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Strategic planning

John V. Reese

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STRATEGIC PLANNING

AND

ITS IMPORTANCE

by

John V. Reese

A thesis
submitted in partial fulfillment
of the requirements for the degree of
Master of Science in Management
Cardinal Stritch College
December 1983
Abstract

STRATEGIC PLANNING AND ITS IMPORTANCE

John V. Reese

In order that a company not only maintain its present position in the business world but also grow in size and strength, it is important that a company measure its per-
The proposed manual was prepared with the help of executives and managers who developed individual department plans for compilation by the writer into a strategic planning manual.

After reading this research project the researcher hopes that the reader will continue to learn more about strategic planning to benefit, not only in one's business, but also in his or her personal life as well.
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Statement of the Research Project</td>
<td>1</td>
</tr>
<tr>
<td>Purpose of the Project</td>
<td>1</td>
</tr>
<tr>
<td>Statement of Problem</td>
<td>2</td>
</tr>
<tr>
<td>Project Title, Location, and Duration</td>
<td>2</td>
</tr>
<tr>
<td>Participants</td>
<td>3</td>
</tr>
<tr>
<td>Developmental Objectives</td>
<td>4</td>
</tr>
<tr>
<td>Evaluation Objectives</td>
<td>5</td>
</tr>
<tr>
<td>Limitations of Project Findings</td>
<td>7</td>
</tr>
<tr>
<td>Definitions of Terms</td>
<td>7</td>
</tr>
<tr>
<td>Timeline</td>
<td>8</td>
</tr>
<tr>
<td>Budget</td>
<td>9</td>
</tr>
<tr>
<td>Summary of Project/Research Report</td>
<td>9</td>
</tr>
<tr>
<td>2. Literature Review</td>
<td>10</td>
</tr>
<tr>
<td>Introduction</td>
<td>10</td>
</tr>
<tr>
<td>Strategic Planning: Evolutionary Stages</td>
<td>11</td>
</tr>
<tr>
<td>Strategic Planning: Philosophical and Psychological Perspective</td>
<td>15</td>
</tr>
</tbody>
</table>
Strategic Planning: A Social Perspective ........................................ 18
What is Strategic Planning? ....................................................... 21
Why Strategic Planning is Important ........................................ 27
Summary ..................................................................................... 31

3. Findings of the Project and Conclusions .................................. 34
   Historical Review of Project .................................................... 34
   Presentation of Findings ......................................................... 37
   Conclusions ............................................................................. 37
   Implications ............................................................................ 38
   Recommendations ................................................................. 39

Bibliography ................................................................................ 42

Appendix ....................................................................................... 47
CHAPTER ONE
Statement of the Research Project

Purpose of the Project
The purpose of the project was to analyze various writers in the field of strategic planning. Hopefully, the reader was able to develop an understanding of strategic planning and the major reasons for its implementation. In addition, a strategic planning manual was developed for Process Displays, Inc., which covered the following aspects of a business plan:

1. Executive Summary
2. Product-Line Plan
3. Sales and Marketing Plan
4. Product-Development Plan
5. Operations Plan
6. Organizational Plan
7. Financial Schedules

The proposed manual was prepared with the help of executives and managers who developed individual department plans for compilation by the writer into a strategic planning manual for the company.
Statement of Problem

In the past, Process Displays, Inc. had used a brief outline as a guide in developing a one-year plan. Because of the company's desire to expand its manufacture of custom products to development of its own proprietary lines, it was determined that a three-year strategic planning manual would be very helpful. From past experience, the Board of Directors determined that increased sales and new avenues for growth called for close measurement of performance, and open and active lines of communication within the company. These two vital ingredients could be successfully added and implemented by an active three-year strategic plan. If managers had a better understanding of what strategic planning was, its development, its importance to the growth of their company, as well as a manual, they would identify and overcome the antiplanning biases that exist. Good managers would want to address this issue because of their inherent desire for efficiency.

Project Title, Location and Duration

The title of this project was "What is Strategic Planning and How It is Used at Process Displays, Inc." The most important features were:
1. An in-depth analysis of what strategic planning is, and

The location site of the project activities was Process Displays, Inc.
The project was started in April of 1983 and completed in October, 1983.

Participants
The participants who helped to develop the strategic planning manual for Process Displays, Inc. were James Miller, Executive Vice-President of Process Displays, Inc. and Thomas Pendleton, Vice-President of Finance and Administration of Process Displays, Inc.

The participants who helped in the acquisition of research materials used in Chapter Two were Richard Osborne, Manager of Corporate Planning at the Wisconsin Gas Company, Charles Krause, Private Consultant, and Robert Best, Vice-President of Management Resources Association of Milwaukee.

The participants who received services from this project were all the employees of Process Displays, Inc.: the executives and managers, by improving their planning skills, and all other employees who would benefit from a company using a strategic planning manual.
The Board of Directors, the executives, and the managers at Process Displays, Inc. received a copy of the strategic planning manual.

**Developmental Objectives**

By the end of November 1983, the researcher prepared a manual for use in strategic planning by the managers of Process Displays, Inc.

**Developmental Objective 1**

To prepare the researcher with the background to write the first draft of this manual, the following activities were conducted by the third week in April 1983:

a. A perspective into the evolutionary, philosophical, psychological, and social aspects involved in strategic planning was developed.

b. A definition of strategic planning was developed.

c. The first draft of this manual based on the two previous activities as well as private consultation with each member on the Board of Directors at Process Displays, Inc. was written.
Developmental objective 2 -

To prepare the final draft of the manual, the researcher conducted the following activities by the second week of October 1983:

a. The first draft of the manual was submitted for evaluation to James Miller, Executive Vice President, and Thomas Pendleton, Vice President of Administration and Finance, for their evaluation.

b. The manual was revised according to the criticisms received from James Miller and Thomas Pendleton.

The objective was met when the final version of the manual was approved by the Board of Directors during the third week of November 1983.

