OLIVER WIGHT PAPER series

Connecting Strategy to Execution With Integrated Strategy Management

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Informative guides on industry best practice

The president of a manufacturing company hated surprises, especially financial surprises.

Jack had more than a decade of experience in leading companies. Yet, those companies rarely achieved their strategies as planned. It seemed he would always learn in the fourth quarter that the strategies were not driving the growth anticipated and promised to the board.

He and his executive team had implemented Sales & Operations Planning (S&OP) several years ago, and it was operating well. They now had a rolling planning process that looked 18 months ahead and aligned demand, supply, and financial plans every month.

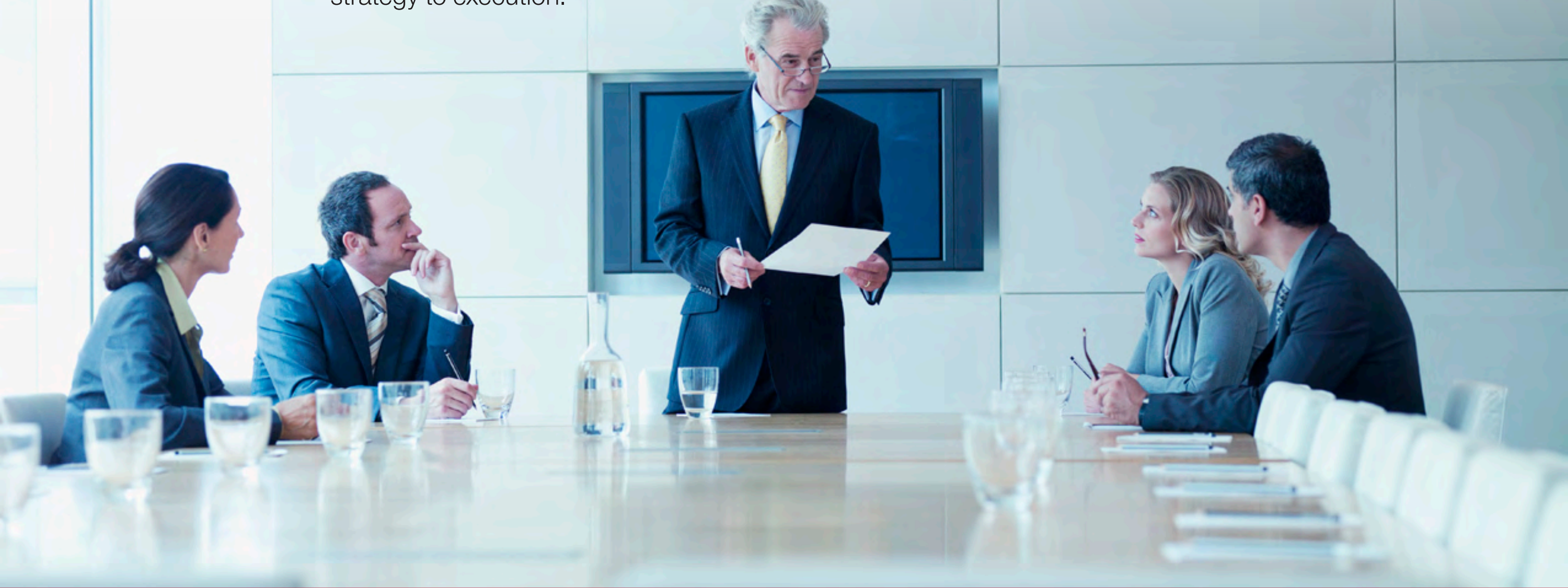
Jack began to realize, however, that the process did not align strategy with plans. In fact, investments and plans seemed to be disconnected from market opportunities. Jack began scrutinizing the process more thoroughly, and found several other limitations to the current process.

They paid little attention to how the business unit plans and strategies aligned to both corporate and functional strategy. The business was being driven by the forecast, absent an integrated strategy. This turned out to be as big an issue as not connecting strategy to execution.

