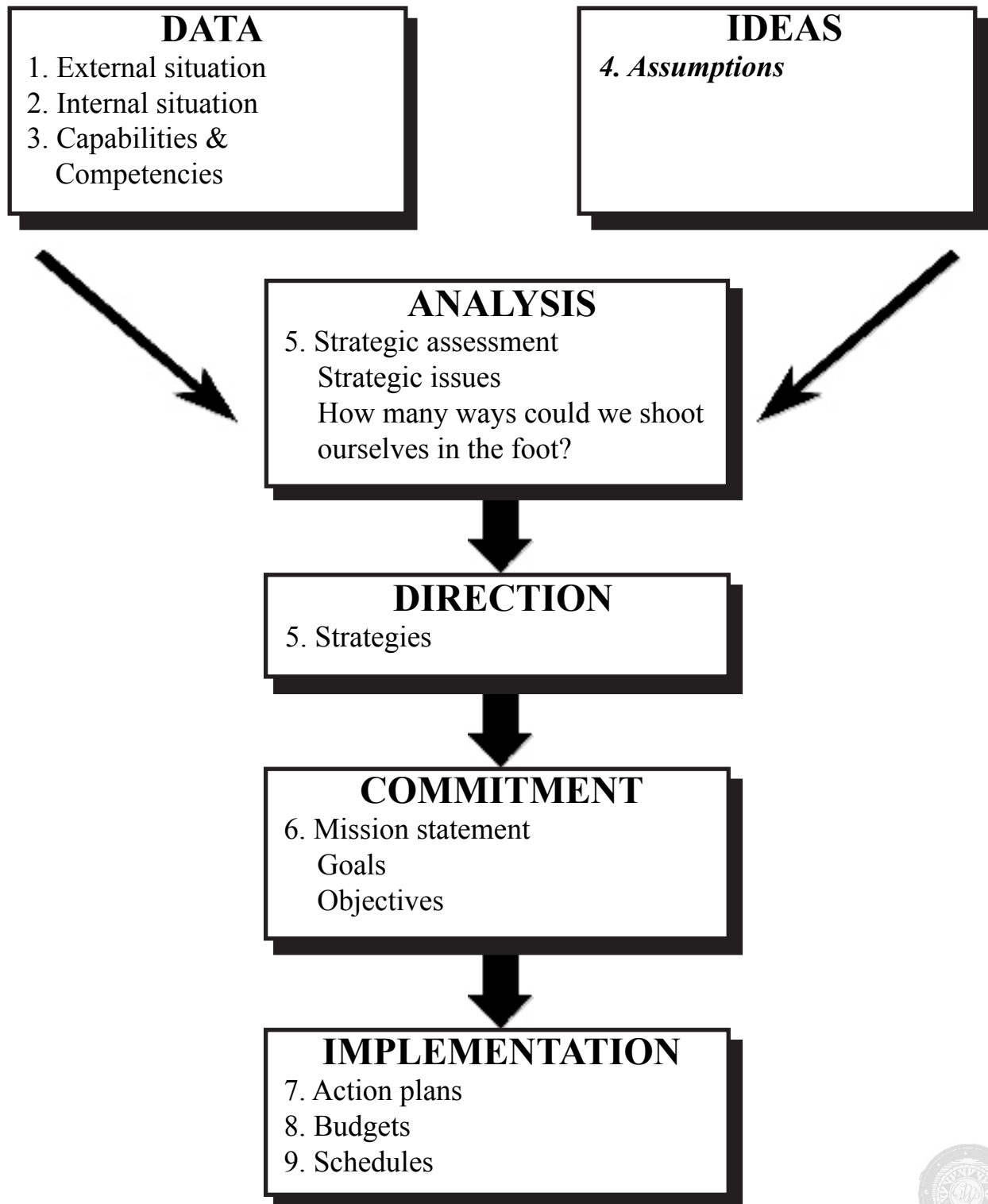


# SIMPLIFIED STRATEGIC PLANNING PROCESS FLOW





The Assumptions section is the part of the planning process where you depart from working with facts and objective information, and move into the realm of the unknown and more subjective information. The ephemeral nature of assumptions, however, is no reason to give them casual or cursory treatment. One way or the other, you will have assumptions. Your choice is whether or not to give them thoughtful consideration. In fact, the uncertain nature of assumptions requires that they be given careful thought and attention. Although accurate prediction of the future is impossible, it is also impossible to plan for the future without tentative estimates about important probable events and developments. Furthermore, it is important that members of the planning team share the same assumptions.

## Definition

Assumptions are **temporary** estimates of likely future events and developments which would have a significant impact on your business and over which you have little or no control.

## Assumption Errors

Among the most common sources of errors in assumptions are;

1. they have been given little or no thoughtful consideration,
2. wishful thinking,
3. feeling certain about assumptions,
4. naive projections of past trends without considering what might happen to change (or even reverse) those trends.

