



In association with

AL TAREEQAH
Management Studies FZE

STRATEGIC MANAGEMENT



Few Words About Myself

Dr. Syed Farhan Alvi - Educational Qualification:

- Ph.D in HR Sustainable Engagement, BSC Computer Systems Engineering & MBA MIS, Master in Business Research SHRM SCP, HRMP, HRBP, CIPD CPP, SHL Certified Job Analyst, EFQM & ISO Certified Assessor
- Last 19 Years in:
 - Learning Management , Communications Mgmt. & Contract Negotiations
 - Career Development & Succession Planning
 - Performance Management
 - Strategy & Planning of HR
 - HR Strategy & Planning (current role)

Member
SHRM, CIPD,
AHRI, HRCI,
IEEE & CCPE



Dr. Syed Farhan Alvi



Networking & Introductions



Tell us about
yourself

Your MBA ambition

Years of Experience
& Current
Responsibilities

What is your
definition of
“Strategic
Management”

Strategy Definition

Strategy is...

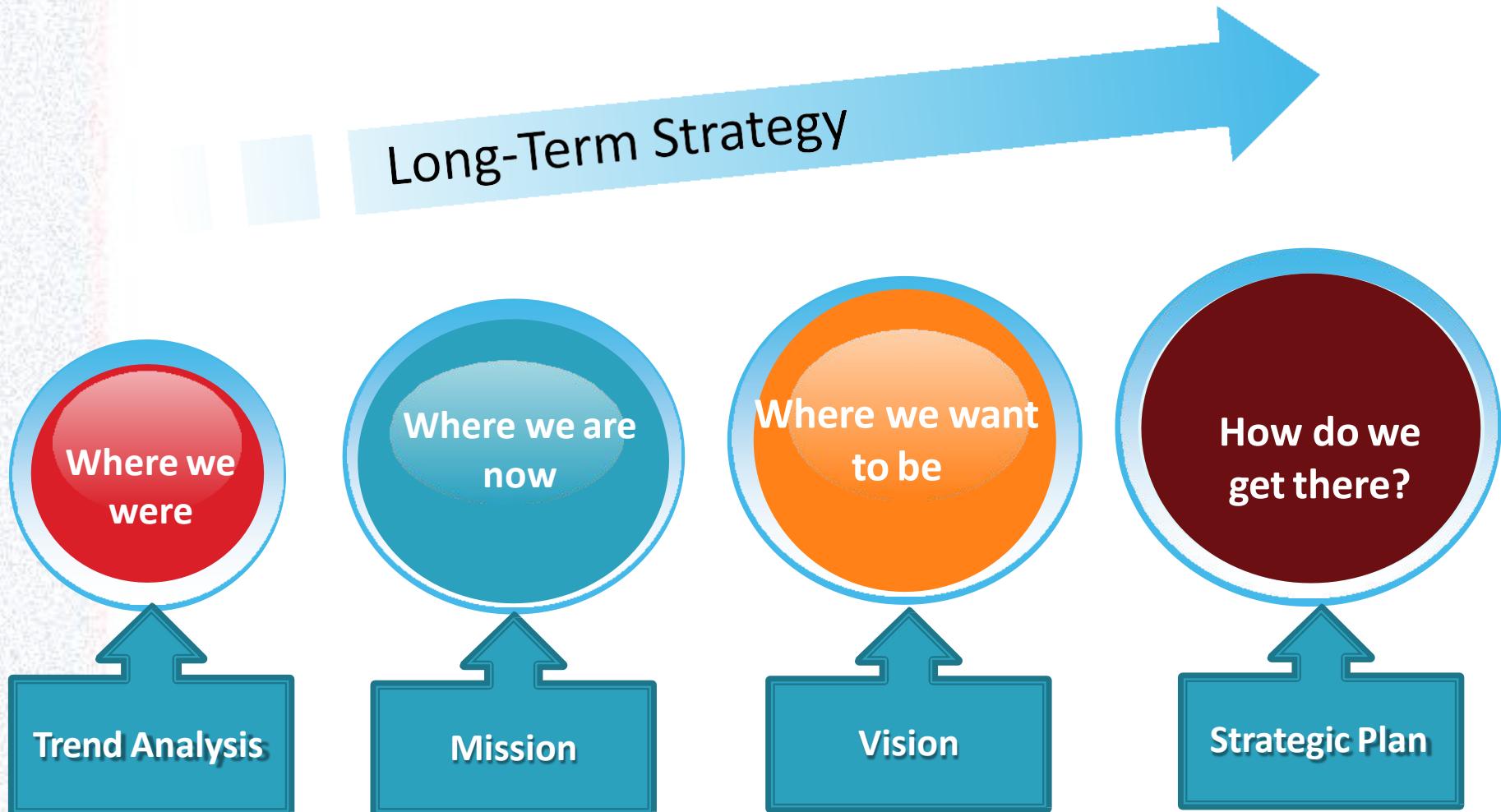
- A long-range plan of action oriented to achieving defined goals.
- Created and refined through a **strategic planning** process.
- Implemented through **strategic management**.



What is Strategic Management?

- ▶ The process of thinking strategically, setting objectives for the organization, planning and implementing the necessary changes, and measuring the outcomes
.....Grant
- ▶ Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives.
- ▶ Strategic management, therefore, integrates the activities of the various functional sectors of a business, such as marketing, sales, production etc., to achieve organizational goals.

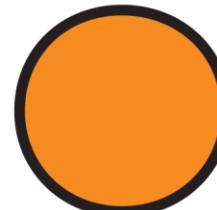
Common Strategic Plan Theme



Two Critical Strategy Questions

Can you summarize your company's strategy in 35 words or less?

If so, would your colleagues put it the same way?



The Problem: Unclear Strategy

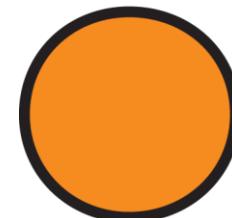
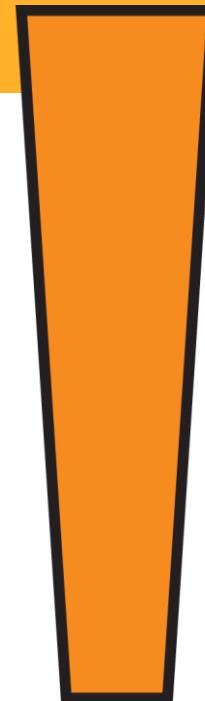
I don't know if we would be better off winning this deal at a lower price or just losing the business.

I try for months to get an initiative off the ground, and then it's shut down because "it doesn't fit the strategy."

The Solution: Clear, Succinct Strategy Statement

The benefits:

- Aligned behavior
- Empowered employees
- Increased effectiveness

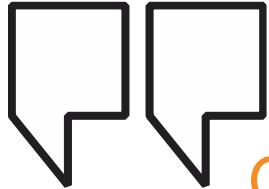


Three Elements

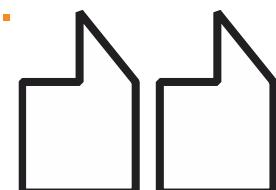


THE STRATEGY STATEMENT

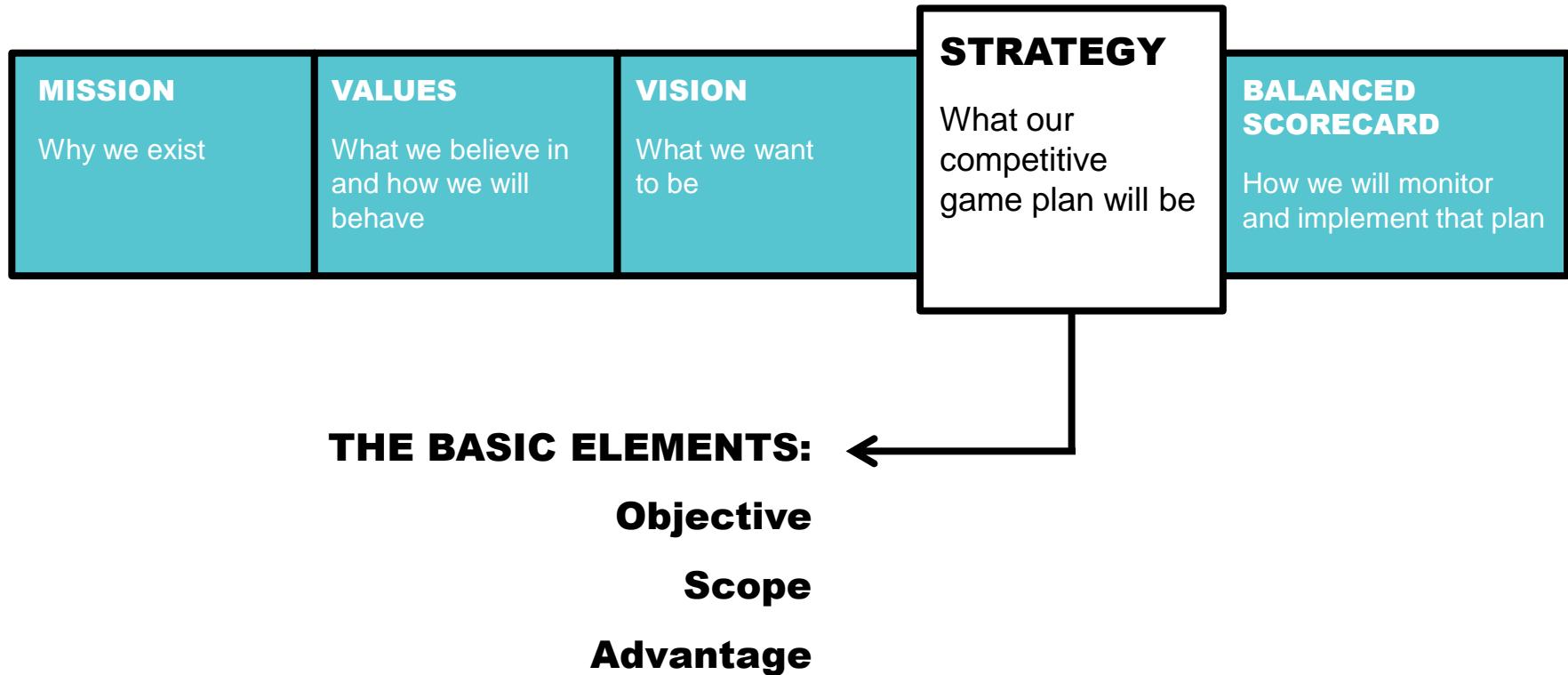
Edward Jones's Strategy Statement



Grow to 17,000 financial advisers by 2012 from about 10,000 today by offering trusted and convenient face-to-face financial advice to conservative individual investors who delegate their financial decisions, through a national network of one-financial-adviser offices.



How the Strategy Statement Fits with Other Statements



Objective

OBJECTIVE

SCOPE COMPETITIVE ADVANTAGE

OBJECTIVE IS:

- ✓ A single precise goal that will drive the business.
- ✓ Specific, measurable, and time bound.

OBJECTIVE IS NOT:

- ✗ The same as mission or vision.
- ✗ Generic (e.g., “We seek to grow profitably”).

Boeing's Objective

OBJECTIVE

SCOPE

COMPETITIVE ADVANTAGE



ORIGINAL

Be the largest player in the aircraft industry.



REVISED

**Be the most profitable player
in the aircraft industry.**

Edward Jones's Objective

OBJECTIVE

SCOPE

COMPETITIVE ADVANTAGE

The partners debated:
**Was the objective
to maximize...**



Scope

OBJECTIVE

SCOPE

COMPETITIVE ADVANTAGE

SCOPE IS:

- ✓ Where the company competes along three dimensions:
 - Customer or offering
 - Geographic location
 - Vertical integration
- ✓ Clear about where a company will *not* compete.

SCOPE IS NOT:

- ✗ A precise prescription for what to do within the specified bounds.

Edward Jones's Scope

OBJECTIVE

SCOPE

COMPETITIVE ADVANTAGE



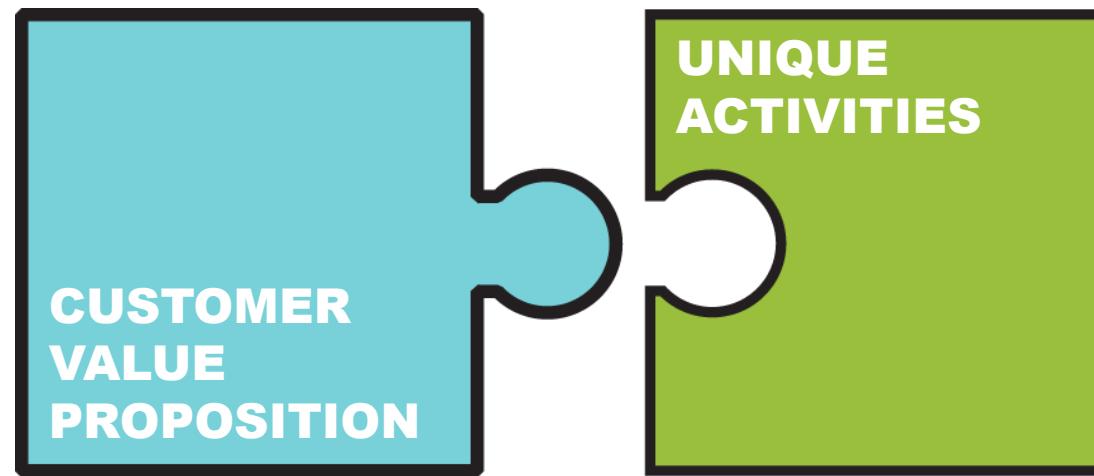
Competitive Advantage

OBJECTIVE

SCOPE

COMPETITIVE ADVANTAGE

**Two parts of
competitive
advantage:**



Walmart's Customer Value Proposition

OBJECTIVE

SCOPE

COMPETITIVE ADVANTAGE

Everyday low prices for a broad range of goods that are always in stock in convenient geographic locations

Walmart's Customer Value Proposition

OBJECTIVE

SCOPE

COMPETITIVE ADVANTAGE

CUSTOMER PURCHASE CRITERIA

- Low prices
- Selection across categories
- Rural convenience
- Reliable prices
- In-stock merchandise
- Merchandise quality
- Suburban convenience
- Selection within categories
- Sales help
- Ambience

Mom & Pop
Stores

Sears

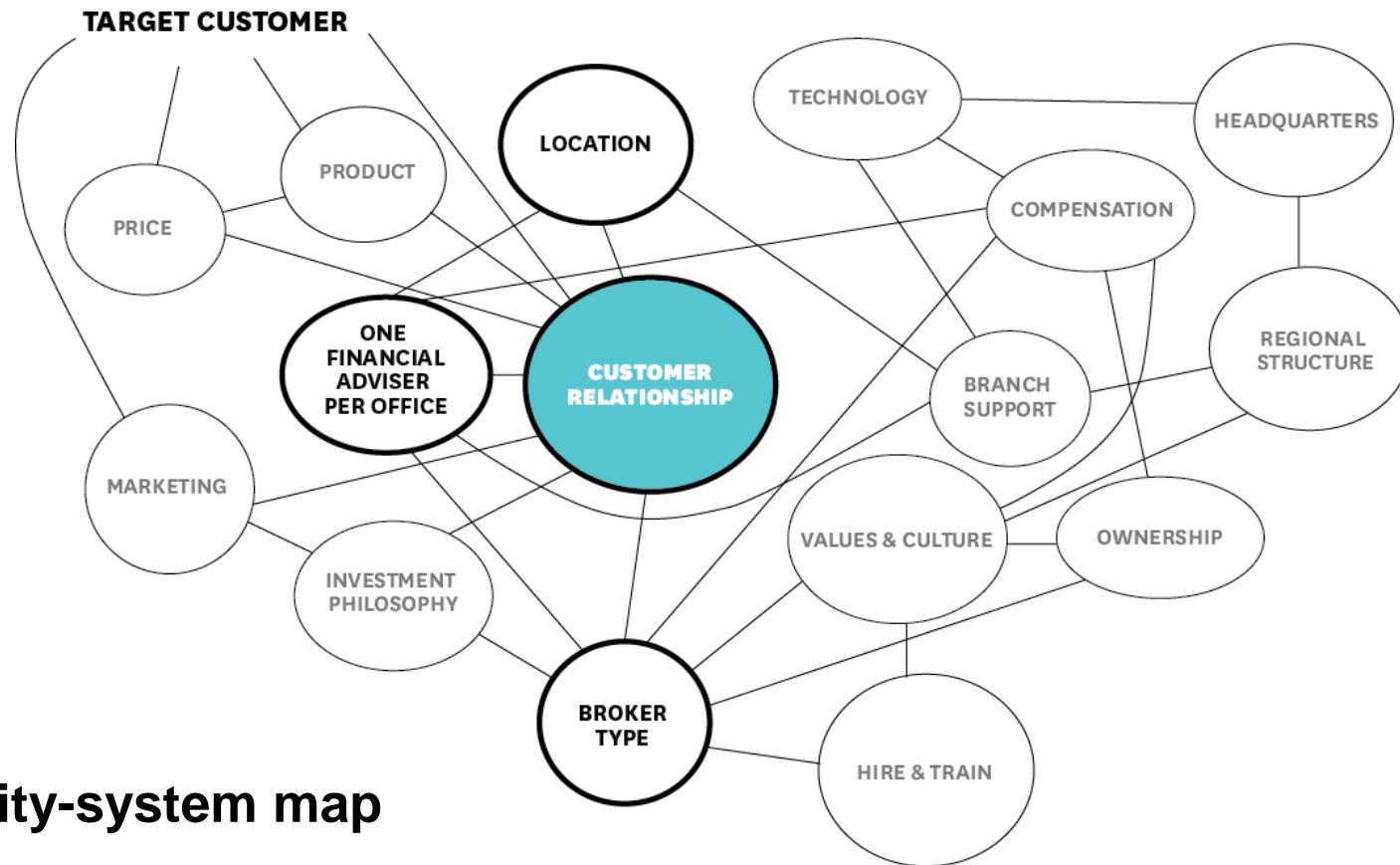
Walmart

Poor → Excellent

DELIVERY ON CRITERIA

Edward Jones's Unique Activities

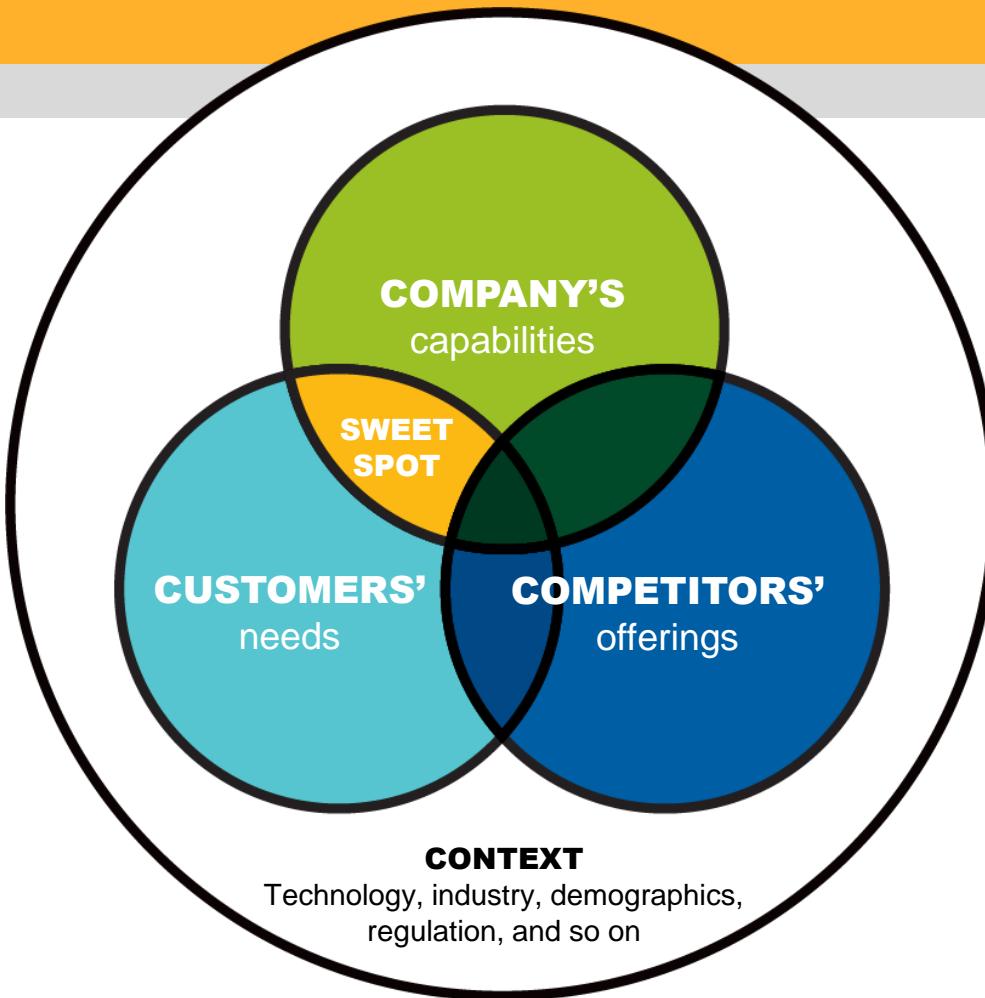
OBJECTIVE SCOPE COMPETITIVE ADVANTAGE



Activity-system map

The Strategic Sweet Spot

OBJECTIVE SCOPE **COMPETITIVE ADVANTAGE**



22

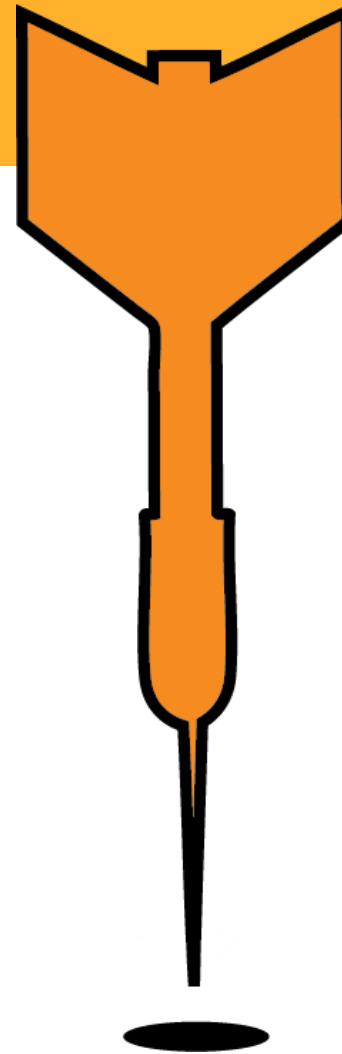
Sweet Spot Comparison

OBJECTIVE SCOPE COMPETITIVE ADVANTAGE

	Merrill Lynch	LPL Financial
CUSTOMER VALUE PROPOSITION	Provide for all the financial needs of its high-net-worth customers through retirement.	Individualized solutions and the highest payouts for brokers
UNIQUE CAPABILITIES	<ul style="list-style-type: none"> ▪ Highly trained brokers ▪ Team of product specialists 	<ul style="list-style-type: none"> ▪ Low overhead ▪ Small headquarters staff

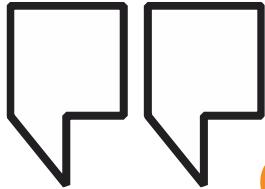
Get the Words Right

**Leave NO room for
misinterpretation.**

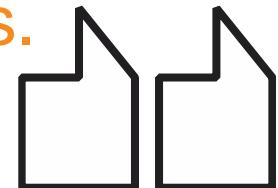


Get the Words Right

CONTINUED



Grow to 17,000 financial advisers by 2012 by offering trusted and convenient face-to-face financial advice to **conservative** individual **investors** who delegate their **financial decisions**, through a national network of one-financial-adviser offices.



Communicate the Strategy Statement

Once you've fine-tuned your strategy statement, share it with the entire company.



