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FEATURES OF STRATEGIC CORPORATE PLANNING

Abstract

Corporate planning is the intellectual anticipation of future actions in a forecasted environment to achieve the objectives of the firm. Strategic corporate planning questions the general solutions of an enterprise with respect to marketing segments, procurement, management styles etc. Although strategies discussed in literature usually focus on a specific functional area the consequences for other functions have to be regarded in the strategic plan. Classifications considering only one criterions shed little light on how the goals can be reached. This kind of departure may serve as a starting point, however, has to be combined with additional levels of departure.

Key words:

Corporate planning, strategic planning, marketing strategies.

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1. The Concept of Strategic Corporate Planning

Each enterprise has its own philosophy. The material essence concerns the covered economic segments and also the codes of behaviour, which determines management's and employees' actions. Therefore, it will also determine the fundamental behavioural forms, as well as the types of goods and services produced and sold. The fundamental corporate orientation in respect to

- Market segments;
- Regional sales markets;
- Organisation of purchases;
- Management styles, etc.

is not to stay on the «test stand» every time.

Therefore, independently from strategic planning, medium-term corporate planning based on the current strategy is a permanent task. If we had to finish every time a new time-consuming strategic planning before starting the medium-term planning, too many efforts would be wasted (this is especially true in small and medium-sized enterprises), and in some cases no planning would be carried out at all. A fundamental analysis and discussion usually takes place in the case of an acute or emerged corporate crisis. In some enterprises, however, the re-orientation takes place on a regular basis after several years or ad hoc in case of changes in top management.

Here, strategic is understood as fundamental orientation of an enterprise's behaviour and according fundamental reorientation at enterprise's functions. The concept of strategy originated from Greek («stratos» – army) and means «army command» or, as interpreted later, «management of state affairs or statesmanship». In XV–XVIII centuries, this concept was attributed to military terminology in Europe. The Prussian General Staff member, Carl von Clausewitz (1780–1831) offered the following definition: «Strategy is the practice of combat for the purpose of war; therefore, it should give all military operations directives that correspond to war purposes, i.e. strategy projects a military plan and links a set of activities to these purposes; in other words, strategy makes suggestions on individual directions and regulates specific combats in this plan. Since the planned actions are based on uncertain conditions, which are absolutely impossible to foresee, the strategy has to go to the battlefield in order to determine details and make modifications, which will be constantly required» (quoted from Kreikebaum, p. 18.).

According to Kreikebaum, the enterprise's strategies are distinguished by three elements:

1) they represent the overall concept of achieving one or several aims set;

2) they are devised for a long period of time; and

3) they contain aggregated values.

Kreikebaum emphasises four essential elements of the definition:

1. The enterprise's strategies are determined by the changes in the environment. They could either actively change the environmental conditions or take the form of reactive adjustment strategy. The changes in the external environment can already exist or be expected.

2. The enterprise's strategy determines the method in which the internal available potential should be used to realise the enterprise's purposes.

3. The enterprise's strategy shows the general direction within which the enterprise develops in the long-term. Therefore, the strategy has to be supplemented by further actions that have to be carried out.

4. The aim is the creation of sustainable success potential by using competitive advantages (Kreikebaum, p. 19).

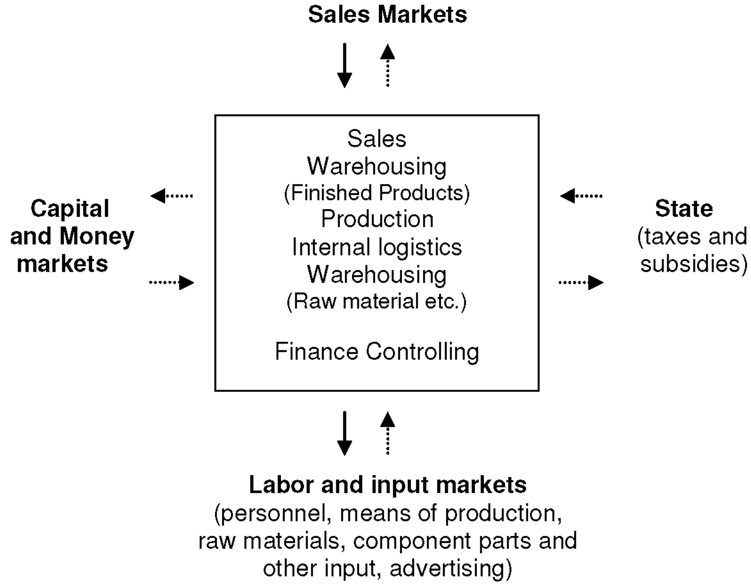
2. Strategies and Functions of the Enterprise

