

Adding Agility to Execution: Strategic Planning in the Digital Age

~~PLAN A~~

PLAN B



Abstract

Strategic planning has long been considered a key process for strategic alignment and execution in global companies. In the last decade, changes in the global economic conditions have posed major challenges to the strategic planning process. Increased volatility, complex value chains, and power shifts amongst suppliers and customers are key demands faced by strategic planners today. Hence, agility has to be built into the strategic planning process to address these issues.

The Capgemini Consulting strategic planning survey identifies industry responses to these challenges. Most of the organizations have made modifications to their planning process to respond quickly to the current business environment. They have strengthened their top-down orientation, initiated focused participation, reduced granularity, and streamlined and harmonized process steps. Further, the survey also ascertains that most organizations are not sufficiently aware of digital solutions and potential benefits of the tools in strategic planning.

Based on our experience and in-depth case analysis, we believe that a comprehensive approach is required to improve agility in strategic planning. Organizations need to build advanced foresight and scenarios by focusing on key topics right from the outset. Cycle time needs to be reduced to develop rapid response capabilities across all organizational levels. Greater collaboration within the organization's ecosystem is required to execute swiftly and on demand. Lastly, digital tools need to be employed in alignment with the context of the planning process. Companies need to leverage digital technologies in the areas of strategic analysis, response, roadmap and execution of the strategic planning process to build agility.

The Planning Challenge

“
The unpredictability of raw material costs impacts forecast accuracy in planning
”

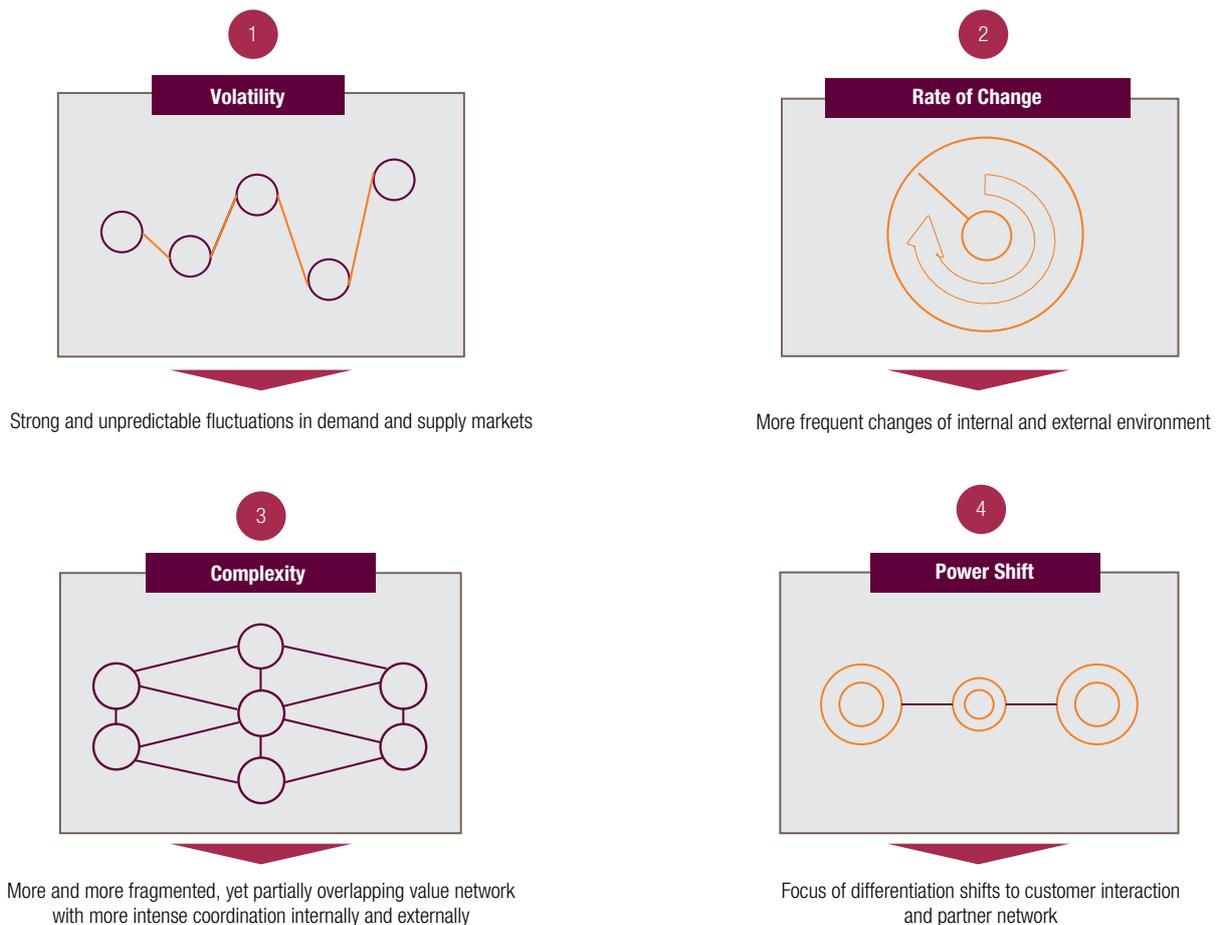
Over the years, the objectives of strategic planning—strategic alignment and resource allocation - have remained constant. But the environment in which companies plan has changed significantly. In a 2011 survey conducted amongst 140 companies, 54% cited market volatility and 38% mentioned alignment with corporate goals as the leading pressures facing strategic planning¹. Higher volatility leading to fluctuations in demand and supply markets, a faster rate of change in the environment, more complex value chains, and power shifts

