



Universiteit Antwerpen  
| Faculteit Bedrijfswetenschappen  
en Economie

# Introduction to Strategy

2023-2024

Teacher: Prof. Johanna Vanderstraeten

Assistent: Nathalie Verboven en Magali Jaspers

# Structure of the course

- Agreements  
Slides
- ***Concept: What is strategy?***  
***Slides/lecture materials + H2 course***
- Concept: Competitive advantage and value creation  
Slides/lecture materials + H3 course
- Technique: External analysis  
Slides/lecture materials + H4 course
- Technique: Internal analysis and core competencies  
Slides/lecture materials + H5 course
- Strategic choice: Growth and portfolio strategy  
Slides/lecture materials + H7 course
- Organization & follow-up: Sustainability  
Slides/lecture materials
- Organization & follow-up: Culture  
Slides/lecture materials + H8 course

# Today's class

- Origins of strategy
- The evolution of business strategy: two viewpoints
- Describing strategy with the five Ps (Mintzberg)
- Corporate vs. Business strategy
- Text: “Can you say what your strategy is?” (Collis and Rukstad)
- Some important concepts to define your strategy
  - Economies of scale and scope
  - The industry chain

# Today's class

- **Origins of strategy**
- The evolution of business strategy: two viewpoints
- Describing strategy with the five Ps (Mintzberg)
- Corporate vs. Business strategy
- Text: “Can you say what your strategy is?” (Collis and Rukstad)
- Some important concepts to define your strategy
  - Economies of scale and scope
  - The industry chain

# Origins

- Military strategy
  - Direction & purpose
  - Effectively deploy resources
  - Coordinate decisions
- “Strategia” (Greek) = “generalship”
- Oldest school of strategy formation: Military strategy
  - Alexander de Grote
  - Napoleon
  - Mao Tse Tung (Mao Zedong) → China
  - ...
  - Writings:
    - Sun Tzu: “The art of war” (500 B.C.) → first treatise on strategy
    - Niccolo Machiavelli: “Il Principe” (1513)
    - Carl von Clausewitz: “Vom Kriege” (1832)



---

*“If the leader is filled with high ambition and if he pursues his aims with audacity and strength of will, he will reach them in spite of all obstacles”*

– treatise of military strategy (Carl von Clausewitz, 1780-1831)

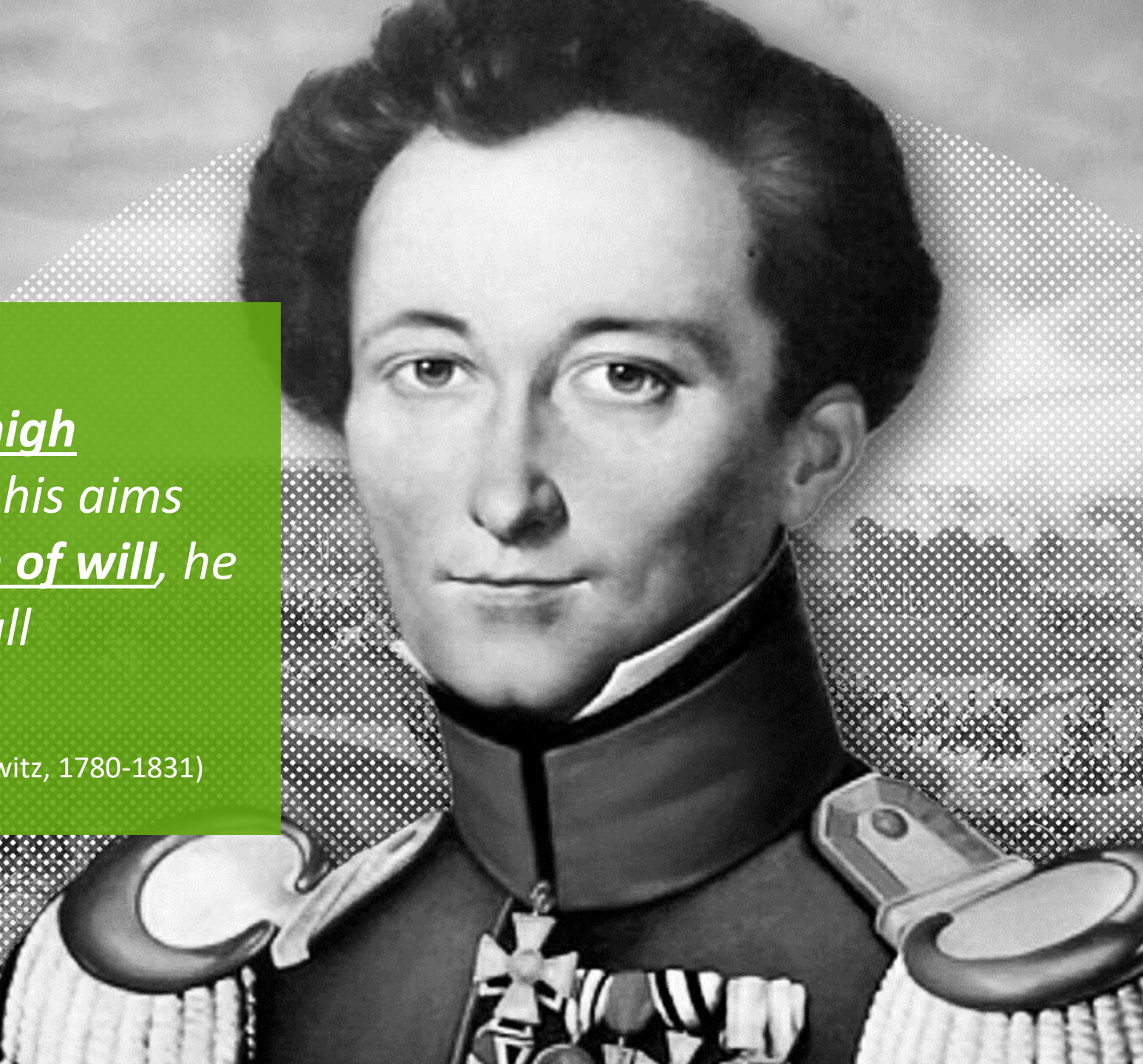




---

*“If the leader is filled with high ambition and if he pursues his aims with audacity and strength of will, he will reach them in spite of all obstacles”*

– treatise of military strategy (Carl von Clausewitz, 1780-1831)





