PRACTICE OF CONSULTING FIRMS

IN

CORPORATE STRATEGIC PLANNING

by

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ABSTRACT

This paper presents the current approaches to corporate strategic planning as practiced by ten of the major U.S. management consulting firms. The relative emphasis of each firm's product(s) in terms of providing assistance in the development or improvement of a company's planning system or process to enable the company to perform its own strategic analysis, and/or performing an evaluation of the company's current position to suggest future strategic direction is explored.

Differences in planning at the corporate portfolio level and at the division or business level are investigated. Where available, the relevant parameters and analytical approaches for each type of planning are discussed.

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A most important thank you goes to the many consultants in the ten firms interviewed in this thesis who contributed their time and knowledge for this thesis. I would like to acknowledge complete responsibility for information that is included from these interviews. I have not had the chance to systematically review my results with them, and therefore, they represent my interpretations only.

In addition, I owe a special tribute to several of my wonderful friends - to Dan, Marilyn and Barbara in New York for all the errands they have performed in aid of this thesis and to keep my life in New York in order during my Cambridge sojourn; to Linda, Ming, Theresa, Erika and the special group of people on the sixth floor of Ashdown House for their fellowship, support and encouragement; to Bill for his excellent job in preparing the figures for this thesis; to my Mother for her everlasting patience and support; and to a special Michael for his help in typing the final manuscript and who by his example has taught me to take pride in my work and inspired me to pursue intellectual growth and fulfillment.

TABLE OF CONTENTS

LIST OF FIGURES AND EXHIBITS

Chapter 1 - Introduction

The field of strategic planning is emerging from consulting firms, the leading business schools and the more progressive businesses. The scope, focus and contributions vary from each source. This thesis focuses on the range of services and approaches to strategic planning offered by ten of the top U.S. management consulting firms with a specialty in this area.

The services offered to corporations in strategic planning by management consultants fall into two distinct categories. Consultants can be hired to help a client organization with the start-up or improvement of its planning processes or systems to enable the company to perform its own analysis and/or to aid a client organization in the substantive issues of strategic planning - evaluating a company's current position and developing and assessing alternative future strategies under various conditions. Closely related to the latter services, when a company decides to expand externally through merger and acquisition, many consultants offer their services to perform the necessary analyses, company search, negotiations, and/or implementation. The relative emphasis of each firm's product along these dimensions is explored in this thesis.

In addition, consulting approaches vary as to organizational focus. Some approaches are aimed at developing and/or evaluating the company's planning process or strategies from a total corporate or portfolio viewpoint. Others are specifically geared toward planning for a division or business. Where available, the relevant parameters for each approach as set forth by the ten firms are presented.

Following this brief introduction, Chapter 2 looks at the major roles and functions of the management consultant. Specifically, the types of tasks and issues involved in performing the job, and the purposes and advantages of hiring a consultant are explored.

Chapter 3 presents an overview of the field of strategic planning to give the reader an idea of the range of issues around and basic framework behind the strategic planning process within a corporation.

Chapter 4 looks at the range of services and strategy development criteria and process, where available, of the ten consulting firms including The Boston Consulting Group, McKinsey & Company, Arthur D. Little, Strategic Planning Associates, Touche Ross, The Berwick Group, Cresap, McCormick and Paget, Booz, Allen & Hamilton, The Management Analysis Center, and the Strategic Planning Institute.

Chapter 5 sets forth conclusions on the major similarities, differences, strengths and weaknesses of the ten firms reviewed.

Chapter 2 - Roles and Functions of the Management Consultant

There are approximately 3,000 management consulting firms in North America who work with many types of clients in solving managerial problems and maximizing economic opportunities. Most of these firms are small (fewer than twelve professionals), and offer very specialized services. In addition, there are several hundred medium-sized firms which offer a wider range of managerial and related operating and technical services, and approximately 125 large consulting firms which offer a broad range of services. In addition to these firms, there are several thousand individuals working as independent consultants.

The range of services offered by management consultants vary widely. Some confine their work to one industry, such as retailing, transportation, manufacturing or petroleum. Others do most of their work for clients in one or more functional areas of the business, such as finance, marketing, production or personnel, or offer specialized services such as data processing, operations research, or strategic planning. In between are all types of combinations, with some firms offering a very broad range of services to many different types of clients.

More than three-fourths of the nation's larger businesses and a host of smaller ones have utilized the services of management consultants. In addition, federal, state, county and municipal governments, and not-for-profit institutions like schools, colleges, hospitals, associations and foundations regularly employ this kind of professional help.

The fact that consulting services are offered and utilized on such a large scale suggests that a great many organizations have derived real value from this kind of professional assistance. Progressive managers will want to know more about it so that they can make the best decisions on when, where and how their organization might use management consultants with the best results.

The consultant's role is usually that of an analyst and/or catalyst. Their problem-solving expertise allows them to help a company determine the most effective system for making decisions within an organization and to develop their own position on problems and issues. Their interpersonal skills can be employed to help with moving an organization toward making decisions or to aid in implementing any organizational changes that may be necessary to improve the organization.

The professional consultant's basic function is the analysis and solution of problems performed by systematically analyzing facts and objectively making conclusions based on the available facts. The first step in any consulting engagement is to help the client to define and diagnose its problems. These problems could be associated with the goals, objectives, strategy, organization, operation, procedural or technical aspects of the business or organization. Once a mutual understanding of the problems is reached, the consultant proceeds in planning the engagement, researching the problem and related issues, analyzing the alternatives and recommending complete, practical and timely solutions suited to the client's individual requirements.

Consulting activity is not confined to solving problems problems in a purely theoretical, abstract, or technical sense, but rather the problems with which the consultant deals are action-oriented, and his/her thinking must be directed toward improved managerial and economic performance for the client. This must include the creation of understanding and commitment toward a particular change and methods whereby it can become an integral part of the client's organization. Sometimes the consultant-client relationship is extended to include the implementation or installation of the consultant's recommendations.

From a more theoretical viewpoint, David Kolb and Alan Frohman have developed a model, presented in Figure 2.1, which specifies seven distinct steps in a consultant's relationship to a client organization. Each step has important characteristics and types of activities:[1]

> Scouting - ... mutual 'sizing up.' The client is concerned with assessing the consultant's ability to provide the help needed by the client system, and the consultant is interested in learning about the nature of the client system, the problems facing that system, and the prospects for being able to make the necessary changes within the system....
>
> Entry - ... the negotiation of a contract between consultant and client, and the development of trust and trust-based power. The contract ... covers each party's expectations, available resources and willingness to commit them, as well as their willingness to influence and be influenced by the other party, [and] ... an initial statement of the problem and the goals and objectives to be achieved by addressing this problem....
>
> Diagnosis - ... concerned primarily with data gathering and revolves around four basic questions:
> 1. What is the client's felt problem? ...
> 2. What are the client's goals? ...
> 3. What resources does the client have for improving the situation? and
> 4. What resources does the consultant have? ...
>
> The output of this stage should be a full statement of the <u>apparent</u> problems and the resources available for attacking these problems.
>
> Planning - ... the definition of specific operational objectives to be achieved through change.... If new issues are raised ..., it is necessary to cycle back to Entry and repeat the process.
>
> Action - ... the alternative judged best during Planning is put into effect....
>
> Evaluation - focuses on the new situation and attempts to measure how well the objectives defined during the planning effort have been met. If goals have not

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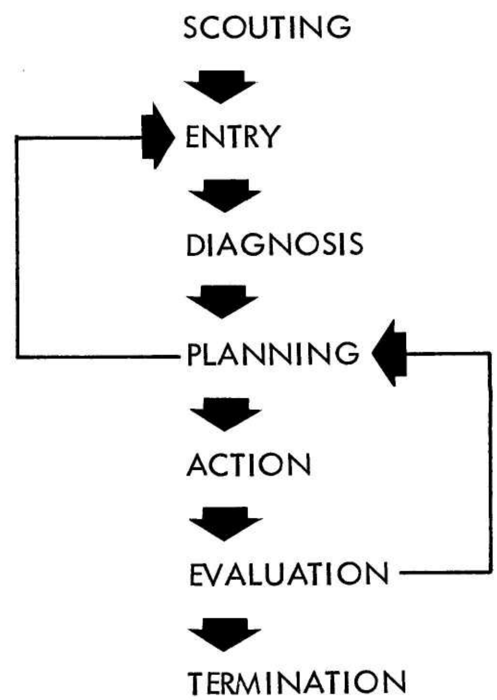
[1]Michael Jay Ginzberg, "A Process Approach to Management Science Implementation," Unpublished Ph.D. thesis, M.I.T., May, 1975, pages 88-92.

FIGURE 2.1

THE KOLB-FROHMAN MODEL



Source: Michael Jay Ginzberg, "A Process Approach to Management Science Implementation," Unpublished Ph.D. thesis, M.I.T., May, 1975, page 89.

been attained, the process should move back to Planning for another iteration through the steps.

Termination - ... meeting mutually agreed upon goals and improving the client system's problem solving ability.

While the basic types of activity the consultant performs may often already be present within an organization, the use of consultants from outside of the organization has several advantages. The most obvious is the independence from the political and social environment of the organization which allows a more objective view of the organization and its problems and enables the consultant to differ with executives on sensitive issues. Consultants also have the advantage of being able to interview competing organizations and to offer their less parochial viewpoint as to external conditions.

In conjunction with this are the advantages of the broader experience and more specific analytical skills often available from a consulting practice. Few companies would harbor executives who have worked in such a wide range of industry settings in as many diverse problem areas. Furthermore, professional consultants have developed the ability to analyze and solve management problems without necessarily being conversant in the rote details of a business. Organizations may lack the specific skill mix required to solve a particular problem. In addition, if the skills required are necessary only for one application or on a temporary basis, it is often more practical to hire outside experts able to give full-time attention to the short-term assignment.

Consulting in the strategic planning area is one of the fastest growing segments of the management consulting industry. As the field is still young and the first positive results are just being realized from initial strategic planning efforts, the demand for professional expertise in this area is strong and growing. Many of the best known management consulting firms have committed much professional time and effort to develop and refine both the concepts underlying strategic planning and their practices in this area; these firms foresee the need for corporations to do more strategic planning.

The next chapter introduces some of the general ideas and concepts of strategic planning as a base for the more specific focuses of the firms presented in Chapter 4.

Chapter 3 - Overview of Corporate Strategic Planning

Strategic planning has been defined in many different ways. I like to think of strategic planning within an organization as the process of determining the most desired performance characteristics - stated in terms of goals and objectives, and the most efficient and effective way possible to work toward and ultimately meet (acquire, fulfill, attain) these desired goals and objectives with the resources available to and the policies governing the organization.

