



**POLITECNICO
DI MILANO**



Strategy and the strategy formulation process

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- ♦ What is strategy?
- ♦ How is value being created?
- ♦ Value shifts downstream
- ♦ From product to experience
- ♦ Strategy definition and implementation: the logical flow



- ♦ **Strategic decision:** a decision that
 - has **long term**, **significant** and **non-reversible** effects on the **final goal** of the organisation (decision maker)
 - (usually) requires **large amounts of resources**
 - requires **top management involvement**

- ♦ **Strategy:** an integrated, comprehensive plan which
 - identifies the **scope** and the **direction** of the organisation (decision maker)
 - is aimed at obtaining **long term performance superior to competitors** (in relation to the goal)
 - integrates a **coherent set of strategic decisions**



- ♦ The concept of strategy **originates where the objective is to destroy the enemy**
- ♦ Today, we see military metaphors used everywhere in business: price “wars”, market share “battles”, marketing “campaigns”, promotional “blitzes”, and even “bullet” points



- ♦ “Strategy” comes from the Greek word “Strategos” which means generalship
- ♦ The art of war, especially the planning of movements of troops, ships, aircraft etc. into favorable positions. A plan of action or policy in business or politics etc.
 - Oxford Dictionary



- ♦ The military way of looking at strategy is to view it as **the space between policy and tactics**:
 - **policy** is derived from a purpose or cause
 - **strategy** is concerned with how to achieve the policy or goal with the means available
 - **tactics** are the particular movements and actions while engaged in battle



Ten decisive factors for victory:

1. Invincibility lies in the defense, the possibility of victory in the attack.
2. Know the enemy and yourself.
3. Strike only when the situation assures victory.
4. Strike the enemy when he is least prepared.
5. Weight the situation before moving.
6. Be flexible.
7. Recognize the hazard and the weather.
8. Deceive the enemy.
9. Surprise the enemy.
10. Separate the enemy from his allies.

Sun Tzu, **The Art of War**, circa 500 B.C.



- ♦ What business strategy is all about **is, in a word, competitive advantage**... The sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors. **Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way.**

Ken Ohmae, The Mind of Strategist, 1983



Strategy is a deliberate **search for a plan of action that will develop a business's competitive advantage and compound it...** The difference between you and your competitors are the basis for your advantage... The objective is to enlarge the scope of your advantage, which can only happen at someone else's expenses...

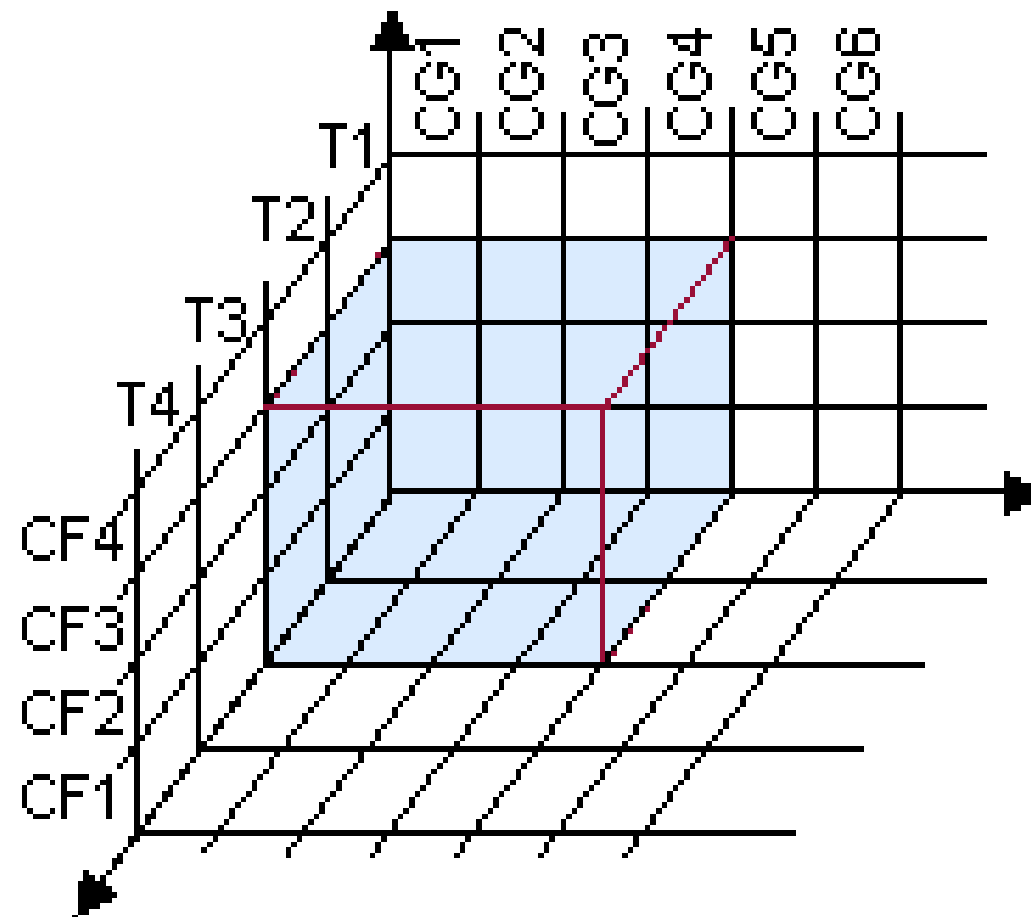
Bruce Henderson, *The Origin of Strategy*, 1989



- ♦ War is mostly a zero-sum game, business is mostly not
- ♦ Business is not war or sport. Strategy in business is different than strategy in war and sport. **It's not about competitors. It's about the customer**, your value proposition, and the capabilities you need to deliver it better than anyone else



What? Customer
Functions



Customer
Groups

Who?

