RIDING THE STORM

STRATEGIC PLANNING IN TURBULENT MARKETS

GERALD MICHALUK

Riding the Storm
Strategic planning in turbulent markets

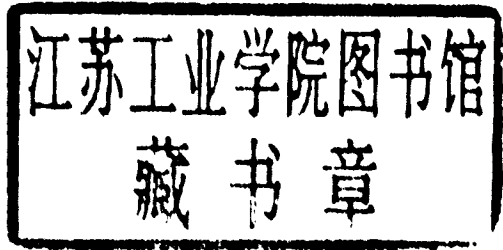*Gerald Michaluk*

Riding the Storm: Strategic planning in turbulent markets
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In memory of Jaroslaw Michaluk,
whose quiet words of encouragement live
with me always

Acknowledgements

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1

Executive Summary

WHAT IS GMAS?

Riding the STORM outlines a paradigm shift in strategic and operational planning. Using GMAS, a Global Marketing Advantage System, this book shows how a company can thrive in fast-moving, turbulent markets.

GMAS is defined as: 'the knowledge, experience, systems, processes, procedures, techniques, training, and software tools required to successfully generate and maintain a global marketing advantage'.

GMAS effectively links strategy with market reality. Strategy must be flexible. This is a lesson learned at great human cost in the First World War where the reality in the trenches and the invention of the machine gun made the planned strategy suicidal, resulting in such a waste of life as the world had never witnessed before. It is therefore essential to any organization where the market, technology or operational reality is at odds with the strategy, that these conflicts are investigated immediately to determine whether the situation has arisen from poor tactical execution or a more serious error in strategic thinking.

Figure 1.1 illustrates how and where GMAS is placed in relation to the Balanced Scorecard Model (BSC), Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM). I will also demonstrate how the strategic planning process overlaps GMAS
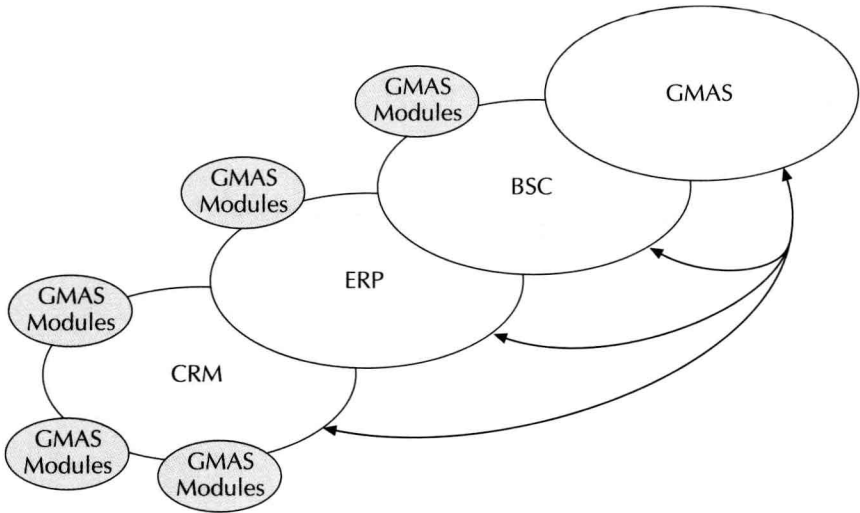
Figure 1.1   GMAS fit.

and its strategy monitoring role in the Balanced Scorecard model. All these models are discussed in Chapters 2 and 3.

Where organizations have not adopted the Balanced Scorecard model, GMAS is a tool that monitors the strategic plan and greatly reduces or even eliminates the need for strategic planning reviews. It still tests and monitors operational plan execution.

At the centre of a GMAS system is STORM, providing the links between Strategic Planning, Staff, Operational Planning and Execution, Real-Time Critical Assumptions, and Monitoring and Testing (Figure 1.2).

The STORM

The Strategic, Tactical Operational Review Meeting (STORM) is the name given to the systems and interactions required to maintain a GMAS system and therefore a global marketing advantage. The STORM is located at the heart of a GMAS system ensuring the oxygen in the life-blood, information, circulates around the organization.
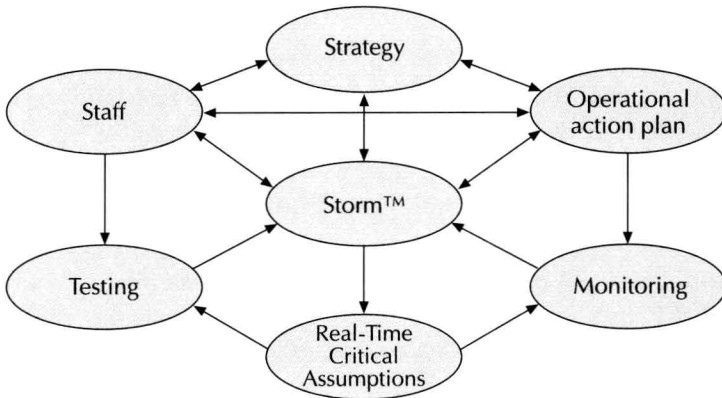
Figure 1.2 GMAS STORM model.

