

**CLOSING THE GAP FROM STRATEGY TO PERFORMANCE:  
UTILIZING THE STRATEGIC PLANNING PROCESS  
IN SMALL BUSINESS ENTITIES**

By

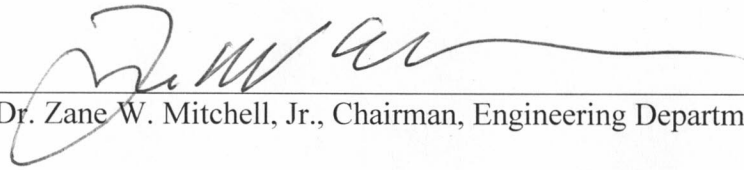
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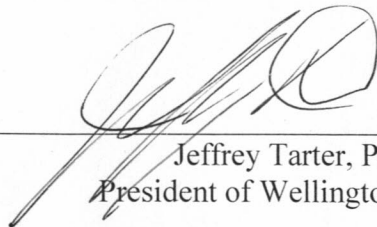
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## ABSTRACT

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This paper examined the strategic planning components and processes for a small business enterprise seeking to grow its firm through sales volume and revenue. The purpose of the paper is to fill the gap in research related to the application of strategic planning tools in small to mid-sized businesses and to provide a case study that outlines a 'how-to' approach to applying formal strategic planning tools to an existing small organization.

The review of the literature was presented in two categories: Strategic Planning and Performance Measurement Systems. The research methodology utilized two key components: 1) books and articles focused on strategic planning and performance measurement systems of small to medium-sized business enterprises known as SME's and 2) an adaption of another organization's approach to strategic planning and implementation.

The strategic planning tool implemented during the case study was a framework called the 'situation audit', which pulls together the external and internal factors affecting the organization. The situation audit performed included a detailed SWOT's analysis. The Balanced Scorecard approach was used as the framework for identifying a system of metrics based upon the results of the situation audit.

The research conducted indicates that successful organizations use some level of business planning. Mature, larger organizations tend to apply formal planning practices

whereas; small to medium-sized organizations may be less formal. The application of the situation audit and balanced scorecard approach during the case study resulted in valuable insights and recommendations for the subject SME and suggests that strategic planning can help this company and similar organizations become more sophisticated in identifying and achieving its targets and objectives.

## **ACKNOWLEDGEMENTS**

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Additionally, I cannot express enough gratitude and appreciation to Dr. David E. Schultz for his patience and guidance in my research topic. Through his enthusiasm, knowledge and wisdom, I found the inspiration to finish a thesis that can have a positive impact to others.

## TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	v
LIST OF TABLES.....	viii
Chapter	
1. INTRODUCTION .....	1
2. REVIEW OF LITERATURE AND RESEARCH.....	4
Strategic Planning .....	4
Performance Measurement Systems .....	7
3. THE COMPANY BACKGROUND.....	11
Company History and Philosophy .....	11
Steel Industry .....	12
Marketing Strategy.....	13
Simple Business Model.....	14
4. METHODOLOGY .....	18
THE SITUATION AUDIT .....	18
A – Expectations from External Stakeholders .....	19
B – Expectations from Internal Stakeholders .....	19
C – Past Performance.....	19
D – Current Situation.....	21
Customer Markets.....	21
Company Resources.....	22
Competition.....	23
Environmental Setting .....	23
E – Forecasts .....	24
F – SWOT’s Analysis .....	25
Strengths .....	25
Weaknesses .....	26
Opportunities.....	26
Threats.....	27
G – Missions and Objectives .....	28

H – Strategies, Policies and Plans.....	28
5. RECOMMENDATIONS AND CONCLUSIONS .....	31
Discussion.....	31
I - Financial Perspective.....	33
II - External (Customer/Supplier) Perspective.....	37
III - Internal Business Process Perspective.....	38
IV - Learning and Growth Perspective .....	39
Recommendations.....	40
Conclusions.....	42
BIBLIOGRAPHY .....	43
APPENDIX.....	45

## LIST OF TABLES

Table 1. WSS Pup Coil Price Trends.....	20
Table 2. WSS SWOTs Analysis .....	28
Table 3. WSS Strategic Planning – Four Perspectives .....	32-33
Table 4. WSS Sales Database Example.....	34
Table 5. WSS 1Q Purchased Loads .....	36
Table 6. WSS 1Q Sales and Purchases Comparisons.....	37
Table A-1. Situation Audit Map .....	45
Table A-2. The Balanced Scorecard Template .....	46
Table A-3. Questions to consider for SWOT.....	47
Table A-4. WSS Strategic Direction and Policy Changes Timeline .....	48-49



## INTRODUCTION

Strategic planning processes have been practiced for decades in many organizations in order to remain competitive and provide a road-map for the future direction of a company. As defined in George Steiner's book *Strategic Planning*, there are four fundamental characteristics to strategic planning: 1) it examines futurity of current decisions, 2) provides a planned process, 3) necessitates a philosophy committed to the process, and 4) gives structure to multiple levels of plans (13-15). Strategic planning is widely considered to be a key component for long-term success within a business environment, since it helps clarify strategic targets while providing structure to meet the targets. Much evidence exists that strategic planning occurs within large, successful, and sophisticated organizations. It is not as likely, however, that much strategic planning takes place within small to medium-sized enterprises, referred to as SME's, since the primary focus for many smaller enterprises is survival and short-term profitability.

The need for improved utilization of strategic planning principles can be seen in the survival rate for small start-up organizations within the first five years of business. "Census data reports that 69 percent of new employer establishments born to new firms in the year 2000 survived at least two years and only 51 percent survived five or more years. Survival rates were similar across states and major industries. Bureau of Labor Statistics data on establishment age show that only 49 percent of establishments survived five years or more, 34 percent survived 10 years or more, and 26 percent survived 15 years or more" ("Small Business Facts and Data").

Short-term profitability is a daily focus for small businesses. Most small companies lack the benefits and leverage related to economies of scale that are enjoyed

by large competitors, suppliers, and customers. Economies of scale can manifest itself in purchasing power in terms of getting the type and volume of material, transportation and storage at the best price as well as negotiating leverage with customers regarding the pricing of goods and services.

The U.S. Small Business Administration commonly referred to as 'SBA', based in Washington D.C., maintains the standards and definitions of 'small business concerns', especially with regards to qualifying for government contracts and funding to a small business. According to its definition, a small business concern must be independently-owned and operated (sole proprietorship, partnership, corporation or other legal form); organized for profit and operates predominantly in the U.S. or contributes significantly to the U.S. economy through payment of taxes or use of American products, materials or labor. The size standard varies by industry, but it is based on average number of employees for preceding twelve months or on averaged three-year period of sales volume. For example, the manufacturing sector standard ranges from 500 to 1500 employees, depending on product manufactured and the service industry has standards defined by annual receipts ranging from \$2.5 to \$21.5 million, depending on service provided ("Small Business Size Standards"). Understanding the rules for inclusion into the small business category is important since a majority of companies fall into the small business definition.

Therefore, utilization of strategic planning within small business is an important topic to address due to the importance of small businesses to the economy of the United States. This importance is demonstrated by the following statistics of U.S. small businesses as provided by the SBA:

- Represent 99.7 percent of U.S. employer firms
- Generated 64 percent of net new private-sector jobs
- Employ 49.2 percent of private-sector employment
- Pay 42.9 percent of private-sector payroll
- Create 46 percent of private-sector output
- Hire 43 percent of high tech workers (scientists, engineers, computer programmers, and others)
- Make up 98 percent of firms exporting goods and produced 33 percent of export value in FY 2008  
(“Frequently Asked Questions about Small Business” 1).

Based upon the importance of small businesses’ success to the health of the American economy, it is vitally important for small businesses to adopt in theory and utilize a strategic planning approach when making business decisions. This paper will focus on the current operating practices of a small business, describe challenges specific to its business environment, and suggest approaches to business planning that can be useful within its circumstances and applicable to all businesses.

This paper is a case study of a small organization that provides a template for designing and implementing a strategic plan in smaller organizations with less than twenty employees and revenues under \$20 million. By considering the unique characteristics of the small business enterprise, targets are linked to performance measurements to obtain desired results. First, there will be a review of the available literature and research on performance measurement systems limited to small organizations followed by an examination of a small organization, WSS.

## **REVIEW OF LITERATURE AND RESEARCH**

The review of the literature will be presented in two categories: Strategic Planning and Performance Measurement Systems. The reason for this approach is that strategic planning provides the foundation for managing the planning process by providing starting and finishing points. Strategic planning elements need to be understood before proceeding with a review of performance measurement systems.

### **Strategic Planning**

What is Strategic Planning and Strategy? O'Regan and Ghobadian provide an interpretation: "Strategic planning focuses on the direction of the organization and action necessary to improve its performance. It is the process by which firms derive a strategy to enable them to anticipate and respond to the changing environment in which they operate" (O'Regan and Ghobadian, "Effective Strategic Planning" 664).

