Strategic management

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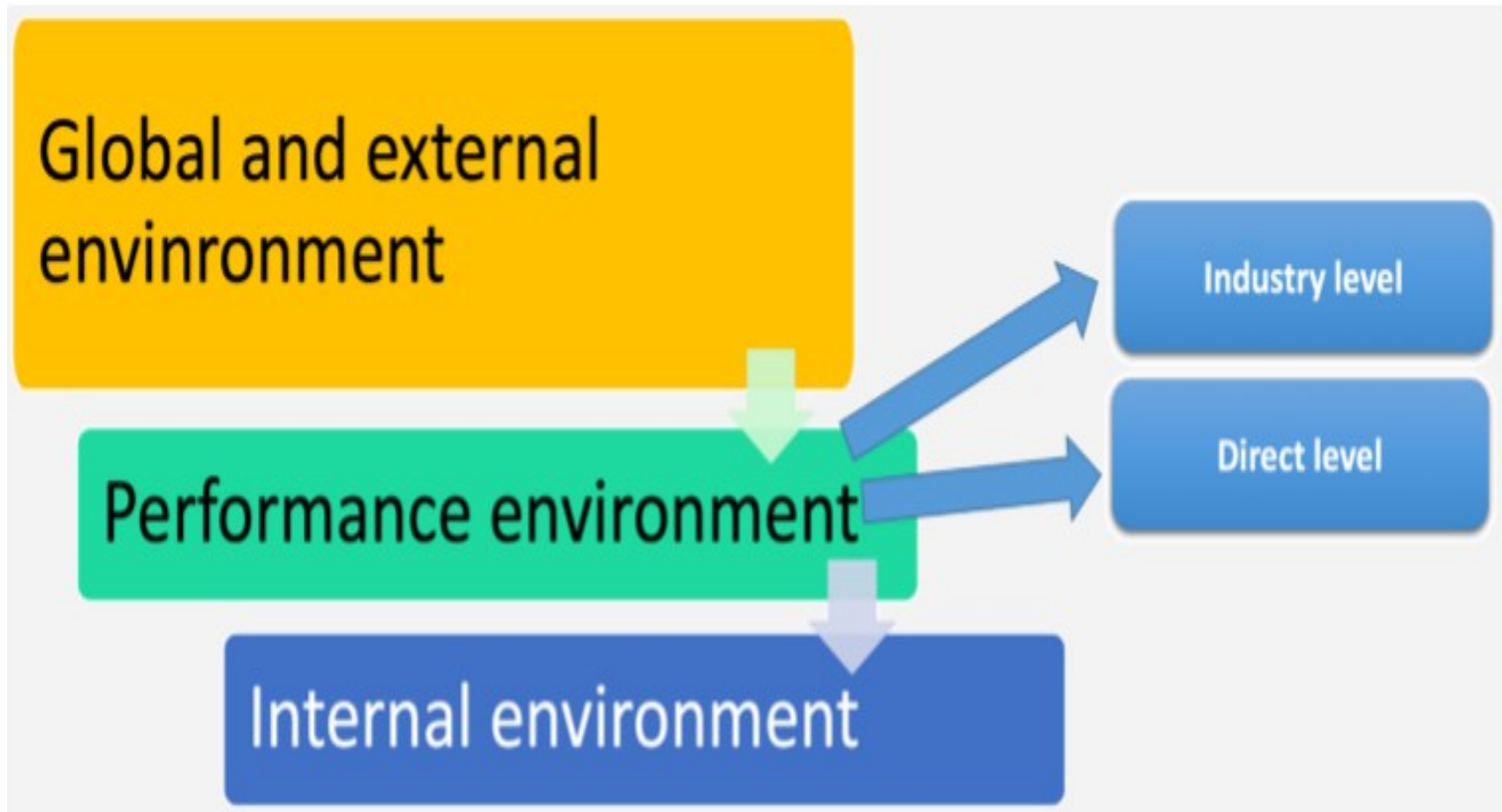
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Strategic management

- Examining the internal and external environment of the company
- Then DECISION MAKING!

- Internal examination: McKinsey 7S
- External: narrow: Porter 5 Forces; broad: STEEP
- Summarizing: SWOT

The quality of these analysis in highly dependent of the people who are making them.