Rather than criticize his executive team, Jack decided to respond differently to this year's annual disappointment. He vowed to spearhead a drive to connect strategy with plans and execution. He and his team had to become better informed and make better decisions throughout the year to ensure the strategy and financial goals would be achieved.

This company's situation is not unusual. Few companies consistently achieve their strategies and financial goals. Those that do are top performers in their industries.

Jack was correct in diagnosing the disconnect between strategy, plans, and execution as a problem. In fact, Jack believed that to have an effective planning process, it must be preceded by an integrated set of strategies. But much to his surprise, it was not the only impediment to success.



Jack had noticed the word Strategy in the Oliver Wight IBP model (Chart 1) and contacted the authors. “Is there a way to integrate strategy, plans, and execution, using IBP as the focal point?” he asked.

There is. It’s called Integrated Strategy Management (ISM). This white paper gives an overview of how ISM works to drive business growth.

What Is Integrated Business Planning

Integrated Business Planning is a decision-making process to align strategy, portfolio, demand, supply, and resulting financials through a focused and exception-driven monthly re-planning process. The result is a single operating plan, over a 24+ (or as appropriate to cover the strategic plan horizon) month rolling horizon, to which the senior executives hold themselves and their teams accountable for achieving. Done well, it is the formal way that the business is managed and strategy is connected to execution.

Chart 1

Aligning Corporate and Business Unit Strategies Through Integrated Strategy Management

When Jack assessed why strategies failed to achieve expectations, he found two flaws in the company's past approach:

1. The corporate strategy and business unit strategies diverged over time.
2. No formal way to monitor the execution of strategies at the business unit level and within the functions of each business unit had been established.

Jack tackled alignment of corporate and business unit strategies first. If those strategies were not aligned, the execution of strategies at the business unit level would chronically disappoint.

He introduced Integrated Strategy Management to create a structure for improvement.

(See Chart 2.)

As part of ISM, Jack and his team implemented a different approach for creating the strategies to profitably grow the business. This approach created greater clarity around the role of each business unit in developing a growth game plan that aligned with corporate strategies and goals.

What Is the Definition of... ?

Strategic Plan

A broadly-defined plan aimed at creating a desired future state, i.e., vision, mission, and values.

The plan may be characterized as a map that includes different perspectives, including financial, customer, process, people and culture, that are consolidated into an integrated set of goals, objectives and timed deliverables.

Strategies

Strategies and tactics are needed to achieve the strategic plan.

Strategy is the means to achieving an objective. For example:

The marketing strategy decides where and how to win business in a manner that satisfies the overall company growth targets.

Supply chain strategy decides how to create a make/buy/deliver capability to achieve the commercial ambition while managing the tradeoffs of cost, service, and inventory.

Integrated Strategy Management

A process of managing an organization's strategy, plans, and resources to achieve its goals and objectives.

It connects the business unit strategy with functional strategies and plans to ensure the best investment and resource choices are made to achieve the business aspirations.

Integrated Business Planning is a means for connecting execution of strategy to business results.

Chart 2

Here's what was different from the way that strategies were developed than in the past:

1. The Expectation to Align Corporate and Business Unit Strategies and Execution

Executives at the corporate and business unit level committed to aligning (and re-aligning) strategies and execution at four levels, as shown in Chart 3:

- Corporate with an emphasis on profitable growth and return on invested capital (ROIC)
- Business unit for developing a growth game plan that matched corporate strategy and expectations
- Functional for translating the growth game plan into innovation, sales, marketing, supply chain, and other functional strategies
- Integrated Business Planning for operationalizing strategy, plans, and execution

Alignment of Corporate and Business Unit Strategies

PROFITABLE GROWTH

CORPORATE STRATEGY
Think 401K – Instead of managing stocks and bonds, designate segment business units with portfolio roles and set expected investment and return profiles.