Strategic Planning has been positively linked to an organization's performance (Meers and Robertson 302-303). Even though a majority of the studies and research focuses on the larger organization, there have been findings that strategic planning has an impact on performance in small firms. Meers and Robertson conducted a study of profitable small firms to determine links between strategic planning and financial performance and the tools or techniques used. Although their sampling was small (17 firms) and it relied on self-assessment, the feedback showed planning was done informally without consistent methods or techniques. However, the study did show "that strategic planning in profitable small firms is a process that is dynamic, contextual, and unique" (Meers and Robertson 306).

In other studies that examined the link between formal strategic planning processes and strategy implementation, O'Regan and Ghobadian conducted two different studies to determine the extent of strategic planning in SME's. Effective strategic planning development using formal processes (vs. informal processes) may help identify potential barriers to strategy deployment which affects strategy implementation ("Effective Strategic Planning" 663-670). Also, O'Regan and Ghobadian find having a formal planning process may enable firms to be better prepared and anticipate barriers to implementation ("Formal Strategic Planning" 425). "While all the results are not statistically significant, it is nevertheless contended that high performing firms have a more effective approach to strategy deployment" (O'Regan and Ghobadian, "Formal Strategic Planning" 426).

In an interview in 2000, Henry Mintzberg discusses his views on strategy and formulation. He believes strategy is not a result of a formal process but a product of an incremental, informal process. Strategy formulation uses many inputs, such as competitive and industry analysis, but he also suggests that management strategy needs to look at an organization's capabilities as studied with SWOT analysis when developing strategy. "Maybe we need to get back to the SWOT intent, with its strengths and weaknesses as well as its opportunities and threats" (McCarthy 35). The process is very collective and emerging. "Good strategies grow out of ideas that have been kicking around the company and initiatives that have been taken by all sorts of people in the company" (McCarthy 35).

In George Steiner's book, *Strategic Planning*, it outlines the fundamental concepts and processes associated with strategic planning. Although the book is based on

formal planning systems, it provides an overview of many different organizations' methods and practices with potential application to organizations starting the strategic planning process. Strategic plans can be derived in two ways: 1) intuitive-anticipatory approach and 2) formal planning system approach. Intuitive-anticipatory approach is normally 'done in the brain of one person', based on past experience, gut feel, and with a short time-frame which may not yield a written plan (Steiner 8-9). In contrast, the formal planning system is a process with procedures, which involves participation of others. It requires some research (marketing, historical performance, etc) and it results in a written document (Steiner 9).

Steiner presents a framework called the 'situation audit', which pulls together the external and internal factors affecting the organization. It "refers to an analysis of data, past, present, and future, that provides a base for pursuing the strategic planning process" (Steiner 122). Steiner notes that "a very important part, if not the most important part, of the situation audit is done continuously in the personal surveillance of environments by individual managers. This type of environmental scanning is performed in a variety of ways from methodically reading business journals to casually conversing..." (Steiner 124). Therefore, the assessment uses formal and informal methods. A 'conceptual' diagram of the Situation Audit as outlined in *Strategic Planning* by George Steiner (123) is shown in the appendix, Table A-1. The situation audit process provides many objectives. First, it helps "to identify and analyze the key trends, forces that could impact the implementation of strategies.... Second, the situation audit emphasizes the importance of the systematic assessment of environmental impacts.... Third, it is a forum to review, dispute, share divergent views about relevant environmental changes. Fourth,

it helps make vague opinions more precise and clear with documentation during the situation audit. Fifth, it facilitates creative thinking. Finally, all the collected information provides foundation for the strategic planning process (Steiner 124-126).

The goal of the situation audit is to identify key areas to focus for improvements or find methods of implementation. This should include an economic analysis to support reasons for implementation.

### **Performance Measurement Systems**

Published works on performance measurement systems (PMS) with a focus on small to medium-sized enterprises were limited, while a majority of the studies and publications focused on large corporations (Gumbus and Lussier 408). Many published works make reference to the proven tool, the Balanced Scorecard (BSC). Originally introduced in 1992, Robert S. Kaplan and David P. Norton presented a framework to help established companies achieve strategic goals. With the primary focus on large, established organizations, multiple articles and research studies discuss the successful implementation of BSC within these organizations.

Even though there was limited literature on the BSC approach in a small, entrepreneurial organization, it is important to understand the basic concepts behind the Balanced Scorecard. The following will provide a discussion of the BSC framework and additional research findings that target SME's using an adaptation of the BSC framework.

The Balanced Scorecard approach, builds on the strategic planning process by providing a metric system for organizations to use in five stages: 1) develop strategy, 2) translate strategy, 3) plan operations, 4) monitor and learn, and 5) test and adapt the

strategy. Such a system will provide a reporting structure for communicating and measuring to help an organization's progress toward objectives (Kaplan and Norton, "Mastering the Management Strategy" 65).

The balanced scorecard supplements financial measures with three additional perspectives of focus: customer satisfaction, internal processes, and learning and growth. The BSC enables "companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would need for future growth" (Kaplan and Norton, "Using the Balanced Scorecard" 151). A template of the balanced scorecard is included in the Appendix, Table A-2.

Understanding the differences between large and small organizational structures cannot be ignored. Gary Bolles writes about the need for a measurement system that conforms to the characteristics of the small venture, which "typically employ those with generalist skill sets" (12). Since the smaller organization has closer contact with customers, it allows the small company to be flexible and adaptable to new information and opportunities (Bolles 12). The advantages have to be balanced with the challenges to small enterprises, though. Resource constraints, lack of performance metrics, and multiple masters can "encourage negative behaviors.... Entrepreneurs continually shift direction based on new information or new problems. Lacking the volume and quality of information enjoyed by their counterparts at mature organizations, they often become uncertain whether the strategy du jour is the right one. Result: frequent changes in direction" (Bolles 13). Bolles suggests a tool is needed to help grow with the small venture which builds on the BSC to include the following characteristics: 1) perspectives



and metrics adjust for stage of organizational growth, 2) objectives have clear links to stakeholder requirements and 3) scorecard should be simple, but dynamic (13-14).

Following the same logic as presented by Bolles, Garengo and Biazzo discuss the profound differences between large and small organizations in relation to performance management issues. SME's are "operationally focused and lack formalized strategies; they suffer from entrepreneurial behavior where performance measures are considered constraints to change; they offer limited resources and managerial capacities fuelled by mainly implicit and context-specific knowledge" (Garengo and Biazzo 80-81). Since the differences can result in unsuccessful PMS implementation, Garengo and Biazzo suggest the use of a bottom-up approach for strategy formulation by which the realized strategy emerges from the bottom (84).

Andersen, Cobbold, and Lawrie also point out differences between the large and small organization. SMEs typically differ from large organizations in both organizational structure and management processes. SME's have simple systems, with direct supervision of employees by the leader, while maintaining flexibility, responsiveness and low-cost structure (4).

Andersen, Cobbold, and Lawrie further discuss the potential benefits to SMEs in adopting the BSC methodology and review how the use and value of the BSC in large companies may differ in smaller enterprises. They point out common strategic management issues in both large and small organizations that further emphasize the need for strategic goals. Common issues are: 1) need for clear sense of direction; 2) must have a profound understanding of the business model; 3) have ability to prioritize and focus between short-term and long-term issues; and 4) agility – flexibility driven by learning

and apply to planning processes (Andersen, Cobbold, and Lawrie 3). The BSC can help SME's formalize their strategic destination, objectives and priorities. The BSC design provides the initial effort to produce documentation which includes: 1) a destination statement, 2) strategic objectives, and 3) measures and strategic initiatives. SME's need to document strategy and commit to long-term strategy... but, avoid 'fuzzy' objectives and make sure objectives identify cause-and-effect relationships in the model (Andersen, Cobbold, and Lawrie 4-6).

## THE COMPANY BACKGROUND

This section will review the history of WSS, the steel industry environment, and then proceed to a discussion of WSS's daily operations and marketing strategy.

### Company History and Philosophy

WSS is a small, privately-held and self-funded company, which operates with three employees (owner and two office staff members). WSS was founded by the father of the current owner. WSS is a metals buyer of secondary (non-prime) or obsolete steel and tin-plate. It procures and distributes steel inventory by functioning as a broker between steel suppliers and steel buyers. It maintains steel inventory at third party warehouses (no facility assets) until an order is submitted from a customer. WSS monitors scrap pricing monthly based on the American Metal Market scrap index and monthly exports of steel since these are the main indicators for its pricing (purchasing and selling) and the supply and demand for its products.

WSS's model is similar to UMI Metals ([umimetals.com](http://umimetals.com)) based in Toledo, OH. UMI Metals has an advantage of owning and operating a warehouse and processing facility. They can control storage and processing costs whereas, WSS cannot (no physical assets besides inventory).

