy if marketing or production tasks were accomplished for all of the businesses together.

Like all other strategies, functional strategies serve to construct and maintain success potentials (see Sect. 2.1). In the case of functional strategies, success potentials at the resource level are the main focus:

Content / Area of application	**Functional strategies for main tasks**	**Functional strategies for support tasks**	**Functional strategies for building and maintaining resources**
Functional strategies at the business level	Functional strategies for main tasks at the business level	Functional strategies for support tasks at the business level	Functional strategies for building and maintaining resources at the business level
Functional strategies at the corporate level	Functional strategies for main tasks at the corporate level	Functional strategies for support tasks at the corporate level	Functional strategies for building and maintaining resources at the corporate level

Fig. 21.2 Categories of functional strategies

- Functional strategies enable an effective and efficient accomplishment of tasks. To keep the number of strategies to be developed to a minimum, functional strategies should only be planned for complex tasks. For example, if the marketing function of a business is considered to be complex, it can be useful to develop a marketing strategy for this business.
- With each functional strategy, the aim is to increase effectiveness and efficiency in accomplishing tasks. This often means coordinating the fulfillment of a task in the different businesses or even accomplishing the task for several businesses together. This normally saves resources. In such cases, a functional strategy becomes an instrument to exploit synergies. "Synergy involves the coordination and integration of activities within a single function" (Hofer & Schendel, 1978, p. 29).

The operations strategy is briefly presented as an example of a functional strategy in Inset 21.1.

Inset 21.1.

The Operations Strategy as an Example of a Functional Strategy

This inset is based on Grünig and Morschett (2012, pp. 297 ff.).

The corporate strategy (see Chap. 14) and the business strategies (see Chap. 19) determine which products and services are offered in which markets. The depth of value creation is also set at least roughly by these strategies. On this basis, an operations strategy defines what is produced where.

The spatial allocation of the various production stages is a complex decision with major long-term implications, particularly in international companies (see

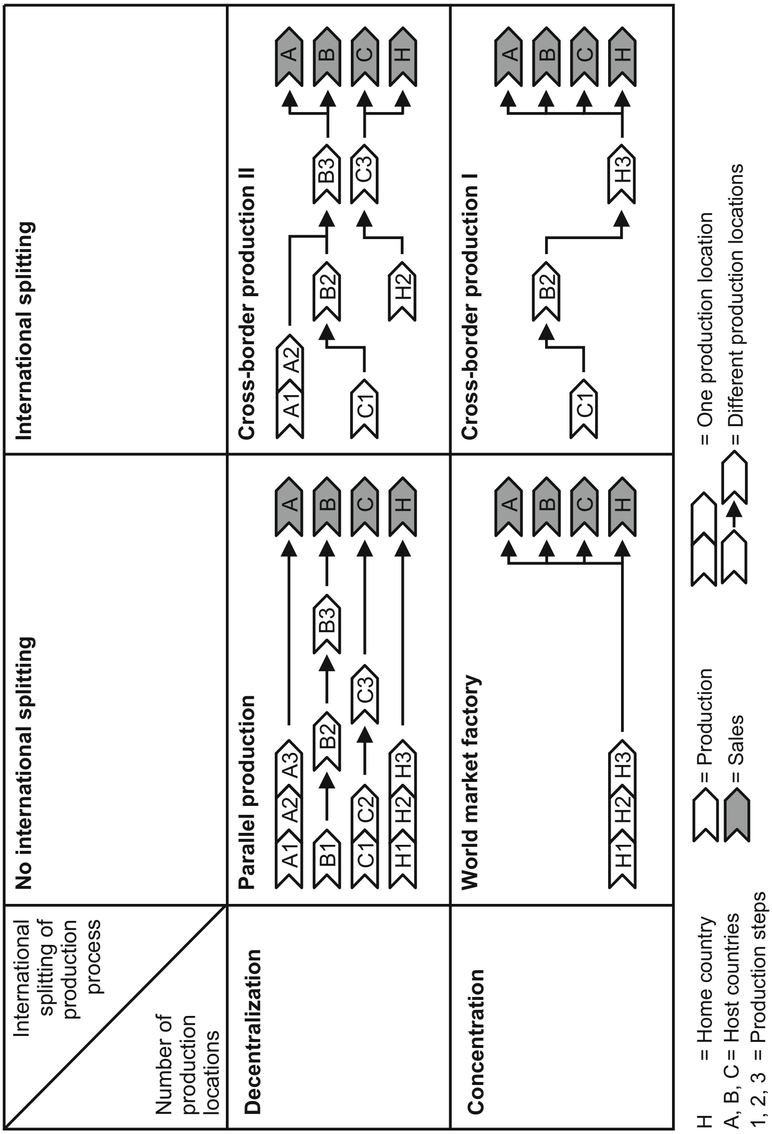
Mundt, 2012, pp. 3 ff.). International companies that focus on one industry market usually require only one operations strategy. Companies that are active in several industry markets, however, plan their production at the level of divisions and therefore tend to have several operations strategies.

The question asked by the operations strategy—what is produced where—has in international companies or international divisions two dimensions:

- On the one hand, it looks at whether production is concentrated in one location or whether production takes place in parallel at multiple locations. The question can be answered separately for each production stage. The generic solutions consist of concentrating each production stage in one factory or operating several factories in parallel. However, intermediate solutions are also possible. For example, home appliance components can be produced in specialized factories, while the assembly of the appliances can take place in parallel in several factories.
- On the other hand, the allocation of the production process to different countries must be fixed. A radical solution is to concentrate the entire production process in one country. The alternative is a production network in which each production stage takes place at the ideal location. Here again, intermediate solutions are possible. For example, the first two stages could take place at the same location. This could be useful when the second stage of production produces scrap, which can then be recycled back into the first stage of production.

If the two dimensions are combined, four basic types of production result. They are shown in the following figure. The following examples illustrate the basic types:

- Rolex's production mainly corresponds to the world market factory. The production of the components and the assembly of watches take place almost exclusively in Switzerland. Efficient production and high quality can thus be achieved. In addition, the important label "Swiss Made" is ensured.
- Almost completely parallel production can be found in many service companies. For example, major consulting and auditing companies have subsidiaries in all of their major country markets. They cover the entire value chain for the whole offer. Holcim's cement production also corresponds to the model of parallel production.
- Production networks of Type I, which systematically concentrate each production stage in a single country, are rarely observed.
- However, there are numerous companies in various industries, which use Type II networks. Examples include production by Nestlé, Novartis and ABB.



Basic types of production in international companies (Grünig & Morschett, 2012, p. 301)

During strategic planning, the task rarely consists of a complete reorganization of production. However, adjustments should be made based on shifts in demand, new technologies and changes to production conditions in different countries. Already in the context of such optimizations, the planning team is faced with a large number of alternatives. They are associated with high investments and bind the company for many years. It is therefore useful to plan the production of international companies or divisions in a specific operations strategy.

21.3 Process for Developing the Functional Strategies

21.3.1 Overview

Figure 21.3 gives an overview of the recommended process for the development of functional strategies. In the following sub-sections, the steps are briefly discussed.

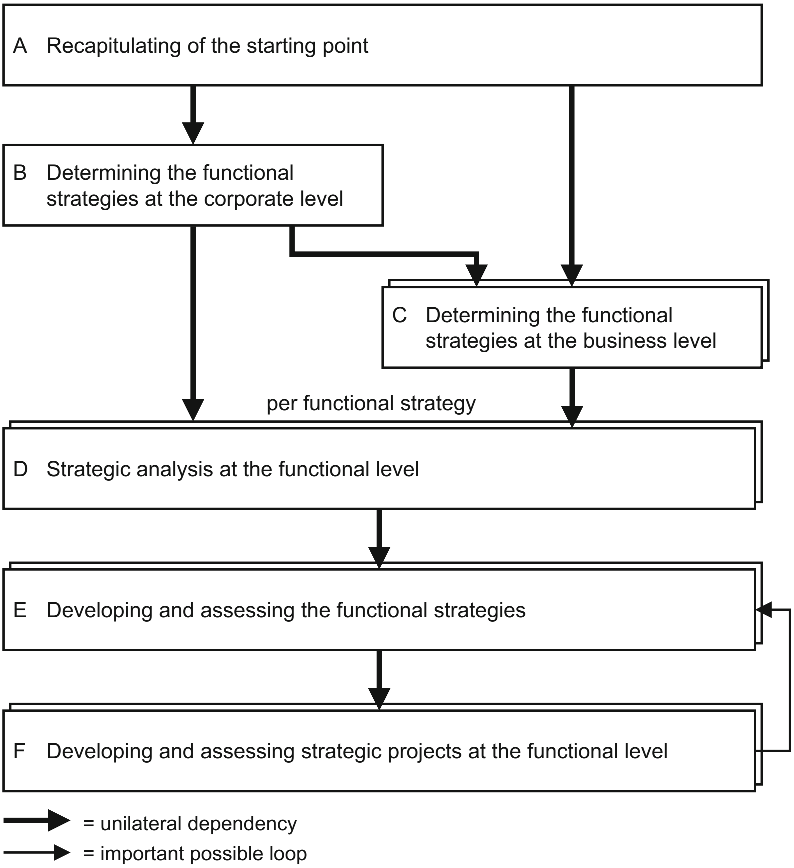


Fig. 21.3 Process for developing the functional strategies

21.3.2 Description of the Steps

Before the necessary functional strategies are determined, the starting point is clarified in Step A. For this purpose, the results of Step 3 “Developing the corporate strategy” and Step 5 “Developing the business strategies” should be read.