BUSINESS UNIT STRATEGY
Strategic plan designed to achieve corporate expectations. Strategic priorities established and cascaded to functions.

FUNCTIONAL STRATEGY
Functional strategies aligned to strategic priorities. Growth game plan established to achieve financial ambition while meeting customer, market and consumer needs.

INTEGRATED BUSINESS PLANNING
Operationalize strategy with plans. Make decisions to manage gaps to strategy, business plan, and annual plan.

Chart 3

2. ***Portfolio Allocation Investment Approach, Assigning Portfolio Roles, Setting Expected Returns***

In developing a corporate strategy, it is typical to determine the role of each business unit in delivering the overall corporate strategy and goals. The new approach involved taking more time than usual to develop a growth and investment profile for each business unit. Jack and his team named it the 401K approach. They used the analogy to emphasize how the corporation would designate a “portfolio role” for each business unit based on past performance and future market growth potential. The corporation would no longer manage by investing in a broad range of “stocks and bonds” with the hopes of yielding an expected return on investment. Now, the corporation would allocate their investment funds to specific business units to yield a specific stated expected return.

Extending the 401K analogy, each business unit would receive money for capital investment and would be assigned an expected annual return on that investment. The corporation’s philosophy for moderate fund portfolio investment required its growth businesses (i.e., “stocks”) to yield a 12 percent annual return. The businesses designated for earnings (i.e., “gold”) were expected to manage a 7 percent return. The businesses designated for the harvest of cash (i.e., “bonds”) were expected to yield a 3 percent return. Combined, these approaches were designed to achieve an overall 8.5 percent return on investment.

Analytical and presentation tools were introduced to facilitate decision making on the market opportunities, revealing some previously unknown potential. (See Chart 4.)

The business unit profiles were communicated within the management team of each business unit. Follow-on discussions were conducted to ensure understanding and clarity of the contributions expected of each business unit. Gaining concurrence was critical to creating and aligning business unit growth game plans and strategies to the corporate strategy.

Chart 4

3. The Business Unit Growth Game Plan

Once the business unit role was assigned at the corporate level, each BU executive team developed its growth game plan and strategy. The deliverables from this effort included defining the roles of each core function in delivering the growth game plan and strategy. (See Chart 5.)

Just like with assigning business unit roles, the functional roles were communicated throughout the BU organization. The purpose was to ensure clarity of expectations, which was crucial in creating functional strategies and tactics.