Decision-making at WSS can be characterized with an 'intuitive-anticipatory' approach as described in George Steiner's book *Strategic Planning*. Characteristics of this approach typically find that decisions are made in the 'brain of one person' and based on previous experience, or 'gut feel'. Generally, decisions have "a comparatively short time horizon and reaction time" (Steiner 8-9). The owner's knowledge of current market trends and pricing, and 'established' customer needs provides insight needed to make

sound decisions. Decisions are not made in haste, but carefully considered. Being primarily risk averse, the owner leans toward conservative decisions. For instance, logistics of potential buyers are considered before putting additional costs into moving inventory from one location to another. Continual evaluation of customer locations and logistics of steel inventory is needed to preserve profit margins. By minimizing freight (transportation) and storages costs, WSS has a better chance of increasing profit.

### **Steel Industry**

Over the last fifteen years the steel industry has experienced many changes. There have been bankruptcies, mergers and buy-outs of steel producers and steel service centers. Some of the larger integrated-steel mills have merged resulting in fewer integrated mills. As an example, US Steel bought National Steel in 2003, and ArcelorMittal Steel was created in the takeover of Arcelor by Mittal Steel in 2006. In each case, producing assets were assumed under the new name and increasing the overall steel output capacity along with the chance to enter new customer markets. The steel industry continues to be volatile as facilities are either consolidated or shutdown. Steel mills and steel processing facilities need to produce at higher volumes to keep cost per ton lower while at the same time maintaining and improving product quality. As demand for steel fluctuates, production and shipping volumes are affected. Users of steel are automotive and automotive parts makers, appliance industry, and construction and machinery industries. Since most steel mills have some share of the automotive market, the supply and demand of steel fluctuates, which affects revenues. Additionally, operating costs (like raw materials and labor) continue to escalate and steel customers keep challenging the steel sellers to maintain or lower pricing which results in lower

profit margins (or losses). To summarize, many factors contribute to the steel industry volatility including supply and demand for steel, improved product quality requirements, and costs of operations.

Steel Service Centers have a metric that monitors standard inventory levels for the US and Canadian markets. Previous monthly levels can be found on [www.metalcenternews.com](http://www.metalcenternews.com) for both US and Canadian markets. When average inventory exceeds 3 months, buying slows down, an indicator that service center shipments have decreased. Many steel service centers went broke in 2008 when the automotive industry experienced a slow down.

### **Marketing Strategy**

WSS serves various markets including steel service centers, construction, metal fabrication, and shelving manufacturers. WSS has considered exporting steel directly (and not sell to an export broker), but there are some limiting factors to consider. Profits can be lower if land transportation costs increase and export prices drop. Plus, WSS does not have experience with managing the activities required for export, which adds some risk.

Marketing activities geared to customers and potential new suppliers are limited. No sales ads on the internet or within trade journals/print media are being used. The vast majority of new customers/suppliers are obtained through direct sales visits by the owner and the company's sales agent. Sometimes, existing customers provide good reference for new customer inquiries. With the addition of a new employee in the second quarter of 2011, inside sales activities such as customer and supplier prospecting (via internet

research and telemarketing efforts) are expected to increase. There is a web-site for the company and includes a home page, company contacts, and inventory for sale.

### **Simple Business Model**

Given the nature of the steel industry, the steel brokering business has a very dynamic environment. With bankruptcies, mergers, and buy-outs among many organizations within the steel industry (and even the end-users of steel), WSS's current economic climate is about sustaining financial performance through market share and strong supply base. Smaller organizations like WSS focus on short-term initiatives. Unlike larger organizations, WSS has to avoid high risks and make decisions based on short-term rewards (unable to absorb many losses over time). Daily activities are first priority, such as making order releases upon receipt of a customer purchase order, responding to quotes or inquiries and keeping inventory reports current (needed for customer circulation).

Important performance metrics for WSS are based on:

1. Inventory turn-over
2. Cash flow
3. Net profit

Some of the key inputs that directly affect WSS are: monthly steel scrap pricing, the strength of the export market, and transportation costs and capacity. These factors can change monthly, so it is important to monitor news in the industry and scrap demand and pricing. Therefore, the main objective for WSS is to survive month to month as steel pricing fluctuates. This strategy is typical of a small business. Prior to 2011, the company operated with the philosophy to cater to what the supplier needed and expected, which was to keep the steel coils shipping (from the mill or other locations) since the steel mill

shipping floors have limited space for coil storage – many facilities are designed for continual turn-over of finished goods. Since the product that WSS buys is secondary, the coils are not good for the original customer order. Therefore, the supply chain is interrupted and halts in the finished goods warehouse. Companies like WSS will purchase these non-prime coils (called secondary) and remove the coils from the producer's facility. This is referred to as a secondary program at the mill. Non-prime coils are continually applied to WSS's order for shipment to either another warehouse or customer location.

WSS functions as many small businesses do. Available steel inventory list (not committed or sold to another buyer) is distributed to customers. If a customer has any interest, there will be either an inquiry for price or an offer. Once pricing is settled, a purchase order is sent to WSS which triggers an order release to the warehouse for shipment to the customer. A shipping notification is provided to WSS, when the material ships. An invoice gets created and sent to the customer. The above mentioned cycle is the most important daily function – it sustains cash-flow.

When steel inventory lists are distributed to customers, it is important to keep inventory up-to-date and accurate. There are two types of inventory files that WSS maintains and tracks: 1) company-owned inventory and 2) supplier-owned material that is placed on WSS' open orders (this is an order that the supplier has created for WSS only). When coils get shipped to WSS' designated warehouses, transportation from the supplier to the warehouse is the company's responsibility. Ownership of the inventory is assumed at the pick-up location (this is referred to as 'FOB mill').

The main supplier sends daily reports via email to WSS which lists all the coils available for pick-up by WSS. The report includes location, coil identity, and coil dimensions and weight. This report is the main source of information for updating and tracking inventory at WSS. If more information is needed, WSS's personnel have access to the supplier's website to research coil information like defects and chemical compositions.

WSS maintains inventory files for each of its storage facilities. When new material is received at these storage facilities, notifications (called receivers) are emailed or faxed to the WSS' inventory analyst to update WSS' inventory files. Material is sourced mainly from Supplier A, but other purchases can originate from Supplier B's plants or from occasional steel processors. WSS's inventory files include pertinent information about each coil purchased such as: product, grade, dimensions, weight, received date, purchase price, freight costs and warehousing costs for each coil (freight and storage costs were added to the inventory files in June, 2011).

When sales offerings are finalized between WSS and the customer (and the purchase order is received), material is released from its current location. WSS or the customer will make arrangements for transportation, depending on the terms of the sale.

Supply chain management is a simple model. Transportation providers primarily include flatbed motor carriers with limited opportunity to utilize rail. Most of the steel coils are small and can be loaded optimally on trucks whereas master coils are a better fit for rail cars. Warehousing and storage options include public warehousing as well as available floor space on the floor of WSS supplier, which is limited.



Additional services include coordinating quotes to process wider coils to a 'finished' size, or responding to customer's request for coil chemistry and/or mechanical properties.

## **METHODOLOGY**

The research methodology utilized two key components: 1) books and articles focused on strategic planning and performance measurement systems of small to medium-sized business enterprises (SME's) and 2) an adaption of another organization's approach to strategic planning and implementation (previous employer's methods can help set-up processes for WSS which avoids having to 're-invent the wheel'). As noted earlier, published works on strategic planning or performance measurement systems (PMS) focusing on small to medium-sized enterprises were limited, while a majority of the studies and publications focused on large corporations (Gumbus and Lussier 408).

A situation audit as outlined by Steiner was the starting point for assessing WSS. The concepts of this technique are presented in the Appendix, Table A-1. This approach incorporates the SWOT's analysis, which is a simple framework to help document the company's strengths, weaknesses, opportunities and threats (the internal and external environment of the company).

### **The Situation Audit**

The situation audit process and its components are summarized in the following sections for WSS. There are eight main stages:

- A. Expectations from external stakeholders
- B. Expectations from internal stakeholders
- C. Past performance data
- D. Current situation
- E. Forecasts
- F. SWOT's analysis
- G. Missions and objectives
- H. Strategies, policies and plans

### **A - Expectations from External Stakeholders**

The primary external stakeholders to the company are suppliers and customers. The main steel supplier expects WSS to keep the steel loads (shipments) moving, enabling the supplier's storage area of the mill to increase throughput. If WSS fails to keep high turnover of shipments, then WSS may risk losing this source of supply. Additionally, a small carrier (trucking company) relies on WSS to dispatch loads to it to keep its trucks utilized. Rates are competitive with this trucking company, allowing WSS to use them predominately for shipments out of the main supplier source. WSS has some loyal customers which rely on WSS for available inventory. The buyer-seller relationships have proved worthy over the years and the owner understands many customers' buying behavior and needs. There are no creditors since WSS is self-funding.

