The Planning Function

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Learning Objectives

After completing this chapter, you should be able to:

- Explain how a company's mission and strategic vision statements shape its planning processes.
- Describe how internal and external environments influence a company's plans.
- Analyze and develop sets of goals at the strategic, tactical, and operational levels.
- Implement the three types of plans managers create.
- Allocate the proper amount of resources to carry out a company's plan.

2.1 Introduction

Planning is a systematic process in which managers make decisions about future activities and the key goals that the organization intends to pursue. One primary element of this process, **strategic planning**, focuses on planning for the future of the organization. It is a purposeful effort directed by management within an organization, which, when conducted effectively, draws on the knowledge, skills, and abilities of employees at all levels of the organization. Quality strategic plans integrate all company activities into one coherent course of action (Bedeian, 1986, p. 100). As noted in Chapter 1, the following steps are involved in planning: Examining the company's internal and external environments to discover company strengths and weaknesses and emerging opportunities and threats; determining which goals the organization will pursue; choosing strategies, tactics, and operational plans to achieve company goals; and allocating organizational resources to pursue the company's goals. Each of these activities can help you become a more successful manager.

MANAGEMENT IN PRACTICE

Fox Sports 1: Strategic Planning and On-the-Ground Execution

The world of sports has experienced a multitude of changes, many of them driven by new technologies. In the past century, major league baseball was at one point broadcast only by radio and sometimes even by an announcer reading ticker tape without actually being at the game. Player salaries were minimal and owners dominated the game. The advent of black-and-white television broadcasts changed perceptions of many sports, most notably baseball, basketball, football, and eventually the Olympics. Today, all of those telecasts seem truly arcane.

New broadcasting technologies now allow for regional broadcasts of all major sports, including professional and college games. The availability of videotaped highlights, on-site interviews, and interactions using social media has once again changed the landscape. Along with these innovations came a major influx of money to be made by all concerned: owners, players, and the media.

The Fox media group has made inroads into a variety of television markets, including standard network programming, news broadcasts, and many sports. Fox holds the rights to broadcast Major League Baseball, NFL football, numerous college football and basketball games (including championship games and bowl games in football), NASCAR events, and UFC fight nights, among others. After assessing the opportunities and threats present in the broadcasting environment, executives at Fox sports decided on a strategic plan. Fox Sports co-president Randy Freer, noted, "As a company we haven't been afraid to innovate and take well-calculated risks" (Fox Sports, 2013). Consequently, the organization chose to go head-to-head with industry giant ESPN by launching FOX Sports 1, or FS1, in August 2013.

Previous attempts to make inroads on the ESPN mega-network had failed, most notably when CNN and *Sports Illustrated* magazine created the CNN-SI channel as a joint venture. What made Fox's managers think they could succeed where others had failed? "Building credibility and trust with our audience is paramount, so naturally we'll provide the staples, like news, scores and highlights, but we'll do it in a FOX Sports way," Fox co-president Eric Shanks said. In other words, the co-presidents reached the conclusion that a major opportunity existed, expressed this way on the FOX

(continued)

Sports website: "More people consume and care about sports than ever before," and even calling the demand "voracious" at one point, suggesting a growing marketplace. This opportunity was matched with a major company strength—the extensive sports programming already in place. The expansion strategy became the net result.

Naturally, ESPN will respond to these competitive efforts. Weeks before the FS1 launch, ESPN announced it had signed well-known commentator Keith Olbermann to host a nightly show on one of the company's secondary channels. Industry analysts expect other changes in the network as well. Just as sports teams compete based on opportunities, threats, strengths, and weaknesses, competitors in all for-profit markets continually assess these factors and respond with strategic plans, tactics, and operational efforts. The coming years will reveal whether Fox's venture into this arena will succeed.

Evan Agostini/Invision/AP

▲ The launch of the FS1 channel resulted from identifying an opportunity and drawing on a key network strength that was already in place.

Discussion Questions

1. What environmental factors did FOX Sports executives consider before launching FS1?
2. What internal strengths does FOX Sports hold? What weaknesses?
3. Do you think FS1 will succeed? Why or why not?

The Value of Planning

Are you familiar with this saying? "A failure to plan is a plan to fail." It sounds reasonable, but in today's complex and rapidly changing environment, it might be easy to conclude just the opposite—that planning simply wastes time because things happen so quickly. In reality, this saying serves as a concise reminder that planning remains as important as ever. Successful executives follow the steps and principles of planning, specifically because of environmental volatility. Quality managers know that planning helps company leaders anticipate change, and planning helps managers make changes.

In this chapter, you will discover that the planning process begins with a careful analysis of the company's internal and external environments. As a result, company leaders are able to anticipate change. Through careful forecasting and other environmental scanning programs, the company becomes less likely to be taken by surprise. When other firms fail to spot trends or changes, a company can take advantage by being able to move ahead. For example, Amazon.com was able to forecast a trend in which people would become more and more comfortable with online shopping, and an e-commerce retailing giant was born.

Planning helps company leaders implement change. Step-by-step programs make it possible to avoid missteps and confusion. A well-executed plan may be one of the biggest time savers in business. The steps of planning take place under the banner of the firm's overall statements about its direction and purpose.

The Value of the Planning/Control Cycle

Among the most important elements of planning is its basis for the control system. As managers create and implement goals and standards for individual employees, departments, and the overall organization, they have established the baselines that will be used to evaluate performance at each level. Without a complete planning process that includes setting clear-cut, measurable standards, the function of control (discussed in detail in Chapter 7) is not possible.

At the same time, the control system is what begins the new planning cycle. Information gathered regarding performance from the previous year provides a valuable starting point for the next round of planning. In essence, one function cannot be carried out without the other as the cycle repeats itself over the life of the organization.

The opposite of the planning/control cycle is a situation called "firefighting." Instead of generating a set of quality plans complete with useful goals and standards, managers are forced to react to the crises and emergencies that occurred because no plan was in place. Firefighting wastes time, managerial energy, and company resources.

Mission and Vision Statements

Organizations are created to meet various needs and provide various goods and services. Business organizations are founded with a major guiding principle in mind. A company's **mission statement** expresses a clear and concise reason for the organization's existence. In essence, the mission statement answers the question, "Why are we in business?" Outside of obvious answers, such as "to make money," mission statements define the overall organization (Smith, Arnold, & Bizzell, 1985). You can view the mission statements of several Fortune 500 companies at http://www.missionstatements.com/fortune_500_mission_statements.html.

Accompanying a mission statement will be the organization's **strategic vision statement**, which points toward the organization's future. The statement offers direction about where the organization is heading and what it hopes to become. It articulates the long-term direction of the company. Walmart's vision statement is "We help people save money so they can live better," which replaced its former version, "To be the worldwide leader in retail." These statements help inspire organizational members and provide a worthwhile purpose to work together to achieve the vision. Many times the statements are not financial in nature because such visions might not appeal to everyone in the organization. In the new millennium, many statements of strategic vision have incorporated concepts about globalization and the use of Internet technology to build toward the future.

Mission statements and strategic vision statements form the basis from which all planning begins. As an example, Honest Tea's mission statement is as follows: "Honest Tea seeks to create and promote great-tasting, truly healthy, organic beverages. We strive to grow our business with the same honesty and integrity we use to craft our products, with sustainability and great taste for all." (Copyright © THE COCA-COLA COMPANY. Reprinted by permission.) To help fulfill this mission, the company includes a corporate social responsibility vision statement. These documents drive every aspect of the firm's operations, from the design of the production plant to relationships with all publics, including suppliers of flavors and ingredients, retail outlets, local communities, and governments. Employees at the entry level are made acutely aware of the organization's commitments. For any company, a strategic, tactical, or operational plan that violates these key statements takes the company off course and can create serious complications in the future. In the case of Honest Tea, this would include plans for individual products as well as for each department in the company. To keep the company on course, each plan should align with the concepts of honesty, integrity, and sustainability.

