Introduction to **Management**

Lecture 7

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Chapter 8: Strategic Management

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.

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.

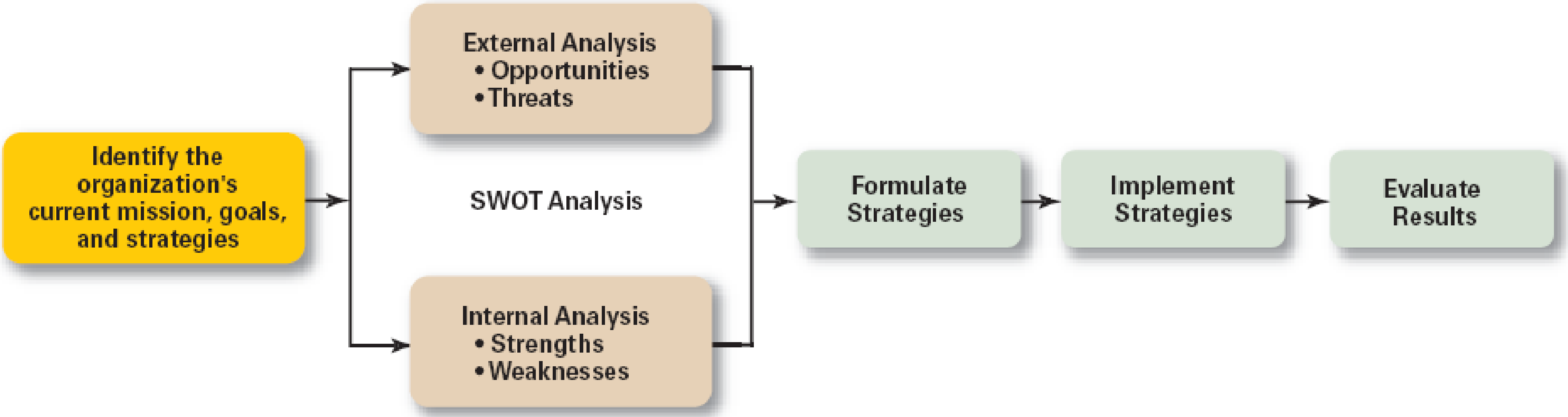
2. Lack of confidence in the impact of formal strategic planning prevails.
   - Generally; or rather culturally; value and importance of long-term planning is not high or well-developed and thus a general attitude of lack of confidence prevails.

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



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.

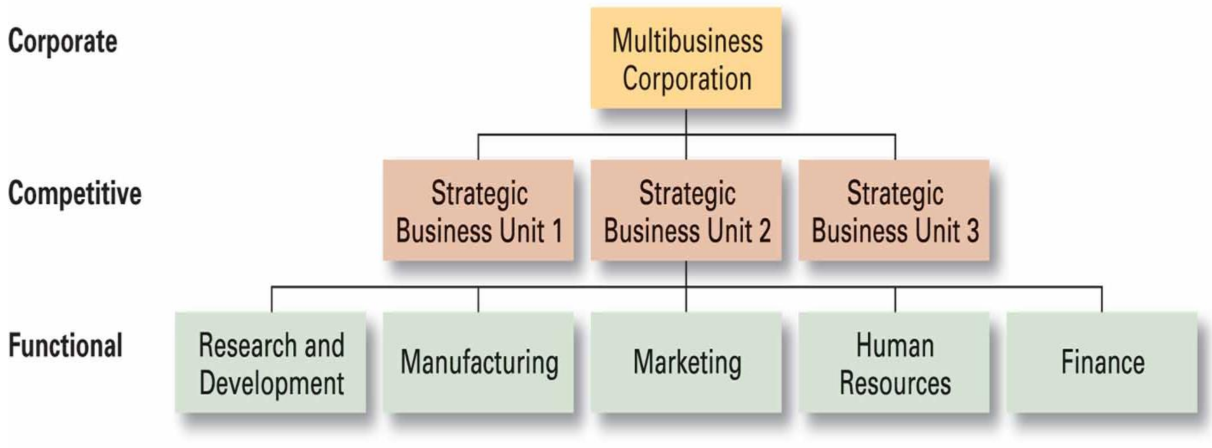
Organizational Strategies

- As identified earlier, strategies are 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.

- Strategies have three types, namely Corporate, Competitive and Functional ones.

