

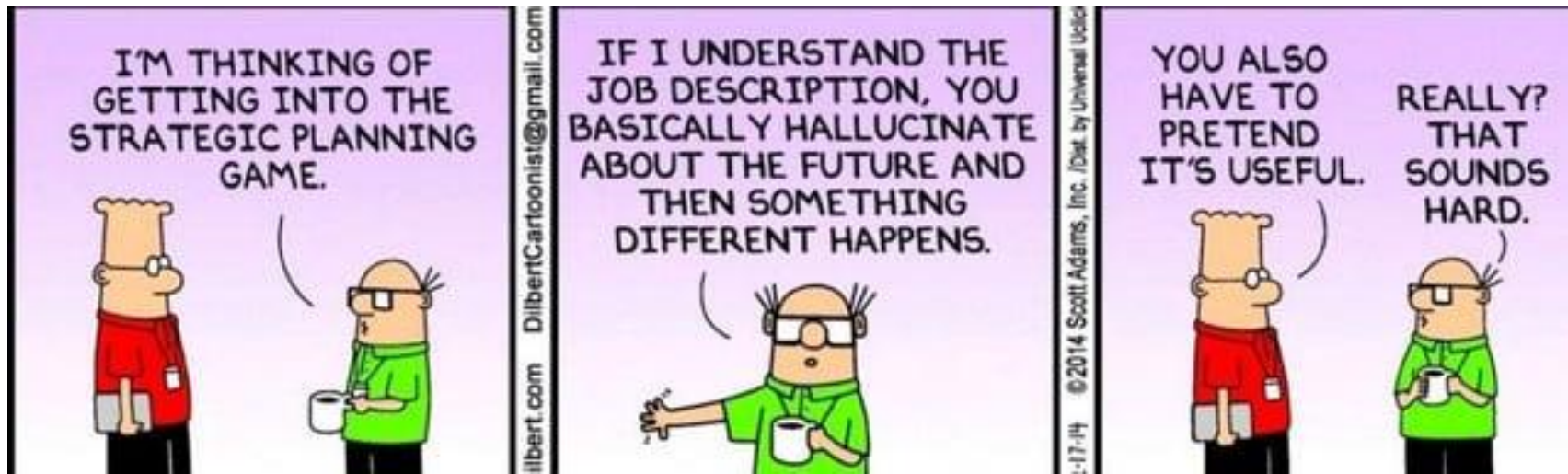


Business Fundamentals – 1: Session 2

Dr. Himanshu Warudkar

Saturday, August 3rd, 2024

What does Dilbert have to say on this?



A small classwork

- Take a piece of paper
- Write the strategy of your favorite company in 50 words or less
- Read out the strategy 😊

Audience

- Do you think this is a winning strategy?
- If yes, what is winning about this?
- If no, what is wrong with this strategy?

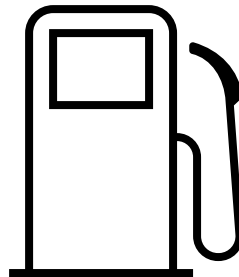
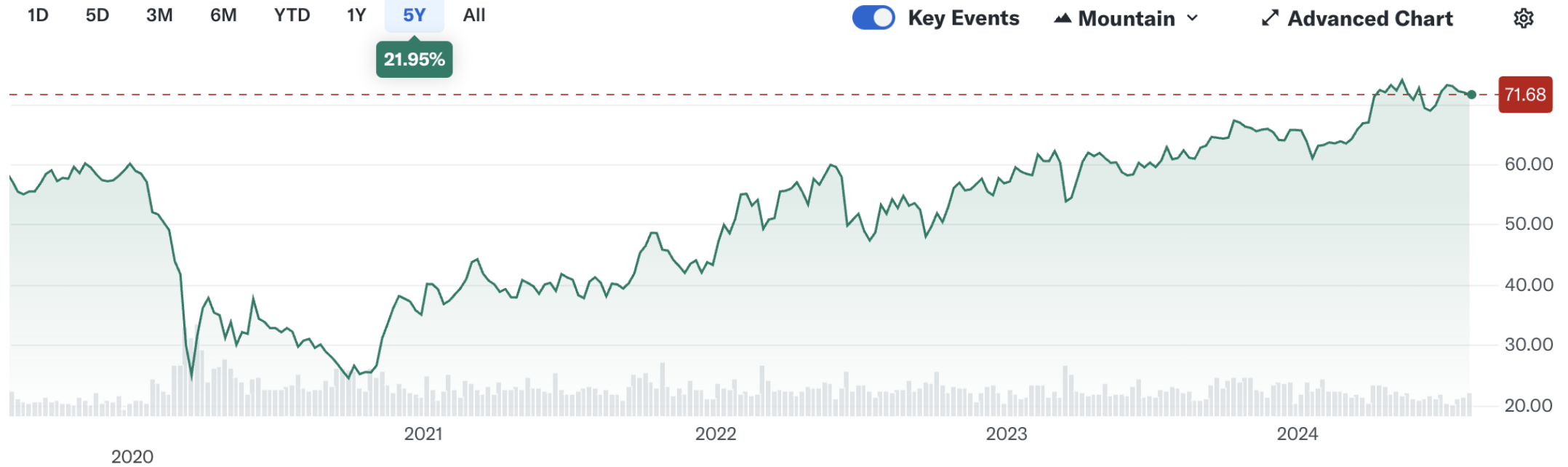
Guess the industry



