FGE

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Strategic management process

- statement of the **Mission**
- performance **Objectives**
- develop **Strategies**
- Strategy **Implementation**
- **Evaluation** of performance

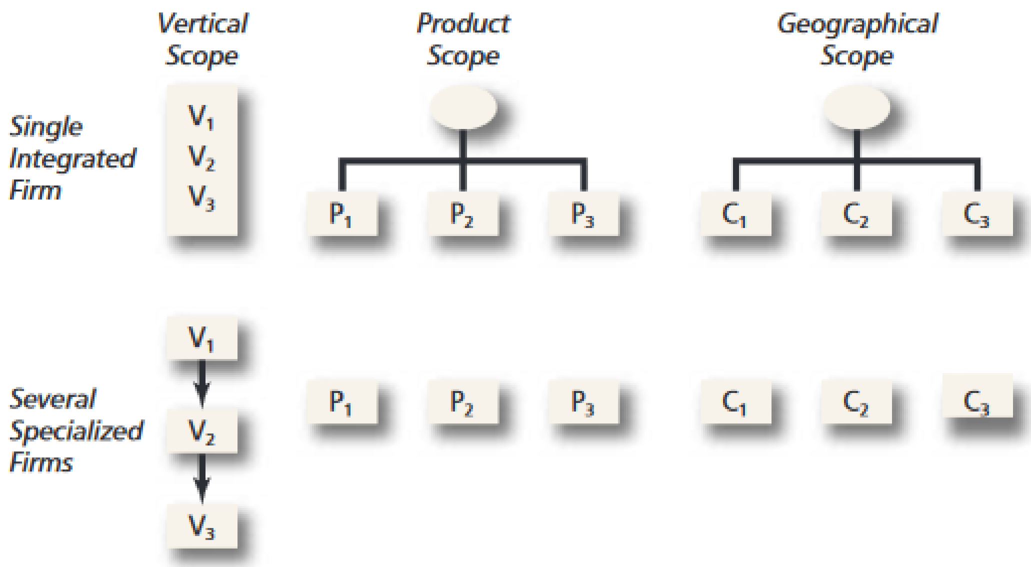
Types of strategies

- ***Business Strategy is concerned with how a firm competes within a particular market***

- ***Corporate Strategy is concerned with where a firm competes, i.e. the scope of its activities***

- **The dimensions of scope are**
  - **geographical scope**
  - **vertical scope**
  - **product scope**

Types of strategies



In the integrated firm there is an administrative interface between the different vertical units (V), product units (P), and country units (C). Where there is specialization, each unit is a separate firm linked by market interfaces.

- Vertical scope: three independent companies – one producing steel, the next rolling the steel into sheet, and the third producing steel cans – or having all three stages of production within a single company?
- Geographical scope: three independent companies producing cans in the US, UK, and Italy, or a single multinational company owning and operating the can-making plants in all three countries?
- Product scope, should metal cans, plastic packaging, and domestic appliances be produced by three separate companies, or are there efficiencies to be gained by merging all three into a single company?

Source: Grant, R. M. (2002). Contemporary strategy analysis. 6th. *Malden, MA: Blackwell Pub*, *13*(482), 133.

Sources of Competitive Advantage

COMPETITIVE ADVANTAGE

COST ADVANTAGE
Similar product at lower cost

DIFFERENTIATION ADVANTAGE
Price premium from unique product

Drivers of Cost Advantage

- ECONOMIES OF LEARNING
  - Improved organizational routines
- ECONOMIES OF SCALE
  - Specialization and division of labor
- PRODUCTION TECHNIQUES
  - Process innovation
  - Reengineering business processes
- PRODUCT DESIGN
  - Standardizing designs & components
  - Design for manufacture

Cost advantage

Drivers of Cost Advantage

- INPUT COSTS
  - Location advantages
  - Ownership of low-cost inputs
  - Non-union labor
  - Bargaining power
- CAPACITY UTILIZATION
  - Ratio of fixed to variable costs
  - Speed of capacity adjustment
- RESIDUAL EFFICIENCY
  - Organizational slack; Motivation &culture; Managerial efficiency

Differentiation

- **DIFFERENTIATION: is concerned with how a firm distinguishes its offerings from those of its competitors (i.e. *How the firm competes)***

- **DEFINITION: "*Providing something unique that is valuable to thebuyer beyond simply offering a low price." (M. Porter)***

THE KEY IS TO CREATE VALUE FOR THE CUSTOMER

Differentiation

- TANGIBLE DIFFERENTATION
  - Observable product characteristics:

    size, color, materials, etc.

    performance

    packaging

    complementary services
- INTANGIBLE DIFFERENTATION
  - Unobservable and subjective characteristics that appeal to customer's image, status, identity, and desire for exclusivity

TOTAL CUSTOMER RESPONSIVENESS

Differentiation not just about the *product, it embraces the whole relationship between the supplier and the customer.*

Corporate strategy-Diversification

- Diversification decisions involves two issues:
  - How attractive is the sector to be entered?
  - Can the firm achieve a competitive advantage?

