

CHAPTER 4

Development of the *Corporate (Group) Strategy*

<< INSERT CORPORATE (GROUP) NAME >>

CORPORATE (GROUP) STRATEGY

CONFIDENTIAL

Date of Report: / /

By:

THE CORPORATE (GROUP) STRATEGY DOCUMENT

Discussion

The Corporate (Group) Strategy document should be used by a corporation involved in two or more businesses. It can be used for the whole corporation or for any organizational entity within the corporation that consists of 2 or more businesses. For simplicity, the term corporate (or "Insert Corporate Name") will be used throughout this template document to refer to the group, division, sector, or corporate name.

The design of this document assumes that the SBU competitive strategy documents have or will be completed. *It is not the purpose of the corporate strategy document to repeat the information in the SBU plans.* Rather, this corporate (group) strategy consolidates the SBU information and focuses on issues that affect the mix of businesses and how the businesses should be linked.

Document Conventions

Within this document there are numerous examples of words set apart with angle brackets "<< >>." These phrases should be replaced with the appropriate names from your company.

For example:

<< Insert SBU Name >>	The name of a corporate SBU.
<< Insert Industry Name >>	The name of an industry in which your company competes.
<< Insert Business Group Name >>	The name of an organizational unit with 2 or more SBUs .
<< Insert SHU Name >>	The name of a corporate SHU.
<< Insert Corporate Name >>	The name of the corporation.

Example of Company XYZ:

<< Insert SBU Name >>	Business One.
<< Insert Industry Name >>	Any Industry.
<< Insert Business Group Name >>	Division II.
<< Insert SHU Name >>	Information Systems.
<< Insert Corporate Name >>	XYZ Corporation.

PURPOSE OF THIS DOCUMENT

The purpose of this document is to summarize << Insert Corporate Name >>'s corporate strategy.

Other Relevant Documents

Industry and government documents which are relevant to understanding << Insert Corporate Name >> include:

- *
- *
- *
- *
- *
- *

Other relevant << Insert Corporate Name >> documents include:

- *
- *
- *
- * The competitive strategy documents of each of the business units within << Insert Corporate Name >>.
- * The statement of direction documents of each of the horizontal units within << Insert Corporate Name >>.
- * << Insert Corporate Name >> Competitive Intelligence Report.
- * << Insert Corporate Name >> Annual Report.

PURPOSE OF THIS DOCUMENT

Discussion

The primary goal of this page is to explain to the reader the purpose of the Corporate (Group) Strategy document which is to put forward the corporate (or group) strategy.

A secondary goal of this page is to list other relevant documents that the reader should be aware of, both external documents and other corporate documents, in order to have a more complete understanding of the company.

Theoretically, everything you need to know about the Corporate (Group) Strategy is either in this document or mentioned in at least one of the documents listed on this page.

Listing other business unit, other horizontal unit, and other corporate documents also helps to appreciate the amount of information available, and how this document and other efforts are linked or should be linked.

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY _____	1
Vital Statistics _____	2
Mission Statement and Supporting Information _____	3
Business Mix Summary _____	4
Resource Allocation by Business _____	5
Competitor Analyses _____	6
Multipoint Competitor Table _____	6
Multipoint Competitor Analysis, By Competitor _____	7
Potential Multipoint Competitors _____	8
Competitor Intelligence Data Gathered Via Independent Sources _____	9
Corporate (Group) Strategy Summary _____	10
Horizontal Structures _____	10
Horizontal Systems _____	10
Horizontal Human Resource Practices _____	10
Horizontal Conflict Resolution Processes _____	10
Interrelationships Between Corporate Business Units _____	11
Existing Customer List, by SBU _____	12
Potential Customers Requiring Coordinated Activities Across SBUs _____	13
Major Programs and Action Plans _____	14
Opportunity Identification _____	15
Critical Success Factors _____	16
Organization Chart _____	17
Consolidated Financial Analyses & Strategic Health _____	18
Consolidated Income Statement Analysis & Reporting _____	18
Consolidated Balance Sheet _____	19
Shareholder Value Analysis _____	20
Human & Financial Resource Allocation by SBU and by Activity _____	22
Supplier Analysis _____	23
Consolidated Strategic Balance Sheet _____	24
Tactical Business Opportunities & What-If Analysis _____	25
Glossary & Abbreviations _____	26

TABLE OF CONTENTS

Discussion

The purpose of the table of contents is to list the sections of the Corporate (Group) Strategy Document.

Each section starts on a new page. The document (including the table of contents) is easy to customize by adding and deleting sections.

Although every section is important, not all sections are of equal importance. The executive summary and the table identifying the resource allocation by business represent the most important aspects of corporate strategy development.

EXECUTIVE SUMMARY

<< Insert Corporate Name >> is....

<< Insert Corporate Name >> competes in the following businesses:

- * << Insert SBU Name >> - which provides....
- * << Insert SBU Name >> - which provides....
- * << Insert SBU Name >> - which provides....
- * << Insert SBU Name >> - which provides....
- * << Insert SBU Name >> - which provides....

<< Insert Corporate Name >>'s *competitive advantages* include:

- 1.
- 2.
- 3.
- 4.

<< Insert Corporate Name >>'s *competitive disadvantages* include:

- 1.
- 2.
- 3.
- 4.

Our preferred strategy is

Conclusions:

- 1.
- 2.
- 3.
- 4.

Next Steps:

- 1.
- 2.
- 3.
- 4.

EXECUTIVE SUMMARY

Discussion

The purpose of the executive summary is to highlight the most important aspects of the company and its strategy.

The executive summary should be brief and to the point. Because it is somewhat redundant to the information presented later in the document, the overview should be no longer than one or two pages.

The overview should include:

1. A brief description of the company and its environment.
2. A listing of the corporate businesses along with a short descriptive paragraph for each business. The brief description should include information typically found in a business unit mission statement. For example, identify what products and services are provided to what type of customers, and state the competitive advantage the business is trying to achieve and sustain.
3. The competitive advantages of the corporation (group) in priority order.
4. The competitive disadvantages of the corporation (group) in priority order.
5. The overall strategy of the company (group).
6. Conclusions about the corporation (group) and its environment.
7. The next steps the company (group) plans to make in order to maximize results.

VITAL STATISTICS

Corporate Statistics and Other Information

Corporate (Group) Name _____
Company Chief Executive Officer (Group Manager) _____
Location of Company Headquarters _____
Number of Strategic Businesses Units _____
Total Number of Employees in the Company (Group) _____
Number of Temps/Consultants in the Company _____
1996 Profit (Loss) before Taxes _____ \$
1996 Revenue _____ \$
1996 Expense _____ \$
1996 ROE _____ %
1996 Net Income Per Employee _____ \$
Corporate Accountants _____
Corporate Credit Rating _____
Corporate Auditors _____
Corporate Management's Self Assessment for Corporate Results _____ \$
Auditor's Current Assessment of Corporate Procedures and Controls _____ \$
Shareholder Value of << Insert Corporate Name >> _____ \$
PV of 10-year Discounted Cash Flow from Operations _____ \$
PV of Investment Portfolio _____ \$
PV of Residual Value after Ten Year Period _____ \$
Stock Price and Stock Symbol _____
Degree of Credit Exposure Risk _____
Degree of Information Technology Operational Dependence _____
Environment Exposure of Company _____
Litigation Exposure (excluding environmental litigation) _____
Geographic Scope of Company _____

Corporate Milestones

19xx - Company was founded.
19xx -
19xx -

VITAL STATISTICS

Discussion

Corporate Statistics and Other Information

In the same way that the U.S. economic indicators represent a simple means to quickly gauge the health of the U.S. economy, this page of vital statistics is meant to quickly gauge the health of the corporation (or group).

The indicators listed in the template on the opposite page should be customized to the needs of your company.

The big picture is that on one page the most important measures of the health of the corporation (group) should be presented.

Milestones

In some cases, it is also effective to list corporate milestones after the vital statistics. Listing milestones is most common for small company's in search of equity financing. It is also common at companies where the executives have been in charge for a long time and they are bursting with pride about the history of *their* company.

Example of Milestones for Company XYZ

- 1908 Business X was founded in New York.
- 1933 Company XY was formed with the merger of Business Y.
- 1968 Company XY's annual revenues surpassed \$100 million.
- 1974 Company XYZ was created with the acquisition of Company Z.
- 1983 Company XYZ expanded sales internationally into Europe, Asia, Latin America and Africa.
- 1988 Company XYZ introduced Product W and greatly improved market image as industry leader.
- 1992 Company XYZ's annual revenues surpassed \$1 billion.
- 1996 Company XYZ's annual profits surpassed \$100 million.

MISSION STATEMENT AND SUPPORTIVE INFORMATION

The **mission** of << Insert Corporate Name >> is to....

Business Objectives

Our business objectives, *ranked in priority order*, include:

- 1.
- 2.
- 3.
- 4.
- 5.

Vulnerabilities

Our business objectives are vulnerable to some of the following situations:

- 1.
- 2.
- 3.

