

# ASP Presentation:

## Feb 27<sup>th</sup>: Strategy in Action Case Study

### Integrated Strategy Development & Execution: Caterpillar Financial Products Division's Approach to Strategy

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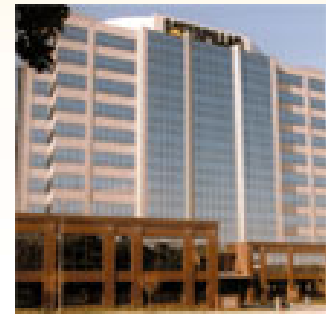


# Agenda

- Caterpillar & CAT Financial Services Products Division Intro
- Strategic Planning: (2000-2004)
  - Scope, Approach, and Results
  - Strategic Planning Progress Matrix
  - Opportunities
- Strategic Leadership: (2005 – 2007+)
  - Process and steps (1 year and 4 year)
  - Results to Date
  - Strategic Planning Progress Matrix
  - Next Steps
- Concluding Remarks
  - Lessons Learned
  - Q & A

# Caterpillar: Financial Products Division

- Wholly owned subsidiary of Caterpillar, world's largest manufacturer of construction and mining equipment
- Organization
  - Caterpillar Parent (CEO)
    - Business Units (Financial Products Division)
      - Groups, Departments, Units
      - Strategic Planning is an FPD Unit along with Continuous Improvement
- 2<sup>nd</sup> Largest Captive Finance Company in the U.S.



# FPD Strategic Planning Overview

## ➤ Journey to Business Excellence: Evolution (2000 – 2004)

- Executive Management Organization / Business Excellence Model
- U.S. Scope and Focus
- Decentralized personnel leading and facilitating strategy development sessions with Groups and Departments
- Received high marks from the Baldrige examiners with respect to strategy alignment

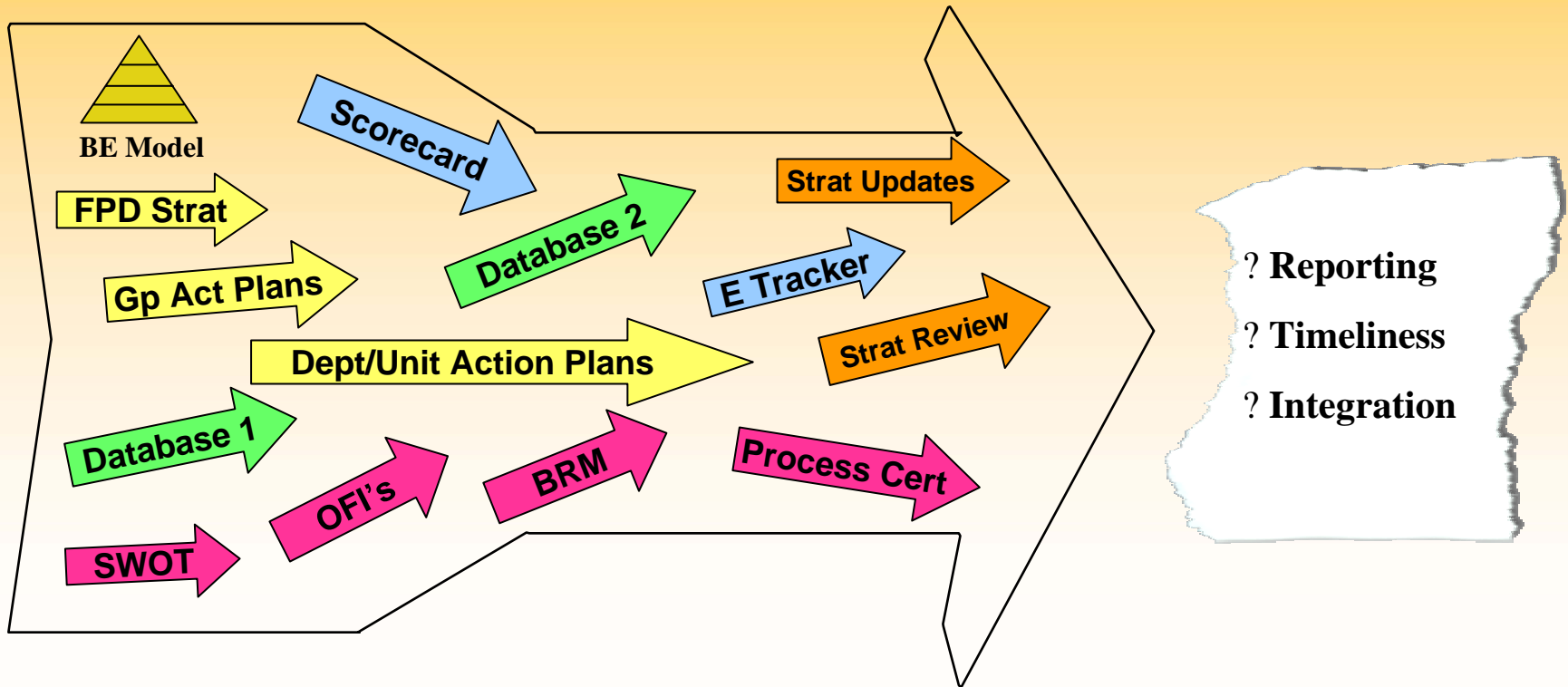
## ➤ Journey to Business Excellence: Evolution (2005 – 2007+)

