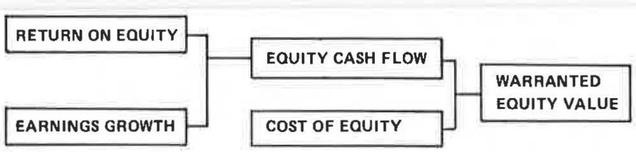
which, in turn, is predicated on more volume, higher rates, or acquisition/merger or via margin improvements which occur by raising rates or lowering costs.

The efficacy of the above plans depends on what is likely to happen in the marketplace -- some of which are not controllable by the company, some of which can be partially controlled, and others of which can be totally controlled. Forecasts are required to analyze the likely impacts of proposed actions on profitability.

These forecasts have general assumptions and some specific to the particular service of the line. In addition, some assumptions are critical to the service line. Special attention is paid to such assumptions as they can make or break the service line's performance.

The typical elements of a strategy center forecast by service line include: the capital structure of the service line; three to five year forecasts of revenues, costs, and expenses, pretax income, taxes, net income, and the balance sheet. The forecasts also yield rates of return on capital and equity; the ratios typically used in trucking and financial analysis, e.g., operation ratio, growth rates; margins; and cash flows.

The valuation methodology is related to serving the objective of managing each strategy center so that its warranted equity value (i.e., the price investors would be willing to pay for common stock if they knew management's best estimates of future equity cash flows and believed that management could attain them) is as great as possible and exceeds its book value by as much as possible. This relationship is shown below:



It should be noted that value is created when sustainable return on equity exceeds the cost of equity, i.e., positive spread, and that value is maximized when the positive spread and earnings growth are each maximized in the combination which produces the greatest value.

This value based planning calculates the present value of future equity cash flows, including terminal values, and compares this to book values. The final valuation presentation displays the warranted equity value, the book value both with and without goodwill, the ratio of warranted equity value for the financial forecast period as well as after the forecast period. The presentation then determines which strategy centers add value and how much they add as well as which strategy centers subtract value and by how much and then integrates all operations to yield the warranted equity value of the whole company.

This exercise then becomes the basis for the focus of management attention, decisionmaking, and iterative improvement in the strategic and business plans.

USE OF STRATEGIC PLANNING BY A SHIPPER/RECEIVER

James R. Mann, Director, Transportation Planning and Policy
U. S. Grocery, The Quaker Oats Company

I am pleased to have been asked to participate in this Transportation Research Board seminar addressing the subject of Strategic Planning for Freight.

Since I was to be on a panel assigned the subject of the "Use of Strategic Planning," in my case, by a shipper, I thought it might be a good idea to catch up on some of the current writings on the subject. I asked the appropriate person in my company to pull together a packet for me, and a few days later got a stack of articles about six inches thick, with a covering note saying "This may be more than you ever wanted to know about strategic planning." After reading the material, I can toss out terms like "portfolio management," "experience curves," "growth share matrix," and, of course, "cash cows, stars, question marks, and dogs." Unfortunately, I have only the vaguest idea what they mean.

One thing I noticed in the articles was a difference of opinion - not a surprise - as to the value of the strategic planning per se and as to various methods employed to do such planning.

For example, the views of Richard T. Pascale of the Stanford Graduate School of Business were quoted in the December 27, 1982 issue of Fortune magazine, as follows:

> "Very often, procedures like the annual strategic planning cycle haven't been terribly effective, partly because strategy doesn't [illegible] to be seen as a rain dance, a fire drill not to be taken seriously. The process ends up having the perverse effect of desensitizing people to strategic issues. Strategy becomes a routine exercise, rather than something expected of each person, each day."

A comment attributed to William Ellery Channing is "It is better to plan less and do more."

Many other writers of the articles I read, however, did not seem to question the value of strategic planning as such, but were offering their suggestions for better ways to go about it.

Most of the material was addressing corporate strategies, which would be appropriate today if you were a transportation company, such as a railroad or motor carrier whose business was moving freight. Quaker Oats, on the other hand is primarily a consumer products company, and the efficient distribution of its products from where they are made to where they are sold, while essential to a successful business is not its reason for being.