Words Lead to Action

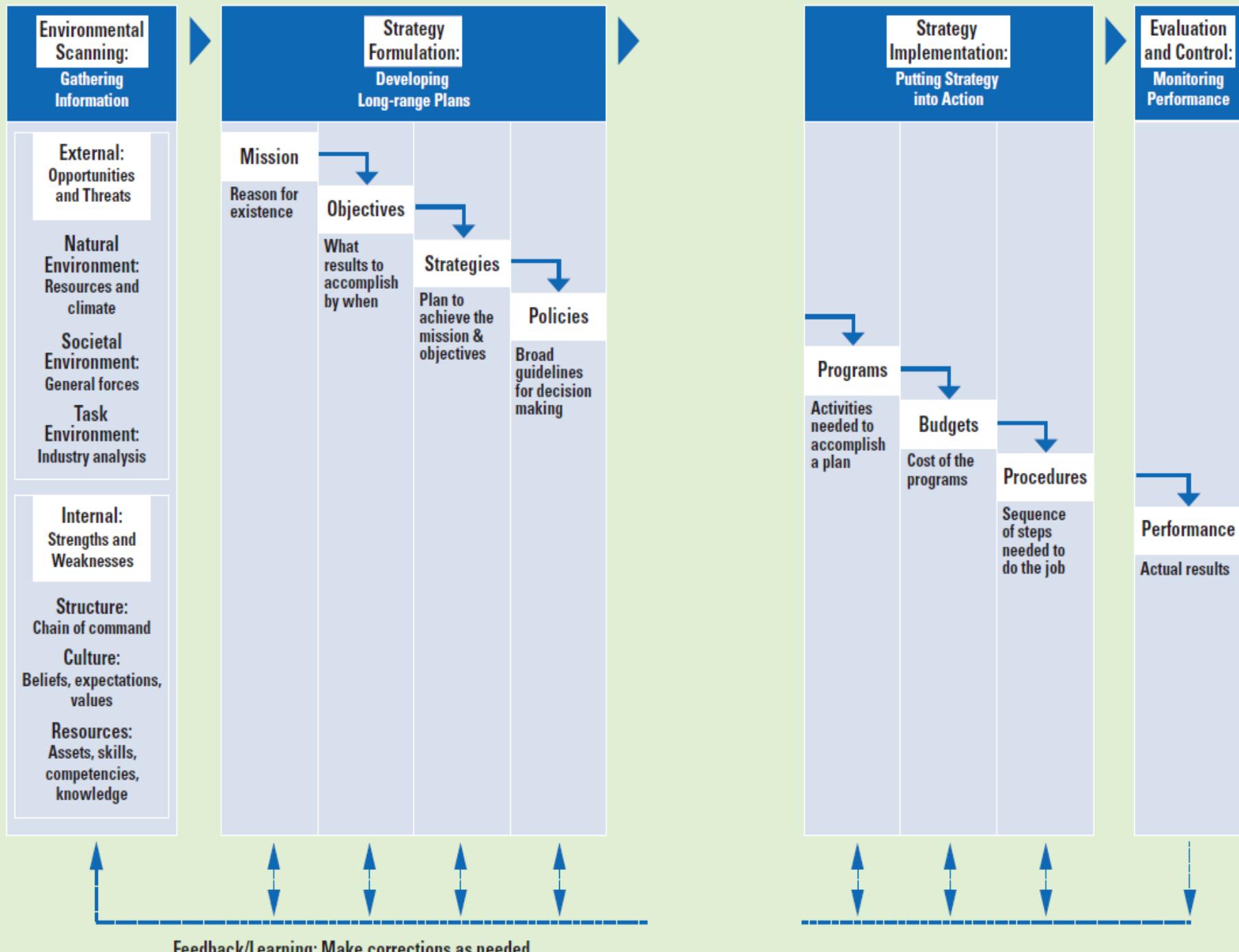
A 35-word strategy statement will:

- Energize and empower your people
- Improve your company's long-term performance



Strategic Planning Process





Vision

- ▶ Vision is the desired long term, future state of the organization
- ▶ A philosophical goal of what an organization would like to achieve or accomplish in the mid-term or long-term future.
- ▶ It is intended to serve as a clear guide for choosing current and future courses of action

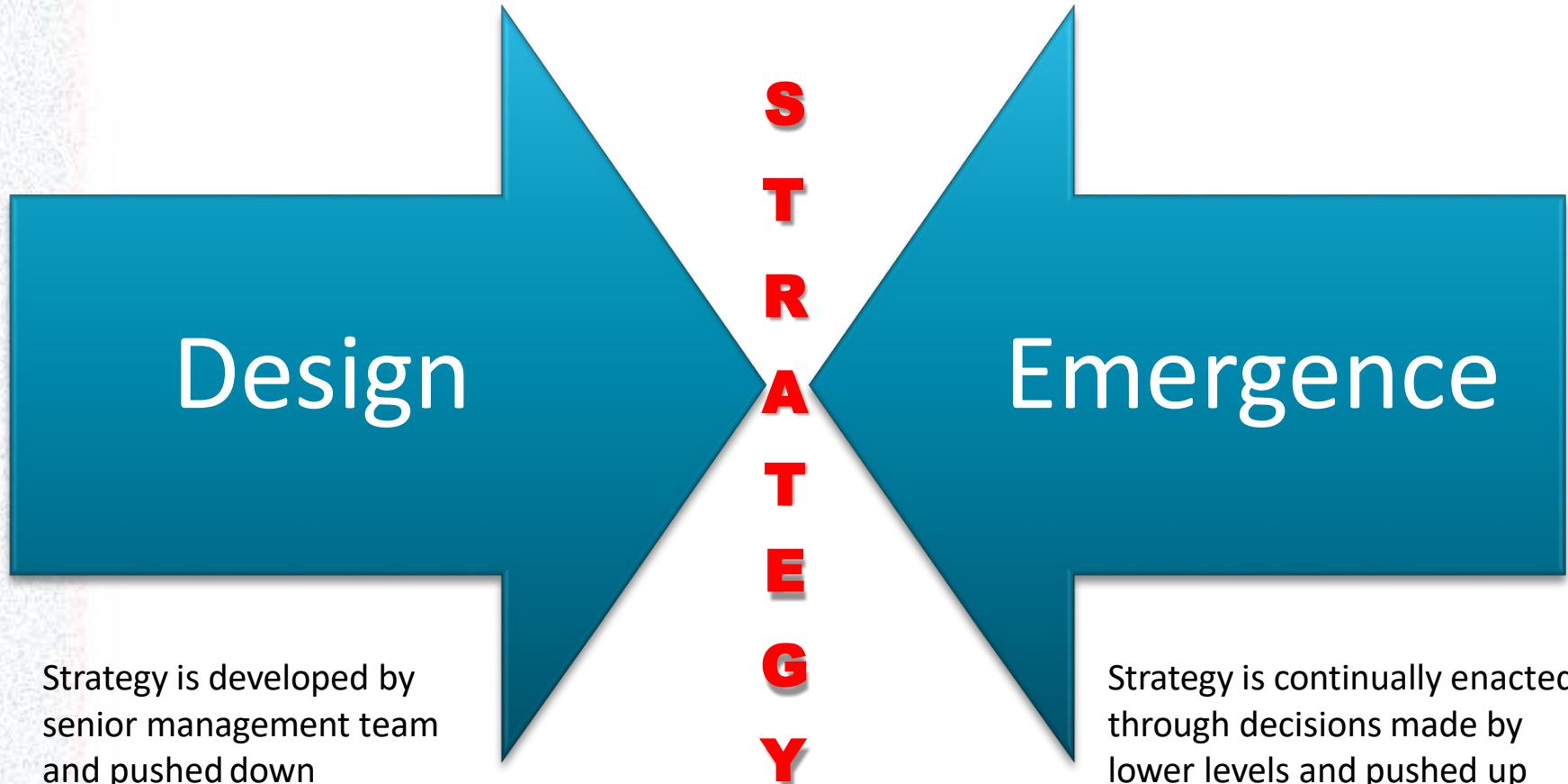
Mission

- ▶ A shorter term version of the vision, incorporating the values and expectations of the major stakeholders and contemporary environmental factors
- ▶ The mission should clearly show why the organization exists, its main activities and its future position within the industry
- ▶ The mission should also reflect the key values and ethical positions of the organization

Organizational Values

- ▶ Values are the operating philosophies or principles that guide an organization's internal conduct as well as its relationship with its customers, partners, and shareholders.
- ▶ Value statement is a brief description of the stakeholders and the behaviors that the organization considers to be most important. Organizations are now including corporate social responsibility (CSR) in their value statements.

Modern Approach to Strategic Formulation



Strategy Development – SWOT Analysis

- ▶ A survey of the organization's strengths, weaknesses, opportunities and threats
- ▶ Can integrate information regarding external environment and organization's capabilities
- ▶ Requires analytical input from a diverse group of core business areas
- ▶ Input must be brutally honest, creative, thorough, and comprehensive

Strategy Implementation

- ▶ The most difficult step in the strategic process
- ▶ Most strategy implementations require change initiatives
 - Top – Down communication process
 - Employee motivation and buy-in
- ▶ Well-defined short-term objectives (6 months to 1 year)
- ▶ Allocation of resources
 - Financial
 - Physical
 - Human
 - Technological

Strategy Evaluation: Measuring Performance

Areas to measure for increasing organizational returns
on strategy

Assets

Profitability

Sales

Productivity

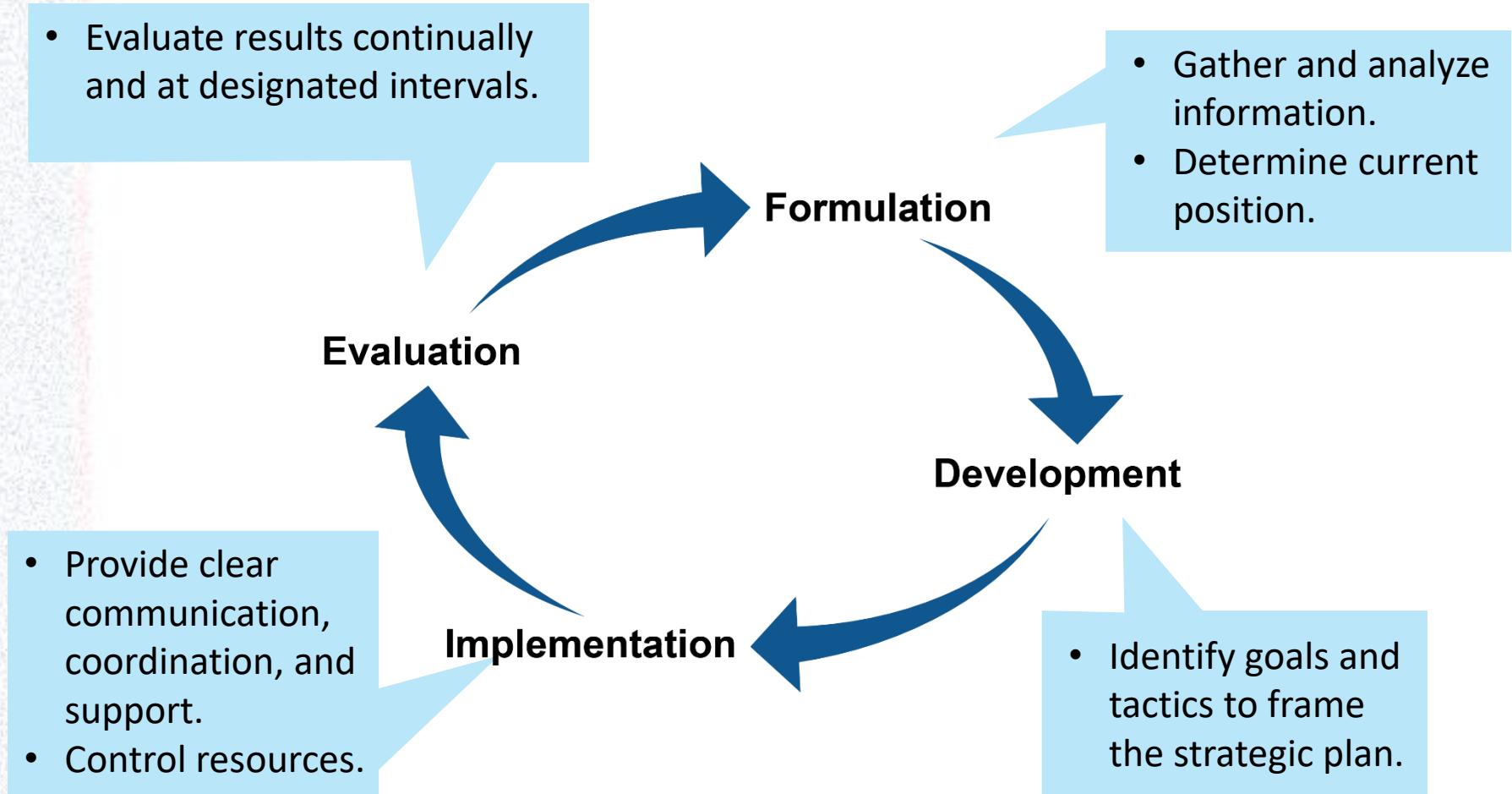
Return on
Investment
Ratio

Employee
Satisfaction

Corporate Governance

- ▶ The process of how important strategic decisions are made and controlled in organizations
- ▶ Needed to protect shareholder's rights, enhance disclosure and transparency, and provide regulatory enforcement framework
- ▶ Considers the effects of the company's operations on all stakeholder groups

Strategic Planning and Management Process



Critical Success Factors

✓ Alignment of effort

✓ Control of drift

✓ Focus on core competencies

Stakeholders

Internal
customers

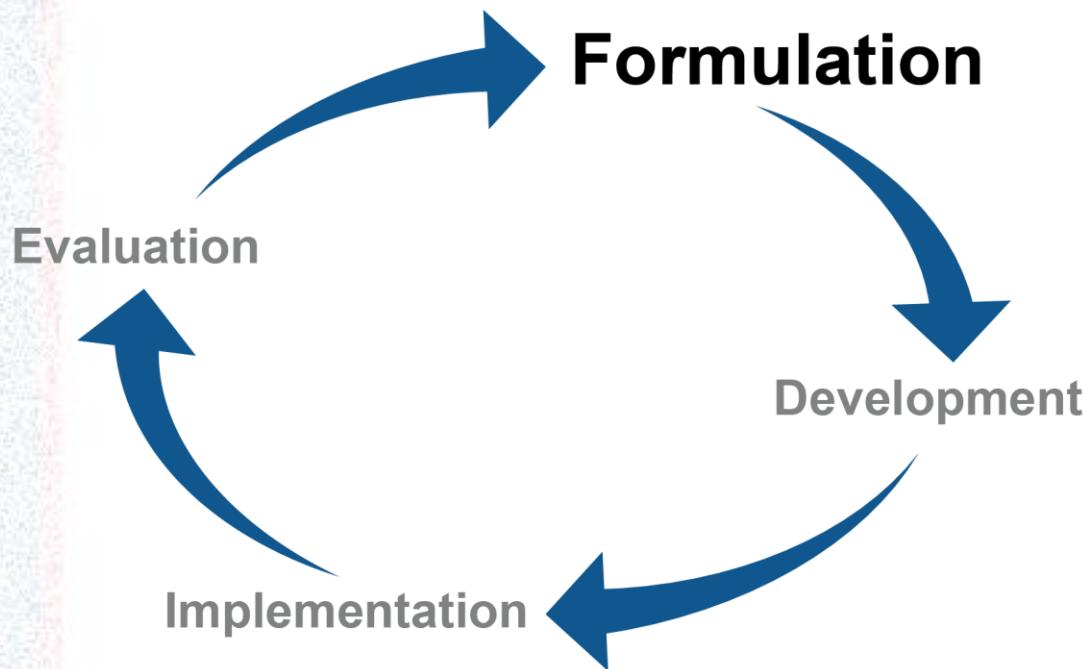
Suppliers

Communities

Institutions

Government
agencies

Formulating Strategy



Deepening one's understanding of the organization and its internal and external environments and opportunities and challenges

Systems Theory

Strategic planning and management requires systems thinking. Challenge is to coordinate interacting and sometimes interdependent parts to achieve strategic goals.



An **input-process-output (IPO) model** is often used to analyze actions.

Environmental Scanning

Systematic survey and interpretation of relevant internal and external data to:

- Identify external threats and opportunities.
- Strengthen strategic plans and goals.

✓ PESTLE analysis

✓ SWOT analysis

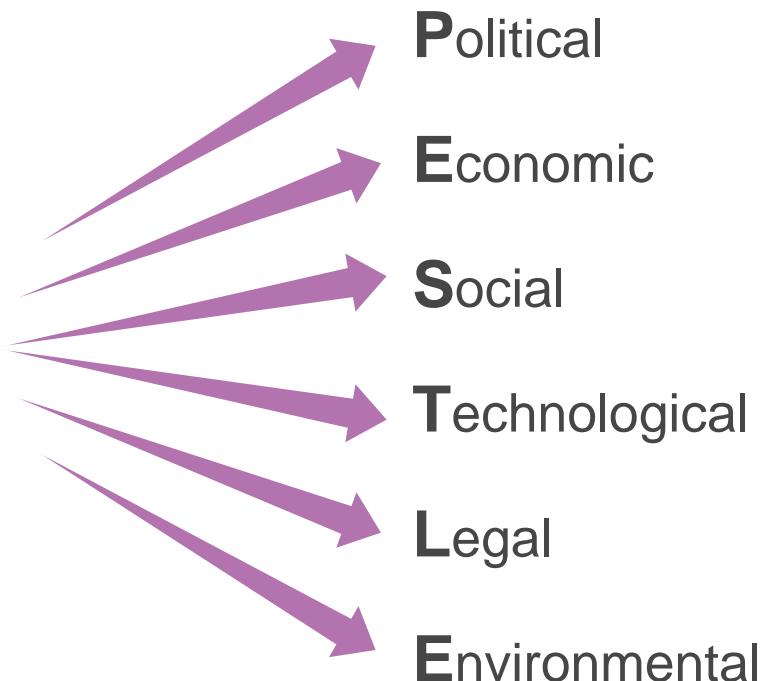
✓ Growth-share matrix

✓ Scenario analysis

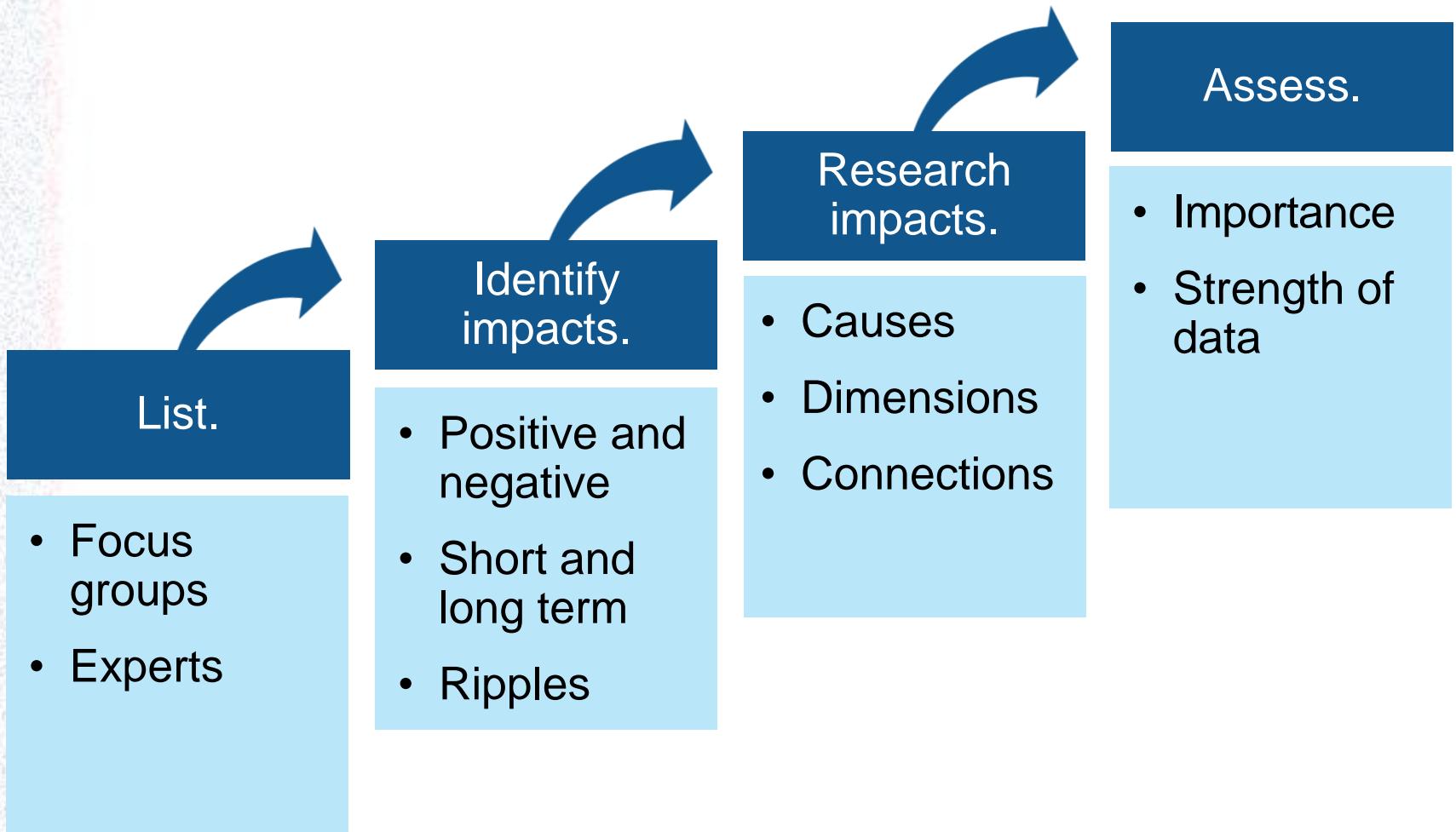
PESTLE Analysis

- ▶ Systematic searching for environmental forces organized under specific categories.
- ▶ PESTLE can be used for the entire enterprise, for individual units or functions, or for specific activities.

PESTLE

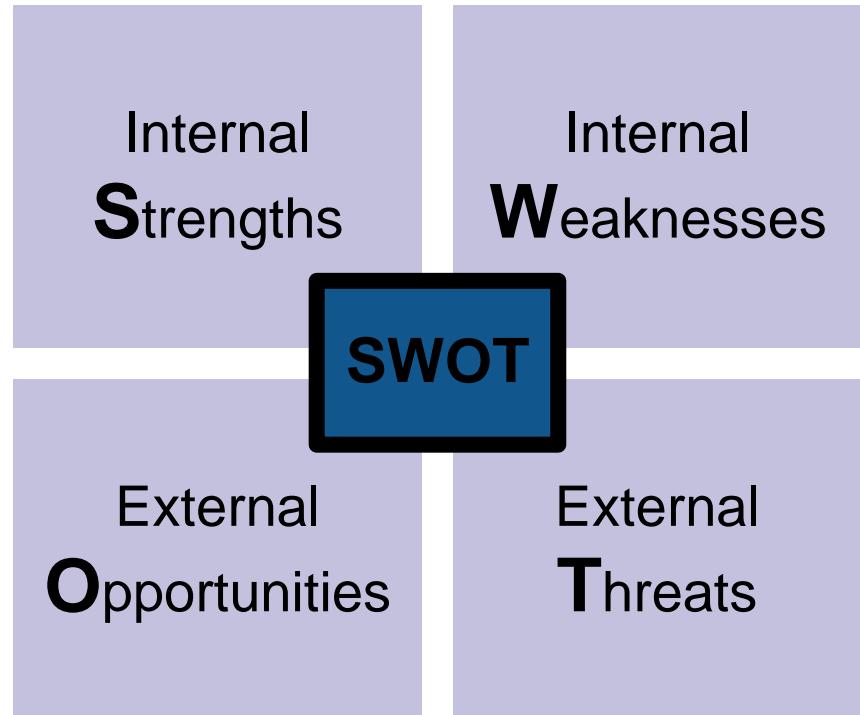


PESTLE Process



SWOT Analysis

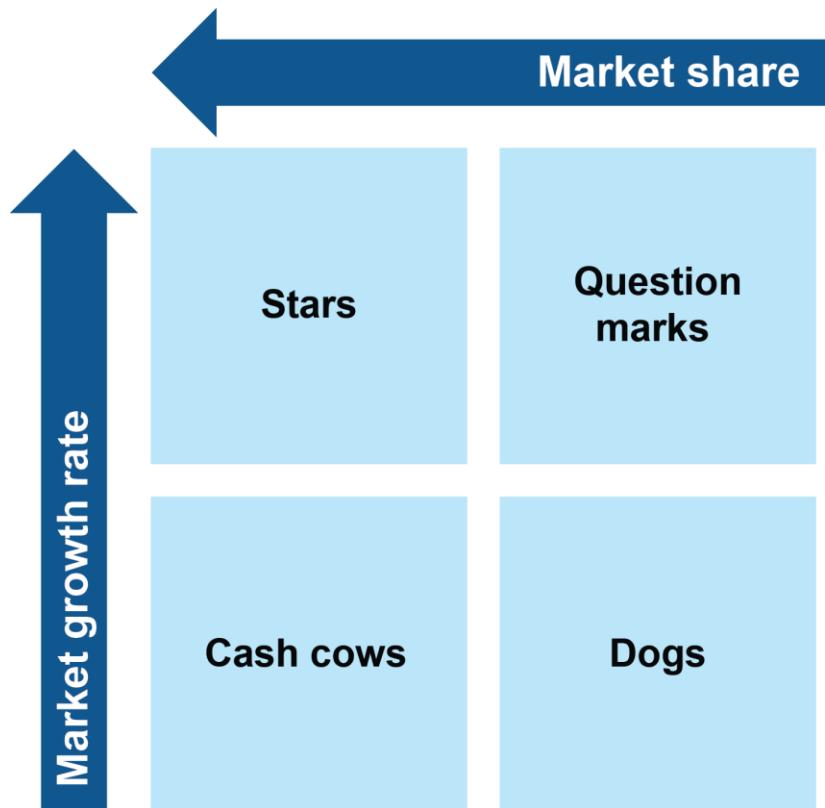
- ▶ Uses data to assess strategic capabilities in comparison to threats and opportunities identified during environmental scanning.
- ▶ Can be performed for organizations, functions, initiatives.
- ▶ Can be applied to specific HR activities.



Growth-Share Matrix

Uses data to find where the greatest value in the organization resides:

- ▶ **Stars**—high value
- ▶ **Cash cows**—create value reliably but with little opportunity for growth
- ▶ **Dogs**—consume resources without offering strong value or future growth
- ▶ **Question marks**—could be winners or losers



Scenario Analysis

Compares the impact of changes in the environment on the organization's outputs

Identifies environmental factors that have the greatest potential for positive or negative impact

Facilitates the application of risk management principles to strategy formulation



Improving Environmental Awareness



Mission, Vision, Values

Mission

- Why We Exist
- Provides focus and purpose of strategy

Vision

- What we want to become in the future
- Provides motivation and unity

Values

- What beliefs the organization/function supports through behaviors and actions
- Provides guidepost for decision making

Setting Goals

General goals suggest how the organization will focus its resources.