2.2 Assessing the Environment

Would it surprise you to know that some of the earliest ideas about strategic planning came from a Chinese general? Over 2,500 years ago, Sun Tzu wrote *The Art of War.* The book explains how to develop military strategies that lead to victory. Sun Tzu argued that intelligence and cunning are often more effective than violence and destruction. Alliances make it possible for a military leader to expand an empire without losing soldiers and depleting other resources. When in battle, the best approach is to attack the enemy's weak points and take advantage of the strengths of one's own army. In essence, the first environmental analysis was part of a military operation a very long time ago.

Assessing the environment involves two key activities: examining the company's internal operations and analyzing the external environment. The combination of the two factors guides the management team as they seek to create plans with the highest potential to be successful.

Internal Operations

Various levels of analysis can be combined to understand the well-being of a company. Normally, assessment of the internal environment takes place at the strategic, tactical, and operational levels. It is tempting to think that the greatest amount of consideration should be given to the strategic level; however, actions at the lower levels can contribute greatly to a company's success.

Strategic Assessment

Strategic business units are clusters of activities typically held together by a common thread, such as a product type or type of customer served. A *strategic business unit* will be analyzed as a "company within the company." As an example, the 3M Corporation could establish one division devoted to magnetic tape (video and audio) and another to adhesive tape (Scotch tape, duct tape, packing tape). The evaluation of strategic business units will be devoted to understanding whether these portfolios of activities mesh and provide the company with a viable future.

Profit centers are business units treated as distinct from one another in terms of generating revenues and creating expenses so that profitability can be measured. A profit center manager will be responsible for cost controls and creating revenue streams (Clow & Baack, 2010, p. 398). In the Fox media group, one profit center might be television programming, a second would be newspapers, and a third would be radio station revenues.

Strategic analysis involves assessing how all operating divisions, profit centers, subsidiary companies, and other major elements are working together. Managers consider the group of activities to see how each performs individually and how it contributes to the organization's overall well-being. One division may not make a great deal of profit, but it may still contribute by providing low-cost supplies or services to the other divisions (Thompson, Strickland, & Gamble, 2008).

Tactical/Functional Assessments

The second level of analysis focuses on the various departments or functions within the company. Tactical assessments help the management team identify more concrete areas where companies have strengths and weaknesses. As a simple example, the Aflac duck advertising campaign has created strong brand recognition in the company's marketing program and constitutes a key strength. Southwest Airlines' website is easy to navigate and makes purchasing tickets less complicated. The FedEx tracking system for packages creates consumer confidence in the company.

Tactical functional assessments involve asking the right questions about all of the firm's operations, including the factors described in Table 2.1.

Table 2.1 Tactical/functional analyses

Function	Examples of factors to analyze
Production	Costs, on-time delivery rates, consumer views of quality
Quality Control	Rates of defects/returns
Marketing	Market share, brand loyalty or power
Sales	By total volume, product lines, individual products
Accounting	Errors noted by auditors
Finance	Cost of capital, liquidity, leverage (debt ratio)
Information Technology	Quality of website, online ordering systems, support of internal operations
Research and Development	Number of innovations adopted
Human Resources	Rates of absenteeism, tardiness, turnover

A tactical analysis is similar to a strategic analysis in the sense that each of these functions are assessed individually and also in terms of how well they contribute to company success. As noted in Chapter 1, line managers often have different responsibilities and pursue different objectives than do staff managers. Time frames must also be considered. A research and development team may take several years to finalize an innovation. Absenteeism, tardiness, and turnover rates are normally examined annually. Company sales can be studied in shorter time frames, especially under circumstances such as a major season (Christmas, summer vacation) versus off-season.

Operational-Level Assessments

Front-line supervisors contribute information to the planning process by providing additional details. Each of the functions assessed at the tactical level can be studied in greater deal at the operational level. The goal of internal assessments in general is to provide as complete a picture as possible for managers to commence with planning decisions. For example, if servers in a restaurant encounter ongoing complaints about a specific item on the menu, the information can be transmitted to a supervisor who would in turn report the problem to managers at higher ranks. Julia Stewart, who was CEO of IHOP (International House of Pancakes) when the company acquired Applebee's, noted that she relied heavily on feedback from first-line employees in assessing products and serving methods (Mero, 2007).

The External Environment

Any number of factors, events, trends, and crises that occur outside of a company can have a powerful impact on what takes place inside that same company. To fully understand the organization's current situation, top-level managers are expected to know what is happening in the world. The **external environment** consists of the total set of forces that influence a company but are not within its boundaries. A standard analysis of the external environment consists of two major components:

1. Semicontrollable forces influence a firm, but the company can influence them in return.
2. Noncontrollable forces influence the firm, and the company cannot influence them in return.

Semicontrollable Forces

Managers at the strategic, tactical, and operational levels interact with members of other organizations and other entities such as governments and special interest groups. These individuals and groups influence the company's success. Part of the planning process involves examining these relationships to discover any problems or opportunities. Semicontrollable forces include

- customers
- suppliers
- financial institutions
- unions
- the local community
- shareholders

A company's customers can take many forms. For a major manufacturer, one potential set of primary customers is either wholesale or retail middlemen. The manufacturer does not sell directly to individual consumers, but rather to other companies. A company finds a second type of customer when it sells products, component parts, or supplies to other companies. For example, Holiday Inn caters to individual travelers, but also to companies and industries hosting conventions as well as employees who travel regularly for their company. These types of customers are called *B2B*, *b-to-b*, or *business-to-business customers*. For retailers, customers are the consumers who visit the store.

Customers clearly influence a company's operations. If a local restaurant serves items that cause food poisoning and many customers become ill, that restaurant may not survive. If Walmart's management team decides to take a product off its shelves, the company that provided the product may have a big problem. Consequently, managers know that customers are influenced through the four *P*'s of marketing: products, prices, place (distribution), and promotion.

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▲ The explosion of Internet shopping has drastically changed the nature of distribution or placing systems in many industries.

Influencing customers involves creating desired products at acceptable prices with distribution systems that make it easy to buy items and promotional programs that attract and keep people coming back. The recent explosion of Internet shopping has drastically changed the nature of distribution or placing systems in many industries, such as travel and hospitality, and new websites continue to emerge.

Suppliers provide the raw materials and support services necessary to keep a company functioning. If a supplier raises prices or provides low-quality materials, the company has been affected. To influence suppliers, company leaders rely on bargaining processes. The negotiations routinely cover prices, levels of quality, delivery times, and sometimes inventory control and financing services. For example, a buyer in a furniture company that requires quality fabric to cover chairs and sofas would probably threaten to change suppliers if suddenly the materials began routinely

tearing during the production process. The same buyer might also look for other options if a fabric supplier suddenly and dramatically raised its prices.

Financial institutions influence a company by either lending or refusing to lend money. Credit terms including interest rates, collateral, and repayment programs influence how a firm's financial team operates. To positively influence financial institutions that might lend them money, company leaders maintain quality records to make it clear the firm is a good credit risk. Following the 2008 recession, many businesses found it difficult to obtain funding for expansion or other projects.

Unions influence a company's bottom line. Arrangements between unions and companies range from cooperative to combatant. Managers are able to influence unions in various ways, including how employees are treated in terms of hiring, firing, layoffs, discipline, pay, and benefits. Management also influences unions through concessions and demands at the bargaining table.