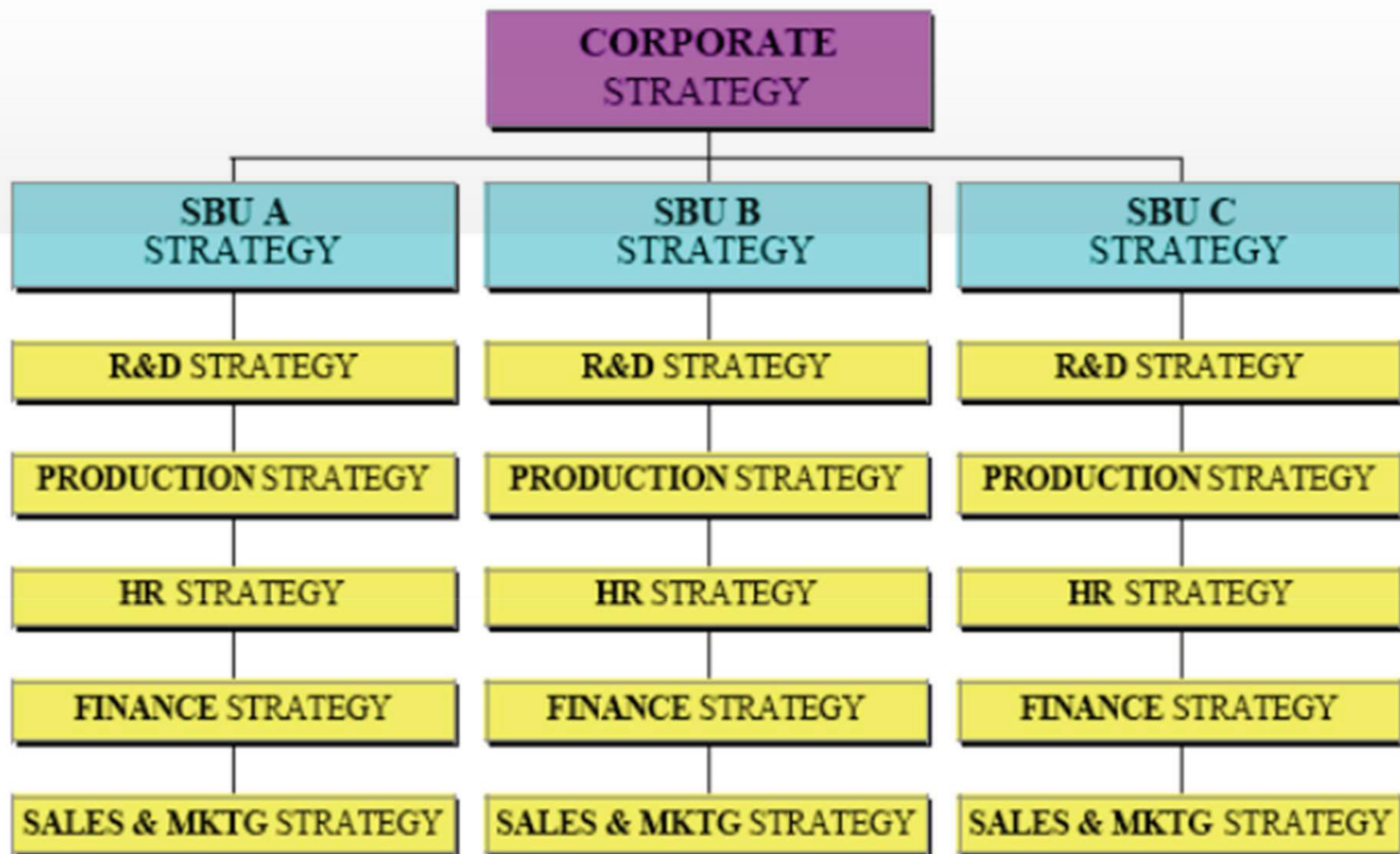
Alternative
Technologies

Made/served how?



♦ An SBU:

- consists of **a specific offer** is addressed towards a specific group of **customers**
- has its own **competitors**
- it can be managed separately from the rest of the company
- it can stand alone
- it has distinct objectives, it is a profit centre, and has a manager responsible for its strategy/performance

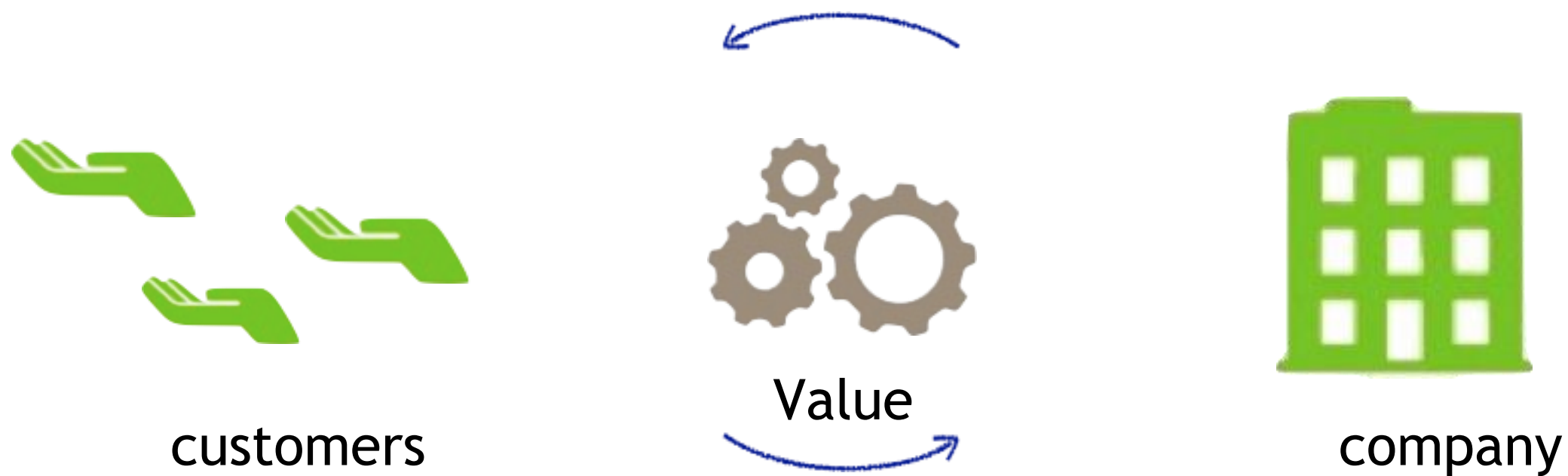




- ♦ **Corporate Strategy** defines in which industries and markets the company is going to compete
- ♦ **Business Unit Strategy** is concerned with how the company competes within a particular industry or market
- ♦ **Functional Strategies** are the elaboration and implementation of business strategies through individual functions.