External Industry and Economic Trends

Industry and economic trends include:

- 1.
- 2.
- 3.

External Technology Trends

Technology trends external to << Insert Corporate Name >> include:

- 1.
- 2.
- 3.

Internal Organizational Trends

Trends within << Insert Corporate Name >> that could affect attaining our business objectives include:

- 1.
- 2.
- 3.

MISSION STATEMENT AND SUPPORTING INFORMATION

Discussion

This section is used to clarify the corporate (group) mission and to highlight key information related to the likelihood of fulfilling that mission.

Mission

The mission defines the general direction and purpose of the corporation. Generally, the corporate mission should be short, clear, and as specific as possible without being constraining. Because many corporations have many diverse businesses, the mission statement will often be very general, with one or two common elements regarding positioning or corporate values. (In practice, corporate management may well develop a more precise corporate mission that would not be for public consumption because it would prematurely signal the likely divestiture of certain businesses and / or the repositioning of others.)

Business Objectives

Sample corporate objectives might include:

- Maximize annual profitability attaining at least \$50 million in profit this year.
- Maintain a market share position of number 1 or number 2 in each business.
- Increase revenue 5% a year.
- Improve ROE to 14% this year; 15% next year and thereafter.
- Increase stock price to 45 or more by 12/31/97.
- Increase shareholder value to \$1 billion by 1998.

The more specific each corporate objective is the better. Also, objectives should be listed in priority order. The business objectives should be viewed as the framework for a report card that can be used in the future to determine the success of the company. The objectives, which state what the company is trying to do, serve as a critical means for corporate management to communicate with the business owners, the investment community, and employees. Business objectives should be chosen from the full domain of possible economic and non-economic contributions the company intends to make to its full complement of stakeholders.

Vulnerabilities

Vulnerabilities represent a listing of those factors that might make it difficult to achieve established corporate (group) objectives. Vulnerabilities serve as an input required to judge the probability of attaining the business goals, and to measure the risk / reward trade-off.

External Industry and Economic Trends

This paragraph highlights economic and industry trends that might affect the results of the organization.

External Technology Trends

This paragraph highlights technology trends that might affect the results of the organization.

Internal Organizational Trends

The purpose of the paragraph on internal organizational trends is to list expected trends within the corporate environment that might affect corporate results. Examples of internal events that might affect results include: organizational restructuring; re-locating offices; and executive management changes.

BUSINESS MIX SUMMARY

The industry attractiveness and competitive position of each SBU is presented below.

SBU Name	\$ Rev.	\$ Profit	Number of Em- ployees	Share- holder Value	Industry Attrac- tiveness	Compet- itive Position	Generic Strategy	# 1 Competitive Advantage
<< Insert SBU #1 >>								
<< Insert SBU #2 >>								
<< Insert SBU #3 >>								
<< Insert SBU #4 >>								
<< Insert SBU #5 >>								
<< Insert SBU #6 >>								
<< Insert SBU #7 >>								
<< Insert SBU #8 >>								
<< Insert SBU #9 >>								
<< Insert SBU #10 >>								
<< Insert SBU #11 >>								
<< Insert SBU #12 >>								
<< Insert SBU #13 >>								
<< Insert SBU #14 >>								
<< Insert SBU #15 >>								

BUSINESS MIX SUMMARY

Discussion

The purpose of this section is to list the businesses of the corporation (or group) and, for each, to indicate the industry attractiveness, competitive position, and other relevant information. This type of analysis is very useful to help allocate corporate resources in an optimal manner.

In practice, as soon as a company is disciplined enough to maintain a single list of the company's SBUs, it is fairly easy to construct a table of the most important information of the company.

The table on the opposite page lists several key pieces of strategic information that are frequently overlooked when reviewing corporate businesses. *For each SBU*, the data include:

- 1) a measure to indicate the industry attractiveness (in terms of the industry's expected future profitability);
- 2) a measure of the SBU's competitive position within the industry;
- 3) the SBU's generic strategy (cost leadership, cost focus, differentiation, differentiation focus, or none);
- 4) the SBU's actual or planned competitive advantage (i.e., what the SBU does better than the competition).

The data items presented on the opposite page should be extended based on the needs of the corporation. The vital statistics page at the beginning of the SBU document represent a good start of the financial and strategic data that should be maintained. Ideally, this corporate database of information should be automatically updated from the SBU Competitive Strategy documents.

In filling out the table on the opposite page it is helpful to use consistent choices and consistent standards for scoring each business unit in order to help corporate management make relative judgments about each SBU. For example:

For industry attractiveness scoring, use:

Very High (5); High (4); Medium (3); Low (2); Very Low (1)

For competitive positioning scoring, use:

Very High (5); High (4); Medium (3); Low (2); Very Low (1)

For generic strategy, chose one of the following:

Cost Leadership; Cost Focus; Differentiation; Differentiation Focus; None.

For #1 competitive advantage, identify the SBU's current or planned competitive advantage.

Caution: when analyzing each business unit, it is important to remember that some businesses do in fact support other corporate businesses. Measuring and analyzing businesses independently, without measuring their value to the total corporation, can sometimes lead to poor decisions.

Example of Software Company XYZ which uses a shared subroutine library for all SBUs

<i>XYZ's Strategic Business Units</i>	Industry Attractiveness	Competitive Position	Generic Strategy	Competitive Advantage
XYZ Budgeting Software Corporation	High	Low	Cost Focus	Low cost design
XYZ Financial Statement Software Co.	Medium	High	Cost Focus	Low cost design
XYZ Automated Personal Tax Planning Co.	High	Medium	Cost Focus	Low cost design
XYZ Personal Financial Planner Inc.	High	High	Differentiation Focus	Uniquely address sole proprietors
XYZ Business Tax Planning, Ltd.	Low	High	Cost Leadership	Low cost design
XYZ Acquisition Software Company	High	Medium	Cost Leadership	Low cost design

RESOURCE ALLOCATION BY BUSINESS

	SBU Name	Number of People Allocated	This Year's Total Expenses	Percent of Total Expenses	% of Total Profit <hr/> % of Total Expenses
1.	<< Insert SBU Name >>		\$	%	0.0
2.	<< Insert SBU Name >>		\$	%	0.0
3.	<< Insert SBU Name >>		\$	%	0.0
4.	<< Insert SBU Name >>		\$	%	0.0
5.	<< Insert SBU Name >>		\$	%	0.0
6.	<< Insert SBU Name >>		\$	%	0.0
7.	<< Insert SBU Name >>		\$	%	0.0
8.	<< Insert SBU Name >>		\$	%	0.0
9.	<< Insert SBU Name >>		\$	%	0.0
10.	<< Insert SBU Name >>		\$	%	0.0
11.	<< Insert SBU Name >>		\$	%	0.0
12.	<< Insert SBU Name >>		\$	%	0.0
13.	<< Insert SBU Name >>		\$	%	0.0
14.	<< Insert SBU Name >>		\$	%	0.0
15.	<< Insert SBU Name >>		\$	%	0.0
Total for all SBUs:			\$	100 %	1.0

RESOURCE ALLOCATION BY BUSINESS

Discussion

The purpose of this section is to present an overview of how the resources of the company (group) are being allocated by business.

A company should be viewed as a collection of 'N' number of businesses. The sum of these businesses should add to the total of the corporation. If a company has 5,000 employees and it has 5 businesses, then the sum of the employees allocated to the five businesses should equal 5,000.

This requires that every horizontal unit allocate 100% of its staff to the corporate businesses.

Practical notes and suggestions for resource allocation:

1. If a sales force of 100 people spends 60% of the time selling for Business 'A' and 40% of the time selling for Business 'B,' then allocate 60 sales people to Business A, and 40 sales people to Business B.
2. All horizontal units must allocate all of their employees to the corporate businesses, and not to any other horizontal unit. This is a fairly simple process as long the manager of each horizontal unit has *the list* of corporate SBUs. Without that list, the task is fruitless.
3. The president and all other corporate executives, and their secretaries, need to be allocated to the businesses as well. *Every* employee in the company should be allocated to one or more corporate SBU. (An employee can be allocated to more than one SBU. For example, 60% to business one, and 40% to business two.)
4. Allocating all corporate staff to the corporate businesses does not have to be complicated. The key is the one page list of SBUs. In some cases, it is appropriate for the horizontal unit manager to allocate resources to the business units. In other cases, the employees should be asked directly to allocate their time. In still other cases, computerized tracking systems are able to compute the proper allocations automatically.

For many employees, the allocation is obvious. For others, a quick ball-park estimate is usually sufficient. To the surprise of many, especially in companies with more than half of their employees working in centralized departments, quick estimates often reveal more good data than do their 'sophisticated' inter-departmental cost allocation systems.

5. If appropriate, add a "New Venture SBU" to the list of corporate SBUs in order to allocate resources for the activity of analyzing new ventures and new corporate acquisitions.