The local community can grant either favorable or unfavorable treatment to an organization. Local governments can create business tax incentives but also can instruct local law enforcement to keep a careful eye on a company. Local citizens can respond positively to a company, leading members to seek employment in the organization or spread negative word-of-mouth comments about the firm. To influence the local community, managers engage in positive public relations activities. Any bad publicity, such as when a video of an employee tampering with food in a Domino's Pizza restaurant went viral (Maniac World, 2013), should immediately be met with a response from the company, to avoid long-term damage to the firm's image. Also, human resources departments work hard to make sure citizens perceive the company as a fair and compassionate employer.

Shareholders influence an organization through voting and by purchasing or not buying stock. At the extreme, shareholders can overthrow a board of directors and elect new members. Although a CEO replacement by shareholders is a rare event, instances of pressure on CEOs are more common, such as when a group placed pressure on Chevron to terminate the services of CEO John Watson (Rapoza, 2013). Top managers try to keep shareholders happy by maintaining favorable dividend payments and by releasing documents such as annual reports to demonstrate that the company is in good hands (Trewatha, Newport, & Johnson, 1997).

Noncontrollable Forces

Another set of factors demands the management team's attention. Noncontrollable forces shape the planning process by presenting opportunities and posing threats. The traditional list of noncontrollable forces includes the following:

- political and legal forces
- social trends
- economic conditions
- technological changes
- competitive forces

Political and legal forces can profoundly affect business activity. Governments have various goals and agendas, many of which can make a company's business environment more favorable or create tremendous obstacles. Table 2.2 displays seven ways in which governments influence business.

Table 2.2 Seven ways in which governments influence business

Laws, regulations, and regulatory agencies	Affordable Health Care Act Occupational Safety and Hazards Act Environmental Protection Agency (and Act) Family and Medical Leave Act Civil Rights Act Sarbanes–Oxley Act
Courts and court decisions	Liability lawsuits Size of judgments and awards Employment discrimination cases
Taxation and tax policies	Tax rates on individuals Tax rates for corporations Tax loophole
Subsidies and loans	Student loans Loans to businesses and industries Subsidies for farmers Subsidies for oil companies
Government competition with private enterprise	U.S. Postal Service (versus FedEx, UPS) National Park Service campgrounds (versus private camping sites)
Government intrusion into the economy	Activities of the Federal Reserve Board Deficit/Surplus spending
Protection of private and intellectual property	Private ownership Patents and copyrights

Social trends constantly change. Managers are expected to monitor and adjust to various social circumstances, such as recently emerging viewpoints about same-sex marriages. Some individuals may still have powerful feelings about such a major social change. Here are some social trends that currently have an impact on business:

- Rising levels of education but greater educational disparity in the population
- Changing expectations related to gender roles
- Family size and composition
- Population locations and movements of populations (rural to urban; Northwest United States to the South)
- Aging of the population
- Spending/saving rates

Each of these factors can influence a business in subtle or dramatic ways. For example, rising savings rates during recessions can influence discretionary spending. Smaller family sizes have changed food packaging; food companies now offer smaller units and even single-serving packages, especially because more households consist of only one person who is divorced or widowed, or two people living together. The aging population creates opportunities for businesses that

provide care for the elderly and other similar services. Leaders consider the impact of social trends on their company's specific products, services, and managerial style.

Whether boom or bust, economic conditions shape purchasing habits, the costs of raw materials, and company activities. A firm responding to a recession is likely to cut back on payroll, traveling expenses, and inventories. A company will react to a growing economy by offering new products, adding personnel, and expanding other activities.

Technological changes have affected the business landscape in major ways over the past several decades. In essence, technology has restructured the entire conduct of business. Technology affects planning for the following reasons:

- It leads to new products.
- It creates product improvements.
- It improves production methods.
- It changes how jobs are performed.

New technologies have dramatically affected jobs at the lowest level of a company. For example, an employee working as office assistant now needs to know how to use the Internet, a GPS device, and an iPad to conduct daily business. At the extreme, technology has shaped new industries, including e-commerce and biomedical research and products.

Competitive forces are among the most powerful noncontrollable influences. Company leaders monitor competition at three levels: product versus product (Ford Focus versus Toyota Corolla), company versus company (Ford versus Toyota), and industry versus industry (automobile versus high-speed rail). Companies compete for customers, suppliers, key employees, financial resources, and physical resources. Effective planning calls for responding to moves made by the competition (Bedeian, 1986, pp. 156–178). It also includes evaluating the industry environment. Table 2.3 identifies the **five forces approach** to industry evaluation, as developed by Michael Porter (1990).

Table 2.3 Porter's five forces

Force	Description
Threat of new entrants	Assesses the possibility of new competitors entering the marketplace and considers barriers to entry that might prevent new entrants, such as governmental restrictions; patent or intellectual property protection; capital requirements; brand strength of current competitors; the lack of distribution channels for new competitors
Threat of substitutes	Assesses the potential for substitute products to change the industry (e.g., digital vs. traditional photography)
Presence of suppliers	Assesses relationships with suppliers and current competitors
Customer strength	Identifies industries in which customers hold the most market power and can affect competitors
Competitive rivalries	Identifies how strongly companies compete with one another; this forces increases with larger numbers of competitors, slow industry growth, unused industry capacity, increased product similarity, high barriers to exit

Source: Based on Porter, M. (1990). *Competitive advantage*. New York: The Free Press.

The threat of new entrants applies to some industries far more than others. Technological industries such as mobile phones, readers, laptop computers, and other electronic devices have experienced several new entrants, and more can be expected. Therefore, the threat of competitive rivalry rises. Conversely, well-established industries such as professional sports and hotel chains do not experience new competitors, thereby reducing competitive rivalries.

Threats of substitutes are often most noticeable in difficult economic times. Buying patterns shift when consumers try to save money. Substitutes also become an issue when a new and improved version of a product is developed, such as digital photography. Recently, the entry of Netflix into television product has threatened traditional producers of programming such as CBS, NBC, ABC, Fox, and even HBO. This event would, in turn, change the nature of those competitive rivalries.

Rarely would the presence of suppliers become an issue in a developed country. Conversely, in newly emerging economies, suppliers may find it to their advantage to enter such markets. Doing so would increase competitive rivalries in companies in those nations.

Customer strength has begun to affect banks and other financial institutions. As consumers are able to show for an increasing number of ways to save or store their money and pay their bills, banks find competitive rivalries within the industry on the rise. The same holds true for mortgages, certain forms of insurance, and other financial services. Competitive rivalry strength is the result of the other four forces combined. Porter believes industry understanding represents the key to developing quality strategies based on the most pertinent environment: competition.

Forecasting

To further assist managers in the process of planning, various forecasts are prepared. These create additional insights into the company's current circumstances and provide direction regarding plans to pursue. Managers examine three types of forecasts as part of the planning process: economic forecasts, sales forecasts, and technological forecasts. Each report provides valuable planning information.

Economic Forecasts

Economic conditions influence a company's plans in direct ways. Recession-sensitive companies experience sales that follow economic conditions. Housing, airline travel, and automobile companies are recession sensitive. Other firms experience the phenomenon in reverse. Home gardening equipment, auto parts stores, and lower-end fast-food restaurants often enjoy rising sales in bad economies. Figure 2.1 models an economic business cycle, which typically lasts from three to seven years.

