

Introduction to **Management**

Lecture 6



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Chapter 8: Strategic Management



Learning Objectives

- Define strategic management and explain why it is important.
- Explain what managers do during the six steps of the strategic management process
- Describe the three types of corporate strategies.
- Describe competitive advantage and the strategies organizations use to get it.
- Discuss current strategic management issues.



What is Strategic Management?

Strategic management

- It is considered by managers as a “key for excellence & success”.
- It's an important task involving all the managerial functions of planning, organizing, leading & controlling.
- It's what managers do to develop an organization's strategies.

Strategies

- The decisions and actions that determine the long-run performance of an organization.
- Strategies encompass:
 - plans for how the organization will do what it's in business to do,
 - how it will compete successfully, and
 - how it will attract and satisfy its customers in order to achieve its goals.



What is Strategic Management?

A “Business Model”

- Answers the question of (How a company is going to make money?)
- Is a strategic design for how a company **intends to profit** from its strategies, work processes, and work activities.
- Focuses on two things:
 - Whether **customers** will **value** what the company is providing.
 - Whether the company can **make any money doing that**.



Business Model Examples

Business Model	Description	Examples
Razor & Blade	Buy at low margin item and then buy the replacement at a high cost	<i>Gillette, Hewlett-Packard printers, Nespresso coffee maker</i>
Cheap chic	Marketing of stylish but inexpensive merchandise. Allows for high margins as merchandise sells at low price.	<i>IKEA</i>
Bricks and clicks	Extension of in-store shopping to include online ordering, in-store pickup or items found exclusively online.	<i>BestBuy.com, local mystery book store with online shop, argos.uk</i>
Franchise	Sell the right to use the business model in exchange for a percentage of revenues.	<i>McDonald's, Pizza Hut</i>



Business Model Examples

Business Model	Description	Examples
Cut out the middle man	Removal of intermediaries in a supply chain. Skipping the warehouse distributor.	<i>Dell Computer</i>
Freemium business model	Product is offered for free. Users upgrade to become paying customers of virtual goods or to get expanded access.	<i>McAfee security, Netflix</i>
Premium	Offer high-end products that appeal to brand-conscious consumers.	<i>Tiffany, Rolls-Royce</i>
Online auctions	Create a community of buyers and sellers by using an auction-type selling process versus a set sales price.	<i>Ebay, Alibaba</i>



Why Is Strategic Management Important?

1. It results in **higher organizational performance**.
 - Thus, it can make a difference on how the overall organization performs & that's why given the same circumstances some businesses survive while others fail..due to their adopted strategies!
2. It requires that managers **examine and adapt to business environment changes**.
 - As change is inevitable & managers have to face it, strategy acts like a cursor to help them navigate with the organization through proper managerial decisions.
3. It **coordinates diverse** organizational units, helping them focus on organizational goals.
 - As organizations expand, they need to keep their efforts and decisions aligned to help towards attaining success, efficiency & effectiveness. Strategy helps in keeping an eye on all of these objectives.



Strategic Management in the Arab Organizations

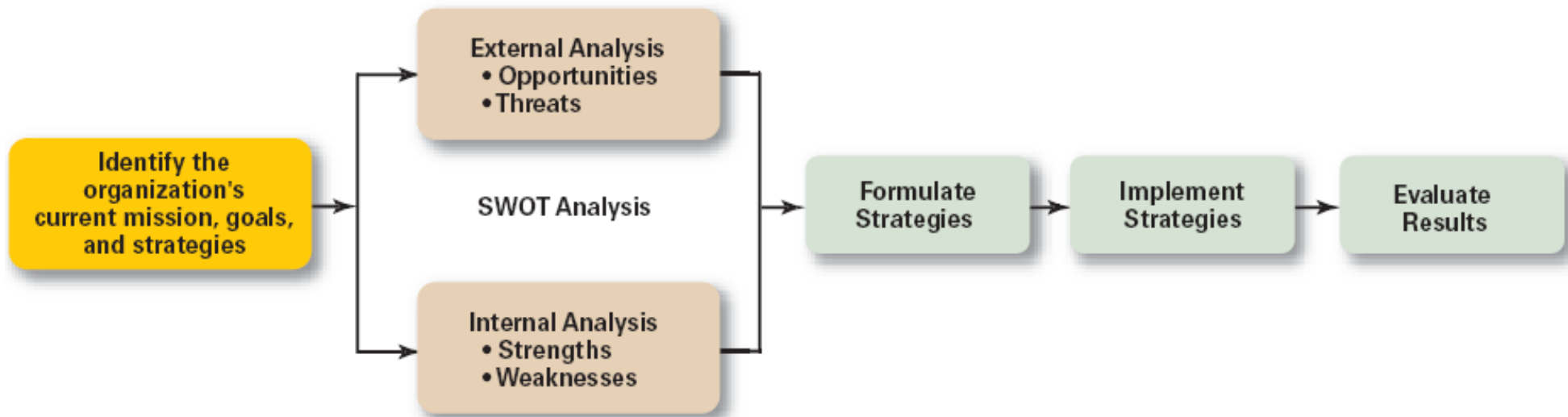
1. Formal strategic planning exists, but is rather limited.
 - Plans are more reactive or intuitive in nature rather than proactive or intended.
2. Lack of confidence in the impact of formal strategic planning prevails.
 - Generally; or rather culturally; value and importance of long-term planning is not high or well-developed and thus a general attitude of lack of confidence prevails.
3. The trend for formal strategic planning is on the rise.
 - Western models as success cases lead the way to following their pace and importing their practices to succeed alike.