In Step B, functional strategies at the corporate level are then defined. As outlined in Sect. 21.2, restraint should be exercised when defining functional strategies. A cross-business functional strategy should be envisaged only if two conditions are satisfied at the same time:

- The coordination or the centralization of the task promises important synergies. These can be found in cost savings or better quality in the performance of tasks. An example of a cost synergy is a common IT solution for all businesses. In general, however, such software is less well adapted to the individual needs of the individual businesses. But the economies of scale are often substantial and therefore justify centralization. If research and development are centralized, however, cost-savings are often not the main objective. Pooling allows better-qualified people to be hired and enables experience to be exchanged between the research and development teams. Both can increase the quality of results.
- The use of synergies must be associated with a complexity that is so great that a functional strategy is needed to tackle it. Where there is less complexity, it is recommended to directly state the measures for the exploitation of synergies in the corporate strategy and then to implement them with the help of a strategic project.

With the functional strategies defined in Step C, the raison d’être is no longer the exploitation of cross-business synergies. A functional strategy can only be justified to cope with complexity. Here, the complexity must be so great that it seems impossible to master it with the help of the business strategy and the derived implementation projects.

From Step D on, the work must be done in parallel for each functional strategy. As Fig. 21.1 shows, they cover a large range of contents. Accordingly, the substantive challenges and the selected approaches are also very different. A presentation of what should be done concretely in Steps D, E and F for each of the functional strategies listed in Fig. 21.1 would be far beyond the scope of the book. Therefore, the explanations on the three steps are limited to a few general comments.

The analyses at the corporate level in Step 2 and at the business level in Step 4 often do not form a sufficient basis for developing functional strategies. Therefore, additional analyses at the functional level are necessary. They form the object of Step D.

The development and assessment of functional strategies follows in Step E. As mentioned previously, the process and the assessment criteria depend on the type of functional strategy. Corresponding recommendations can be found in specialized literature. For example, Kühn and Pfäffli submit a proposal for the development of a marketing strategy (2012, pp. 52 ff.).

Functional strategies are—similarly to corporate and business strategies—normally not implemented directly, but through strategic projects. The development and assessment of the needed strategic projects represent the content of Step F.

References

Coulter, M. (2010). *Strategic management in action* (5th ed.). Upper Saddle River, NJ: Pearson.

Grünig, R., & Morschett, D. (2012). *Developing international strategies*. Heidelberg: Springer.

Haberberg, A., & Rieple, A. (2008). *Strategic management*. New York, NY: Oxford University Press.

Hill, C. W. L., & Jones, G. R. (2013). *Strategic management* (10th ed.). Mason, OH: South Western Cengage Learning.

Hofer, C. W., & Schendel, D. (1978). *Strategy formulation*. St. Paul, MN: West Publishing.

Kühn, R., & Pfäffli, P. (2012). *Marketing: Analyse und Strategie* (Vol. 14). Zürich: Werd.

Mundt, A. (2012). *The architecture of manufacturing networks—Integrating the coordination perspective* (Dissertation of the University of St. Gallen. Difo-Druck, Bamberg).

Thompson, A. A., & Strickland, A. J. (2003). *Strategic management* (13th ed.). New York, NY: McGraw-Hill.

Wheelen, T. L., & Hunger, J. D. (2010). *Strategic management and business policy* (12th ed.). Upper Saddle River, NJ: Pearson.

22 Overall Assessment of Strategies and Strategic Projects

22.1 Introduction

The recommended planning process breaks down a problem into a number of sub-problems, which are tackled one after the other or in parallel. This means that strategies and strategic projects are developed and assessed individually. In Sub-step 3.1 (see Chap. 14), for example, corporate strategy options are developed and assessed.

This factorization reduces complexity significantly (see Inset 6.1). For example, the best-rated corporate strategy option constitutes the starting point for the development and assessment of the business strategies in parallel. This creates a clear starting point for the determination of the business strategies, and those in charge must not base themselves on several possible corporate strategies. However, the disadvantage of problem factorization is that no overall assessment takes place. This is now done in Sub-step 6.2. In Sect. 22.2, a procedure for the final assessment of strategies and strategic projects is suggested.

22.2 Process for the Overall Assessment of Strategies and Strategic Projects

22.2.1 Overview

The final overall assessment of strategies and strategic projects is Sub-step 6.2 in the strategic planning process. Two different initial situations are possible:

- Usually, a set of strategies and strategic projects is assessed. In the case of a positive result, the strategies and the strategic projects are finalized and approved in the subsequent Sub-step 6.3. If significant weaknesses are identified, the heuristic principle of generate-and-test (see Inset 6.1) is used; with a heuristic

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_22

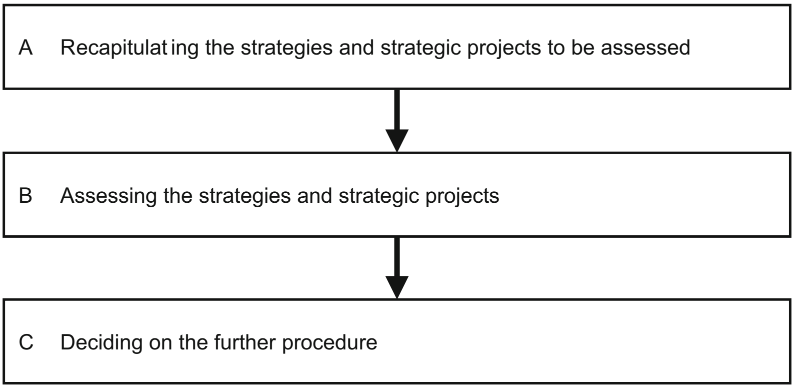


Fig. 22.1 Process for the overall assessment of strategies and strategic projects

loop, all strategies and strategic project plans with an unsatisfactory assessment result are improved.

- Exceptionally, a few options are still open for discussion in Sub-step 6.2. In this case, several sets of strategies and strategic projects are compared with each other. The set of documents is evaluated as the best then represents the future strategy.

Figure 22.1 shows the recommended procedure for the overall assessment of strategies and strategic projects. In the following sub-section, the tasks of the three steps are explained. To simplify, the explanations are based on the usual case. If strategic options must exceptionally be assessed, the recommendations can be applied by analogy.

22.2.2 Description of the Steps

In Step A, the strategies and strategic projects which must be assessed are restated:

- To do so, all of the strategies and strategic projects are first collected. In a company of medium complexity (see Sect. 6.3), this includes a corporate strategy, several business strategies, a few functional strategies and a larger number of project plans. All documents should be in their latest versions.
- The working group in charge of the final assessment must then become familiar with the content of the documents. This can be done by studying the documents individually and by clarifying questions. However, a summary may also be produced and presented. Regardless of the procedure, Step A often requires a considerable effort.

During the strategic planning process, every strategic document was already individually assessed (see, for example, Sect. 14.3.4 on the assessment of the

Assessment of the strategies	Assessment of the strategic projects	Assessment of the coherence of the planning results
▪ Strengths of the market positions	▪ Economic impact	▪ Coherence between mission statement and strategies
▪ Strengths of the competitive advantages of the offers and the resources	▪ Financial feasibility	▪ Coherence between corporate strategy, business strategies and functional strategies
▪ Robustness of the strategies	▪ Personal feasibility	▪ Coherence between strategies and their implementation projects
	▪ Acceptance	

Fig. 22.2 Criteria for the overall assessment of strategies and strategic projects

corporate strategy). In the final assessment in Step B, the overall effect of all documents is critically assessed. As Fig. 22.2 shows, this includes three aspects. They are explained below.

The strategies to be adopted are considered again from a critical distance. There are three main aspects:

- It is to evaluate once again whether or not the strategies lead to the strengthening of the market positions, especially in markets with above-average growth.
- The competitive advantages of the offer and the resources are assessed in terms of their strengths and sustainability.
- Finally, the strategies are compared with the possible scenarios. The strategies should only be approved if they at least allow the company to survive in each scenario. If this is not the case in certain environmental scenarios, there are risks associated with the strategies that should not be taken.

The overall assessment of the strategies is generally done summarily. The group that approves the strategies should discuss the opportunities and threats of the strategies and record them in a detailed way. An analytical assessment, for example the use of a scoring model, is not recommended. It does not show the critical opportunities and threats and can even lead to a false sense of security in the decision-making group.