## Avoiding Assumption Errors

Techniques for dealing with uncertainty are;

1. Have a clear understanding that assumptions are temporary estimates. They are uncertain and subject to revision at any time. They should be continually challenged.
2. Assumptions should not be mixed with facts. They should be clearly identified and segregated. This helps you to challenge them.
3. Rather than just stating what you think will happen, state the best reasonably possible scenario, the worst reasonably possible scenario and the most probable scenario. For critically important assumptions, carry this a step further and describe the things that would cause these different scenarios and deal with them as separate assumptions.
4. Review your assumptions at least every three months (at quarterly monitoring meetings).
5. Remember that your assumptions will often be wrong, and take steps to deal with that possibility. Examples of such steps are;
  - a. remain flexible,
  - b. have contingency plans,
  - c. hedge your bets,
  - d. develop early warning capability,
  - e. diversify your business activities.

## Information Sources

There are no “hard” information sources for assumptions. You cannot “look up” the future growth rate of a market the same way you can research a historic growth rate. At most, you can look up someone else’s assumption about the future, but that may not have any more accuracy than estimates generated by team members.

Therefore, when preparing information regarding assumptions you should draw on current facts and recent trends (researched for the EXTERNAL SITUATION and INTERNAL SITUATION), but you should thoughtfully consider all of the factors which

might influence these in the future and make your best estimate as to the future situation. Inability to “find” or “research” an assumption is inconsistent with the definition of an assumption (and therefore not an acceptable response). Note you should **prepare thoughtful estimates, NOT wild guesses.**

**Assumptions for  
Market Segments**

Page 4.1

Complete a worksheet for each MARKET SEGMENT identified in the EXTERNAL SITUATION section. There should be a page 4.1-n that corresponds to each page 1.1-n. **It is critical to understand that the information prepared for this page is about the whole market (as defined on the corresponding page 1.1), NOT your particular firm and its performance.** All information on this page should be prepared by looking 3-5 years into the future.

It is not uncommon for those new to strategic planning to feel they have no knowledge of the future growth rate or profitability of a market. While you may not have “knowledge” of the future of the market, it is nevertheless possible to construct a thoughtful estimate of what the market is likely to be. This is what is expected; not a wild guess or no estimate at all.

It is critical to the process that this page be thoughtfully and completely filled out, as the information developed on this worksheet will directly input to the STRATEGIC ASSESSMENTS (5.1) exercise later in the process.

**Threats to the Market:**

Here you want to identify those factors which might cause the total market (as defined and identified on the corresponding page 1.1) to shrink. These should be factors which affect the entire market and are not specific to your business.

For example, a threat to the market would be something like a demographic trend that reduces the total size of the market from \$15 million to something less, say \$12 million. A common mistake is to consider the introduction of a new product by a competitor as a threat to the market. It is a threat to your business, but it does not generally reduce the size of the market (Specific threats to your business may be captured on page 4.6). The probability of the occurrence and impact of the threat should be characterized as high, medium or low.

**Opportunities for Market:**

Here you want to identify those factors which might cause the total market (as defined and identified on the corresponding page 1.1) to grow. These should be factors which affect the entire market, and are not specific to your business.

For example, an opportunity for the market would be something like a change in a government regulation that allows the total size of the market to grow from \$15M to something more, say \$20M. A common mistake is to consider the introduction of a new product by your firm as an opportunity for the market. It is an opportunity for your business, but it does not generally increase the size of the market (Specific opportunities for your business may be captured on page 4.4). The probability of the occurrence and impact of the opportunity should be characterized as high, medium, low.

**Rate of Future Real Market Growth:**

The combination of future opportunities and threats in a market determine its growth rate in the future. Here you should estimate how these factors will influence the total size of the market (as defined on the corresponding page 1.1). Be sure to adjust the estimated growth rate to remove the effect of inflation.

For example, if the threats suggest that the market might shrink 5% per year and the opportunities suggest that it might grow 10-12% per year, then (assuming equal likelihood of threats and opportunities) the growth rate might be 5-7% per year. Adjusting for an expected inflation rate of 3% gives an estimate of 2-4% for the rate of future real market growth.

**Average Future Industry Profit Level:**

The first thing you need to do is agree on what measure(s) of profitability will be used. It is important that the same measure be used for all markets segments so that comparisons can be made. Profitability measures such as Net Profit before tax or ROIC are preferred over measures such as Gross Margin.

Here you want to determine the average profitability for the total market (as defined and identified on the corresponding page 1.1). This should be the average profitability on the **total sales** in the market, **not** just the profitability of your business in this market. While establishing your own profitability in this segment may be a useful benchmark, it is important to avoid the common mistake of naively using this number as the estimate for the profitability of the entire market.

In practice it is often difficult to predict the future profit of an entire market. A useful method of estimating this number is to determine your own current profitability in the market. Then consider how you stack up relative to the competition (How much more or less profitable are they than your company is in this segment?) Use this subjective estimate to arrive at the current average profitability. Then consider market factors in the future which might increase or constrain the overall profitability in the industry (regulation, market maturity, new markets, new technology, etc.) to project the current profitability into the future.