Quaker's annual report for fiscal 1983 states its financial objectives in rather precise terms, i.e., R.O.E. improvements, "real" earnings growth, and commensurate increase in dividends, and follows with four broad strategies to achieve these objectives. I can see, in that context, a decision to buy a Joseph A. Bank Clothiers or a Stokely-Van Camp - which we did - or to sell a chain of Magic Pan restaurants or a chemicals division - which we also did - probably would qualify as strategic planning. But what I want to describe for you this morning are the responsibilities of the U.S. Grocery Products Distribution Department and the planning activities we engage in to carry out those responsibilities. First let me tell you a little about Quaker's grocery product business, not as a commercial, but to give you an idea of what we are dealing with.

Quaker's major product categories are hot and ready to eat cereals; cornmeal, flour and grits; table syrup; pancake flour; snacks; Gatorade thirst quencher; pork and beans and frozen waffles, pizza and pancake batter. Pet foods also represent an important part of our business. These products are produced at 15 plants around the country, none of which makes them all. To be able to offer our customers, the grocery chains and wholesale grocers, a complete mix of Quaker products in one delivery, we have established twelve full line distribution centers strategically located to provide minimal, reliable transit times for shipments to customers. We also utilize other warehouses for distribution of our frozen foods and some of our snacks.

During our current fiscal year, which ends this June 30, our total Distribution expense will be in excess of $200 million, of which about $150 million is transportation. We will have made about 40,000 rail carload shipments, 50,000 truckload shipments and 5,000 trailer-on-flat car shipments.

Please recognize that, in addition to the overall growth of our company, during the past several years, transportation costs, primarily because of the dramatic increases of 1979-80 in fuel costs, have become a much more significant percentage of our cost of goods sold, and therefore received more attention, and properly so, by senior management. But it goes a lot farther than that, as we have developed new products and acquired other companies in the grocery product business.

Our Distribution Department is headed by a Vice President. Reporting to him are four Directors with responsibilities for (1) Transportation, (2) Distribution Facilities, i.e., distribution centers, warehouses, material handling, etc., (3) Finished Goods Inventory Control and Distribution Research and, (4) Transportation Planning and Policy.

It was recognized several years ago, with the advent of transportation deregulation, and the ambitious growth plans of our company, a position within our department should be created to monitor, anticipate and evaluate foreseen future changes in the way we conduct our business. This is what I am attempting to do.

I suspect like many companies, we at Quaker are almost constantly engaged in short range - one year, one quarter, sometimes one month - corporate planning. We - all departments - first provide input in January in great detail to a plan for the following fiscal year starting July 1. By the first of June, any major changes have been made and locked in. In Distribution, these include standard variable costs for the transportation and warehousing areas for which we are responsible. Then, as the year progresses, we look at our actual versus projected costs, see the variances and make new projections for the balance of the year. This is done quarterly. Input for the initial plan comes from other departments, e.g., Marketing, and from a variety of sources we use to adjust transportation costs. (Parenthetically, warehouse costs are less volatile, usually contracted for on a longer term basis.)

In the context of this meeting however, I believe these exercises are more in the nature of "budgeting" than of "strategic planning."

We, in Distribution, also make quite detailed "contingency plans" for such things as:

> Winter weather. While we obviously can't do anything about the weather, there are a number of actions which can be taken to minimize its impact, and assure our products are not out of stock.
>
> Railroad or Motor Carrier "labor stoppages" - (we used to call them strikes).
>
> Work stoppages at Quaker plants or distribution center.

These are contingency plans, and in the grand scheme of things may not be included as "strategic planning" in the contest of this meeting, but are necessary in the conduct of our business.

For several years our Department has generated a three year plan for Distribution activities of Quaker's U.S. Grocery Products. We are, at this time, putting together an update for our fiscal years 1985-87. In it, we describe for senior management and the several divisions and marketing areas of our Company, basic assumptions, objectives and strategies of the Distribution Department. It is organized according to the major elements of Distribution, i.e., Transportation, Operations, Inventory Control and Planning and Research. A separate section is included for Frozen Foods and certain other products because of the different physical requirements for storing and transporting refrigerated and temperature controlled products.

We first enunciate the broad objective of the Distribution Department which continues to be:

> To provide salable, damage free products and efficient distribution services at a minimun cost to our company, the distributors and the ultimate consumers.