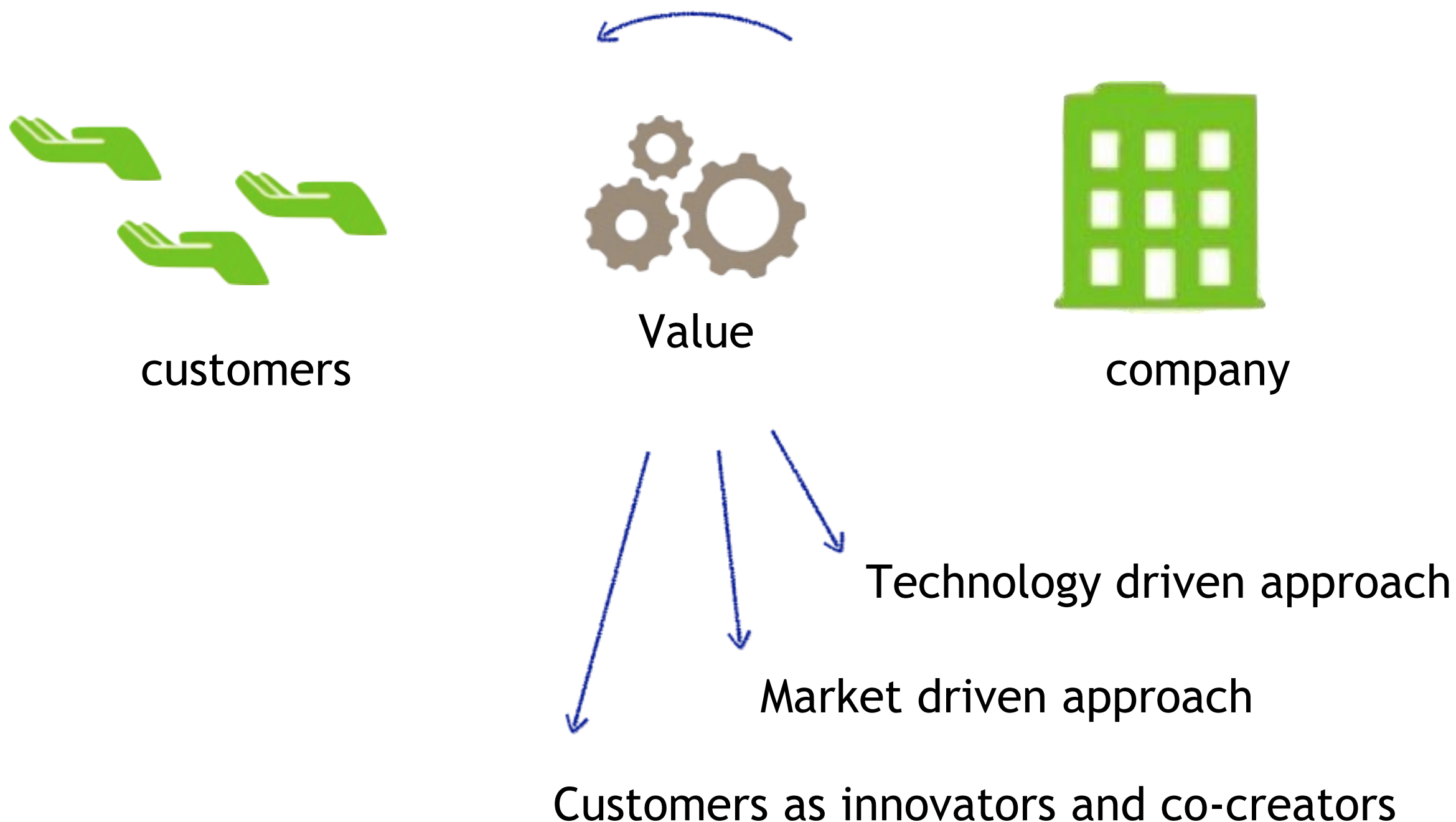


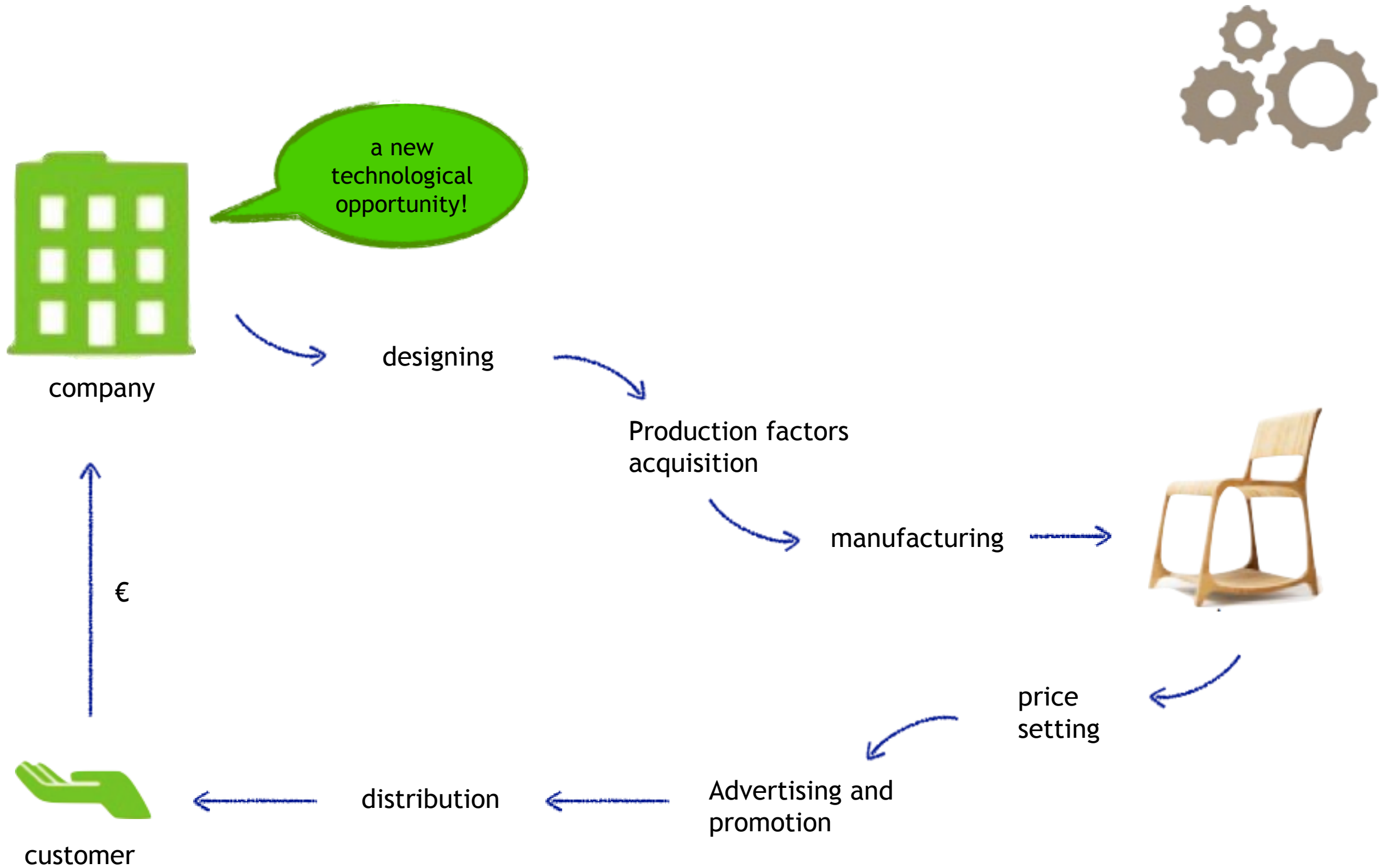
Strategy's aim: value creation





How is value being created?







Step 1:

a new
technological
opportunity!

innovation is driven by a scientific
breakthrough or a technological opportunity

Step 2:

design
productive factors
acquisition
manufacturing

product realization follows

Step 3:

price definition
advertising and
promoton
distribution

then selling

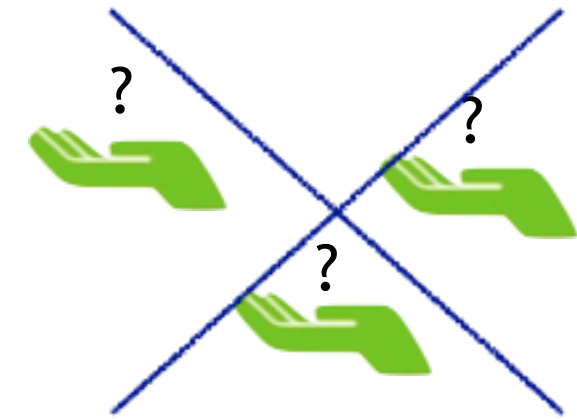


The market doesn't directly affect the value generation process.

The product/service is introduced on the market only after its realization.

Customers are considered passive subjects.

Marketing just intervenes in the last part of value generation.



Step 3:

price definition

advertising and
promotion

distribution



Optical Gyroscope

Step 1:



1960, scientific breakthrough: **laser**
(Light Amplification by Stimulated Emission of Radiation)

Step 2:

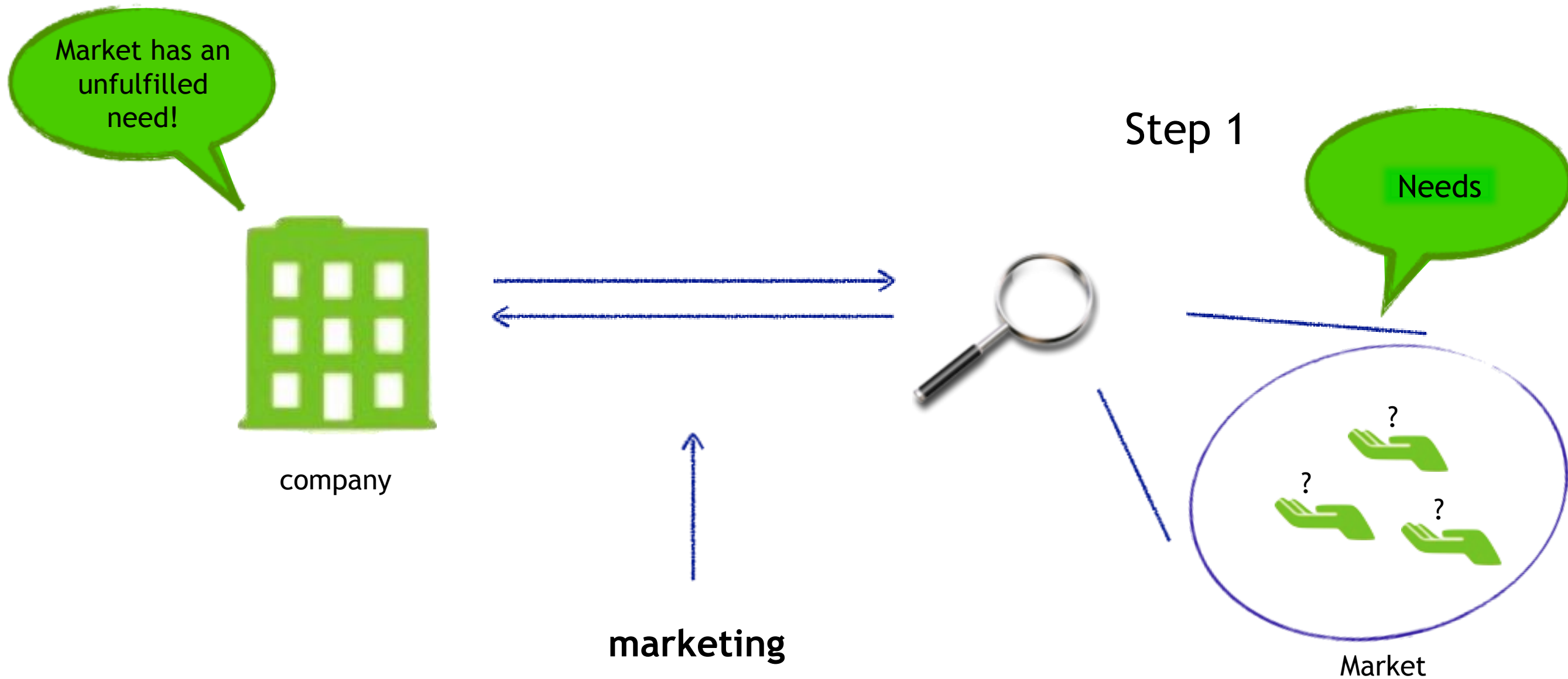


Optical Gyroscope design: it uses laser technology to measure angles coming from spatial movements

Step 3:



Fields of application: automobile navigation systems and aircraft navigation



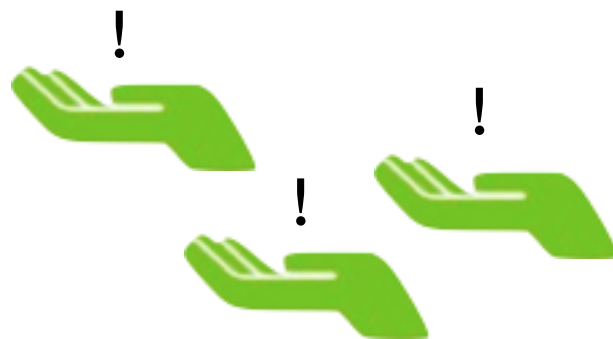


company



production

Step 2



customer

Step 3



marketing





Value definition

Step 1

- identification and segmentation of the benefits customers look for
- target market selection
- value positioning

Value realization

Step 2

- product development
- service development
- price definition
- production factors acquisition and manufacturing
- distribution and service

Value communication

Step 3

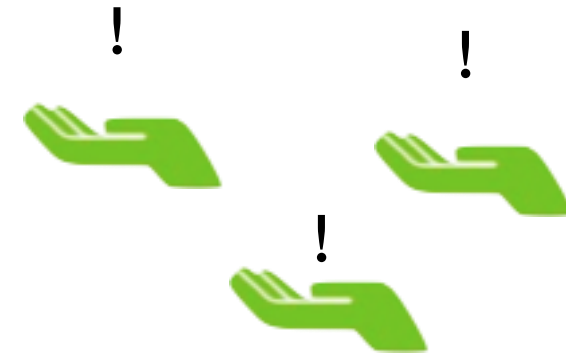
- personal selling
- promotion
- advertising



The market directly affects the value generation process: **key** role of the market.