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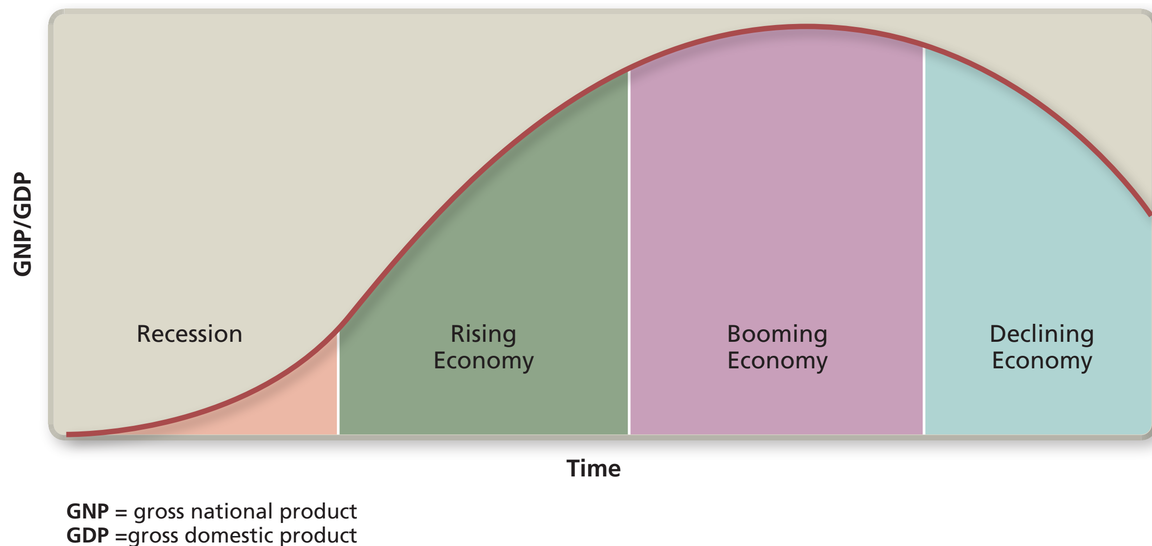
▲ Low-cost fast-food outlets often experience an increase in sales during periods of recession. This is an example of economic conditions influencing a company's plans.

Figure 2.1 The economic cycle

A typical economic cycle lasts between three and seven years as the economy moves through the stages of recession, rising, booming, and declining conditions.



GNP = gross national product
GDP =gross domestic product

If management believes that economic conditions will decline, some activities such as the following will change:

- orders of raw materials
- inventory levels
- sales force expenditures, including travel and entertainment
- size of the work force
- company lending and borrowing
- advertising expenditures
- creating or delaying the development and release of new products

In a recession, many companies will cut back on orders for raw materials, reduce inventories, limit sales force travel, limit advertising expenditures, maintain or decrease the size of the work force, and delay the release of new products. When an economy approaches its peak, the opposite occurs: inventories expand, purchases of raw materials rise in response, the sales force pushes hard to find new customers, the work force grows, advertising expenditures may increase, and new products can be offered.

Remember, however, that management reactions to economic conditions depend on the nature of the company and industry. Those companies that are *recession sensitive* encounter sales that mirror what happens in the economy. Among the most recession-sensitive industries are construction, airline travel, and automobile sales. Sales are highest during peak economic conditions and lowest during recessions. *Reverse-recession sensitive* companies and industries encounter the opposite circumstances. Falling economic conditions lead to increased sales as consumers and companies cut back. For example, home gardening equipment and automobile parts stores and repair shops tend to enjoy higher sales during recessions. Lower-cost fast-food outlets often experience an increase in sales during poor economic times, because people are looking for ways to cut expenses and reduce spending. *Recession-proof* industries and companies experience sales not

connected to economic conditions. Many necessities, such as toothpaste, toilet paper, and hand soap do not see sales affected by economic circumstances. Any item consumers need regardless of economic conditions may be considered recession proof.

Sales Forecasts

Accurately projecting anticipated revenues constitutes a key component of effective planning. Sales forecasts can be based on numbers (quantitative) and management opinion (qualitative). Both are designed to make sure individual departments and activities will have sufficient funding to conduct operations without being wasteful. The sales forecast shapes the company's budget, one of the primary short-term plans. Table 2.4 introduces a series of methods used to forecast annual sales. Most of these methods are used to predict annual sales for the coming years. The others predict sales of new products that may or will be introduced to the marketplace.

Table 2.4 Types of sales forecasts

Based on opinions	
Survey of buyer intentions	Discover whether consumers are interested in or would purchase a new product.
Executive survey	Company executives estimate next year's sales.
Consultant survey	Consultants (experts) estimate next year's sales.
Sales force survey	Sales force members collectively estimate next year's sales.
Based on present sales	
Test market	Test impact of price change on sales.
	Test impact of advertising on sales.
	Test impact of new product on total sales.
Based on past sales	
Time series sales forecast	Predicts future sales based on past sales
Statistical demand analysis	Predicts future sales based on some other factor than past sales (e.g., change in impact of interest rate on housing sales)

Technological Forecasts

Technological forecasts are designed to predict changes and trends that affect a firm's long-term operations. By effectively predicting that the mobile phone technology would reach nearly everyone in the United States, some companies were able to aggressively move into markets selling phones and connecting services. Those who predicted that mobile technologies would move into apps and Internet access gained a major advantage in their process planning.

Two common technological forecasting methods include the Delphi technique and normative technological forecasts. The **Delphi technique** consists of a panel of experts who are placed in separate locations and do not know the identities of their compatriots. The panel coordinator poses a question to each expert, such as, "When will it become economically feasible to replace internal combustion engines with some other form of power?" Each panel member responds in writing, and the coordinator collects all the answers. Next, each panel member receives the entire set of responses and has the opportunity to reconsider his or her initial response. A second iteration of answers is then circulated among members. The system continues until the group

reaches a basic consensus. Anonymity is maintained so that members are not swayed by another person's image or reputation, but rather by the quality of his or her arguments.

The Delphi technique seeks to understand what kinds of technological breakthroughs will occur and when they will occur. In the case of internal combustion engines, some may argue that better batteries will lead to cars not powered by gas and that such an innovation will take place in about 20 years.

Conversely, **normative technological forecasting** places values on outcomes. Rather than discussing when something will happen, the panel looks for answers as to when something should happen, such as the cure for a major disease. The difference in focus of this type of forecasting is exemplified by an individual pharmaceutical company that seeks to maintain secret and proprietary intellectual property and thus develops a medicine so that the company can make a profit based on the discovery. If, instead, the goal were simply to cure the disease and all parties were willing to cooperate and share information and discoveries, a medicine might be discovered much more quickly. Most often, the Delphi technique has greater value in the business community, whereas normative technological forecasts may be useful to governmental officials and social observers.

Technological forecasting cannot be as precise as other methods; however, its value should not be underestimated. Managers looking at the long-term, strategic time horizon will consider when an industry or business might be changed by a technological breakthrough, so that the company can respond effectively.

SWOT Analysis

As noted earlier, the combination of internal and external environmental forces, assisted by quality forecasting techniques, creates what is known as SWOT analysis (SWOT stands for strengths, weaknesses, opportunities, and threats). Examples of company strengths include well-respected brands, a highly skilled work force, and financial stability. Weaknesses may come from the lack of reliable suppliers or a key product nearing the end of its life cycle. Opportunities emerge from underserved markets; newly developed technologies that could lead to additional products or product improvements; or social trends, such as new forms of distance learning. Threats result from declining markets, bad economies, technologies that replace a firm's technology, or competitive actions.

Figure 2.2 SWOT analysis

Consider the four possibilities presented in Figure 2.2. In the first situation (box 1), an opportunity has presented itself in an area where the company is strong. This will likely lead to a plan designed to take advantage of the situation. The Fox media group's

management team believed it located such a circumstance with the launch of FOX Sports 1, as noted earlier in this chapter.

In box 2, an opportunity exists in an area where the company is weak. Managers in that circumstance will decide whether the plan should be committing resources to strengthen the company and pursue the opportunity, or letting some other firm that is better suited to the situation move forward. For example, when Amazon.com first released the Kindle, it was clear that personal reading devices offered a major opportunity. Some companies responded with competitive products while others decided to stay out of the market.

In the third circumstance (box 3), a threat exists where the company is strong. Managers monitor this situation and take action as needed. Video rental companies such as Blockbuster found themselves in this situation in the past decade. Blockbuster responded by moving into video rentals in conjunction with other providers, such as DirecTV.