The assessment of the strategic projects includes their economic impact and their feasibility:

- Most strategic projects are concrete. This generally makes it possible to assess their economic effect by roughly determining their EBITDA impact (see Chaps. 4, 15 and 20). Because of that, performance—in the strategic context increasingly important (see Ronda-Pupo & Guerras-Martin, 2012, p. 175 ff.)—can be evaluated.
- In addition to estimating the economic impact of the strategic projects, their financial feasibility must be assessed. As the implementation of projects usually extends over several years, financial reserves are necessary. With each additional planning year, the share of available financial resources should increase. On the one hand, these funds allow the company to make unforeseen investments. On the other hand, reserves allow the company to seize opportunities and avoid risks that are not visible at the time of planning.
- Once an overview of all of the planned projects is created in Sub-step A, the feasibility at the level of personnel must once again be assessed from a distance. Here, day-to-day business should not be forgotten.
- Finally, external and internal resistance, and thus the feasibility of the planned projects, must be assessed (see Steinmann & Schreyögg, 2005, p. 264 f.). For example, a large Swiss drinks company decided to reduce fixed costs by closing one of its breweries. But related demonstrations and a boycott of the company's products forced the company to go back on its decision. This failed attempt to close a production facility not only induced financial losses but also did considerable damage to the company's image.

Finally, it is important for strategies and strategic projects to be coherent. If there are contradictions between individual documents, this not only has a negative effect on implementation at the material level, but can also damage the motivation of those responsible. For these reasons, it is important to check the documents for consistency in terms of content before they are approved. Three points must be checked:

- It should be clarified whether strategies and strategic projects fit with the mission statement and thus with the overriding objectives and values (see Steinmann & Schreyögg, 2005, p. 268 f.).
- The different strategies should be consistent. In particular, the business strategies should respect the objectives and the investment budgets defined in the corporate strategy.
- Finally, strategic projects should enforce the main measures of the strategies.

Once the final assessment of strategies and strategic projects is complete, the working group in charge must draw a conclusion in Step C. From a practical point of view, there are two possibilities:

- If only minor optimizations are needed, the appropriate corrections can easily be made in the final Sub-step 6.3 (see Chap. 23). This conclusion means that nothing stands in the way of the rapid completion of the strategy planning project.

- However, it is also possible—and relatively often the case in practice—that the working group is faced with major weaknesses. In this case, there is a heuristic loop including the fundamental revision of entire strategies and project plans.

References

Ronda-Pupo, G. A., & Guerras-Martin, L. A. (2012). Dynamics of the evolution of the strategy concept 1962–2008: A co-word analysis. *Strategic Management Journal, 33*(2), 162–188.

Steinmann, H., & Schreyögg, G. (2005). *Management* (Vol. 6). Wiesbaden: Gabler.

Preparing the Implementation 23

23.1 Introduction

After the overall assessment of strategies and strategic projects in Sub-step 6.2, the strategy planning project is completed from the content point of view. The intellectually challenging analysis, planning and assessment tasks are solved. In Sub-step 6.3, it is simply a matter of optimally preparing the implementation. This task is certainly less difficult from an intellectual point of view, but very important from a practical point of view.

The preparation of implementation consists of three sub-tasks:

- The strategies and the strategic project plans must be summarized in comprehensible and well-presented documents.
- They are formally approved.
- Personal, especially managers, must be informed about strategic intentions and involved in implementation.

In the following section, a procedure is recommended in order to accomplish these tasks.

23.2 Process for Preparing the Implementation

23.2.1 Overview

Figure 23.1 shows the recommended procedure for the preparation of implementation. In the following sub-section, the individual steps are briefly described.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_23

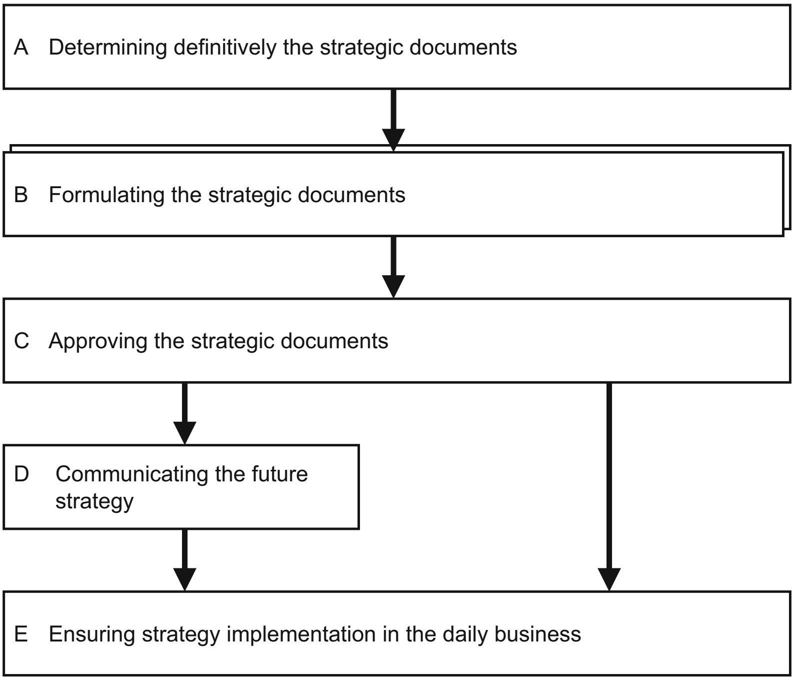


Fig. 23.1 Process for preparing the implementation

23.2.2 Description of the Steps

In Sub-step 1.2 "Preparing the strategy planning project" (see Chap. 8), the strategic documents were already provisionally determined. After completing Sub-step 6.2 "Overall assessment of strategies and strategic projects" (see Chap. 22), the content of the future strategy is set. In Step A, the documents to develop can now be definitely determined. As Fig. 23.2 shows, the necessary strategic documents depend on the complexity of the company:

- A company of low complexity—only one product group in one geographic market—usually requires only one (business) strategy and a few strategic project plans.
- Companies of medium complexity have several product groups in one geographic market and industry market, or they offer a single product group in several geographic markets. They normally document their strategic guidelines in a corporate strategy, several business strategies, a few functional strategies and a larger number of project plans.
- Large international companies with many product groups, which are sold in several industry markets and country markets, require numerous strategic documents: They normally have a corporate strategy at the level of the group,

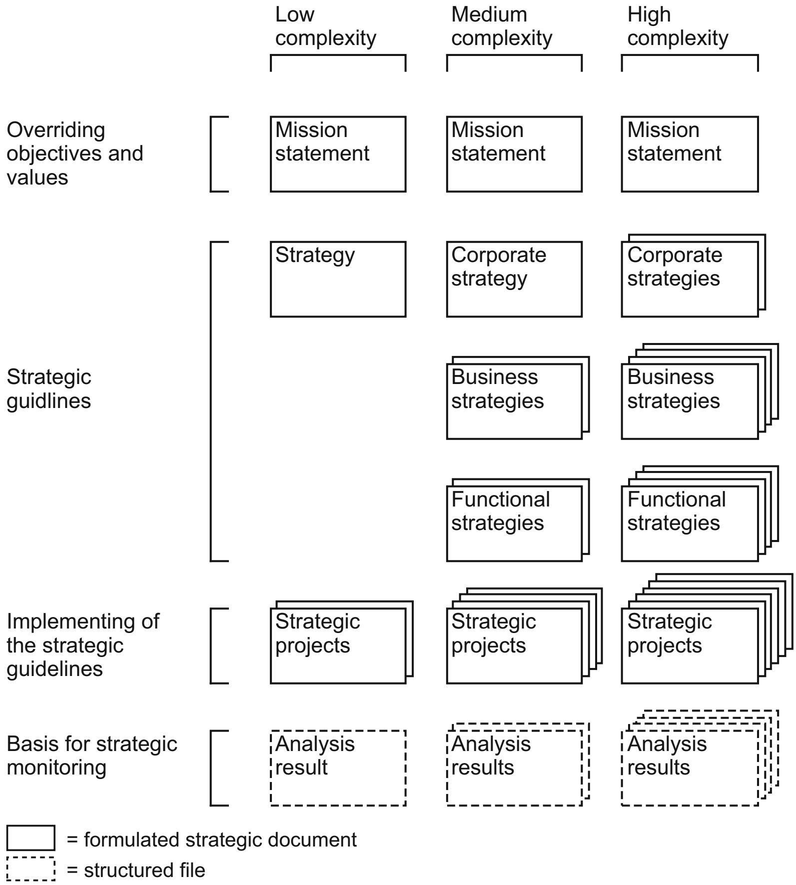


Fig. 23.2 Required strategic documents and their functions

as well as corporate strategies at the level of divisions. Business strategies often exist for the product groups as a whole and for the product groups in the country markets. Finally, functional strategies and a bigger number of project plans are needed.

- Regardless of the size and complexity of the company, the mission statement is also strategically relevant. It documents the overriding objectives and values of the company. Finally, the analysis results should also be kept for the purpose of strategic control (see Chap. 3).

