STRATEGIC PLANNING PROCESSES AND THEIR KEY FEATURES

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What we need to know

Here are all the points this PowerPoint aims to cover from the BME Y12 Syllabus.

This is a very long PowerPoint, please remember to take breaks and consolidate your understanding.

- purpose and intent of the strategic planning process
- key features of strategic plans:
  - mission and objectives
  - environmental scan
    - PEST
    - Porter's Five Forces
    - Strengths, Weaknesses, Opportunities, Threats (SWOT) strategies
  - strategic formulation
  - strategic implementation
  - evaluation and control

Strategic Management

The process of firms defining their long term strategy, or direction, and making decisions on allocating its resources to pursue said strategy is defined as **strategic planning and management**.

Management plays the role in coordinating human resources to allocate informational, physical and financial resources. They have four major functions in achieving this:

- **Planning** – management is responsible for setting the course of action to achieve organisational objectives
- **Controlling** – management is responsible for the performance and health/safety of their teams. Corrective actions must be issued by management if required to meet their targets
- **Organisation** – management must allocate resources in order to meet their corporate objectives. This can be delegating or allocating tasks to workers to ensure deadlines are met
- **Commanding** – management gives instructions or orders to employees in order to achieve their corporate objectives. They must enforce discipline to prevent non-compliance and apathy (lack of concern)

Types of Management, Targets and Tactics

Tactics are defined as carefully planned actions to achieve specific **targets**. (HOW)

Targets on the other hand are an objective or result that a firm intends to meet, which helps achieve their **strategy.** (WHAT)

Objectives and targets link to Key Performance Indicators

Top Management	Middle Management	Front Line Management
– Responsible for business wide decisions – Establishes policy and strategy – Reports to Board of Directors – Examples include: Chief Executive Officer (CEO), Chief Operating Officer (COO) etc	– Responsible for departments and divisions – Provides leadership in carrying out strategic decisions made by top management	– Responsible for enacting strategies from higher levels of management – Directly supervises immediate subordinates/employees – Allocates work to employees

Why conduct strategic planning?

- To achieve and maintain a competitive advantage for the firm
- Ensure the long-term success and viability of a firm
- Calculate finances required for goals and visions by management and/or directors of a firm
- Promote allocation of business resources in an efficient and effective manner
- Maintains focus on the core values and mission of a firm
- Helps define realistic objectives and goals in alignment with mentioned values and mission
- Aligns shareholders and employees on the firm’s goals

Missions and Objectives

A **mission statement** is defined as a formal summary for the reason a firm exists, describing its purpose, intention, who it serves and overall objectives.

- It is usually concise, spanning from a sentence to a short paragraph.
- A good mission statement will include its approach to reaching said objectives
- A sense of direction is provided for corporate culture, stakeholders and decision making
- Effective mission statements promote performance and increase motivation in a firm, as well as clarify expectations and information mediums

A **business objective** is **specific** and **measurable** results that a firm **hopes to achieve as their firm grows.**

- They are SMART (Specific, Measurable, Achievable, Relevant, and Time Bound)
- **Examples include:**
  - Increase total revenue by 25% over the next two years
  - Reduce production costs by 10% by the end of the year
  - Provide health insurance for employees by next fiscal year.

Environmental Scan

An **environmental scan** is a tool to research and analyse a firm's environment to identify and anticipate **internal and external factors which will affect long-term growth and success**.

A PEST analysis, SWOT analysis and Porter's Five Forces are all considered in an environmental scan.

In conducting an environmental scan, you must consider the **positioning view** and the **resources view**.

Positioning view is a situational analysis of the firm's environment. It takes into consideration the micro factors (internal strengths and weaknesses) and macro factors (external opportunities and threats).

In determining the industry level, positioning view aims to take a less vulnerable position relative to Porter's Five Forces (explained later).

A **value** and **supply chain analysis** must be conducted which looks at how the products are built and provided to the consumer (supply) and how a firm can enhance its products' value as it moves across the supply chain (value).

Political, Economical, Social and Technological Factors (PEST)

Definition	These factors are defined as a framework of macro-environmental (external) factors which are used in environmentally scanning strategic management and a firm's external business environment.
What does analysing PEST factors achieve?	Helps businesses and their leadership determine the feasibility and viability of existing or new products
	Identifies and helps firms insulate against threats and limitations that impact business growth
	Identifies and helps to capitalise upon unique selling points (USPs), new opportunities or gain a competitive advantage
	Promotes proactive thinking, where businesses can for see the opportunities and threats in pursuing a strategy or initiative

Political	Economic
- Stability of foreign governments - Relationship between domestic government and firms - Privatisation of government firms - Political strategies to influence government policies and actions (fiscal policy) - Free Trade Agreements - Trade Liberalisation	- Organisations that have a focus on economics (OECD, APEC etc) - Economic growth, inflation, interest rates, unemployment, GDP per capita - Currency fluctuation - Trade and investments by firms and Governments
Social	**Technological**
- Population size, age, ethnic mix etc (demographic) - Geographical distribution of people (geographic) - Income distribution - Attitudes and values (psychometric)	- Innovation in research and development, materials, processes - Automation and general use of technology in production or other forms of firm output - Internet and e-commerce - Wireless technologies (5G, WiFi 6 etc)

PEST Factors – Breakdown

Porter's Five Forces

A framework to analyse the competitiveness within an industry and assess the profitable opportunities a market has in developing business strategy.