---

*“Two qualities are indispensable: first, an intellect that, even in the darkest hour, retains some glimmerings of the inner light which leads to truth; and second, the courage to follow this faint light wherever it may lead”*

– treatise of military strategy (Carl von Clausewitz, 1780-1831)





---

*“Two qualities are indispensable: first, an intellect that, even in the darkest hour, retains some glimmerings of the inner light which leads to truth; and second, the courage to follow this faint light wherever it may lead”*

– treatise of military strategy (Carl von Clausewitz, 1780-1831)



# Today's class

- Origins of strategy
- **The evolution of business strategy: two viewpoints**
- Describing strategy with the five Ps (Mintzberg)
- Corporate vs. Business strategy
- Text: “Can you say what your strategy is?” (Collis and Rukstad)
- Some important concepts to define your strategy
  - Economies of scale and scope
  - The industry chain



# Today's class

## From financial/corporate **planning** to....

....Industry analysis & competitive **positioning**

- ✓ Central characteristic of the business environment = competition
- ✓ Sources of profit => **external** environment
- ✓ *Industrial organization economics*

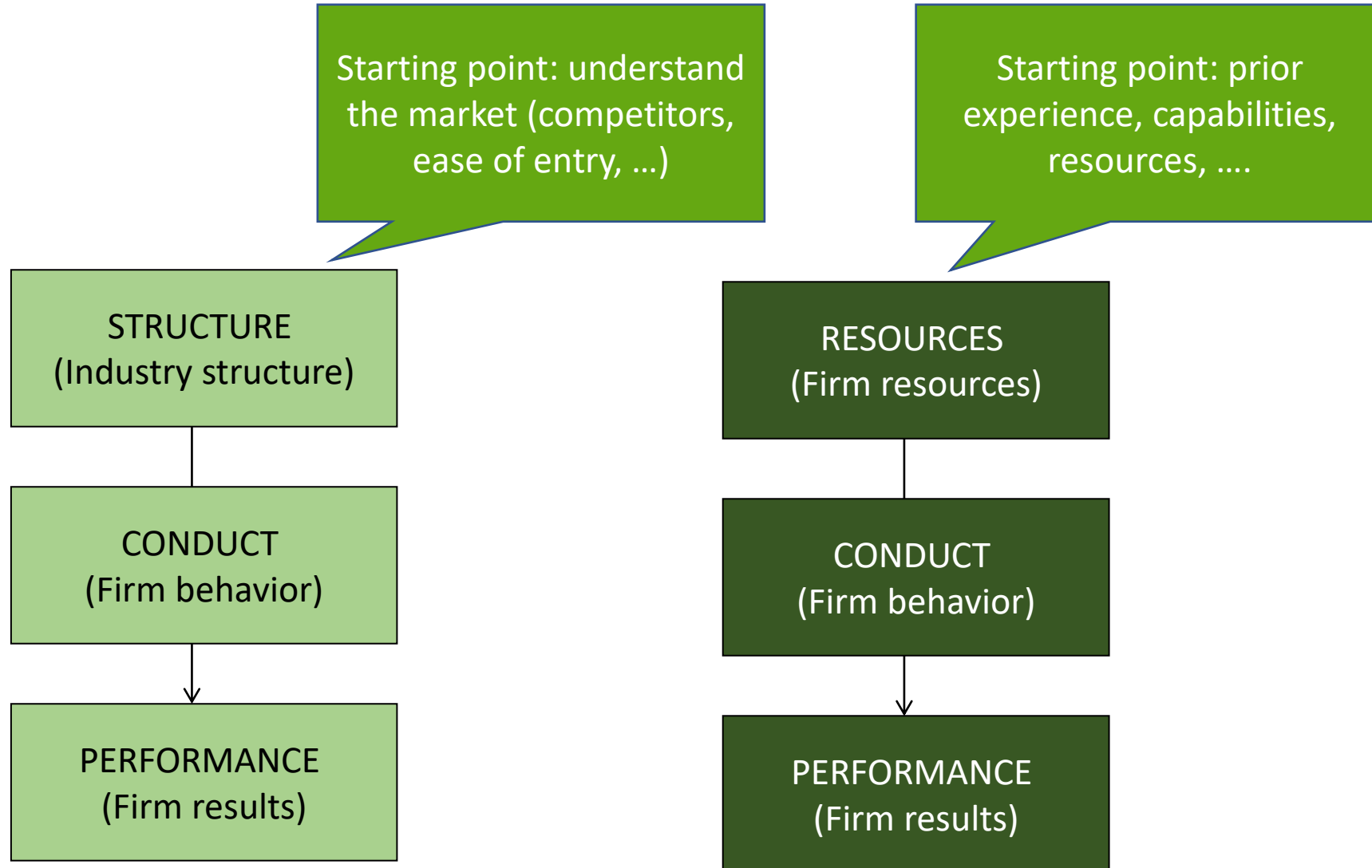
## To....

...Emphasis on **resources & capabilities**

- ✓ Sources of profit => **within** the firm
- ✓ *Resource-based view*

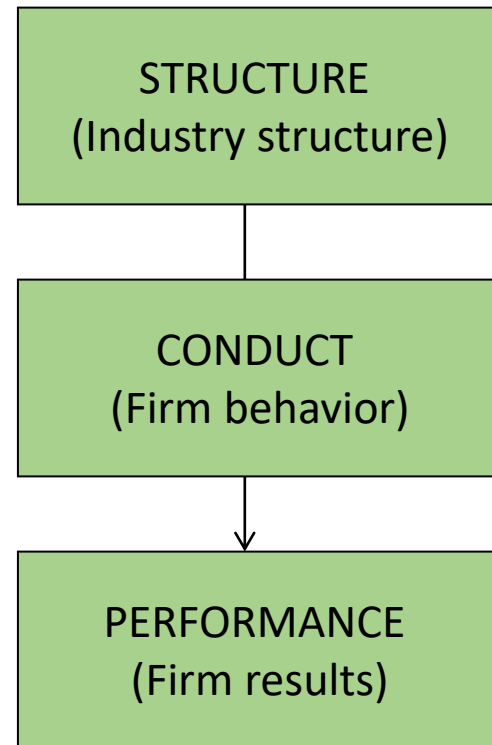
For all: try to attain a **competitive advantage** (see next class)

