- Vente-privee.com, one of Europe's top e-tailers, is looking to expand in Europe, but not in the United States, where competition from outlet malls and discounters is too great.
- Facing intense pressure from users over privacy issues, Facebook CEO Mark Zuckerberg unveiled a new set of controls to help people better understand what information they are sharing online.
- Charles Schwab, chairman and founder of his namesake financial services company, is worriéd about his customers, especially since his company's success depends on his financial advisers' ability to keep those customers "engaged" in equities markets.
- The private equity firm, C. Dean Metropoulos & Company, has reached an agreement to buy Pabst Blue Ribbon, a once-popular beer brand, with hopes of rebuilding its share in a competitive market.[2]

These are just a few of the business news stories from a single week, and each one is about a company's strategies. Strategic management is very much a part of what managers do. In this section, we want to look at what strategic management is and why it's important.

What Is Strategic Management?

The discount retail industry is a good place to see what strategic management is all about. Walmart and Kmart Corporation (now part of Sears Holdings) have battled for market dominance since 1962, the year both companies were founded. The two chains have other similarities: store atmosphere, names, markets served, and organizational purpose. Yet, Walmart's performance (financial and otherwise) has far surpassed that of Kmart. Walmart is the world's largest retailer and Kmart was the largest retailer ever to seek Chapter 11 bankruptcy protection. Why the difference in performance? Because of different strategies and competitive abilities.[3] Walmart has excelled by using strategic management effectively while Kmart has struggled by failing to use strategic management effectively.

Strategic management is what managers do to develop the organization's strategies. It's an important task involving all the basic management functions—planning, organizing, leading, and controlling. What are an organization's **strategies**? They're the plans for how the organization will do whatever it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.[4]

One term often used in strategic management is **business model**, which simply is how a company is going to make money. It focuses on two things: (1) whether customers will value what the company is providing, and (2) whether the company can make any money doing that.[5] For instance, Dell pioneered a new business model for selling computers to consumers directly online instead of selling through computer retailers like other manufacturers. Did customers "value" that? Absolutely! Did Dell make money doing it that way? Absolutely! As managers think about strategies, they need to think about the economic viability of their company's business model.

Why Is Strategic Management Important?

In the summer of 2002, a British television show spin-off called *American Idol* became one of the biggest shows in American television history. Nine seasons later, it's still the most-watched show on television although its audience has declined for four seasons. However, the show's executive producer said, "If we're smart about it, there's no reason why 'Idol' wouldn't keep going. Just look at 'Price is Right.' It's been on for over 35 years."[6] The managers behind *Idol* seem to understand the importance of strategic management as they've developed and exploited every aspect of the *Idol* business—the television show, the music, the concerts, and all the other associated licensed products. Now, their challenge is to keep the franchise a strong presence in the market by making strategic changes.

Why is strategic management so important? There are three reasons. The most significant one is that it can make a difference in how well an organization performs. Why do some businesses succeed and others fail, even when faced with the same environmental conditions? (Remember our Walmart and Kmart example.) Research has found a generally positive relationship between strategic planning and performance.[7] In other words, it appears that organizations that use strategic management do have higher levels of performance. And that fact makes it pretty important for managers!

Another reason it's important has to do with the fact that managers in organizations of all types and sizes face continually changing situations (as we discussed in Chapter 6). They cope with this uncertainty by using the strategic management process to examine relevant factors and decide what actions to take. For instance, as business executives across a wide spectrum of industries coped with the global recession, they focused on making their strategies more flexible. At Office Depot, for example, store managers throughout the company told CEO Steve Odland that cash-strapped consumers no longer wanted to buy pens or printer paper in bulk. So the company created special displays promoting single Sharpie pens and introduced five-ream packages of paper, half the size of the normal big box of paper.[8]

Finally, strategic management is important because organizations are complex and diverse. Each part needs to work together toward achieving the organization's goals; strategic management helps do this. For example, with more than 2.1 million employees worldwide working in various departments, functional areas, and stores, Walmart Stores, Inc., uses strategic management to help coordinate and focus employees' efforts on what's important as determined by its goals.

