Class 1:

Strategy:

Pattern of decisions:

Determines & reveals objectives, purposes, goals

Produces policies and plans

Defines the range of business, kind of organization it is/wants to be, nature of contribution it makes to shareholders, employees, customers, communities

5 Components:

What it takes to win Basis of competitive advantage

What we’ve got Distinctive compentence of firm

What we say Official Corporate strategy

What we do Strategic action

Culture Internal selection environment

Strategic management:

Ongoing process, evaluates & shapes firms direction by:

Assessing competitive environment & setting goals

Determining & choosing between strategic choices

Regularly reassessing implementation

Evaluating changing/emerging circumstances

i.e. regularly monitor external & internal, and make decisions

Strategic management focuses on the **business as a whole**, as opposed to one functional area of business (accounting, marketing, finance, etc.)

* Holistic, big picture
  + Best industries to be in, how to compete, **what determines performance**, what seperates success from failure, what can managers do

Diamond-E Framework

* Integrates all relevant elements for a big picture view – environment, strategy, management preferences, organization, resources & capabilities

Strategic analysis process:

1. Identify issues
   1. Identify decision maker, key issues
2. External analysis
   1. Profitability – Porter’s 5 forces
   2. Who gains value – industry value chain
   3. Industry circumstances – PEST – macroeconomic forces, trends
   4. What do firms need to do to win - KSF
3. Internal analysis
   1. Strategy

Goals + Product market focus + Core activities = **value proposition**

Basis of competition, alignment, effectiveness

* 1. Diamond E  
     Alignment between elements, fit  
     performance to date (quantitative & qualitative), competitive advantage

1. Financial analysis
   1. Tracks how well strategy is doing
   2. Past year, YOY
   3. Revenue, net income, same store, EPS growth
   4. ROE, ROA, ROS ratios
   5. Debt/equity, inventory turnover, ROCE
2. Competitor analysis
   1. Main competitors, market share, brand, reach, history, performance, resources/capabilities
   2. Level of threat – do they have ability to take away our competitive advantage
3. Strategic choices
   1. Develop & analyze viable, distinct, aligned alternatives
   2. Assess pros and cons
4. Recommendation
   1. Pick a developed option, explain why it is the best, be upfront about cons
5. Action/implementation plan
   1. Who does what
   2. Timeline
   3. Impact on areas of firm
   4. Priorities
6. Risk/contingency plan
   1. How to minimize, plan Bs if choice does not work

|  |  |  |
| --- | --- | --- |
| Diamond E Component | Case(s) | Analysis |
| Management Preferences | Ganong bros. |  |
| Organization | Lincoln electric |  |
| Strategy | Porter Airlines Trader Joes |  |
| Environment | Tesla |  |
| Resources | Harlequin Enterprises Inc. |  |

Class 2:

Financial ratios:

Analyzes org’s performance using data collected from FS

Can be categorized as:

Asset turnover ratios

Receivables turnovers = credit sales/accounts receivable – how widely AR is distributed

Average collection period = 365/Receivables turnovers – how quickly org collects debts

Inventory turnover = COGS/Average inventory – how long inventory remains in house

Financial leverage ratios

Debt Ratio = Debt/Assets - financial stability

Debt/Equity - health & long term viability

Times interest earned ratio: Interest coverage = EBIT/Interest charges

– how well profits can pay off interest on debt

Liquidity ratios

Current ratio = assets/liabilities

Tracks short term debt management

Higher = lower risk

Lower = more expenses on labour, development, positive activities  
Quick ratio = (assets – inventory)/liabilities – assets vs debt  
Cash ratio = (Cash + marketable securities)/current liabilities

- ability to operate in the event of a crisis

Profitability ratios  
 Gross profit margin = (Sales – COGS)/Sales  
 Return on assets = Net income/Total Assets how profits are generated from assets  
 ROE = Net income/Shareholder equity profit that investors

Types of analysis:  
 Horizontal: comparaitive over several years, reveals trends – direction, speed, extend

Vertical: compare against firms of different size – identify trends of expenses, overheads, that change at a different rate than revenues

Role of general manager:

Take strategy from formulation to implementation

Set direction

Create strategy

Implement change

Assess performance

Create value for enterprise and stakeholders

Assessing Performance:

Organizational health/operating performance (quantitative, financial ratios)  
 3 years ago vs today vs 3 years from now

4 quadrants:

|  |  |  |
| --- | --- | --- |
|  | Negative performance | Positive performance |
| Positive org health | Complacent | Desired |
| Negative org health | Crisis | Troubled |

Balanced scorecard

4 areas:

Customer – external view

Market share, customer retention, acquisition, satisfaction, profitability

Internal – what to excel at

Quality, productivity, delivery, after sales service

Innovation & learning – how to continue to create value & improve employee, IT capabilities, motivation, alignment

Financial – shareholders

Revenue, growth, cost management, asset utilization

Create key goals, measures for each area

Must be timely, directly linked, have support & involvement of management

Follows a cause & effect principle:

Innovation & learning leads to internal business process capabilities, leads to what customers perceives of the firm, which determines how the firm performs financially