The Strategic Management Process

- The strategic management process is a **six-step process** that encompasses:
- strategy planning (first four steps)
 - implementation
 - evaluation

Exhibit 8–1 The Strategic Management Process



- **What do you know about Etihad Airlines?**





- Established by a royal decree as the national airline of the United Arab Emirates in February, 2003, Etihad Airways started its services in November with a ceremonial flight to Al Ain.
- In November, 2009, Etihad Airways won the “World’s Leading Airline” award at the World Travel Awards in London, making this a first for any Middle East airline. Etihad Airways received this award for five consecutive years, until 2013.
- In August 2010, Etihad Airways signed a 10-year strategic partnership agreement with **Virgin Australia** (Etihad Airways has a 22% equity stake in Virgin Australia Holdings). In December 2011, Etihad Airways announced it had taken a 29.21% stake in **airberlin**, Germany’s second largest airline and Europe’s sixth largest airline. In 2012, Etihad Airways acquired a 40% stake in the national airline of the Republic of Seychelles, **Air Seychelles**, and a 2.987% stake in Aer Lingus (increased to 4.11% in 2014). In 2013, Etihad Airways acquired 49% of **Air Serbia**, the national airline of the Republic of Serbia (formerly Jat Airways), and concluded the transaction for the subscription of a 24% minority equity stake in **Jet Airways**, a full-service airline with one of the youngest fleets in the world. At the 2013 Dubai Airshow, Etihad Airways announced the acquisition of a 33.3% stake in **Darwin Airline**. From March 2014, the Swiss carrier was rebranded as Etihad Regional. In August 2014, Etihad Airways agreed to take a 49% stake in the Italian flag carrier **Alitalia** for an estimated sum of 560 Million Euros. In 2014, Etihad established **Etihad Airways Partners, its own airline alliance**.
- In 2015, Etihad’s A380 First Apartment was named the world’s best First Class due to its luxurious innovation. The First Apartment, launched in December 2014 on Airbus A380 only, has a large leather armchair and separate bed of 6 feet and 10 inches, as well as a 24-inch (61 cm) TV monitor.
- In 2016, Etihad won Air Transport World’s 2016 Airline of the Year award, as well as the World’s Leading Airline 2016 award at the 23rd edition of World Travel Awards. As of October 2016, Etihad Airways is rated as a 5-star airline by Skytrax.
- In 2017, Etihad achieved its best operational on-time performance (OTP) results since 2009, recording network punctuality of 82% for flight departures and 86% for arrivals. Etihad Airways has also been placed in the Top 20 safest airlines in the world by AirlineRatings.com.
- In January 2018, Etihad introduced a new baggage policy, setting the allowance for all markets, excluding the US and Canada, based on total weight rather than the number of bags checked in. With the switch to a weight-based baggage policy, Economy Class passengers will be entitled to 23 to 35 kg in Economy Class, depending on the fare purchased, Business Class passengers 40 kg for all fare categories, while First Class customers will enjoy a 50 kg allowance. Exceptions apply to select markets.
- From its Abu Dhabi hub, Etihad Airways flies to 116 passenger and cargo destinations. Etihad Airways has a fleet of 108 Airbus and Boeing aircraft, and a firm order of more than 170 aircraft, including 62 Airbus A350s, 52 Boeing 787s and 25 Boeing 777s.
- No deadly incidents involving Etihad Airways have been recorded so far.