The environment of a company

The environment of a company

Global environment:

Nowadays, companies are not able to get out of the effects of globalization, so the global environment is the broadest level of the external factors. Businesses are not able to influence the trends and tendencies of the global market. They have to adapt to these changes in their environment.

- The whole GLOBE is my environment… ☺

The environment of a company

External environment:

- Demographic
- Economic
- Natural
- Technological
- Political and legal
- Social and cultural

The external environment consists of larger societal forces that affect the microenvironment.

The environment of a company

Performance environment:

- Company
- Suppliers
- Intermediaries
- Competitors
- Public
- Consumers

The environment of a company

Internal environment:

This is the environment which can be changed *„easily"*.
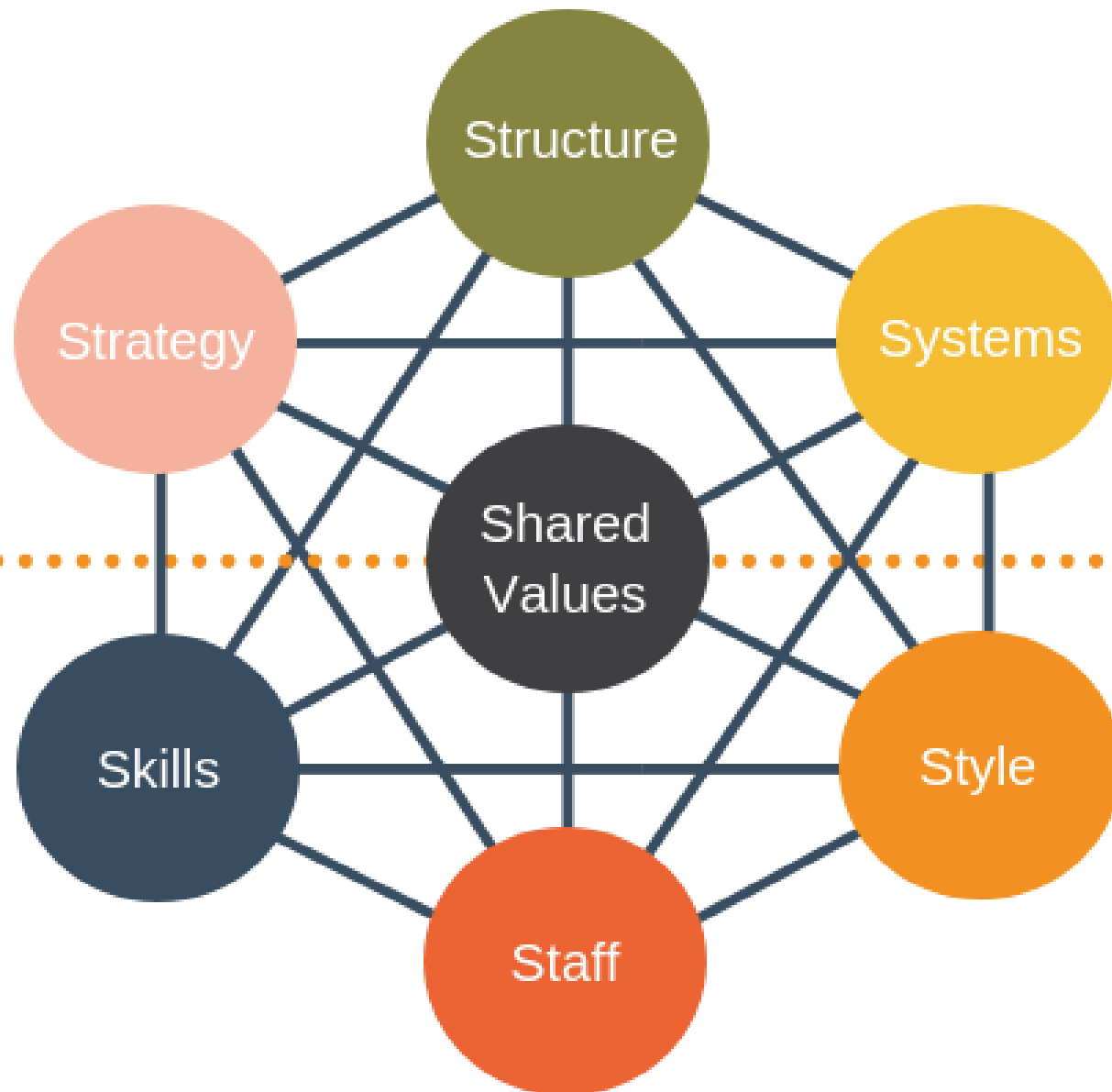This contains the assets that a company have, the capabilities of the firm.