In Step B, the strategic documents are developed:

- The time and effort associated with the step depends on the documentation of the analysis and planning results. If strategies and project plans were already formulated, there is little work left. It is simply a matter of standardizing

Mission statement

1. Introduction
2. Raison d'être
3. Overriding objectives and values
4. Areas of activity
5. Statements relating to individual tasks
6. Statements relating to individual stakeholders

Corporate strategy

1. Introduction
2. Summary of initial situation
3. Businesses
4. Objectives of the businesses
5. General competitive advantages in offers and resources
6. Investment priorities
7. Overview of imple-mentation projects
8. Recipients

Business strategy

1. Introduction
2. Summary of initial situation
3. Business model, generic business strategy and target submarkets
4. Network of success potentials
5. Overview of imple-mentation projects
6. Recipients

Functional strategy

1. Introduction
2. Summary of initial situation
3. Content (depending on the function)
4. Overview of implementation projects
5. Recipients

Strategic project

1. Introduction
2. Object
3. Objectives and boundary conditions
4. Program organization and persons in charge
5. Process and milestones
6. Budget
7. Recipients

Fig. 23.3 Possible structures of the strategic documents

structures and terms. Often, however, the overall assessment in Sub-step 6.2 is based only on tables and slide presentations. In this case, strategic guidelines must still be formulated concisely and comprehensibly. A considerable effort is still required.

- The analysis results should be clearly filed in order to ensure that particular analyses can be quickly found. This is the only way they can be used for strategic control and for a possible revision of the strategy.
- The mission statement, the strategies and the project plans should be structured consistently and formulated in a comprehensible way. Figure 23.3 presents suggestions for the structure of the various categories of the documents.

Producing a glossary can significantly increase the comprehensibility of documents. It should be developed before the formulation of the documents.

Once the mission statement, strategies and project plans are available in an effective and uniform presentation, they are formally approved in Step C. Different bodies are usually responsible for the approval of the various documents. In a company of medium complexity, there could be the following rule for example: The board approves the mission statement and the corporate strategy, and the management approves the business strategies and the functional strategies. The project plans are implemented by the appropriate members of management.

Step D is the communication of strategies and project plans. Strategic documents should never be sent only to those responsible for implementation, but should be presented and discussed in detail. It may be worthwhile to hold a kick-off meeting to initiate strategy implementation. The session should also allocate plenty of time for questions and comments from the audience.

Finally, Step E ensures that the strategy is implemented not only with the help of strategic projects, but that it is also executed in daily business. In practice, Balanced Scorecards are often developed for this purpose. The tool is presented in Inset 23.1.

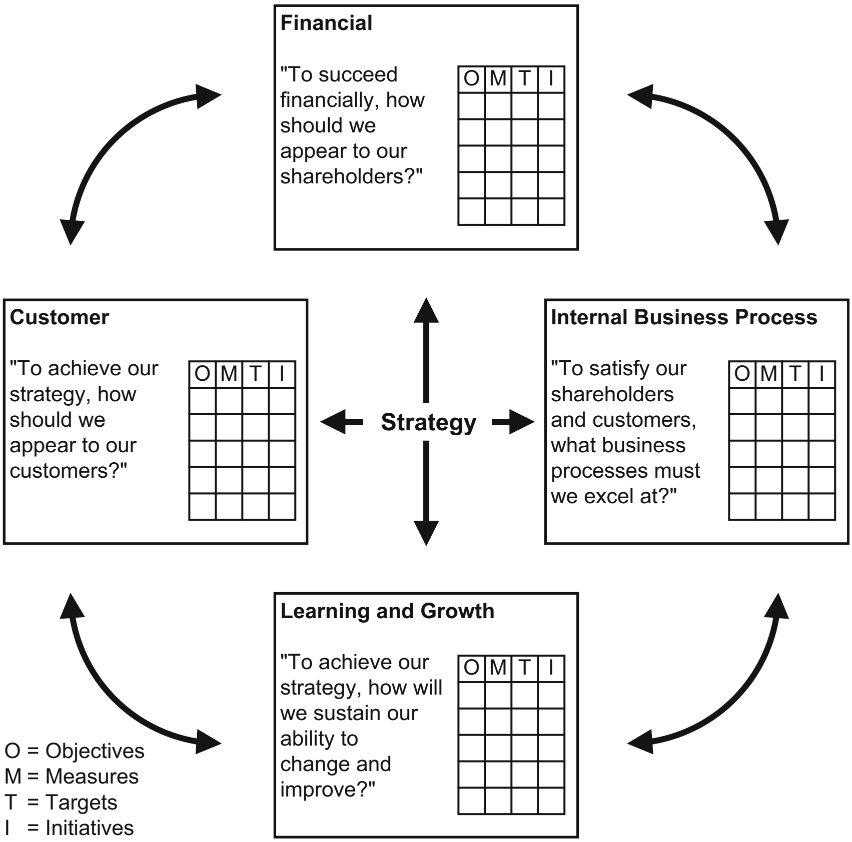
Inset 23.1.

Balanced Scorecard

This inset is based on Kaplan and Norton (1992, p. 71 ff., 1996, 2000, S. 167 ff.).

The Balanced Scorecard represents a tool to observe strategy during daily operations and thus to support strategy implementation through strategic projects. According to Kaplan and Norton, measurable objectives and measures in four areas are required to successfully implement strategic intentions. The following figure shows these four areas or perspectives:

- The financial perspective reflects the expectations of equity holders. Objectives in terms of revenues and return on investment are defined. They represent targets for the other perspectives.
- The customer perspective shows what value must be created from the point of view of the customer, so that the figures of the financial perspective can be achieved. The indicators here include market share, image and customer loyalty.
- In the process perspective, objectives and measures for all internal activities are formulated, which have a considerable influence on financial results and customer satisfaction.



The four perspectives of the Balanced Scorecard (adapted from Kaplan and Norton, 1996, p. 9)

- The objectives and measures in the learning and growth perspective ensure that the company has the necessary capabilities and knowledge in the future. They must enable the company to meet future customer needs and establish efficient processes.

Kaplan and Norton's Balanced Scorecard aims to link the company's strategy with the operational performance management of different organizational units. The Balanced Scorecard translates strategies into concrete goals and actions of organizational units and therefore sets strategic priorities in the daily business.

References

Kaplan, R. S., & Norton, D. P. (1992). The balanced scorecard: Measures that drive performance. *Harvard Business Review, 70*(1), 71–79.

Kaplan, R. S., & Norton, D. P. (1996). *The balanced scorecard*. Boston, MA: Harvard Business Review Press.

Kaplan, R. S., & Norton, D. P. (2000). Having trouble with your strategy? Then map it. *Harvard Business Review, 78*(5), 167–176.

Final Remarks

24

The goal of this book is to assist companies with a methodological approach for the development of strategies. After an introduction to strategic planning, a strategic planning process is recommended in Part II. This process, summarized in Fig. 24.1, divides the complex problem into six main tasks and seventeen sub-tasks. The structure of the rest of the book is based entirely on this recommended process: A part is dedicated to each of the six main tasks, and each of the seventeen sub-tasks is treated in a separate chapter.

As outlined in Sect. 6.3, the recommended process is aimed at companies of medium complexity, which are realizing a “classic” strategy planning project:

- Medium complexity exists when a company offers several product groups in one country and industry market. However, if one product group is sold in several geographic markets, medium complexity also exists.
- A “classic” strategy planning project exists if the strategy pursued so far is being questioned, and strategies and projects for future years are formulated.

If the two premises are met, the strategy planning team can follow the recommendations in Parts III–VIII to a large extent. Often, however, this is not possible because the strategic structure of the company and/or the specific strategic issues differ from the premises. The text of Parts III–VIII may nonetheless provide methodological support in this situation: In each of Chaps. 7–23, a clearly defined task is explained in detail. Chapter 12 explains, for example, how to create and assess the business portfolio of a company or division. Or Chap. 20 shows how strategic implementation projects can be fixed for a business. The chapters therefore represent analysis and planning modules. It is therefore possible to identify the relevant issues for the company, to look for corresponding modules or chapters and to link them to a process. A manufacturer of highly sensitive scales for basic chemical research could select the following analysis and planning modules for example:

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1_24

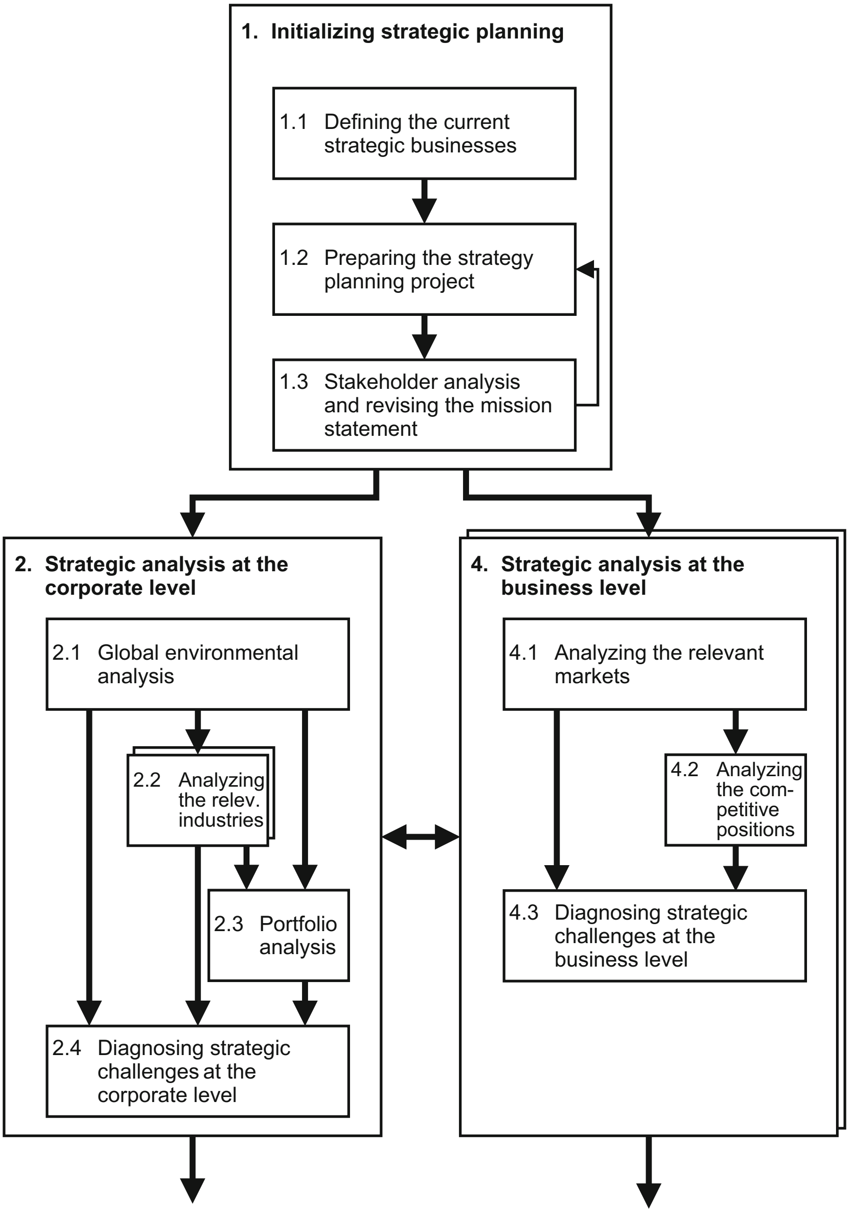


Fig. 24.1 Strategy planning process

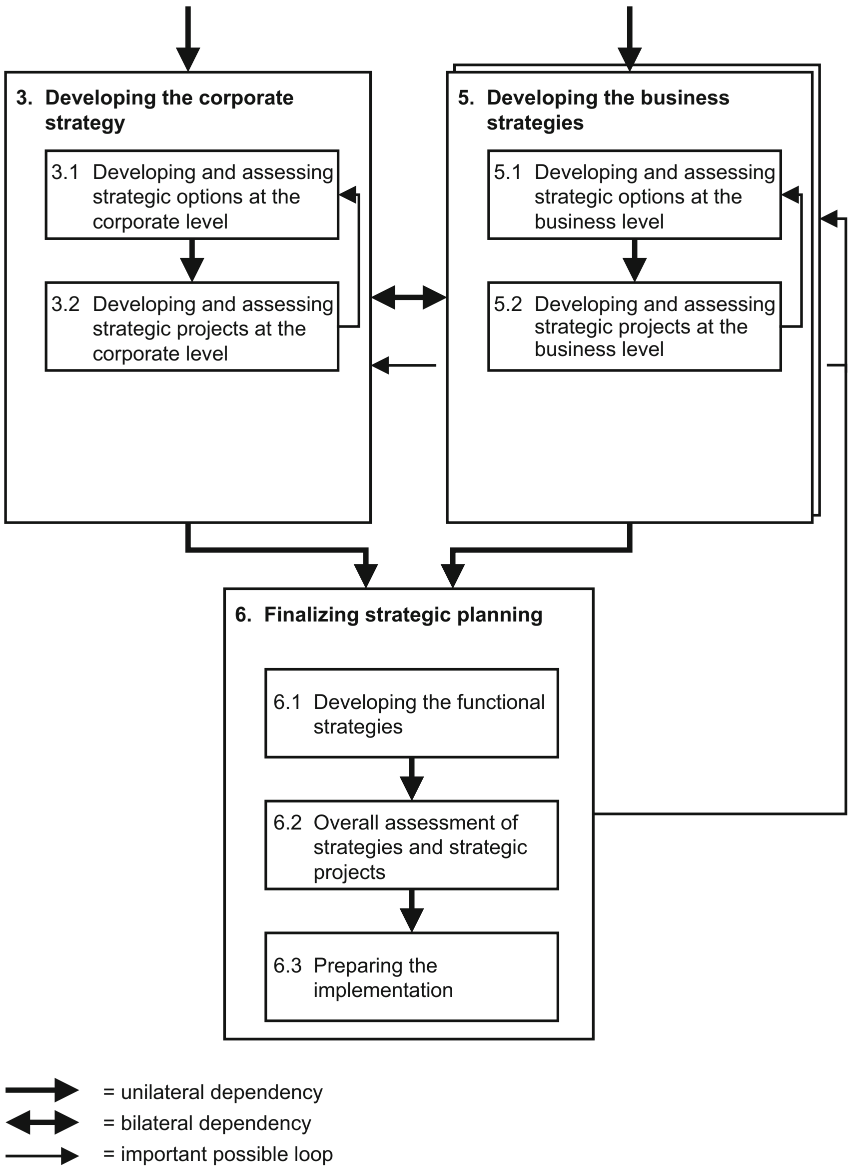


Fig. 24.1 Strategy planning process (continued)

- Preparing the strategy planning project (see Chap. 8)
- Global environmental analysis (see Chap. 10)
- Analyzing the market (see Chap. 16)
- Analyzing the competitive position (see Chap. 17)
- Diagnosing strategic challenges (see Chap. 18)
- Developing and assessing business strategy options (see Chap. 19)
- Developing and assessing strategic projects (see Chap. 20)

However, a tailored approach should not be confused with improvisation. The authors are convinced that only a systematic step-by-step process can lead to a well thought-out and groundbreaking strategy. They therefore argue that the module "Preparing the strategy planning project" (see Chap. 8) should be selected in every case.

A process that is well-designed and tailored to the needs of the company represents a necessary, but not a sufficient condition for successful strategic planning. Other conditions must be fulfilled so that strategies and strategic projects can help the company to be successful. From the point of view of the authors, there are three other important requirements for success:

- Management should be very well-informed about their customers, their competitors and their own company. Realistic strategies can only be developed on this basis.
- The courage to make clear decisions must exist. They not only define priorities, but also inferiorities and thus create losers in the company.
- Those who run the company must be able to convince the employees, that the strategies are the right ones.

The authors hope that this book will give the project team a solid foundation for strategic planning and that the other requirements for success will be met.

Glossary

Assessment of strategies (Strategiebeurteilung/évaluation des stratégies) assessment of existing → strategies and → strategic options using assessment criteria.

Basic strategy (Grundstrategie/stratégie de base) core of a → business strategy. The basic strategy defines the → business model, the → generic business strategy and the main → submarkets served.

Business (Geschäft/activité) group of products or services with importance for success. It is necessary to distinguish between → business fields and → business units.

Business field (Geschäftsfeld/domaine d'activité) a → business, which has no or only weak → market and → resource synergies with other businesses. It is therefore largely autonomous.

Business model (Geschäftsmodell/modèle d'affaires) the business model roughly describes the product, information and financial flows with the target groups of the → business. It shows how income is generated.

Business strategy (Geschäftsstrategie/stratégie d'activité) → intended strategy for a → business. On the basis of a → basic strategy, the → network of success potentials is determined.

Business unit (Geschäftsbereich/unité d'activité) → business which is linked to other businesses in terms of its market and/or of its resources.

Communications difference (Kommunikationsdifferenz/différence de communication) a "psychological attribute" of an → offer, produced or strengthened by advertising, PR, personal relations with customers, which the buyer considers subjectively to be an advantage and which thus leads him to favorable decisions. Can be used in the context of a → differentiation strategy for profiling over the competitors.

Competitive advantage (Wettbewerbsvorteil/avantage concurrentiel) characteristic of a company's → offer or → resources, which is rated positively in comparison with competitors.

Competitive position (Wettbewerbsposition/position concurrentielle) → market position.

Competitive strength (Wettbewerbsstärke/force concurrentielle) strength in comparison to the competitors. Competitive strengths can exist at all three levels of → success potentials: → competitive advantages in → resources, competitive

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1

advantages in the → offer and strong → market positions in attractive → markets.

Competitor (Wettbewerber/concurrent) company in an → industry. It is more or less in direct competition with the other companies in the industry.

Corporate strategy (Gesamtstrategie/stratégie globale) → intended strategy for a company or division with several businesses. It defines the target → market positions of the → businesses and the investments necessary to reach them.

Differentiation strategy (Differenzierungsstrategie/stratégie de différenciation)a → business strategy which aims for differentiation from competitors via → product differences, → communication differences and a greater intensity of communication and customer care. It can refer to the whole → market or a → submarket.

Emergent strategy (Gewachsene Strategie/stratégie émergente) → realized strategy which is not the result of the implementation of an → intended strategy, but the product of a large number of individual decisions which are more or less coordinated.

Environmental scenario (Umfeldszenario/scénario environmental) possible future state of the → global environment.

Functional strategy (Funktionale Strategie/stratégie fonctionnelle) intended strategy for a function or task. Functional strategies mainly concern → success potentials at the level of the → resources and often serve to exploit synergies.

Generic business strategy (Generische Geschäftsstrategie/stratégie d'activité générique) a basic type of → business strategy. There are four generic business strategies: broad scope → price strategy, broad scope → differentiation strategy, submarket price strategy and submarket differentiation strategy.