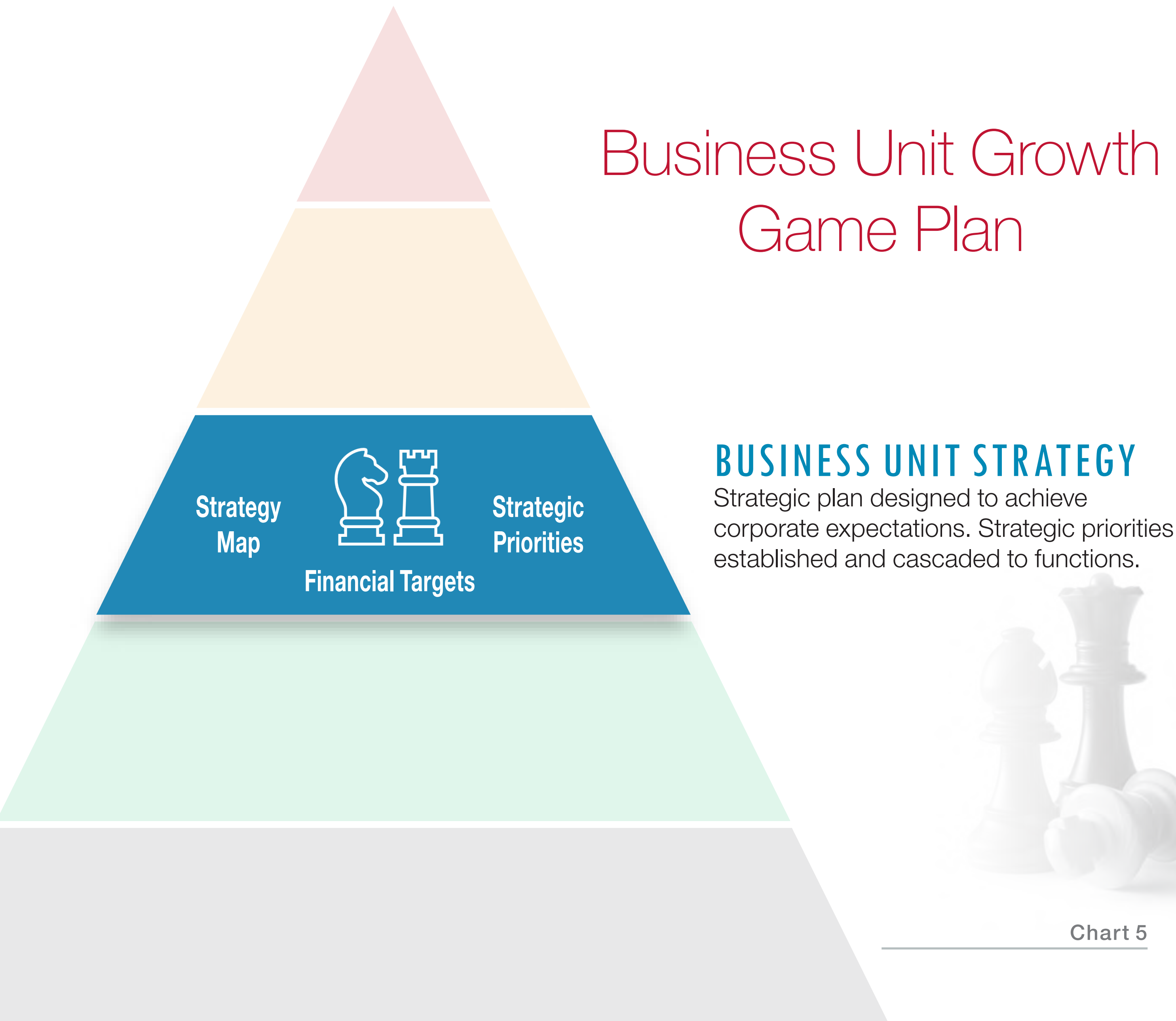
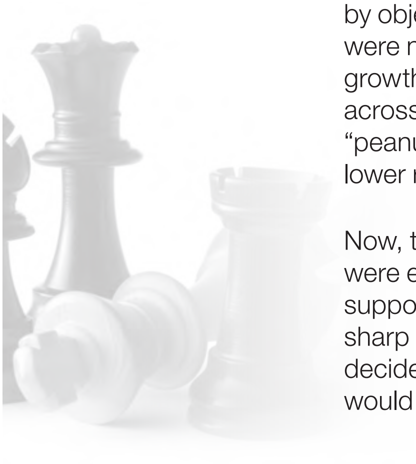


Chart 5

4. Functional Strategy Alignment

Aligning functional strategies with the Business Unit strategy was key to improving the execution of the BU strategy and, by extension, the corporate strategy. The functional strategies developed by Jack's business unit leaders included sales, marketing, innovation, product and portfolio, and human resource functions.

Previous approaches to investing were based on last year's budget plus a little management by objectives improvements. These approaches were not disproportionally based on future growth assumptions and market opportunity across the portfolio. This commonly labeled "peanut butter approach" consistently yielded lower returns than planned.