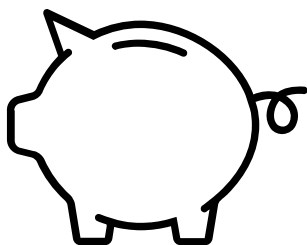
Guess the industry



Guess the industry



Guess the industry

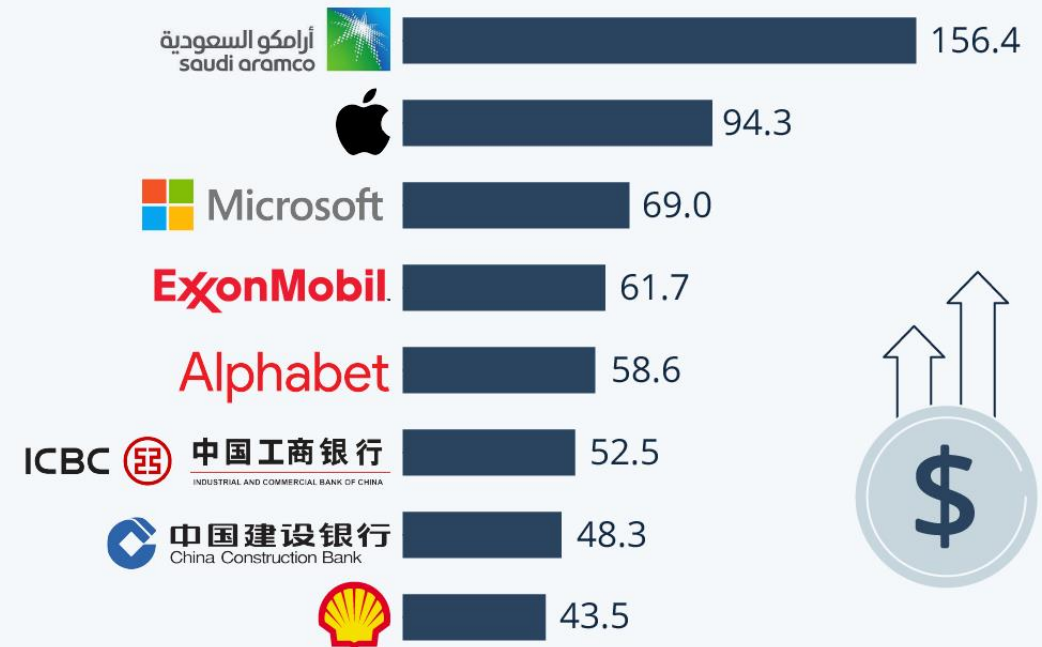


What is management?

Which is the most profitable industry and which one's the worst?

The Most Profitable Companies in the World

2022* profits of the world's most profitable publicly listed companies (in billion U.S. dollars)



* last 12 months available as of May 5, 2023

Source: Forbes Global 2000



Always go by data



मेरे पास डेटा है

What is common to these?