Global environment (Globales Umfeld/environnement global) sub-system of → strategic analysis. The global environment can be divided into the political, economic, social, technological, ecological and legal environment.

Implementation of strategies (Strategieimplementierung/mise en œuvre des stratégies) sub-system of → strategic management. Strategy implementation includes all measures that are necessary to realize → intended strategies.

Implementation project (Implementierungsprojekt/projet de mise en œuvre) → strategic project.

Industry (Branche/branche) all of the providers of a category of products or services in a geographic area and their procurement and sales markets. The providers serve the same → market and are therefore → competitors. Subsystem of → strategic analysis.

Inside-out approach (Inside-out Approach, approche inside-out) strategy planning process which is based on the → resource-based view. On the basis of → competitive advantages of the → resources, possible → offers are looked for. On this basis, achievable → market positions are identified.

Intended strategy (beabsichtigteStrategie/stratégie planifiée) a system of long-term guidelines aimed at ensuring the construction and maintenance of → success potentials. Intended strategies can be divided into → corporate strategies, → business strategies and → functional strategies.

Market (Markt/marché) a competitive arena delimited by a category of → offers and a geographic area. Markets can be defined in a more or less narrow way. It is however important that the definition of the market includes direct competitors. Heterogeneous markets can be divided into → submarkets.

Market attractiveness (Marktattraktivität/attrait du marché) the attractiveness of a → market mainly depends on two characteristics: Above-average market growth opens up opportunities for development and below-average competitive intensity makes profits possible.

Market position (Marktposition/position sur le marché) the market position of a → business constitutes the first level of → success potentials. It can be measured with the help of the relative market share.

Market-based view (Market-based View/approche orientée vers le marché) with the → resource-based view, one of two central strategic concepts. It can be summarized as follows: When building up businesses, companies opt for → industries and, within these industries, for → strategic groups. These provide the framework for the development of → offers. Long-term success depends on these offers and on the attractiveness of the chosen industries and strategic groups. The approach is summed up as the Structure-Conduct-Performance paradigm.

Mission statement (Leitbild/charte) strategic document which describes the company's raison d'être, its overriding objectives and values and its main areas of activity.

Network of success potentials (Netzwerk der Erfolgspotentiale/réseau de potentiels de succès) interaction of the → success potentials of a → business. Includes three levels: the → resources, the → offer and the → market positions. The first letters of these three levels gives the model its name: the ROM model of success potentials.

Niche (Nische/niche) isolated → submarket. To successfully serve it, special skills, which only specialized providers have, are required.

Norm strategy (Normstrategie/stratégie normée) generally circumscribed strategy. It is recommended for all of the businesses which have similar assessments for → market attractiveness and → competitive strength and are therefore assigned to the same area of a → portfolio. As the specific situations of individual → businesses are not considered, norm strategies should only serve to provide an initial indication as to the → strategy to be followed.

Offer (Angebot/offre) the offer of a → business constitutes the second level of → success potentials. It corresponds to the products or services offered by the business. The offer is concretized with the help of the marketing mix with its sub-mixes products, price, distribution and communication.

Outside-in approach (Outside-in-Approach/approche outside-in) → strategy planning process which is based on the → market-based view. The necessary → competitive advantages of the → offer are derived from the targeted → market positions. The offer constitutes the basis to define the necessary → resources.

Planned strategy (beabsichtigte Strategie/stratégie planifiée) → intended strategy.

Portfolio (Portfolio/portefeuille) two-dimensional representation of the current positions of the → businesses of a company. The horizontal axis shows the → competitive strength of the businesses and the vertical axis the → market attractiveness of the markets served by these businesses. A portfolio often forms the key basis of the → corporate strategy. The most well-known approaches are the Boston Consulting Group portfolio and the McKinsey portfolio.

Price strategy (Preisstrategie/stratégie de prix) → business strategy which attempts to differentiate the company from competitors by means of low prices. Can refer to the entire → market or a → submarket.

Process of strategic planning (Prozess der strategischen Planung/procédé de planification stratégique) → strategy planning process

Product or service difference (Leistungsdifferenz/différence de produit ou service) in an objective sense, a unique attribute of an → offer, which the buyer subjectively perceives as an advantage and which thus leads him to favorable decisions. Can be used in the context of a → differentiation strategy for profiling over the competitors.

Realization of strategies (Strategieimplementierung/mise en œuvre des stratégies) → implementation of strategies.

Realized strategy (Realisierte Strategie/stratégie réalisée) implemented strategy. The realized strategy can be based on an → intended strategy or be the result of a multitude of individual decisions. In the second case, it is called an → emergent strategy.

Resource-based view (Resource-based View/approche orientée vers les ressources) with the → market-based view, one of the two central strategic concepts. It can be summarized as follows: companies have a set of → resources. These form the basis of their → offer. Long-term success is based on resources and the offers provided. This line of thought is also referred to as the Resources-Conduct-Performance paradigm.

Resources (Ressourcen/ressources) the resources of a → business constitute the third level of its → success potentials. Resources are understood widely and can be divided into the following sub-systems: assets, processes and human resources, including the related competencies.

Strategic analysis (Strategische Analyse/analyse stratégique) strategic analysis determines the current situation and describes the possible future developments. It can be divided into three sub-systems: the → global environment, the relevant → industries and the company itself. The results of strategic analysis are summarized into a few strategic challenges.

Strategic control (Strategische Kontrolle/contrôle stratégique) sub-system of → strategic management. Strategic control includes all measures to monitor the development of the → global environment and the relevant → industries and to check the implementation of → strategic projects. The monitoring of the global environment and the industries is often referred to as early warning system.

Strategic document (Strategisches Dokument/document stratégique) document with strategic content. Five types of strategic documents are distinguished: → mission statements, → corporate strategies, → business strategies, → functional strategies and → strategic projects.

Strategic group (Strategische Gruppe/groupe stratégique) part of an → industry. It groups together → competitors which have similar → resources and pursue a similar → business strategy.

Strategic management (Strategisches Management/management stratégique) all strategic activity. Strategic management can be divided into three sub-systems: → strategic planning, → implementation of strategies and → strategic control.

Strategic option (Strategische Option/option stratégique) a possibility for the future strategy. The option assessed as the best becomes the → intended strategy.

Strategic planning (Strategische Planung/planification stratégique) sub-system of → strategic management. Strategic planning begins with → strategic analysis. The development and assessment of → strategic options then follows. It ends with the definition of → strategic projects to implement the best option.

Strategic project (Strategisches Projekt/projet stratégique) a clearly delimited package of measures of the → implementation of strategies. Objectives, boundary conditions, schedule, project organization and budget have to be specified for each project.

Strategy (Strategie/stratégie) without additional clarification, strategy means an → intended strategy.

Strategy planning process (Strategieplanungsprozess/procédé de planification stratégique)approach for the development of strategies. If a systematic process is chosen, the complex problem is divided into a sequence of sub-problems.

Submarket (Teilmarkt/marché partiel) part of a heterogeneous → market. Markets can be divided into submarkets according to product groups, customer groups or countries. A two-dimensional formation of submarkets is also possible.

Success factor (Erfolgsfaktor/facteur de succès) variable which influences significantly market attractiveness and competitive strength. The use of the controllable success factors through the building of corresponding → success potentials influences the long term success. General and industry-specific success factors can be distinguished. Industry-specific success factors at the level of the → offer are called market-specific success factors.

Success potential (Erfolgspotential/potentiel de succès) condition for long-term success. The construction and maintenance of success potentials is at the heart of → strategic planning. The success potentials of a → business include three levels: the → resources, the → offer and the → market positions. The first letters of these three levels gives the model its name: the ROM model of success potentials.

Sustainable competitive advantage (Nachhaltiger Wettbewerbsvorteil/avantage concurrentiel durable) advantage in the → offer or in → resources with long-term strategic value. Sustainability depends primarily on inimitability and non-substitutability.

Bibliography

Ansoff, H. I. (1965). *Corporate strategy. An analytic approach to business policy for growth and expansion*. New York, NY: McGraw-Hill.

Ansoff, H. I., Declerck, R. P., & Hayes, R. L. (1976). From strategic planning to strategic management. In H. I. Ansoff, R. P. Declerck, & R. L. Hayes (Eds.), *From strategic planning to strategic management* (pp. 39–78). London: Wiley.

Arend, R. J., & Lévesque, M. (2010). Is the resource-based view a practical organizational theory? *Organization Science, 21*(4), 913–930.

Baer, M., Dirks, K. T., & Nickerson, J. A. (2013). Microfoundations of strategic problem formulation. *Strategic Management Journal, 34*(2), 197–214.

Bain, J. S. (1959). *Industrial organization*. New York, NY: Wiley.

Barney, J. B. (1986). Types of competition and the theory of strategy: Toward an integrative framework. *Academy of Management Review, 11*(4), 791–800.

Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Barney, J. B. (2011). *Gaining and sustaining competitive advantage* (4th ed.). Upper Saddle River, NJ: Pearson.

Barney, J. B., & Hesterly, W. S. (2012). *Strategic management and competitive advantage* (4th ed.). Upper Saddle River, NJ: Pearson.