Internal environment

McKinsey 7S modell
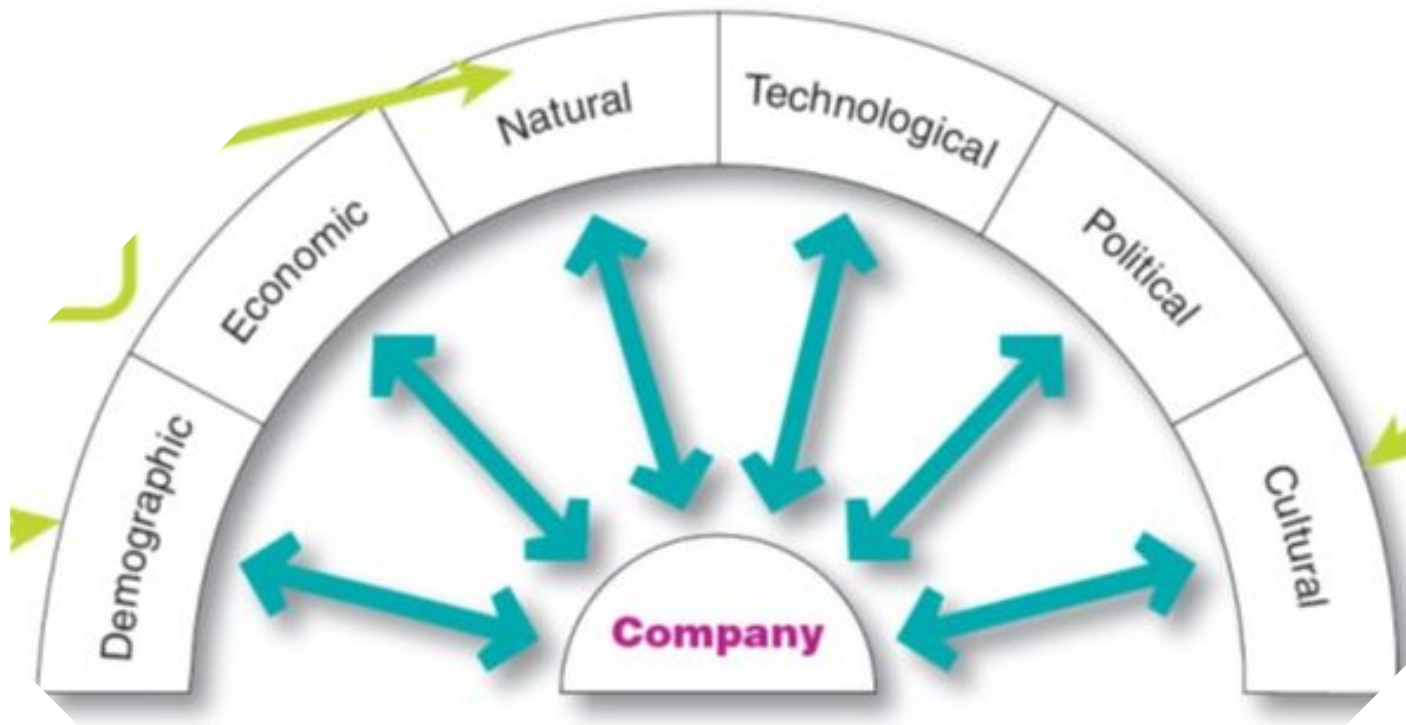
- Strategy
- Structure
- Systems
- Style
- Staff
- Skills
- Shared values