Evaluation Objectives

Evaluation objective 1 -

By the end of September 1983, the managers of Process Displays, Inc. had a better understanding of what strategic planning was and the major reasons for its implementation at Process Displays, Inc.
Implementation activities

a. Three consecutive monthly meetings were conducted by Richard Osborne and Charles Krause explaining what strategic planning was and why it was important that we implement it at Process Displays, Inc.

b. Chapter Two of this research project was used as the primary basis for these meetings.

c. At the beginning of the first meeting all participants were asked verbally by Richard Osborne what they thought strategic planning was and why it would be important to implement strategic planning at Process Displays, Inc. This same exercise was performed during the last meeting.

Evidence

There was stated agreement by all participants that by the end of the last meeting this objective had been met.

Evaluation objective 2 -

By December 15, 1983, the Board of Directors of Process Displays, Inc. had approved a three-year strategic plan for years 1984, 1985, and 1986. This plan was written by the managers of Process Displays, Inc., using the newly designed three-year strategic planning manual.
Implementation activities

a. The researcher wrote the manual with the help of James Miller, Thomas Pendleton and Richard Osborne, and it was approved by the Board of Directors the third week of November 1983.

b. All managers participated in the writing of this plan, which was to be completed by December 10, 1983.

Evidence

It was hypothesized that by December 15, 1983, the plan would be approved by the Board of Directors.

Limitations of Project Findings

1. The manual was written for use at Process Displays, Inc. and can only be used as an example for other applications.

2. As Process Displays, Inc. changes and grows, the manual will have to change and grow also.

Definitions of Terms

Before reviewing the literature, the researcher found it necessary to clarify certain terms. For the purpose of this paper, the following definitions are used:
**Planning Strategy:** Developing concepts, ideas, and plans for achieving objectives successfully, and for meeting and beating competition. Strategic planning is part of the total planning process that includes management and operational planning.

**Forecasting:** Changes made to the plan because of external factors. Forecasting should be understood as changes to the plan not as a new plan. Many companies forecast each month.

<table>
<thead>
<tr>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Steps</strong></td>
</tr>
<tr>
<td>1) Review background data on Strategic Planning</td>
</tr>
<tr>
<td>2) Review data on manual design</td>
</tr>
<tr>
<td>3) Develop a strategic planning manual</td>
</tr>
<tr>
<td>4) Obtain final approval from Process Displays, Inc. Board of Directors on manual</td>
</tr>
</tbody>
</table>
Budget

The expenditure of money that was required to complete this project was:

- 300 miles at .20 per mile $ 60.00
- Copy machine expense at various libraries $ 50.00

TOTAL $110.00

The above expenditures were paid in full by Process Displays, Inc.

Summary of Project/Research Project

Chapter One documented the general procedures and time frame in which data was gathered to develop a better understanding of strategic planning, as well as develop a strategic planning manual that was used at Process Displays, Inc.

In Chapter Two, the readers will see how formal strategic planning evolved from the mid 1950's to the present day. In addition, the researcher will explain that although strategic planning is of the utmost importance for a company's survival, no "off the shelf" form exists for any company. Many guidelines do exist, but each has to be custom fit. Finally, as a part of Chapter Three, in demonstration for the reader, there is an actual strategic planning manual written for Process Displays, Inc.
CHAPTER TWO

Literature Review

Introduction

The purpose of this project was to develop a better understanding of the relatively new subject of strategic planning and in doing so, arrive at a definition of strategic planning and explain the major reasons for its implementation. In addition, a three year strategic planning manual was constructed to demonstrate how such a plan is developed.

In writing this review chapter, the researcher will provide a prospective into the evolutionary stages, as well as the philosophical, psychological and social aspects involved in strategic planning. Developing these foundations will help the reader to understand the definition of strategic planning and the reasons for its implementation.

What might be found in reading Chapter Two, and will become more evident in Chapter Three, is that while a company might believe it already employs strategic planning, most do not. They confuse strategic planning
with making decisions, forecasting sales and solving problems. Any ongoing business does some planning, even if only short-range functional planning. Companies with short-range plans are giving a decided edge to competitors who do have long-range plans and the strategies to back them up.

Strategic Planning: Evolutionary Stages

The three major evolutionary stages of strategic planning are labeled "extrapolative planning," "business planning" and "portfolio planning." One would find this broad delineation useful in highlighting some of the major changes in planning and its corresponding shifts in implementation changes.1

"Extrapolative Planning" is generally seen as an outgrowth of the economic environment in the 1950's and early 1960's, which was characterized by generally stable, relatively rapid growth. At this time, planning focused on the constraints of a corporation's ability to pursue various growth opportunities. Usually these constraints were seen as financial; namely, how much

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funding might be available through internal resource generation and/or borrowing to achieve a specified high rate of growth. The execution of this type of planning activity was often built around the well-known discipline of preparing a budget. No wonder, then, that the strong evolutionary and task similarity with budgeting tended to influence this kind of planning, so as to make it highly extrapolative and heavily "numbers" oriented.

Until recently, extrapolative planning tended to be one of bottom-up initiative, with primary responsibility for planning given to the various departments and divisions. These departmental estimates were then more or less mechanically consolidated, often via a relatively large corporate planning department staff. What little top-down feedback there was often came in the form of reactions from the corporate planning department. This often led to animosity between business line executives and the corporate planning staff. Moreover, this type of planning lacked true decision orientation.²

The competitive climate for many businesses seemed to shift during the later 1960's and early 1970's due in part to increasing instability in patterns of social norms, changes in customer tastes and demands, new technological innovations and so on. Many corporations experienced increasing uneasiness with the extrapolative, financially dominated planning activities; that is, it was often felt that this method of planning put too little emphasis on the specifics of a business' competitive setting and how the business could better position itself within this setting. As a response, a shift in the direction of planning emerged that might be labeled "business planning." This type of planning attempted to focus more closely on a better understanding of the properties of a firm's product and/or service in terms of its attractiveness as well as on the firm's own competitive strengths. In attempting to position its specific competitive setting, a firm might then develop plans for repositioning a product, if desired.