Strategy with a purpose

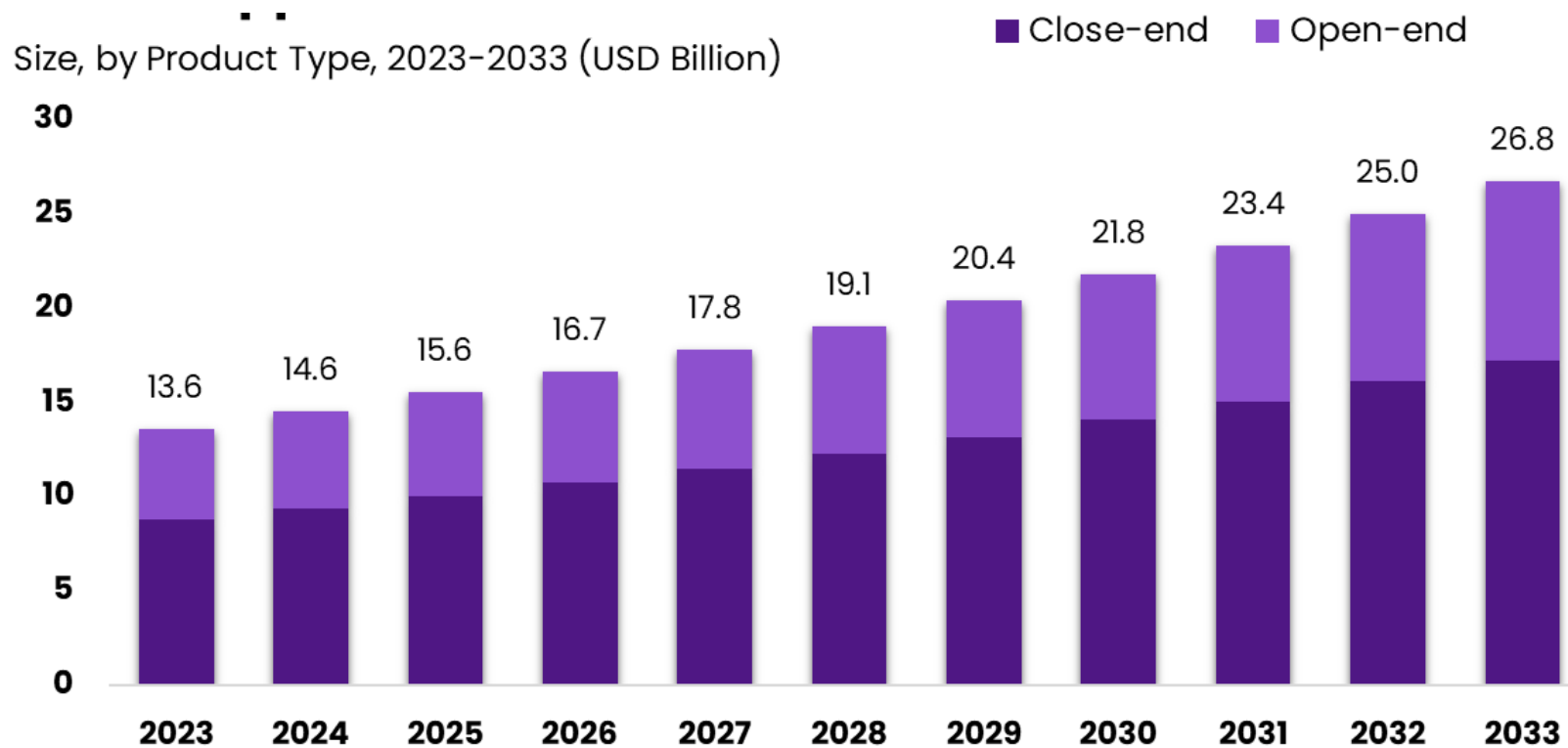


<https://www.youtube.com/watch?v=iRna0a5Oywg>

And then there are the niche one's



Which industry is this?



Who are the players?



- YKK Group
- SBS Zipper
- Ideal Fastener Corporation
- Coats Group plc
- Riri Group
- Kao Shing Zipper Co., Ltd.
- UCAN Zippers USA
- Talon International, Inc.
- YBS Zipper Co., Ltd.
- Fujian SBS Zipper Science & Technology Co., Ltd.
- KCC Zipper Co., Ltd.
- Excella GmbH & Co. KG

What does this tell us?

Strategy is about ***winning***

Strategy is also about ***competitive advantage***. The purpose of strategy is to enable a company to create and sustain an advantage over its competitors.

Strategy is the ***creation*** of a ***unique competitive position*** based on a ***system of distinctive activities across the entire value-chain***

Strategy is not 'simply doing what others do and do it better' – BUT – ***its about doing it differently***

Strategy is all about “***choices***” and “***trade offs***” in competing.



SUN TZU

THE
ART
OF
WAR



'The definitive interpretation of
Sun Tzu's classic book of strategy
STEPHEN E KAUFMAN, Hanshi 10th Dan