# Two paradigms: outside-in versus inside-out approach!

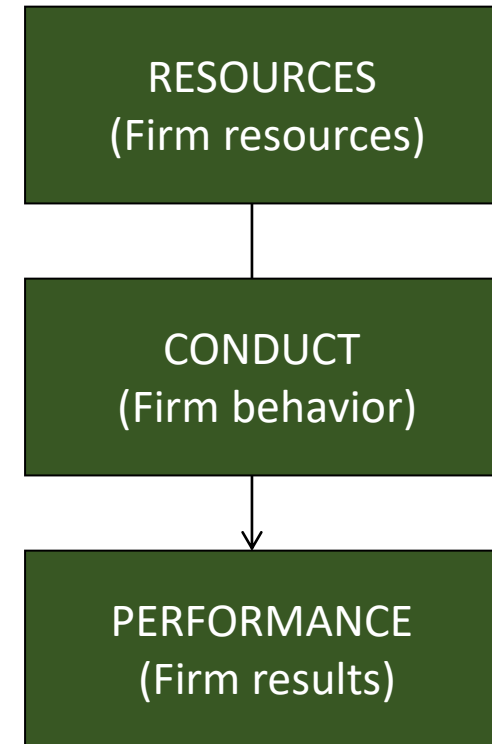




# Two paradigms: outside-in versus inside-out approach!



Outside-in



Inside-out

Both viewpoints link superior performances to a competitive advantage!

# Today's class

- Origins of strategy
- The evolution of business strategy: two viewpoints
- **Describing strategy with the five Ps (Mintzberg)**
- Corporate vs. Business strategy
- Text: “Can you say what your strategy is?” (Collis and Rukstad)
- Some important concepts to define your strategy
  - Economies of scale and scope
  - The industry chain



# Five Ps for Strategy (Mintzberg)

- One definition for strategy?
  - Requires several definitions!
- Strategy is a **PLAN**
  - Direction, guide, course of action into the future
  - Path to get “from here to there”

→ Intended Strategy



# Five Ps for Strategy (Mintzberg)

- Strategy is a **PATTERN**
- Consistency in behavior over time

## → Realized Strategy

- Strategy is a **POSITION**
  - Locating particular products in particular markets
    - Looking down → product meets customer
    - Looking out → external marketplace





# Five Ps for Strategy (Mintzberg)

- Strategy is a **PERSPECTIVE**
  - An organization's fundamental way of doing things (how does the organization perceive the environment and acts upon it)
    - Looking up → grand vision enterprise
    - Looking in → inside the organization (heads strategists)
- Strategy as a **PLOY**
  - Specific “manoeuvre” intended to outwit opponent/competitor



# Describing strategy with the five Ps

What is strategy?

**P**lan

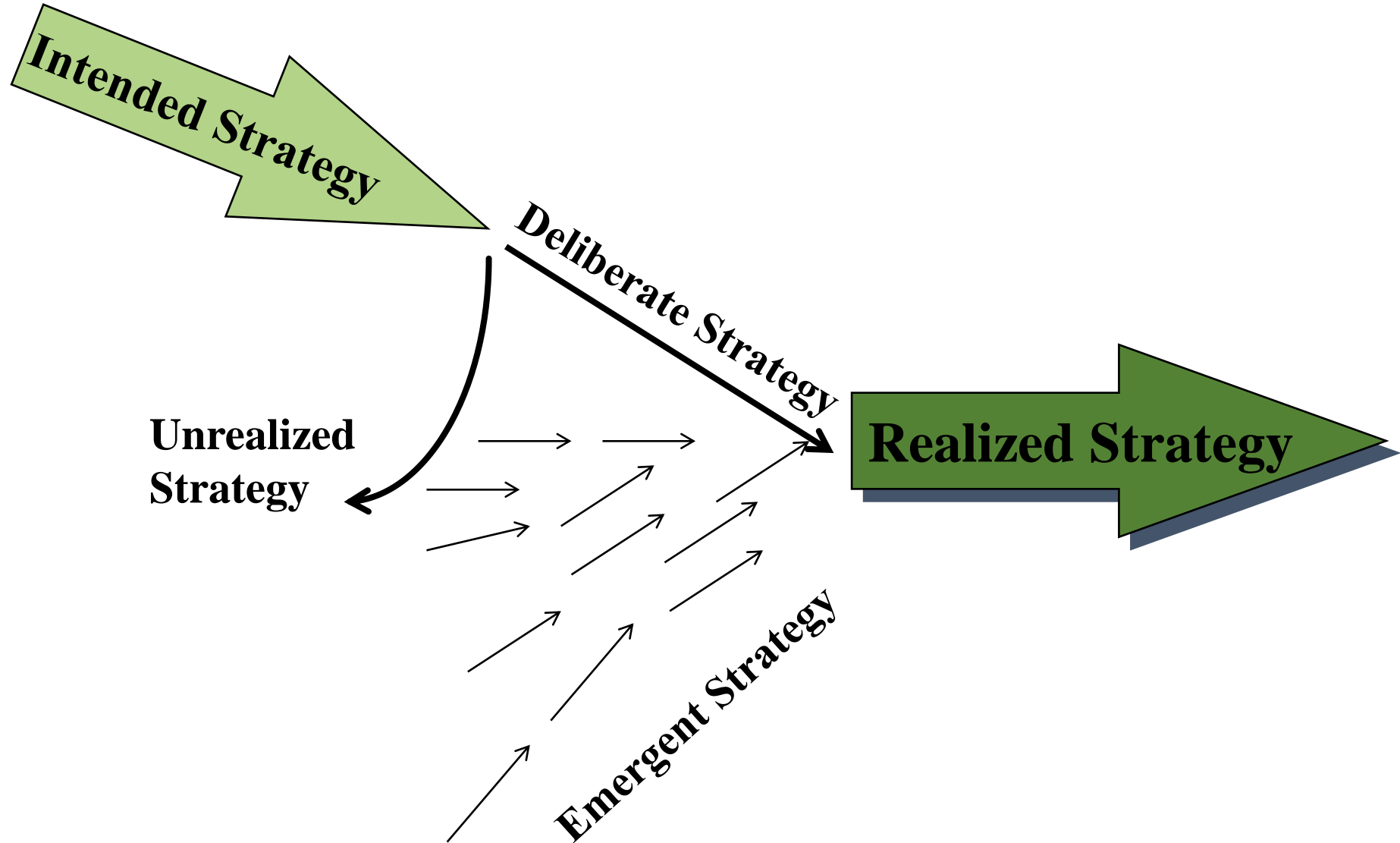
**P**attern

**P**osition

**P**erspective

**P**loy

# Five Ps for Strategy (Mintzberg)



# Five Ps for Strategy – exercise

- Take a piece of paper, per two
- 10' brainstorm & 10' class discussion
- Think about a real or an invented company, and think about what might be this company's:
  - Intended strategy
  - Unrealized strategy + why?
  - Emergent strategy + why?
- Be creative! Again, it does not need to be an actual company!