Starts moving the organization and people in the intended direction.

Example: Increase productivity.

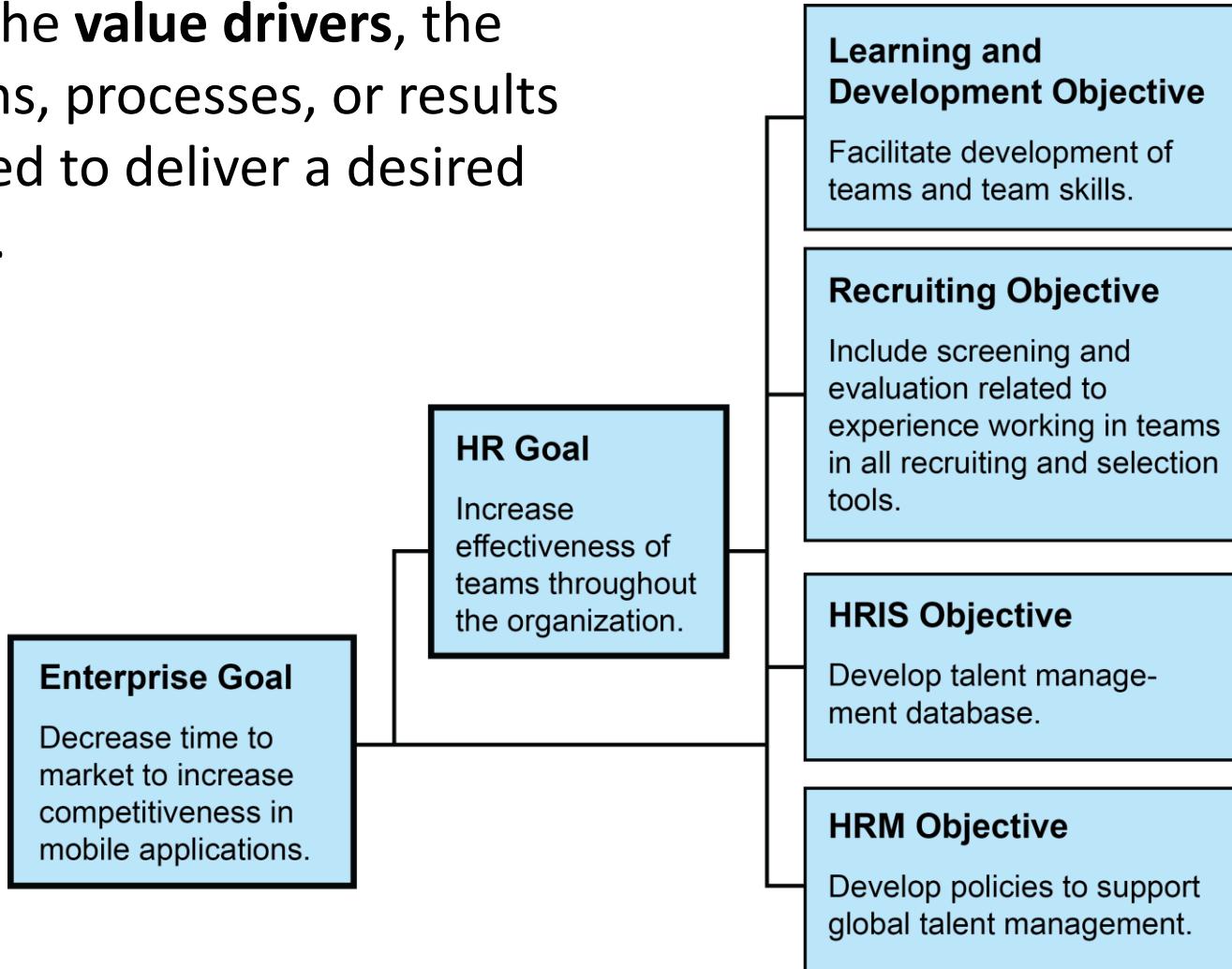
Organizational goal-setting process must be repeated on unit or functional level.

Creates a line of sight from the organization's strategic goals to the goals and objectives of the organization's functions and units.

Example for HR: Improve quality and efficiency of talent supply chain.

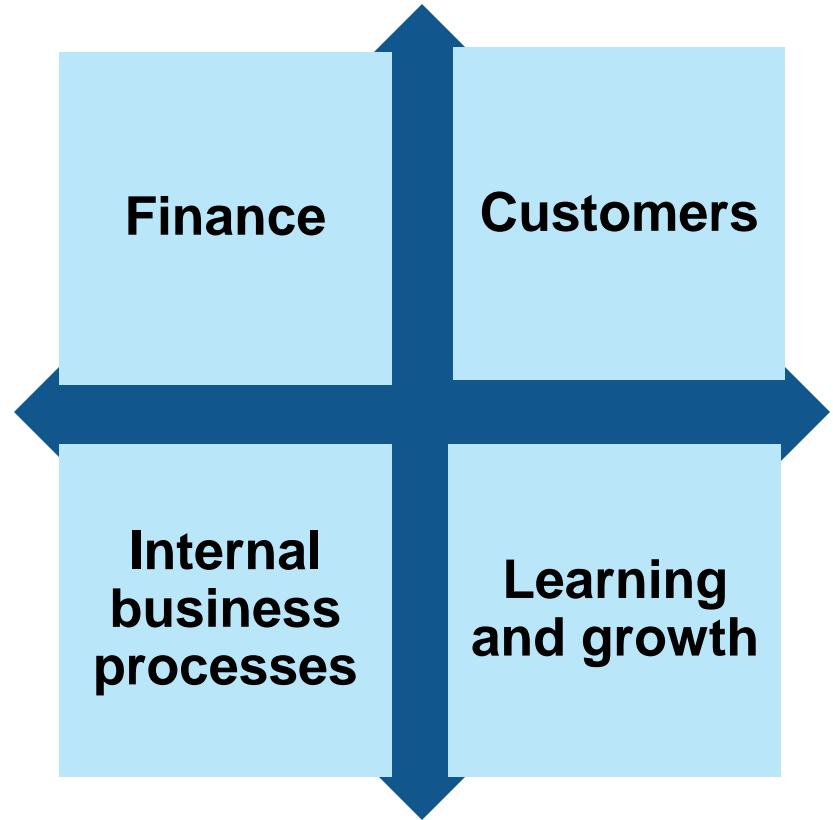
Example : Aligning HR Strategic Goals

Find the **value drivers**, the actions, processes, or results needed to deliver a desired value.



Using Balanced Scorecards

Provide a more strategy-focused, balanced, multi-perspective assessment of performance



*Original balanced scorecard developed by
Robert Kaplan and David Norton*

Leading/Lagging Indicators

Balanced scorecards include leading and lagging performance indicators.



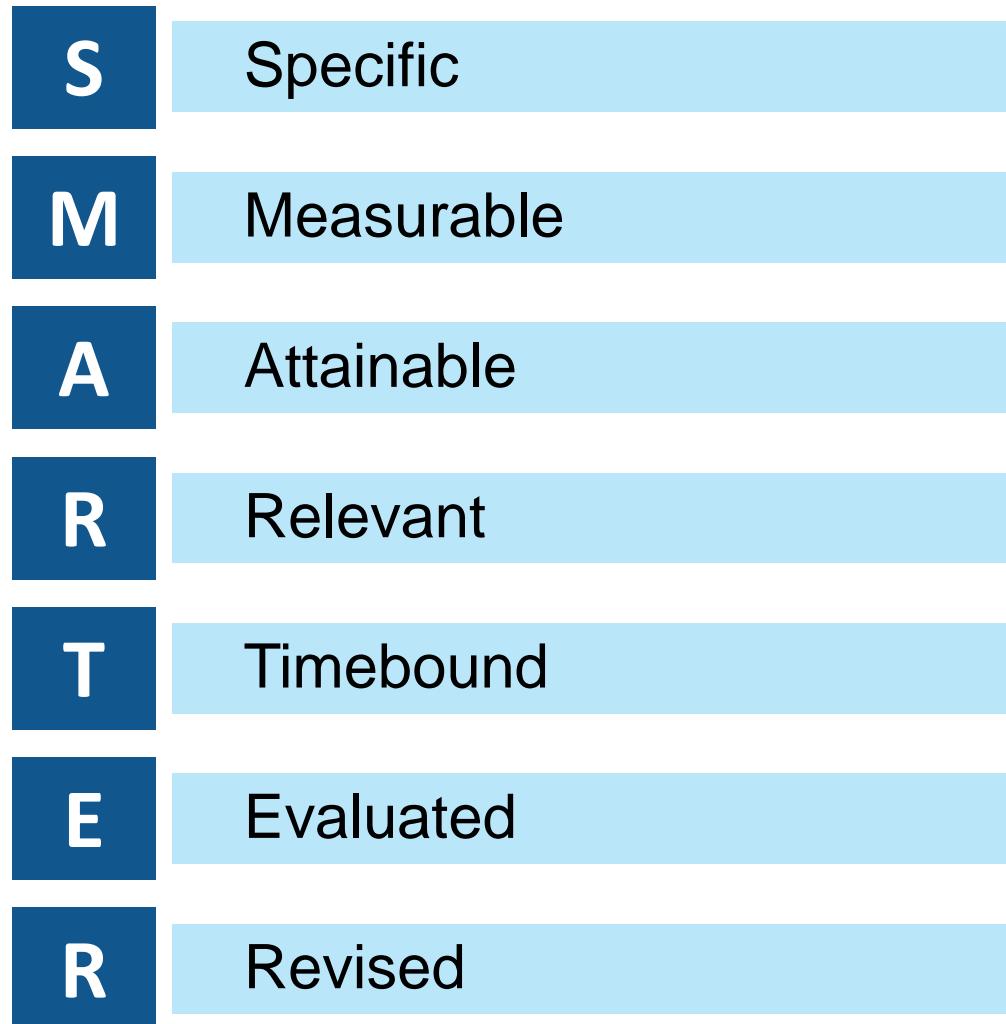
Describes effects that have already occurred and cannot be changed.

For example, turnover rate indicates the success or lack of success in employee engagement.

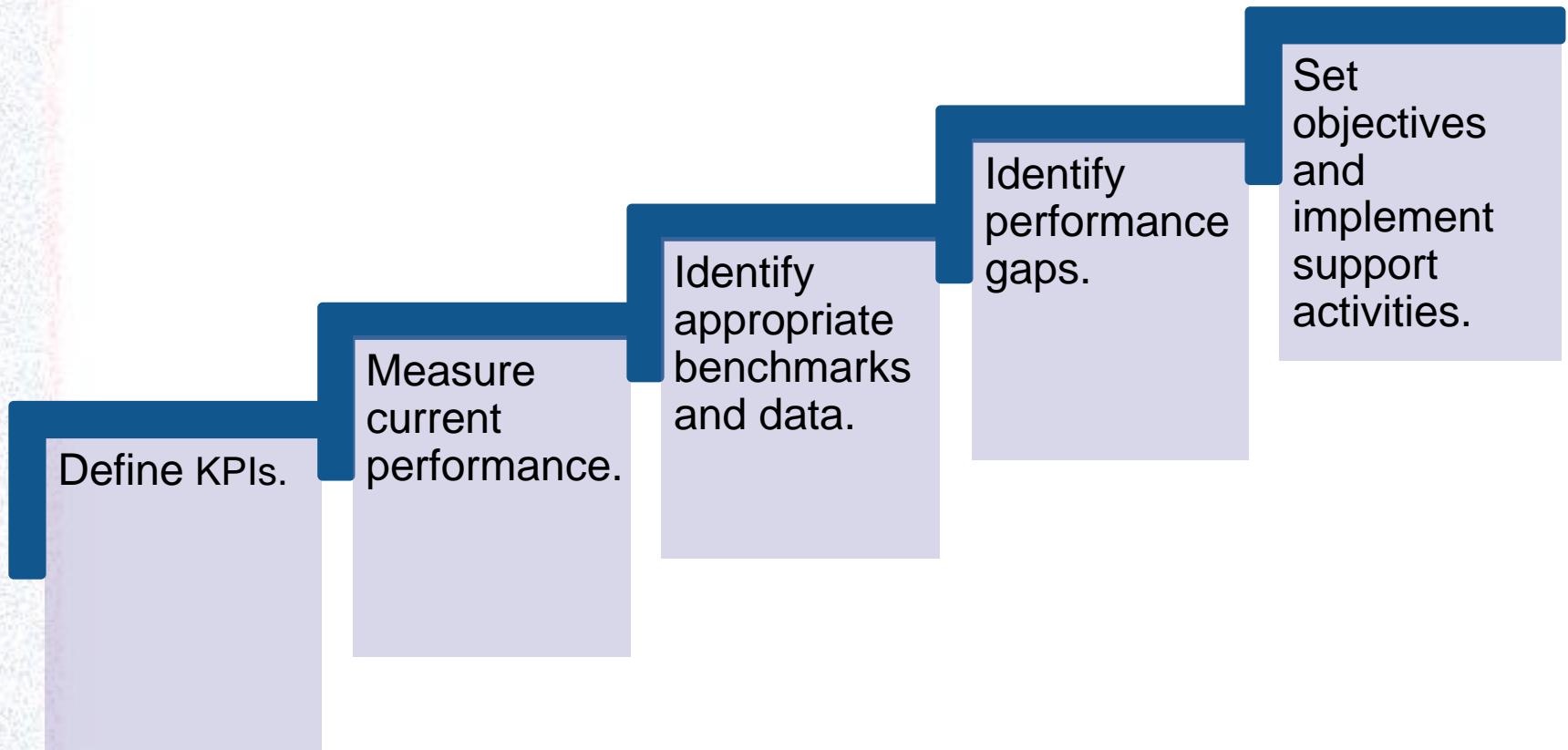
Describes predictive actions that can change future performance and help achieve success.

For example, employee satisfaction indicates future retention rates and associated costs of hiring.

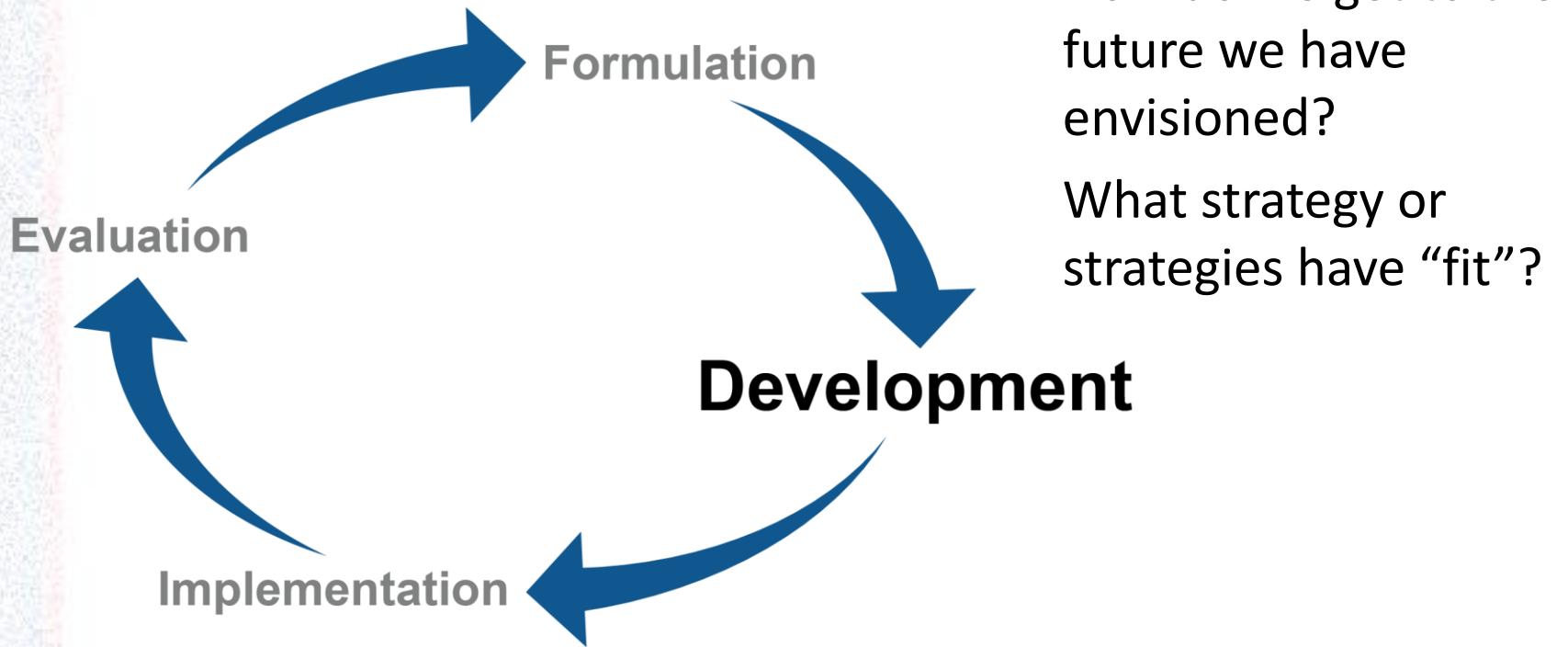
SMARTER Performance Objectives



Benchmarking Process



Developing Strategy

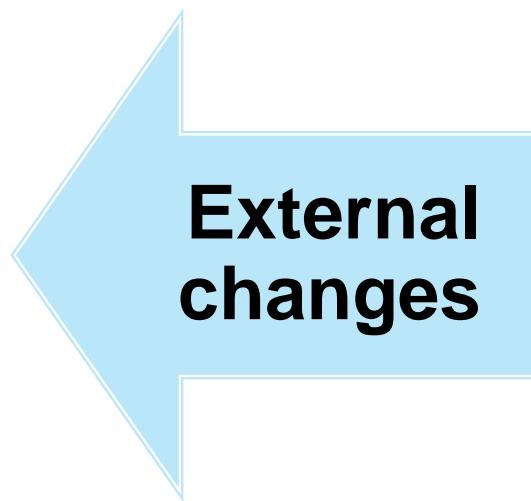


Strategic Fit

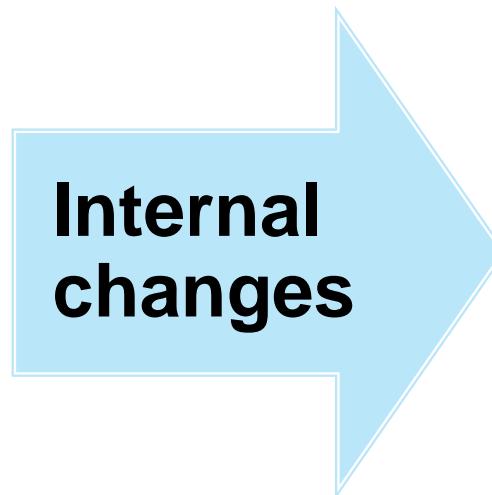
- Describes the consistency of strategy with internal and external environments.
- Reflects interconnectedness and alignment of activities throughout the organization (e.g., resources and capabilities deployed toward strategic goals).
- Strategic fit exists when activities:
 - ✓ Are consistent with the strategy.
 - ✓ Interact with and reinforce each other.
 - ✓ Are “optimized” to reach the strategic goal.

Creating Competitive Advantage

There are two ways that an organization can create competitive advantage, and both involve change.



Compete by adapting quickly to changes in the external environment.



Compete through change, innovation, and reinvention.

Porter's Competitive Strategies

Cost Leadership

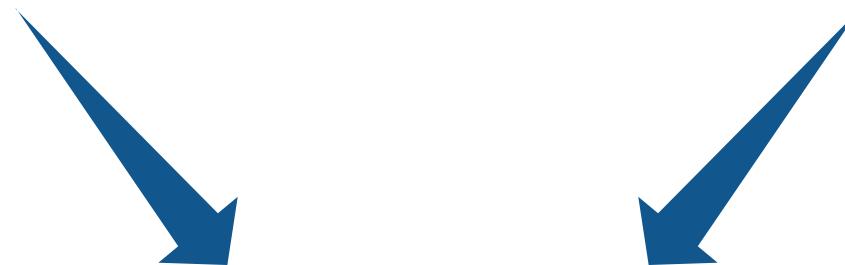
Lowest price

Economies of scale, efficient production, agility

Differentiation

Higher price for unique offering

Skillful marketing and quality management



Focus

Apply either strategy in segment or niche

Growth Strategy Options

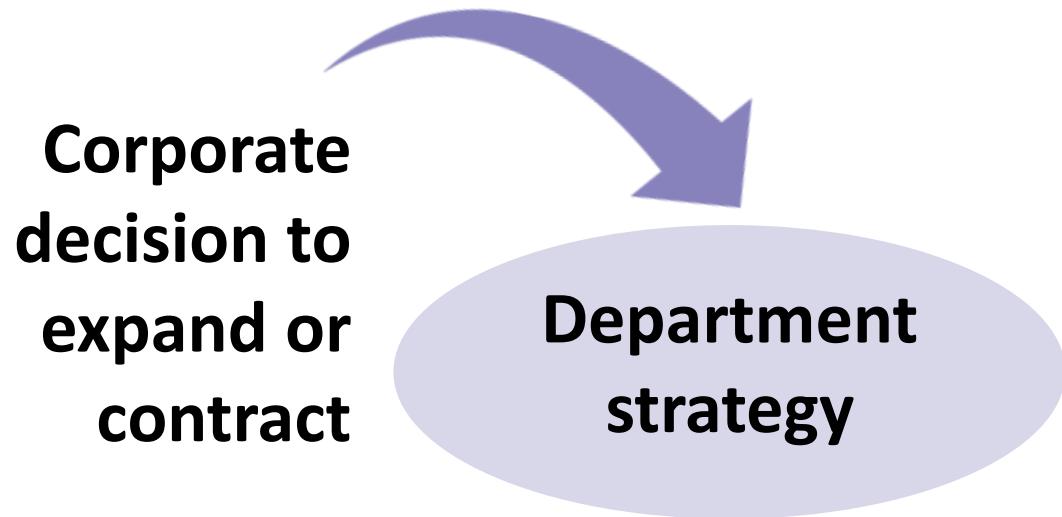
Each strategy requires different levels of investment and offers different levels of control and return.



- Strategic alliance
- Joint venture
- Equity partnership
- Merger/acquisition
- Franchising
- Licensing
- Contract manufacturing
- Management contract
- Turnkey operation
- Greenfield operation
- Brownfield operation

Growth and Divestiture Strategies

A **divestiture** or divestment is the reduction of an asset or business through sale, liquidation, exchange, closure, or any other means for financial or ethical reasons. It is the opposite of investment.



- Corporate strategies often involve expanding or contracting.
- Level of Dept. involvement varies.
- Example : HR can help capture lessons learned from decisions and actions, analyze the experiences, and communicate useful lessons for growth and divestitures.

Key Role in Divestiture Strategy

Identify the candidate.

Perform due diligence, identifying potential risks; participate in SWOT analysis.

Identify a target buyer.

Provide accurate information about the value of the workforce.

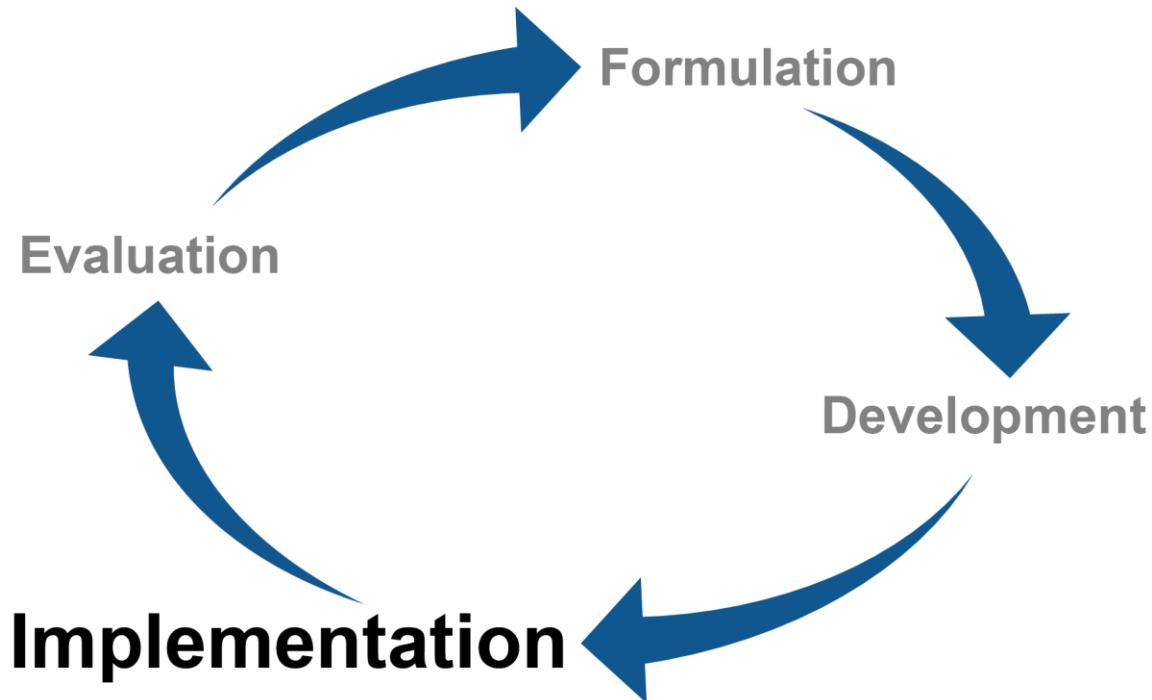
Restructure.

