The 3-Year Strategic Plan Assignment – Due Date 21 July 2006

By the time you finish decisions for Year 13 you should have a feel for the game, and the experience will help you prepare a 3-year strategic plan (p. 29 of the Players Guide). To do this, use the built-in 3-year strategic planning option that appears on the Main Menu of the Business Strategy Game. The 3-year plan provides an opportunity for you to think strategically about your company's present position and future prospects, to do some industry and competitive analysis (as discussed in the text chapters), and to wrestle with any strategy changes you need to consider.

The 3-year strategic plan includes

- stating a strategic vision for your company in a brief paragraph,
- establishing objectives for EPS, ROE, credit rating, image rating, and stock price appreciation each of the next three years,
- setting forth a strategy for your company, and
- preparing a “pro forma” income statement that lays out projections of unit sales, revenues, costs, and profits for each of the four geographic regions and for the company as a whole for each of the next three years.

Remember, the 3-year plans are completed on a company basis, rather than an individual basis. You can use the most recent three years of actual results to help you come up with the pro forma income statement projections. Board of Directors expectations are given at p. 30 of the Players Guide.

How Each Company’s Performance on the 3-Year Plan Is Scored

Grades for the strategic plans are based on whether a company meets or beats its stated performance targets for EPS, ROE, credit rating, image rating, and stock price for each of the three years of the strategic plan, with proportional points awarded for under-achieving the target (for example, if the EPS target is $4.00 and the company earns $3.00, then 75% of the points for meeting or beating the EPS target of $4.00 are awarded).

A strategic plan is “good” in some measure if management achieves the targeted levels of performance laid out in the plan and if the targets that were established contain some “stretch” (company managers should not be rewarded for “sandbagging” and setting easily achieved performance targets). To get a “good” (B or better) performance score on the 3-year strategic plan, your company must achieve performance levels at least commensurate with investor expectations each year (which means a B+ credit rating, a 15% ROE, an image rating of 70, and EPS growth and stock price appreciation in line with overall growth of the global athletic footwear market—all of these minimum standards are shown on the Industry Scoreboard on the first 3 pages of each year’s Footwear Industry Report. However, companies get “bonus scores” for setting “stretch objectives” that are higher than the investor minimum performance targets and then meeting or beating these stretch targets.

Each company will receive:

- 14 points for setting any one target below the investor expectation minimum and then meeting or beating the target (= 70 points max. if applied to all 5 targets for each year of the plan). Note however, the points awarded to struggling companies that will have a hard time even reaching
"rock-bottom" performances of $1.00 per share, a 10% ROE, and a $20 stock price are a function of how close their targets are to the "rock bottom levels" of $1.00 per share, a 10% ROE, and a $20 stock price rather than to the investor expectation minimum. **Under no circumstances will any points be awarded for setting and achieving a target below a B credit rating and an image rating of 50.**

- **16 points for setting any one target equal to the investor expectation minimum and then meeting or beating the target ( = 80 points max. if applied to all five targets for each year of the plan)**
  - The normal targets are:
    - Annual EPS growth equal to 7% in Years 11-15 and 5% in Years 16-20
    - Annual stock price appreciation equal to 7% in Years 11-15 and 5% in Years 16-20
    - 15% ROE
    - Credit rating of B+
    - Image rating of 70

- **18 points for setting a stretch target on any one performance measure that is “one notch” above the investor expectation minimum and then meeting or beating the stretch target ( = 90 points max. if applied to all five performance measures). “One notch” stretch targets are:**
  - 10% above the normal EPS target
  - 10% above the normal stock price target
  - 17.5% ROE
  - Credit rating of A-
  - Image rating of 75

- **19 points for setting a stretch target on any one performance measure that is “two notches” above the investor expectation minimum and then meeting or beating the stretch target ( = 95 points max. per year if done for all five performance measures). “Two notch” stretch targets are defined as:**
  - 20% above the normal EPS target
  - 20% above the normal stock price target
  - 20% ROE
  - Credit rating of A
  - Image rating of 80

- **20 points for setting a stretch target on any one performance measure that is “three notches” above the investor expectation minimum and then meeting or beating the stretch target ( = 100 points max. per year if done for all five performance measures). “Three notch” stretch targets are defined as:**
  - 30% above the normal EPS target
  - 30% above the normal stock price appreciation target
  - 25% ROE
  - Credit rating of A+
  - Image rating of 85 or more

Different stretch objectives can be set for each of the five performance measures—however company co-managers see fit. In other words, you can have an A+ credit rating objective (a three-notch stretch), an image rating objective of 75 (a one-notch stretch), a 20% ROE objective (a two-notch stretch), an EPS objective equal to the normal expectation, and a stock price objective that is below the investor expectation level.
A company’s overall performance score on the 3-year plan is the average of the performance scores earned for each of the 3 years of the plan period.

The plan commits you, as managers, to delivering specified results but gives you full strategic flexibility. Each company is at liberty at any time to modify its strategy as concerns the target prices, sales volumes, market shares, and per pair costs, but is not at liberty to deviate from delivering on the performance targets that were set forth in the plan. It is, of course, normal for companies to respond to unanticipated conditions and to revise their strategies as often and as radically as circumstances may dictate. However, the need to revise the specifics of the company’s strategy does not relieve them of the challenge (and the obligation to shareholders) to achieve the target objectives and projected financial performance laid out in the 3-year plan. In other words, while company co-managers should always remain free to modify their company’s strategy on an as-needed basis, you must be held accountable for meeting or beating the performance targets set forth in your 3-year plan. If you are not, the plan is nothing more than a piece of paper.

Good luck!