Today, both business organizations and not-for-profit organizations use strategic management. For instance, the U.S. Postal Service (USPS) is locked in competitive battles with overnight package delivery companies, telecommunications companies' e-mail and text messaging services, and private mailing facilities. In 2006, 213 billion pieces of mail were handled by the postal service. In 2009, that total had dropped to 177 billion, a decline of almost 17 percent. John Potter, USPS's CEO (the U.S. Postmaster General), is using strategic management to come up with a response. One possible action plan, which many critics consider drastic, is discontinuing Saturday mail delivery. However, some strategic changes are needed as the USPS faces losses of $238 billion over the next decade.[9] Strategic management will continue to be important to its operation. Check out the organization's *Vision 2013*, which outlines its internal plan for the future.[10] Although strategic management in not-for-profits hasn't been as well researched as it has in for-profit organizations, we know it's important for these organizations as well.

9.2 The Strategic Management Process

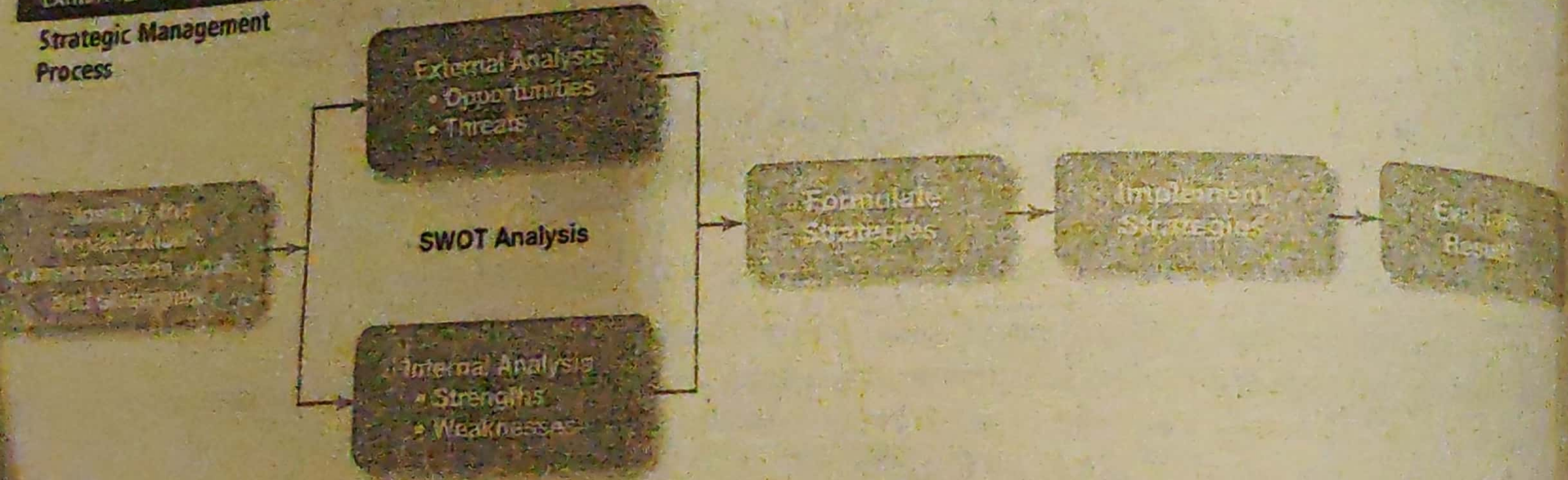
LEARNING OUTCOME

Explain what managers do during the six steps of the strategic management process.

The **strategic management process** (see Exhibit 9-1) is a six-step process that encompasses strategy planning, implementation, and evaluation. Although the first four steps describe the planning that must take place, implementation and evaluation are just as important! Even the best strategies can fail if management doesn't implement or evaluate them properly.

EXHIBIT 9-1

Strategic Management Process



Step 1: Identifying the Organization's Current Mission, Goals, and Strategies

Every organization needs a mission—a statement of its purpose. Defining the mission forces managers to identify what it's in business to do. For instance, the mission of Avon is "To be the company that best understands and satisfies the product, service, and self-fulfillment needs of women on a global level." The mission of Facebook is "a social utility that connects you with the people around you." The mission of the National Heart Foundation of Australia is to "reduce suffering and death from heart, stroke, and blood vessel disease in Australia." These statements provide clues to what these organizations see as their purpose. What should a mission statement include? Exhibit 9-2 describes some typical components.