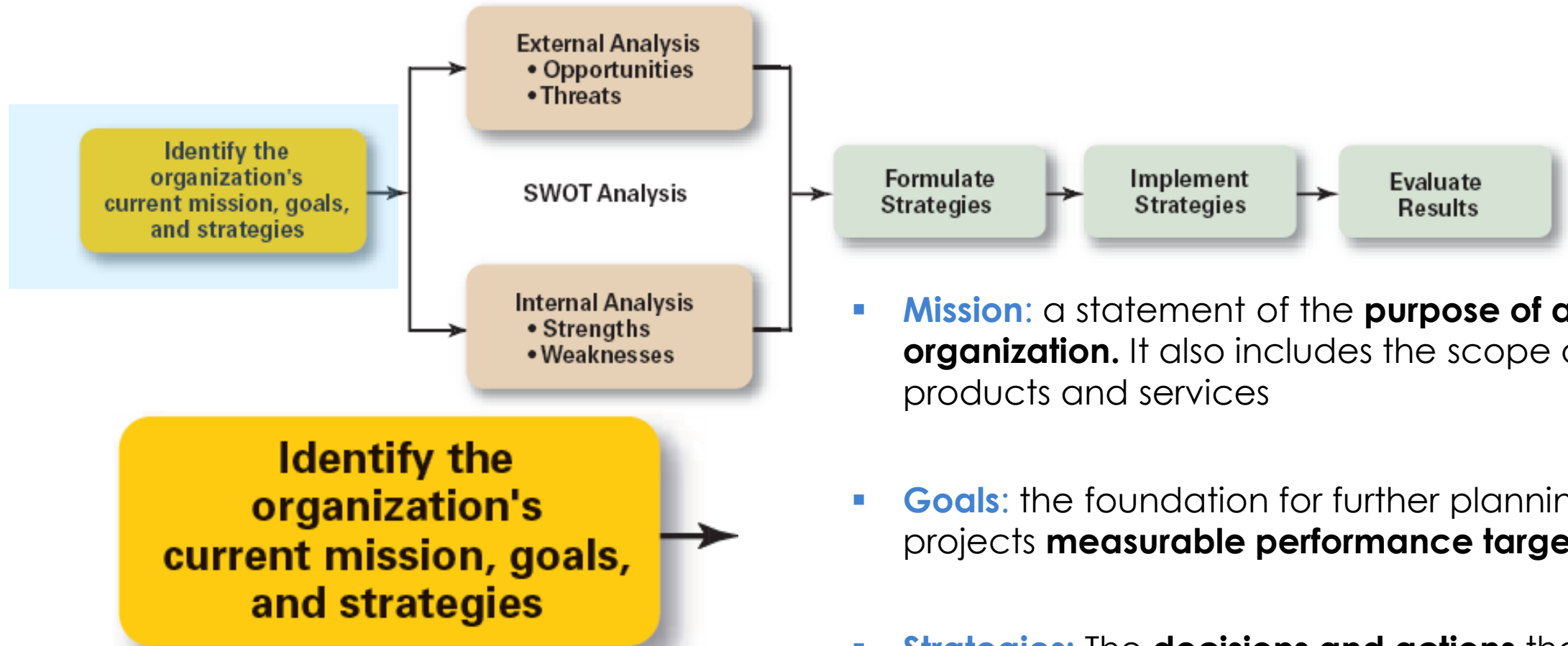


- The airline has been reducing its overheads as part of its transformation strategy, which saw losses cut by around 16% last year to \$1.3 billion, despite rising fuel costs.
- Mr Kamark said: “What we anticipated in the plan is a cautious steady growth, not sort of extraordinary growth.
- “We also see *that the international business market and the GDP around the world is not growing and it will be a tough economy next year and the year after. We’ve put that into plans and so far we are delivering above what we have planned in the restructuring.*”
- He added that the company wants to become seen as “the boutique hotel of airlines”.
- Drawing on an analogy, he said: “Yes, we want to have the presidential suite – the first class and business class – but we also want to have the standard rooms – our economy class.
- “The way we innovate that product type is to give the guest the choice. Even if I’m staying in a standard room I may want some champagne in the room; that is also a possibility if you’re flying with Etihad.”
- The company is currently following a plan to transform and upgrade its economy class by offering customers purchasable upgrades.
- Speaking at a media briefing on Tuesday, Robin Kamark said that 2019 has been “a very good year” and that he is “confident” that the transformation program is working.
- Abu Dhabi’s Etihad Airways anticipates turning a profit by 2023, when its transformation period comes to an end.
- That’s according to its chief commercial officer, who said that Etihad will be a “good, sustainable company” when its five-year turnaround plan comes to an end.