This approach, however, tended to become too focused on each business segment, without sufficiently pursuing the overall relationship among businesses. Another problem was the frequent difficulty in gaining organizational acceptance for its decision-making outcomes,
particularly when this implied the "milking" of a business for its eventual shutdown. Despite these shortcomings, business planning added momentum to the overall strategic planning process by restoring the view that a firm needed to look at its competitive environment to develop a strategic plan.  

The third stage of planning evolution, "portfolio planning," stems primarily from further rising global instability that developed in the mid 1970's. This has created a stronger need to see the various business positionings within a total corporate context, so as to assess the firm's overall exposure to risks. Emphasis is thus placed on an overall corporate or portfolio strategic resources balance, in terms of where the resources should be allocated and where they should come from. Further, strategic resources are often seen in a broader light than simple financial terms. They also include human resources considerations and technological and marketing expertise. A portfolio planning stage can only be reached by building a successful program based on sound business planning.  


Thus, we see an array of implementation issues, from extrapolative to business to overall corporate portfolio planning. These issues will of course continue to change as we build on our understanding of how to handle them effectively.

**Strategic Planning:**

**Philosophical and Psychological Perspective**

Managers who wish to achieve effective control of operations to implement plans must grasp the design characteristics of control systems as well as the human dimension involved therein. Managerial control systems in themselves control nothing. People must take action.\(^5\)

Much of the literature dealing with human reactions to control dwells on the resistance of individuals to control. As one of the early writers on human behavior in organizations put it:

Any move on the part of the company may alter the existing social equilibrium in which the employee has grown accustomed, and by means of which his status is defined. Immediately this disruption will be expressed in sentiments of resistance to the real or imagined alterations in the social equilibrium.\(^6\)

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\(^5\)Ibid., p. 275.

In addition, people respond to controls in different ways: some welcome them and others do not. The degree of resistance or acceptance will vary with many factors such as the level of control in the organizational hierarchy, the degree of participation in setting standards and evaluating them, the nature of communications systems, the comprehensiveness of the control system, how performance is evaluated, how people perceive the control system, the reward and punishment system, the subject of control, and the quality and style of management. Controls can generate more resistance than acceptance, but that is not necessarily to be expected. People can be motivated not only to accept controls but also to achieve above-average goals with enthusiasm.

Managers must devise control strategies to suit their particular circumstances. And the strategies they choose can have a powerful impact on individual motivation. To illustrate, the Likerts classified management systems as follows: at one extreme is "system 1," in which the motivational forces are essentially primitive, that is, fear, threat, and occasional reward.

There is slight reliance on instilling a desire to achieve or on developing a sense of personal worth and importance. In such systems, the controls are centralized at the top of the organizational hierarchy. Individuals working in such a system will have predictable behavior toward the controls. They will not be motivated to achieve aggressive goals and they might even distort reports of performance to score as high as possible under the circumstances.

At the other extreme is "system 4," which encourages and supports individual involvement in decision making implementation. Reward for performance is based on a compensation system developed through the participation among those involved. There is full recognition of individual achievement. In such systems concern for control functions is felt throughout the organization, there is strong pressure on individuals to report accurate information about performance, and all motivational forces tend to support strong efforts to achieve high organizational goals.  

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Unfortunately, there is no simple formula to determine the proper mix of strategies for achieving optimal implementation of plans. Many alternatives exist, which provide self-satisfaction in good performance (motivation) but what will work best in one setting at one time may not be effective in the same setting at another time and place. The best that can be done is to be as aware as possible of the human element and the way it interacts with control design—the contingency management approach.

**Strategic Planning: A Social Perspective**

The major social responsibility of a company in its strategic planning is to plan to operate profitably and utilize efficiently the resources at its disposal. Although important, other activities relating to the use of corporate resources to further national goals, employee and community welfare, or other social interests, are second to this purpose and, except for a limited number of cases are pursued to contribute to achievement of the first purpose in the short and in the long run.9

Milton Friedman in 1962 stated his case in the following manner:

... there is one and only one social responsibility of business—to use its resources and engage in

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activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud. . . . Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.10

Strategic planning also serves to sharpen competition with an inevitable beneficial social result. As companies become more able to assess properly their environment, including what their competitors are likely to do, the result will be keener competition. For instance, technological forecasting of larger companies which include activities of competitors, has brought forth, and will do so more frequently in the future, the same new products in many companies. For example, a number of companies produced at about the same time artificial leather, color television sets, ready-cooked baking mixes, jumbo-jet airplanes and computers. If only one company had patent control of such products, there obviously would be a less competitive situation than what actually developed in each case and a consequent diminution in social benefit.11


The lessons of strategic planning experience that have been discussed are applicable to planning in areas outside business. One such important area is personal planning.

The key to personal life planning is knowing how to begin. Here, business planning is suggestive. In long-range business planning a typical starting point is some fundamental optimizing and integrating objective, such as profit or return on investment. There are no comparable objectives for individuals, but business planning does suggest one possibility—maximization of self-satisfaction over a lifetime. It is not easy to define what this means, and the definition will change over time. But if this objective is accepted, it can serve as a starting point for life planning.\(^{12}\)

In summary, one of the great advantages of corporate planning is helping managers better utilize the resources at their disposal. Planning facilitates not only the better interrelationship between a company and its external environment but also is a process for assuring more efficient internal processing. In this light, strategic planning helps business to fulfill its social responsibility of using its resources more efficiently to satisfy society's wants.

What is Strategic Planning?