Marketing takes part in the first and in the final phase of the value generation process.

The market becomes an input for the company: it is the source of ideas



Value definition
Value communication





M&M's

Step 1:



The market showed the need of chocolate sweets that didn't melt once held in hands

Step 2:



Forrest Mars covered chocolate sweets with a sugar coat: possibility of holding the candy without getting dirty

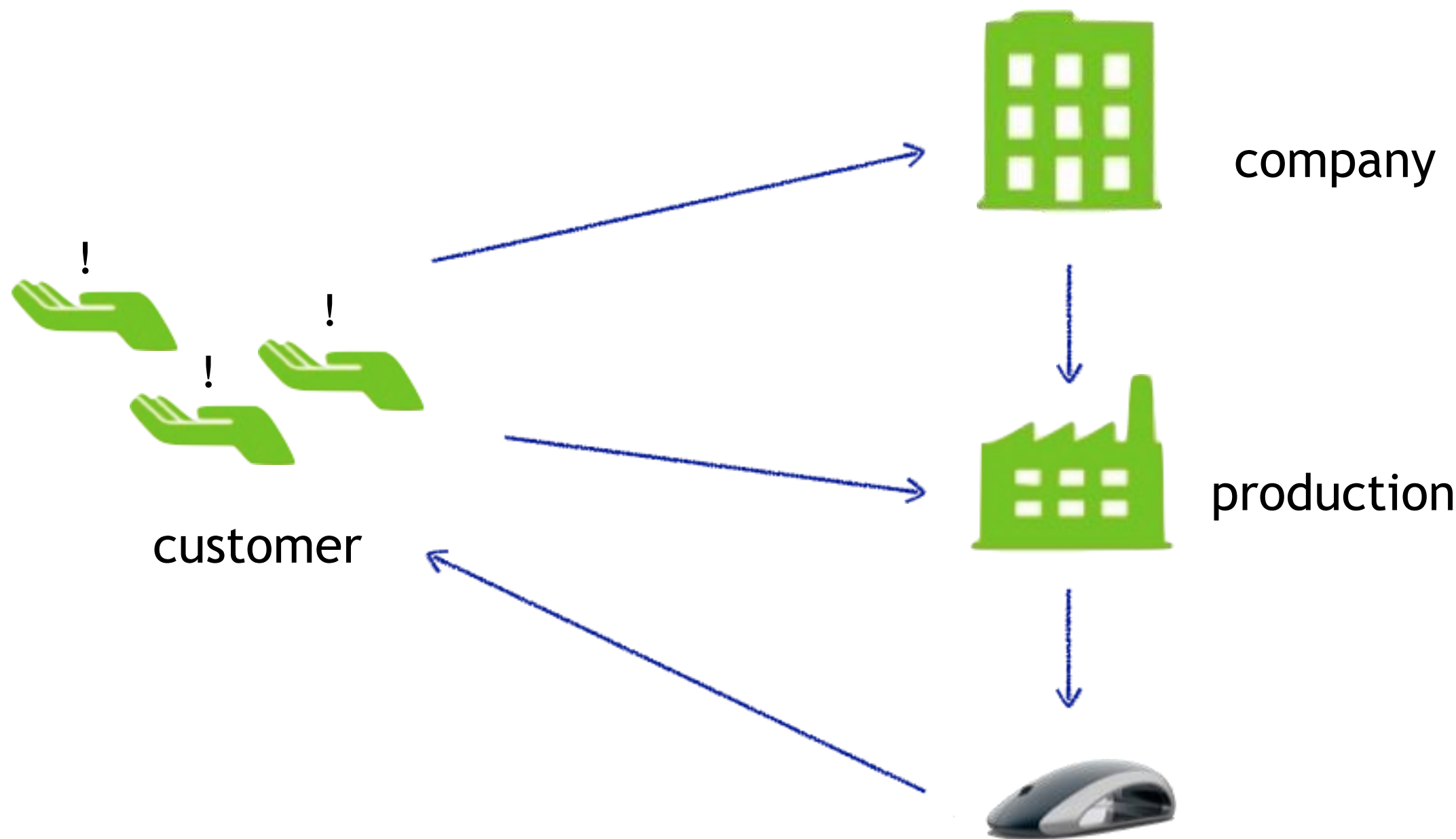
Step 3:



Commercialization of the product M&M's



The role of marketing in value creation: customers as innovators and co-creators





Customers as the functional source of innovation

The market influences the value generation process during **all** the development of the product/service

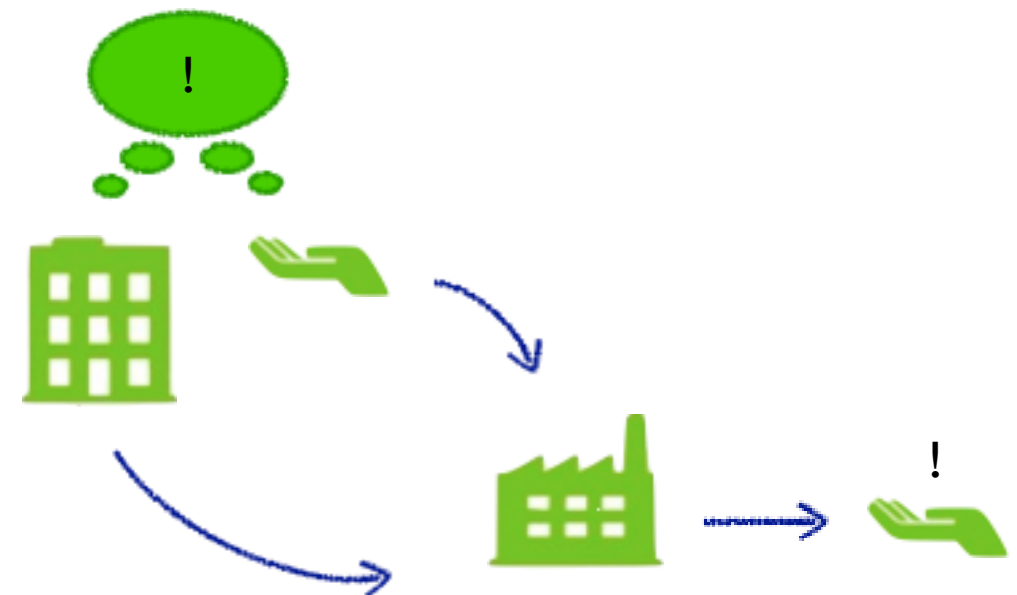
The customer becomes an innovator by personally **co-creating** the value and by being one of the principal actors in the development of the product concept



Value definition

Value realization

Value communication





A company's business: a classical party cocktail question



“So what business are you in?”