Beinhocker, E. D., Kaplan, S. (2002). Tired of strategic planning? *Mc Kinsey Quarterly* (special edition about risk and resilience): 49–57.

Borden, N. H. (1964). The concept of the marketing-mix. *Journal of Advertising Research, 4*(2), 2–7.

Bresser, R. K. F. (2010). *Strategische Managementtheorie* (Vol. 2). Stuttgart: Kohlhammer.

Broetzmann, F., & Goetz, J. (2009). The revival of scenario planning. *Performance, 2*(3), 6–13.

Buzzell, R. D., & Gale, B. T. (1987). *The PIMS principles*. New York, NY: Free Press.

Campbell, A., Goold, M., & Alexander, M. (1995). Corporate strategy: The quest for parenting advantage. *Harvard Business Review, 73*(2), 120–132.

Carpenter, M. A., & Sanders, W. G. (2009). *Strategic management* (2nd ed.). Upper Saddle River, NJ: Pearson.

Chandler, A. D. (1962). *Strategy and structure: Chapters in the history of the industrial enterprise*. Cambridge: MIT Press.

Christensen, C. M. (1997). Making strategy: Learning by doing. *Harvard Business Review, 75*(6), 141–156.

Coulter, M. (2010). *Strategic management in action* (5th ed.). Upper Saddle River, NJ: Pearson.

Courtney, H., Kirkland, J., & Viguerie, P. (1997). Strategy under uncertainty. *Harvard Business Review, 75*(6), 67–79.

Crook, T. R., et al. (2008). Strategic resources and performance: A meta-analysis. *Strategic Management Journal, 29*(11), 1141–1154.

Daniel, D. R. (1961). Management information crisis. *Harvard Business Review, 39*(5), 111–121.

David, F. (2011). *Strategic management* (13th ed.). Upper Saddle River, NJ: Pearson.

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1

Day, G. S., & Nedungadi, P. (1994). Managerial representations of competitive advantage. *Journal of Marketing, 58*(2), 31–44.

De Wit, B., & Meyer, R. (2010). *Strategy* (4th ed.). Andover, MA: Cengage Learning.

Dranikoff, L., Koller, T., & Schneider, A. (2002). Divestiture: Strategy's missing link. *Harvard Business Review, 80*(5), 74–83.

Dye, R., & Sibony, O. (2007). How to improve strategic planning. *McKinsey Quarterly, 3*, 40–48.

Fink, A., Schlake, O., & Siebe, A. (2000). Wie Sie mit Szenarien die Zukunft vorausdenken. *Harvard Business Manager, 2*, 34–47.

Gälweiler, A. (2005). *Strategische Unternehmensführung* (Vol. 3). Frankfurt: Campus.

Garvin, D. A. (1987). Competing on the eight dimensions of quality. *Harvard Business Review, 65* (6), 101–109.

Gilbert, C., & Bower, J. L. (2002). Disruptive change: When trying harder is part of the problem. *Harvard Business Review, 80*(5), 94–101.

Gilbert, X., & Strebel, P. (1987). Strategies to outpace the competition. *Journal of Business Strategy, 8*(1), 28–36.

Grant, R. M. (2013). *Contemporary strategy analysis* (8th ed.). Chichester: John Wiley.

Grünig, R., & Kühn, R. (2011). *Process-based strategic planning* (6th ed.). Heidelberg: Springer.

Grünig, R., & Kühn, R. (2014). *Strategieplanungsprozess*. Bern: Haupt.

Grünig, R., & Kühn, R. (2015). *Procédé de planification stratégique*. Lausanne: Presses polytechniques et universitaires romandes.

Grünig, R., & Morschett, D. (2012). *Developing international strategies*. Heidelberg: Springer.

Haberberg, A., & Rieple, A. (2008). *Strategic management*. New York, NY: Oxford University Press.

Hacklin, F., Battistini, B., & von Krogh, G. (2013). Strategic choices in converging industries. *MIT Sloan Management Review, 55*(1), 65–73.

Hayward, M. L. A., & Shimizu, K. (2006). De-commitment to losing strategic action: Evidence from the divestiture of poorly performing acquisitions. *Strategic Management Journal, 27*(6), 541–557.

Hedley, B. (1977). Strategy and the "Business Portfolio". *Long Range Planning, 10*(1), 9–15.

Henderson, B. (1970). The product portfolio. *bcg perspectives 66.*

Herroelen, W. S. (1972). Heuristic programming in operations management. *Die Unternehmung, 26*(4), 213–231.

Hill, C. W. L., & Jones, G. R. (1992). *Strategic management* (2nd ed.). Boston, MA: Houghton Mifflin.

Hill, C. W. L., & Jones, G. R. (2013). *Strategic management* (10th ed.). Mason, OH: South Western Cengage Learning.

Hofer, C. W., & Schendel, D. (1978). *Strategy formulation*. St. Paul, MN: West Publishing.

Jennings, D., & Disney, J. (2006). The strategic planning process and its context: The role of psychological type. *Journal of General Management, 31*(3), 75–93.

Johnson, G., Whittington, R., & Scholes, K. (2011). *Exploring corporate strategy* (9th ed.). Harlow: Pearson.

Kaplan, R. S., & Norton, D. P. (1992). The balanced scorecard: Measures that drive performance. *Harvard Business Review, 70*(1), 71–79.

Kaplan, R. S., & Norton, D. P. (1996). *The balanced scorecard*. Boston, MA: Harvard Business Review Press.

Kaplan, R. S., & Norton, D. P. (2000). Having trouble with your strategy? Then map it. *Harvard Business Review, 78*(5), 167–176.

Kay, J. (1995). *Foundations of corporate success*. Oxford: Oxford University Press.

Klix, F. (1971). *Information und Verhalten*. Bern: Haupt.

Kreilkamp, E. (1987). *Strategisches Management und Marketing*. Berlin, New York, NY: Walter de Gruyter.

Kühn, R. (1985). Marketing-Instrumente zwischen Selbstverständnis und Wettbewerbsvorteil. *Thexis, 2*(4), 16–21.

Kühn, R., & Pfäffli, P. (2012). *Marketing: Analyse und Strategie* (Vol. 14). Zürich: Werd.
Lafley, A. G., et al. (2012). Bringing science to the art of strategy. *Harvard Business Review, 90* (9), 57–66.
Leidecker, J. K., & Bruno, A. V. (1984). Identifying and using critical success factors. *Long Range Planning, 17*(1), 23–32.
Lewis, P., & Thomas, H. (1990). The linkage between strategy, strategic groups, and performance in the U.K. retail grocery industry. *Strategic Management Journal, 11*(5), 385–397.
Linch, R. (2000). *Corporate strategy* (2nd ed.). Harlow: Pearson.
Magrath, A. J. (1986). When marketing services, 4 Ps are not enough. *Business Horizons, 29*(3), 44–50.
Mahoney, J. T., & Pandian, J. R. (1992). The resource-based view within the conversation of strategic management. *Strategic Management Journal, 13*(5), 363–380.
March, J. G., & Simon, H. A. (1958). *Organizations*. New York, NY: Wiley.
McCarthy, J. (1964). *Basic marketing. A managerial approach*. Homewood, IL: Irwin.
Meadows, D., Randers, J., & Meadows, D. (2010). *Limits to growth. The 30-year update*. Oxon: Earthscan.
Meadows, D. H., et al. (1979). *The limits to growth* (2nd ed.). New York, NY: Universe Books.
Miller, A., & Dess, G. G. (1996). *Strategic management* (2nd ed.). New York, NY: McGraw-Hill.
Mintzberg, H. (1990). Strategy formation. Schools of thought. In J. Fredrickson (Ed.), *Perspectives on strategic management* (pp. 105–235). New York, NY: Harper Business.
Mintzberg, H. (1994). *The rise and fall of strategic planning*. New York, NY: Prentice Hall.
Mundt, A. (2012). *The architecture of manufacturing networks—Integrating the coordination perspective* (Dissertation of the University of St. Gallen. Difo-Druck, Bamberg).
Nag, R., Hambrick, D. C., & Chen, M.-J. (2007). What is strategic management, really? Inductive derivation of a consensus in the field. *Strategic Management Journal, 28*(9), 935–955.
Newbert, S. L. (2007). Empirical research on the resource-based view of the firm: An assessment and suggestions for future research. *Strategic Management Journal, 28*(2), 121–146.
Newell, A., Shaw, J. C., & Simon, H. A. (1965). Report on a general problem-solving program. In R. D. Luce, R. R. Bush, & E. Galanter (Eds.), *Readings in mathematical psychology* (Vol. II, pp. 41–50). New York, NY: John Wiley.
Ohmae, K. (1982). *The mind of the strategist*. New York, NY: McGraw-Hill.
Palich, L., Cardinal, B., & Miller, C. (2000). Curvilinearity in the diversification—performance linking: An examination over three decades of research. *Strategic Management Journal, 21*(2), 155–174.
Pearce, J. A., & Robinson, R. B. (2009). *Formulation, implementation and control of competitive strategy* (11th ed.). New York, NY: McGraw-Hill.
Porter, M. E. (1980). *Competitive strategy*. New York, NY: Free Press.
Porter, M. E. (1985). *Competitive advantage*. New York, NY: Free Press.
Porter, M. E. (1987). From competitive advantage to corporate strategy. *Harvard Business Review, 65*(3), 43–59.
Porter, M. E. (1991). Towards a dynamic theory of strategy. *Strategic Management Journal, 12* (S2, Special issue), 95–117.
Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review, 68*(3), 79–90.
Project Management Institute. (2013). *A guide to the project management body of knowledge* (5th ed.). Newton Square: Project Management Institute.
Raffée, H., Effenberger, J., & Fritz, W. (1994). Strategieprofile als Faktoren des Unternehmenserfolges. *Die Betriebswirtschaft, 54*(3), 383–396.
Ronda-Pupo, G. A., & Guerras-Martin, L. A. (2012). Dynamics of the evolution of the strategy concept 1962–2008: A co-word analysis. *Strategic Management Journal, 33*(2), 162–188.
Rumelt, R. P. (1984). Towards a strategic theory of the firm. In R. Lamb (Ed.), *Competitive strategic management* (pp. 556–570). New York, NY: Prentice Hall.

