MGMT3015

CORPORATE STRATEGY

Semester 1

2025

Week 3

Wednesday 5th March

Australian National University

TOPIC 3

THE STRATEGY DEVELOPMENT PROCESS (2)

- DETERMINANT OR PLANNED APPROACHES BASED ON ANALYSES
- EMERGENT OR SENSING APPROACHES BASED ON CREATIVITY, INNOVATION AND ENTREPRENEURIALISM OR INTRAPRENEURIALISM

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HOUSEKEEPING

Tutorials: Participation and Enagement

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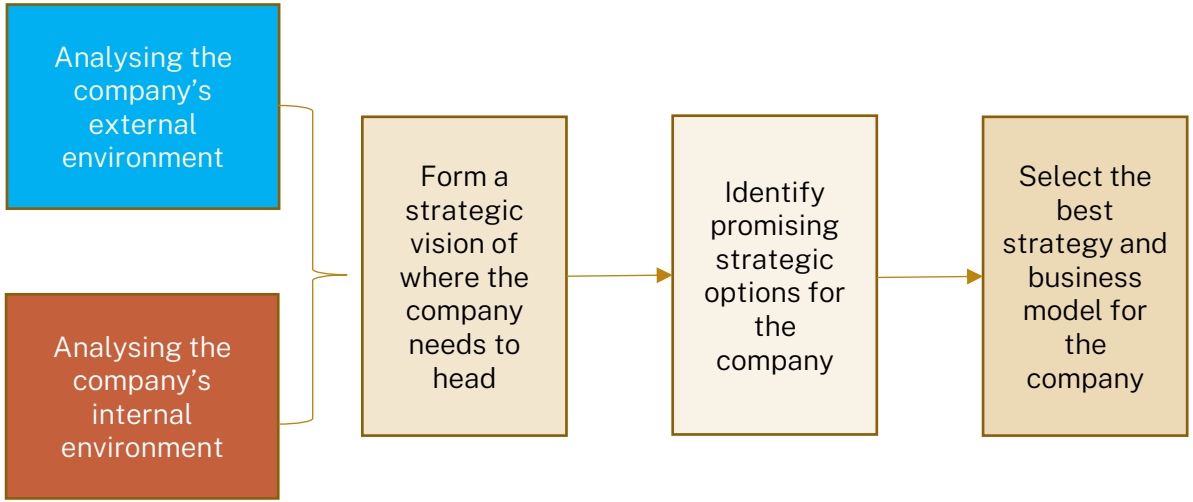
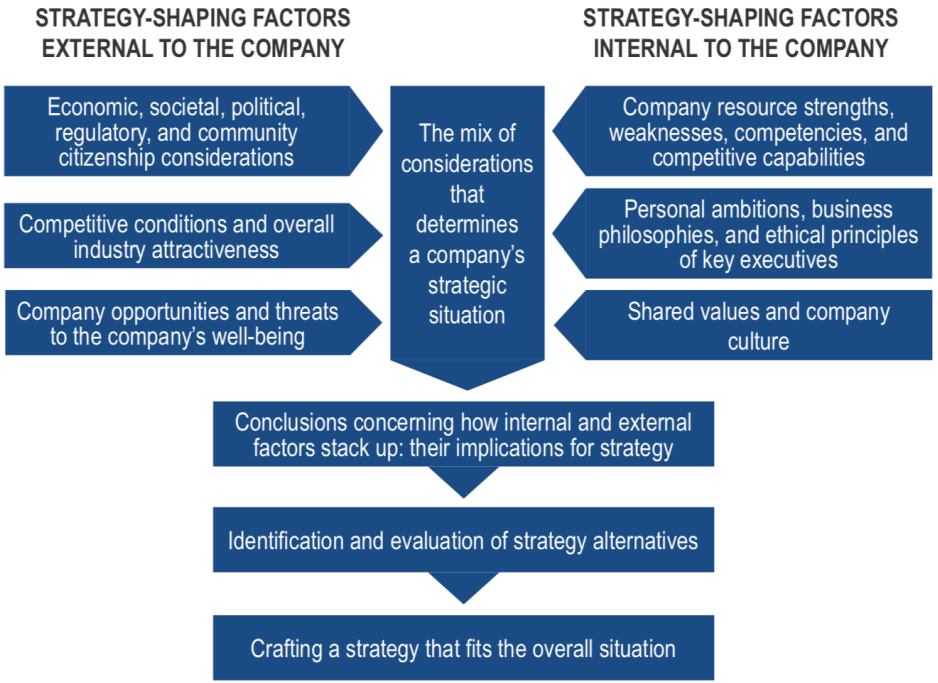
LECTURE 3

From analysing to strategizing

Adapted from Thompson et al 2024 p.51

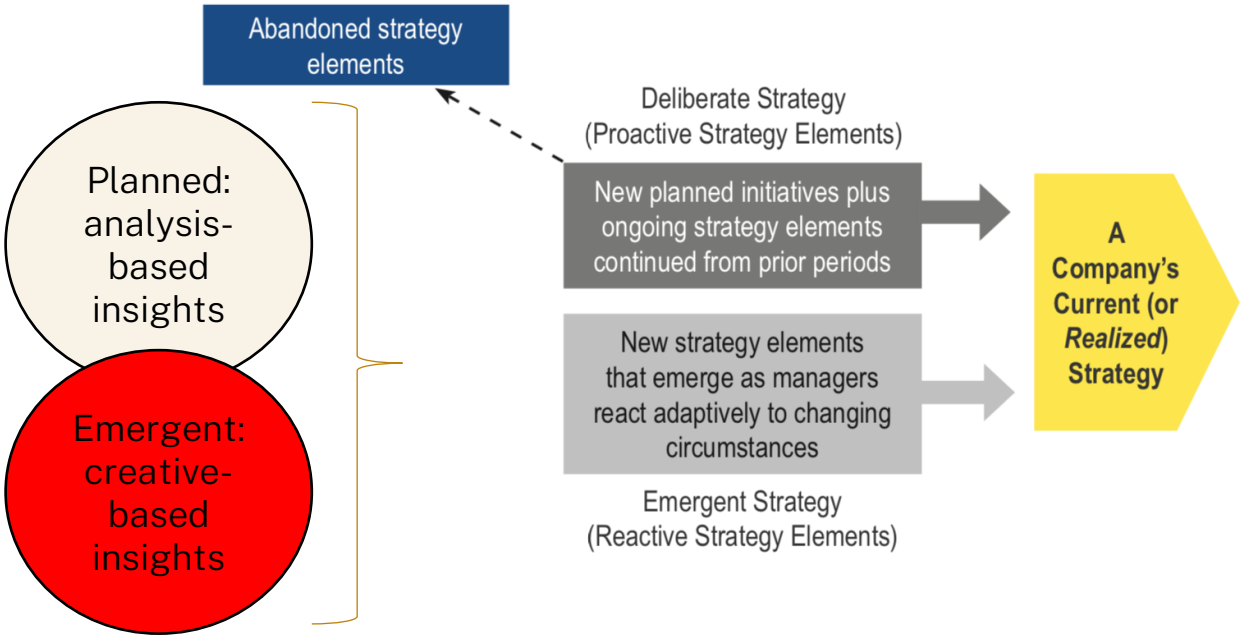


Factors shaping the choice of strategies



Parallel approaches for developing strategy

Thompson et al 2024 p.10



Strategic Management – what's involved?

In practice, however, strategy is normally developed through a combination of design and emergence. This is called the modern approach to strategy formulation. At the design level, strategy is developed in a board meeting by the top management team as part of a strategic planning process. At the emergent level, strategy is continually created by the decisions made by every member of the organisation – especially by middle management...

Combining emergent and design strategy maximises the responsiveness and adaptability of the strategic management process. Corporate headquarters set guidelines in the form of mission statements, business principles and performance targets, while the individual business units take the lead in formulating strategic plans at the business-unit level. Within the strategic plans that they design, divisional and business unit managers usually have considerable freedom to adjust, adapt and experiment.

(Grant et al 2016, pp. 13–14)

External analysis – why?