At the outset it is important to understand that there is no such thing as the strategic planning system which every organization should adopt. Likewise, there is no one definition of the term strategic planning. Most writers in the field have their own definitions of the term. They vary greatly in terms of level of abstraction, substance and general acceptance. For example:

Henri Fayol, one of the first to present a broad conception of business planning, said planning "means both to assess the future and make provisions for it."\(^{13}\)

William E. Goetz defined planning as "fundamentally choosing."\(^{14}\)

John Friedmann agreed that:

... planning is defined as the guidance of change within a social system. Planning may be simply

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regarded as reason acting on a network of ongoing activities through the intervention of certain decision structures and processes.\textsuperscript{15}

George R. Berry defined planning as "intellectual in nature; it is mental work. Reflective thinking is required; imagination and foresight are extremely helpful."\textsuperscript{16}

According to Harold Koontz and Cyril O'Donnell:

Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. Planning bridges the gap from where we are to where we want to be. It makes it possible for things to occur which would not otherwise happen. Although the exact future can seldom be predicted and factors beyond control may interfere with the best-laid plans, without planning events are left to chance. Planning is an intellectual process, the conscious determination of courses of action, the basing of decisions on purpose, facts and considered estimates.\textsuperscript{17}

Russell L. Ackoff wrote that "planning is the design of a desired future and of effective ways of bringing it about."\textsuperscript{18}


In the words of Aaron Wildavsky:

Planning may be seen as the ability to control the future consequences of present actions. The more consequences one controls, the more one has succeeded in planning. Planning is a form of causality. Its purpose is to make the future different from what it would have been without this intervention. Planning therefore necessitates a causal theory connecting the planned actions with the desired future results. Planning also requires the ability to act on this theory; it requires power. To change the future, one must be able to get people to act differently than they otherwise would. The requirements of successful planning from causal theory to political power, grow more onerous as its scope increases and the demands for simultaneous action multiply at a geometric rate. 19

The preceding were generic definitions of planning. There are other definitions focusing more directly on the long-range planning process. For instance, according to David Hussey,

When a manager talks of corporate planning he is referring to a comprehensive business process which involves many types of planning activity. Corporate planning includes the setting of objectives, organizing the work, people and system to enable those objectives to be attained, motivating through the planning process and through the plans, measuring performance and so controlling progress of the plan,

and developing people through better decision making, clear objectives, more involvement and awareness of progress.  

Peter Drucker, in a well known quotation, described long-range planning as:

the continuous process of making present entrepreneurial (risk taking) decisions systematically and with the best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions, and measuring the results of these decisions against the expectations through organized, systematic feedback.

All the above-mentioned writers have their own pet definitions of planning, long-range planning or strategic planning. Basically all the writers have described strategic planning from at least one of four points of view.

First, planning deals with the futurity of current decisions. This means that strategic planning looks at the chain of cause and effect consequences over time of an actual or intended decision that a manager is going to make. If the manager does not like what is seen ahead, the decision can readily be changed.

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Strategic planning looks also at the alternative courses of action that are open in the future, and when choices are made among the alternatives, they become the basis for making current decisions. The essence of formal strategic planning is the systematic identification of opportunities and threats that lie in the future, which in combination with other relevant data, provide a basis for a company's making better current decisions to exploit the opportunities and to avoid the threats. Planning means designing a desired future and identifying ways to bring it about.

Second, strategic planning is a process. It is a process that begins with the setting of organizational aims, defines strategies and policies to achieve them and develops detailed plans to make sure that the strategies are implemented so as to achieve the ends sought. It is a process of defining in advance what kind of planning effort is to be undertaken, when it is to be done, how it is to be done, who is going to do it and what will be done with the results. Strategic planning is systematic in the sense that it is organized and conducted on the basis of an understood regularity. Strategic planning for most organizations results in a set of plans produced after a specified period of time set aside for the development of plans. However, it should also be conceived
of as a continuous process, especially with respect to strategy formulation, because changes in the business environment are continuous. The idea here is not that plans should be changed every day but that thought about planning must be continuous and supported by appropriate action when necessary.

Third, strategic planning is an attitude, a way of life. Planning necessitates dedication to acting on the basis of contemplation of the future, a determination to plan constantly and systematically as an integral part of management. Strategic planning is more of a thought process, an intellectual exercise, than a prescribed set of processes, procedures, structures or techniques. For best results managers and staff in an organization should believe strategic planning is worth doing and must want to do it as well as they can. "Not to do it well is not a sin" says Ackoff, "but to settle for doing it less than well is."22

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22Ackoff, A Concept of Corporate Planning, p. 1.
Fourth, a formal strategic planning system links three major types of plans: strategic plans; medium-range programs; and, short-range budgets and operating plans. In a company with decentralized divisions there may be this type of linkage in each division's plans and a different linkage between strategic plans made at headquarters and divisional plans. It is through the linkages that top management strategies are translated into current decisions.

In combining all the above four points of view into one, for a better "universal in-part" definition of strategic planning, one could describe strategic planning as a systematic and formalized (structured) effort of a company to establish basic company purposes, objectives, policies, and strategies (philosophy) and to develop detailed plans for future use, and finally, to implement policies and strategies (process) to achieve objectives and basic company purposes.

Why Strategic Planning is Important

It is rare to find a large corporation anywhere that does not have some sort of a strategic planning system. The intent here is to describe a few of the more important reasons why.
First, strategic planning is indispensable to top management effectively discharging its responsibilities. For top managers who do not feel that the exercise of their own intuition is the only way to make decisions, formal strategic planning must become an integral part of their managerial activities. Robert C. Guness, when president of Standard Oil Company (Indiana), validated this point for himself in these words: "There is no doubt whatever in my mind that we simply cannot do without it--particularly in an undertaking as complex and far flung as ours."\(^\text{23}\)

Second, strategic planning raises all sorts of questions and, through formal planning, answers are provided for these questions in an orderly way, with a scale of priority and urgency. These questions, however, are becoming increasingly difficult to answer because of rapid environmental changes. These questions have to be answered and systematic strategic planning will help managers better understand the complex world in which they must operate.

Third, the strategic planning process will not get very far if, at some point, specific objectives are not set for such things as sales, profits and market share. There is no doubt that individuals in organizations will generally strive hard to achieve clear objectives that are set for their organization. They will strive harder if they themselves have had a hand in setting the objectives. In this light the objective setting requirement in strategic planning is a powerful force in organizations.