As already shown in the case of tactical corporate planning, corporate planning embeds an enterprise into procurement markets, sales markets, financial markets and the state's interest. In the core, the formation of assets, warehousing, production, sales, internal logistics, accounting and planning (controlling) will take place. In the diagram below, arrows represent payments, which flow in and flow out of the financial area. Inflows result, for example, from sales revenues. Outflows result, for example, from the procurement of inputs and services that the enterprise uses in the manufacturing process.

In the following figure, we shall include the international dimension, because in the short past, new strategies were often the result of growing international competition. For an enterprise working on the global scope, all the functions have international dimensions, such as international marketing, international sourcing (key word «global sourcing»), international financing (key word «Euro-markets», instruments used to hedge against risk, such as currency options, forward foreign exchange markets), international controlling, international fiscal law and taxation (i. e. agreements about elimination of double taxation, etc.). In Figure 2, every dimension of the environment catchwords are assigned to specific fundamental strategies.

Figure 1.

An Enterprise in the External Environment



Source: Author's presentation.

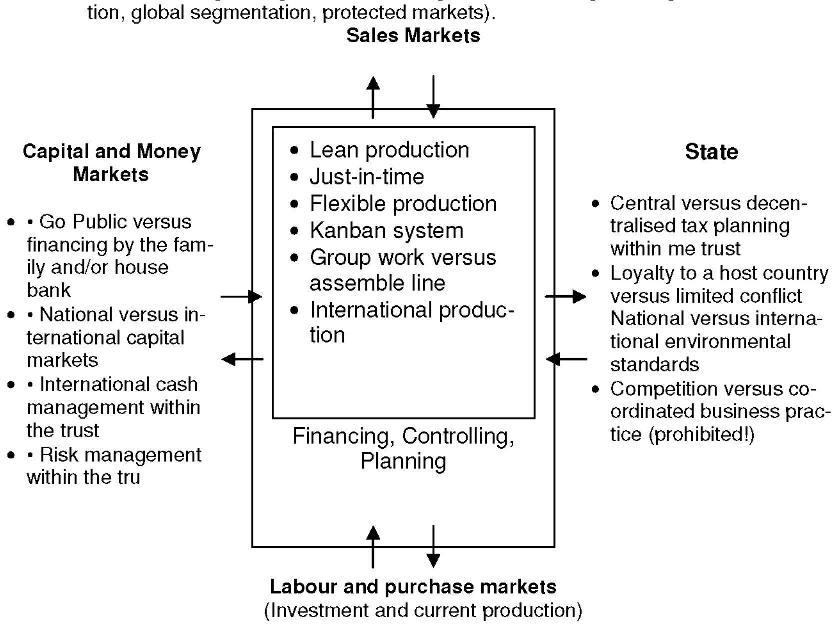
It is important to note that although such strategies are stated only in the literature, choosing a specific strategy for a functional area, which can influence other fields, requires appropriate actions to be taken in these fields. Thus, sales strategies orientated towards innovative products will require additional personnel in the research and development area as well as further funds. If necessary, also «strategic alliances» are agreed instead of a standalone strategy. Internationalisation strategies, which include production abroad, will have an impact on the sourcing activities and will lead to new forms of sourcing. Finally, matters of national versus international financing arise and are partly solved by centralised international cash management for the whole trust.

Well-known head words in respect to marketing and production and sales program are the following:

Figure 2.

