MGT 8803

Fundamentals of Analytics

# Summer 2021

# Introduction

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Wen May 19th Weekly Video conference call

# Financial Accounting

## Week 1 05/17 – 05/23 Introduction to Financial Accounting

The focus in Financial Accounting is to help the student develop skills in reading and analyzing GAAP-compliant Financial Statements – including The Balance Sheet, Income Statement, and Statement of Cash Flows. This module introduces the basic structure and content of such reports. This involves learning what items are included in the financial statements, how such items are measured, and how and when various business/ economic events affect the financial statements. Students will acquire an understanding of what can be inferred from financial reports about the past operations, present position, and prospects of a firm. More broadly, students will learn how financial accounting information can be used to evaluate firm performance, to compare the performance of different firms, and to make a variety of important business decisions based on the analysis of financial statements and financial ratios.

Accounting represents historical view of the company. Finance is a look at the present or potential value of a company.

### Objectives:

* Describe concepts and standards underlying the measurements used in accounting to develop the financial statements of businesses.
* Analyze and account for business transactions.
* Classify and communicate the results of business transactions in the form of financial statements.
* Use and interpret financial information for making decisions pertaining to the business.

### Introduction to Financial Accounting

Forms of Businesses:

* Proprietorship & Partnership
  + Unlimited liability
  + No taxation
* Corporation (Shareholders, Board of Directors, Top Managers)
  + Limited liability
  + Taxation
  + Corporations can be publicly traded or privately held.

Assumptions

* Separate entity - We treat the business and the owners as separate entities, focusing on the accounting for the businesses, not the owners.
* Unit of measurement - The currency in which the company is operating.
* Going concern - We presume that the company will continue to operate -- that it'll be ongoing
* Periodicity - We presume that we can arbitrarily pick any time period that we want to and report the financial results for that time period.
* Materiality -the only information that needs to be disclosed in financial statements is information that will be useful for those who rely on the financial statements to make decisions.
* Generally Accepted Accounting Principles (GAAP) – focus here not on tax accounting.
* Securities & Exchange Commission (SEC). The rule-making resides under the authority of the SEC.
* Financial Accounting Standards Board (FASB). FASB consists of representatives from public accounting firms, industry, government agencies, and academia.
* International Financial Reporting Standards (IFRS)
* Qualities of Financial Statements - Understandability, Timeliness, Full disclosure, Comparability, Objectivity, Decision relevance

Financial Statements

* Balance Sheet
* Income Statement
* Statement of Cash Flows

Be able to read and prepare statements.

### Balance Sheet

Measures financial position at a point in time. Assets, Liabilities, and Owner's Equity. This is not the value of the company. For example, the cost principle does not use market value for assets, only purchase price.

Resources = Sources of funding

Resources = Creditors’ claims + owners’ claims

Typically shows two years of history.

#### Assets

* Assets: Resources owned or rights to receive resources (Physical, Intangible, Legal rights)
* Common asset accounts: Cash, Accounts receivable & notes receivable, Inventory, Investments, Buildings & Equipment, intangible such as Copyrights; patents
* Order of presentation: liquidity
* Asset Valuation Options
  + Historical cost (objective)
  + Sales value (decision making)
  + Replacement cost
  + General price-level adjusted costs
* Cost Principle: Assets are valued at their historical cost (most objective) not appraised or market value. Cost is original value.

#### Liabilities and Stockholders’ Equity

* Liabilities: Obligations owed to creditors. Cash or goods and services.
* Dividends – distribution of earnings
  + declared are a liability.
  + reduces retained earnings as soon as they are declared.
  + only on balance sheet – not income/expense
  + company does not pay taxes on dividends.
  + recipient of dividends does pays taxes
* Common liability accounts: Accounts payable, Notes payable, Interest payable, Deferred (Unearned) Revenues, Accrued wages and salaries
* Classified Balance Sheets Shows Distinction
  + Current (conversion to cash within a year) vs. Long-term Assets (assumed on balance sheet)
  + Current (due date within a year) vs. Long-term Liabilities (assumed on balance sheet)
* Owners' Equity (OE) - Residual interest of owners to assets
* Accounting Equation:
  + Assets = Liability + OE (claims against assets) - (if liabilities decrease then assets decrease as well)
  + Assets – Liability = OE
* Stockholders' Equity - OE for corporations
  + Capital Stock Capital - what the company received when selling shares of its stock.
  + Retained Earnings – accumulated earnings less dividends. Dividends are a distribution of earnings, and that only occurs when the board of directors decides to distribute the earnings.
* Statement of Retained Earnings
  + Beginning Retained Earnings + Net Income – Dividends = Ending Retained Earnings
* Statement of Stockholders’ Equity
  + Beginning Stockholders’ Equity + Net Income – Dividends + Issuance of Capital Stock = Ending Stockholders’ Equity

### Cash Basis vs. Accrual Accounting

* Revenues: Value received for goods sold or services performed
* Expenses: Payment, or obligations, for goods or services received Revenue Recognition Principle
* Cash is not necessarily involved in the determination of revenues or expenses.
* cash basis accounting, revenues will be recognized when cash is received, and expenses will be recognized when cash is paid out.
* accrual accounting - Revenue is recognized when earned such as when services performed.
* Income statement uses accrual accounting. Report revenue when earned.
* Dividends are not expenses but distributions of owners equity so they are not on an income/expense statement
* GAAP uses accrual accounting.
* Matching principle –
  1. Costs are reported as expenses in the same time period as their related revenues.
  2. Costs that cannot be matched with specific revenues are matched with future time periods that benefit from the cost.

### Income Statement

Income Statement Shows the results of a company’s operation performance (i.e., success or failure) over a period of time with a minimum of a year or 12 month fiscal year.