- Vision 2020 – November 2005

**NEW YORK, New York - Caterpillar (NYSE: CAT) Chairman and Chief Executive Officer Jim Owens told a group of financial analysts and institutional shareholders that as a global leader, it is time for the company to take on new challenges and position itself for future success. At a meeting Monday in New York, Owens presented the company's new enterprise strategy and goals, which are focused on delivering Caterpillar's Vision 2020.**

# 2000 – 2004 Strategic Planning: Opportunities

Strategies > Action Plans > Metrics > Strategic Inputs



Opportunity to move the organization forward in light of Vision 2020

# Strategic Planning: 2005 - 2007

Our new *Integrated Strategy Development & Execution (ISDE)* process gives us a reliable, repeatable process for developing strategic Action Plans, modifying Action Plans in reaction to business changes, communicating those Action Plans & initiatives to others, sharing best practices & information more easily and measuring our success.

## ➤ Develop and Align

- Consistent, disciplined approach & framework for Action Plans alignment with Vision 2020
- Integrate critical initiatives relevant to strategy across the organization (ex. risk analysis, Balanced Scorecard, etc.)

## ➤ Execute and Report

- Assign resources and deploy tactics to achieve targets and results
- Provide real-time, on-line information which results in 1 current, up-to-date version as updates and revisions are made

## ➤ Evaluate and Adjust

- Review and assess Action Plans, process metrics (leading) and subsequent impact on top tier performance metrics
- Adjust action plans / process metrics as required



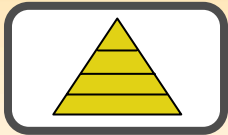
# Integrated Strategy Development & Execution Process