### **B - Expectations from Internal Stakeholders**

The expectations of internal stakeholders in a small organization are dominated by the owner-manager. (Steiner 128) WSS is no different. The owner wants to sustain performance by preserving cash flow, controlling costs, and improving sales margins. In order to accomplish those key metrics, the owner plans to acquire a warehouse facility (to control costs), pursue new end-user markets and expand into export markets. However, daily activities are the first priority for the employees. WSS cannot afford to lose business because employees fail to keep inventory updated, released, shipped, or invoiced.

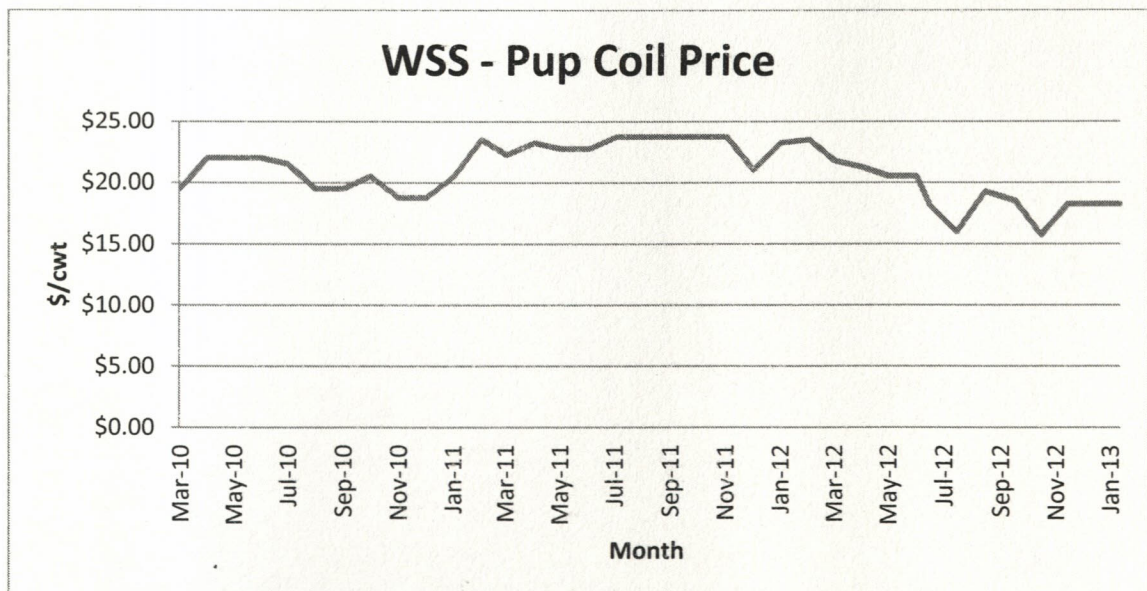
### **C - Past Performance**

The data for past performance is documented as needed for tax reporting purposes. Cash is the primary focus for the owner, who documents and tracks cash

received (accounts receivables) and bills paid (accounts payable). Since an invoice (i.e. sale) to a customer could result in non-payment, the true indicator of performance is the cash flow. Although key financial performance indicators are not formally tracked as in the form of sales margins, sales revenues, sales costs or volume shipped, the owner has a good idea of average costs (\$/cwt) for such things as freight and storage. Receivables had grown steadily for WSS from 2007 to 2011, but in 2012 it had dropped approximately ten percent. The only volume information that is available for historical trending is the number of loads and total weight shipped from the main supplier since 2009.

Additionally, material costs for pup (small) coils purchased from the main supplier source have been tracked since the beginning of 2010 which is shown in the following graph in Table 1. Since material cost is a significant portion of the total costs, this will be helpful to trend. (Please note that as mentioned before, WSS does not control. It is determined monthly based on the scrap market index.)

**Table 1: Pup Coil Price Trend**



Source: Karla DePillo –Work product

## **D - Current Situation**

The data for the current situation will include information from five main categories: 1) analysis of customers and markets, 2) resources of the company, 3) competition, 4) environmental setting and 5) other measures of performance or areas of interest (Steiner 130). Each of these areas provides valuable input for the internal and external assessments that will be summarized in the SWOT's analysis in subsequent sections. Categories 1) & 2) will focus on internal aspects of the company (inputs for strengths and weaknesses) and the categories 3), 4) & 5) will provide the data for external environment (the company's opportunities and threats).

### **Customer Markets**

The internal considerations come from understanding the customer and the customer's markets. WSS has multiple customers, with sales volumes ranging from one coil to multiple coils. Usually the higher volume customers (steel service centers) are the lower margin customers. The buyers to WSS products can be characterized into particular purchasing style categories. There are some 'high-end' and 'low-end' customers (relative to pricing). If the buyer represents a steel service center, the pricing will typically be lower, but more volume can be sold. Other buyers may have a specific end-user and the value of particular steel grade or size is greater for them. WSS tries to stay 'middle-of-the-road' on sales pricing by utilizing feedback from steel buyers and staying informed with export pricing. Also, there are some inventory items that are 'hotter' than others, so selling prices can be higher for those in-demand items. Pricing fluctuates monthly, but can change within the month depending on speculation of scrap market pricing for the following month.

Although the majority of the customers are concentrated in the Midwest (Michigan, Ohio and Indiana), there are destinations in the Philadelphia area, too. Additionally, a large volume customer picks up material from WSS' warehouses and exports it. Most of the sales are from repeat customers, while there are a few sales from either new customers or infrequent buyers to WSS. Markets served by WSS customers include steel service centers, steel exporters, construction, and appliance industries. Although historical data with details of sales information is limited, but starting in 2013, sales data will include information on customer and purchase order number, quantity sold, cost of goods sold, and sales price.

### **Company Resources**

Another component for internal study comes from evaluation of company resources. These areas may include: financial, employees, facilities, inventory and managerial performance. The cash flow and the ability to pay cash upfront for purchases is a 'strength' for the company. The company has turned a profit over the last several years. Each employee brings a particular skill set to the company. There is several years experience within the company and within the steel industry. The combined experience aligns the company with its loyal customers, knowledge of the customer market, and knowledge of the steel product.

The lack of a company-managed facility is a weakness for WSS. It has used third-party warehousing for many years and has been at the mercy of changes to those facilities business strategies. WSS has been refused warehouse space or been limited on the number of loads it could ship into some facilities. In the fourth quarter of 2012, a main warehouse for WSS notified the owner that it could no longer do business with WSS.

This notification impacted the purchasing side of the WSS' business. With reduced inventory offerings, this may have negatively impacted sales.

### **Competition**

Turning to the external components, competition in the secondary steel market thrives if the company is successful in managing: price, distribution, service and costs. 1) Pricing of secondary steel follows the monthly scrap market index as published by the American Metals Market (AMM). This index is part of the formula for determining the monthly sales price it charges to its secondary buyers. Therefore, the bargaining power of the buyer is somewhat limited since pricing is pre-determined, but pricing can occasionally be negotiated. 2) Distribution of secondary steel is about having material at the right place at the right time. WSS is just one of several buyers that participate in the secondary sales program at Supplier B. Success in the program is measured by how quickly loads get moved out of the mill. If WSS has immediate destinations for material offered, then shipping plans can be arranged. In the eyes of the steel mill (supplier), quick turn-over of inventory, moving everything available and timely invoice payments on mill invoices are important. However from the buyer's side, the secondary program has to be profitable, which means being able to buy cheaper than the sales price to customers and having the distribution network or market to sell everything that is purchased.

### **Environmental Setting**

The environmental setting for WSS is driven by the economic factors, political implications and legal factors. Economic Factors - The US and world economies have a big influence on the steel business, especially since steel pricing and demand are global. The value of the US dollar compared to other foreign currencies play a large role in how

attractive US steel exports are globally. Currently, the European economic slow-down is depressing demand and pricing, which is driving down US exports. Stock prices of integrated mills decrease as expected earnings go down. Other economic indicators are oil production/output and China and Turkey's demand for scrap, which affects scrap pricing.

Political Implications - Government policies impact both large and small businesses, in addition to individuals. The on-going debate of the US Government's budget ('Fiscal Cliff' and sequestration), will affect taxes and spending (debt ceiling raised in August, 2012). Some of WSS's customers have production contracts that are affected by changes in government policy. Therefore, WSS's sales could be affected by those customers.

Legal factors - Regulation in the transportation industry has influenced the availability of carriers and equipment since operating hours are monitored and enforced. Although most of WSS's shipments are not time-critical, this regulation can be a secondary concern since it may constrain truck availability, especially if demand for steel is very strong. Higher demand will lead to higher freight rates, too.

### **E - Forecasts**

The forecasting data is not documented. Forecasts for the secondary steel market is a little challenging to make, but typically WSS can expect shipping activity to be strongest in the first quarter, followed by the second quarter. Fourth quarter is usually the slowest time of the year. The company's focus is on short-term initiatives. As with data for current conditions, the external market conditions provide the data for future activity.



Such indicators are news in the industry, particularly as it relates to scrap pricing and exports.

### **F - SWOT's Analysis**

The following information incorporates the information from the previous parts of the situation audit. Additionally, a template of questions (included in the Appendix, Table A-3) can provide a basis for outlining the strengths, weaknesses, opportunities, and threats.