**Future Potential for Product/Service Displacement:**

Here you want to identify if there is anything that might eliminate the entire product category for you and your competitors. Unlike threats that shrink a market, forces that displace a product substantially eliminate a market.

For example, cell phones displaced simple pagers; DVD's displaced VHS tapes in the general consumer market. Displacements are usually caused by changes in technology, raw materials availability, regulations, and occasionally by significant dislocations in distribution channels.

**Competition Assumptions****Page 4.2**

Complete a worksheet for each MARKET SEGMENT identified in the EXTERNAL SITUATION section. There should be a page 4.2-n that corresponds to each page 1.1-n. All information on this page should be prepared by looking into the future.

It is critical to the process that this page be thoughtfully and completely filled out, as

the information developed on this worksheet will directly input to the STRATEGIC ASSESSMENTS (5.1) exercise later in the process.

**Competitors' Future Strategic Moves:**

You should identify in a sentence or two the key strategic moves you expect each competitor to undertake in the time horizon considered. Include such things as changes in strategic focus, development of competencies, new technologies, or changes in distribution channel. Be sure not to overlook possible competitive exits and entries.

**Other Significant Future Developments:**

List here any trends or factors which may affect the overall level of competition in the market. Include changes in barriers to entry, broad changes in technology, maturity in the market leading to consolidation, new entrants to the market (e.g., cable companies entering telephone communications) and other factors that affect the intensity of competition.

**Relative Competitive Position and Future Market Share:**

In this table you should rate your company and the most significant competitors as to **their relative performance in this market segment** on the seven attributes listed to the left of the table. Begin by listing across the top of the columns the most significant competitors identified on the corresponding page 1.1 plus any new entrants who are expected to become a significant competitor in the time horizon considered. Then, working horizontally across the table, assign **relative** ratings as described below:

- OK typical performance of the companies listed...in the pack,
- + significantly better than the companies rated as "OK"...better than the pack,
- significantly worse than the companies rated as "OK"...worse than the pack,

to be used sparingly...

- ++ exceptionally better than all others listed...far better than the pack,
- exceptionally worse than all others listed...far worse than the pack.

It is critical that the rating scheme assign relative ratings with a distribution centered on "OK". Working through the rows horizontally and assigning the "OK's" first will make this easier. When a row is complete, check for the average to work out to be close to "OK". If you have rated five "+" and one "OK" it would be better to center the distribution by rating five "OK" and one "-". There should also not be more than one "++" or one "--" in any horizontal row. Beware of looking through rose-colored glasses when rating your own company. Do not presume (without a well substantiated argument) that any company can make significant changes in relative position over 3-5 years (i.e., While you may have a strong cost reduction plan in place, it is also likely that the competition has a similar initiative in progress and the net result may be little change in **relative** competitive position.)

Ratings on Ability to Meet Market Needs and Preferences should be driven by the needs and preferences listed on the corresponding pages 1.1 and 4.1. When rating costs, don't be confused by price. You want to give "+" to those who truly have a cost advantage in materials, labor, or overhead. Reputation should consider both profile (How broadly known is your company?) and perception (How do those who know of your company

rate its reputation in this market?). Financial strength is more than a clean balance sheet; it is the ability to pursue new opportunities as they arise or otherwise use financial muscle. Proprietary position should not only consider legally protected assets (patents, trademarks, etc.), but also anything a company has and the competition could not get or duplicate in the time frame considered.

Current Market Share values should have already been established on the corresponding page 1.1. Future Market Share ratings should be reasonable estimates based on all of the information on this page. Be sure to check these for consistency with the competitive position ratings.

**Other Important Assumptions**  
Page 4.3

Sections of this worksheet should correspond to pages 1.3, 1.4, 1.5 and 1.6. Guard against developing large volumes of non-strategic information. All information on this page should be prepared by looking 3-5 years into the future.

**Technology:**

If technology is important to your industry, make assumptions as to future developments or lack of developments. As with the TECHNOLOGY ASSESSMENT (1.3), your comments should be directed toward efficiency, costs and availability.

**Supplier Markets:**

Make assumptions as to future developments in supplier markets where price, quality and/or availability has an important impact on your business. As with the SUPPLIER MARKET ASSESSMENTS (1.4), your comments should be directed toward volume, buyer and seller concentration, significant events and capacity utilization. Also make price and availability forecasts.

**The Economy:**

Make assumptions about future general economic conditions (i.e., gross national product, inflation, employment). Make assumptions concerning price and activity levels in key markets served.

**Regulations:**

List any future changes in regulations having particular importance to your business.

**Perceived Opportunities**  
Page 4.4

This worksheet provides a preliminary examination of opportunities. Its purpose is to uncover opportunities for further examination later in the process. A five year time frame is generally appropriate.

Begin by listing your opportunities, including those you are presently pursuing, in an open brainstorming session. Opportunities will usually be found in market areas (e.g., new market development, new product development, new distribution channels, or pricing). Recognize that most market opportunities are the result of augmentation of the Core Business, however, they may also arise by eliminating or modifying current market approaches or activities. Also, do not overlook improvements to internal processes, organizational structures or human resources (e.g., productivity, finances, management, or personnel).