Identify and prepare strong leaders.
Design incentive offers.

Execute the deal.

Assemble a balanced transition team.
Facilitate the exit of departing employees.

Implementing Strategy



Translates strategic intent into specific plans of action.

Requires communicating the value of the strategies to all members and effectively managing the implementation of plans.

Communicating Strategy

- Communication occurs in different ways and at different levels.

Examples: Formal communication or team meetings

- The communication plan should include ongoing opportunities for feedback.

Core Elements of Success

- ✓ Two-way communication:
 - Outward to entire team
 - Inward toward leaders
- ✓ Leadership support
- ✓ Free flow of information across organizational “silos”
- ✓ Helping team members see how their work connects to the strategy

Managing Strategy Implementation

HR action plans are implemented through normal operations and through specific initiatives managed as time-limited projects.

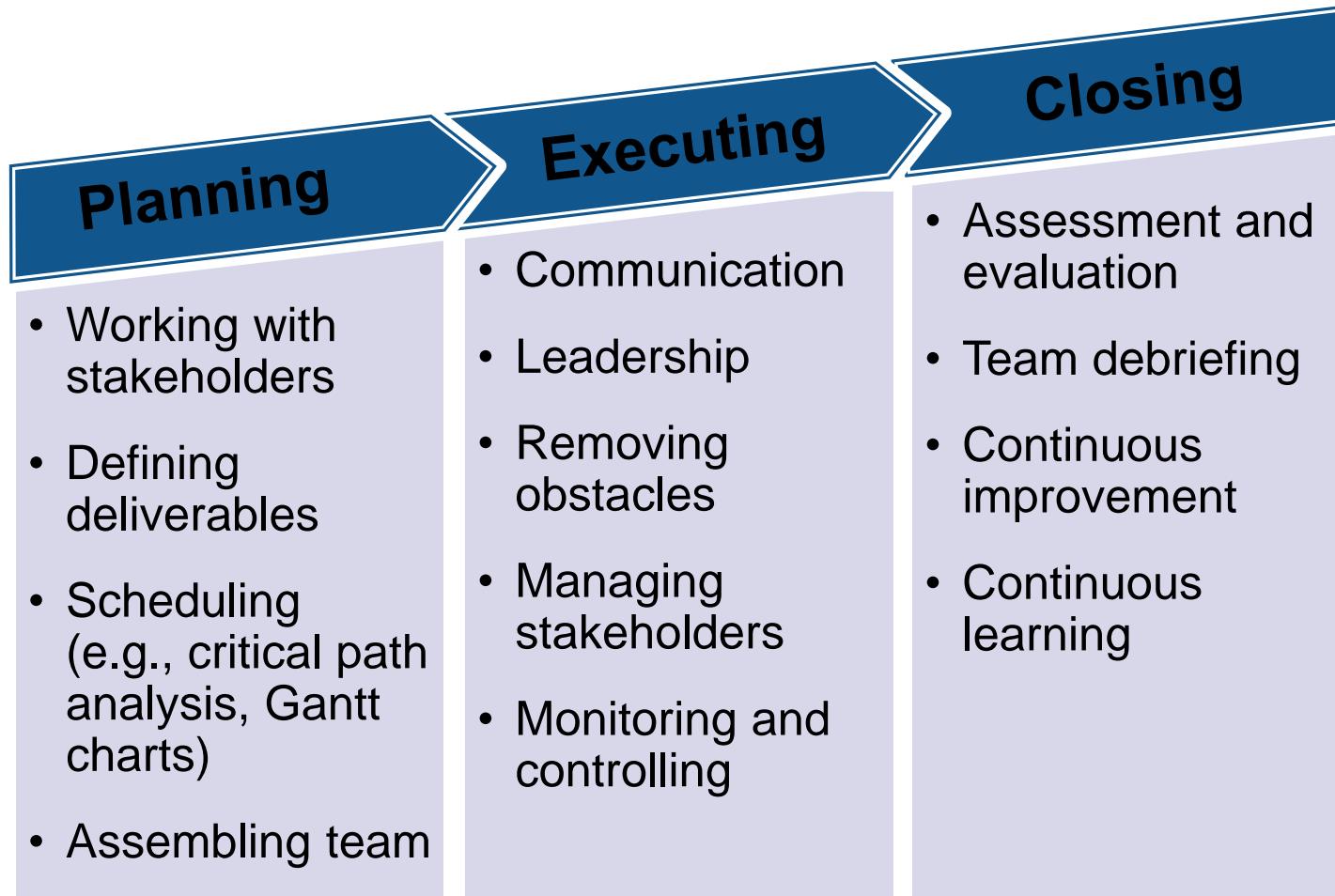
Multiple phases

Simple or complex deliverables

Large or small budgets

Projects can vary in complexity. Some require dedicated project managers.

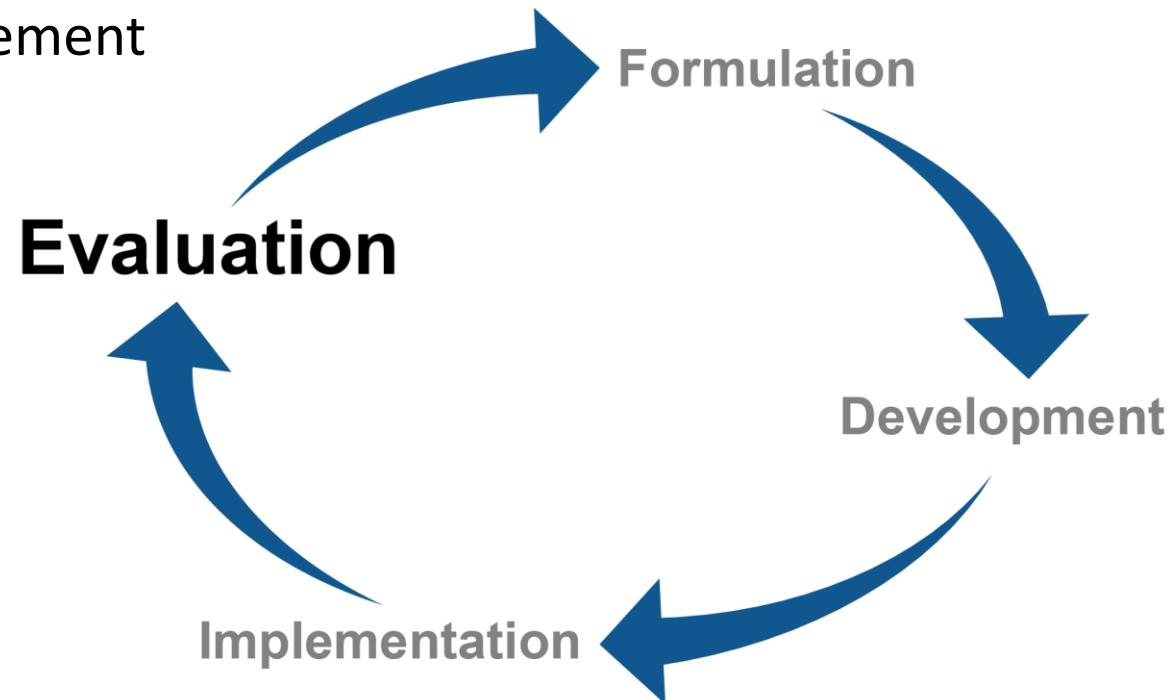
Project Stages



Evaluating Strategy

Essential for:

- Sound management
- Good governance
- Continuous improvement



Evaluating Strategic Results

Appears as the final phase of strategic management but is often a factor in the preceding stages.

Requires:

- Developing tools and establishing processes to collect data.
- Analyzing data at agreed points.
- Investigating discrepancies between planned and actual.

Communicating Strategic Results

- **Create a narrative** that explains results.
- **Visualize** data analysis with tools such as bar charts and Pareto charts, trend diagrams, etc.
- **Acknowledge** disappointments as well as successes.
- **Invite** reactions and feedback.
- **Describe** next steps.



Macro-Environmental Influences

▶ Macro-Environment

- The environment external to the organization, its operations and its industry.
- Macro-environmental factors strongly influence the strategy an organization must adopt to compete successfully within its markets and remain profitable
- The organization has little to no influence over these factors
- The most important element of the macro environment is the direction in which it is trending
- One of the best tools for considering trends in the macro environment is the PESTEL analysis

PESTEE Analysis



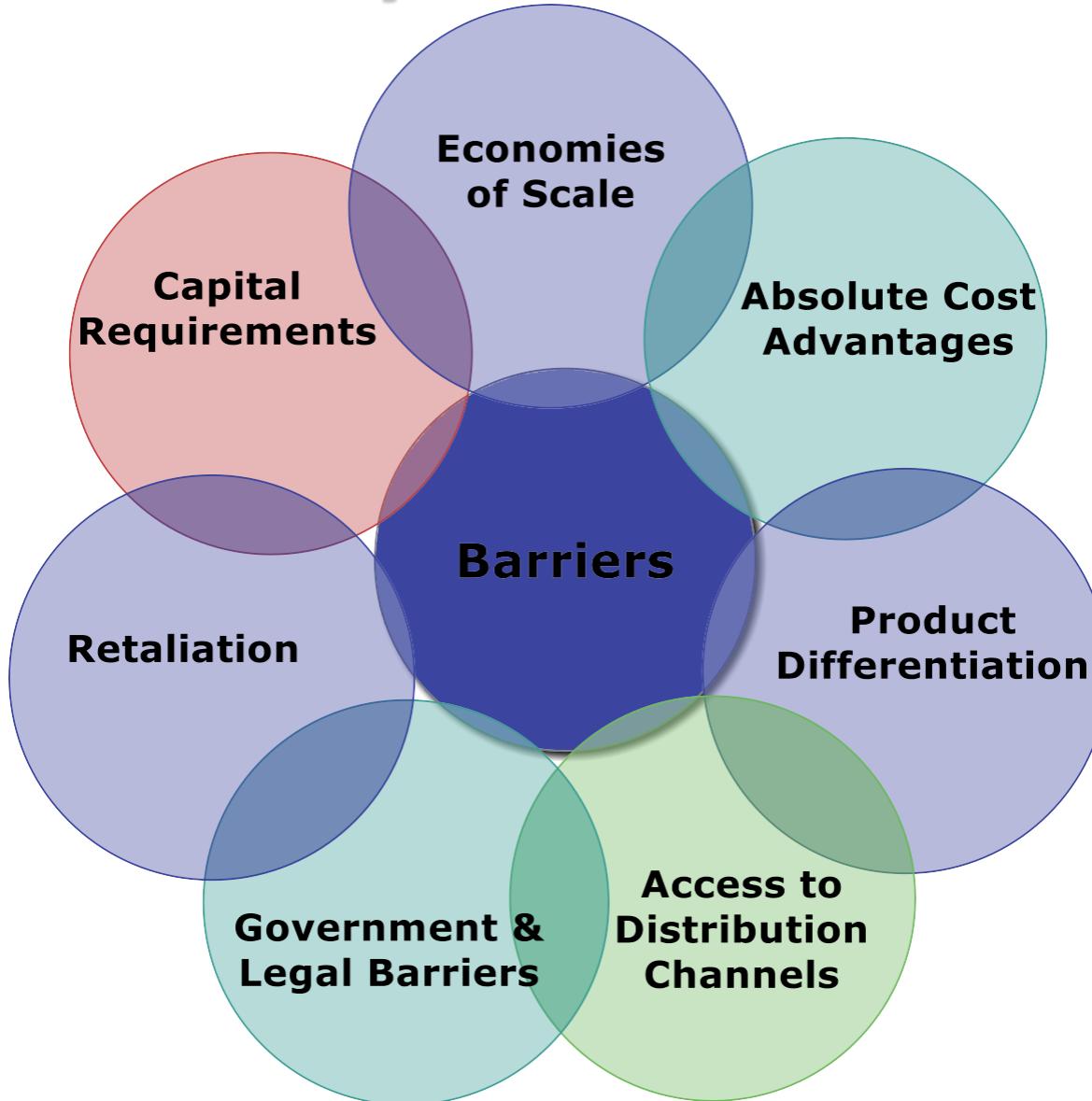
PESTLE Analysis

- ▶ Political
 - Taxation, minimum wages, export incentives, gov't stability
- ▶ Economic
 - Capital, labor, resources
- ▶ Social
 - Tends against unhealthy activities, wealth, demographic trends
- ▶ Technology
 - Disruptive Technology: technology that appear with little warning and has a significant impact on how business is conducted in an industry
 - Obsolescence of technology, development of new technology to maintain competitiveness

PESTLE Analysis

- ▶ Environment
 - Carbon footprint, compliance, ethics, corporate social responsibility, customer demands regarding environmental impact of corporations
- ▶ Legal
 - Closely related to political conditions
 - Results of political decisions (laws and legislation)
 - Impacts labor requirements, regulatory compliance (environmental, financial, safety and health, product standards, etc.)
 - Licensing, permits, tariffs, import/export requirements, fines

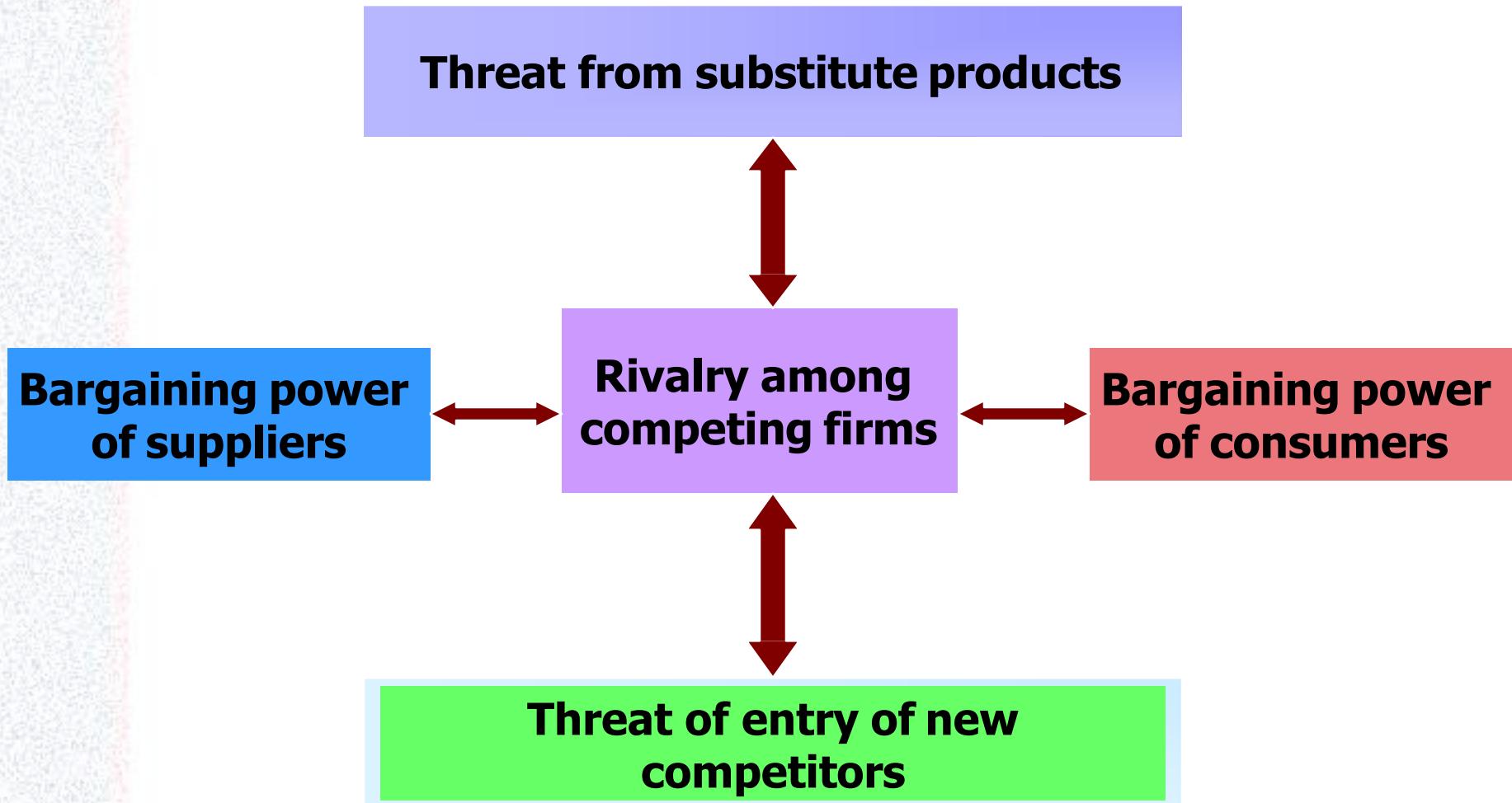
Barriers to Entry



Porter's Five Forces Model

- ▶ Represents all the significant micro external environmental factors in a framework convenient for analysis
- ▶ The attractiveness of an industry is determined by five sources of competitive pressure:
 - Three horizontal elements: competition from substitutes, competition from entrants and competition from established rivals
 - Two vertical elements: the power of suppliers and the power of customers.

Porter's Five Forces of Competition Framework

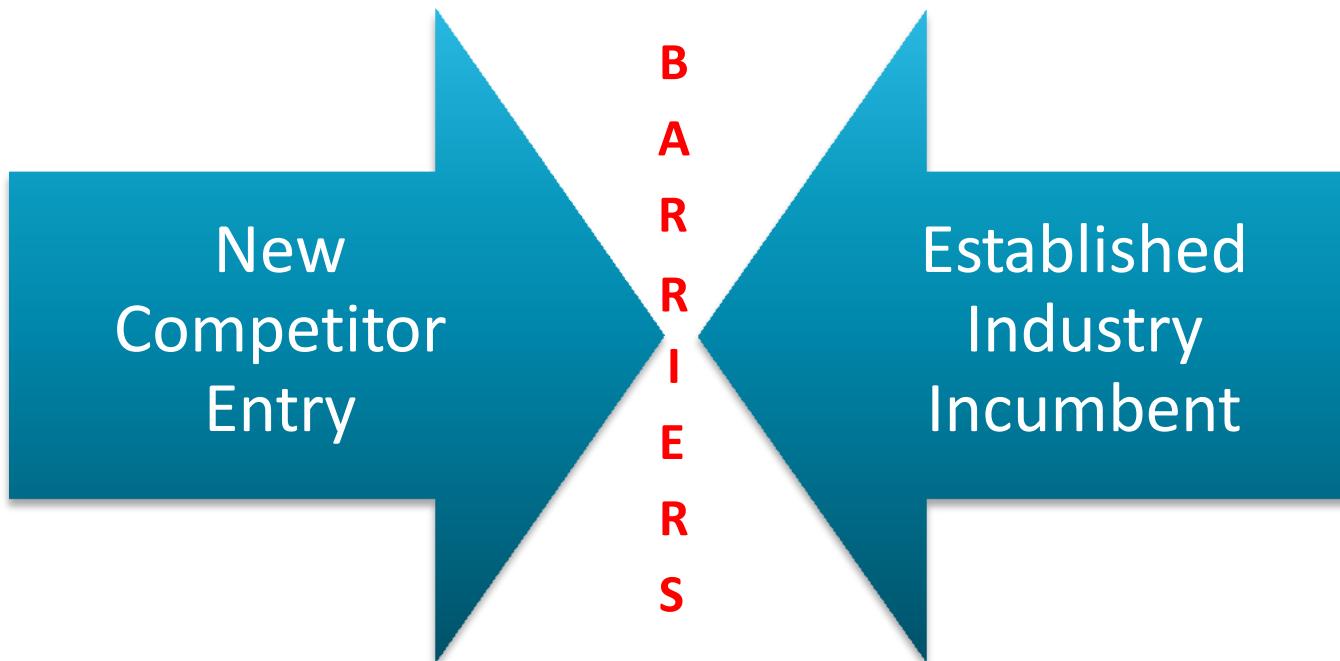


1. Competition from Substitutes

- ▶ The customer's perception of the value of a product or service can depend on the availability of substitute products
- ▶ Absence of close substitutes for a product means customers are insensitive to price (i.e. housing)
- ▶ The existence of close substitutes enables customers to easily switch on the basis of differentiating factors, including price (i.e. online bookstores vs. bookshops)
- ▶ The more complex the product or service, the more difficult to determine differentiation factors

2. Threat of Entry

- ▶ Expanding companies are attracted to industries that can provide a good ROI and have low barriers to entry (overly competitive or highly regulated)
- ▶ Established organizations often try to create barriers to avoid the threat of new entrants



3. Rivalry Between Established Competitors

- ▶ Industrial rivalry occurs because one or more organizations within an industry strive to improve its position
- ▶ Concentration Ratio (CR)
 - The percentage of the market that is held by a selected number of largest organizations
- ▶ Excess Capacity
 - The gap between production capacity and the demand for products and services.
 - Unused capacity drives organizations to cut prices to generate cash flow to pay staff, expenses, tax and debt obligations
- ▶ Barriers to Exit
 - Costs associated with leaving any industry

Methods of Rivalry Among Competitors

Similar product, service or value to your market
(Ford vs. GM)

Direct Competition

Indirect Competition

Potential Competitors

Compete for same customers, but offer different functionality
(Tea vs. coffee, margarine vs. butter)

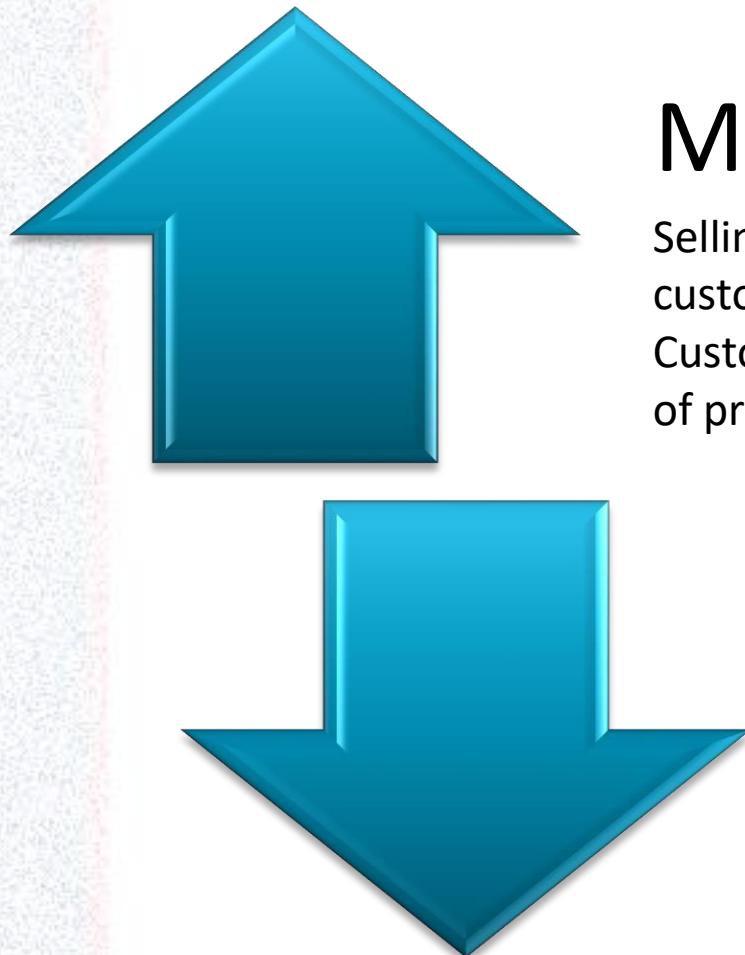
Substitutes

Competition for markets with dissimilar products or services
(Pizza shop competes with fried chicken shop)

Ability to overcome entry barriers and develop synergies with your industry
(Microsoft/Nokia smart phones)

4. Bargaining Power of Customers

Organizations Deal with Two Types of Markets:



Markets for Outputs

Selling goods or services to customers (distributors, customers or other manufacturers)

Customers' influence dependent upon importance of products to them & their bargaining power

Markets for Inputs

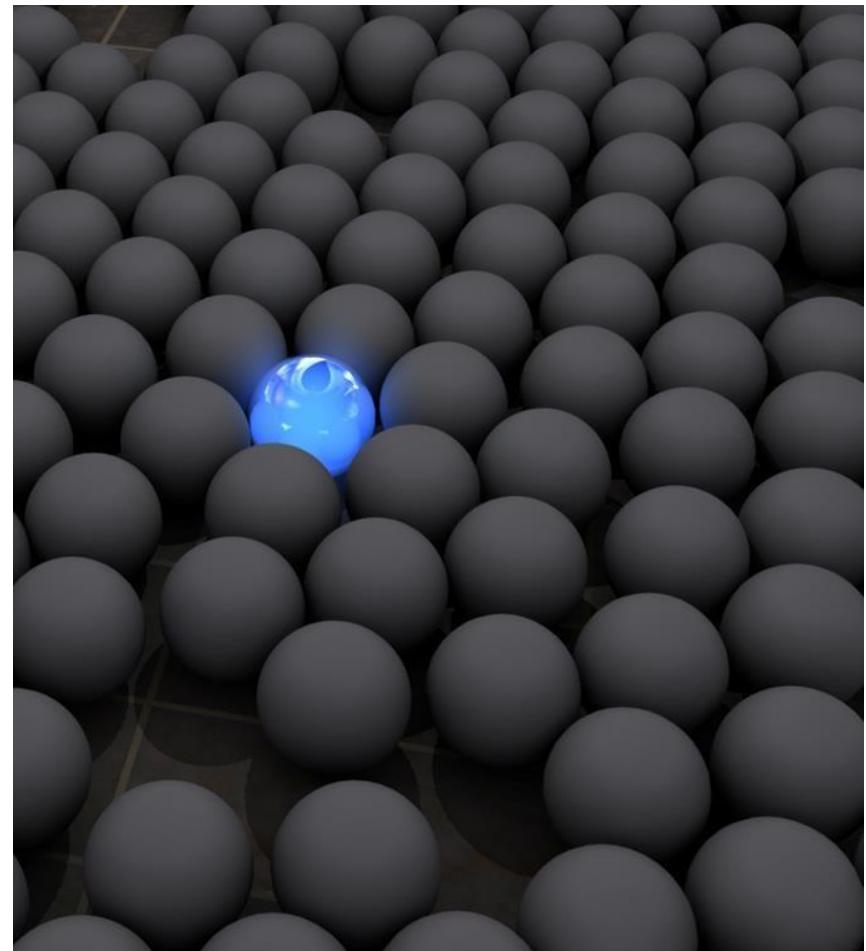
Purchasing raw materials, components and financial & labor services.