Contemporary strategic management considers that performance is affected by the characteristics of the organisation and its environment, in that order. Strategic management is the process of matching what an organisation can do (organisational strengths and weaknesses) and **what it might do (environmental opportunities and threats).** This process of matching the organisation to its environment is a continuous process of analysis, synthesis, action-taking and evaluation.

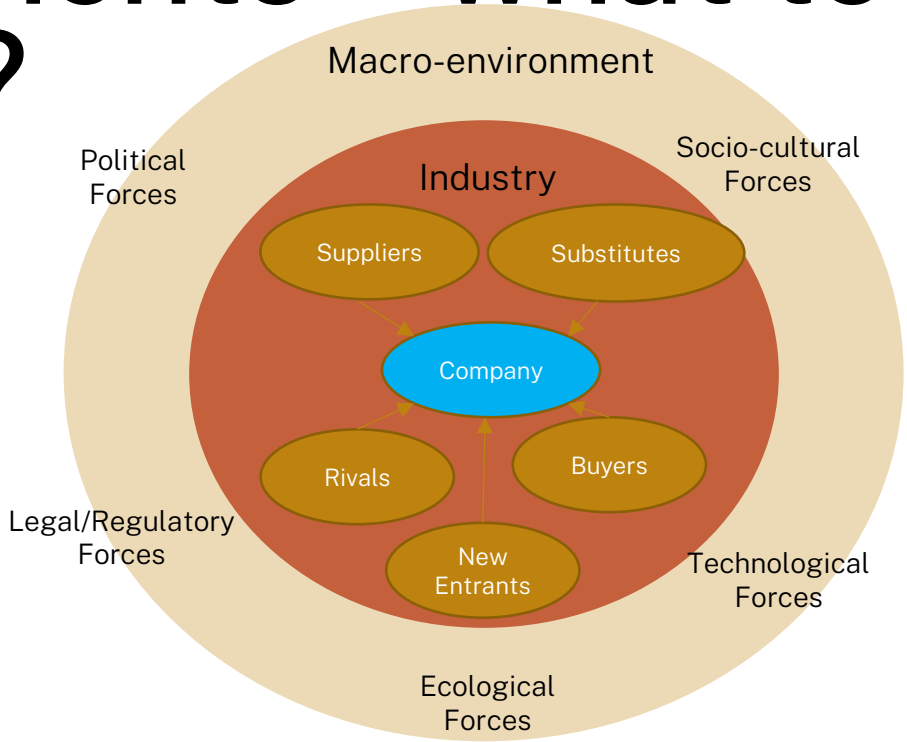
Grant et al 2016, p. 6

The key strategic imperative - playing to win

Source: Lafley & Martin, HBR, 2013

Strategically important environments – what to analyse?

Source: Thompson et al 2024 p. 52



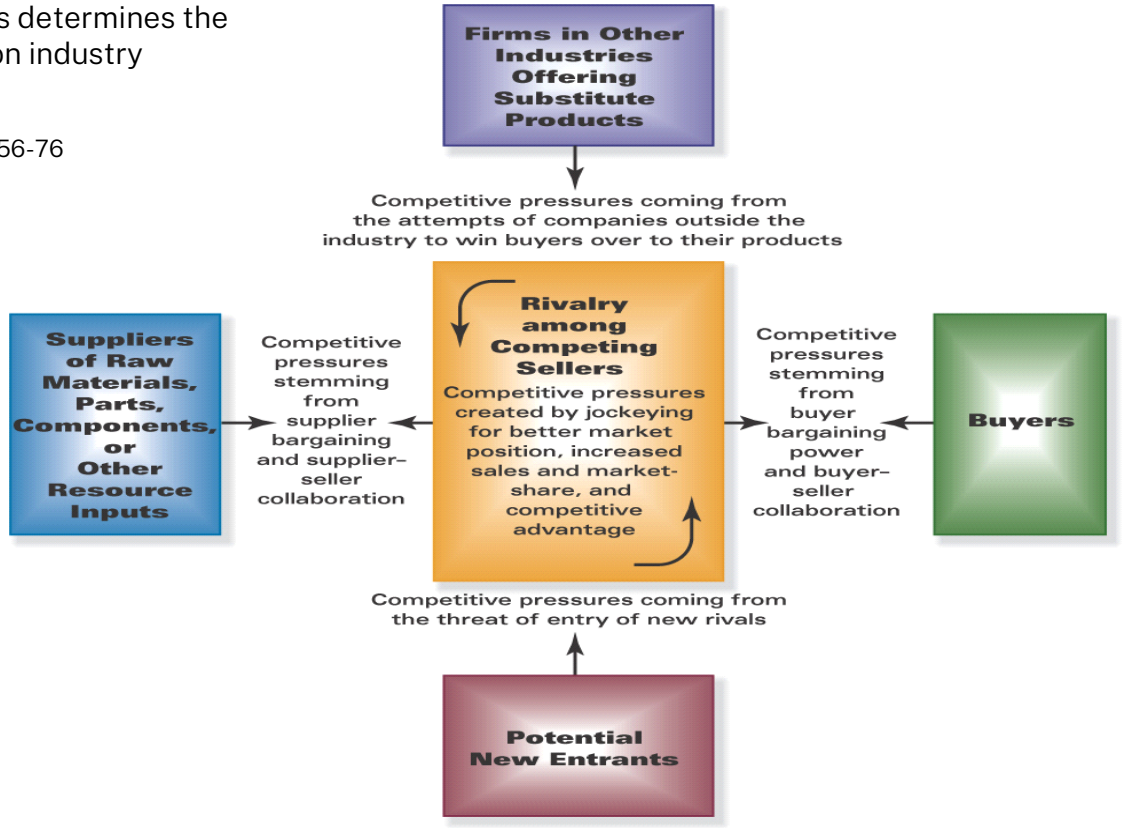
Planned approach: Macro-environmental analysis (PESTLE)

- Political Forces
- Economic Forces
- Socio-cultural Forces
- Technological Forces
- Legal Forces
- Ecological Forces