# Five Ps for Strategy (Mintzberg) – example

- The Honda case
- BCG - analysis
- Success Japanese companies (Honda)
  - Huge production volumes
  - Competitive cost position
  - Better output per man-year
  - Economies of scale



# Five Ps for Strategy (Mintzberg) – example

- The Honda case
- The BCG account
  - Experience curve – high market share
  - Carefully thought-out intended strategies, that also worked out = were realized
- The Honda managers' account
  - “Strategy”: “see if they could sell something in the US”
  - Series of events



# Five Ps for Strategy (Mintzberg) – example

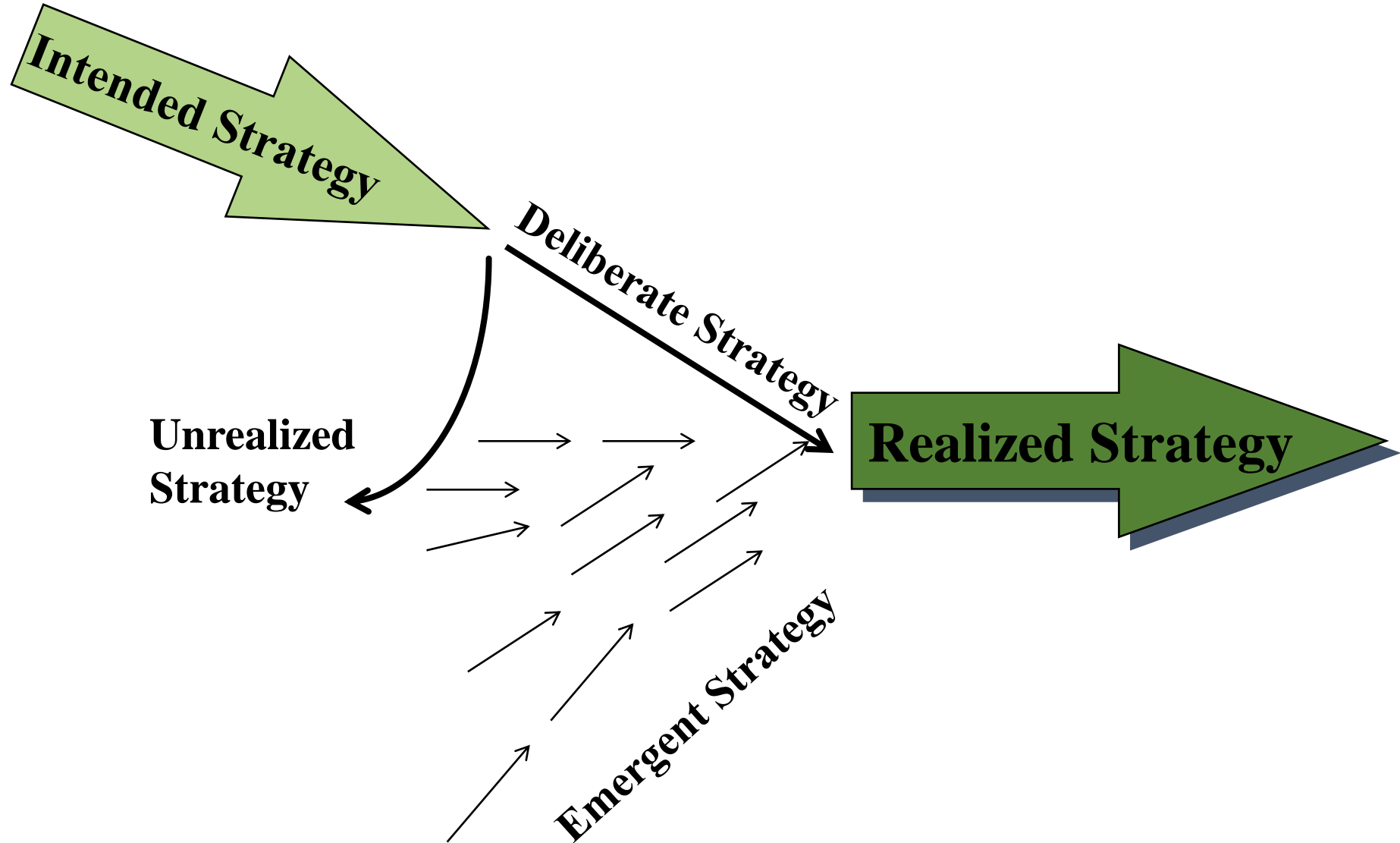
- The Honda case
  - In reality: Series of events:
    - Technical problems with core product (250cc, ...)
    - 50cc to ride errands
    - Through other distribution channels
    - Eventually: redefined market!!
    - No clear focus on advertising
    - Eventually: shift in power balance possible on the market as a whole!!
  - Conclusions:
    - No linear “cause and effect relationships”
    - Danger of “belief systems”
    - Learning systems!!

# Five Ps for Strategy (Mintzberg) – example

- The Honda case
  - The BCG account
    - Intended strategy = realized strategy (that also worked out!)
  - The Honda managers' account
    - Unrealized strategy
    - Emergent strategy
    - Intended strategy  $\neq$  realized strategy