Typically shows 3 years of history.

* Single Step Income Statement
  + Revenues Earned - Expenses Incurred = Net Income
  + Lists all our revenues and all expenses
  + Companies may have additional categories in it (e.g. net sales)
* Net Sales (Revenues) - Cost of Goods Sold = Gross Margin (Profit)
* S, G & A – Selling, General, and Administrative
* Operating Expenses (S, G & A) = Operating Income +/- Other Rev. & Exp. (Gains, Losses, Interest, Div. Rev.)
* Income Before Taxes-Income Tax Expense = Income After Taxes
* Earnings per Share (EPS) = Net Income (Net Loss) / # Shares of Stock
* Basic EPS as shown
* Fully diluted EPS – include potential shares such as stock options and restricted stock units

Net Income

### Statement of Cash Flows

Statement of Cash Flows Shows how cash changed from the beginning to the end of the period. Reports the amount of cash collected and paid out by a company in operating, investing, and financing activities.

Investing Activities Buying and selling long-term assets (land, building, equipment).

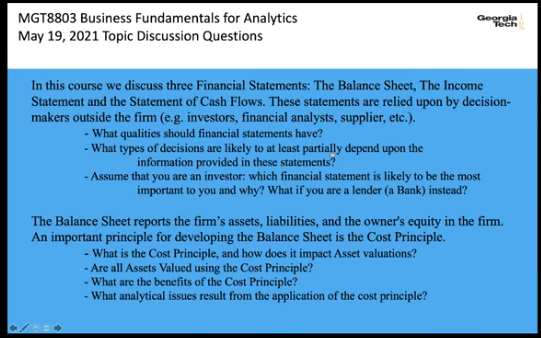
Financing Activities Cash obtained from or repaid to owners and creditors (loans, repayments, stock issuance).

* + Investing cash flows + Financing cash flows = Change in cash
* Cash Flow Statement Three parts
  1. Operating Activities - A company’s day-to-day activities.
     + Major operating cash inflow—cash receipts from selling goods or from providing services.
     + Major operating cash outflow—payments to purchase inventory and to pay operating expenses.
  2. Investing Activities - Buying and selling long-term assets (land, building, equipment)
  3. Financing Activities - Cash obtained from or repaid to owners and creditors (loans, repayments, stock issuance).
* Direct vs. Indirect Methods
  1. Direct method explicitly states where the cash came from and where the cash went to. More time and effort.
  2. Indirect method starts off with the company's net income from the income statement, and it makes some adjustments to get to the cash flow from the operating activities.

### Audits

* Issued by independent CPA firms.
* CPAs attest to conformity with GAAP ("present fairly").
* Financial statement opinion:
  + unqualified (clean)
  + modified (going concern) - qualified opinion GAAP violation (e.g. inventory not properly accounted for)
  + adverse – finances as a whole are not being properly presented
* Financial statements are the responsibility of the company’s management and not the CPA.
* Sarbanes-Oxley Act of 2002: opinions on internal controls

## May 19 Conference Call



## Week 2 05/24 – 05/30 Assets, Liabilities, and Owners Equity

### Cash and Accounts Receivable

* Cash - Anything a bank will accept for deposit:
  + Checks
  + Money orders
  + Bank credit card slips, visa, mastercard
  + Cash Equivalents. Investments due within 3 months.
* Accounts Receivable A/R
  + Own credit card such Macy’s are accounts receivables A/R
  + Bad debts
    - Do not reduce net sales. Instead, record a bad debts expense.
    - For Income Statement - Matching principle for Bad Debt Expense in the same period
    - For Balance Sheet: A/R (net) = A/R – Allowance for bad debts – Estimate Losses for matching principle
    - Estimation Methods – contra-asset account (depreciation is a contra-asset as well)
      1. Percentage of Credit Sales Method
         * Bad Debt Expense = Percentage of credit sales
         * [This amount is added to Allowance for Bad Debts]
         * Bad debt expense is an account that appears on the income statement, so it does not carry over from one year to the next.
         * The allowance account is a balance sheet account. It does carry over from one year to the next. The amount at the end of one year becomes the balance at the beginning of the next year.

Example:

Bad Debt Expense = 2% of $500,000 credit sales = $10,000

* + - 1. Percentage of Receivables Method
  + New Allowance for Bad Debts = Percentage(s) of ending balance in A/R
  + Bad Debt Expense = New Allowance for Bad Debts – Previous Allowance for Bad Debts

Previous Allowance for B.D. = $1,800

Ending balance of A/R=$100,000.

Example of 4 ages for Aging of A/R:

< 30 days: $62,000 x 1% = $620

31-60 days: $15,000 x 3% = $450

61-120 days: $20,000 x 7% = $1,400

>120 days: $3,000 x 20% = $600

New Allow. for B. D. = $620 + $450 + $1,400 + $600 = $3,070

Bad Debt Expense = $3,070 – $1,800 = $1,270

### Notes Receivable

* Formal contracts signed when a customer buys merchandise or services on credit. (big ticket items such as cars, furniture)
* Specify due dates for the payments, interest that must be paid, the interest rates
* Classified as a (due < 1 year) current or (due > 1 year) long-term asset, depending on due date.
* Principal: The face amount of the note (amount borrowed).
* Interest Rate: A percentage of the principal the maker is charged to borrow money.
* Maturity Value: Principal plus interest
* Interest = Principal x Interest Rate x Time (usually a year)

Example

On January 1, a company sold equipment and received a 90-day, $5,000 note.

The interest rate is 14%.

Interest = $5,000 x 0.14 x 90/365 = $172.60

* Sold debt is called Factoring for Accounts Receivable
* Sold debt is called Discounting for Notes Receivable
* Contingent liabilities from discounting or factoring with recourse.