within the value chain are four main challenges that shape the new planning environment today (See Figure 1).

High Volatility Impacting Forecasting Ability

Global businesses have witnessed high volatility in recent years across demand and supply markets. On the supply side, prices of industrial inputs such as copper and iron, which were fairly stable until the early 2000s, have been highly volatile in the recent past. The unpredictability of raw material costs

Figure 1: Challenges that strongly impact strategic planning



Source: Capgemini Consulting Analysis

impacts forecast accuracy in planning. Similarly, high volatility in equity markets impacts budgeting as they are a major source of corporate funding. The lack of long-term stability is also visible on the demand side across geographies, products and services (see Figure 2).

Business Landscape Changes Impacting Planning Context

The pace of strategic innovation and required adaptation has been accelerating in recent times. The music industry is a classic example of how increasing innovation and digitization resulted in quicker adoption and shorter product lifecycles. For instance, music tapes had reached the mass market in 20 years. Digitization accelerated the adoption cycle with CDs taking close to 12 years to reach the mass market, followed by MP3 formats taking close to 3 years. Today, the streaming music model has taken only 2 years to reach mass market status².

Change in the business context alters competitive advantage, pressurizing companies to plan and adapt more comprehensively and rapidly than before. This also puts enormous pressure on the management. A visible expression of this pressure is the decreasing tenure and increasing dismissal rates of CEOs. Frequent replacement of the management translates to new strategic priorities. Change in priorities leads to existing plans becoming obsolete and requires new planning to execute modified goals.

Increasing Complexity in Operations Impacting Planning

CEOs today have to plan and execute in increasingly complex value chains. Value chains are more fragmented and geographically dispersed, requiring extensive coordination. A key driver of this complexity has been the ongoing trend to outsource. An ever-increasing part of value creation occurs beyond a company's boundaries. For instance,

Dell centrally outsources sourcing, production and service management for most of its components in each region. In such complexity, direct control of resources is reduced, which results in planning becoming increasingly challenging.