Example of Resource Allocation by SBU for Communications Company XYZ

<i>XYZ's Strategic Business Units</i>	Number of People	This Year's Total Expenses	Percent of Total Expenses	<u>% of Total Profit</u> % of Total Exp.
Local Telephone Service	40,000	\$4 B	40 %	0.625
Mobile Cellular Telecommunications	20,000	\$2 B	20 %	1.250
Aircraft-Passenger Telephone Service	10,000	\$1 B	10 %	2.500
Communication Switching Systems	<u>15,000</u>	<u>\$3 B</u>	<u>30 %</u>	<u>0.833</u>
Corporate Totals:	85,000	\$10 B	100 %	1.000

COMPETITOR ANALYSES

The competitor analyses provide the following information:

- * Multipoint Competitor Table
- * Multipoint Competitor Analysis, by Competitor
- * Potential Multipoint Competitors
- * Competitor Intelligence Data Gathered Via Independent Sources.

MULTIPOINT COMPETITOR TABLE

Listed below are competitors (multipoint competitors) which currently compete in two or more businesses with << Insert Corporate Name >>.

Industries In Which We Compete and Closely Related Industries

- | | | |
|-------------------------------|--------------------------------|--------------------------------|
| 1. << Insert Industry Name >> | 6. << Insert Industry Name >> | 11. << Insert Industry Name >> |
| 2. << Insert Industry Name >> | 7. << Insert Industry Name >> | 12. << Insert Industry Name >> |
| 3. << Insert Industry Name >> | 8. << Insert Industry Name >> | 13. << Insert Industry Name >> |
| 4. << Insert Industry Name >> | 9. << Insert Industry Name >> | 14. << Insert Industry Name >> |
| 5. << Insert Industry Name >> | 10. << Insert Industry Name >> | 15. << Insert Industry Name >> |

Industry ID:	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Industry Attractiveness:	H	M	L	L	M	M	M	H	L	H	VH	M	L	VL	H
Industry Competitor															
<< Insert Company Name >>	X	X	X	X	X	X	X	E	-	-	-	-	-	-	-
<< Insert Competitor # 1 >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<< Insert Competitor # 2 >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<< Insert Competitor # 3 >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<< Insert Competitor # 4 >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<< Insert Competitor # 5 >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<< Insert Competitor # 6 >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<< Insert Competitor # 7 >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
:															
:															
<< Insert Competitor 'N' >>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Industry Attractiveness Key:

- VH = Very High
- H = High
- M = Medium
- L = Low
- VL = Very Low

Table Key:

- '-' Not a competitor in this industry
- 'E' Exiting the industry
- '0' Not sure if the competitor is in the industry or no data.
- 'P' Potential Competitor
- 'T' Top tier market share leader of the industry
- 'X' An industry Competitor

COMPETITOR ANALYSES

Discussion

This section is about competitor analyses and building the foundation to a *structured* competitor intelligence system. The rationale for such a system is eloquently expressed by Professor Michael E. Porter as follows: "Competitive strategy involves positioning a business to maximize the value of the capabilities that distinguish it from its competitors. It follows that a central aspect of strategy formulation is perceptive competitor analysis. The objective of a competitor analysis is to develop a profile of the nature and success of the likely strategy changes each competitor might make, each competitor's probable response to the range of feasible strategic moves other firms could initiate, and each competitor's probable reaction to the array of industry changes and broader environmental shifts that might occur." [Source: Porter, *Competitive Strategy*.]

The primary benefit of a competitor intelligence system is that greater knowledge of competitors will enable a business to refine its strategies for superior results.

The time and resource requirements necessary to build a competitor intelligence system can vary dramatically depending upon many factors, including: how much data to collect, how easy it is to gather the data, and how the data are to be analyzed and used. However, even one person, part-time, with a personal computer and the right framework (*structure*) can build a powerful competitor intelligence system.

Conceptually, building a competitor intelligence system is an ongoing process. The recommended first step is to meet with the people who will use the information and with those who collect competitor information during their normal activities. The next step is to discuss how the competitor data will flow to those who need it in a timely, effective manner. The process should be simple. Avoid building a bureaucracy.

MULTIPOINT COMPETITOR TABLE

The purposes of this section are to help plan for diversification, to anticipate competitor moves, and to maximize your company's business-unit interrelationships vis-à-vis competitors.

This analysis is one of the easiest and most powerful tools at the disposal of the corporate planner. In practice, there are a few key guidelines that should be followed, or the value of the analysis will be greatly reduced. The guidelines for developing the multipoint competitor table are as follows:

1. Guidelines for industry selection (the columns in the matrix): include those industries in which your company competes, plus industries of current and potential, traditional and non-traditional competitors.
2. Guidelines for competitors to list (the rows of the matrix): include traditional competitors and powerful potential competitors from related industries. Include at least the top four competitors *by industry*, even if those competitors compete in only one industry and are not viewed as traditional multipoint competitors.
3. Guidelines for cell entry: Begin with a simple 'X' to designate that the company competes in the industry. After the matrix is well developed and the industry definitions are clear, more specific information should be given to indicate the market share or strategic strength of each competitor by industry.
4. Size of the matrix: Using the format on the opposite page works great when the number of industries is fifteen or fewer. Turning the page 90° (landscape) will work for up to 30 businesses. So, for example, a large bank might need ten pages (five if landscape) to represent the 150 banking industries in which they and their competitors compete. Additionally, the number of pages going down the matrix would be a function of the number of competitors monitored.

Decorating a conference room with the multipoint competitor table is an excellent means to keep executive management focused on a key responsibility: to determine the corporation's optimal business mix.

MULTIPOINT COMPETITOR ANALYSIS, BY COMPETITOR

The following pages highlight significant information about the industry's competitors.

1. COMPETITOR NAME:

Annual Revenue: \$
Strategic Business Units:
Corporate (Group) Strategy:
Reputation:
Competitive Advantage(s), if any:
Competitive Disadvantage(s), if any:
Cost Structure:
Basic Approaches and Tactics:
Potential Acquisitions:
Potential Divestitures:
Other Information:

2. COMPETITOR NAME:

Annual Revenue: \$
Strategic Business Units:
Corporate (Group) Strategy:
Reputation:
Competitive Advantage(s), if any:
Competitive Disadvantage(s), if any:
Cost Structure:
Basic Approaches and Tactics:
Potential Acquisitions:
Potential Divestitures:
Other Information:

3. COMPETITOR NAME:

Annual Revenue: \$
Strategic Business Units:
Corporate (Group) Strategy:
Reputation:
Competitive Advantage(s), if any:
Competitive Disadvantage(s), if any:
Cost Structure:
Basic Approaches and Tactics:
Potential Acquisitions:
Potential Divestitures:
Other Information:

MULTIPOINT COMPETITOR ANALYSIS, BY COMPETITOR

Discussion

The purpose of this section is to briefly analyze multipoint competitors. The data collected should describe high-level corporate (group) information.

Details of the business unit strategies of competitors should generally not be included in this section, as that information should be recorded in the appropriate SBU competitive strategy document.

Even in those cases where your company does not compete in one of the industries that a competitor competes in, it is still better to use a separate document to analyze that industry. The industry analysis should be very similar in format to the one described in the *SBU Competitive Strategy* document (shown in Chapter 2 of this book).

In practice, the amount of detail maintained for each multipoint competitor usually grows significantly. Caution should be used not to store too much information such that the details obscure the most important strategic issues. Long detailed reports are great the first time, but keeping the information current is time consuming and not fun. Reports and tables that can be maintained on a spreadsheet and updated when new information is available is often the best way to keep the information current and available upon request.

Common spreadsheet programs also have built-in features for writing notes about a particular cell of information. This is most useful to categorize the source of the competitor data. Very often multiple sources will have different values for one piece of information.

If a formal and more detailed multipoint competitor analysis document is required, the sample table of contents presented below should be customized to meet the needs of the analysis:

COMPETITOR ANALYSIS

For: << Insert Competitor Name >>

- Executive Summary
- Current Vision, Goals and Strategy
- Business Mix Overview
- Competitive Advantages and Disadvantages
- Organizational Structure & Culture
- Key Corporate Officers
- Current Strategic Partners
- Potential: Acquisitions, Mergers, and Joint Ventures
- Major Suppliers
- Office Facilities
- Information Technology Architecture
- Business Unit Highlights, By Business Unit
- Overall Image and Overall Strategic Health
- Company Financials

This format can be used for analyzing a company, group, sector, or division of a multipoint competitor that consists of two or more business units.

POTENTIAL MULTIPOINT COMPETITORS

Shown below is a listing of potential multipoint competitors.

Rank	Potential Competitor	Comment
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

POTENTIAL MULTIPOINT COMPETITORS

Discussion

The purpose of this section is to highlight potential multipoint competitors.

Many telephone companies are diversifying into the cable industry. Banks are diversifying into insurance and mutual funds. As industries invade each other's turf and as more industries become global in scope, potential multipoint competitors from around the world need to be monitored for possible entry.

Besides listing the names of potential competitors, it is also useful to comment on any known information regarding a competitor's goals, likely future moves, and competitive strengths and weaknesses.

