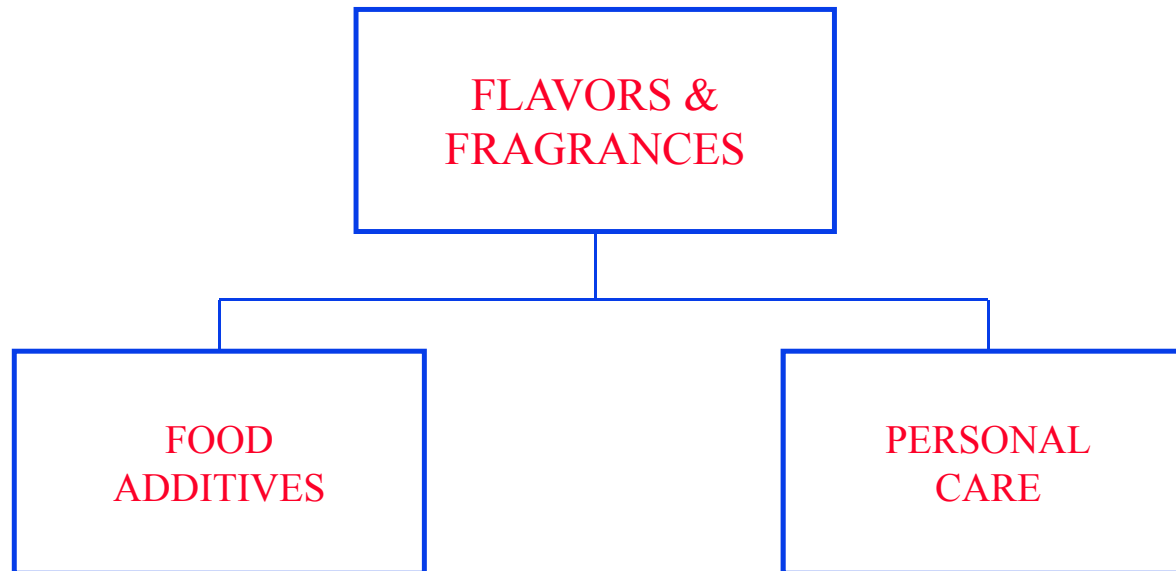


DEVELOPING ALTERNATIVES FOR COMPLEX STRATEGIES

USE OF NESTED STRATEGY TABLES

DAAG - Orlando - January, 1999

CONSIDER THE FOLLOWING BUSINESS SITUATION



- Earnings for the Flavors & Fragrances SBU have been leveling off over the past two years
- There are some common manufacturing facilities for both Food Additives and Personal Care. Nine plants worldwide in the SBU
- There is some common product and process chemistry
- Customers, value chain, competition are generally distinctive between the two business units

Flavors & Fragrances management must consider alternative strategies for improving performance

THERE ARE SEVERAL WAYS THIS PROBLEM COULD BE FRAMED

- ◆ Develop strategies separately for Food Additives and for Personal Care
- ◆ Develop a strategy for Flavors & Fragrances, leaving detailed planning for each of the two separate businesses as a second step
- ◆ Develop detailed strategies simultaneously for both Flavors & Fragrances and for the two businesses
- ◆ _____

SOME DISCUSSION ON FRAMING

- ◆ A strategy for Flavors & Fragrances is needed, but what does that mean?
- ◆ There are too many interactions between the two businesses to approach the problem as simply developing new strategies separately for the two businesses
- ◆ Some level of detail is needed at the business level to provide direction consistent with the strategy for Flavors & Fragrances. Otherwise, how do we know such a strategy be implemented successfully?
- ◆ But, too much detail at the business level will swamp the evaluation
- ◆ This problem is complex enough to need a strategy table

STRATEGY TABLES

- ◆ A strategy table is useful when-
 - ◆ A coordinated set of decisions (the usual definition of a strategy) must be made
 - ◆ Creativity is needed
 - ◆ Alternatives are not obvious
 - ◆ There are too many possible alternatives to evaluate

