

ONE

**The Strategic Business Plan (SBP)
- Strategic Section**

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Chapter Objectives

Given the information in this chapter, you should be able to:

1. Outline the strategic section of the Strategic Business Plan (SBP).
2. Interpret the SBP guidelines by examining the plan of an actual company.
3. Apply planning guidelines to developing your own SBP.

Overview

Now that you have viewed the compelling reasons for developing a reliable plan and surveyed the numerous outcomes you can expect from a SBP, you are ready to develop your own plan that would give you a competitive edge.

To obtain optimum results from a SBP requires following a process, which is diagrammed in Figure 1.1. (Each section of the SBP diagram will be highlighted as the material is discussed in the text.) As you examine the flowchart, notice that the top row of boxes represents the *strategic* portion of the plan and covers a 3 to 5-year timeframe.

The bottom row of boxes displays the *tactical* 1-year plan. Although these sections – strategic and tactical – are discussed in separate chapters for ease of explanation, in actual form it is the merging of the strategic plan and the tactical plan into one unified SBP that makes it a complete format.

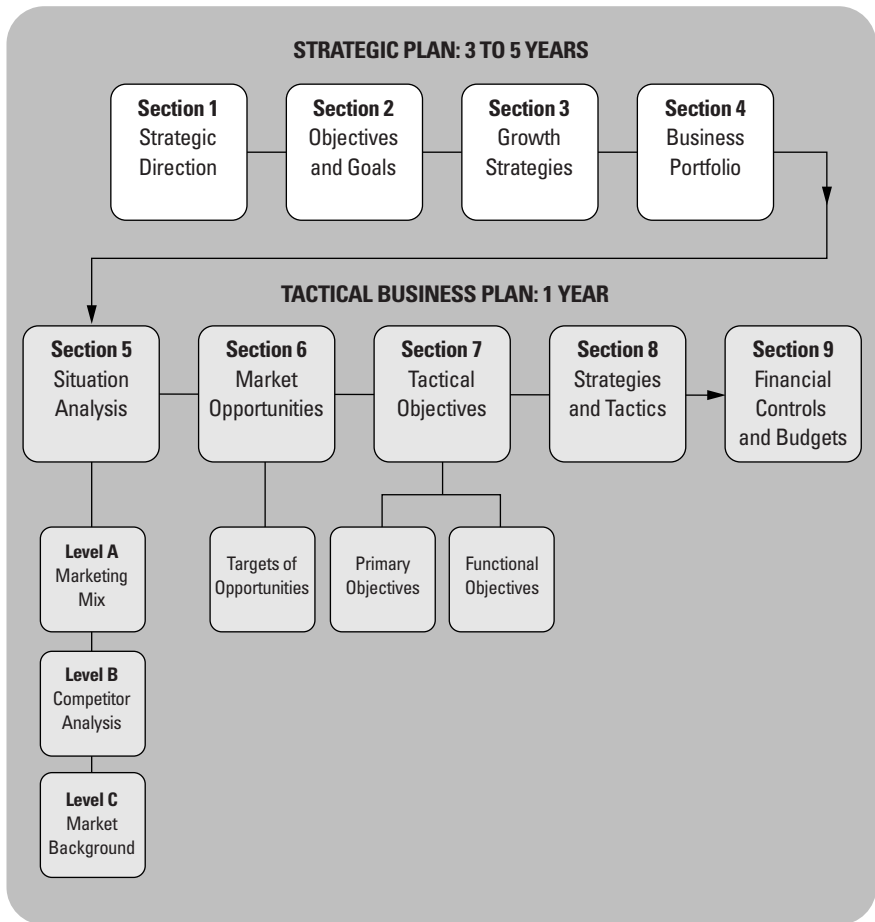


FIGURE 1.1. STRATEGIC BUSINESS PLAN

You will find that following the SBP process will add an organized and disciplined approach to your thinking. Yet the process in no way confines your thinking or creativity. Instead, it enhances your inventiveness and extends a strategic vision that elevates the creative process. In turn, that vision can pay off in abundant opportunities expressed through markets, products, and services.

This chapter addresses the strategic portion of the SBP (Figure 1.1, Sections 1-4.) The following chapter addresses the tactical plan (Figure 1.1, Sections 5-9.) To make the most comfortable learning experience for you, the following format is used for each section:

- **Planning Guidelines:** Each section of the SBP is defined with point-by-point directions to help you master the process.
- **Application:** A sample plan of an actual company illustrates each part of the plan. Where appropriate, additional commentary is added to more fully explain their usage.
- **Working Draft:** As you go through each section, you can make notes and develop your own draft. When completed, you can transfer the notes and any subsequent updates to an extra set of planning forms in the Appendix.

The Strategic Plan: Looking Forward 3 to 5 Years

The strategic plan (top row of boxes in Figure 1.1) represents the managerial process for developing and maintaining a strategic fit between the organization and changing market opportunities. It relies on developing the following sections:

1. a strategic direction or mission statement,
2. objectives and goals,
3. growth strategies,
4. a business portfolio.

Section 1: Strategic Direction

Let's begin with the first box, Section 1. This is where you create a strategic direction for your company, business unit, product, or service. It is also known as a mission or vision statement.

Planning Guidelines

You can use the following questions to provide an organized approach to developing a strategic direction. Your thoughtful answers will help shape the ideal vision of what your company, business unit, or product/service will look like over the next 3 to 5 years. More precisely, it should echo your – and your teams – long-range outlook, as long as it is consistent with overall corporate objectives and policies.

As you think about your strategic direction, consider the following six questions:

1. What are our organization's distinctive areas of expertise?
2. What business should we be in over the next 3 to 5 years?
3. What segments or categories of customers will we serve?
4. What additional functions are we likely to fulfill for customers as we see the market evolve?
5. What new technologies will we require to satisfy future customer/market needs?
6. What changes are taking place in markets, consumer behavior, competition, environment, culture and the economy that will impact our company?

The point of this exercise is that the responsibility for defining a strategic direction no longer belongs exclusively to upper management. Also, there are a host of internal and external issues that can affect your SBP.

For best results, managers from various departments – marketing/sales, product development, manufacturing, finance and logistics – should contribute to defining the strategic direction of the business or individual product.

Let's examine each of the questions:

1. What are our organization's distinctive areas of expertise?

This question refers to your organization's (or business unit's) competencies. You can develop your answer by evaluating the following:

- Relative competitive strengths of your product or service based on customer satisfaction, profitability and market share.
- Relationships with distributors and/or end-use customers.
- Existing production capabilities.
- Size of your sales-force.
- Financial strength.
- R&D expenditures.
- Amount of customer or technical service provided.

Further, where time and resources permit, you can delve into the question by conducting an extensive strengths/weaknesses analysis that serves as a marketing audit. (See Part 4 for a practical format to conduct the analysis.)

2. What business should we be in over the next 3 to 5 years?

The major work in this area of strategic thinking is attributed to Harvard Business School Professor Theodore Levitt¹, in his classic article, 'Marketing Myopia'. Using the railroads as a prime example, Levitt cited how railroads declined in use during the 20th Century as technology advanced and as executives defined that industry too narrowly. He explains that to continue growing, companies must determine customers' needs and wants and not rely simply on the longevity of their products.

According to Levitt, a myopic view is grounded on the following four beliefs that begin in a manager's mind and permeates an organization:

(1) growth is guaranteed by an expanding and affluent population, (2) there is no competitive substitute for the industry's major product, (3) excessive belief in mass production and rapidly declining unit costs as output rises, and (4) preoccupation with a product that lends itself to experimentation and manufacturing cost improvement.

1. T. Levitt, 'Marketing Myopia,' Harvard Business Review (Sept./Oct. 1975), p.28

The key point: looking out the window toward inevitable change, not into a mirror that reflects existing patterns, characterizes the market-driven vs. the product-driven organization.

Table 1.1 illustrates how organizations in a variety of industries express their identity between two orientations: The product-driven or inward-directed orientation, which Levitt calls *myopic* and is characterized by the famous comment of Henry Ford, “Give them any color they want as long as it’s black”. In stark contrast, a former IBM executive describes an outward market-driven or customer-oriented approach as, “This is the year of the customer”.

Note in Table 1.1 how the differing orientations would change the character of an organization and, in turn, become the underpinnings of a company’s (or business units) strategic direction.

Product-Driven Orientation	Market-Driven Orientation
Railroad company	Transportation company
Oil company	Energy company
Baby food manufacturer	Child care business
Cosmetics company	Beauty, fashion, health company
Computer manufacturing company	Information processing company
Electrical wire manufacturer	Energy transfer business
Vacuum cleaner manufacturer	Cleaner environment business
Valve company	Fluid control company

TABLE 1.1. COMPANY IDENTITY AS REFLECTED BY ORIENTATION

To continue growing, therefore, managers must create a viable strategic direction that looks critically at marketable trends and connects them with customers’ needs and wants. Doing so avoids relying on the longevity of existing products to sustain company growth.

The implications of how you strategically position your business for the future determines the breadth of existing and new product lines and the range of existing and new markets served. If you are too narrow (myopic in Levitt's terms) in defining your business, the resulting product and market mix will be generally narrow and possibly too confining for growth.

On the other hand, defining your business too broadly can result in spreading capital, people and other resources beyond the capabilities of the organization. You can create a comfortable balance by positioning your business somewhere between the extremes of the two orientations.

Therefore, first examine the culture, skills and resources of your organization. Second, consider such factors as customer needs, business functions to be enhanced or added, and types of new technologies you need to compete successfully. The answers will emerge through the question and answer process suggested in this section.