Overview of Strategies in a Multinational Trust

- Strategy of cost leadership (i.e. standardised and thus cheap products) versus strategy of differentiation (product differentiation and thus expensive products);
- Price leadership versus quality leadership;
- Offensive versus defensive strategy (i.e. action versus reaction);
- Customised marketing (i.e. tailor-made products) versus standard products;
- Strategies of market penetration, market development and product development versus strategy of diversification;
- The market attractivity/competitive advantages product portfolio matrix, which was used to evaluate the markets and derive norm strategies for strategic business units of a firm (e.g. General Electric and McKinsey);
- The market share/market growth product portfolio matrix, which was alternatively used to evaluate the market and derive norm strategies (also known as the Boston Consulting Group Box);
- Strategies to use the advantages of intemationalisation, globalisation and localisation (global, international, multinational and dual markets);
- Porter's strategies of global industries (global cost management, global differentiation, global segmentation, protected markets).



- Global sourcing versus local sourcing
- Single versus double or multiple sourcing
- Internet-based sourcing platform, sourcing alliances with other manufacturers, versus independent sourcing
- Hierarchical sourcing by subsidiaries versus external networks
- Internal versus external recruitment of managers
- Leadership styles within the trust (ethno-, poly-, regio-, geocentric)
- Organisational structure (industries, functions, regions)
- Profit centres, in-and outsourcing, etc.
- Top-down versus bottom-up planning
- «Management by» concepts etc.

3. Types of Strategies

Strategies give an idea of how an enterprise wants to use its strengths in order to achieve its entrepreneurial intentions. Strategies could be classified on the basis of various criteria as shown in the table below.

Figure 3

An Overview of Strategy Types

Criterion	Description
Organisational scope	• General strategies for enterprises (i. e. corporation strategies) • Strategies for business divisions (i. e. business strategies) • Strategies for functional areas (finance, marketing, etc.)
Functional area	• Sales strategies • Production strategies • Research and development strategies • Investment strategies • Finance strategies • Human resource management strategies
Development direction / investment or de-investment	• Growth strategies (i. e. investment strategies) • Stabilisation strategies (i. e. sustainable market shares etc.) • Reduction strategies (i. e. de- investment strategies)
Market behaviour	• Offensive strategies (e. g. sales promotion strategy) • Defensive strategies (e. g. imitation strategies)
Product / market	• Market penetration strategy • Market development strategy • Product development strategy • Diversification strategy
Competitive advantages / market coverage	• Strategy of cost leadership • Differentiation strategy • Strategy of niche marketing instead of concentration on cost leadership or product differentiation

Source: Kreikebaum, 1997, p. 58

First of all, the one-criterion classification conveys little about specific contents of the strategy and how the strategy can be realized. Since the classification is carried out on the basis of different levels of departure, several criteria may be combined to characterize a concrete strategy with greater significance. If, for example, the diversification strategy (i. e. penetration into new business areas) is to be used, then it will result in the enterprise choosing respective strategies for research and development, financial and investment activities, etc. The strategy can be offensive or defensive. Therefore, the strategy types enumerated in Figure 3 highlight the predominant motive. The interdependence with other areas remains closed, but it has to be opened later when the strategy is outlined in detail and specific measures have to be offered.

The combination of at least two key strategies is contained in **Ansoff's «product-market» matrix,** in which market development and market penetration could be distinguished. *Market development* means selling available products in new markets (e. g. foreign markets). On the contrary, *market penetration* implies intensifying the sales of available products in existing (already developed) markets. In the case of old markets, which have to be supplied with new products, *product development* is discussed. Finally, new products could be developed for the markets which are not supplied yet: Ansoff would call this strategy *diversification.*

In the case of *horizontal diversification,* new production has a close connection with the previous product range, e.g. mopeds and bicycles. *Vertical diversification* covers a transition *from* one stage of the value chain to another. The deepness of the production process is changed with production of parts, for example, engines that have been purchased until now. In the case of *lateral diversification,* we enter production lines that are not related to any product of the previous product range, e.g. engines and ice-boxes. In other economic subdisciplines, for instance in industrial economics and competition politics, instead of lateral diversification the term *diagonal expansion* is used.