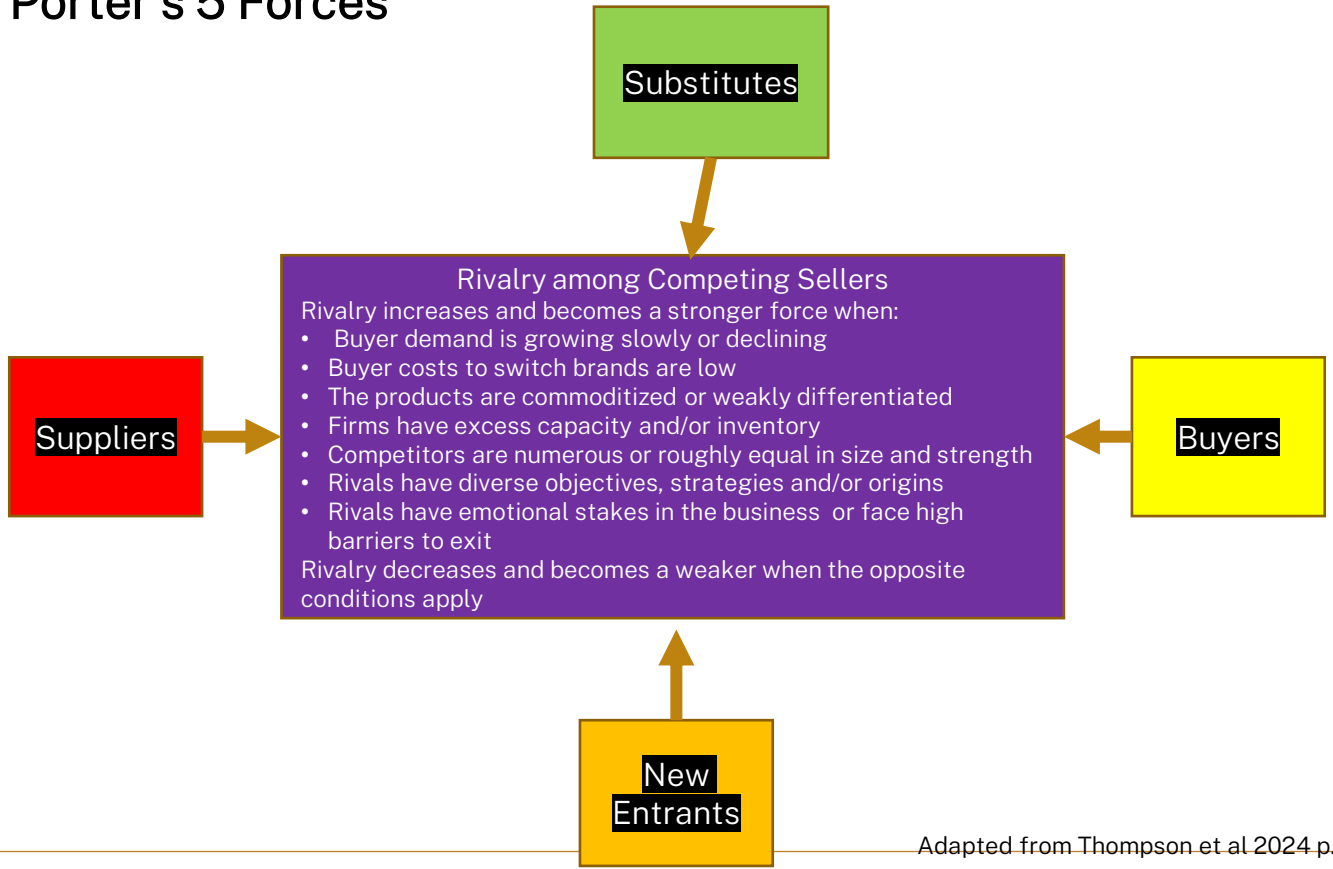
Porter's 5 Forces

The strongest of the five forces determines the extent of downward pressure on industry profitability

Adapted from Thompson et al 2024 p. 56-76



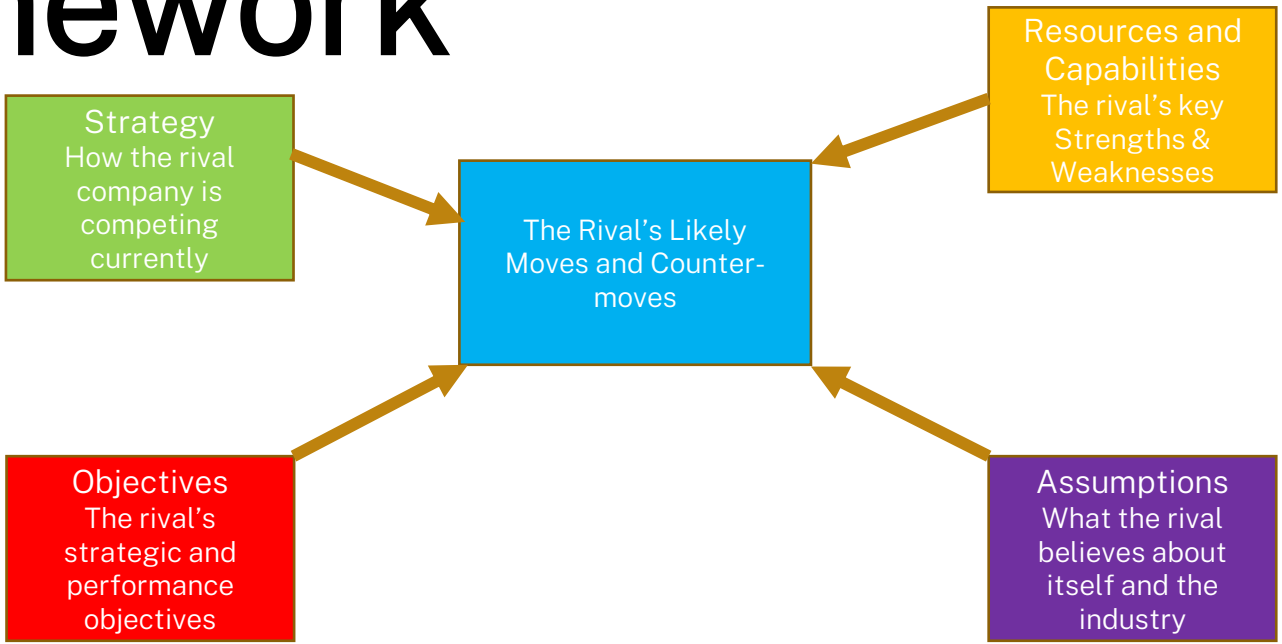
Porter's 5 Forces



Adapted from Thompson et al 2024 p. 56-76

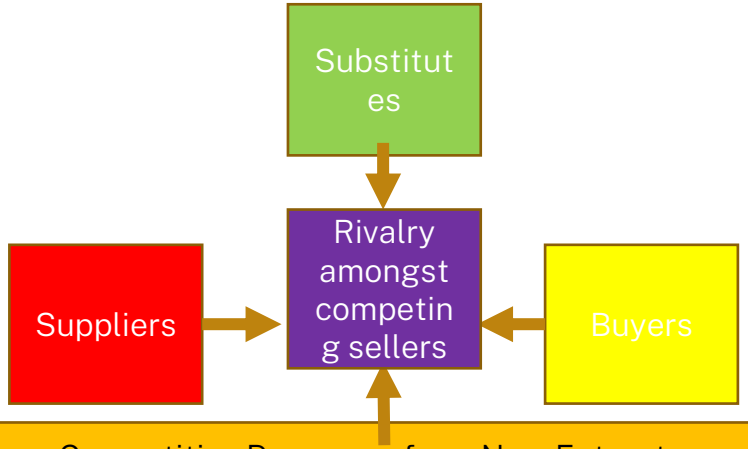
Analysing competitors - Porter's SOAR Framework

Adapted from Thompson et al 2024 p. 81



Porter's 5 Forces

Adapted from Thompson et al 2024 p. 56-76



Competitive Pressures from New Entrants

Threat of entry is a stronger force when (a) incumbents are unlikely to make retaliatory moves against new entrants, and (2) entry barriers are low. Entry barriers are high (and threat of entry is low) when:

- Incumbents have large cost advantages over new entrants (economies of scale; experience-curve advantages; cost advantages)
- Customers have strong brand preferences/loyalty
- Patents or IP protections
- Strong networks effects
- High capital requirements
- Limited access to distribution channels
- Restrictive government or trade policies

Porter's 5 Forces

Adapted from Thompson et al 2024 p. 56-76

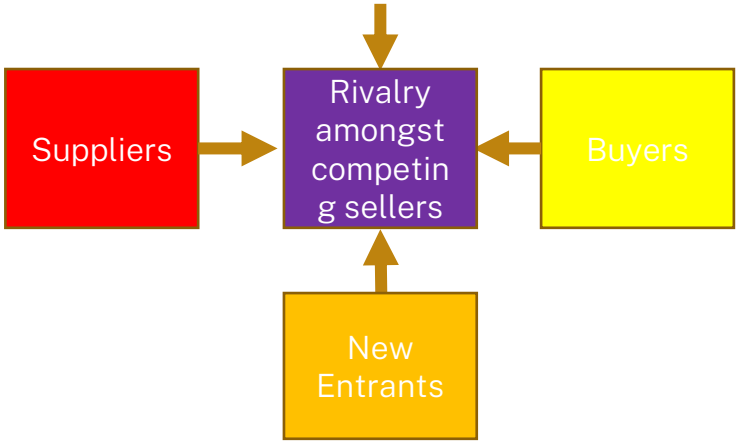
Substitutes

Competitive pressures from substitutes are stronger when:

- Good substitutes are readily available and reasonably priced
- Substitutes have comparable or better performing features
- Buyers have low costs in switching to substitutes

Competitive pressures from substitutes are weaker when the opposites applies

Indicators of increasing competitive strength among substitutes include faster rates of sales growth; makers of substitutes increasing capacity; profits earned by makers of substitutes are increasing.



