**TRAINING IN FINANCIAL AND BUSINESS MANAGEMENT FOR ROAD CONTRACTORS**

**MODULE ONE SESSION FOUR PARTICIPANTS’ NOTES**

**OVERVIEW OF STRATEGIC PLANNING**

**1.0 Purpose of session:**

The purpose of this module is;

1. To introduce the participants to the importance of setting formal strategic direction of a business
2. To explain the content of a strategic plan and preliminary situational and competitive analysis
3. To identify key success factors of the road construction business in Uganda

**1.1 Importance of strategic direction:**

There is a common adage that states that if you do not know where are going, any road takes you there! Of course if every road takes you there then you do not get anywhere. This is true for a business. A business that has no strategic direction ends up nowhere.

For small businesses that are usually owner managed with a handful of employees, it is possible to have a business without a formal definition of strategic direction since this could be embedded in the owner manager. As soon as the business starts to grow and employee managers come on board, a formal strategic plan must be put in place to build a consensus and shared knowledge of the company destiny. To be successful therefore it is important that the business answers these questions below:

1. What business do you want to be in? Defining the business you want to be in is setting the mission of your business. There so many business opportunities but no single business can undertake all of them successfully. Even in the same business different players may target different clients. For example if our business is transport, some players may opt for goods and some other players may opt for passenger transport. Bodabodas, taxis, buses, trains and aircraft may all be in passenger transport but targeting different markets.

So while we define the business we must answer question like what customer segment do we target, which geographical area, what technology shall we use and what market share shall we target.

Define the mission of your business carefully such that it is not overly restrictive but at the same time not so wide that it loses focus. For example to define business as “Our business is to operate bodabodas” is too restrictive while “Our business is to deal in transport services” is too broad to be meaningful compared to “Our business is to provide air transport services”.

1. How do you want the business to look like in future? This question is answered by defining the business vision. The vision sets vivid images and targets of what a business wants to become relative to other players in the industry. Many business operators aspire to be industry leaders, however there are so many other ways a business can define its future say by reference to the market segment they want to satisfy. A business may also define its vision by the way it wants to be perceived in the eyes of the customer. Examples of vision statements are: “Our vision is to become the largest road contractor in Eastern Uganda” or “Our vision is to become the road contractor of first choice in the district”.
2. What are the objectives and targets to achieve? A business must study its environment and set its objectives during the specified period of planning. The objectives should be smart objectives, that is Specific, Measurable, Achievable, Realistic and Time bound. On top of setting such objectives the business should define specific targets and milestone that will assist management to assess whether the objectives are being achieved.
3. How will you achieve them? They say that there are many ways to skin a cat! Strategy is the selection of the means the business has chosen to compete with. For example we can chose to position the business as the cheapest in the market or as the provider of best quality. The selection of a strategy assumes that the market will be able to recognize the strategy and respond to it while at the same time the business has a competitive advantage that is difficult to be replicated by competitors.
4. How will you know you are on course? A strategic plan includes Key Performance Indicators (KPIs) that can easily be measured to ascertain whether the objectives of the business are being achieved. Performance Indicators are measures of performance that are usually time bound to serve as milestones as the planning period progresses. For example if our objective is to double revenue in the next five years, a suitable performance indicator could be the number of kilometers of road done per year. Alternatively it could be the rate of growth of kilometers of road done per year.

To determine a performance indicator examine the objective and identify for it a measurable target that is the most suitable indicator of performance. The selected item is predicted annually over the period of the planning period to serve as milestones for the objective. A good strategic plan should have both performance indicators and milestones.

**1.2 Introduction to setting strategic direction**

Setting strategic direction involves four things: Defining the business you are in, setting objectives and targets, formulating strategy for each objective and formulating action plans to implement during the planning period. With a good selection of performance indicators, performance will be measured and assessed along the way as time progresses. However before setting a strategic direction a situational analysis must be done to inform strategy.

**1.3 Situational analysis:**

Situational analysis simply means to answer the question “**where are you**” on several dimensions. The dimensions may include self-examination, industry analysis, market analysis, competitive analysis and other analyses that will help us to understand where we are and the forces that are operating on the business.

Self-examination is the process of meditation about the internal operations so as to identify strengths and weaknesses of the business. The examination can be categorized under several dimensions too such as the legal and political dimension, the social dimension, the technological dimension and the economic dimension. Once the strengths are identified they are to be exploited while the weaknesses should be minimized during the planning period.

Evaluating the industry and scanning the environment for opportunity and threats follows the internal self-examination. Attention is shifted away from the business itself to the environment in which it operates in order to understanding the market it is in. It requires to identify the general characteristics of the road construction sector, its core segments and the segment where you belong, who the key players are at regional, national, district and sub county level, and how the business ranks amongst those players. In other words how is the business positioned in the market?

**1.4 The nature of competition in the road construction sector:**

Situational analysis extends to understanding the nature of the industry the business is engaged in. Competitive situational analysis will help the business to assess how attractive the industry it operates in really is. A business must understand the competitive forces that exist in the industry and how strong they are. This helps the business to maneuver its way through the turbulence with knowledge. Answers must be found to such questions as:

* The cost/pricing positions of rival firms.
* The competitive position and relative strength of rivals.
* The strategies of rivals and how well they are working.
* The moves that key rivals are expected to make next.

**1.5 Competitive forces analysis (Porters Five forces model)**

This model assumes that in the market place there are five types of forces working on the business environment that will indicate how attractive it is to operate in it and that will influence the strategic direction of the business. The first set of pressure is from firms in other industries offering substitute products. In this case they hardly exist. The second set of pressure is from firms that wish to enter the market. The pressure from new entrants to road construction sector at the bitumen sub-sector has barriers to entry but at the gravel sub-sector, although fairly open to new entrants, requires lengthy government procedures to be able to participate. The third set of pressure is the power of suppliers to bargain.

The major suppliers to road contractors are labor and raw material suppliers both of whom have low bargaining power. Only the machine hirers wield some form of bargaining power. The fourth set of pressure is the power of customers to bargain. In this industry, there is only a single customer, the government, who is in position to wield a lot of power to bargain. Previous practice indicates that that bargaining power is not put to use and it is largely eroded. The fifth set of pressure is the hustling for position amongst the existing road contractors.

Not much competition is noticeable amongst the road contractors possibly because of low capacity of players, enormous amount of work and weak competitive forces, plus the tight nature of the industry.

It appears that in general the road construction industry is attractive and has big potential for profitable trading.

**1.6 Success factors:**

To be successful in the road construction industry, a business needs to understand the key success factors of the industry. This calls for the identification of the players who are highly successful, those who just exist and players who have failed or are failing. An analysis of such information as to why some players are succeeding while other are failing will bring out a pattern of what are desirable characteristics of the sector.

Key success factor in the road construction sector may include the following:

1. A track record of quality and timely delivery of works
2. Possession or access to a good range of construction equipment
3. Outstanding technical competence
4. Project management skills that will minimize stoppage and unproductive time
5. Good capital base or access to capital to finance bid bonds, performance bonds, work in progress and delayed payments.
6. A secured stock of contract work
7. Good customer relations
8. Business management skills
9. Variations management techniques

**Discussion topics:**

1. Conduct a self-analysis of Munaku Contractors.
2. Conduct an external analysis of the road construction sector in Uganda.
3. Carry out the competitive analysis of the road construction sector.
4. Identify the essential success factors in the road construction sector.
5. Draft possible strategic intent of Munaku Contractors Ltd.