This three year plan is intended to identify objectives and strategies which will be employed to provide required distribution services efficiently and economically.

Addressing the section on transportation, which obviously covers the movement of freight, we have organized our Plan into sub-sections pertaining to Pricing and Costs; Transportation Services; Customer Service; Food Service; and proprietary trucking, including our wholly owned subsidiary, Quality Operations, Inc.

Within each of those categories, we identify what we perceive to be our objectives. For example, in the Pricing and Costs area, our objectives are:

Control Quaker's transportation expense at a level no greater than the rate of inflation.

Avoid or mitigate carrier profit improvement type increases.

Maintain our transportation expense at a level that would give us a competitive edge over other grocery manufacturers.

Assure that transportation costs of inbound ingredients and supplies are minimized, consistent with inventory constraints and storage capacities of receiving locations.

Utilize transportation modes to maintain required customer service levels at optimum cost.

Following this, we describe the environment in which we will be operating, as we see it, and certain assumptions as to actions by carriers, regulatory agencies and other outside factors may take in that environment. Examples of this in the transportation area would obviously be the economic deregulation of railroads and motor carriers, inflation, and the I.C.C. Railroad Cost Recovery Index, to name a few.

We then identify, at some length and in some detail, the strategies, we expect to employ, given the projected environment, to meet our stated objectives. Examples of these strategies are:

Generate and insure compliance with transportation cost matrices by all shipping locations.

Reduce "premium" and "abnormal" shipments at all locations.

Negotiate contract rates.

Reduce the number of motor carriers with which we do business.

Establish Quaker/carrier cooperative programs to reduce carriers' costs and Quaker's expense.

Investigate and implement mode shifts, i.e., carload to TOFC to motor carrier and reverse.

Analyze distribution patterns to see if shifts to other shipping locations reduce costs.

And several others

Timetables for achieving results are established.

We go through the same format in other Distribution areas, i.e., warehousing, inventory management and research.

We include exhibits showing such things as freight expense for previous years projected for the next three; use of railroad transit arrangements; financial data on major carriers we use; a breakdown of past and projected transportation modes used; and a projection of numbers and types of freight cars we will need and how we plan to obtain them, e.g., purchase, lease, or obtain from the railroads. Also, the outlook for our truck fleets versus for-hire motor carriers.

In the plan we are now preparing, I would to identify several major issues facing us in the transportation area to be:

- ConRail disposition/future
- Rail labor negotiations
- Rail merger/acquisitions, e.g., Santa Fe/Denver & Rio Grand Western and Illinois Central Gulf
- Motor carrier/highway taxes
- Regulation/deregulation

While I cannot go into detail, I can see a major shift in emphasis in the area of Distribution costs. Since the Staggers Rail Act and the Motor Carrier Act of 1980, a large part of our distribution cost reductions has been inter and intramodal competition, resulting in lower freight costs to shippers - some have said to lower levels than can support the carriers. That aside, much of the "fat" has been wrung out, the past two years, in transportation costs simply by getting competing carriers to reduce their rates. While we will continue to evaluate carriers and modes we use on basis of their cost of providing service we require, I think the emphasis now is shifting to productivity improvements, for example:

better use of cube in railcars and trailers.

more loaded miles/fewer empty miles of transportation equipment.

better scheduling of shipments and deliveries by both shippers and carriers.

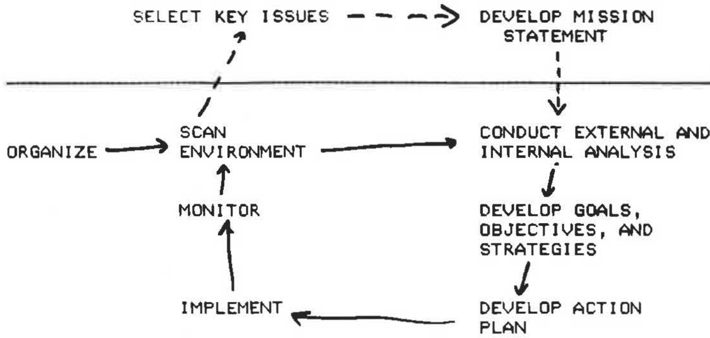
and a host of others, looking to more efficient utilization of the transportation plant.