Exhibit 8–4 Types of Organizational Strategies

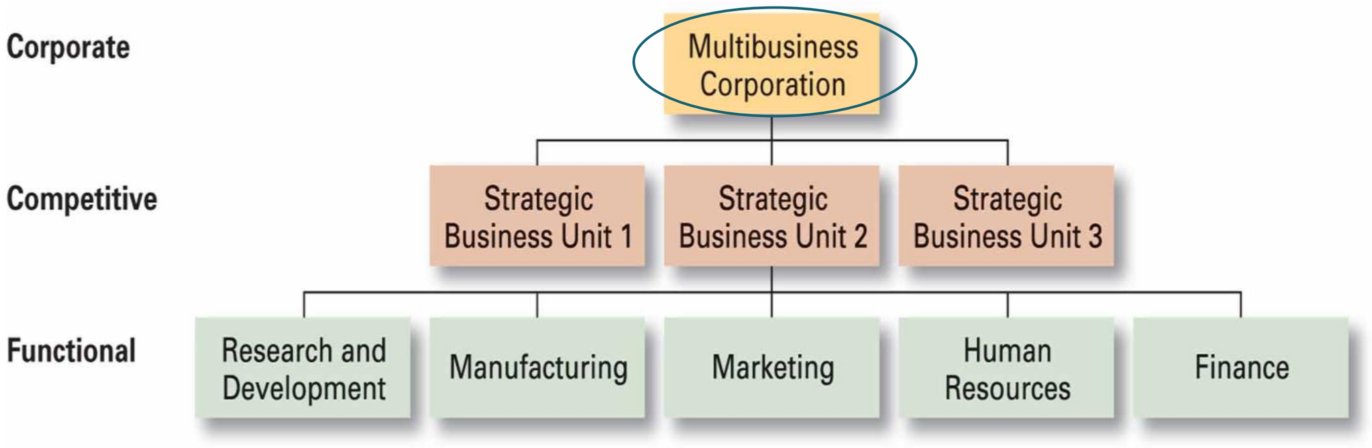


A) What is a Corporate Strategy?

- A **corporate strategy** is one that specifies what businesses a company is in or wants to be in and what it wants to do with those businesses.

- It depends on the aims and goals of the company.

Exhibit 8–4 **Types of Organizational Strategies**



What are the types of Corporate Strategies?

1. Growth:

- It targets expansion into new products and markets: current or new business.

2. Stability:

- It targets maintenance of the status quo

3. Renewal:

- It targets the examination of organizational weaknesses that are leading to performance declines.

Types of Corporate Strategy
1. Growth Strategy

- Seeking to increase the organization's business by expansion into new products and markets.

- Objectives: Increase its revenue, number of employees or market share.

- Types of Growth Strategies:
  a) Concentration
  b) Vertical Integration
  c) Horizontal Integration
  d) Diversification

1. Growth Strategy

A) Concentration strategy

- Focusing on a primary line of business and increasing the number of products offered or markets served.

- Thus, the company would be trying to compete successfully only within a single industry to secure its growth.

1. Growth Strategy

B) Vertical Integration strategy

- Get involved in a new portion of the value chain (S/D have too much power).
- This can be undertaken via two ways:

1. **Backward vertical integration:** attempting to gain control of inputs (become a **self-supplier**).

   E.g.: Ford set up subsidiaries producing rubber, glass & other materials.

2. **Forward vertical integration:** attempting to gain control of output through control of the distribution channel or provide customer service activities (**eliminating intermediaries**).

   E.g.: Disney had opened up its own outlets/stores to acquire profits directly.

1. Growth Strategy
C) Horizontal Integration strategy

- Combining operations with another competitor **in the same industry** to increase competitive strengths and lower competition among industry rivals (merger & acquisition)

- **Examples:**
    1. ExxonMobil (merge Exxon & Mobil'99)

    2. Global pharmaceutical firm GlaxoSmithKline plc (merge GlaxoWellcome plc & SmithKline plc).

    3. Disney acquired MiraMax'93 & Pixar'06

ExxonMobil

gsk GlaxoSmithKline

Disney · PIXAR

1. Growth Strategy

D) Diversification strategy

- Diversification can be undertaken via 2 ways, either related or unrelated diversification.

1. Related Diversification

– Expanding by combining with firms in **different, but related** industries that are **“strategic fits”.**

1. Growth Strategy
D) Diversification strategy

2. Unrelated Diversification

– Growing by combining with firms in **unrelated industries** where **higher financial returns** are possible.

- ‘Don’t put your eggs in one basket”

- E.g.
  - Coca purchased Columbia Picture in 1982 $750M but then sold to Sony in 1989 for $3.4B
  - Harley Davisson – branded bottled water
  - Samsung operates in electronics, construction, chemicals & catering!

Types of Corporate Strategy
2. Stability Strategy

- This strategy is appropriate if managers want to maintain the status quo to deal with the uncertainty of a dynamic environment.
- The industry is experiencing slow- or no-growth conditions.
- If the owners of the firm select not to grow for personal reasons or out of necessity (e.g. nature of controls imposed on cigarettes and liquor industries).