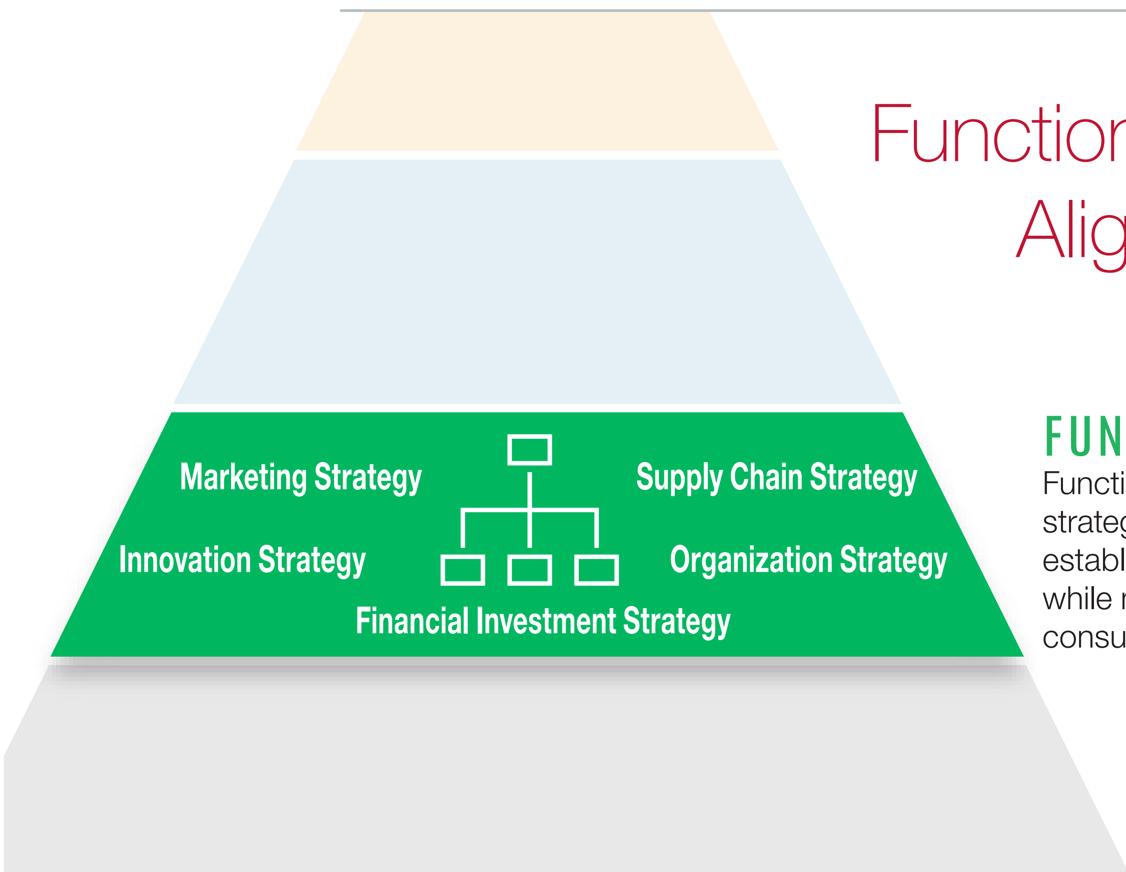


Now, the business units and functions were expected to make sharp choices that supported the new growth game plan. Making sharp investment choices required analysis to decide where the business unit would – and would not – invest. (See Chart 6.)

Not every product manager was initially happy with the new investment approach. They were not accustomed to connecting investment and returns to realization of strategy at both the business unit and corporate levels.

Soon, the functional managers learned the skill of making sharp choices. They utilized proven analytical frameworks to segment product categories and invest disproportionally where the market was going and growing. It is a skill that is now becoming the "natural way" of doing business.

The strategies for supply chain, sourcing, manufacturing, and distribution were structured to support the market-driven growth game plan. Those strategies were also considered essential for helping to achieve the profit strategy and goals.



