

STRATEGIC *PLANNING* WORKBOOK

by

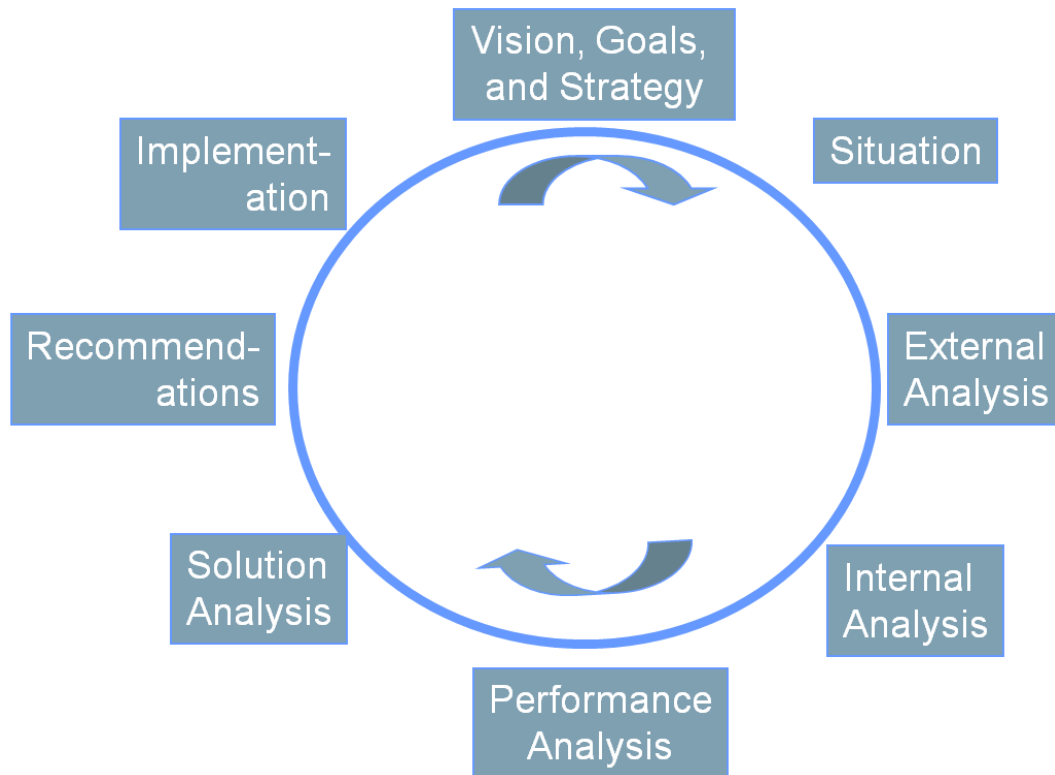
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Standard Strategic Analysis Framework



The Strategic Planning Workbook is designed to help executives and students develop strategic plans for their business in the private and public sector. It relies on the Standard Strategic Analysis Framework, which is found in many common strategy textbooks, among them Crafting and Executing Strategy by Thompson, Strickland, and Gamble. That framework is captured in the figure above.

Executives and students should step through this workbook, create a draft report, then re-sort categories and modify the various sections to customize their reports to the particular strategic initiative in question. For instance, some initiatives may be focused on developing internal capabilities, not on the analysis of the market per se. Therefore, in the customized report, the Internal Analysis sections may directly follow Vision, Mission & Goals, and the External Analysis Section may be smaller – being put after the Internal Analysis or Performance analysis sections.

Note that in the workbook below, some examples have been included based on a hearing aid company, in order to make the sections more concrete. Text used to fill in the workbook in the ACME Hearing Services will be in blue font

1. VISION, MISSION & GOALS

ACME Hearing Services:

Vision Statement: To be known as the best provider of hearing products and services

Mission Statement: We will meet our customers' hearing needs by providing superior products, services and value with care and integrity

Goal: To expand geographically and increase regional market share.

2. CURRENT STRATEGY & SITUATION

(a) Levels & types of strategy

- Corporate scope strategy¹

Single business at this point.

- Product-customer positioning strategy²

See below.

- Competitive stance strategy³

Niche –quality based on high service and good coordination.