3. What segments or categories of customers will we serve?

Customers exist at various levels in the supply chain and in different segments of the market. At the end of the chain are end-use consumers with whom you may or may not come in direct contact.

Other customers within the distribution channel serve as intermediaries and typically perform several functions. Intermediaries include distributors who take possession of the products and often serve as a warehousing facility.

Still, other intermediaries repackage products and maintain inventory control systems to serve the next level of distribution, and there are value-added resellers that provide customer service, technical advice, computer software, or educational programs to differentiate their products from those of competitors.

Examining the existing and future needs at each level of distribution helps you project the types of customers you want to target for the 3- to 5-year period covered by the strategic portion of your SBP. Similarly, you will want to review various segments and target those that will provide the best opportunities over the planning period.

4. What additional functions are we likely to fulfill for customers as we see the market evolve?

As competitive intensity increases worldwide, each intermediary customer along the supply chain is increasingly pressured to maintain a competitive advantage. This guideline question asks you to determine what functions or capabilities are needed to solve customers' problems.

More precisely, you are looking beyond your immediate customer and reaching out further into the distribution channel to identify those functions that would solve your customers' *customers'* problems. Such functions might include providing computerized inventory control, after-sales technical support, quality control programs, just-in-time delivery, or financial assistance. Overall, this question relates to the 'myopia' issue that defines the business in terms of customer needs.

5. What new technologies will we require to satisfy future customer/market needs?

Within the framework of the previous question and the practices of your industry, examine the impact of technologies to satisfy your customers' needs. Look at where your company ranks with the various technologies and types of software used for product design and productivity, manufacturing, and distribution systems. Look, too, at the continuing changes in information technology (IT) and business intelligence with its resulting effects on product innovation and market competitiveness.

Also appraise such emerging technologies as expert diagnostic systems for problem-solving and the rapidly changing communications systems to manage and protect an increasingly wireless enterprise.

6. What changes are taking place in markets, consumer behavior, competition, environment, culture and the economy that will impact on our company?

This form of external analysis permits you to sensitize yourself to those critical issues that relate to markets, customers, competition and the industry. They can range from local economic conditions to broad governmental regulations. As you will see, all can impact on your SBP.

Answering these six questions allows you to make a long-term visionary inquiry that becomes the underpinnings of your strategic direction. That is, as long as it complements the overall policies of your organization. As will be shown in a later section of the SBP, the strategic direction permits you to accurately define market expansion, product development and service offerings.

What follows is an application of a strategic direction for a single product line within a diversified global healthcare organization. The statement comes directly from its actual SBP. To maintain the company's anonymity, we will call it ZNI-Tech Corp.

One division of the company manufactures hypodermic products for the healthcare field. ZNI will be used to illustrate applications throughout the SBP. Only enough of the actual plan is provided to illustrate the guidelines. For security reasons, minor changes were made in the plan to further disguise the actual identity of the company. Also, commentary is added where needed to further clarify the application.

Application

Our strategic direction is to meet the needs of consumers and healthcare providers for drug-delivery devices by offering a full line of hypodermic products and product systems. Our leadership position will be maintained through internal research and development, licensing of technology, and/or acquisition options to provide alternative administration and monitoring systems.

COMMENTARY

ZNI's primary product is the hypodermic needle. The strategic direction could have stated simply that the company is a manufacturer of hypodermic needles. That would have been far too 'myopic' and restrictive for growing and maintaining a dominant competitive position.

The broader interpretations of 'drug delivery devices' and 'product systems' certainly incorporate ZNI's core business of hypodermic needles. The important issue, however, is that it excites the mind to create fresh opportunities for product designers to develop new products and services.

For example, devices exist and are under development that eliminates the necessity for needles. Instead, delivering drugs to the body can be accomplished through new forms of pills and internally implanted pumps with sensors to control the release of the drug within the body.

Other devices that look like writing pens with drug-filled cartridges are alternatives to the syringe and needle. And still other product systems incorporate monitoring devices to measure medical effectiveness of the drug and automatically calculate the amount of dosages required for an individual patient.

With a measure of creativity even broader considerations of the strategic direction could impact on markets, products, technologies and services. These include: safe disposal systems for needles and syringes linked to increasing environmental concerns; product configurations by types of diseases, geographic location, culture, and demographics within a target population segment; and systems that calculate for the severity of an illness and its contagious impact on unprotected groups.

Therefore, by conceiving a broader interpretation of a business – from railroad to transportation – helps avoid the negative impact of a shrinking market position due to older technologies. Taking time to develop a well-thought out strategic direction provides an organized framework to extend your thinking to what your company or product line can or should become within an achievable timeframe of 3 to 5 years.

Although the example used here represents a division of a company, the same thought process is appropriate for a product line within a mid-size organization – and certainly within a small single-product company.

