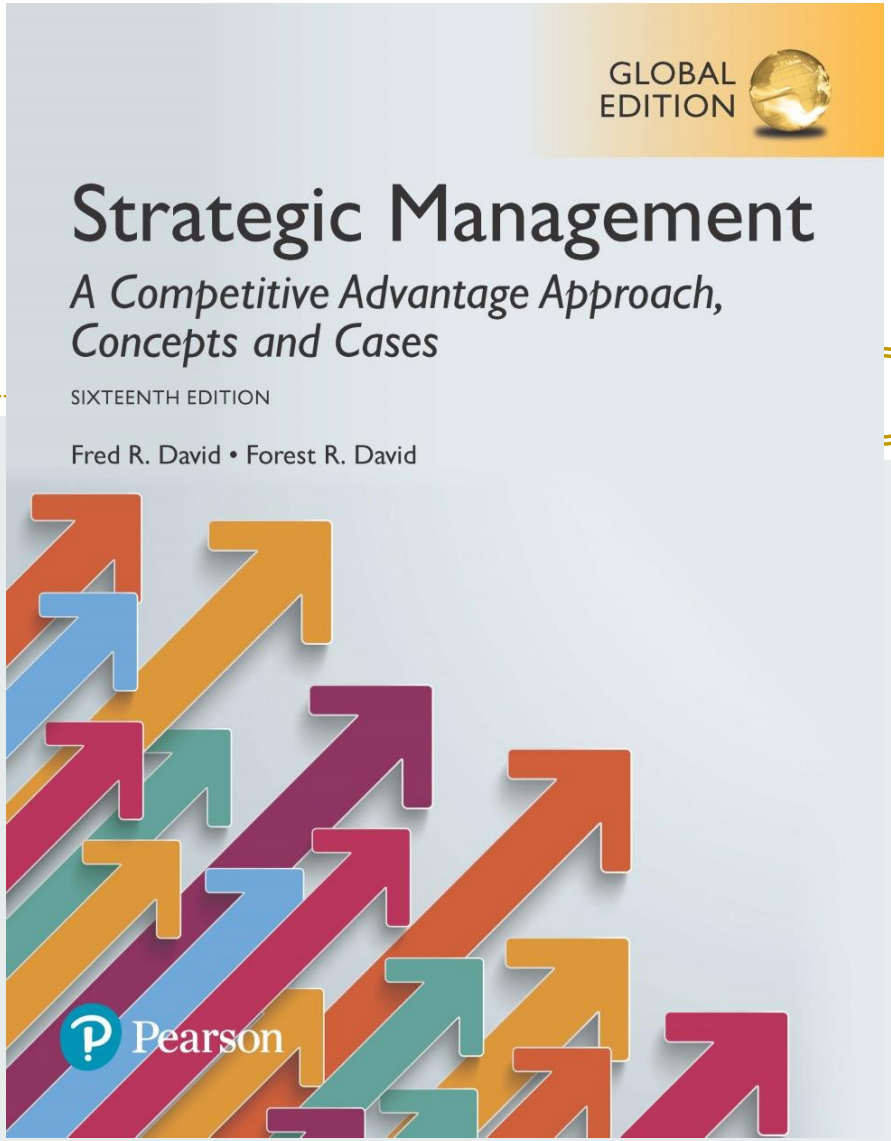


Chapter 1: Strategic Management Essentials

What is Strategy?



- A company's strategy is the set of actions that its managers take to outperform the company's competitors and achieve superior profitability.

What do we mean by strategy?

- What is our present situation?
  - Business environment and industry conditions
  - Firm's financial and competitive capabilities
- Where do we want to go from here?
  - Creating a vision for the firm's future direction
- How are we going to get there?
  - By crafting an action plan that heads the firm in the direction of its intended market position, attracts customers, achieves financial and market performance targets, and gets it where it wants to go—that is, its strategy

What is strategy about?

Strategy is all about ***How:***

- ***How*** to position the firm in the marketplace
- ***How*** to attract customers
- ***How*** to compete against rivals
- ***How*** to achieve the firm's performance targets
- ***How*** to capitalize on opportunities to grow the business
- ***How*** to respond to changing economic and market conditions

Strategic Management Principle

- Strategy as a choice
  - Is about deciding to compete differently from rivals—doing what competitors do not do or, even better, doing what they cannot do!
  - Is likely to be successful when its actions, business approaches, and competitive moves appeal to buyers in ways that
    - Set a company apart from its rivals
    - Stake out a market position that is not crowded with strong competitors

Strategy and Competitor

- Strategy is about competing differently from rivals.
  - Doing what they do not do or doing it better
  - Doing what they cannot do
  - Doing things that attract customers and set a firm apart from its rivals
  - Doing things calculated to produce a competitive edge over rivals
  - Doing what the firm must do and also knowing what it must not do

Why bother with strategy?

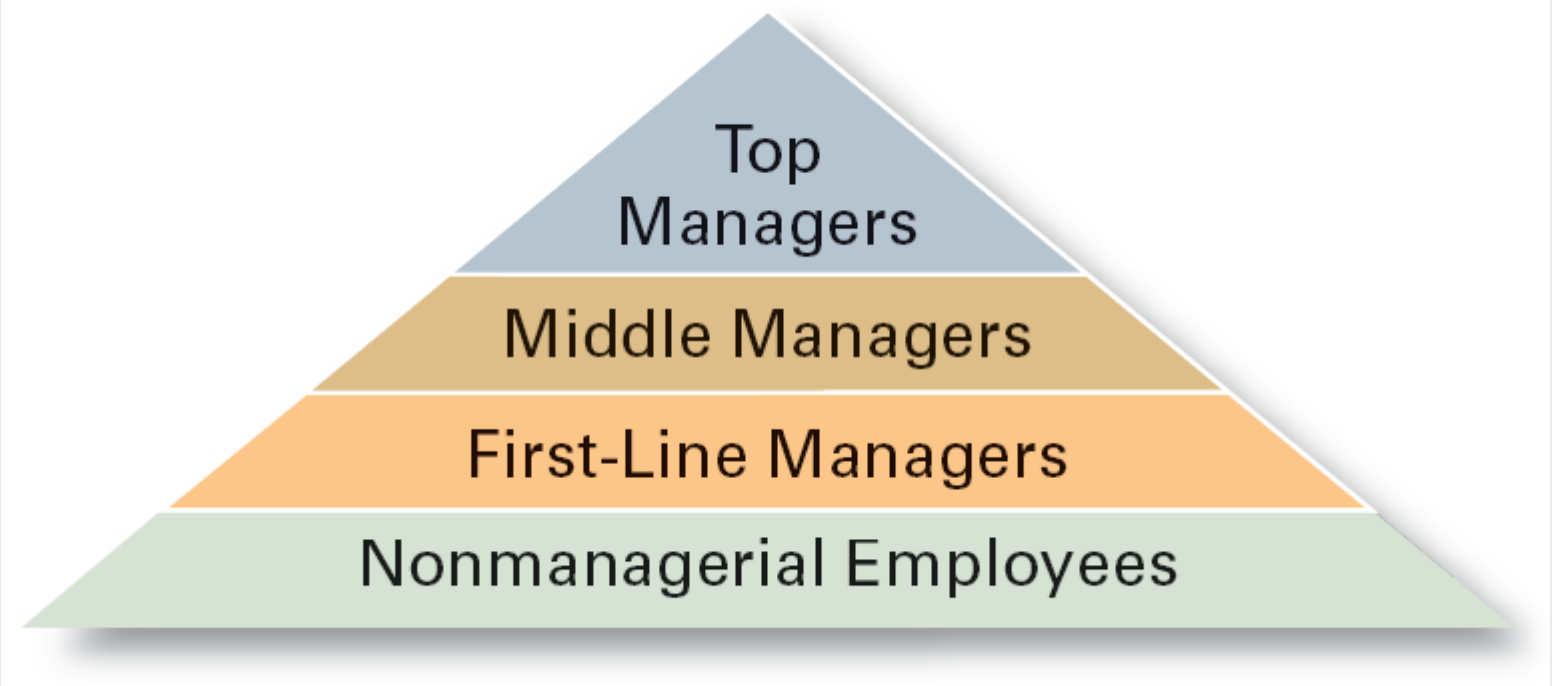
- A firm needs a strategy to specify what actions will be taken.
  - To improve its financial performance
  - To strengthen its competitive position
  - To gain a sustainable competitive advantage over its market rivals
- A creative, distinctive strategy
  - Helps produce above-average profits
  - Increases competitive pressures on rivals

Defining Strategic Management

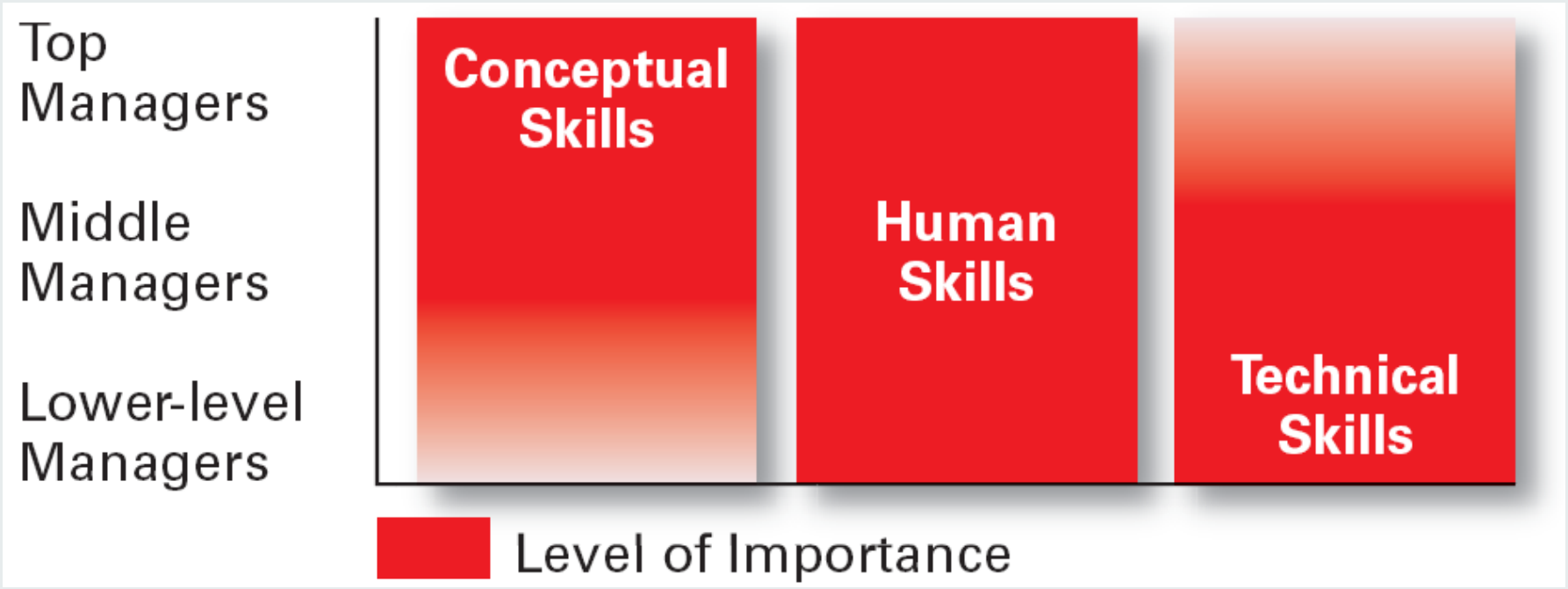


- Strategic Management: the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives

Managerial Levels



Skills Needed at Different Management Levels



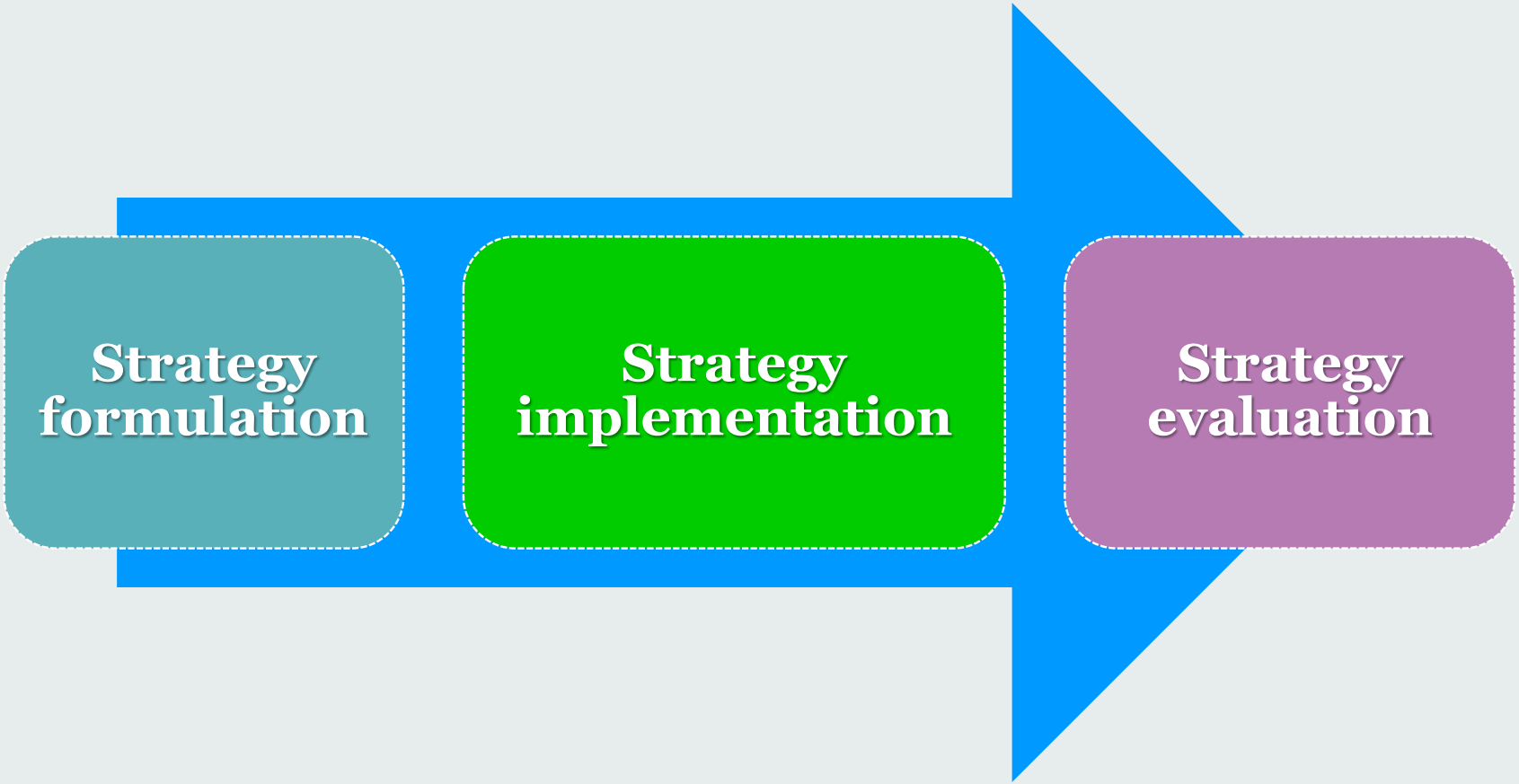
Defining Strategic Management

- *Strategic management* is used synonymously with the term *strategic planning* in this course.
- Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation.

Defining Strategic Management

- A strategic plan is a company's game plan.
- A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations.

Stages of Strategic Management



Stages of Strategic Management

- **Strategy Formulation**
  - developing a vision and mission
  - identifying an organization's external opportunities and threats
  - determining internal strengths and weaknesses
  - establishing long-term objectives
  - generating alternative strategies
  - choosing particular strategies to pursue

Strategy Formulation Decisions



- What new businesses to enter
- What businesses to abandon
- Whether to expand operations or diversify
- Whether to enter international markets
- Whether to merge or form a joint venture
- How to avoid a hostile takeover

Stages of Strategic Management

- **Strategy Implementation**
  - requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed
  - often called the action stage

Stages of Strategic Management

- **Strategy Evaluation**
  - Determining which strategies are not working well
  - Three fundamental activities:
    - reviewing external and internal factors that are the bases for current strategies
    - measuring performance
    - taking corrective actions

Key Terms in Strategic Management

- **Competitive Advantage**
  - any activity a firm does especially well compared to activities done by rival firms, or
  - any resource a firm possesses that rival firms desire.
- A firm must strive to achieve sustained competitive advantage

Key Terms in Strategic Management

- **Strategists**
  - Individuals most responsible for the success or failure of an organization
  - Help an organization gather, analyze, and organize information
- **Vision and Mission Statements**
  - A vision statement answers the question “What do we want to become?”
  - A mission statement answers the question “What is our business?”

Key Terms in Strategic Management

- **External Opportunities and Threats**
  - economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization
- **Internal Strengths and Internal Weaknesses**
  - an organization's controllable activities that are performed especially well or poorly
  - determined relative to competitors

Some Opportunities and Threats



- Availability of capital can no longer be taken for granted.
- Consumers expect green operations and products.
- Marketing is moving rapidly to the Internet.
- Commodity food prices are increasing.
- An oversupply of oil is driving oil and gas prices down.

Key Terms in Strategic Management

- **Long-Term Objectives**
  - specific results that an organization seeks to achieve in pursuing its basic mission
  - long-term means more than one year
  - should be challenging, measurable, consistent, reasonable, and clear

Key Terms in Strategic Management

- **Strategies**
  - the means by which long-term objectives will be achieved
  - may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures

Key Terms in Strategic Management

- **Annual objectives**
  - short-term milestones that organizations must achieve to reach long-term objectives
  - should be measurable, quantitative, challenging, realistic, consistent, and prioritized
  - should be established at the corporate, divisional, and functional levels in a large organization
- **Policies**
  - the means by which annual objectives will be achieved

The Strategic-Management Model



Where are we now?

Where do we want to go?

How are we going to get there?

Comprehensive Strategic-Management Model

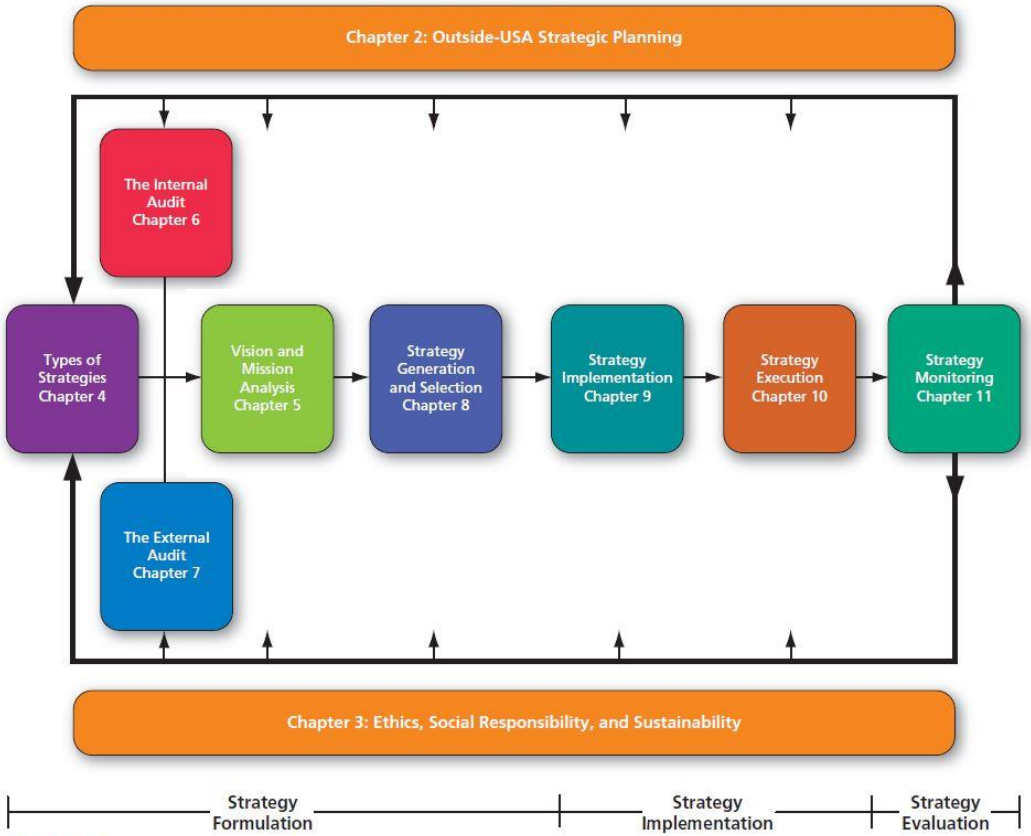


FIGURE 1-1

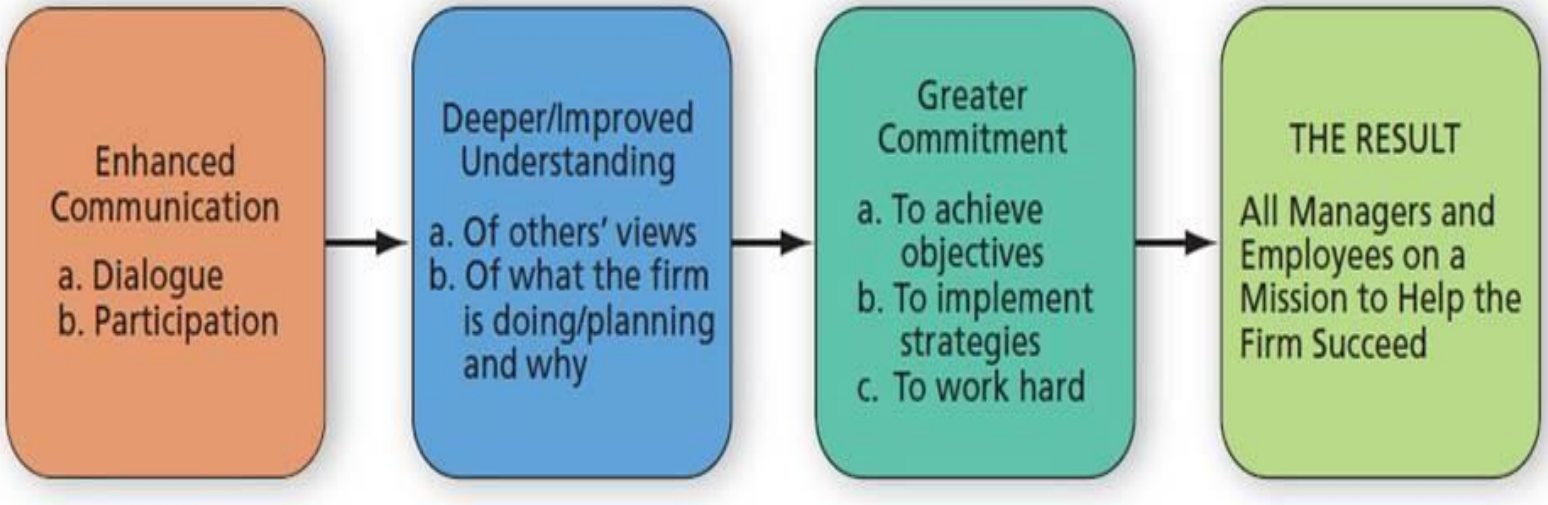
A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40,
© Fred R. David.

Benefits of Strategic Management

- Strategic management allows an organization to be more proactive than reactive in shaping its own future;
- It allows an organization to initiate and influence (rather than just respond to) activities—and thus to exert control over its own destiny.