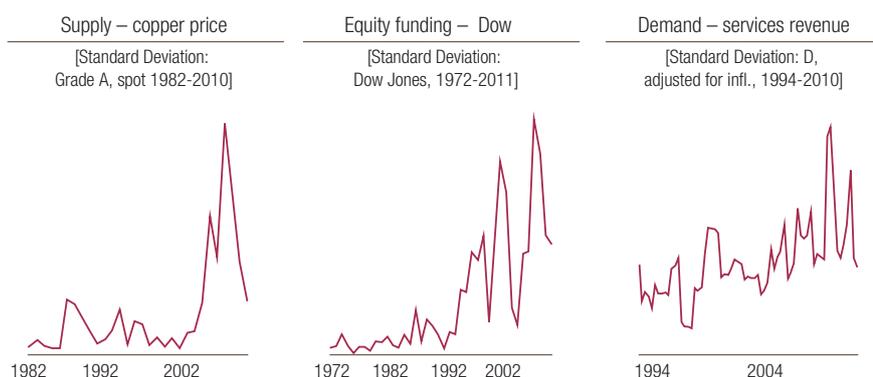
Power Shifts Amongst Stake Holders Impacting Decision Making

Lastly, there is a significant power shift that strengthens the position of suppliers and customers. Suppliers in many industries are moving away from pure raw material and component suppliers to module and solution providers. Subsequently, their knowledge of R&D is expanding. In line with this they also gain a better understanding of customer needs.

Further, buyers have access to more information, more offers and more competing alternatives than a decade ago. User reviews and social referencing enable users to decide and rate purchases, affecting existing segmentation clusters. Technologies allow users to interact with companies in new and more direct ways, making them co-producers and co-developers. The shift in power requires changes in strategies and goals, and consequently planning needs to align existing plans to the new business imperatives.

These four key challenges are met by strategic planners across industries differently. In the next section we explore how companies have responded to these challenges in a survey of strategic planning processes conducted by Capgemini Consulting.

Figure 2: Volatility of Select Demand and Supply Markets



Note: Volatility measured as standard deviation of annual/monthly values.

Source: IMF, Capgemini Consulting Analysis

Industry Response



Companies have developed varied responses to the planning challenges depending on the nature of the industry and their relative position in an industry. Many leading organizations have increased focus on building capabilities to improve flexibility, quickly account for change, and better align planning with corporate goals.

To assess responses to the planning challenges, we conducted a survey across 31 participants³ from a diverse range of large corporates⁴. The survey aimed to identify and understand new, innovative approaches of strategic planning given the prevailing business scenario. Key responses found through the survey include modifications to existing planning process such as change in planning time periods and planning cycles, integration of strategy formulation and execution and limited use of digital decision making tools in planning.

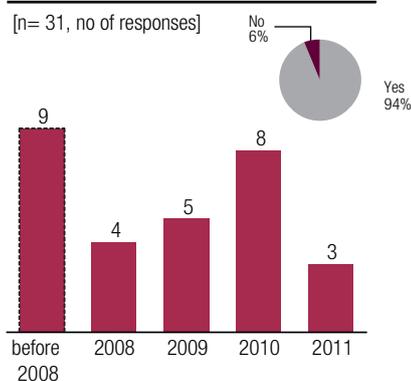
Change in the Strategic Planning Process

A majority of the surveyed companies changed their planning process from the year 2008 onwards (see Figure 3), primarily as a

Figure 3: Survey: Changes to Process

Have there been significant changes to Strategic Planning in the last 5 -10 years?

[n= 31, no of responses]



Source: Capgemini Consulting Strategic Planning Survey, 08/2011; Difference due to no response by 2 companies

response to the financial crisis and the resulting market conditions. Companies strengthened their top-down orientation, initiated focused participation, reduced granularity, and streamlined and harmonized process steps. Only a few companies had introduced scenario planning and/or strengthened innovation to have a more agile and leaner strategic planning process.

Change in Planning Time Periods

A common response to meet external changes was to formally split the strategic planning time periods in two – one shorter (around 3 years) and one longer (around 10+ years) horizon. This allowed companies to reduce planning granularity and thus planning time and effort for uncertain developments in the near future. The long term periods allowed companies to maintain their vision and adjust short-term goals accordingly. The planning horizon varied by industries, where the longest planning cycles were found in automotive and life sciences. Companies also reduced their planning cycle length in 2011 when compared to 2006⁵.