Evaluate each opportunity in the categories listed using the rating scheme at the bottom



of the worksheet. The values captured should reflect the consensus of the entire team. The following suggestions clarify the basis for rating each column.

**Perceived Net Value:**

When rating value, you should rate the intrinsic net value the opportunity would bring to the business over the life-cycle of the opportunity. In rating this you should presume you will commit to an opportunity and be successful with it. Save any “de-rating” due to doubts or uncertainty for the next column. Investment must be considered along with return in creating a perceived net value rating.

You should assign the top end of the scale (9 or 10) to the highest value items listed. In general, these are opportunities that are “clear home runs” and substantially transform the business. The middle of the range (4-6) usually describes good solid improvements to the business. The lower range (1-3) is reserved for those opportunities which bring some benefit to the business, but are small. Do not attempt to quantify the dollar value of opportunities, as it consumes more time than it is worth at this point in the process.

**Assumed Probability of Success:**

In this column you should evaluate all factors which might have an impact on your ability to succeed (ability to achieve the full value rated in the previous column). The ratings span from Low (L) to High (H) with Medium (M) indicating relative uncertainty. Additional information and knowledge of an opportunity will tend to drive you away from uncertainty and toward estimates closer to High or Low as you become more certain that an opportunity may or may not yield the value rated.

**Anticipated Management Effort:**

Management effort is one of your most constrained and precious resources. This column identifies how much of it you would have to give up to pursue this opportunity. When rating this column you should consider the total effort of all managers. An opportunity should not be rated High (H) if it just involves a high effort for one individual on the team.

**Perceived Downside Risk:**

Here you want to rate the financial risk from attempting the opportunity net of any salvage value. It is often helpful to agree at the outset as to what would be a Moderate (M) financial loss for the company to frame a reference point for this rating. Non-financial factors (e.g., harm to reputation) may be considered by translating them into financial terms and considering them here.

**Evaluation:**

After completing the ratings, the list should be sorted into three categories:

- 1) Clearly sound opportunities that all team members want to pursue (identified with a plus “+” in the first column). These are candidates for inclusion in your STRATEGIES (5.4), but must be tested for compatibility with other aspects of strategy and availability of resources.
- 2) Clearly poor opportunities that all can agree should be dropped from further consideration (identified with a minus “-” in the first column).
- 3) Unclear or unresolved opportunities which have mixed opinions from the team and need additional research to clearly put them in one of the two categories



above (identified with a “?” in the first column).

Opportunities that fall in the last category, #3, should be assigned an Opportunity Screening Worksheet to gather the additional information needed to resolve the uncertainty. You may also find it useful to develop screening worksheets for some category #1 opportunities.

### Opportunity Screening Worksheets

Page 4.5

Following the Perceived Opportunities exercise (page 4.4) there will be some opportunities which need further investigation before the planning team can decide which of these to incorporate into the strategy of the firm. This page is intended to capture a more detailed, but still preliminary, review of an opportunity to allow the planning team to determine whether it is worthy of continued consideration.

The process used to evaluate opportunities is one of successive screening (i.e., applying only the minimum amount of scrutiny to accept or eliminate an opportunity at each stage). There may be some opportunities, which based on information developed for page 4.5, will require further investigation before you commit substantial funds to pursue them. These are usually high investment or high risk opportunities, and it is common for them to become OBJECTIVES (6.3) in order to be fully developed over several months.

For market-based opportunities (new products or new markets), page 4.5-1 is the appropriate format to use. This worksheet is a preliminary checklist (not a final market or product plan for a business) for reviewing market based opportunities. It examines four key areas for each opportunity: a comprehensive description, capabilities required, sources of competitive advantage, and attractiveness of the market and investment.

Internal, operational, and financial opportunities should be summarized in a few paragraphs and subjected to some form of cost/benefit analysis consistent with standard internal review procedures (these will vary greatly from company to company). An example of one such format for this type of analysis is on page 4.5-2.

Thoughtful responses should be made to each question. One word answers (i.e., “yes” or “maybe”) are not appropriate in most cases. This is especially true when examining the basis for competitive advantage on the backside of the page.

### Perceived Threats

Page 4.6

List those events and developments that would threaten the well-being of your business. Evaluate the potential impact and the assumed probability of occurrence, using the rating scheme at the bottom of the worksheet. A five year time frame is generally appropriate. Those threats that have a high impact OR high probability of occurrence are considered CRITICAL THREATS and may require action. Note that BOTH high impact and probability are NOT necessary for a threat to require action be taken.

There are only five things you can do about a threat. Let’s use an office fire as an example:

1. Prevent (e.g., eliminate potential fire hazards),
2. Reduce exposure (e.g., remove valuables to another location),
3. Early detection (e.g., smoke detectors),
4. Contingency plan (e.g., fire fighting plan/training, recovery plan),
5. Hedge (e.g., buy fire insurance).

Not all of these would be possible or desirable for every threat. You must look at each significant threat to determine which type of actions are appropriate.