5. Bargaining Power of Suppliers

- ▶ The power balance between organization and supplier is similar to the relationship between organization and customer
- ▶ The organization becomes the customer and the producer of the inputs it requires are the suppliers
- ▶ Some small groups of suppliers may form cartels or cooperatives to increase their bargaining strength
- ▶ Suppliers use leverage such as threats to raise prices or reduce quantity or quality of goods they supply

Resource Based Theory

Competitive Advantage is gained through control of resources that are rare, non-tradable, non-substitutable, valued by the market, and difficult or impossible to imitate



VRIO Framework

- ▶ A tool used to analyze an organization's internal resources and capabilities to discover if they can be a source of sustained competitive advantage
- ▶ VRIO analysis considers the following elements of resources:
 - **Valuable**: Is the firm able to exploit an opportunity or neutralize an external threat with the resource/capability?
 - **Rare**: Is control of the resource/capability in the hands of a relative few?
 - **Imitability**: Is it difficult to imitate, and will there be significant cost disadvantage to a firm trying to obtain, develop, or duplicate the resource/capability?
 - **Organization**: Is the firm organized, ready, and able to exploit the resource/capability?

Resources of the Company



Value Chain Analysis

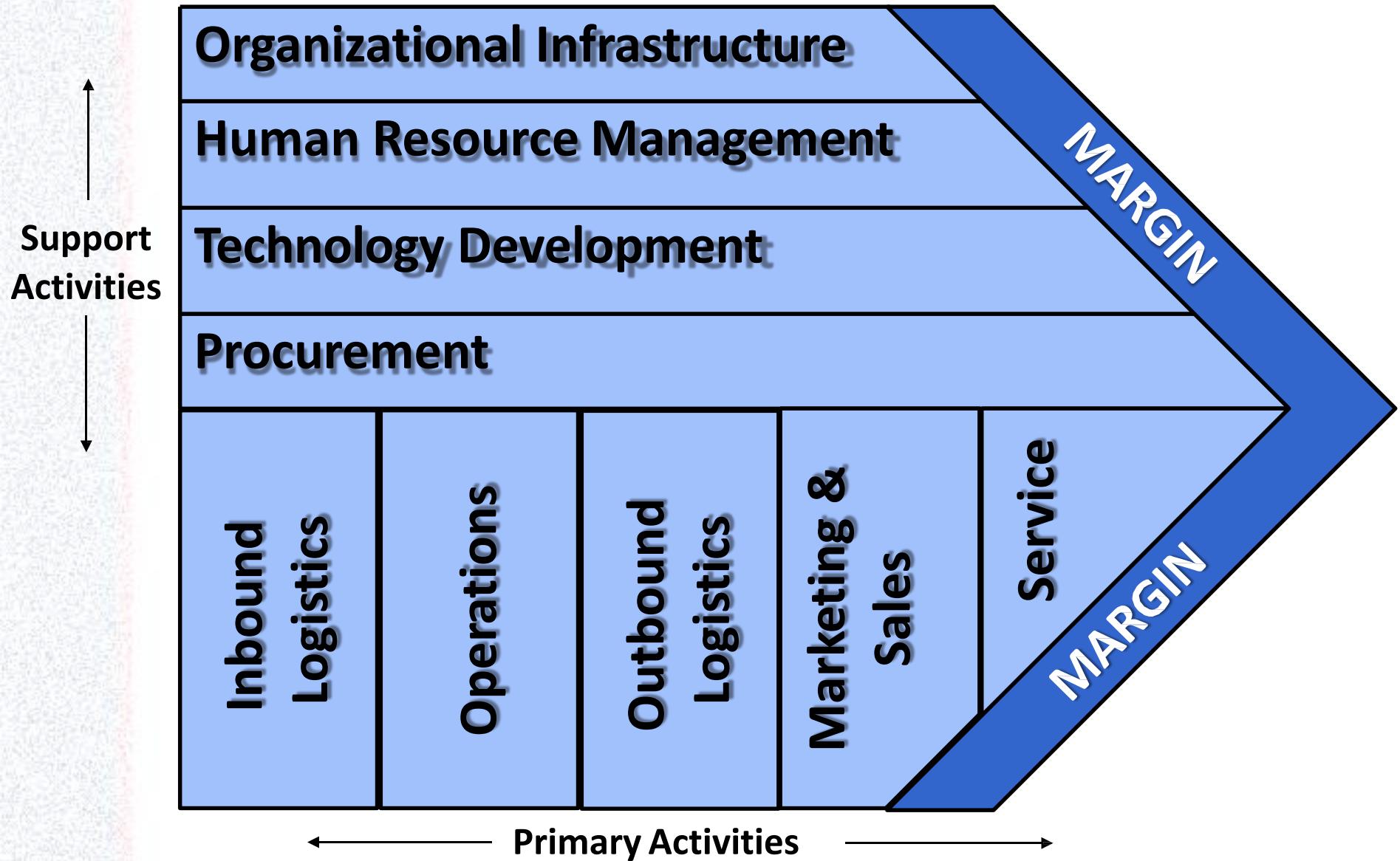
- ▶ Value chain is a template that identifies the activities of a company from raw materials to customer, the value added by each activity and the cost of each activity, and that facilitates implementation of business-level strategyGrant
- ▶ Interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantageBusiness Dictionary
- ▶ A high-level model of how businesses receive raw materials as input, add value to the raw materials through various processes, and sell finished products to customersInvestopedia

Value Chain Primary and Support Activities

- ▶ Primary activities are actions directly associated with production, delivery, sales, and service:
 - Inbound logistics
 - Operations
 - Outbound logistics
- ▶ Support activities are actions that enable primary activities to take place, including:
 - Human Resource Management
 - Procurement
 - Technology development
 - Support of infrastructure



Porter's Value Chain



Differentiation and Segmentation

Segmentation

- Where a company competes in terms of customer groups, localities, product types
- A partitioned market according to characteristics of customers and their demand
- A feature driven by market structure not company strategic choice

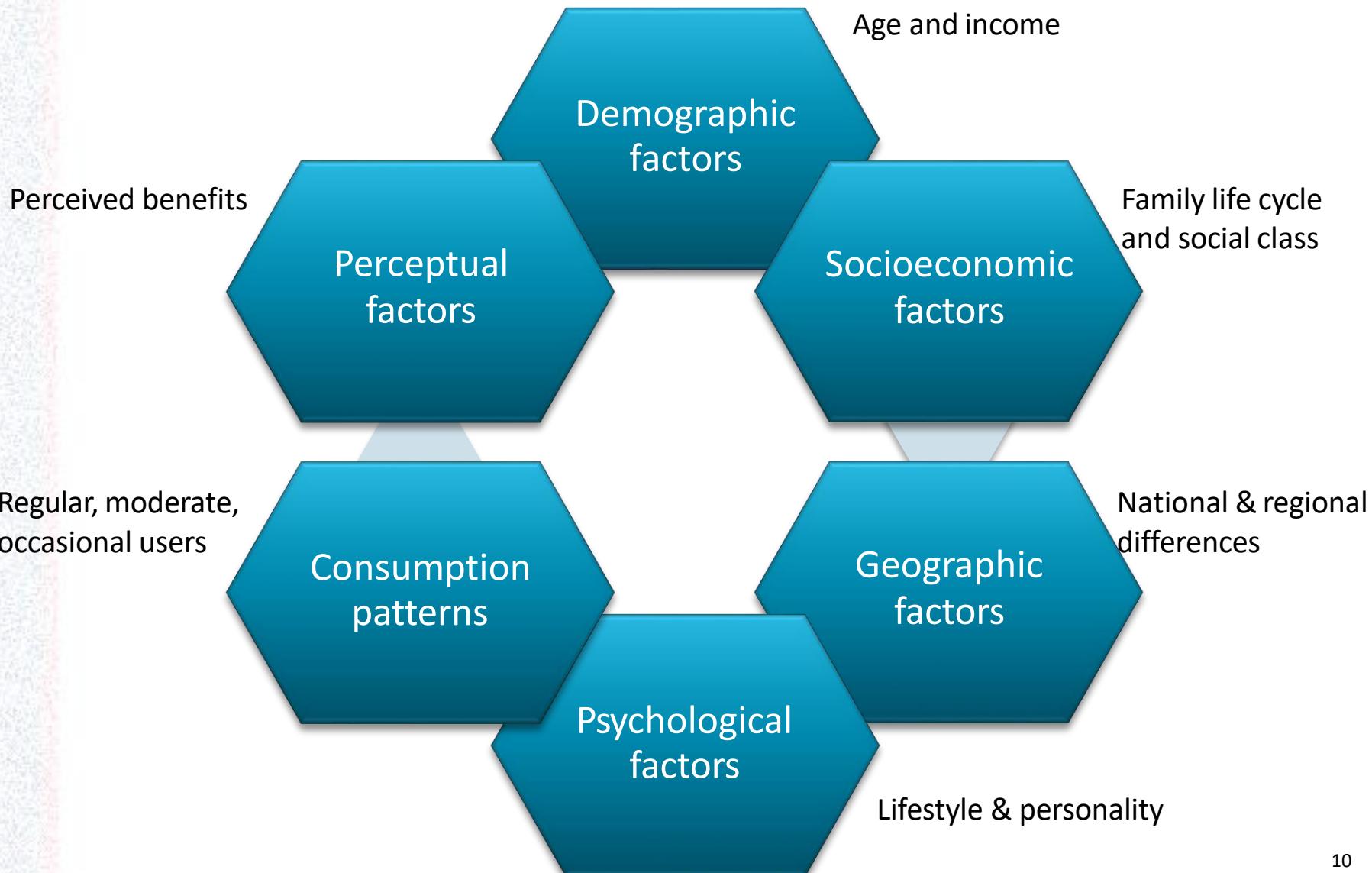
Differentiation

- How a company competes
- Ways it offers uniqueness to customers
- Uniqueness includes consistency, reliability, status, quality, innovation
- Strategic choice by a company

Product/Service Offerings

- ▶ Market Segmentation is the process that divides people with similar needs into identifiable groups
- ▶ Market Segments are the groups of customers with similar criteria for buying decisions and/or similar buying behaviors
- ▶ Positioning is the process of focusing an organization's business system to satisfy certain needs of a targeted market segment of customers to distinguish the organization from its competitors. This may be done by:
 - Price
 - Product features
 - Quality
 - Availability
 - Image
 - Bundling

Factors of Market Segmentation



Differentiation and Competitive Advantage

- ▶ Differentiation: creating an observable difference between products, services, and the way in which a business operates, relative to competitors
 - Service or quality
 - Customization ability
 - Delivery, training, maintenance
- ▶ Competitive advantage: a characteristic, feature or opportunity that an organization possesses that will make it more attractive than its competitors
 - Low price producer
 - Added value features more attractive to customers

Corporate-Level Strategy & Scope

- ▶ Corporate-level strategy is about how and where a company, as a whole, competes.
- ▶ The scope of a business encompasses everything about it, such as products and their requirements and features. The scope also defines what is and what is not important to a business so that all resources are devoted to making the business grow and be successful.



Diversification Strategy

- ▶ A company's decision to expand its operations by adding new products and services, markets or stages of production to the existing business.
- ▶ The purpose of diversification is to allow the company to enter lines of business that are different from current operations.
- ▶ Examples of diversification:
 - McDonalds opens McCafe to introduce new products
 - GE diversifies into aircraft engines, medical imaging equipment, generators, nuclear reactors, finance
 - Virgin Group UK diversifies into Virgin cola, Virgin airlines, Virgin megastores, Virgin telecommunications

Types of Diversification

Related
(Concentric)

- Business expansion based on common core of company's existing resources & capabilities
- Increases synergy due to increased value & economies of scale

Unrelated
(Conglomerate)

- Improve profitability & lowers risk
- Occurs when there is no strategic fit or relationship between the new and old lines of business
- Similar to a business portfolio

Diversification and Performance

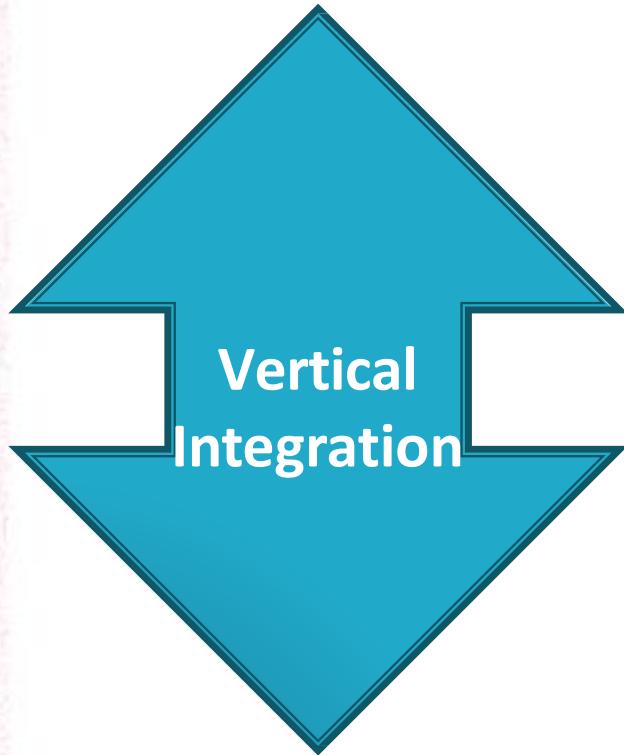
▶ Economies of Scope

- Economies of Scope exist whenever there are cost savings from using a resource in multiple activities carried out in combination rather than independently
- Economies of scope are cost economies from increasing output across multiple products
- Economies of scale are cost economies from increasing output of a single product

▶ Example of Economy of Scope:

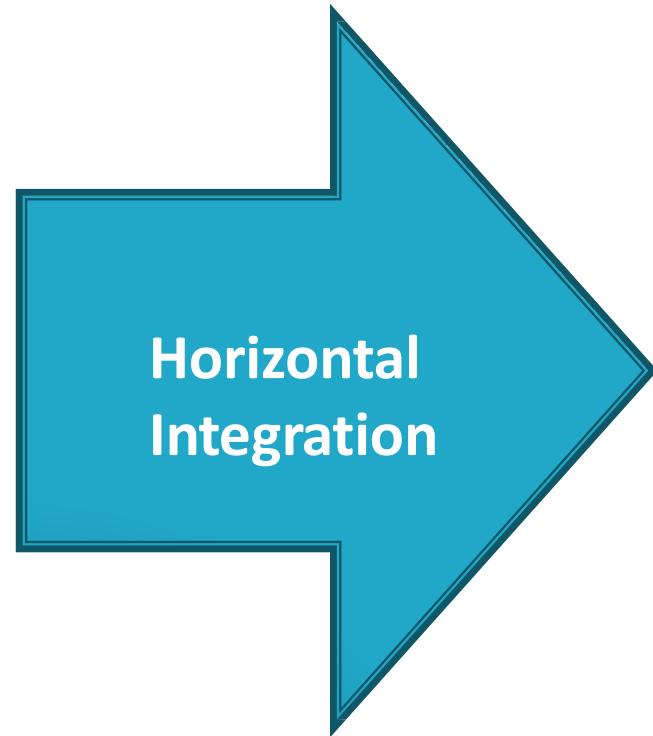
- Proctor & Gamble, which produces hundreds of products from razors to toothpaste. They can afford to hire expensive graphic designers and marketing experts who will use their skills across the product lines. Because the costs are spread out, this lowers the average total cost of production for each product.

Integration Strategy



Integration up or down a supply chain through which a company will control the production & distribution of products

Example: Ford Motor Company begins to manufacture glass for automobiles, eliminating buying from supplier



Expansion or addition of business activities at the same level of the value chain.

Example: a company may decide to pursue new customers, new products & new geographic locations through merger and acquisition

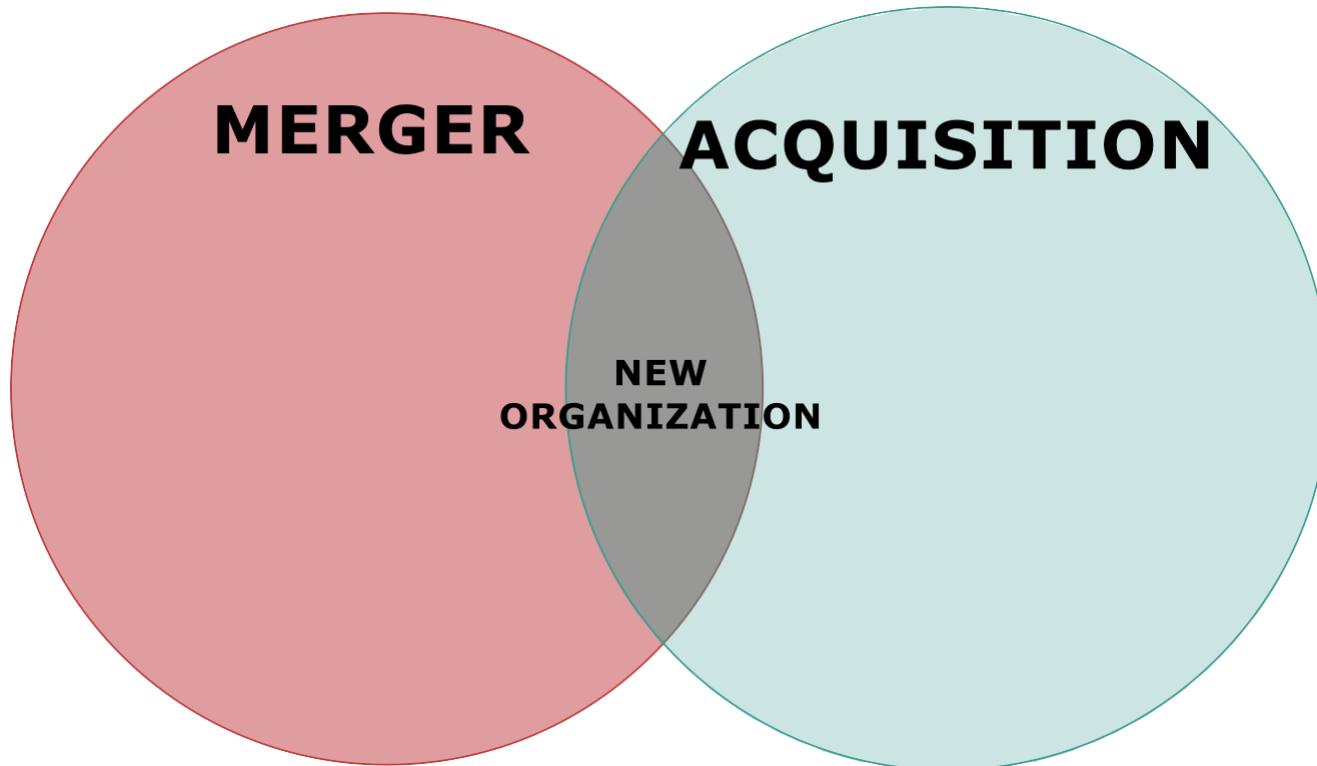
Types of Vertical Integration

- ▶ Backward
 - The company takes over ownership and control of producing its own components or other inputs. (KFC buys Dixie Cup Company)
- ▶ Forward
 - The company takes over ownership and control of activities previously undertaken by its customers. (GM acquires 25% of its independent dealerships)
- ▶ Full vertical integration
 - Everything the organization produces passes through the vertical integrated business unit
- ▶ Partial vertical integration
 - Only a portion of the overall production passes through the vertical integrated business unit and the rest through external market channels

Horizontal Integration

- ▶ Attractive to organizations wishing to rapidly expand their markets through acquisitions
- ▶ Drawbacks to horizontal integration include:
 - Organization will have a larger investment in the same market and so will be more exposed to risks of that market
 - In some industries, horizontal integration opportunities may be limited by regulation
 - In some industries, the traditional practices, policies, procedures and cultures of businesses acquired may be difficult to integrate

Mergers and Acquisitions



A merger is a combination of two companies into a bigger company. Both companies' stocks are surrendered and new company stock is issued in its place

An acquisition, also known as a takeover or a buyout, is the purchase of one company by another. An acquisition may be friendly or hostile.

Types of Acquisitions

Share Acquisition

Buyer acquires a controlling number of shares, and takes control of the target company.

Asset Acquisition

Buyer purchases the assets of the target company. The cash the target receives from the sell-off is paid back to its shareholders

Turnaround and Retrenchment Strategies

▶ Turnaround Strategy

- The plan and effort to return an underperforming company to acceptable levels of profitability and long-term growth
- A well-designed turnaround strategy involves refining strategic objectives, reducing costs and restructuring organizational process

▶ Retrenchment Strategy

- A corporate-level strategy that seeks to reduce the size or diversity of an organization's operations
- Typically, this involves removing costs, restructuring finances and redefining strategic objectives.

Turnaround & Retrenchment Activities

Company may contract (labor, marketing, promotion) or, consolidate by closing unprofitable businesses

Restructuring

Divestment

Become an exclusive supplier to a giant company.

Tie to a Large Company

Eliminating a portion of the business via sell off, closure or spin-off

Liquidation

Close business & sell off all assets

Global Strategic Management

- ▶ Globalization is the integration of domestic markets and economies into single worldwide markets and the spread of business operations across large numbers of countries
- ▶ Global businesses are usually large businesses located in many countries or regions and operating with a global outlook.
- ▶ Offshoring is transferring specific operations to another country

Benefits of Global Strategy

Increased customer base results in more diversification of products and more growth

Use global resources to gain competitive advantage in individual national markets

Learning occurs more rapidly when operating in different country environments

Primary driver of globalization

World market production can achieve large scale economies in product development, operations and marketing

Benefits of
Global Business
Strategy

Biggest cost benefits result from replication of knowledge

Leveraging resource and knowledge opportunities

Glocalization

▶ Glocalization

- Occurs when an organization with a strong global image maintains an equally strong local identity. Commonly seen in Transnational Corporations.

▶ Global Integration

- Emphasizes consistency of approach, standardization of processes and a common corporate culture across global operations.
- Decisions are made from a global perspective so the organization's brand and image are consistent and uniform.

▶ Local Responsiveness

- Emphasizes adapting to the needs of local markets and allows subsidiaries to develop unique products, structures and systems.

Stages of Internationalization

Selling products or services directly to customers or indirectly through agents, distributors, or trading companies

Exporting

Licensing
or
Franchising

Establishing a company's own facility with direct supervision. High cost and risk of overseas subsidiary

Foreign
Direct
Investment

Joint
Venture

Contractual arrangements that gives rights to operate under another's trademark

Partnering a project with an existing overseas business to gain entry into a foreign market

Structured Foreign Market Entry Approach

Assess the product in relation to the markets

Choose the right product for the right market

Set up objectives and goals utilizing sales targets and growth expectations

Root's Structured Entry Approach

Design the marketing plan, including issues of price, promotion and distribution

Choose the entry mode (export, licensing, direct investment, joint venture)

Global Business Structures

Organization clones itself & sets up replicas in different countries.
e.g. Philips locates medical electronics in U.S. and Japan

Multi-domestic

Multinational

Transnational

Global

A corporation with extensive ties in international operations in more than one foreign country. Examples are General Electric, Exxon, WalMart, Mitsubishi, Daimler Chrysler, etc...

An MNC that operates worldwide without being identified with a national home base. It is said to operate on a border less basis. Example: Nestle

Balancing global integration and national differentiation , setting up a global network of activities. e. g. P&G adopts global standardization (Pringles & Perfumes) and national differentiation for others products (hair coloring & laundry detergents)

Selected Strategy Management Tools

Competitive Profile Matrix (CPM)

Definition

The **Competitive Profile Matrix (CPM)** is a tool that compares the firm and its rivals and reveals their relative strengths and weaknesses



Understanding the tool

In order to better understand the external environment and the competition in a particular industry, firms often use CPM. The matrix identifies a firm's key competitors and compares them using industry's critical success factors. The analysis also reveals company's relative strengths and weaknesses against its competitors, so a company would know, which areas it should improve and, which areas to protect. An example of a matrix is demonstrated below.