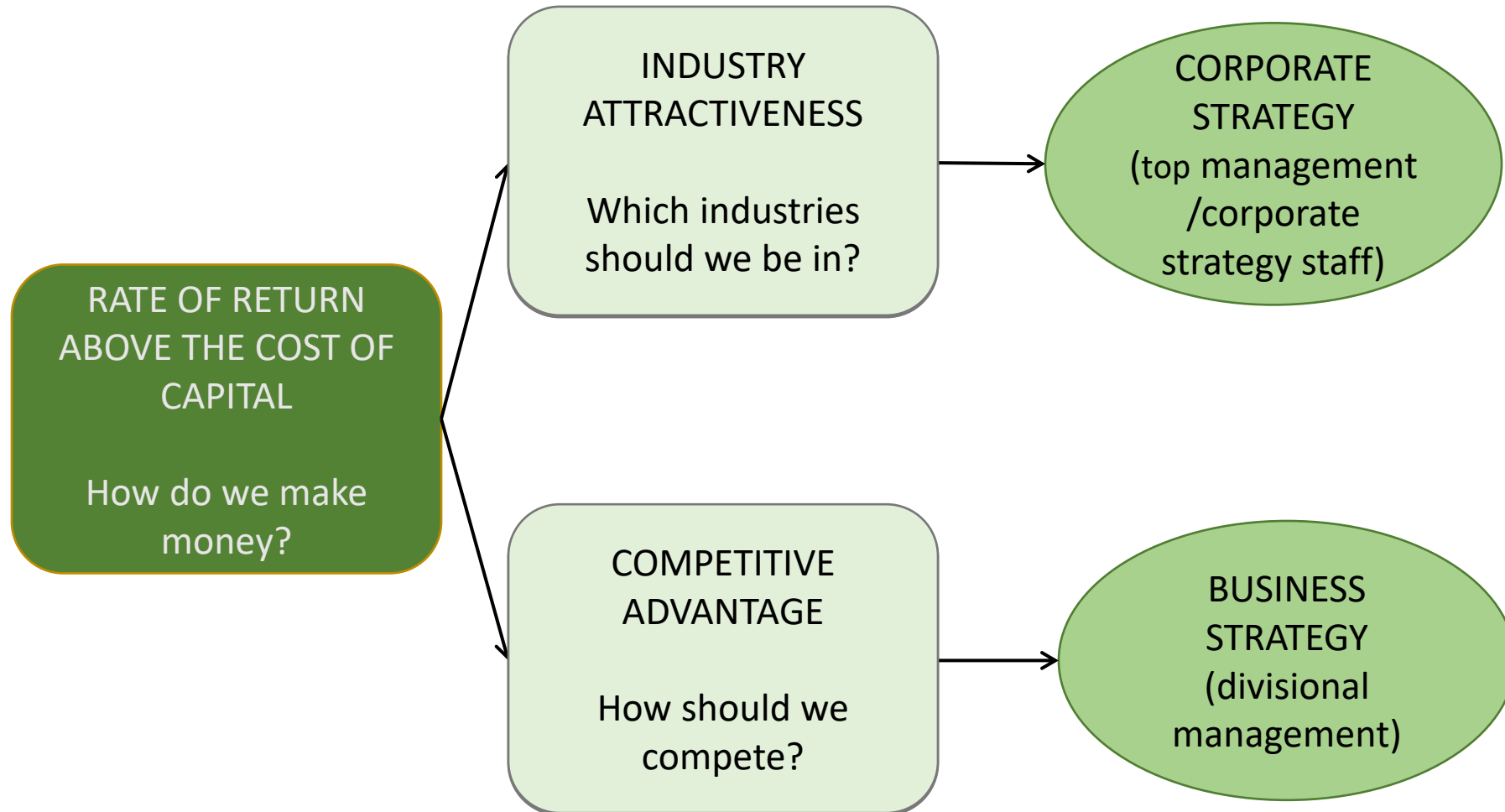
# Five Ps for Strategy (Mintzberg)



# Today's class

- Origins of strategy
- The evolution of business strategy: two viewpoints
- Describing strategy with the five Ps (Mintzberg)
- **Corporate vs. Business strategy**
- Text: “Can you say what your strategy is?” (Collis and Rukstad)
- Some important concepts to define your strategy
  - Economies of scale and scope
  - The industry chain

# Corporate vs. Business strategy





# Corporate vs. Business strategy

- Corporate strategy - Which industries should we be in?
  - Growth direction company (+ speed)
  - Markets/products (portfolio management)
  - How to coordinate activities/business units (communication structure, power business units, etc...)
- Business strategy – How should we compete within a particular industry or market?
  - How to compete within a particular market?
  - How to position yourself in a particular market?
  - ...
- Functional strategy
  - Functional areas such as marketing, manufacturing, HR, logistics, etc... => Corporate and business level strategies
  - Operational level: which resources to use, how many, etc...

# Example

- Business units – can also be geographically organized
- The Coca Cola Company
  - Europe, Middle East and Africa (EMEA) Group
  - Latin America Group
  - Asia Pacific Group

“The Coca-Cola Company is the world's largest beverage company, refreshing consumers with more than 500 sparkling and still brands and more than 3,800 beverage choices. Led by Coca-Cola, one of the world's most valuable and recognizable brands, our company's portfolio features 20 billion-dollar brands, 18 of which are available in reduced-, low- or no-calorie options. These brands include Diet Coke, Coca-Cola Zero, Fanta, Sprite, Dasani, vitaminwater, Powerade, Minute Maid, Simply, Del Valle, Georgia and Gold Peak. Through the world's largest beverage distribution system, we are the No. 1 provider of both sparkling and still beverages.”

# Today's class

- Origins of strategy
- The evolution of business strategy: two viewpoints
- Describing strategy with the five Ps (Mintzberg)
- Corporate vs. Business strategy
- **Text: “Can you say what your strategy is?” (Collis and Rukstad)**
- Some important concepts to define your strategy
  - Economies of scale and scope
  - The industry chain



# Strategy concept – “Can you say what your strategy is?” – exercise

Take page 82-87 of the text “Can you say what your strategy is” (Collis & Rukstad)

Please note that all concepts discussed via this text are course material / can be asked at the exam!

Form groups of 4

- Appoint a chair and a secretary - chair coordinates the discussion; secretary takes notes
- Do NOT yet look at the solution slides (cfr. learning pyramid!)
- 15’ brainstorm + 10’ class discussion
- After the brainstorm, we will discuss the answers in group

## Questions

1. Explain: mission, values, vision
2. Why is it necessary to develop a clear strategy statement?
3. Strategic objective: explain + opinion about “maximizing shareholder value”
4. Strategic scope: explain the dimensions
5. Strategic advantage: what is a customer value proposition?