**Industry Scenario**

Page 4.7

This worksheet is a prediction of what your industry will look like in the future. The time frame here should be as far out as comfortable, typically five to ten years. It deals with the industry and not the particular competitors. It must address questions about changes in your customers' markets and the impact this will have on the needs and demands placed on your industry. The future of the customers served and the products/services offered should be considered. Also consider changes outside of your specific industry which may affect it (e.g., societal, governmental, and technological changes, etc.) You may need to write multiple scenarios if there is great uncertainty in your markets.

**Winner's Profile**

Page 4.8

The WINNER'S PROFILE is built upon the assumptions captured in the INDUSTRY SCENARIO (4.7). For each point in the industry scenario, you should consider what capability or attribute a winner might need in the future. List these characteristics in the first column. The team should then reach consensus on the ratings of future importance and current performance using the values at the bottom of the page and record these in the columns to the right.

Naturally, you will want to strive to position your company like a winner. A successful firm will, over time, establish performance ratings of 1-2 in all areas that are rated critical (1-3) in importance. Any areas where you fall short of the desired performance are candidates for discussion as STRATEGIC ISSUES (5.2) and may require a strategy and an action plan to improve your performance over time.

As was mentioned in the instruction sheet for the section on CAPABILITIES ASSESSMENTS, you must resist the temptation to undertake major strategies or programs at this stage. This is merely where such strategies and programs are being suggested for the first time. Full discussion and decisions should be deferred to the STRATEGIC ISSUES (5.2) exercise.

## ASSUMPTIONS FOR MARKET SEGMENT

**Segment Designation:** Interior Packaging For Hard Candy

### Future Changes in Market Needs:

We do not foresee developments in candy technology that would eliminate requirement for protection from crushing. To our knowledge, no such research is underway.

### Future Changes in Market Preferences:

Three-day delivery.

### Threats to Market

(Factors that might cause size of total market defined on page 1.1 to shrink)

- Hard candies lose appeal because of cost
- Protective bags increase in usage
- Substantial price reductions from building excess capacity

Probability	Impact
(L, M, H)	(L, M, H)
M	M
H	L
M-H	M

### Opportunities for Market

(Factors that might cause size of total market defined on page 1.1 to grow ?)

- New candy products (e.g., low carb) that increase overall candy sales
- Individually wrapped candy loses ground due to labor content

Probability	Impact
(L, M, H)	(L, M, H)
L	L
M	M

**Rate of Future Real Industry Market Growth (What is the expected change in size of total market as defined on corresponding page 1.1 ?):**

Will grow by 4% per year over next few years.

**Average Future Industry Profit Level (What is the expected profit level for the total market as defined on corresponding page 1.1 ?):**

38% contribution margin and 11% ROIC, assuming competitors' capital structure is similar to ours.

### Future Potential for Product/Service Displacement:

None likely

### Other Significant Future Events:

We do not foresee any.





## ASSUMPTIONS FOR MARKET SEGMENT

Segment Designation: Contract Packaging Service in Customer Plants

### Future Changes in Market Needs:

- Downtime less than 3%

### Future Changes in Market Preferences:

- Quick product changeover capability
- Service available nationwide

### Threats to Market

(Factors that might cause size of total market defined on page 1.1 to shrink)

- Food processing equipment manufacturers integrate packaging in systems
- Food processors move offshore

Probability	Impact
(L, M, H)	(L, M, H)
M	M
M	L

### Opportunities for Market

(Factors that might cause size of total market defined on page 1.1 to grow ?)

- Retailers require more frequent package design changes
- Demand for food not prepared at home accelerates
- Desire to outsource higher labor intensity operations increases

Probability	Impact
(L, M, H)	(L, M, H)
H	M
M	M
M	M

**Rate of Future Real Industry Market Growth (What is the expected change in size of total market as defined on corresponding page 1.1 ?):**

Will grow by 20% per year over next few years.

**Average Future Industry Profit Level (What is the expected profit level for the total market as defined on corresponding page 1.1 ?):**

- Ave. Gross Margin 34% (2% lower than Inno-Pak's 36%) (Estimated to equate to 11.5% ROIC)

### Future Potential for Product/Service Displacement:

- None likely

### Other Significant Future Events:

- ID chips for inventory tracking will have an impact on both package design and packaging process





## COMPETITION ASSUMPTIONS FOR MARKET SEGMENT

**Segment Designation:** Interior Packaging For Hard Candy

### Competitors' Future Strategic Moves:

1. Brown is working hard on product development. Something (unspecified) is likely to be developed.
2. ABC will probably establish a plant on the West Coast.
3. National will probably continue to diversify.
4. XYZ will establish its own distributors.
5. Federal will probably not survive.

### Other Significant Future Developments:

1. Brown will continue to build capacity and reputation.
2. ABC may experience cost difficulties in their expansion unless they obtain equity financing (which is doubtful).
3. Although industry volume will grow at a 4% annual rate over the next few years, capacity will be added at an even faster rate. Capacity utilization will be down to 75% within two years.
4. Industry profits will average 11% (ROIC) over next 3-5 years, barring unexpected major economic developments.