<https://www.aviationbusinessme.com/20029-etihad-airways-turnaround-strategy-to-produce-profits-by-2023>



Step 1: Identifying the Current Mission, Goals, and Strategies



- **Mission:** a statement of the **purpose of an organization**. It also includes the scope of its products and services
- **Goals:** the foundation for further planning. It projects **measurable performance targets**.
- **Strategies:** The **decisions and actions** that determine the **long-run performance** of an organization.



Step 1: Identifying the Current Mission, Goals, and Strategies

Exhibit 8–2 Components of a Mission Statement

Customers: Who are the firm's customers?

Markets: Where does the firm compete geographically?

Concern for survival, growth, and profitability: Is the firm committed to growth and financial stability?

Philosophy: What are the firm's basic beliefs, values, and ethical priorities?

Concern for public image: How responsive is the firm to societal and environmental concerns?

Products or services: What are the firm's major products or services?

Technology: Is the firm technologically current?

Self-concept: What are the firm's major competitive advantage and core competencies?

Concern for employees: Are employees a valuable asset of the firm?

Source: Based on F. David, *Strategic Management*, 11 ed. (Upper Saddle River, NJ: Prentice Hall, 2007), p. 70.



Step 1: Identifying the Current Mission, Goals, and Strategies

Characteristics of a **MISSION**

1. Mission must be feasible and attainable. It should be possible to achieve it.
2. Mission should be clear enough so that any action can be taken.
3. It should be inspiring for the management, staff and society at large.
4. It should be precise enough, i.e., it should be neither too broad nor too narrow.
5. It should be unique and distinctive to leave an impact in everyone's mind.
6. It should be credible, i.e., all stakeholders should be able to believe it.



Examples of Mission

- Our customers' practices and needs are evolving. They want simple solutions that are truly useful. They seek flawless connectivity, personalized responses and good value for money.
- And this is what makes our mission so meaningful: to be **"always be in touch to connect what's essential in your life."**



- At Microsoft, our mission is to enable people and businesses throughout the world to realize their full potential.
- We consider our mission statement a commitment to our customers.
- We deliver on that commitment by striving to create technology that is accessible to everyone—of all ages and abilities.
- Microsoft is one of the industry leaders in accessibility innovation and in building products that are safer and easier to use.



Examples of Mission

“Our mission is to be our customers’ favorite place and way to eat & drink. We’re dedicated to being a **great place for our people to work; to being a strong, positive presence in your community; and to delivering the quality, service, cleanliness and value our customers** have come to expect from the Golden Arches – a symbol that’s trusted around the world.”



Mission Statement

"Apple is committed to bringing the best personal computing experience to students, educators, creative professionals and consumers around the world through its innovative hardware, software and Internet offerings."



Step 1: Identifying the Current Mission, Goals, and Strategies

- **Goals** are the foundation for further planning. It projects **measurable performance targets**. They are desired future states or objectives that an organization tries to achieve.
 - They must be realistic and challenging
 - They must be achieved within a specific time frame
 - They must be precise and measurable
- **Example McDonald's goals:**
 - ✓ Committed to our customers
 - ✓ Operate our business ethically
 - ✓ Give back to our communities
 - ✓ Grow our business profitably
 - ✓ Strive continually for improvement



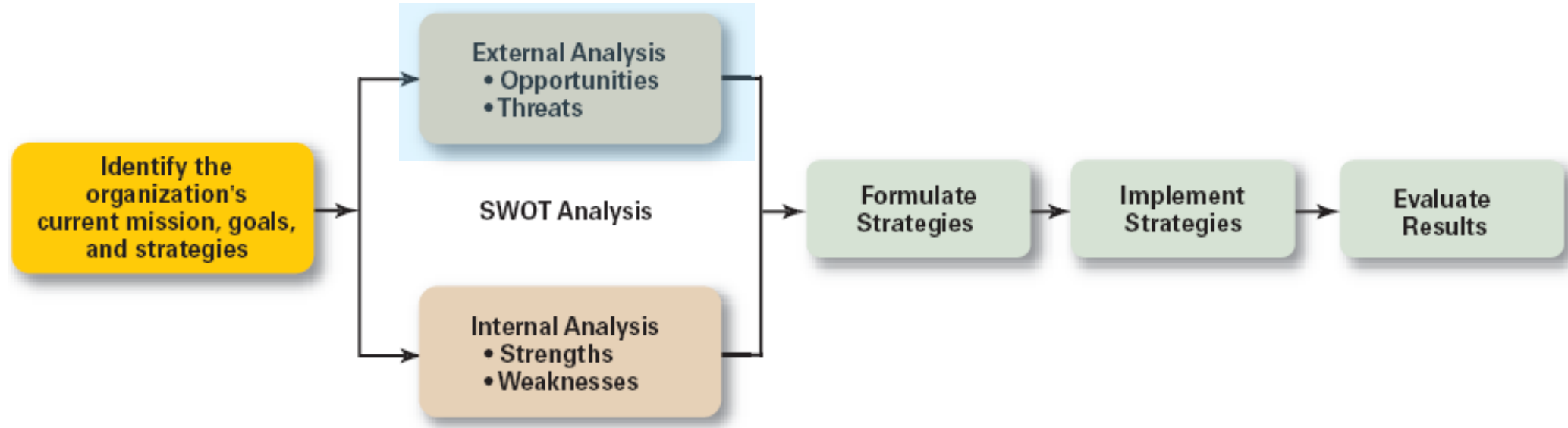
Example: Step 1: Identifying the Current Mission, Goals, and Strategies