Look again at ZNI's strategic direction. In addition to product systems and services, the statement refers to a 'leadership position'. ZNI's existing position certainly could be maintained through internal R&D, however, the broader thinking also opens a pathway to new products, devices, systems, and services through licensing of technology, acquisition, joint ventures, and a variety of other forms of strategic alliances.

Working Draft

You are now ready to write your own first draft of a strategic direction. Initially, avoid the myopic, narrow approach and think as broadly as you can, using the six-guideline questions and the Help Topics in Part 5. Then, adjust your position within the range of narrow to broad direction, and write a statement that provides a realistic strategic direction for your company, business unit, or individual product.

As you reflect on the above questions and examples, also consider the leadership and culture of your organization. Is it passive, conservative, or aggressive? What value systems and patterns of behavior tend to govern the long-term and day-to-day management decisions? Look, too, at available resources: Are there adequate funds available? Are the human resource skills adequate?

Serious deficiencies in your organization may prevent you from realizing your strategic direction. As you will see later in the planning process, you can correct some deficiencies by developing SBP objectives that address organizational and human resource factors to help you sharpen your vision.

Note, too, while ZNI's strategic direction is written in one paragraph, you can write yours in one sentence or two paragraphs. That means, write it in a format and to whatever length to communicate to your management a clear statement to cover 3 to 5 years.

Now begin to write your own working draft of a strategic direction. First, answer the following questions and then compress the output into a single statement, as illustrated in the ZNI application.

1. What are our organization's distinctive areas of expertise?
2. What business should our firm be in over the next 3 to 5 years?

How will it differ from what exists today?

3. What segments or categories of customers will we serve?
4. What additional functions are we likely to fulfill for customers as we see the market evolve?
5. What new technologies will we require to satisfy future customer/market needs?
6. What changes are taking place in markets, consumer behavior, competition, environment, culture and the economy that will impact our company?

Our strategic direction _____

Section 2: Objectives and Goals

Planning Guidelines

State your objectives and goals both quantitatively and non-quantitatively. Your primary guideline is that they have a strategic focus with a timeframe of 3 to 5 years. Further, your objectives should have a direct impact on your business and correlate with your strategic direction.

This time period is reasonable for most businesses: short enough to be realistic and achievable in an increasingly volatile marketplace; long enough to be visionary about the impact of new technologies, changing customer behavioral patterns, the global marketplace, emerging competitors and changing demographics.

Quantitative Objectives

Indicate, in precise statements, major performance expectations such as sales growth (dollars/units), market share, return on investment, profit and any other quantitative objectives required by your management. In this section of the SBP the objectives are generally broad and relate to the total business or to a few major segments. (In the tactical phase these will be more specific by products and markets.)

Non-Quantitative Objectives

In addition, consider non-quantitative objectives as setting a foundation from which to build on to your organization's existing strengths and eliminate its internal weaknesses. In turn, your objectives should help you realize your strategic direction. Objectives could span diverse areas from organizational design, distribution networks and strategy teams, to new product development.

Use the following examples to trigger additional objectives for your business. Above all, make your objectives specific, actionable, realistic and focused on achieving a sustainable competitive advantage. Keep them in line with the full scope of your strategic direction.

UPGRADING DISTRIBUTION CHANNELS

This objective relates to the supply chain, which includes any intermediary between your organization and the end user (including distributors, dealers and brokers). Upgrading could include management and sales training,

technical support, installing inventory control systems, or even providing financial assistance.

EXPANDING SECONDARY DISTRIBUTION

As an extension of the above objective, you may need to expand into new geographic segments, such as geographic areas that lack adequate distribution or sales representation. This objective is especially important when you cannot release the sales-force from existing responsibilities and your only viable alternative is to expand through independent distributors.

Also, your organization may need additional linkages in the distribution channel. For example, although direct contact from manufacturer to distributor exists, there could be an opportunity to expand further into the distribution channel by contacting resellers at the next level of distribution.

CONSOLIDATING A SEGMENT POSITION

As a protective measure to consolidate a leadership position, objectives could include: securing long-term sales contracts with key accounts, penetrating strategically important geographic territories by adding more sales and service personnel, or gaining maximum commitment from major distributors through technology transfer and financial assistance. Such objectives would help consolidate your market position and bar entry by aggressive competitors.

BUILDING 'SPECIALTY PRODUCT' PENETRATION

This objective considers both offensive and defensive moves. First, an offensive objective means developing a specialty product dedicated to penetrating a new market segment not held – or lightly defended – by a competitor.

Second, a defensive objective means protecting a dominant position. For instance, developing a specialty product that duplicates or imitates the competitive product, thereby eliminating the uniqueness of the competitor's innovation. Still another defensive objective is to introduce an interim specialty product to 'buy time' until the next major product innovation is introduced.

ESTABLISHING OR IMPROVING BUSINESS INTELLIGENCE SYSTEMS

While this objective emphasizes organizing the inflow of information to identify noteworthy changes in the environment, industry and customers, the primary focus remains on competitors.