In box 4, a threat exists in an area where the company is weak. Failure to respond may lead to the company's downfall (Gomez-Mejia, Balkin, & Cardy, 2005, pp. 280–282), as was the case when Borders bookstores failed to adapt to changing circumstances in the retail book-selling industry in 2011.

Analysis of its internal and external environment is a critical part of any company's planning processes. Without an evaluation of semicontrollable and noncontrollable forces, combined with a SWOT analysis and various forecasts, managers are more likely to be "shooting in the dark" as they make plans. When the company has sufficient information about these factors and remains true to its mission and vision, quality planning goals can then be established.

MANAGEMENT IN PRACTICE

Portfolio Analysis

In some instances, a SWOT analysis is not sufficient to analyze the operations of an entire business as a single entity. In the examples in the previous section, opportunities, threats, strengths, and weaknesses are assessed for the total company.

An alternative approach may be used in circumstances under which a company operates in differing environments. For example, the Canon company operates in four different areas: copiers, printers, cameras, and optical equipment. Each operation faces unique environmental circumstances. Even though some overlap exists between the technologies involved and some customers, other factors make the areas unique.

A portfolio analysis offers a systematic method for analyzing a set of products and services. The analysis leads to recommendations regarding which items should be emphasized and which should be phased out. Others may be maintained, thereby "harvesting" profits without substantial new investments.

The key to a portfolio analysis is to identify (1) lines of businesses, (2) groups of business lines, (3) the relation of each line to the organization's mission statement, and (4) the overall fit with other lines and the organization's primary business. The most vital set of questions assesses the fourth point, the fit (The Forbes Group, 2013). Those business areas that distract from the organization's primary purpose become the main candidates for termination.

(continued)

> As you consider methods of analyzing a business operation, first consider the scope of the business. Is it a single product/service company? Does the business offer several similar lines of products, such as Campbell's soups, V8 juice, and vegetable drinks? Or, is the organization a conglomerate of diverse products, services, and activities? If so, it may be necessary to move from a SWOT analysis to a portfolio analysis. Can you think of companies in each category (single business versus conglomerate)?

2.3 Determining Organizational Goals

Company leaders establish at least three levels of goals and objectives: strategic goals, tactical goals, and operational goals. Strategic planning involves charting the direction of the organization in regards to its long-term goals, objectives, and strategies. In most organizations, senior-level managers are responsible for development and execution of the strategic plan. Strategic goals are major end results that relate to the long-term growth and survival of the organization. These goals are the long-term, sweeping targets a company seeks to pursue, including the following (Drucker, 1972):

- market share
- innovation
- productivity
- profitability
- physical and financial resources
- manager performance and development
- employee performance and attitudes
- social responsibility

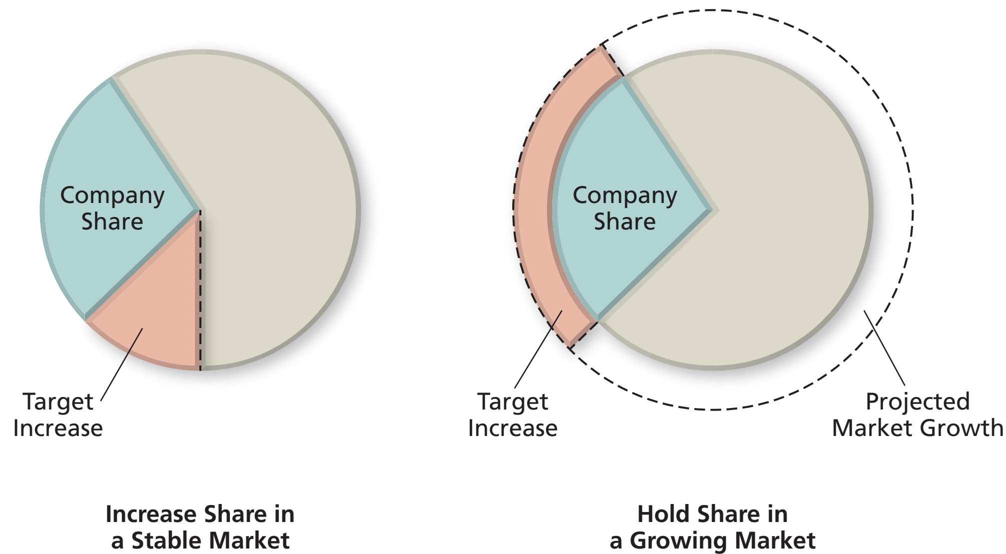
Market share represents the company's share of total industry sales. As an example, consider Red Bull. In 2001 the company held a 70% share of the energy drink market. Over time, products such as the 5-hour ENERGY drink might reduce this share, forcing company leaders to respond. In general, managers set market share goals in two areas: expanding the company's share to increase sales, which involves taking customers away from other firms, or holding shares in a growing market, which results in increased sales (see Figure 2.3).

Innovation includes any kind of creative solution. Innovation goes beyond research and development of new products or product improvements. It also includes new methods of delivery, new ways to contact customers, better accounting systems, an updated website, and other changes. Innovative companies stay ahead of the curve and keep competitors off guard and catching up. GEICO Insurance has taken advantage of an innovative marketing program featuring a variety of entertaining commercials, each with the same tagline—"15 minutes can save you 15% on car insurance," —that allows it to build its customer base.

Productivity means output per worker. Companies that succeed in this area do so by finding ways to help workers accomplish more in the same amount of time by working smarter, not harder. One way to maintain a competitive edge is to find ways to increase revenues without increasing employees.

Profitability may be the strategic goal everyone thinks a company should seek to achieve first. Unfortunately, seeking profits above all other things often makes a company shortsighted and

Figure 2.3 Market share goals



willing to cut corners. Profits should result from improvements in efficiency and effectiveness. Profits are needed to maintain a company in the long run. They cannot be ignored, nor should they be overemphasized in the short term.

Physical and financial resources include the company's plant and equipment, delivery fleet, computer systems, and other tangible physical assets. Financial resources are needed to purchase and maintain the best possible equipment.

Manager performance and development reflect how well a company recruits, rewards, trains, promotes, and retains quality managers. A company needs a line of succession to ensure its success over time.

Employee performance and attitudes indicate how well the company has done in the same basic areas: recruiting, rewarding, training, and retaining employees. A company culture in which workers feel empowered bodes well for present and future circumstances.

Social responsibility indicates the type of global citizen a company wishes to become. Socially responsible companies eliminate negative activities, including discrimination, pollution, tax evasion, and other legal and ethical violations. Socially responsible companies also become involved in positive activities, such as training the unemployed, giving to charities, and participating in community-building activities. As an example, Honest Tea works diligently to support smaller farms in economically depressed areas by purchasing ingredients and specific flavors

ALI BURAFI/Associated Press

▲ TOMS is an example of a socially responsible organization. For every pair of shoes sold, the company donates a pair to a child in need.

for its line of bottled teas. Socially responsible companies are less likely to invite legal scrutiny and are more likely to receive a fairer hearing should an action be called into question. Some may argue that unethical activities can enhance profits in the short term; however, firms that do so are not likely to survive for long.

Tactical Goals

Strategic goals are subdivided into tactical goals, which have a more immediate impact. Tactical goals are set in the following functional areas:

- production
- quality control
- marketing
- sales
- accounting
- finance
- information technology
- research and development
- human resources

Creating tactical goals requires coordination of the deliberations of middle-level and functional-level managers. Marketing and sales will need to cooperate with information technology when building a website. Human resources can find successful job candidates only when the other departments spell out the types of people and skills needed. Accounting departments need to know how to value assets on their books to best facilitate overall company financial success. Frequently it takes the direction of the top management team working with middle managers to establish quality, functional-level tactical goals. The top management team makes sure that tactical goals mesh with strategic goals. Additional information regarding tactical goals is provided in Chapter 7, as it pertains to a control system.