Competitor Intelligence Data Gathered Via Independent Sources

The information below represents the highlights of data gathered from independent sources (i.e., from people not working directly within << Insert Corporate Name >>). The data reflect information about our competitors and about ourselves.

COMPETITOR NAME; SOURCE & DATE	COMPETITOR INTELLIGENCE INFORMATION
Competitor Name:	
Information Sources:	
Date of Information: / /	
Competitor Name:	
Information Sources:	
Date of Information: / /	
Competitor Name:	
Information Sources:	
Date of Information: / /	
Competitor Name:	
Information Sources:	
Date of Information: / /	

COMPETITOR INTELLIGENCE VIA INDEPENDENT SOURCES

Discussion

This section is used to collect and to maintain objective competitive information compiled by sources outside the company.

Very often, corporate managers have a biased opinion about their company. This section helps to ensure that corporate management has an objective view of the marketplace.

The information recorded here should consist mostly of corporate (or group) data. SBU specific information should be maintained in the appropriate SBU competitive strategy document.

The information sources used for this section may include trade magazines, ex-employees of competitors, funded studies by consulting firms and universities, trade shows, annual reports, ads and stories in newspapers and magazines, agencies and recruiters on retainer, industry survey groups, focus groups, sales force contact with customers, industry analysts, and more.

The type of competitive data collected may include information on: business mix; recent acquisitions, divestitures and joint ventures; strengths; weaknesses; strategies; costs; culture; organization charts; horizontal strategies; biographical data on employees; market share data; financial data; buyer perceptions of competitor; suppliers; allocation of resources; information technology architecture; and more.

CORPORATE (GROUP) STRATEGY SUMMARY

Our strategy to coordinate our business units and maximize interrelationships so that the group strategy is more than the sum of the individual business unit strategies is to....

The horizontal strategy used to implement our group strategy is described below in terms of the following categories:

- * Horizontal Structures
- * Horizontal Systems
- * Horizontal Resource Practices
- * Horizontal Conflict Resolution Processes.

Horizontal Structures

The business units will exploit key tangible interrelationships by....

Horizontal Systems

The key horizontal systems with a cross business unit dimension include....

Horizontal Human Resource Practices

In order to develop our current and future management team, as well as facilitate cross business career advancement, we will....

Horizontal Conflict Resolution Processes

When business units cannot resolve a conflict or a horizontal unit manager believes that the requirements of the businesses are not well coordinated, then.....

CORPORATE (GROUP) STRATEGY SUMMARY

Discussion

The purpose of this section is to highlight how the corporation (group) plans to compete in terms of how the business units will coordinate their activities.

According to Michael Porter, "Horizontal strategy is a coordinated set of goals and policies across distinct but interrelated business units. It is required at the group, sector, and corporate levels of a diversified firm. It does not replace or eliminate the need for separate business units and business unit strategies. Rather, horizontal strategies provide for explicit coordination among business units that make corporate or group strategy more than the sum of the individual business unit strategies. Without a horizontal strategy, there is no convincing rationale for the existence of a diversified firm because it is little more than a mutual fund. Horizontal strategy, not portfolio management, is thus the essence of corporate strategy."

The corporate (group) goal is clear: to ensure that interrelationships yielding a competitive advantage are exploited. The result is independent business units that are connected by organizational devices and a set of shared values. Horizontal strategies can be divided into four broad categories: horizontal structure; horizontal systems; horizontal human resource practices; and horizontal conflict resolution processes.

Horizontal Structures

Horizontal structures refer to temporary or permanent organizational entities that cut across business unit boundaries, supplementing the business unit structure. For example, establishing centralized cost centers (horizontal units) to perform one or more activities for the benefit of two or more businesses.

Horizontal Systems

Horizontal management systems have a cross business unit dimension, typically in areas such as planning, control, incentives, and capital budgeting.

Horizontal Human Resource Practices

Horizontal human resource practices facilitate business unit cooperation, such as cross-business unit job rotation, management forums, and training.

Horizontal Conflict Resolution Processes

Horizontal conflict resolution processes refer to the ability of corporate management to settle disputes between business units.

Many organizations are in a constant state of musical chairs shifting between centralizing and decentralizing activities. Regardless of the level of decentralization, the key goal is to align the horizontal units with the needs of the businesses. In the final analysis, the success of the company rests upon the successes of the SBUs, regardless of how many or how few people actually report to the SBU managers.

At the extreme, *even if nobody reports directly to the SBU manager*, the SBU manager is still responsible for defining the competitive strategy of the business and coordinating all of the activities performed by the various horizontal units such that they all act in concert with the SBU's goals, objectives and competitive strategy for achieving a long-term, sustainable, competitive advantage.

INTERRELATIONSHIPS BETWEEN CORPORATE BUSINESS UNITS

- | | |
|-------------------|-------------------|
| 1. Business One | 6. Business Six |
| 2. Business Two | 7. Business Seven |
| 3. Business Three | 8. Business Eight |
| 4. Business Four | 9. Business Nine |
| 5. Business Five | 10. Business Ten |

Potential Forms of Sharing (Tangible Interrelationships)	B 1	B 2	B 3	B 4	B 5	B 6	...	B 10
Shared Financing								
Shared Brand Name								
Shared Advertising								
Shared Promotion								
Cross Selling								
Complementary Product Pricing								
Bundled Selling								
Shared Marketing Department								
Shared Channels								
Shared Sales Force or Sales Offices								
Shared Customer Service Network								
Shared Order Processing								
Shared Software, Different products								
Shared Equipment for Development								
Shared Testing / Quality Control								
Joint Procurement of Common Inputs								
Shared Mainframe Support								
Shared LAN and PC Support								
Shared Applications Development								
Shared Technology Development								
Shared Technical Design in Products								
Shared Strategic Planning Methodology								
Shared Accounting								
Shared Legal Staff (i.e., Copyrights)								
Shared Hiring Procedures								
Shared Sales Training Programs								
Shared Computer Training Programs								
Shared Customer Service Training								
Shared Product Training Programs								
<< Insert Activity Name >>								
<< Insert Activity Name >>								
<< Insert Activity Name >>								
<< Insert Activity Name >>								
<< Insert Activity Name >>								

KEY: A = Actual; P = Potential; N = No Interrelationships Likely

INTERRELATIONSHIPS BETWEEN CORPORATE BUSINESS UNITS

Discussion

The purpose of this section is to systematically analyze current and potential interrelationships between business units.

A commonly used line in many planning textbooks and planning speeches is that, "corporate strategy makes the company worth more than the sum of the individual businesses." The key question for business executives, however, is, "How?" Some books go one step further and answer this question with the perfectly correct, "By maximizing the value of the interrelationships between the business units." However, the key question for business executives is, again, "How?"

The theoretically correct answer is to analyze each strategically relevant activity and to analyze the potential for sharing between each SBU and every other SBU. In practice, for most companies, it's usually sufficient to analyze 'the top ten' corporate (group) activities for possible sharing. Analyzing just 'the top ten' activities gets past the political bickering of how important does an activity have to be for it to be what is called "a strategically relevant activity." It is also politically more difficult for non-supportive managers to complain about analyzing just 10 activities. Once the organization gets accustomed to analyzing ten activities, the process will become the default standard anyway.

A list of the most common forms of sharing are listed on the opposite page. The list (a subset from Michael Porter's list which is found in his book *Competitive Advantage*) should be customized to meet the needs of your company.

The big issue is often, should 'Activity X' be centralized, decentralized, or partially decentralized (a third choice for companies with three or more businesses).

The purpose of this structured methodology is to improve the common all-or-nothing approach into a more sophisticated approach. For example, the question doesn't have to be, "Should *all* information systems be centralized or decentralized?" It is possible that data center support and maintenance of the software subroutine library should be centralized; that applications development should be decentralized; and that local area network support should be partially decentralized.

In practice it is clear to most people that even when an activity is centralized, efforts should be made to meet the needs of the business units, no excuses accepted. What is sometimes less clear is that when an activity is decentralized efforts should be made by the business units to share information and anything else that would benefit the group.

Continuing with the applications development example, a corporation with a decentralized I/S organization might find it beneficial to facilitate an annual meeting of all programmers from all business units so that they can exchange ideas and software and information on future development plans.

For merger and acquisition analyses, this systematic method for analyzing potential interrelationships is vital. In practice, when contemplating an acquisition, it is useful to distinguish between potential sharing which will result in increased revenues and sharing which will result in decreased expenses. For completeness, it is also prudent to forecast the cash flow impact over time and to calculate its present value.

EXISTING CUSTOMER LIST FOR << INSERT CORPORATE NAME >>, By SBU

Shown below is a listing of the current customers of << Insert Group Name >>.