The question whether a product is new or merely a modification of the old product remains ambiguous. If the old product is not sold anymore, then probably it is a modification and not a new product that is discussed.

Figure 4.

Ansoff's Matrix

	Old markets	New markets
Old products	Market penetration	Market development
New products	Product development	Diversification (could be horizontal, vertical, lateral)

Source: based on literature.

4. Combining the Elements of Classification to Specify Ideas

Only markets and products appear as criteria (or as axes in the graphical presentation) in the Ansoff's matrix. But these include new and old products, which should have an impact on research and development. This aspect will be registered in the table below, in which an axis is fanned by the four main strategies discussed by Ansoff. The other axis is left to various research and development strategies (i. e. functional strategies), and there are substantial differences between *development of new products and variants, product and process development* and *improvement of natural-science knowledge development*. The above strategies result in 4 x 3 = 12 combinations, which clearly show the demands the actual production / marketing strategy places on research and development. Thus, for example, in the case of diversification «new product and variants development» is required (X).

The last line of the table characterizes the strategies as offensive and/or defensive.

In order to promote concrete notions, further dimensions (for instance, the degree of autonomy achieved) could be added. An enterprise could try to do everything on its own or consider cooperation. The former could imply building up potential by internal measures or takeovers. Mergers are also possible. Therefore, taking into account research and development, three distinctive cases could be emphasised in the above graph: internal growth, external growth (e. g. mergers and takeovers) or cooperation strategy (such as strategic alliances with competitors in some business areas).

Figure 5.

Products / Markets and Research and Development Strategies

Research and Development	Diversification	Product Development	Market Development	Market Penetration
Development of New Products and Versions	X	X		
Product and Process Upgrading			X	X
Natural-Science Know-How Development	X	X	X	X
Nature of the Combination	Offensive	Offensive / Defensive	Offensive / Defensive	Offensive

Source: Kreikebaum, 1997

Figure 6.

Products / Markets and Coordination Forms

	Diversification (new products / new markets)	Product Development (new products / old markets)	Market Penetration (old products / old markets)	Market Development (old products / new markets)
Internal growth	Own research and development for new products	Own research and development for new products	Own research and development for product and process upgrading	Own research and development for product and process upgrading, branch or establishment of a marketing company abroad, international production
External growth	Takeover (diagonal, lateral)		Takeover (horizontal)	Takeover of a marketing company abroad
Cooperation	Diagonal cooperation in research and development (by agreement or creating an equity joint venture)	Horizontal cooperation in research and development (strategic alliance by agreement or equity joint venture)	Horizontal cooperation (e. g. creating joint standards, licenses, reciprocal licensing)	Horizontal cooperation with domestic competitors, equity joint venture with foreign companies using existing trade channels

Source: Author's presentation.

5. Special Strategies with Marketing as the Starting Point

According to Becker, «The enterprise's fundamental strategies (i. e. lead strategies) are primarily marketing strategies... marketing strategies as the strategic corporate planning core». In these strategies, two-dimensional product portfolio matrices that are especially developed from consulting enterprises are found.

5.1. The Boston Consulting Group Box

The Boston Consulting Group Box is used to characterize and demonstrate the strategic business units of the corporation. The classification used in the matrix follows the product cycle. An enterprise should always start some products (question marks) in order to own some «stars» and «cash cows», which deteriorate to «dogs» at the end of the product cycle. The advantage of such concentrated presentations lies in the short description of the enterprise's positioning in different markets and in abstraction from the details which could slow down a strategic planner's thoughts and could prevent the development of the enterprise's clear philosophy.

The reduction of the analysis to merely two or three dimensions and thus a fade-out of many other important factors are typical for strategic management, and this is very clearly shown in Figure 7.

Figure 7.

The Boston Consulting Group Box

		Relative Market Share (Own Market Share Compared to the Biggest Competitor)	
		Low	High
Market Growth	High	Question Marks	Stars
	Low	Dogs	Cash Cows

5.2. The «Market Attractiveness – Competitive Advantage Portfolio»

Starting the analysis in the sales area, it is also possible to answer the primary questions about the expansion or de-investment in specific business units using the McKinsey's **«market attractiveness – competitive advantage» matrix** system.