- Helps determine an industry's weaknesses and strengths
- Used to identify an industry's structure to influence a firm's strategy
- Can be applied to any segment of the economy

The **five** forces in this model are:

- Rivalry within Industry
- Bargaining power of suppliers (known as 'Power of Monopoly')
- Bargaining power of consumers
- Threat of new entrants
- Threats of substitutes

Porter's Five Forces – Rivalry within Industry

The extent to which competitors are able to attract suppliers and consumers. This is affected by the **number** and **strength** of a firm's competitors. When there are more competitors producing more products and services, individual firms hold **less power**.

Suppliers and **consumers** seek out a firm's competition when they are able to provide lower prices or offerings that said firm does not provide. When competition is high, firms typically **reduce prices** and launch **high intensity marketing campaigns** to attract new customers.

However, when competition is low, firms' powers **increase** and they can charge higher prices and set terms of new deals to gain higher sales and profit.

STRATEGIES:

- Differentiate good and services to provide unique selling points
- Price segmentation strategies – i.e. differentiate from market standards, charge different prices to different groups

Key takeaways:

- Less competition = firms have more power = higher prices, greater profits
- More competition = firms have less power = reduced prices, aggressive marketing

Porter's Five Forces – Bargaining power of suppliers (Power of Monopoly)

Suppliers are able to **gain power** if they can increase their prices (cost of input) or reduce the quality of their products. When suppliers are the only ones that can produce certain goods, their supplier power is high.

There are two main factors that influence the increase in cost of input, they are: how **unique** the inputs are, how **much it would cost** a firm to switch to another supplier. When there are few suppliers in an industry, a greater dependency is established between a firm and its supplier. This enables suppliers to increase their prices/cost of input and generate advantages for them.

Should suppliers increase within an industry, or the **cost to switch suppliers decreases**, suppliers **cannot increase** their input costs. This enables a firm to lower its input costs to improve profits.

Strategies:

- Develop goods using intermediate components (semi-finished products), which are available from multiple suppliers (Increases bargaining power for suppliers to price for unique components)
  - Achieves economics of scale to exploit bulk buying

Key takeaways:

- More suppliers in industry = suppliers have more power = reduced cost of inputs = opportunity to improve profits for firms
- Less suppliers in industry = suppliers have less power = increased cost of inputs = negatively impacts firms' profit margins

Porter’s Five Forces – Bargaining Power of Consumers

1

Depending on how many customers a firm has, how significant each customer is, and how much it would cost a firm to replace customers or markets determines how powerful an individual consumer is. When buyers or customers are low in comparison to suppliers in an industry, they have high **buyer power**.

2

When consumers have high buyer power, they are able to negotiate prices and better offerings. The inverse occurs and **power decreases** when there are many customers with minimal competition.

3

Firms should consider how many customers they have, the size of their orders and how much it would cost to source their orders from a competitor.

Strategies

- Differentiate goods and services to tailor to each market segment (increases consumer power as they will pay more for higher quality goods)

- Advertise to build brand loyalty and communicate unique selling points

4

Key takeaways

- Amount of buyers are low = higher power = better prices/offerings for consumers = decreased profitability
- Amount of buyers are high/minimal competition = lower power = worse pricing for consumers = better profitability for firms

Porter's Five Forces – Threat of new entrants

1

A firm's viability is heavily influenced by potential competitors' ability to enter their market. Should it take minimal time and effort to compete in a firm's market effectively, or if you have minimal protection for your intellectual property (IP)/technology, competitors can weaken your position in the market.

2

Strong barriers to entering a market strengthens firms that already exist in said market, as that firm can then negotiate better terms and charge higher prices to increase profitability.

Strategies:

- Utilise e-commerce to reduce costs
- Incorporate innovative technologies, i.e. drones, AI, VR, etc

3

Key Takeaways

- Minimal time and effort to enter same market as firm = weaken a firm's position
- Strong barriers to entry = strengthen the position of existing firms

Porter's Five Forces – Threat of Substitutes

The chance of customers finding a better way to do what your firm does, or choose differing goods and services from competitors is considered the **threat of substitution**.