Competitive Profile Matrix (CPM)

Example

This is competitive profile matrix example of smartphones operating systems. The main competitors: Google's Android OS, Apple's iOS and Microsoft's Windows Phone operating systems will be compared to each other to find out their relative strengths and weaknesses.



Competitive Profile Matrix		hp		lenovo FOR THOSE WHO DO.		DELL	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
Advertising	0.11	3	0.33	3	0.33	4	0.44
Product Quality	0.17	4	0.68	3	0.51	2	0.34
Price competition	0.21	4	0.84	4	0.84	4	0.84
Management	0.09	3	0.27	3	0.27	4	0.36
Financial position	0.15	3	0.45	3	0.45	2	0.3
Market Share	0.14	3	0.42	4	0.56	2	0.28
Global Expansion	0.13	4	0.52	3	0.39	2	0.26
	1.00		3.51		3.35		2.82



External Factor Evaluation (EFE) Matrix

Definition

External Factor Evaluation (EFE) Matrix is a strategy tool used to examine company's external environment and to identify the available opportunities and threats.



Understanding the tool

EFE matrix. Do the [PEST analysis](#) first. The information from the PEST analysis reveals which factors currently affect or may affect the company in the future. At this point, the factors can be either opportunities or threats and your next task is to sort them into one or the other category. Try to look at which factors could benefit the company and which ones would harm it.

You should also analyze your competitors' actions and their strategies. This way you would know what competitors are doing right and what their strategies lack.

External Factor Evaluation (EFE) Matrix

Example

Below is the example of EFE matrix to address the strategic view on growth of the PC Market.

External Factors Evaluation Matrix								
Opportunities	W	R	WS	Threats	W	R	WS	
Accelerating growth of the PC market due to diversification and growth of computer buyer demographics	0.14	3	0.42	Fierce price and market share competition among computer manufacturers	0.15	3	0.45	
Integration of portable electronics into the lifestyle of urban people (fashionability)	0.12	3	0.36	Surplus of cheaper PCs and computer parts in the global market leading to lower profit margins	0.10	2	0.20	
Growing preference of the Unix workstation among IT professionals	0.03	3	0.09	Introduction of direct-sales approach and JIT delivery by Dell	0.10	3	0.30	
The rise of the laptop's popularity	0.08	3	0.24	Acquisition of Compaq by HP in 2002, making it the largest company in the industry	0.06	1	0.06	
Growing frustration with the Microsoft mono-culture and incessant worm and virus threats	0.07	4	0.28	Introduction of environmental regulations on financial responsibility of companies for recycling and disposal of used products.	0.10	3	0.30	
Continuous improvement of human-computer interfaces	0.05	4	0.20					
TOTAL (O+T)					1.00			2.90

Internal Factor Evaluation (IFE) Matrix

Internal Factor Evaluation (IFE) Matrix is a strategy tool used to evaluate firm's internal environment and to reveal its strengths as well as weaknesses



Understanding the tool

IFE matrix. In case you have done a [SWOT analysis](#) already, you can gather some of the factors from there.

The SWOT analysis will usually have no more than 10 strengths and weaknesses, so you'll have to do additional analysis to identify more key internal factors for the matrix.

Look again into the company's resources, capabilities, organizational structure, culture, functional areas and value chain analysis and recognize the strong and weak points of the organization.

Internal Factor Evaluation (IFE) Matrix

(IFE) Cont....

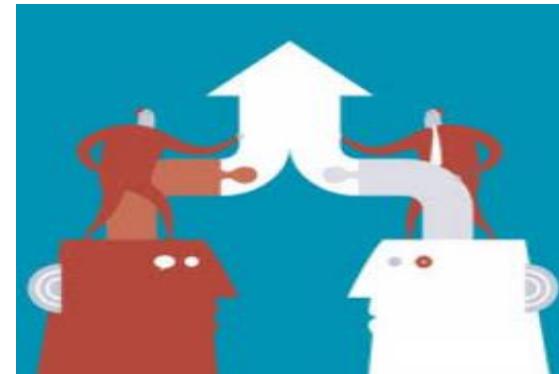


Key Internal Factors	Weight	Rate 1 – 4	Weighted Score
Weaknesses			to
1. High price	0.08	2	0.16
2. Image of 'Fried'	0.07	3	0.21
3. Only chicken related recipe	0.09	2	0.18
4. Most of the product having close substitution in market	0.07	2	0.14
5. Inconsistent Quality of service in many outlets.	0.08	3	0.24
6. Lack of control in Joint-venture arrangements.	0.06	2	0.12
TOTAL	1.00		2.78

Internal-External (IE) Matrix

Definition

The Internal-External (IE) matrix is another strategic management tool used to analyze working conditions and strategic position of a business. The Internal External Matrix or short IE matrix is based on an analysis of internal and external business factors which are combined into one suggestive model.



Understanding the tool

The IE matrix belongs to the group of strategic portfolio management tools. In a similar manner like the [BCG matrix](#), the IE matrix positions an organization into a nine cell matrix.

The IE matrix is based on the following two criteria:

1. Score from the EFE matrix -- this score is plotted on the **y-axis**
2. Score from the IFE matrix -- plotted on the **x-axis**

The IE matrix works in a way that you plot the total weighted score from the EFE matrix on the **y** axis and draw a horizontal line across the plane. Then you take the score calculated in the IFE matrix, plot it on the **x** axis, and draw a vertical line across the plane. The point where your horizontal line meets your vertical line is the determinant of your strategy. This point shows the strategy that your company should follow. On the **x** axis of the IE Matrix, an IFE total weighted score of 1.0 to 1.99 represents a weak internal position. A score of 2.0 to 2.99 is considered average. A score of 3.0 to 4.0 is strong. On the **y** axis, an EFE total weighted score of 1.0 to 1.99 is considered low. A score of 2.0 to 2.99 is medium. A score of 3.0 to 4.0 is high.

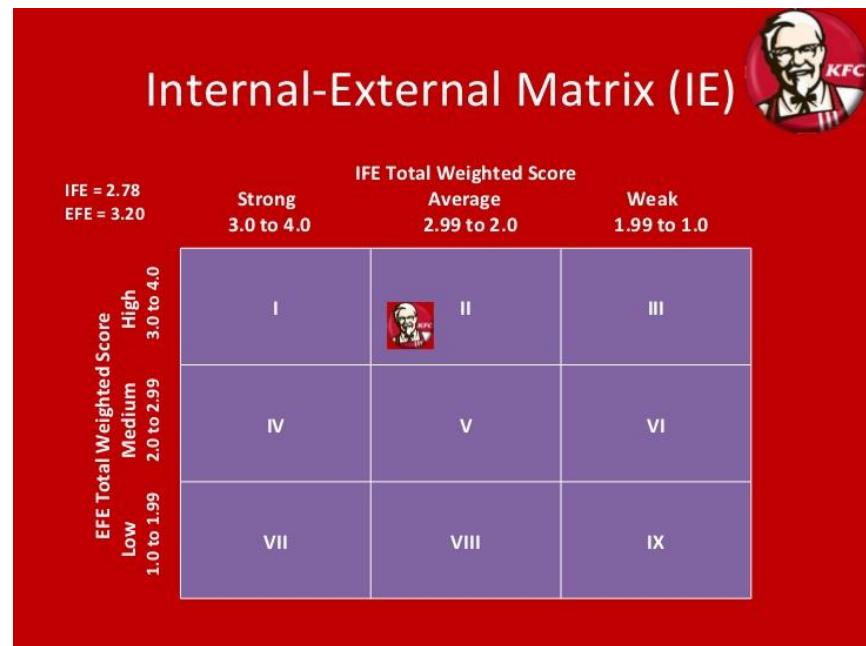
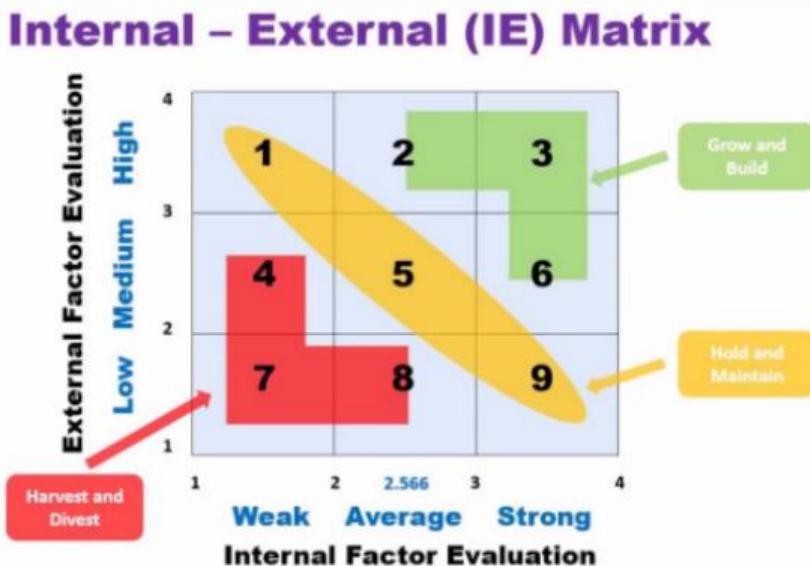
Internal-External (IE) Matrix

IE matrix example...

Let us take a look at an example. We calculated IFE matrix for an anonymous company on the [IFE matrix](#) page. The total weighted score calculated on this page is 2.79 which points at a company with an above-average internal strength.

We also calculated the EFE matrix for the same company on the [EFE matrix](#) page. The total weighted score calculated for the EFE matrix is 2.46 which suggests a slightly less than average ability to respond to external factors.

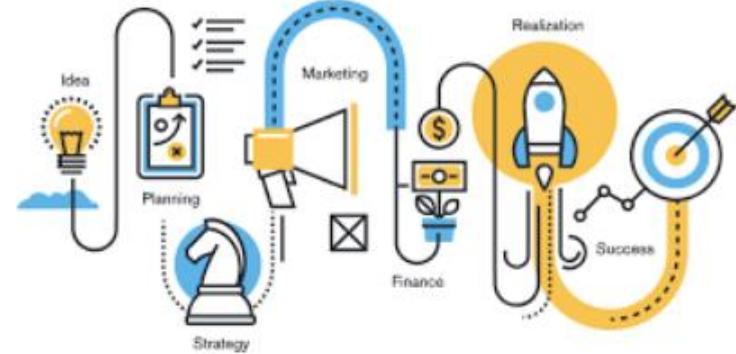
Now we plot these values on axes in the IE matrix.



Growth Share Matrix / BCG Matrix

Definition

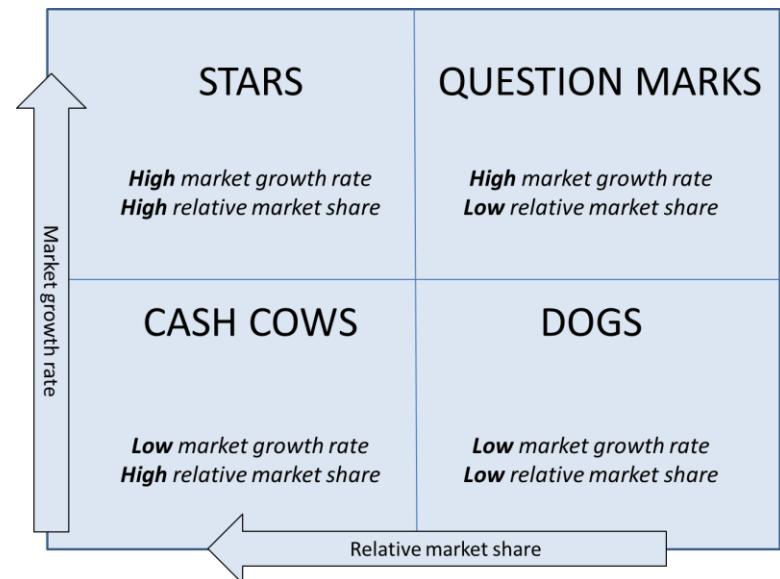
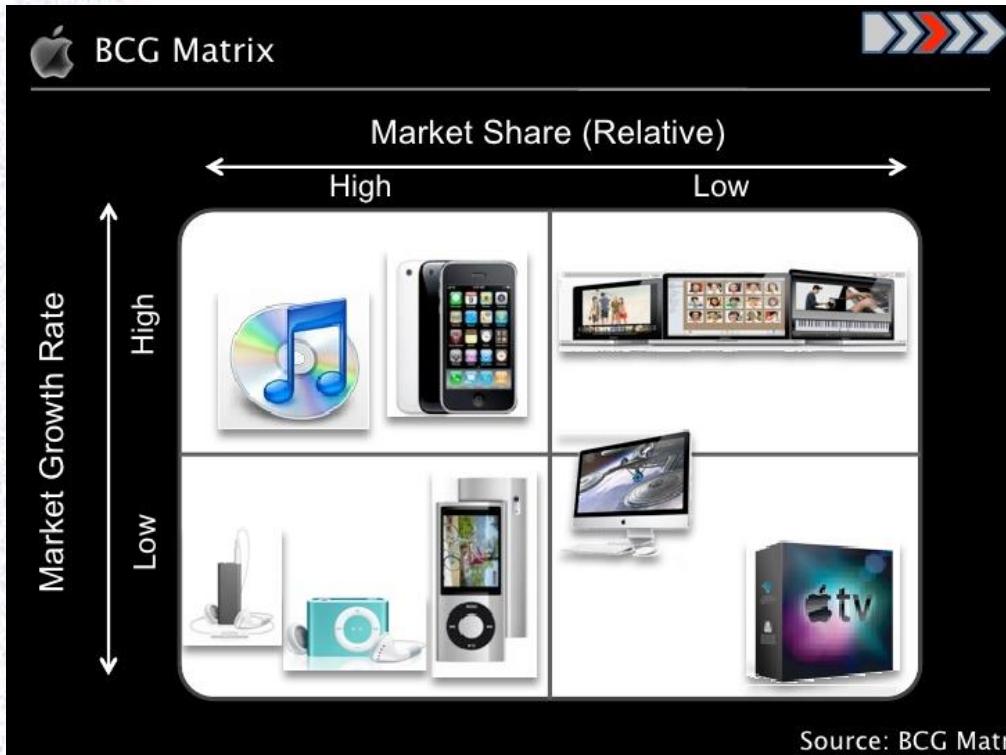
A framework to help companies think about the priority (and resources) that they should give to their different businesses



Understanding the tool

The growth share matrix is a framework first developed by the Boston Consulting Group (BCG) in the 1960s to help companies think about the priority (and resources) that they should give to their different businesses. Also known as the Boston matrix, it puts each of a firm's businesses into one of four categories. The categories were all given memorable names—cash cow, star, dog and question mark—which helped to push them into the collective consciousness of managers all over the world.

Growth Share Matrix / BCG Matrix



Strategic Position and Action Evaluation (SPACE) Matrix,

Definition

The Strategic Position and Action Evaluation (SPACE) Matrix The SPACE matrix is just a little bit more complex than the SWOT analysis. The SPACE matrix evaluates different variables and assigns them a score considering how important they are for the situation of the company.



Understanding the tool

The **SPACE matrix** is a management tool used to analyze a company. ... The Strategic Position & Action Evaluation **matrix** or short a **SPACE matrix** is a strategic management tool that focuses on strategy formulation especially as related to the competitive position of an organization.

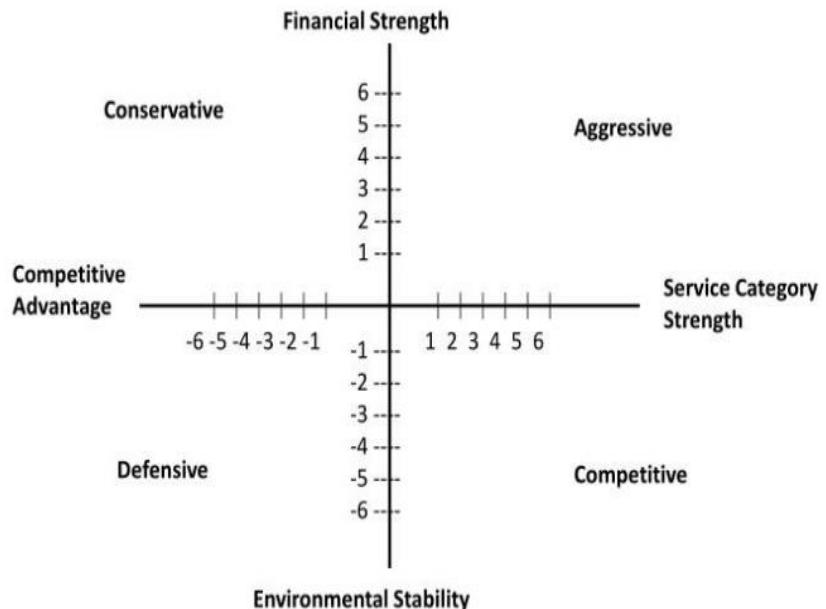
Strategic Position and Action Evaluation (SPACE) Matrix,

SPACE SPACE MATRIX



Financial Strength	
Nestle's net sales increased by 20% in 2009 as compared to 2008	3
Net profit increased by 94% in 2009 as compared to 2008	5
Debt equity ratio changes from 63.37 to 66.34	3
Price earnings ratio in 2009 was 18.8 as compared to 2008 38.9	5
Return on capital employed increases by 40%	4
Average financial strength	4
Industry Strength	
Increase in consumer food industry by 14%	5
All companies contribute only 6% to processed milk market	4
Market segment growth has attracted new entrants to increase profit potential	5
Due to ease of entry in market, Engro foods, Shezand foods and Shakarganj are properly utilizing their resources	4
Average Industry Strength	4.5
Competitive Advantage	
Nestle enjoys strong customer loyalty	-2
Quality product distribution networks in country	-1
Nestle extended product life cycle is being ensured due to quality brand extension strategy	-2
Nestle products are market leaders in many product categories	-2
Average competitive advantage	-1.75
Environmental Stability	
Economic slowdown can reduce the demand	-2
Fluctuating rate of inflation in the country	-2
Price range of competing products	-1
Average Environmental Stability	-1.75

Exhibit 7 – 9: Strategic Position and Action Evaluation (SPACE) Matrix p. 284



Grand Strategy Matrix,

Definition

A grand strategy states the means that will be used to achieve long-term objectives. Examples of business grand strategies that can be customized for a specific firm include: concentration, market development, product development, innovation, horizontal integration, divestiture, and liquidation.



Understanding the tool

A grand strategy matrix consists of a four-quadrant graph, similar to a SWOT matrix, that lists strategic options for companies in either strong or weak competitive positions in industries experiencing either rapid or slow growth. Unlike a SWOT matrix, a grand strategy matrix reveals strategic options for virtually any business in a given industry within any stage of the industry's life cycle. In the quadrant corresponding to slow industry growth and a strong competitive position

Grand Strategy Matrix



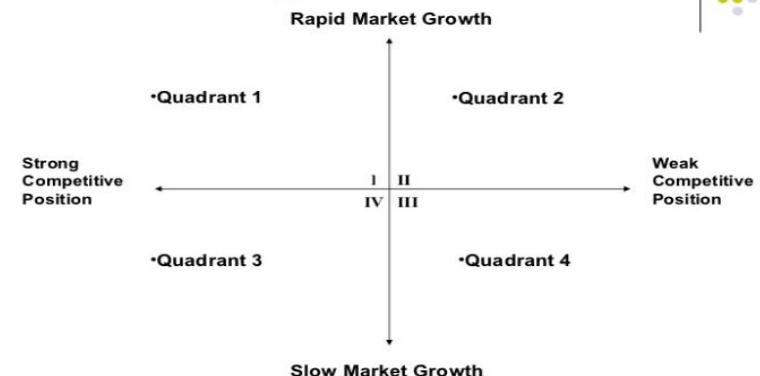
Grand Strategy Matrix

Rapid Market Growth

Quadrant II		Quadrant I	
Weak Competitive Position	Market Development	Market Development	Strong Competitive Position
	Market penetration	Market penetration	
	Product development	Product development	
	Horizontal integration	Forward integration	
	Divestiture	Backward integration	
	Liquidation	Horizontal integration	
		Concentric diversification	
			Strong Competitive Position
Quadrant III		Quadrant IV	
Retrenchment	Concentric diversification	Concentric diversification	
Concentric diversification	Horizontal diversification	Horizontal diversification	
Horizontal diversification	Conglomerate diversification	Conglomerate diversification	
Conglomerate diversification	Joint ventures	Joint ventures	
Liquidation			

Slow Market Growth

Grand Strategy Matrix



Quantitative Strategic Planning Matrix (QSPM)

Definition

The Quantitative Strategic Planning Matrix is a strategic tool which is used to evaluate alternative set of strategies. The QSPM incorporate earlier stage details in an organize way to calculate the score of multiple strategies in order to find the best match strategy for the organization.



Understanding the tool

Quantitative Strategic Planning **Matrix (QSPM)** is a high-level strategic management approach for evaluating possible strategies.

- **QSPM** provides an analytical method for comparing feasible alternative actions.
- The **QSPM** method falls within so-called stage 3 of the strategy formulation analytical framework.

Quantitative Strategic Planning Matrix (QSPM)

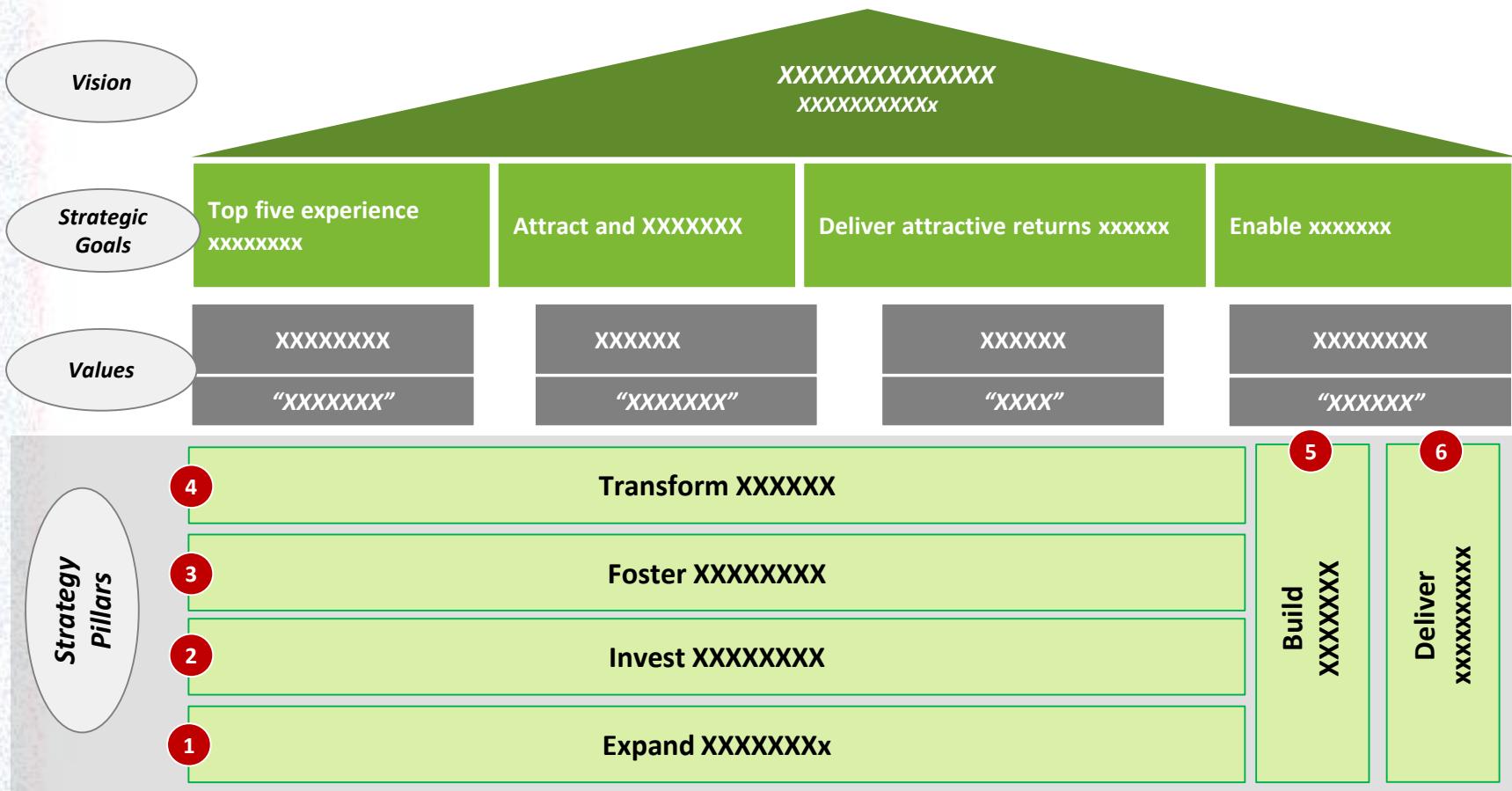
NETFLIX

QSPM

	Opportunities	Weight	Increase advertising and R&D budgets by 15%		Expand by 15% into Latin America, Mexico, and China	
			A.S.	T.A.S.	A.S.	T.A.S.
1.	147 million people in the United States watch online videos.	0.08	3	0.24	1	0.08
2.	Digital distribution of media is growing at a rate of 30% a year.	0.06	4	0.24	3	0.18
3.	International markets account for over 50% of spending in US filmed entertainment.	0.07	1	0.07	4	0.28
4.	US TV market accounts for less than 15% of the world's TV households.	0.05	2	0.10	4	0.20
5.	China's box office annual growth rate continues to grow over 10% a year.	0.02	1	0.02	4	0.08
6.	Rivals such as Blockbuster are struggling with their business models.	0.04	1	0.04	2	0.08
7.	Consumers spent over \$20 billion on home video purchases in 2010	0.05	2	0.10	3	0.15
8.	More people know English now than ever before.	0.03	1	0.03	3	0.09
9.	High price of an outing at the movie theater.	0.04	3	0.12	2	0.08
10.	Weak US Dollar makes global markets more attractive.	0.03	1	0.03	3	0.09
Threats		Weight	A.S.	T.A.S.	A.S.	T.A.S.
1.	Poor global economy has reduced personal spending.	0.04	2	0.08	1	0.04
2.	YouTube owns over 75% of the multimedia web market share.	0.10	0	0.00	0	0.00
3.	Time Warner Cable's movies on demand.	0.08	3	0.24	1	0.08
4.	Hulu, and ad based streamer, provides TV shows and movies for free.	0.10	0	0.00	0	0.00
5.	DVRs are in 40% of US homes as of 2011.	0.03	3	0.09	1	0.03
6.	Barriers to entry are low as startups can be launched for relatively low costs.	0.05	0	0.00	0	0.00
7.	By law, Netflix cannot release new DVDs until 28 days after retail release.	0.03	0	0.00	0	0.00
8.	Increase in US postage fees would reduce profit margins.	0.03	0	0.00	0	0.00
9.	Infringements on Netflix patents, and other proprietary assets by decrease Netflix brand value.	0.04	0	0.00	0	0.00
10.	Netflix is the object of complaints regarding collusion with Wal-Mart.	0.03	0	0.00	0	0.00

Strategy Exercise Template

Company XXX Strategy House 2020-2023



Strategic Pillar & Projects

Pillar	2020 Programs	2021 Programs	20214 Programs
XXXX	XXXXXX	XXXXXXX	XXXXXX
XXXXX	XXXXXX	XXXXXX	XXXXXX
XXXX	XXXXXX	XXXXXX	XXXXXX
XXXXX	XXXX	XXXXXX	XXXXXX
XXXXX	XXXX	XXXXXX	XXXXXX
XXXXX	XXXXXX	XXXXXX	XXXXXX
XXXXX	XXXXXX	XXXXXXXX	XXXXXX
XXXXX	XXXXXX	XXXXXXX	XXXXXX

Project Charter Template

Owner

XXXXX

Objectives

XXXXXXXX

Budget

- XXXXXXXX

Impact

- XXXXXX

Detailed Activities of the Initiative

- XXXXXXXX.