Strategic planning is a three stage process that takes place on three organizational levels within a corporation.[2] The planning processes at each level are distinctly different and can be distinguished as corporate or portfolio planning, divisional or business planning, and departmental or functional planning. These have been defined as:[3]

> Corporate Planning - ... the process of (1) deciding on the company's objectives and goals, including the determination of which and how many lines of business to engage in, (2) acquiring the resources needed to attain those objectives, and (3) allocating resources among the different businesses so that the objectives are achieved.
>
> Business Planning - ... the process of determining the scope of a division's activities that will satisfy

---

[2]Richard F. Vancil and Peter Lorange, "Strategic Planning in Diversified Companies," Strategic Planning Systems, Prentice-Hall, New Jersey, 1977, pages 22-36.

[3]*Ibid.*, pages 23-24.

> a broad consumer need, of deciding on the division's objectives in its defined area of operations, and of establishing the policies adopted to attain those objectives.
>
> Functional Planning - [the process of developing] a set of feasible action programs to implement division strategy.

Strategic planning forces a company to look at itself to assess its major values and purpose just as maturing individuals struggle to know themselves better. This is the first step in attaining a strong sense of purpose to enable the company to more clearly focus on and purposefully work toward its most desired state.

For a business, this requires input from the owners of the business either directly or indirectly. In most public companies, for example, most of the decisions are made by top management who are usually partial owners and also represent the interests of the shareholders. Working with the managers within the organization, top management must convey a clear and consistent sense of the direction desired by the owners of the company.

In most profit-making organizations, profitability for the company as a whole is the highest-ranking goal. Often some desired level is specified; this is used as the target to be attained when summing up the profits for each of the divisions. In addition to and in conjunction with the pursuit of profits, other goals and objectives, such as leadership in a particular market or industry, certain employee conditions, and other contributions to society, may be of importance to the owners and managers of the company.

Once the company has determined its priorities in the broadest sense - at the corporate level - these serve as input for the divisional managers within a company to think about and determine the more specific goals and objectives for their operations. Working together via correspondence and meetings, corporate and divisional managers develop an agreement regarding the overall goals and objectives, which provide a focus for more detailed planning or programs - the second stage of the strategic planning process.

During the programming cycle, functional department managers are expected to suggest ways of employing their available resources to attain the goals and objectives designated by their divisional managers. The outcome is an agreement between the divisional and functional managers on the set of action programs required during the next few years to implement strategy, including a statement of the resources needed by each functional manager to execute his/her part of the program. This type of planning encourages managers to operate their businesses with more regard for their contribution to corporate strategy than for their individual growth.

Upon review and approval of programs by both divisional and corporate management, the third cycle of planning -

preparation of the more detailed, one-year budgets begins. These are developed by the functional departments and submitted to the divisional managers who coordinate, review and submit their approved budgets to top management for final approval.

Most companies have well-developed budgeting processes, but are only now paying more attention to the goal-setting and programming phases of planning for the future. It is in these initial two phases of the strategic planning process that consultants have focused most of their efforts.

When a strategic planning process or system is designed and installed it is important that special attention be given to insure that: the system's characteristics match the company's situational setting; the system identifies and helps to formulate strategic choices; the system and plans produced are understood at all levels of the organization; the formats, methods and deadlines are consistent at all levels; the planning system is integrated with the other management systems; and senior management and the line managers are committed to and take an active part in the strategy development.[4]

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[4]Xavier Gilbert and Peter Lorange, "Five Pillars for Your Planning," Strategic Planning Systems, Prentice-Hall, New Jersey, 1977, pages 36-46.

The strategic planning process focuses attention on: formulating meaningful goals; the company's major strengths and weaknesses; opportunities and threats outside the organization; where the company is headed; and how it is going to get there. As a result, it tends to sharpen the effectiveness and efficiency of the present operations. Also, the strategic planning process often leads to decisions to change the corporation's portfolio of businesses: only the more productive segments of present businesses are retained, and resources are expended to develop new businesses, either internally or externally, through acquisitions in promising areas.

Once an organization has proceeded through the strategic planning process and developed its set of strategies, a number of criteria can be used for evaluation:[5]

> 1. Is the strategy identifiable and has it been made clear either in words or practice? ...
> 2. Does the strategy exploit fully domestic and international environmental opportunity? ...
> 3. Is the strategy consistent with corporate competence and resources, both present and projected? ...
> 4. Are the major provisions of the strategy and the program of major policies of which it is comprised internally consistent? ...
> 5. Is the chosen level of risk feasible in economic and personal terms? ...
> 6. Is the strategy appropriate to the personal values and aspirations of the key managers? ...

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[5] C. Roland Christensen, Kenneth R. Andrews and Joseph L. Bower, Business Policy: Text and Cases, Third Edition, Richard D. Irwin, Inc., Illinois, 1973, pages 114-117.

7. Is the strategy appropriate to the desired level of contribution to society? ...
8. Does the strategy constitute a clear stimulus to organizational effort and commitment? ...
9. Are there early indications of the responsiveness of markets and market segments to the strategy?

The issues and questions presented in this chapter are intended to provide a general background for the strategic planning approaches identified in the next chapter. Consultants are usually hired to help with one or more specific aspects of strategic planning within an organization. For example, a consultant might study the strategic decision-making process within an organization to make suggestions for the best way to set up and monitor the strategic planning process, recommend allocation of resources to achieve revised corporate objectives, develop revised strategies for a company's major product lines, or analyze the impact of important long range shifts in raw material sources, government regulations or customer groups.

Chapter 4 - Current Consulting Practice in Strategic Planning

As presented in the previous chapters, there is no one universal approach to strategic planning. Each of the major management consulting firms specializing in strategic planning has its own individual approach and style. This varies as to analytical approach, as well as to emphasis and presentation format.

Most of the firms interviewed specialize in performing strategic analysis which results in clarification to the companies of their current and proposed strategic direction. A few consultants go into the companies and help them set up or strengthen their own strategic planning system to enable them to perform the strategic analysis themselves.

As indicated in Chapter 1, whether the study being performed is concerned with the substance or process of strategy development, the approach will vary depending on the organizational focus. Where the information was available, I have indicated the relevant criteria for both divisional or business level planning and portfolio or corporate level planning.

As to presentation format, most firms present written documents of their analysis, at least a summary of the major points. A few firms present their findings in a seminar format, often modifying some of their original thinking as company officers offer feedback and further input.

1. The Boston Consulting Group

One of the first and most widely documented approaches to corporate strategic planning is that of the Boston Consulting Group, which is headquartered in Boston and has offices in Europe and the Far East. This company specializes exclusively in strategic analysis. The BCG approach begins by dividing a corporation into individual profit centers which are then individually studied and serve as independent planning units or "strategic business units." Sometimes BCG's assignments involve just one or several of these strategic business units, and other times it becomes involved with planning for an entire organization. Most of its studies are at the divisional level of a large corporation and focus on the strategic direction and business mix within the division. BCG's major emphasis is strategy analysis, and it makes suggestions for planning system changes only if the present system is inadequate. Every effort is made to try to preserve the structure of any established planning system.[6]

BCG's analytical approach to corporate strategy development is referred to as "product profitability analysis." Each strategic business unit, which may be a division, prod-

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[6]Interview with a consultant on the BCG staff.

uct, or product/market segment, is assigned a role, as in an investment portfolio, in achieving the overall corporate goals and objectives. Some of the qualifications for choosing strategic planning units are that they exhibit identifiable independence from each other, show some evidence that decisions are made separately, and are seen that way by top management. A product/market segment is "the focus of a specific product and a particular group of customers."[7]

The role of each strategic business unit is assigned according to its cash flow potential, growth potential and competitive position. For example, products with high cash generation and low growth potential are chosen to provide balance and cash for the products in the company's portfolio with high cash needs and high growth potential. The competitive position of each product is determined by assessing its relative market share, which is defined as "the ratio of a firm's dollar sales of a product to the dollar sales of the industry's largest competitor in that product."[8]

As a descriptive aid in their strategy studies, BCG plots each strategic business unit on a matrix diagram, as

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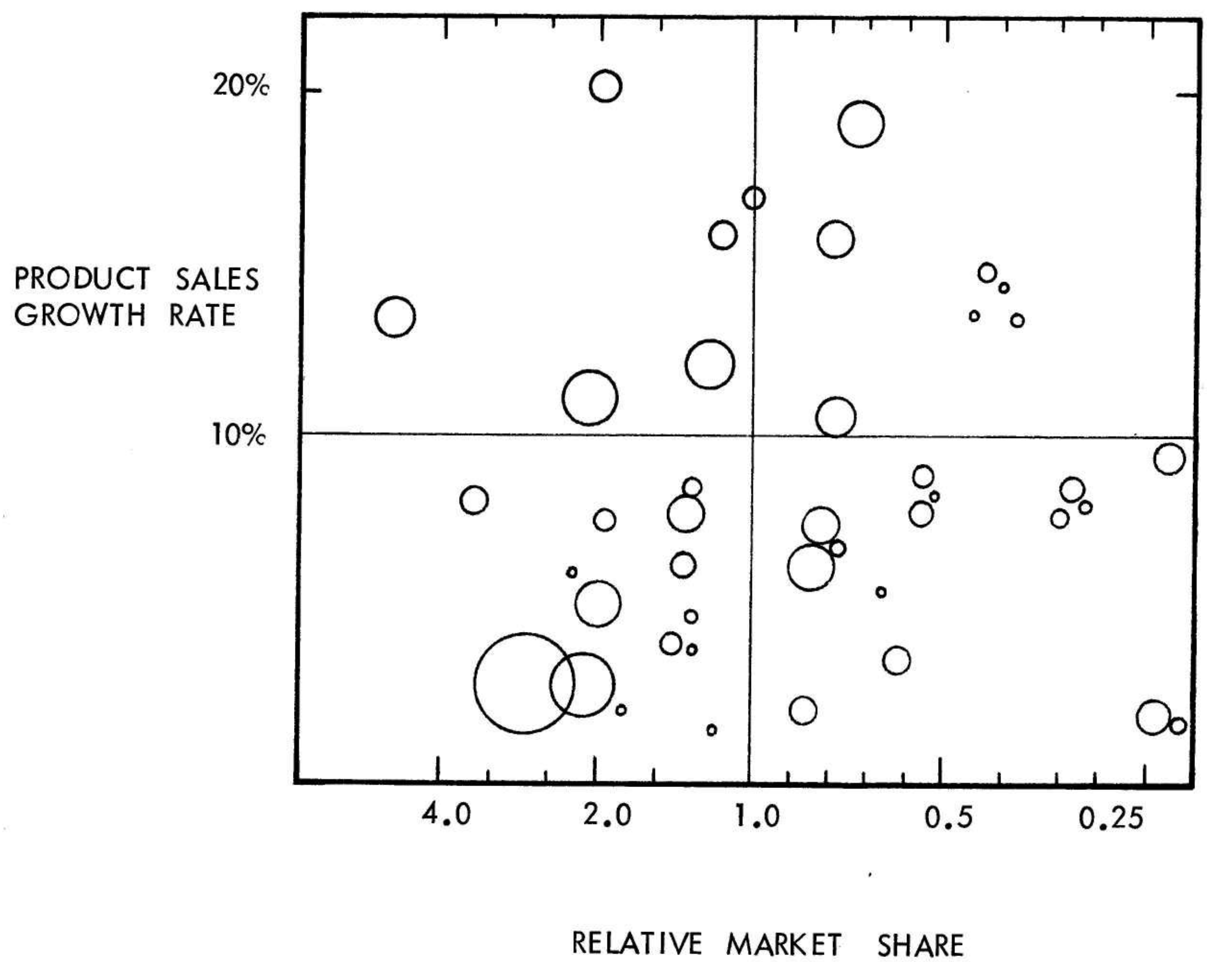
[7]Seymour Tilles, "Strategy Formulation and Evaluation: A Rigorous Approach," Boston Consulting Group, Boston, 1973, page 4.