McKinsey 7S Framework

Structure

Strategy

Systems

Hard S

Soft S

Shared Values

Skills

Style

Staff

Company's external environment

External environment

Social (demographic) Environment

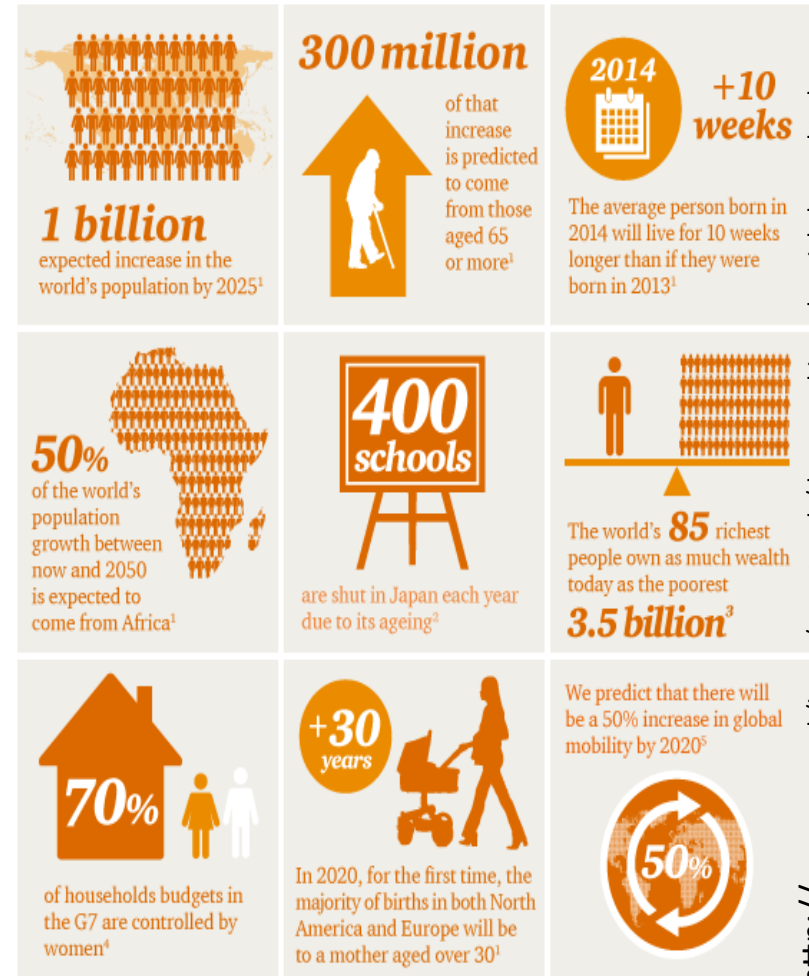- **Demography** is the study of human populations - size, density, location, age, gender, race, occupation, and other statistics.

- **Demographic environment** involves people, and people make up markets.

- **Demographic trends** include changing age and family structures, geographic population shifts, educational characteristics, and population diversity.

Social (demographic) Environment

Social (demographic) Environment

Demographic and social change
Did you know?

1 billion expected increase in the world's population by 2025[1]

300 million of that increase is predicted to come from those aged 65 or more[1]

2014 **+10 weeks** The average person born in 2014 will live for 10 weeks longer than if they were born in 2013[1]

50% of the world's population growth between now and 2050 is expected to come from Africa[1]

400 schools are shut in Japan each year due to its ageing[2]

The world's **85** richest people own as much wealth today as the poorest **3.5 billion**[3]

70% of households budgets in the G7 are controlled by women[4]

+30 years In 2020, for the first time, the majority of births in both North America and Europe will be to a mother aged over 30[1]

We predict that there will be a 50% increase in global mobility by 2020[5]

The above predictions come from the following sources:
1 UN Population Division, World Population Prospects (2012) • 2 FT (2014) • 3 Oxfam (2014) • 4 'The World's Women', UN (2010) • 5 PwC Talent Mobility 2020 and beyond (2012)