Example:

Co. A sells equipment to Co. B in exchange for N/R.

Before due date, N/R is discounted at bank with recourse.

If Co. B defaults, bank can go after Co. A.

This contingent liability would just be disclosed in the notes to the financial statements.

* Company A discounted the note, it has a potential liability that we call a contingent liability. It does not need to be reported on the balance sheet in the liability section because it's not an actual liability, it's just a potential liability.
* Contingent liability should be disclosed in the notes to the financial statements

### Inventory and Cost of Goods Sold

* Inventory - Goods either manufactured or purchased for resale.
* Ownership - Goods in Transit - Whoever is responsible to pay for the shipping records the inventory on its balance sheet.
* Goods on Consignment - Rather than selling merchandise to another company, a company will give those goods on consignment telling them that if they don't sell the merchandise, they can return it to them or if they do sell the merchandise, they can keep a certain percentage.
* Beginning inventory + Net purchases - Ending inventory = Cost of goods sold
* Purchases + Freight-in - Purchase returns & allowances - Purchase discounts = Net purchases
* Sales - Cost of goods sold = Gross Margin
* Gross Method vs. Net Method Example: Sale of item that cost $150 for $250.
  + Gross Method: $250 Sales Revenue Net Method: $100
  + Gross Method: $150 CGS Net Method: $0
  + Gross Method: $100 Gross Margin Net Method: $100
* Inventory
  + Perpetual Inventory System
    - Records updated when purchase or sale is made.
    - Most often used when each item has a relatively high value.
  + Periodic Inventory System
    - Records are not updated when a purchase or a sale is made.
    - Used when inventory is composed of a large number of diverse items, each with a relatively low value.

### Inventory Cost Flows

* Specific identification - When we can identify which batch a product came from and determine the cost exactly.
* First-in, first-out (FIFO) - Presumes that the cost of the merchandise sold is coming from the earliest batches purchased.
* Last-in, first-out (LIFO) - Presumes that what's being sold first is the latest purchases that were made.
* Weighted average - Involves an average cost of all the purchases made, weighted by the number of units.

### Prepaid Expenses and Investments

What it is and what causes.

### Property, Plant & Equipment

### Depreciation

Contra-asset

### Intangible Assets

Intangible assets - No physical substance but available resource for company such as a patent

### Research and Development

### Liabilities

### Bonds

### Capital Stock

### Cash Dividends

### Other Stockholders’ Equity Items

Underlying accounting principles.

* Stockholders' Equity - OE for corporations
  + Capital Stock Capital - what the company received when selling shares of its stock
  + Retained Earnings – accumulated earnings less dividends. Dividends are a distribution of earnings, and that only occurs when the board of directors decides to distribute the earnings.
  + Common stock
  + Preferred stock

# EXAM I DUE 05/31 Financial Accounting

# Finance

## Week 3 05/31 – 06/06 Introduction to Financial Management and Investment Rules

The Finance module provides a general introduction to finance and capital structure. No matter what the manager’s role is in a corporation, an understanding of why and how financial decisions are made is essential. The module starts by describing the role of a financial manager in corporate decision making - emphasizing that the good decisions increase the value of the firm’s stock, and poor decisions decrease the value of the stock. Related to this is the concept of economic value creation (EVA) and the difference between economic profits and accounting profits. Students will then learn a central concept in finance – the time value of money; and how the time value of money is used as a critical component in capital budgeting - the decision-making process for accepting or rejecting projects. The student will learn how to calculate and apply important analytical techniques such as net present value (NPV), internal rate of return (IRR), and payback period. Importantly, the students will learn how these techniques are applied to approving projects and capital investments.

The student will also learn the determinants of relevant cash flows and role of sensitivity analysis and simulation in the context of NPV analysis. These methods are illustrated through several examples and a case. The module also covers the basics of stock valuation using discounted dividend models.

The Finance module concludes with introducing the concept of risk and explains the distinction between diversifiable and systematic risk. Finally, the approach to estimating a firm’s cost of capital (WACC) will be explained and students will have the opportunity to calculate the cost of capital for several prominent firms. Students will also learn how WACC, when used as the discount rate in a NPV calculation, can be used to determine if the firm is creating or destroying economic value when investing in a project.

* Making capital investments
  + Assess and evaluate proposals for capital investments. Cash inflow/outflow.
    - net present value (NPV)
    - internal rate of return (IRR)
    - payback period
    - profitability
* firm’s cost of capital
  + Weighted Average Cost of Capital (WACC)
* Decision points
  + Internal rate of return (IRR) > WACC than invest creates economic value
  + Internal rate of return (IRR) < WACC than do not invest.
* Valuation – current value of company
  + Net present value (NPV)
  + Stock Market

## Week 4 06/07 -06/13 Evaluating Investment Opportunities and Stock Valuation

NPV/IRR

## Week 5 06/14 – 06/20 Risk, Return, Cost of Capital, and Firm Valuation

# EXAM II DUE 06/31 Finance

# Supply Chain Management

## Week 6 06/21 – 06/27 Introduction to Supply Chain Management and Long-Term Decisions

The goal of the supply chain management module is to introduce the student to the importance of operations and supply chain management in the business organization. Students will be exposed to the main challenges of managing a global supply chain and several best practices from leading firms will be highlighted. In addition to developing a basic understanding of supply chain business practices and strategy, this module will introduce students to several key operational level models or quantitative methods used in specific decision situations including the Newsvendor model that provides insight into matching supply with demand and using Economic order Quantity ("EOQ") and reorder point analysis ("ROP") to establish inventory policy.

While most students think of supply chain management as the domain of companies that make a product, the module highlights the importance of supply chain to the service industry as well. The module concludes by examining a phenomenon called the bullwhip effect and students will learn how the bullwhip effect distorts demand in a supply chain.