[8]Gerald B. Allan, "A Note on the Boston Consulting Group Strategy of Competitive Analysis and Corporate Strategy," Harvard Business School case for class discussion, Intercollegiate Case Clearing House, Boston, 1977, page 2.

illustrated in Figure 4.1, which bears relative market share on the horizontal axis and product sales growth rate on the vertical axis. The size of the circle representing each strategic business unit gives the reader an indication of sales volume of each of the units relative to the other units in the portfolio and vis-a-vis the competition when competitive analysis is being presented. Separate product portfolio charts plotted over time indicate direction and rate of movement of each product.

For further analysis BCG has characterized products falling into each of the four quadrants of their product portfolio matrix by corresponding cash flow characteristics and refer to them as either "cash cows," "dogs," "problem children," or stars." As Figure 4.2 illustrates, "cash cows," indicated by the dollar sign, are products which typically have a large positive cash flow, high market share, and low growth rate. "Dogs" are products with low market share and low growth rate which neither generate nor require significant amounts of cash. The modest cash outflow must usually be reinvested to maintain market share. These are sometimes called "cash traps." "Problem children" or "question marks" are products with high growth but low market share which require large amounts of cash to maintain market share, and still larger amounts to gain share. "Stars" are the products with a high growth rate and market share which

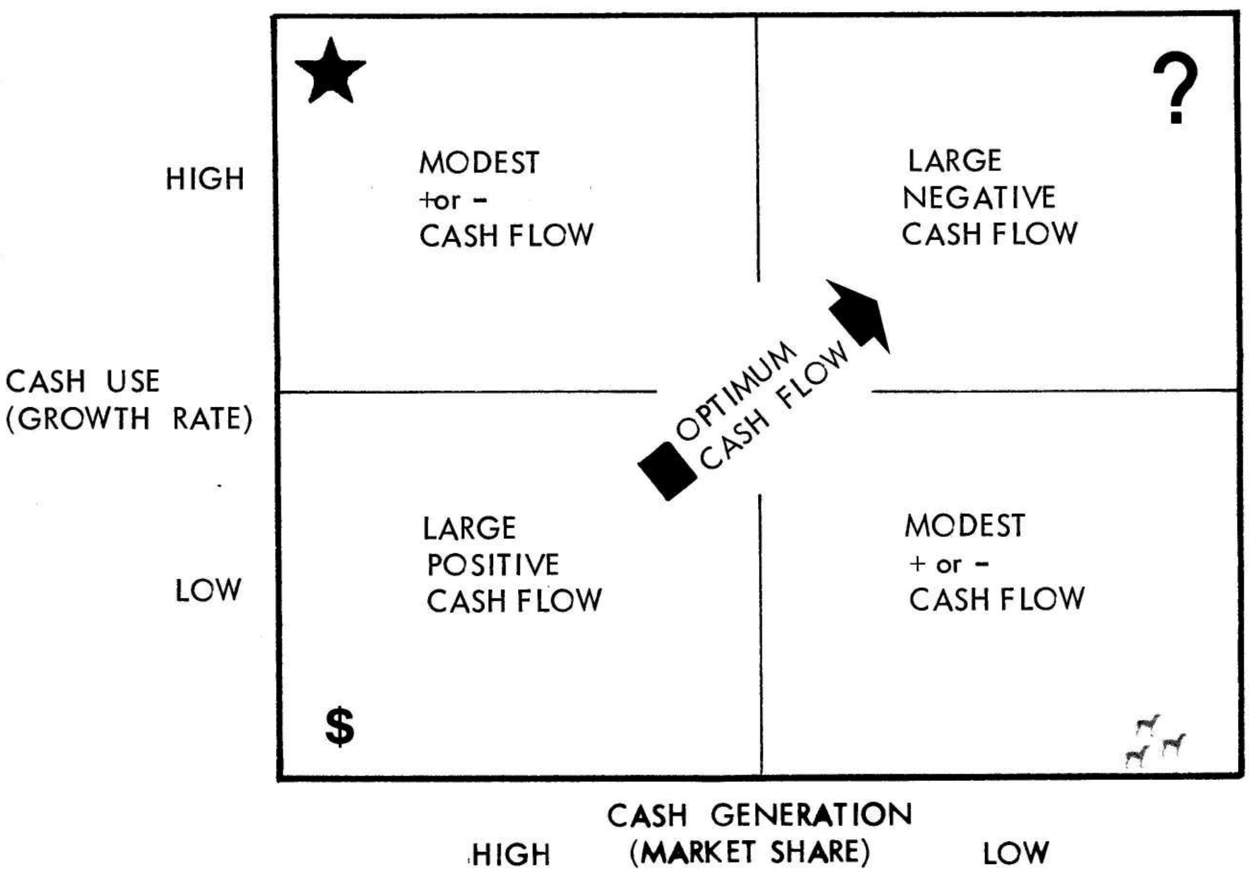
FIGURE 4.1
BOSTON CONSULTING GROUP'S
PRODUCT PORTFOLIO CHART



Source: Gerald B. Allan, "A Note on the Boston Consulting Group Strategy of Competitive Analysis and Corporate Strategy," Harvard Business School case for class discussion, Intercollegiate Case Clearing House, Boston, 1977, page 3.

FIGURE 4.2

BOSTON CONSULTING GROUP'S
PRODUCT CATEGORIES IN THE PRODUCT PORTFOLIO CHART



Source: Gerald B. Allan, "A Note on the Boston Consulting Group Strategy of Competitive Analysis and Corporate Strategy," Harvard Business School case for class discussion, Intercollegiate Case Clearing House, Boston, 1977, page 3.

may or may not be self-sufficient in cash flow. These "stars" are expected to become much larger cash generators in the future.

Once products have been plotted on the product portfolio charts, they can be reviewed to see how they fit in the total picture for the division or corporation. The portfolio is reviewed for cash flow trends and balances, and fulfillment of cash goals for the division or corporation. Trends over time are studied as a basis for assessing future movement. Total financial capabilities are determined by estimating sources of external cash generation in addition to the net cash flow generated by the product mix in the portfolio. Industry positioning is studied to determine a product's growth relative to that of the industry. Lastly, competitive analysis, focused on relative costs as well as relative market share, is performed to assess competitive strength and the cost of gaining market leadership for each product. These are the crucial factors reviewed by BCG to determine which of four basic strategies - share growth, share maintenance, milking or divestment - to recommend for each product.

As will be shown, portfolio analysis and product portfolio matrices are not unique to BCG. In fact, since their introduction by BCG in the early sixties, several of the other major management consulting firms have developed similar techniques in their corporate strategy analyses.

BCG's matrix emphasizes the importance of the concept of relative market share. BCG proposes that companies with a high share of a market relative to their strongest competitor tend to have higher profits and thus use relative market share as one of the two major criteria with which to judge the attractiveness of a particular business. They support this with an experience curve concept which indicates that the higher the cumulative physical output of a product, the lower the cost/unit will be due to greater labor efficiency, new processes and improved methods, product redesign, product standardization, the effect of producing on a larger scale and substitutions in materials and processes.[9] This suggests that market dominance should be the ultimate objective of each product in a portfolio.

While other sources have supported this concept, more empirical evidence is necessary to prove that this experience effect actually dominates. Poor management or high asset turnover could offset the benefits of experience, and other factors could provide cost advantages for a particular product such as technological breakthroughs, greater labor effi-

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[9]Gerald B. Allan, "Note on the Use of Experience Curves in Competitive Decision Making," Harvard Business School case for class discussion, Intercollegiate Case Clearing House, Boston, 1977, pages 3-5.

ciency, higher production standards, and higher capacity utilization. All of these factors could be realized by firms not as "experienced."

As presented, BCG's portfolio matrix is applicable to planning on both the corporate and divisional levels and is appropriate regardless of company size and diversification. Furthermore, by focusing on cash flows instead of profitability, this approach eliminates the problems of allocating corporate overheads to various divisions or product lines.

When it is determined that the current product mix is not adequate to meet overall division or corporate requirements and that external rather than internal growth is desired, BCG will perform merger and acquisition analysis for the client. The strategic analysis already performed provides input to such decisions as type of company desired, industry characteristics, and earnings and cash generation requirements of the product or products.

BCG consultants give oral progress reports and final presentations to each of their clients as well as a written analysis of their findings. Each report is individually tailored to the client; the length and format vary.

2. McKinsey & Company

McKinsey & Company, another major management consulting firm of international acclaim, provides a much wider variety of consulting services specifically geared to top management. Their largest group of professionals is in the strategic analysis and development area, and they also have a group of consultants who specialize in setting up and implementing planning systems. Furthermore, McKinsey provides consulting services in marketing, operations, finance, human resources, planning and control and for specific industries.

McKinsey begins its strategy studies by dividing a company into individual units for planning purposes. Its building blocks are known as "strategic business units"; each is essentially a well-defined product/market segment characterized by end use, customer type, distribution channels, or application.[10] These product/market segments may consist of one product or may be groups of products that can be thought of as a business. The business units selected do not always coincide with the existing organizational product line structure.[11]

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[10] Interview with an Associate on the McKinsey staff.

[11] Frederick W. Gluck, Richard N. Foster, and John L. Forbis, "Cure for Strategic Malnutrition," Harvard Business Review, November-December 1976, pages 154-165.

