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)

- COMMTS 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