The answer highlights the center of gravity of the business: the emphasis in the response hints at which part of the business the managers see as the primary driver of value and where management attention is concentrated



- ♦ The most common answer describes the product or the production facilities...
- ♦ Firms continue to spend inordinate amounts of time, effort and resources on their products
- ♦ **but is this center of gravity still sustainable?**



- ♦ **Businesses have traditionally sought competitive advantage in the upstream**- the value creation activities related to production and products
- ♦ The upstream has been **historically very profitable**:
 - Ford built such a huge and streamlined factory that it drove per-unit cost of production for the Ford Model T far below that of competitor's cars
 - Walmart built an unbeatable network for moving inventory between its global supply chain and its stores, allowing the company to underprice competitors due to efficiency savings
 - De Beers pulverized its competitors as regard diamond market by gaining control of much of the world's supply of diamonds....
 - ...



- ♦ But **now the business world is suffering from the erosion of upstream competitive advantage**
- ♦ Why?
 - Rapid **commoditization** of products and production
 - **Outsourcing** of the upstream activities
 - **Short product life-cycle**
 - ...
- ♦ In this **new scenario, value is created in the interactions with customers**, competitive advantage is built and sustained in the marketplace, and the primary costs reside in acquiring, satisfying and retaining customers



Many ways of buying a can of Coca-Cola

1) A consumer goes to a supermarket and buys a twenty-four-pack of Coca-Cola. The pack might be priced at \$5.99 (0.25\$ per can)



2) The same customer, the next day, finds herself in a park on a blazingly hot summer day and pays \$2 for a chilled single-serve can of Coke sold at the point of thirst through a vending machine

The premium price is due to a perceived added value in the eyes of the consumer. The product (What) is the same, but the purchase and consumption is different (how)

VALUE = WHAT + HOW

so

VALUE shifts from Product to Experience



- ♦ Today, competitors:
 - Come from all over the world
 - Struggle all over the world
 - Try to sell their products/deliver their service either in a sluggish (west) or in a fast-growing, largely undefined market (BRIC)
 - Turbulently innovate to succeed



...and customers do not want to be just a “member” of a market (1/2)



- ♦ In the most developed economies, customers:
 - Ask for more and more customized offers
 - May handle and process a huge amount of information
 - Look at the intangible and symbolic components of offerings
 - May interconnect with peers and companies all over the world (brand communities, social networking, etc.)
 - Are more interested than ever in their hedonic- and social-self



- ♦ And the emerging markets are running fast:
 - By 2030, 1.5 billion people will have an annual income > \$ 30,000 (today: 1 billion)
 - Out of the 500 million new riches, approx. the 80% will come from BRICS (source: Confindustria)
 - Approx. 150 million from China
 - Approx 50 million from India
 - Approx. 20 million from Brazil
- ♦ These new customers bring their own culture, heritage and tastes



- ♦ Growing relevance of the hedonic-self (especially in the high-end segments)
- ♦ Emerging focus on brand lifestyle (e.g. brand tattoo)
- ♦ Connectivity and relevance of the network (from one-to-one to one-to-many)
- ♦ Attitude towards co-creation

Thus, firms must look at a **widened concept of relationship with the customer** in which hedonism, focus on the intangibles, interactivity and many-to-many approach coexist

In two words, firms must look at **Customer Experience**



Customer experience is the internal and subjective response customers have to any direct or indirect contact with a company

(Meyer and Schwager, 2007)

Customer experience originates from a set of interactions between a customer and a product, a company, or part of its organization, which provoke a reaction. This experience is strictly personal and implies the customer's involvement at different levels (rational, emotional, sensorial, physical, and spiritual)

(Gentile et al., 2007)



Why is customer experience so important?



We live in a world in which **attention** and **retention** are the real scarce resources...

