

Strategic Plan

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## Abstract

This paper is a strategic plan for Nortel. The strategic plan will include a company background, vision statement, mission statement, a values statement, an environmental analysis (internal and external), long-term objectives, strategic analysis and choice, plan goals and implementation, financial projections and analysis, critical success factors and controls and evaluation.

## Company Background

Nortel has more than a century of experience in shaping the evolution of communications. Nortel continues its tradition of innovation today by providing secure solutions that ignite and power global commerce while helping solve the world's greatest challenges.

Nortel's leading portfolio of solutions spanning packet, optical, wireless and voice technologies are at the very foundation of the world's economy, powering global commerce and delivering innovative network capabilities to connect rural and underdeveloped regions.

Working together with its customers in 150 countries, Nortel is improving the human experience by fundamentally changing how the world works and how people communicate, creating unique capabilities for business, education, entertainment and security through reliable data and voice technologies. (About Nortel, 2005)

From Alexander Graham Bell's original telephone patents to the anywhere, anytime connections of today, Nortel has been at the forefront of innovation in the ever-evolving history of communications.

Since its founding as Northern Electric and Manufacturing, supplying telecommunications equipment for Canada's fledgling telephone system, Nortel has grown to become a global leader in delivering communications capabilities that enhance the human experience, power global commerce, and secure and protect the world's most critical information. (Nortel History, 2005)

### Vision Statement

**Deepening the Bench Strength** – The most critical element in achieving our goals is a well-respected and highly accomplished management team. Deepening the bench strength is my personal priority to ensure we have the best talent in place. As a technology leader, Nortel must not lose sight of the future while deeply engaged in the present. We also need to support our business leaders and sales teams with a go to market strategy that clearly articulates our technology leadership. (Nortel Networks, 2004)

### Mission Statement

Nortel will drive operational excellence through relentless rigor and business simplification, with a focus on all operational aspects including research and development, overall processes, sales, and supply chain. Our primary goal is to grow market share and enhance shareholder value.

**A Strong Core** – Serving both service provider and enterprise customers, Nortel delivers innovative technology solutions encompassing end to end broadband, voice over Internet Protocol (VoIP), multimedia services and applications and wireless broadband solutions. Our business consists of the design, development, manufacture, assembly, marketing, sale, licensing, installation, servicing, and support of these solutions.

**“Cash, cost and revenues”** – Our focus will be on “cash, cost and revenues” because cash, cost and revenues are a critical part of our corporate renewal program, particularly the emphasis on generating savings that can be redeployed in growth areas or drive a more efficient business model, thereby increasing our profitability and enhancing shareholder value. (Nortel Networks, 2004)

## Nortel Values

### Customers

- We start with our customers’ needs – the driving force behind everything we do
- We continuously prioritize our actions, balancing all the needs of our customers – timeliness, feature-richness, value, and reliability
- We foster long-term relationships with market defining customers, understanding their business thoroughly and earning their trust
- We all understand how our individual work contributes to customer success, and prioritize/organize accordingly

**Outstanding People**

- We act on the belief that our people are our strength, knowing that the knowledge, commitment, and talent of different people drives our success
  - This will be reflected in our people practices such as recognition, development, and compensation
- We maintain a business environment of dignity and respect
- We respect each other enough to tell the truth, and work together to make things better
- We listen to each other even when we disagree

**Accountability**

- We are clear on what we are doing, why we are doing it, and what each of us must deliver
- We are all accountable to each other and our stakeholders for doing what we say we will do
- We will work as a team; not blaming, but communicating and acting together

**Innovation**

- We understand our customers' business so well that we can create the future with them

- We take risks to pursue breakthrough innovations that help our customers make people's lives better

### **Quality**

- We are committed to making our technology work for our customers
- We continuously prioritize our actions base on balancing all the needs of our customers – timeliness, feature-richness, value, and reliability
- We are driven to continuously improve – never satisfied with “good enough”
- We focus on quality in every aspect of our business; not just products but processes, services, and our work environment

### **Integrity**

- We compete vigorously and fairly in the marketplace
- We are honest, and obey all applicable laws
- We are committed to live out our values
- We treat other with dignity and respect
- We do what we say we will do
- We strive to do the right thing for individuals, organizations, and society in general

## Environmental Analysis

### Remote Environment

Nortel's external environment has three components: the remote environment, the industry environment, and the operating environment.