(b) The Situation

Two-three paragraphs on the big picture of the nature of the strategic issue in light of the strategy and goals of the company.

ACME Hearing Services has grown and is positioned for geographic expansion. But, in order to do so, it must rationalize its local services in order to be more efficient yet retain quality. How to re-organize and rationalize is unclear. In addition, it must have more resources in place for geographic expansion. But it is unclear what resources, given there are many possible options for expansion.

¹ List the businesses and relationships between the businesses. Also, the growth of each business and the growth method.

² What are the products/services? Who are the customers? Position the firm on an industry PCM.

³ Strategic stance and key functional activities. Explain the logic --the basis for competitive advantage.

3. EXTERNAL ANALYSIS:

(a) Define the industry⁴

THE HEARING AID RETAIL INDUSTRY

The Canadian hearing aid industry is relatively small and specialized with few independent industry observers and analysts. The industry is fragmented with the majority of retail operators being small independent “Ma and Pa” shops. Canada holds 10% of the North American market representing over 3.5 billion dollars. Sales have been flat in the USA and there has been a marginal increase in Canada averaging 2.5% during 2000 – 2003 and slightly higher in British Columbia.

During the past five years, ACME Hearing Services has achieved significant operational and earnings growth. The company increased revenue from \$7.9 million in fiscal year 2000 to \$17.25 million in 2005. Its profitability increased from \$263K to an estimated 1.4 million. The company’s development during this phase can best be described as transitioning from a small business focused on meeting modest earnings targets to a medium sized enterprise now enjoying sustainable and growing earnings. The company also expanded in scope from a pure regional player in B.C. to other parts of the country by making acquisitions and investments in several joint venture clinics outside of B.C.

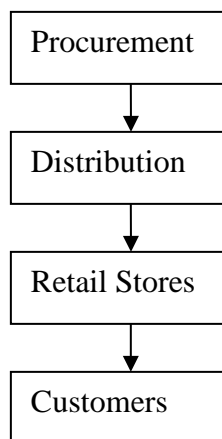
ACME Hearing Services is a narrow single line of business, horizontally integrated. The company is now poised to enter the next phase of growth that will be characterized by a more rapid and geographically diverse expansion, greater investments in corporate infrastructure including systems, personnel training and development, and facilities and operational diverse ventures. The company has reached the stage in its life cycle where it can now build-on and strengthen its core competencies and further develop its proven business model moving to a horizontally integrated, broad, single line and more diversified corporate scope.

⁴ Identify the competitors and, if appropriate, strategic groups.

Product Customer Matrix

| Products | Customers | | | | | | | | |
|--------------------------|----------------------|------------|-------------|-----------------------|-----|-----|-------|------------------|-------|
| | Private | | | 3 rd Party | | | | Referral Sources | |
| | Best Price | Best Value | Value Added | WCB | VAC | DIA | Other | Physicians | other |
| Hearing aids | %clients \$ spent | | | | | | | % referred | |
| Batteries | | | | | | | | | |
| Repairs | | | | | | | | | |
| Audiological Services | | | | | | | | | |
| ALDs | | | | | | | | | |
| Extended Warranties | | | | | | | | | |
| Service level agreements | | | | | | | | | |
| Pre and post Op testing | | | | | | | | | |

(b) Industry supply chain (Flow of Goods)