- Mission is to be “World's Leading Airline” and to be a “good, sustainable company” when its five-year turnaround plan comes to an end by 2023.
- Goals are to reduce its overheads as part of its transformation strategy, which saw losses cut by around 16% last year to \$1.3 billion, despite rising fuel costs.
- Strategy is to follow a cautious steady growth path, and not sort of extraordinary growth.



Step 2: Doing an External Analysis

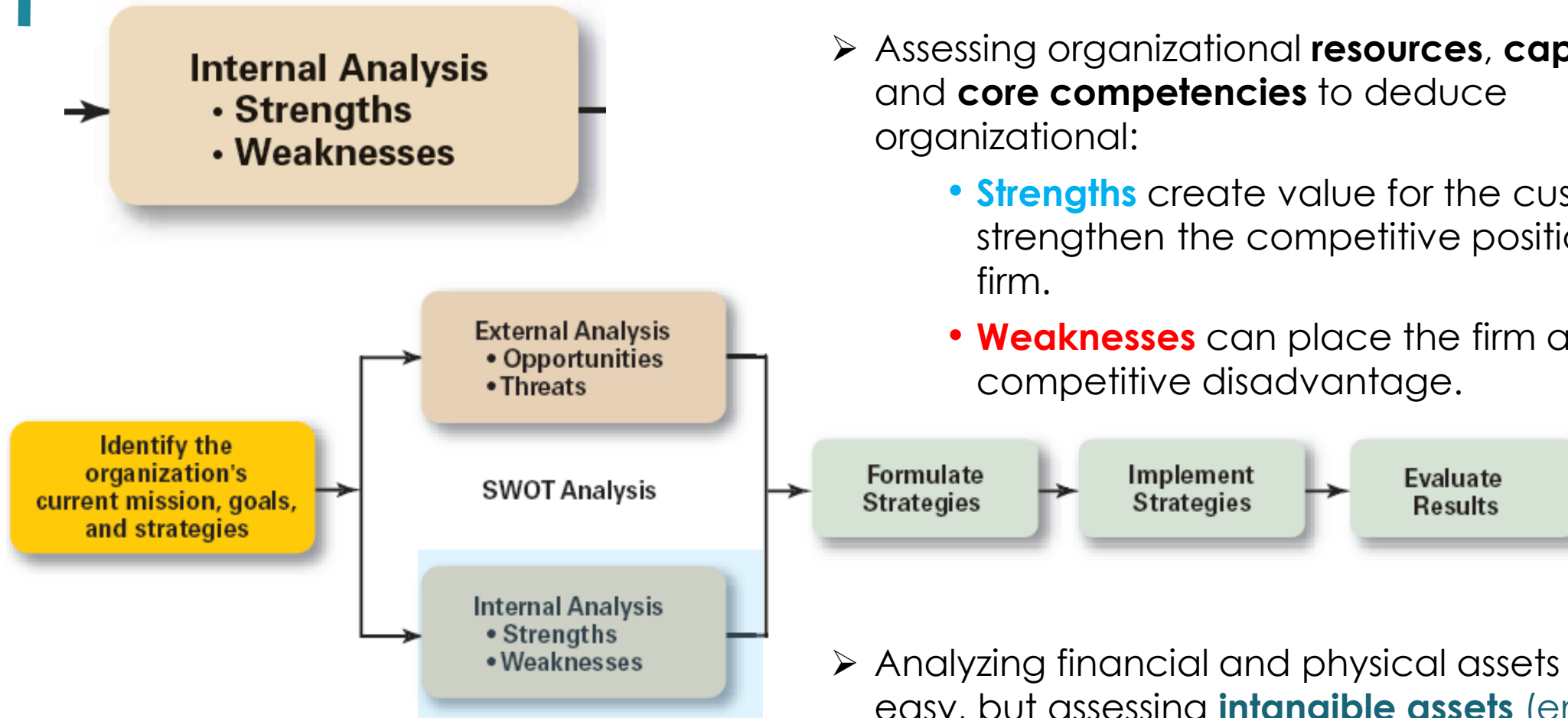


It encompasses:

- ✓ The environmental scanning of specific and general environments
- ✓ Focuses on identifying opportunities and threats

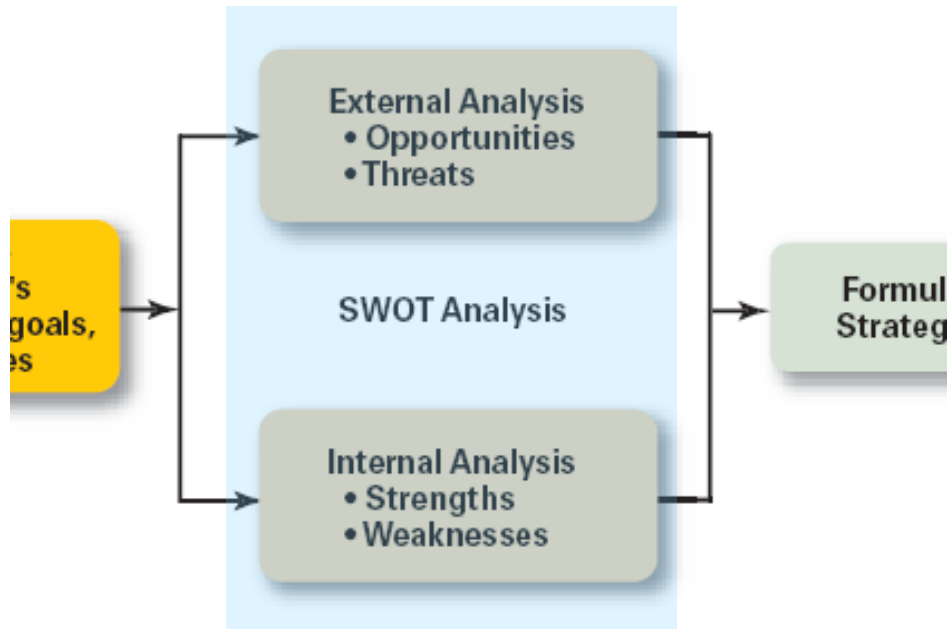


Step 3: Doing an Internal Analysis



- Assessing organizational **resources**, **capabilities**, and **core competencies** to deduce organizational:
 - **Strengths** create value for the customer and strengthen the competitive position of the firm.
 - **Weaknesses** can place the firm at a competitive disadvantage.
- Analyzing financial and physical assets is fairly easy, but assessing **intangible assets** (employee's skills, culture, corporate reputation, and so forth) isn't as easy.





Steps 2 and 3 combined are called a **SWOT** analysis:

- Strengths
- Weaknesses
- Opportunities
- Threats



SWOT Analysis of Nestle



Source: www.statista.com



Business Strategy Hub www.bstrategyhub.com

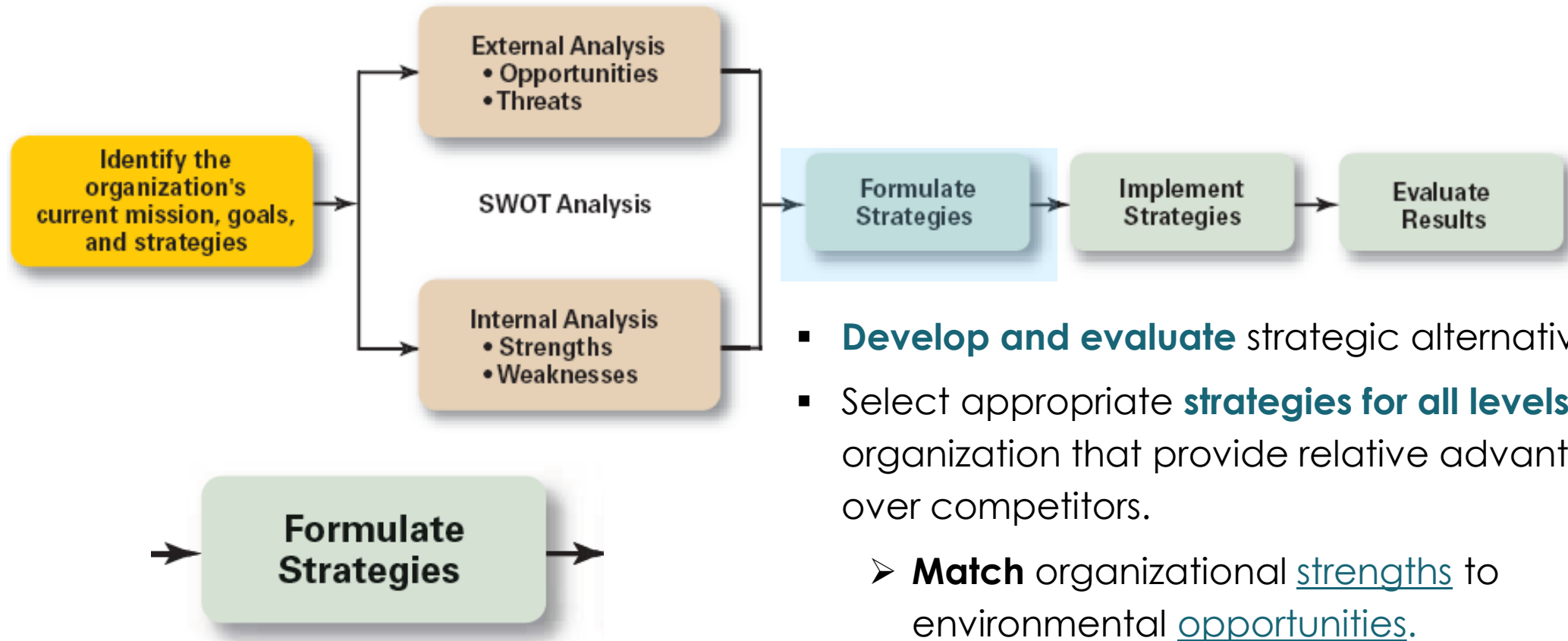


Example: Steps 2 & 3: Doing an External & an Internal Analysis

- The environmental scanning of specific and general environments:
- Focuses on identifying opportunities and threats
 - Opportunities:
 - Launching new routes
 - More international destinations
 - Threats:
 - Fierce competition
 - Increased costs & changing policies
 - Strengths:
 - Strong Brand Image
 - Strong services in Dubai & throughout UAE
 - Weaknesses:
 - Heavy Investments Required
 - High costs (fuel prices & aviation lines royalties)



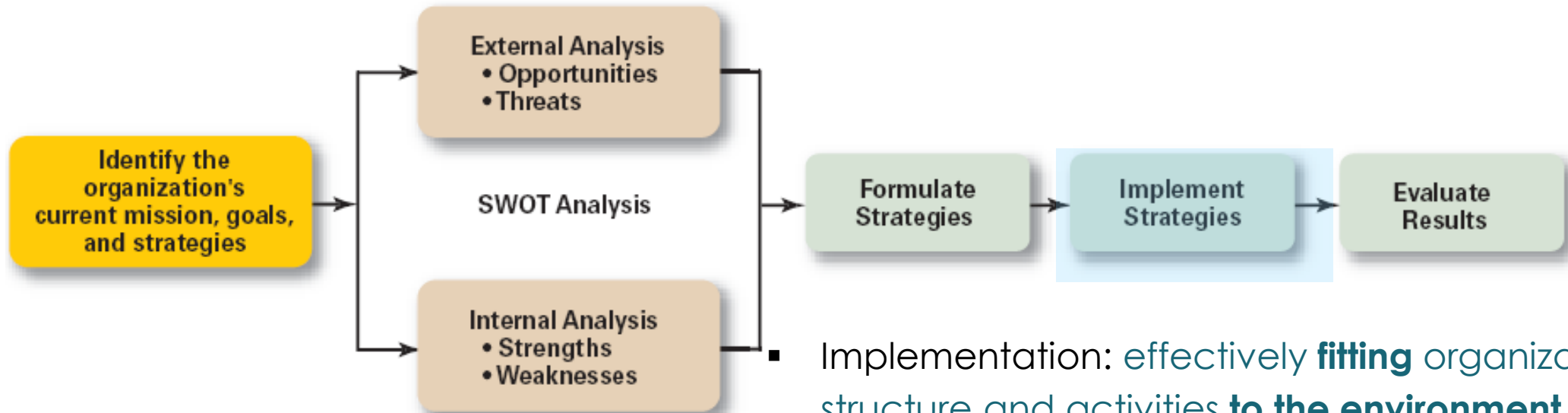
Step 4: Formulating strategies



- **Develop and evaluate** strategic alternatives.
- Select appropriate **strategies for all levels** in the organization that provide relative advantage over competitors.
 - **Match** organizational strengths to environmental opportunities.
 - **Correct** weaknesses and **guard** against threats.