#### **Strengths**

WSS has a number of strengths that give it an advantage in the steel brokering business. It has a strong relationship with suppliers and participates in a secondary (non-prime) steel program at one of the major integrated mills. This is an important source of inventory for the company which provides a steady flow of inbound material that the company can offer to its customers (some customers rely on this material source for its purchasing needs). WSS needs to keep this source active by aggressively shipping the material from the mill source to a designated location (either storage or customer). Additionally, WSS is self-funding (no creditors) with financial strength to pay up-front for material purchases as required.

WSS is well-established in the business with a long history of working in the steel industry. The customer network contains dedicated, repeat customers. Additionally, a Sales Agent is employed who has several years experience in the business and markets/sells WSS inventory to its customers. About 30% of the sales volume is sold through this channel.

Finally, WSS is a small organization which allows it to be highly responsive and flexible to customers and marketing trends.

### **Weaknesses**

A large part of the company's client base relies on the steel export market. In the summer of 2012, an export customer stopped taking material from WSS. This resulted in a loss of direct sales volume (approximately 65%) and inventory turn-over decreased. Due to the dependence on third-party warehouses, the variable costs increased for the company. This reliance on third-party warehousing resulted in some set-backs for WSS, also. When a warehouse had capacity constraints or found 'better' customers to provide warehousing services, it would limit the amount of material that WSS could ship or turned away WSS's business altogether.

Another weakness for the company is the concentration of its customer base in the Midwest along with its dependence on the export market. Approximately 40% of the steel acquired by WSS is high tensile strength materials. There is a very limited market for this type of product, unless it was sold for export. If demand is down, there is little diversity in the customer base to help counter the decline in sales. WSS needs to develop customers in other markets, especially with regards to users of higher strength products.

### **Opportunities**

WSS is pursuing acquisition of a storage facility to minimize its dependence on third-party facilities. By having more control over storage capacity and costs (costs would be fixed vs. variable), the company will be in a position to expand its participation in the supplier's secondary programs, which will increase purchases. The increased inventory leads to developing new customer contacts and increasing sales to existing

clients. Additionally, this may lead to increased purchasing power, since volume would go up.

### **Threats**

Threats to the company come from external factors like the economy, governmental policies, product supply, and competition. The biggest impact to WSS is the economic climate. Not only is steel pricing dictated by supply and demand, but it is impacted by strength of the global market and the value of the US dollar (for WSS, monthly scrap pricing influences what will be the purchase price and sales price). If the global market is depressed, then the demand for steel exports may drop, leading to lower sales volume for the company.

Governmental policies also have impact on the business. The regulation in the trucking industry limits the number of driver hours (and imposing strict penalties for violations), therefore, could affect driver and trucking capacity, especially during peak or high shipping cycles. Driver shortages are not uncommon due to the strict regulations – resulting in limited resources. Costs can fluctuate depending on demands for trucks. Another impact is the fuel surcharges (FSC) that are part of the freight rates paid for hauling steel loads. Costs can fluctuate depending on the FSC.

Some customers can be competitors. The owner of WSS suspects it lost a supply source to a customer because the customer went straight to the supplier and ‘cut’ a deal. The threat of losing out on business opportunities in this way will also be a factor.

The SWOT’s Analysis is presented in Table 2, which summarizes the strengths, weaknesses, opportunities, and threats to WSS.

**Table 2. SWOT Analysis - WSS**

<p><b><u>Strengths:</u></b>  Supplier B - Secondary program  Financial Strength  Knowledge of steel industry  Established in the business - customer network  Strong relationship with customer - Sales Agent  Small organization</p>	<p><b><u>Opportunities:</u></b>  Acquire storage facility  New secondary programs - additional purchases  Develop domestic market  Export market  Distributions - market offerings via web or email</p>
<p><b><u>Weaknesses:</u></b>  Majority of sales volume is export-bound  No assets - dependence on 3rd party facilities  Limited distribution network  Purchasing power is limited  Small company - limited resources  Manual processes - increased risk for errors  Lack quantitative metrics</p>	<p><b><u>Threats:</u></b>  Economy - interest rates, US \$, global market  Government intervention  Some customers are competitors  New coating facilities creating over-supply</p>

Source: Karla DePillo - work product

### **G - Missions and Objectives**

The core values for the company are to be professional and courteous to both customers and suppliers. Each employee strives to be responsive and conduct business with the utmost ethical standards and show respect for individuals. The company has no formal mission or objective statement; however, the owner strives to accommodate suppliers and keep customers happy.

### **H - Strategies, Policies and Plans**

Formal strategic planning has not been done for the organization and it operates within an informal setting. Strategic direction and initiatives are short-term driven and as with any small organization, 'strategic' direction and policies can change frequently. Over a period of eight business quarters, there were seven key areas that impacted the business environment for WSS. These areas are: the steel mill (supplier), purchasing (pricing), customer, inventory, warehouse facilities, resources, and other topics. As each

quarter unfolded, strategic direction or policy changes were documented under each of these areas (see the Appendix, Table A-4).

At the beginning of the timeline, WSS bought any material offered and available from the mill and other vendors (narrows, pups, exotic grades, etc). Even though specific types of purchases were targeted to specific customers, the company was aware of limitations in regional areas, such as the southeastern states. Today, the owner has to be more selective about what material is purchased. The 'buy and hold' model is not effective as it was in prior years; storage costs are increasing (holding costs) and cash is tied-up in inventory. Inventory turn-over is less today than in the past, especially with a higher concentration of select products (gauges and grades). There is lower or no demand for some of this material in the secondary market. In order for these gauges and grades to be profitable, WSS needs to buy 'right' (at cheap price) to have a decent margin.

Current strategy for WSS is to preserve cash flow. The company will proceed to sell-off old inventory, even at a slight loss to 'clean' house and start with a fresh approach. Not all costs were documented on the coil inventory; however, by employing an inventory analyst, all costs associated with holding inventory (purchase price, freight, and storage charges) have progressively been updated in the inventory files. By having this updated, the company can accurately determine profit/loss margins and estimate inventory market value.

Other areas that have evolved for WSS is the third-party warehouse arrangements. One warehouse discontinued business with WSS, while another one limited the volume it would hold for the company – the latter was a bigger issue for WSS since a significant amount of the inventory was located at this warehouse. Therefore, WSS needed to find

alternatives, which it did. However, the owner is considering the lease or purchase of a warehouse, so WSS can better manage costs and volume without the worry of policy changes of a third-party warehouse.

## RECOMMENDATIONS AND CONCLUSIONS

### Discussion

The SWOT's analysis and the timeline used to document WSS's changes in strategic direction or policies have provided a good insight into what key areas impact its business. After reviewing those areas of activities, they can be used to align with the balanced scorecard approach as discussed in an earlier section using the template provided in the Appendix, Table A-2. As WSS initiates its strategic plan, it is important to start with a simple approach (as would be expected for many SME's). Each perspective has a list of suggested objective areas to address in relation to financial, external customer/supplier, internal business processes, and learning and growth. Many of the objective areas do not have historical data or even a database from which information may be gained. Therefore, the initial activities for WSS's first strategic plan would be as follows:

1. Define the data needed and the data sources (what or who)
2. Create a data base or system for tracking the data
3. Document any historical data and examine trends
4. Identify the quantifiable measurements and measurement timeframe for each objective

WSS's example plan is shown in Table 3. To help explain the process improvements needed to implement the balanced scorecard framework, the following discussion will outline each of the four perspectives: Financial, External (Customer/Supplier), Internal Business Process, and Learning and Growth.

Table 3. WSS - Four Perspectives to Strategic Planning Targets

<b>I. Financial Perspectives</b>			
<i>"To succeed financially, how should we appear to our shareholders?"</i>			
Objectives	Measures	Targets	Initiatives
Sales growth	Revenue	Not established	Develop data base to track sales
	Volume	Not established	Document current customer markets
	Margin	Not established	Estimate market share
			Identify new markets to pursue
<b>II. External (Customer/Supplier) Perspectives</b>			
<i>"To achieve our vision, how should we appear to our customers?"</i>			
Objectives	Measures	Targets	Initiatives
Response time to requests		Not established	Establish best measurement practice
Rejects/Claims		Not established	Customer is always right
Reduce avg age of inventory at supplier	Avg daily age of material on WSS order	Not established	Define report and formula measurement; source of data is from the supplier daily report; need to ensure distribution network is functional
<b>III. Internal Business Process</b>			
<i>"To satisfy our shareholders and customers, what business processes must we excel at?"</i>			
Objectives	Measures	Targets	Initiatives
Inventory accuracy		Not established	Ensure each coil has proper product, grade or hardness category, size and costs assigned.
Avg inventory age in WSS's ownership	Number days on hand	Not established	Establish sources, method of measurement; frequency of measurement
Decrease variable costs		Not established	Pursue company-controlled facility