The remote environment comprises factors that originate beyond, and usually irrespective of, any single firm's operating situation: (1) economic, (2) social, (3) political, (4) technological, and (5) ecological factors. That environment presents firms with opportunities, threats, and constraints, but rarely does a single firm exert any meaningful reciprocal influence. (Pearce, 2004)

Economic conditions in the next 10 years will improve for the telecommunications sector. The U.S. economy is rebounding from the most recent recession of the years 2000 - 2003 and the telecommunications sector is slowing rebounding from the technology downturn of the last several years. In addition, many technology companies spent several years of information technology budget preparing for Y2K. Internet Service Providers and large corporations that have not purchased telecommunications gear in the past 5 years will be forced to upgrade and update their networks to remain competitive.

### Social Factors

The social factors that affect a firm involve the beliefs, values, attitudes, opinions, and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning. (Pearce, 2004)

The need to have the latest high-technology gadget is a social factor driving the demand for Internet Service Providers (ISPs) to provide more bandwidth over their networks to support the increasing levels of multi-media traffic required by customers. For example, cell phone users can view television shows and movie clips on their cell phone. ESPN is web casting this year's college basketball tournament over the Internet. Multimedia applications such as the applications are extremely bandwidth intensive and require ISPs to upgrade their networks to handle the flow of the additional data.

### Political Factors

The direction and stability of political factors play a major role in strategy formulation of strategic managers. Political constraints such as tariffs, antitrust laws, accounting rules and fair-trade decisions will affect Nortel's global expansion. China, for example, has recently joined the World Trade Organization (WTO) and China is working on opening more of its markets to foreign firms. In the next 10 years, China will continue to become more of a free-market economy and the People's Bank of China (PBOC) will continue improving the financial and banking infrastructure in China. These events will open the biggest cellular market in the world to Nortel. China is a multi-billion-dollar market for cellular technology alone.

### Technological Factors

The fourth set of factors that affect the remote environment is technological factors. Due to rapidly changing technology in the data and telecommunications industry, the accurate predicting of technological change is critical to a telecommunications company. If future changes in technology cannot be [relatively] accurately predicted, the company risks product obsolescence. The flip side of obsolescence is innovation and innovation is one differentiating factor critical to gaining market share in the telecommunications sector.

An example of how inaccurate technological forecasting can impact a company is Lucent Technology's choice to manufacture DWDM [optical] multiplexers based on 1 Gbps speed. The industry later adopted the 10Gbps as a standard. Lucent's adoption of 1Gbps DWDM severely affected sales and took Lucent several years to recover from.

The key to beneficial forecasting of technological advancement lies in accurately predicting the future technological capabilities and their probable impacts. (Pearce, 2004) A technological advancement in the telecommunications sector will be the technological advances of unified messaging. Unified messaging is the capability of a network to deliver data, voice, and video over a single medium. Content providers can provide video on demand to cell phones currently. Voice and video on demand will grow over time and ISPs must improve and update their networks to provide such services. This will increase demand for Nortel's data and telecommunications gear.

Nortel invests a higher-than-(industry)average portion of its budget to Research and Development (R&D) but Nortel also has more R&D facilities scattered across the

globe than our major competitors. Nortel can use R&D dollars more efficiently if R&D facilities are consolidated.

### Industry Environment

The nature and degree of competition in an industry hinge on five forces: the threat of new entrants, the bargaining power of customers, the bargaining power of suppliers, the threat of substitute products or services, and the jockeying among current contestants. (Pearce, 2004)

An analysis of the industry environment for Nortel will raise red flags in four of the five forces that affect Nortel's industry environment: the threat of new entrants, the bargaining power of customers, the threat of substitute products and the jockeying among current contestants.

The threat of new entrants is exemplified in the emergence of Huawei Technologies of China. Huawei is becoming a low-cost player in many of the same sectors where Nortel competes. Huawei's emergence is putting pressure on Nortel to cut costs and increase efficiency.

As the baby Bells merge and the number of ISPs shrink, the bargaining power of the remaining Bell companies and ISPs increase. Fewer buyers with more bargaining power will also put pressure on Nortel to cut costs and increase operational efficiencies.

The threat of substitute products from domestic competition such as Lucent Technologies, Cisco, Avaya, and others, along with substitute products available from foreign competition such as Huawei Technologies will also put pressure on Nortel to

reduce cost and improve product features and quality. If product differences and switching cost are low, the threat of substitute products will require Nortel to lower Selling, General and Administrative (SG&A) expenses [SG&A expenses are an Income Statement item which combines salaries, commissions and travel expenses for executives and salespeople, advertising costs, and payroll expenses], continually improve product quality, innovate, and increase product differences. Currently, Nortel's SG&A expenses are among the highest in the industry. This must change to allow Nortel to remain competitive in the future.