Increased Frequency of Planning Cycles

The survey highlights that while an annual planning rhythm is still dominant, frequent planning processes are becoming popular. One-fourth of the surveyed firms increased the pace with semi-annual, quarterly or even on-demand processes. Two firms had replaced annual planning for “on-demand” planning or planning as needed, asserting the importance of continuous planning in the present circumstances. Also, one company had a combination of pre-defined annual process and on-demand updates.

Integrating Strategy Formulation and Strategy Execution

Roughly two-thirds of the companies surveyed now see strategy formation – defined in the survey by fundamental questions around vision and mission, long-term ambitions and portfolio – as an integral part of their strategic planning exercise. Further, a majority of the remaining companies plan to do so in the future. Thus the trend of the majority of strategic planning functions focused only on strategy execution is changing.

Limited Use of Digital Tools

About 60% of the survey participants use digital tools in parts of their strategic planning process. Tools used are mainly business intelligence suites, simulation tools and advanced decision analysis. The popular choices were Solyp, SAP Business Objects, Hyperion, SAS, Crystal Ball and Expert Choice.

The majority of planning tools listed in the survey were unknown to most companies. Several participants mentioned that they were not sufficiently aware of solutions and potential benefits of these tools. The commonly used tools mentioned were SAP/Oracle and Excel. This data testifies that planning tools are predominantly used today for data management and analytics only and not for simulations and complex scenario analysis.

In the next section, we detail a comprehensive approach that improves agility in the strategic planning process.

Adding Agility to Execution

Based on our experience and the survey, we believe that companies need to build agility in strategic planning process through a three-step approach (See Figure 4). An agile strategic planning process includes continuous identification and resolution of key strategic issues leading to rapid allocation of resources. This allows for continuous adjustment and adaptation of the strategic direction in the core business.

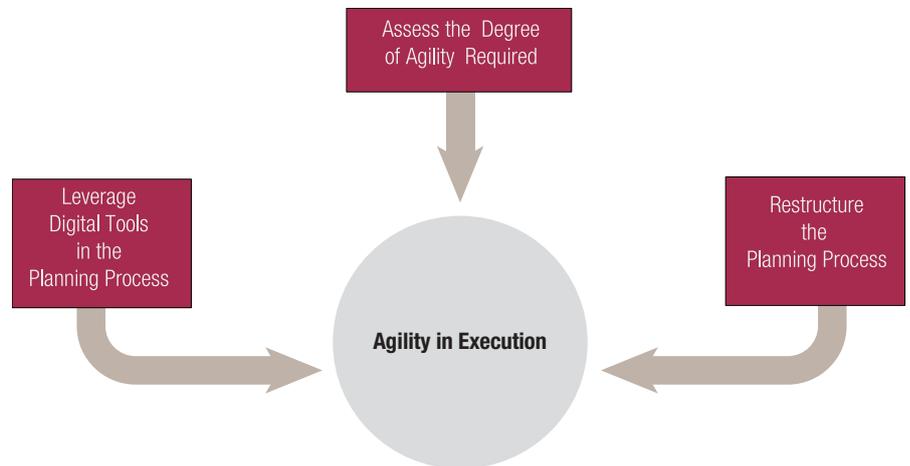
Assess the Degree of Agility Required

The need for agile strategic planning differs per sector. The degree of need is driven by the extent of change in the corporate environment. The greater the pace of change and the magnitude of impact on existing business models, the greater is the need for rapid formation and execution of the strategy.

Industries need to be mapped on an Agility Matrix (see Figure 5) to determine the level of strategic agility needed. The agility matrix is based on the reference axes of rate of change and the nature of change applicable to industries. Rate of change factors exits from and entries into a given industry, and portfolio adjustments through M&A activity. Nature of change factors the rate and type of innovation in each industry, shifts in the value chain and level of resource fluidity indicated by the degree of outsourcing.