# Can you say what your strategy is?

## Question 1

- Mission
  - Why do you exist?
  - “Contribution to society”
- Vision
  - What do you want to be?
- Values
  - Ethical values → what you believe in + how you will behave
- **Question 2: Why is it necessary to develop a clear strategy statement?**
  - Formulation
  - Implementation

# Can you say what your strategy is?

## Question 3: Strategic objective

- Strategic objective = ends (single, precise objective) + time frame => WHAT/WHEN
- “Maximizing shareholder value”
  - *Which* objective is most likely to maximize shareholder value over the next several years?
  - Specific, single goal, measurable, time bound

Mission, vision and values are important for the company to know what the company's underlying motivation is (mission), vision, and ethical values. However, the “true” strategy statement consists of the company's strategic objective, scope and advantage

# Can you say what your strategy is?

## Question 4: Strategic scope

= domain → WHERE

### Strategic scope - three dimensions:

- Customer/offering: Needs specific type of client
- Geographic location: Where can you meet needs customer?
- Vertical integration: Opt for vertical integration? Does this meet needs customer?



# What is that, vertical integration? The industry chain

## Locating the core business

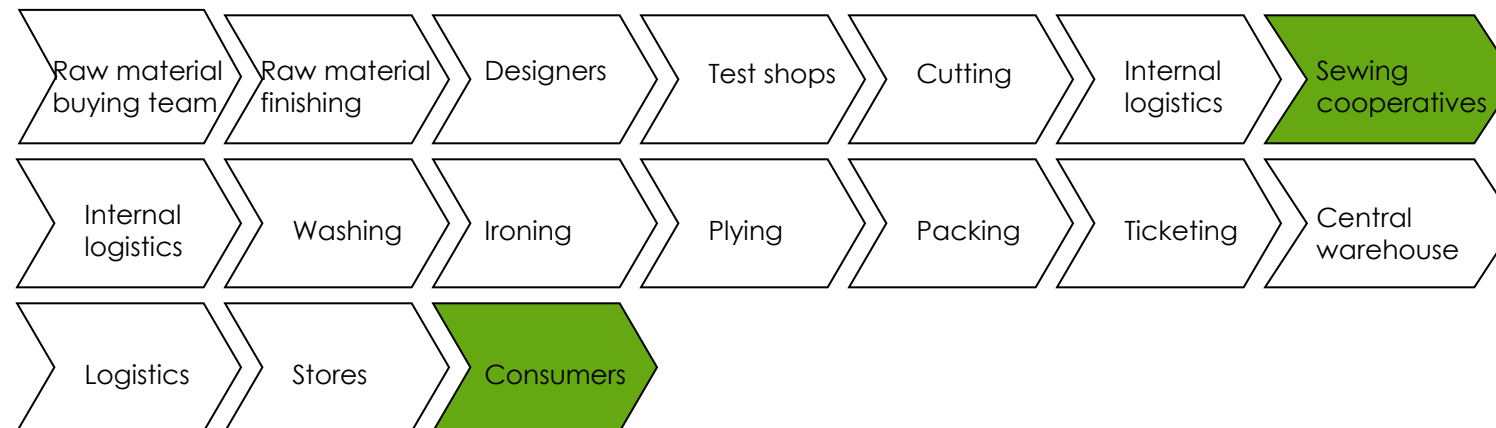
- **Primary industries:** Upstream industries (extraction/processing)
- **Secondary industries:** Midstream industries (fabrication/assembly)
- **Tertiary industries:** Downstream industries ( wholesale distribution/ retail/services)

# Vertical integration

## Extending the core business:

Vertical integration (changing the vertical boundaries of the firm)

- Backwards vertical integration → upstream (e.g., secondary industry expanding to primary)
- Forward vertical integration → downstream (e.g., secondary industry expanding to tertiary)
- Please note that there can be several steps within, e.g., the secondary or tertiary industries. Vertical integration is thus also possible 'within', e.g., the secondary industries block
- e.g.: Zara



# Exercise industry chain

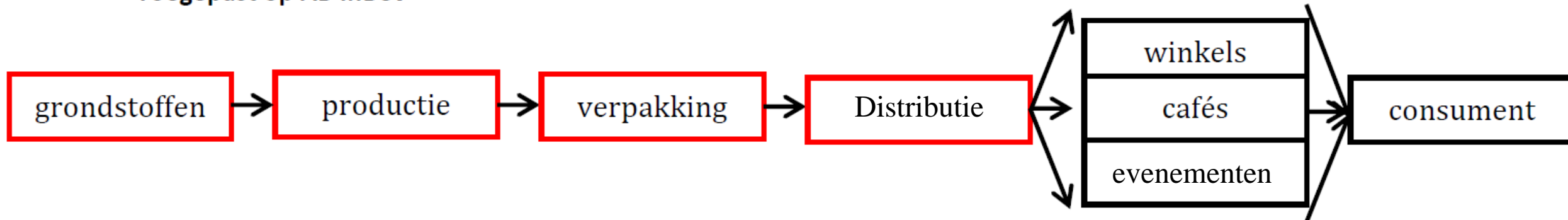
- Per two
- Break out 15' & class discussion 10'
- Take a piece of paper

## Questions:

- Think about AB INBEV
- Subdivide the industry chain into the primary, secondary, tertiary industry.  
Draw the industry chain
- Discuss what you think AB Inbev organizes itself, and what they outsource