## Inputs

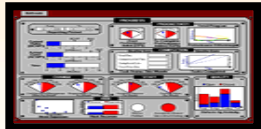
CAT & FPD

Vision 2020

Bus. Ex. Model

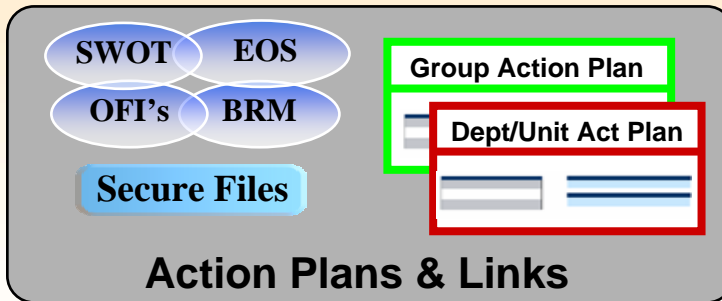


Scorecards



Executive Councils  
Executives

## Develop + Execute



## Results



**Advisory Council**  
Key Stakeholders  
Strategy Team

# The Integrated Strategy Development & Execution Steps

- **Step 1: Group Strategy Framework**
- **Step 2: Group Action Plans**
  - **2a: Develop Draft Action Plans**
  - **2b: Finalize Group Action Plans**
- **Step 3: Develop and Complete Department Action Plans**
- **Step 4: Complete Unit Action Plans**
- **Step 5: Action Plan Integration & Deployment**

# Step 1: VP / Group Meeting: Strategic Framework

- **Who:** Group Leader
- **Objective:** Refine ISDE Group process, outputs and schedule
- **What:** Vision 2020, FPD strategy, Strat. Inputs, Budget, Burning Issues, Scorecard
- **Example:** People: NA Training and Development Burning Platform & Scorecard

*Burning platform: Attract, retain, and develop the most professional, workforce in the industry*

## Goals / Metrics:

*Top Tier Learning Score*

2006

90%

2007

92%

2010

100%

# Step 2 : Strategic Planning Session

- **Who:** Leader and direct reports
- **Objective:** Provide a collaborative structure to develop group strategic plan
- **What:** Strategic inputs, SWOT, Prelim. Action Plans
- **Example:** NA Territory Coverage: “To achieve 2007 & 2010 goals, what are our\_\_\_\_\_”

## SWOT

### STRENGTHS

- Highly engaged workforce
- ✓ Senior experienced mentors and coaches

### WEAKNESSES

- Career development / succession planning
- Inexperienced sales force in some territories

### OPPORTUNITIES

- ✓ **Training and development**
- Process Certification Framework (Baldrige)

### THREATS

- Market share deteriorates due to losing business to better trained competitors

# Step 3: Develop Group Action Plans

- Objective: Provide an aligned, integrated format for Dept Action Plans and Strategic Inputs
- What: Completed Action Plans, Quarterly Reporting, Dept Reviews & Plan Refinement

## Example: FPD Strategy to North America Action Plan

Overview		Primary and Secondary Links								
Owner:	Nigel Johnson	<b>FPD Strategy: Keith Bubb</b>								
Status:	<span style="color: green;">●</span>	a1. People: Provide a culture that encourages learning, development and engagement								
Plan Type:	FPD	a2. BE Model: People								
Start - End Date:	01/01/07 - 12/31/07	a3. Strategic Inputs: Risk								
Last Update:	2/27/2007 : Keith Bubb	a4. Strategic Inputs: Baldrige								
Link From:	<a href="#">FPD Strategy</a>	a5. Strategic Inputs: Customer Satisfaction Results								
Link To:	<a href="#">Eastern Region Unit</a>									
Plan Details										
Objectives & Initiatives	Strat Align	Priority	Date Due	Metric & YTD Goal	Goal Progress YTD	Status	Owner	Next Steps	Hyperlinks	
Provide a culture that encourages learning, development and engagement										
1	Attract, retain and develop most professional workforce in the industry	a1	High	12/31/07	1) 2007 Year-End North America Top Tier Learning Score = 92	1) 2007 Semi-annual North America Top Tier Learning Score = 98%	<span style="color: green;">●</span>	Nigel Johnson	Continue deployment plan	● <a href="#">Top Tier Learning Assessment</a>