Specifically, the intent here is to assess the future impact of the following factors on your business:

1. **Competitors' size** – categorized by market share, growth rate, and profitability.
2. **Competitors' objectives** – rated by both quantitative (sales, profits, ROI) and non-quantitative (product innovation; market leadership; and international, national, and regional distribution.)
3. **Competitors' strategies** – analyzed by internal strategies (manufacturing capabilities, delivery, marketing expertise) and external strategies (distribution network, field support, market coverage, and ability to defend or build market share.)
4. **Competitors' organization** – examined by the leadership, organizational design, culture, management systems and people skills.
5. **Competitors' cost structure** – examined by pricing flexibility, ease or difficulty of exiting a market, and attitudes toward short-term versus long-term profitability.
6. **Competitors' overall strengths and weaknesses** – identified by their internal systems and any market positions vulnerable to attack.

The total assessment serves as a window through which to develop a clear image of the actions you need to sustain a competitive advantage.

FOCUSING TRAINING ACTIONS

This objective considers internal and external training. Internal training reaches various levels of functional managers who need to interact with specific markets, customers and product applications. Such functions include product management, customer service, technical support and the sales-force.

External training serves distributors' sales-forces, service organizations and customers. In this context, the primary aim of training is to maintain a competitive advantage through programs that assist customers in such areas as customizing services for their customers and finding creative approaches that add value to otherwise basic, undifferentiated products or services.

LAUNCHING NEW AND REPOSITIONING OLD PRODUCTS

Products are 'new' when they are perceived as new by the marketplace.

Therefore, it is appropriate for this objective to consider not only launching totally new products, but also reintroducing older products that have been differentiated through new applications, new packaging, or value-added services.

UPGRADING FIELD SERVICES

The range of field services include checking levels of inventory, providing technical service, or placing a customer-service individual at a customer's location for an indefinite period.

IMPROVING MARKETING MIX MANAGEMENT

The marketing mix consists of product or service, price, promotion and distribution. There is generally a dominant component within the mix that acts as the driving force in achieving a competitive advantage. Determining the optimum mix means you involve functional managers from such diverse functions as finance, sales, manufacturing, R&D and distribution to shape the marketing mix objectives. (A checklist for evaluating your marketing mix against that of your competitor is included in Part 4.)

Application

ZNI-Tech's Objectives and Goals

QUANTITATIVE OBJECTIVES

	200X (Year 1) (000)	200X (Year 2) (000)	200X (Year 3) (000)
Gross Sales (\$)	8,260	8,720	8,833
Returns	339	375	363
Cost of Sales	2,545	2,632	2,387
Gross Profit	5,376	5,713	6,083
Expenses			
Shipping	273	333	329
Selling	532	857	704
General and Administrative	392	299	251
Total Expenses	1,197	1,489	1,284
Operating Income	4,179	4,224	4,799

COMMENTARY

The quantitative objectives illustrated above comprise ZNI's actual format. Additional quantitative objectives would include share of market, return on investment, cash flow, or return on sales. Some organizations require extensive amounts of financial information in the SBP. Others require only a minimal amount, such as sales, units and profit margins. Your SBP should complement the financial format suggested by the financial manager or your next management level.

The following sample objectives are non-quantitative (or qualitative.) You must distinguish between the quantitative objectives of the plan (illustrated above) and the non-quantitative objectives suggested in the guidelines of this section. In some instances quantification can be included with an objective for clarification, as noted in one of the following objectives:

Non-quantitative Objectives

1. Maintain ZNI's low-cost producer status while introducing new improvements to existing products.
2. Aggressively maintain our dominant market-share position in all market segments.
3. Maintain sufficient manufacturing capacity to absorb our competitors' market share in existing segments as well as serve new and emerging segments.
4. Launch new products to strengthen our leadership position in drug delivery devices.
5. Maintain a level of 78% retail distribution and 53% retail market share for hypodermic products.
6. Increase trade distribution and block entry of competitors into the home-care segment of the market.

Notice the strong parallel of ZNI's objectives with its strategic direction. Phrases that describe the strategic direction include 'full line of hypodermic needles' and 'leadership position'. ZNI's objectives address those phrases. Again, the strategic direction provides a 'vision' to project what the future can look like; objectives provide the precise outcomes.

Note, too, how these objectives have long-term strategic implications. Where possible, you can add quantitative information for each objective. However, it is not always necessary in this strategic section of the SBP.

The key point is that this planning format permits flexibility to accommodate to the practices of individual organizations. Quantitative details can be added later in the plan, usually in the growth strategy section and certainly at the tactical one-year portion of the SBP.

Working Draft

Now write a draft of your quantitative and non-quantitative objectives for a 3 to 5 year period.

QUANTITATIVE OBJECTIVES

Use or modify the table below or incorporate a format used in your organization.