Once strategic business units are chosen, "situation analysis" is performed to analyze the current economic and competitive situation of the product line. Internal factors are examined to understand the strengths and weaknesses of the business. The product is studied as to its relative competitive position, capital requirements, cost structure, pricing, profitability, and true economic value to the customer. Distribution channels, marketing, servicing and sales capability, research and development support, manufacturing facilities and efficiency, product development capability, technological capability and management talent and values are also studied.

The external issues facing the product line are analyzed to point out the major opportunities and threats. The market segment is reviewed for levels and trends of growth, cyclicality, substitution options, sensitivity to price increases, product maturity, sources of growth and general competitive conditions.

The industry is analyzed for competition, concentration, requirements and barriers to entry, regulatory problems, consumer taste changes, technological developments, effects of inflation, available distribution systems and their costs, vertical integration by customers or suppliers, shifts in raw material availability, and activities of consumer groups and foreign competition. Lastly in the assessment of the current situation, the corporation's assumptions on cost, market segmentation, pricing, and product differentiation are identified.

At this point, the McKinsey analyst is ready to test the current assumptions identified in the previous step, and to deal with the strategy issues in depth. Each major function is studied for the strategy it implies. The technical objectives, strategies and programs for each business are articulated, and major risks and contingencies are identified. From the outcome of this process, an implementation plan is developed which includes specific programs, performance measures, organizational adjustments, and a time-phased plan of actions and expected results designating the individual(s) responsible for each action.[12]

Once the divisional strategies are developed, they are reviewed at the corporate and group levels to ascertain that they reflect the overall capabilities and objectives of the corporation, and that they take into account the major risks and opportunities. At that point, resources can be allocated among divisions, and cross-divisional product and market strategies can be worked out. When it appears that internal product development is inadequate to meet corporate needs, McKinsey may make suggestions for an acquisition or merger.

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[12] Ibid.

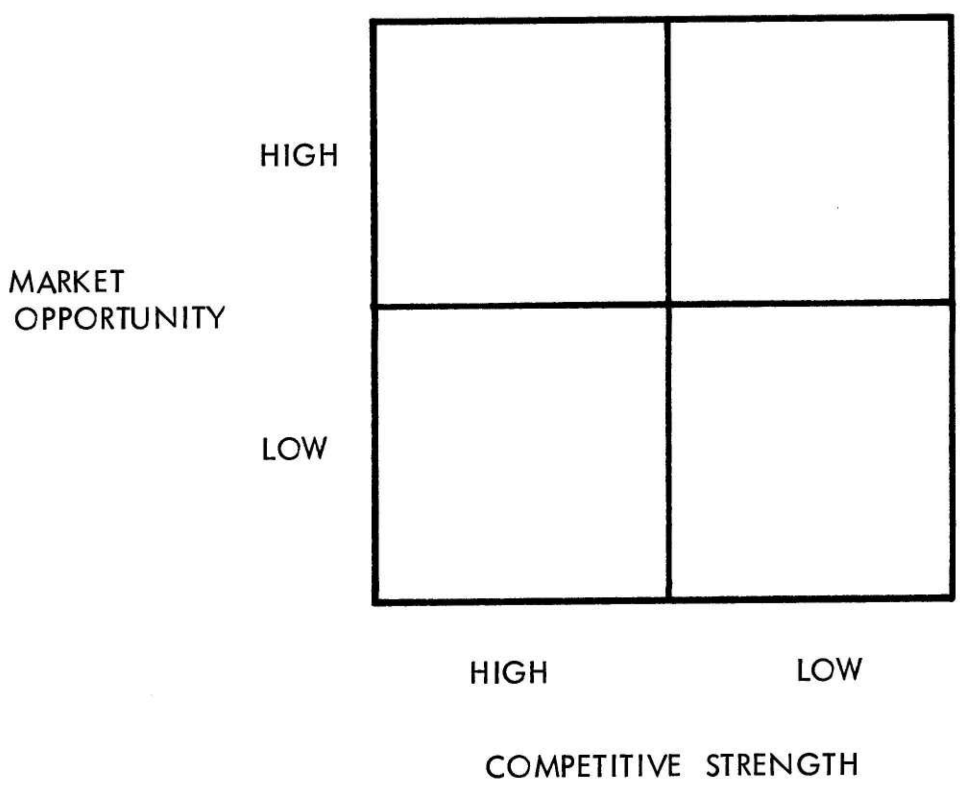
McKinsey also often incorporates a matrix into its reports to provide visual focus on specific strategic issues. McKinsey's matrix, as illustrated in Figure 4.3, substitutes the broader concepts of market opportunity and competitive strength for BCG's market growth and relative market share. This approach is fundamentally different from the BCG approach in two respects. Market opportunity looks at other factors besides sales growth rate in assessing the attractiveness of one market as opposed to another, and competitive strength gives more emphasis to non-cost elements and less to relative costs and relative market share. These broader concepts allow consideration of the effects of other important factors, such as oligopolistic pricing behavior and asset turnover which could affect cash flows and qualitative differences among competitors - e.g., product quality, technology and service availability - which would affect sales.

Like the BCG matrix, this approach allows the simultaneous comparisons of different products and businesses and can be used for analysis at the corporate or divisional level.

McKinsey & Company also has a group of consultants in the area of planning systems development. The analytical process for developing planning systems is more informal and varies with each client's unique organizational structure, personnel, management systems and communication channels.

FIGURE 4.3

McKINSEY & COMPANY'S
CATEGORIZATION MATRIX



Source: Strategic Planning Associates, Inc., "Strategic Planning: Theory and Practice," Washington, D.C., 1977.

Often the consultants begin by mapping out the present strategic decision-making process within the organization including who is involved, at what stage, their involvement and interaction, and the end product. From this beginning, an assessment would be made of the present system's effectiveness, and recommendations would be made for improving the process. McKinsey does not have a documented approach for how to set up a strategic planning system.[13]

To present its findings, McKinsey frequently prepares a written analysis of the problem for discussion with the client at the end of the diagnosis stage. When the consulting team has completed its evaluation, the detailed recommendations are presented to top management in a series of visual presentations or a written report. The consulting teams also are expected to develop an implementation program for their recommendations. Often this involves detailed implementation planning, conferences with individual or small groups, and/or coaching of client personnel.

3. Arthur D. Little

Arthur D. Little, another major, multi-purpose international management consulting firm, has a professional group practice that concentrates on both corporate strategy devel-

[13] Telephone conversation with an Associate on the McKinsey staff.

opment and planning systems. ADL labels its approach to corporate strategy development as the "Strategy Center Development System." It begins by identifying and analyzing "strategy centers" defined as "a product or product lines in terms of competition, prices, substitution of product, style/quality, and impact of product withdrawal."[14]

For the purpose of strategy formulation, ADL classifies each strategy center by industry maturity and strategic competitive position. Like BCG and McKinsey, ADL finds the use of a matrix presentation very useful for analysis. As shown in Figure 4.4, the vertical axis of its matrix for categorizing business units is "Strategic Competitive Position." The criteria ADL uses to ascertain whether a business is weak, tenable, favorable, strong, or dominant include market share, technology, breadth of product line, share movement, risk, rate of growth compared to GNP, degree of market concentration and conditions of exit and entry. This allows consideration of a great many more variables than BCG's relative market share.

Industry maturity, graphed on the horizontal axis, is determined by using the following classification criteria:[15]

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[14]Robert V.L. Wright, "A System for Managing Diversity," Arthur D. Little, Cambridge, Mass., December 1974, pages 6-7.

[15]*Ibid.*, page 7.

FIGURE 4.4

ARTHUR D. LITTLE, INC.'S
MATRIX FOR CATEGORIZING BUSINESS UNITS

INDUSTRY MATURITY

STRATEGIC COMPETITIVE POSITION

	EMBRYONIC	GROWTH	MATURE	AGING
DOMINANT				
STRONG				
FAVORABLE				
TENABLE				
WEAK				

Source: Robert V. L. Wright, "A System for Managing Diversity," Arthur D. Little, Cambridge, Mass., 1974, page 8.

Embryonic - rapid growth, changes in technology, great pursuit of new customers, and fragmented and changing shares of the market.

Growth - rapid growth but customers, shares, and technology are better known, and entry into the industry is more difficult.

Mature - stability of known customers, technology and market shares, although the industries may still be market-competitive.

Aging - falling demand, declining number of competitors, and narrowing of the product line.

ADL's industry maturity - strategic competitive position matrix is based on the concept that industrial life cycles follow a bell-shaped curve of growth and ultimate decline. An estimate of where a particular industry is on this life cycle curve is felt to reduce the need for precise estimates of market growth. The danger of basing a strategy on industry maturity is that technology and/or consumer taste changes can revive or kill an industry practically overnight.

With its matrix as a framework, ADL has developed a series of 24 strategies for each combination of maturity and competitive position which it states are "natural" for that stage. These natural strategies fall under the categories of marketing, vertical integration, foreign business (including export and overseas development), rationalization, and efficiency strategies.[16] Figure 4.5 illustrates several