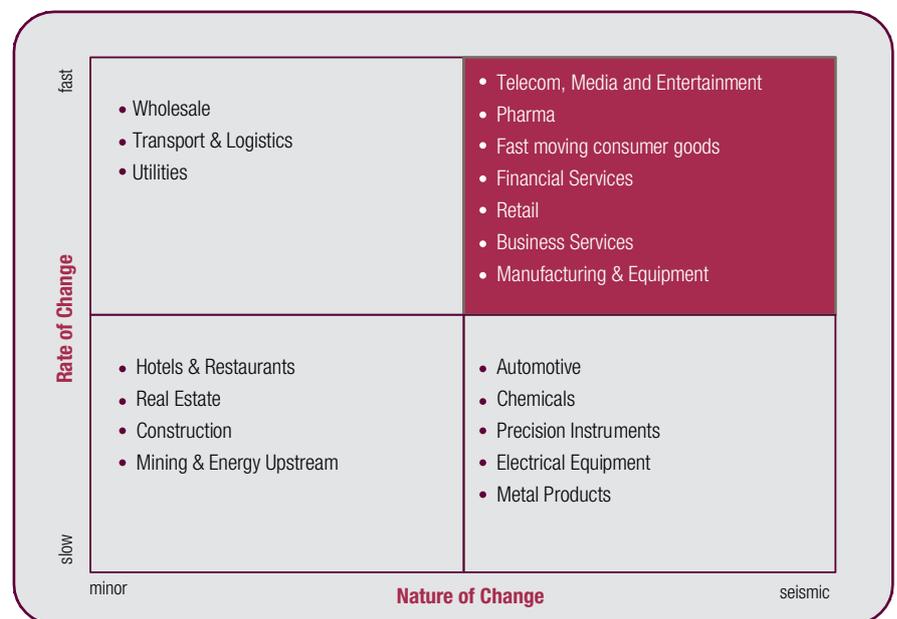
The more fundamental and rapid the change in the corporate environment, the more agile planning needs to be. The specific current situation of a company may well override the general strategic planning approach defined by this framework. Other company specifics such as management style, culture or strategic capabilities of staff, need to be considered.

Figure 4: Adding Agility to Execution



Source: Capgemini Consulting Analysis

Figure 5: How Agile Do You Need To Be – Agility Matrix



1. Rate of change factors e.g.: re-structuring activity, M&A activity, entries to/exits from industry, etc.
 2. Nature of change e.g.: rate and type of innovation, value chain shifts, resource fluidity/standardization, etc.
 Source: Eurostat, UNCTAD, Capgemini Innovation Survey 2010, Capgemini Consulting analysis

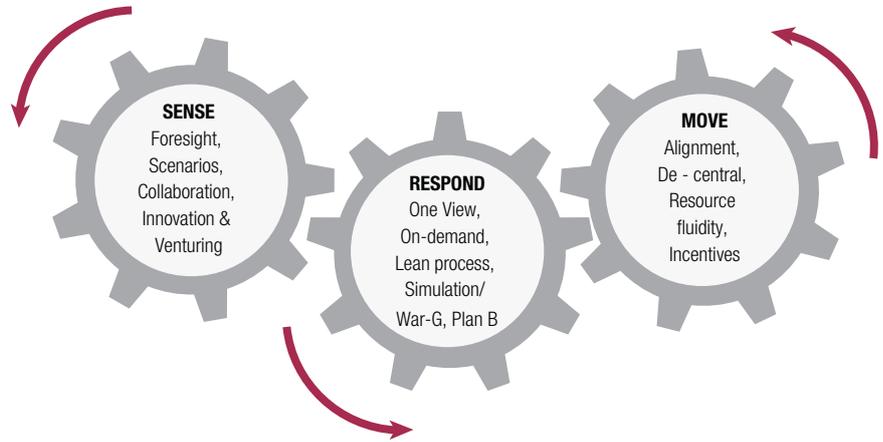
Restructure the Planning Process

To bring in the necessary agility, companies in the fast and seismic quadrant need to integrate strategy formation and planning. We believe there are three elements of an agile strategy (see Figure 6) which are linked through a process that combines strategy formation and planning.