Operational Goals

Operational goals are the performance targets for everyday activities, such as sales and production quotas, completing daily reports and paperwork, and processing the flow of raw materials into the company and the finished goods to customers. Operational goals often are the basis for performance appraisals of individual employees and their supervisors. Individual sales quotas may be established for members of the sales force. Production targets may be set for individual line workers as well as for their supervisors.

2.4 Developing Quality Plans

The development of goals at the three basic levels leads to the creation of plans to achieve those outcomes. A strategy is a cluster of decisions about what goals to pursue, what actions to take, and how to use resources to achieve the goals. Tactics are the plans that support strategies in the functional areas. Operational plans direct daily activities in individual units. A fully developed and coordinated planning process specifies plans in each of these areas.

Strategic Plans and the Strategic Management Process

The executive management team holds the responsibility for maintaining the company's vision and mission. To do so, efforts at all levels of management are coordinated into a unified course of action. This process is called **strategic management**. Table 2.5 displays the steps involved in the strategic management process.

Table 2.5 Steps of strategic management

Step	Activity
Analysis and Diagnosis The Company The Environment The SWOT	Identify strengths and weaknesses. Identify opportunities and threats. Analyze combined strengths, weaknesses, opportunities, threats.
Strategy Generation	Create a list of strategic options.
Strategy Evaluation and Choice	Select one or more strategies.
Strategy Implementation	Put strategies into action at all levels.
Strategic Control	Evaluate strategic effectiveness.

Regarding strategic options, we next examine three categories of strategies: those based on core competencies, generic strategies, and more specific strategies.

Core Competencies

A **core competence** represents the most proficiently performed internal activity that is central to the firm's strategy and competitiveness. Core competencies are based in knowledge and people, not capital and assets. In this approach to strategic planning, the goal becomes to develop a **distinctive competence**, which is something a company performs at a better level than all its competitors. For example, Crest toothpaste has devoted considerable effort to being known as the "cavity fighter" as its distinctive competence. German auto manufacturer Mercedes Benz focuses on engineering as its core competence. Discovering core and distinctive competencies is also known as the *resource-based approach* to strategic planning (Wernerfelt, 1984).

Generic Competitive Strategies

The second perspective regarding strategic planning is choosing one of the generic competitive strategies (Porter, 1980). Generic strategies provide overall guidelines for the entire organization. These strategies include the following:

- *Low-cost provider strategy*: Seeking to achieve the lowest overall costs as compared to competitors, and therefore being able to compete with price
- *Broad differentiation strategy*: Seeking to make the organization's products unique when compared to competitors, therefore being able to compete based on those differences
- *Best-cost provider strategy*: Giving customers the most value for their money; combines some uniqueness with lower costs and lower prices
- *Focused market niche based on cost*: Concentrating on a market segment and outcompeting rivals based on price
- *Focused market niche based on differentiation*: Concentrating on a market segment and outcompeting rivals based on some form of differentiation

Differentiation means different and better. It allows company leaders to charge a higher price and to market products based on characteristics like quality or exclusivity. Examples of differentiation in retailing would be Saks Fifth Avenue or Macy's. Low-cost approaches seek to attract a wider number of customers more interested in price than in frills such as displays or brand names. Walmart and Southwest Airlines feature the low-cost approach. The hybrid of these methods is the best-cost provider method, used by numerous companies seeking to be both distinctive and price competitive. Focused market niche strategies identify certain groups and concentrate on cost or differentiation. Centrum vitamin products target seniors with differentiated characteristics (e.g., Centrum Silver for senior men). MasterCuts targets adults who want low-cost hair care rather than high-end cuts.

Specific Strategies

As the executive team manages the organization's portfolio of activities, various strategic options emerge. These may be divided into four categories, as shown in Table 2.6.

Table 2.6 Types of strategies

Rapid growth	Sole growth	Stability	Decline
Merger/Acquisition/Takeover Vertical integration Horizontal integration Joint venture Globalization	Incremental growth Efficiency	Customers Suppliers Refinance company debt Repurchase stock Retire debt	Divestment Liquidation Retrenchment

Rapid Growth Strategies

Rapid growth strategies may be used when the top management team has identified an opportunity. Mergers, acquisitions, and takeovers of other companies are designed to build company strength by combining with another organization. Recently, Esurance merged with Allstate in order to widen the customer base for both companies as well as expand methods for individuals to purchase car insurance, ranging from typical visits to an insurance agent to being able to buy insurance online.

Fuse/Thinkstock

▲ Mergers and acquisitions are designed to build company strength by combining one organization with another.

Vertical integration involves taking over a new aspect of the marketing area, for example, when a manufacturer either sets up its own distribution systems or opens its own retail outlets, as in the case of Braum's Ice Cream stores. A fully vertically integrated company is one with its own suppliers, distribution centers, and retail outlets. McDonald's is nearly fully vertically integrated because the company owns farming operations in the United States to produce beef and potatoes. Horizontal integration strategies are designed to widen relationships with distributors with the goal of increasing market share and/or controlling the channel of distribution.

Another form of rapid growth takes place through cooperative agreements between firms to mutually market products or to create joint venture arrangements, such as Old Spice combining with Head and Shoulders shampoo and Tide detergents combining with Downy fabric softeners to create co-branded products. Joint ventures differ from mergers in that the companies involved remain separate entities.

Globalization also can create rapid growth. The Ford Motor Company has grown over the years through expansion into numerous countries around the world. The same holds true for Sony, Yum! Brands, and many other international companies.

Slow Growth Strategies

Slow growth strategies are best when a company's environment and internal circumstances indicate that its rapid growth is not feasible. Incremental growth involves the firm seeking either to add more customers in existing markets or to gradually expand into new markets. Efficiency strategies seek to build profits by eliminating waste or finding new ways to do things that take less time or use fewer resources.

Stability Strategies

When companies operate in mature, highly competitive markets, top management may decide on a stability strategy that maintains the status quo. Long-term contracts with suppliers or retail outlets are used to ensure the continuing relationships between various companies. A company may also work to build strong relationships with customers and use contracts to ensure stability with retail outlets and wholesalers. Stability strategies also include refinancing company debt to take advantage of favorable interest rates, repurchasing stock to ensure ownership without the possibility of hostile takeovers, and retiring debt to open credit lines for the future.

Decline Strategies

An executive management team will employ decline strategies when it determines that a hostile environment or dire circumstances within the company dictate dramatic change. Types of decline strategies include divestment, liquidation, retrenchment or turnaround programs, and downsizing.

A divestment involves selling part of the company, thereby yielding cash. The purchasing company views the part that is sold as an opportunity to expand or to turn around a failing enterprise. Liquidation means that the company stops an operation and sells off the component parts. Many times a company's management team will use liquidation when it is unable to complete a divestment deal. Company leaders may decide it is best to close the plant, sell the building, equipment, delivery trucks, and other assets, and simply move on. Retrenchment or turnaround programs have one common denominator: the objective of becoming smaller but stronger. This can be accomplished by the following strategies:

- reducing outlets
- reducing the number of products and services
- eliminating entire markets
- eliminating employees

The hamburger chain White Castle provides one example. The company retrenched in the 1960s after McDonald's had made major inroads. Kmart closed numerous stores in order to survive and rebuild. In 2008, Starbucks adopted the same strategy. By concentrating efforts on the most profitable units and cutting those that are not doing well, a firm can prepare for growth at some point

in the future. Possibly one of the most famous examples of retrenchment by reducing products occurred when Chrysler cut nearly 500 products from its lines as part of a major reorganization in the 1980s. The goal was to sell only items that the company had expertise with as well as some type of technological or market advantage. Downsizing involves the elimination of employees. The impact on morale will be negative. At the same time, it may be the only available option for a company (Hoskisson, 1994).