Benefits to a Firm That Does Strategic Planning



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Financial Benefits



- Businesses using strategic-management concepts show significant improvement in sales, profitability, and productivity compared to firms without systematic planning activities
- High-performing firms tend to do systematic planning to prepare for future fluctuations in their external and internal environments

Nonfinancial Benefits

- Enhanced awareness of external threats
- Improved understanding of competitors' strategies
- Increased employee productivity
- Reduced resistance to change
- Clearer understanding of performance–reward relationships

Why Some Firms Do No Strategic Planning

- No formal training in strategic management
- No understanding of or appreciation for the benefits of planning
- No monetary rewards for doing planning
- No punishment for not planning
- Too busy “firefighting” (resolving internal crises) to plan ahead
- View planning as a waste of time, since no product/service is made

Why Some Firms Do No Strategic Planning

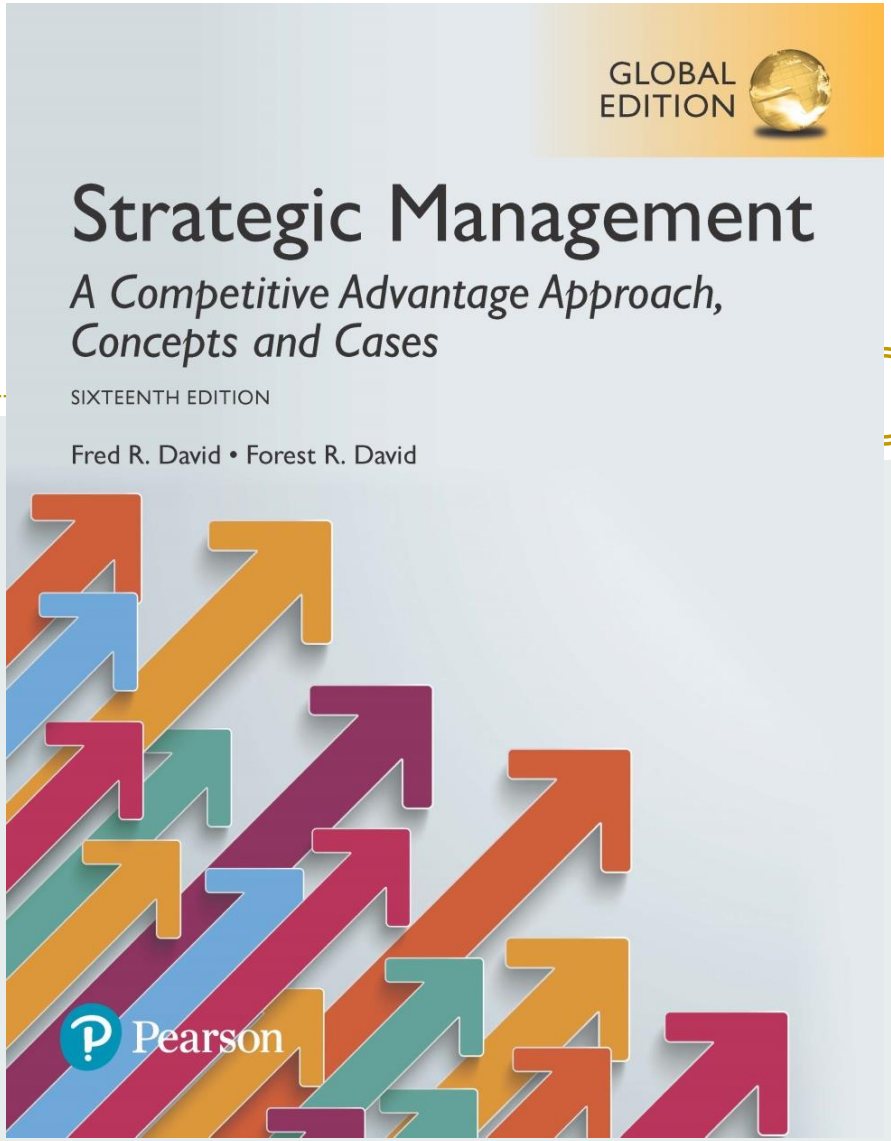
- Laziness; effective planning takes time and effort; time is money
- Content with current success; failure to realize that success today is no guarantee for success tomorrow; even Apple Inc. is an example
- Overconfident
- Prior bad experience with strategic planning done sometime/somewhere

Pitfalls in Strategic Planning

- Using strategic planning to gain control over decisions and resources
- Doing strategic planning only to satisfy accreditation or regulatory requirements
- Too hastily moving from mission development to strategy formulation
- Failing to communicate the plan to employees, who continue working in the dark
- Top managers making many intuitive decisions that conflict with the formal plan
- Top managers not actively supporting the strategic-planning process
- Failing to use plans as a standard for measuring performance

Pitfalls in Strategic Planning

- Delegating planning to a “planner” rather than involving all managers
- Failing to involve key employees in all phases of planning
- Failing to create a collaborative climate supportive of change
- Viewing planning as unnecessary or unimportant
- Becoming so engrossed in current problems that insufficient or no planning is done
- Being so formal in planning that flexibility and creativity are stifled



Chapter 2: Outside-USA Strategic Planning

A Comprehensive Strategic-Management Model

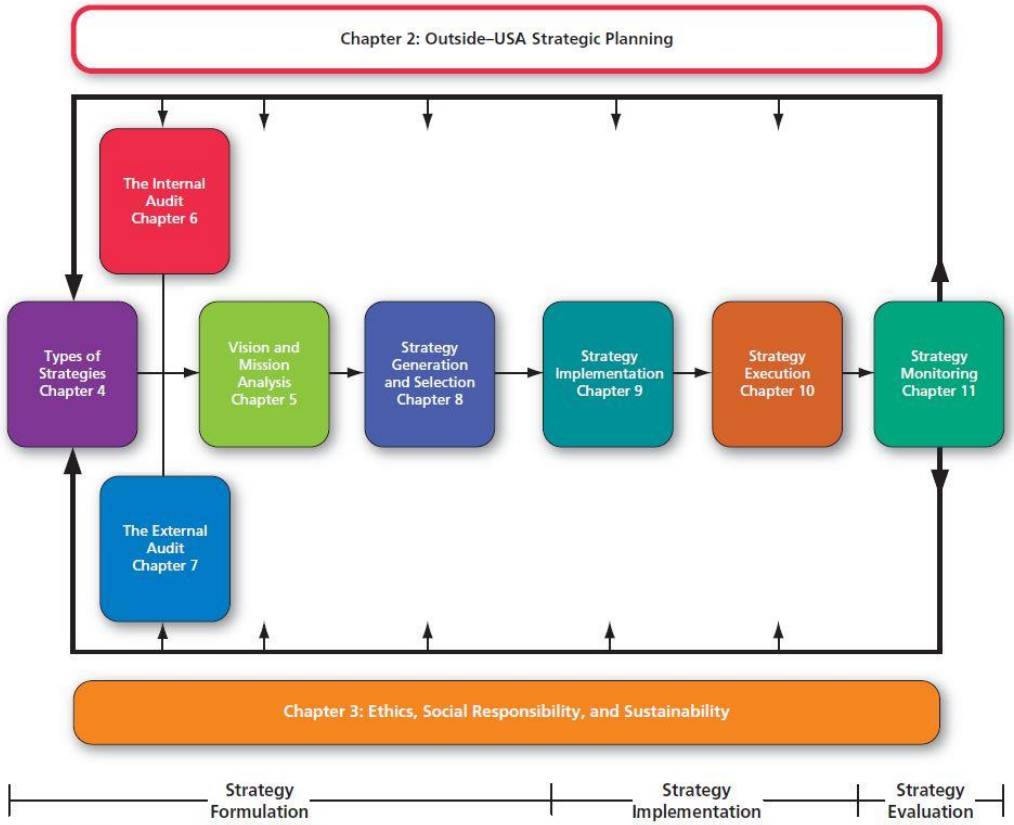


FIGURE 2-1

A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40, © Fred R. David.

Global/International Issues

- The underpinnings of strategic management hinge on managers gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide.
- *The price and quality of a firm's products and services must be competitive on a worldwide basis, not just on a local basis.*

The Nature of Doing Business Globally

- Exports of goods and services from the United States account for only 13.5 percent of U.S. gross domestic product.

Globalization

- **Globalization**
  - process of doing business worldwide, so strategic decisions are made based on global profitability of the firm rather than just domestic considerations
- **Global Strategy**
  - includes designing, producing, and marketing products with global needs in mind, instead of considering individual countries alone

Multinational Firms



- **Multinational Corporations**
  - Organizations that conduct business operations across national borders

Globalization Debate - Pro

- Lower prices for goods and services
- Economic growth stimulation
- Increase in consumer income
- Creates jobs
- Countries specialize in production of goods and services that are produced most efficiently

Globalization Debate - Con

- Destroys manufacturing jobs in wealthy, advanced countries
- Wage rates of unskilled workers in advanced countries declines
- Companies move to countries with fewer labor and environment regulations

Advantages of Global Business



1. Firms can gain new customers for their products.
2. Foreign operations can absorb excess capacity, reduce unit costs, and spread economic risks over a wider number of markets.
3. Foreign operations can allow firms to establish low-cost production facilities in locations close to raw materials or cheap labor.
4. Competitors in foreign markets may not exist, or competition may be less intense than in domestic markets.

Advantages of Global Business

5. Foreign operations may result in reduced tariffs, lower taxes, and favorable political treatment.
6. Joint ventures can enable firms to learn the technology, culture, and business practices of other people and to make contacts with potential customers, suppliers, creditors, and distributors in foreign countries.
7. Economies of scale can be achieved from operation in global rather than solely domestic markets.
8. A firm's power and prestige in domestic markets may be significantly enhanced if the firm competes globally.

Disadvantages of Global Business

1. Foreign operations could be seized by nationalistic factions.
2. Firms confront different and often little-understood social, cultural, demographic, environmental, political, governmental, legal, technological, economic, and competitive forces.
3. Weaknesses of competitors in foreign lands are often overestimated, and strengths are often underestimated.
4. Language, culture, and value systems differ among countries, which can create barriers to communication.
5. Gaining an understanding of regional organizations is difficult.
6. Dealing with two or more monetary systems can complicate international business operations.

The Global Challenge

- America's economy is becoming much less American.
- A world economy and monetary system are emerging.
- Markets are shifting rapidly and in many cases converging in tastes, trends, and prices.

Corporate Tax Rates Across Countries in 2015

Country	Corporate Tax Rate (%)
United Arab Emirates (UAE)	55.00
Chad	40.00
USA	35.00
Brazil	34.00
France	33.33
Germany	33.00
India	30.00
Mexico	30.00
Italy	27.50
Japan	25.50
Israel	25.00
Austria	25.00
China	25.00
Portugal	25.00
Finland	24.50
U.K.	23.00
Ukraine	21.00
Estonia	21.00
Russia	20.00
Greece	20.00
Croatia	20.00
Libya	20.00
Netherlands	20.00

Corporate Tax Rates Across Countries in 2015

Turkey	20.00
Poland	19.00
Czech Republic	19.00
Hungary	19.00
Singapore	17.00
Canada	15.00
Hong Kong	16.50
Romania	16.00
Latvia	15.00
Lithuania	15.00
Ireland	12.50
Serbia	10.00
Bulgaria	10.00
Cyprus	10.00
Bermuda	0.00

American Versus Foreign Business Culture



- To be successful in world markets, U.S. managers must obtain a better knowledge of historical, cultural, and religious forces that motivate and drive people in other countries.
- For multinational firms, knowledge of business culture variation across countries can be essential for gaining and sustaining competitive advantage.

Hofstede's Cultural Dimensions

Extracted from HTTP://GREET-HOFTSEDE.COM

Hofstede's Cultural Dimensions



- Professor Geert Hofstede conducted one of the most comprehensive studies of how values in the workplace are influenced by culture.

Hofstede's Cultural Dimensions

- Six dimensions of culture:
  - Power distance
  - Individualism versus collectivism
  - Uncertainty avoidance
  - Masculinity versus femininity
  - Long term versus short term orientation
  - Indulgence versus restraint

Hofstede's Cultural Dimensions

- Power Distance: Cultures are ranked high or low on this dimensions based on the particular society's ability to deal with inequalities
- People in societies exhibiting a large degree of Power Distance accept a hierarchical order in which everybody has a place and which needs no further justification.

Hofstede's Cultural Dimensions

- In societies with low Power Distance, people strive to equalise the distribution of power and demand justification for inequalities of power.

Hofstede's Cultural Dimensions

- Individualism versus Collectivism: This dimension focuses on the relationship between the individual and his/her fellows within a culture.

Hofstede's Cultural Dimensions

- Individualistic societies:
  - loose ties
  - individual achievement and freedom highly valued
- Collectivist societies:
  - tight ties
  - tend to be more relationship oriented

Hofstede's Cultural Dimensions

- Uncertainty Avoidance: This dimension measures the extent to which a culture socializes its members into accepting ambiguous situations and tolerating uncertainty.
- Countries exhibiting strong Uncertainty Avoidance maintain rigid codes of belief and behaviour and are intolerant of unorthodox behaviour and ideas.

Hofstede's Cultural Dimensions



- Weak Uncertainty Avoidance societies maintain a more relaxed attitude in which practice counts more than principles.

Hofstede's Cultural Dimensions



- Masculinity versus Femininity: This dimension looks at the relationship between gender and work roles.
- The Masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material rewards for success. Society at large is more competitive.

Hofstede's Cultural Dimensions

- Femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented.
- In the business context Masculinity versus Femininity is sometimes also related to as "tough versus tender" cultures.

Hofstede's Cultural Dimensions



- Long Term Orientation versus Short Term Orientation: Every society has to maintain some links with its own past while dealing with the challenges of the present and the future.
- Societies prioritize these two existential goals differently.

Hofstede's Cultural Dimensions

- Societies who score low on this dimension, for example, prefer to maintain time-honoured traditions and norms while viewing societal change with suspicion.
- Those with a culture which scores high, on the other hand, take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future.

Hofstede's Cultural Dimensions

- Indulgence versus Restraint: This dimension is defined as *the extent to which people try to control their desires and impulses*, based on the way they were raised.
- Relatively weak control is called "Indulgence" and relatively strong control is called "Restraint". Cultures can, therefore, be described as Indulgent or Restrained.

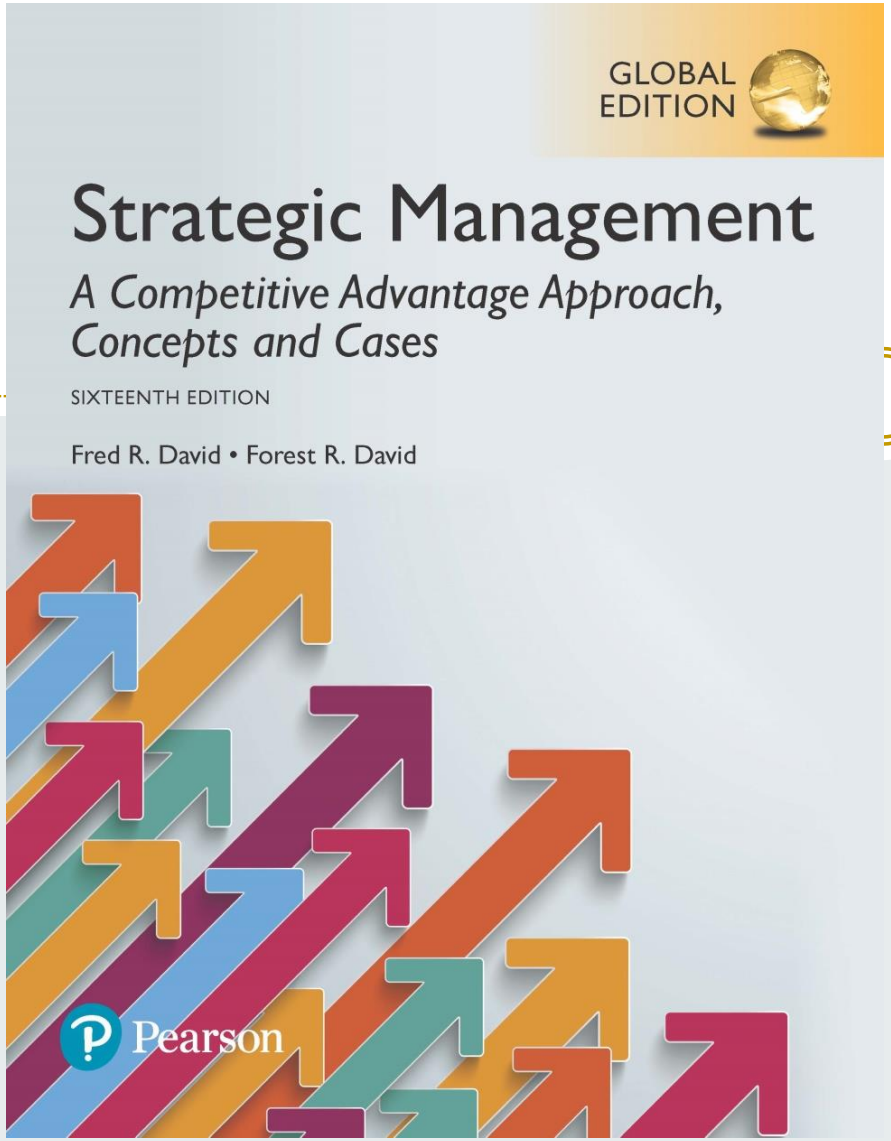
Video Clip



- Hofstede's Cultural Dimensions Video: Explained With Examples of Each Dimension
  - https://www.youtube.com/watch?v=EcrFudqIGr4
- Demo: https://www.hofstede-insights.com/product/compare-countries/

Suggested Video Clips

- Globalization easily explained (explainity® explainer video)
- https://www.youtube.com/watch?v=JJ0nFD19eT8
- Korean drinking etiquette
- https://www.youtube.com/watch?v=0MJ6Gk2h1Gk
- 5 Reasons Why The Japanese Are So Polite
- https://www.youtube.com/watch?v=hdZK22pR5nU
- Hofstede's Cultural Dimensions Video: Explained With Examples of Each Dimension
- https://www.youtube.com/watch?v=EcrFudqIGr4



Chapter 3: Ethics/ Social Responsibility/ Sustainability

Business Ethics

- **Business Ethics**
  - principles of conduct within organizations that guide decision making and behavior

Social Responsibility, Environmental Sustainability

- **Social Responsibility**
  - actions an organization takes beyond what is legally required to protect or enhance the well-being of living things
- **Sustainability**
  - the extent that an organization's operations and actions protect, mend, and preserve rather than harm or destroy the natural environment

Social Responsibility

- Includes the expectation that corporations concern themselves with the social and economic effects of their decisions

The two extreme opinions related to social responsibility – Domestic firms



The only responsibility of a business is to make a profit

Business should anticipate and try to solve problems in society

Seven Principles of Admirable Business Ethics



- Be trustworthy
- Be open-minded
- Honor commitments and obligations
- Do not misrepresent, exaggerate, or mislead
- Be a visibly responsible community citizen
- Utilize your accounting practice to eliminate questionable activities
- Do unto others as you would have them do unto you

Establish an Ethics Culture

- **Code of Business Ethics**
  - To ensure that the code of ethics is read, understood, believed, and remembered, periodic ethics workshops are needed to sensitize people to workplace circumstances in which ethics issues may arise.

An Ethics Culture

- **Whistle-blowing:** refers to employees reporting any unethical violations they discover or see in the firm

An Ethics Culture

- Ethics training programs should include messages from the CEO or owner of the business emphasizing ethical business practices, the development and discussion of codes of ethics, and procedures for discussing and reporting unethical behavior.

Avoid Bribery

- **Bribery**
  - the offering, giving, receiving, or soliciting of any item of value to influence the actions of an official or other person in discharge of a public or legal duty
  - a crime in most countries of the world, including the United States

Workplace Romance

- Workplace romance can be detrimental to morale and productivity
  - favoritism complaints can arise
  - confidentiality of records can be breached
  - reduced quality and quantity of work could result
  - personal arguments can lead to work arguments
  - whispering secrets can lead to tensions
  - sexual harassment charges may ensue
  - conflicts of interest could arise

Social Responsibility and Policy



- Ralph Nader proclaims that organizations have tremendous social obligations.
- Milton Friedman asserts that organizations have no obligation to do any more for society than is legally required.

Social Policy

- **Social Policy**
  - concerns what responsibilities the firm has to employees, consumers, environmentalists, minorities, communities, shareholders, and other groups
  - Firms should strive to engage in social activities that have economic benefits

Environmental Sustainability

- Employees, consumers, governments, and society are especially resentful of firms that harm rather than protect the natural environment.
- Conversely, people today are especially appreciative of firms that conduct operations in a way that mends, conserves, and preserves the natural environment.

Sustainability Reports

- Sustainability report:
  - reveals how a firm's operations impact the natural environment
  - discloses to shareholders information about the firm's labor practices, product sourcing, energy efficiency, environmental impact, and business ethics practices

ISO 14000/14001 Certification



- The **ISO 14000** family of standards concerns the extent to which a firm minimizes harmful effects on the environment caused by its activities and continually monitors and improves its own environmental performance.

ISO 14000/14001 Certification

- **ISO 14001** is a set of standards adopted by thousands of firms worldwide to certify to their constituencies that they are conducting business in an environmentally friendly manner
- Results in an **E**nvironmental **M**anagement **S**ystem (**EMS**)

6 Major Requirements of an EMS

1. Show commitments to prevention of pollution, continual improvement in overall environmental performance, and compliance with all applicable statutory and regulatory requirements.
2. Identify all aspects of the organization's activities, products, and services that could have a significant impact on the environment, including those that are not regulated.

6 Major Requirements of an EMS

3. Set performance objectives and targets for the management system that link back to three policies: (1) prevention of pollution, (2) continual improvement, and (3) compliance.
4. Meet environmental objectives that include training employees, establishing work instructions and practices, and establishing the actual metrics by which the objectives and targets will be measured.

6 Major Requirements of an EMS

5. Conduct an audit operation of the EMS.
6. Take corrective actions when deviations from the EMS occur.

Wildlife Welfare

- Consumers globally are becoming increasingly intolerant of any business or nation that directly or indirectly destroys wildlife, especially endangered wildlife, such as tigers, elephants, whales, songbirds, and coral reefs.

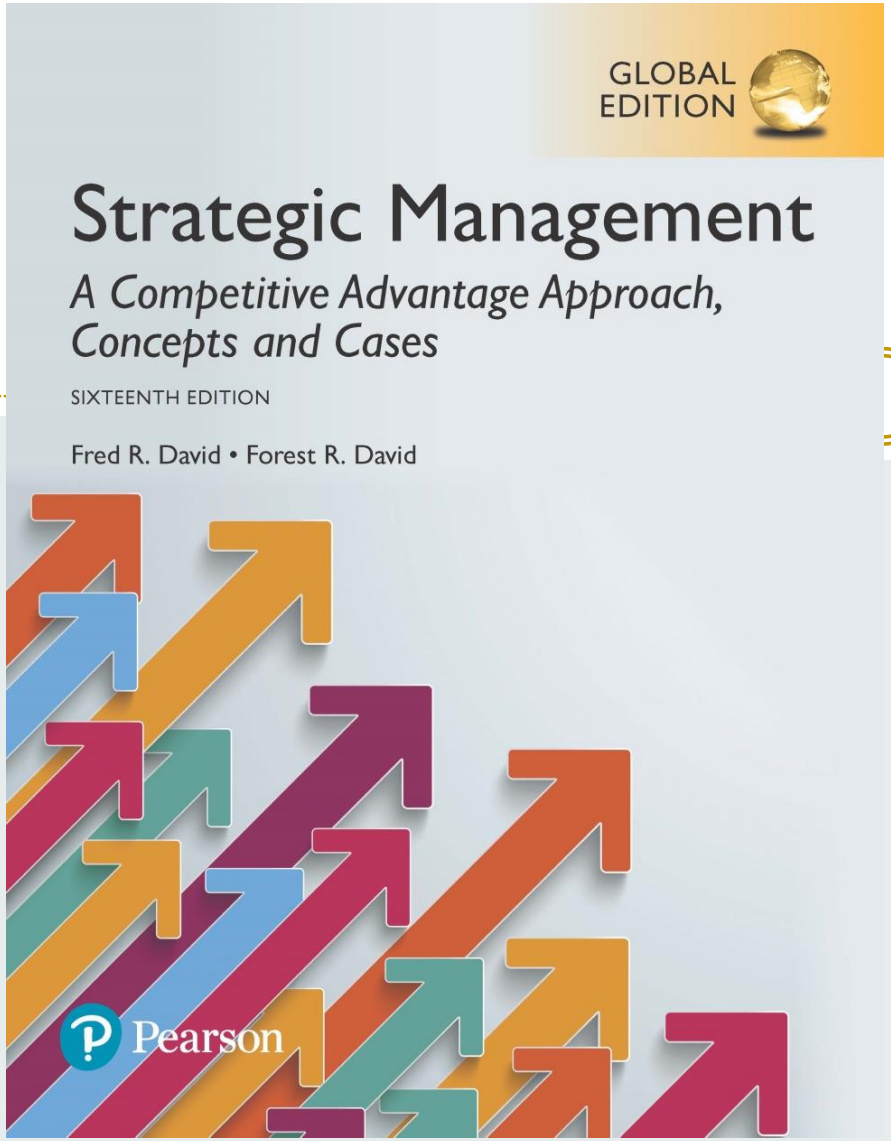
Food Suppliers and Animal Welfare



- Consumers expect humane treatment of animals.
- Consumers are flocking to organic products.

Suggested Video Clip

- Business Ethics: Corporate Social Responsibility
- https://www.youtube.com/watch?v=EFkSfvvAVeE



Chapter 4:
Types of Strategy (I)

Long-Term Objectives

- The results expected from pursuing certain strategies
- 2-to-5 year timeframe

The Desired Characteristics of Objectives



The Nature of Long-Term Objectives

- **Objectives**
  - provide direction
  - allow synergy
  - assist in evaluation
  - establish priorities
  - reduce uncertainty
  - minimize conflicts
  - stimulate exertion
  - aid in both the allocation of resources and the design of jobs

Financial versus Strategic Objectives



- **Financial objectives** include growth in revenues, growth in earnings, higher dividends, larger profit margins, greater return on investment, higher earnings per share, a rising stock price, improved cash flow, and so on.

Financial versus Strategic Objectives



- **Strategic objectives** include a larger market share, quicker on-time delivery than rivals, shorter design-to-market times than rivals, lower costs than rivals, higher product quality than rivals, wider geographic coverage than rivals, achieving technological leadership, consistently getting new or improved products to market ahead of rivals, and so on.