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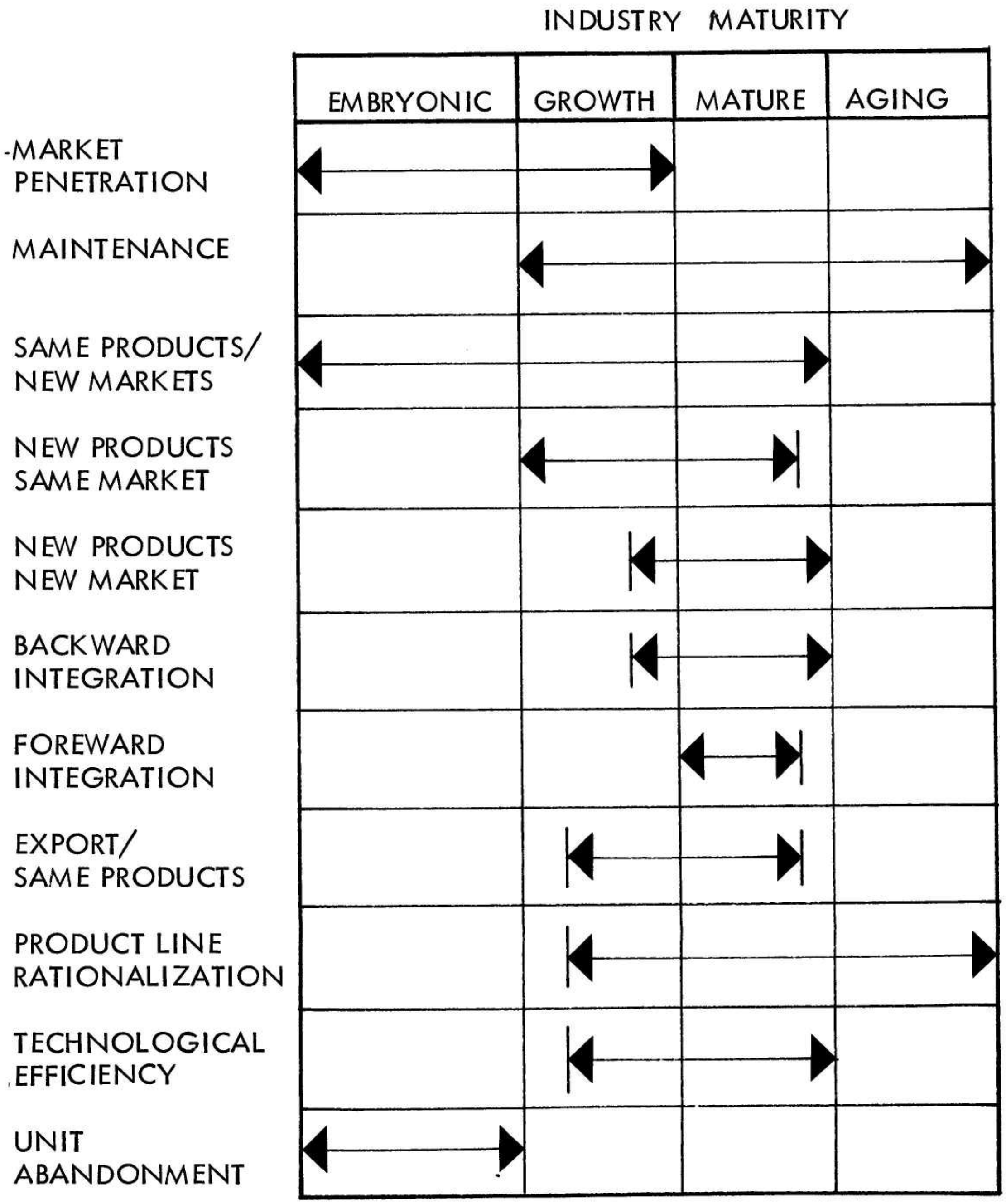
[16] Telephone conversation with a member of the Arthur D. Little staff.

FIGURE 4.40

ARTHUR D. LITTLE, INC.'S
SAMPLE OF NATURAL STRATEGIES



Source: Christopher E. Smith, "The Content and Process of Strategy," TIMS/ORSA, New Orleans, 1977.

of these "natural" strategies for several levels of industry maturity. These "natural" strategies form the beginnings of establishing a unit strategy. Incorporated with the "natural" strategies are financial performance attributes which ADL believes to be relevant given the strategy center's stage of maturity and proposed strategy.

ADL also assigns risk according to the strategy center's position in the matrix of maturity and competitive position. In general, ADL predicts that risk will be greatest for units with a weak competitive position in an embryonic business, and least for those with a dominant position in an aging business.

After selecting a unit strategy for each strategic business unit being studied, ADL performs what they call a "management congruency test" to see if the current activities and functions of the established corporate systems are appropriate for the stage of maturity of the strategy center. A sample of the functions and activities tested and and their proposed appropriate characteristics as a function of their maturity level is illustrated in Figure 4.6. This appears to be unique to ADL.

ADL's strategy center approach develops business level plans. Once the strategy centers have been analyzed for their natural strategy, they may need to be "revectored" to

FIGURE 4.6

ARTHUR D. LITTLE, INC.'S
MANAGEMENT CHARACTERISTICS
BY STAGE OF INDUSTRY MATURITY

Management Activity or Function	Embryonic Industry	Growth Industry	Mature Industry	Aging Industry
Managerial Role	Entrepreneur	Sophisticated market manager	Critical administrator	"Opportunistic milker"
Planning Time Frame	Long enough to draw tentative life cycle (10)	Long-range investment payout (7)	Intermediate (3)	Short-range (1)
Planning Content	By product/customer	By product and program	By product/market/ function	By plant
Planning Style	Flexible	Less flexible	Fixed	Fixed
Organization Structure	Free-form or task force	Semi-permanent task force, product or market division	Business division plus task force for renewal	Pared-down division
Managerial Compensation	High variable/low fixed, fluctuating with performance	Balanced variable and fixed, individual and group rewards	Low variable-high fixed group rewards	Fixed only
Policies	Few	More	Many	Many
Procedures	None	Few	Many	Many
Communication System	Informal/tailor-made	Formal/tailor-made	Formal/uniform	Little or none, by direction
Managerial Style	Participation	Leadership	Guidance/loyalty	Loyalty
Content of Reporting System	Qualitative, marketing, unwritten	Qualitative and quantitative, early warning system, all functions	Quantitative, written, production oriented	Numerical, oriented to written balance sheet
Measures Used	Few fixed	Multiple/adjustable	Multiple/adjustable	Few/fixed
Frequency of Measuring	Often	Relatively often	Traditionally periodic	Less often
Detail of Measurement	Less	More	Great	Less
Corporate Departmental Emphasis	Market research; new product development	Operations research; organization development	Value analysis Data processing Taxes and insurance	Purchasing

Source: Robert V. L. Wright, "A System for Managing Diversity," Arthur D. Little, Cambridge, Mass., 1974, page 10.

accomplish the objectives of the aggregate.[17]

ADL also has a practice group that specializes in merger and acquisition analysis. Using the strategy information generated by the "Strategy Development System," this group helps the company to ascertain the particular industry and company characteristics required in any potential acquisition candidate. They often are then asked to perform a company search, company assessments, valuation, negotiation and sometimes even to help with the implementation. The major criteria they consider are the compatibility of the industry, product, market and people, and the financial contribution that could be expected. Sometimes they are given some very specific requirements by the client such as P/E ratio enhancement, reducing risk, transfer of technology, margin protection, countercyclical overlay or attention to a particular corporate strategy.[18]

ADL's planning system consulting revolves around the use of its strategy center profiles. The ADL consultants assemble each of the principal managers of all the functions in a business unit to develop the profile for their strategy center. This meeting should be led by someone outside the unit to provide objectivity and insight. For the initial strate-

[17]Wright, page 6.

[18]Information presented in a seminar on "Acquisition Planning" given at the Sloan School during January 1978 given by G. Richard Young.

gic plan, this session usually takes three days. The end product of these sessions is a "corporate strategy guideline statement" which contains the specific objectives, strategies, policies and admonitions for the strategy center and is expected to provide the framework for business planning. The guideline statement is also expected to serve as the basis for corporate review of the strategy center's plans. ADL's corporate level planning process consists of an iterative series of interactions among the Chief Executive Officer, his prinicpal officers and the consultants.

4. Strategic Planning Associates

Another consulting firm exclusively concerned with strategic planning and its related issues is Strategic Planning Associates, which has offices in Washington and Boston. SPA borrows and expands upon many of the concepts introduced by BCG, McKinsey, the PIMS project of the Strategic Planning Institute and others, and offers quite a comprehensive and impressive package of optional services for developing business strategies. The firm specializes in conducting seminars on strategic planning, conducting division or business segment strategy studies and competitive analyses, providing aid in setting up the planning process within an organization, and installing computer support systems for strategy gaming.

The current roster of seminars offered by SPA includes: "Concepts and Techniques in Strategic Planning," "The Mechanics of Strategic Planning," "Issues in the Use of a Strategic Planning Support System," and "Special Strategy Studies: Theory and Practice."[19] SPA offers these seminars to present their conceptual framework and specific approach both to potential clients and to the people within a client organization who will be carrying out the strategy planning tasks. If desired, the seminars are custom-tailored for a

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[19]Strategic Planning Associates, Inc., "Description of Services," pages 2-4.

client to include company data in order to make the concepts more concrete and meaningful.

In the area of special strategy studies, SPA offers three separate programs described in their company literature as:[20]

> 1) The Strategy Audit - A detailed review for a particular division or product line of the appropriate segmentation, matrix position, competitive strategies, operating programs, and expected financial results with risk adjustments.
>
> 2) The Categorization Review - A broad review across an entire company, group, or division of the operating strategies and financial forecast for each business segment.
>
> 3) The Financial Objectives Review - Presentation of the corporate financial implications of operating conclusions drawn in a categorization review. The output includes recommendations as to financial objectives, debt, equity, free money, dividend policy, stock valuation, and the framework design for acquisitions or sellout programs.

SPA's analytical approach to strategic planning as used in its "strategic audits" begins with business definition. In this stage, strategic segments, strategic planning units and the depth of detail of the analysis to be performed on each unit are identified. SPA defines a strategic segment as "the business unit for which operating management wishes to carry out its planning."[21] As this would often create too many individual planning units with which to deal at the

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[20] Ibid., pages 8-10.

[21] Strategic Planning Associates, Inc., "Strategic Planning: Theory and Practice," Washington, D.C., 1977.

corporate level, these strategic segments are then consolidated where possible linkages occur. Examples of this would be through the use of shared facilities or common participation in a particular market. These larger units of business segmentation are what SPA uses for its strategic planning units.

Once business segments have been defined, the "categorization" process begins. The purpose of this phase is to determine each business's potential for growth and profit and to assess each business's proposed direction or strategy. This is done by assessing the market and competitive environment for each segment looking specifically at market demand, market share, growth, profitability, turnover, facilities, capacity utilization, capital costs, overhead, product offerings, and pricing and costs for both the client organization and its major competitors.

If a more thorough analysis is desired for a particular business, SPA may study competition and market structure over time, product life cycles, specialty/commodity aspects of the product, breakdown of value-added economics, supplier pressure, vertical integration characteristics, distribution channel structure, substitution options, seasonal cyclicality, risk and/or segment linkages to other businesses.

SPA then incorporates the use of a matrix for a display tool. The SPA matrix varies significantly from the previously presented matrices of BCG, McKinsey, and ADL. SPA believes that categorizing by matrix is incorrect because no two-dimensional matrix can capture the nuances of the categorization process and indicate simultaneously a business's competitive strength, profitability, growth direction, capital turnover, program support quality, complicating business linkages and multiple risk factors.[22] Furthermore, managers are often reluctant to support systems which place too much emphasis on only market growth and competitive strength. To remedy this, SPA has developed a matrix display that refocuses the discussion on the ultimate objective of categorization. Attention is focused on the potential for growth in investment (deployment of capital) and profitability (return on capital) for each business. Placement in the SPA matrix is made after categorization occurs.