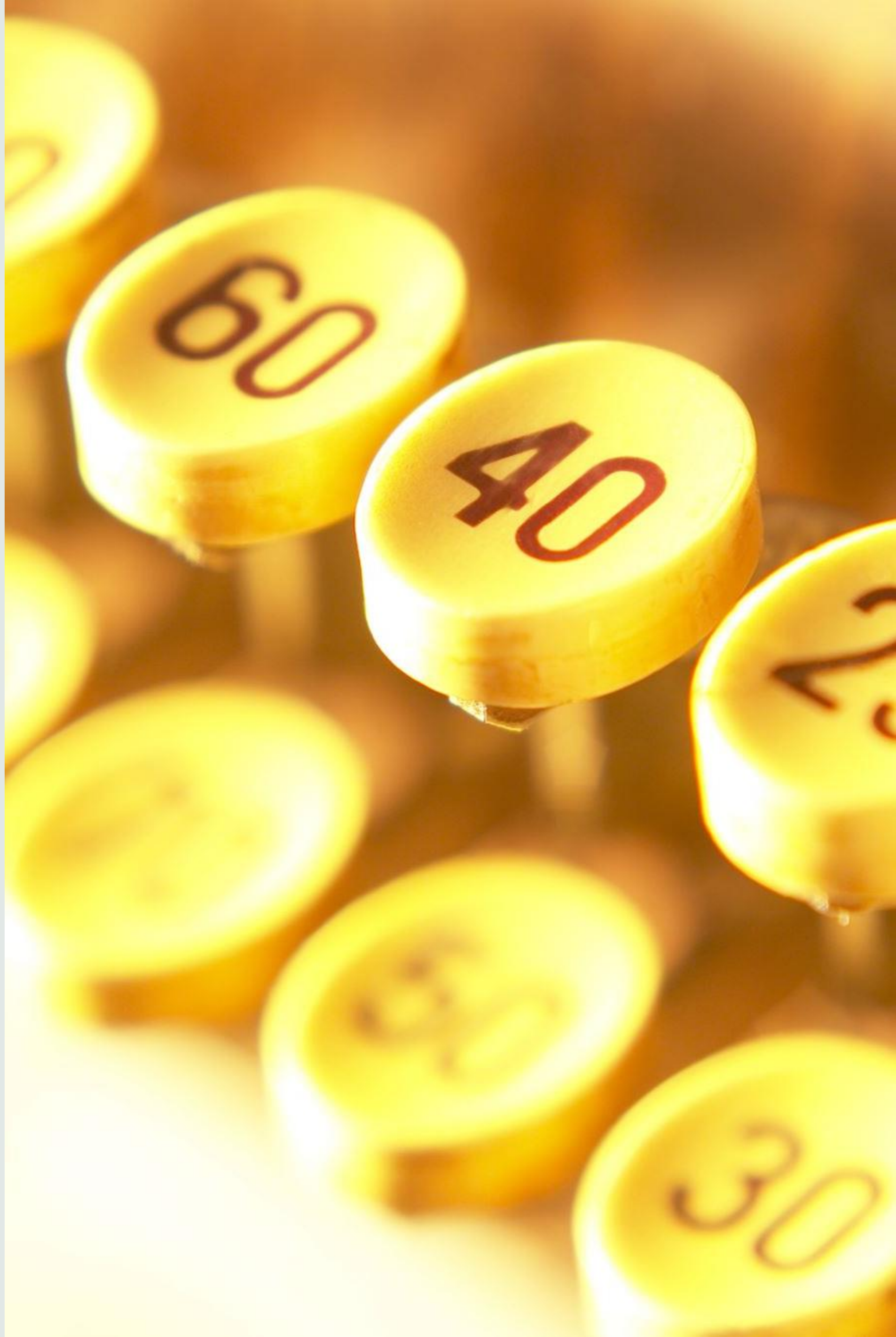
Firms that produce goods and services that target a niche, or lack competitors/close substitution can **increase the power** for a firm and lock in customers. When there is increased competition, more substitutes, a new unexpected choice, or the choice for customers to forfeit a firm's goods and services, the firm's power **decreases.**

Strategies:

- Differentiation through marketing mix
- Promotion to communicate unique selling points

Key takeaways:

- Niche goods and services/lack of close substitutes = increased power for firms = potential to lock in customers
- Increased competition/close substitutes = decreased power for firms = potentially reduced customer base



Porter's Five Forces – Competitive Advantages & 3 Main Strategies to Minimise Forces

Competitive advantage is defined as attaining a unique point of differentiation over competitors to develop or accumulate market share. **(BUSINESS DEFINITION!!)**

- Achieved through cost leadership and differentiation
- Measured through Key Performance Indicators (market share, customers, sales base, sales, profits, annual turnover)

Three Strategies to Minimise Forces

- Cost leadership – establishing the lowest cost in an industry to create a competitive advantage
  - Achieved by reducing inefficiency in business operations and processes to the bare minimum
  - Economics of scale can be utilised to keep cost of sales down by spreading fixed costs involved in manufacturing over greater output
  - Outsourcing can be used to provide cheap inputs to reduce cost of sales
- Differentiation is positioning the firm so that it is recognised as providing goods and/or services that is distinct from its competitors. A unique selling point is achieved through extensive research and development
- Niche focus – this is when firms focus on a narrow segment of a market and within that segment try to achieve cost leadership or differentiation
  - Requires firms to tailor their value chain to meet niche consumer needs
  - Comes with the added benefit of increased customer loyalty, and creates a disincentive for competitors to compete

Strengths, Weaknesses, Opportunities and Threats (SWOT)

A method of analysing a firm's competitive situation.