A Comprehensive Strategic-Management Model

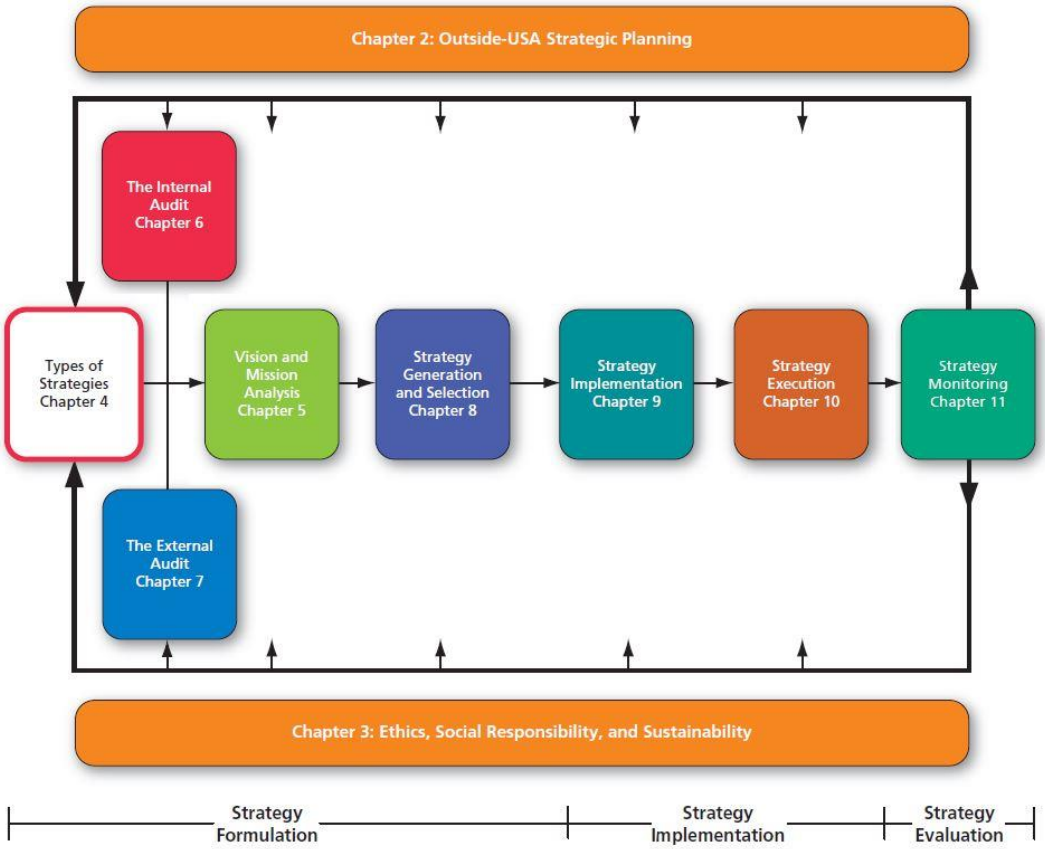


FIGURE 4-1

A Comprehensive Strategic-Management Model

Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40,
© Fred R. David.

Types of Strategies

- Most organizations simultaneously pursue a combination of two or more strategies, but a *combination strategy* can be exceptionally risky if carried too far.
- No organization can afford to pursue all the strategies that might benefit the firm.
- Difficult decisions must be made and priorities must be established.

Alternative Strategies Defined and Exemplified

TABLE 4-4 Alternative Strategies Defined and Recent Examples Given

Strategy	Definition	Example
Forward Integration	Gaining ownership or increased control over distributors or retailers	Amazon began rapid delivery services in some U.S. cities.
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Starbucks purchased a coffee farm.
Horizontal Integration	Seeking ownership or increased control over competitors	BB&T acquired Susquehanna Bancshares.
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Under Armour signed tennis champion Andy Murray to a 4-year, $23 million marketing deal.
Market Development	Introducing present products or services into new geographic area	Gap opened its first five stores in China.
Product Development	Seeking increased sales by improving present products or services or developing new ones	Amazon just began offering its own line of baby diapers and wipes.

Alternative Strategies Defined and Exemplified

TABLE 4-4 Alternative Strategies Defined and Recent Examples Given

Strategy	Definition	Example
Related Diversification	Adding new but related products or services	Facebook acquired the text-messaging firm WhatsApp for $19 billion.
Unrelated Diversification	Adding new, unrelated products or services	Kroger and Whole Foods Market are cooking meals, becoming restaurants.
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	Staples closed 250 stores and reduced by 50% the size of other stores.
Divestiture	Selling a division or part of an organization	Sears Holdings divested its Land's End division to Sears' shareholders.
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	The Trump Taj Mahal in Atlantic City, New Jersey, faces liquidation.

Levels of Strategies with Persons Most Responsible



Large Company



Small Company

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Integration Strategies

- **Forward Integration**
  - involves gaining ownership or increased control over distributors or retailers

Integration Strategies

Amazon is making a big bet on physical stores and the business of food.

The online retail giant announced Friday that is buying organic grocery chain Whole Foods (WFM) for $13.7 billion in cash. The deal values Whole Foods at $42 a share, 27% higher than where the stock was trading Thursday.

Amazon Forward Integration

Amazon (AMZN) said Whole Foods stores will continue operating under that name as a separate unit of the company. Whole Foods CEO John Mackey will stay on to lead Whole Foods, which will keep its headquarters in Austin, Texas.

The deal shows Amazon's interest in moving into the business of operating traditional brick-and-mortar stores, even as many retailers that have been crippled by Amazon's growth have announced a series of store closings.

Forward Integration Guidelines



- When an organization's present distributors are especially expensive
- When the availability of quality distributors is so limited as to offer a competitive advantage
- When an organization competes in an industry that is growing
- When an organization has both capital and human resources to manage distributing their own products
- When the advantages of stable production are particularly high
- When present distributors or retailers have high profit margins

Integration Strategies



- **Backward Integration**
  - strategy of seeking ownership or increased control of a firm's suppliers

Integration Strategies



Amazon takes vertical integration to a new level

Amazon has just launched its own delivery service in Los Angeles and will do so soon in more cities. *Shipping with Amazon* will compete directly with companies such as UPS or Fedex, offering other companies delivery services. The announcement sent the shares of the two companies down in the market.

Backward Integration Guidelines



- When an organization's present suppliers are especially expensive or unreliable
- When the number of suppliers is small and the number of competitors is large
- When the organization competes in a growing industry
- When an organization has both capital and human resources
- When the advantages of stable prices are particularly important
- When present suppliers have high profit margins
- When an organization needs to quickly acquire a needed resource

Integration Strategies

- **Horizontal Integration**
  - a strategy of seeking ownership of or increased control over a firm's competitors

Discussion



- What are the competitive advantages to the companies practiced Horizontal Integration to grow the business?

Horizontal Integration Guidelines



- When an organization can gain monopolistic characteristics in a particular area or region without being challenged by the federal government
- When an organization competes in a growing industry
- When increased economies of scale provide major competitive advantages
- When an organization has both the capital and human talent needed
- When competitors are faltering due to a lack of managerial expertise

Intensive Strategies



- **Market Penetration Strategy**
  - seeks to increase market share for present products or services in present markets through greater marketing efforts

Market Penetration Guidelines



- When current markets are not saturated with a particular product or service
- When the usage rate of present customers could be increased significantly
- When the market shares of major competitors have been declining while total industry sales have been increasing
- When the correlation between dollar sales and dollar marketing expenditures historically has been high
- When increased economies of scale provide major competitive advantages

Intensive Strategies

- **Market Development**
  - involves introducing present products or services into new geographic areas

Market Development Guidelines



- When new channels of distribution are available that are reliable, inexpensive, and of good quality
- When an organization is very successful at what it does
- When new untapped or unsaturated markets exist
- When an organization has the needed capital and human resources to manage expanded operations
- When an organization has excess production capacity
- When an organization's basic industry is rapidly becoming global in scope

Intensive Strategies

- **Product Development Strategy**
  - seeks increased sales by improving or modifying present products or services

Product Development Guidelines



- When an organization has successful products that are in the maturity stage of the product life cycle
- When an organization competes in an industry characterized by rapid technological developments
- When major competitors offer better-quality products at comparable prices
- When an organization competes in a high-growth industry
- When an organization has strong research and development capabilities

Diversification Strategies



- **Related Diversification**
  - value chains possess competitively valuable cross-business strategic fits

Related Diversification Guidelines



- When an organization competes in a no-growth or a slow-growth industry
- When adding new, but related, products would significantly enhance the sales of current products
- When new, but related, products could be offered at highly competitive prices
- When new, but related, products have seasonal sales levels that counterbalance an organization's existing peaks and valleys
- When an organization's products are currently in the declining stage of the product's life cycle
- When an organization has a strong management team

Diversification Strategies

- **Unrelated Diversification**
  - value chains are so dissimilar that no competitively valuable cross-business relationships exist

Unrelated Diversification Guidelines



- When revenues derived from an organization's current products would increase significantly by adding the new, unrelated products
- When an organization competes in a highly competitive or a no-growth industry, as indicated by low industry profit margins and returns
- When an organization's present channels of distribution can be used to market the new products to current customers
- When the new products have countercyclical sales patterns compared to present products
- When an organization's basic industry is experiencing declining annual sales and profits

Unrelated Diversification Guidelines (cont.)



- When an organization has the capital and managerial talent needed to compete successfully in a new industry
- When an organization has the opportunity to purchase an unrelated business that is an attractive investment opportunity
- When there exists financial synergy
- When existing markets for an organization's present products are saturated
- When antitrust action could be charged against an organization that historically has concentrated on a single industry

Synergies of Related Diversification



- Transferring competitively valuable expertise, technological know-how, or other capabilities from one business to another
- Combining the related activities of separate businesses into a single operation to achieve lower costs
- Exploiting common use of a known brand name
- Using cross-business collaboration to create strengths

Defensive Strategies

- **Retrenchment**
  - Regroups through cost and asset reduction to reverse declining sales and profits
- **Divestiture**
  - Selling a division or part of an organization
  - Often used to raise capital for further strategic acquisitions or investments
- **Liquidation**
  - Selling all of a company's assets, in parts, for their tangible worth

Defensive Strategies

- **Retrenchment**
  - occurs when an organization regroups through cost and asset reduction to reverse declining sales and profits
  - also called a turnaround or reorganizational strategy
  - designed to fortify an organization's basic distinctive competence

Retrenchment Guidelines



- When an organization has a distinctive competence but has failed consistently to meet its goals
- When an organization is one of the weaker competitors in a given industry
- When an organization is plagued by inefficiency, low profitability, and poor employee morale
- When an organization fails to capitalize on external opportunities and minimize external threats
- When an organization has grown so large so quickly that major internal reorganization is needed

Divestiture Guidelines



- When an organization has pursued a retrenchment strategy and failed to accomplish improvements
- When a division needs more resources to be competitive than the company can provide
- When a division is responsible for an organization's overall poor performance
- When a division is a misfit with the rest of an organization
- When a large amount of cash is needed quickly
- When government antitrust action threatens a firm

Defensive Strategies

- **Liquidation**
  - selling all of a company's assets, in parts, for their tangible worth
  - can be an emotionally difficult strategy

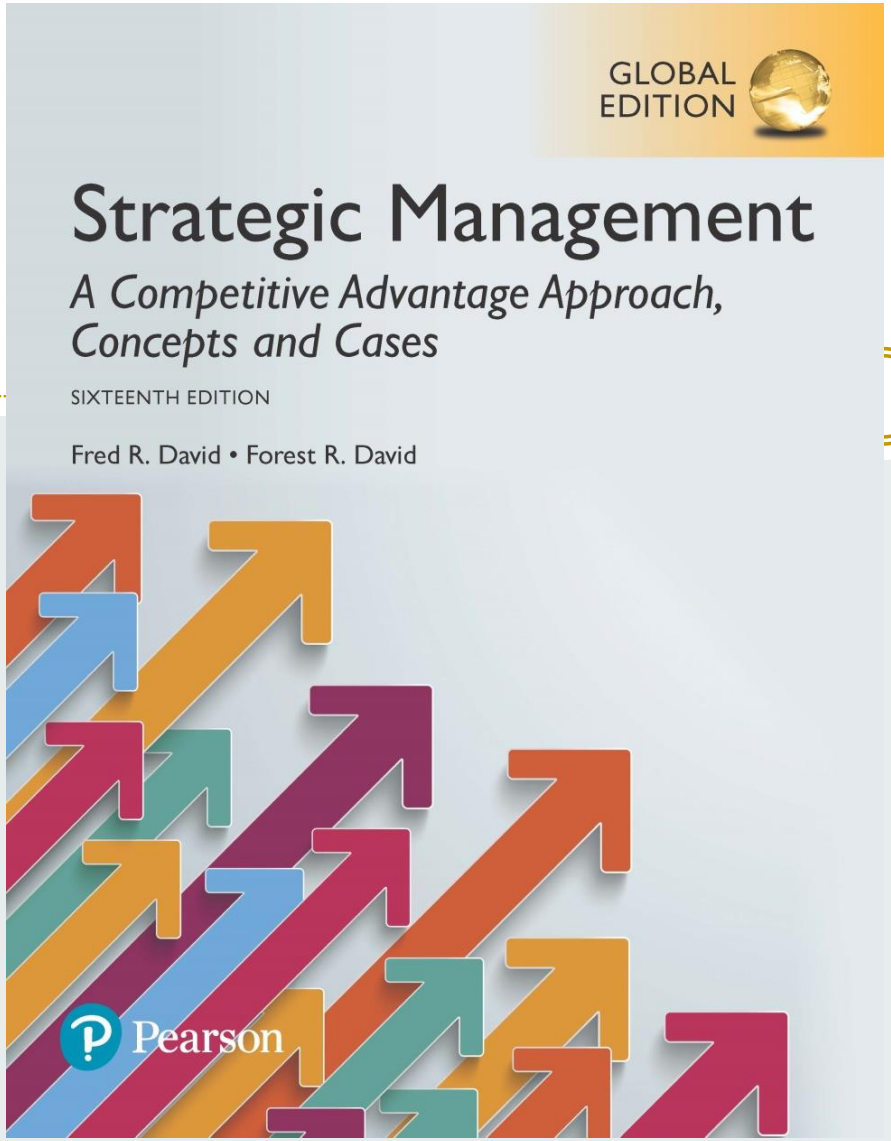
Liquidation Guidelines



- When an organization has pursued both a retrenchment strategy and a divestiture strategy, and neither has been successful
- When an organization's only alternative is bankruptcy
- When the stockholders of a firm can minimize their losses by selling the organization's assets

Suggested Video Clip

- Three levels of strategy
- https://www.youtube.com/watch?v=xcJf_UCjIgo



Chapter 4:
Types of Strategy (II)

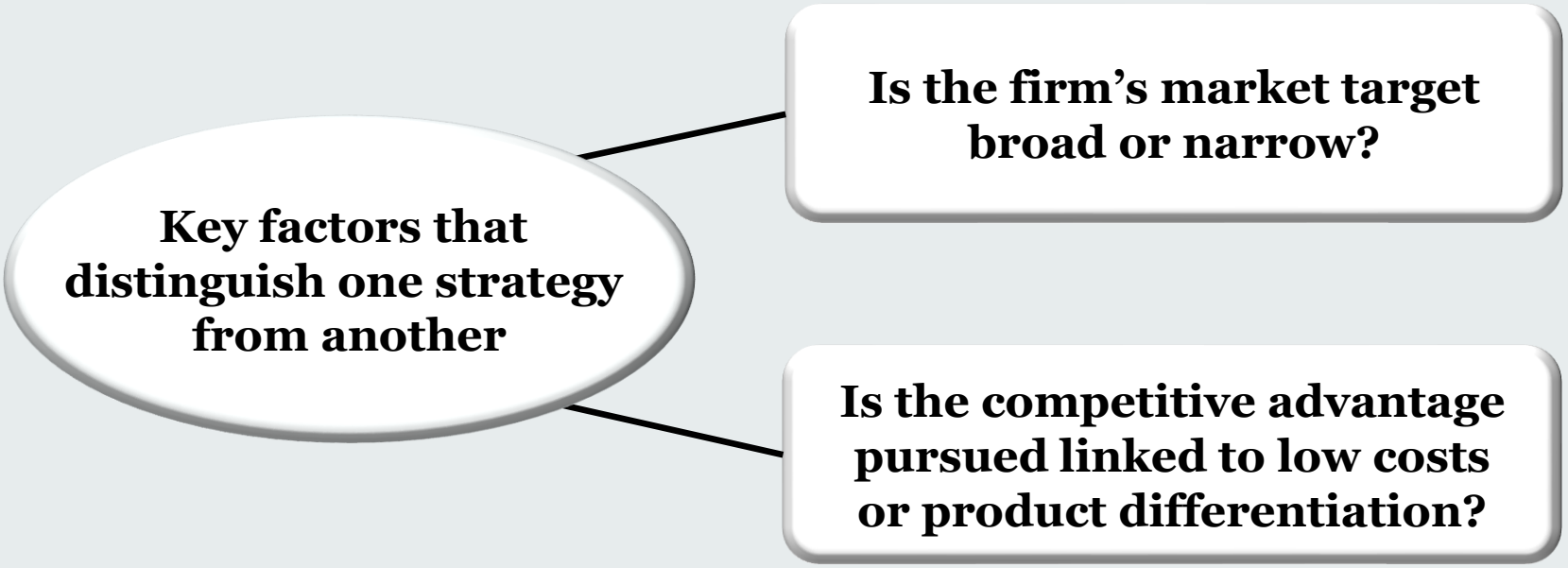
Benefits of a Firm Being the First Mover

TABLE 4-7 Benefits of a Firm Being the First Mover

1. Secure access and commitments to rare resources
2. Gain new knowledge of critical success factors and issues
3. Gain market share and position in the best locations
4. Establish and secure long-term relationships with customers, suppliers, distributors, and investors
5. Gain customer loyalty and commitments

Why Do Strategies Differ?

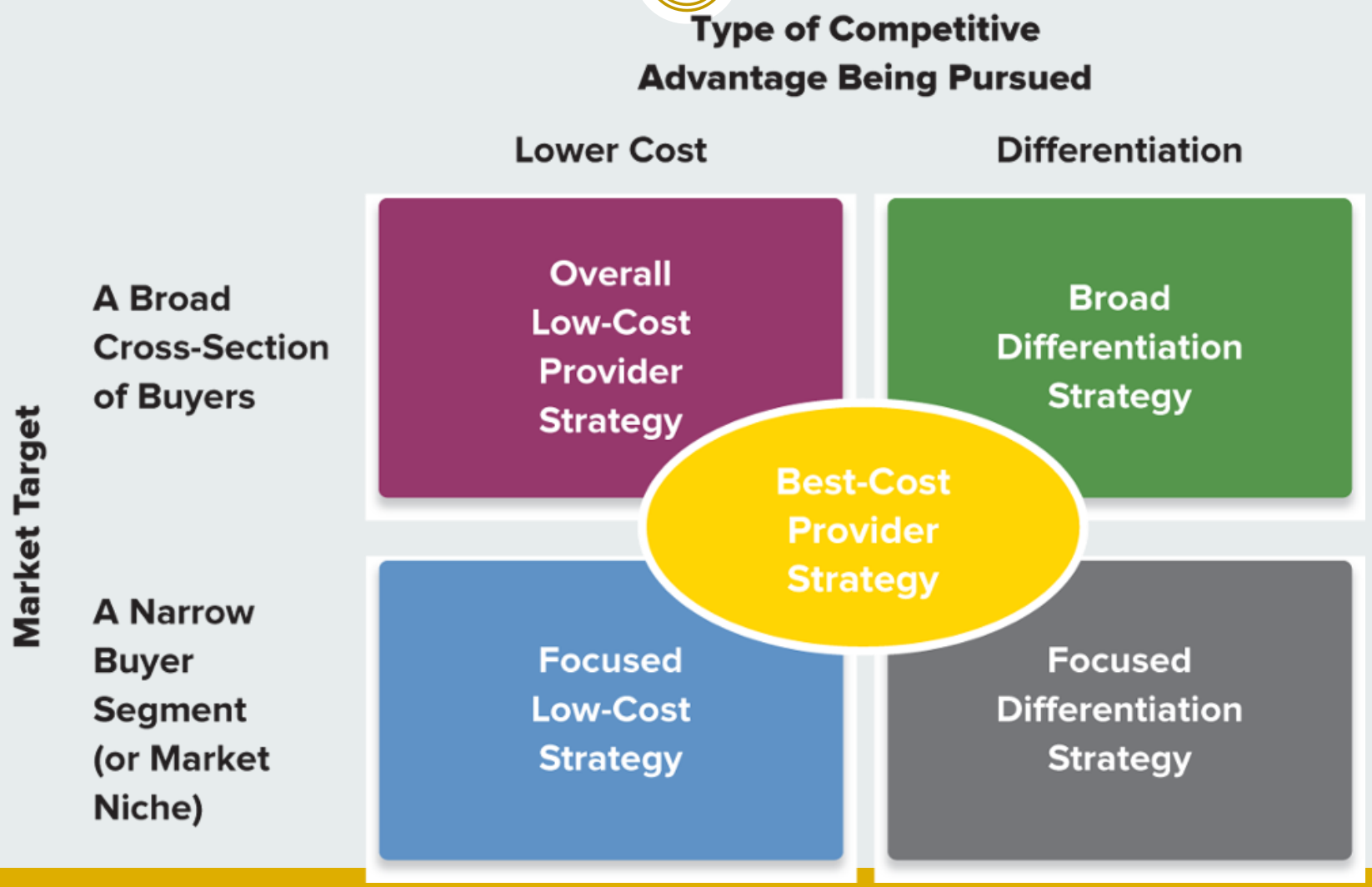
A firm's competitive strategy deals exclusively with the specifics of its efforts to position itself in the market-place, please customers, ward off competitive threats, and achieve a particular kind of competitive advantage.



The Five Generic Competitive Strategies

Low-cost provider	Striving to achieve lower overall costs than rivals on products that attract a broad spectrum of buyers
Broad differentiation	Differentiating the firm's product offering from rivals with attributes that appeal to a broad spectrum of buyers
Focused low-cost	Concentrating on a narrow price-sensitive buyer segment and on costs to offer a lower-priced product
Focused differentiation	Concentrating on a narrow buyer segment by meeting specific tastes and requirements of niche members
Best-cost provider	Giving customers more value for the money by offering upscale product attributes at a lower cost than rivals

The Five Generic Competitive Strategies



Low Cost Provider Strategies

- Effective low-cost approaches
  - Pursue cost savings that are difficult to imitate
  - Avoid reducing product quality to unacceptable levels
- Competitive advantages and risks
  - Greater total profits and increased market share gained from underpricing competitors
  - Larger profit margins when selling products at prices comparable to and competitive with rivals
  - Low pricing does not attract enough new buyers
  - Rival's retaliatory price-cutting sets off a price war

Core Concepts



- A **low-cost provider's** basis for competitive advantage is lower overall costs than competitors.
- Successful **low-cost leaders**, who have the lowest industry costs, are exceptionally good at finding ways to drive costs out of their businesses and still provide a product or service that buyers find acceptable.
- A **cost driver** is a factor that has a strong influence on a firm's costs.