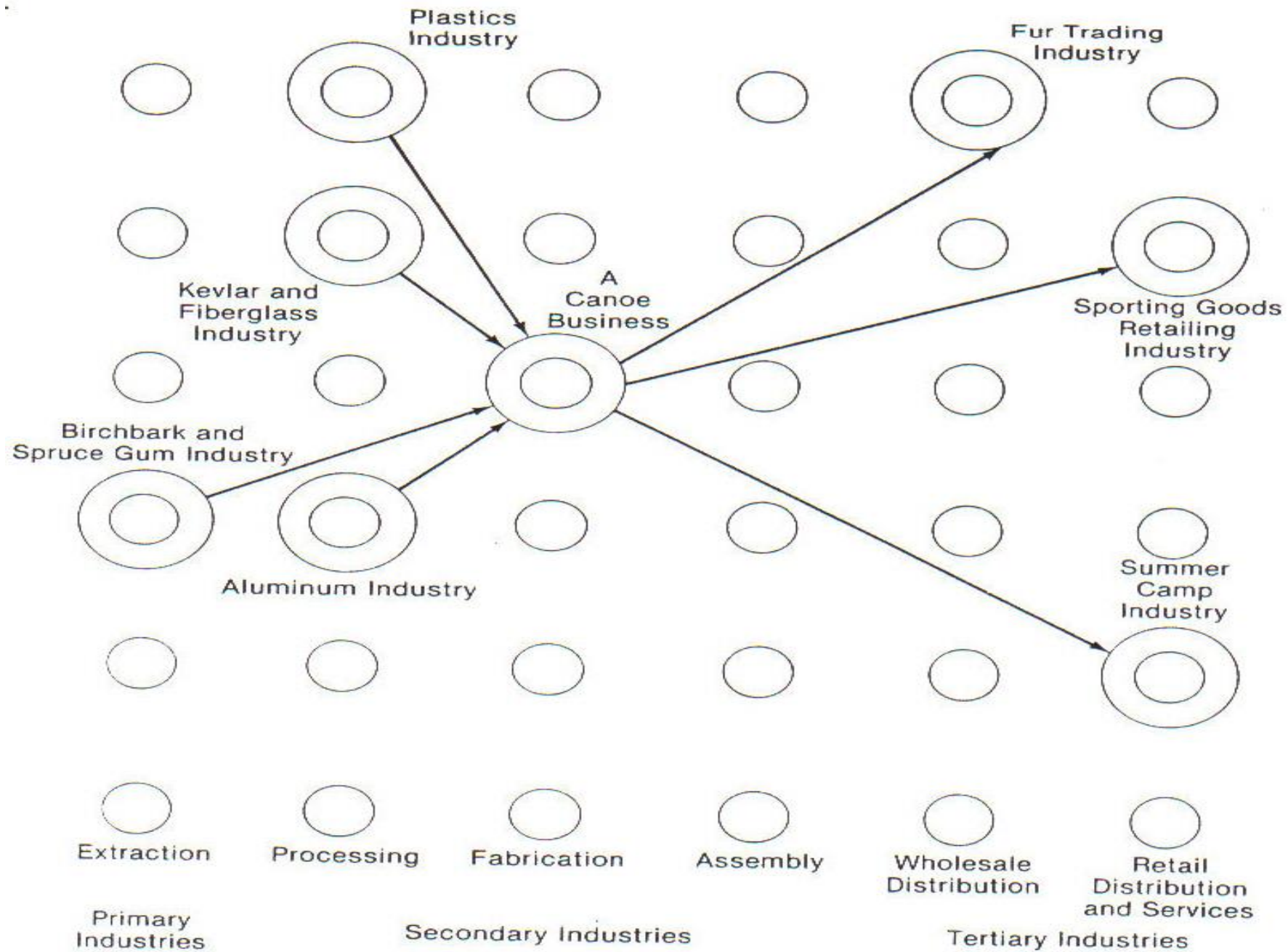


### Toegepast op AB InBev



*Fig. 4: Van links naar rechts het proces dat wordt doorlopen om het product naar de consument te brengen. Rood: de processen die door AB InBev zelf worden uitgevoerd. De zwarte ketens worden uitbesteed.*





# Can you say what your strategy is? (continued)

## Question 5: Strategic advantage

= means → HOW

### Strategic advantage

- What is a customer value proposition?
  - Mapping your value proposition against those of rivals
  - Why should customers buy YOUR product or service?
  - Outside-in
- Which firm activities will allow you to deliver the customer value proposition?
  - Unique activities/complex combination of activities
  - As such: creating CUSTOMER VALUE!!
    - → “sweet spot” (see p.89)

# Today's class

- Origins of strategy
- The evolution of business strategy: two viewpoints
- Describing strategy with the five Ps (Mintzberg)
- Corporate vs. Business strategy
- Text: “Can you say what your strategy is?” (Collis and Rukstad)
- **Some important concepts to define your strategy**
  - Economies of scale and scope
  - The industry chain

# Economies of scale and scope

## Economies of scale

Average cost declines over a range of output

- Average cost
  - $= TC(Q)/Q$
  - With TC = Total Costs
- Why does the average cost decline?
  - Fixed costs are spread over additional output
  - (and often) → higher operational efficiency, implying lower variable costs (remark: see next slide!!)
- Thus
  - When average cost decreases as output increases  
= **economies of scale**
  - When average cost remains unchanged with respect to output increase  
= **constant returns to scale**
  - When average cost increases as output increases  
= **diseconomies of scale**

# Economies of scale

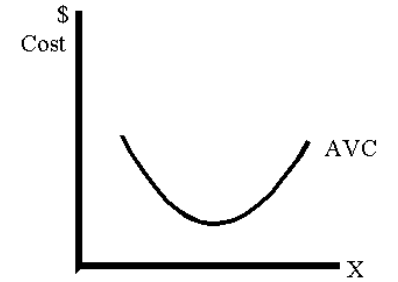
## Attention! Often: U-shaped curve

Reasons?

- Fixed costs = regardless of the total output (ex.: expenses for property, infrastructure, ...)
  - Can be averaged over greater volumes
- Variable costs = increase as output increases, such as expenses for labor and materials
  - Often: when output increases: capacity constraints!
  - Bottlenecks! Thus: increased variable costs!
  - For example: an opera performance needs to find additional singers, new costumes, ... when more performances are scheduled. They might need two singers, because one singer cannot perform two evenings at a row. Costumes need to be cleaned. Thus, even though you will also be able to average the variable costs over greater volumes, there will very likely be bottlenecks in these variable costs at a certain moment, and these bottle necks will likely come earlier than the fixed costs 'bottlenecks', like a property, infrastructure,... ...

- **Minimum efficient scale**

= smallest level of output at which economies of scale are exhausted



AVC = Average variable cost per unit.  
X = Units of output produced.



# What is the difference between total costs, average costs and marginal costs?

- TK = Total Cost;
- AK = Average Cost;
- MK = Marginal Cost;
- Q = Quantity.

## Average cost

=  $TK(Q)/Q$     Used to explain economies of scale (see earlier)

## Marginal cost

=  $TK(\Delta Q) / \Delta Q$

This gives you the extent to which total cost increases when output increases by one unit.

This may be a constant (for proportionally variable costs), or the MK may change. In the latter case, it is called disproportionately variable cost.