Implementation Challenges

- XXXXXXXX

Mitigation Plan

- XXXXXXXX

Program
Owner

XXXXX

Initiative
Owner

▪XXXXX

Strategy
SPOC

XXXXXX

CPMO
SPOC

XXXXX

BP
SPOC

XXXX

Project Timeline – Milestones & Task Deliverables

Detailed Project Plan – Key Milestones with Activities										
Activities/Tasks	Q2			Q3			Q4			Timelines
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
XXXXXX										
XXXXXXX										
XXXXXXX										
XXXXXXX										

Program Owner	XXXXXX	Initiative Owner	▪XXXXXX
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STRATEGIC & EXECUTION

The Balanced Scorecard: Measures That Drive Performance

Robert S. Kaplan and David P. Norton
July–August 2005



[Read the Full Article](#)



[The Explainer: Video
The Balanced Scorecard](#)



[Graphic
Managing Strategy: Four Processes](#)

Frustrated by the inadequacies of traditional performance measurement systems, some managers have abandoned financial measures such as return on equity and earnings per share. “Make operational improvements and the numbers will follow,” the argument goes. But managers do not want to choose between financial and operational measures. Executives want a balanced presentation of measures that allow them to view the company from several perspectives simultaneously.

During a yearlong research project with 12 companies at the leading edge of performance measurement, the authors developed a “balanced scorecard”—a new performance measurement system that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken. And it complements those financial measures with three sets of operational measures having to do with customer satisfaction, internal processes, and the organization’s ability to learn and improve—the activities that drive future financial performance.

Managers can create a balanced scorecard by translating their company’s strategy and mission statements into specific goals and measures. To create the part of the scorecard that focuses on the customer

perspective, for example, executives at Electronic Circuits Inc. established general goals for customer performance: get standard products to market sooner, improve customers’ time to market, become customers’ supplier of choice through partnerships, and develop innovative products tailored to customer needs. Managers translated these elements of strategy into four specific goals and identified a measure for each.

The Explainer: The Balanced Scorecard

Robert S. Kaplan and David P. Norton's seminal framework — in under three minutes.



Blue Ocean Strategy

W. Chan Kim and Renée Mauborgne
October 2004



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Graphic
[The Simultaneous Pursuit of Differentiation and Low Cost](#)



Book
[Understanding Michael Porter: The Essential Guide to Competition and Strategy](#)



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[Blue Ocean Strategy](#)



Related Article
[Red Ocean Traps](#)

Despite a long-term decline in the circus industry, Cirque du Soleil profitably increased revenue 22-fold over a 10-year period by reinventing the circus. Rather than competing within the confines of the existing industry or trying to steal customers from rivals, Cirque developed uncontested market space that made the competition irrelevant.

Cirque created what the authors call a blue ocean—a previously unknown market space. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In red oceans—that is, in all the industries already existing—companies compete by grabbing for a greater share of limited demand. As the market space gets more crowded, the prospects for profits and growth decline. Products turn into commodities, and increasing competition turns the water bloody.

There are two ways to create blue oceans. One is to launch a completely new industry, as eBay did with online auctions. But it's much more common for a blue ocean to be created from within a red ocean when a company expands the boundaries of an existing industry.

In studying more than 150 blue ocean creations in more than 30 industries, the authors observed that the traditional units of strategic analysis—company and industry—are of limited use in explaining how and

why blue oceans are created. The most appropriate unit of analysis is the strategic move: the managerial actions and decisions involved in making a major market-creating business offering.

Creating blue oceans builds brands. So powerful is blue ocean strategy, in fact, that a blue ocean strategic move can create brand equity that lasts for decades.

Can You Say What Your Strategy Is?

David J. Collis and Michael G. Rukstad
April 2008



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[Graphic](#)
[The Strategic Sweet Spot](#)



[Graphic](#)
[A Hierarchy of Company Statements](#)



[Graphic](#)
[Wal-Mart's Value Proposition](#)



[Slide Deck](#)
[Can You Say What Your Strategy Is?](#)

Can you summarize your company's strategy in 35 words or less? Would your colleagues express it the same way? Very few executives can honestly say yes to those simple questions. The thing is, companies with a clear, concise strategy statement—one that employees can easily internalize and use as a guiding light—often turn out to be industry stars. In this article, Harvard Business School's Collis and Rukstad provide a practical guide for crafting an effective strategy statement and include an in-depth example of how the St. Louis-based brokerage firm Edward Jones developed one that has generated success.

Any strategy statement must begin with a definition of the *objective*: the goal that the strategy is designed to achieve. Since most firms compete in a more or less unbounded landscape, it is also crucial to define the *scope*, or domain, of the business. Perhaps most important, companies must have a clear sense of *advantage*—that is, the means by which the business will achieve its stated objective.

Defining the objective, scope, and advantage requires trade-offs. If a firm pursues growth or size, profitability will take a backseat. If it chooses to serve institutional clients, it might ignore retail customers. If it derives its competitive advantage from scale economies, it will not be able to accommodate idiosyncratic customer needs.

Before developing your strategy and crafting your statement, you'll want to carefully evaluate the industry landscape. This includes segmenting customers and identifying unique ways of delivering value to the ones you target. It also calls for an analysis of competitors' current strategies and a prediction of how they might change. The key is to find the sweet spot where the firm's capabilities and customers' needs align in a way that competitors cannot match.

Creating Shared Value

Michael E. Porter and Mark R. Kramer
January–February 2011



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Full Article](#)



[Related Article
Strategy and Society](#)

In recent years business has been criticized as a major cause of social, environmental, and economic problems. Companies are widely thought to be prospering at the expense of their communities. Trust in business has fallen to new lows, leading government officials to set policies that undermine competitiveness and sap economic growth. Business is caught in a vicious circle.

A big part of the problem lies with companies themselves, which remain trapped in an outdated, narrow approach to value creation. Focused on optimizing short-term financial performance, they overlook the greatest unmet needs in the market as well as broader influences on their long-term success. Why else would companies ignore the well-being of their customers, the depletion of natural resources vital to their businesses, the viability of suppliers, and the economic distress of the communities in which they produce and sell?

It doesn't have to be this way, say Porter and Kramer. Companies could bring business and society back together if they redefined their purpose as creating "shared value"—generating economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress.

Firms can do this in three distinct ways: by

reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations. A number of companies known for their hard-nosed approach to business—including GE, Walmart, Nestlé, Johnson & Johnson, and Unilever—have already embarked on important initiatives in these areas. Nestlé, for example, redesigned its coffee procurement processes, working intensively with small farmers in impoverished areas who were trapped in a cycle of low productivity, poor quality, and environmental degradation. Nestlé provided advice on farming practices; helped growers secure plant stock, fertilizers, and pesticides; and began directly paying them a premium for better beans. Higher yields and quality increased the growers' incomes; the environmental impact of farms shrank; and Nestlé's reliable supply of good coffee grew significantly. Shared value was created.

Design Thinking

Tim Brown
June 2008



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[The Explainer: Video Design Thinking](#)



[Related Article
Design for Action](#)

In the past, design most often occurred fairly far downstream in the development process and focused on making new products aesthetically attractive or enhancing brand perception through smart, evocative advertising. Today, as innovation's terrain expands to encompass human-centered processes and services as well as products, companies are asking designers to create ideas rather than simply dress them up.

Brown, the CEO and president of the innovation and design firm IDEO, is a leading proponent of design thinking—a method of meeting people's needs and desires in a technologically feasible and strategically viable way. In this article, he offers several intriguing examples of the discipline at work. One involves a collaboration between frontline employees from health care provider Kaiser Permanente and IDEO to reengineer nursing-staff shift changes at four Kaiser hospitals. Close observation of actual shift changes, combined with brainstorming and rapid prototyping, produced new procedures and software that radically streamlined information exchange between shifts. The result was more time for nursing, better-informed patient care, and a happier nursing staff.

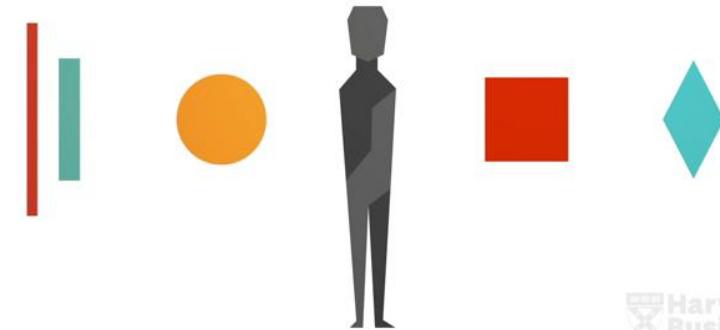
Another example involves the Japanese bicycle components manufacturer Shimano, which worked with IDEO to learn why 90% of American adults

don't ride bikes. The interdisciplinary project team discovered that intimidating retail experiences, the complexity and cost of sophisticated bikes, and the danger of cycling on heavily trafficked roads had overshadowed people's happy memories of childhood biking. So the team created a brand concept—"Coasting"—to describe a whole new category of biking and developed in-store retailing strategies, a public relations campaign to identify safe places to cycle, and a reference design to inspire designers at the companies that went on to manufacture Coasting bikes.

The Explainer: Design Thinking



Popularized by David M. Kelley and Tim Brown of IDEO and Roger Martin of the Rotman School, design thinking has three major stages.



Harvard
Business
Review

How GE Is Disrupting Itself

Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble
October 2009



[Read the Full Article](#)



[The Explainer: Video
Reverse Innovation](#)



[Related Article
Engineering Reverse Innovation](#)

For decades, General Electric and other industrial-goods manufacturers based in rich countries grew by developing high-end products at home and distributing them globally, with some adaptations to local conditions—an approach known as glocalization. Now they must do an about-face and learn to bring low-end products created specifically for emerging markets into wealthy markets.

That process, called reverse innovation, isn't easy to master. It requires a decentralized, local-market focus that clashes with the centralized, product-focused structure that multinationals have evolved for glocalization. In this article, Immelt, GE's CEO, and Govindarajan and Trimble, of Dartmouth's Tuck School of Business, describe how GE has dealt with that challenge.

An anomaly within the ultrasound unit of GE Healthcare provided the blueprint. Because China's poorly funded rural clinics couldn't afford the company's sophisticated ultrasound machines, a local team built a cheap, portable ultrasound out of a laptop equipped with special peripherals and software. It not only became a hit in China but jump-started growth in the developed world by pioneering applications for situations in which portability is critical, such as accidents.

The team succeeded because a top executive

championed it and gave it unprecedented autonomy. GE has since set up more than a dozen similar operations in an effort to expand beyond the premium segments in developing countries—and to preempt emerging giants from disrupting GE's sales at home.

The Explainer: Reverse Innovation



Start with developing markets and work your way backward.



Harvard
Business
Review

Marketing Myopia

Theodore Levitt
July–August 1960



[Read the
Full Article](#)



[The Explainer: Video
Marketing Myopia](#)



[Slide Deck
Marketing Myopia](#)

At some point in its development, every industry can be considered a growth industry, based on the apparent superiority of its product. But in case after case, industries have fallen under the shadow of mismanagement. What usually gets emphasized is selling, not marketing. This is a mistake, because selling focuses on the needs of the seller, whereas marketing concentrates on the needs of the buyer.

In this widely quoted and anthologized article, Theodore Levitt argues that “the history of every dead and dying ‘growth’ industry shows a self-deceiving cycle of bountiful expansion and undetected decay.” But, as he illustrates, memories are short.

The railroads serve as an example of an industry whose failure to grow is due to a limited market view. Those behind the railroads are in trouble not because the need for passenger transportation has declined or even because that need has been filled by cars, airplanes, and other modes of transport. Rather, the industry is failing because those behind it assumed they were in the railroad business rather than the transportation business. They were railroad oriented instead of transportation oriented, product oriented instead of customer oriented.

For companies to ensure continued evolution, they must define their industries broadly to take advantage of growth opportunities. They must ascertain and act

on their customers’ needs and desires, not bank on the presumed longevity of their products. In short, the best way for a firm to be lucky is to make its own luck.

An organization must learn to think of itself not as producing goods or services but as doing the things that will make people want to do business with it. And in every case, the chief executive is responsible for creating an environment that reflects this mission.

The Explainer: Marketing Myopia



Theodore Levitt's classic theory—in under two minutes.



Reinventing Your Business Model

Mark W. Johnson, Clayton M. Christensen, and
Henning Kagermann
December 2008



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Reinventing Your Business Model

Why is it so difficult for established companies to pull off the new growth that business model innovation can bring? Here's why: They don't understand their current business model well enough to know whether it would suit a new opportunity or hinder it, and they don't know how to build a new model when they need one.

Drawing on their vast knowledge of disruptive innovation and experience in helping established companies capture game-changing opportunities, consultant Johnson, Harvard Business School professor Christensen, and SAP co-CEO Kagermann set out the tools that executives need to do both.

Successful companies already operate according to a business model that can be broken down into four elements: a customer value proposition that does an important job for the customer in a better way than competitors' offerings do; a profit formula that lays out how the company makes money delivering the value proposition; and the key resources and key processes needed to deliver that proposition.

Game-changing opportunities deliver radically new customer value propositions: They fulfill a job to be done in a dramatically better way (as P&G did with its Swiffer mops), solve a problem that's never been solved before (as Apple did with its iPod and iTunes electronic entertainment delivery system), or serve an

entirely unaddressed customer base (as Tata Motors is doing with its Nano—the \$2,500 car aimed at Indian families who use scooters to get around). Capitalizing on such opportunities doesn't always require a new business model: P&G, for instance, didn't need a new one when it leveraged its product innovation strengths to develop the Swiffer.

A new model is often needed, however, to leverage a new technology (as in Apple's case); is generally required when the opportunity addresses an entirely new group of customers (as with the Nano); and is surely in order when an established company needs to fend off a successful disruptor (as the Nano's competitors may now have to do).

The Five Competitive Forces That Shape Strategy

Michael E. Porter
January 2008



[Read the Full Article](#)



[The Explainer: Video
Porter's Five Forces](#)



[Article
What is Strategy?](#)



[Graphic
The Five Forces That Shape Industry Competition](#)

In 1979, a young associate professor at Harvard Business School published his first article for HBR, “How Competitive Forces Shape Strategy.” In the years that followed, Michael Porter’s explication of the five forces that determine the long-run profitability of any industry has shaped a generation of academic research and business practice. In this article, Porter undertakes a thorough reaffirmation and extension of his classic work of strategy formulation, which includes substantial new sections showing how to put the five forces analysis into practice.

The five forces govern the profit structure of an industry by determining how the economic value it creates is apportioned. That value may be drained away through the rivalry among existing competitors, of course, but it can also be bargained away through the power of suppliers or the power of customers or be constrained by the threat of new entrants or the threat of substitutes. Strategy can be viewed as

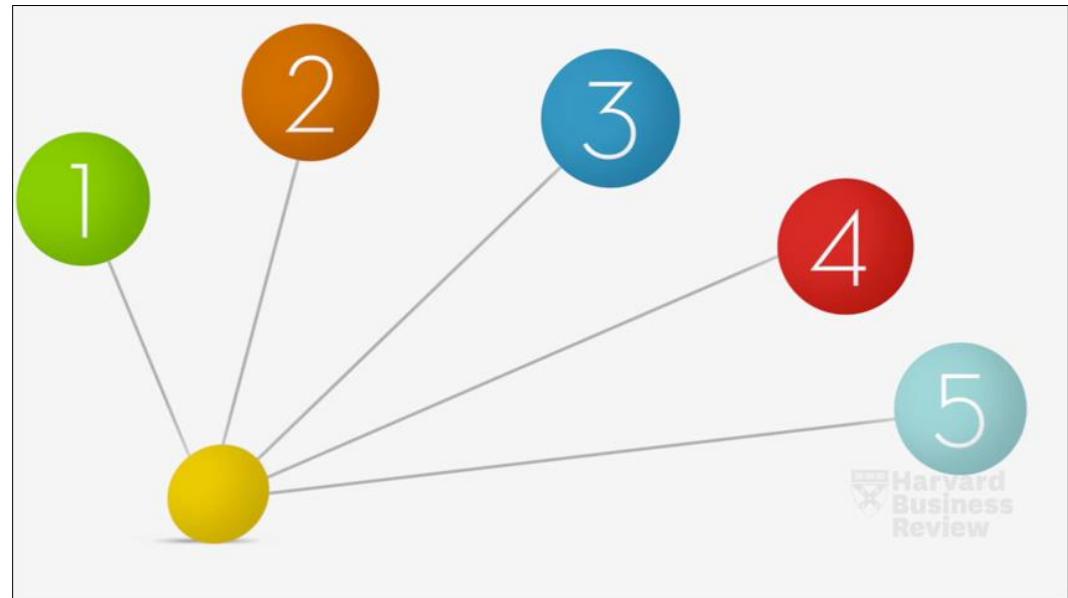
building defenses against the competitive forces or as finding a position in an industry where the forces are weaker. Changes in the strength of the forces signal changes in the competitive landscape critical to ongoing strategy formulation.

In exploring the implications of the five forces framework, Porter explains why a fast-growing industry is not always a profitable one, how eliminating today’s competitors through mergers and acquisitions can reduce an industry’s profit potential, how government policies play a role by changing the relative strength of the forces, and how to use the forces to understand complements. He then shows how a company can influence the key forces in its industry to create a more favorable structure for itself or to expand the pie altogether. The five forces reveal why industry profitability is what it is. Only by understanding them can a company incorporate industry conditions into its strategy.

The Explainer: Porter's Five Forces



The competitive forces that shape strategy — in under two minutes



A Frustrating Question



Why is reinventing your
business model so hard?

Two Core Problems

1

Lack of definition

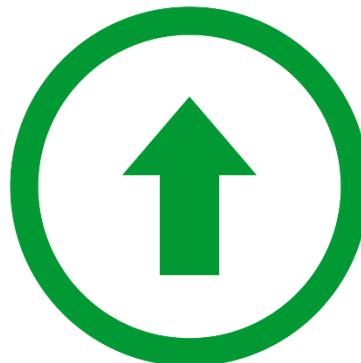
2

Lack of understanding

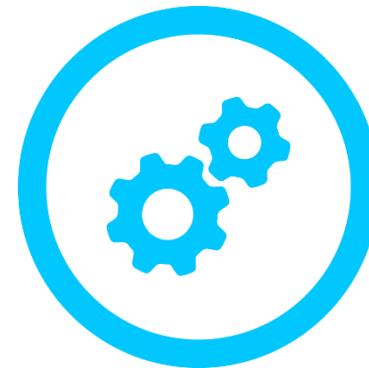
Elements of a Successful Business Model



Customer Value Proposition



Profit Formula



Key Resources and Processes

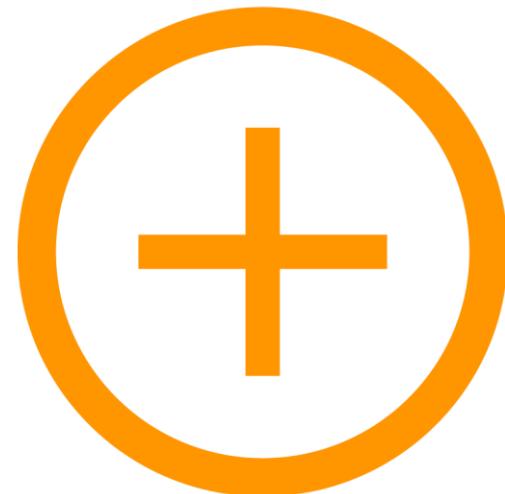
Elements of a Successful Business Model

Customer Value Proposition

Target customer

Job to be done

Offering



Elements of a Successful Business Model

Customer Value Proposition

Meet an existing need better

Solve a new problem

Serve an unserved customer

Elements of a Successful Business Model Customer Value Proposition

EXAMPLE

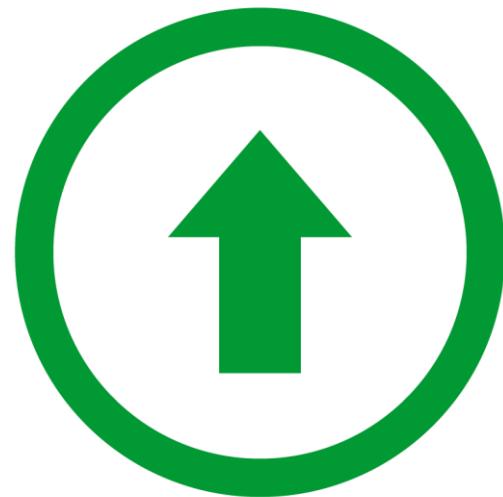
MinuteClinics

A more convenient way to
get help when you are sick

Elements of a Successful Business Model

Profit Formula

Create value for the
customers *and* for
the company



Elements of a Successful Business Model Profit Formula

EXAMPLE

Tata Motors

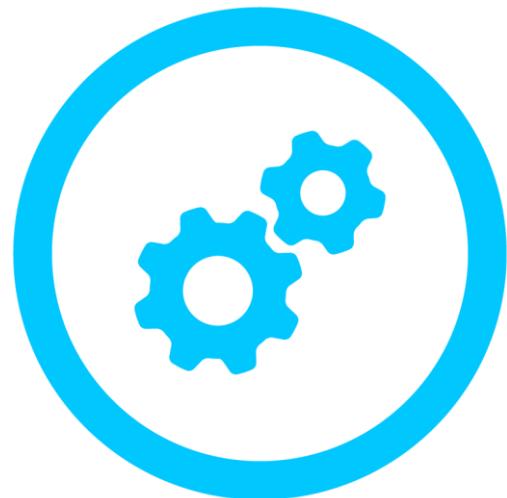
How did they make money
on a \$2,500 car?

Elements of a Successful Business Model

Key Resources and Processes

Sufficient resources

Scalable and repeatable
processes



Elements of a Successful Business Model Key Resources and Processes

EXAMPLE

Tata Motors

A new way to build a car

How to Decide If You Need a New Model

1

Articulate
existing
model.

2

Watch for signals.

3

Decide if
reinvention
is worth
the effort.

When the Old Model Will Do

Sometimes you can change the game
with what you've already got.