Fourth, a comprehensive plan provides a basis for measuring performance. Management has available standards of both a quantitative and a qualitative nature in a strategic plan. Performance should not be measured solely in quantitative terms. Certainly, financial results are of great importance in gauging success or failure, but nonquantitative characteristics of a business are also of high importance. Creativity, innovation, imagination and knowledge for example, may be reflected in financial results. But if they are not fostered, measured and appraised by top management, a current financial success can easily disappear. Companies involved in advertising are typical settings in which performance has to be measured both quantitatively and qualitatively.
Fifth, a well-organized planning system is an extremely useful communications network. The planning process is a means for communications among all levels of management, about objectives, strategies and detailed operational plans. As plans approach completion, common understanding is generated among all levels of management about opportunities and problems important to individual managers and to the company. The choices made in the planning process are discussed in a common language and the issues are understood (or should be) by all those participating in decision making. Once plans are completed and written, there should be a permanent and clear record of decisions made, who is going to implement them, and how they should be carried out. Such a communication system is a valuable asset to any organization.

Many of the benefits of planning were identified and the many more that were not, are ideals. Some companies do not achieve these results, but it is possible to get them with an appropriately assigned and implemented system. Either the substantive or the behavioral values should be sufficient to convince management of the value of strategic planning. When both are considered it is easy to see why formal strategic planning has been introduced into so many companies.
Of course, whereas plans are crucial in producing certain types of results, the planning process is important in other ways. Which outweighs the other is not clear, but more and more managers agree with the old military saying that "Plans sometimes may be useless but the planning process is always indispensable."

Summary

We have seen how formal strategic planning with its modern design characteristics was first introduced in business firms in the mid-1950's. The evolution of strategic planning has progressed from its "extrapolative stage," namely internal generation of financial resources to "portfolio planning" which has broadened the spectrum of strategic planning to include human resources, technology, marketing expertise, etc.

Because of this broad spectrum and the various characteristics of each industry and company, there is no simple formula to determine proper mix of strategies for achieving optimal implementation of plans. No system exists that can be picked off a shelf and implemented without modification.

In the development and implementation stages, it is important that managers understand philosophically and psychologically the impact that strategic planning
has on people who are not aware of its purposes and methods. Improper implementation can lead to resistance of the controls that strategic planning generates and, as a result, have a reverse effect on the psychological equilibrium within a company. Managers should, therefore, carefully explore a strategic planning process and consider all of the implications and possible effects before it is implemented in a company.

With the increasing popularity of strategic planning in all types of businesses, it is becoming increasingly important that companies develop a specific planning process, unless they enjoy courting with eventual disaster. However, business does have a social obligation to operate profitably and utilize efficiently the resources at its disposal. Therefore, because of its popularity and the social obligation of business to society, companies should involve themselves in some sort of strategic planning process using a manual for guidelines to success.

To help in the understanding of strategic planning, a definition was developed with the help of earlier authors in the field on long-range planning. In addition, the final section of this review chapter was directed specifically at managers to show how strategic planning
is inextricably interwoven with the entire process of management, and why all managers must understand the nature of strategic planning and how to implement it. To further enlighten and guide the reader, a Three Year Strategic Planning Manual was written and appears in the Appendix.
CHAPTER THREE
Findings of the Project and Conclusions

Historical Review of Project

The purpose of this project was to analyze various writers in the field of strategic planning. Hopefully, the reader will then be able to understand what strategic planning actually is, and the major reasons for its implementation. In addition, a strategic planning manual was developed for Process Displays, Inc.

The development of the manual took place at Process Displays, Inc., which was not only a designer but also a manufacturer of Point-of-Purchase (P.O.P.) displays and used a strategic plan in all phases of its operation. Monthly statements, for example, were prepared with the help of a computer, and on these statements comparisons were made between the previous year's results and the plan for the current year. Variations in results were reflected and were used to help management forecast changes in monthly plans to achieve the overall annual strategic plan. These forecasts were discussed and evaluated each month at the Management Committee meeting.
It was hypothesized that increased sales and new avenues for growth necessitated close measurement of performance, and open and active lines of communication within the company. These two vital ingredients can be successfully added and implemented by an active three year strategic plan. It was further affirmed that if managers had a better understanding of what strategic planning is, its development and its importance to the growth of their company, they would identify and overcome the anti-planning biases that presently exist. Good managers will want to address this issue because of their inherent desire for efficiency.

The project was conducted primarily by the researcher, a Master of Science in Management candidate at Cardinal Stritch College, whose most recent professional experience was as a Plant Manager at Process Displays, Inc. The participants who helped to develop the strategic planning manual were James Miller, Executive Vice-President of Process Displays, Inc. and Thomas Pendleton, Vice-President of Finance and Administration at Process Displays, Inc.

The participants who helped in the acquisition of research materials used in Chapter Two were Richard Osborne, Manager of Corporate Planning at the Milwaukee Gas Company, Charles Krause, Private Consultant and
Robert Best, Vice-President of Management Resources Association of Milwaukee.

With the help of the above-mentioned people, the writer began to research strategic planning from its beginning back in the 1950’s, through its evolutionary stages to the present day. As a result, it was determined that, although the definitions of strategic planning remained the same, the emphasis shifted and focused on different segments of business. Managers not only had to adjust to this shift and have a good understanding of strategic planning, but also had to be able to incorporate a system within their company. This would require a planning manual. The mastery of this process was important for survival and growth, as well as fulfilling the company's obligation to society; namely, developing and sustaining a profitable business.

A definition of strategic planning was then developed while pointing out that there is no system which every organization should adopt and likewise, no universally accepted definition of strategic planning. One might say that finding a strategic planning system for a company is like buying a pair of shoes. Find the style that you like, one that fits your needs, and then use it. In finding your style, a planning manual would be helpful if not necessary.
Presentation of Findings

The first evaluation objective was to develop with the managers of Process Displays, Inc., a better understanding of what strategic planning is, and the major reasons for its implementation. By having instructional meetings on these topics, followed by individual self testing, it was obvious to the manager and the researcher that this objective had been met.