The Strategic Plan
The strategic plan and the process of its formulation and updating are the equivalent of the organization's brain. The human brain requires inputs from the senses and links to the muscles to be effective. If a nerve in a finger detects pain, the brain causes the muscle to move the finger away from the source of the pain. Likewise strategy cannot function effectively in isolation from the senses (monitoring and testing) nor from the muscles (operational plans).

Operations
If strategic planning is the brain then operations are the muscle, it is what makes things happen. When muscle movements get out of sync with the brain, a human cannot function effectively. Therefore, it is logical that the two are linked closely and that it is possible to tell when action is being taken in the correct way and that it achieves the desired goal.

A baby struggling to develop its coordination can be compared to the building of an effective organization. You can see the baby knows what it wants, but just cannot yet coordinate its muscles to reach its objective. Managing a company can be very similar: strategically you know what must be done, but operations are uncoordinated and wasteful. As the child grows it increasingly becomes able to coordinate its muscles and achieve its goals. Unfortunately, not all organizations manage to get past the first phase of muscular development.

The Staff
The staff are the life-blood of the organization providing the vital oxygen and nutrients needed for the whole body to function. Oxygen carried in the blood is required for all the functions of the cells and likewise within an organization the knowledge and skills carried by the staff allows the company to function. Knowing that your staff's goals, key performance indicators and rewards reflect the strategy is vital if a strategic focus is to be maintained throughout the firm. It is vital to know who is affected and by which critical assumption they are affected. To this end, Enterprise Neural Trails (ENT) are used to link individuals to the strategy so that at a glance the impact of a challenged critical assumption can be determined and a team brought together from the affected groups to think through possible scenarios and develop solutions or grasp opportunities.

Monitoring and Testing
Monitoring and testing are the senses of the organization and, like the five human senses of sight, hearing, smell, taste and touch, there are many ways to monitor and test the environment in which the organization is active. Using the five senses provides us all with 3125 different ways of sensing our world. In the same way, market research can provide us with almost as many options in the organizational context.

   Monitoring involves the tracking and comparison of expected with actual. For example, press and media are monitored to ensure that the critical assumptions on which the strategy is based do not turn out to have been fiction, while testing ensures that systems, staff and consumer reactions are as forecast. For example, mystery shopping visits are used to determine whether staff live up to the company values, and focus groups are used to determine the acceptance of a new product's features or distribution channel.

The Real Time Critical Assumptions
All operational and strategic plans consist of the three ingredients of Fact, Faith and Fiction. By extracting the critical assumptions the plans are based upon, it is possible to separate these three elements over time. As Socrates said: 'The only true wisdom is in knowing you know nothing.' What we presume to be facts are open to interpretation,

and are often not as robust as we had assumed. Take your bank balance. If you look at a bank balance and find £500, it sounds like that is a fact, but is it? Have you deposited a cheque recently that is in your account waiting to clear? What if that cheque bounces? What about the interest that has been accrued but not yet added to your account? Often what we think we know turns out not to be so. Thus, plans looking forward are full of Fact, Faith and Fiction. GMAS determines whether a critical assumption derived in the planning process is becoming more solid indicating it is a fact or whether it is turning into fiction. Critical assumptions that become fiction may have a major impact on the success of the organization and will in most cases need the planners to look again at their plans and assess them in the light of the new information. This will have one of three outcomes: (a) the plan or strategy will need to be changed, (b) the plan or strategy can proceed without change or (c) further research is required to determine whether action is needed or not.

Components of GMAS

GMAS consists of many different systems and tools linked together. Deployments are quite different in every instance because GMAS deployments are as individual as the companies they serve. Your company has its own uniqueness. The effectiveness of a GMAS module is based on matching it to a known environment, i.e. best practice is only best practice in certain circumstances. The GMAS modules match best practice to the environment or market conditions to ensure a high probability of success.

The core strategy elements of GMAS monitor and defend the company strategy which is linked to the organization via a Balanced Scorecard system (BSC), Enterprise Resource planning system (ERP) or Real Options. The GMAS modules supply information to and take information from these systems. Because GMAS was designed with the goal of marketing advantage in mind, it has many modules which link to Customer Relationship Management (CRM) systems. However, GMAS principles can be utilised on their own without the need for these other systems, but is most effective when integrated.