Functional Strategy Alignment

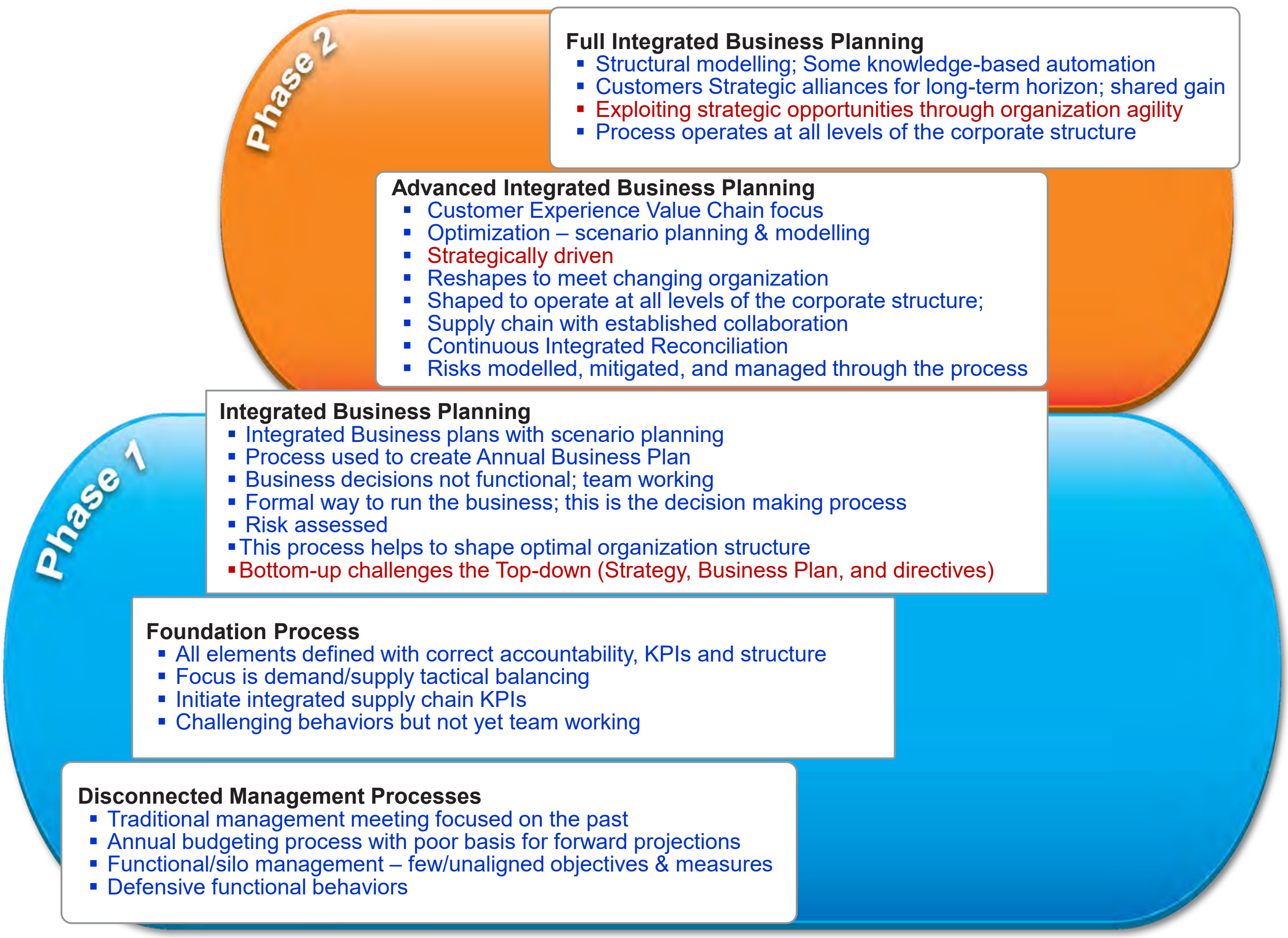
FUNCTIONAL STRATEGY

Functional strategies aligned to strategic priorities. Growth game plan established to achieve financial ambition while meeting customer, market and consumer needs.