The second evaluation objective was to have the managers of Process Displays, Inc. write a three year strategic plan (1984 through 1986), using the newly designed and Board of Directors approved, three year strategic planning manual, which appears in the Appendix. This plan was to be approved by December 15, 1983. As of this writing, it is anticipated that this plan will be completed by December 10, 1983, and approved by the Board of Directors on December 15, 1983.

Conclusions

The result of the first evaluation question was acceptable to the researcher and to the Board of Directors as being a manual that would provide Process Displays, Inc. with the information necessary to control the objectives of the company as much as possible.

In almost any business, someone has to determine the primary objectives of the business. The person establishing
these objectives has to be proficient in analyzing opportunities. The objectives should be stated in measurable terms and should be achievable by means of a specific course of action. While these objectives will be somewhat optimistic, they must also be realistic. Finally, they must be consistent with the overall company strategy -- e.g., to produce higher volume with lower unit cost.

Implications

The end results of the strategic planning manual are measurable via financial statements. As of this writing, the sales at Process Displays, Inc. were 5% below plan and sales expenses were 10% above plan. In the Point-of-Purchase industry, sales have a tendency to lag on an average of up to one month behind expenses. Sales forecasts for the balance of the year project a 25% increase over and above last year's sales. Based on past performance, the researcher is expecting total sales to increase 5% over plan for the year and sales expenses to be at or below the plan of $664,000.

In addition, expenses in the Manufacturing, Art, and Engineering and Administration Departments were all over plan by an average of 3%. This increase will be allowed to continue at this rate (but no higher)
for a period of sixty days. The decision to allow this increase was made because of the exceptionally high back log of currently quoted jobs.

Since future planning deals with the unknown, a strategic plan must be flexible. And while a strategic plan cannot guarantee success, it can help a company, as it has at Process Displays, Inc., to bring current problems under control, overcome future obstacles, and maximize chances for success. This obvious success was initiated with the help of the strategic planning manual.

Recommendations

Although strategic planning pays huge dividends to smaller businesses, most companies have historically rejected it. In today's competitive market, its value, particularly to smaller firms, cannot be overstated.

Every company, regardless of size, must develop a strategy to direct its future growth. Critical decisions on whether to invest more capital into inventories, develop new products, drop marginal lines, expand facilities, etc., cannot be effectively made without a comprehensive, company wide carefully outlined strategic plan. These are strategic, unavoidable decisions that must often be made swiftly and confidently.
And while such decisions may not be irreversible, a midstream change results in heavy costs in terms of both time and money.

No amount of managerial genius or hard work can make up for a lack of planning -- only by designing and implementing a strategic plan can a company's purpose and direction be clearly defined.

A company's growth -- indeed its very survival -- is becoming increasingly dependent upon a sound strategic plan. Growth requires the establishment of corporate goals and objectives which enable management to make decisions to further these goals by selecting the future markets, products, services, and facilities that will lead to increased sales and profits. Furthermore, strategic planning identifies those areas within the company that need to be improved, de-emphasized, or eliminated. Setting up the appropriate plan is essential.

Since strategic planning fails if it is a static, one-time operation, it becomes an ongoing process of continual change, requiring frequent updating, modification, and adjustments to reflect the ever changing business conditions. A manual is vital in sorting out these changes.
In summary, the researcher hopes that the reader has a better understanding of strategic planning, the value of a planning manual, an idea of its format (via the sample in the Appendix) and reasons for its significance in the business community. Finally, it is hoped that the reader will continue the search to learn more about strategic planning to benefit, not only in one's business, but in his or her personal life as well.
BIBLIOGRAPHY
BIBLIOGRAPHY


APPENDIX

Strategic Planning Manual
for
Process Displays, Inc.
New Berlin, Wisconsin
The intent of this manual is to help all strategic planning participants create a total business plan. The "level" of participants in the development of this plan will be determined by the Vice-Presidents who are in charge of a specified area. However, in the bimonthly management committee meeting, during which at least one hour will be devoted to the plan, no one below the level of Vice-President will attend except at special request. To symbolize the flexibility of the plan, all copies will be placed in a three ring binder so that changes to the plan can be readily made. To aid all participants in the development of a three year strategic plan, a series of exhibits, in outline form, and a series of schedules will be presented.

Exhibit 1
A business plan should have a title page with the time period indicating the fiscal year the plan covers, as well as the date of its preparation.

Exhibit 2
Listed in the Table of Contents are the major sections of the business plan. It starts with the executive summary.
that presents the highlights of the total plan, then continues with various functional aspects of the business including the product division plans (ex. O.E.M. plates, decals and displays), an analysis of the marketing and sales efforts needed to generate these levels of sales, product development, operations, a discussion of the overall organization, and finally, the financial schedules.

Exhibit 3

The executive summary should present highlights of the completed business plan, including the overall goals and strategies the company plans to use to attain them.

The executive summary also includes, in somewhat more detail, the company's strategy for its product-division: Will the product be high priced or low priced? Will the market be narrow or wide? Will the product be at the forefront of product leadership, a product follower, or some of both? The strategy section
would also include the balance between startup, growth, and mature products. The sales and marketing strategy summarizes: how the company anticipates reaching the marketplace; who will sell which products to which customers; the company's policy regarding pricing, product positioning in the marketplace, advertising, promotion, sales compensation, and the like. The product-development strategy indicates the company's positioning regarding its product development efforts; that is, if the company is a leader in product modifications, product extensions, or new products, or if there is a balance among the three categories. The operations strategy would indicate what the company's plans are in terms of its resource procurement and production processes: Does the company lease its facilities? Is it highly automated or labor-intensive? Does it look for long runs or is it inclined toward short orders? Does the company make significant pre-investment in property, plant
and equipment? The organization strategy summarizes the company's approach to organization structure and atmosphere.

