

## **Outline Of Phase 3: Dynamic Strategic Planning**

---

- **The Choice**
  - Preferred Choice depends on Satisfaction of Decision-Makers, or Customers
  - Not a technical absolute
- **The Dynamic Strategic Plan**
  - Buys Insurance -- by building in flexibility
  - Commits only to immediate First Period Decisions
  - Balances level of Insurance to Feelings for Risk
  - Maintains Understanding of Need for Flexibility
- **Examples -- See Case Studies**

## **The Choice**

---

- **Any Choice is a PORTFOLIO OF RISKS**
  - Nothing can be guaranteed
- **Choices differ in two important ways**
  - The "Average" Returns (Most Likely, Median, Expected)
  - Their Performance over a Range of Scenarios
- **In General, they either**
  - Perform well over many scenarios (they "fail gracefully" because they lose performance gradually)
  - Give good returns only for specified circumstances, otherwise they do not
- **A Choice is for First Period Only**
  - New Choices available later

## **The Best Choice**

---

- **Permit good performance over a range of scenarios**
- **They achieve overall best performance by**
  - **Building in Flexibility, to adjust plan to situation in later periods -- this costs money**
  - **Sacrificing Maximum Performance under some circumstances**
- **"Buy Insurance" in the form of flexibility, the capability to adjust rapidly and easily to future situations**

## **The Preferred Choice**

---

- **One of the best choices, those that provide flexibility**
- **Depends on Feelings about Risk and Performance**
  - **What are acceptable levels for company?**
- **May not be the same for different companies, or at different times**

## **Dynamic Strategic Plan (1)**

- **Buys "INSURANCE"**
  - Against risks
  - By building in flexibility
- **Management of Risk**
  - Very similar to risk management for portfolios
  - Best strategies involve hedging of the risks

## **Dynamic Strategic Plan (2)**

- **COMMITTS ONLY TO FIRST PERIOD DECISIONS**
  - Decisions in Second and later periods deferred
  - Decisions for later periods will depend on market conditions at those times
- **See Case Studies**

### **Dynamic Strategic Plan (3)**

- **BALANCES THE LEVEL OF INSURANCE TO THE FEELINGS ABOUT RISK AND PERFORMANCE**
  - Amount of Insurance (Flexibility) is not fixed
  - Level of Insurance is a Choice
  - Choice must be appropriate to company
  - Level of Insurance thus depends on Company's situation, its feelings about risk and performance
- **See Case Studies**

### **Dynamic Strategic Plan (4)**

- **CAREFULLY MAINTAINS UNDERSTANDING OF THE NEED FOR FLEXIBILITY**
  - Often Directors, Staff or Company become fixed on plan through personal commitments -- they make it difficult to make adjustments when desirable
  - Organizational ability to adjust plans to actual, market conditions must be carefully maintained

## **Outline Of Examples**

---

- **Example of Failed Planning**
  - Electric Vehicles for Los Angeles
- **Examples of Successful Dynamic Strategies**
  - Ceramic Auto Parts
  - Airport Development in Australia
- **Examples of Improvements through DSP**
  - Size of South African Power Plants
  - Choice of Technology for Water Treatment
- **Examples of Dynamic Strategies in Progress**
  - Meeting Competition with Contracting Strategies
  - Facing New Laws -- Petroleos de Venezuela, SA