Step 2: Doing an External Analysis

What impact might the following trends have for businesses?

- With the passage of the national health care legislation, every big restaurant chain will now be required to post calorie information on their menus and drive-through signs.
- Cell phones are now used by customers more for data transmittal and retrieval than for phone calls.
- The share of new high-school graduates enrolled in college hit a record high in 2009 and continues to climb.[11]

We described the external environment in Chapter 2 as an important constraint on a manager's actions. Analyzing that environment is a critical step in the strategic management process. Managers do an external analysis so they know, for instance, what the competition is doing, what pending legislation might affect the organization, or what the labor supply is like in locations where it operates. In an external analysis, managers should examine the economic, demographic, political/legal, sociocultural, technological, and global components to see the trends and changes.

Once they've analyzed the environment, managers need to pinpoint opportunities that the organization can exploit and threats that it must counteract or buffer against. Opportunities are positive trends in the external environment; threats are negative trends.

Step 3: Doing an Internal Analysis

Now we move to the internal analysis, which provides important information about an organization's specific resources and capabilities. An organization's **resources** are its assets—financial, physical, human, and intangible—that it uses to develop, manufacture, and deliver products to its customers. They're "what" the organization has. On the other hand, its **capabilities** are its skills and abilities in doing the work activities needed in its business—"how" it does its work. The major value-creating capabilities of the organization are known as its **core competencies**.[12] Both resources and core competencies determine the organization's competitive weapons.

After completing an internal analysis, managers should be able to identify organizational strengths and weaknesses. Any activities the organization does well or any unique resources that it has are called **strengths**. **Weaknesses** are activities the organization doesn't do well or resources it needs but doesn't possess.

The combined external and internal analyses are called the **SWOT analysis**, which is an analysis of the organization's strengths, weaknesses, opportunities, and threats. After completing the SWOT analysis, managers are ready to formulate appropriate strategies—that is, strategies that (1) exploit an organization's strengths and external opportunities, (2) buffer or protect the organization from external threats, or (3) correct critical weaknesses.

Step 4: Formulating Strategies

As managers formulate strategies, they should consider the realities of the external environment and their available resources and capabilities in order to design strategies that will help an organization achieve its goals. The three main types of strategies managers will formulate include corporate, competitive, and functional. We'll describe each shortly.

Step 5: Implementing Strategies

Once strategies are formulated, they must be implemented. No matter how effectively an organization has planned its strategies, performance will suffer if the strategies aren't implemented properly.

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Step 6: Evaluating Results

The final step in the strategic management process is evaluating results. How effective have the strategies been at helping the organization reach its goals? What adjustments are necessary? After assessing the results of previous strategies and determining that changes were needed, Ursula Burns, Xerox's CEO, made strategic adjustments to regain market share and improve her company's bottom line. The company cut jobs, sold assets, and reorganized management. (See Leader Who Made a Difference box on p. 230.)

Strategies

As we said earlier, organizations use three types of strategies: corporate, competitive, and functional. (See Exhibit 9-3.) Top-level managers typically are responsible for corporate strategies, middle-level managers for competitive strategies, and lower-level managers for the functional strategies. In this section, we'll look at corporate strategies.

What Is Corporate Strategy?

A corporate strategy is one that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses. It's based on the mission and goals of the organization and the roles that each business unit of the organization will play. We can see both of these aspects with PepsiCo, for instance. Its mission: To be the world's premier consumer products company focused on convenient foods and beverages. It pursues that mission with a corporate strategy that has put it in different businesses including PepsiCo Americas Beverages (which includes Pepsi, Gatorade, and other beverages), PepsiCo Americas Foods (which includes Frito-Lay North America, Quaker Foods North America, and Latin American Foods), and PepsiCo International (which includes all PepsiCo's other international products). The other part of corporate strategy is when top managers decide what to do with those businesses: grow them, keep them the same, or renew them.

What Are the Types of Corporate Strategy?

The three main types of corporate strategies are growth, stability, and renewal. Let's look at each type.