Purposes:

Clarification & propogation of business strategy  
 feedback & learning processes

Communication & connection with strategy

Planning & targets

Span of accountability:

Range of tradeoffs affecting performance measures used to evaluate manager’s achievements – can be wide or narrow

Range of issues manager is responsible for, have influence over

Is affected by how **centralized** the **decision structure** is – whether responsibility lies within top managers, or if it is spread out over all levels of hierarchy

More measures === narrower span of accountability

Qualitative vs quantitative

Qualitative: well-conceived, comprehensive, consistent, sensible

Quantitative: results, performance, reaching objectives

Multi year analysis – identify trends related to sales, customers, profits, financial strengths, credit rating, internal performance measures

Strategic issues can stem from errors in **formulation**, **execution**, or **both**

Setting direction

* Create a **vision**, clearly communicate, reinforce
* Collins & porras framework:
  + Guiding Philosophy:  
    Core beliefs & values -> purpose
    - What motivates the company, what the world would lose without them
    - Guides behavior, reason for being, long term
  + Environment
  + Tangible Image
    - Mission – clear, compelling, vivid – **mission statement** – i.e. who we are and what we do – offerings, customer needs, groups, being served, coverage
      * v.s. strategic vision: firm’s future path – where we are going, product/market/customer/tech to pursue/focus – “ideal”
* Payoffs:
  + Sets direction, reduces risk of pointless decision making, creates corporate commitment, helps prepare for future
* Measure usefulness by **acid test:**
  + Is it **desirable, feasible**, **flexible, stretch** to reach

Ethical decisions:

* Unethical – benefits one party, but harms another, prioritize rights of one party over another
* Must find balance in virtues – cannot be deficient or in excess:
  + Wisdom, courage, humanity, justice, temperance, transcendence

Class 3:

Creating strategy

1. Define an industry – make sure it is not too inclusive or exclusive  
    – end up missing nuances vs important threads
2. Key questions:
   1. Dominant economic traits
   2. Competitive strength
   3. Forces driving change
   4. Competitor positioning & strategies
   5. Key factors of competitive success
   6. Profit attractivteness

Industry analysis:

Objectives: Value, profitability, attractiveness, macro-economic influences, key success factors

Tools: Value chain/system, 5 forces model, PEST/EL, Key success factors

* + Use based on characteristics

1. Industry Value System - External
   1. Chain of activities linking raw materials through to final product – each step adds value, has costs, profits, revenues
   2. Firms perform limited number of activities in the chain - # of activities == control over the chain
   3. Analyze divestments, forward (distributors)/backward (suppliers) integrations, unique cost drivers, competitive advantages, profitability at each stage
2. Firm Value Chain – Internal – part of industry value chain
   1. System of interdependent activities performed by a firm – primary vs support activities
   2. Maximize value, develop long term, sustainable competitive advantage
   3. Inbound/outbound logistics, operations, marketing & sales, service, procurement, HR & M, technology, infrastructure

Importance: determine what end user pays, profitability, what part of the system to be in

Porter’s 5 forces model (industry)

1. Entrants – level of threat of new entrants
   1. influences: economies of scale, differentiation, capital requirements, cost advantages, access to distribution channels, government policies
2. Buyers – bargaining power
   1. Influences: concentration, purchase volumes, level of standardization, % of final cost, level of profits, importance to final product, threat of backward integration
3. Suppliers – bargaining power
   1. Influences: relative concentrations, switching costs, importance, threat of forward integration
4. Substitutes – threat of substitute products
   1. Influences: price, performance, switching costs, propensity to substitute
5. Competitors – level of rivalry
   1. Influences: # of competitors, growth, differntation/switching costs, fixed costs, exit barriers

Strength of forces determines profit potential of industry

Buyers and substitutes push DOWN selling price  
Rivals, entrants, suppliers push UP costs

PEST Analysis

* Assess macro-economic forces that determine context of industry
* Determines where industry is heading in the **future**
* Impacts: direction, objectives, strategy, business model
* Requires external environment scan

KSF Analysis

* Determine key success factors in an industry
  + Dictated by industry characteristics
* Firms must possess in order to be viable – e.g. slots, gate access, airplanes, pilots, ticketing, personnel, etc. in airline industry

Strategy must take into consideration **profit model, time horizon, supply & demand, competition,** & **influence of external forces**

Class 4:

Class 5:

Strategy:

make choices about how to compete

create a long term, sustainable competitive advantages

generate above average financial returns

Components:

* Goals
* Core activities
* Product market focus
* Value proposition

Types of generic competitive strategies:

|  |  |  |
| --- | --- | --- |
|  | Low cost | Differentiation |
| Broad | Compete on price | Compete on unique features that allow it to charge price premiums |
| Focused | Focused cost leadership   * Narrow market * Low prices relative to market | Focused differentiation   * Niche markets – e.g. high end, children free resorts, Harley davidson |

Best cost provider – low cost AND differentitate

Risks: may get squeezed by firms specializing in one strategy – resulting in a **stuck in the middle/black hole** strategy

Focused strateg

Class 6: