

**B0646**

# **Fundamentals of Management**

## **Planning**



# Planning: Coping with Uncertainty

- **Planning** is defined as **setting goals** and deciding **how to achieve them**.
- Or, planning is coping with uncertainty by formulating future courses of action to achieve specified results.
- **Business plan**: a document that outlines a proposed firm's goals, the strategy for achieving them, and the standards for measuring success.
- **Business model**: which outlines the need the firm will fill, the operations of the business, its components and functions, as well as the expected revenues and expenses.

## EXAMPLE

### Is Planning Necessary? Launching a Vending-Machine Business on \$425

Brian Allman of Reno, Nevada, was 17 years old when he bought a simple vending machine at Sam's Club for \$425 and used it to start Bear Snax Vending, stocking the machine and four others he added later with Skittles, M&Ms, and Snickers to serve several small to midsize businesses, such as banks. Allman did this without apparently drawing up a business plan.<sup>12</sup>

**Why Plan?** Almost everyone starting a new business is advised to write a business plan. The reasons: Creating such a plan helps you get financing. ("If you want us to invest our money, show us your plan.") It helps you think through important details. ("Don't rush things; it's best to get the strategy right.") Finally, it better guarantees your firm will succeed. (A study of 396 entrepreneurs in Sweden found that a greater number of firms that failed never had a formal business plan.<sup>13</sup>)

**"Going with What You've Got"** Even so, sometimes major decisions, including starting up companies, are made without much planning. Indeed, one study found that 41% of *Inc.* magazine's 1989 list of fastest-growing private firms didn't have a business plan and 26% had only rudimentary plans, percentages essentially unchanged in 2002.<sup>14</sup> Planning of any sort, of course, requires time, and sometimes you need to make a quick decision and "go with what you've got"—with or without a plan.<sup>15</sup>

## YOUR CALL

Nine years after founding Bear Snax Vending without a formal business plan, Brian Allman was still running it. (Allman was also working as a financial advisor for financial services firm Edward Jones.) If you had a few hundred dollars with which to launch a small business, **do you think writing a business plan would help you or just be a waste of time?**

# Strategy

- A **strategy** is a **large-scale action plan** that sets the direction for an organization.
  - “Budweiser’s ultimate strategy. . .” or “Visa’s overseas strategy. . .” or financial strategy, marketing strategy, and human resource strategy.
  - “Find out what customers want, then provide it to them as cheaply and quickly as possible” (the strategy of Walmart)
- It needs to **be revisited from time to time** due to ever changing business conditions.
- **Strategic management** is a process that involves managers from all parts of the organization in the formulation and the implementation of strategies and strategic goals.

# Why Planning & Strategic Management Are Important

## 1. Providing Direction & Momentum

- Strategy can determine the very structure of the organization
- A poor plan can send an organization in the wrong direction

## 2. Encouraging New Ideas

- Far from being a straitjacket for new ideas, strategic planning can help encourage them by stressing the importance of innovation in achieving long-range success.
- Apple's strategy innovation

## 3. Developing a Sustainable Competitive Advantage

- Produce goods or services more effectively than its competitors do, (1) in being responsive to customers, (2) in innovating, (3) in quality, and (4) in effectiveness.

## EXAMPLE

### Developing Competitive Advantage: What's the Best Strategy in an E-Commerce Age?

E-commerce has completely changed retail shopping, as more Americans skip going into stores and order via their tablets and smartphones instead.<sup>28</sup> The result has severely impacted such chains as Staples, RadioShack, and Sears, which have reduced the number of stores, and forced other big retailers, such as Walmart, to ramp up their online buying and delivery operations.<sup>29</sup>

**Adjusting to Online Competition.** Other stores have shifted their focus and their services:<sup>30</sup> J. Crew has gone to a new format (J. Crew Mercantile) to appeal to discount shoppers. Abercrombie & Fitch is reaching out to teens with less nudity on its clothing dummies, more black apparel, and larger sizes. Sears, Saks, and Macy's are instructing their clerks to encourage virtual customers by picking and packing items from the stores themselves (rather than the warehouses) and ordering a same-day UPS or FedEx pickup, to avoid losing shoppers to Amazon.

**IKEA'S Advantage.** However, 71-year-old Sweden-based IKEA, the world's largest furniture retailer, with 345 stores in 42 countries (50 in North America), has a different strategy—add *more* physical stores, as well as competing online and with catalogs. “We see that Internet and e-commerce is growing,” says IKEA CEO Peter Agnefjäll, “but at the same time, when buying a new bed a lot of people want to try it first, and if you buy a sofa you may want to touch the fabric.”<sup>31</sup>

### YOUR CALL

For what kinds of products is a visit to a physical store a more attractive shopping experience for consumers than buying online? How realistic is the prospect of the use of holograms (which could enable consumers to try clothes on at home) and 3-D printers (which could print out three-dimensional products remotely) in the shopping experience within the next 15 years?

# Fundamentals of Planning





# Mission Statement

## —“What Is Our Reason for Being?”

- An organization’s mission is its purpose or reason for being.
- A **mission statement**, which expresses the purpose of the organization.

### EXAMPLE

#### Mission Statements for Three Different Companies: Hilton, Amazon, & Patagonia

Mission statements answer the question, “What is our reason for being?” or “Why are we here?”

Here are the mission statements for three companies, drawn from their websites. The mission statement for Hilton Hotels, a large company, reads: “To fill the earth with the light and warmth of hospitality.”

Amazon’s mission statement is “Use the Internet to offer products that educate, inform, and inspire. We decided to build an online store that would be customer friendly and easy to navigate and would offer the broadest possible selection. . . .

We believe that a fundamental measure of our success will be the shareholder value we create over the *long term*.”

Clothing maker Patagonia’s mission statement is to “Build the best product, cause no unnecessary harm, [and] use business to inspire and implement solutions to the environmental crisis.”

### YOUR CALL

Do you think any of these mission statements could be adapted to different companies offering different products or services? Give an example.



# Vision Statement

## —“What Do We Want to Become?”

- A vision is a long-term goal describing “what” an organization wants to become.
- It is a clear sense of the future and the actions needed to get there.
- A **vision statement** expresses what the organization should become, where it wants to go strategically.

### EXAMPLE

#### Vision Statements for Three Different Companies: Hilton, Amazon, & Patagonia

Vision statements answer the question, “What do we want to become?” or “Where do we want to go?”

Here is Hilton Hotels’ statement: “To be the first choice of the world’s travelers, building on the rich heritage and strength of our brands by consistently delighting our customers, investing in our team members, delivering innovative products and services, expanding our family of brands, and continuously improving performance.”

Amazon’s vision statement: “Our vision is to be earth’s most customer-centric company; to build a place where

people can come to find and discover anything they might want to buy online.”

Patagonia’s statement: “We prefer the human scale to the corporate, vagabonding to tourism, and the quirky to the toned-down and flattened out.”

### YOUR CALL

Do these vision statements work? Do they meet *Fortune’s* criterion of describing “what’s happening in the world you compete in and what you want to do about it. It should guide decisions”?

# Three Types of Planning

- **Strategic planning**—to determine what the organization's long-term goals should be for the **next 1–5 years** with the resources they expect to have available.
- **Tactical planning**—to determine what contributions their departments or similar work units can make with their given resources during the **next 6–24 months**.
- **Operational planning**—to determine how to accomplish specific tasks with available resources within the **next 1–52 weeks**.

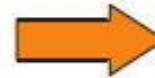
# Types of Planning and Levels of Management

## Top management

chief executive officer,  
president, vice president,  
general managers,  
division heads



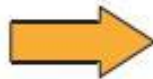
**Strategic planning:**  
**1–5 years**



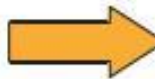
Make long-term decisions about overall direction of organization. Managers need to pay attention to environment outside the organization, be future oriented, deal with uncertain and highly competitive conditions.

## Middle management

functional managers,  
product-line managers,  
department managers



**Tactical planning:**  
**6–24 months**



Implement policies and plans of top management, supervise and coordinate activities of first-line managers below, make decisions often without base of clearly defined information procedures.

## First-line management

unit managers, team leaders,  
first-line supervisors



**Operational planning:**  
**1–52 weeks**



Direct daily tasks of nonmanagerial personnel; decisions often predictable, following well-defined set of routine procedures.

# Goal

A goal, or an objective, is a specific commitment to achieve a measurable result within a stated period of time.

- **Strategic goals** are set by and for top management and focus on objectives for the organization as a whole.
- **Tactical goals** are set by and for middle managers and focus on the actions needed to achieve strategic goals.
- **Operational goals** are set by and for first-line managers and are concerned with short-term matters associated with realizing tactical goals.



## EXAMPLE

### Strategic, Tactical, & Operational Goals: Southwest Airlines

Ranking No. 9 on *Fortune's* 2014 Most Admired Companies list, Dallas-based Southwest Airlines has inspired a host of low-fare imitators—big ones like Alaska and JetBlue and small ones like Allegiant, Frontier, Spirit, Sun Country, and Virgin America—which have grown rapidly in recent years compared to mainline carriers such as United, Delta, American, and US Airways. It has continually achieved its

strategic goals and as of 2014 had been profitable for 41 consecutive years.<sup>47</sup>

**Strategic Goals.** The goal of Southwest's top managers is to ensure that the airline is highly profitable, following the general strategy of (a) keeping costs and fares down, (b) offering a superior on-time arrival record, and (c) keeping passengers

happy. One of the most important strategic decisions Southwest made was to fly just one type of airplane—Boeing 737s. (Several dozen Boeing 717s, inherited when the company acquired AirTran, were leased to Delta. Southwest has about 680 jets overall.) Thus, it is able to hold down training, maintenance, and operating expenses.<sup>48</sup>

Another strategic decision was to create a strong corporate culture that, according to one former CEO, allows people to “feel like they’re using their brains, they’re using their creativity, they’re allowed to be themselves and have a sense of humor, and they understand what the mission of the company is.”<sup>49</sup>

**Tactical Goals.** Cutting costs and keeping fares low has traditionally been a key tactical goal for Southwest's middle managers. For example, the organization cut costs in its maintenance program by doing more work on a plane when it's in for a check instead of bringing it in three different times. In addition, it has tried to get more use out of its planes every day by limiting the turnaround time between flights to 20 minutes, compared to up to an hour for other airlines.

Although now it flies longer flights between bigger cities, which uses fuel more efficiently but is more subject to delays, until recently Southwest flew short-haul flights to midsize cities to save time and money by avoiding traffic. There is just one class of seating, doing away with the distinction between coach and first class. Originally, even the boarding passes were reusable, being made of plastic (most passengers print out their own passes now). Finally, the airline saves by not feeding passengers: it serves mostly peanuts, no in-flight meals.

How do you make arrival times more reliable? To achieve this second tactical goal, middle managers did away with guaranteed seat reservations before ticketing, so that no-shows wouldn't complicate (and therefore delay) the boarding process. (It changed that policy slightly in 2007 to ensure that passengers paying extra for “business select” fares would be placed at the front of the line.)

In addition, as mentioned, the airline has tried to turn planes around in exactly 20 minutes, so that on-time departures are more apt to produce on-time arrivals. Although the airline is about 83% unionized, turnaround was helped by looser work rules, so



that workers could pitch in to do tasks outside their normal jobs. “If you saw something that needed to be done,” said one former employee, “and you thought you could do it, you did.”<sup>50</sup>

Unfortunately, in 2013, in an attempt to offer more convenient flight schedules, the airline instituted a new system to reduce times it allowed for flights and compressed its turnaround times even further—the result of which sent its on-time performance reeling to last place among U.S. carriers. Its involuntarily denied—boarding rate and mishandled-baggage rate also increased slightly.<sup>51</sup>

Despite the delays, Southwest still retained its top ranking for having the lowest customer complaints.<sup>52</sup> The difference lies in small things: the free peanuts (an emotional subject among travelers), switching of flights without charge, and no charge for checked-in luggage up to two pieces. (The airline does, however, charge for checking a third bag.)