http://www.pwc.co.uk/issues/megatrends/demographic-and-social-change.html

- Aging population
- Rising life expectancy
- Urbanization
- Increasing number of working women
- Smaller family size
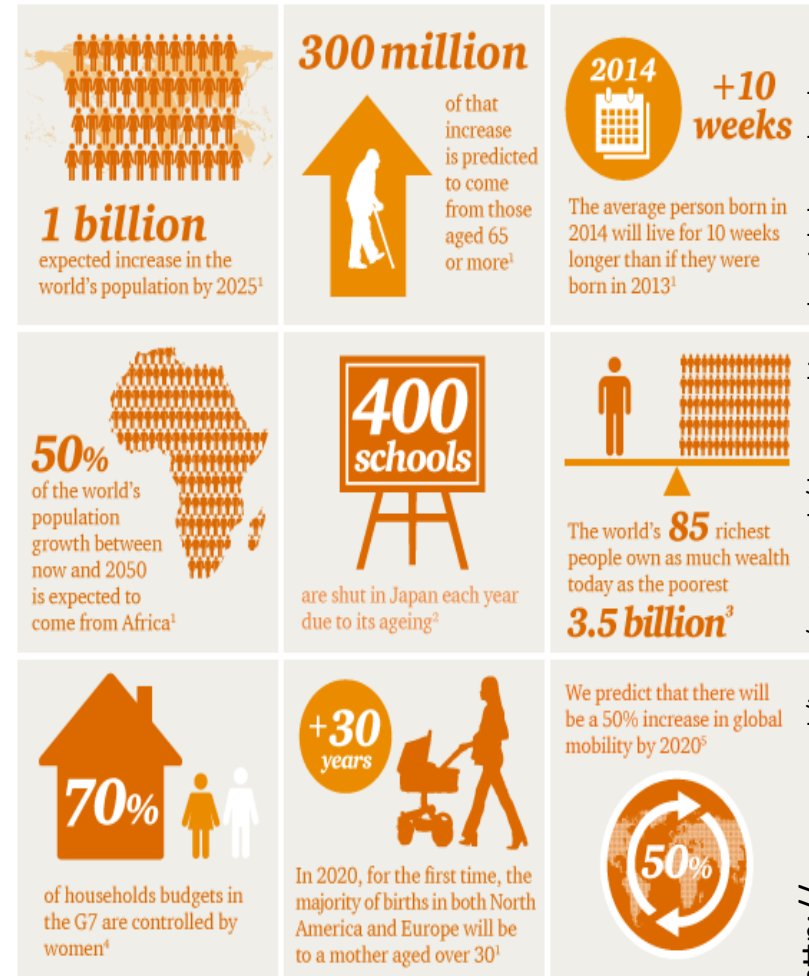- Declining fertility rate
- etc.

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Demographic Environment

Generational thinking is important in segmenting people by lifestyle or life stage instead of age.

- Baby Boomers - born 1946 to 1964
- Generation X - born between 1965 and 1976
- Millennials (Y) - born between 1977 and 2000
- Generation Z – born after 2000

- Bernie Ecclestone
- F1 for the old rich men, in 5* hotels and wearing Rolex
- VS: rich kids of instagram

- If only he had insta…

Political and legal Environment

Legislation regulating business is intended to protect

- companies from each other

- consumers from unfair business practices

- the interests of society against unrestrained business behavior

  – Increased emphasis on ethics

  – Socially responsible behavior

  – Cause-related marketing

WARBY PARKER

BUY A PAIR, GIVE A PAIR

For every pair purchased, a pair is distributed to someone in need.

Warby Parker; Photographer: Esther Havens

Cultural and Social Environment

Cultural environment consists of institutions and other forces that affect a **society**'s basic values, perceptions, and behaviors.

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Core beliefs and values are persistent and are passed on from parents to children and are reinforced by schools, churches, businesses, and government.

Secondary beliefs and values are more open to change and include people's views of themselves, others, organization, society, nature, and the universe.

Pepsi campaign in USA:
"Come alive with the Pepsi Generation„

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Pepsi campaign in South-Korea:

Pepsi campaign in USA:
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Pepsi campaign in South-Korea:
"Pepsi will bring your ancestors back from the dead„

Economic Environment

Economic environment consists of factors that affect consumer purchasing power and spending patterns.

- Industrial economies are richer markets.
- Subsistence economies consume most of their own agriculture and industrial output.
- Developing economies also offer outstanding.