Tactical Plans

Tactical plans support strategies. In essence, each department or function will be assigned the task of outlining activities in its individual area. For example, in the area of marketing, tactical plans would involve decisions about advertising; selling techniques including promotions, packaging, and labeling changes; pricing and discounts; and other marketing activities such as sponsorships and cooperative agreements with other companies.

Gillette has been a dominant provider of shaving products for many decades. The tactics Gillette employs to maintain the company's position include making product changes and moving from a single-edge blade to two, then three, then four, and finally five blades in a razor. Gillette products and advertisements have changed with the times, including a much greater focus on women as consumers. Coupons are used to discount razors. Free samples are often provided to college students in dormitories to encourage them to try the blades.

Similar efforts are made in all of the other functional areas. Most recently, many organizations have established a presence on Facebook and Twitter to support other efforts to sell products. Most tactical plans have time horizons of three years or less.

Operational and Short-Term Plans

Operational plans direct daily activities. They include items such as preparing work schedules, ordering inventory, and routinely updating a website. Operational plans help ensure that front-line supervisors and company employees are clear about their everyday responsibilities.

Special Short-Term Plans

Two types of plans are developed for specific company circumstances: projects and programs. A **project** is a plan for a single-time activity. When the activity is complete, the plan will be discarded. For this reason, projects are also known as single-use plans. Examples of projects include a plan to redesign the interior of a retail store; a plan to build and pave a parking lot for customers; or a plan for a special occasion, such as a company's 50th anniversary.

A **program** consists of a set of projects that change a company's direction. Adding an e-commerce component to a brick-and-mortar retail store is a program. The projects for that program would include choosing the right equipment, building a website, establishing shipping methods, and other activities. Another program involves introducing a new product. Projects include the product's design, creating packaging and labeling, test marketing the product, and creating a rollout.

Projects and programs should be coordinated with all other types of plans. Company managers make sure that they maintain the strategic direction of the company and do not interfere with tactical or operational plans.

Contingency Plans

At all three levels of planning, things can go wrong or not work out. Contingency plans are designed for the “what-if” circumstances that routinely appear in an unstable environment (Gomez-Mejia, Balkin, & Cardy, 2005, pp. 204–205). In recent years, oil prices have risen and fallen dramatically in relatively short periods. Companies that have energy-saving contingency plans are better able to adapt to rising energy prices. Before any major election, tax policies are debated. Should a different party take power, taxation systems can change dramatically. As a result, many organizations develop contingency plans so that the company will be prepared whatever the outcome.

In summary, managers deploy strategic plans as the result of a careful analysis of the environment combined with an examination of the company’s current situation. Strategic controls are designed to provide the types of information that will guide these decisions as the organization moves forward. Tactics, operational plans, and special short-term plans must all work in concert to achieve efficiency and effectiveness.

2.5 Allocating Resources

A plan is not complete until the necessary labor (human resources) and parts (general resources) to build the product for sale have been allocated. The primary device used to allocate resources is a company’s budget. A **budget** is an annual financial plan.

Budgets are similar to road maps. They map out where the money will come from (sales and other revenues) and where it will go (individual departments and activities). Often, a pro forma income summary spells out revenues and expenses for the coming year. Three types of budgets are common in business: incremental budgets, zero-based budgets, and rolling budgets.

Incremental Budgets

Incremental budgets remain basically the same from year to year. Managers use the current budget to develop one for the next year. Only incremental or marginal changes are made to the budget. These changes take two forms:

1. Across the board, where each department receives a uniform percentage budget change
2. Relative amount, where some departments receive more and some receive less

Across-the-board adjustments are the easiest to calculate. If a 4% across-the-board increase is in order, each department receives that percentage for the next year’s budget. In many cases, employees then know they will receive a 4% pay raise as well. Relative amount adjustments are made when one department’s needs are determined to be greater. A company’s executive team may determine that the delivery fleet is outdated. To purchase new vehicles, the team will grant an uneven amount of budget to the purchase by cutting back on monies granted to other departments and activities.

Zero-Based Budgets

Zero-based budgets are used when departmental leaders begin with zero in their budget accounts. Department managers then must justify expenses in order to receive funding. The term applied

to zero-based budgeting is cost-benefit analysis. Financial resources are allocated to departments and activities with the best ratios of potential benefits compared to departmental expenditures. Zero-based budgeting is designed to "cut the fat" out of budgets that have become bloated over time. When this type of budget is used, unnecessary and low-priority activities get the axe.

Rolling Budgets

Rolling budgets are used when company leaders adjust departmental budgets throughout the course of the year, based on actual revenues. For example, if sales are off by 10% in the first quarter, the management team knows that less money was spent on raw materials, production, shipping, and sales force commission. The budget can then be adjusted at that time. Budgets may be rolled quarterly, semiannually, or even more often. Many electrical providers roll budgets each month, because weather conditions determine a great deal of revenue. A warm January may mean lower revenues due to less heating; a cool summer month also reduces revenues. A rolling budget allows the budget to be adjusted right at the time.

The most efficient possible budget is a rolling, zero-based budget. When it is used, managers have the greatest degree of control over funding. Firms with major financial crises may resort to this approach. Any type of budget should reflect the company's strategies. Major changes, such as an acquisition or the development of a new product, will require that the right amounts of resources are devoted to the task. For example, in the early 2000s, Holiday Inn company leaders determined that the firm was losing business due to outdated decor in many of the units. The decision was made to sell the least profitable units and use the funds to update and improve the remaining hotels. Additional funds were devoted to developing new signage and a new logo for the company. Many times, companies undertake modernization programs like these. The accounting department works in conjunction with top management to develop a plan to put the right amount of resources into the program.

In the legal world, crime fighters often know the best way to catch a criminal is to "follow the money." In business operations, organizational priorities are easily discovered by following the money. Projects and activities that receive funding are clearly the ones that are most important to company leaders.

Summary

Planning involves managers making decisions about future activities and the key goals the organization will pursue. Planning begins with a company's statements of mission and strategic vision. Everything else flows from those documents. Planning consists of the following steps: examining the company's internal and external environments; setting goals; choosing strategies, tactics, and operational plans; and allocating organizational resources to pursue the company's goals.

Assessing the internal environment takes place at the strategic, tactical, and operational levels. Company strengths and weaknesses should be identified during this process. Assessing the external environment involves analysis of the semicontrollable and noncontrollable forces an organization encounters. The goal will be to discover opportunities and threats. Forecasting of future economic conditions, sales, and changes in technology should be part of this process. These sets of information can then be combined into a SWOT analysis.

Strategic, tactical, and operational goals will be combined into one logical set of objectives. From these, actual plans are developed. Strategic plans can be based on an organization's core

competencies. They may be devised to focus on cost, differentiation, or both. Rapid growth strategies are prepared to take advantage of key opportunities. Slow growth strategies are useful when no major opportunities exist. The same holds true for stability strategies. Decline strategies are employed when the firm encounters turbulent circumstances.

Tactical plans are designed to support strategies in the company's departments or functional areas. Operational plans direct daily activities. Special short-term plans, including projects and programs, help managers make needed changes.

Funding for the company's goals and plans gets channeled through the organization's budget. Incremental budgets use previous figures to develop future allocations. Zero-based budgets require managers to justify their activities in order to be funded. Rolling budgets are adjusted as revenue figures become available.

The planning process sets the stage for every other company activity. Remember, firms that fail to plan tend to drift, encountering problems that should not have occurred in the first place. As mentioned earlier, this situation is known as firefighting. The opposite of firefighting is enjoying the benefits of getting things done more quickly and efficiently by simply following the plan.

CASE STUDY

Oooh, Marvin

Marvin Hegarty enjoyed a long career in the retail jewelry business. His modest retail store, Marvin's Jewelry, was originally located in the downtown trading district in Charleston, South Carolina. Eventually he opened a second location in a major shopping mall in the same city. Marvin would be the first to admit he was "less than good looking." Instead of feeling bad about it, he used his image as a marketing advantage. Marvin ran television advertisements promoting various rings, watches, and other items, always surrounded by two or three beautiful models, with the tag line, "Oooh, Marvin." Local billboards used the same idea. At Christmas time, Marvin dressed up in a Santa Suit and became "Marvin Claus," once again smothered with attention by his "Oooh Marvin" women.

As Marvin approached the age of 60, he wanted to make the transition to being a part-time owner-worker, leaving the management of the daily operations to his son. The two had even begun working on commercials featuring both men, changing the tag line to "Oooh, Marvin. Oh, Melvin." The goal was to keep their long-time customer base returning to the store.

New challenges began to emerge as the retail diamond business continued to evolve. For many years, jewelry retailers had been able to take advantage of major markups on items, as much as 80% on some diamonds and precious metals. Even major chains, such as Zales, were able to price items at high levels. Then, during holiday seasons and at other key times, they offered sweeping discounts of often 25% or 33% off while still maintaining high levels of profit. Marvin had been able to compete with the retail chains such as Zales through his folksy commercials and personal interactions with customers, which included a great deal of involvement in community affairs.

Recently, however, the landscape was changing. Some retail stores had begun to operate using the concept of lower markups and higher volume. To defend against some of these companies, Marvin had been able to communicate successfully that price implies quality and service. At the same time,

(continued)

as some big box stores began to sell jewelry in the stores and on websites, it became increasingly difficult to battle against larger advertising budgets.

The greatest shift occurred in younger customers. These Internet-savvy individuals had begun to discover websites, such as http://www.bluenile.com, that sold products directly to customers without the need for retail stores and commissions to salespeople. The more popular websites relied on rating systems that guaranteed the quality of items sold, most notably diamonds. As a result, the sites could offer higher quality merchandise at much lower prices. Younger customers would then take one of two approaches. Some would simply buy an item, such as a diamond, from Blue Nile and then travel to a retail store to purchase only the band. Others would use the site to discover the best price for an item and take that information into a retail store to negotiate much better prices with the salesperson. This approach also allowed them to see what they were about to purchase rather than waiting for a shipment and hoping the item would meet their expectations. Marvin and Melvin found themselves forced to grant larger and larger discounts to young people buying rings for weddings as well as for necklaces and earrings.

In essence, greater information about the actual wholesale prices for various jewelry items was driving prices down for all competitors. Marvin also worried that younger people did not watch as much television, and that his longstanding approach was wearing thin. He was concerned that using "decorative" models as background for his messages might not work with women, because they might be sensitive to such an approach even if it had always been presented more as humor and less as some kind of sexy pitch.

Marvin knew that he would have to adapt to these new circumstances. He would have to find a niche for his stores that set them apart from others. He knew the primary variables would continue to be price, quality, and customer service. Even though his sales force was aging, each salesperson had many years in the business and good relationships with many people in town. His company also maintained positive relationships with most jewelry wholesalers and suppliers.

Finally, Marvin was concerned with the high level of rent he was paying in his mall store. While he owned the other location, he knew that keeping down the cost of the actual brick-and-mortar location would help. Against this backdrop, Marvin believed it was time to develop a long-term, strategic response that would allow his son to enjoy the same level of success that he had achieved during his own lifetime.

Discussion Questions

1. What are the strengths and weaknesses associated with Marvin's Jewelry?
2. What opportunities and threats are present in the jewelry industry?
3. What strategic response should Marvin employ?
4. What tactical changes should the company undertake?

Key Terms

budget An annual financial plan.

core competence The most proficiently performed internal activity that is central to the firm's strategy and competitiveness.

Delphi technique A panel of experts who seek to predict what kinds of technological breakthroughs might occur and when such breakthroughs will take place.

distinctive competence Something a company performs at a level that is better than that of all its rivals.

external environment Consists of the total set of forces that act on a company but are not within its boundaries.

five forces approach Model developed by Michael Porter that identifies and analyzes five competitive forces that shape industries and helps determine an industry's strengths and weaknesses.

mission statement A document that expresses a clear and concise reason for why the organization exists.

normative technological forecasting Technological forecasting designed to identify when a technological breakthrough would occur if various entities would cooperate in creating it.

program A set of planning projects designed to change a company's direction.

project A plan for a single-time activity.

strategic management Coordinating the efforts of all levels of management into a unified course of action.

strategic planning A purposeful effort that is directed by management within an organization; if done effectively, it draws on the knowledge, skills, and abilities of employees at all levels of the organization.

strategic vision statement A statement that offers direction about where the organization is heading and what it hopes to become; it also articulates the long-term direction of the company.

Critical Thinking

Review Questions

1. Define planning and strategic planning.
2. Explain the concepts associated with a mission statement and a strategic vision statement.
3. When assessing the internal environment and operations, what three levels are examined?
4. Explain the difference between semicontrollable and noncontrollable forces in the external environment.
5. What semicontrollable forces influence business operations?
6. What noncontrollable forces influence business operations?
7. What three types of forecasts are used to assist in the planning process?
8. What are the four possible outcomes of a SWOT analysis?
9. Explain the differences between strategic, tactical, and operational goals.
10. What are the steps of strategic management?
11. Define and explain the concepts of core competence and distinctive competence.
12. Describe the five basic generic competitive strategies.

13. Name the rapid and slow growth strategies company leaders can employ.
14. Name the stability and decline strategies company leaders can employ.
15. Define the following terms: project, program, and contingency plan.
16. What is a budget, and how is it like a road map?
17. Name and briefly describe the three main types of budgets.

Analytical Exercises

1. Write a mission and strategic vision statement for the following companies:
   - Red Bull
   - Phillip Morris Tobacco Company
   - Applebee's
   - Allstate Insurance
2. What specific factors should be analyzed as part of a tactical/functional analysis for Yum! Brands, Inc.? Do the concepts of strategic business units and profit centers apply to this organization? Explain your answer.
3. What links exist between the following strategic goals? Explain how they are interconnected.
   - market share
   - innovation
   - productivity
   - profitability
   - physical and financial resources
   - manager performance and development
   - employee performance and attitudes
   - social responsibility
4. In the SWOT analysis diagrammed in Figure 2.2, which strategies match with each of the four boxes from the following categories? (Some of the answers may fit into more than one box.)
   - core competence and distinctive competence
   - low-cost provider/differentiation/best-cost provider
   - rapid growth/slow growth/stability/decline
5. Outline what you believe are the distinctive competence and the core competence of the following companies. Describe what you believe is the generic strategy used by each of those companies. Explain specifically which type of strategy the company should undertake in the coming years: rapid growth, slow growth, stability, or decline. Defend your choices.
   - British Petroleum
   - Facebook
   - Hyundai
   - Dunkin' Donuts
   - Netflix

6. Using the Internet, write a brief report on how the decline strategies used by the following companies made them "smaller but stronger" and then allowed them to rebound.
    - Kmart
    - Starbucks
    - Chrysler Corporation
    - White Castle
7. If you were managing a thriving organization, which of the three types of budgets—incremental, zero-based, or rolling—would be best? Why? If you were managing an organization that "could do better," which of the three types of budgets would be best? If you were managing a company in crisis, which of the three types of budgets would be best? Can you think of times when the traditional response would be wrong? If so, explain how.
8. Relate the concepts of mission and strategic vision statements to the following:
    - core and distinctive competence
    - the five generic strategies