As illustrated in Figure 4.7, a series of color codes is used to indicate future potential. The following interpretation accompanies SPA's matrix description:[23]

> Red - means that for whatever reason (including the manager's, as yet undefined, intuition) a business is perceived to have limited potential to achieve the level of returns necessary to justify resources ... does not indicate the appropriate speed of liquidation, or its manner ... does mean that liquidation in the form of cash now is the broad direction for such a segment.

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[22] Ibid.

[23] Ibid.

FIGURE 4.7

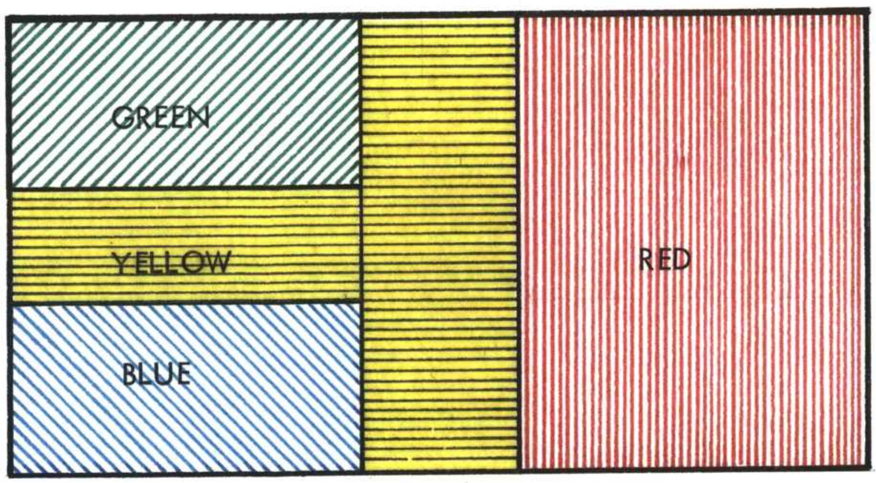
STRATEGIC PLANNING ASSOCIATES'
CATEGORIZATION MATRIX

POTENTIAL CAPITAL GROWTH

HIGH

?

LOW



HIGH ? LOW

POTENTIAL PROFITABILITY

Source: Strategic Planning Associates, Inc., "Strategic Planning: Theory and Practice," Washington, D.C., 1977, pages unnumbered.

Blue - also expected to generate cash, but the objective is not liquidation but maintenance or improvement on current positioning.

Green - candidates for net cash use in pursuit of their objective of maintaining or improving current competitive positioning.

Yellow - available to signal uncertainty - a desire to withhold categorization until more information is available.

After categorization, SPA looks for the existence or development of supporting programs and projects. The strategies and tactics developed by each functional or departmental manager are reviewed to assure congruency with the objectives set by the business segments of the strategic planning units. This step helps to assure consistency between strategies and resource allocation. The end result of this step is the determination of the long run financial goals and operating strategies for each segment.

Now comes the task of integrating business segment strategies into the corporate plans. SPA focuses on the financial implications of the consolidated operating strategies. First, compatibility with corporate financial policies is checked. This includes any constraints on cash, debt, equity and dividends. Then the forecasted financial results of the aggregated operating strategies are compared with the overall corporate financial targets.

When a company's financial objectives do not match the proposed segment plans or financial constraints, a company has five options:[24]

1) Individually appropriate segment plans may have to be altered (e.g., holding back or advancing proposed investments).

2) Internal development programs can be accelerated, restrained or eliminated.

3) Weak segments may be written off or divested as a source of cash or new acquisitions may be sought as a use for cash.

4) Financial constraints of debt limits, dividend pay-out, etc., may be tightened or loosened in a variety of combinations.

5) Corporate objectives may be judged inappropriate and changed.

Once the objectives of each planning segment are approved, they can be issued to the operating managers as guidelines to provide the framework for preparation of detailed operating budgets and plans.

Among the consulting firms interviewed, SPA has done the most development in the area of computer support tools for the strategic planning process. The firm has focused on developing easy-to-use and straightforward tools which can deal with the dynamic nature of strategic planning and be used by a wide variety of organizations. At present, SPA offers six modules, each of which has interactive computer graphic capabilities. The six are described in their literature as:[25]

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[24] Ibid.

[25] Ibid.

Financial Module - Consists of five subsections which calculate the divisional implications of corporate goals, the corporate implications of divisional performance, the implications of changes in financial policies, and the financing implications of projected operating scenarios.

Strategic Segmenter - Examines a variety of segmentation options, ranks the most interesting in a variety of dimensions, and allows the user to plot any number of alternatives he wishes to test. The "strategic segmenter" greatly extends the analysts's ability to develop meaningful business definitions for strategic planning.

Profile Processor - Accepts proposed financial and operating directional data at a decentralized organizational or suborganizational level and aggregates, adjusts, allocates, and displays the results in a variety of dimensions for analysis by planners.

Price Cost Curve Generator - Accepts product price and cost, or facility cost, data and cumulates, deflates, and plots the results in interactive free hand or batch regression mode.

Categorization Support Tools - A series of programs which process, or process and display, data gathered in support of business categorization.

OST Cross-Referencer - Computes and prints out the implications of interacting business objectives and functional strategies and tactical programs. This tool is based on the OST (objectives, strategies, and tactics) concept of implementation planning practiced at Texas Instruments.

These computer support tools provide the framework for a company to perform its own strategic analysis. No further information was available on the other aids offered to assist corporations with their planning process.

5. Touche Ross

Touche Ross, known worldwide for its professional auditing and accounting services, has a fast growing consulting practice referred to as the Management Services division.[26] This group performs various types of consulting assignments, including corporate strategy assessment and development. The style of consulting varies somewhat from the previous "pure" management consulting firms presented as the TR consultants already have strong ties and knowledge of the client organization, particularly with the accounting organization and their systems and budgets. Almost all of TR's consulting clients use or have used TR's accounting professionals, and personal contact has often been close and of long duration.

As an outgrowth of these established working relationships, the consulting style is more direct, pragmatic and implementation-oriented. TR sees a major role of a consultant as challenging ideas and forcing the client to think about where it is going, starting from the lowest breakdown of the organization - the budgets of each profit center.

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[26] Information on Touche Ross was obtained in an interview.

TR consultants tend to do a more detailed analysis of the company's accounts, for example, analyzing the age of inventories, goodwill, contingent liabilities, and contractual agreements. They also study the budgets to determine current program emphasis and implicit objectives and strategies. They check to see whether current businesses are operating at the budgeted levels and are consistent with the stated goals and objectives.

TR also focuses more heavily on the interpersonal relationships within an organization. The consultants look at the power motivations as well as the dollar motivations behind specific strategies and policies. In particular, they try to gain an understanding of the business orientation of the chief executive officer. They assess the strengths of the people and the organizational structure as to its capability to carry out the stated strategies and meet the specified goals and objectives. Working with the line managers, the consultants seek to gain an understanding of their major concerns and of their markets.

Once an understanding is gained of the current people, accounts, budgets, strategies and goals, the consultants work from this base to include external and future considerations. Specifically, they look at markets, including current characteristics, projected growth, number and size of competitors, number and size of customers, likely growth from current and new customers, product maturity and image, product synergy with other lines, new products under development, distribution systems, capital availability - internally generated as well as external sources, trends of the prime and the economy, and the cost and pricing structures of the product lines.

They focus on factors which add to the measurement of risk against return; potential for improved performance through reasonable changes in people, working capital, and new programs; and possible increased leverage between product lines and divisions - including customers, products, potential integration, raw material sources of supply, distribution channels, people and systems.

TR's proposal to a client for future direction includes an overall market strategy and planned market programs with: projected results for current and new markets to be served by the present organization and by new acquisitions; new programs that will be necessary to increase operating efficiencies and productivity and subsequently increase profits; organizational changes and improvements to ensure that the organization has the people to manage the successful achievement of the new plans at both division and corporate levels; projected operating results for five years including P & L projections, cash flows and capital requirements; a narrative summary of the five year plan for both internal and external communications; and finally, detailed implementation plans to serve both as a guide during implementation and as a control mechanism to measure whether new programs are being successfully achieved. These plans include prioritized action steps, specific organizational and individual responsibility for each program, realistic timetables and the costs and efforts in completing each program.

TR communicates its results to the client both during meetings throughout the study and in the form of a written document at the end of the engagement.

6. The Berwick Group

The Berwick Group, located in Boston, offers quite a different, interesting and pragmatic approach to strategy consulting. The consultants at Berwick include "process consultants." Their strength is playing the role of advisor and catalyst. Their specialized knowledge of interpersonal and group dynamics as well as of strategic planning enables them to guide a client toward "a better formulation of issues and problems, organize a more coherent view of future alternatives, develop more flexible strategies, and build stronger internal commitment to ensure their implementation."[27]

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[27] The Berwick Group, Inc., "The Berwick Group," Belmont, Mass., 1977, pages unnumbered.

The consultants organize study teams to include representatives from each functional area involved with a particular product line including at least one representative each from marketing, research and development, finance, accounting, manufacturing, and top management. The analysis and development of strategy by these study teams is a cooperative and iterative effort. The consultants guide the client representatives to focus and stimulate their thinking about their businesses. The consultants also challenge ideas to help expand the client's outlook and overcome the limited scope of each individual. Also they look for inconsistencies, flag uncertainties and help the client to play off conflicting goals and objectives.

The process goal is "closure" so that everyone involved understands and agrees on the issues and strategies discussed to the point of taking action. The final step in the process is helping the client to prepare its own planning document.

The specific criteria covered in developing a corporate strategy by the Berwick consultants include: looking at financial performance and goals to indicate whether present strategies are working; studying past assumptions and decisions for feasibility and consistency; reviewing the infrastructure already in place - the organization, compensation system, planning system, management information system, and management style; analyzing the industries and markets by looking at the stage of maturity, competition, trends, opportunities and threats; developing a perception of risk and identifying other corporate values and philosophies; and looking for constraints, particularly external such as government regulations, stockholder expectations, employment contracts, and other economic and political factors.[28]

7. Booz, Allen & Hamilton

Booz, Allen & Hamilton, one of the world's largest international, multi-practice management consulting firms, is currently in the process of developing a specialty practice in the area of corporate strategy development. At this time the firm does not have a documented B, A & H approach to strategy development. In a recent consulting study,[29] their analytical approach was heavily marketing oriented. Markets were used as the planning units. The specific criteria to be reviewed included: past and future environmental and market trends to assess market attractiveness; strengths and weaknesses; current competitive posture; corporate statement of missions and objectives; internal constraints to market

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[28] Information on the Berwick Group is from an interview.