Natural - Ecological Environment

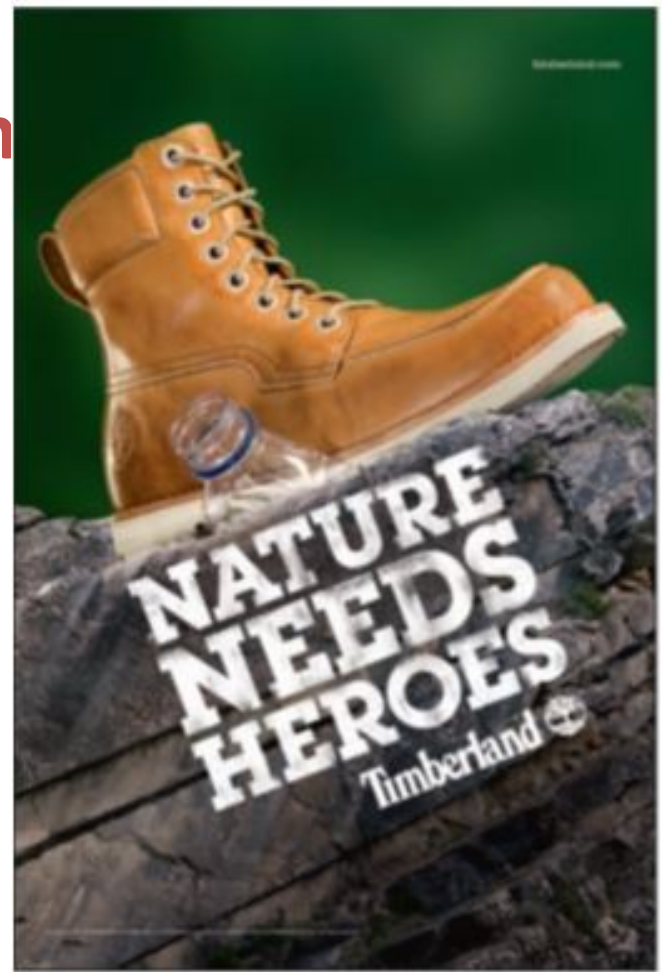Natural resources that are needed as inputs by managers or that are affected by operational activities.

Trends:
- Increased **shortages of raw materials**
- Increased **pollution**
- Increased **government intervention**
- Increased environmentally **sustainable strategies**

Natural - Ecological Environm

Environmental sustainability
involves developing strategies and practices that create a world economy that the planet can support indefinitely.

Technological Environment

- **Most dramatic force** in changing the marketplace
- New products, opportunities
- Concern for the safety of new products
- Industry 4.0 vs Innovational waves

Political and Legal Environment

Laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society.

Only about 15 percent of Singaporeans own a car.

