RUDOLF GRÜNIG
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Process-based Strategic Planning

Sixth Edition

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Translated from German by Anthony Clark

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Preface

The strategies of a company define its future way of doing business: they determine for years to come the target market positions and the competitive advantages it must construct and maintain.

It is the development of successful strategies, an essential and a complex task, which forms the focus of this book. The book begins with a brief introduction to strategic planning. This is followed by the presentation of a method for determining future strategies. Here eight stages in planning are proposed. They are afterwards described in detail and procedures are provided for dealing with each stage.

The authors would like to express their gratitude to all those who have helped in the writing of this book. Many of the ideas and examples come from practice. We are therefore especially indebted to the many managers who have allowed us to share their strategic work. The authors would also like to thank all those former and present students, doctoral candidates and assistants, who contributed to the book.

In addition we would like to address our special thanks to three people. This book could not have been produced without the considerable talents of Anthony Clark who translated large sections of the book from German into English and improved the language of the parts we wrote in English. Tu Le merits special thanks for her efficient and excellent work in typing the text, designing the figures and producing the lists. The authors would also like to thank Hikmete Morina for updating references and bibliography.

September 2010
Rudolf Grünig, Richard Kühn

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Introduction

Strategic management has the central objective of providing for long term company success. The task of strategic management can be broken down into strategic planning, the implementation of strategies, and strategic control. Strategic planning forms the basis for the other two tasks and so it is the production of successful strategies which is of central importance in strategic management.

Deregulation and internationalization have increased competitive intensity. Together with accelerated technological change, shortening market life cycles and increasingly dynamic markets, the risk of committing strategic errors has increased considerably. Companies which neglect conscious strategic planning can expect to drift into a hopeless position. A systematic approach to strategic planning, which is firmly grounded in reality, is seen by many company leaders and management researchers as an essential requirement for long-term corporate success. Empirical studies confirm this view (see for example Raffée, Effenberger & Fritz, 1994, p. 383 ff.).

Many companies today view strategic planning as the task of top management, the CEO and other members of the top executive team. Unfortunately, despite the best efforts of those responsible, results are often unsatisfactory. Strategies are often not sufficiently well based on realities to survive in the face of competitive pressures. Or they may be too vague to provide genuine guidance for corporate action. For example, there may be a lack of concrete strategic programs to compel the attention of managers overloaded with day to day operational tasks. Another common mistake is that companies have too many strategic documents: typically these are not properly coordinated and may even contradict one another. This happens because in practice, especially in larger corporations, strategic documents are initiated at different times by managers of different organizational units and at different levels.

To find such mistakes in companies may seem surprising in the light of the considerable amount of literature on strategic management. We might expect the many specialized books and articles to aid strategic planning and lead in practice to the development of effective strategic

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plans. However, it would seem that the literature on strategy does not altogether provide what companies need.

A number of publications on strategic management are not aimed at aiding practice: they contribute primarily to the basic scientific concern with the explanation of difference in company success in terms of chosen markets, competitive strategies, and resource positions. They report research results which are relevant to companies. But given the objectives of the publications, they do not present comprehensive procedural suggestions for strategic planning.

Unfortunately, even those works which propose frameworks of analysis and planning, and therefore meet the direct needs of companies planning strategies, often do not offer the necessary support to executives in charge of strategic planning. One basic reason for this is that, in practice, what is required is the combined application of more than one method of analysis and planning in order to answer a number of different and complex questions. However, a large proportion of the methods-oriented literature is devoted to the presentation of a single method (see for example The Boston Consulting Group, 1970; Porter, 1980; Porter, 1985; Prahalad & Hamel, 1990).

There are, of course, also strategy textbooks presenting in one book the various methods of strategic analysis and planning (see for example Hill & Jones, 2008; Johnson, Scholes & Whittington, 2008). However, these books only partly address the problem of appropriate selection and combination of methods. Furthermore, in describing the different techniques, these works mostly retain the original terminology and do not therefore offer a comprehensive system of strategic thinking with uniform terminology.

It is the principal objective of the authors of this book 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 single recommended planning procedure.

There are six parts to the book. Part I presents an introduction to strategic planning. Part II gives an account of strategic documents and how to produce them. The remaining four parts of the book deal with approaches and methods to the solution of problems arising out of the different phases of the recommended analysis and planning procedure. In Part III, the planning of a strategic project, the strategic analysis and the revision or the production of the mission statement are examined. Parts IV and V are concerned with the two central problems in strategic planning: the development of corporate strategies and of business strategies. To conclude, Part VI addresses the problems of implementation, and the final assessment and approval of strategies.