Major Avenues for Achieving a Cost Advantage

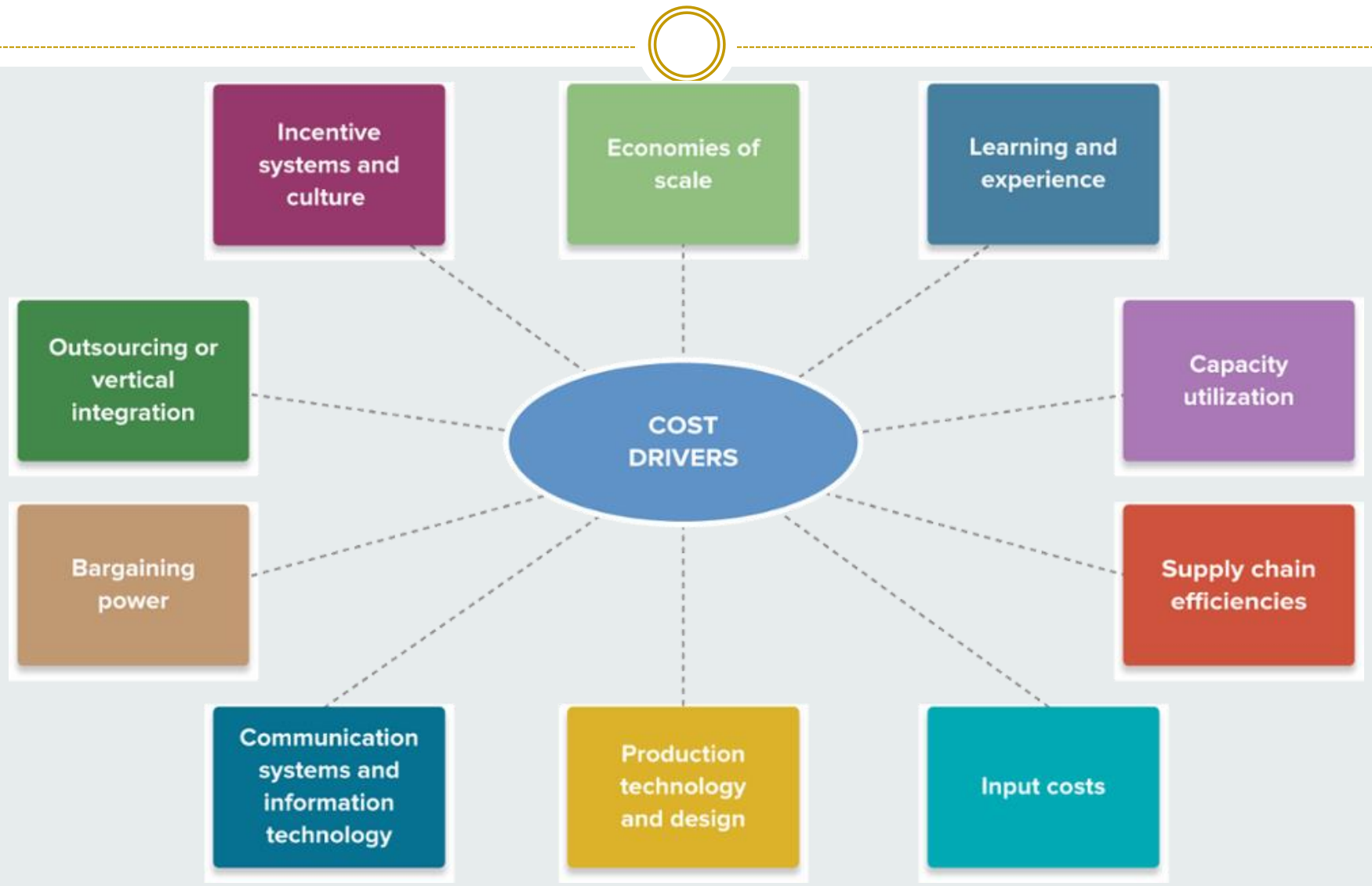
- Low-cost advantage
  - Cumulative costs across the overall value chain must be lower than competitors' cumulative costs.
- How to gain a low-cost advantage
  - Perform value-chain activities more cost-effectively than rivals
  - Revamp the firm's overall value chain to eliminate or bypass cost-producing activities

Cost-Efficient Management of Value Chain Activities



- Cost driver
  - A factor with a strong influence on a firm's costs
  - Can be asset-based or activity-based
- Securing a cost advantage
  - Use lower-cost inputs and hold minimal assets
  - Offer only "essential" product features or services
  - Offer only limited product lines
  - Use low-cost distribution channels
  - Use the most economical delivery methods

Cost Drivers: The Keys to Driving Down Company Costs



Cost-Cutting Methods



1. Capturing all available economies of scale
2. Taking full advantage of experience and learning-curve effects
3. Operating facilities at full or near-full capacity
4. Improving supply chain efficiency
5. Substituting lower-cost inputs wherever there is little or no sacrifice in product quality or performance
6. Using the firm's bargaining power vis-à-vis suppliers or others in the value chain system to gain concessions
7. Using online systems and sophisticated software to achieve operating efficiencies

Cost-Cutting Methods

8. Improving process design and employing advanced production technology
9. Being alert to the cost advantages of outsourcing or vertical integration
10. Motivating employees through incentives and company culture

Revamping the Value Chain System to Lower Costs



- Selling direct to consumers and bypassing the activities and costs of distributors and dealers by using a direct sales force and a company website
- Streamlining operations to eliminate low value-added or unnecessary work steps and activities
- Reduce materials handling and shipping costs by having suppliers locate their plants or warehouses close to the firm's own facilities

The Keys to Being a Successful Low-Cost Provider

- Success in achieving a low-cost edge over rivals comes from out-managing rivals in finding ways to perform value chain activities faster, more accurately, and more cost-effectively by:
  - Spending aggressively on resources and capabilities that promise to drive costs out of the business
  - Carefully estimating the cost savings of new technologies before investing in them
  - Constantly reviewing cost-saving resources to ensure they remain competitively superior

When a Low-Cost Provider Strategy Works Best

1. Price competition among rival sellers is vigorous.
2. Identical products are available from many sellers.
3. There are few ways to differentiate industry products.
4. Most buyers use the product in the same ways.
5. Buyers incur low costs in switching among sellers.

Pitfalls to Avoid in Pursuing a Low-Cost Provider Strategy

- Engaging in overly aggressive price cutting that does not result in unit sales gains large enough to recoup forgone profits
- Relying on a cost advantage that is not sustainable because rival firms can easily copy or overcome it
- Becoming too fixated on cost reduction such that the firm's offering is too features-poor to gain the interest of buyers
- Having a rival discover a new lower-cost value chain approach or develop a cost-saving technological breakthrough

Broad Differentiation Strategies

- Effective Differentiation Approaches
  - Carefully study buyer needs and behaviors, values, and willingness to pay for a *unique* product or service
  - Incorporate features that both appeal to buyers and create a sustainably distinctive product offering
  - Use higher prices to recoup differentiation costs
- Advantages of Differentiation
  - Command premium prices for the firm's products
  - Increased unit sales due to attractive differentiation
  - Brand loyalty that bonds buyers to the differentiating features of the firm's products

Core Concept



- **Differentiation** enhances profitability whenever a company's product can command a sufficiently higher price or produce sufficiently greater unit sales to more than cover the added costs of achieving the differentiation.

Core Concepts



- The essence of a **broad differentiation strategy** is to offer unique product attributes that a wide range of buyers find appealing and worth paying for.
- A **uniqueness driver** is a factor that can have a strong differentiating effect.

Core Concepts

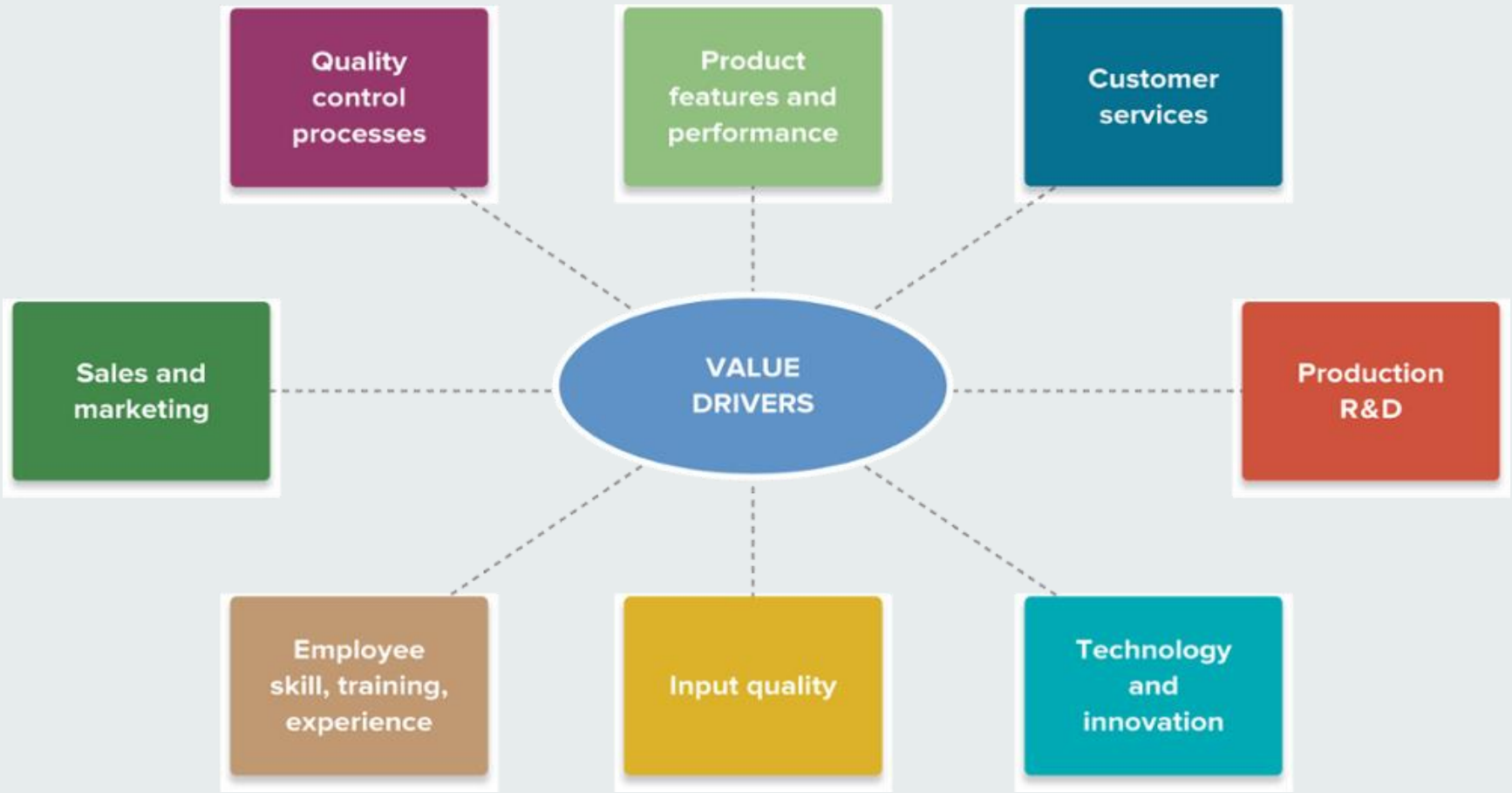


- The essence of a **broad differentiation strategy** is to offer unique product attributes that a wide range of buyers find appealing and worth paying for.
- A **uniqueness driver** is a factor that can have a strong differentiating effect.

Cost-Efficient Management of Value Chain Activities

- A uniqueness driver can
  - Have a strong differentiating effect
  - Be based on physical as well as functional attributes of a firm's products
  - Be the result of superior performance capabilities of the firm's human capital
  - Have an effect on more than one of the firm's value chain activities
  - Create a perception of value (brand loyalty) in buyers where there is little reason for it to exist

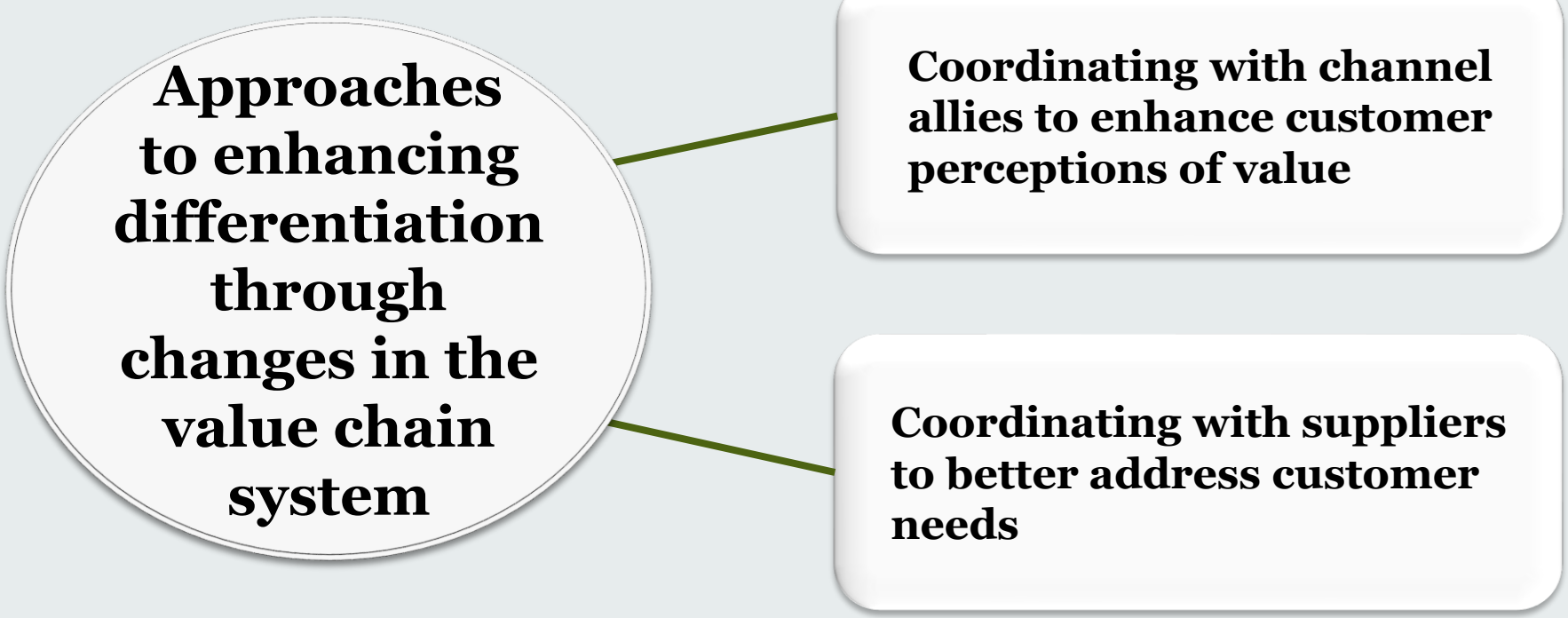
Value Drivers:
The Keys to Creating a Differentiation Advantage



Managing the Value Chain to Create the Differentiating Attributes

1. Create product features and performance attributes that appeal to a wide range of buyers.
2. Improve customer service or add extra services.
3. Invest in production-related R&D activities.
4. Strive for innovation and technological advances.
5. Pursue continuous quality improvement.
6. Increase marketing and brand-building activities.
7. Seek out high-quality inputs.
8. Emphasize human resource management activities that improve the skills, expertise, and knowledge of company personnel.

Revamping the Value Chain System to Increase Differentiation



Delivering Superior Value Via a Broad Differentiation Strategy

Broad Differentiation: Offering Customers Something That Rivals Cannot	
1.	Incorporate product attributes and user features that lower the buyer's overall costs of using the firm's product
2.	Incorporate tangible features (e.g., styling) that increase customer satisfaction with the product
3.	Incorporate intangible features (e.g., buyer image) that enhance buyer satisfaction in noneconomic ways
4.	Signal the value of the firm's product offering to buyers (e.g., price, packaging, placement, advertising)

Strategic Management Principles

- Differentiation can be based on tangible or intangible attributes.
- Easy-to-copy differentiating features cannot produce a sustainable competitive advantage.
- Any differentiating feature that works well is a magnet for imitators.
- Overdifferentiating and overcharging are fatal strategy mistakes.

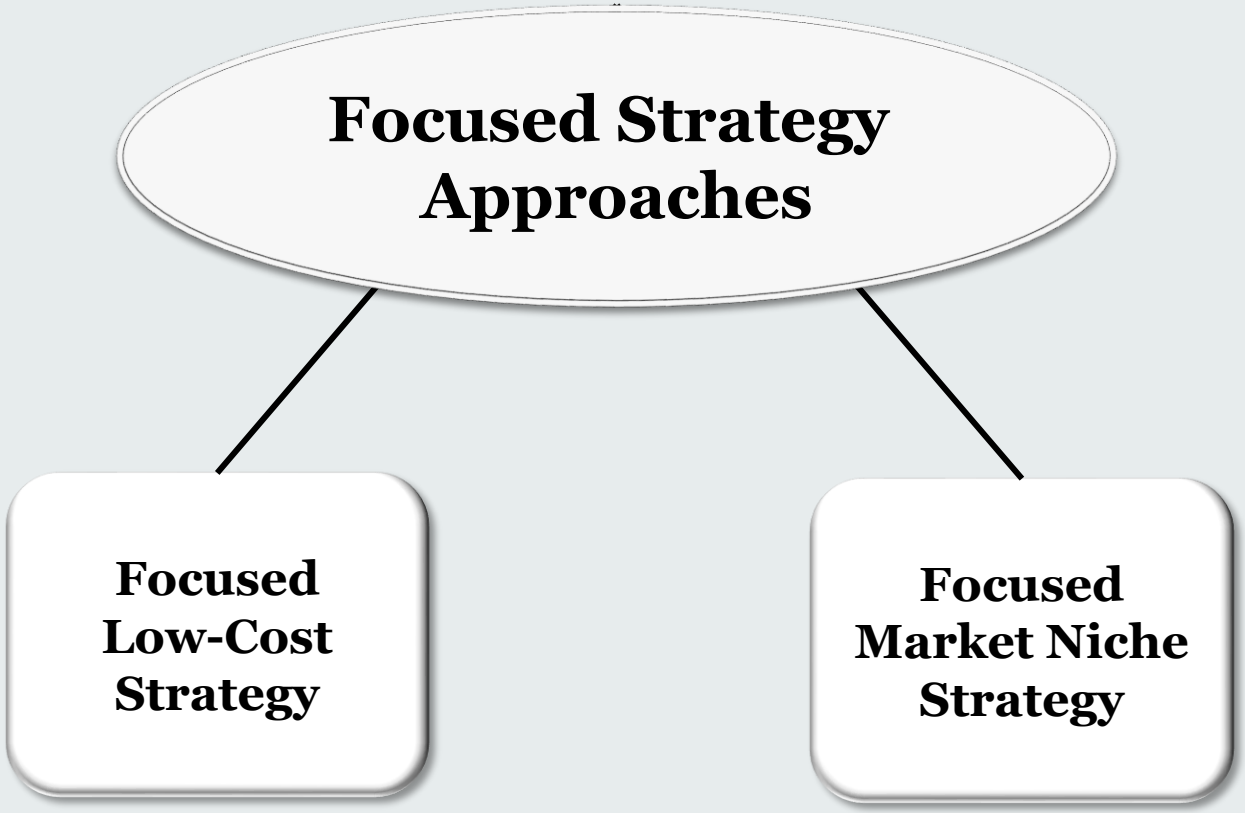
Successful Approaches to Sustainable Differentiation

- Differentiation that is difficult for rivals to duplicate or imitate
  - Company reputation
  - Long-standing relationships with buyers
  - A unique product or service image
- Differentiation that creates substantial switching costs that lock in buyers
  - Patent-protected product innovation
  - Relationship-based customer service

Pitfalls to Avoid in Pursuing a Differentiation Strategy

- Relying on product attributes easily copied by rivals
- Introducing product attributes that do not evoke an enthusiastic buyer response
- Eroding profitability by overspending on efforts to differentiate the firm's product offering
- Offering only trivial improvements in quality, service, or performance features vis-à-vis the products of rivals
- Over-differentiating the product quality, features, or service levels exceeds the needs of most buyers
- Charging too high a price premium

Focused (or Market Niche) Strategies



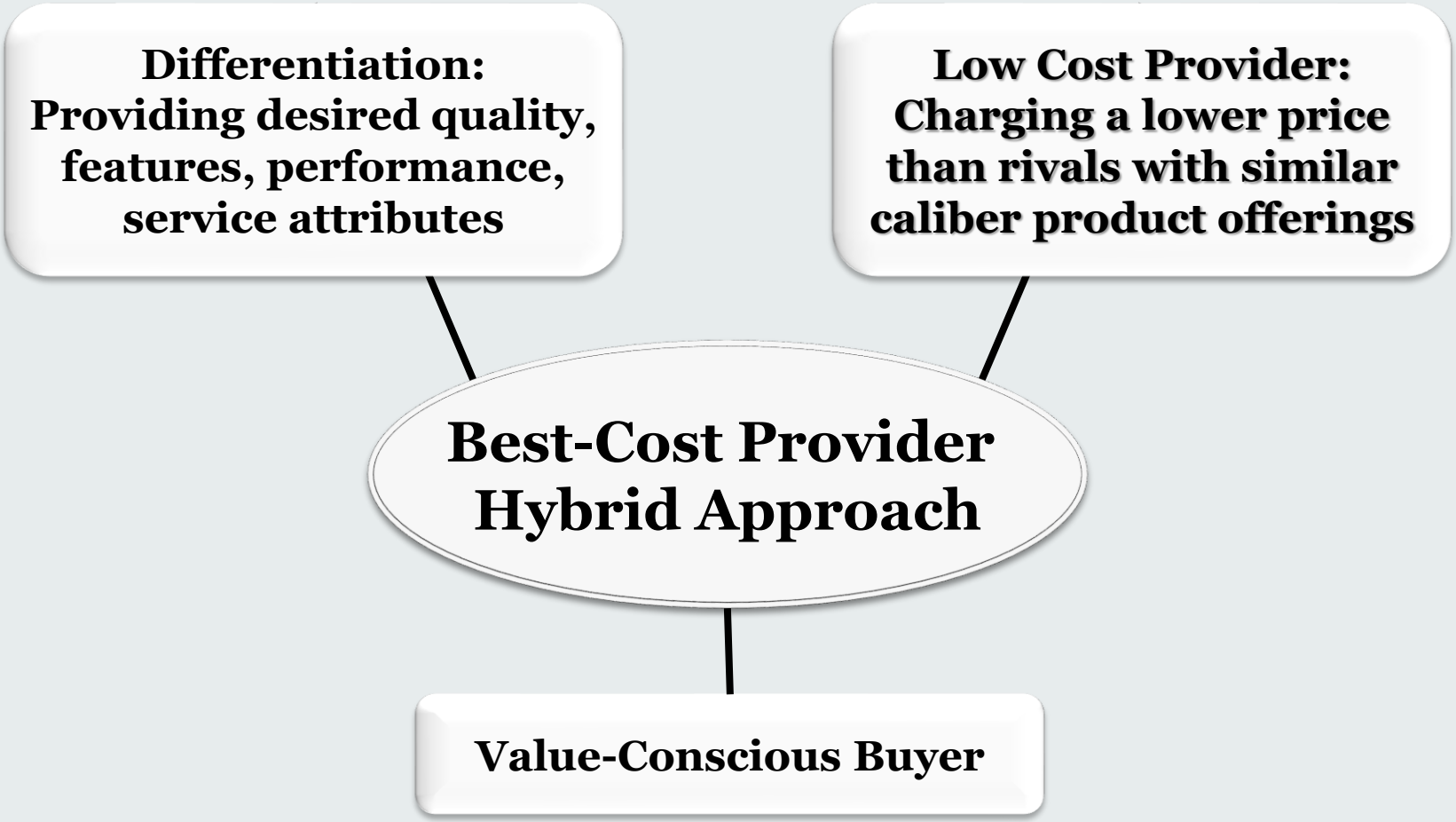
When a Focused Low-Cost or Focused Differentiation Strategy Is Attractive

- The target market niche is big enough to be profitable and offers good growth potential.
- Industry leaders chose not to compete in the niche; focusers avoid competing against strong competitors.
- It is costly or difficult for multi-segment competitors to meet the specialized needs of niche buyers.
- The industry has many different niches and segments.
- Rivals have little or no entry interest in the target segment.

The Risks of a Focused Low-Cost or Focused Differentiation Strategy

1. Competitors will find ways to match the focused firm's capabilities in serving the target niche.
2. The specialized preferences and needs of niche members shift over time toward the product attributes desired by the majority of buyers.
3. As attractiveness of the segment increases, it draws in more competitors, intensifying rivalry and splintering segment profits.

Best-Cost Provider Strategies



Core Concept



- **Best-cost provider strategies** are a hybrid of low-cost provider and differentiation strategies that aim at providing more desirable attributes (quality, features, performance, service) while beating rivals on price.

When a Best-Cost Provider Strategy Works Best

- Product differentiation is the market norm.
- There are a large number of value-conscious buyers who prefer mid-range products.
- There is competitive space near the middle of the market for a competitor with either a medium-quality product at a below-average price or a high-quality product at an average or slightly higher price.
- Economic conditions have caused more buyers to become value-conscious.

The Contrasting Features of the Five Generic Competitive Strategies: A Summary

Each generic strategy:

- Positions the firm differently in its market
- Establishes a central theme for how the firm intends to outcompete rivals
- Creates boundaries or guidelines for strategic change as market circumstances unfold
- Entails different ways and means of maintaining the basic strategy

Distinguishing Features of the Five Generic Competitive Strategies (1 of 2)

	Low-Cost Provider	Broad Differentiation	Focused low-cost provider	Focused differentiation	Best-Cost Provider
Strategic target	A broad cross-section of the market	A broad cross-section of the market	A narrow market niche where buyer needs and preferences are distinctively different	A narrow market niche where buyer needs and preferences are distinctively different	Value-conscious buyers. Or, a middle-market range
Basis of competitive strategy	Lower overall costs than competitors	Ability to offer buyers something attractively different from competitors' offerings	Lower overall cost than rivals in serving niche members	Attributes that appeal specifically to niche members	Ability to offer better goods at attractive prices
Product line	A good basic product with few frills (acceptable quality and limited selection)	Many product variations, wide selection, emphasis on differentiating features	Features and attributes tailored to the tastes and requirements of niche members	Features and attributes tailored to the tastes and requirements of niche members	Items with appealing attributes and assorted features; better quality, not best
Production emphasis	A continuous search for cost reduction without sacrificing acceptable quality and essential features	Build in whatever differentiating features buyers are willing to pay for; strive for product superiority	A continuous search for cost reduction for products that meet basic needs of niche members	Small-scale production or custom-made products that match the tastes and requirements of niche members	Build in appealing features and better quality at lower cost than rivals

Distinguishing Features of the Five Generic Competitive Strategies (2 of 2)

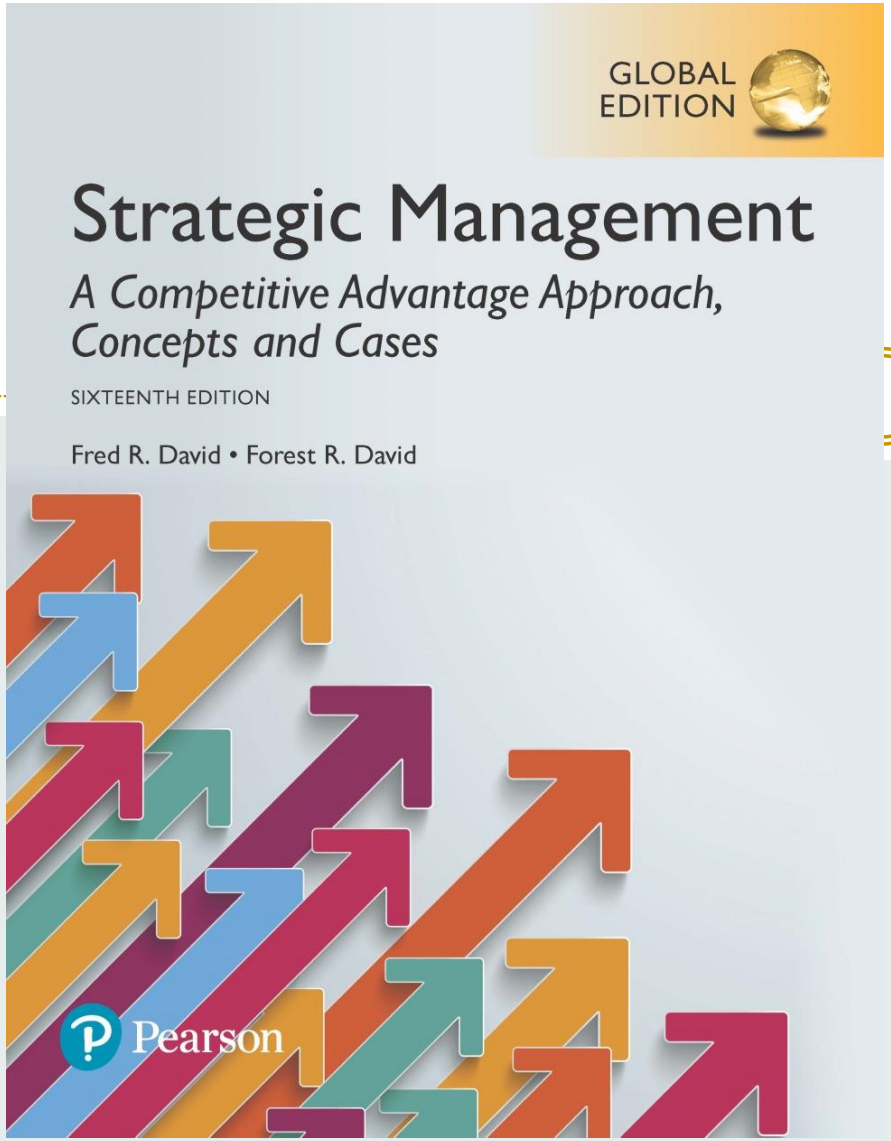
	Low-Cost Provider	Broad Differentiation	Focused low-cost provider	Focused differentiation	Best-Cost Provider
Marketing emphasis	Low prices, good value Also, try to make a virtue out of product features that lead to low cost	Tout differentiating features. Also, charge a premium price to cover the extra costs of differentiating features	Communicate attractive features of a budget-priced product offering that fits niche buyers' expectations	Communicate how product offering does the best job of meeting niche buyers' expectations	Emphasize delivery of best value for the money
Keys to maintaining the strategy	Economical prices, good value Also, strive to manage costs down, year after year, in every area of the business	Stress constant innovation to stay ahead of imitative competitors Also, concentrate on a few key differentiating features.	Stay committed to serving the niche at the lowest overall cost; don't blur the firm's image by entering other market segments or adding other products to widen market appeal	Stay committed to serving the niche better than rivals; don't blur the firm's image by entering other market segments or adding other products to widen market appeal.	Unique expertise in simultaneously managing costs down while incorporating upscale features and attributes
Resources and capabilities required	Capabilities for driving costs out of the value chain syste. Examples: large-scale automated plants, an efficiency-oriented culture, bargaining power	Capabilities concerning quality, design, intangibles, and innovation Examples: marketing capabilities, R&D teams, technology	Capabilities to lower costs on niche goods Examples: Lower input costs for the specific product desired by the niche, batch production capabilities	Capabilities to meet the highly specific needs of niche members Examples: custom production, close customer relations.	Capabilities to simultaneously deliver lower cost and higher-quality or differentiated feature Examples: TQM practices, mass customization

Successful Competitive Strategies Are Resource-Based

- A firm's competitive strategy is most likely to succeed if it is predicated on leveraging a competitively valuable collection of resources and capabilities that match the strategy.
- Sustaining a firm's competitive advantage depends on its resources, capabilities, and competences that are difficult for rivals to duplicate and have no good substitutes.

Suggested Video Clip

- Michael Dell: The Father of the PC Industry
- https://www.youtube.com/watch?v=iOi4b7XeSMg
- Porter's Generic Strategies: How to Stay Competitive
- https://www.youtube.com/watch?v=_p8dIU09vH0



Chapter 5: Vision and Mission Analysis

Vision Statement



- A **vision statement** should answer the basic question:
- “What do we want to become?”

What Do We Want to Become?



- The **vision statement** should be short, preferably one sentence, and as many managers as possible should have input into developing the statement.
- The **vision statement** should reveal the type of business the firm engages.

Building a Shared Vision



- A vision describes management's aspirations for the company's future and the course and direction charted to achieve them.

Building a Shared Vision



- Developing a strategic vision
  - Delineates management's aspirations for the firm to its stakeholders
  - Provides direction: "where we are going"
  - Sets out the compelling rationale for the firm's direction

Building a Shared Vision

- Why communicate the vision?
  - Fosters employee commitment to the firm's chosen strategic direction
  - Ensures understanding of its importance
  - Motivates, informs, and inspires internal and external stakeholders
  - Demonstrates top management support for the firm's future strategic direction and competitive efforts

Building a Shared Vision



- An effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to engage in actions that move the company forward in the intended direction.

Mission Statement

- A declaration of an organization's “reason for being.”
- It answers the pivotal question “What is our business?”
- It is essential for effectively establishing objectives and formulating strategies.

Mission Statement



- It reveals what an organization wants to be and whom it wants to serve
- It is also called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, and a statement of business principles

Developing Vision & Mission Statements



- A widely used approach includes:
  - Select several articles about these statements and ask all managers to read these as background information.
  - Ask managers themselves to prepare a vision and mission statement for the organization.
  - A facilitator or committee of top managers should then merge these statements into a single document and distribute the draft statements to all managers.
  - A request for modifications, additions, and deletions is needed next, along with a meeting to revise the document.

Importance of Vision and Mission Statements



- To make sure all employees/managers understand the firm's purpose or reason for being.
- To provide a basis for prioritization of key internal and external factors utilized to formulate feasible strategies.
- To provide a basis for the allocation of resources.
- To provide a basis for organizing work, departments, activities, and segments around a common purpose.

Benefits of Having a Clear Mission and Vision

TABLE 5-2 Ten Benefits of Having a Clear Mission and Vision

1. Achieve clarity of purpose among all managers and employees.
2. Provide a basis for all other strategic planning activities, including internal and external assessment, establishing objectives, developing strategies, choosing among alternative strategies, devising policies, establishing organizational structure, allocating resources, and evaluating performance.
3. Provide direction.
4. Provide a focal point for all stakeholders of the firm.
5. Resolve divergent views among managers.
6. Promote a sense of shared expectations among all managers and employees.
7. Project a sense of worth and intent to all stakeholders.
8. Project an organized, motivated organization worthy of support.
9. Achieve higher organizational performance.
10. Achieve synergy among all managers and employees.

Characteristics of a Mission Statement



- A good mission statement allows for the generation and consideration of a range of feasible alternative objectives and strategies without unduly stifling management creativity.
- A mission statement needs to be broad to reconcile differences effectively among, and appeal to, an organization's diverse stakeholders

What are stakeholders?

- A stakeholder is someone who has an interest in the decisions taken by the business
- Internal Stakeholders: owners and staff work within the business
- External Stakeholders: customers, suppliers, local and national communities, government, trade unions, employers' association, media

What are stakeholders?



- Sometimes stakeholders have the same interests, but their interests may also differ and conflict

Internal Stakeholders and Objectives

- Owners: they are risk takers;
  - Objective: see their share of profit increasing, and the value of their business rising
- Employees:
  - Objective: the company provides them with a living and job security, promotion opportunities and good rewards

External Stakeholders and Objectives

- Customers:
  - Objective: want a company to produce high-quality, value-for-money products
- Suppliers
  - Objective: wants steady and prompt payment; they also want to feel valued by the company that they supply

External Stakeholders and Objectives

- Local and national communities
  - Objective: want highest benefit/ lowest harm of their represented parties
- Government
  - Objective: want business to be successful – to create jobs and pay taxes. They want to see prosperous business that take full responsibility for looking after the welfare of society

External Stakeholders and Objectives

- Pressure Groups: organized with particular interests and points of view. Examples are the environmental campaigning groups Greenpeace and Friends of the Earth, who see themselves as defending the environment.
  - Objective: safeguard their environmental stake in the business

External Stakeholders and Objectives

- Trade Unions: represent interests of groups of employees
  - Objective: seek to secure high wages and better working conditions for their members
- Employers' Association
  - Objective: represent the interests of groups of employers

2. Prioritise your stakeholders



Characteristics of a Mission Statement

1. Broad in scope; does not include monetary amounts, numbers, percentages, ratios, or objectives
2. Fewer than 150 words in length
3. Inspiring
4. Identifies the utility of a firm's products
5. Reveals that the firm is socially responsible
6. Reveals that the firm is environmentally responsible
7. Includes nine components: customers, products or services, markets, technology, concern for survival/growth/profits, philosophy, self-concept, concern for public image, concern for employees
8. Reconciliatory
9. Enduring

A Customer Orientation

- A mission statement should:
  - define what the organization is and what the organization aspires to be
  - be limited enough to exclude some ventures and broad enough to allow for creative growth
  - distinguish a given organization from all others

A Customer Orientation

- A mission statement should also:
  - serve as a framework for evaluating both current and prospective activities
  - be stated in terms sufficiently clear to be widely understood throughout the organization

A Customer Orientation



- A good mission statement reflects the anticipations of customers.
- The operating philosophy of organizations should be to identify customers' needs and then provide a product or service to fulfill those needs.

Mission Statement Components

1. **Customers**—Who are the firm's customers?
2. **Products or services**—What are the firm's major products or services?
3. **Markets**—Geographically, where does the firm compete?
4. **Technology**—Is the firm technologically current?
5. **Survival, growth, and profitability**—Is the firm committed to growth and financial soundness?

Mission Statement Components

6. **Philosophy**—What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
7. **Self-concept (distinctive competence)**—What is the firm's major competitive advantage?
8. **Public image**—Is the firm responsive to social, community, and environmental concerns?
9. **Employees**—Are employees a valuable asset of the firm?

Mission of Vitasoy

- **Our Mission**

  At Vitasoy, promoting consumer wellbeing is our number one priority. This is achieved through the provision of a variety of high-quality nutritious foods and beverages. Vitasoy is an innovative company, a reliable employer, and a responsible corporate citizen dedicated to creating value for our shareholders.

Linking the Vision And Mission With Core Values



- Core values
  - Are the beliefs, traits, and behavioral norms that employees are expected to display in conducting the firm's business and in pursuing its strategic vision and mission
  - Become an integral part of the firm's culture and what makes it tick when strongly espoused and supported by top management
  - Match the firm's vision, mission, and strategy, contributing to the firm's business success

Setting Objectives

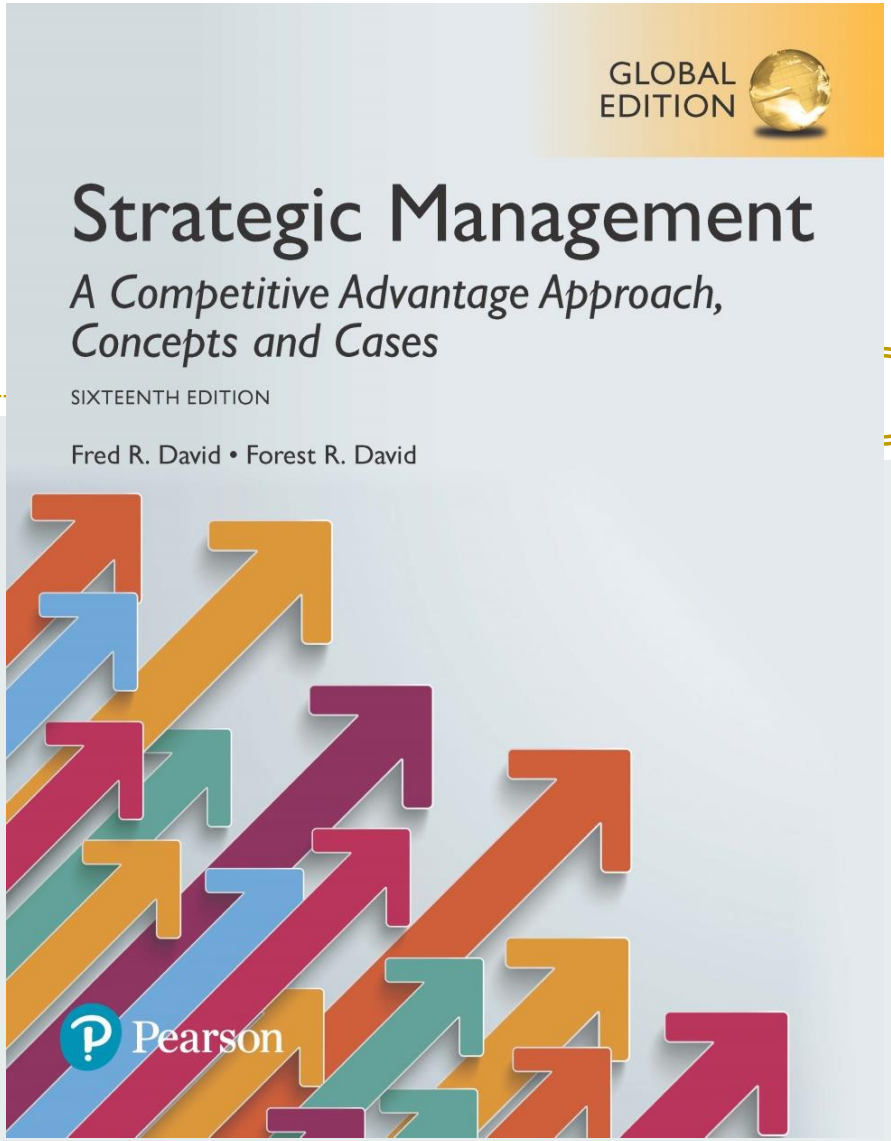
- The purposes of setting objectives
  - To convert the vision and mission into specific, measurable, challenging and timely performance targets
  - To focus efforts and align actions throughout the organization
  - To serve as yardsticks for tracking a firm's performance and progress
  - To provide motivation and inspire employees to greater levels of effort

Core Concept



Suggested Video Clip

- Our Values - Working at IKEA
- https://www.youtube.com/watch?v=wNqq6FSQy70
- A Simple Intro to Mission, Vision and Values
- https://www.youtube.com/watch?v=7mWQh_7fK3U



Chapter 6:
The Internal Analysis

Key Internal Forces

- **Distinctive competencies**
  - A firm's strengths that ***cannot be easily matched or imitated by competitors***
- Building competitive advantages involves taking advantage of distinctive competencies.

FIGURE 6-2

The Process of Gaining Competitive Advantage in a Firm

Weaknesses ⇒ Strengths ⇒ Distinctive Competencies ⇒ Competitive Advantage

The Process of Performing an Internal Audit

- **The internal audit**
  - Requires gathering, assimilating, and prioritizing information about the firm's *management, marketing, finance, accounting, production/operations, research and development (R&D), and management information systems operations*
  - Provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole firm

Competitive Assets

- Competitive assets
  - Are the firm's ***resources and capabilities***
  - Are the ***determinants of its competitiveness*** and ability to ***succeed in the marketplace***
  - Are what a firm's strategy depends on to develop ***sustainable competitive advantage*** over its rivals

Identifying the Firm's Resources and Capabilities

- A resource:
  - ***A productive input or competitive asset*** that is owned or controlled by a firm (e.g., a fleet of oil tankers)
- A capability:
  - The ***capacity of a firm to perform some activity proficiently*** (e.g., superior skills in marketing)

Strategic Management Principle

- ***Resource and capability analysis*** is a powerful tool for sizing up a firm's competitive assets and determining if they can *support a sustainable competitive advantage over market rivals*.

Types of Company Resources (1 of 2)

Tangible resources

- **Physical resources:** land and real estate; manufacturing plants, equipment, or distribution facilities; the locations of stores, plants, or distribution centers, including the overall pattern of their physical locations; ownership of or access rights to natural resources (such as mineral deposits)
- **Financial resources:** cash and cash equivalents; marketable securities; other financial assets such as a company's credit rating and borrowing capacity
- **Technological assets:** patents, copyrights, production technology, innovation technologies, technological processes
- **Organizational resources:** IT and communication systems (satellites, servers, workstations, etc.); other planning, coordination, and control systems; the company's organizational design and reporting structure

Types of Company Resources (2 of 2)

Intangible resources

- **Human assets and intellectual capital:** the education, experience, knowledge, and talent of the workforce, cumulative learning, and tacit knowledge of employees; collective learning embedded in the organization, the intellectual capital and know-how of specialized teams and work groups; the knowledge of key personnel concerning important business functions; managerial talent and leadership skill; the creativity and innovativeness of certain personnel
- **Brands, company image, and reputational assets:** brand names, trademarks, product or company image, buyer loyalty and goodwill; company reputation for quality, service, and reliability; reputation with suppliers and partners for fair dealing
- **Relationships:** alliances, joint ventures, or partnerships that provide access to technologies, specialized know-how, or geographic markets; networks of dealers or distributors; the trust established with various partners
- **Company culture and incentive system:** the norms of behavior, business principles, and ingrained beliefs within the company; the attachment of personnel to the company's ideals; the compensation system and the motivation level of company personnel

Identifying Capabilities

- An organizational capability
  - Is the intangible but observable capacity of a firm to perform a critical activity proficiently using a related combination (cross-functional bundle) of its resources
  - Is knowledge-based, residing in people and in a firm's intellectual capital or in its organizational processes and systems, embodying tacit knowledge

The Resource-Based View (RBV)

- **The Resource-Based View (RBV) Approach**
  - contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage

The Resource-Based View (RBV)

- Proponents of the RBV contend that organizational performance will primarily be determined by internal resources that can be grouped into three all-encompassing categories:
  - physical resources
  - human resources
  - organizational resources

The Resource-Based View (RBV)

- For a resource to be valuable, it must be either *(1) rare, (2) hard to imitate, or (3) not easily substitutable.*
- These three characteristics of resources are called Empirical Indicators
- These enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage.

Integrating Strategy and Culture



- Organizational culture significantly affects planning activities.
- If strategies can capitalize on cultural strengths, such as a strong work ethic or highly ethical beliefs, then management often can swiftly and easily implement changes.

Organizational Culture

- Organizational culture is “a pattern of behavior that has been developed by an organization as it learns to cope with its problem of external adaptation and internal integration and that has worked well enough to be considered valid and to be taught to new members as the correct way to perceive, think, and feel.”

Cultural Products



- Values
- Beliefs
- Rituals
- Ceremonies
- Myths
- Stories
- Legends

Aspects of Organizational Culture

TABLE 6-2 Fifteen Example (Possible) Aspects of an Organization's Culture

Dimension	Low	Degree			High
1. Strong work ethic; arrive early and leave late	1	2	3	4	5
2. High ethical beliefs; clear code of business ethics followed	1	2	3	4	5
3. Formal dress; shirt and tie expected	1	2	3	4	5
4. Informal dress; many casual dress days	1	2	3	4	5
5. Socialize together outside of work	1	2	3	4	5
6. Do not question supervisor's decision	1	2	3	4	5
7. Encourage whistle-blowing	1	2	3	4	5
8. Be health conscious; have a wellness program	1	2	3	4	5
9. Allow substantial "working from home"	1	2	3	4	5
10. Encourage creativity, innovation, and open-mindedness	1	2	3	4	5
11. Support women and minorities; no glass ceiling	1	2	3	4	5
12. Be highly socially responsible; be philanthropic	1	2	3	4	5
13. Have numerous meetings	1	2	3	4	5
14. Have a participative management style	1	2	3	4	5
15. Preserve the natural environment; have a sustainability program	1	2	3	4	5

Management



- The functions of management consist of five basic activities:
  - planning
  - organizing
  - motivating
  - staffing
  - controlling

The Basic Functions of Management

- **Planning**: forecasting, establishing objectives, devising strategies, and developing policies
- **Organizing**: organizational design, job specialization, job descriptions, span of control, coordination, job design, and job analysis
- **Motivating**: leadership, communication, work groups, behavior modification, delegation of authority, job enrichment, job satisfaction, needs fulfillment, organizational change, employee morale, and managerial morale

The Basic Functions of Management

- **Staffing**: wage and salary administration, employee benefits, interviewing, hiring, firing, training, management development, employee safety, equal employment opportunity, and union relations
- **Controlling**: quality control, financial control, sales control, inventory control, expense control, analysis of variances, rewards, and sanctions

Management Audit Checklist of Questions



1. Does the firm use strategic-management concepts?
2. Are company objectives and goals measurable and well communicated?
3. Do managers at all hierarchical levels plan effectively?
4. Do managers delegate authority well?
5. Is the organization's structure appropriate?

Management Audit Checklist of Questions

6. Are job descriptions and job specifications clear?
7. Is employee morale high?
8. Are employee turnover and absenteeism low?
9. Are organizational reward and control mechanisms effective?

Marketing

- **Marketing**
  - the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services

Functions of Marketing

- Customer analysis
- Selling products and services
- Product and service planning
- Pricing
- Distribution
- Marketing research
- Cost/benefit analysis

Marketing

- **Customer Analysis**
  - the examination and evaluation of consumer needs, desires, and wants
  - involves administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies

Selling Products and Services

- **Selling**
  - includes many marketing activities, such as advertising, sales promotion, publicity, personal selling, sales force management, customer relations, and dealer relations

Product and Service Planning

- **Product and Service Planning**
  - includes activities such as test marketing; product and brand positioning; devising warranties; packaging; determining product options, features, style, and quality; deleting old products; and providing for customer service
  - important when a company is pursuing product development or diversification

Pricing

- **Pricing**
  - Five major stakeholders affect *pricing* decisions: *consumers, governments, suppliers, distributors, and competitors*
  - Sometimes an organization will pursue a forward integration strategy primarily to gain better control over prices charged to consumers.

Distribution

- **Distribution**
  - includes warehousing, distribution channels, distribution coverage, retail site locations, sales territories, inventory levels and location, transportation carriers, wholesaling, and retailing
  - especially important when a firm is striving to implement a market development or forward integration strategy

Marketing Research

- **Marketing Research**
  - the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services
  - can uncover critical strengths and weaknesses

Cost/Benefit Analysis

- **Cost/Benefit Analysis**
  - Three steps are required:
    1. *compute the total costs associated with a decision*
    2. *estimate the total benefits from the decision*
    3. *compare the total costs with the total benefits*

Marketing Audit Checklist of Questions



1. Are markets segmented effectively?
2. Is the organization positioned well among competitors?
3. Has the firm's market share been increasing?
4. Are present channels of distribution reliable and cost effective?
5. Does the firm have an effective sales organization?
6. Does the firm conduct market research?

Marketing Audit Checklist of Questions

7. Are product quality and customer service good?
8. Are the firm's products and services priced appropriately?
9. Does the firm have an effective promotion, advertising, and publicity strategy?
10. Are marketing, planning, and budgeting effective?
11. Do the firm's marketing managers have adequate experience and training?
12. Is the firm's Internet presence excellent as compared to rivals?

Finance/Accounting Functions



- The *functions of finance/accounting* comprise three decisions:
  1. *the investment decision*
  2. *the financing decision*
  3. *the dividend decision*

Finance/Accounting Functions



- **Investment Decision (Capital Budgeting)**
  - the allocation and reallocation of capital and resources to projects, products, assets, and divisions of an organization
- **Financing Decision**
  - determines the best capital structure for the firm and includes examining various methods by which the firm can raise capital

Finance/Accounting Functions

- **Dividend Decisions**
  - concern issues such as the percentage of earnings paid to stockholders, the stability of dividends paid over time, and the repurchase or issuance of stock
  - determine the amount of funds that are retained in a firm compared to the amount paid out to stockholders

Finance/Accounting Functions

1. How has each ratio changed over time?
2. How does each ratio compare to industry norms?
3. How does each ratio compare with key competitors?