Finally, the financial strategy highlights the results of the financial plan in terms of sales, net income, return on assets employed, cash flows, and a myriad of other financial statistics.

Exhibit 4
Product-Line Plan

This section of the business plan would present, in considerable detail, the company's product lines and products, a description of them, their prices, costs, historical volume, and future expectations. It might also include a discussion of competitive product line and product positioning and what the company plans to do to affect competition.

Ways to offset competition might include: pricing; advertising and promotion, which would be described in more detail in the marketing plan; or product development, which would be described in more detail in the product development plan.
The sales and marketing plan describes who will sell which products to which customers at what price. Essentially, it states who is going to be responsible for generating the product line and product sales reflected in the financial schedules.

This section also includes a discussion of the competition's approach to sales and marketing and what the company plans to do to offset it. As with the product-line plan, ways to affect competition might include: pricing; repositioning the product through advertising and promotion; or product development efforts.

This section defines the intentions of the product development function, including product-line modifications, product-like extensions, and new product-development efforts.

Obviously, the product-development plan should reconcile with the product-line plan and the sales and marketing plan.
Exhibit 7
Operations Plan

This section of the business plan defines the production or operations aspect of the business, including production scheduling, inventory by product line and product (to assure that there will be product available for sale at the appropriate time), and the resource acquisition schedule necessary to accomplish the production plan.

Exhibit 8
Organization Plan

This section of the business plan includes a detailed discussion of the organization's structure. There should be an organizational chart showing the changes for each year of the plan.

This section should also have a discussion of the company's managerial style, its approach toward its employees and other related parties (such as vendors, competitors, customers, and community) and a discussion of the company's practices in the way of compensation and other aspects of employee relations.
The financial plan should summarize the details of the operating and financial schedules that are recommended to be developed in the process of preparing a business plan. As with the executive summary, the financial plan highlights the financial aspects of the business plan, including sales growth, net income, return on assets employed, asset management, capital structure, dividend policy, and cash flow.

The purpose of this schedule is to force a determination of the receipt of orders and to recognize the relationship between incoming orders, normal production cycles, shipments, and any offsets (such as cancellations of orders) to the ending backlog position. The source of this information is the sales department and, ideally, it would be supported by a set of detailed sales plans by salespersons, product line, customers, and timing during the course of the planning period. This schedule
also makes assumptions regarding the ability of the operations to produce and ship product according to schedule. These assumptions must be validated before the schedule can be finalized.

Schedule 2
Sales (Shipments) Projection
This schedule is one of the most important schedules made by the sales department because it is from this schedule upon which all the after mentioned schedules are based. This schedule generates a need for all the other departments.

Schedule 3
Income Statement
The income statement, prepared by the administrative department, is one of the primary financial schedules. This statement assumes that behind each of the categories of expenses, material, labor, and the various operating expenses, there are more detailed and supporting schedules that can be directly related to the income statement. This statement is important because it shows the operating activities of the company and is a valuable guide in anticipating how the company will do in the future.
Schedule 4
Department Expense

The manufacturing department has two types of schedules that it must provide in the planning process—the cost of materials used and their inter-department labor and expense schedule. Schedule 4a is the form used for determining the materials used and Schedule 4b is an example of the form used by each of the manufacturing departments (layout, set-up, press, decal, plastics and general plants) as well as the sales, administrative, art and engineering departments. All the departments will have at least those categories shown in Schedule 4b and they all will have others that are pertinent only to their own departments. For example, the manufacturing department will have considerable maintenance by inter-department expense budgets, the sales department will show travel and entertainment expenses by salesperson and the art and engineering departments will show a considerable amount of speculation as well as research and development expenses. Each of the
Vice-Presidents in charge of Manufacturing, Sales, Administration, and Art and Engineering are not only responsible for the generation but also the control of the schedules.

Schedule 5

Much of the balance sheet relates to the proposed level of activity as reflected by the income statement. For example, the various working capital accounts are related to the level of sales and production reflected in the income statement. It is very useful to think of the difference between current assets and current liabilities, which is known as working capital, in terms of its relative relationship to sales. Though it is a function of the nature of the business, a useful rule of thumb to keep in mind is that working capital, in our business, is expected to run from 20 to 25 percent of the sales. If it runs higher than 20 to 25 percent, the working capital accounts should be managed more tightly.
The property, plant, and equipment category, though not necessarily directly related to sales and production, behaves similarly to fixed costs. If sales were to increase significantly, then the requirements for property, plant, and equipment would also probably increase. We could assume that the level of reinvestment in property, plant, and equipment would be sufficient to at least maintain the productive capabilities of the company, assuming that the level of productive output is being maintained.

Once the working capital, fixed and other asset requirements have been established (which, when totaled, are assets employed), the categories can be related to the net income being realized to determine the return on net income being realized on the assets employed. Return on assets employed is a useful way to measure the efficiency with which we utilized our assets.
Determining the assets employed also permits us to literally look back into any financing requirements that may be needed. This may be accomplished by determining the effect of the income statement on the retained earnings and, subsequently, the equity portion of the capital structure. As a result, the total debt financing can be determined so that the total capital structure of the business equals the assets employed in it. If the business plan were being used for the raising of capital, this would permit the presentation of both the capital required and future capital available to repay the prospective lenders or investors.

**Schedule 6**  
**Funds Flow Statement**

The funds flow statement is really a supplement to the income statement and balance sheet. It reflects the effects of income and investment requirements on both working capital and property, plant, and equipment and other assets on the company's fund position and the necessity for raising additional
funds. It is useful because it summarizes the flow of funds between the two schedules.

The format of the funds flow statement distinguishes between operating flows on the income statement and changes in assets employed and financing flow in the capital structure of the balance sheet.