GROWTH. Even though Walmart is the world's largest retailer, it continues to grow internationally and in the United States. A **growth strategy** is when an organization expands the number of markets served or products offered, either through its current business(es) or through new business(es). Because of its growth strategy, an organization may increase revenues, number of employees, or market share. Organizations grow by using concentration, vertical integration, horizontal integration, or diversification.

An organization that grows using *concentration* focuses on its primary line of business and increases the number of products offered or markets served in this primary business. For instance, Beckman Coulter, Inc., a Fullerton, California-based organization with annual revenues over $3.2 billion, has used concentration to become one of the world's largest medical diagnostics and research equipment companies. Another example of a company using concentration is Bose Corporation of Framingham, Massachusetts, which focuses on developing innovative audio products and has become one of the world's leading manufacturers of speakers for home entertainment, automotive, and pro audio markets with sales of more than $2 billion.

A company also might choose to grow by *vertical integration*, either backward, forward, or both. In backward vertical integration, the organization becomes its own supplier so it can control its inputs. For instance, eBay owns an online payment business that helps it provide more secure transactions and control one of its most critical processes. In forward vertical integration, the organization becomes its own distributor and is able to control its outputs. For example, Apple has more than 287 retail stores worldwide to distribute its product.

In *horizontal integration*, a company grows by combining with competitors. For instance, French cosmetics giant L'Oreal acquired The Body Shop. Another example is Live Nation.

ADER
fference

She's the first African American woman to lead a *Fortune* 500 company.[11] Ursula Burns, who joined Xerox as a summer engineering intern more than 30 years ago, has a reputation for being bold. As a mechanical engineer, she got noticed at Xerox because she wasn't afraid to speak up bluntly in a culture that's known more for being polite, courteous, red than for being outspoken. But that bold approach is serving Burns e challenging environment. Just weeks after taking over as CEO, she ced the biggest deal in the firm's history—a $6.4 billion acquisition of Computer Services, an outsourcing firm that most people had never . Although the action was criticized, Burns recognized that Xerox needed ic action. Her challenge at Xerox is crafting strategies that will help it r and be an industry leader in a digital age where change is continual.

the largest concert promoter in the United States, which combined operations with competitor HOB Entertainment, the operator of the House of Blues Clubs. Horizontal integration has been used in a number of industries in the last few years—financial services, consumer products, airlines, department stores, and software, among others. The U.S. Federal Trade Commission usually scrutinizes these combinations closely to see if consumers might be harmed by decreased competition. Other countries may have similar restrictions. For instance, the European Commission, the "watchdog" for the European Union, conducted an in-depth investigation into Unilever's acquisition of the body and laundry care units of Sara Lee.

Finally, an organization can grow through *diversification*, either related or unrelated. Related diversification happens when a company combines with other companies in different, but related, industries. For example, American Standard Cos., based in Piscataway, New Jersey, is in a variety of businesses including bathroom fixtures, air conditioning and heating units, plumbing parts, and pneumatic brakes for trucks. Although this mix of businesses seems odd, the company's "strategic fit" is the efficiency-oriented manufacturing techniques developed in its primary business of bathroom fixtures, which it has transferred to all its other businesses. Unrelated diversification is when a company combines with firms in different and unrelated industries. For instance, the Tata Group of India has businesses in chemicals, communications and IT, consumer products, energy, engineering, materials, and services. Again, an odd mix. But in this case, there's no strategic fit among the businesses.