### Relative Competitive Position and Future Market Share:

	Inno-Pak	Brown	ABC	XYZ	National	Federal
<b>Ability to Meet Market Needs &amp; Preferences</b>	++	+	OK	OK	--	OK
<b>Quality</b>	+	+	OK	OK	--	OK
<b>Service</b>	++	+	OK	OK	--	-
<b>Costs (not price)</b>	OK	+	OK	OK	OK	--
<b>Reputation</b>	++	+	OK	OK	--	OK
<b>Financial Strength</b>	OK	+	OK	OK	-	--
<b>Proprietary Position</b>	OK	OK	OK	OK	--	OK
<b>Current Market Share</b>	24%	33%	10%	10%	10%	10%
<b>Future Market Share</b>	30%	33%	9%	12%	13%	0%







## COMPETITION ASSUMPTIONS FOR MARKET SEGMENT

**Segment Designation:** Contract Packaging Service in Customer Plants

### Competitors' Future Strategic Moves:

- Brown – likely to focus on converting the customers of their new line of plastic packaging to outsourcing and recognize Inno-Pak's competitive advantage in paper and combo packaging
- XYZ – will continue to try to copy Inno-Pak's business model with only partial success
- Non-producers of packaging (e.g., IPOS) – no consistent future strategy (opportunistic)
- Other producers of packaging – probably enter the market in a minor way

### Other Significant Future Developments:

- Anticipated consolidation of food processors will result in some instability in the packaging service provider of choice
- The high growth rate and strong margins will make this segment attractive for new entrants – likely a mix of old-line packaging producers and non-producers

### Relative Competitive Position and Future Market Share:

	Inno-Pak	Brown	XYZ	Non-Producer	Other Packaging Producers
<b>Ability to Meet Market Needs &amp; Preferences</b>	+	+	OK	OK	–
<b>Quality</b>	+	OK	OK	OK	–
<b>Service</b>	++	+	OK	–	–
<b>Costs (not price)</b>	OK	–	OK	+	OK
<b>Reputation</b>	+	+	OK	–	OK
<b>Financial Strength</b>	OK	+	OK	–	–
<b>Proprietary Position</b>	+	OK	OK	–	OK
<b>Current Market Share</b>	40%	25%	20%	15%	0%
<b>Future Market Share</b>	40%	22%	17%	18%	3%





## OTHER IMPORTANT ASSUMPTIONS

### Future Changes in Technology:

- Our custom-designed semi-automatic machine for mid-size work with its breakthrough digital stacking technology will be completed next year and give us a substantial cost advantage in this area. (90% probability)
- ABC and National, as well as Inno-Pak, will have great difficulty with the development of large scale capability. Chances for success are probably no better than 1 in 10, and in no case would it occur before five years.
- All major competitors will make significant advances in IT systems similar to what have in our current plans.

### Future Changes in Supplier Markets:

Next year we will see the following in our paperboard raw material market:

1. Volume will be 13.4MM-14.6MM tons. Most likely 14MM.
  2. Capacity will be 15.4MM tons. (99.9% probability)
  3. Capacity utilization will fall from 83% to 75%, causing softer pricing.
- Beyond next year we expect China to gain an additional 5% of world production of thermoplastic sheet primarily for non-China markets.
  - Petroleum feed stock pricing will continue to be erratic for short periods, causing wide swings in the price of plastic resin and sheet.

### Future Changes in the Economy:

1. Constant dollar GDP will continue to rise moderately (2.5-3.5%).
2. Consumer spending will rise by 4-5%. (60% probability)
5. Employment will rise, and unemployment will hold steady at around 4.8%. (80% probability)
6. The CPI will rise by 3.5%. (90% probability)
7. The PPI will rise by 3%. (90% probability)

These assumptions depend on moderately restrictive Federal Reserve policy through next year and no unexpected shocks to the economy.

### Future Changes in Significant Regulations:

Both major political parties will likely move toward the center in response to the popular move in that direction. Radical movement is not expected. In general, we expect moderate tightening in government regulation. We anticipate that energy and Global Warming including Green issues will be the arena for both regulatory and research activity. We expect legislative mischief in many states.





# GENERAL BUSINESS OPPORTUNITIES

		Markets	
		PRESENT	NEW
Products or Services	P R E S E N T	<b>CURRENT BUSINESS</b> <ul style="list-style-type: none"> <li>• Add new customers</li> <li>• Increase sales to current customers</li> </ul>	<b>AUGMENT</b> <ul style="list-style-type: none"> <li>• Internal market development</li> <li>• License to others</li> <li>• Sell through others</li> <li>• Merge or acquire</li> <li>• Joint venture or alliance</li> </ul>
	N E W	<b>AUGMENT</b> <ul style="list-style-type: none"> <li>• Internal product development</li> <li>• License to others</li> <li>• Sell products of others</li> <li>• Merge or acquire</li> <li>• Joint venture or alliance</li> </ul>	<b>DIVERSIFY</b> <ul style="list-style-type: none"> <li>• Various combinations of augmentation activities</li> </ul>