(c) Industry overview

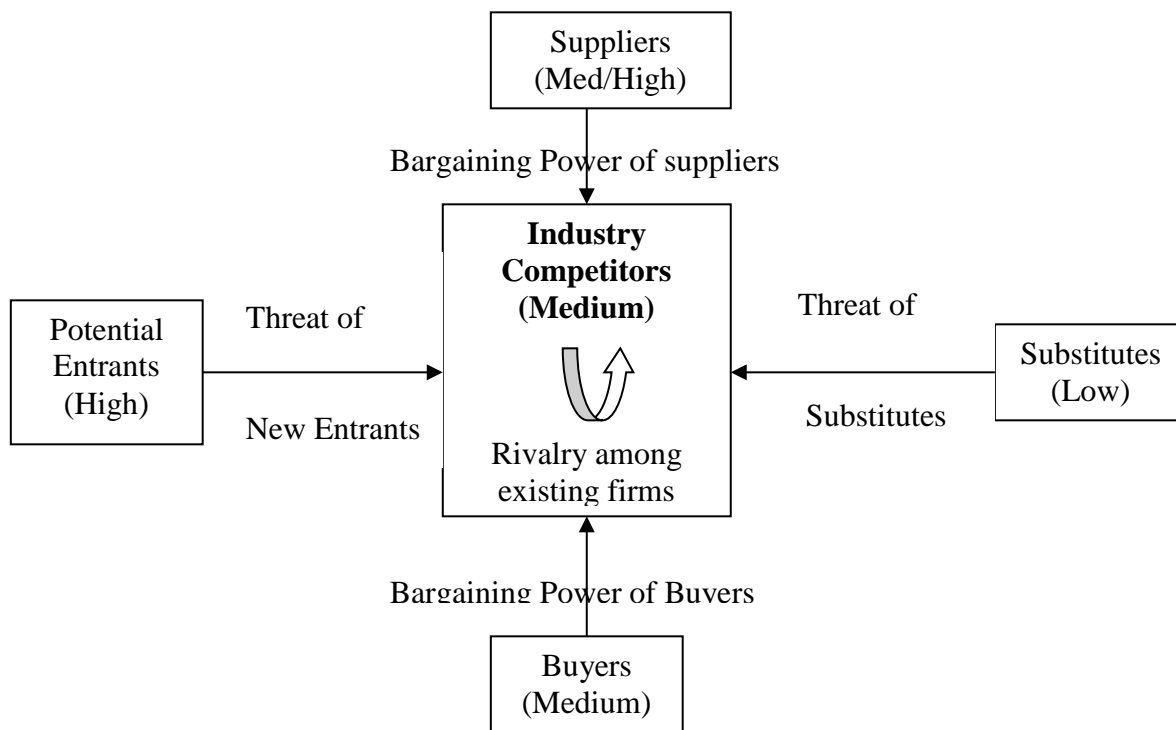
- Historical industry performance (sales, profits, cash flow, cyclicity, seasonality)
- Life cycle of the industry (key products or segments)
- Industry structure and concentration
- Firm turnover in the industry
- Special characteristics of the industry

Implications And Correlates of The Life Cycle

| Descriptors | Stage of Life Cycle | | | |
|--|--|--|--|--|
| | Embryonic | Growth | Mature | Decline |
| Sales Growth Rate | Increasing rapidly but uncertain potential | Very Strong | Stable | Negative |
| Profits | Negative | Positive & rising rapidly | Declining slightly | Declining |
| Cash Flow | Negative | Turning positive | Still increasing – reaches maximum | Declining slowly – little investment |
| Nature of innovation products and cycles | Radical changes, many variations, no standard | Moderate changes, possible emergence of dominant standard & design | Slow changes, standardised, dominated by a few high volume products | Incremental commodity product |
| Customers | Few, not knowledgeable, not price sensitive, unpredictable | Increasing, more knowledgeable, more price sensitive & predictable | High price sensitivity (in a segment). Stable and known requirements | Fewer, Very price sensitive, High bargaining power. |
| Entry | Low, need propr. Technology | Increasing due to technology transfer | Low due to capital requirements | Low due to low returns & high capital req. |
| Rivalry | Few competitors, low rivalry | Increasing | May be shakeout | High, competitors leave, margins may rise as competitors leave |
| Competitive Emphasis | Product performance, customers needs, market share | Increasing volume | Large economies of scale, price competition, new uses of existing products | Cost reduction, mass reduction, zero defects |

The market penetration rate is 20% in that only 20% of those people that could benefit from a hearing aid purchase one. In addition, it takes approximately 8 years by the time a prospective hearing aid candidate takes action from the time it was confirmed that they have a correctable hearing loss. Kochkin's survey of customer satisfaction levels in 1999 – 2000 indicates the levels were flat with only 60% of users happy with their purchase. Although the number of first time users has declined, the market has been sustained by an increase in binaural sales.