Chart 6

5. *Operationalize the Strategy and Plans*

Jack's leadership team was grateful that Integrated Business Planning had been established in the business units and, for the most part, was operating well.[1] As the IBP process improved in each business unit, the leaders' view of their business was becoming more strategic. This is a natural maturation of an IBP process. (See Chart 7.)



Maturity Journey – Integrated Business Planning

Chart 7

[1] Jim Matthews and Jimmy Dixon, "Is Your S&OP or IBP Process Delivering the Results you Expected?" https://www.oliverwight-americas.com/whitepapers-articles/; Jim Correll and George Palmatier, "How Good Is Your Sales and Operations Planning/Integrated Business Planning Process?, pp. 5-7, https://www.oliverwight-americas.com/whitepapers-articles/

As pressure mounted to improve the execution of business strategies, the leaders also became more mindful of why businesses fail to achieve strategic goals. (See Chart 8.)

They admitted not spending enough time focused on strategy beyond establishing it in the first place. They agreed that operationalizing strategy required monitoring execution performance, and that the IBP process was the best venue for doing so.

Organizations fail to achieve strategic goals in four ways

5%

UNCLEAR VISION & STRATEGY

Only 5% of the workforce understands the strategy

25%

LACK OF ALIGNMENT

Only 25% of managers have incentives linked to overall strategy achievement

40%

DISJOINTED PLANNING & PROCESSES

Only 40% of organizations link budgets to strategy

15%

INABILITY TO MONITOR, TEST AND ADAPT STRATEGY

Only 15% of executive teams spend more than one hour per month discussing strategy

Source: Bain Management Tools, McKinsey Quarterly Survey

Chart 8

The right executive and management players attend each IBP review. They were accustomed to looking at high-level, aggregate projections over a 36-month planning horizon. The mindset in the reviews was to identify and close gaps between the current projections and the stated goals. The decision-making process and boundaries were also well defined. (See Chart 9.)

Chart 9

In relation to operationalizing strategy, the business unit leadership teams found that IBP provided the means for routinely:

- Monitoring the effectiveness of strategies and tactics in driving growth
- Aligning tactics, timing, and resources across the core functions of the business
- Measuring the impact of tactics and overall achievement of the strategic goals
- Adapting strategies and tactics as needed to achieve growth goals

They also realized that some behavior habits would need to change. Sometimes decisions were put off in the hope that performance would improve. Avoiding year-end disappointments required making more timely decisions to clear roadblocks that impeded the execution of the business unit strategies.

That meant the business leaders needed timely information on the execution of strategies and tactics.

Developing Strategy Playbooks and Dashboards

Jack's team found the challenge in operationalizing strategy, just like when first establishing IBP, is this:

- Developing the salient information in easy-to-grasp graphics
- Visualizing functional strategies with plans in volume and value
- Quickly updating the graphical presentations each month
- Ensuring that review participants understood what the graphs depict about the business

The information also needed to quickly tell the story:

- Where are the gaps in the desired business performance?
- Are the key strategies delivering the expected value?
- How do these gaps tie to strategy and tactics?
- How do we best prioritize the issues and link actions to ownership and accountability?

Oliver Wight developed a business playbook to quickly assimilate strategy and performance data into information graphics. The playbook information was presented in dashboard formats in each IBP review. To translate strategy to plans, product families and sub-families were assigned strategy attributes using proven strategy frameworks, such as Ansoff, BCG, GE McKinsey, etc. These frameworks enable visualizing and understanding the impact of strategies on volume and value. This approach facilitated the above-described analysis and decision-making.

See Chart 10 for examples of the types of information shown in strategy dashboards.

Examples of Information in Strategy Playbook Dashboards

Chart 10

1. Shows the portfolio strategy over a four-year period (left) and the projected gaps in realizing the portfolio strategy (right). This is a key chart for the Product Management Review.
2. Depicts the growth game plan over a four-year period (left) and the projected gaps in realizing the plan (right). This is a key chart for the Demand Review.
3. Shows the allocation of supply capability in support of the strategy. This is a key chart for the Supply Review.