Customer Name		Revenue from SBU 1	Revenue from SBU 2	Revenue from SBU 3	...	Revenue from SBU n	Total Revenue for This Customer
1.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
2.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
3.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
4.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
5.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
6.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
7.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
8.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
9.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
10.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
11.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
12.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
13.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
14.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
15.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
16.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
17.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
18.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
19.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
20.	<< Insert Customer Name >>	\$	\$	\$	\$	\$	\$
TOTAL REVENUE:		\$	\$	\$	\$	\$	\$

EXISTING CUSTOMER LIST, BY SBU

Discussion

The purpose of this section is to list existing corporate customers.

A matrix can easily be constructed that shows corporate customers by corporate SBU. In the most simple case, for each corporate customer, place an 'X' under each SBU from which the customer currently purchases products and services.

The table on the opposite page goes one step further and lists the revenue of each corporate customer by strategic business unit. Depending upon the time of year and the information available, the data could represent last year's revenue, revenue for the last 12 months, or year-to-date figures. If the company's management information system is sophisticated enough, the profitability of each customer could be listed by SBU as well.

However, the main goal of this analysis is to maximize cross-selling opportunities. Each business (i.e., the sales manager of each business) should be familiar with the total corporate relationship of each major corporate customer. This information can be useful for making a proposal; for planning a multi-business pricing arrangement; or for building a product or service that requires two or more business units to collaborate.

Existing corporate customers which are not current customers of a particular SBU are often the best potential customers for that SBU.

POTENTIAL CUSTOMERS REQUIRING COORDINATION ACROSS SBUs

Shown below is a listing of potential customers of << Insert Group Name >>.

Potential Customer	Percent Likely to Close	Estimated Annual Revenue	Estimated Annual Profit	Comment
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
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	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	
	%	\$	\$	

POTENTIAL CUSTOMERS REQUIRING COORDINATION ACROSS SBUS

Discussion

The purpose of this section is to list potential corporate customers that are of interest to two or more corporate businesses. (Information regarding potential customers of interest to only one business should be maintained in that SBU's Competitive Strategy document.)

Where possible, potential customers should be ranked in order of priority.

Joint proposals and possibly joint development projects by two or more SBUs may be required to win new business.

In practice, the list of potential customers leads to an excellent discussion on how to win the business by a cross-section of business executives. The discussion on potential customers helps to focus the whole organization on the customer.

MAJOR PROGRAMS AND ACTION PLANS

Listed below are the product plans and major programs that will be implemented in order to support the business strategy.

* **Major Program:**
Benefit(s) Expected:
Tactical Plan:
Time Frame:
Person Responsible:
Discussion:

* **Major Program:**
Benefit(s) Expected:
Tactical Plan:
Time Frame:
Person Responsible:
Discussion:

* **Major Program:**
Benefit(s) Expected:
Tactical Plan:
Time Frame:
Person Responsible:
Discussion:

* **Major Program:**
Benefit(s) Expected:
Tactical Plan:
Time Frame:
Person Responsible:
Discussion:

* **Major Program:**
Benefit(s) Expected:
Tactical Plan:
Time Frame:
Person Responsible:
Discussion:

MAJOR PROGRAMS AND ACTION PLANS

Discussion

The purpose of this section is to list all of the major programs and action plans which the corporation (group) intends to perform in order to meet its objectives.

Most of the programs listed in this section should involve or affect two or more corporate SBUs. Programs and action plans that involve acquisitions and divestitures should also be listed here.

General Examples

* **Major Program: Acquire Business XYZ**

Benefit(s) Expected: Expanded product line, increased revenue and increased profits.

Tactical Plan: Use InterAmericas Corp. of Greenwich, CT for investment banking services.

Time Frame: by 3/1/97

Person Responsible: J. Carter

Discussion: We have completed our study of potential interrelationships for cost savings and cross-selling. In anticipation of this near-term acquisition we have put in place a hiring freeze and we have discontinued product development on product X because the target company has an excellent product offering.

* **Major Program: Reduce Employee Health-Care Insurance Overpayments**

Benefit(s) Expected: Save 5% on health care costs per year.

Tactical Plan: We have signed a contract with Oxxford Group to use their proprietary system to screen past and future health care bills for accidental and other overcharges by hospitals and other health-care providers

Time Frame: Implement audit system by 7/1/97

Person Responsible: G. Ford

Discussion: Oxxford Group has been so successful that they charge no fee. They are compensated with a percentage of recovered funds. (The Oxxford Group is located in New York City.)

* **Major Program: Partially Decentralize Applications Development**

Benefit(s) Expected: Better alignment of I/S spending on business objectives; faster development.

Tactical Plan: The 700-person centralized I/S department will be divided into four groups. Each of the three business divisions will be assigned approximately 200 of the I/S staff who will be responsible for their division's application development needs. The fourth group of 100 will be responsible for both corporate systems and for maintaining a subroutine library to be used by the entire corporation.

Time Frame: Reorganize staff by 9/1/97

Person Responsible: S. O'Connor. (O'Connor will also assume the newly established position of chief information officer, reporting directly to the president. O'Connor will have dotted line management responsibility of all application development areas to ensure continued economies of scale in software development.)

Discussion: Human resources has been working closely with the I/S management team to ensure both a smooth transition and also an opportunity for 20% of the I/S staff to rotate between divisions each year. This will improve opportunities for I/S staff members to enhance their careers, as well as ensure knowledge transfer throughout the I/S organization.

OPPORTUNITY IDENTIFICATION

Listed below are potential opportunities which will be analyzed to better understand their impact on our competitive position:

- *
- *
- *
- *
- * By modifying the strategy of << Insert SBU Name >> we will improve the competitive position of the group. Specifically, we will.....
- * Merge with << Insert Corporate Name >>
This will broaden the product line
This will allow us to improve economies of scale due to increased volume in.....
- * Acquire << Insert Corporate Name >>
This will broaden our customer base
This will broaden our access to channels including.....
This will broaden our geographic scope into.....
- * Joint venture with << Insert Corporate Name >>
This will....
- * Divest << Insert SBU Name >> because the sale price we could receive is far more than its shareholder value contribution to << Insert Corporate Name >>. This is because....
- * << Insert Activity Name >> should be outsourced because....
- * << Insert Activity Name >> should be performed in-house instead of by our supplier because....

OPPORTUNITY IDENTIFICATION

Discussion

This section highlights potential opportunities which the company should consider.

This section is very different from the section on major programs and action plans. Theoretically, each major program has already been approved and someone has been assigned to complete the task by a given date. Opportunity identification, on the other hand, looks to the future and attempts to free the mind to formulate creative ideas without having to specify the project details on day one.

To generate ideas, some corporate executives systematically review the corporate profit and loss statement. The goal of this method is to increase every revenue item and to decrease every expense item. The question associated with each line item is simply, "How?" Analyzing the largest potential revenue opportunities and the biggest potential expense reductions is usually the most rewarding use of limited time.

From a very different perspective, it is also advantageous to systematically review every business unit in the company for possible divestiture. More pleasant to most is the concept of starting new businesses or acquiring existing businesses. Opportunities for mergers, joint ventures, and outsourcing should also be considered.

Improving the capital structure of the company represents a potential opportunity that should be continually examined.

Relocating offices, concentrating on different geographical areas of the world, switching suppliers are also potential opportunities which should be discussed.

In practice, this section is often updated the most during a corporate strategy review session with a multi-functional team representing different corporate businesses and functional areas of the firm.

To facilitate the listing of opportunities, the template on the opposite page includes the beginning of common opportunities facing most companies. They should be completed or deleted based on the actual opportunities present.

A final suggestion regarding opportunity identification is that almost all ideas given in earnest should be written down and not immediately discarded. Great ideas are not always obvious to the majority.

CRITICAL SUCCESS FACTORS

The Critical Success Factors (CSFs) for this business group, *ranked in priority order*, are highlighted below:

	Critical Success Factor	Source of CSF	Primary Measures & Targets
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

KEY for sources of critical success factors:

INDUSTRY = Industry CSF resulting from specific industry characteristics.

STRATEGY = Strategy CSF resulting from << Insert Group Name >>'s chosen strategy.

ENVIRONMENT = Environmental CSF resulting from economic or technological changes.

TEMPORAL = Temporal CSF resulting from internal organizational needs and changes.

CRITICAL SUCCESS FACTORS

Discussion

The purpose of this section is to identify critical success factors (CSFs). As mentioned in the discussion on CSFs in both the SBU and SHU template documents, critical success factors are those things which must go right for the organization to achieve its mission.

The advantages of identifying CSFs are that they are simple to understand; they help focus attention on major concerns; they are easy to communicate to coworkers; they are easy to monitor; and they can be used in concert with strategic planning methodologies. Identifying corporate (group) CSFs *in priority order*, measuring results, and rewarding superior performance, will all improve the odds for long-term success.

Two obvious CSFs facing all corporations are: 1) selecting the optimal mix of businesses in which to compete; and 2) maximizing the interrelationships between corporate businesses.