(d) Porter's augmented forces model of industry competitiveness



Key Success Factors

- Acceptable Customers satisfaction levels
- Uniqueness of customer offerings
- New Technology creating consumer interest

(e) Competitor analysis

- The Canadian hearing aid retail industry is very fragmented with approximately 900 independent private clinic operators. In British Columbia alone, there are about 60 independent operators with a varying number of clinics.
- The U.S. market is equally fragmented despite some recent consolidation activity. It is estimated that there are over 11,000 independent operators. In addition to traditional clinic operators, there are also a number of internet hearing aid retailers.
- Hearing aid clinics operated by audiologists and hearing instrument specialists account for over 70% of all hearing aids sold in the U.S. No data was available for Canada.
- There are, however, significantly fewer "large chain" clinic operators in both Canada and the United States. Some of the large chain operators in Canada include Island Hearing Services, Sonus, Beltone, Audiotech, Costco, HearUSA, and Le Group Forget. In the U.S.

large chain operators include HearUSA, Sonus, Miracle Ear, Beltone, Costco, Avada Audiology and Hearing Care, and National Hearing Centers.

(f) Macro-environment changes (PEST)

Positive change in demographics due to Baby Boomers aging.

(g) Stakeholder Analysis - IMPORTANT

This particular company is for-profit and the board and owner are in charge of the main strategy formulation. However, in many companies a stakeholder analysis of internal and external stakeholders x their power & urgency would be needed. In addition, a summary of the current strategies and strategy-related issues according to this map of stakeholders would be needed.

4. INTERNAL ANALYSIS⁵

(a) Current strategy

Niche based on quality and service.

(b) Activities

Firm supply chain

Value chain⁶

⁵ This section is SOMETIMES omitted. It provides an overview of the *current* internal characteristics, strategy and performance, prior to the implementation of the new strategic plan. It is not the focus of the strategic plan. It may be short or omitted.

⁶ Describe, indicate whether an activity adds value in theory and in practice.

Table of Primary and Secondary Activities

| Activity | Description |
|-----------------------------------|-------------|
| Firm infrastructure | |
| Financial management | |
| Human resource management | |
| Technology development | |
| Procurement | |
| Inbound logistics & Distribution | |
| Operations | |
| Outbound logistics & Distribution | |
| Marketing and sales | |
| After-sales service | |

VALUE CHAIN IN DESCRIPTIVE DETAIL FROM ACME Hearing Services

Support Activities:

- Firm Infrastructure
 - Economies of scale in Overhead costs
- Financial Management
 - Moderately leveraged
 - Created additional profit centres utilizing the following strategy:
 - Acquiring joint venture partners by purchasing a minority interest with a 3% management fee until the balance is purchased triggered by a put option in three (+) years
 - Converting existing B.C. retail hearing aid clinics to a franchises
 - A Buying Group that offers higher discounts and operational support to existing Canadian retail hearing aid clinics providing _S a share in the buying group clinic discounts and converting head office support services from a cost centre to a profit centre.
- Human Resource Management
 - Competency based training, incentives driven by performance, good HR and payroll system
- Technology Development
 - Internet based system utilizing window 2003 operating system with Citrix backend and using Great Plains and Equicare as the practice management and CRM system

- Procurement
 - Negotiate the best supplier discounts in the industry

Primary Activities:

- Inbound logistics and distribution
 - Utilizes Great Plains software to receive products thereby providing accurate tracking of goods and control of inventories
- Operations
 - Retail outlets with dominance in B.C.
 - High level of quality control when receiving products,
 - Fit custom made hearing aid products that can be returned to the supplier for a full credit
- Outbound distribution & Logistics
 - Destination Hearing Clinic concept provides a superior customer experience in the delivery of products and services
- Marketing Sales and distribution
 - Produces exceptional marketing programs that strengthened the ACME Hearing Services brand and increased new client evaluations
- After Sales Service
 - Provides a high level of post fitting/purchase follow-up monitoring customer satisfaction levels and correcting customer problems/concerns

(c) Resources & Capabilities

- What are the current resources for the organization?

ACME Hearing Services Organization:

- An entrepreneurial leadership team
 - A Learning Organization with strategic focus
 - Sustainable and mutually beneficial relationships (win/win)
 - Superior internal and external resources
 - Career opportunities and development
 - Successful business model for growth
 - A leading edge, enterprise class integrated information system
 - A personally supportive and fun climate
- Which of these resources has been activated; that is, is a deeper capability?