### Operating Environment

The operating environment, also called the competitive environment, comprises factors in the competitive situation that affect a firm's success in acquiring needed resources or in profitably marketing its goods and services. Among the most important of these factors are the firm's competitive position, the composition of its customers, its reputation among suppliers and creditors, and its ability to attract capable employees. (Pearce, 2004)

Nortel has historically done a very good job of developing competitor profiles and therefore enabling Nortel to forecast more accurately both its short- and long-term growth and profit potential.

Nortel must do a better job of profiling customers; anticipate the size of markets and the reallocation of resources, based on forecasted shifting in demand patterns. In the future, Nortel must shift away from the traditional telephony manufacturer's

mindset of “we are the biggest and the best and we don’t need to change.” For the first 100 years of Nortel’s existence, this paradigm worked well but changes in technology and the industry will require a change in thinking that will allow Nortel to become more agile and sensitive to industry trends and customer needs.

Accounting scandals, SEC audits and the ill-advised practice of financing customer purchases have hurt Nortel’s reputation with creditors. Nortel’s credit rating in the past several years has fallen several investment grades due to financial accounting problems. Nortel has put in place an accounting team that is the best in the industry. This accounting team is reviewing and putting processes in place to ensure compliance to all federal financial reporting standards. Nortel will improve its financial reporting, cost structure and cash flow that will elevate Nortel’s credit rating.

Nortel must improve its financial status and remain a leader in innovation to attract the best talent in the industry. Nortel’s people are core to Nortel’s success; therefore, the company must return to profitability to be able to recruit the best talent in the industry.

### Long-Term Objectives

Based on this paper's environmental analysis, I recommend the following long-term objectives for Nortel:

- Increase product and professional services sales to Nortel's largest commercial and government customers.
- Capitalize on the opening of the Chinese telecommunication market to foreign corporations by dedicating more resources in China and licensing gear to Chinese national companies.
- Continue present rate of Research and Development (R&D) investment but use R&D dollars more efficiently by consolidating R&D facilities.
- Nortel must improve the financial accounting infrastructure, cost structure and cash flow to improve Nortel's credit rating and thus improve the ability to borrow funds.

## Strategic Analysis and Choice

### *Developing Grand Strategies*

Grand Strategies require a structured outline when developing grand strategies. Several steps are required to enable the gathering of applicable information that will be used in the development of grand strategies. The outline at a high-level:

1. Refer to industry reports for trends
2. Refer to views of experts and advisors
3. Refer to company financials
4. Refer to SWOT matrix
5. Decide company position in the grand strategy matrix
6. Select the strategic alternative that will serve the company's competitive position
7. Observe the impact of the decisions on sales and profitability forecasts for the next two years, computed by the Finance department (University of Phoenix Graduate School of Management, 2005)

Knowledge of Grand Strategies can be used to guide the strategic choices of an operations manager and secure the company's competitive advantage. The choice of a correct Grand Strategy enables a company to protect its profit margins and market shares by ensuring better access to customers and a more acute comprehension of industry trends.

*What Concepts and Analytic Tools Will I Use in the Development of Nortel's Strategic Plan?*

Concepts I will use in the development of Nortel's strategic plan include consideration of the following Grand Strategies:

- Increasing market share by acquisition for brand building
- Acquisition of smaller companies in Nortel's market for adding to Nortel's range of products, access to new markets, identify companies with compatible processes, and depending on Nortel's current cash position, spread risk by acquiring a company outside of the telecommunications sector
- Acquisition of an "upstream vertical" – the downside is a longer gestation period for the investment to pay-off, is resource intensive, and an acquisition entails long production times. An example of an "upstream vertical" is a Nortel Channel Partner.
- Acquisition of a "down vertical" – this strategy enables cost control, quantity control, and quality control of raw materials. A vertical-integrated approach will allow exploration of Just-In-Time manufacturing. In Nortel's case this would be an acquisition of a parts manufacturer such as SIMM chips or circuit cards for our PBXs.

*Challenges Facing Strategic Planners*

If an incorrect strategic alternative is followed, a company’s competitive position can be jeopardized. The recovery from the choice of the wrong strategic alternative may take years and millions of dollars to complete. A strategic manager must know which quadrant of the Grand Strategy Clusters matrix his company resides.

*Grand Strategy Clusters matrix*

Market Growth	Quadrant I	Quadrant II	High
	Quadrant IV Nortel	Quadrant III	Low
	High	Low	
<b>Competitive Position</b>			

**Figure 1. Nortel Grand Strategy Cluster Matrix**

Identification of the quadrant a company resides is based on the company’s competitive position and market growth. Quadrant I is a strong competitive position and rapid market growth. Quadrant II is a weak competitive position with rapid market growth. Quadrant III is a weak competitive position with slow market growth

and Quadrant IV is a strong competitive position with slow market growth. Nortel is in Quadrant IV.