	200X (Year 1)	200X (Year 2)	200X (Year 3)
Gross Sales (\$)			
Returns			
Cost of Sales			
Gross Profit			
Expenses			
Shipping			
Selling			
General and Administrative			
Total Expenses			
Operating Income			

Non-quantitative Objectives (Add, delete, or modify to suit your needs.)

Upgrade distribution channels. _____

Expand secondary distribution. _____

Consolidate a segment position. _____

Build 'specialty product' penetration. _____

Establish or improve business intelligence systems. _____

Focus training actions. _____

Launch new and reposition old products. _____

Upgrade field services. _____

Improve marketing mix management. _____

Section 3: Growth Strategies

Planning Guidelines

This section outlines the process you can use to secure your objectives and goals. Think of *strategies* as actions to achieve your longer-term objectives; *tactics* as actions to achieve shorter-term objectives. Since this section's timeframe covers 3 to 5 years, strategies are indicated here. The one-year portion, illustrated later in the plan, identifies tactics.

For best results in developing realistic growth strategies, base your decisions after analyzing your organization's internal capabilities. These include looking at such areas as performance, strategy, strategic priorities, costs, product portfolio, financial resources and strengths/weaknesses. (For a comprehensive discussion on each topic go to Part 5, Help Topic – *Looking At Your Company*.)

Overall, however, your thinking about strategies boils down to actions among the following:

- Growth and mature markets.
- Long-term brand or product positioning.
- Product quality.
- Market share growth potential.
- Distribution channel options.
- Product, price, and promotion mix.
- Spending strategies.
- Specific marketing, sales, R&D, manufacturing strengths to be exploited.

In practice, where you have broad-based, long-term objectives, you should develop multiple strategies for each objective. Among those objectives where it is difficult to be specific or where little information is on-hand, you can use general strategy statements. For example:

- Form a committee to investigate an emerging market segment on the Continent.
- Hire an outside consultant to conduct a feasibility study about a new laser technology.

- Locate a new distribution center to expand market coverage in the north.
- Specific actions for each would be detailed in the tactical portion of the SBP.

As for planning formats: You can vary them according to your individual or team's style. For instance, you have the option of merging the objectives and strategies sections by restating each objective from Section 2 and listing its corresponding strategies, as illustrated in the following *Application*. Another option is to write a general strategy statement followed by a detailed listing of subordinate objectives and strategies.

What follows is a general strategy statement derived from ZNI's actual SBP, along with a selection of three of the six objectives from the previous section, together with related strategies.

Application

GENERAL STRATEGY

ZNI-Tech will maintain industry leadership by addressing the full range of consumer and health care provider needs related to drug delivery devices.

These needs include not only the marketing of delivery devices which are virtually painless, easy to read and conveniently used, but also programs and educational services to aid in the achievement of normal bodily functions to maintain overall good health. These additional services will meet user needs both at the time of diagnosis and in the continuing treatment of the problem.

A dominant position in the drug delivery device market will be maintained by developing market segmentation opportunities through continued product differentiation and innovation.

OBJECTIVE 1

Maintain ZNI's low-cost producer status while introducing new improvements to existing products.

Strategies

- Reduce costs by 32.5% before 200X. Maintaining low cost producer status gives our company the widest strategic flexibility in dealing with competitive assaults on our franchise. Potential areas of cost reduction:
 - Overhead reductions, 4.5%
 - Waste reductions, 7.0%
 - High speed needle line, 6.5%
 - Sales territory redesign, 8.0%
 - Quality improvement and reduction in repair service, 4.0%
 - Packaging improvement, 2.5%
 - **Total: 32.5%**
- Improve existing products through improved dosage control and improved packaging to maintain a competitive advantage.

OBJECTIVE 2

Aggressively maintain our dominant market share position in all market segments.

Strategies

- Develop the Supra-Fine 111 needle to maintain superior product quality and performance versus competition, as it relates to injection comfort.
- Increase spending levels on consumer/trade support programs to provide added-value to product offerings, thereby decreasing attractiveness of lower-priced alternatives while maintaining brand loyalty.
- Maintain broadest retail distribution and highest service levels to gain retailer support in promoting our brands and carrying adequate inventory levels.
- Continue health care educational programs to gain professional recommendations at time of diagnosis and thereby maintain brand loyalty among users.

OBJECTIVE 3

Launch new products to strengthen our leadership position in drug delivery devices.

Strategies

- Introduce a 40-unit syringe to address the needs of users on multiple dose therapy. Converting users to a 40-unit syringe will insulate this group against competitive initiatives.
- Develop and introduce a disposable pen-cartridge injection system to further segment the market and thereby reduce the competitive points of entry.
- Become a full-line supplier of drug delivery devices by broadening product offerings through internal research and development, joint venture, licensing and acquisitions.

COMMENTARY

Recall the overall planning guideline: The primary output of the SBP includes strategies to achieve competitive advantage. As noted in the above examples, ZNI's strategies cover a wide range of activities and incorporate a variety of functions within the organization.