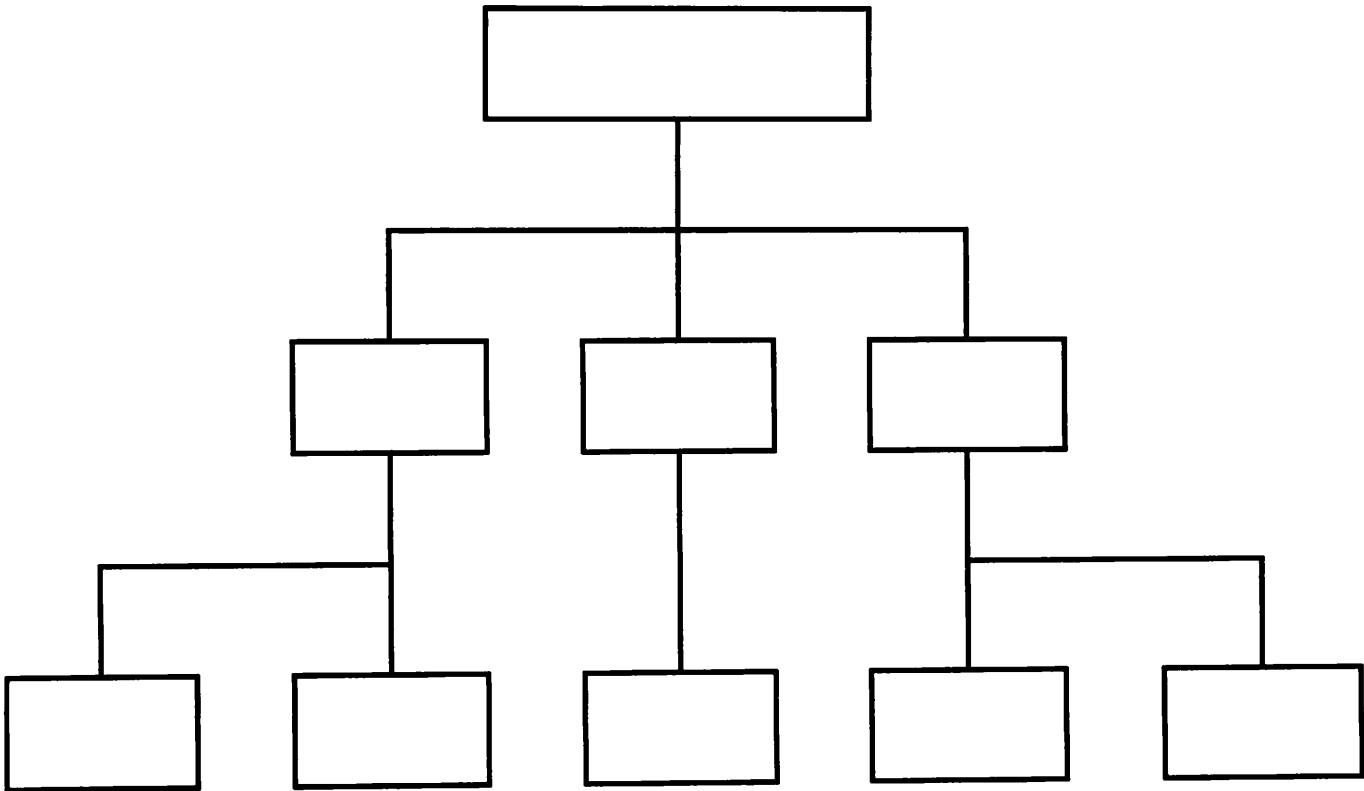
Example of Critical Success Factors for Financial Software Company XYZ:

<u>CRITICAL SUCCESS FACTOR</u>	<u>Source of CSF</u>	<u>Primary Measure & Target</u>
1. Maximize shareholder value	Industry	Stock price; discounted cash flow analysis.
2. Optimize business mix	Strategy	Weighted average of industry attractiveness scores of corporate businesses.
3. Maximize tangible interrelationships between SBUs	Strategy	Dollar amount of cross-selling; Dollar amount of savings from sharing; Feedback from SBU and SHU managers.
4. Restructure capital structure	Environmental	Lower cost of capital by 2%.
5. Develop succession plan	Strategy	Succession plan in place by 3/31/97.
6. Improve Employee Morale	Temporal	Employee retention rate above 95% / yr. Improved employee survey results; Improved attendance records.
7. Improve corporate wide strategic planning process	Strategy	High-quality planning process in place by year-end.

ORGANIZATION CHART

ORGANIZATION CHART

A high-level organization chart for << Insert Corporate Name >> is presented below.



A biography of...

ORGANIZATION CHART

Discussion

The purpose of this section is to present an organization chart.

In general, organization charts are:

1. Becoming flatter, with fewer layers of management;
2. Changing more frequently as restructuring occurs more frequently;
3. Less precise as multiple lines of reporting are more common;
4. Relatively less important every year;
5. Still reviewed by many with great excitement and other emotions.

In some cases, especially for start-up companies, it is useful to present a brief biography of each of the top officers of the company.

CONSOLIDATED FINANCIAL ANALYSIS & STRATEGIC HEALTH

The financial and strategic health of << Insert Corporate Name >> are analyzed via the following:

- * Consolidated Income Statement
- * Consolidated Balance Sheet
- * Shareholder Value Analysis
- * Human Resource Allocation by Business Unit and by Activity
- * Supplier Analysis
- * Consolidated Strategic Balance Sheet.

CONSOLIDATED INCOME STATEMENT

(as of 12/31)	1996 ACTUAL (in 000's)	1997 Estimates (in 000's)	1998 Estimates (in 000's)
Revenues			
Revenues from SBU 1	\$	\$	\$
Revenues from SBU 2	\$	\$	\$
Revenues from SBU 3	\$	\$	\$
Revenues from SBU 4	\$	\$	\$
Revenues from SBU 5	\$	\$	\$
Revenues from SBU 6	\$	\$	\$
Revenues from SBU 7	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
Revenues from SBU n	\$	\$	\$
TOTAL REVENUES:	\$	\$	\$
Expenses			
Expenses from SBU 1	\$	\$	\$
Expenses from SBU 2	\$	\$	\$
Expenses from SBU 3	\$	\$	\$
Expenses from SBU 4	\$	\$	\$
Expenses from SBU 5	\$	\$	\$
Expenses from SBU 6	\$	\$	\$
Expenses from SBU 7	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
Expenses from SBU n	\$	\$	\$
TOTAL EXPENSES:	\$	\$	\$
PRE-TAX PROFIT:	\$	\$	\$

CONSOLIDATED FINANCIAL ANALYSIS & STRATEGIC HEALTH

Discussion

This section presents standard financial statements as well as additional *strategic statements* to more fully analyze the strategic health of the corporation (group).

Additional financial statements (e.g., a cash flow statement) should be added as appropriate to meet the needs of the corporation.

The importance of sound and accurate financial statements cannot be stressed enough. But to rely only on financial statements alone would be very dangerous. Two companies with identical financial statements as of today could have totally different futures.

Taken together, however, the standard financial statements and the strategic statements present a more complete picture of the health of the company.

The general rule is that a corporation (group) is a combination of two or more SBUs. The financial and strategic health of each SBU should be analyzed in detail and discussed in the appropriate SBU document. The corporate financial reporting in this document should focus on the consolidation of the SBU data and on issues that concern two or more businesses;

Examples of financial issues which cut across businesses include: corporate capital structure; corporate cash flow needs; hedging foreign exposures; setting reserves; insurance and more.

CONSOLIDATED INCOME STATEMENT

This section presents a standard consolidated income statement.

Consolidated revenues and expenses can be represented by either *the sum of all SBUs by P&L line item*, or by *the sum of all revenues and expenses by SBU*. The latter case is shown on the opposite page. Both are informative.

CONSOLIDATED BALANCE SHEET

(as of 12/31)	1996 ACTUAL (in 000's)	1997 Estimates (in 000's)	1998 Estimates (in 000's)
Asset Number 1	\$	\$	\$
Asset Number 2	\$	\$	\$
Asset Number 3	\$	\$	\$
Accounts Receivable	\$	\$	\$
Prepaid Expenses	\$	\$	\$
Equipment	\$	\$	\$
.	\$	\$	\$
.	\$	\$	\$
.	\$	\$	\$
Asset Number N	\$	\$	\$
TOTAL ASSETS:	\$	\$	\$
Liability Number 1	\$	\$	\$
Liability Number 2	\$	\$	\$
Liability Number 3	\$	\$	\$
Accounts Payable	\$	\$	\$
.	\$	\$	\$
.	\$	\$	\$
.	\$	\$	\$
Common Stock	\$	\$	\$
Retained Earnings	\$	\$	\$
	\$	\$	\$
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY:	\$	\$	\$

CONSOLIDATED BALANCE SHEET

Discussion

This section presents a standard consolidated balance sheet for the corporation.