Porter's 5 Forces

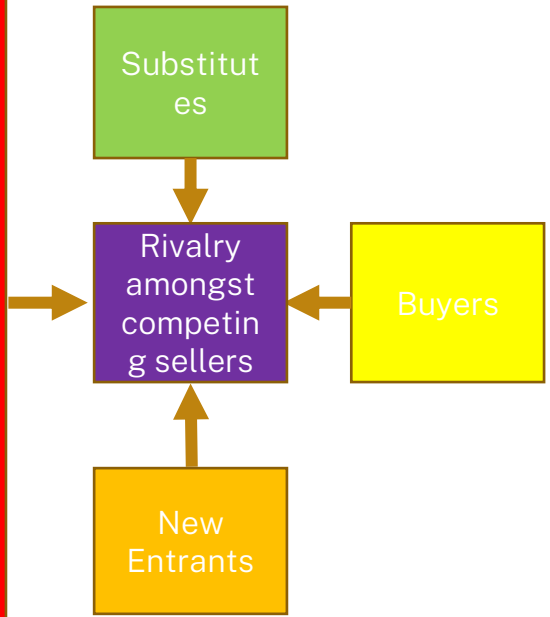
Adapted from Thompson et al 2024 p. 56-76

Suppliers

Supplier bargaining power is stronger when:

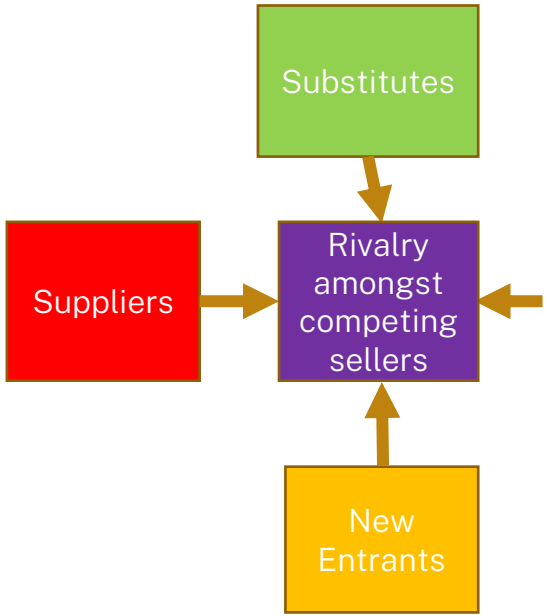
- Supplier's products/services are in short supply
- Supplier's products/services are differentiated
- There are high costs in switching suppliers
- Supplier industry is concentrated and dominated by a few companies
- Industry members cannot backwards integrate and make their own inputs
- Supplier inputs are a large share of the industry's product costs
- There are no good substitutes for the inputs
- Industry members are not a big proportion of the supplier's sales

Supplier bargaining power is weaker under the opposite conditions



Porter's 5 Forces

Adapted from Thompson et al 2024 p. 56-76



Buyers

Competitive pressure from buyers increases when they have strong bargaining power and are price-sensitive. Buyer power is stronger when:

- Buyer demand is weak in relation to industry supply
- The industry's products are standardized or undifferentiated
- Buyer switching costs are low
- Buyers are large and few in number
- Buyers have capacity to backwards integrate
- Buyers are well informed about quality, prices, and sellers' costs
- Buyers can postpone purchases

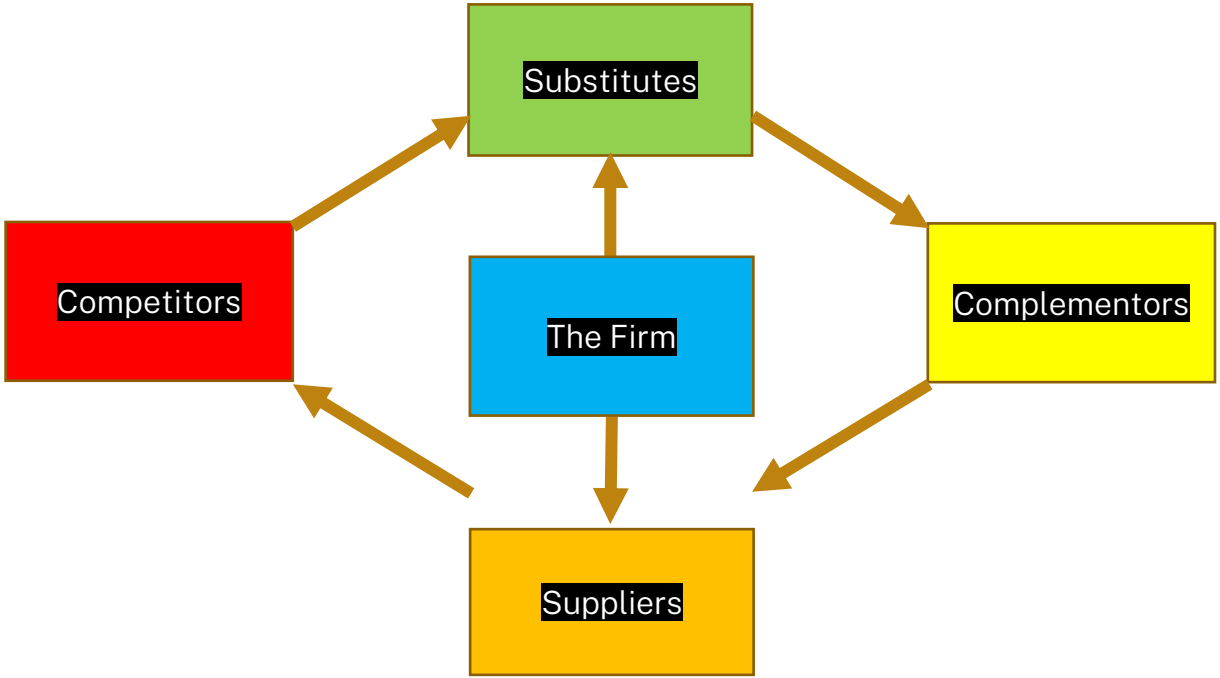
Buyers are price-sensitive when:

- They earn low profits or low incomes
- The product being bought is a significant element of costs
- The product is un-differentiated or quality is not important