Types of Corporate Strategy

3. Renewal Strategy

- Developing strategies to counter organization weaknesses that are leading to performance declines.
- So, it’s main objective is to re-innovate or improve products and/or services.
- It can be done via (retrenchment) and (turnaround) approaches.

Types of Corporate Strategy
3. Renewal Strategy

- **Retrenchment:**
  - It's a short-term renewal strategy used to address minor performance problems, thus usually adopted if the company continuously fails to meet its objectives.
  - Focusing on eliminating non-critical weaknesses and restoring strengths to overcome current performance problems while helping the company to stabilize performance, revitalize its resources and prepare to compete again.
  - E.g. GM stopped some makes to concentrate on others.

- **Turnaround:**
  - It's usually adopted if the company would be doomed if such solutions are not adopted, thus it is more drastic.
  - Addressing critical long-term performance problems through the use of strong cost elimination measures and large-scale organizational restructuring solutions.
  - E.g. Sony & PS 2 decline necessitated a change in its design to a slim one to elongate its lifecycle till PS 3 was launched.

How are Corporate Strategies **Managed**?

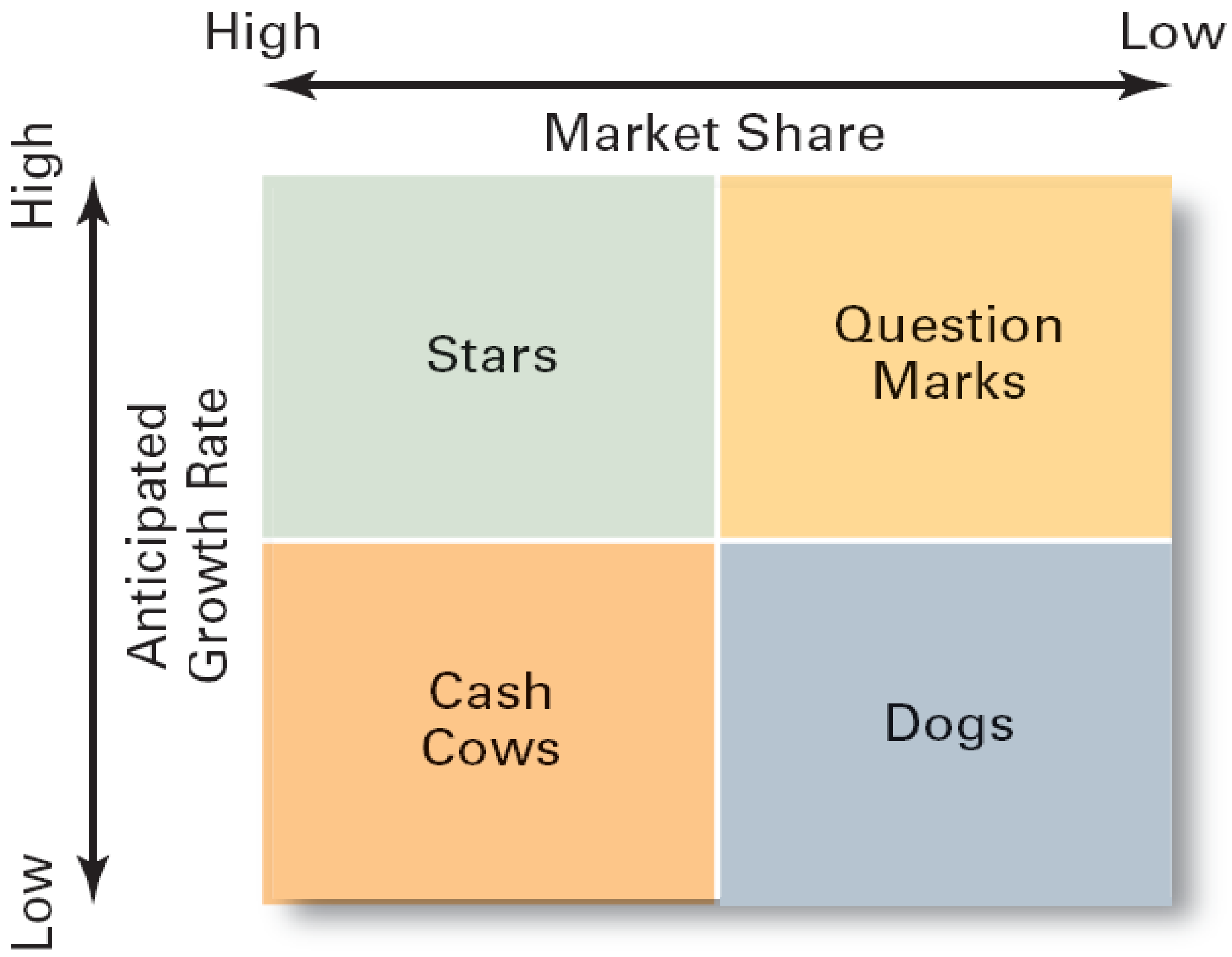
- Managers manage a portfolio (or collection) of businesses using a corporate portfolio matrix such as the BCG Matrix.