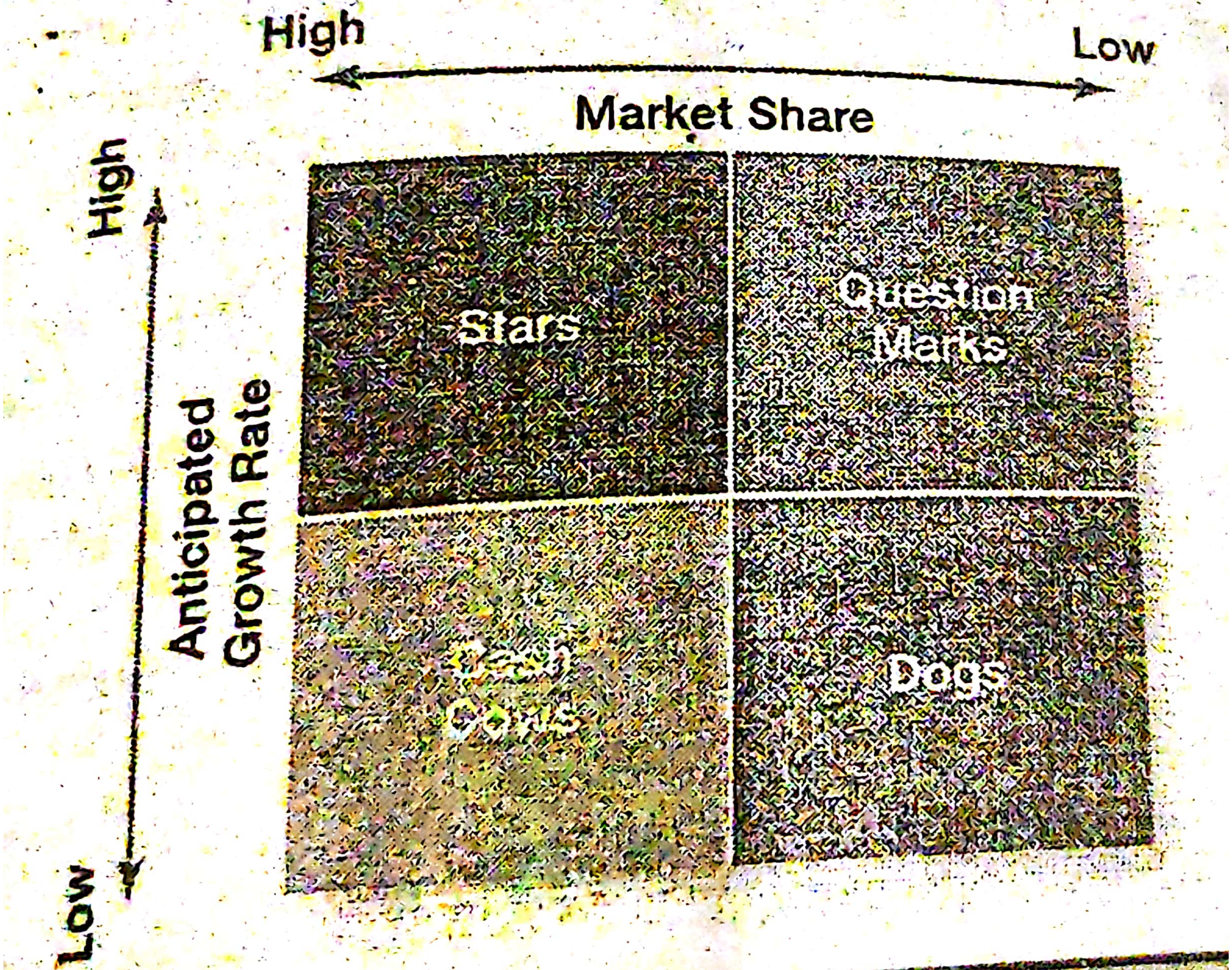
STABILITY. As the global recession dragged on and U.S. sales of candy and chocolate slowed down, Cadbury Schweppes—with almost half of its confectionary sales coming from chocolate—is maintaining things as they are. A **stability strategy** is a corporate strategy in which an organization continues to do what it is currently doing. Examples of this strategy include conti

STABILITY. As the global recession dragged on and U.S. sales of candy and chocolate slowed down, Cadbury Schweppes—with almost half of its confectionary sales coming from chocolate—is maintaining things as they are. A **stability strategy** is a corporate strategy in which an organization continues to do what it is currently doing. Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's current business operations. The organization doesn't grow, but doesn't fall behind, either.

RENEWAL. In 2009, Symantec lost $6.7 billion. Sprint-Nextel lost $2.4 billion, and many financial services and real-estate-related companies faced serious financial issues with huge losses. When an organization is in trouble, something needs to be done. Managers need to develop strategies, called **renewal strategies**, that address declining performance. The two main types of renewal strategies are retrenchment and turnaround strategies. A *retrenchment strategy* is a short-run renewal strategy used for minor performance problems. This strategy helps an organization stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again. When an organization's problems are more serious, more drastic action—the *turnaround strategy*—is needed. Managers do two things for both renewal strategies: cut costs and restructure organizational operations. However, in a turnaround strategy, these measures are more extensive than in a retrenchment strategy.