Rumelt, R. P. (1987). Theory, strategy and entrepreneurship. In D. J. Teece (Ed.), *The competitive challenge. Strategies for industrial innovation and renewal* (pp. 137–158). Cambridge: Ballinger.

Simon, H. A. (1966). The logic of heuristic decision making. In N. Rescher (Ed.), *The logic of decision and action* (pp. 1–20). Pittsburgh, PA: University of Pittsburgh Press.

Sirmon, D. G., et al. (2010). The dynamic interplay of capability strengths and weaknesses: Investigating the bases of temporary competitive advantage. *Strategic Management Journal, 31*(13), 1386–1409.

Steinmann, H., & Schreyögg, G. (2005). *Management* (Vol. 6). Wiesbaden: Gabler.

Thompson, A. A., & Strickland, A. J. (2003). *Strategic management* (13th ed.). New York, NY: McGraw-Hill.

Volberda, H. W., et al. (2011). *Strategic management. Competitiveness and globalization*. Andover, MA: Cengage Learning.

Von Reibnitz, U. (1987). *Szenarien: Optionen für die Zukunft*. Hamburg: McGraw-Hill.

Weber, R., Bertschy, J.-P., Lenz, C. (2012). *Swiss watch industry 2012*. In Vontobel (ed). Zürich: Equity Research Switzerland.

Weihrich, H. (1982). The TOWS matrix: A tool for situational analysis. *Long Range Planning, 15* (2), 54–66.

Wernerfelt, B. (1984). A resource-based-view of the firm. *Strategic Management Journal, 5*(2), 171–180.

Wheelen, T. L., & Hunger, J. D. (2010). *Strategic management and business policy* (12th ed.). Upper Saddle River, NJ: Pearson.

Wiggins, R. R., & Ruefli, T. W. (2005). Schumpeter's ghost: Is hypercompetition making the best of times shorter? *Strategic Management Journal, 26*(10), 887–911.

Zentes, J., Swoboda, B., & Morschett, D. (2004). *Internationales Wertschöpfungsmanagement*. München: Valen.

Zott, C., & Amit, R. (2007). Business model design and the performance of entrepreneurial firms. *Organization Science, 18*(2), 181–199.

Zott, C., & Amit, R. (2008). The fit between product market strategy and business model: Implications for firm performance. *Strategic Management Journal, 29*(1), 1–26.

Zott, C., & Amit, R. (2010). Business model design: An activity system perspective. *Long Range Planning, 43*(2–3), 216–226.

Index

A
Acquisition, 164
Analysis
  at business level, 171ff
  at corporate level, 85ff
  in general, 268
  tools, 47ff
Ansoff matrix, 17ff
Ashridge matrix, 160ff
Assessment of strategies, 25ff, 247ff, 265

B
Balanced scorecard, 257f
Basic strategy, 224ff, 265
Boston Consulting Group portfolio, 112ff
Bounded rationality, 42
Business
  definition, 55ff
  field, 57ff, 265
  model, 187ff, 265
  strategy, 35ff, 213ff, 265
  term, 57ff, 265
  unit, 57ff, 265

C
Communications difference, 219ff, 265
Competitive
  advantage, 10ff, 190ff, 265
  arenas, 55ff
  position, 10ff, 267
  strength, 121ff, 265f
Competitor, 98ff, 266
Concentration, 148ff
Consultant, 71f
Corporate options matrix, 155f
Corporate strategy, 35ff, 145ff, 266

D
Decision criteria, 26ff
Defining strategic businesses, 55ff
Differentiation strategy, 190f, 266
Diversification, 148ff
Diversification matrix, 148f
Diversification-performance analysis, 152ff
Dominance-standard model, 180f

E
Early warning system, 21f
Emergent strategy, 7ff, 266
Environmental analysis, 89ff
Environmental scenario, 92ff, 266
Experience curve, 116f

F
Factorization, 42
Financial planning tools, 250
Five forces model, 98ff
Focus strategy, 190
Functional strategy, 35ff, 239ff, 266

G
Gap analysis, 17ff
Generate-and-test, 42
Generic business strategies, 190ff, 266
Generic competitive strategies, 190ff, 266
Global environment, 89ff, 266
Global environmental analysis, 89ff

H
Harvest strategy, 165f
Heuristic principle, 41ff

R. Grünig, R. Kühn, *The Strategy Planning Process*,
DOI 10.1007/978-3-662-45649-1

I
Implementation of strategies, 20ff
Implementation project
  at business level, 233ff
  at corporate level, 163ff
  in general, 35ff, 269
Industry
  analysis, 97ff
  segment analysis, 178ff
  term, 97ff, 266
Inside-out approach, 217ff, 266
Intended strategy, 7ff, 266
Investment performance measures, 29ff

J
Joint venture, 164f

M
Market
  analysis, 175ff
  attractiveness, 121ff, 267
  life cycle, 114ff
  position, 10ff, 267
  system model, 175ff
  term, 55ff, 267
Market attractiveness-competitive strengths portfolio, 121ff
Market-based view, 198f, 267
Market growth-market share portfolio, 112ff
Marketing mix, 177f
McKinsey portfolio, 121ff
Mission statement, 35ff, 78ff, 267
Modeling, 42
Monitoring, 21f

N
Network of success potentials, 216ff
Niche, 190f, 267
Norm strategy, 118ff, 128ff, 267

O
Offer
  analysis, 194ff
  term, 10ff, 194ff, 267
Outpacing strategy, 225ff
Outside-in approach, 217ff, 267

P
PESTEL analysis, 89ff
PIMS program, 126ff
Planned strategy, 7ff, 268
Planning tools, 47ff
Portfolio
  analysis, 111ff
  term, 111ff, 268
Price strategy, 190ff
Process of strategic planning, 41ff, 268
Product or service difference, 219ff, 268
Project planning technique, 68ff, 167ff, 234ff

R
Realization checking, 21f
Realization of strategies, 268
Realized strategy, 7ff, 268
Resource-based view, 198f, 268
Resources
  analysis, 197f
  term, 10ff, 197ff, 268
Resources-Conduct-Performance paradigm, 198f
ROM model, 12f

S
Scenario analysis, 92ff
Stakeholder analysis, 77ff
Strategic analysis
  at business level, 171ff
  at corporate level, 85ff
  in general, 268
  tools, 47ff
Strategic challenges
  at business level, 207ff
  at corporate level, 137ff
Strategic control, 21f, 268
Strategic document, 35ff, 269
Strategic group, 103ff, 269
Strategic groups model, 103ff
Strategic management, 20ff, 269
Strategic monitoring, 21f
Strategic options
  at business level, 215ff
  at corporate level, 147ff
  in general, 269
Strategic planning, 9ff, 269
Strategic projects
  at business level, 233ff
  at corporate level, 163ff
  in general, 35ff, 269
Strategy
  basic, 224ff, 265
  business, 35ff, 213ff, 265
  corporate, 35ff, 145ff, 266
  cost leadership, 190

- differentiation, 190ff, 266
- emergent, 7ff, 266
- focus, 190
- functional, 35ff, 239ff, 266
- in general, 7ff, 269
- generic, 190ff, 266
- harvest, 165f
- intended, 7ff, 266
- norm, 118ff, 128ff, 267
- outpacing, 225ff
- planned, 7ff, 268
- planning process, 41ff, 269
- planning project, 67ff
- price, 190ff
- realized, 7ff, 268
- submarket, 190ff
- whole market, 190ff

Strengths and weaknesses analysis, 194ff
Structural analysis of an industry, 98ff
Structural analysis within an industry, 103ff
Structure-Conduct-Performance paradigm, 198f
Stuck-in-the-middle position, 193f
Sub-goal reduction, 42
Submarket
- strategy, 190ff
- term, 55ff, 269

Substitute criteria, 26ff
Success factor
- identification, 109f
- term, 109f, 269

Success potential, 10ff, 269
Sustainable competitive advantage, 201, 269
SWOT analysis, 137ff

T

Toolbox, 47ff
TOWS matrix, 139f

V

Value chain analysis, 202f
Value system analysis, 77ff
VRIO analysis, 197ff

W

Whole market strategy, 190ff