## PERCEIVED OPPORTUNITIES

+/-/? Perceived Opportunities	Perceived Net Value	Assumed Probability of Success	Anticipated Management Effort	Perceived Downside Exposure	Initials
<b>PRESENT BUSINESS</b>					
Improve consistency of interior coatings	2	H	L	L	
Improve burst strength limits	7	H	L	L	
In-house packaging for 2 existing customers	3	M-H	M	M	
Establish high level selling program at Jones Candy	5	H	M	L	
<b>PRESENT PRODUCTS TO NEW MARKETS</b>					
Non-food interior packaging	9	M	M	L	
Non-food exterior packaging	9	L-M	H	M	
Export	6	L	M	M	
Design and testing service for non-food packaging	7	M-H	M	M	
<b>NEW PRODUCTS FOR PRESENT MARKET</b>					
Tek-pak	7	M	H	L	
<b>NEW PRODUCTS FOR NEW MARKETS</b>					
Package mfg. equipment – our design	10	M	H	H	
<b>COMPETITIVE ACQUISITION</b>					
Acquire ABC	8	L	H	H	
<b>VERTICAL INTEGRATION</b>					
JV with a plastic sheet extruder	8	M	H	H	
<b>OPERATING IMPROVEMENTS</b>					
Obtain Bobst diecutter	4	H	L	L	
Adopt Six Sigma	3	H	M	L	

**PERCEIVED NET VALUE: 1-10, with 1 = very low**  
**ASSUMED PROBABILITY OF SUCCESS: High, Moderate or Low**  
**ANTICIPATED MANAGEMENT EFFORT: High, Moderate or Low**  
**PERCEIVED DOWNSIDE EXPOSURE: High, Moderate or Low**





## MARKET BASED OPPORTUNITY SCREENING WORKSHEET

### What is the Opportunity?

Offer Package Manufacturing Equipment – our design

### What is the Market Need to be served?

Affordable, flexible, semi-automatic precision manufacturing equipment for short to medium length runs of geometrically complex, decorative external paperboard packaging

### What is (are) the Market(s) to be served?

1. Our packaging competitors in N. American markets
2. Off-shore manufacturers of packaging for food and non-food products
3. Packagers who want to integrate the package mfg. step within their packaging operation

### Is the opportunity compatible with our Strategic Focus? Strategic Competencies?

#### Mission Statement?

Not really – it is, at best, on the fringe of who we want to be

### How Is the Market Need currently being met?

It is not well met – existing equipment is geared toward longer runs. This is why we have a history of developing our own machines and adapting commercially available equipment.

### What Product/Package Improvements are needed/desired by the market?

Quick tooling and material changeovers, CNC and integral automatic stacking

### Can we be Cost Competitive?

Initially, probably yes; but since we have no patents, equipment mfg. specialists will eat our lunch

### Have we the necessary Management Capability and Capacity?

Yes

### Can we handle the Technology?

Yes – at least as well as anyone else

### Can we handle the Operations?

Yes, for small quantities, but not for the quantities necessary to make this venture worthwhile

### Can we handle the Marketing? Do we have appropriate Distribution Channels?

Not in-house; we would have to find a marketing/service partner – perhaps Independent Machinery

### Can we handle the Financing?

Yes

### What is the Current Size of the Market? Is it Too Large or Too Small?

The market within our current capabilities is far too small. The real market is too large and diverse for us – huge mgt./engineering effort to develop the equipment to fit this “mass-customized” market.

(over)



## MARKET BASED OPPORTUNITY SCREENING WORKSHEET

### **Is there a Competitive Opening? How must we position our offering to obtain entry?**

Certainly a competitive opening with our competitors who would love to have the benefit of our technology. Trying to position ourselves to address the bigger markets is an overwhelming thought.

### **Is there a reasonable basis for Competitive Advantage for us? What Strategic Competencies are involved?**

We would be losing a major competitive advantage in our core business of make packaging with advanced technology. We have skills and knowledge but no strategic competency here.

### **Is there potential for Specialty Status for us? Which Features or Benefits will command a premium?**

The entire market would be specialty. The quick tool change and CNC application of decorative foils would command a premium.

### **Who are the most likely competitors? What will be their likely competitive response?**

Primarily existing, long-run equipment manufacturers leveraging their brand and undercutting our prices. Fragmented system integrators will copy us and like alley shops ruin much of the market.

### **Can we achieve significant/adequate Market Penetration? Estimate our Market Share for the First and Fifth Years.**

Will be a very slow penetration rate because of the custom nature of the equipment, our limited technical capacity and absence of any brand equity in equipment markets

### **What is the expected Growth Rate for the market?**

15% per year

### **What are the expected Profit Levels for the market?**

Initially, high gross margins but mediocre ROI's; gross margins will weaken as competitors copy us

### **Are there any Threats to the market?**

Substitution of materials like plastics and films that use totally different technologies

### **Is there any potential for Product or Service Displacement?**

Little

### **What is the expected Return on Invested Capital?**

For us it will probably never exceed 10-14%

### **What is the Downside Exposure to Financial Loss?**

The initial investment in all areas would be very high; recovery would likely be longer than 3 years.