How Are Corporate Strategies Managed?

When an organization's corporate strategy encompasses a number of businesses, managers can manage this collection, or portfolio, of businesses using a tool called a corporate portfolio matrix. This matrix provides a framework for understanding diverse businesses and helps managers establish priorities for allocating resources.[14] The first portfolio matrix—the **BCG matrix**—was developed by the Boston Consulting Group and introduced the idea that an organization's various businesses could be evaluated and plotted using a 2×2 matrix


High
Low
Market Share
High
Low
Anticipated Growth Rate
Stars
Question Marks
Cash Cows
Dogs

(see Exhibit 9-4) to identify which ones offered high potential and which were a drain on organizational resources.[15] The horizontal axis represents market share (low or high) and the vertical axis indicates anticipated market growth (low or high). A business unit is evaluated using a SWOT analysis and placed in one of the four categories.

What are the strategic implications of the BCG matrix? The dogs should be sold off or liquidated as they have low market share in markets with low growth potential. Managers should "milk" cash cows for as much as they can, limit any new investment in them, and use the large amounts of cash generated to invest in stars and question marks with strong potential to improve market share. Heavy investment in stars will help take advantage of the market's growth and help maintain high market share. The stars, of course, will eventually develop into cash cows as their markets mature and sales growth slows. The hardest decision for managers relates to the question marks. After careful analysis, some will be sold off and others strategically nurtured into stars.

Competitive Strategies

A **competitive strategy** is a strategy for how an organization will compete in its business(es). For a small organization in only one line of business or a large organization that has not diversified into different products or markets, its competitive strategy describes how it will compete in its primary or main market. For organizations in multiple businesses, however, each business will have its own competitive strategy that defines its competitive advantage, the products or services it will offer, the customers it wants to reach, and the like. For example, the French company LVMH-Moët Hennessy Louis Vuitton SA has different competitive strategies for its businesses, which include Donna Karan fashions, Louis Vuitton leather goods, Guerlain perfume, TAG Heuer watches, Dom Perignon champagne, and other luxury products. When an organization is in several different businesses, those single businesses that are independent and formulate their own competitive strategies are referred to as **strategic business units (SBUs)**.

The Role of Competitive Advantage

Michelin has mastered a complex technological process for making superior radial tires. Coca-Cola has created the world's best and most powerful brand using specialized marketing and merchandising capabilities.[16] The Ritz Carlton hotels have a unique ability to deliver personalized customer service. Each of these companies has created a competitive advantage.