Companies need to build the capability to sense relevant market developments early on and assess their impact. Planners need to apply advanced strategic foresight methods. Application of scenario techniques enables companies to assess various potential future developments and their implications. In addition, companies need to have broader involvement of staff from the fringes of the corporation, especially suppliers, customer facing units and external experts in the strategy process. Companies can also build the capability to forecast by instituting a corporate innovation and venturing unit. This unit observes new business models in the market and ensures early adoption of current trends.

Accurate forecasting should be accompanied by the capability to develop a response rapidly. Rapid decisions require a clear, ideally shared view of the challenges and options, given a scenario. Such an aligned view can be arrived at based on harmonized data and intensive exchange of information. For instance, a leading photo-voltaic company manufacturing solar cells, consolidated input for strategic review to develop division-specific strategic options in 3 months. The short time period allows for rapid prioritization of strategic issues and resource allocation. Post the alignment of views, decision and planning processes need to be

Figure 6: Requirements of strategic agility



Strategic Planning is the key process to coordinate decision making process and related activities

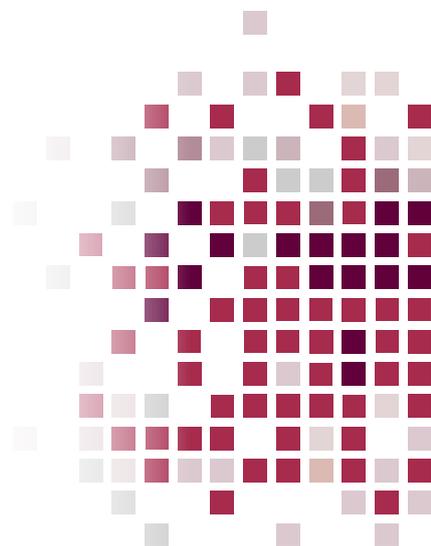
Source: Capgemini Consulting Strategic Planning Survey, 09/ 2011

streamlined to reduce the time required for any strategic decision. This can be achieved to a large extent through elimination of unnecessary approval steps and planning units. Planners can minimize risk and design robust plans for alternative developments through simulations and war games.

Companies also need to build the capability to swiftly mobilize and move the organization in line with the developed strategic response. Agility can be improved through targeted involvement, change activities and smart communication along the process. These activities need to be executed in all the relevant functions across various levels. Further, decentralization of decision making and organizational structures brings in flexibility to shift resources and put them to use rapidly. In employee terms, the rapid translation of strategic intent into reality will require implementation personnel to be incentivized without a time lag. Together, these activities help in adjustment of strategic objectives whenever required rather than in annual cycles.

“
Companies can build the capability to forecast by instituting a corporate innovation and venturing unit

”



Leverage Digital Tools in the Planning Process

Digital tools can contribute significantly to an agile strategic planning process. Companies need to leverage digital tools in various areas of the planning process. Given the abundance of tools available in the market, companies need to consider the context of the planning need to select the appropriate tool.

Automate Parts of the Planning Process

Based on the functionalities of digital tools, their application in the planning process can be categorized into three areas namely, strategic analysis and response, advanced analytics, and roadmap and execution.

Strategic analysis and response tools help structure individual strategic analyses, such as relocation of production, market entry and reaction to regulatory changes. Through these tools recurring strategic questions can be answered consistently and rapidly. Moreover a central repository for data, ideas and final plans avoids different planning inputs and assumptions. Typical functions include problem definition, target definition, as-is assessment, among others.

Advanced analytical tools provide a means for sophisticated data analyses and complex situations through simulations and war-gaming. Typical functions include trend modeling, predictive modeling and optimization.

The third area of the planning process, where digital tools can be leveraged is in the roadmap and execution. Tools enable planners to steer the overall strategic planning process. They also help in subsequent execution through integration of initiatives into one aggregate roadmap. Typical functions include creation of integrated strategy roadmaps, management scorecards and dashboards.