When You Want a New Model

OPPORTUNITIES

Serve shut-out customers

Capitalize on new
technology

Focus on new job
to be done

NEEDS

Fend off low-end
disruptors

Respond to shifts
in competition

A Reinvented Business Model

TRADITIONAL POWER-TOOL COMPANY VS. HILTI'S TOOL FLEET MANAGEMENT SERVICE

Sales



Leasing

Lower margins



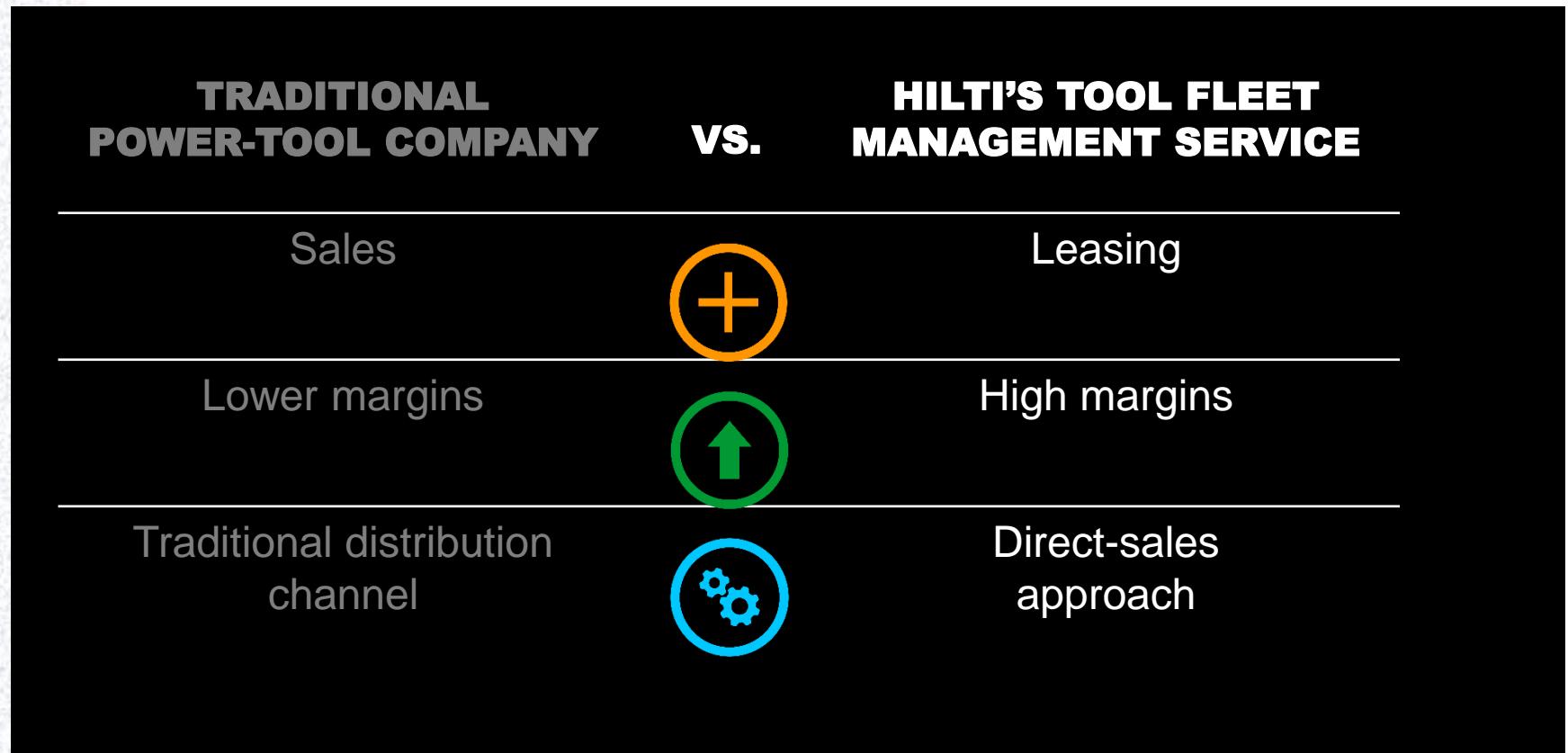
High margins

Traditional distribution channel



Direct-sales approach

A Reinvented Business Model



A New Model Within the Old One

EXAMPLE

DOW CORNING'S ESTABLISHED BUSINESS VS. DOW CORNING'S NEW BUSINESS UNIT

Customized solutions



No frills

High-margin retail pricing



Spot-market pricing

Service orientation



Lowest-cost processes

A New Model Within the Old One

EXAMPLE

DOW CORNING'S ESTABLISHED BUSINESS VS. DOW CORNING'S NEW BUSINESS UNIT

Customized solutions



No frills

High-margin retail pricing



Spot-market pricing

Service orientation



Lowest-cost processes

It Takes Time

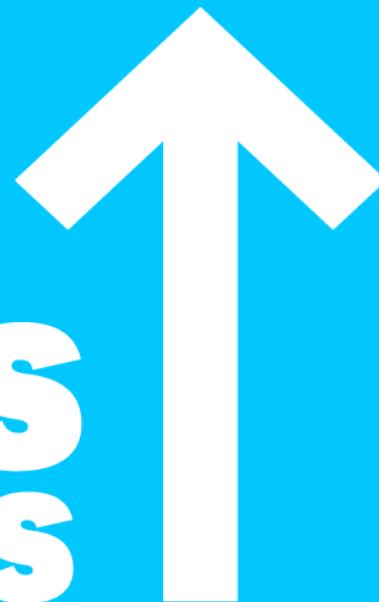


Be patient for growth—
but impatient for profit.

Blue Ocean Strategy

**Cirque du Soleil
increased sales**

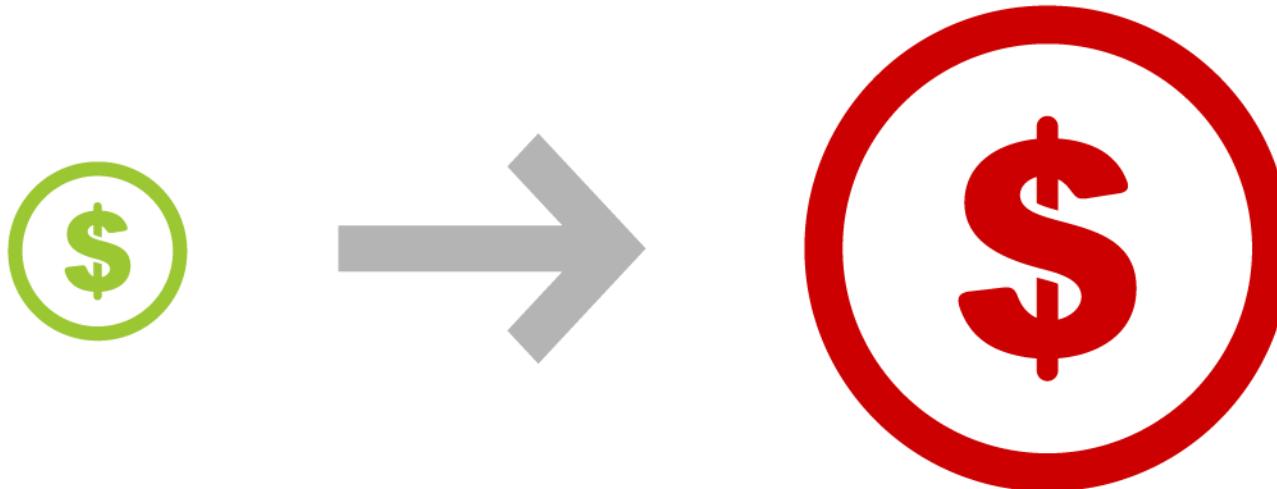
**22 TIMES
IN 10 YEARS**



Circus Audiences Were Shrinking



Circus Costs Were High

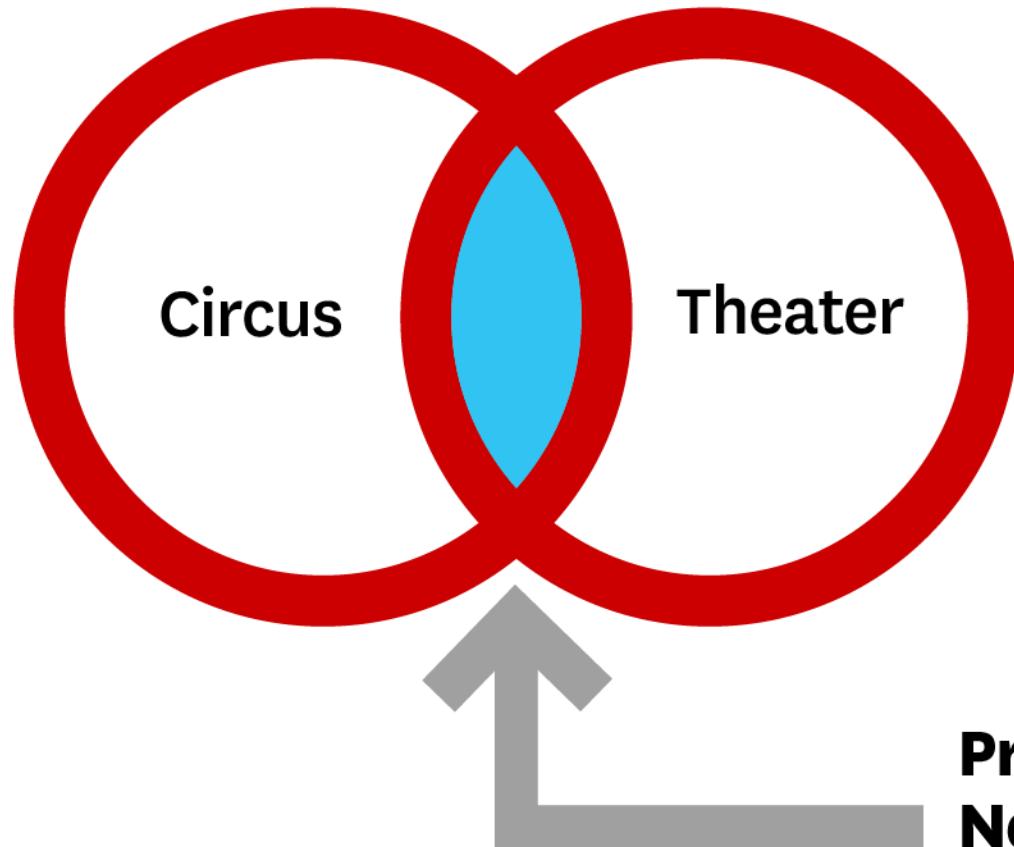


How Did Cirque Defy the Odds?

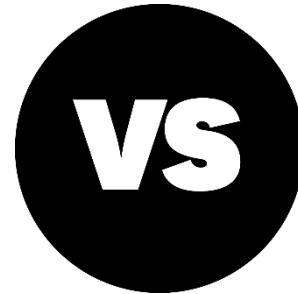




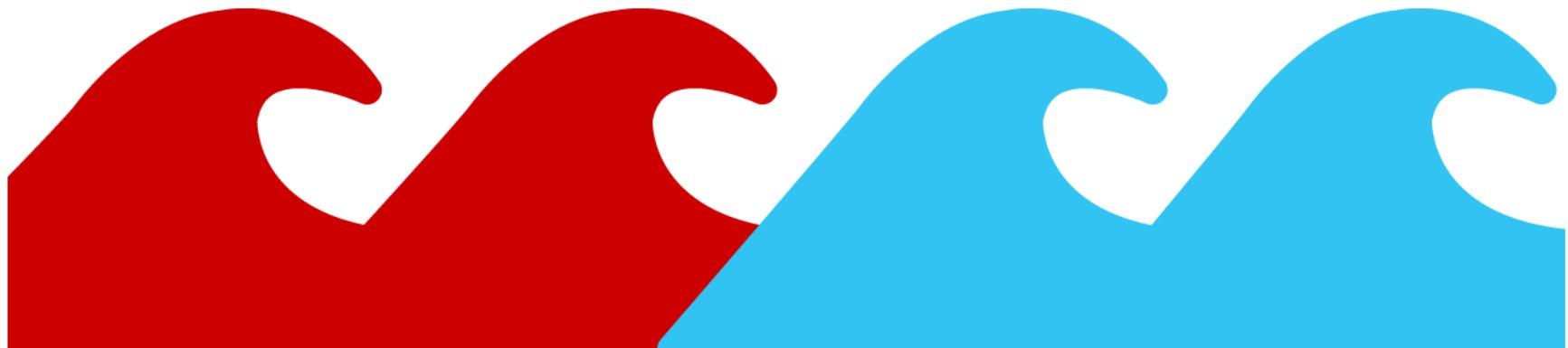
Cirque Created a Blue Ocean



Red Oceans



Blue Oceans





Red Ocean Strategy

Compete in existing
markets

Beat the competition

Exploit existing
demand



Blue Ocean Strategy



Red Ocean Strategy

Compete in existing markets

Beat the competition

Exploit existing demand



Blue Ocean Strategy

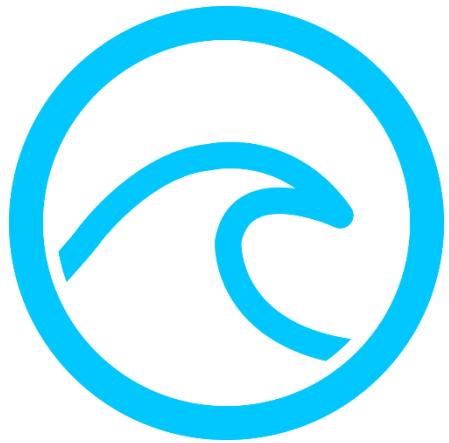
Create uncontested market space

Make the competition irrelevant

Create and capture new demand



**Which Industries
Did Not Exist
100+ Years Ago?**



Automobiles

Pharmaceuticals

Management consulting

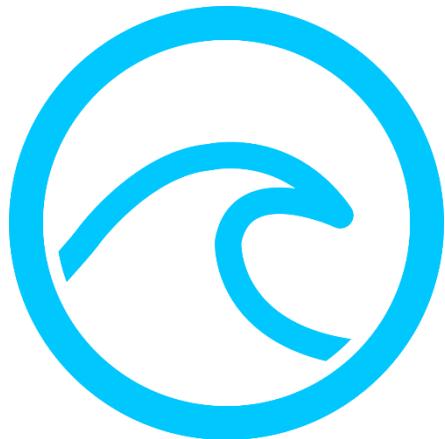
Music recording

Aviation

Petrochemicals



**Which Industries
Did Not Exist
40+ Years Ago?**



Mutual funds

Cellular phones

Biotechnology

Discount retailing

Express package delivery

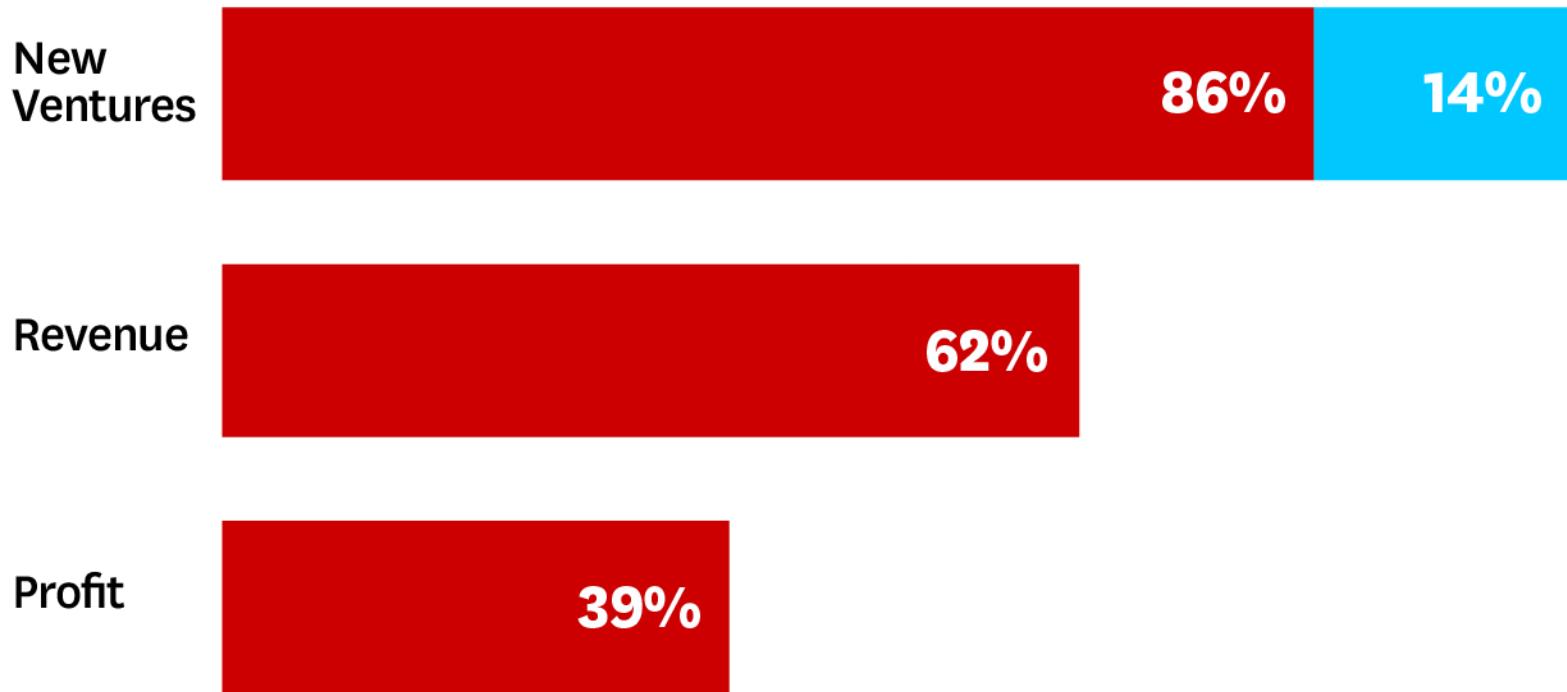
Coffee bars

The Paradox: Red Oceans Still Prevail

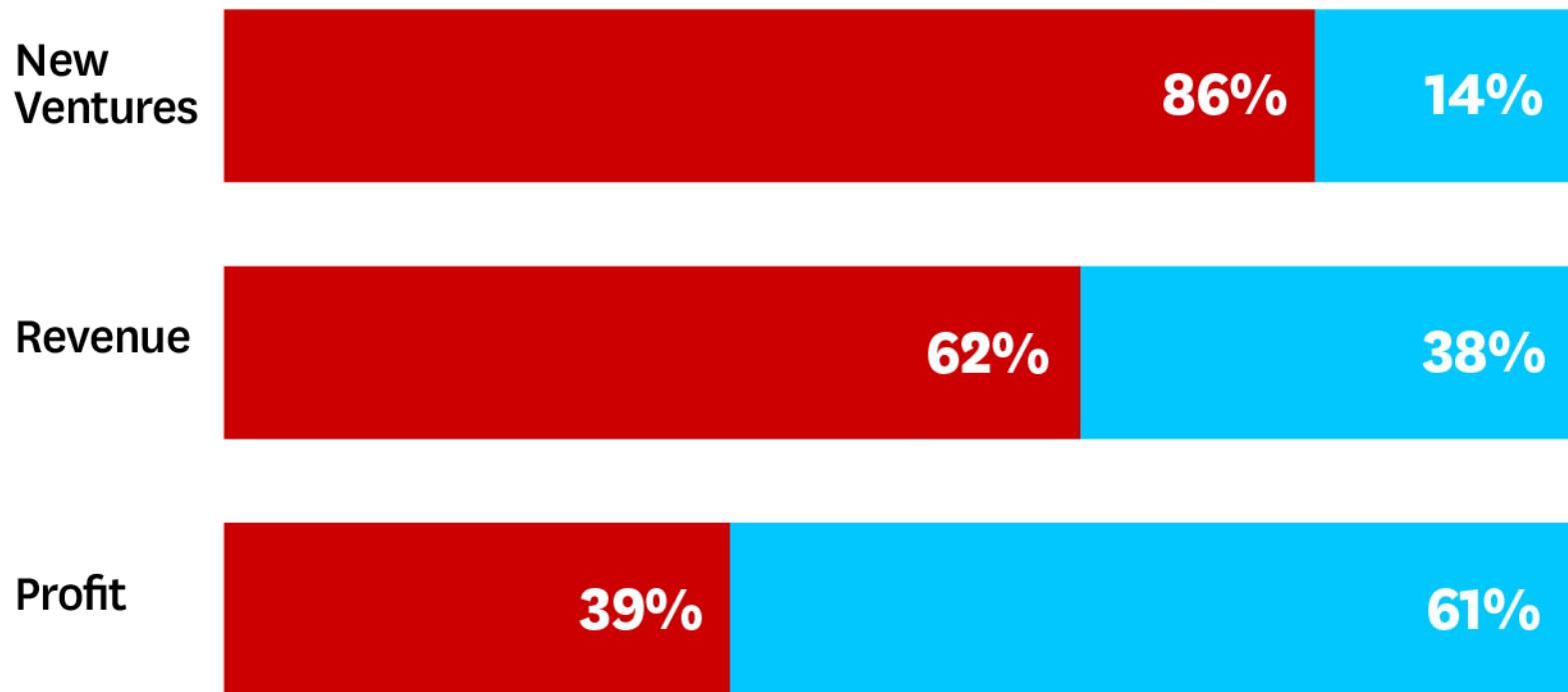
New Ventures



Red Ocean Initiatives Don't Pay



Creating Blue Oceans Is Far More Profitable





Why Do Companies Still Focus on Red Oceans?

Traditional Strategy



Value **OR** Cost

Blue Ocean Strategy



Value **AND** Cost

How Cirque Broke the Value/Cost Trade-Off

Raise

- Clowns
- Acrobats
- Circus tent setting

How Cirque Broke the Value/Cost Trade-Off

Eliminate

- Three rings
- Star performers
- Animals

Raise

- Clowns
- Acrobats
- Circus tent setting

Reduce

- Humor
- Danger

How Cirque Broke the Value/Cost Trade-Off

Eliminate

- Three rings
- Star performers
- Animals

Raise

- Clowns
- Acrobats
- Circus tent setting

Reduce

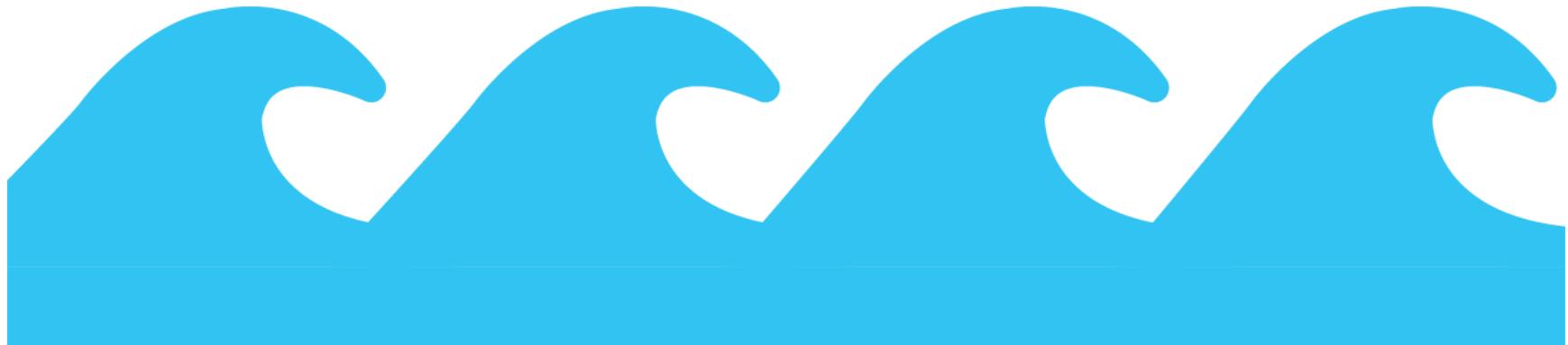
- Humor
- Danger

Create

- Story line
- Original music

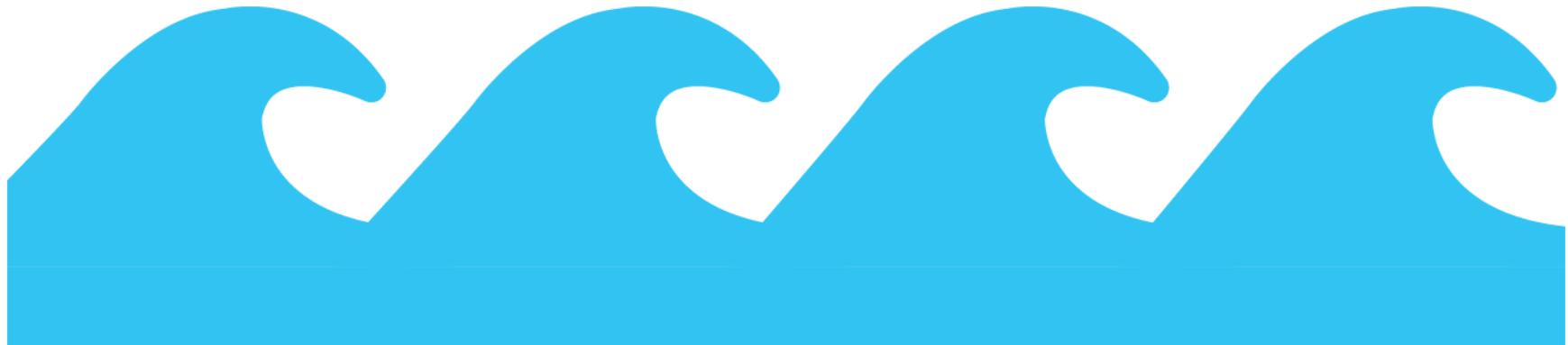
A Shift in Mindset

It's not always about technology innovation.



A Shift in Mindset

Incumbents aren't necessarily at a disadvantage.





**Blue Oceans
Create High Barriers
to Imitation**



Economic Barriers



Organizational Barriers



Cognitive Barriers