Competitive pressure from buyers decreases under opposite condistions

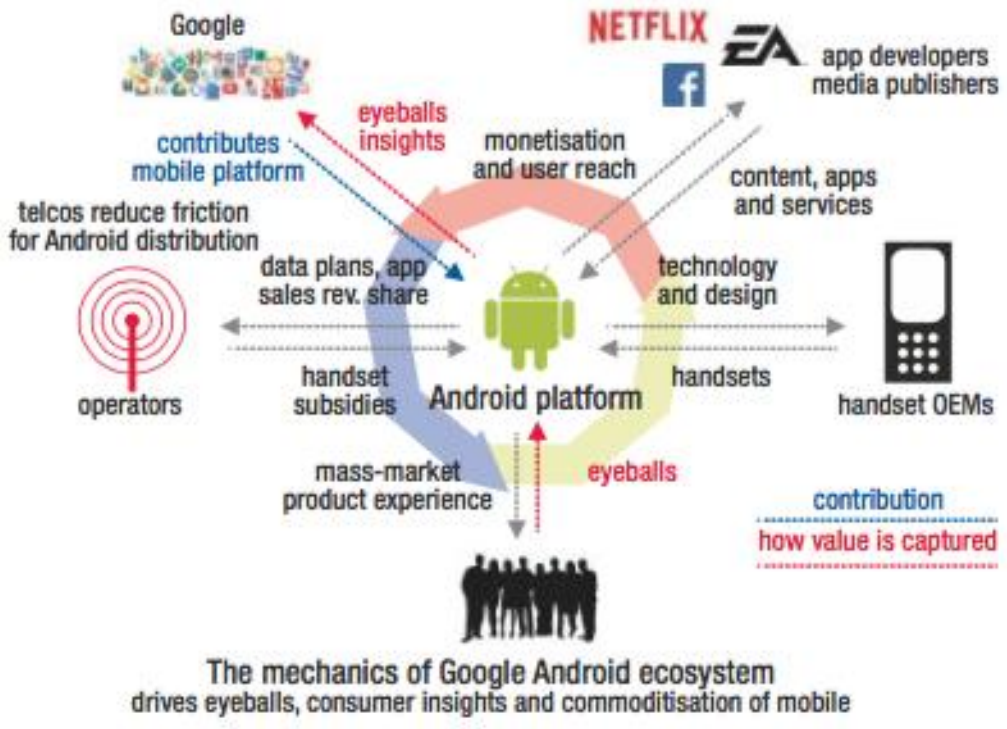
Complementors and the Value Net

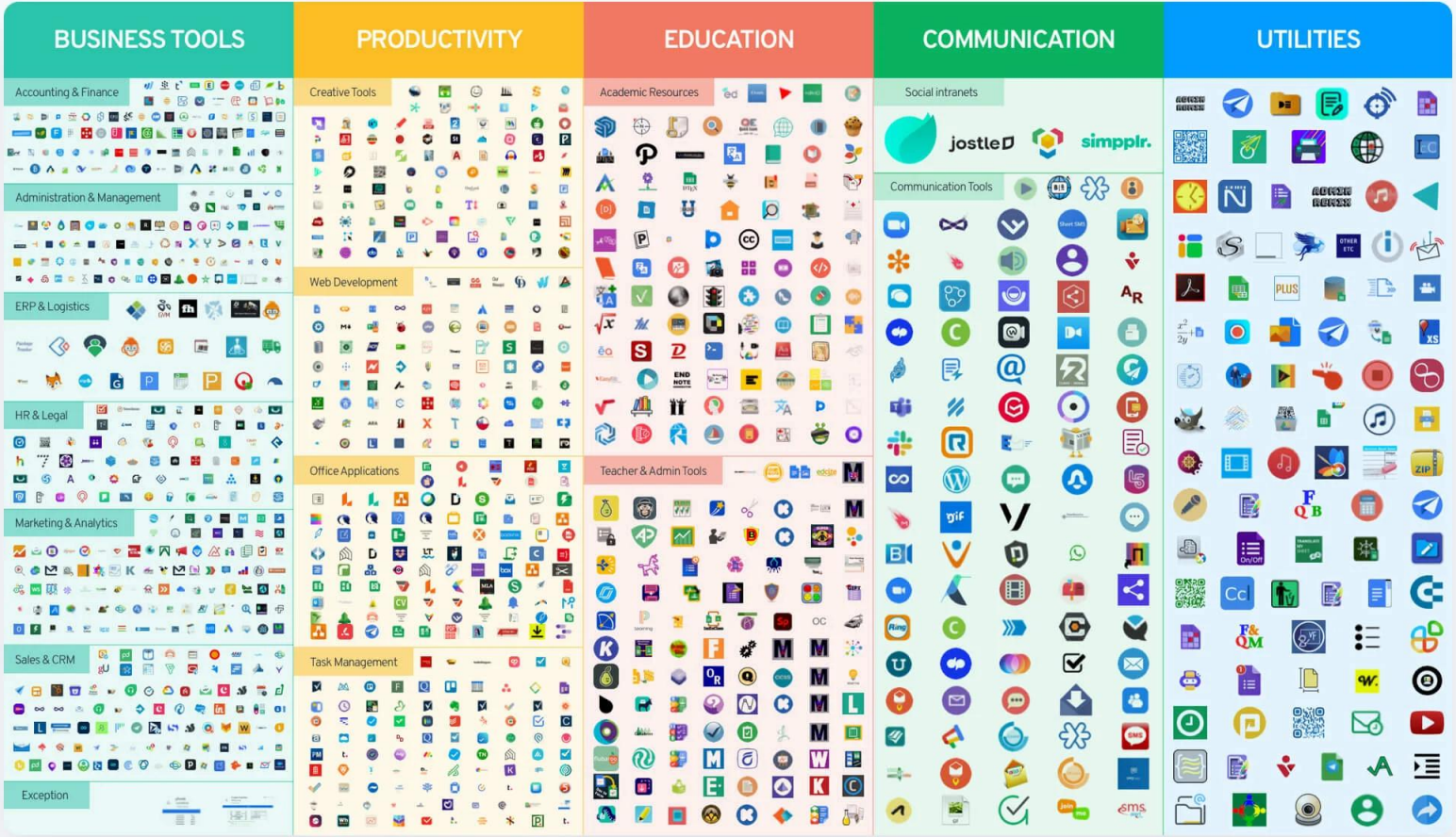
Adapted from Thompson et al 2020 p. 70



Ecosystem – Google example

(Anderson J & Vakulenko M, 2014: 36)



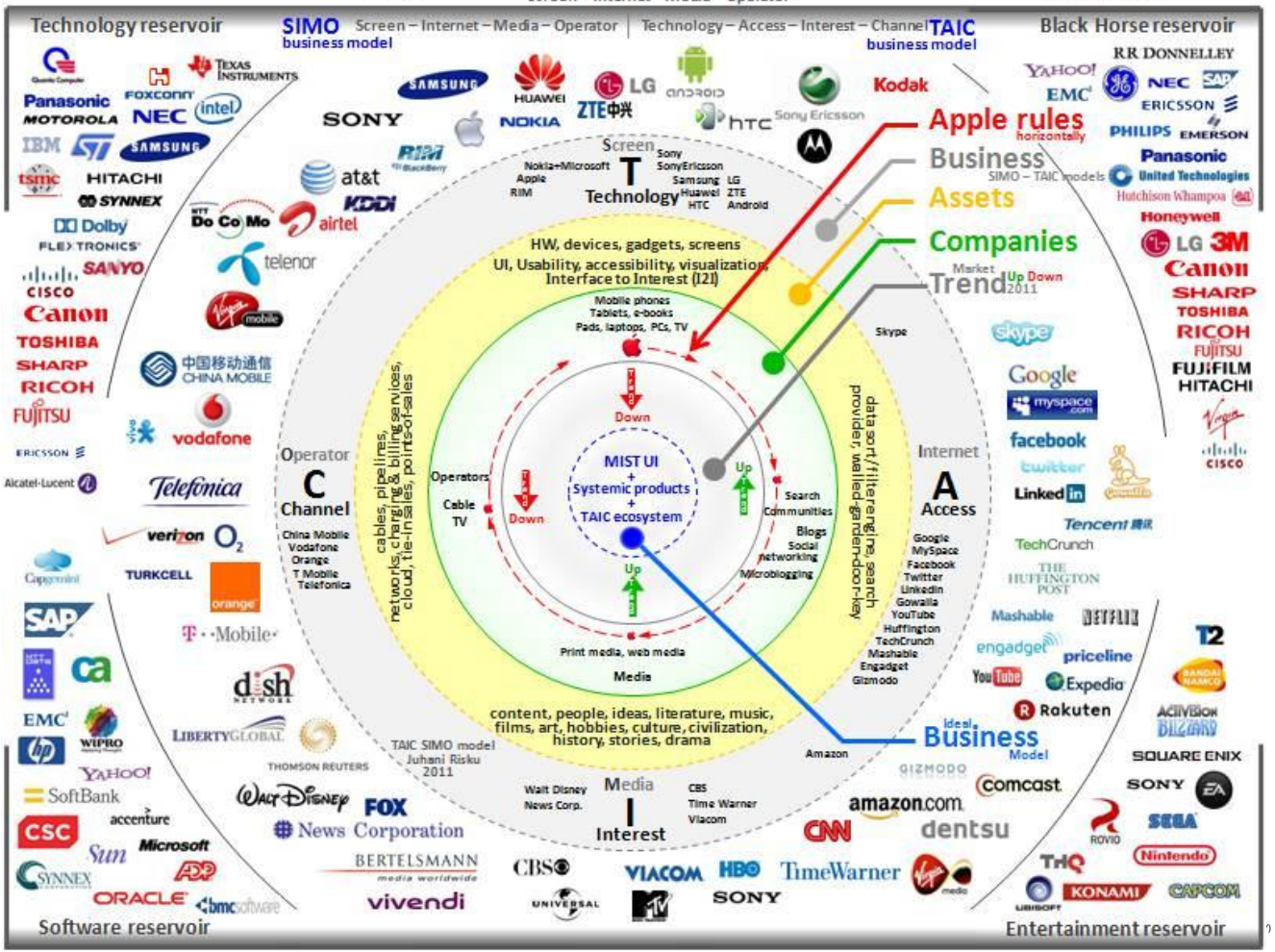

BUSINESS TOOLS
Accounting & Finance
Administration & Management
ERP & Logistics
HR & Legal
Marketing & Analytics
Sales & CRM
Exception
PRODUCTIVITY
Creative Tools
Web Development
Office Applications
Task Management
EDUCATION
Academic Resources
Teacher & Admin Tools
COMMUNICATION
Social intranets
jostleD
simpplr.
Communication Tools
UTILITIES