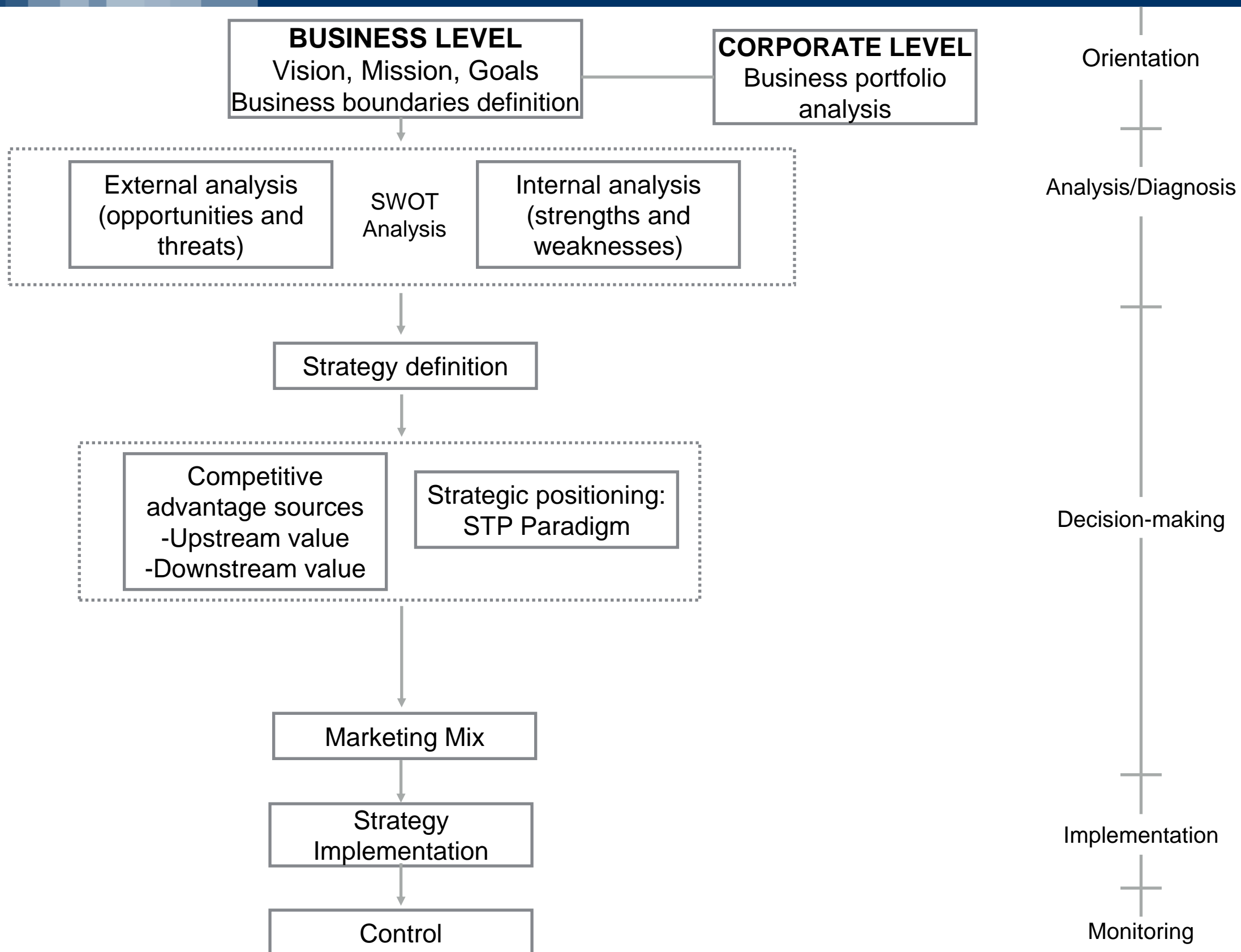
**Customer
Experience
Lives →
In Here**

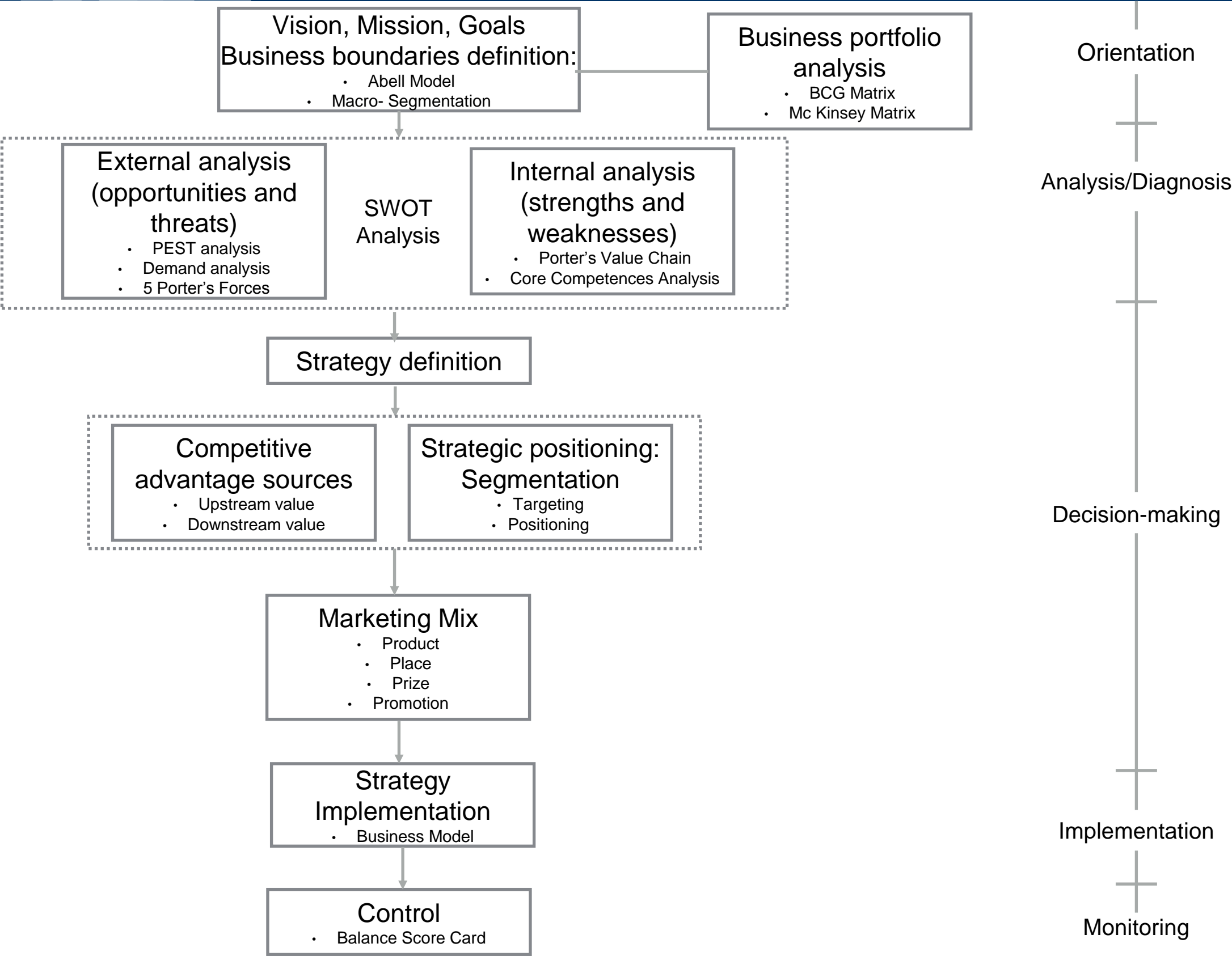


...customers remember and value great experiences



Strategy formulation: the logical flow







INTERNAL ENVIRONMENT

- the company's values and goals;
- the company's resources and capabilities
- the company's organizational structure and systems

What are the organization's **S**trengths, in terms of capabilities and resource?

What are the organization's **W**eaknesses and capability gaps?

EXTERNAL ENVIRONMENT

All the economic, social, political and technological factors that influence the company's decisions and its performance.

What **O**pportunities exist which we can act upon?

What **T**hreats could lead to performance deterioration?



STRENGTHS

- a specialist marketing expertise
- a new and innovative product or service
- a strategic business location
- the quality of the processes
- ...

WEAKNESSES

- lack of marketing expertise
- undifferentiated products or services
- poor quality of products or services
- damaged reputation
- ...

OPPORTUNITIES

- new markets
- demand increase
- a new patent or license
- ...