- Motives:
- GROWTH --The desire to escape declining industries a powerful motive for diversification (e.g. tobacco, oil, newspapers).
- RISK --Diversification reduces variance of profit flows
- PROFIT --Bringing together of different businesses under common ownership & must somehow increase their profitability.

Types of diversification

- **Related diversification**: when a business expands its existing product lines or markets.

- **Unrelated diversification**: when a business adds new, or unrelated, product lines or markets.

- Diversification forms:
  - Vertical integration – along your value chain
  - Horizontal diversification – moving into new industry
  - Geographical diversification – open up new markets

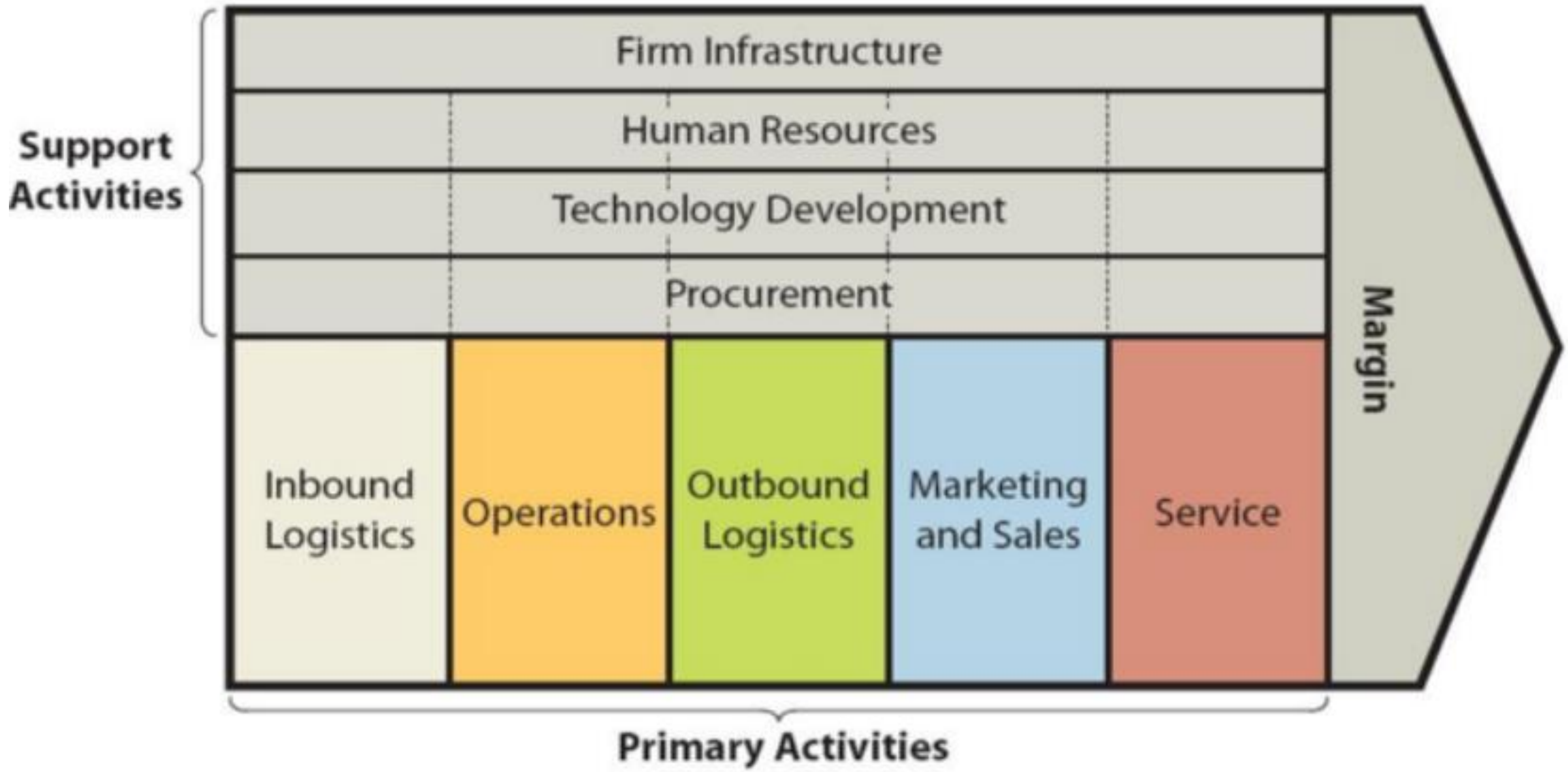
Vertical integration

- Forward vertical integration
- Backward vertical integration
- Disadvantages
  - Increased risk (outsourcing)
  - Decreased flexibility
  - Loss of specialization advantages
  - Increased administrative costs
- Advantages
  - Inputs/outputs control
  - Reduction transaction costs
  - Independency
  - Better competitive position
  - Reduce information asymmetries