The Value of Connecting Strategy to Execution

Looking at the playbook dashboards in Chart 10, imagine it is the last quarter of the fiscal year. Would a company have enough time to make up for a 21% gap in the Go-to-Market/Growth Plan? Without the playbook views, how long would it take to compile the information to alert the executive team that it was on the verge of not achieving the strategy?

Now imagine that it is the first quarter of the fiscal year. Would a management team have enough time to close that 21% gap in the Go-to-Market/Growth Plan? How would the decision-making process be different than if it was the last quarter of the fiscal year?

The primary value of connecting strategy to plans and execution can be summed up in two words: Dependability and credibility. Boards need to be able to trust the plans and strategy.

When companies consistently achieve their financial goals and strategy, there is less second-guessing. There is also a greater likelihood that the capital investment plans will be trusted – and the funds will be more readily approved.

In the authors' experience, connecting strategy to execution has a cultural impact as well. People acquire strategic planning skills. As they address strategies and gaps in their business functions, they learn how to think like an executive. They understand what it takes to truly realize the strategic aspirations of the business. And the strategic goals are considered when making decisions day-to-day and month-to-month. Strategy is not an afterthought.

What Will It Take to Connect Strategy and Execution in Your Business?

The format of this paper does not allow the authors to explain Integrated Strategy Management in great detail. Future white papers will address in greater specificity how to connect strategy, plans, and execution in each business function. More detailed information is also available in *The Oliver Wight's Class A Standard for Business Excellence.*[2]

A first step for our readers may be to consider whether your company would benefit from connecting strategy to plans and execution. (See Chart 11.)

If you have questions or would like to talk with the authors about Integrated Strategic Management, we encourage you to contact us.

Rate How Well Strategy Connects to Plans and Execution at Your Company

	Rate 1 (poor) to 5 (excellent)	Rating
1	Our current strategy is delivering the results we need to be successful in an increasingly competitive marketplace	
2	Our business and core function (pillar) strategies are aligned with operational plans	
3	Types of innovations to pursue are based on helping to meet goals for the future	
4	We have the right skills and structure required to execute the strategy year over year	
5	We align our investments with initiatives that will have the biggest impact on our growth goals	
6	Innovation revenue and margin targets are established based on the business and strategic plan	
7	We understand what levers move the needle in creating profitable growth	
8	Supply chain capacity and capabilities are aligned with the business strategic plan	
9	The level of service, cost, and inventory is based on the business and marketing strategy	
10	We make informed and timely decisions that connect actions to results in achieving the strategic goals	

Chart 11

[2] The Oliver Wight Class A Standard for Business Excellence, Seventh Edition, John Wiley & Sons, Inc., 2017, pp. 1-16.

About Oliver Wight

Oliver Wight has a 50-year track record of delivering business improvement to some of the world's best-known organizations. We believe that sustainable improvement can only be made through your own people. Unlike other consultancy firms, we transfer our knowledge to you, which means you can achieve performance levels and financial results that last. Our principals are seasoned professionals who have real-world manufacturing experience. They are thought leaders in the fields of supply chain management, integrated business planning, demand management, and product management. The largest worldwide consultancy of its type, Oliver Wight has offices throughout Europe, North and South America, and the Asia/Pacific Region.

Authors

Jimmy Dixon
Oliver Wight Principal

Marc Bergeron
Oliver Wight Principal

OLIVER WIGHT

Oliver Wight Americas
P.O. Box 368, 292 Main Street
New London, NH 03257, US

T: +(800) 258-3862
E: info@oliverwight.com

https://www.oliverwight-americas.com/

Oliver Wight Asia/Pacific
118/3 Male Street, Brighton
Victoria 3186, Australia

Oliver Wight EAME LLP
The Willows, The Steadings Business Centre
Maisemore, Gloucester, GL2 8EY

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