Accordingly, you can see the practicality of involving as many functional managers as possible in developing your SBP. Not only will their ideas prove helpful, they will also internalize the strategies and be more motivated to implement them.

In turn, implementation is accomplished through each manager's functional plan that evolves from the SBP. The result: Managers' participation from manufacturing, product development, finance, sales and distribution make the SBP come alive.

Working Draft

Now, develop a rough draft of strategies for each of your objectives.

Objective 1: _____

Strategy: _____

Objective 2: _____

Strategy: _____

Objective 3: _____

Strategy: _____

Section 4: Business Portfolio Plan

Planning Guidelines

The business portfolio provides for an organized listing of *existing* products and markets and *new* products and markets. Following a logical progression, it is based on the strategic direction, objectives and goals, and growth strategies outlined in previous sections.

Key point: the content of your portfolio mirrors your strategic direction. That is, the broader the dimension of your strategic direction, the more expansive the range of products and markets in the portfolio. Conversely, the narrower the dimension of your strategic direction, the more limited the content of products and markets.

Use the following format and guidelines to develop your own business portfolio:

EXISTING PRODUCTS/EXISTING MARKETS (MARKET PENETRATION)

Simply list those products you currently offer to existing customer groups or market segments. In an appendix of the SBP, you can document sales, profits, market share data, competitive position and other pertinent information. From such information you can determine if your level of penetration is adequate and if possibilities exist for further growth.

For example, even minor changes in market and customer buying patterns may create fresh opportunities to increase market penetration by focusing in such areas as improving product quality, instituting just-in-time delivery, increasing technical support, improving customer service, or installing computerized inventory control systems.

After identifying new opportunities, it may be necessary for you to revisit Section 3 (Growth Strategies) and list actions you would take to implement the opportunities.

NEW PRODUCTS/EXISTING MARKETS (PRODUCT DEVELOPMENT)

Use this section to extend your thinking about new products to existing markets, in keeping with the strategic direction you created for your business. Again, recall the guideline that the broader the dimension of your strategic direction the broader the possibilities for the content of your portfolio.

If the definition of your business is too narrow, you may be limited in what you can list in this part of your portfolio. You still have the opportunity to go

back to the strategic direction and recast it. You thereby open the possibilities for product expansion – if that is consistent with the overall aims of senior management and available resources.

In this section you are looking for new products that you can sell to current customer segments. These may include the specialty products discussed earlier or all new products.

What is a new product? Recall the definition that a new product is *new* when it is *perceived* as new by the customer. Therefore, product development could include added features, improved quality, new packaging, extended warranties and other value-added items wrapped around existing core products. And, of course, product development includes totally new products based on advances in technologies.

EXISTING PRODUCTS/NEW MARKETS (MARKET DEVELOPMENT)

Another growth direction is to take your current products into new markets. Therefore, explore possibilities for market development by identifying emerging, neglected, or poorly served segments in which existing products can be utilized.

A classic case is 3M's Scotch Brand Tape that has been market-extended for use in offices, schools, homes, packaging and scores of industrial applications. Another classic product, nylon, illustrates market development with applications of the product over the past 60 years in such diverse products as parachutes, clothes, tires and carpets.

The possibilities are exciting. Yet caution is advised. Where, then, is the balance? How far afield should you go from your basic markets?

Again, go back to your strategic direction as a guiding beacon to direct your thinking. Think about those questions you answered to derive your strategic direction:

- What business should my firm be in over the next three to five years?
- What customer segments will we serve?
- What additional functions are we likely to fulfill for customers?
- What changes are taking place in markets and the environment?
- How will our organization participate in that future?

Here, too, it is extremely valuable to involve the next level of management in assessing risks and providing guidance on expansion. The risk in this instance is not with products. The products already exist. The risk is in the re-deployment – and possible dispersion – of the sales-force from its primary markets. Or, it is the possible distraction of other functions of the organization from their focus on core products and markets. A further consideration is the added investment required to develop or enter new markets.

It is also valuable to use a strategy team to help make such assessments. Since the team members represent diverse functions of the business, they would take responsibility for implementing the strategies through their respective functions. (Go to Part 5, Help Topic – *Strategy Teams*.)

NEW PRODUCTS/NEW MARKETS (DIVERSIFICATION)

This portion of the business portfolio is visionary, since it involves developing new products to meet the needs of new and yet untapped markets. New technologies, global markets, and new strategic alliances provide the framework from which this section evolves. These factors will assist you in participating in new markets, rather than riding existing businesses into maturity and then to decline.

Once again, interpret your strategic direction in its broadest context. Do not seek diversification for its own sake. Rather, the whole purpose of the exercise is for you to develop an organized framework for meaningful expansion.