Porter’s value chain

- The term value chain was used by Michael Porter (1985)
- Organizations are more than the random compilation of resources but an arrangement of the resources into systems and activities that result in products which customers are willing to pay for
- Management of these activities and their linkages give an organization competitive advantage

Porter's value chain



Porter’s value chain

- According to Porter (1985), the *primary activities* are:
- **Inbound Logistics** - involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.
- **Operations** - are all the activities required to transform inputs into outputs (products and services).
- **Outbound Logistics** - include all the activities required to collect, store, and distribute the output.
- **Marketing and Sales** - activities inform buyers about products and services, induce buyers to purchase them, and facilitate their purchase.
- **Service** - includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

Secondary activities are:

- **Procurement** - is the acquisition of inputs, or resources, for the firm.
- **Human Resource management** - consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.
- **Technological Development** - pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.
- **Infrastructure** - serves the company's needs and ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

Video: https://www.youtube.com/watch?v=a9LWp9y2fMw

References: Porter, Michael E., "Competitive Advantage". 1985, Ch. 1, pp 11-15. The Free Press. New York.

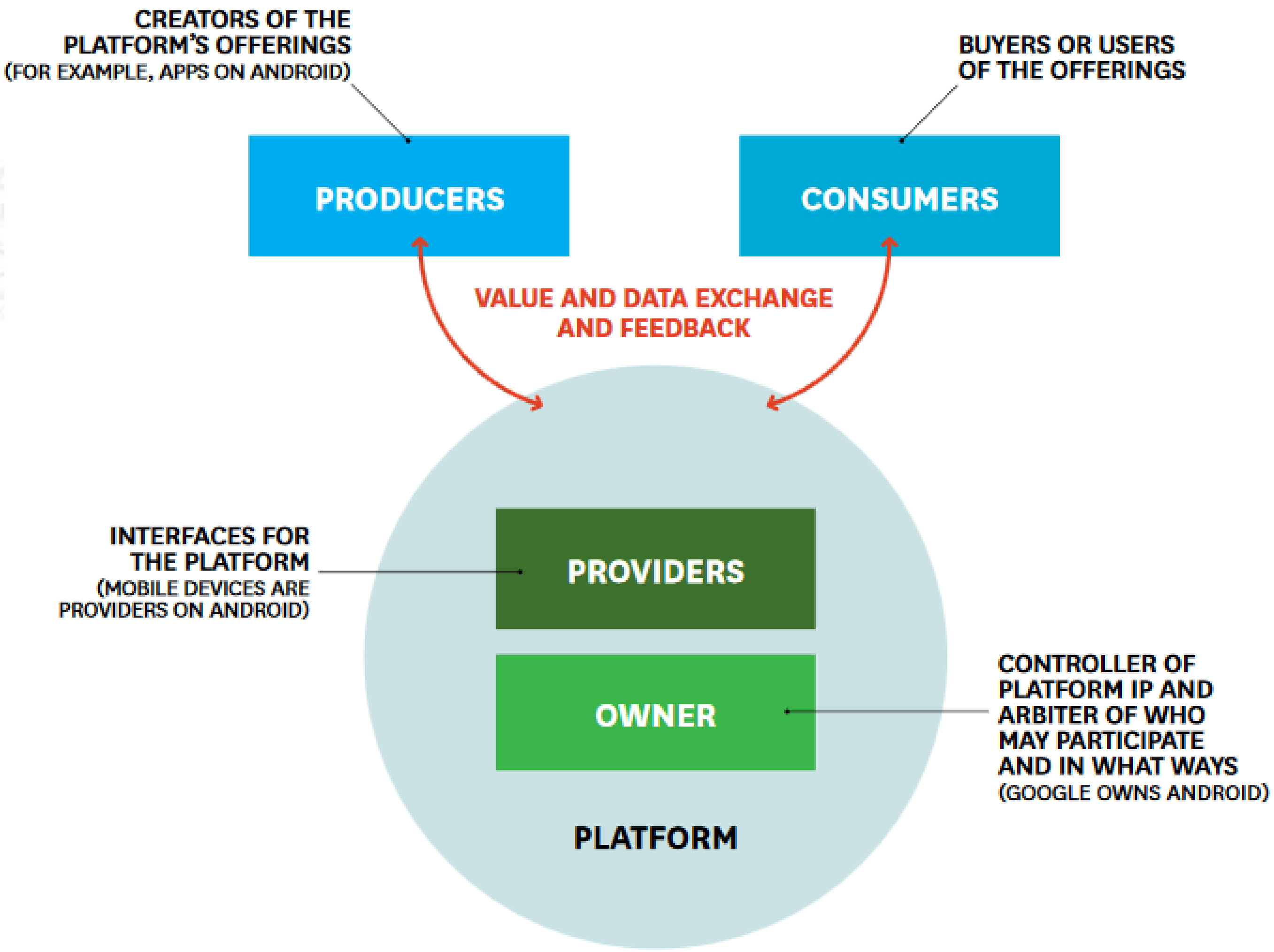
Platform strategy

Platforms have existed for years. Malls link consumers and merchants; newspapers connect subscribers and advertisers. What's changed in this century is that information technology has profoundly reduced the need to own physical infrastructure and assets.

Pipeline businesses create value by controlling a linear series of activities—the classic value-chain model. Inputs at one end of the chain (say, materials from suppliers) undergo a series of steps that trans-form them into an output that's worth more: the finished product. Apple's handset business is essentially a pipeline. But combine it with the App Store, the marketplace that connects app developers and iPhone owners, and you've got a platform.

(*Pipelines, Platforms, and the New Rules of Strategy Scale now trumps differentiation. by Marshall W. Van Alstyne, Geoffrey G. Parker, and Sangeet Paul Choudary*)

Platform strategy



Pipelines vs. Platforms

Leaders of pipeline enterprises have long focused on a narrow set of metrics that capture the health of their businesses.
-optimizing processes and opening bottlenecks;
-inventory turnover,
-tracking the flow of goods and services

As pipelines launch platforms, however, the numbers to watch change. Monitoring and boosting the performance of core interactions becomes critical. Here are new metrics managers need to track:

-**Interaction failure**. If a traveler opens the Lyft app and sees “no cars available,” the platform has failed
-**Engagement**. Healthy platforms track the participation of ecosystem members that enhances network effects—activities such as content sharing and repeat visits.