Performance environment

The performance environment
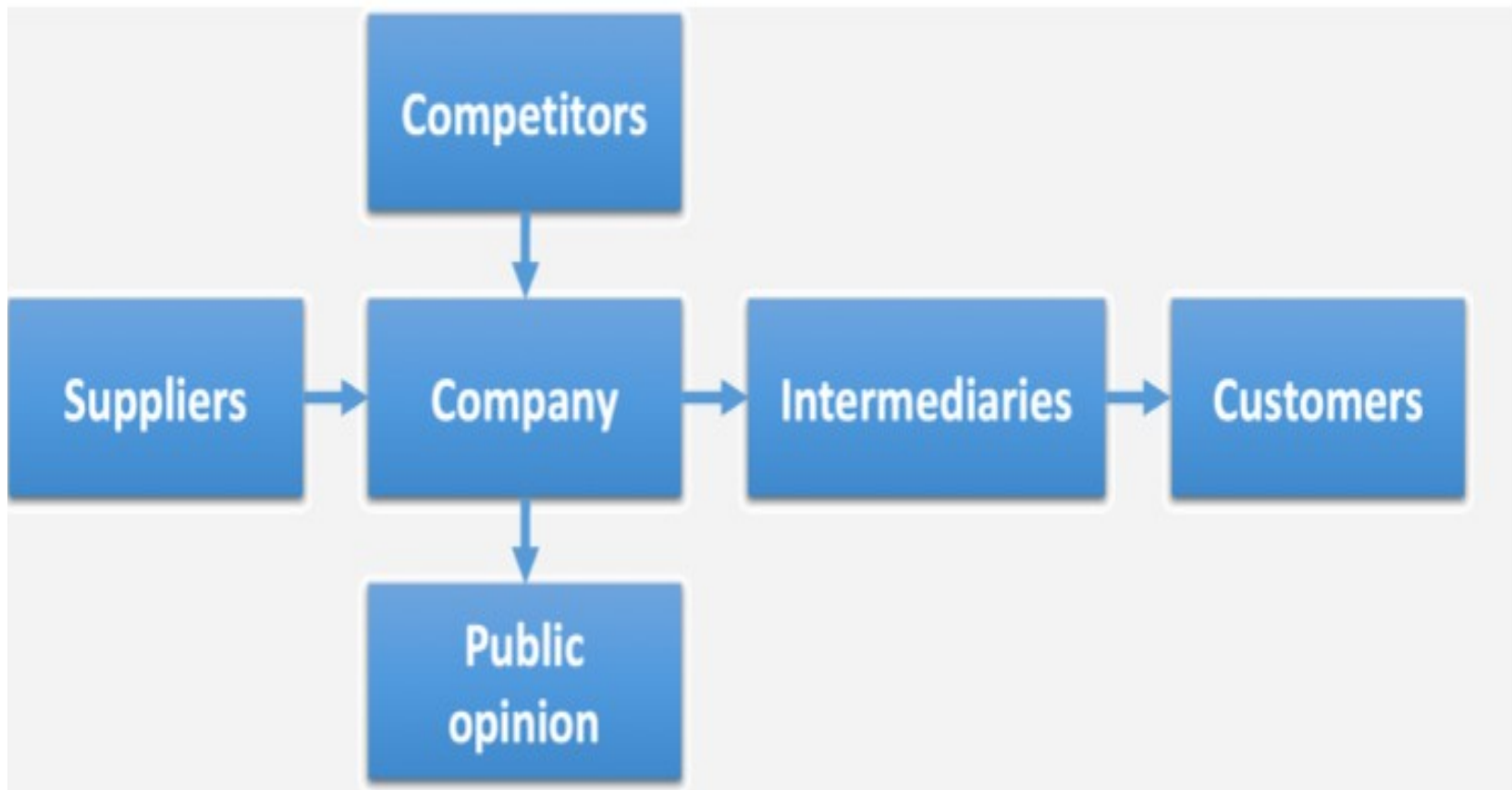
The Company

- Top management
- Finance
- R&D
- Purchasing
- Operations
- Accounting

Suppliers

- Provide the resources to produce goods and services
- Treat as partners to provide customer value