The book is addressed primarily to practitioners: it aims to give them the knowledge they need to solve strategic planning problems. The book can also be used for executive courses in strategic planning and is a suitable text for introductory courses in strategic planning at universities and business schools. It will give students of Business Administration an overview of the complex area of strategic planning and show them ways of proceeding to solve problems in strategic planning. The book will also provide students with a framework within which they can more easily situate the extensive specialist literature.

The authors have tried to confront the problems of developing and assessing strategies in all their real complexity and not to hide difficulty through inappropriate simplifications. The book will repay 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, where necessary, the reasons for the structure. This should enable the reader to skip topics which deal with familiar matters or which are not a current point of interest and to concentrate on the parts and chapters which seem most important in the light of existing knowledge and needs.
- Whenever possible, basic ideas are presented in visual form.
- Insets into the main text are used frequently, sometimes to carry the discussion of theory and method further, sometimes to give examples. In this way the insets allow a deeper view of the material, but

reading them is not absolutely essential to following and understanding the main text.
- A subject index is provided to enable rapid access to themes of special interest.
- We also provide a glossary of the most important terms in strategic planning.

We very much hope that, despite the complexity of the subject, the book remains understandable and helpful. And in particular, we hope that this information will prove useful in practice.

Part I

Idea of strategic planning

Part I provides a short introduction to strategic planning.

Part I has three chapters. The opening chapter deals with what is meant by strategy and strategic planning and states the purpose of strategic thinking. The second chapter sketches the development of strategic planning and goes on to discuss the place of strategic planning within the overall field of strategic management. The third chapter addresses one of the central methodological problems in strategic planning: the evaluation of strategies.

1 Strategies, strategic planning and success potentials

1.1 Strategies

As the term strategy can refer both to strategic plans and to actually realized strategies, we therefore first need to distinguish between intended strategies and realized strategies. In practice it is rarely possible to realize intended strategies completely, and so the realized strategies normally diverge to a greater or lesser extent from the intended strategies. Additionally, in some cases companies do not have any specified intended strategy: the realized strategy is thus the product of many different decisions taken individually. This case is referred to as an emerged strategy (Mintzberg, 1994, p. 23ff.). **Figure 1.1** displays these different cases.

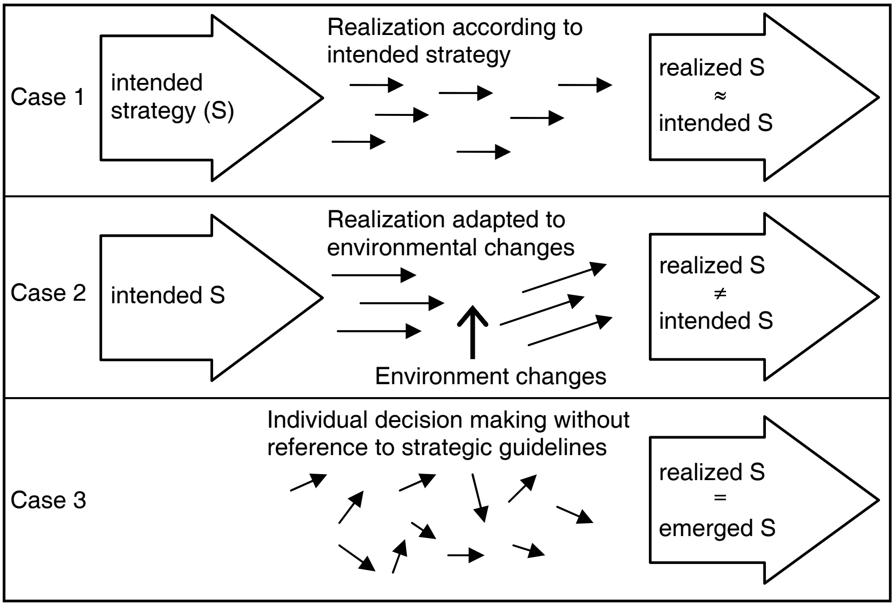

Figure 1.1: Intended and realized strategies
(adapted from Mintzberg, 1994, p. 24)

Where the term strategy is used in this book, it always means intended strategies.

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A (intended) strategy has the following characteristics:

- It presents long-term guidelines.
- It looks at the company as a whole or at important parts of the company.
- It is determined by the management.
- It shows the success potentials which must be built up or maintained.
- It should guarantee the permanent accomplishment of the company's overriding objectives and values.

1.2 Strategic planning

The process by which strategies are produced is called strategic planning. It has six characteristics:

- Strategic planning is a systematic process; strategy formulation through internal power struggles or simply by muddling through is not strategic planning.
- The analysis and the guidelines developed by strategic planning are long-term oriented.
- The planning process looks at the company as a whole or at important parts of the company.
- The process concentrates on determining the future success potentials.
- The management should be strongly involved in the process.
- The objective of the planning process is to contribute to the long-term accomplishment of the company's overriding objectives and values.