[29] The client and study names were not identified.

development; and the match of resources to growth potential. From this information the consultants define and evaluate alternative market strategies, conduct studies of the major strategic issues, develop evaluation criteria for projected baseline performance, document recommended strategy that may include plans for acquisition and divestiture, and prepare implementation plans such as two to three year action programs, venture management, and annual operating plans.

A major difference in emphasis by Booz, Allen & Hamilton from the other firms surveyed appeared in the importance given to trends in the economy and financial markets. The firm is at present developing access to a date base of economic and financial indicators which the consultants feel will help them in assessing industry and market growth trends and cash flow and capital availability.

8. Cresap, McCormick & Paget

Cresap, McCormick & Paget is another major international management consulting firm headquartered in New York City and offering a variety of consulting services. While CMP does not have a large, developed group practice in the corporate strategy area, there are a few senior individuals who specialize in corporate development, and strategy issues and recommendations are often part of reports issued by the other practice groups which are mostly organized along industry lines.[30] Because of this, CMP does not purport to have a "CMP approach to corporate strategy" as such, but recognizes the importance of assessing a firm's strengths and weaknesses, assessing opportunities and threats facing a business, its product lines, and potential new products, and matching resources to meet objectives. When these issues are relevant to a particular study, they are included in the analysis and recommendations.[31]

In one unidentified consulting report, CMP presented its definition of a strategic business unit as "an organizational entity engaged in a business or collection of related businesses with its own distinguishable product or service mission, competition, markets, technology, human resources, organizational requirements and the like so that total business accounting - both short and long range - can realistically be focused on one manager."[32]

A recent brochure on strategic planning for retailers issued by CMP's Retail and Consumer Services group included

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[30]For example, retailing and consumer services, government and health care.

[31]Information on Cresap, McCormick & Paget came from interviews.

[32]*Ibid.*

the following checklist of attributes that need to examined in analyzing a business:[33]

- Organizational structure
- Major policies
- Top managers' skills
- Top managers' experience
- Information systems
- Operation procedures
- Planning system
- Employee attitudes
- Managers' attitudes
- Union agreements
- Distribution network
- Skills of the sales force
- Breadth of merchandise
- Knowledge of customers' needs
- Market domination

In another unidentified study, when recommending strategies for strategic business units, CMP used the categories of growth-develop, stable-selective or harvest-divest. To enable categorization, the consultants studied earnings, cash flow and business outlook looking three years backward and forward for each strategic business unit.

In addition to making strategy recommendations, CMP also participates in the development of strategic and operational planning and performance reporting systems. When it appears that a client organization would benefit by adding structure to its current planning process, CMP consultants will formulate a set of guidelines and an implementation plan for its development.

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[33] Cresap, McCormick & Paget, "Strategic Business Planning for Retailers," 1977, Exhibit 2 following page 6.

CMP's consulting engagements usually include oral presentations, with charts and other visual aids, and written reports of both interim progress and final analysis and recommendations. After the client's approval of the solution has been obtained, the consultants will assist in putting the recommendations into effect to the extent desired by the client.

9. Management Analysis Center

Another unusual and interesting management consulting firm with four offices in the U.S. and one in Spain is the Management Analysis Center, known as MAC. This firm is the largest faculty-based consulting firm in the world with over 120 faculty affiliates from the top business and economics schools in the United States. Many of the professors are among the most famous in their respective fields.

The professors work in conjunction with a professional consulting staff. To the analytical talents of the consulting staff are added the more specific, research-based knowledge of the professors. MAC contends that this combination allows greater innovation and customization in the services it offers.[34]

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[34] Information on MAC came from interviews .

The company brochure defines strategic planning as "the process of determining the major objectives of an organization and the policies and strategies that will govern the acquisition, use and disposition of resources to achieve these objectives."[35] Their planning units are businesses or product/market segments.

The firm's president contends that there is no one standard formula for strategy analysis, but rather the consultants focus on trying to understand the client's businesses and to find insights into what will fit. Among the issues reviewed during a consulting engagement to develop corporate strategy are: characteristics, talent, management style, and organization of the individual company; cash flow limits and levels; investment requirements and capabilities; technical analysis of the industry and market segment; integration; and assessments of performance, risk and return.

MAC not only provides consulting services in substantive strategy development, but also offers aid in the development of planning systems and facilitation of the planning process within an organization. The specific format, timeframe and style of these recommendations vary with the characteristics, management style, problems, opportunities and organization

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[35] Management Analysis Center, Inc., "MAC, Inc.," Cambridge, Mass., pages unnumbered.

of an individual company. Nonetheless, the recommendations adhere closely to the three cycle planning process presented in Chapter 3 of this thesis.

To enable the MAC consultants to gain an understanding of a company and its processes, the first step in their approach is to perform a "strategic audit." Through review of company material and interviews with senior management the consultants seek an understanding of: the strategies of the corporation and its constituent divisions; the organization of the corporation and divisions; the "fit" between the organization and the strategies; the management systems of the corporation; the "fit" between the systems, the strategies and the organization; any specific problems that will hinder the introduction of the new systems; and an overview of how the system might be tailored to the specific company. The next step is the design phase which involves detailing such issues as the time horizon for each cycle, communication channels, the personnel involved, and the orientation - qualitative vs. quantitative. The final phase of the approach concentrates on how the actual introduction and use of the new system should be achieved.

10. Strategic Planning Institute

Quite a different approach to corporate strategy assessment and development consulting is provided by the Strategic Planning Institute in Cambridge, Massachusetts. SPI is a non-profit, tax-exempt, membership organization that has developed a program called the Profit Impact of Marketing Strategies or PIMS. The basic idea behind the PIMS program is "to provide corporate top management, divisional management, marketing executives and corporate planners with insights and information on expected profit performance of different kinds of businesses under different competitive conditions."[36] More specifically, questions such as the following are answered:[37]

- What profit rate is "normal" for a given business, considering its particular market, competitive position, technology, cost structure, etc.?

- If the business continues on its current track, what will its future operating results be?

- What strategic changes in the business have promise of improving these results?

- Given a specific contemplated future strategy for the business, how will profitability or cash flow change, short-term and long-term?

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[36] Sidney Schoeffler, Robert D. Buzzell, and Donald F. Heany, "Impact of Strategic Planning on Profit Performance," Harvard Business Review, March-April 1974, page 137.

[37] Strategic Planning Institute, "The PIMS Program," 1977, page 3.

SPI offers its services to member clients only, which, at present, include over 175 companies ranging in size from $8 million to $15 billion. The member companies contribute data on their various businesses (usually eight to ten) and pay a prorated share of SPI's operating costs based on their annual sales volume.

The strategic planning units at SPI are referred to as "businesses" and are defined as "a division, product line, or other profit center within its parent company, selling a distinct set of products and/or services to an identifiable group of customers, in competition with a well-defined set of competitors, and for which meaningful separation can be made of revenues, operating costs, investments and strategic plans."[38]

The information collected from each member company for each of their businesses includes: characteristics of the business environment; competitive positions of the business; structure of the production process; discretionary budget allocations; strategic moves and operating results. This information is combined with similar data from the other member companies into a computerized data bank. Currently, SPI's data base includes information from over 1,300 businesses.

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[38] Ibid., page 6.

Using linear regression analysis, SPI has constructed a model to predict return on investment. This model is made up of 37 independent variables which account for 80% of the observed variation in return on investment among the businesses in the data base. SPI inputs the new business data received from each business into this model to ascertain an average expected return on investment for each business. This is the base for a computer-generated report called the "PAR" report. By definition:[39]

> - The PAR Report - specifies the return on investment that is normal (or par) for the business, given the characteristics of its market, competition, position, technology, and cost structure. It reports whether this business is the kind that normally earns, say, 3% on investment or 30%, judging by the experiences of <u>other</u> businesses with <u>similar</u> characteristics. Also it identifies the major strengths and weaknesses of the business that account for the high or low par.

SPI also has several other empirical models which predict cash flows and profitability. The standard reports prepared for each of the member companies from these models include:[40]

> - The Strategy Sensitivity Report - is a computational pre-test of several possible <u>strategic</u> <u>moves</u> in the business. It indicates the normal short and long term consequences of each such move, judging by the experience of other businesses making a similar move, from a similar starting point, in a similar business environment. It specifies the profit (or loss) likely to be

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[39] <u>Ibid.</u>, page 9.

[40] <u>Ibid.</u>, pages 9-10.

achieved by such projected changes, along with the associated investment and cash flow. This report is used by (a) upper-level managers and planners, for evidence on potential effects of broad moves in market share, margin, capital intensity, and vertical integration; and (b) by middle-level people, for evidence of the potential effects of specific actions in such areas as: programs to improve relative product quality, increases in the ratio of marketing expense to sales, improvements in capacity utilization or employee productivity, or changes in R & D outlays.

- The Optimum Strategy Report - nominates that combination of several strategic moves that promises to give optimal results for the business, also judging by the experiences of other businesses under similar circumstances. This report offers such an opinion for any of several different measure of profit performance, for example, discounted cash flow over 10 years, return on investment for the next 5 years, and short-term earnings dollars.

In addition to these routine reports, member companies also receive reports on the organization's general business research findings which focus on general principles of business strategy. They are also allowed access to the data base and several computer models which can be used for strategy planning and simulation.

SPI views its product as a tool to aid in business judgment regarding both current and proposed business ventures. The actual application of SPI's reports is varied. Most importantly, they aid in forecasting profits, measuring management performance, and appraising new business opportunities and other strategic moves in terms of cash flow, return on investment and net income.

Chapter 5 - Conclusions

As can be seen by the ten examples presented in the previous chapter, each consulting firm has a different approach in aiding companies to perform strategic planning. Which of the approaches a company might best choose for its individual purposes depends on many factors. Among these might be the particular industry, products, degree of decentralization or diversification, amount of competition, size, management style and values, information gathering capabilities and past success.

Since each corporation has different needs for strategic planning assistance, no one specific consulting service would be the most appropriate for all companies. Furthermore, more than one consultants' services might be valuably employed over time to aid in different aspects of the strategic planning process. Among the firms reviewed, particular similarities, differences, strengths and weaknesses can be identified.

As set forth in the introduction, consultants provide services in both the process and content aspects of strategic planning. Moreover, the approach to each aspect varies when applied to different levels of the corporation. It was my intention to present the relevant parameters as developed by each of the ten consulting firms reviewed for their various approaches to setting up planning systems and strategy analysis at both the corporate and divisional levels. What I found was the following:

Out of the ten firms interviewed only McKinsey, ADL, SPA, CMP, Berwick and MAC provide specific services directed at setting up or improving the planning process within an organization. Information on each firm's approach to planning system development was much more limited than information on strategy development. It may be that the important criteria for developing effective planning systems within a company are more difficult to determine.