TAIC – SIMO business model

Technology – Access – Interest – Channel

Screen – Internet – Media – Operator

Juhani Risku 2011



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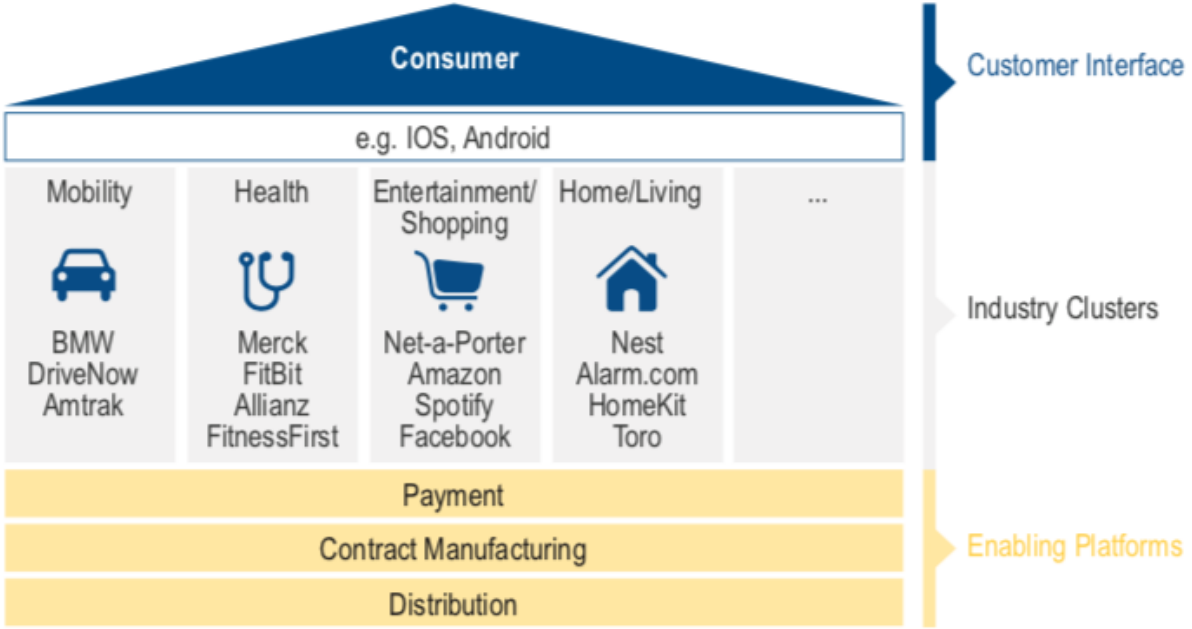
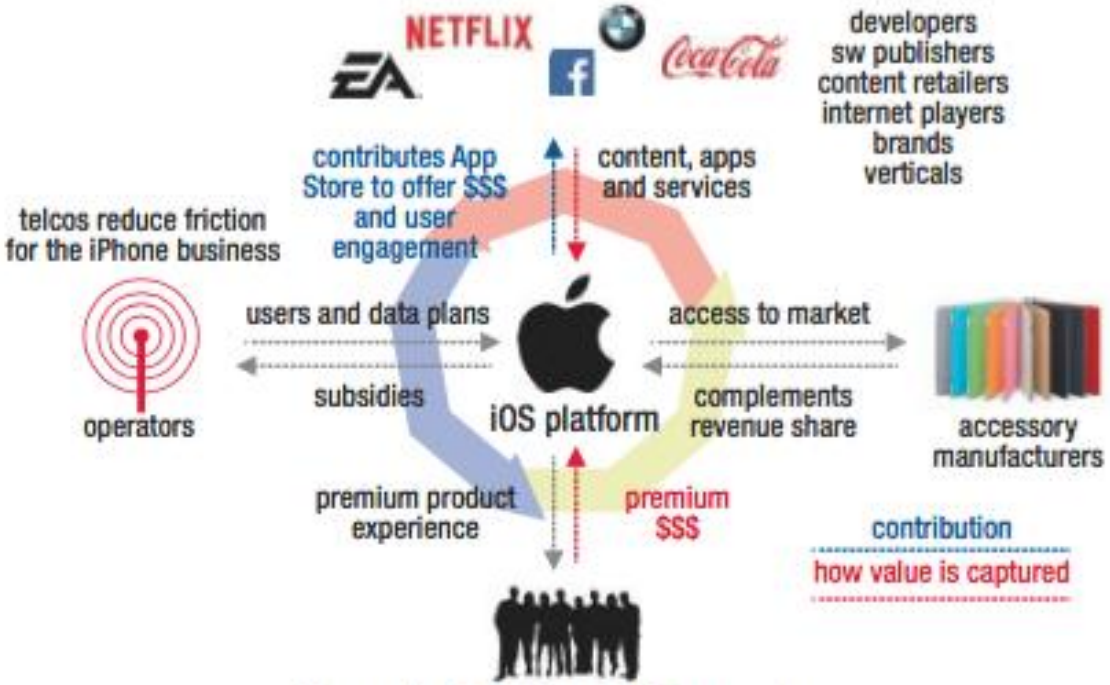
Components of an Ecosystem



Source: adapted from Lacy, Hagenmueller and Ising 2016, p. 2.

Ecosystem – Apple example

(Anderson J & Vakulenko M, 2014: 30)



Ecosystems – what's needed to succeed?

Lacy, Hagenmueller & Ising 2016, pp. 6–7

1. reassess customer need: re-examine and use new frames of thinking to try to understand what the chosen customer segments really need
2. make yourself indispensable: become essential to the integrated solution and help shape the response to customer demand. Determine where you will position yourself in the integrated ecosystem
3. question your value proposition: decide whether you are going to be a platform; a platform across platforms; or a developer of apps and services on other people's platforms, etc.
4. prepare for the new normal: high performers connect to a wider ecosystem by channelling their capabilities in broader 'market activities'. Even as industries and technologies change, these activities are likely to remain relevant.
5. make your ecosystem successful: consider yourself as a key driver of your ecosystem development, independent of which role you are playing. Encourage existing and new ecosystem partners to participate.

Ecosystems – what's needed to succeed?

Van Alstyne, Parker and Choudary 2016, pp. 57–58

1. From resource control to resource orchestration. You don't have to control scarce, valuable and inimitable assets – you look to create and optimise communities and networks.
2. From internal optimisation to external interaction. Rather than optimising value along the value chain, seek to facilitate interactions between external producers (who often control the assets, but also bear the costs) and consumers.
3. From a focus on customer value to a focus on ecosystem value. Rather than focusing on lifetime value of each customer, look to maximise the value of the ecosystem (to attract more customers and more producers to offer value to customers). Those that achieve higher network effects (more participants and more value being exchanged) will have the greatest opportunities.

Ecosystems – what things must the Strategic Manager understand?

1. **the risk of competition from within the ecosystem** – participants seeking to 'poach' the owner's value…. Ecosystem participants should be assessed for their net accretive contribution (adding value) and managed when they are net depletive;
2. **the risk of competition emerging from other ecosystems** – new competitors may expand from adjacent eco-systems;
3. **the need to focus** – managing the shift from maximising sales of goods and services to maximising interactions (opportunities for producers and consumers to exchange value). Platform owners typically start with a single high-value interaction then expand to adjacencies ;
4. **the need for controlling access and governance** – instead of erecting barriers to protect what's inside, ecosystem participants must seek to maximise production and consumption via maximising access to as many appropriate participants as possible (e.g. open architecture and open governance).
5. **the need to use different metrics** – in ecosystems the things that matter are successful interactions, levels of engagement, the quality of matches and negative network effects.