Figure 1.2 shows the relationship between strategic planning and strategies.

1.3 Building success potentials as main purpose of strategic planning

The long-term accomplishment of a company's overriding objectives and values is enabled through the construction and careful maintenance of success potentials (Gälweiler, 1987, p. 26ff.).

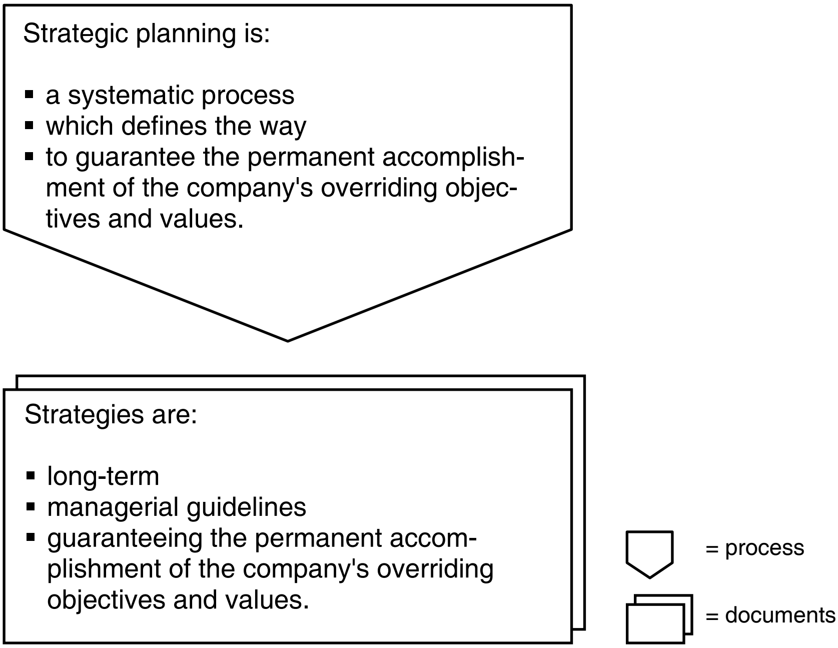

Figure 1.2: Strategic planning and strategies

As Figure 1.3 shows, strategic planning is not primarily concerned with optimizing success during the planning period itself. What the strategic planning process does is focus on the investments which will be required to ensure the preservation of existing success potentials and to build new ones. This guarantees future success both during and beyond the planning period.

There are three types of success potentials:

- Strong positions in attractive markets. Strong positions mean substantial market shares in the served markets or market niches. The attractiveness of markets depends on their size, growth rate and intensity of competition.
- Long-term competitive advantages in market offers. Strong market positions can be gained in different ways. These include better prod-

uct quality, recognizably better customer services, more effective or intensive advertising, long-term price advantages etc.

- Long-term competitive advantages in resources. “Resources” is meant here in a very wide sense: Not only superior technological means, human resources, information systems and financial resources, but also soft factors such as company culture and brand image, as well as complex capabilities such as innovation capabilities, cooperation capabilities, the ability to change and so on.

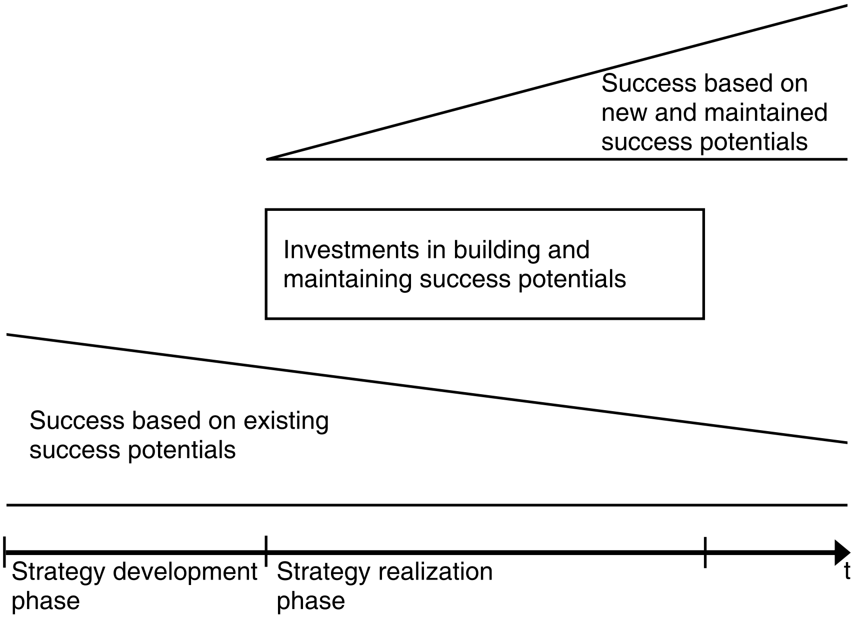

Figure 1.3: Building success potentials as the main purpose of strategic planning

Figure 1.4 shows the model of success potentials. In reference to the terms “resources”, “offers” and “market positions”, the model in Figure 1.4 is also called the ROM-model of success potentials.