Once the information such as industry information, company profile and opinions of stakeholders is gathered, a SWOT analysis chart is created that lists one's company's strengths and weakness and opportunities and threats. From the SWOT chart, the effectiveness of each of the three chosen strategies can be measured. For example, the strategies chosen are (1) diversify into related businesses, (2) concentrate on North American sales and (3) reinforce the product offering; And the SWOT analysis shows that these strategies will produce a decrease in focused growth and cash flow while areas of weakness such as cyclical product demand, non-capital-intensive project, portfolio range and volatile business segments are increased. Based on this SWOT analysis, a strategic manager should conclude that the chosen strategies are not optimum at this time, and an alternative strategy or strategies should be chosen.

#### *Challenges Facing Strategic Planners*

There are many challenges facing strategic planners regarding creating and implementing an effective strategic plan for their organization. The first challenge is building a roadmap that has a clear long-term objective. The next step is deciding on strategic alternatives using a SWOT chart. The SWOT chart gives an organization a snapshot of their position relative to the organization's competition. Once strategic

alternatives are picked, the goals that will enable the organization to succeed in the organization's strategic alternatives need to be defined.

Concurrent to the above-mentioned process is the constant change that is occurring in Nortel's marketplace. Therefore, a strategic planner needs to constantly perform environmental scanning to keep his finger on the pulse of the marketplace, competition, and his company's internal environment. The strategic planner must ensure that his company's internal structures and processes are in tune with the organization's marketplace ambitions.

To create a strategic roadmap a strategic planner must employ environmental scanning, strategy formulation and the formulation of action plans and goals to successfully achieve the organization's long-term objective. Tools such as a SWOT analysis chart with input from sources such as industry information, company profile and opinions of the stakeholders will provide the strategic planner with the necessary information to make informed strategic decisions. The challenge is gathering information that is concise, accurate, (time) appropriate, and applicable to the company's target markets.

*Lessons Learned Relative to the Importance and Effectiveness of the Formulation of Action Plans and Goals*

The formulation of action plans and goals ensures progress on the strategic objectives and when change comes, action plans and goals ensure progress on the strategic alternatives.

A strategy is only as good as its implementation. A strategic roadmap helps align an organization's strategies with its vision and long-term objectives. Milestones could include sales targets, geographical extension, new product launches, and so on – activities that enable the organization to realize its vision. (University of Phoenix Graduate School of Management, 2005)

Effective action plans and goals also require the flexibility of altering plans and goals when the internal and/or external environment changes. For example, let's say a company's sales in North America slows and the economy cools off; the goals of increasing sales and revenue in North America should be changed to increasing sales and revenue in global markets.

#### *Concepts and Analytic Tools Used to Develop Nortel's Strategic Plan*

- Industry information
  - Market Shares of Nortel and Nortel's Competition
  - Chart Geography-wise Sales
  - Industry Segmentation
  - Detailed Profile on Top Competitor(s)
  - Financial Statement on Top Competitor(s)

- Nortel company profile
  - Overview – taken from annual report
  - Financials
    - Earnings
    - Income
    - Income Before Taxes
    - Net Income
    - Sales by Segment – compare with competitors
- SWOT context
- Opinions of the Stakeholders on Each Strategy Option
- Observe Changes in the SWOT Analysis Chart

**Opportunities**

Global Professional Services

Customer Managed Services

Customer Maintenance and Optimization Services

Customer Security Services

Gain Commercial and Government Business While

Lucent and Alcatel's Preoccupation with Merger

Improve Business Processes – Lean Six Sigma

**Strengths**

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Reputation as a Technology/Innovation Leader

Nortel's People

Industry's Broadest and Deepest Product Lines

Patents and Trademarks

Nortel Government Solutions

**Threats**

Low-Cost Overseas Competition

Domestic Competition from Cisco Systems

**Weaknesses**

Financial Reporting Problems

Nortel's Practice of Self-Financing Customers

Nortel's Credit Rating

Operational Process Inefficiencies

Channel Partner Supply Chain Management

Canadian-Based Company

Shareholder Value

Service Provider Sector Weak

**Figure 2. Nortel SWOT Matrix**

*Identification of Optimum Strategies*

The following three steps will be taken to identify optimum strategies:

1. Perform the conventional SWOT matches – S|O, S|T, W|O and W|T
2. Perform the O|T and S|W matches
3. Finally, perform the S|O|T, O|S|W, T|S|W and S|W|O|T matches

Of the strategies, increasing sales to Nortel's largest commercial and government customers will be the primary strategy to enable Nortel to achieve its long-term vision of becoming the vendor of choice for large commercial enterprise customers and for the government.