In a Crisis, Ecosystem Business Have a Competitive Advantage

Greeven M & Yu (2020)

Ecosystem businesses gain competitive advantage in a crisis by:

1. **Reconnecting with partners:** increase or reactivate partner networks and look for new business opportunities
2. **Maximising system-wide learning:** opening digital 'open source' sharing networks to increase ecosystem value
3. **Building a technology shelf for partners:** analysing and sharing technologies that may enable partners to see new business opportunities
4. **Exploring market capabilities in real time:** sharing real-time market intelligence to identify new opportunities
5. **Rethinking the customer problem(s):** re-examine biases that imagine that what the customers want and need AC (after the crisis) is the same as what they needed and wanted BC (before the crisis)
6. **Killing the 'not-invented-here' syndrome:** overcome the bias to want to 'do-it-yourself' and mobilize any resources in the ecosystem

Dynamics: Understanding the Forces

Thompson et al 2024, pp. 76

Driving Change

Driving forces are the major underlying causes of change in industry and competitive conditions:

- Changes in industry long-term growth rates
- Increasing globalization
- Emerging new Internet/ITC capabilities and applications
- Shifts in buyer demographics
- Technological change and production process innovation
- Product and marketing innovation
- Entry or exit of major firms
- Diffusion of technical know-how across companies and countries
- Changes in costs and efficiency
- Changes in uncertainty and business risk
- Regulatory influences and government policy changes
- Changing societal concerns, attitudes and lifestyles.

Driving forces analysis = assessing whether/how demand will change based on the collective impacts of these forces and how it will impact competition and profit margins.

Understanding the Industry's Key/Critical Success factors

Thompson et al 2024, pp. 83

Key Success Factors are the strategy elements, product and service attributes, operational approaches, resources, and competitive capabilities that are essential to surviving and thriving in the industry. Deduced by answering:

1. On what basis do buyers (customer segments) of the industry's value propositions choose between competitors/substitutes? What value proposition elements are crucial?
2. Given the nature of competitive rivalry, what resources/activities/channels/ partnerships/relationships must a company have to be successful?
3. What shortcomings are almost certain to put a company to a competitive advantage?

From Thompson et al 2020, pp. 79-80

Understanding the Industry's outlook for profitability

Thompson et al 2024, pp.85

Considering PESTLE, 5 Forces, competitor analysis and Critical Success Factors:

1. How is the organisation being affected by the state of the macro-environment?
2. How strong are competitive forces and how are they impacting profitability?
3. Can complementors positively affect industry profitability?
4. Are the balance of driving forces likely to be positive or negative?
5. How strong is the organisation's relative competitive position?
6. What changes in competition (strength and nature) are likely?
7. How aligned is the organisation's strategy to industry Critical Success Factors?

Understanding your industry – competitive group mapping

Step 1. Identify key strategic characteristics that differentiate organisations in an industry from one another.

Step 2. Plot organisations on a two-variable map using pairs of these differentiating characteristics.

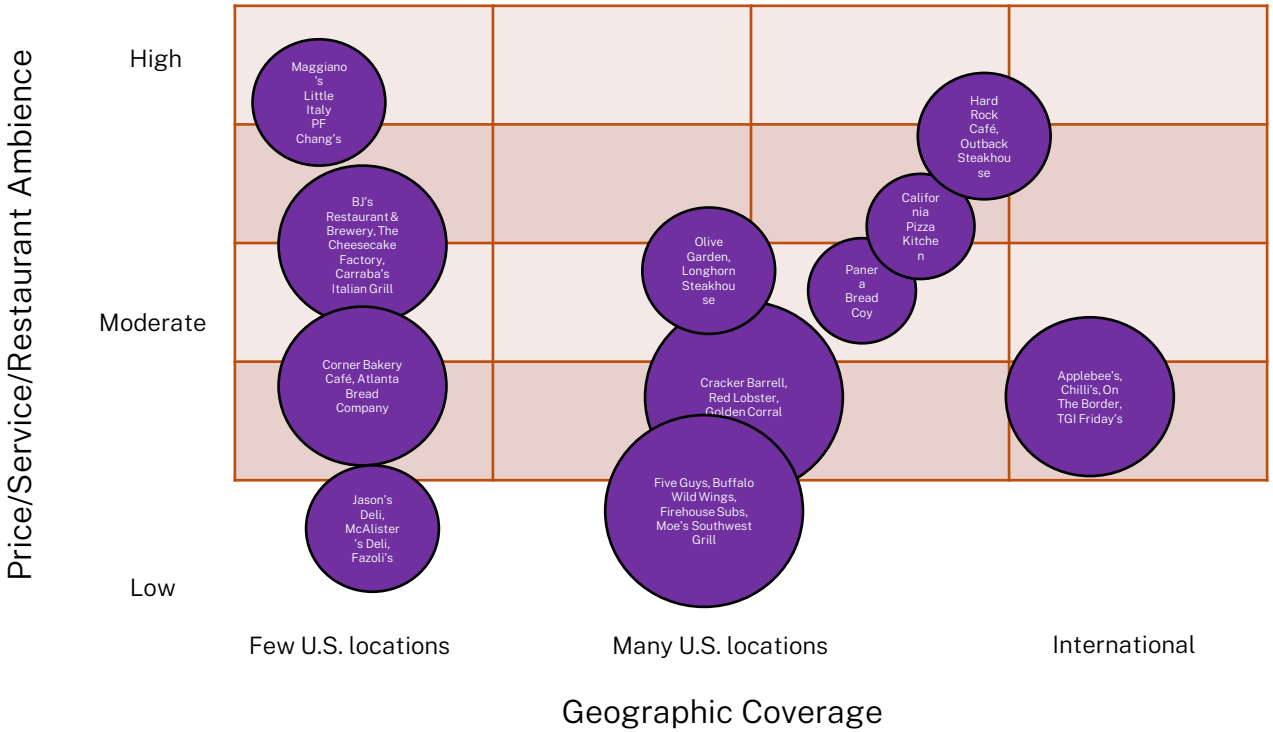
Step 3. Align organisations that fall in about the same strategy space based on these variables to the same strategic group.

Step 4. Draw circles around each group, making circles proportional to the size of each group's respective share of total industry coverage.