Competitors

Firms must gain strategic advantage by positioning their offerings against competitors' offerings.
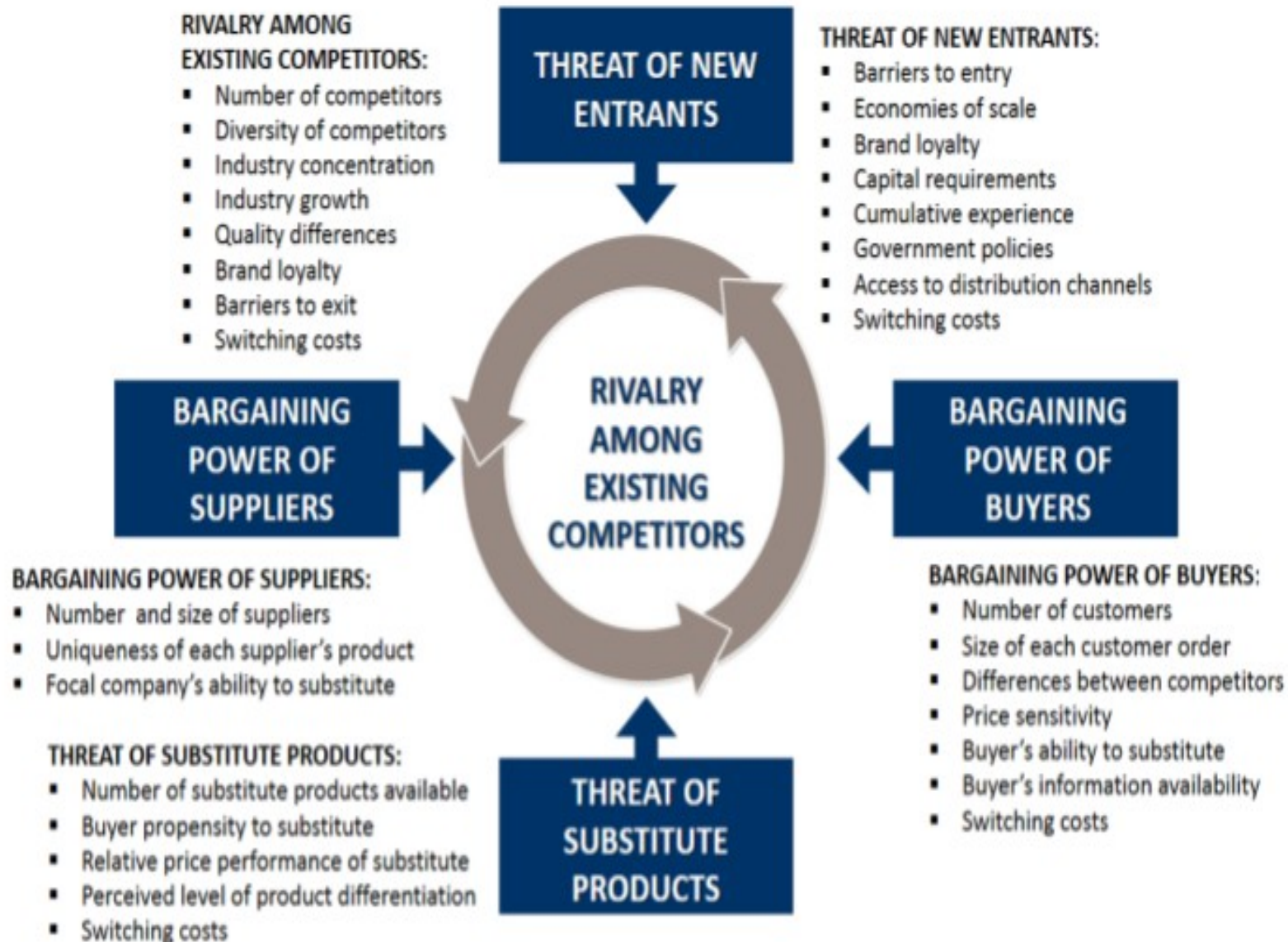
Cheap vs inexpensive

Publics

Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

Porter 5 forces modell

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

RIVALRY AMONG EXISTING COMPETITORS

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

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

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SWOT analysis

Strengths	Weaknesses
Characteristics of a business which give it advantages over its competitors	Characteristics of a business which make it disadvantageous relative to competitors
Opportunities	**Threats**
Elements in a company's external environment that allow it to formulate and implement strategies to increase profitability	Elements in the external environment that could endanger the integrity and profitability of the business

SWOT matrix

The formalization of strategic situation analysis is represented by the SWOT analysis model.

The SWOT model combines strengths and weaknesses from the analysis of the internal environment with opportunities and threats from the external environment.

SWOT analysis

- **Strenghts – threats:** take advantage of the strenghts in order eliminate threats
- **Strenghts – opportunities:** utilize strenghts to seize the opportunities
- **Weaknesses – threats:** weaknesses to develop in order to eliminate threats
- **Weaknesses – opportunities:** weaknesses to develop in order to seize opportunities

ACTION PLAN

The organisation	Stengths – S 1. Existing brand 2. Existing customer base 3. Existing distribution	Weaknesses – W 1. Brand perception 2. Intermediary use 3. Technology/skills 4. X-channel support
Opportunities – O 1. Cross-selling 2. New markets 3. New services 4. Alliances/Co-branding	SO strategies Leverage strengths to maximise opportunities **= Attacking strategy**	WO strategies Counter weaknesses through exploiting opportunities **= Build strengths for attacking strategy**
Threats – T 1. Customer choice 2. New entrants 3. New competitive products 4. Channel conflicts	ST strategies Leverage strengths to minimise threats **= Defensive strategy**	WT strategies Counter weaknesses and threats **= Build strengths for defensive strategy**

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1921: In 100 years we will have a flying cars.
2021:

Everybody wants to change the world, ... but nobody wants to change the toilet paper.