Data Source: Karla DePillo - Work product

Format adopted from: "Using the Balanced Scorecard as a Strategic Management System",  
by Robert S. Kaplan and David P. Norton (BHR Jul-Aug 2007)



**Table 3. WSS - Four Perspectives to Strategic Planning Targets (continued)**

<b>IV. Learning and Growth</b>			
<i>"To achieve our vision, how will we sustain our ability to change and improve?"</i>			
Objectives	Measures	Targets	Initiatives
Establish Strategic Plan	Identify measures	Review targets annually	Set-up data and sources and integrate into business practices
			Develop tracking system for each measurement
			Identify frequency of measurements
			Obtain historical data if available
Launch WSS warehouse operation	To be determined in \$/cwt	To be determined	Find current trends
			Identify procedures and practices needed and document
			Obtain equipment and personnel to support warehouse operations
			Outline costs - find \$/cwt

*Data Source: Karla DePillo - Work product*

*Format adopted from: "Using the Balanced Scorecard as a Strategic Management System", by Robert S. Kaplan and David P. Norton (BHR Jul-Aug 2007)*

### **I - Financial Perspective**

This perspective will receive the most attention in any organization, and for SME's, it is no different. This area is the main focus for WSS. Typical measures used to understand an organization from the financial perspective are revenues, sales volumes and sales margins. As explained earlier, each of these measures are vaguely documented and the values are only estimated through the end of 2012. Since the data needs to be tracked in order to understand where the company currently stands, in 2013, a sales data file was launched which includes the key elements to identify sales volumes, sales revenues and sales margins. After completing a couple of business quarters, WSS will be in a better position to identify some targets based on the current sales trends. In Table 4, a sample of the sales data is shown.

**Table 4. WSS Sales Database Example**

<u>Date</u>	<u>Customer</u>	<u>PO #</u>	<u>Origin</u>	<u>Freight</u>	<u>Tag#</u>	<u>Product</u>	<u>Gauge</u>	<u>Width</u>	<u>Weight</u>	<u>RB</u>	<u>Rec'd Date</u>
1/4/13	AMS	4956	SP	Cust Trk	182825	HDGalv	0.0600	59.95	6,100	Hard	08/14/12
1/4/13	AMS	4956	SP	Cust Trk	189950	HDGalv	0.0600	60.49	7,030	Hard	10/11/12
<b>Summary for customer order:</b>											
<b>13,130</b>											
<b>Summary for customer order:</b>											
<u>Tag#</u>	<u>Cost</u>	<u>Freight</u>	<u>In/Out</u>	<u>Storage</u>	<u>Ttl Cost</u>	<u>Total Cost</u>	<u>Sales Price</u>	<u>Total Sales</u>	<u>Net Margin</u>	<u>Age</u>	
	<u>\$/cwt</u>	<u>Fee</u>	<u>Fee</u>	<u>Fee</u>	<u>\$/cwt</u>	<u>\$/cwt</u>	<u>\$/cwt</u>			<u>(Days)</u>	
182825	\$ 16.00	\$ 1.15	\$ 0.14	\$ 0.34	\$ 17.63	\$ 1,075.20	\$ 30.00	\$ 1,830.00	70%	143	
189950	\$ 18.50	\$ 1.15	\$ 0.14	\$ 0.20	\$ 19.99	\$ 1,405.31	\$ 30.00	\$ 2,109.00	50%	85	
<b>Summary for customer order:</b>											
<b>\$ 18.89 \$ 2,480.51 \$ 30.00 \$ 3,939.00 59% 114</b>											

Source: Karla DePillo - work product

Generally speaking, WSS wishes to see sales growth; however, there is much to consider when determining the sources and speed of growth. This typically requires maintaining or increasing sales to some existing customers while limiting sales to others and tapping into new markets as appropriate. This initiative needs to have some parameters defined within it. As an example, an area of concern for the company is the type of steel grades purchased: high tensile strength (hard) and low tensile strength (soft) grades. Starting in the fourth quarter of 2012, every steel load purchased was defined by the percentage of hard material. Table 5 is an example of data tracked for purchased loads.

Additionally, the sales data file will include the grade of steel sold. By tracking steel grades for both the purchases and the sales, the company will be able to understand the dynamics of what is coming into inventory and what is going out. In Table 6, the sales and purchases by steel grade provide a snapshot for the first quarter, 2013. For Sales, out of 2,924,353 pounds sold, thirty-five percent was hard material, while purchases of 1,858,290 pounds contained fifty-seven percent hard steel. Based on the volume differentials, the sold material was supplied from current inventory. Direct comparisons of sales and purchases in a short time period will not yield conclusive results. Therefore, more data over a longer period of time (approximately one year) will be needed in order to provide for better analysis.

Table 5. WSS Purchased Loads in 1Q, 2013

<u>WEIGHT</u>	<u># COILS</u>	<u>SHIPPED</u>	<u>HT</u>	<u>Soft</u>	<u>% Hard</u>
39,820	5	3-Jan-13	14,670	25,150	36.8%
44,910	5	3-Jan-13	0	44,910	0.0%
39,950	6	7-Jan-13	32,790	7,160	82.1%
39,060	5	7-Jan-13	19,900	19,160	50.9%
44,470	6	9-Jan-13	29,320	15,150	65.9%
44,600	6	10-Jan-13	23,540	21,060	52.8%
42,680	5	7-Jan-13	0	42,680	0.0%
41,370	5	7-Jan-13	27,550	13,820	66.6%
41,390	5	8-Jan-13	24,410	16,980	59.0%
42,060	6	14-Jan-13	6,340	35,720	15.1%
40,420	6	16-Jan-13	40,420	0	100.0%
41,770	5	16-Jan-13	16,040	25,730	38.4%
42,100	6	17-Jan-13	6,460	35,640	15.3%
41,250	5	18-Jan-13	0	41,250	0.0%
43,390	6	30-Jan-13	11,520	31,870	26.5%
39,840	5	24-Jan-13	15,840	24,000	39.8%
41,220	5	15-Feb-13	24,300	16,920	59.0%
39,140	5	30-Jan-13	17,300	21,840	44.2%
44,420	5	13-Feb-13	17,770	26,650	40.0%
41,310	6	12-Feb-13	29,330	11,980	71.0%
42,950	5	19-Feb-13	42,950	0	100.0%
43,230	6	20-Feb-13	43,230	0	100.0%
43,690	6	28-Feb-13	27,390	16,300	62.7%
44,180	6	1-Mar-13	28,400	15,780	64.3%
45,020	7	4-Mar-13	21,600	23,420	48.0%
43,850	6	4-Mar-13	43,850	0	100.0%
43,770	6	4-Mar-13	43,770	0	100.0%
39,620	5	4-Mar-13	39,620	0	100.0%
40,290	5	7-Mar-13	40,290	0	100.0%
44,620	5	4-Mar-13	28,760	15,860	64.5%
40,030	5	5-Mar-13	15,210	24,820	38.0%
39,130	5	8-Mar-13	24,950	14,180	63.8%
42,130	5	5-Mar-13	25,300	16,830	60.1%
45,080	6	7-Mar-13	45,080	0	100.0%
44,060	5	11-Mar-13	19,720	24,340	44.8%
42,330	6	13-Mar-13	27,440	14,890	64.8%
45,330	6	15-Mar-13	21,190	24,140	46.7%
42,970	6	14-Mar-13	26,530	16,440	61.7%
41,350	5	13-Mar-13	33,920	7,430	82.0%
41,180	6	15-Mar-13	6,640	34,540	16.1%
43,480	6	25-Mar-13	30,320	13,160	69.7%
39,460	5	21-Mar-13	12,180	27,280	30.9%
43,640	6	21-Mar-13	27,750	15,890	63.6%
41,730	6	27-Mar-13	26,200	15,530	62.8%
<b>1,858,290</b>	<b>243</b>		<b>1,059,790</b>	<b>798,500</b>	<b>57.0%</b>

Source: Karla DePillo - Work product

**Table 6. WSS - Comparison of Sales and Purchases by Grade Type**

1Q, 2013 Sales, by Steel Grade		
<u>Grade Type</u>	<u>Weight</u>	<u>%</u>
Hard	1,035,390	35.4%
Soft	1,888,963	64.6%
	<b>2,924,353</b>	
1Q, 2013 Purchases, by Steel Grade		
<u>Grade Type</u>	<u>Weight</u>	<u>%</u>
Hard	1,059,790	57.0%
Soft	798,500	43.0%
	<b>1,858,290</b>	

*Source: Karla DePillo –Work product*

## **II - External (Customer/Supplier) Perspective**

Timely responses and effective follow-up to customer or supplier inquiries are key components to customer satisfaction activity. Even though many customers will contact the owner directly (which is common in a small business environment), the owner's ability to address all issues in a timely and effective manner can be severely limited depending on the circumstances. Therefore, the owner needs to delegate more responsibility to the other staff members allowing more time to devote to tasks that needs attention.