I hope what I described is pertinent to the subject of the panel. In any event, keep in mind I am only telling you how Quaker does its Distribution strategic planning, and do not represent it as typical of other shippers, nor as the "best" way to do it. Advantages I see from the exercise are:

Making distribution people think and be aware of where we believe we are going, and how we are going to get there in the next few years; and

Letting senior marketing and operating mangement know what changes we see in that time frame and assuring them that we are, in fact proactively rather than reactively planning our distribution strategies

We do not do our planning in a vaccum. Rather, we utilize marketing forecasts, econometric models and many formal and informal



statements and opinions of others outside our company with insight into the future as it may affect Distribution. A helpful tool in putting together a transportation strategic plan is a report prepared for the National Council of Physical Distribution Management in 1982 by the firm of Temple, Barker and Sloane, Inc. titled Transportation Strategies For the Eighties. Their point of view was that the key to competitive advantage is to develop and implement well conceived transportation strategic plans, and I would commend it to you.

Panel Discussion
Moderator - Kathleen Stein-Hudson
Deputy Director of Transportation
New York City Planning Department

The question that is posed to the panel is: Strategic Planning--Where does it fit?

Remarks of Robert E. Heightchew
Director of Marketing
Greenhorne and O'Mara, Inc.

In viewing the question: what is strategic planning and what isn't and how is it different from what we've been doing, the above schematic of the planning process is presented. The topic area below the horizontal line fall into the category of traditional planning, while the two items above the line--select key issues and develop the mission statement--had not traditionally been performed by planners and are the items which make strategic planning different.

The mission statement of my firm is to obtain national prominence subject to service level and profit constraints.

In order to answer the question where does strategic planning fit, I have outlined my organization of planning activities based on the question each activity is intended to answer.

ANSWERING THIS QUESTION:	IS COMMONLY REFERRED TO AS
1. What are the values we are trying to instill, uphold, strengthen, etc.?	Advocacy . . . planners using analytical techniques to develop positions and reinforce.
2. What are the goals and objectives and milestones that will indicate how we are doing?	Leadership . . . planners sensing the direction publics wish to head and indicating the path to that end.
3. Given those values, what should be our mission?	Marketing . . . planners involved in futures forecasting, focus group and other techniques designed to coalesce a consensus and a commitment about a course of action.
4. What are the problems, challenges and opportunities associated with each course?	Long Range Planning...planners identifying future conditions and range of candidate responses that should be considered.
5. What are the alternative scenarios that will accomplish this mission?	
6. What is the Rate of Return on our social investment in each alternatives?	Financial Planning. . .planners using forecasts and estimates of these cost in a captial budgeting format.

7. How should we be organized to execute these scenarios?	Management . . . planners using psychology to allocate human resources against the challenge in pursuit of the opportunities.
8. How can we get support for our program? from internal and external constituencies?	Public Relations . . .planners using communications to pursuade
9. What are the midrange implementation decisions that need to be made and how should we go about making them.	Functional Planning . . .planners using specific skills like civil engineering to make decisions that impact only narrowly focused elements of the system under study/management.
10.What if . . .happens? How should we respond?	Tactics or Contingency Planning. . . using brainstorm and other free-wheeling techniques to imagine all manner of potential scenarios against which to test.
11.What are the short term operational actions that relate the strategies to immediate concerns	Short Range Planning...planning oriented engineers and operational types translating strategy into actions in a real time format

Undertaking strategic planning, it is important to ask many questions in each of the boxes of the schematic above. One needs to think of how type questions rather than why type questions.

Bruce D. McDowell
Senior Analyst
Advisory Commission Intergovernmental Relations

Is strategic planning "old wine in new bottles? There are two areas which set strategic planning apart:

1) Strategic planning is more narrowly focused on critical issues than and is not necessarily as comprehensive as its predecessors. In an age of reduced resources, we have less money for planning, so we focus on what's more important. The strategic planning process is more responsive to the needs of each situation.

2) Strategic planning answers the questions decisionmakers are asking, not those that the planners are asking. Thus strategic planning is "actionable," i.e., it's been designed to take action on it. There's an emphasis on time frames and controllable factors.