**Operational Goals.** Consider how Southwest’s first-line managers can enhance productivity in the unloading, refueling, and cleaning of arriving planes. “One example [of productivity] customers mention all the time,” said former chairman Herb Kelleher, “is if you look out the window when the airplane is taxiing toward the jet-way, you see our ground crews charging before the airplane has even come to rest. Customers tell me that with other airlines nobody moves until the airplane has turned off its engines.”<sup>53</sup>

**The New Southwest.** In January 2014, Southwest began venturing into the international market, marking a significant shift.<sup>54</sup> Its initial flights are to the Caribbean, but other international routes may be attempted later. Some operations, such as fast turnaround times, may be difficult to implement because of departure restrictions.<sup>55</sup> Southwest also faces costly upgrades to its computer systems and an antiquated phone system, its traditionally low fares are not so low anymore, and it is negotiating with workers to try to achieve more productivity and flexibility.<sup>56</sup>



# The Action Plan & the Operating Plan

- The **action plan** defines the course of action needed to achieve the stated goal.
  - such as a marketing plan or sales plan.
- The **operating plan** is typically designed for a one-year period, defines how you will conduct your business based on the action plan.
  - It identifies clear targets such as revenues, cash flow, and market share.

# Types of Plans

PLAN	DESCRIPTION
Standing plan	For activities that occur repeatedly over a period of time
<ul style="list-style-type: none"><li>• Policy</li></ul>	Outlines general response to a designated problem or situation
<ul style="list-style-type: none"><li>• Procedure</li></ul>	Outlines response to particular problems or circumstances
<ul style="list-style-type: none"><li>• Rule</li></ul>	Designates specific required action
Single-use plan	For activities not likely to be repeated in the future
<ul style="list-style-type: none"><li>• Program</li></ul>	Encompasses a range of projects or activities
<ul style="list-style-type: none"><li>• Project</li></ul>	Has less scope and complexity than a program

# Standing plans

**Standing plans** are plans developed for activities that occur **repeatedly** over a period of time.

- A **policy** is a standing plan that outlines the general response to a designated problem or situation.
  - Example: “This workplace does not condone swearing.”
- A **procedure** (or standard operating procedure) is a standing plan that outlines the response to particular problems or circumstances.
  - Example: McDonald’s specifies exactly how a hamburger should be dressed, including the order in which the mustard, ketchup, and pickles are applied.
- A **rule** is a standing plan that designates specific required action.
  - Example: “No smoking is allowed anywhere in the building.”

# Single-use plans

**Single-use plans** are plans developed for activities that are **not likely to be repeated** in the future.

■ A **program** is a single-use plan encompassing a range of projects or activities.

- Example: The U.S. government space program has had several projects, including the Challenger project, the Hubble Telescope project, and the space shuttle project.

■ A **project** is a single-use plan of less scope and complexity than a program.

- Example: The space shuttle project, one of several projects in the government's space program, consisted of three shuttles: Discovery, Endeavour, and Atlantis.

# SMART Goals

A SMART goal is one that is **Specific, Measurable, Attainable, Results-oriented**, and **has Target dates**.

- Goals should be stated in specific rather than vague terms.
- Goals should be measurable, or quantifiable
- Goals should be challenging, while realistic and attainable.
- Goals should be results-oriented and support the organization's vision.
- Goals should specify the target dates/deadline when they are to be attained.

*Example: A SMART goal is to increase the market share of the company's cereal brand X by 10% in the next year.*

# Management by Objectives

- Management by objectives (MBO) is a four-step process in which
  - (1) managers and employees jointly set objectives for the employee,
  - (2) managers develop action plans,
  - (3) managers and employees periodically review the employee's performance, and
  - (4) the manager makes a performance appraisal and rewards the employee according to results.