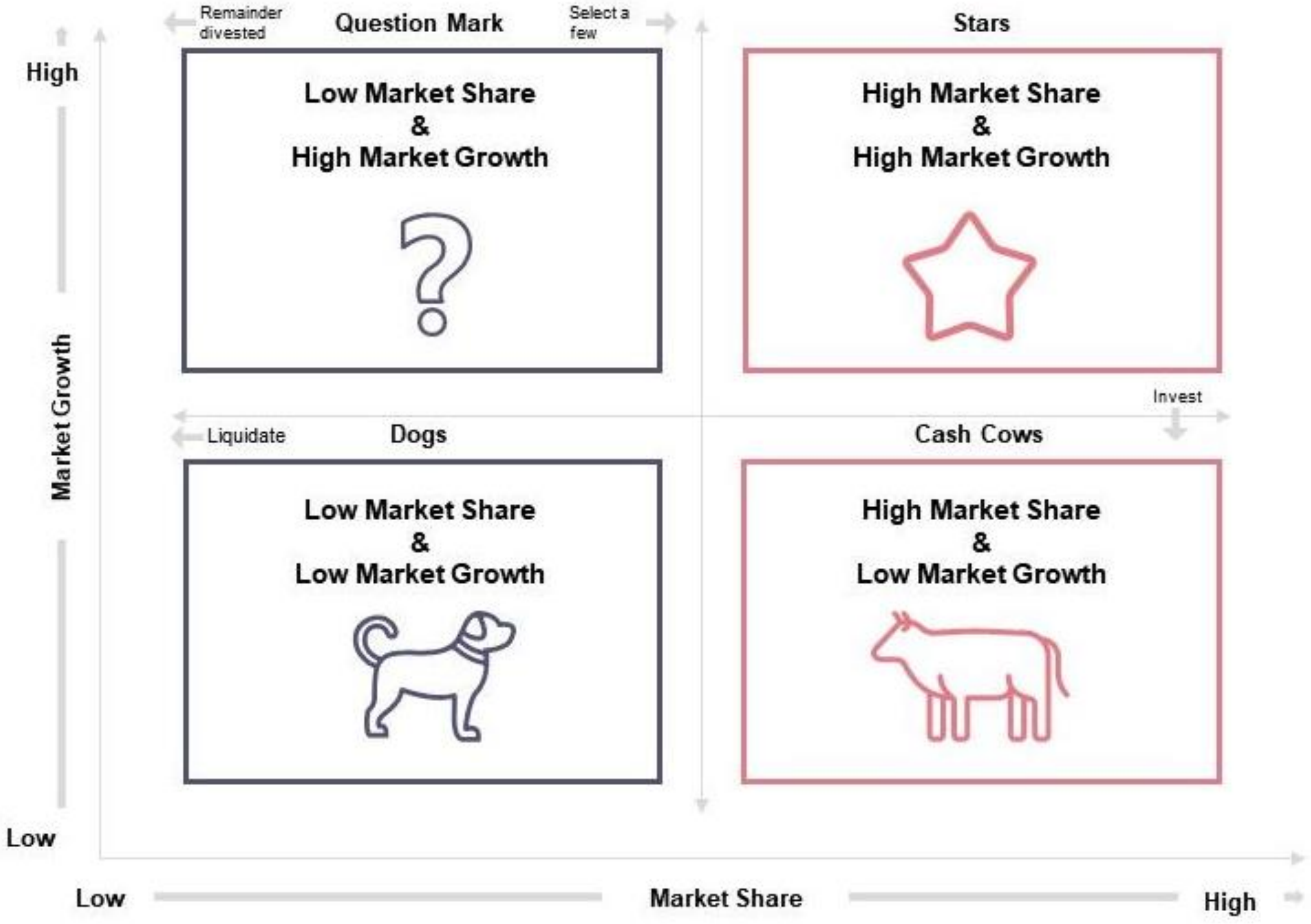
- **BCG Matrix:**

  - Developed by the Boston Consulting Group.
  - Considers market share and industry growth rate.
  - Classifies firms as:

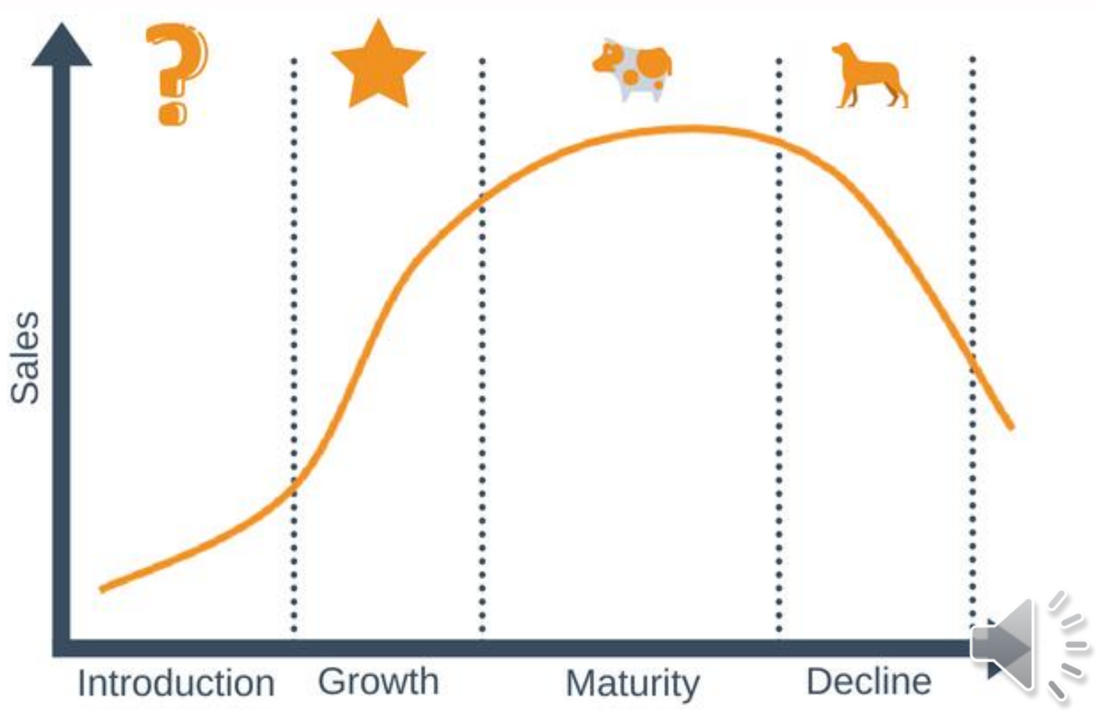
1.	**Cash cows:**	low growth rate, high market share
2.	**Stars:**	high growth rate, high market share
3.	**Question marks:**	high growth rate, low market share
4.	**Dogs:**	low growth rate, low market share