Only MAC offered a set of crucial variables to be studied and a planning process approach. The McKinsey group had an interesting approach - tracking the current strategic decision making process to see where improvements could be made. CMP offers its services to formulate a set of guidelines and an implementation plan to develop a planning system; no information was available on how these are developed, however. ADL's installation of the unit profiling system appears rather rigid. While it may be a start to getting managers to think "strategically" by providing the variables to be reviewed in its unit profiles, it seems to be suggesting that the firm's strategy center - industry maturity / competitive position matrix approach to strategy development is the only way a company should approach its strategic planning. SPA's computer support tools provide an aid to strategic decision-making and thus may be incorporated as part of a company's planning system. Further information is necessary to assess SPA's contribution to planning system development. Berwick's "process approach" to strategy development would by example offer executives insight into how to make strategic decisions within their own organizations after the consultants have finished their engagement.

As to insights into the differences in the planning process at the corporate and business unit level, again only MAC provided specific information on the process and the various tasks to be performed at each organizational level. ADL involved a different set of executives and suggested the tracking of different types of information at the two organizational levels. It appears that management consultants have not been as interested in the design and implementation of planning systems as they have been in performing the substantive analysis for corporations. As interest in strategic planning is increasing, the demand for expertise in the how and why of internal systems to perform this type of analysis should grow.

All of the companies interviewed were concerned with some of the substantive issues of corporate planning. The approach and focus varied from firm to firm. All of the firms begin strategic analysis by breaking the client organization down into smaller units for planning purposes. The name, definition and logic behind these divisions varied. Exhibit 5.1 summarizes this information for each firm.

Most of the firms suggested structuring planning units along current product lines or business units. There are pros and cons for structuring planning units along present organizational lines. Most importantly, more current and historic data would be readily available. The task of restructuring information or allocating overheads across product or departmental lines can be very difficult. The allocation task may be quite subjective, and the information may come from different sources. A review of available internal information and an assessment of the capability and feasibility of further data gathering requirements should be made before deciding on business unit breakdowns.

Furthermore, getting cooperation from managers and staff people who under normal conditions are in competition can present an impossible challenge. A company's management should reach an understanding with the consultant about how much cooperation and interaction among departments will be required.

Where internal data and people do not restrict the way information can be structured, it may be quite possible to perform very market-specific analysis without regard for the current organizational structure.

As can be seen in Exhibit 5.1, BCG, McKinsey, ADL and CMP have more detailed concepts of what is involved in desig-

EXHIBIT 5.1

PLANNING UNIT DESIGNATION

Firm	Planning Units
The Boston Consulting Group	strategic business units; a product, division, or product/market segment
McKinsey & Company	strategic planning units; one well-defined market segment determined by end use, customer type, distribution channels or application
Arthur D. Little	strategy centers; usually a product or product line determined by competition, prices, substitutability of product, style/quality, or importance of product withdrawal.
Strategic Planning Associates	strategic segments; determined by operating management; usually a business unit
Touche Ross	profit centers
The Berwick Group	product or product line
Booz, Allen & Hamilton	markets
Cresap, McCormick & Paget	business; usually a product or product line determined by mission, competition, markets, technology, human resources or organizational requirements
Management Analysis Center	business or product/market segment
Strategic Planning Institute	business; usually a division, product line, or profit center

nating planning units. These firms appear to have the most developed thinking on strategic unit breakdowns among the ten firms. Their ideas indicate that they have a greater understanding of the linkages between products and markets. SPA's approach which allows the planning unit designation to be determined by operating management appears to be the most flexible. This would allow the line managers to study products, markets and strategy options of most interest to them and would thus insure their commitment. Just how practical this would be when trying to integrate business-level plans with corporate plans is unclear.

The amount and type of data which are studied to make strategy recommendations also varied from firm to firm. The scope of the information reviewed by the ten firms interviewed was quite broad, as shown in Exhibit 5.2. Data gathering focuses on the product, production process, market, competition, company, industry and environment.

The major criteria used to determine the best strategy options varied among the firms, as can be seen in Exhibit 5.3. The BCG approach deemphasizes the non-cost related elements which affect cash flows, such as product quality, seasonality, and regulatory problems. Because of this omission, their approach seems oversimplified. The market attractiveness - company position approach used by McKinsey and Booz Allen is attractive because it considers more market and com-

EXHIBIT 5.2

TYPES OF DATA USED IN STRATEGIC PLANNING

Product
Quality/Image
Maturity
Pricing
Sales Growth Rate
Sensitivity to Price Increases
Breadth of Line
Turnover
Cost Structure
Profitability
Cash Flow
Technology
True Economic Value to Customers
Specialty/Commodity Ranking

Production
Vertical Integration
Technology
Operating Expenses
Overhead Expenses
Level of Output
Facility Efficiency
Capacity Utilization

Market
Share
Share Movement
Growth Trends
Cyclicality
Substitution Options
Sources of Growth
Cost of Gaining Share
Number of Customers

Competition
Relative Position
Relative Costs
Relative Profits
General Conditions
Foreign Trends

Internal Company
Organizational Structure
Risk
Available Funds
Compensation System
Product Development Capability
New Product Activity
Employment Contracts
Management Style
Management Capability
Manpower Requirements
Corporate Values
Information Systems
Planning Systems
Capital Intensity
Program Emphasis
Marketing Capability
Servicing Capability
Research & Development Support
Accounts and Budgets

Industry
Maturity
Concentration
Technological Development
Sources of Raw Materials
Conditions of Entry & Exit

Environment
Distribution Channels
Regulatory Problems
Consumer Taste Changes
Trends of the Economy
Activities of Consumer Groups
Stockholder Expectations
Effects of Inflation
Trends in Financial Markets

EXHIBIT 5.3

MAJOR CRITERIA FOR STRATEGY SELECTION

Firm	Criteria
The Boston Consulting Group	relative market share product sales growth rate
McKinsey & Company	competitive strength market opportunity
Arthur D. Little	industry maturity strategic competitive position
Strategic Planning Associates	potential profitability potential capital growth
Touche Ross	risk potential for improved performance possible increased leverage between product lines and divisions
The Berwick Group	industry maturity competition risk constraints
Booz, Allen & Hamilton	market attractiveness competitive posture
Cresap, McCormick & Paget	earnings funds flow business outlook
Management Analysis Center	cash flow risk/return
Strategic Planning Institute	37 variables in 9 categories: investment intensity product (value added/employee) market position growth of served market quality of product/service innovation/differentiation degree of vertical integration cost push inflation current strategy

pany variables. However, which variables are studied and their relative importance appears to be somewhat subjective. ADL and Berwick's emphasis on industry maturity as one of the two major criteria for assessing a strategy is dangerous because factors affecting an industry such as technology, raw material sources and consumer tastes can change very quickly. SPA's broader criteria of potential profitability and capital growth can incorporate more factors into the ultimate strategic decision.

Touche Ross' criteria for strategy selection are more conservative and implementation-oriented than the others. Because the firm is so closely tied into the human factors and accounting systems of the client organizations, its recommendations would naturally be more closely aligned with the present strategies and organizational structure. While the approach is less sophisticated, the results may be more practical - at least in the short run.

The Berwick Group has a philosophy similar to ADL's emphasizing the importance of industry maturity and competitive position in the strategic decision. This is not surprising as the firm's senior partners came from ADL. Berwick has expanded the ADL approach to give more consideration to risk and other constraints. The breadth of these concepts allows strategic thinking to be more conceptual and less restricted by data requirements. Their process group approach also insures greater sensitivity to the politics and social factors operating within an organization.

SPI includes a wide variety of criteria in its PIMS model, including both qualitative and quantitative information. It is difficult, however, to accurately measure the quantitative effects of qualitative information which is required in this type of empirical model. Furthermore, the model is based on historical experiences of the other businesses in the model which may be inappropriate for the unique characteristics of the business being studied. Another shortcoming of the model is the fact that it assumes the maximization of return on investment as a company's only objective in most of its analyses.

Most of the firms' substantive approaches were applicable to several levels of organizational planning. The approaches of all the firms interviewed except SPI could be used for planning at the corporate level showing the relative situations of the major components, at the division or group level showing relationships between various operating groups, or at an even lower organizational level comparing the situation of businesses, product lines, or market segments within a division. SPI's PIMS model, on the other hand, is structured so that it may review only one business at a time. The model is not capable of a portfolio exploration.

The only major difference between strategy analysis at the corporate level and at the divisional levels appeared to be in the set of goals and objectives being focused on. However, most of the firms reviewed focus on planning at the business level rather than at the portfolio level. Perhaps this is because most of the client organizations that can afford to hire consultants from these top firms are among the larger corporations. The cost and enormousness of the task for performing a corporate level strategic analysis would be a consideration.

Other important differences that appear among the firms are:

- Only SPA and SPI's approaches offer formal and quantitative models, both of which also are computerized, which allow the client to explore the quantitative effects of changes in strategy.

- The scope of strategic recommendations vary among the firms. BCG, McKinsey, and SPA offer four basic strategic options to their clients which are quite general. ADL, on the other hand, has developed a set of twenty-four basic "natural" strategies which it offers its clients which are quite specific. Strategy recommendations offered by the other firms are less structured.

- The firms vary in the aid to implementation of strategy recommendations. While each firm except SPI offers to help in the implementation of new strategies, only ADL, McKinsey, Berwick and Touche Ross have developed programs which go beyond a written implementation plan. ADL's management congruency checklist of management activities and control requirements appropriate for the various stages of industry maturity represents a good, logical extention to strategy planning which would be useful to effective implementation. McKinsey, Berwick and Touche Ross actually work with the members of the client organization to assure successful implementation of their recommendations.

It is hoped that this review has provided the reader with some insight into strategic planning for a corporation and the role consultants have played in its development. Time has prevented my analysis from continuing further. Also, the proprietary nature of consulting firms' information has sometimes prevented me from attaining more thorough and accurate information on this subject. The information presented includes at the least the published information available from each firm. In some cases, personal interviews allowed more specific and interesting information to be gained.

Several issues came to the forefront during the study which would be logical extensions to this thesis and of interest to anyone interested in the strategic planning field:

- What to do about the interrelationships between products within a firm and between markets.
- Do future opportunities bear reference to the present?
- How do you measure changing buying behavior?
- How much can you really judge about the competition?

- Current approaches are static in that they assess the conditions at only one point in time. How do you incorporate dynamics?

- How can you more accurately measure a corporation's response to strategic changes?

- What about goals and objectives which do not relate to profits or cash flows, such as social goals?

- How do you implement recommendations which go against the traditions or style of an organization?

- Don't human connections need to be given more consideration?

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