**Table 1: Matched Pair Analysis**

<b>Matched Pair Analysis</b>	<b><u>Opportunities</u></b>	<b><u>Threats</u></b>	<b><u>O/T Matches</u></b>
	O1. Increase Professional Services	T1. Low-Cost Overseas Competition	O3:T1
	O2. Gain Commerical/Gov't Business	T2. Cisco Systems	
	O3.Improve Business Processes		
<b>Strengths</b>	<b>S/O Matches</b>	<b>S/T Matches</b>	<b>S/O/T Matches</b>
S1. Nortel's People	S1:O1	S3:T1	S1:O1:T1
S2. Reputation	S4:O2	S2:T2	S2:O2:T2
S3. Product Line			
S4. Nortel Government Solutions (NGS)			
<b>Weaknesses</b>	<b>W/O Matches</b>	<b>W/T Matches</b>	<b>W/O/T Matches</b>
W1. Operational Inefficiencies	W1:O3	W1:T1	W1:O3:T1
W2. Financial Reporting	W4:O1		
W3. Shareholder Value			
W4. Channel Partner (CP) Management			
<b>S/W Matches</b>	<b>S/W/O Matches</b>	<b>S/W/T Matches</b>	<b>S/W/O/T Matches</b>
S4:W4	S1:O1:W4	S4:W4:T1	S4:W4:O2:T1

**Figure 3. Nortel Matched Pair Analysis**

The Matched Pair Analysis provides Nortel strategic planners the information needed to choose an optimum strategy or strategies. I recommend the following strategies based on the results of the Matched Pair Analysis. I believe these strategies will strengthen Nortel’s competitive position in the telecommunications market.

**Strengths-Opportunities** analysis gives two options:

1. Increase Nortel's Professional Services organizations revenue by capitalizing on the in-house engineering expertise and experience (S1:O1).
2. Increase sales to the government with Nortel Government Solutions (NGS) (S4:O2).

**Strengths-Threats** analysis:

1. Defend and even gain market share from low-cost overseas competition by the continual improvement and innovation of Nortel's superior product line (S3:T1).
2. Beat-back competition from Cisco Systems by capitalizing and marketing based on Nortel's 100+ years of telephony expertise (S2:T2).

**Weaknesses-Opportunities** analysis:

1. Improve operational efficiencies through business process improvement (W1:O3).
2. Improve quality in channel partner chain through competition from Nortel's Professional Services organization [and NGS in the government sector] (W4:O1).

### Plan Goals and Implementation

1. Improve processes and rapidly deliver bottom-line results
2. Increase manufacturing quality
3. Increase sales to China, especially in the wireless transport sector, by 100% in the next three years
4. Double sales in the government sector over the next three years
5. Increase professional services revenue (commercial and government) by 70% over the next three years
6. Improve financial reporting accuracy, timeliness, and efficiency

#### *Goal #1 Implementation*

Process improvement will be achieved through Nortel's "Lean Six Sigma" initiative. Six Sigma will be the way to dramatically improve processes and rapidly deliver bottom-line results for the company. The time to act is now.

Our Lean Six Sigma initiative will be one of the key enablers in transforming Nortel and getting us back on a competitive and winning track. Nortel's Lean Six Sigma initiative is going to be highly focused on our biggest opportunities for improvement and may be the single largest change our company has ever embarked, as this impacts everyone on every continent -- employees, suppliers, and every partner throughout the entire value chain. And ultimately, this is about customer value creation and performance.

Nortel's methodology will be Lean Six Sigma, an approach that integrates powerful Lean tools, defined by a focus on improving speed by eliminating non-value-added work. Toyota and other companies like Dell and GE use Lean Six Sigma, and this approach increases both speed and quality by applying a proven continuous improvement methodology.

Additional points to keep in mind about Nortel's Lean Six Sigma initiative include:

Clarity - Six Sigma is a continuous improvement strategy and discipline with specific methods to re-create our business processes so that defects never appear in the first place. But even more important, Six Sigma is a cultural change that enables Nortel to achieve the highest quality products and services for our customers, investors, and employees.

Consistency - Nortel is a large, global business that traditionally has not fully leveraged the power of "One Team-One Nortel." As Nortel progress through the Six Sigma journey, Nortel will be better aligned around a common language and continuous improvement process.

Commitment - the senior leadership team as well as every Nortel employee, must be fully committed to the "Lean Six Sigma" initiative. (J. Hackney, personal communication, March 20, 2006)

*Goal #2 Implementation*

Acquire a manufacturing company to enable Nortel to have more control over materials, quality, and cost. Bringing [select product lines] manufacturing [back] in-house will allow Just-In-Time manufacturing also.