2

The Beginnings of GMAS

THE BACKGROUND

The story begins way back in history in 1989—before ERP's acceptance, the Internet or CRM. For example, leading strategist Henry Mintzberg was writing about *The Rise and Fall of Strategic Planning* in 1994 describing the dangers in strategic planning and pointing out pitfalls such as how a badly managed strategic planning process can destroy commitment, promote tunnel vision, discourage change, and generate an atmosphere of politics. All of these destroy shareholder value. He left no stone unturned and delivered a harsh critique of some of the most sacred cows in strategic planning. He described the three most common fallacies of the strategic planning process: 'discontinuities can be predicted, strategists can be detached from the operations of the organization, and the process of strategy-making itself can be formalized (Mintzberg, 1994).

The gauntlet had been thrown down. I set out to show that discontinuities could be predicted, that strategy making can be systematized and how strategic planning and operational planning could be symbiotically aligned in order to ensure that the strengths of both are intermingled to produce a strategy focus that would respond to what was happening operationally and within the marketplace.

As an academic the challenge was exciting and I had soon developed a plausible model. However, there were considerable challenges to overcome if it was ever to become a reality. For instance,

information would have to be gathered in real time and delivered at
the right time to the right people so they could make the right deci-
sions. It must be remembered that this was pre-ERP, so accounts were
not available at the touch of a button for a widespread organization;
pre-CRM, so anticipated sales could not be predicted let alone dis-
played as a sales pipeline; pre-Internet, so information was too slow to
collect and often out of date—if you were lucky enough to find it in the
first place. So, a concept was born and shelved.

Time passed and in 1996 Thomas Siebel wrote a book with the
help of Michael Malone entitled *Virtual Selling* which described a
method of achieving total sales quality. Meanwhile, in Germany,
SAP-AG was evangelizing an accountancy package that would give
the global company instant access to its financial position regardless of
location and currency. In addition, the Internet was revolutionizing
information access. By 1998 all the missing pieces to turn theory into
practice had been developed and GMAS was taken off the shelf,
dusted down and work began in earnest to make it a reality. There
are several theoretical models that I will discuss in terms of how they
are incorporated into GMAS. GMAS depends on a number of re-
searchers' work and I will now cover some of the most important
building blocks, which have shaped its design.

Strategic and Tactical Alignment

The 1980s brought together McKinsey and Company, the world-
renowned strategic consultancy firm, Harvard Business School and
Stanford Business School professors to identify the best way to man-
age and organize a firm. This team developed the 7-S Framework, a
model for organizational alignment often called the McKinsey 7-S
model. From this model, which I will discuss in more detail in Chap-
ter 3, it is clear that strategy, systems, style, staff, skills and structure
are all linked to the organization's shared values.

The research resulted in five main findings. These were:

1   There is no 'best way' to organize. This was not really surprising,
    but considering the objective of the research was to find the best
    way, this must have come as somewhat of a disappointment. This
    is even more of an issue for ERP systems such as SAP, which tend

to believe one fit fits all, and strives to include 'best practice' in its modular R/3 system. Clearly, if there is no one 'best way' there can be no one 'best practice'.

2 The most likely success in organizational design comes from the organization most closely aligned with its environment. My take on this was, if there is 'best practice when linked to a specific environment, then 'best practice' can be documented. However, it must be remembered that it will only work where the environment is also documented and you find yourself in the same or similar environment. This I built into GMAS. Think about what this means. If the environment/market changes, then your 'best practices' may cease to be just that. Therefore, there is a need to revisit what is best practice, regardless of how well that practice may have served you in the past, if there is an environmental or market condition change. The old saying 'If it ain't broke, don't fix it' should now read 'If it ain't broke, it's probably obsolete, but if it's not, don't fix it'.

3 Organizational systems are complex and interlinked. Complexity and inter-linked systems suggest Newton's law 'for every action there is a reaction' may apply. Managers should be prepared for a reaction from any changes in the organization, market or environment.

4 There are seven key elements you need to consider if you want to understand an organization and what makes it effective or not: strategy, structure, systems, staffing, skills, style and shared values (the 7-S model).

5 Internal alignment is as important as external alignment with the environment. To be most effective the organization must have a high degree of fit between the 7-S internally. Misalignment and associated disharmony arise where one of the 7-Ss is clashing with another. For example, new systems are introduced that reduce the technical skill required in the staff. This change and its impact, you may well have already experienced in your own organization. Not only does the 'simple' system change impact staff, it also affects skills, style, structure, strategy and shared values.

Many companies have great difficulty creating and maintaining shared value while others make it a competitive advantage. For example, the