As we see, success potentials do not operate independently, but interact with each other. As the model shows, the different categories of success potential can also be fairly clearly attributed to the two categories of strategy: The target market positions are normally defined in the corporate strategy; the competitive advantages necessary to achieve these positions at the level of the market offer and at the level of resources are usually determined in the business strategies.

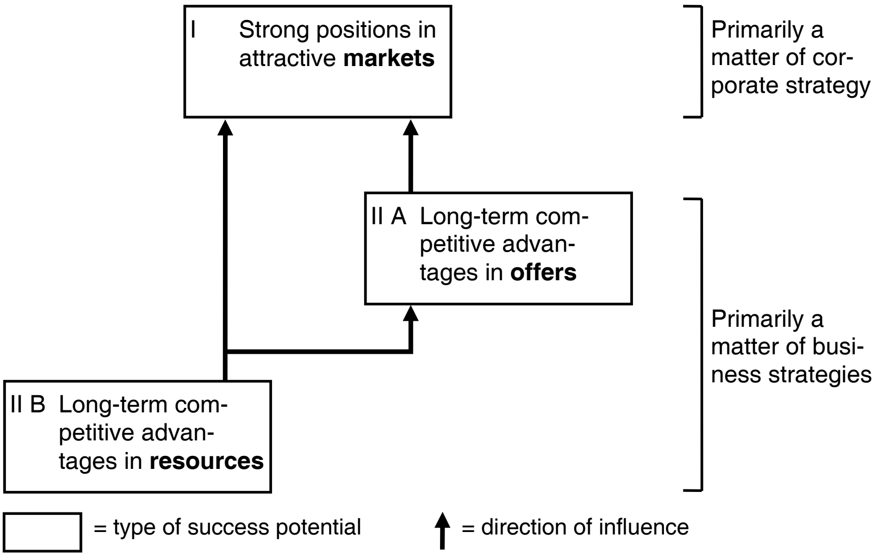

Figure 1.4: ROM-model of success potentials

Inset 1.1 illustrates the interdependencies of the three different types of success potentials in a coffee roasting business.

Inset 1.1: Interdependencies of the different types of success potentials for a coffee producer

Espresso is a well-established Swiss firm which imports and roasts coffee beans. It is a medium-sized family company currently with 80 employees and achieving a turnover of around 40 million dollars. The firm was founded in the post-war period by the father of its present owner. He had been a buyer for coffee and tea in a large food company and had thus gained precise knowledge of the market and was able to build up excellent relationships with coffee and tea suppliers around the world. Within a short time he had built up a flourishing wholesale business with food products, tea and coffee for the Swiss market. Coffee quickly became the main contributor to turnover and produced the strongest contribution margins.

At the beginning of the eighties the firm earned about two thirds of its turnover through retail trade and the rest through direct sales to customers like hotels, restaurants, canteens and hospitals. The success on the retail side, with a relatively strong market share of 10-15%, was attributed principally to the fact that the company had been able to establish its brand with a high degree of recognition and an excellent quality image (= attractive competitive position). This success in building the brand was in turn attributed to creative advertising, blends which met customer requirements and good product quality (= competitive advantages in the market offer). These in turn depended on above average marketing ability and the motivation and creativity of the marketing team as well as the specific talents of the management in buying and product development (= competitive advantages at the level of resources) .

In the middle of the eighties the management decided to review their strategy. There were three main factors which contributed to this decision: (1) The company found itself obliged to pay higher and higher prices for its coffee imports, while its larger competitors could take advantage of their greater bargaining power to obtain favourable terms. The company's buying expertise was thus no longer able to compensate for the competitive disadvantage of the company's small size. (2) The budgets required for advertising and sales promotion needed to maintain the competitive position had now grown so large that the firm was no longer able to fund them. (3) The limited resources for investment in advertising and promotions were already having an effect: The statistics for the last few years had been showing reductions in market share despite continued attractive advertising.

Analysis showed that both the company's lack of bargaining power in comparison with their competitors and also its limited financial resources (= competitive disadvantages at the level of resources) had led to insufficient advertising impact (= competitive disadvantages in the market offer), which in turn adversely affected the market share (= competitive position). Because the owners were unwilling to go public, the competitive disadvantage in resources would remain as a permanent feature of the company's situation. The management therefore took the logical decision to gradually reduce their activity in the retail sector and to use the money saved to extend their activity with the customer group of hotels, restaurants, canteens and hospitals, where the disadvantages in resources would have less impact.