Focus on Upstream – looking at suppliers into organization.

## Downstream – looking at distributors and customers.

3 levels:

1. How it is configured (centralized, decentralized, cost driven, responsive)
2. Operational decision making – inventory, economic, order up to inventory policy
3. Forecasting and errors

## Week 7 06/28-07/04 Medium Term Decisions

# HOMEWORK #2 Supply Chain Simulation Assignment DUE 07/06

## Week 8 07/04 – 07/11 Short Term Decisions

# EXAM III DUE 07/12 Supply Chain Management

# Marketing

## Week 9 07/12 – 07/18 Marketing Strategy, Opportunity Analysis, and Segmentation

A sound marketing strategy is grounded in a detailed understanding of consumer needs/wants and focused on creating offerings that exceed customer expectations. To accomplish this outcome, students will learn how marketers assess opportunities via a rigorous analytical process that contemplates broader strategic considerations such as competitive offerings (both direct and indirect), the organization’s competencies, and contextual considerations. Students will also be exposed to approaches used by marketing management to determine target market segments and how to develop a precise marketing mix for each segment.

Understanding how customers think about brands and analyzing opportunities for differentiation is critical for marketing success. Marketers and data scientists are responsible for evaluating the buyer journey to determine ways to create awareness, engage customer interests, and drive consideration and conversion. Students will learn how elements such as branding, packaging, warranties, and product classes must be considered when developing products and services. Students will examine how a product’s “lifecycle” can be managed by stage; and the importance of lifecycle in determining strategies essential to maintain sustainable competitive advantage.

Finally, students will also be exposed to the other elements of the four “Ps” of marketing (also known as the “marketing mix”): Product, Pricing, Place, and Promotion. Issues and considerations will be discussed as they relate to 1) developing effective and efficient channel systems and distribution models; 2) crafting pricing objectives and policies along with determining customer value; and 3) creating promotion methods that maximize both digital and traditional modalities of communication along with assessing factors related to personal selling, PR, managing customer service, and establishing sales promotions.

Customer needs and solutions that are superior to competitors. Understand customer behavior and. Need to know customer.

Segments

product

Prioritize Segments into priority target markets.

Position product and strategy

Marketing

Marketing is the activity, set of institutions, and processes for creating, communicating,

delivering, and exchanging offerings that have value for customers, clients, partners, and society

at large.

Customer behaviors - Individuals, groups or organizations and the processes they use to select,

secure, use and dispose of products, services, experiences, or ideas to satisfy needs and the

impacts that these processes have in return.

Marketing research is the function that links the consumer, customer, and public to the

marketer through information--information used to identify and define marketing

opportunities and problems; generate, refine, and evaluate marketing actions; monitor

marketing performance; and improve understanding of marketing as a process. Marketing

research specifies the information required to address these issues, designs the method for

collecting information, manages and implements the data collection process, analyzes the

results, and communicates the findings and their implications.

Strategic marketing - An endeavor by a business unit to differentiate itself positively from its

competitors, using its relative corporate strengths to better satisfy customer needs in a given

environmental setting

Market Segmentation is the process of placing the buyers in a market into sub-groups so that

the members of each segment display similar responsiveness to a particular positioning

strategy.

The target selection decision identifies the segment or segments of people or organizations in a

market toward which a firm directs its positioning strategy.

Positioning refers to placing a brand in that part of the consumer’s mind where it will have a

favorable reception compared to competing products, essentially positively differentiating itself

from the competition

Topic 1 Introduction to marketing

Lesson 1 what is marketing and why is it important

Makes sure right goods and services are produced, creates customer satisfaction

Lesson 2 history of marketing and its dynamic role in the business environment

Simple trade era – focuses on sell surplus

Production era – focuses on increases supply

Sales era – focuses on beat competition

Department era – focuses coordinate & control

Marketing company era – focuses long-run customer satisfaction

Shifting from a process to organizational function

Lesson 3 the marketing process

Elements of the marketing process

• Environmental influences

o political/legal env, technological env, economic env, social env

o direction marketing – competitive env, customers, resources and objectives of

the company

• Customer behavior

• Market research

• Strategic marketing – segmentation, target selection, positioning

• Marketing strategy – product, distribution, promotion, price

Target market => price + product + place + promotion

Three components

• Company – objectives + resources + capabilities

• Competitors – current + potential

• External market environment - economic + technological + political/legal +

cultural/social

Lesson 4 customer behavior

• B2B – business and organizational customers and their behaviors

o Key characteristics = manufacturers, producers of services, retailers, wholesalers,

government units, non-profit

o Key differences = multiple buying influence, emphasis on economic needs, more

systemic and formal evaluation of choices, purchase criteria & specifications

o Buying center – buyers, users, influencers (expertise), gatekeepers, deciders

• B2C – final customers and their behaviors

Lesson 5 market research

Define the problem (most difficult but most critical), analyze the situation, getting problem

specific data, interpreting the data, solve the problem

All data sources

• Secondary data sources – inside company (company files, intranet, reports, sales,..),

outside company (internet, libraries, governments, trade associations, ..)

o Inexpensive, fatser, easier, what more is needed, primary data research proposal

• Primary data sources – observations (equipment, website analysis), questioning (indepth

and focus group interview, online, mail, phone)

o Questioning – qualitative (un-structured, open-ended, variable responses, indepth

information), quantitative (structured, closed-ended, fixed responses)

Marketers can create wants and preferences

A marketing intermediary would most likely help a firm by moving the firm's goods from

production points to distribution centers

Topic 2 strategic marketing

Lesson one introduction to strategic marketing

Strategic marketing planning process – narrowing down to the best opportunities + developing

a strategy

Lesson two components of strategic marketing

Understanding the broad market leads to identifying potential opportunities

Identify your company’s market + focus on the customer not just the product + generic markets

to product-markets + adjust market definitions to find opportunities

Generic market definition = customer needs + customer types + geographic area

Product market definition = customer needs + customer types + geographic area + product type