In the public sector, strategic planning has been turned to because there is less Federal money, so we must focus on what's most important. While the plans may not be as comprehensive, the scope of planning is broader because the Federal definitions of what a plan is or how it is constrained, e.g., by regulation, are going away. Today there's a greater freedom of alternatives which can be considered.

The following chart can be used to compare conventional and strategic planning.

	TRADITIONAL OR CONVENTIONAL	STRATEGIC
SCOPE	Comprehensive-every element relates to every other element	Focuses on specific issues
CO-OPERATIVE ASPECT	By planners, often alone	By chief executives, sometimes without formal planning staffs but with an objective to have a large participation.
FOCUS	Needs, problems, resources	Needs, problems, and resources but focuses on controllable parts in each list
LEVEL OF DETAIL	Focuses on definition of end state	Focuses on actions toward ends
COST EFFECTIVENESS	Frequently not cost effective	Quickly produces demonstrable results

RELEVANCE

Plan goes on shelf

The objectives of the private and public sectors differ and hence their planning and plans will likely differ. The public sector may strive for the greatest public benefit for the least cost, while the private sector wishes to maximize profits. The public sector participants may strive for organizational survival, while the private sector may be geared to growth.

Plan goes into implementation

The purpose of the plan produced is to educate people and to help them in carrying out its objective. The production of the plan implies a commitment to the plan. It is a communication device which drives the budget, implies teamwork, and gives the entity multiyear consistency.

Remarks of George T. Lathrop
Assistant Director
Department of Transportation
City of Charlotte, North Carolina

I was invited to assume a leadership role at the comprehensive transportation agency in Charlotte and was challenged to help focus that group on key activities. Based on that experience, I conclude:

(1) strategic planning only works if there is a clear and demonstrable commitment to strategic planning by upper management--in my case by service. town council, legislature, etc.

(2) strategic planning must be willing to view a broad range of scenarios--generally broader than is viewed today.

(3) the mission statement is the most important part of the whole planning process.

(4) a lack of information, statistics, and data makes planning difficult. Without it, it is difficult to assess where you are, to make decisions, to monitor actions, etc.

Remarks of Phillip C. Anderson
Colorado Department of Highways

Based on my experience in deriving a mission statement regarding economic development for the Colorado Department of Highways, I offer the following observations:

1. a staff member identified all past policy directives that had been issued.

2. one author developed a draft: build and maintain a system to support economic development where appropriate.

3. the statement was reviewed in comparison to actual experience. Contrasts with perspectives of private development were noted and required significant amounts of energy to resolve.

4. the group received the support of top management for a revised version.

5. finally, the group formulated an early warning and issue analysis unit to consider, for example, the impact of various new federalism initiatives.

The value of the process was that it focused on scenario development and on asking the key question; how shall we allocate scarce resources?

DEFENSE NEEDS FOR STRATEGIC TRANSPORTATION
Networks

by Robert Dienes
Deputy Special Assistant for
Transportation Engineering
Military Traffic Management Command (MTMC)
U.S. Department of Defense

In reviewing the agenda for yesterday's program, I noticed that "strategic planning" was a key item. In the present deregulated environment, I have no doubts that strategic planning is essential in the transportation world. More than ever, an acute awareness of shipper needs, traffic patterns, and the like is necessary to achieve our common objective--efficient service for the shipper and profitable operations for the carriers.

I'd like to approach the strategic planning issue from another perspective--defense needs--and our requirements for efficient multimodal strategic transportation networks in the event of mobilization or war. The DOD relies heavily on commercial transportation for peacetime and wartime moves; hence, I believe our strategic planning dovetails well with that being done in the private sector.

We've established six programs (highways, ports, railroads, pipelines, inland waterways, and Continental U.S. Air) each having the same general purpose-identify the defense-important transportation infrastructure; tell the owners and operators about our need; and keep the infrastructure in a condition ready for war.

In managing our transportation programs for national defense, we interface daily with operating directorates within MTMC and with public and private sector transportation agencies, particularly, the modal administrations of the U.S. Department of Transportation. For example, in our highways for national defense program, we interface with the Federal Highway Administration and the American Association of State Highway and Transportation Officials. Likewise, our Inland Waterways Program works with the U.S. Army Corps