# Marginal costs, for example

## Proportional variable costs

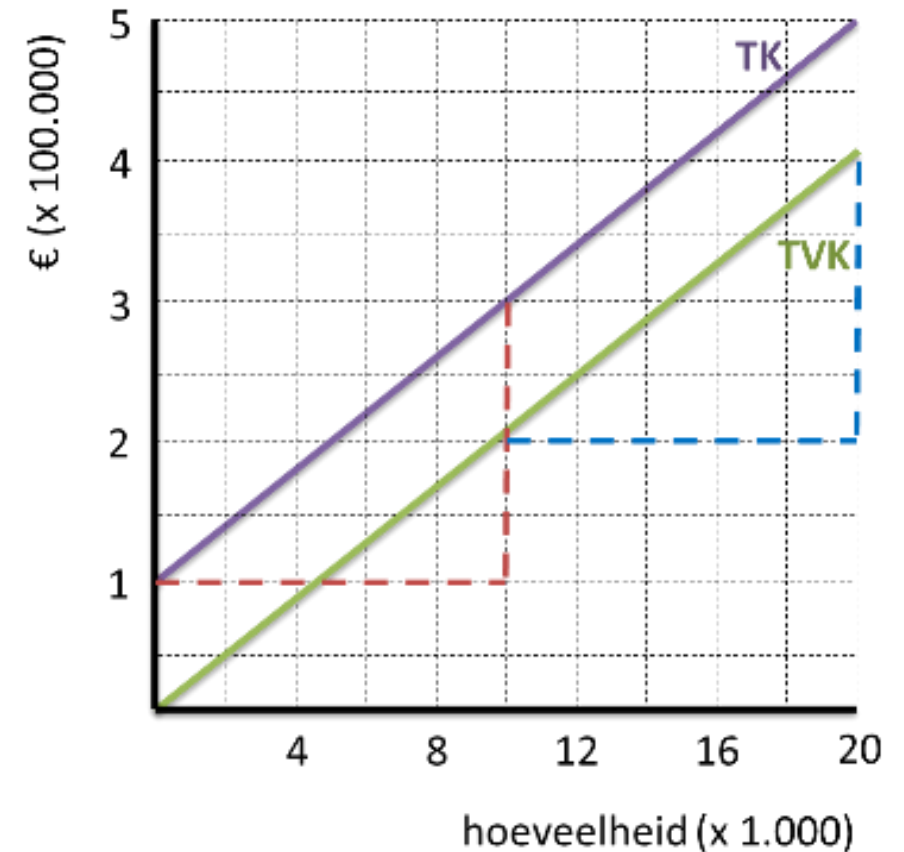
Number of products from 0  $\rightarrow$  10,000 = + 10,000 products =  $\Delta Q$

Total cost of € 100,000  $\rightarrow$  € 300,000 = + € 200,000 cost =  $TK(\Delta Q)$

So an increase of € 20 per product, so  $MK = € 20$  per product

This also applies to the other points on the TK graph (ex: number of products from 10,000 to 20,000 ( $= \Delta Q = 10,000$ ); this involves a total cost from 300,000 to 500,000 ( $= TK(\Delta Q) = 200,000$ ), so the  $MK = 200,000 / 10,000 = € 20$  per product

So the MK line is a horizontal line



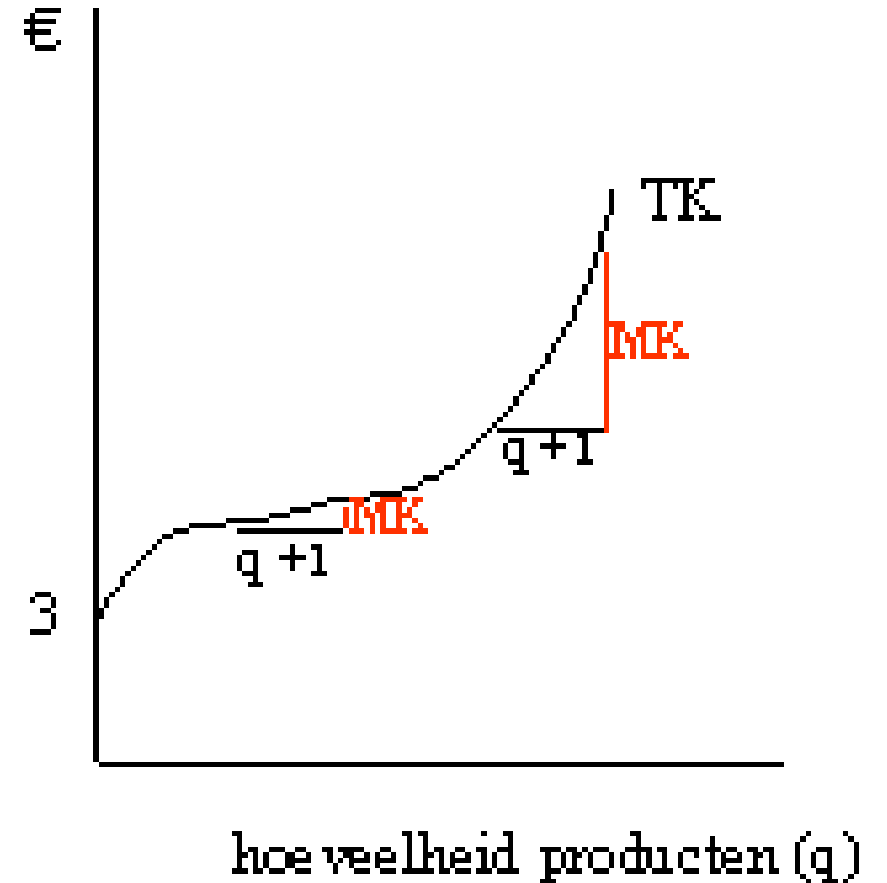
Source: <https://www.economielokaal.nl/marginale-kosten-1/#>

# Marginal costs, for example

## Non-proportional variable costs

Take first derivative of total cost

Source: <https://www.economielokaal.nl/marginale-kosten-1/#>



# Economies of scope

- The firm achieves savings as it increases the variety of activities it performs
- Calculating
  - Relative total cost (TC) of producing a variety of goods together in one firm
- Vs.
  - Relative total cost of producing a variety of goods separately in two or more firms

$$TC(Q_x, Q_y) < TC(Q_x, 0) + TC(0, Q_y)$$

# Economies of scope

- Reason?
  - Investments made in developing for example know-how, can be applied to producing related products
  - Example: know-how for developing manufacturing tape (chemical adhesives) can be applied to producing adhesive message notes
  - Thus
    - The firm leverages its core competences
    - The firm competes on capabilities
    - ...



# Group deadline and to prepare for next week

- Subscribe your group members + company choice
  - See BB
  - Deadline 11/10, 12h (noon)
- Read beforehand: *Metro: A modern newspaper for a modern people?* (Hazard)
  - See BB, under “cases”