The strategic marketing processes

• Identify markets with broad similar needs

• Determining market segmentation

• Selecting market to target

• Position through marketing strategies

Lesson three/four/five the segmentation process

Segmentation strategy

• Market identification

• Decision how to segment

• Formation of segments

• Strategic analysis of each segment

• Further segmentation

The marketing segmentation process

• Find ways to group customers according to their needs

• Find ways to group marketing actions – usually the products offered – available to the

organization

• Develop a market/product grid to relate the market segments to the firm’s products and

actions

• Select the product segments toward which the firm directs its marketing actions

• Take marketing actions to reach target segments

Bases for segmentation

• Customer characteristics – psychographic, demographic, geographic, socioeconomic

• Buying situation – behavior, outlets, benefits, usage

Segmentation vs. combing

• Combiners try to satisfy pretty well

• Too much combining is risky

• Segmenting may produce bigger sales

• segmenters try to satisfy very well

• Segment or combine?

• Profit is the balancing point

Requirements for segmentation

• Identifiable segments (age, income)

• Homogeneity within

• Heterogeneity across

• Actionable segments

• Profitable size

• Stability over time

Segmenting dimensions for business markets – types of customer + demographics + product

use + purchase situation + kind of relationship + purchasing methods

Lesson six target segment selection

Target selection strategy

• Selective targeting – selected niche, product specialization

• Extensive targeting – multiple segments, product variety

Target market dimensions Marketing strategy implications

Behavioral needs, attitudes, and how present

and potential goods and services fit into

customers’ consumption patterns

Affects product and promotion

Urgency to get need satisfied and desire and

willingness to seek information, compare and

shop

Affects place and price

Geographic location and other demographic

characteristics of potential customers

Affect size of target markets, place,

promotion

Lesson seven/eight/nine the positioning

Positioning concept = functional + experiential + symbolic

How should we position? By attribute and benefits, by price and quality, by use or application,

by product class, by product user, by competitor, by cultural symbols

Developing a position platform

• Identify the competitors

• Assess perceptions of them

• Determine their positions

• Analyze customer preferences

• Make the positioning decision

• Monitor the position

For (our target market), (our brand) of all (product type) delivers (key benefits or point of

differentiation) because (our brand) is (reasons to believe).

Position errors - Doubtful positioning, confused positioning, over-positioning, under-positioning

Topic 3: Marketing Strategy & The Marketing Mix

lesson 1: Elements of Product Strategy

• Product components

• Good vs. services

• Business products

Core – product attributes that most directly satisfy or meet the customer’s need or needs

Packaging – product features that surround the core and enhance the product’s ability to satisfy

customer needs

Support services – services and product features that help maintain or insure the product’s

ability to continue satisfying customer needs

Goods vs. services = tangibility, inseparability, perishability, durability, quality consistency

Business product strategy – derived demand, inelastic industry demand, tax treatments diff

Lesson 2 new product strategy & development

• New product development strategies

o Reposition / cost reduction / new to world products / new product lines

• New product development process

o CUSTOMER NEEDS ANALYSIS

o IDEA GENERATION

o SCREENING & EVALUATION

o BUSINESS ANALYSIS

o MARKETING STRATEGY

DEVELOPMENT

o PRODUCT DEVELOPMENT

o TESTING

o COMMERCIALIZATION

o FEEDBACK

• New product development & market diffusion

Lesson 3 distribution strategy

Distribution strategy – direct vs. indirect, distribution arrangement, distribution intensity,

distribution configuration

Direct systems – greater control, lower cost, internet makes direct easier, direct contact with

customers, suitable intermediaries not available

Decision criteria – cost, capital, coverage, control, content, congruency

Lesson 4 distribution logistics & intermediaries

Keys affect consumers’ retail choice – product selection, place decision, promotion, prices,

emotional needs, shopping atmosphere,

Internet retailing issues – new meaning of convenience, showrooming, big data, online costs for

retails & customers, brick & mortar stores add online capabilities

Wholesalers – changing with the times, in decline, progressive wholesalers adapt, goodbye to

some, ethical issues, new strategies needed to survive

Type of merchant wholesalers

• Service – general merchandise, single line, specialty

• Limited function – cash and carry, drop shippers, truck, rack jobbers, catalog

Lesson 5/6/7 integrated marketing communication (IMC) methods & process

Promotion methods, managing promotion, communication process

IMC objective and strategy => role of IMC components => IMC budget => component stragegies

Advertising managers + sales managers + sales promotion managers + marketing managers

IMC component strategy – target audience => objectives (informing, persuading, reminding) =>

budget (percent of sales, arbitrary, comparative parity, affordable method, return on

investment ROI, objective & task) => creative strategy => media strategy => PRODUCTION &

EXECUTION => EVALUATION OF EFFECTIVENESS (sales and expenses analysis, recall tests,

ratings services, controlled tests, test marketing)

AIDA – get attention, hold interest, arouse desire, obtain action

Appeal methods

• functional appeal – feauture, competitive, price, news, popularity

• image appeals – visual, audio /verbal, touch, taste, smell

• emotional appeals – humor, sex, fear, love, other emotions

media selection

• imc objectives

• target audience characteristics

• funds available

• reach & frequency

Lesson 8 pricing strategic options

Skimming strategy – neutral strategy – penetration strategy

Pricing situations – new product pricing, life cycle pricing, positioning strategy change,

countering competitive threads

Analyzing the pricing situation – customer price sensitivety, legal and ethical constraints,

competitors’ likely responses, product costs

Business strategy and innovation

Planning is defining organizational goals, establishing a strategy for reaching those goals, and

developing a comprehensive hierarchy of plans to integrate and coordinate activities. It can be

either formal or informal, depending on the time frame and amount of documentation