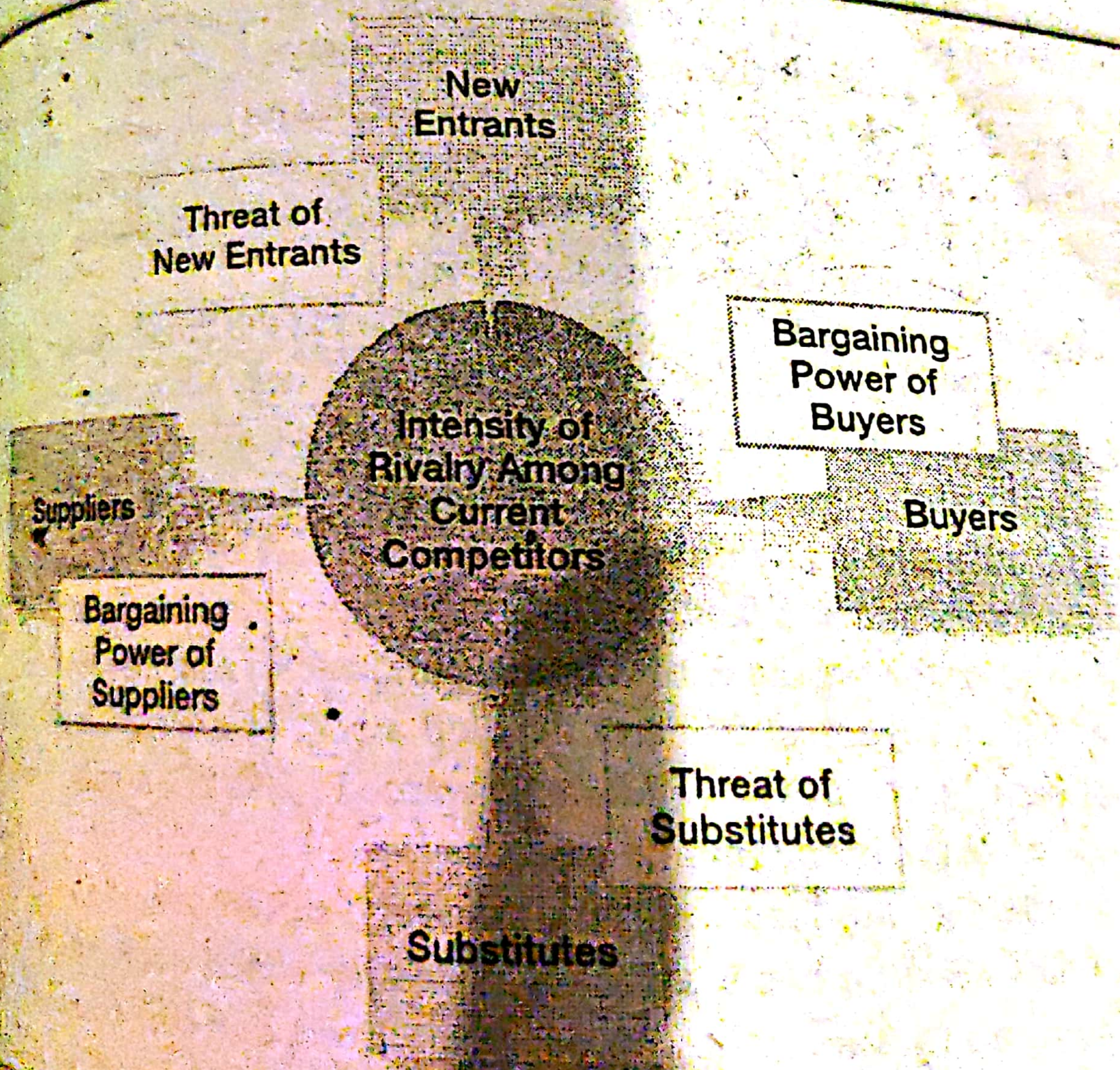
Developing an effective competitive strategy requires an understanding of competitive advantage, which is what sets an organization apart—that is, its distinctive edge.[17] That distinctive edge can come from the organization's core competencies by doing something that others cannot do or doing it better than others can do it. For example, Southwest Airlines has a competitive advantage because of its skills at giving passengers what they want—convenient and inexpensive air passenger service. Or competitive advantage can come from the company's resources because the organization has something that its competitors do not have. For instance, Walmart's state-of-the-art information system allows it to monitor and control inventories and supplier relations more efficiently than its competitors, which Walmart has turned into a cost advantage.

QUALITY AS A COMPETITIVE ADVANTAGE. When W. K. Kellogg started manufacturing his cornflake cereal in 1906, his goal was to provide his customers with a high-quality, nutritious product that was enjoyable to eat. That emphasis on quality is still important today. Every employee has a responsibility to maintain the high quality of Kellogg products. If implemented properly, quality can be a way for an organization to create a sustainable competitive advantage.[18] That's why many organizations apply quality management concepts in an attempt to set themselves apart from competitors. If a business is able to continuously improve the quality and reliability of its products, it may have a competitive advantage that can't be taken away.[19]

SUSTAINING COMPETITIVE ADVANTAGE. Every organization has resources (assets) and capabilities (how work gets done). So what makes some organizations more successful than others? Why do some professional baseball teams consistently win championships or draw large crowds? Why do some organizations have consistent and continuous growth in revenues and profits? Why do some colleges, universities, or departments experience continually increasing enrollments? Why do some companies consistently appear at the top of lists ranking the "best," or the "most admired," or the "most profitable"? The answer is that not every organization is able to effectively exploit its resources and to develop the core competencies that can provide it with a competitive advantage. And it's not enough simply to create a competitive advantage. The organization must be able to sustain that advantage; that is, to keep its edge despite competitors' actions or evolutionary changes in the industry. But that's not easy to do! Market instabilities, new technology, and other changes can challenge managers' attempts at creating a long-term, sustainable competitive advantage. However, by using strategic management, managers can better position their organizations to get a sustainable competitive advantage.