Also, you will find that the other parts of the portfolio feed this portion. In practice, the number of new products into new markets will be the smallest part of the portfolio, because they carry the greatest risk. Yet organizations such as 3M, Intel, Motorola, Sony and General Electric will fill this portion of the portfolio extensively.

Known for their high levels of R&D, those visionary companies commit themselves entirely to future growth and leadership in their respective markets. This pattern exists more so than in those organizations making commodity products, as well as with firms that lack the strategic vision to find their place in the future.

The grid in Figure 1.2 is a useful format to create your business portfolio of products and markets, both existing and new.

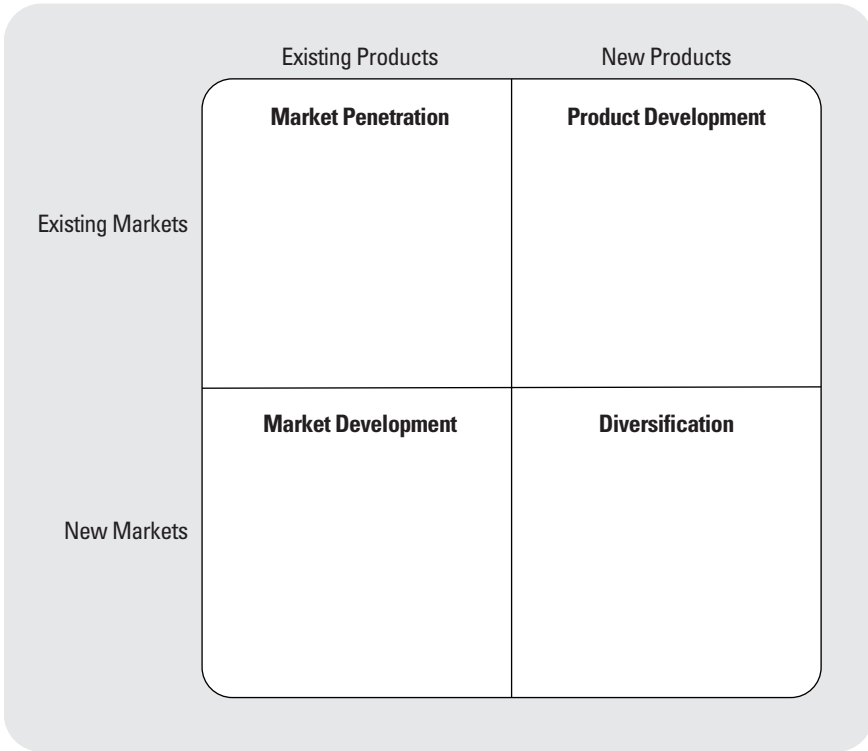


FIGURE 1.2: BUSINESS PORTFOLIO

Application

	ZNI's Existing Products	ZNI's New Products
Existing Markets	<ul style="list-style-type: none"> • 24-Guage Hypodermic Needle • Diabetes • Allergy • Hospital • Clinics • Homecare 	<ul style="list-style-type: none"> • 32-Guage Hypodermic Needle • SupraFine III Needles • 40-Guage Syringe/ Multiple-Dose Therapy System
New Markets	<ul style="list-style-type: none"> • Aids <ul style="list-style-type: none"> – Urban Markets – Ethnic Populations – Demographic Segments • Pacific Rim Countries 	<ul style="list-style-type: none"> • Disposable Pen – Cartridge Injection System • Implanted Injection Pumps With Sensors

FIGURE 1.3: ZNI-TECH'S BUSINESS PORTFOLIO

COMMENTARY

To illustrate the makeup of this section, ZNI's business portfolio (Figure 1.3) is only a partial representation of products and markets from its actual plan. Supporting information on sales, units, profits, market share and other quantitative information would be included in an appendix of the SBP.

Also, ZNI's actual portfolio lists additional diseases for which hypodermic systems are needed. These, too, would be placed in the appropriate quadrant. The information on population, ethnic, geographic and demographic factors also breaks down into sub-segments, which would drive new packaging, methods of treatment, educational programs and types of distribution.

In practice, you will find all four sections of the SBP are interconnected. For instance: (1) The strategic direction gives scope to your thinking by providing a company or product with a vision; (2) objectives permit you to list in quantitative and non-quantitative terms what you want to achieve; (3) growth strategies

indicate how you will reach your objectives; (4) the business portfolio shows the effect of all the proceeding work in the form of products and markets.

The interconnection also occurs as you add a new market or product to the portfolio. In that case you may need to return to the strategy section and identify how to develop the product and launch it into the market. Consequently, you are constantly creating opportunities and fine-tuning your SBP.

Working Draft

Now develop your rough draft of a Business Portfolio Plan, using the grid in Figure 1.2 to categorize existing products/existing markets, new products/existing markets, existing products/new markets, and new products/new markets.

The Business Portfolio completes the strategic portion of the SBP. Now you are ready to proceed to Part 2 and the tactical one-year plan.