Introduction to business strategy

Lesson 1 what is planning

Defines organizational objectives and goals

Develops overall strategies, tactics, and activities necessary to achieve the goals

Creates a hierarchy of plans that guides the firm at each level of the organization

Planning -> organizing -> directing -> controlling

Lesson 1 why planning is important

Planning provides direction that can align all the activities of the organization

Planning reduces the uncertainty

Planning establishes organizational goals and standards

Planning can improve employee engagement throughout organization

Factors that affect planning

• organizational level – impacts the type and scope of plan prepared

• degree of environmental uncertainty – impacts the planning methodology, specificity of

the goals and planning time horizon

• length of future commitments – impact the planning time horizon

lesson 2 types of plans

strategic plans

• apply broadly to the entire organization. Developed at corporate or business unit (SBM)

level, are the responsibility of senior management

• establish the organizational overall mission, goals, and objectives. Goals tend to be

directional rather than specific

• seek to position the organization in terms of its external of external environment. The

focus is on creating and sustaining a competitive advantage

• are the basis for the functional plans which are typically developed concurrently with

the SBM plans?

• cover extended period time

functional plans

• planning related to a specific business function. Example: R&D, supply chain, sales,

human resources, marketing, financial, manufacturing,

• driven by goals developed in strategic planning, translated into more specific,

operational goals at the business function level

• functional plans are interrelated, and the development of functional plans are typically

managed by senior level executive committee

• responsibility of upper level middle management

operational plans / tactical

• narrow focus – usually apply to specific activities of the organization, example,

production schedules, sales call schedules

• prepare daily, weekly, monthly, and often standing plans

• are developed at any managerial level but primarily the responsibility of first level

supervisors and team leaders

contingency plans

• address the what ifs – incorrect planning assumption or the realization of known risks

• when needed

o to mitigate a critical planning assumption or business risk

o to min business disruption due to natural disasters, a failure in a critical

production process,

lesson 3 what is business strategy

business strategy – The goal directed actions a firm intends to take in its quest to gain and

sustain competitive advantage.

Competitive advantage is superior performance relative to other competitors in same industry

Competitive parity is when two or more firms in the same industry perform at the same level

Competitive disadvantage is firm underperformance relative to competitors in the same

industry

A Competitive Advantage is NOT sustainable if the source of advantage can be independently

attained or easily imitated

Firm effects result from the quality of the firm’s Business Model and the alignment and

effectiveness of firm Business Strategy

Lesson 4 business model

A firm’s BUSINESS MODEL is how the various components of the business fit together to

produce a profit. A business model is the end results of decisions and tradeoffs made by

management in formulating strategy

Typical Components of a Business Model:

• Markets Service Served: Products (value propositions); Customer; Channels; and

relationships

• Firm Infrastructure: Processes and technology; People and Culture; and Strategic

partnerships

• Economic Model: Cost drivers and revenue models

Cost-leadership strategy

Becoming the lowest-cost producer in an industry. Business model emphasis on use of

technology to drive down operational costs, simple, standardized product designs, and a focus

on driving costs down

Differentiation strategy

Attempting to be unique in an industry within a broad market. Making products unique to allow

the company to charge a premium price. Creative design and clever marketing, emphasis on

R&D and and higher quality inputs to create customer value

Focus strategy (Segmentation)

Attempting to establish an advantage (such as cost or differentiation) in a narrow market

segment.

The core competencies of a firm are its unique capabilities and resources that enable the firm

to deliver and support a value proposition to its customer

Capabilities consist of the firms resources and how those resources are combined and

integrated into functional business processes and business activities that support the value

proposition and competitive strategy

To be competitive a firm must have unique and valuable resources and the capability to exploit

these OR a unique capability to manage a relatively common resource.

Lesson 5 business model case study

Lesson 6 level of strategy

• Corporate Strategy – addresses which businesses an organization will be in; how

resources will be allocated among those businesses; and how each business will relate

to the other. Also sets the “grand strategy” – growth, stability, defensive – for each

business unit.

• Business Strategy – focuses on how to compete in a given business. Strategy here is

about creating and sustaining a competitive advantage

• Functional Strategy– concerned with the activities of the different functional areas of

the organization and the short to long term methods to be used to help achieve the

overall business strategy Example: Marketing develops a one to three year product

development and roll-out plan that supports the overall business objective of 10%

growth in overall revenues. The functional plan then can be divided into one year

operation plans with budgets. Marketing may also develop other plans in areas such as

distribution, promotion, and pricing

Grand strategy – growth, stability, renewal

Growth strategy –

Concentration: growing by focusing on the firms core business – its primary business – and

increasing the number of products or services offered or the number of markets served

Diversification: growing by moving into a different industry. Strategy here is typically

determined at the corporate level

Vertical Integration: growing by gaining control over either the firms inputs (suppliers) or

outputs (distributors/retailers). Growth through acquisition

Horizontal Integration: growing by combining with a competitor. May be an acquisition or

merger

The strategic management process

Lesson 1 introduction to strategic management process models

AFI framework

• Analysis – vision, mission, values, external and internal analysis

• Formulation – corporate, business, functional strategy

• Implementation – structure, culture, processes, capabilities, technology, goernance,

controls, business ethics

Lesson 2 vision, mission, values, strategic intent

the vision statement is an expression about what the organization ultimately wants to

accomplish

strategic intent is the staking out of a desired leadership position in the industry. The focus is

on the future and the attainment of ambitious, challenging goals

mission statement provides a statement of how the organization intends to achieve its vision

and the organization’s responsibilities towards the organization key stakeholders

core values – what the company believes to be important

goal – financial goals (profitability), strategic goals (markets, product, financial and HR,

productivity, research and innovation, sustainability)

lesson 3 strategic planning under uncertainty

uncertainty – (market factors) direct and indirect competition, suppliers, customers,

communities, (industry factor) technology, socio-cultural, economic, political/regulatory,

ecological, legal, globalization

level 1 – a clear enough future

level 2 – alternative but well definable futures

level 3 – a range of potential futures

level 4 – true ambiguity

lesson 3 scenario planning

level 1 – traditional planning

level 2 & 3 scenario planning

lesson 4 strategy as planned emergence

In many cases the realized strategy of the firm is a combination of a top-down intended

strategy – either driven by the traditional strategy developed process or by scenario planning