# Step 5: Plan Integration & Deployment

## ➤ Example: FPD "People" Reporting Cascade: FPD to NA Department to Eastern Region Unit

Plan Initiative Report : FPD Strategy								
Initiative/Action Plan	Status	Area	Priority	Date Due	Owner	Next Steps	Goal Progress YTD	Metric & YTD Goal
<a href="#">People: Provide a culture that encourages learning, development and engagement</a>	●	FPD	High	12/31/07	Keith Bubb	1) Groups establish Action Plans to close gap	1) Semi-annual survey score of 85	1) 2007 Top Tier Learning Score = 97
<a href="#">Attract, retain and develop most professional workforce in the industry</a>	●	NA Dept	High	12/31/2007	Nigel Johnson	Continue deployment plan	1) 2007 Semi-annual North America Top Tier Learning Score = 98%	1) 2007 Year-End North America Top Tier Learning Score = 92
<a href="#">Rapidly train and deploy new hires utilizing mentor program</a>	●	Eastern Region Unit	High	8/30/2007	Carol Marotti	<ul style="list-style-type: none"> <li>- Meeting scheduled for 4/2</li> <li>- Employee orientation: will schedule class</li> <li>- Assess feasibility of reallocating resources to other underfunded priorities</li> </ul>	<ul style="list-style-type: none"> <li>- 2007 Eastern Region Learning score=97%</li> <li>- Mentor and protoge met 2/4/07 and developed goals</li> <li>- Employee orientation: no progress to date</li> </ul>	<ul style="list-style-type: none"> <li>- 2007 Eastern Region learning Score=92%</li> <li>- First initial mentor meeting within first 2 wks of hiring</li> <li>- Attend employee orientation</li> </ul>

# Levels of Strategic Leadership: 2005-2007

Description	Task Level	Process Level	Integration Level	Real-time Execution Level
<b>1. Strategy:</b> Gather, manage & synthesize vital information to drive a plan of action (goals, objectives, initiatives)				
<b>Tools:</b> Strategic planning methodology, SWOT, environmental scan, culture & values assessments				
<b>A. Executive Commitment</b>	- Top level strategy and/or targeted area plans required	- Mandated co-wide process	- Integration of Strategic inputs	- Real-time updating of strategies/action plans
<b>B. Breadth by area, depth by level</b>	- Plans developed in selected areas of company	- Unevenly applied by area/level	- Integration of all depts./levels	
<b>C. Methods</b>	- Tools used based on specific problems	- Formalized strategic planning process & tools		
<b>2. Deployment:</b> Communicate, align & manage strategic plans and projects				
<b>Tools:</b> real-time collaboration, management & reporting, project management				
<b>A. Alignment &amp; communication</b>	- Communicated, managed & reported in targeted areas	- Processes for alignment, communication & reporting	- Integrated & aligned dept & multi-level plans	
<b>B. Mgmt &amp; Reporting</b>				
<b>3. Results:</b> Metrics integrated with strategic plans & action plans to drive accountability				
<b>Tools:</b> Scorecards, Key Process Indicators, Metrics, Action plans, Project Management (6-sigma, Risk Mgt)				
<b>A. Metrics: lagging &amp; leading (KPI's)</b>	- Metrics defined & monitored for core issues	- Processes to measure	- Integration	-
<b>B. Action Plans: tactics, projects/change mgmt</b>	-	-		

# Next Steps:

## ➤ Development:

- Identify the right Action Plans via a disciplined, consistent approach that leaves room for innovation and new ideas

## ➤ Execution:

- Complete process for developing and cascading leading and lagging metrics
- Develop Framework and model for Real time Execution
  - First cycle reporting to define gaps related to Action Plans, metrics, etc.
  - Work with leader to define strategy reporting plan (who, what, and when)
- Integrate strategy action plans and strategic inputs (risk assessments, OFI)

## ➤ Incorporate Action Plans into management planning and decision making

- Advance ISDE as an enabler of execution versus additional work
- Listen, learn, and incorporate new ideas to continuously improve

# Lessons Learned – 4<sup>th</sup> Quarter 2006

- **Workload and daily demands** take energy away from Action Plan execution
- **Sheer quantity of strategy-related information** can be onerous and extremely difficult to manage
- **Support and buy-in** from leaders is critical to success – worth the time and energy invested in advance
- **More seems to always be viewed as better** – focus on the precious few
- **Process does not have to etched in stone** as you start down this path – just pick your early adopters wisely

# Questions