*Goal # 3 Implementation*

Form a joint venture with Huawei Technologies of China. A joint venture is necessary due to Chinese governmental and banking regulations. The joint venture will give Nortel access to the largest cellular market in the world.

*Goal #4 Implementation*

The U.S. government business is ripe for the picking considering the Lucent-Alcatel merger. The new company will be a French-based company. Non-U.S. entities cannot sell directly to the government. The Lucent-Alcatel merger will open the door to Nortel to increase our governmental market share. As of this writing, the [reported] plans are for the merged Lucent-Alcatel to create a wholly owned U.S. subsidiary to enable Lucent-Alcatel to sell directly to the government.

*Goal #5 Implementation*

Increasing professional services market share by shifting internal resources and training those resources to install, maintain and operate Nortel's Succession VoIP portfolio of products. Increasing market share in professional services will also require substantial hiring from outside of Nortel as well.

*Goal #6 Implementation*

Hiring a Chief Ethics and Compliance Officer to oversee a newly-created Ethics and Compliance Department is one step to increase the accuracy, timeliness, and

efficiency of Nortel's financial reporting. Additionally, Nortel will bring an outside accounting firm with financial reporting expertise.

**Table 2: Financial Projections and Analysis****Cash Flow**

PERIOD ENDING	31-Dec-04	31-Dec-03	31-Dec-02
<b>Net Income</b>	<b>(51,000)</b>	<b>434,000</b>	<b>(3,266,000)</b>
<b>Operating Activities, Cash Flows Provided By or Used In</b>			
Depreciation	362,000	541,000	709,000
Adjustments To Net Income	359,000	60,000	1,243,000
Changes In Accounts Receivables	(86,000)	(231,000)	893,000
Changes In Liabilities	(98,000)	(301,000)	(1,961,000)
Changes In Inventories	(592,000)	429,000	670,000
Changes In Other Operating Activities	(7,000)	(675,000)	1,345,000
<b>Total Cash Flow From Operating Activities</b>	<b>(162,000)</b>	<b>85,000</b>	<b>(387,000)</b>

**Investing Activities, Cash Flows Provided By or Used In**

Capital Expenditures	(282,000)	(172,000)	(335,000)
Investments	145,000	49,000	106,000
Other Cash flows from Investing Activities	10,000	38,000	175,000

<b>Total Cash Flows From Investing Activities</b>	<b>(127,000)</b>	<b>(85,000)</b>	<b>(54,000)</b>
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#### Financing Activities, Cash Flows Provided By or Used In

Dividends Paid	(33,000)	(35,000)	-
Sale Purchase of Stock	31,000	3,000	863,000
Net Borrowings	(108,000)	(327,000)	(788,000)
Other Cash Flows from Financing Activities	-	-	623,000

<b>Total Cash Flows From Financing Activities</b>	<b>(110,000)</b>	<b>(359,000)</b>	<b>698,000</b>
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Effect Of Exchange Rate Changes	88,000	176,000	74,000
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<b>Change In Cash and Cash Equivalents</b>	<b>(\$311,000)</b>	<b>(\$183,000)</b>	<b>\$331,000</b>
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**Table 3: Balance Sheet****Balance Sheet**View: **Annual Data** | [Quarterly Data](#)

All numbers in thousands

PERIOD ENDING	31-Dec-04	31-Dec-03	31-Dec-02
<b>Assets</b>			
Current Assets			
Cash And Cash Equivalents	3,766,000	4,060,000	4,040,000
Short Term Investments	-	-	-
Net Receivables	2,806,000	2,964,000	3,011,000
Inventory	1,414,000	1,190,000	986,000
Other Current Assets	356,000	315,000	681,000
<b>Total Current Assets</b>	<b>8,342,000</b>	<b>8,529,000</b>	<b>8,718,000</b>
Long Term Investments	159,000	244,000	248,000
Property Plant and Equipment	1,651,000	1,656,000	1,467,000
Goodwill	2,303,000	2,305,000	2,201,000

Intangible Assets	78,000	86,000	98,000
Accumulated Amortization	-	-	-
Other Assets	715,000	374,000	802,000
Deferred Long Term Asset Charges	3,736,000	3,397,000	2,579,000
<b>Total Assets</b>			
	<b>16,984,000</b>	<b>16,591,000</b>	<b>16,113,000</b>

### Liabilities

#### Current Liabilities

Accounts Payable	3,819,000	3,383,000	3,876,000
Short/Current Long Term Debt	15,000	119,000	233,000
Other Current Liabilities	1,338,000	1,500,000	2,270,000
<b>Total Current Liabilities</b>			
	<b>5,172,000</b>	<b>5,002,000</b>	<b>6,379,000</b>