AND bottom up emergent strategies that could be prompted by unexpected changes changes

in the external environment or ideas that just pop up from within the organization.

Strategy as Simple Rules is a approach where management defines certain guidelines that then

provide direction to more junior management in terms of identifying and championing

potential strategic initiatives. In the final video lesson five areas were defined where rules are

typically established. In the list below identify each of these five areas

How-to, boundaries, prioritization, timing, exit

External analysis

Lesson 1 components of the external env and how they affect strategy

Lesson 2 PESTEL framework

• Political – subsidies, favorable tax politices, regulated acces or pricing control, grants

and investment, trade controls/import restrictions,

• economic – growth rate, interest rates, inflation rate, cost of capital, level of

employment, currency exchange rates, price stability,

• socio-cultural – culture norms and values and demographics, life expectancies, aging

population, changes in ethnic composition, immigration, work force diversity, rising

affluence, increasing lifestyle changes, societal values, attitudes towards product

classes, quality, safety,

• technology – relentless application of knowledge to create new products and processes,

IP protection, industrial spending on R&D, digital communication, emerging industries,

technology transfer

• environment – ecological, braod env issues, workforce health plus society’s changing

view of business responsibility,

• legal – law, mandates, regulation, court decisions, hiring and promotion laws, antitrust

regulation, environmental protection laws, data security, intellectual property

lesson 4 the structure-conduct-performance continuum

Lesson 5 the porter five process model

Porters Five Forces Model identifies 5 competitive forces that managers consider when

analyzing the external environment and formulating strategy.

As a rule of thumb, the stronger the industry forces, the lower the industry profit potential –

making industries less attractive.

backward integration – firm purchases

or becomes its own supplier

forward integration – firm builds its

own distribution

Bargaining Power of Suppliers

Suppliers can suppress the profitability of the industries to which they sell by raising prices or

reducing the quality of the components they provide.

Size/Concentration, Forward Integration, Available Substitutes, Buyer (customer), Price

Sensitivity, Switching Costs

Bargaining Power of Buyers

Volume, Buyer Concentration, Switching Costs, Backward Integration, Available Substitutes,

Product Standardization, Importance of Price Paid

Threat of Substitutes

Number of Substitutes, Switching Costs, Performance of Substitutes

Threat of New Entrants

Capital Requirements, Intellectual Property, Government Regulation, Switching Costs, Product

Differentiation (and Branding), Access to Distribution Channels, Economies of Scale

Rivalry Among Existing Firms

Concentration ratio, Exit Barriers, Growth Rate of Industry, Product Differentiation, Branding,

Switching Costs, Economies of Scale

Attractive industry – weaker five forces, high profit potential, sustainable competitive

advantage easier

Change industry structure

• Abrupt Changes Driven by Macro-Forces

• Technological developments and innovation

• Significant regulatory (or deregulatory) change

• Change in customer behaviors

• Changes in Structural Factors (Five Forces)

• Changes to barriers to entry

• Strategic decisions from non-competitors

• Increases/decreases in supplier/buyer power

• Shifting substitution threat

• New bases of rivalry

• Structural Factors Can Be Shaped Through Strategy

• Each of the Five Forces are Subject to Influence

• Use tactics to increase value captured by the firm

• Larger competitors have a clear advantage here

Lesson 9 the strategic role of complements

Lesson 10 strategic groups and competitor analysis

• Competitor Information

• Who are our present and likely future competitors?

• What are the positions that the competitors have established in the marketplace?

• What are their strategic objectives and initiatives?

• What are their present and future strategies?

• What are their strengths and weaknesses?

• How are competitors likely to respond to our strategic initiatives?

• Approaches/Sources

• Websites

• Trade Shows

• Industry News

• Customers (of Competitors)

• Former Employees (be careful here)

• Consultants and Industry Databases

• The Firm as a Learning Organization

• SEC.gov Website (publically-held competitors)

A Strategic Group

• A Strategic Group is a set of companies that pursue a similar strategy within a specific

industry in their quest for competitive advantage. These firms target the same customer

groups and with similar value propositions.

• Strategic Groups can differ from other industry competitors along a number of dimensions:

Product and Product Differentiation, Quality, Pricing, Technology, Service and Support,

Research, Development, and Product Innovation, Distribution Channel, Target Customers.

• Firms in the same Strategic Group are direct competitors. The rivalry with a Strategic Group

is more intense than rivalry between Strategic Groups

(False). The intensity of competitive rivalry within an industry decreases in markets that are

characterized by slow growth, high fixed costs, and significant barriers to entry.

(true) The more substitutes a product has and the greater the propensity for a buyer to

substitute, the more elastic its demand curve will be.