Schedule 7 Cash Flow Statement

The cash flow statement is more operationally oriented than the funds flow statement and relates the specific receipt of funds (such as the collection of accounts receivable, the sale of fixed assets, and any new borrowings or financings) to explicit expenditures for expense categories (such as material, labor, fringe benefits, and other expenses, investment in new property, plant, equipment, debt repayment and E.S.O.T. [employee stock option trust] contribution). In this schedule, the sum of the cash receipts, less the sum of the cash expenditures, provide monthly changes in cash flows and is reflected
in the cash account on the balance sheet and, over the period of the planning cycle, also can be accumulated to provide a cumulative cash flow.

Schedule 8
Performance Statistics

Once the set of financial statements have been prepared, the finance (administrative) department will prepare a set of performance statistics that will be used to track the company's performance. Initially, these statistics help to determine whether the financial goals that have been established have been met by the plan. The accumulated statistics will include sales growth from one year to the next, contribution as a percentage of net sales, net income as a percentage of net sales, working capital as a percentage of net sales, number of days represented by accounts receivable, the rate with which inventory is being turned over, net income as a percentage of assets employed, debt as a percentage of total capital, dividends as a percentage of net income, operating funds flows, and cash flows.
More qualitative goals of the business may also be included with a statement as to whether they will be realized by the plan.

Summary

The development of a detailed set of financial statements permits us to determine whether the various parts of an organization's plans do reconcile with each other. It is also important to recognize that a business plan will require a number of iterations to permit review and reconciliation.

Once the business plan has been completed, we have a coordinated and integrated set of schedules that reflect each of the activities of the business; product line planning, sales, art and engineering, production, and finance. A detailed set of goals reflected in the end results of the plan helps us to achieve that which we hope to accomplish.
Exhibit 2 - Table of Contents

Process Displays, Inc.
Business Plan
Fiscal Years 19___
through 19___

A. Executive Summary
B. Product-Divisions Plans
C. Sales and Marketing Plan
D. Product-Development Plan
E. Operations Plan
F. Organizational Plan
G. Financial Schedules
Exhibit 3 - Executive Summary

Process Displays, Inc.
Business Plan
Fiscal Years 19 through 19

A. Executive Summary
1. Goals
   Financial
   Nonfinancial
2. Strategies
   Product line
   Sales and Marketing
   Product development
   Operations
   Organization
   Financial
Exhibit 4 - Product Line Plan

Process Displays, Inc.
Business Plan
Fiscal Years 19___
through 19___

B. Product-Line Plan

1. Product line and products
   Description
   Price
   Costs
   Historical volume
   Future expectations

2. Competitors' product line and product positioning
   Pricing
   Advertising and promotion
Exhibit 5 - Sales and Marketing Plan

Process Displays, Inc.
Business Plans
Fiscal Years 19____
through 19____

C. Sales and Marketing Plan
1. Who will generate product line and product sales?
2. Competitions' approach to sales and marketing.
Exhibit 6 - Product Development Plan

Process Displays, Inc.
Business Plan
Fiscal Years 19____
through 19____

D. Product-Development Plan

1. Intentions of product-development function
   - Product-line modifications
   - Product-line extensions
   - New Product development efforts
E. Operations Plan

1. Production and operations function
   Production scheduling
   Inventory (product line and product)
   Resource acquisition schedule

2. Capital expenditures (if required)
Exhibit 8 - Organization Plan

Process Displays, Inc.
Business Plan
Fiscal Years 19
through 19

F. Organization Plan

Organization's structure
Résumés of proposed personnel additions
Managerial style
Exhibit 9 – Financial Plan

Process Displays, Inc.

Business Plan

Fiscal Years 19___ through 19___

G. Financial Plan

1. Summary of operating and financial schedules

2. Schedules (refer to Schedules 1 - 7)
Schedule 1 - Incoming Orders, Shipments, and Backlog

Process Displays, Inc.
Incoming Orders, Shipments and Backlog
Fiscal Years 19__ through 19__

A. Decals

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Beginning Backlog Position
Incoming Orders
less:
Shipments
Cancellations

Ending Backlog Position

B. Displays

C. O.E.M. Plastics

D. Total Ending Backlog Position
Schedule 2 - Sales (Shipments) Projection

Process Displays, Inc.
Sales (Shipment) Projection
Fiscal Years 19___ through 19___

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### Schedule 3 - Income Statement

Process Displays, Inc.
Income Statement
Fiscal Years 19__ through 19__

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### Schedule 4a - Cost of Materials Used Schedule

Process Displays, Inc.
Cost of Materials Used Schedule
Fiscal Years 19 through 19

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Schedule 5 - Balance Sheet

Process Displays, Inc.
Balance Sheet
Fiscal Years 19___ through 19___

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A. Assets Employed

1. Current Assets
   - Cash
   - Accounts Receivable (Net)
   - Inventory
   - Prepaids
   - Others
   - Subtotal

2. Fixed Assets
   - Property, Plant & Equipment
   - Land
   - Equipment
     - less: Accumulated depreciation
   - Subtotal

Total Assets
Schedule 5 - Balance Sheet (continued)

B. Liabilities

1. Current Liabilities
   Accounts Payable
   Trade
   Accrued liabilities
   Taxes payable
   Subtotal

2. Long-Term Liabilities
   Notes Payable
   Contracts Payable
   Subtotal
   Total Liabilities

C. Capital

1. Capital Stock
2. Retained Earnings
3. Profit & loss
   Total Capital
   Total Liabilities
   and Capital
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**A. Operating Flows**

*Net Income plus:*
- Noncash items
- Depreciation
- Amortization
- Other

1. **Funds from operations**
2. **(Incremental) decrease in working capital**: 
3. **(Investment) in plant, property & equipment**: 
4. **(Investment) in other assets**

**Operating Flows**
**Schedule 6 - Funds Flow Statement**  (continued)

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**B. Financing Flows**

1. **Add (repay) debt**
2. **Add (repurchase) equity**
3. **Dividends**
   
   Financing Flows

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Schedule 7 - Cash Flow Statement
Process Displays, Inc.
Cash Flow Statement
Fiscal Years 19 through 19

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**Capital expenditures**

**Debt repayment**

**Dividends**

**Other**

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