A Summary of Key Financial Ratios

Ratio	How Calculated	What It Measures
Liquidity Ratios		
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations
Quick Ratio	$\frac{\text{Current assets minus inventory}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations without relying upon the sale of its inventories
Leverage Ratios		
Debt-to-Total-Assets Ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	$\frac{\text{Long-term debt}}{\text{Total stockholders' equity}}$	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs

A Summary of Key Financial Ratios

Activity Ratios		
Inventory Turnover	$\frac{\text{Sales}}{\text{Inventory of finished goods}}$	Whether a firm holds excessive stocks of inventories and whether a firm is slowly selling its inventories compared to the industry average
Fixed Assets Turnover	$\frac{\text{Sales}}{\text{Fixed assets}}$	Sales productivity and plant and equipment utilization
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total assets}}$	Whether a firm is generating a sufficient volume of business for the size of its asset investment
Accounts Receivable Turnover	$\frac{\text{Annual credit sales}}{\text{Accounts receivable}}$	The average length of time it takes a firm to collect credit sales (in percentage terms)
Average Collection Period	$\frac{\text{Accounts receivable}}{\text{Total credit sales/365 days}}$	The average length of time it takes a firm to collect on credit sales (in days)

A Summary of Key Financial Ratios

Profitability Ratios		
Gross Profit Margin	$\frac{\text{Sales minus cost of goods sold}}{\text{Sales}}$	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	$\frac{\text{Earnings before interest and taxes EBIT}}{\text{Sales}}$	Profitability without concern for taxes and interest
Net Profit Margin	$\frac{\text{Net income}}{\text{Sales}}$	After-tax profits per dollar of sales
Return on Total Assets (ROA)	$\frac{\text{Net income}}{\text{Total assets}}$	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)
Return on Stockholders' Equity (ROE)	$\frac{\text{Net income}}{\text{Total stockholders' equity}}$	After-tax profits per dollar of stockholders' investment in the firm
Earnings Per Share (EPS)	$\frac{\text{Net income}}{\text{Number of shares of common stock outstanding}}$	Earnings available to the owners of common stock
Price-Earnings Ratio	$\frac{\text{Market price per share}}{\text{Earnings per share}}$	Attractiveness of firm on equity markets

A Summary of Key Financial Ratios

Ratio	How Calculated	What It Measures
Growth Ratios		
Sales	Annual percentage growth in total sales	Firm's growth rate in sales
Net Income	Annual percentage growth in profits	Firm's growth rate in profits
Earnings Per Share	Annual percentage growth in EPS	Firm's growth rate in EPS
Dividends Per Share	Annual percentage growth in dividends per share	Firm's growth rate in dividends per share

Finance/Accounting Audit Checklist



1. Where is the firm financially strong and weak as indicated by financial ratio analyses?
2. Can the firm raise needed short-term capital?
3. Can the firm raise needed long-term capital through debt and/or equity?
4. Does the firm have sufficient working capital?
5. Are capital budgeting procedures effective?

Finance/Accounting Audit Checklist (cont.)



6. Are dividend payout policies reasonable?
7. Does the firm have good relations with its investors and stockholders?
8. Are the firm's financial managers experienced and well trained?
9. Is the firm's debt situation excellent?

Production/Operations

- **Production/operations function**
  - consists of all those activities that transform inputs into goods and services
- Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets.

The Basic Functions (Decisions) Within Production/Operations

Decision Areas	Example Decisions
1. Process	These decisions include choice of technology, facility layout, process flow analysis, facility location, line balancing, process control, and transportation analysis. Distances from raw materials to production sites to customers are a major consideration.
2. Capacity	These decisions include forecasting, facilities planning, aggregate planning, scheduling, capacity planning, and queuing analysis. Capacity utilization is a major consideration.
3. Inventory	These decisions involve managing the level of raw materials, work-in-process, and finished goods, especially considering what to order, when to order, how much to order, and materials handling.
4. Workforce	These decisions involve managing the skilled, unskilled, clerical, and managerial employees by caring for job design, work measurement, job enrichment, work standards, and motivation techniques.
5. Quality	These decisions are aimed at ensuring that high-quality goods and services are produced by caring for quality control, sampling, testing, quality assurance, and cost control.

Implications of Various Strategies on Production/Operations

Various Strategies	Implications
1. Become a low-cost provider	Creates high barriers to entry
	Creates larger market
	Requires longer production runs and fewer product changes
2. Become a high-quality provider	Requires more quality-assurance efforts
	Requires more expensive equipment
	Requires highly skilled workers and higher wages
3. Provide great customer service	Requires more service people, service parts, and equipment
	Requires rapid response to customer needs or changes in customer tastes
	Requires a higher inventory investment
4. Be the first to introduce new products	Has higher research and development costs
	Has high retraining and tooling costs
5. Become highly automated	Requires high capital investment
	Reduces flexibility
	May affect labor relations
	Makes maintenance more crucial
6. Minimize layoffs	Serves the security needs of employees and may develop employee loyalty
	Helps attract and retain highly skilled employees

Production/Operations Audit Checklist

1. Are supplies of raw materials, parts, and subassemblies reliable and reasonable?
2. Are facilities, equipment, machinery, and offices in good condition?
3. Are inventory-control policies and procedures effective?
4. Are quality-control policies and procedures effective?
5. Are facilities, resources, and markets strategically located?
6. Does the firm have technological competencies?

Research and Development Audit



1. Does the firm have R&D facilities? Are they adequate?
2. If outside R&D firms are used, are they cost-effective?
3. Are the organization's R&D personnel well qualified?
4. Are R&D resources allocated effectively?
5. Are management information and computer systems adequate?
6. Is communication between R&D and other organizational units effective?
7. Are present products technologically competitive?

Management Information Systems

- Management Information System
  - Receives raw material from both external and internal evaluation of an organization
  - Improves the performance of an enterprise by improving the quality of managerial decisions
  - Collects, codes, stores, synthesizes, and presents information in such a manner that it answers important operating and strategic questions

Management Information Systems Audit



1. Do all managers in the firm use the information system to make decisions?
2. Is there a chief information officer or director of information systems position in the firm?
3. Are data in the information system updated regularly?
4. Do managers from all functional areas of the firm contribute input to the information system?
5. Are there effective passwords for entry into the firm's information system?

Management Information Systems Audit

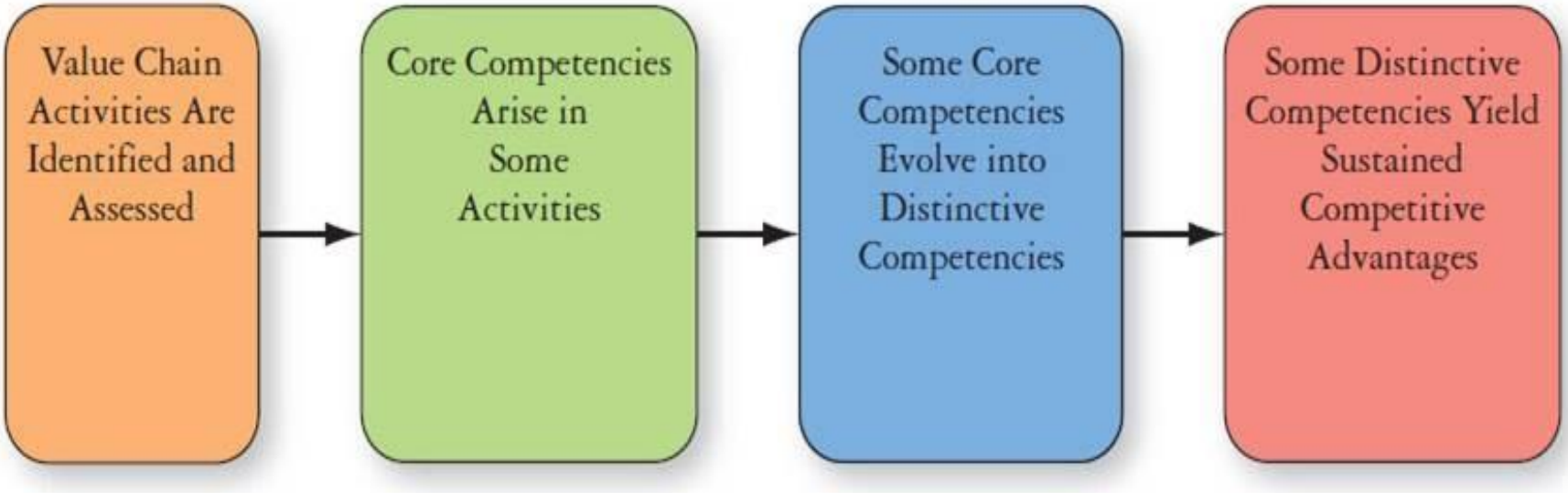
6. Are strategists of the firm familiar with the information systems of rival firms?
7. Is the information system user-friendly?
8. Do all users of the information system understand the competitive advantages that information can provide firms?
9. Are computer training workshops provided for users of the information system?
10. Is the firm's information system continually being improved in content- and user-friendliness?

Value Chain Analysis (VCA)



- **Value Chain Analysis (VCA)**
  - refers to the process whereby a firm determines the costs associated with organizational activities from purchasing raw materials to manufacturing product(s) to marketing those products
  - aims to identify where low-cost advantages or disadvantages exist anywhere along the value chain from raw material to customer service activities

Transforming Value Chain Activities into Sustained Competitive Advantage



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Benchmarking



- **Benchmarking**
  - an analytical tool used to determine whether a firm's value chain activities are competitive compared to rivals and thus conducive to winning in the marketplace
  - entails measuring costs of value chain activities across an industry to determine "best practices"

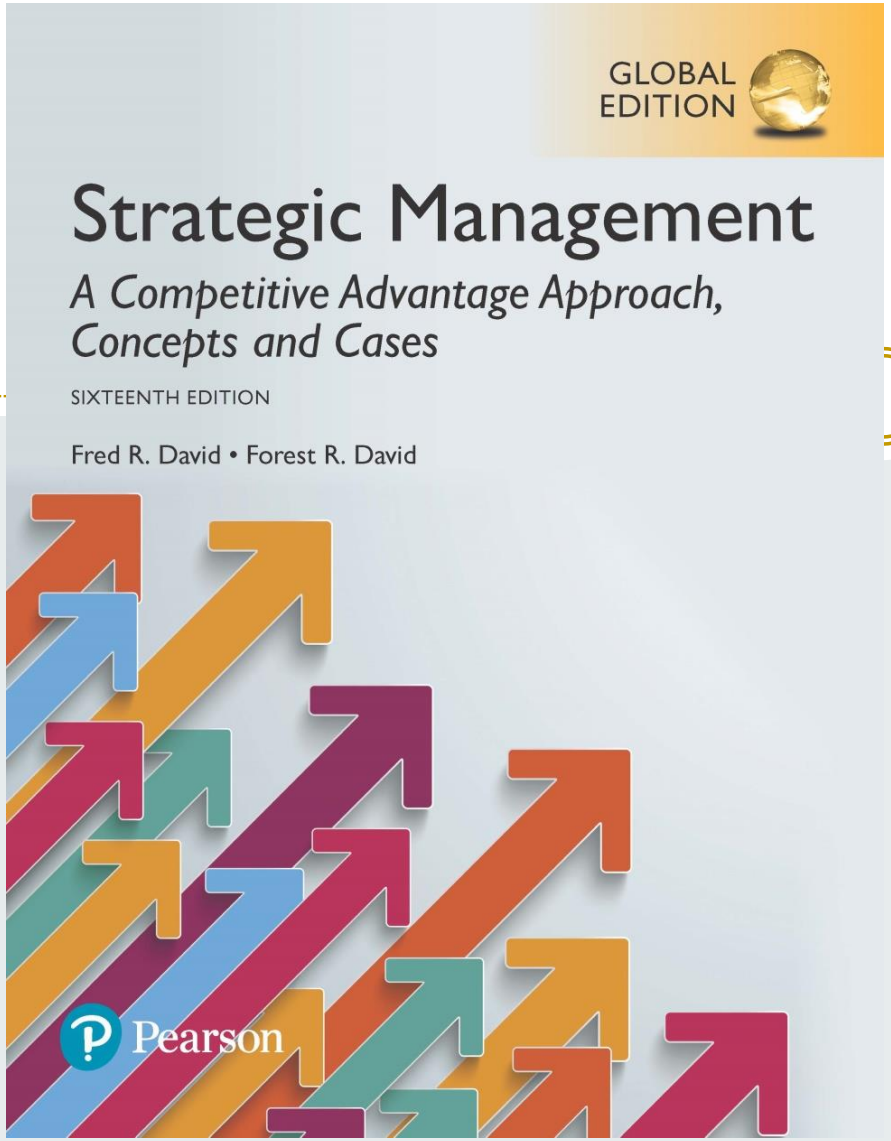
The Internal Factor Evaluation (IFE) Matrix



1. List key internal factors as identified in the internal-audit process.
2. Assign a weight that ranges from 0.0 (not important) to 1.0 (all-important) to each factor.
3. Assign a 6-to-4 rating to each factor to indicate whether that factor represents a strength or weakness.
4. Multiply each factor's weight by its rating to determine a weighted score for each variable.
5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

A Sample Internal Factor Evaluation Matrix for a Retail Computer Store

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. Inventory turnover increased from 5.8 to 6.7.	0.05	3	0.15
2. Average customer purchase increased from $97 to $128.	0.07	4	0.28
3. Employee morale is excellent.	0.10	3	0.30
4. In-store promotions resulted in 20% increase in sales.	0.05	3	0.15
5. Newspaper advertising expenditures increased 10%.	0.02	3	0.06
6. Revenues from repair/service in the store up 16%.	0.15	3	0.45
7. In-store technical support personnel have MIS college degrees.	0.05	4	0.20
8. Store's debt-to-total assets ratio declined to 34%.	0.03	3	0.09
9. Revenues per employee up 19%.	0.02	3	0.06
Weaknesses			
1. Revenues from software segment of store down 12%.	0.10	2	0.20
2. Location of store negatively impacted by new Highway 34.	0.15	2	0.30
3. Carpet and paint in store somewhat in disrepair.	0.02	1	0.02
4. Bathroom in store needs refurbishing.	0.02	1	0.02
5. Revenues from businesses down 8%.	0.04	1	0.04
6. Store has no website.	0.05	2	0.10
7. Supplier on-time delivery increased to 2.4 days.	0.03	1	0.03
8. Often customers have to wait to check out	0.05	1	0.05
Total	**1.00**		**2.50**



Chapter 7:
The External Analysis

External Audit



- **External audit**
  - focuses on identifying and evaluating trends and events beyond the control of a single firm
  - reveals key opportunities and threats confronting an organization so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats

The Nature of an External Audit



- The external audit is aimed at identifying key variables that offer actionable responses
- Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats.

A Comprehensive Strategic-Management Model

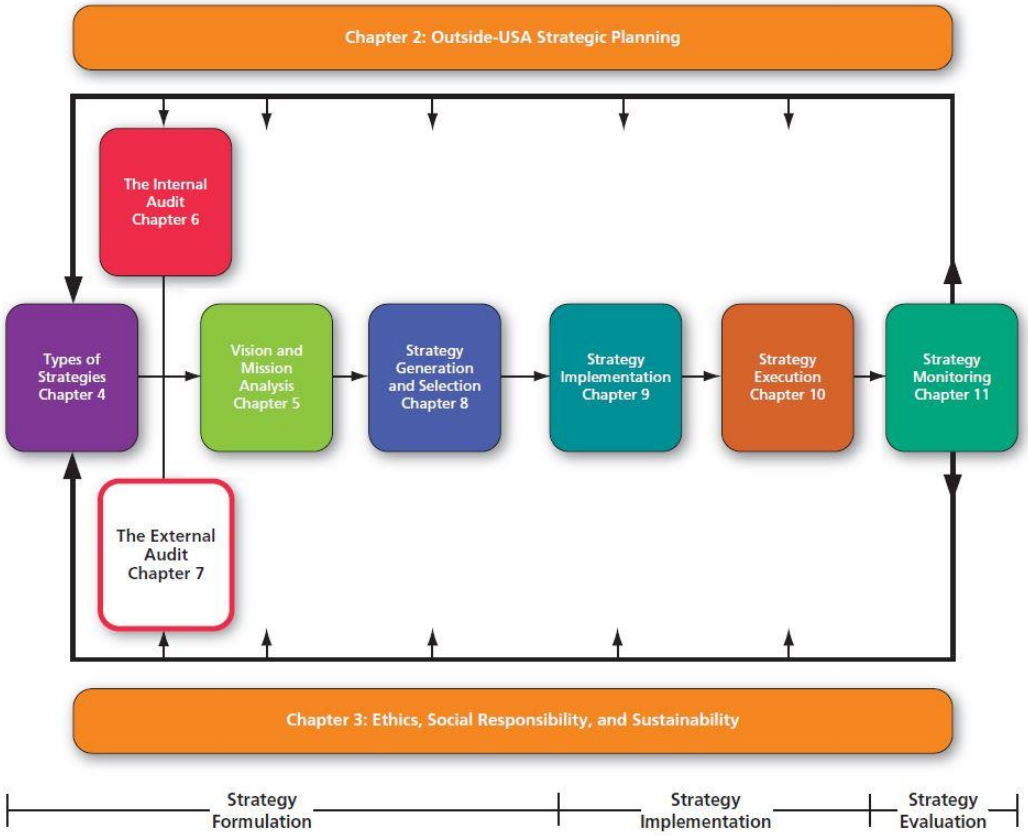


FIGURE 7-1

A Comprehensive Strategic-Management Model

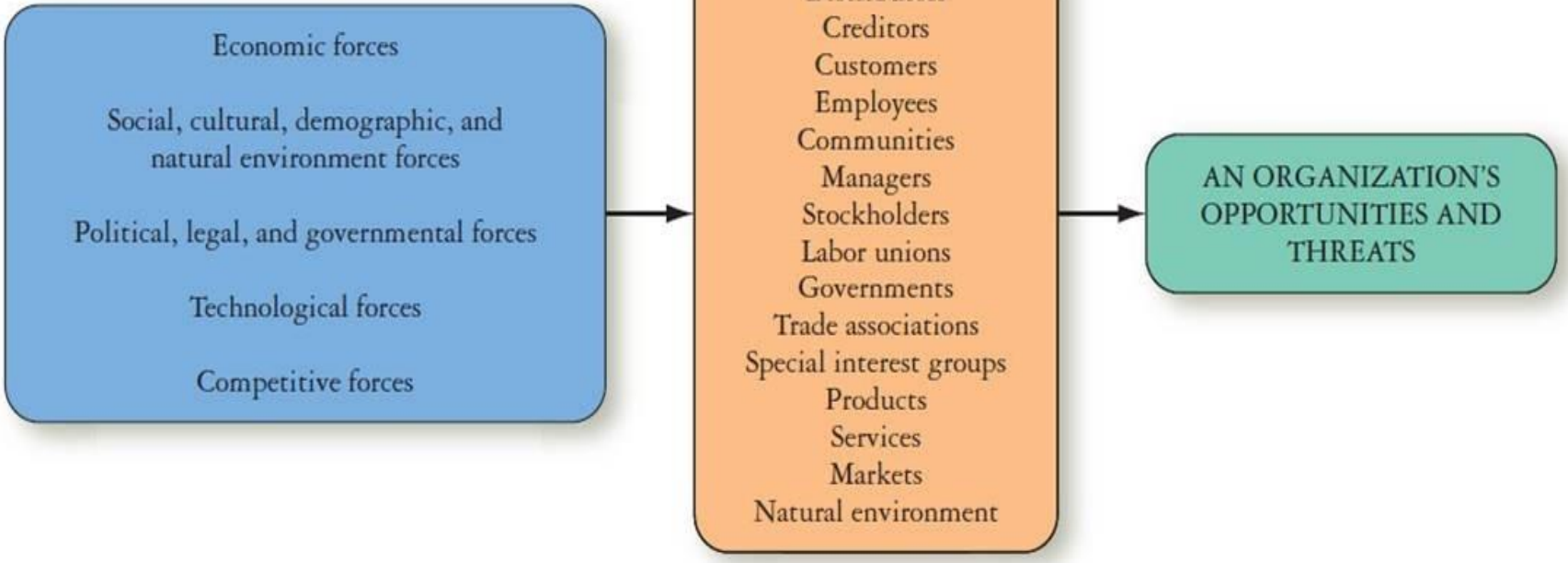
Source: Fred R. David, adapted from "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40,
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Key External Forces

External forces can be divided into five broad categories:

1. economic forces
2. social, cultural, demographic, and natural environment forces
3. political, governmental, and legal forces
4. technological forces
5. competitive forces

Relationships Between Key External Forces and an Organization



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The Process of Performing an External Audit



- First, gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends.

The Process of Performing an External Audit



- Information should be assimilated and evaluated
- A final list of the most important key external factors should be communicated

The Industrial Organization (I/O) View

- The Industrial Organization (I/O) approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm for gaining and sustaining competitive advantage.

Economic Forces

- Shift to service economy
- Availability of credit
- Level of disposable income
- Propensity of people to spend
- Interest rates
- Inflation rates
- GDP trends
- Consumption patterns
- Unemployment trends
- Value of the dollar
- Import/Export factors
- Demand shifts for different goods and services
- Income differences by region and consumer group
- Price fluctuations
- Foreign countries' economic conditions
- Monetary and Fiscal policy
- Stock market trends
- Tax rate variation by country and state
- European Economic Community (EEC) policies
- Organization of Petroleum Exporting Countries (OPEC) policies

Advantages of a Strong Dollar

1. Leads to lower exports
2. Leads to higher imports
3. Makes U.S. goods expensive for foreign consumers
4. Helps keep inflation low
5. Allows U.S. firms to purchase raw materials cheaply from other countries
6. Allows U.S. to service its debt better
7. Spurs foreign investment
8. Encourages Americans to travel abroad
9. Leads to lower oil prices because oil globally is priced in U.S. dollars
10. Encourages Americans to spend money because they can buy more for their money

Social, Cultural, Demographic, and Natural Environmental Forces

- U.S. Facts
  - Aging population
  - Less white
  - 2050 = 20% population > 65 years
  - 2075 = no ethnic or racial majority

Key Social, Cultural, Demographic, and Natural Environmental Variables

- Population changes by race, age, and geographic area
- Regional changes in tastes and preferences
- Number of marriages
- Number of divorces
- Number of births
- Number of deaths
- Immigration and emigration rates
- Social Security programs
- Life expectancy rates
- Per capita income
- Social media pervasiveness
- Attitudes toward retirement
- Energy conservation
- Attitudes toward product quality
- Attitudes toward customer service
- Pollution control
- Attitudes toward foreign peoples
- Energy conservation
- Social programs
- Number of churches
- Number of church members
- Social responsibility issues

Political, Governmental, and Legal Forces

- The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

Political, Government, and Legal Variables

- Environmental regulations
- Number of patents
- Changes in patent laws
- Equal employment laws
- Level of defense expenditures
- Unionization trends
- Antitrust legislation

- USA vs. other country relationships
- Political conditions in foreign countries
- Global price of oil changes
- Local, state, and federal laws
- Import–export regulations
- Tariffs
- Local, state, and national elections

Technological Forces

- New technologies such as:
  - the Internet of Things
  - 3D printing
  - the cloud
  - mobile devices
  - biotech
  - analytics
  - autotech
  - robotics and
  - artificial intelligence

are fueling innovation in many industries, and impacting strategic-planning decisions.

Technological Forces

- Many firms now have a **Chief Information Officer** (CIO) and a **Chief Technology Officer** (CTO) who work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed

Results of Technological Advances

1. Major opportunities and threats that must be considered in formulating strategies.
2. Can affect organizations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position.
3. Can create new markets, result in new and improved products, change the relative competitive cost positions, and render existing products and services obsolete.
4. Can reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills, and result in changing values and expectations of employees, managers, and customers.
5. Can create new competitive advantages that are more powerful than existing advantages.