Step 5: Implementing strategies



- Implementation: effectively **fitting** organizational structure and activities **to the environment**.
- The environment **dictates** the chosen strategy; effective strategy implementation requires an organizational **structure matched to its requirements**.





Example: Step 4: Formulating strategies

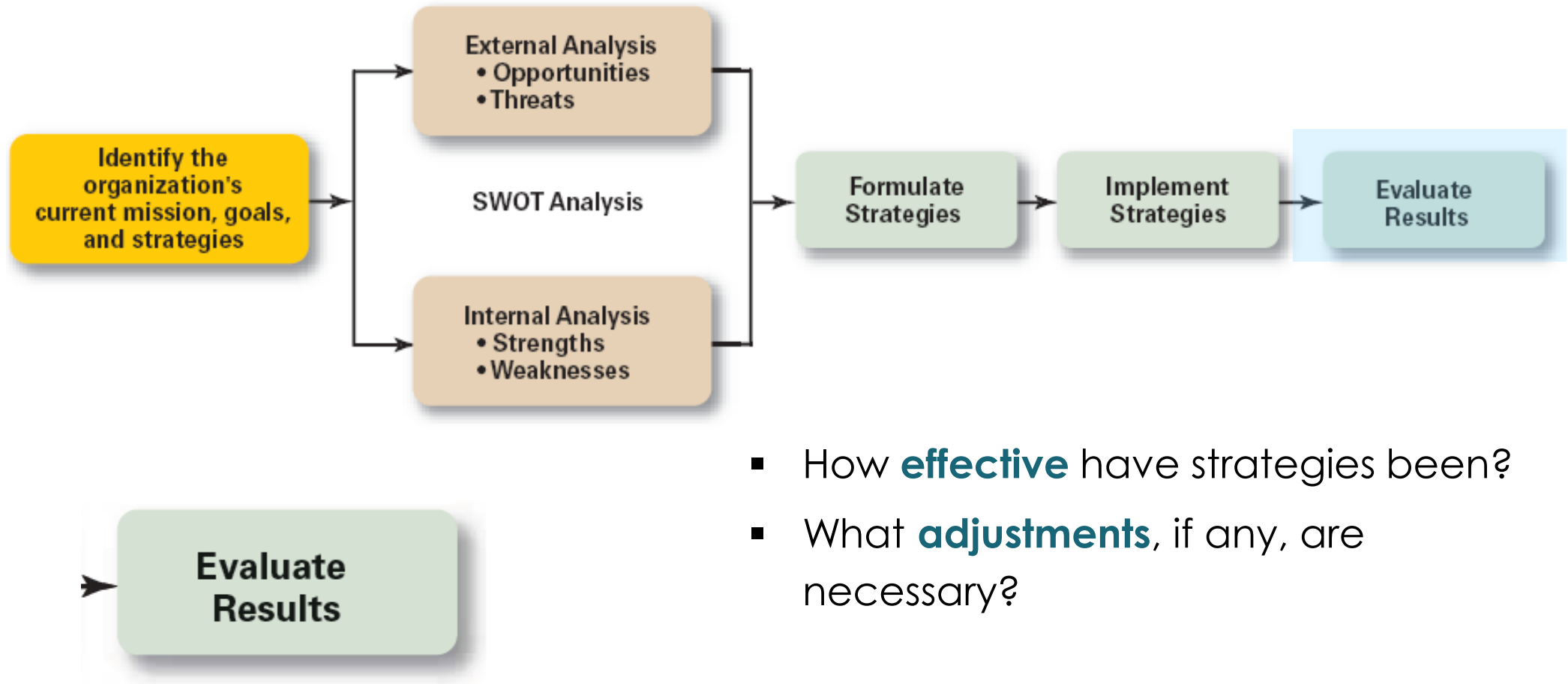
- Strategy is to follow a cautious steady growth path, and not sort of extraordinary growth.

Example: Step 5: Implementing strategies

- The company is currently following a plan to transform and upgrade its economy class by offering customers purchasable upgrades.



Step 6: Evaluating results





THANK YOU