When establishing a relation, it is necessary to observe the following two main principles:

1. Enterprise's external characteristics of the market (i.e. **market attractiveness)** and enterprise's internal characteristics (i. e. **enterprise's competitive advantages)** are distinguished; and

2. Normative strategies based on the strategic position of business units are developed (Ehnnann, 1997, p. 147 and further).

The following indicators may be used to determine the **attractiveness of the market or the respective industry (market appeal):**

- Market growth and potential;
- Market quality (profitability, opportunities for different price policies, competitive intensity, entry barriers for potential competitors, existence of substitutes, etc.);
- Energy and supply of raw materials (reliability of material supply, availability of alternative raw materials and energy sources, etc.);
- External environment (dependence on business cycles, impact of inflation, risk of government interventions, etc.).

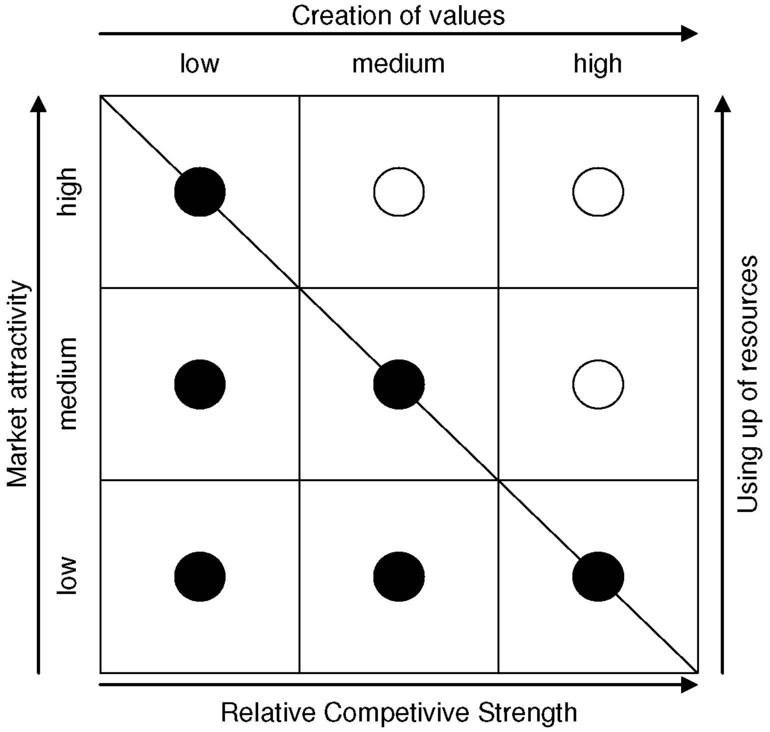
Competitive advantage of the enterprise in the specific business unit depends on the following:

- Relative market position (market share and its dynamics, the enterprise's size and financial stability, growth rate, profitability, etc.);
- Relative production potential (production process effectiveness, age and modernization of production facilities, size and capacity utilisation, capability for innovations, flexibility, advantage of location, etc.);
- Relative research and development potential (the state of the basic and applied research, innovation potential and continuity, etc.); and
- Relative qualification of executive personnel (professionalism and competence, innovative climate, management system, etc.).

The formation of market attractiveness index and index of competitive strength is carried out in the same way as in multi-criteria and scoring models with weighing individual criteria, which have been identified using expert appraisal. As a result, value judgment (subjective estimates) is involved; however, a certain degree of fuzziness is unavoidable. Other aspects not mentioned above, but of importance in a specific case, could be easily added. The two dimensions could again be combined in the matrix if the different criteria are amalgamated (put together) in an index.

Figure 8.

The «Market Attractiveness – Competitive Advantage» Matrix



Source: Kreikebaum, 1997, p. 79.

Criticism: the diagram is static and directs one's attention to the past and existing production lines. New products and markets that may appear in the near future cannot be included in the analysis.

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