Industry Analysis



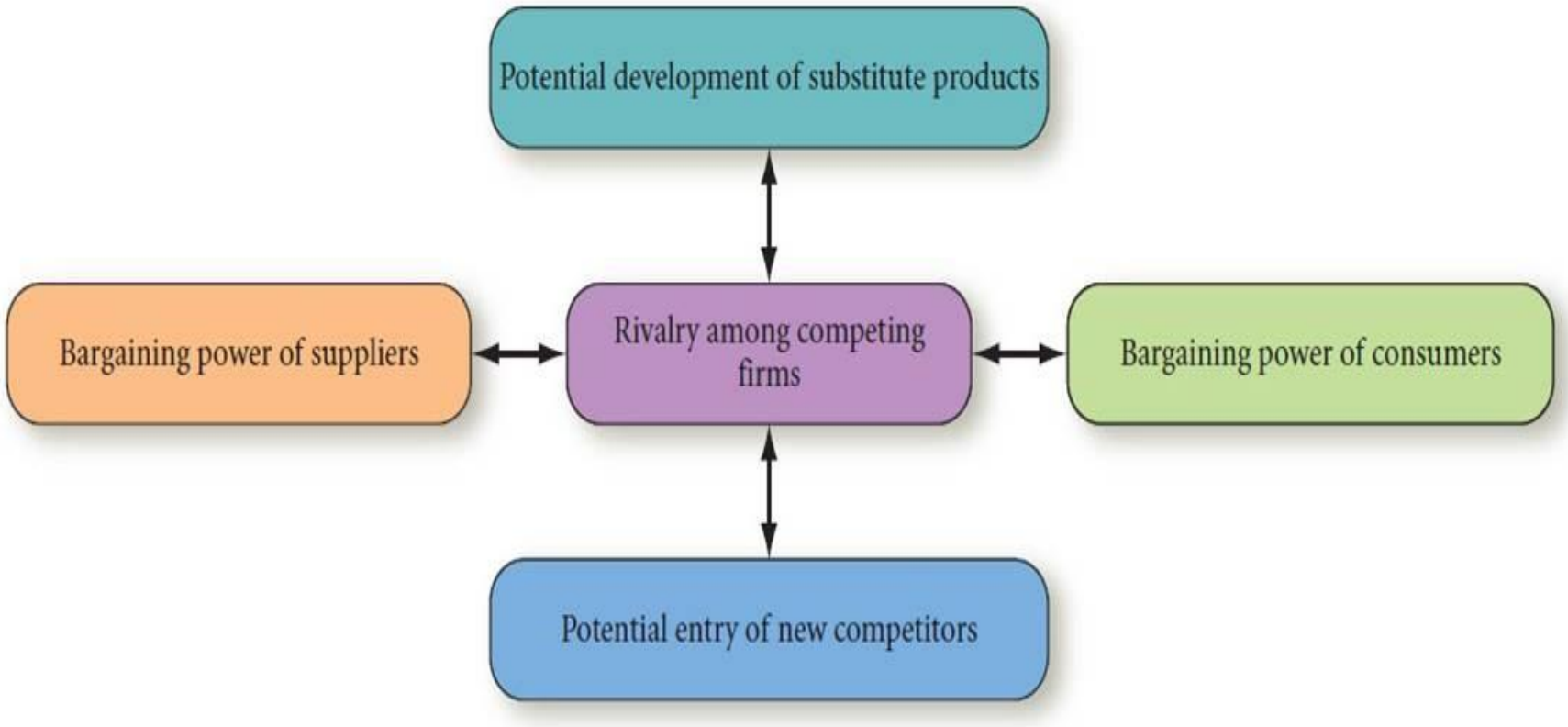
- An organisation has to understand the nature of the relationship within its industry, in order to allow the enterprise to develop strategies to gain advantage of the current relationships.

Industry Analysis

- A useful framework, that can be utilised when undertaking this analysis, is Porter's 'five forces' model of establishing industry attractiveness for a business.
- This analysis should be conducted at the level of the individual strategic business unit (SBU) rather than at the level of the organisation as a whole



Industry Analysis



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Industry Analysis

Step 1	For each of the five forces, identify the different parties involved, along with the specific factors that bring about competitive pressures.
Step 2	Evaluate how strong the pressures stemming from each of the five forces are (strong, moderate, or weak).
Step 3	Determine whether the five forces, overall, are supportive of high industry profitability.

Industry Analysis



- Porter identified five factors that affect the level of competition and therefore profitability within an industry:
  - Bargaining power of consumers
  - Bargaining Power of suppliers
  - Threat of potential entrants
  - Threat of substitutes
  - Threat of competitive rivalry

Bargaining Power of Consumers



- Bargaining power of consumers:
  - Customers being concentrated or buying in volume affects intensity of competition
  - Consumer power is higher where products are standard or undifferentiated

Conditions Where Consumers Gain Bargaining Power



- If buyers can inexpensively switch
- If buyers are particularly important
- If sellers are struggling in the face of falling consumer demand
- If buyers are informed about sellers' products, prices, and costs
- If buyers have discretion in whether and when they purchase the product

Bargaining Power of Suppliers

- Bargaining Power of Suppliers is increased when (there are):
  - Few suppliers
  - Few substitutes
  - Costs of switching raw materials is high
- Backward integration is gaining control or ownership of suppliers

Threat of Substitutes

- Potential development of substitute products:
  - Pressure increases when:
    - Prices of substitutes decrease
    - Consumers' switching costs decrease

Potential Entry of New Competitors

- Potential Entry of New Competitors::
  - Barriers to entry are important
  - Quality, pricing, and marketing can overcome barriers

Barriers to Entry



- Need to gain economies of scale quickly
- Need to gain technology and specialized know-how
- Lack of experience
- Strong customer loyalty
- Strong brand preferences
- Large capital requirements
- Lack of adequate distribution channels
- Government regulatory policies

Industrial Rivalry



- Rivalry among competing firms
  - Most powerful of the five forces
  - Focus on competitive advantage of strategies over other firms

Conditions That Cause High Rivalry Among Competing Firms

- When the number of competing firms is high
- When competing firms are of similar size
- When competing firms have similar capabilities
- When the demand for an industry's products is falling
- When the product or service prices in the industry are falling

Conditions That Cause High Rivalry Among Competing Firms (Cont.)

- When consumers can switch brands easily
- When barriers to leaving the market are high
- When barriers to entering the market are low
- When fixed costs are high among competing firms
- When the product is perishable

Conditions That Cause High Rivalry Among Competing Firms (Cont.)

- When rivals have excess capacity
- When consumer demand is falling
- When rivals have excess inventory
- When rivals sell similar products/services
- When mergers are common in the industry

Competitor Analysis

- Strategic Group:
  - Strategic groups are made up of organisations within the same industry that are pursuing equivalent strategies targeting groups of customers that have similar profiles.
  - All these companies are following similar strategies and facing similar strategic questions.
  - They are also aiming at very similar market segments.

Competitor Analysis



- There is a range of attributes that can be used to identify strategic groups. Some examples are as follows:
  - Size of the company
  - Assets and skills
  - Scope of the operation
  - Breadth of the product range
  - Choice of distribution channel
  - Relative product quality
  - Brand image

Competitor Analysis

- For each competitor in their strategic group an organisation needs to establish the following:
  - Competitors objectives
  - Competitor's current and past strategies
  - Competitor's capabilities
  - Innovation capabilities
  - Production capabilities
  - Financial capabilities
  - Competitors future strategies and reactions

The External Factor Evaluation (EFE) Matrix

- Summarize and evaluate these factors:

Economic	Political
Social	Governmental
Cultural	Legal
Demographic	Technological
Environmental	Competitive

EFE Matrix Steps

1. List the key external factors
2. Weight from 0.0 to 1.0
3. Rate the effectiveness of current strategies from 4-7 ratings (4 in the following illustration)
4. Multiply weight * rating
5. Sum weighted scores

Illustration:
EFE Matrix for a Local Ten-Theater Cinema Complex

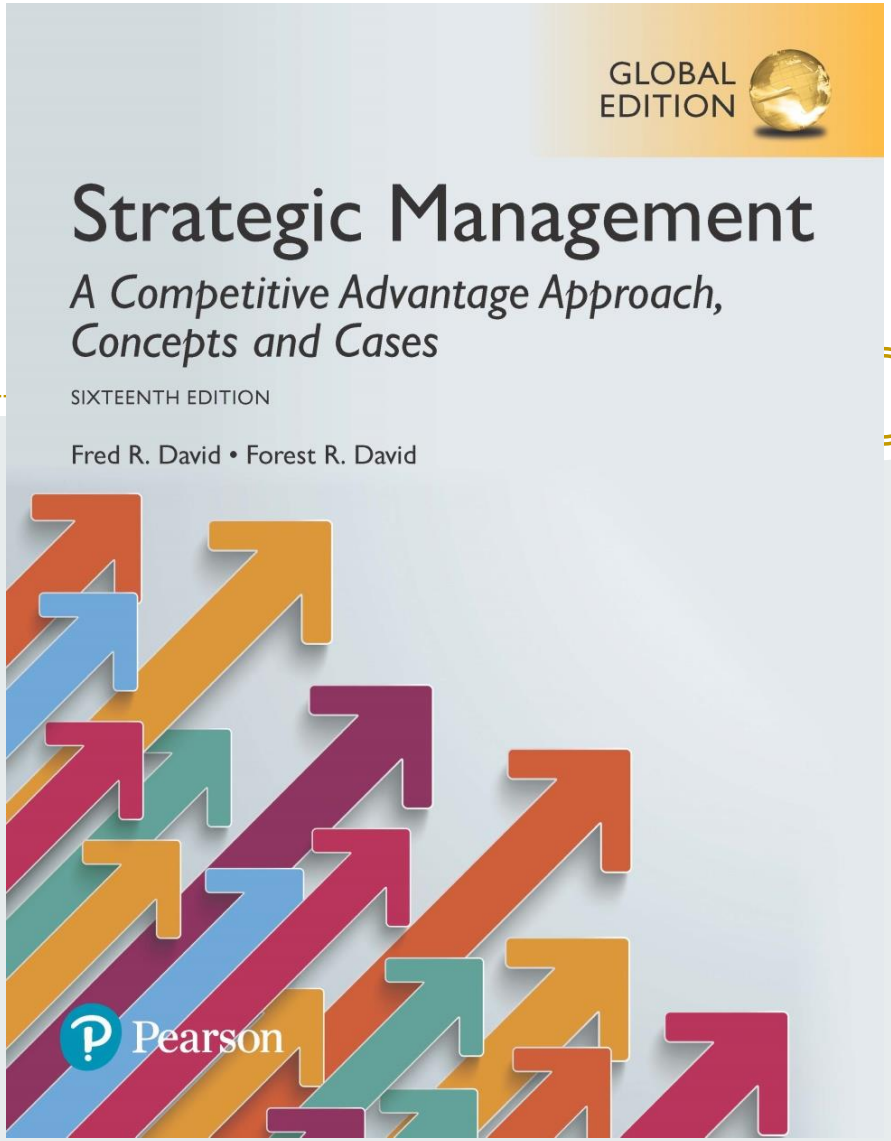
Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Two new neighborhoods developing within 3 miles	0.09	1	0.09
2. TDB University is expanding 6% annually	0.08	4	0.32
3. Major competitor across town recently closed	0.08	3	0.24
4. Demand for going to cinemas growing 10%	0.07	2	0.14
5. Disposable income among citizens up 5% in prior year	0.06	3	0.18
6. Rowan County is growing 8% annually in population	0.05	3	0.15
7. Unemployment rate in county declined to 3.1%	0.03	2	0.06
Threats			
8. Trend toward healthy eating eroding concession sales	0.12	4	0.48
9. Demand for online movies and DVDs growing 10%	0.06	2	0.12
10. Commercial property adjacent to cinemas for sale	0.06	3	0.18
11. TDB University installing an on-campus movie theater	0.04	3	0.12
12. County and city property taxes increasing 25%	0.08	2	0.16
13. Local religious groups object to R-rated movies	0.04	3	0.12
14. Movies rented at local Red Box's up 12%	0.08	2	0.16
15. Movies rented last quarter from Time Warner up 15%	0.06	1	0.06
Total	**1.00**		**2.58**

EFE Matrix Steps

1. List the key external factors
2. Weight from 0.0 to 1.0
3. Rate the effectiveness of current strategies from 4-7 ratings (4 in the following illustration)
4. Multiply weight * rating
5. Sum weighted scores

Suggested Video Clip

- PESTLE Analysis
- https://www.youtube.com/watch?v=GFVKKTwkANY
- Porter's Five Forces
- https://www.youtube.com/watch?v=_IaBZmBo9RE&t=1s



Chapter 8: Strategy Generation and Selection

The Process of Generating and Selecting Strategies



- A manageable set of the most attractive alternative strategies must be developed.
- The advantages, disadvantages, trade-offs, costs, and benefits of these strategies should be determined.

The Process of Generating and Selecting Strategies



- Identifying and evaluating alternative strategies should involve many of the managers and employees who earlier assembled the organizational vision and mission statements, performed the external audit, and conducted the internal audit.

The Process of Generating and Selecting Strategies



- Alternative strategies proposed by participants should be considered and discussed in a series of meetings.
- Proposed strategies should be listed in writing.
- When all feasible strategies identified by participants are given and understood, the strategies should be ranked in order of attractiveness.

A Comprehensive Strategy-Formulation Framework

- **Stage 1 - Input Stage**
  - summarizes the basic input information needed to formulate strategies

A Comprehensive Strategy-Formulation Framework

- **Stage 2 - Matching Stage**
  - focuses on generating feasible alternative strategies by aligning key external and internal factors
  - techniques include the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix and the Boston Consulting Group (BCG) Matrix

A Comprehensive Strategy-Formulation Framework

- **Stage 3 - Decision Stage**
  - reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies

The Matching Stage

- The **Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix** helps managers develop four types of strategies:
  - SO (strengths-opportunities) Strategies
  - WO (weaknesses-opportunities) Strategies
  - ST (strengths-threats) Strategies
  - WT (weaknesses-threats) Strategies

The Matching Stage

- ***SO* Strategies**
  - use a firm's internal strengths to take advantage of external opportunities
- ***WO* Strategies**
  - aim at improving internal weaknesses by taking advantage of external opportunities

The Matching Stage

- ***ST* Strategies**
  - use a firm's strengths to avoid or reduce the impact of external threats
- ***WT* Strategies**
  - defensive tactics directed at reducing internal weakness and avoiding external threats

SWOT Matrix



1. List the firm's key external opportunities.
2. List the firm's key external threats.
3. List the firm's key internal strengths.
4. List the firm's key internal weaknesses.
5. Match internal strengths with external opportunities, and record the resultant SO strategies.

SWOT Matrix (cont.)



6. Match internal weaknesses with external opportunities, and record the resultant WO strategies.
7. Match internal strengths with external threats, and record the resultant ST strategies.
8. Match internal weaknesses with external threats, and record the resultant WT strategies.

SWOT Matrix (cont.)

SW / OT	*Strengths* 1. 2. 3. 4.	*Weaknesses* 1. 2. 3. 4.
Opportunities 1. 2. 3. 4.	*Strengths - Opportunities* 1. 2. 3. 4.	*Weaknesses - Opportunities* 1. 2. 3. 4.
Threats 1. 2. 3. 4.	*Strengths - Threats* 1. 2. 3. 4.	*Weaknesses - Threats* 1. 2. 3. 4.

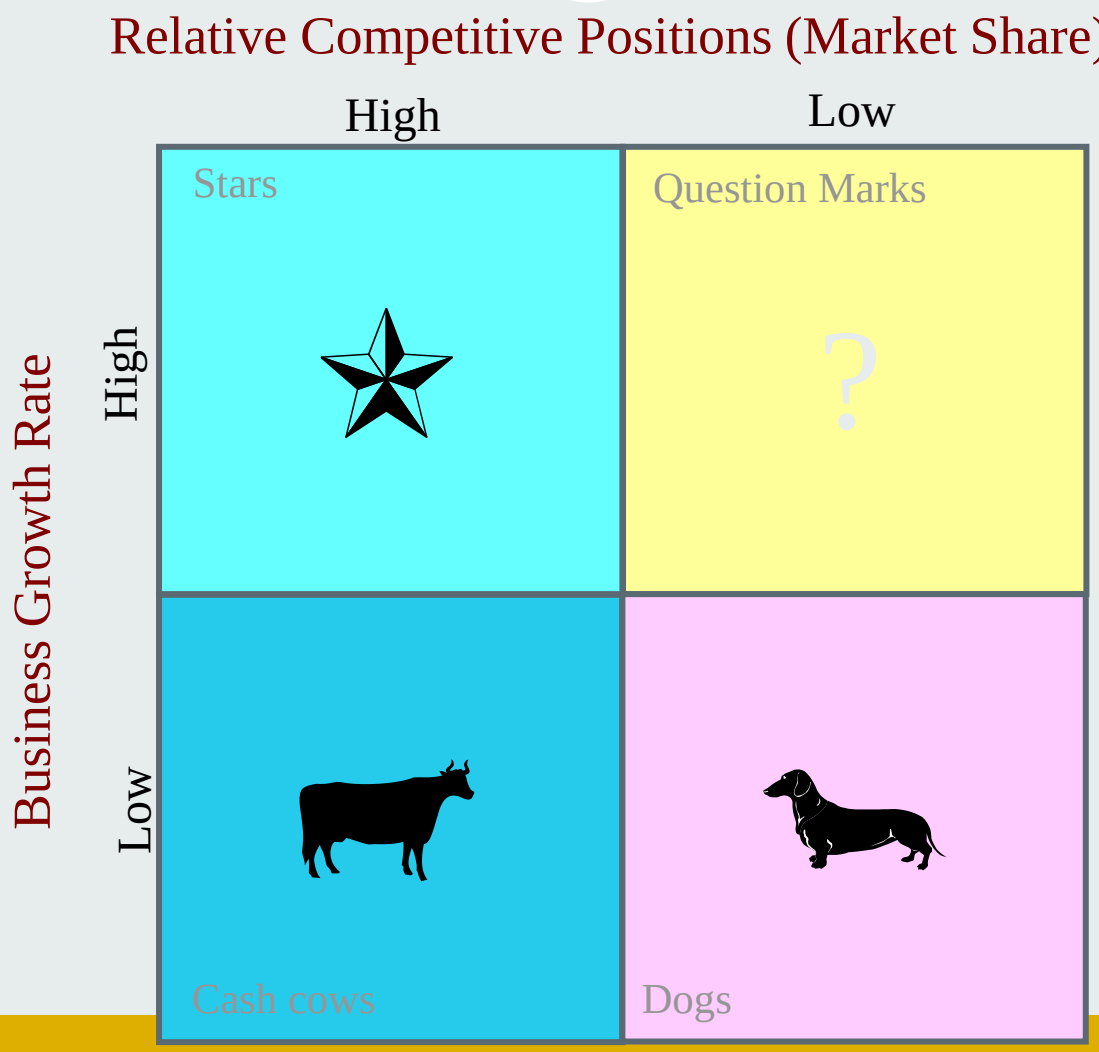
SWOT Matrix (cont.)

Internal Factors / External Factors	Strengths	Weaknesses
	S1 R n D *S2 Whirlpool's Culture* *S3 Quality* *S4 Marketing Strategies*	*W1 Financial Position* *W2 Global Positioning* *W3 Manufacture Facilities*
Opportunities *O1 Economic integration of Europe* *O2 Internet / e-commerce* *O3 Economic development in Asia and L. America* *O4 Innovations* *O5 Increase in disposable income* *O6 Harmonization of standards*	**SO Strategies** *S1O3* Focus on Asian mrket and make products conforming to living patterns *S4O5* Increase marketing capabilities to the upscale market *S2O3* Get ready for the internet boom	**WO Strategies** *W1W2O3* Cut costs and go for mergers in Asia *W2O4* Bring new products to market to get better position globally
Threats *T1 Global competition* *T2 Demand saturated* *T3 Economies of scale*	**ST Strategies** *S2S3T2* Buy Maytag to increase market share in U.S *S1S4T1* Leverage use of RnD and marketing to compete on global fronts	**WT Strategies** *W1T3* Shift facilities to India and China for cheap labor. *W1T2* Sell some of the facilities and units not profitable

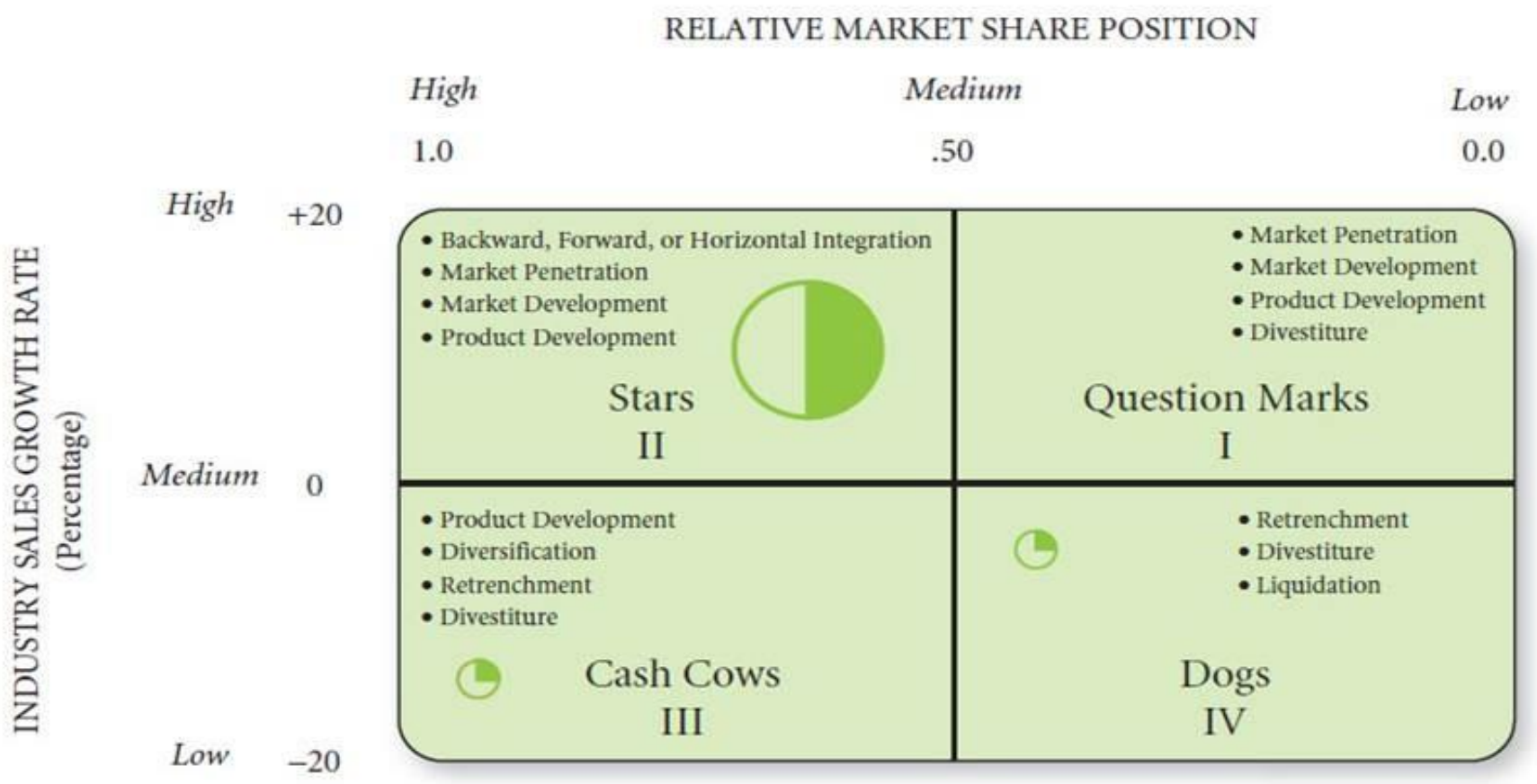
The Boston Consulting Group (BCG) Matrix

- The Boston Consultancy Group (BCG) growth share matrix
  - The growth share matrix is concerned about the generation and use of cash within a business and can be used to analyse either SBU's or products.
  - Relative market share is seen as a predictor of the product's capacity to generate cash.
  - Market growth is seen is a predictor of the product's need for cash.

The Boston Consulting Group (BCG) Matrix



The Boston Consulting Group (BCG) Matrix



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The Boston Consulting Group (BCG) Matrix

- At the mid-point of the axis, represented by 1.0 (or 1X) on the scale, the products market share is equal to its largest competitor's market share.
  - Cash cows: These products have high profitability and require low investment, due to market leadership in a low growth market.
  - Stars: These are market leaders and so are generating high levels of cash, but are in areas of rapid growth which require equally high levels of cash (investment) to keep up with the growth in sales.

The Boston Consulting Group (BCG) Matrix



- Question marks: Question marks are not market leaders and will have relatively high costs at the same time these products require large amounts of cash as they are in high growth areas.
- Dogs: These are products with low levels of market share in low growth markets.