Select Tools based on the Context of the Planning Need

The specific conditions and requirements of tools in the planning process vary with companies. Selection of relevant tools is made difficult given the blurry segmentation. For instance, there are overlaps between strategic analysis, innovation suites and competitive intelligence tools; between project management and strategic execution tools. Further, digital offerings are either built on existing ERP suites and are constrained by the existing IT/BI infrastructure or are financially inclined and less strategic.

Hence, careful assessment of the benefits of each tool needs to be made to fit the planning context and areas of application. Criteria for assessment include range of functionality, ease of data interface and management, reporting and output capabilities, user friendliness, size of customer base and cost.

Companies need to consider these criteria to identify relevant tools that can provide value in the strategic planning process. For instance, Decision Lens, Solyp and Expert Choice are tools that can be applied for strategic analysis and response; Palisade, Powersim and BTS are relevant for advanced analytics category; Bridge, Board and Rocket CorVu fit the roadmap and execution category.

In summary, fundamental changes in the market pose both large and long-term challenges to strategic planners. There is an increasing need to build agility into the strategic planning and execution process, if companies want to thrive in the present conditions.

The strategic planning survey indicates that many companies aim to increase agility through varied modifications to the existing planning process. However, most strategic planning processes still follow rather traditional patterns with related weaknesses.

Bringing agility into strategic planning requires accurate forecasting followed by accelerated decision making through a lean process. Swift execution through strong collaboration of stakeholders and linked incentives beyond annual target setting is also required. Digital tools can be valuable facilitators of agility. Their benefits range from strategic analysis, decision making to execution support. Planners need to see specific value of each tool in the context of current decision challenges, processes and current IT landscape. Ultimately, a continuous strategy planning process needs to be built which can be executed on demand.

“
Digital tools enable planners to steer the overall strategic planning process and subsequent execution through integration of initiatives into one aggregate roadmap
”

Sources

- 1 "Financial planning, budgeting and forecasting in the new economy", Aberdeen Group, 2011
- 2 "2010 Digital Universe", IDC Study 2010
- 3 2011 Capgemini Consulting survey - Participants held the positions of head – strategic planning, head – corporate development or CXO at global companies with average annual revenues of € 9,600 million and average employee count of 33,000 FTEs. Companies surveyed have their country of origin in Germany, Finland, USA, China, Austria and Denmark. They represent multiple sectors across telecom, media and entertainment, automotive and manufacturing, life sciences, chemicals, retail and financial services.
- 4 1-2 hour semi-structured Interviews were held in July/August 2011
- 5 Capgemini Consulting Strategic Planning Survey, 2006

Authors

Oliver Schoen

Principal
oliver.schoen@capgemini.com
+49 69 9515 1225

Herbert Hensle

Vice President
herbert.hensle@capgemini.com
+49 89 9400 1528

Contacts

Netherlands

Koen Klokgieters
koen.klokgieters@capgemini.com

UK

David Blackwood
david.blackwood@capgemini.com

Sweden

Fredrik Gunnarsson
fredrik.gunnarsson@capgemini.com

France

Andre-Benoit de Jaegere
ab.dj@capgemini.com

Spain

Carlos Garcia Santos
carlos.garcia.s@capgemini.com

Belgium

Jeroen van Lierde
jeroen.van.liedre@capgemini.com

Spain

Alvaro Martinez Piqueras
alvaro.martinez@capgemini.com

United States

Christopher Miller
christopher.miller@capgemini.com

Middle East

Jawad Shaikh
jawad.shaikh@capgemini.com



Capgemini Consulting is the global strategy and transformation consulting organization of the Capgemini Group, specializing in advising and supporting enterprises in significant transformation, from innovative strategy to execution and with an unstinting focus on results. With the new digital economy creating significant disruptions and opportunities, our global team of over 3,600 talented individuals work with leading companies and governments to master Digital Transformation, drawing on our understanding of the digital economy and our leadership in business transformation and organizational change.

Find out more at:
<http://www.capgemini-consulting.com/>

Rightshore® is a trademark belonging to Capgemini



About Capgemini

With around 120,000 people in 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2011 global revenues of EUR 9.7 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Learn more about us
at www.capgemini.com.