-**Match quality**. Poor matches between the needs of users and producers weaken network effects. Google constantly monitors users’ clicking and reading to refine how its search results fill their requests
-**Negative network effects**. Badly managed platforms often suffer from other kinds of problems that create negative feedback loops and reduce value. For example, congestion caused by unconstrained network growth can discourage participation.

Strategic options of Platforms

Strategic Option	Technology Actions to Consider	Business Actions to Consider
Coring How to create a new platform where none existed before	• Solve an essential "system" problem • Facilitate external companies' provision of add-ons • Keep intellectual property closed on the innards of your technology • Maintain strong interdependencies between platform and complements	• Solve an essential business problem for many industry players • Create and preserve complementors' incentives to contribute and innovate • Protect your main source of revenue and profit • Maintain high switching costs to competing platforms
Tipping How to win platform wars by building market momentum	• Try to develop unique, compelling features that are hard to imitate and that attract users • Tip across markets: absorb and bundle technical features from an adjacent market	• Provide more incentives for complementors than your competitors do • Rally competitors to form a coalition • Consider pricing or subsidy mechanisms that attract users to the platform

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Strategic options of Platforms

Comparison of different types of businesses.

	Pipeline business	Manufacturing platform	Multi-sided platform
What is the role of the focal firm?	Producer (operating in linear buyer-supplier relationships)	Producer (operating within a network of suppliers)	Intermediary (enabling direct interactions between users)
Who owns the product?	Focal firm (change of ownership after sale)	Focal firm (change of ownership after sale)	Users
How is value created?	Through product features that deliver customer benefits	Through product features (co-developed with a network of suppliers) that deliver customer benefits	Through enabling and facilitating transactions
How is value monetized?	Charging money (e.g., asset sale, usage fee) for product features (single revenue stream)	Charging money (e.g., asset sale, usage fee) for product features (single revenue stream)	Often free for one user group; access or commission fee paid by other users/ complementors (multiple revenue streams)
What is the basis of competition?	Product development Price	Product development Price	Business model development
Examples	McDonalds, Rolex, Stihl	Airbus, Boeing, VW	Alibaba, Airbnb, Uber

-The role of a multi-sided platform is not to develop, manufacture or (re)sell products and services but to connect different sides of a market

-“Pipeline businesses” that control a linear series of activities along the value chain.

-Airbus operates a manufacturing platform to source around 80% of its activities from more than 12,000 suppliers worldwide
Suppliers not required to interact with customers. Hence, is a manufacturing platform .

Source: Zhao, Y., Von Delft, S., Morgan-Thomas, A., & Buck, T. (2019). The evolution of platform business models: Exploring competitive battles in the world of platforms. *Long Range Planning*, 101892.