THREATS

- new restrictive regulations
- new technologies available that makes my product obsolete
- potential new market players
- ...



STRENGTHS

- Largest fast food market share in the world
- Brand recognition valued at \$40 billion
- \$2 billion advertising budget
- Locally adapted food menus
- Partnerships with best brands
- More than 80% of restaurants are owned by independent franchisees
- Children targeting

WEAKNESSES

- Negative publicity
- Unhealthy food menu
- Mac Job and high employee turnover
- Low differentiation

OPPORTUNITIES

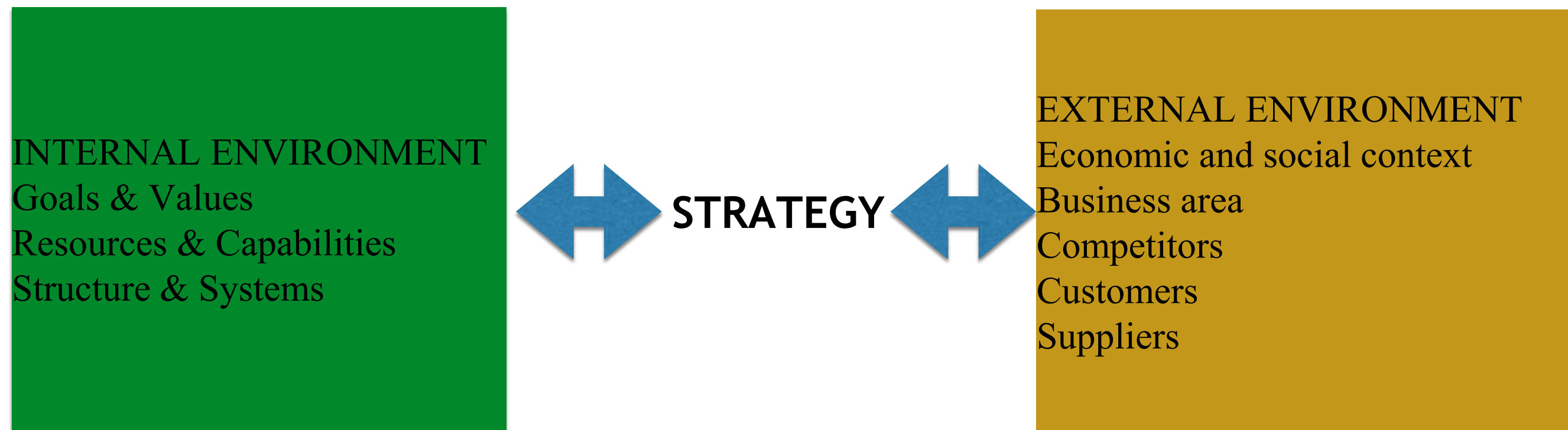
- Increasing demand for healthier food
- Home meal delivery
- Full adaptation of its new practices
- Changing customer habits and new customer groups

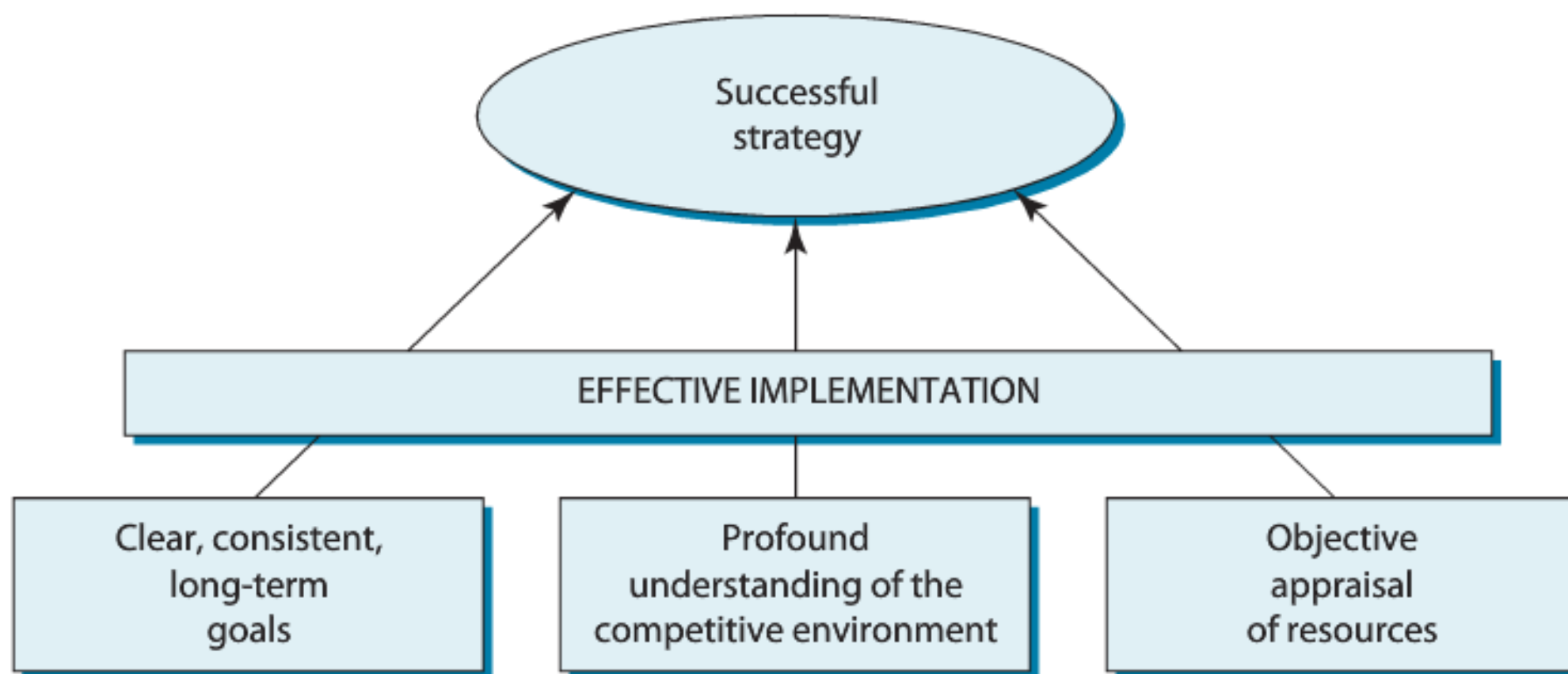
THREATS

- Saturated fast food markets in the developed economies
- Trend towards healthy eating
- Local fast food restaurant chains
- Currency fluctuations
- Lawsuits against McDonald's



Strategy as a link between Internal and External Environment





Source: Grant (2010)