Exhibit 8–5 BCG Matrix

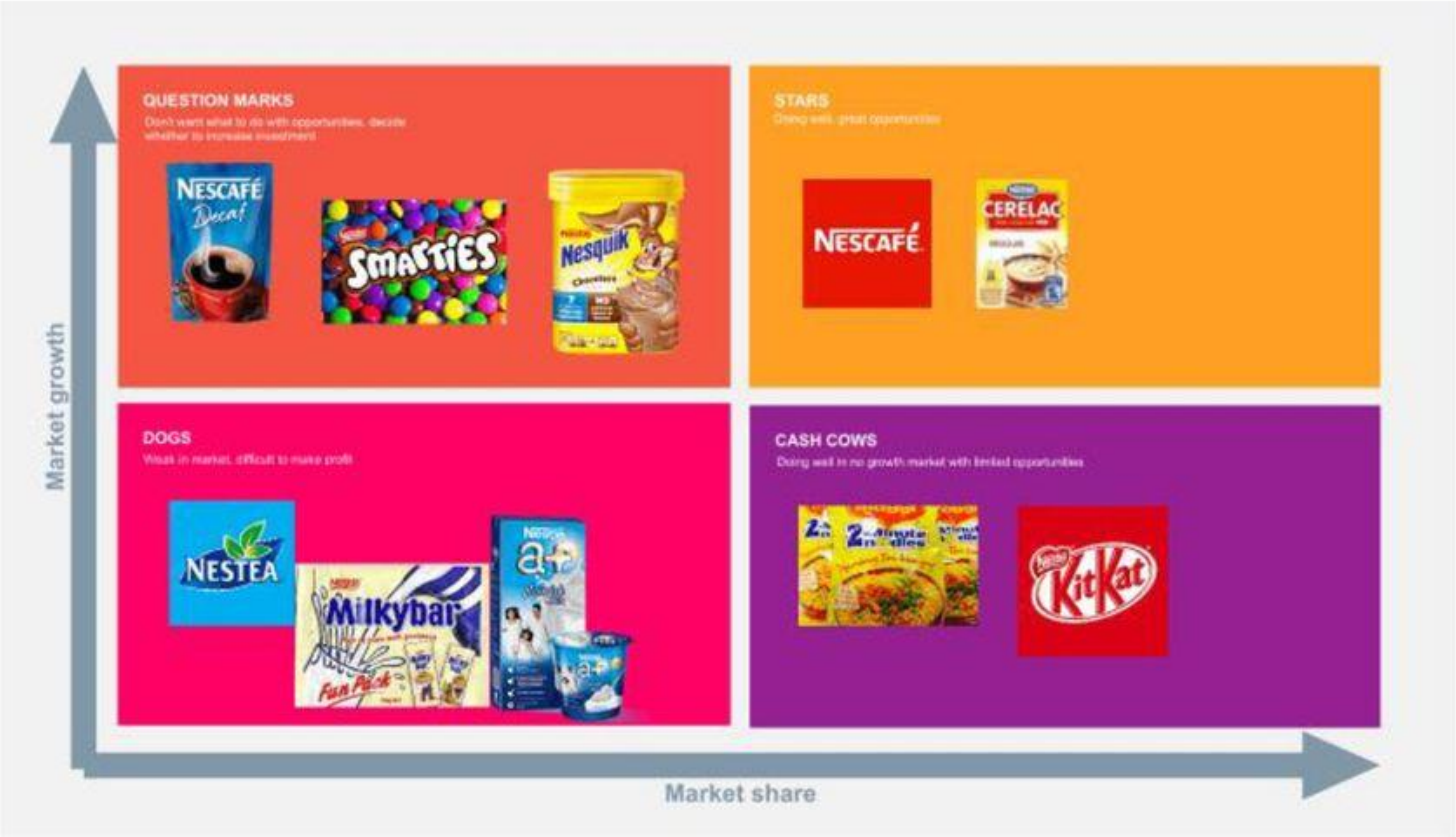




Product Lifecycle & Boston Matrix



NESTLE – BCG MATRIX



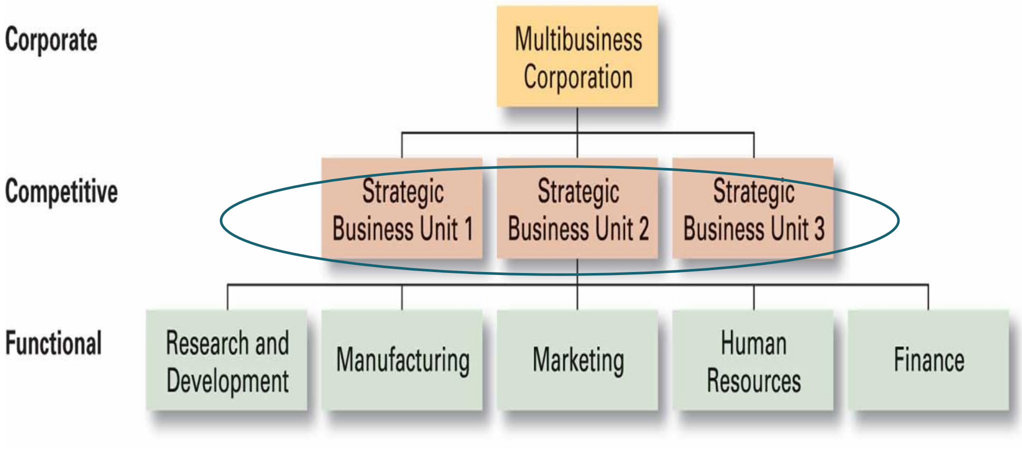
B) Competitive Strategies

- A **competitive strategy** is focused on how an organization will **compete** in its business(es).

- It is based on Competitive Advantage (CA), which sets an organization's distinctive competitive edge.

- That distinctive edge comes from the organization's core competencies because the organization does something that others cannot do or does it better than others can do it.