SHAREHOLDER VALUE ANALYSIS

YEAR	Revenue From SBU 1 Input	Revenue From SBU 2 Input	Other Revenue Input	Total Revenue Computed	Total Expenses Input	Before Tax Cash Flow Computed
1	\$	\$	\$	\$	\$	\$
2	\$	\$	\$	\$	\$	\$
3	\$	\$	\$	\$	\$	\$
4	\$	\$	\$	\$	\$	\$
5	\$	\$	\$	\$	\$	\$
6	\$	\$	\$	\$	\$	\$
7	\$	\$	\$	\$	\$	\$
8	\$	\$	\$	\$	\$	\$
9	\$	\$	\$	\$	\$	\$
10	\$	\$	\$	\$	\$	\$

YEAR	After-Tax Cash Flow Computed	Discount Factor Given	Present Value of Cash Flow Computed	Cumulative PV of Cash Flow Computed	
1	\$	.8696	\$	\$	Residual Value (input):
2	\$	.7561	\$	\$	\$
3	\$	.6575	\$	\$	Residual Value After Taxes:
4	\$	.5718	\$	\$	\$
5	\$	.4972	\$	\$	PV After-Tax Residual Value:
6	\$	.4323	\$	\$	\$ (2)
7	\$	.3759	\$	\$	
8	\$	.3269	\$	\$	
9	\$	.2843	\$	\$	
10	\$	.2472	\$	\$ (1)	

Present Value of Investment Portfolio (input) \$ (3)

Shareholder Value Based on: "Corporate Strategy XYZ" (computed) \$ (1+2+3)

SHAREHOLDER VALUE ANALYSIS

Discussion

The purpose of this section is to analyze the shareholder value of the corporation

The table on the opposite page is a general and simplified format that can be customized and used by most corporations (including companies without shareholders). The overall concept is that money comes in to the corporation from one or more sources and cash goes out as well. The goal is to identify net cash flows by year and to appropriately discount those cash flows.

Alternatively, the shareholder value of each SBU can be computed individually and the company can be viewed as the sum of the shareholder values of all corporate businesses (plus the present value of the corporate investment portfolio, if any).

Many corporations would be better off to think of their 'important' businesses not just in terms of those with large revenues, high market share, or relatively high number of employees, but in terms of shareholder value as measured by a discounted cash flow analysis. Time and again, corporate management will be surprised that many of the not-so-large businesses, which are often buried in the combined financial statements, are the businesses that truly increase shareholder value.

In the cash flow analysis presented on the opposite page, shareholder value is computed as the sum of:

- 1) the 10-year discounted cash flow from all operations;
- 2) the residual value of the company, discounted, assuming the company is sold at the end of the 10th year;
- 3) the present value of the corporate investment portfolio.

A few notes regarding using the shareholder value method:

- 1) The time horizon can be other than ten years - whatever time horizon is appropriate for the industry.
- 2) The discount rate should be a function of the industry, the projected economic environment, and the timing of the cash inflows and outflows.
- 3) A high discount rate ensures that the forecast for the first few years will be weighted significantly more than the outer years when forecasts are often over optimistic. The valuation will likely be more reliable.
- 4) Different corporate strategies will result in different shareholder value estimates. For example, changing the corporate business mix will generally have a significant impact on shareholder value.

Shareholder Value Notes and Assumptions

Listed below are notes and assumptions which were used in the shareholder value analysis presented on the previous page for << Insert Corporate Name >>.

Notes

- * Shareholder Value = (Cumulative Present Value of Net Cash Flows for 10 years)
+ (Present Value of Investment Portfolio)
+ (Present Value of After-tax Residual Value)
- * Tax Rate at 35%
- * Discount Rate of 15%.
- * Revenues include
- * Expenses include
- * Residual Value refers to how much the company will be worth at the end of the ten years, based on recent comparable sales (liquidation value) and projected sales at the end of the forecast period. Sales price is estimated at....

Assumptions

- * We will acquire.....
- * We will divest....
- * Our capital structure will....
- * Our dividend policy will....
- * Our environmental exposure will....
- * Pending and future litigation against us (excluding environmental litigation) will....
- * Our future facilities will....
- * Pensions costs will....
- * Health care costs will....
- * Economic assumptions include....
- * Other assumptions include....

Shareholder Value Analysis Summary

- * Financial position of the company:

- * Financial position of the company compared to outright sale value (liquidation value) today:

SHAREHOLDER VALUE ANALYSIS (Continued)

Discussion

This page continues the shareholder value analysis with a listing of notes and assumptions used in conjunction with the development of the shareholder value computation. This is followed by a brief commentary on the shareholder value of the company itself.

The notes and assumptions help to link the forecasted revenue and expense data to reality and to a specific strategy. For example, "Divest Business Unit Seven for \$62 million by 7/1/97 and Acquire Business XYZ by 12/31/97 for \$50 million."

The forecast may be right or wrong, but at least the financial projections can be related to the business environment.

In practice, business managers often prepare at least two shareholder value analyses based on different assumptions. For example, a "rosy" scenario based on the successful acquisition of an innovative start-up company with proprietary products, and a "conservative" scenario based on a less successful strategy. Alternative strategies should be weighed in terms of their impact on shareholder value (discounted cash flow).

Theoretically, there are an endless number of strategies that could be pursued, each with its own implications for success and shareholder value.

Personal computers loaded with spreadsheet software have enabled financial analysts to crunch numbers effortlessly. The key, however, is to link the industry forecasts and the competitive position of the corporate businesses with the financial input data fed into the spreadsheet calculations.

Shareholder Value Analysis Summary

If this is the first time the company is computing its shareholder value, the results could be surprising. The most dramatic surprises often result from different scenarios based on changing the business mix including selling most or all of the corporate businesses. In those situations where the parts are worth significantly more than the whole, executive management (and the board of directors) must confront the reality that based upon the current strategy of the businesses, *corporate management and the corporate structure are a drag on shareholder value*. Rationalization for the company to remain intact is not an unlikely outcome of this exercise.

HUMAN & FINANCIAL RESOURCE ALLOCATION BY SBU AND BY ACTIVITY

***FIRM ACTIVITIES	Number of Employees Applied				TOTAL # of Staff Applied	TOTAL Activity Costs (\$000's)
	SBU 1	SBU 2	---	SBU n		
FIRM INFRASTRUCTURE						
General Management					0	\$ 0
Strategic Planning					0	\$ 0
Financial Reporting; Budgets; Cash Flow					0	\$ 0
Corporate Accounting & Treasury Activities					0	\$ 0
Taxes					0	\$ 0
Auditing					0	\$ 0
Legal Services					0	\$ 0
Real Estate & General Corporate Services					0	\$ 0
HUMAN RESOURCE MANAGEMENT						
Human Resource Management					0	\$ 0
Corporate Training & Development					0	\$ 0
Employee Benefits; 401k; Pensions; Life/Health					0	\$ 0
Employee Payroll					0	\$ 0
TECHNOLOGY DEVELOPMENT (Procedures / R&D)						
Research & Development of New Products					0	\$ 0
PROCUREMENT (the function of purchasing inputs)						
Develop Relationships and Monitor Key Suppliers					0	\$ 0
General Purchasing & Distribution of Supplies					0	\$ 0
Travel- Related Purchasing					0	\$ 0
OPERATIONS (Build product; provide service)						
Product Management Activities					0	\$ 0
Application Development					0	\$ 0
<< Insert Activity Name >>					0	\$ 0
					0	\$ 0
					0	\$ 0
					0	\$ 0
MARKETING & SALES (Pre-sale activities)						
Sales and Marketing Management					0	\$ 0
Market Research					0	\$ 0
Selling					0	\$ 0
Trade Press, Communications, Advertising					0	\$ 0
CUSTOMER SERVICE (Post-sale support)						
Customer Billing					0	\$ 0
Customer Account Service					0	\$ 0
Customer Technical Service					0	\$ 0
TOTALS:					0	\$ 0

HUMAN AND FINANCIAL RESOURCE ALLOCATION BY SBU & BY ACTIVITY

Discussion

The purpose of this most revealing analysis is to identify all of the strategically relevant activities that the company (group) performs, along with the number of people who perform each activity, by SBU.

The example shown on the opposite page should be customized to the needs of your company.

Identifying how many people are working on each business activity can be determined fairly quickly.

In many companies, especially in service-based industries, personnel-related expenses (salaries, benefits, office space) approximate 70% or more of the company's expenses. Given that people-related costs are often very large, and because people can be re-allocated, this analysis is most important.

In practice, this report receives a great deal of attention. In fact, when the president or group executive of a company is presented with this human resource allocation matrix, it is likely that numerous re-allocation possibilities will come to mind immediately. Although cutting staff is most common, shifting staff and adding staff is often the result as well.

A common surprise to executives at companies with large centralized departments is that after dividing (correctly allocating) the centralized staff among the SBUs, there is less real support than previously perceived. For example, a 100 person centralized sales staff sounds huge until it's appreciated that 28 people are administrative staff and the remaining 72 sales professionals are selling products and services nationwide for eight businesses. Therefore, the average nationwide full-time complement of sales resources, per business, is only *nine*.

For companies with one hundred people or one hundred thousand people, this table is very informative and extremely valuable for resource allocation purposes.

SUPPLIER ANALYSIS

In order to control costs....

SUPPLIER NAME	SBU 1	SBU 2	SBU3	---	SBU n	TOTAL
<< Insert Supplier #1 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #2 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #3 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #4 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #5 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #6 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #7 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #8 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #9 >>	\$	\$	\$	---	\$	\$
<< Insert Supplier #10 >>	\$	\$	\$	---	\$	\$

<< Insert Supplier #1 >> provides.... There are << choose one: many; few; no >> other suppliers which we can use at our option. Our approach to improve quality and to lower costs will be to...

<< Insert Supplier #2 >> provides.... There are << choose one: many; few; no >> other suppliers which we can use at our option. Our approach to improve quality and to lower costs will be to...

<< Insert Supplier #3 >> provides.... There are << choose one: many; few; no >> other suppliers which we can use at our option. Our approach to improve quality and to lower costs will be to...

Using << Insert Corporate Name >>'s buyer power, our plans to bargain down costs and to improve vendor performance include....

SUPPLIER ANALYSIS

Discussion

Almost all companies understand the pressure of customers bargaining down prices and demanding better service. From the opposite side of the table, not all companies systematically review the quality and pricing of their suppliers.

There are numerous reasons why many companies don't pressure their suppliers. Some companies are too profitable and haven't felt the need; some believe it's unprofessional or beneath them; and others don't negotiate with suppliers because it was never part of the corporate culture.

A first step for those companies not accustomed to systematically reviewing vendors is to request (from the accounts payable department) a report of the top 100 vendors used by your company. The report should list vendors in descending order of amount paid. The report is an attention grabber.

In many cases, just asking the vendor for a discount, especially when armed with a proposal from an alternative supplier, will result in price concessions.

For example, bank operating fees and expenses have been falling for years, and there is a tremendous amount of over capacity in the banking system. Bank customers who have not switched banks in many years often pay higher fees than do new corporate customers who bargain down prices. It's possible (though not guaranteed) that if your company requests a 10% price reduction you may just get the reduction for the asking (especially if you indicate that without the reduction you will initiate a request for proposal from other banks to help streamline your banking costs).

Negotiating with vendors is often a fast, easy, and meaningful way to improve profitability. Most strategic moves take a year or more to pay off. *Using your buyer power often brings results in months.* The key, however, is to carefully evaluate how dependent your company is on a particular vendor and to increase your buyer power by having alternative suppliers available who can match or outperform that vendor.

CONSOLIDATED STRATEGIC BALANCE SHEET

(as of 12/31/96)

STRATEGIC ASSETS	Weighting Factor	1996	1995	1994
Corporate Strategy				
Corporate Culture				
Sharing Between Businesses for Cost Savings				
Cross-Selling Between Businesses				
Corporate Image				
Overall Effectiveness of Advertising Programs				
Investor Relations				
Overall Customer Service Quality				
Number and Size of Pending Law Suits				
Environmental Exposure				
Information Technology Infrastructure				
Number of Employees				
Employee Morale				
Employee Skill Level				
Employee Retention Rate				
Corporate Overhead				
Overall Cost Structure Efficiency				
Organizational Effectiveness				
Capabilities of Corporate Management				
Board of Directors Effectiveness				
Influence of Shareholders				
Corporate Financial Structure				
Corporate Credit Rating				
Annual Revenue				
Annual Profit				
Margins				
Net Income Per Employee				
Stock Price				
Dividends Paid				
Estimated Break-up Sale Price				

CONSOLIDATED STRATEGIC BALANCE SHEET

Discussion

The purpose of this section is to complement traditional financial analyses with measures of strategic health that are not presented in standard financial statements alone.

As mentioned earlier, two companies with identical financial statements are not necessarily equal. One company could be on the verge of a major upturn, the other could be out of business next year. Financial statements are important, but they alone do not tell the whole story regarding the health of a company. Too often, financial statements are views of the past; and they are subject to (fully legal) manipulation by accounting procedures.

The purpose of the *consolidated strategic balance sheet* is to make up for the deficiencies of the consolidated financial statements by specifically measuring those things which are relevant to the health of a company and not presented in the financial statements.

An example of a consolidated strategic balance sheet is shown on the opposite page. It should be customized to meet the needs of your company.

For example, a consolidated strategic balance sheet for a commercial bank might include a line item for its "community reinvestment rating." An automobile company might include "relationship with labor union" and "percent of vendors using electronic data interchange."

Example of Consolidated Balance Sheet for Diversified Company XYZ

Strategic Assets	Weighting Factor	<u>1996</u>	<u>1995</u>	<u>1994</u>
..				
..				
Corporate Culture	4	Real Cooperation	Forced Teamwork	Competitive
Sharing Between Businesses	4	Moderate	Some	None
Cross-Selling Between Businesses	4	20% New Sales	12% New Sales	10% New Sales
I/T Infrastructure	4	Streamlined	Confused	Simple
Board of Directors Effectiveness	4	Effective	Nil	Nil
Influence of Shareholders	3	Positive	Nil	Nil
Corporate Credit Rating	5	A	B	B
Net Income Per Employee	5	\$53,000	\$47,000	\$43,000
..				
..				

There are sometimes other strategic balance sheet items that should be discussed, even if not written down. For example, relationships with influential people in government and industry could be a major asset. Being the friend of, or being related to, the minister of finance of country XYZ clearly has value if your company is planning to expand in that country.

In short, all factors which affect the strategic health of the company should be measured and analyzed, and not overlooked because they are not listed on traditional financial statements.

TACTICAL BUSINESS OPPORTUNITIES & WHAT-IF ANALYSIS

TACTICAL BUSINESS OPPORTUNITIES

The tactical business scenarios listed below are discussed in terms of major highlights associated with each scenario.

Potential Target Acquisitions (if any)

The

Joint Venture Opportunities (if any)

The.....

Outsourcing Opportunities (if any)

The.....

Sale of Business Opportunity (if feasible)

The.....

WHAT-IF ANALYSIS

Finally, some internal and external events which may occur, along with the most likely response by the << Insert Corporate Name >> business, are listed below:

EVENT: Purchase Company X

LIKELY RESPONSE:

EVENT: Divest Business Y

LIKELY RESPONSE:

EVENT: Major competitor buys another competitor and doubles their market share.

LIKELY RESPONSE:

EVENT: Major competitor signs strategic alliance with largest Russian and Chinese companies in this field.

LIKELY RESPONSE:

EVENT: Environmental exposure at site X used by businesses 1 and 2

LIKELY RESPONSE:

EVENT: Uninvited investor buys 15% of company with plans to acquire 51% stake.

LIKELY RESPONSE:

EVENT:

LIKELY RESPONSE:

TACTICAL BUSINESS OPPORTUNITIES & WHAT-IF ANALYSIS

Discussion

TACTICAL BUSINESS OPPORTUNITIES

The purpose of this section is to discuss important tactical decisions that most corporations face at some time.

The major tactical plans listed below should, like all other corporate plans, be considered within the context of the corporate strategy. They include:

- (1) Acquiring or merging with another company;
- (2) Joint venturing, which refers to pooling resources with another company;
- (3) Outsourcing, which refers to purchasing a product or service previously produced internally;
- (4) Selling one or more corporate businesses.

WHAT-IF ANALYSIS

The purpose of this section is to provide an open ended opportunity to ask "what-if" questions regarding any aspect of the company, the corporate strategy, or the corporate environment.

The what-if analysis should include discussions regarding potential internal and external events.

What-if analysis is a simple way to deal with uncertainty. Anyone reviewing the corporate plan should be free to add to the list of what-if questions. What-if analysis greatly improves the company's ability to respond quickly and effectively to a wide variety of potential events. What-if analysis is also useful for analyzing first-strike moves as well.

GLOSSARY & ABBREVIATIONS

GLOSSARY

Corporate Term 1 -

Corporate Term 2 -

Corporate Term 3 -

ABBREVIATIONS

CSF - Critical Success Factor

EIS - Executive Information System

GAAP - Generally Accepted Accounting Principles

I/S - Information Systems

I/T - Information Technology

M&A - Mergers and Acquisitions

MIS - Management Information System

M - Million(s)

P&L - Profit and Loss (Statement)

PV - Present Value

ROE - Return on Equity

SBU - Strategic Business Unit

SHU - Strategic Horizontal Unit

GLOSSARY AND ABBREVIATIONS

Discussion

The purpose of this appendix is to define terms and abbreviations used within the corporation in order to promote a common language to facilitate meaningful communication.

In practice, the glossary and list of abbreviations are very helpful because the cross-section of business managers who represent different areas of the corporation are not always accustomed to the terminology of all other functional areas.

Development of the Corporate (Group) Strategy

CHAPTER 4 SUMMARY

Chapter highlights:

- ✓ Clarify corporate vision and corporate objectives.
- ✓ Clearly identify all strategically relevant corporate businesses.
- ✓ Add and delete businesses to obtain optimal mix of businesses.
- ✓ Optimally coordinate the efforts of all corporate businesses.
- ✓ Monitor results and continuously re-allocate resources in order to maximize corporate value.

The following chapter discusses implementation.