Many important ideas in strategic management have come from the work of Michael Porter.[20] One of his major contributions was explaining how managers can create a sustainable competitive advantage. An important part of doing this is an industry analysis, which is done using the five forces model.

Five Forces



sed on M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors.* e Free Press, 1980.

FIVE FORCES MODEL. In any industry, five competitive forces dictate the rules of competition. Together, these five forces (see Exhibit 9-5) determine industry attractiveness and profitability, which managers assess using these five factors:

1. *Threat of new entrants.* How likely is it that new competitors will come into the industry?
2. *Threat of substitutes.* How likely is it that other industries' products can be substituted for our industry's products?
3. *Bargaining power of buyers.* How much bargaining power do buyers (customers) have?
4. *Bargaining power of suppliers.* How much bargaining power do suppliers have?
5. *Current rivalry.* How intense is the rivalry among current industry competitors?

Choosing a Competitive Strategy

Once managers have assessed the five forces and done a SWOT analysis, they're ready to select an appropriate competitive strategy—that is, one that fits the competitive strengths (resources and capabilities) of the organization and the industry it's in. According to Porter, no firm can be successful by trying to be all things to all people. He proposed that managers select a strategy that will give the organization a competitive advantage, either from having lower costs than all other industry competitors or by being significantly different from competitors.

When an organization competes on the basis of having the lowest costs (costs or expenses, not prices) in its industry, it's following a *cost leadership strategy*. A low-cost leader is highly efficient. Overhead is kept to a minimum, and the firm does everything it can to cut costs. You won't find expensive art or interior décor at offices of low-cost leaders. For example, at Walmart's headquarters in Bentonville, Arkansas, office furnishings are functional, not elaborate, maybe not what you'd expect for the world's largest retailer. Although a low-cost leader doesn't place a lot of emphasis on "frills," its product must be perceived as comparable in quality to that offered by rivals or at least be acceptable to buyers.

A company that competes by offering unique products that are widely valued by customers is following a *differentiation strategy*. Product differences might come from exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. Practically any successful consumer product or service can be identified as an example of the differentiation strategy; for instance, Nordstrom (customer service); 3M Corporation (product quality and innovative design); Coach (design and brand image); and Apple (product design).

Although these two competitive strategies are aimed at the broad market, the final type of competitive strategy—the *focus strategy*—involves a cost advantage (cost focus) or a differentiation advantage (differentiation focus) in a narrow segment or niche. Segments can be based on product variety, customer type, distribution channel, or geographical location. For example, Denmark's Bang & Olufsen, whose revenues are over $527 million, focuses on high-end audio equipment sales. Whether a focus strategy is feasible depends on the size of the segment and whether the organization can make money serving that segment.

What happens if an organization can't develop a cost or a differentiation advantage? Porter called that being *stuck in the middle* and warned that's not a good place to be. An organization becomes stuck in the middle when its costs are too high to compete with the low-cost leader or when its products and services aren't differentiated enough to compete with the differentiator. Getting unstuck means choosing which competitive advantage to pursue and then doing so by aligning resource, capabilities, and core competencies.

Although Porter said that you had to pursue either the low cost or the differentiation advantage to prevent being stuck in the middle, more recent research has shown that organizations *can* successfully pursue both a low cost and a differentiation advantage and achieve high performance.[22] Needless to say, it's not easy to pull off! You have to keep costs low *and* be truly differentiated. But companies such as Hewlett-Packard, FedEx, Intel, and Coca-Cola have been able to do it.

Before we leave this section, we want to point out the final type of organizational strategy, the **functional strategies**, which are the strategies used by an organization's various functional departments to support the competitive strategy. For example, when R. R. Donnelley & Sons Company, a Chicago-based printer, wanted to become more competitive and invested in high-tech digital printing methods, its marketing department had to develop new sales plans and promotional pieces, the production department had to incorporate the digital equipment in the printing plants, and the human resources department had to update its employee selection and training programs. We don't cover specific functional strategies in this book because you'll cover them in other business courses you take.