Strategic Group map

Source: Thompson et al 2020 p. 79

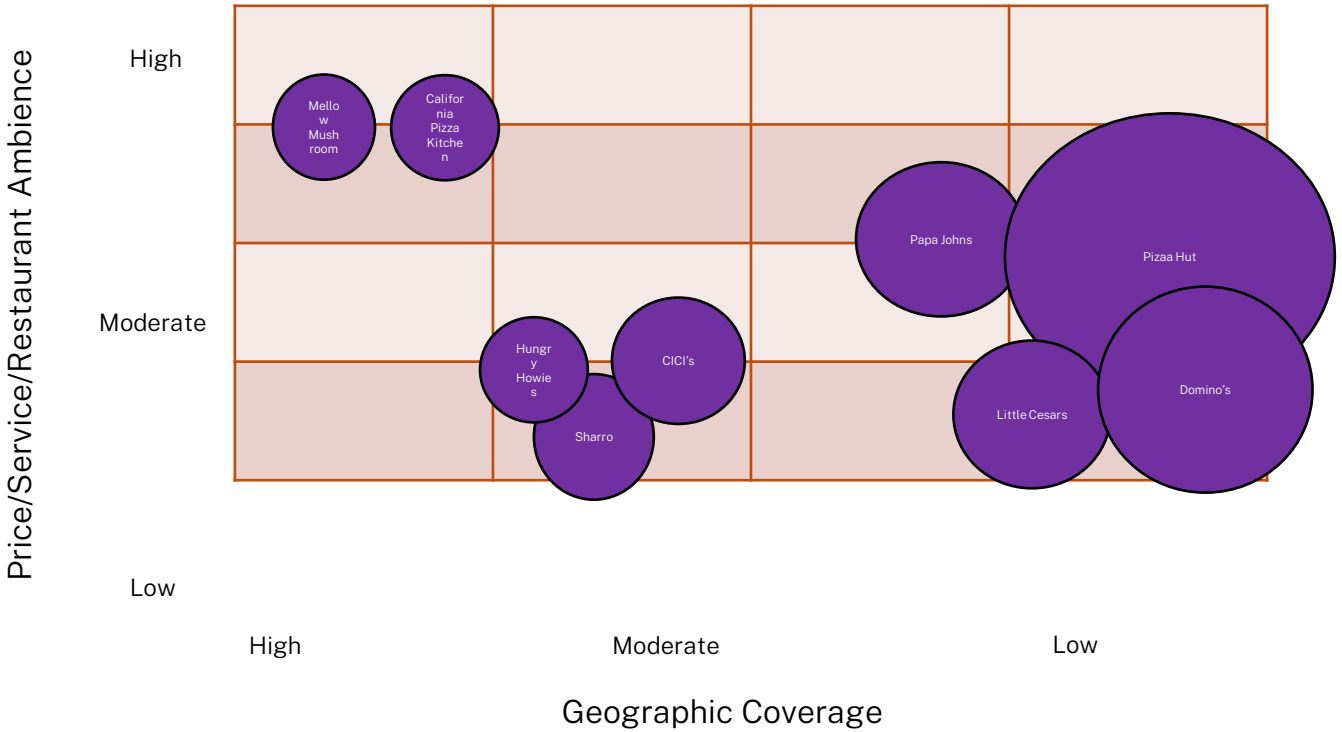
example US casual dining industry



Strategic Group map

Source: Thompson et al 2024 p. 79

example US Pizza Chain Industry



Planned approach – understanding the Industry

1. What are the strategically relevant factors in the macro-environment and how will they impact?
2. What types and how strong are the industry's competitive forces?
3. How might cooperation/collaboration impact the industry and firm?
4. What are the driving forces of my industry and what impact will this have on competitive intensity and industry profitability?
5. What market positions do industry rivals occupy – who is strongly positioned and who is not?
6. What strategic moves are rivals likely to make next?
7. What are the industry's key/critical success factors?
8. Is the industry outlook conducive to industry profitability and/or growth? (use up to 4 scenarios – optimistic; pessimistic; likely; divergent)

Learning from the Future

Scoblic (2020)

“Uncertainty stems from our inability to compare the present to anything we’ve previously experienced. When situations lack analogies to the past, we have trouble envisioning how they will play out in the future.”

Approaches to forecasting when circumstances have few/no parallels:

1. Gain inputs/participation from diverse stakeholders (including divergent, ‘Black Hat’ thinkers and naysayers)
2. Identify assumptions, drivers and uncertainties – including recognizing issues that you don’t control and can’t influence
3. Imagine a range of plausible but dramatically different futures. Ensure that a divergent scenario is regularly considered – and avoid the temptation to be linear in thinking about this future (or allowing yourself too much time in which to adapt)
4. Inhabit those futures (use artefacts from the future)
5. Isolate and implement strategies that will be useful and effective across multiple possible futures
6. Ingrain the process and mindsets as a part of a culture of strategic thinking

Scenario Planning; develop four viable scenarios

1. Optimistic
2. Likely (statistically most probable)
3. Pessimistic
4. Divergent (disrupting business model)

Design Thinking (Brown, *HBR*, 2008)

1. Inspiration
   - Expect success – build implementation resources into your plan
   - Define the business problem
   - Observe what people do, think, need and want
   - Understand the business constraints (time, resources, customer base, market performance)
   - Involve many disciplines from the start
   - Pay close attention to extreme users
   - Establish a project room to share insights and tell stories
   - Consider how technology may help
   - Investigate ideas, assets and expertise that may be 'hiding' in the business
   - Organize and synthesize possibilities) tell more stories)
2. Ideation
   - Brainstorm
   - Make many sketches – concoct scenarios
   - Build creative frameworks
   - Apply integrative thinking
   - Put customers in the midst of everything – describe their journeys
   - Prototype – test – prototype – test – etc.
   - Tell more stories
   - Communicate internally
   - Prototype some more – test with users and internally
3. Implementation
   - Execute the vision - Engineer the experience
   - Design a communication strategy
   - Make the business case – spread the word
   - Move on to the next project - repeat

What is design thinking?

Learn from people

Find Patterns

Design principles

Make tangible

Iterate relentlessly

Design Thinking

Framing and Re-Framing: Core Skills for a Problem-Filled World, Beckman S & Barry M,(2015), *Rotman Management*, Winter, ROT256, pp. 69-71.

Four key skills for Framing and Reframing:

1. Develop empathy - instruction and practice in how to be more sensitive to the feelings and values of others and how to listen with an open mind is needed to develop the empathy that allows for 'walking a mile in customers' shoes', and thus seeing and embracing new frames.

2. Getting to 'why?' – identify the most important 'theme' for the story that the customer is living today (the story-in), which in turn will allow it to choose a theme for the new story you will tell (the story-out). That theme, in turn, will drive all the other elements of the 'plot'. In other words, it will determine the solution set that is generated and the choice of solutions to be delivered. Form alternative hypotheses about what has been observed, what might be happening and what it might mean. Find patterns that help generate insight (empathy and journey maps – what are the customers' *thinking, feeling, doing*?

3. Generate and select ideas – avoid 'jumping to solutions'. Look to *diverge* (come up with a wide range of alternative ideas) and *converge* (select from among the options) regularly but also combine and refine ideas to generate new options.

4. Learn through experimentation – 'fail fast – fail cheap – iterate relentlessly'

Integrating Design into Organizations:

The Coevolution of Design Capabilities

Bjorklund et al. (2020 pp. 101-102)

Design thinking refers to the approaches and methodologies developed in the field of design for abductively creating nonroutine solutions to ill-defined problems, regardless of the domain of application. While design thinking is a contested construct academically, most scholars connect it to human or user-centered innovation, creative problem-solving, experimentation, and iteration.

Design-driven organizations **have integrated design and design thinking into most of their organizational practices, believing that design and design thinking are at the heart of value generation and sustainable competitive advantage.** These companies are led by design (though not necessarily by designers) and insist that design and design thinking be embedded throughout the organization. They use design to redefine problems, to facilitate cocreation between different stakeholders, and to learn through experimentation. As a result, design can be seen as a cultural transformation process within a business, playing a pivotal role in the way the organization manifests itself in the marketplace. As in any transformation effort, shifting power relations and scopes of roles need to be navigated carefully, or non-designers can see designers as infringing on their turf and designers can see design becoming diluted. Sometimes the excitement over design moves design toward management rather than the other way around.

Nevertheless, there is mounting evidence that firms that do succeed at becoming design-driven outperform their competitors, with the positive impact of design on business performance apparent in many measures (e.g., time-to-market, adoption rate, share of wallet, market share, revenue growth, profitability, and brand value). For example, the Design Management Institute's 2015 Design Value Index, based on a portfolio of publicly traded stocks from companies considered to be design-driven, showed a 211% return over the S&P 500. In a more recent comparison, companies in the top quartile of the McKinsey Design Index in terms of their design actions showed 167% higher growth in revenue over industry benchmarks

Integrating Design into Organizations:

The Coevolution of Design Capabilities Bjorklund et al. (2020 p. 105)

TABLE 1. Different Typical Orientations toward Questions and Learning as Sources of Tension.

	Design	Engineering	Business
Ways of working	Nonlinear, customer-driven, and abductive	Linear, technology-driven, and deductive	Linear, business result-driven, and inductive
Problem-solving	Reframing or finding the right problems	Solving given problems efficiently	Solving given problems efficiently
Learning	User research, prototyping to ask questions	Technological development, prototyping to validate	Performance assessment, numbers, and data-driven
Innovating	Tailored solutions opening up new possibilities for generalizations	Technical solutions opening up new possibilities for generalizations	New generalizations opening up new possibilities for specifications

Integrating Design into Organizations:

The Coevolution of Design Capabilities

Bjorklund et al. (2020 pp. 101-102)

FIGURE 2. Investing in coevolving design capabilities to avoid common pitfalls in integrating design into organizations.