Exhibit 8–4 **Types of Organizational Strategies**

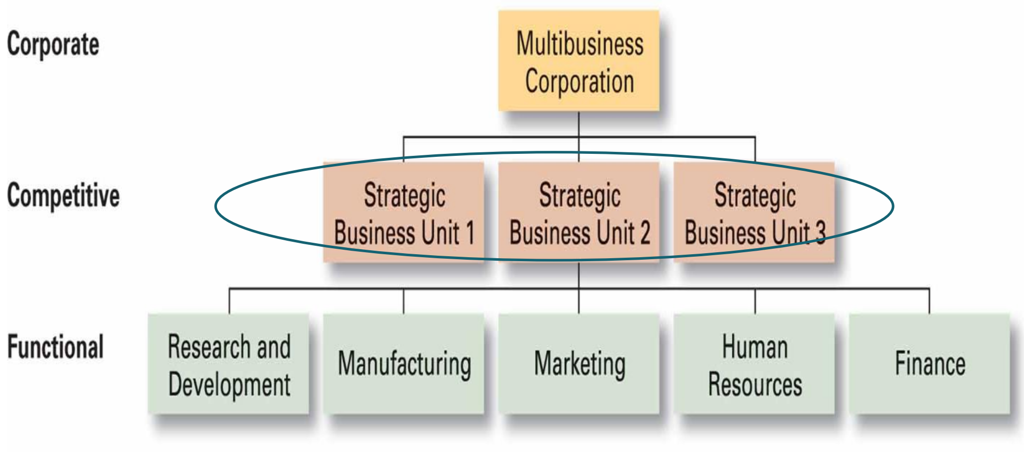


B) Competitive Strategies

- For an organization in only one line of business, the competitive strategy describes how it will compete in **its primary or main market**.

- For organizations in multiple businesses, however, **each business** has its own competitive strategy that defines its competitive advantage, the products or services it will offer, the customers it wants to reach, and the like. Each single business is independent and formulates its own competitive strategy. They are often called **strategic business units (SBUs)**.

Exhibit 8–4 **Types of Organizational Strategies**



Competitive Strategy

Quality as a Competitive Advantage

- **Differentiates** the firm from its competitors.
- Can create a **sustainable** competitive advantage.
- Represents the company's focus on quality management to achieve **continuous improvement** and meet customers' demand for quality

aramex

Competitive Strategy
Sustaining Competitive Advantage

- Continuing over time to effectively exploit resources and develop **core competencies** that enable an organization to keep its edge over its industry competitors is essential.

- It is **not easy** to create a sustainable CA due to market instabilities, new technology, and other changes.

- By **using strategic management**, managers can better position their organizations to get a sustainable competitive advantage.

Competitive Strategy

Five Forces Model

Competitive Strategy

Five Forces Model

1. **Threat of New Entrants:** The **ease or difficulty** with which new competitors can enter an industry.

2. **Threat of Substitutes:** The extent to which **switching costs and brand loyalty** affect the likelihood of customers adopting substitute products and services. (tea/coffee, car/motorcycles, margarine/butter)

3. **Bargaining Power of Buyers:** The degree to which buyers have the **market strength** to influence competitors in an industry.

Competitive Strategy
Five Forces Model

4. Bargaining Power of Suppliers: The relative **number of buyers** to suppliers and **threats from substitutes** and **new entrants** affect the buyer–supplier relationship.

5. Current Rivalry: Intensity among rivals increases when industry growth rates slow, demand falls, and product prices descend.

Competitive Strategy

Five Forces Model

RIVALRY AMONG EXISTING COMPETITORS:
- Number of competitors
- Diversity of competitors
- Industry concentration
- Industry growth
- Quality differences
- Brand loyalty
- Barriers to exit
- Switching costs

THREAT OF NEW ENTRANTS

THREAT OF NEW ENTRANTS:
- Barriers to entry
- Economies of scale
- Brand loyalty
- Capital requirements
- Cumulative experience
- Government policies
- Access to distribution channels
- Switching costs

BARGAINING POWER OF SUPPLIERS

BARGAINING POWER OF BUYERS

BARGAINING POWER OF SUPPLIERS:
- Number and size of suppliers
- Uniqueness of each supplier's product
- Focal company's ability to substitute

BARGAINING POWER OF BUYERS:
- Number of customers
- Size of each customer order
- Differences between competitors
- Price sensitivity
- Buyer's ability to substitute
- Buyer's information availability
- Switching costs

THREAT OF SUBSTITUTE PRODUCTS:
- Number of substitute products available
- Buyer propensity to substitute
- Relative price performance of substitute
- Perceived level of product differentiation
- Switching costs

THREAT OF SUBSTITUTE PRODUCTS

Choosing a Competitive Strategy
Cost Leadership Strategy

- Seeking to attain the **lowest total overall costs** relative to other industry competitors. It's a strategy that strives for the company to be the lowest cost producer for a particular level of product quality.

- Competitive advantage is based on operational excellence (i.e. maximizing the efficiency of the manufacturing or product development process to minimize costs & hence the prices).

- Manufacturing & transportation companies usually adopt this strategy (e.g. design a product with minimum number of parts to assemble).

- Examples: Wal-Mart, Dell, FedEx.

Walmart

Choosing a Competitive Strategy
Differentiation Strategy

- Attempting to create a **unique and distinctive** product or service for which customers will pay a premium.
- It's a strategy that attempts to develop unique value to the customers, through unique products & services that give the firm a potential to set premium prices for them.
- Competitive advantage is based on product innovation.
- Examples: (Rolex: image, Lexus: quality, Volvo : safety, Apple: usability)

ROLEX

Choosing a Competitive Strategy
Focus Strategy

- Using a cost or differentiation advantage to exploit a **particular market segment (niche)** rather than a larger market.