Long Term Debt	3,862,000	3,891,000	3,749,000
Other Liabilities	3,189,000	2,945,000	2,323,000
Deferred Long Term Liability Charges	144,000	191,000	345,000
Minority Interest	630,000	617,000	665,000
Negative Goodwill	-	-	-

<b>Total Liabilities</b>	<b>12,997,000</b>	<b>12,646,000</b>	<b>13,461,000</b>
<b>Stockholders' Equity</b>			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	33,840,000	33,674,000	33,583,000
Retained Earnings	(32,583,000)	(32,532,000)	(33,239,000)
Treasury Stock	-	-	-
Capital Surplus	3,282,000	3,341,000	3,754,000
Other Stockholder Equity	(552,000)	(538,000)	(1,446,000)
<b>Total Stockholder Equity</b>			
	<b>3,987,000</b>	<b>3,945,000</b>	<b>2,652,000</b>
<b>Net Tangible Assets</b>			
	<b>\$1,606,000</b>	<b>\$1,554,000</b>	<b>\$353,000</b>

**Table 4: Income Statement****Income Statement**View: **Annual Data** | [Quarterly Data](#)

All numbers in thousands

PERIOD ENDING	31-Dec-04	31-Dec-03	31-Dec-02
<b>Total Revenue</b>	<b>9,828,000</b>	<b>10,193,000</b>	<b>10,569,000</b>
Cost of Revenue	5,750,000	5,852,000	6,798,000
<b>Gross Profit</b>	<b>4,078,000</b>	<b>4,341,000</b>	<b>3,771,000</b>
Operating Expenses			
Research Development	1,959,000	1,960,000	2,636,000
Selling General and Administrative	2,138,000	1,955,000	2,295,000
Non-Recurring	82,000	280,000	2,118,000
Others	10,000	101,000	157,000
<b>Total Operating Expenses</b>	<b>4,189,000</b>	<b>4,296,000</b>	<b>7,206,000</b>

<b>Operating Income or Loss</b>	<b>(111,000)</b>	<b>45,000</b>	<b>(3,435,000)</b>
Income from Continuing Operations			
Total Other Income/Expenses Net	231,000	445,000	(48,000)
Earnings Before Interest And Taxes	120,000	490,000	(3,483,000)
Interest Expense	203,000	209,000	256,000
Income Before Tax	(83,000)	281,000	(3,739,000)
Income Tax Expense	(29,000)	(80,000)	(453,000)
Minority Interest	(46,000)	(63,000)	-
Net Income From Continuing Ops	(100,000)	262,000	(3,286,000)
Non-recurring Events			
Discontinued Operations	49,000	184,000	20,000
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	(12,000)	-
Other Items	-	-	-

<b>Net Income</b>	<b>(51,000)</b>	<b>434,000</b>	<b>(3,266,000)</b>
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Preferred Stock And Other Adjustments	-	-	-
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<b>Net Income Applicable To Common Shares</b>	<b>(\$51,000)</b>	<b>\$434,000</b>	<b>(\$3,266,000)</b>
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("Nortel Financials")

The following areas and associated targets for the next three years:

- SG&A expenses reduced by 20% each year
- Maintain same level of R&D investment, percentage-wise
- Increase Total Revenue by 50%
- Increase Net Income to \$2 Billion

The afore-mentioned financial projections can be realized if all Nortel employees and partners adopt Nortel's Lean Six Sigma and BIG [Business transformation, Integrity and Growth] initiatives.

### Critical Success Factors

*“Critical Success Factors (CSFs) are those things which must go right for the organization to achieve its mission.”* - Alan S. Michaels

The advantages of identifying CSFs are that they are simple to understand; they help focus attention on major concerns; they are easy to communicate to coworkers; they are easy to monitor; and they can be used in concert with strategic planning methodologies. But when CSFs used in conjunction with a planning process, identifying CSFs is extremely important because it keeps people focused. Clarifying the priority of CSFs, measuring results, and rewarding superior performance will improve the odds for long-term success as well.

There are four basic types of CSFs:

- Industry CSFs resulting from specific industry characteristics
  - Strategy CSFs resulting from the chosen competitive strategy of the business
  - Environmental CSFs resulting from economic or technological changes
  - Temporal CSFs resulting from internal organizational needs and changes
- (Michaels, 1994/2005)

#### *Nortel's Critical Success Factors*

- Time-To-Market – reduce by 20% per year for the next three years

- Product Quality, Innovation and Differentiation – reduce software bugs by 25% per year and hardware defects 10% per year
- Research and Development - maintain a 25% R&D investment as a percentage of total revenue expenses
- Simplify Doing Business with Nortel for Customers – reduce administrative delays by 30% within three years.
- Simplify Nortel's Internal Business Operations – reduce management personnel by 30% and the number of management layers [6 layers to 5 or even 4 in some departments] within the next two years. A manager must have at least 12 direct reports; a director must have at least 25 direct reports, etc.
- Efficient and Effective Supply Chain Management – reduce product order, delivery and installation time by 50% in the next three years.
- Increase Sales to Large Enterprise Customers and the Government – 100% increase in three years
- Drastically Improve Financial Reporting Process – improve accuracy by 100% within two years and length of time to report the numbers by 3 weeks within 2 years.