Typical issues within the industry such as claims and rejects are not major issues for WSS; however, as part of tracking customer satisfaction performance, a tracking system needs to be put in place to monitor customer feedback occurrences. This will have the added benefit of reconciling debits and credits and in some cases, provide details for returning coils to WSS's inventory.

The issue of floor space is a big concern for WSS' external suppliers which has resulted in the need for action in the past. It is the expectation of the supplier that material will be moved from their location in a timely fashion after the transaction has been made. Inventory located at the supplier's facilities has a 'sales age' assigned to it, which is listed in number of days the coil has been placed on WSS's order. Therefore, an objective for WSS should be to track this information closely with the intent to reduce average inventory days. To accomplish this goal would mean higher turnover of shipments from the supplier's locations. Other practices within the company will need to be defined that may impact the shipping activity.

### **III - Internal Business Process Perspective**

The internal business perspective can be addressed in a variety of ways. Improvements within an organization can be realized through the addition or development of personnel to provide knowledge or bench strength (flexibility of skill sets); increase resource capacity; focus on business issues and improve various business processes. As an example, inventory accuracy within WSS has progressively improved over the last few years with the addition of an inventory analyst. In the past, there had been problems with incorrect product descriptions which resulted in wrong material shipments to a customer (which has a customer satisfaction impact). These incidences were not formally tracked, but a system needs to be established in order to document such issues and to also document the resolutions.

Also, through inventory reconciliations, inventory accuracy will improve. WSS needs to reconcile inventory at all storage locations to resolve any discrepancies (should aim for quarterly reconciliations). This will improve inventory integrity and accuracy of

material available. **Action:** Define the process and maintain the system – outline the reporting of inventory audits.

Variable costs are the storage costs and transportation costs for each coil in inventory. As the coil residence time increases, so does the storage costs. **Action:** Set-up metrics to assign age to each coil and determine the average age of the inventory. Also, WSS should consider storage facilities relative to material sources and customer network.

Another way to address the internal business perspective is to document/define best practices by adopting a formal quality system framework to enhance efficiencies.

#### **IV - Learning and Growth**

In this perspective, the focus will be on developing the first strategic plan for WSS through the use of the balanced scorecard framework. The process for developing this plan should include/enlist the help of as many people within the organization as possible (this links to the internal business process perspective). Using multiple resources to collect data and provide input into the strategic plan not only creates buy-in to the process among employees but also helps to ensure that the organizational knowledge from those “in the trenches” is adequately captured. Since most of the data sources are not currently available, growth and learning will occur as the proper data sources are identified and data tracking is initiated. The goal is to document the data needed for each perspective like: sales volumes, revenues and margins, inventory age, customer feedback and claims. Once this information is documented over a period of one year, trends can be analyzed and targets can be established.

Another area for learning and growth will be the addition of a company-managed storage facility. Since a common problem for WSS throughout the past two years has

been associated with third-party warehouses, the owner decided to start-up a company-controlled warehouse to store WSS's inventory (initiated in the first quarter, 2013). The only experience the company has with such an endeavor is through previous employment experiences of its employees and through business associations and contacts. Although targets and measurements will need to be established, other items such as procedures and processes will be required to support the operational side of the business. Ultimately, actual costs for supporting this type of business operation will need to be documented and analyzed.

### **Recommendations**

To fully implement the strategic planning process for WSS as outlined in the discussion, the following actions are needed to support the strategic planning process initiative:

1. Track sales data – this database will include customer, coil product and size, coil costs, sales price, the date coil was received and shipped, and the coil origin. Having this data will provide the owner concrete data for shipping volumes, sales revenues and margins for specific time periods, customer(s), sales origin, or steel grade, as well as age of inventory sold. This will be important when looking at the financial perspective.
2. Track customer claims or issues. This supports the initiatives listed for external customer/supplier perspective. By having a record of the customer feedback, it will enable WSS personnel to improve customer service and satisfaction.
3. Evaluate inventory status:



- a. Document WSS starting and ending inventory for each month and include age of each coil. This will provide the benefit of reconciling the inventory received and shipped; the coil age measures inventory turn-over and supplier shipments (as indicated in the external and internal business process perspectives).
  - b. Perform planned inventory audits - minimum once per quarter. This will ensure inventory is accurate and all shipments are invoiced. This supports the internal business process perspective.
4. Maintain historical files for pertinent business data to support trending and decision-making purposes. Historical data can provide a baseline when establishing future targets or objectives. For example, tracking coil receipts and shipments will help with resource allocation decisions as the firm grows. It provides the added benefit of tracking material handling (i.e. calculate costs). Other items could be tracked such as account receivables (current and aged). This can apply to all perspectives.
5. Review job responsibilities and assignments of each employee. This will aid the owner in assessing and evaluating any gaps in workload capacity and skill sets of each employee. This activity supports the learning and growth perspective.
6. Assess current information technology capabilities in support of the needs for the business growth and strategic planning processes. If the company server or program files are unavailable or fail to operate as required to support

operations, then the outcome could be delayed business transactions or failure to meet customer requirements.

### **Conclusions**

In conclusion, literature review has indicated successful organizations use some level of business planning. Mature, larger organizations tend to apply formal planning practices whereas small to medium-sized organizations may be less formal. Additionally, several research studies alluded to the need for more research related to the link between strategic planning practices and SME's. This case study attempts to fill the gap in research by providing a 'how-to' approach to applying formal strategic planning tools to a small organization like WSS.

The recommendations provide the first steps in starting the strategic planning process for SME's with the hope that strategic planning within this organization will become more sophisticated in identifying and achieving its targets and objectives.

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[AMM.com](#) – American Metals Market is an online resource for international metals industry news and pricing on steel, non-ferrous and scrap markets.

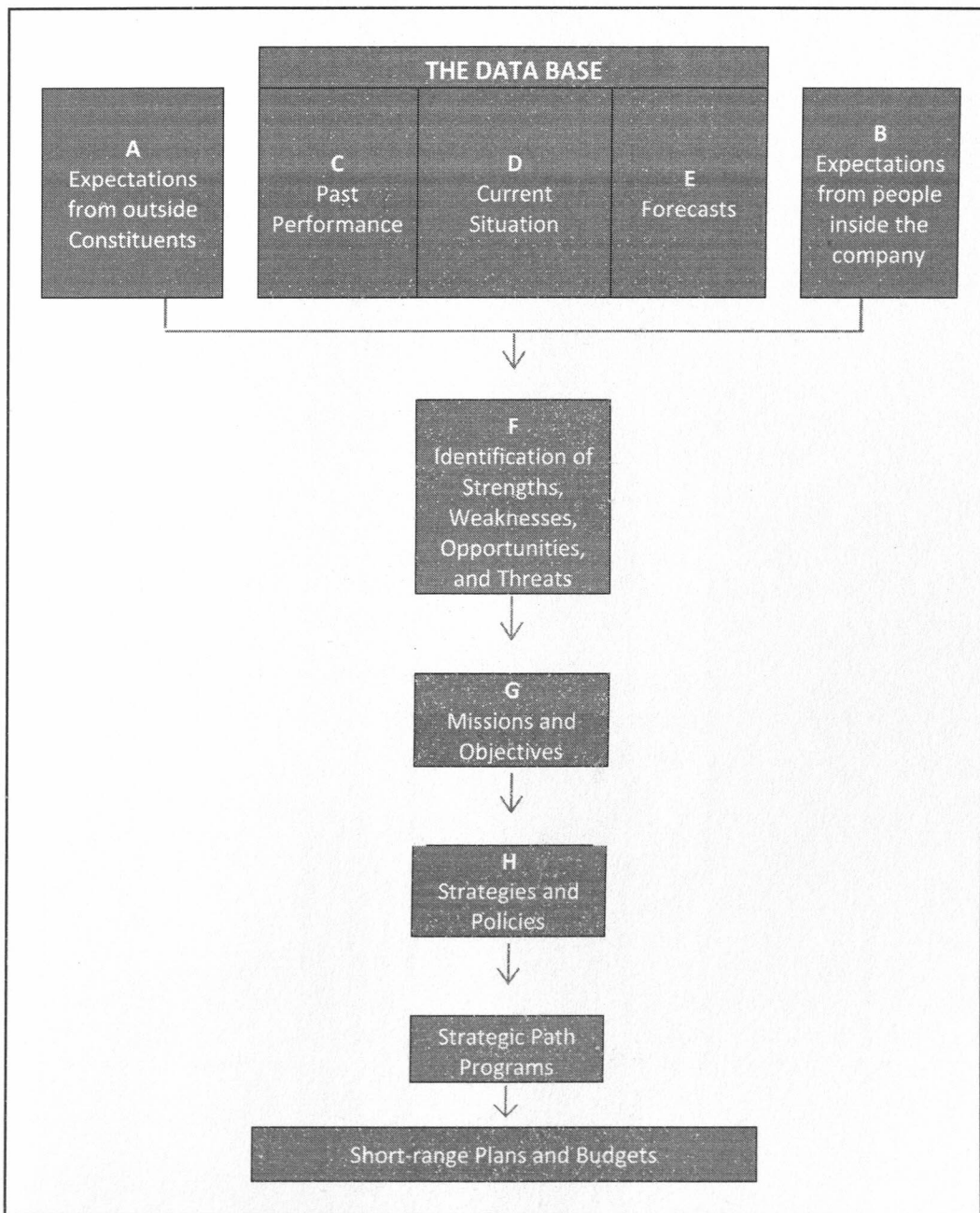
[Steelnews.com](#) – Steel News is an online publication for the steel community, providing latest headline news about steel producers, suppliers, technology, trade, environmental and safety issues.