Strengths – competitive advantage (internal to the firm)
- Brand awareness and customer loyalty
- Size of market share, as a large share and/or well established
- Positive corporate image and reputation
- Efficient internal processes/procedures comprised in business operations
- Geographical location (if advantageous, i.e. lots of foot traffic)

Weaknesses – competitive disadvantages (internal to the firm)
- Limited revenue streams
- Increased cost of sales (costs involved in production)
- Poor cash flow or liquidity problems
- Inefficient processes and procedures
- Poor geographical location (i.e. low foot traffic)
- Lack of differentiation from competitors (restricted product range)

Opportunities – prospects for the future (external to the firm)
- Political – Free Trade Agreements, government spending programs, etc
- Economic – economic growth, weakening exchange rate (exports), market growth, reduced inflation etc
- Social – high population size, growing target age groups, change in demographic preferences
- Technology – emerging technology and/or high innovation

Threats – problems for the future (hinders prospectives, external to the firm)
- Political – interest rates increasing as a result of monetary policy, increased/sustained high inflation. Legislation that threatens a business model (i.e., illegalises industry offerings or sales)
- Economic – economic downturn/recession, highly competitive market
- Social – low population, shrinking target age groups, negative publicity
- Technology – stale/non-innovative technology

Strategic Implementation

Strategic implementation refers to the decisions that **enact or apply** a certain business **strategy.**

- It involves middle and front-line managers setting short term targets and informing their employees of the tactics used to meet said targets
- Departments in a firm must be allocated responsibilities through concise communication
- Detailed action plans are formed to guide employees in carrying out the strategy effectively and efficiently
- Misunderstandings that arise from the action plan(s) can risk the success of a strategy or may alienate employees

Strategic Formulation

The process by which firms choose the most appropriate course of action to achieve its mission and objective is known as **strategic formulation**. This formulation is aimed at improving competitive advantage(s) and profitability.

- Information gained from environmental scans help formalise the course of action. This includes PEST and SWOT factors, as well as Porter's 5 Forces
- Articulation and communication of the strategy must be done to all stakeholders. **All levels** must cooperate in order for effective coordination of the strategy
- Involves writing each key strategy in key business documentation. This includes operational plans, annual reports and websites

Different levels of a firm are concerned with different aspects!

- **Corporate level** is concerned with the broad decision about the **firm's scope and direction**, such as which markets to enter (i.e., Wesfarmers Group, which owns Kmart)
- **Business level** is concerned with how the firm will **compete within each line of business** (LOB). LOBs are a term used to describe a set of related products which serve a specific firm or consumer need. i.e. a bank providing credit cards, loans, mortgages and bank accounts is said to be in the 'Consumer Banking' LOB (i.e., Kmart the firm itself)
- **Functional Level** is concerned with the strategies of each specific department within a firm (i.e., inside a Kmart store)

Evaluation

Evaluation involves firm management determining whether their plan(s) for the chosen business strategy is achieving its missions and objectives.

There are three primary ways a strategic plan can be evaluated:

Key Performance Indicators (KPIs) – these are quantifiable measurements which reflect the critical success factors of an organisation

- i.e., staff turnover of 5% over a business quarter (the total number of employees which resign). HR department would record date of separation and reasons for resignation to measure this KPI

Benchmarking – the process of making comparisons between the performance of a firm and the performance of the leaders in an industry. Firms often also compare internal departments to set internal benchmarks

External consultation – external audits are usually independent, bias-free and impartial. It can be conducted by an external auditing firm/consultant to determine whether plan(s) are being upheld

Control

Control in business is defined as the regulation of activities within a firm so that performance conforms to organisational goals and standards.

- It builds on strategic formulation or broadly strategic planning, as it allows performance monitoring and adjustments so plans can be executed to meet goals
- Parameters, benchmarking and taking corrective action are all tools of Control to ensure the firm's vision remains achievable

Steps

1. Determine the areas to control
2. Establish standards to be met
3. Measure performance against standards
4. Compare performance against standards and obtain proof of progress made towards objectives
5. Take corrective action as required
6. Recognise progress and reward employees/stakeholders for it