FOOD ADDITIVES

STRATEGY	MANUFACTURING		R&D	MARKETING		OTHER		
	<u>Process</u>	<u>Capacity</u> Expand as Needed	<u>Process</u>	<u>Product</u>	<u>Pricing</u>	<u>Segments</u> Existing	<u>Other</u>	<u>Alliances</u>
	Existing		Existing	Existing			Decrease sales	
	New	Shut Down	Increase	Increase	No Change	Exit Seg A	force by 15%	Asia marketing
	Both Steps	Europe - 2	10%	10%	Reduce 10%	Europe	Europe	with Comp. A
	Step 1 Only	US - 2	40%	60%	over next 2	US	Asia	
		Asia	Decrease	Decrease	years--become	Both	Technical	JV global with
		1	10%	10%	price leader	Asia	Service	A
		2	60%	40%			Outsource	B
		Specialty Plants				New Segments	Discontinue	C
		and Commodity				Synthetics	Increase 15%	
		Plants				Candies		
						Both		
						None		

STRATEGY THEMES DEFINED

FOOD ADDITIVES

STRATEGY	MANUFACTURING		R&D		MARKETING		OTHER	
	Process	Capacity	Process	Product	Pricing	Segments	Other	Alliances
EXISTING	Existing	Expand as Needed	Existing	Existing		Existing		
SUPERIOR COST	New Both Steps	Shut Down Europe - 2	Increase 10%	Increase 10%	No Change	Exit Seg A Europe	Decrease sales force by 15%	Asia marketing with Comp. A
	Step 1 Only	US - 2	40%	60%	Reduce 10% over next 2 years--become price leader	US Both Asia	Europe Asia	
SPECIALTY		Asia 1	Decrease 10%	Decrease 10%		New Segments Synthetics Candies Both	Technical Service Outsource Discontinue Increase 15%	JV global with A B C
		2	60%	40%		None		
		Specialty Plants and Commodity Plants						

*HOW SHOULD STRATEGY TABLES BE
DESIGNED*

*FOR THE FLAVORS AND FRAGRANCES
CASE?*

LET'S LOOK AT THE CONCEPT OF NESTED STRATEGY TABLES

- ◆ The nested table design is needed when--
 - ◆ The overall strategy is very complex and is really a coordinated set of sub-strategies
 - ◆ These sub-strategies themselves need to be broken into smaller areas of decision making for clearer thinking
 - ◆ In total, all relevant areas for decision making would require more than 10 columns in a single, conventional strategy table format
 - ◆ Fits the way the business wants to think or how it is organized

APPLYING THE NESTED APPROACH TO OUR CASE

FLAVORS & FRAGRANCES

<u>STRATEGY</u>	<u>BUSINESSES</u>		<u>SBU R&D</u>		<u>SBU MARKETING</u>		<u>OTHER</u>
	<u>Food Prods</u>	<u>Per. Care</u>	<u>Process</u>	<u>Product</u>	<u>Segments</u>	<u>Other</u>	<u>Alliances</u>

FOOD PRODUCTS

STRATEGY		MANUFACTURING		R&D		MARKETING			OTHER
		<u>Process</u>	<u>Capacity</u>	<u>Process</u>	<u>Product</u>	<u>Pricing</u>	<u>Segments</u>	<u>Other</u>	<u>Alliances</u>

PERSONAL CARE

STRATEGY	MANUFACTURING		R&D		MARKETING		OTHER	
	Flexibility	Capacity	Process	Product	Pricing	Segments	Tech Service	Alliances

1. Develop table design and column headings

APPLYING THE NESTED APPROACH TO OUR CASE

FLAVORS & FRAGRANCES

2. Identify 3-5 Preliminary strategic themes for top level table

<u>STRATEGY</u>	<u>BUSINESSES</u>		<u>SBU R&D</u>		<u>SBU MARKETING</u>		<u>OTHER</u>
Existing	<u>Food Prods</u>	<u>Per. Care</u>	<u>Process</u>	<u>Product</u>	<u>Segments</u>	<u>Other</u>	<u>Alliances</u>
Superior Cost							
Conserve Resources							
Seize Growth Potential							