The Boston Consulting Group (BCG) Matrix

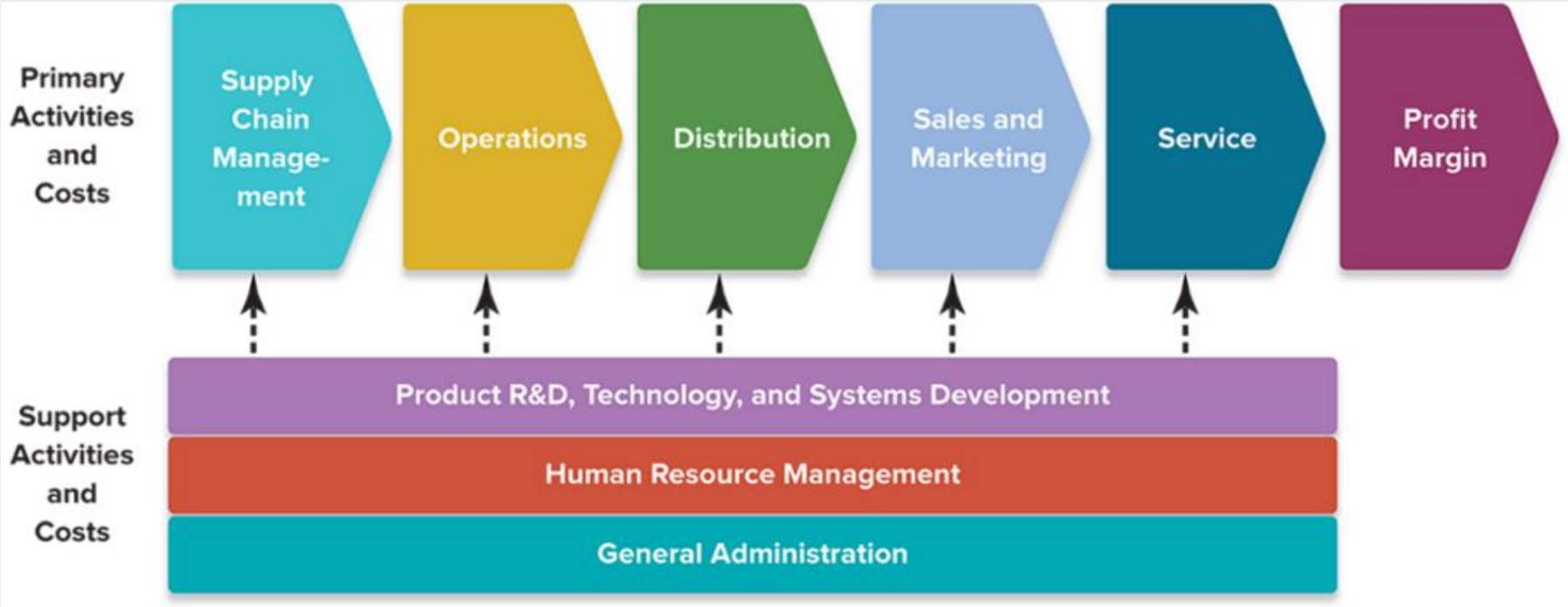
- The overall aim of an organisation should be to maintain a balanced portfolio.
- This means investments should flow from Cash cows into Stars and Question marks in an effort to make products move round the matrix from Question marks into Stars and from Stars into Cash cows.
- This movement of cash and products round the matrix thus ensures the future cash flows of the business.

Value Chain



- The value chain splits activities into: (i) primary activities: inbound logistics, operations, outward logistics, marketing/sales and service and (ii) secondary activities: infrastructure, human resource management, technology development and procurement
- These secondary activities take place in order to support the primary activities. For example, the firm's infrastructure (e.g. management, finance and buildings) serves to support the five primary functions

Value Chain


Primary Activities and Costs
Supply Chain Manage-ment
Operations
Distribution
Sales and Marketing
Service
Profit Margin
Support Activities and Costs
Product R&D, Technology, and Systems Development
Human Resource Management
General Administration

Business Model Canvas

- The Business Model Canvas developed by Osterwald and Pigneur (2010) is a valuable framework for summarising strategy.

Business Model Canvas

- The main sections of the canvas, in a logical order to consider them, are:

1. Value proposition. This is at the heart of what the business offers to its audiences and is arguably most important to success.
2. Customer segments. Different target audiences to whom the value propositions will appeal. In the Business Model Canvas the alternatives recommended are mass market, niche market, segmented (broken down further) or a range of diverse segments.

Business Model Canvas



3. Customer relationships. The types of relationships that will be formed – for example, self-service, automated services, communities or more personal assistance. Co-creation of content may be part of this.
4. Channels. The methods by which the organisation's services will be delivered and the audiences reached.
5. Key partners. To exploit online and offline value networks, forming partnerships gives an opportunity of expanding reach and taking advantage of existing organisations and online influencers that have built an audience.

Business Model Canvas



3. Customer relationships. The types of relationships that will be formed – for example, self-service, automated services, communities or more personal assistance. Co-creation of content may be part of this.
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Business Model Canvas

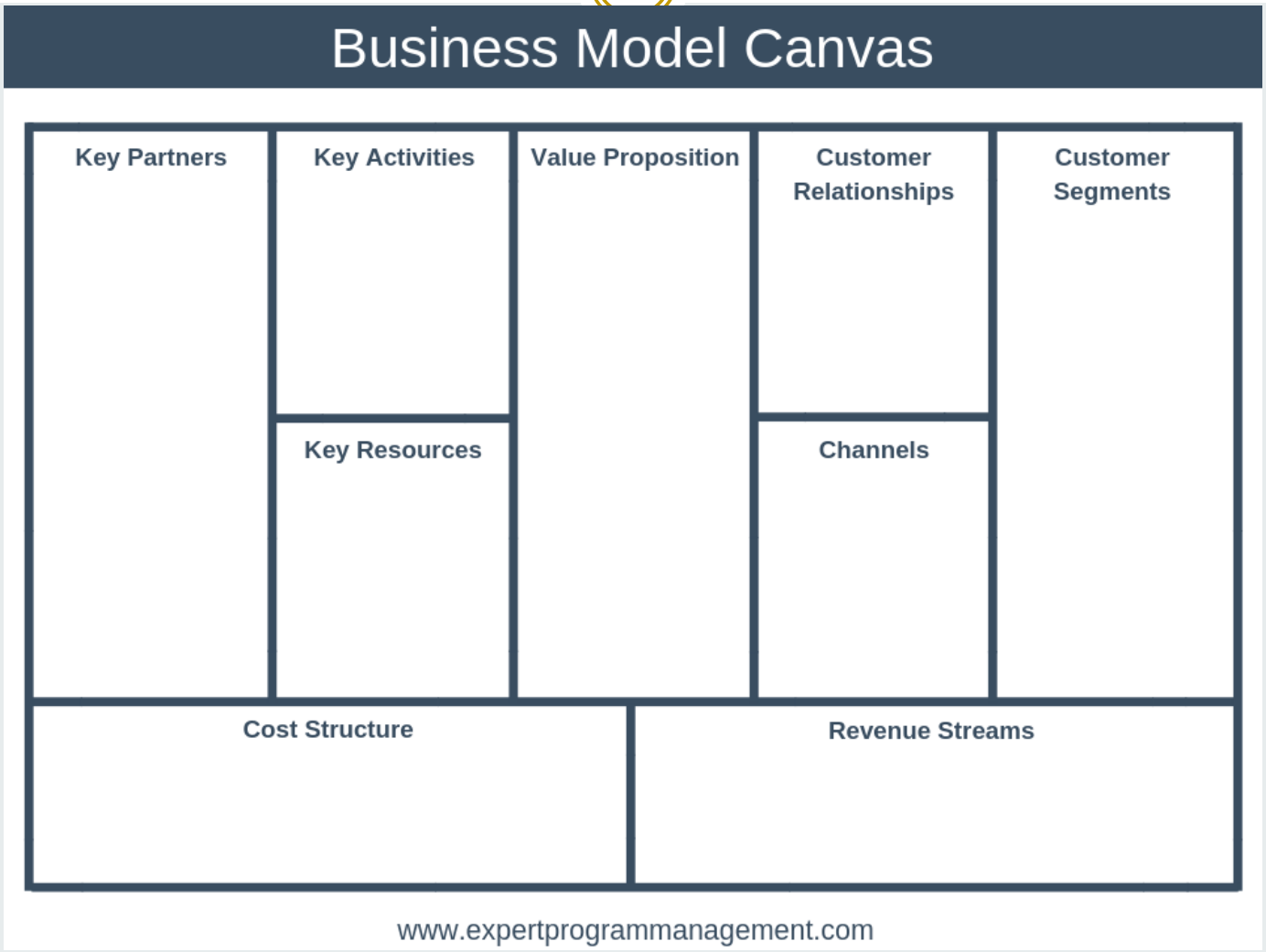


6. Activities. The main activities that need to be performed to deliver the value proposition to develop revenue.
7. Resources. Different types of process and people to complete the activities to create and deliver the value proposition.

Business Model Canvas

8. Cost structure. Different cost elements; these should be checked against activities and resources. Costs are classically broken down into fixed and variable costs and economies of scale.
9. Revenue stream. This is the method by which a business derives income. Common online options are: ad revenue, subscription fees, sales of physical or virtual goods or affiliate-based commission arrangements. Licensing and leasing are other alternatives.

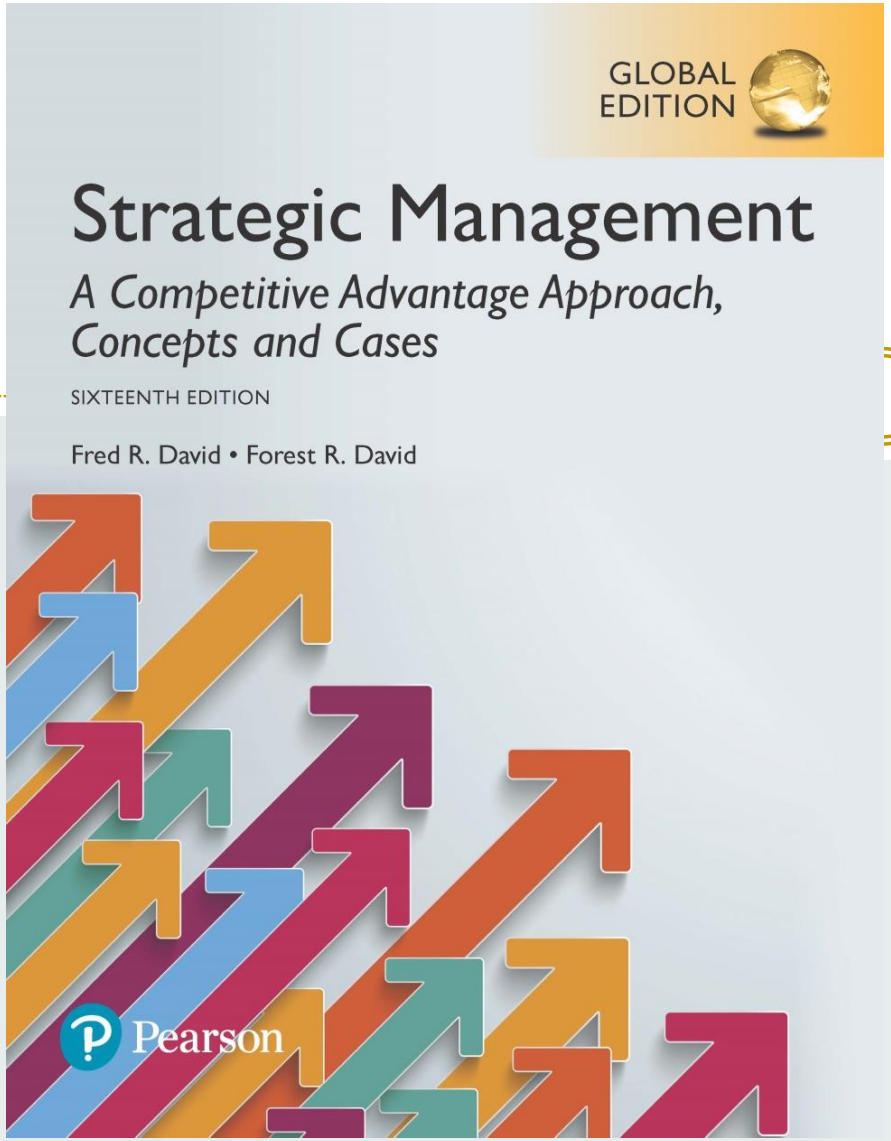
Business Model Canvas



Suggested Video Clips



- Porter's Generic Value Chain Model
- https://www.youtube.com/watch?v=aeshYi6lj2Y
- Design and innovation tool: the Business Model Canvas, how does it work? (e.g. LEGO)
- https://www.youtube.com/watch?v=g4E3fhybhGM
- Netflix Business Model Strategy
- https://www.youtube.com/watch?v=ZKrtUB-kMJc



Chapter 9: Strategy Implementation

Strategic Marketing Issues

1. How to make advertisements more interactive to be more effective
2. How to best take advantage of Facebook and Twitter conservations about the company and industry
3. To use exclusive dealerships or multiple channels of distribution
4. To use heavy, light, or no TV advertising versus online advertising

Strategic Marketing Issues

5. To limit (or not) the share of business done with a single customer
6. To be a price leader or a price follower
7. To offer a complete or limited warranty
8. To reward salespeople based on straight salary, straight commission, or a combination salary/commission

Social Media Marketing

- Marketers must get customers involved in the company website and solicit suggestions in terms of product development, customer service, and ideas.
- The company should enable customers to interact with the firm on the following social media networks:
  - Facebook
  - Google Plus
  - Twitter
  - LinkedIn
  - Instagram
  - Pinterest

Market Segmentation

- **Market Segmentation**
  - subdividing of a market into distinct subsets of customers according to needs and buying habits
  - widely used in implementing strategies

Market Segmentation



- Strategies such as market development, product development, market penetration, and diversification require increased sales through new markets and products.
- Market segmentation allows a firm to operate with limited resources because mass production, mass distribution, and mass advertising are not required.

Market Segmentation

- Market segmentation decisions directly affect the *marketing mix variables:*

Product

Place

Promotion

Price

The Marketing Mix Component Variables

TABLE 9-2 The Marketing Mix Component Variables

Product	Place	Promotion	Price
Quality	Distribution channels	Advertising	Level
Features and options	Distribution coverage	Personal selling	Discounts and allowances
Style	Outlet location	Sales promotion	Payment terms
Brand name	Sales territories	Publicity	
Packaging	Inventory levels and locations		
Product line	Transportation carriers		
Warranty			
Service level			
Other services			

Alternative Bases for Market Segmentation

- Geographic
  - Region, country size, city size, density, climate
- Demographic
  - Age, gender, family size, family life cycle, income, occupation, education, religion, race, nationality
- Psychographic
  - Social class, personality
- Behavioral
  - Use occasion, benefits sought, user status, usage rate, loyalty status, readiness stage, attitude toward product

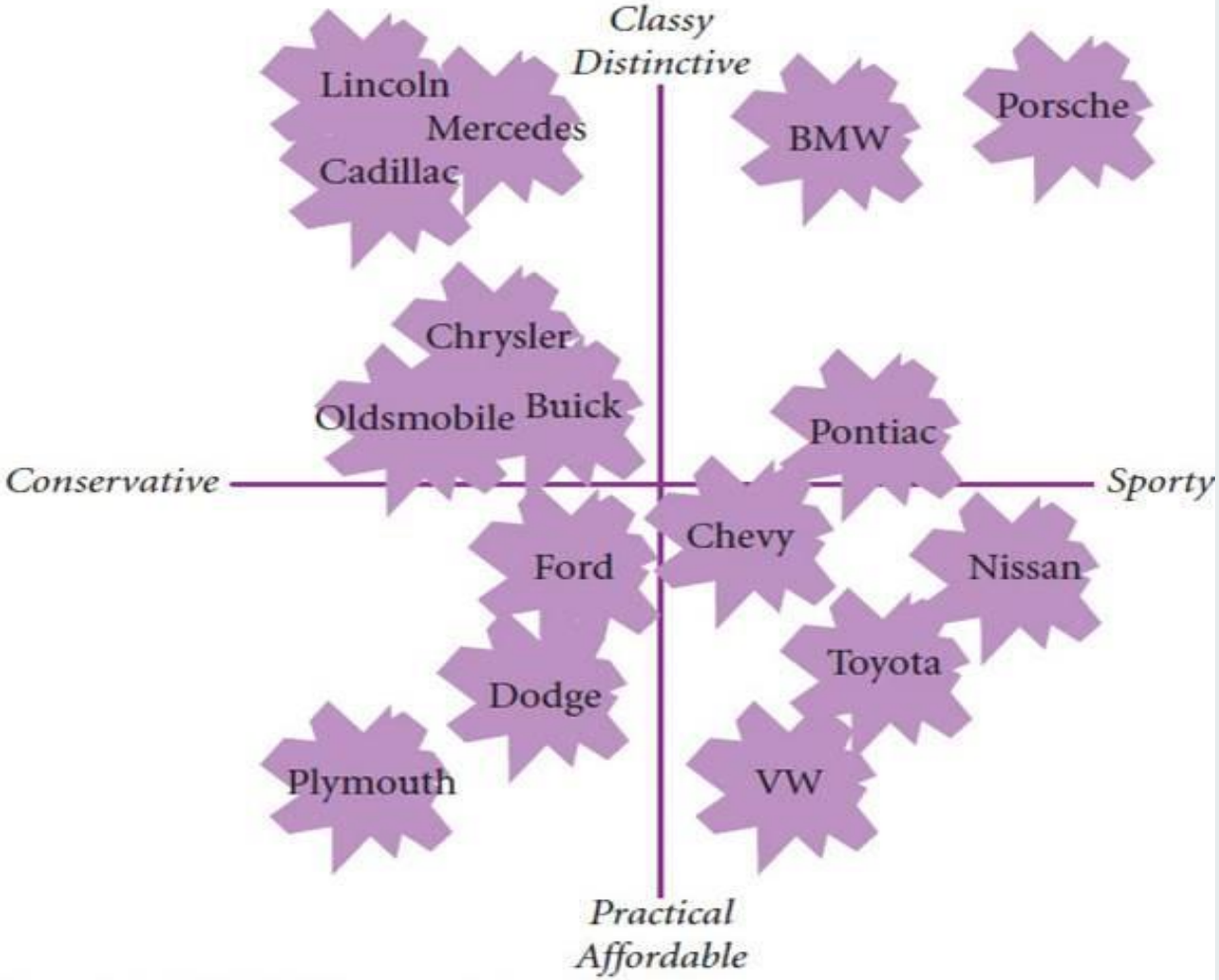
Product Positioning

- **Product Positioning**
  - entails developing schematic representations that reflect how your products or services compare to competitors' on dimensions most important to success in the industry
  - Also called perceptual mapping

Product Positioning

- An effective product positioning strategy meets two criteria:
  - it uniquely distinguishes a company from the competition
  - it leads customers to expect slightly less service than a company can deliver

Example of a Product-Positioning Map



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Finance/Accounting Issues



1. To raise capital with short-term debt, long-term debt, preferred stock, or common stock
2. To lease or buy fixed assets
3. To determine an appropriate dividend payout ratio
4. To use LIFO (Last-in, First-out), FIFO (First-in, First-out), or a market-value accounting approach

Finance/Accounting Issues

5. To extend the time of accounts receivable
6. To establish a certain percentage discount on accounts within a specified period of time
7. To determine the amount of cash that should be kept on hand

Finance/Accounting Issues



1. Acquire needed capital to implement strategies.
2. Develop projected financial statements to show expected impact of strategies implemented.
3. Determine the firm's value (corporate valuation) in the event an offer is received.
4. Decide whether to go public with an Initial Public Offering (IPO).
5. Decide whether to keep cash offshore that was earned offshore.

Acquiring Capital to Implement Strategies



- Successful strategy implementation often requires additional capital.
- Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity.

Research and Development (R&D) Issues

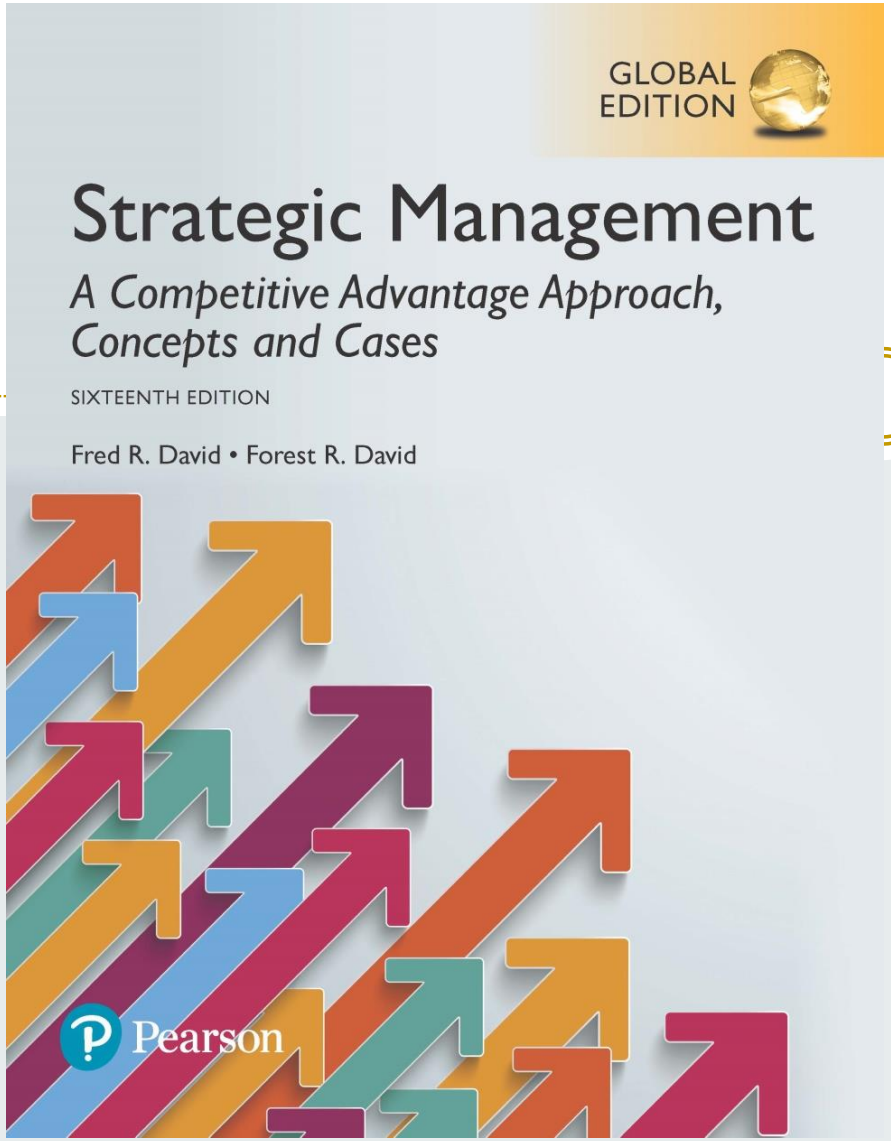


1. Emphasize product or process improvements.
2. Stress basic or applied research.
3. Be leaders or followers in R&D.
4. Develop robotics or manual-type processes.
5. Spend a high, average, or low amount of money on R&D.
6. Perform R&D within the firm or contract R&D to outside firms.
7. Use university researchers or private-sector researchers.

R&D Approaches for Implementing Strategies



- Be the first firm to market new technological products.
- Be an innovative imitator of successful products, thus minimizing the risks and costs of start-up.
- Be a low-cost producer by mass-producing products similar to but less expensive than products recently introduced.



Chapter 10: Strategy Monitoring

Strategy Evaluation Criteria

Consonance

Consistency

Advantage

Feasibility

Strategy Evaluation Criteria



- Consistency: the strategy must not present mutually inconsistent goals and policies
- Consonance: the strategy must represent an adaptive response to the external environment and to critical changes occurring within it
- Advantage: the strategy must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity
- Feasibility: the strategy must neither overtax available resources nor create unsolvable sub-problems

Managing Resistance to Change

- Force Change Strategy
  - involves giving orders and enforcing those orders
- Educative Change Strategy
  - presents information to convince people of the need for change
- Self-interest Change Strategy
  - attempts to convince individuals that the change is to their personal advantage

Strategy Evaluation

- Three basic activities:
  - Examine the underlying bases of a firm's strategy.
  - Compare expected results with actual results.
  - Take corrective actions to ensure that performance conforms to plans.

Balanced Scorecard Approach



- Rather than relying on a few narrow financial measures, a system is needed which provides an overall view of business success.
- **Balanced Scorecard Approach** involves taking both financial/ non-financial measures and examines the benefits delivered to all the organisation's stakeholders.

Balanced Scorecard Approach



- A balanced scorecard approach involves four sets of measures:
  - Financial measures: Here we examine how we are perceived by investors and shareholders.
  - Customers: How do our customers view us?
  - Internal activities: By examining the key areas of activity which deliver customer satisfaction, we can identify where the organisation must outdo it's competitors.
  - Innovation and learning: To survive and prosper, all organisations need to improve and adapt. Any business activity can be viewed as a learning experience with the goal of continuously creating value.

Balanced Scorecard Approach



Contingency Planning



- **Contingency Plans** can be defined as alternative plans that can be put into effect if certain key events do not occur as expected

Contingency Planning



- If a major competitor withdraws from particular markets as intelligence reports indicate, what actions should our firm take?
- If our sales objectives are not reached, what actions should our firm take to avoid profit losses?
- If demand for our new product exceeds plans, what actions should our firm take to meet the higher demand?

Contingency Planning



- If certain disasters occur, what actions should our firm take?
- If a new technological advancement makes our new product obsolete sooner than expected, what actions should our firm take?