Benchmark resources & capabilities relative to the industry competitors

| | Competitor | Competitor | Competitor |
|-------------|------------|------------|------------|
| Resource: | | | |
| Resource: | | | |
| Capability: | | | |

(d) The Underlying Business Model or “Value Proposition”

Sometimes the value that the firm adds relative to the environment (the sum total of the external and internal analysis) are summarized at this point in a conceptual diagram showing the underlying business model or depicting the “value proposition” of the organization. This diagram or figure focuses the reader on the key components of a firm, such as the Direct Sales Model of Dell or the Least Cost Discounting Strategy of Wal*Mart.

5. PERFORMANCE & GAP ANALYSIS: Sources of Competitive advantage:

(d) Current financial performance

Financial statement and financial ratio analysis

PAST, CURRENT AND PRO-FORMA INCOME AND CASH FLOW STATEMENTS

| | Past Year | Current Year | Next Year Expected | Next Year Actual |
|---|--------------|-----------------|-----------------------|---------------------|
| Revenues | | | | |
| Variable costs ⁷ | | | | |
| Fixed costs ⁸ | | | | |
| Net Operating Revenue | | | | |
| Depreciation | | | | |
| Earnings before interest and tax | | | | |
| Taxes | | | | |
| Interest | | | | |
| Net Income | | | | |
| | | | | |
| Depreciation | | | | |
| Changes in WC | | | | |
| Capital Expenditure | | | | |
| Cash Flow | | | | |

. Shareholder value-added analysis

(e) STAKEHOLDER SATISFACTION ANALYSIS

For many organizations, each of the major stakeholder group's satisfaction (e.g., via Net Promoter) needs to be tracked and data collected on the degree of satisfaction.

⁷ Materials, direct labour, possibly some overhead (e.g. electricity)

⁸ Including administrative overhead.

(f) INDUSTRY REPUTATION AND STANDARDS

For many organizations, the standing of the firm is collected by regulators or other industry bodies. The firms past, current and projected ratings need to be recorded.

6. SOLUTION ANALYSIS

1. Based on performance analysis, especially on gaps, develop options (alternatives) for the firm. Put these as the “column items” in the IMPACT MATRIX (see below).
 - a. Note that the options can be about new goals or new strategies to achieve those goals.
2. Explicate the main criteria for achieving the firms goals or evaluating those options.
 - a. Put these as the “row items” in the IMPACT MATRIX.
3. Develop a scheme for weighting the criteria in order to select among the options.
4. Having selected an option, due a more thorough review of either the whole impact matrix (the main options and the competing one) or of the main option itself.

IMPACT MATRIX

| Criteria \ Options | Option 1 | Option 2 | Option 3 |
|--------------------|----------|----------|----------|
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. | | | |
| SUMMARY | VALUE: | VALUE: | VALUE: |

7. RECOMMENDATIONS - THE NEW STRATEGIC PLAN

(a) Strategy statement: summarise the new strategy, the rationale, and the long-run goals⁹

- Diagram new supply chain (internal flow of goods) or business model
- Describe new value chain or indicate changes in the existing value chain¹⁰
- Changes in resources and other assets

(b) The Expected Effects of the New Strategy

- Pro-forma financial statements and financial ratio analysis
- Shareholder value-added analysis
- Other performance indicators¹¹

(c) SCENARIO ANALYSIS AND CONTINGENCY PLANNING

- Critical success factors
- Risk analysis
- Scenario analysis
- Contingency Plans?

8. IMPLEMENTATION PLAN & REVIEW¹²

(a) Adoption¹³ Stage

(b) Model for Adoption (e.g., Power-Momentum, Learning???)

(c) Gantt Chart and Action Steps

(d) Installation and Follow-up

⁹ This will be somewhat repetitive.

¹⁰ Describe new activities or changes in detail, indicate whether and why a change adds value in theory. This is a very important section.

¹¹ Multi-goal impact analysis or balanced scorecard impact.

¹² Implementation refers to action items to put the new strategy into place. This workbook assumes that there is only one major initiative. In practice, you may have to repeat some or all parts for each major initiative. Include a time-line for each action.

¹³ Actions to encourage "buy-in".