## Controls and Evaluation

Strategic control is concerned with tracking a strategy as it is being implemented, detecting problems or changes in its underlying premises, and making necessary adjustments. In contrast to post action control, strategic control is concerned with guiding action in behalf of the strategy as that action is taking place and when the end is still several years off. Managers responsible for the success of a strategy typically are concerned with two sets of questions:

1. Are we moving in the proper direction? Are key things falling into place? Are our assumptions about major trends and changes correct? Are we doing the critical things that need to be done? Should we adjust or abort the strategy?
2. How are we performing? Are objectives and schedules being met? Are costs, revenues, and cash flows matching projections? Do we need to make operational changes? (Pearce, 2004)

The rapid and accelerating change in technology in the telecommunications sector requires continuous improvement as another aspect of strategic control. Continuous improvement allows Nortel to provide strategic control to enable Nortel to respond to market conditions proactively and bring innovative products and technology to market in a timely fashion. The tools to manage strategic control include continuous improvement quality imperatives and the balanced scoreboard methodology.



*The Four Basic Types of Strategic Control*

1. Premise Control
2. Special Alert Control
3. Strategic Surveillance
4. Implementation Control

Premise control is designed to continuously check whether the premises on which Nortel's strategy is based are still valid.

Strategic surveillance is designed to monitor a broad range of environmental and internal events that may affect Nortel's strategy. Strategic surveillance should be kept as unfocused as possible.

Special alert control is the thorough, and often rapid reconsideration of Nortel's strategy because of a sudden, unexpected event. Hurricane Katrina and 9/11 are examples of such events.

Strategic surveillance may include reading trade magazines and newspapers and watching television news programs. A good [recent] example that is very relevant to Nortel is the announced merger of Lucent Technologies and Alcatel.

Implementation control is designed to assess whether the overall strategy is still relevant, based on the results of the incremental steps taken to achieve Nortel's strategy. The two basic types of implementation control are (1) milestone reviews and (2) strategic thrusts monitoring.

Milestones are critical events, major resource allocations, or the passage of a certain amount of time. A milestone review is the critical assessment of the current state of the strategy and whether the strategy should continue or if the strategy needs to be altered.

Strategic thrusts are the execution of mini-projects or a subset of the overall strategy. As the smaller projects are completed, analysis can be performed to determine the health of the overall strategy.

#### *The Six-Sigma Approach to Continuous Improvement*

Six-Sigma is a highly rigorous and analytical approach to quality and continuous improvement with an objective to improve profits through defect reduction, yield improvement, improved customer satisfaction and best-in-class performance.

The method for improving Nortel's operational system for sub-par performance is the DMAIC process (define, measure, analyze, improve, control). Evaluation and analysis is accomplished via:

- Visually displaying data
- Value-Added Analysis
- Cause and Effect Analysis
- Root Cause Verification
- Determining Opportunity for Improvement
- Project Charter
- Review and Revision

Control mechanisms include:

- Statistical Process Control Overview
- Developing a Process Control Plan
- Documenting the Process

## Conclusion

Strategies fail. The cost of failure in time, talent, and careers, is inestimable. Strategic planners must know why plans fail so they can pursue strategies that will succeed. Only two things accurately predict the success or failure of a strategy: 1) the organizations technical ability to execute the strategy, and 2) the organization's will to implement the strategy. (Press, 2001)

Successful strategies are borne through the alignment of Nortel's internal processes and capabilities with long-term objectives. To pick the optimum strategy, data must be gathered through environmental analysis to define long-term objectives that will boost Nortel's competitive position. A SWOT analysis coupled with a Matched Pair Analysis will identify the optimum strategies for Nortel.

Once the optimum strategy is chosen, plan goals and implementation must be defined. Nortel's implementation will be through the Lean Six Sigma process. Continual monitoring of the Critical Success Factors is important for control and evaluation of the strategy. Financial projections are used as inputs for the plan's goals. Financial analysis, time lining, customer satisfaction, and resource utilization will be used to gauge the success of the strategy at pre-determined milestones. Each milestone is a decision point to modify the strategy or abandon the strategy. Nortel will use DMAIC for the control and analysis/evaluation of the respective strategy.

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