Topic 4 internal analysis

Lesson 1 looking inside the company for the sources of competitive advantage

Core Competencies – unique strengths that drive competitive advantage

Resources – tangible and intangible assets of the firm

Capabilities – organizational and managerial skills

Activities – transform inputs into outputs

Lesson 2 the resource-based view of competitive advantage

Tangible & intangible => heterogeneous + immobile => VRIO resources => competitive

advantage

Lesson 3 VRIO

a framework for assessing firm resources to predict their value in terms of supporting a firm’s

competitive advantage in the marketplace

Why Resources are Difficult to Imitate

• Historical Conditions

• Causal Ambiguity

• Social Complexity

Lesson 4 Value Chain Analysis and Benchmarking

The Value Chain describes the internal activities a firm engages in when transforming inputs

into outputs

Lesson 5 SWOT analysis

A resource must be VRIO if it can help drive a sustainable competitive advantage. One condition

of VRIO is costly to imitate (the "I"). In the video lesson we discussed why resources can be

costly to imitate. Which ONE of the following is NOT a reason discussed. – cultural dependency

An Internal Analysis, the 3rd step in the traditional top-down strategic management process

helps identify the company’s strengths and weakness

Topic 5 formulating business unit strategy

SUB strategy – understanding environment, identifying opportunities, developing capabilities,

alignment to corporate priorities

Grand strategy – growth (concentration, vertical integration, horizontal integration,

diversification), stability, renewal

Ansoff’s Matrix existing market/new market, existing product/new product

Porter 3 Strategy (Cost-leadership strategy, Differentiation strategy, Focus strategy)

Henderson and Clark Model component knowledge / architectural knowledge

incremental (sustaining) and efficiency

innovation – core business, improve existing, less

risk, quick payback

architectural, disruptive, radical innovation –

divert from core business, high risk, delayed

profits

Topic 6 formulation corporate strategies

Lesson 1 introduction

Levels of strategy

• Corporate strategy – Addresses which businesses an organization will be in, how

resources will be allocated among those businesses, and how each business will relate

to the other.

o Scope of the Overall Firm

o Allocation of Resources Across Strategic Business Units

o Overall Firm Structure and the Extent of of Shared Services and Intra-SBU

Cooperation

o Establishment of SBU Specific Grand Strategies and Strategic Goals and

Objectives

o Strategic Alliances with other Firms

• Business Strategy - Focuses on how to compete in a given business – directed towards

achieving a sustainable competitive advantage

• Functional Strategy - Concerned with the activities of the different functional areas of

the organization and the short-range methods to be used to help achieve the overall

business strategy

Lesson 2 firm scope and the allocation of resources

Creating more values together

• Strong Internal Capabilities

• Sharing of Technologies and Resources

• Cost-Effective Capital

• Reinforcing a Strong Brands

Important when competing in multiple industries Corporate strategy concerns the SCOPE of the

firm

• Industry value chain – degree of vertical integration.

• Products and services – horizontal integration, diversification

• Geography – where to compete on the global stage.

GE-McKinsey 9 box matrix – invest / grow + selectivity / earnings + harvest / divest

Cost reduction by creating efficiencies from

specialization and standardization, economies of scale, and eliminating redundancies.

Lesson 4: Vertical Integration (Part 1)

Benefits

• Secures critical supplies and distribution channels

• Creates a source of differentiation

• Lowers costs

• Improves quality

• Facilitates scheduling and planning

• Facilitates investments in specialized assets

• Captures greater profits (profits that would typically

accrue to 3rd parties)

Risks

• Increases costs and or reducing quality

• Capacity balancing issues

• Internal suppliers lose incentives to compete

• Requires different core competencies

• Reduces flexibility

• Requires substantial capital

• Slow to respond to changes in technology or demand

Lesson 6 horizontal integration

Benefits

• Reduction in competitive intensity by increasing industry concentration and the

reduction of excess capacity

• Lower costs through economies of scale

• Increased differentiation by filling gaps in the acquiring firms product and service

offering

• Access to new markets and channels often through geographic expansion

Integration Failure – In many cases the proposed synergies of an integration strategy never

materialize and shareholder value is destroyed rather than created.

Lesson 7 diversification

Market diversification. Active in several

market segments or different geographical

locations

Product diversification. Active in several

different product categories

Product – market diversification. Active in a

range of both product and markets.

Benefits

• Create Economies of Scale and Scope

• Better Leverage Managerial Skills

• Cross Subsidize Products

• Spread Financial Risks Over Different

Markets

Topic 7 strategy implementation

Lesson 1 strategy implementation

John Kotter’s strategy implementation

• Establish a sense of urgency

• Create a guiding coalition (position power, expertise, credibility, leadership)

• Develop a vision and strategy (simple, vivid, repeatable, invitational)

• Communicate the change vision

• Empower employees for broad base action

• Generate short term wins

• Consolidate gains and product more change (change barriers: structural barriers,

troublesome supervisors)

o Cultural change comes last, not first

o Success must be visible, well communicated

o Some people will not make the transition Reinforce new norms and values with

incentives and rewards

• Anchor new approaches in the culture

Failure

• Lack of Senior Management Ownership

• Lack of Communication

• Getting lost in the day-to-day operations of the firm

• Getting overwhelmed

• Poor Planning effort

• Insufficient commitment of human capital and financial resources

• Poor program management

• Failure to link employee incentives to strategy

• Lack of empowerment

False According to Porter being "stuck in the middle" is when a firm is growing at the same rate

as the overall market and unable to develop a breakout strategy.

## Week 10 07/19 – 07/25 Positioning, Buying Behaviors, and Product Development

Marketing 4 p’s to generate demand

* Place
* Product
* Price
* promotion

# HOMEWORK #2 Marketing Data Analytics Simulation: Strategic Decision-Making DUE 07/27

## Week 11 07/26 – 08/01 Place Development, Pricing, and Promotion

# EXAM IV DUE 08/02 Marketing

Course pack.

Everything is in canvas.

Startup & syllabus