FOOD PRODUCTS

1. Develop table design and column headings

<u>STRATEGY</u>	<u>MANUFACTURING</u>		<u>R&D</u>		<u>MARKETING</u>			<u>OTHER</u>
	<u>Process</u>	<u>Capacity</u>	<u>Process</u>	<u>Product</u>	<u>Pricing</u>	<u>Segments</u>	<u>Other</u>	<u>Alliances</u>
Existing								
Superior Cost								
Specialty								

3. Develop alternatives in each column of lowest level tables. Then strategies

PERSONAL CARE

STRATEGY	MANUFACTURING		R&D		MARKETING		OTHER	
	Flexibility	Capacity	Process	Product	Pricing	Segments	Tech Service	Alliances
	Existing							
	Global Franchise							
	Specialty							

APPLYING THE NESTED APPROACH TO OUR CASE

FLAVORS & FRAGRANCES

2. Identify 3-5 Preliminary strategic themes for top level table

5. Develop alternatives in each additional column. Then, validate prelim strategies

<u>STRATEGY</u>	<u>BUSINESSES</u>		<u>SBU R&D</u>		<u>SBU MARKETING</u>		<u>OTHER</u>
	<u>Food Prods</u>	<u>Per. Care</u>	<u>Process</u>	<u>Product</u>	<u>Segments</u>	<u>Other</u>	<u>Alliances</u>
Existing				Existing			Existing
Superior Cost	Existing	Existing	License Out		Existing		Existing
Conserve Resources	Superior Cost	Global Franchise	License In	New Chemistry	Perfumes		Perfumes
Seize Growth Potential	Specialty	Specialty	No Change	Aromatics	Air		Air
4. Roll strategies up to next higher level.							

4. Roll strategies up to next higher level

FOOD PRODUCTS

1. Develop table design and column headings

<u>STRATEGY</u>	<u>MANUFACTURING</u>		<u>R&D</u>		<u>MARKETING</u>		<u>OTHER</u>
	<u>Process</u>	<u>Capacity</u>	<u>Process</u>	<u>Product</u>	<u>Pricing</u>	<u>Segments</u>	<u>Alliances</u>
Existing							
Superior Cost							
Specialty							

3. Develop alternatives in each column of lowest level tables. Then strategies

PERSONAL CARE

<u>STRATEGY</u>	<u>MANUFACTURING</u>		<u>R&D</u>		<u>MARKETING</u>		<u>OTHER</u>
	<u>Flexibility</u>	<u>Capacity</u>	<u>Process</u>	<u>Product</u>	<u>Pricing</u>	<u>Segments</u>	<u>Alliances</u>
Existing							
Global Franchise							
Specialty							

BENEFITS OF THE NESTED APPROACH

- ◆ Strategies were developed for the entire SBU, and with specificity for the individual businesses
- ◆ Detail at the business level was still at the strategic level to keep the problem from getting too complex
- ◆ Interaction between the businesses was diagrammed in an easily understandable way (in the top level table)
- ◆ Those resources that cut across both businesses were identified and included in the analysis
- ◆ Focus was always on maximizing value for the SBU, not the individual businesses

AND, WITH RESPECT TO THE ANALYSIS

- ◆ The analysis can proceed as normal
- ◆ Begin with the lowest level strategy table(s) and develop NPV's for each business, given each top level strategy as defined in the nested table
- ◆ Analysis for the next-higher level is:
 - ◆ Add up of the business units
 - ◆ Adjustment for synergies between units, if not already included
 - ◆ Link common conditioning uncertainties (such as regulations or competitors) and build in any dependency between uncertainties from different units
 - ◆ Include costs and benefits from SBU programs