# Types of Objectives Used in MBO

## Improvement Objectives

**Purpose** Express performance to be accomplished in a specific way for a specific area

**Examples** “Increase sport utility sales by 10%.” “Reduce food spoilage by 15%.”

## Personal Development Objectives

**Purpose** Express personal goals to be realized

**Examples** “Attend five days of leadership training.” “Learn basics of Microsoft Office software by June 1.”

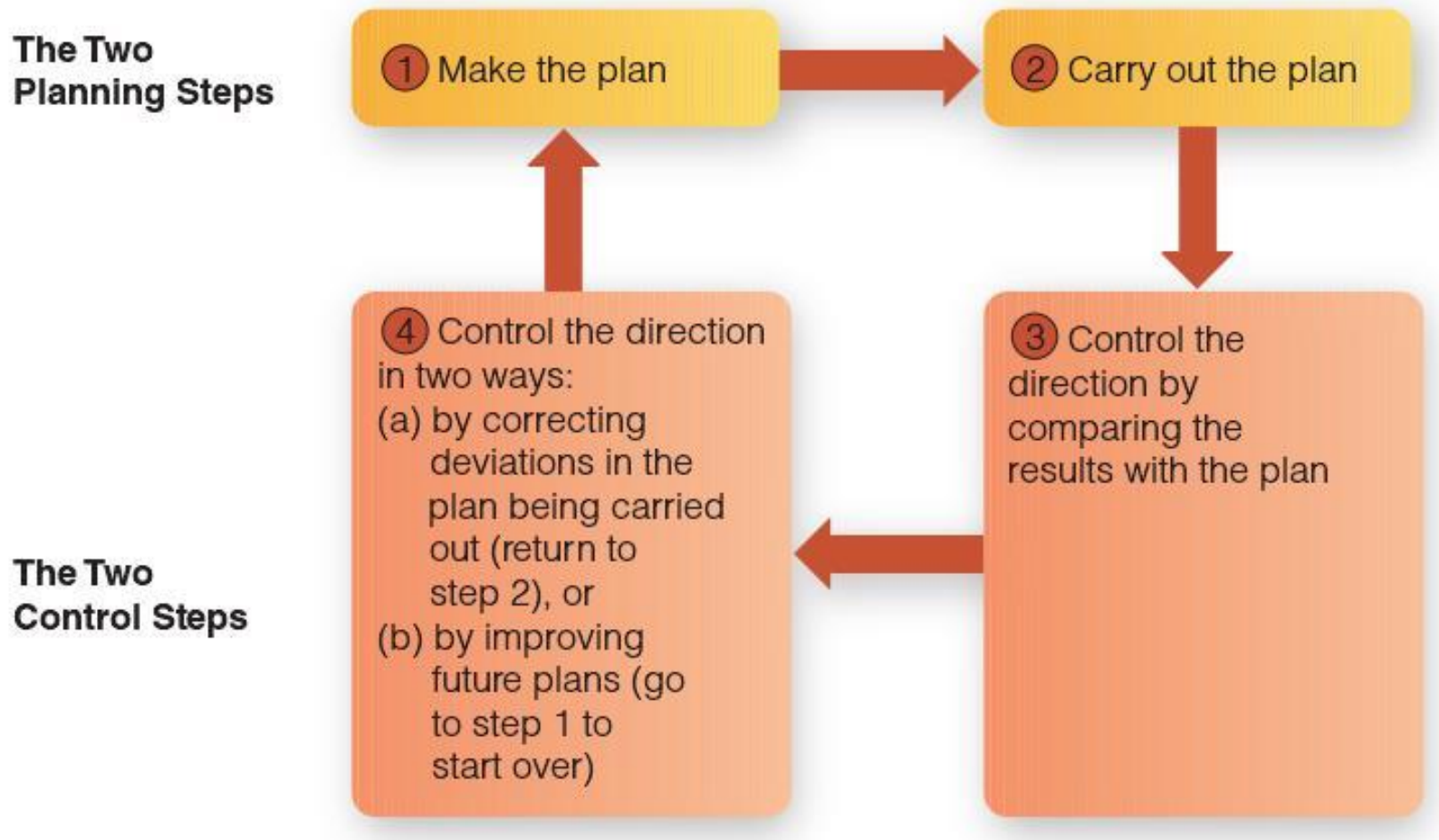
## Maintenance Objectives

**Purpose** Express the intention to maintain performance at previously established levels

**Examples** “Continue to meet the increased sales goals specified last quarter.” “Produce another 60,000 cases of wine this month.”

# The Planning/Control Cycle

The planning/control cycle loop exists for each level of planning — strategic, tactical, and operational.



## Case study

### - GE's Poor Planning Results in Delays & Increased Costs

1. Which of the fundamentals of planning did GE execute ineffectively? Explain your rationale.
2. Which of the three types of goals were ineffectively managed by GE? Explain.
3. State two SMART goals for GE based on the case. Given the political issues discussed in the case, how might GE ensure that these goals are attainable? Discuss.
4. Using the planning/control cycle, describe what GE could have done to improve the process of transporting the evaporator. Provide specific recommendations.
5. What did you learn about planning based on this case? Explain.