### **Can we afford the Downside Exposure?**

Probably not



## INTERNAL OPPORTUNITY SCREENING WORKSHEET

### What is the Opportunity?

Upgrade quality of finished product and throughput by purchasing and installing a Bobst diecutter.

### What is the Internal Need to be Served?

Customers are becoming more demanding of precise tolerances in our products. It will be impossible to meet the anticipated needs of our customer by the end of 3 years with our current production equipment. Furthermore, price pressures are squeezing margins. This equipment will be far more efficient. It will reduce scrap and increase throughput per 8 hour shift. Its economic life is 30 years.

### Expected Benefits of this Opportunity?

#### Marketing Perspective:

- Enhance our image in the market
- Ability to secure more precision business not possible with current equipment
- Higher quality products

#### Operations Perspective:

- 50% increase throughput per shift
- Increased safety (no more hand feed)
- Reduce scrap 10%
- Can be safely run with one operator
- Improve throughput, elim. bottlenecks

### Potential Downside Risks or Costs?

- Unable to develop sufficient volume to support level of investment (Low)
- Start-up problems – quality/delivery (Moderate)
- Requires new technical skills (electronics and computer know-how) to maintain (Moderate)
- Disrupt workflow during installation (Low)

### Financial Justification:

#### Direct Cost comparison (two shift, normal operation)

	Proposed Bobst Diecutter		Current Clamshell Press	
<b>Labor</b>	1 operator	\$200.00	3 operators	\$432.00
<b>Utilities</b>		<u>22.50</u>		<u>30.85</u>
<b>Total per Shift</b>		\$222.50		\$462.85
<b>Cost/1000</b>	40,000/shift	\$5.56	17,000/shift	\$27.23
<b>Scrap cost</b>	0.99%	<u>0.06</u>	1.10%	<u>0.30</u>
<b>Total Cost/1000</b>		\$5.62		\$27.53

Savings in direct cost of \$21.91 per 1000

Annual savings of \$197,000 @ current annual volume of 9 million units

Investment is \$700,000:

Payback (Pre-tax, pre-depreciation) of 3.6 years

Payback (After-tax, including depreciation) of 4.9 years

### Other Details to Consider for this Opportunity:

Will have capacity for an additional 10 million units. If this can be filled at gross margins even half as high as the current, the payback will be substantially faster. Assuming we can use this capacity for more precise, specialty work at higher margins, the return will be even greater.





## PERCEIVED THREATS

<u>Perceived Threats</u>	<u>Potential Impact</u>	<u>Assumed Probability</u>
Fire – total loss	M	L
Loss of key employee – (Joe or Ned)	H	L
Product Obsolescence (paperboard dividers)	M	L
Technical Obsolescence (nearly total switch to plastics)	M	H
Loss of key account – Jones	M	M
Loss of paperboard source	M	L
Union organization attempt	M-L	L
Increased price competition (e.g., reverse auctions)	M	H
Foreign competition able to sell at 30% lower price	M	M
Offshore food processing	M	L
Loss of product liability insurance	L	L
Brown targets our key accounts and limits supply of plastic sheet	H	L-M
Natural disaster	M	L
Recession	L	M

**Potential Impact: High, Moderate or Low**  
**Assumed Probability: High, Moderate or Low**







## INDUSTRY SCENARIO

Domestic confectionery industry grows 3% per year

Bakery industry grows by 5% per year

More plastic packaging

Multiple types of plastic

Few, large suppliers of commodity packaging

Limited, no-growth market for specialty suppliers

Greater automation and higher speeds

More sophisticated equipment

Recyclable/degradable packaging

Large customers utilize supply chain management

Super Centers like Wal-Mart will account for 20% of food sales

Retailer branding graphics on most packages

Majority of packaging design for new food products outsourced





## WINNER'S PROFILE

<u>Characteristic</u>	<u>Future Importance</u>	<u>Current Performance</u>
Flexible Manufacturing	2	6
Plastics Material and Process Technology	1	5
Product Quality	4	3
Lean Management and Six Sigma Culture	2	7
Cost Effective Manufacturing	2	4
Use of Current Information Technology Integrated with Internet	2	6
Interior Packaging Design Expertise	2	2
Environmentally Friendly Products	2	6
Train and Retain Technically Competent Production Employees	3	6
Graphically Innovative Exterior Packaging Design Expertise	2	3
Involved with Key Customers at the Packaging Design Phase	1	4

**Importance:**

- 1 Extremely Critical
- 2 Very Critical
- 3 Critical
- 4 Extremely Important
- 5 Very Important
- 6 Important
- 7 Extremely Beneficial
- 8 Very Beneficial
- 9 Beneficial

**Performance:**

- 1 Almost Perfect
- 2 Excellent
- 3 Good
- 4 Some Strength (on the balance)
- 5 Neutral
- 6 Some Weakness (on the balance)
- 7 Poor
- 8 Very Poor
- 9 Abysmal