[Metalcenternews.com](#) – Gives an update of steel service center industry and reports monthly inventory levels for steel service centers in US and Canada.

[Metalprices.com](#) – Provides pricing news and pricing charts for various metals.

## APPENDIX

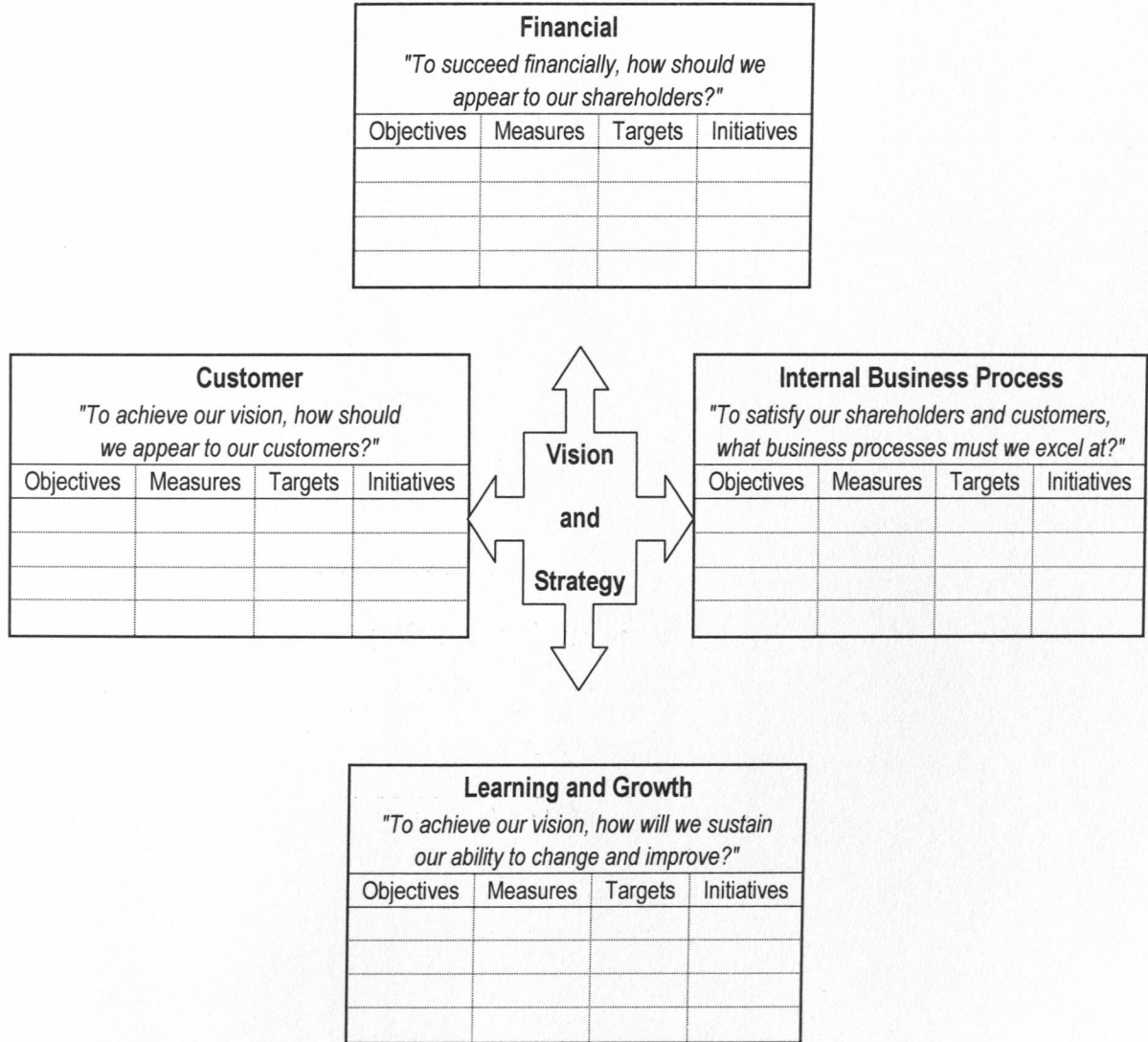
**Table A-1. Situation Audit Map**



Source: George Steiner, *Strategic Planning*

**Table A-2. The Balanced Scorecard**

**Translating Vision and Strategy: Four Perspectives**



Source: "Using the Balanced Scorecard as a Strategic Management System", by Robert S. Kaplan and David P. Norton (HBR Jul-Aug 2007)

**Table A-3. Questions to consider for SWOT**

<p><b><u>Strengths</u></b></p> <ul style="list-style-type: none"> <li>What are your business advantages?</li> <li>What are your core competencies?</li> <li>Where are you making the most money?</li> <li>What are you doing well?</li> </ul>	<p><b><u>Opportunities</u></b></p> <ul style="list-style-type: none"> <li>Any beneficial trends?</li> <li>Niches that competitors are missing?</li> <li>New technologies?</li> <li>New needs of customers?</li> </ul>
<p><b><u>Weaknesses</u></b></p> <ul style="list-style-type: none"> <li>What areas are you avoiding?</li> <li>Where do you lack resources?</li> <li>What are you doing poorly?</li> <li>Where are you losing money?</li> <li>What needs improvement?</li> </ul>	<p><b><u>Threats</u></b></p> <ul style="list-style-type: none"> <li>Obstacles to overcome?</li> <li>Aggressive competitors?</li> <li>Successful competitors?</li> <li>Negative economic conditions?</li> <li>Government regulation?</li> <li>Changing business climate?</li> <li>Vulnerabilities?</li> </ul>

Source: Karla DePillo - work product

**Table A-4. WSS Strategic Direction and Policy Changes Timeline**

Strategy	2Q, 2011	3Q, 2011	4Q, 2011	1Q, 2012	2Q, 2012	3Q, 2012	4Q, 2012	1Q, 2013
Mill	Take whatever the mill offers; hope to obtain new opportunities with this approach				WSS acquired some share of competitor's secondary loads; implied that the mill may scrap some coils due to no outlet for the material	Slowed down on scheduling loads to pick-up at mill	Not taking everything the mill applies; selecting material to ship	
Purchasing			Owner starts to kick-back on pricing structure of accumulation orders at an outside processor.		Scrap prices dropped dramatically; negotiated a change in price and start day of month to better reflect scrap price index			Opportunity to acquire new Pup program at Supplier B
Customer	Limited market in the South - could exporting (from Savannah) open up a new distribution lane? Research costs			Following leads for potential new markets: researched steel wire rope makers; orders with WSS Customer C is down.	Customers are not taking higher tensile grades; got a tip to research Oil Filter Manufacturers for high tensile strength market; Customer B shipments declined to nothing early June		Investigate the Export option again - obtained updated costs; sent out quotes to potential overseas market	
Inventory	Not all costs were documented for the existing inventory: purchase, freight or storage.				Over-supply of low demand material; WSS recognizes there is a low turn-over of particular grades, like high tensile and 22 and 24 gauges	Started tracking high tensile % of load shipped from Supplier A	Aggressively cleaned up inventory; deal with Customer A (loss ~ \$21K)	Completed comprehensive Inventory Reconciliation for YE2012. Included costs and inventory value.
Warehouse	OKS shut out WSS; had to find another location to use in SW Ohio, GPM			Switched SW Ohio facility	Main storage facility (DSP) shut out WSS on some inbound loads; found new facility to use		DSP limited WSS to 135 coils to store	WSS launched its own warehouse operation

Source: Karla DePillo - work product



**Table A-4. WSS Strategic Direction and Policy Changes Timeline (continued)**

Strategy	2Q, 2011	3Q, 2011	4Q, 2011	1Q, 2012	2Q, 2012	3Q, 2012	4Q, 2012	1Q, 2013
Resources	Talking about acquiring facility assets; hired part-time inventory analyst.					Owner made trip to Detroit to tour possible facility purchase	Owner considering bringing another sales agent into WSS	WSS hired warehouse manager to run the facility
Other					Customers will not actively come to WSS, unless they are loyal; therefore, have to find them, ask them what they need and make it 'work'. Pricing has to be right or will go elsewhere.	Put together updates for web-site and add processing capabilities of facilities used		Started tracking Sales data at beginning of 2013 which includes costs, material origin and material type.

Source: Karla DePillo - work product