- It's a strategy that focuses on a narrow market segment or niche that has special needs. A company pursues either a differentiation or a cost leadership strategy within a specific market segment or a part of it.

- Competitive advantage is based on customer intimacy (i.e. delivering unique & customizable products or services that better meet customer needs & increase their loyalty).

- Examples: Starbucks, Red Lobster

Stuck in the Middle???

When an organization cannot develop a cost or differentiation advantage, it is classified as such!

So, do you think a company can adopt the 2 earlier strategies (Differentiation and Cost Leadership) parallel?

Yes, like FedEx and Coca Cola, but it's not easy.

New Directions in Organizational Strategies

The need for Strategic Flexibility

<u>Involves the ability:</u>

1. to recognize major external changes

2. to quickly commit resources

3. to recognize when a strategic decision is not working

Exhibit 8–7 Strategic Flexibility

- Know what's happening with strategies currently being used by **monitoring and measuring results**.
- Encourage employees to be **open about disclosing** and sharing **negative** information.
- Get **new ideas** and perspectives from **outside** the organization.
- Have **multiple alternatives** when making strategic decisions.
- Learn from **mistakes**.

Source: Based on K. Shimizu and M. A. Hitt, "Strategic Flexibility: Organizational Preparedness to Reverse Ineffective Strategic Decisions," *Academy of Management Executive*, November 2004, pp. 44–59.

New Directions in Organizational Strategies

1. E-Business Strategies:

- **Cost Leader**
  - On-line activities: bidding, order processing, inventory control, recruitment and hiring
- **Differentiator**
  - Internet-based knowledge systems, online ordering and customer support
- **Focuser**
  - Chat rooms and discussion boards, targeted Web sites for customers to interact and attract the specific niche in question

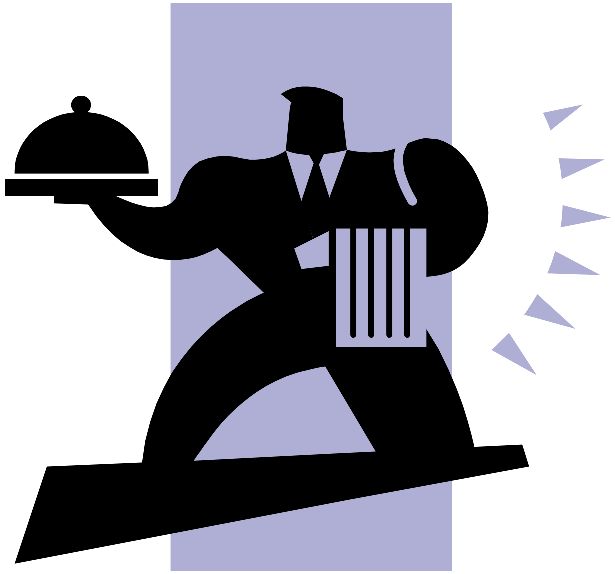
- Clicks-and-Bricks business model uses both online (clicks) and traditional stand-alone locations (bricks)
- e.g. Exotica Lebanese flower shop has outlets and online ordering & delivery.

New Directions in Organizational Strategies

2. Customer Service Strategies

- Companies emphasize excellent customer service to implement its strategies successfully & to do so they should:

  - ✓ Give the customers what **they want**.
  - ✓ Communicate **effectively** with them.
  - ✓ Provide employees with **customer service training**.



- e.g. call centers to ensure reaching out to customers, acquiring their feedback and requests to cater for them to fit the strategy.

New Directions in Organizational Strategies

3. Innovation Strategies

- Innovations Strategies are highly emphasized, coming in:
  - Radical **breakthroughs** in products.
  - Application of **existing technology** to new uses.

- Strategic Decisions about Innovation:
  - **Basic** research
  - **Product** development
  - **Process** improvement

  - An organization that is **first** to bring a product innovation to market or use a new process innovation is known as a **first mover**.
- e.g. Hikma Pharmaceuticals in Jordan

Exhibit 8–8 First-Mover Advantages–Disadvantages

Advantages

- **Reputation** for being innovative and industry leader
- **Cost** and **learning** benefits
- Control over **scarce resources** and keeping competitors from having access to them
- Opportunity to begin building **customer relationships** and customer **loyalty**

Disadvantages

- **Uncertainty** over exact direction technology and market will go
- Risk of competitors **imitating** innovations
- **Financial and strategic risks**
- High development **costs**

THANK YOU