*"Strategy without tactics is
the slowest route to victory.*

*Tactics without Strategy is
the noise before defeat."*

Sun Tzu



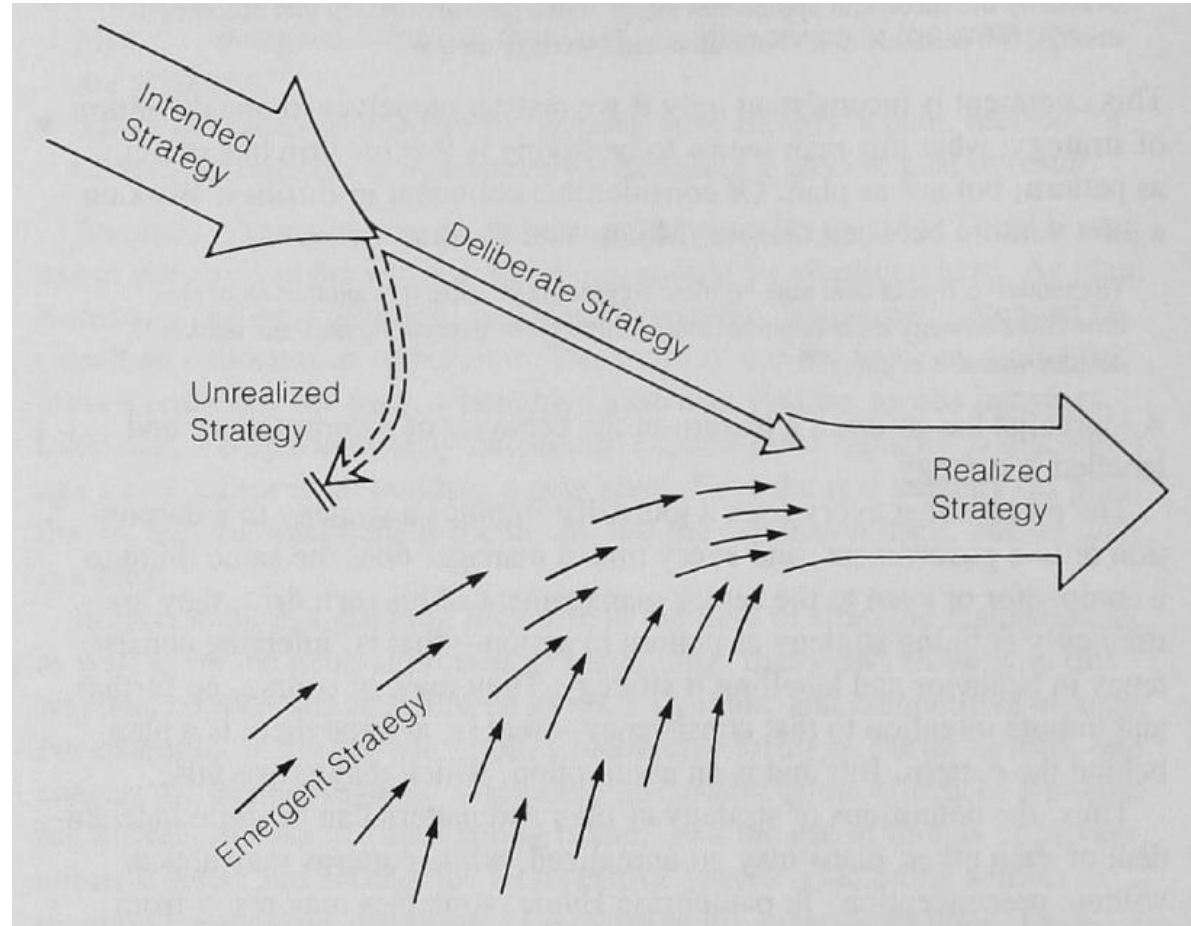
What is Strategy?

- Definition “*a plan, method, or series of manoeuvres or stratagems for obtaining a specific goal or result*”
- Strategy is a plan, ploy, pattern, position, perspective
- Strategy is a unified, comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved

Strategy as a Plan

- Some sort of consciously intended course of action, a guideline to deal with a situation
- Strategies are made in advance of the action to which they apply AND
- Strategies are developed consciously and purposefully
- Military strategy for war
- Game Theory strategy for choices to be made

Strategy as a Pattern



A pattern in a stream of actions

Strategy as a Position

- Means of locating an organization in what organization theorists like to call an "environment" By this definition, strategy becomes the mediating force-or "match" between organization and environment, that is, between the internal and the external context.
- A position can be preselected and aspired to through a plan (or ploy) and or it can be reached, perhaps even found, through a pattern of behaviour ("the concept of strategy need not be tied to rational planning or even conscious decision-making assumptions

Another definition...

- Strategy [is] the deployment of one's resources in a manner which is most likely to defeat the enemy – General Ulysses Grant, 1860s
- Strategy is creating situations for economic rents and finding ways to sustain them: "that is, any viable position, whether or not directly competitive" – Prof. Rumelt, 1960s

Strategy as a Perspective

Content consisting not just of a chosen position, but of an ingrained way of perceiving the world. Some organizations, for example, are aggressive pacesetters, creating new technologies and exploiting new markets; others perceive the world as set and stable, and so sit back in long established markets and build protective shells around themselves, relying more on political influence than economic efficiency

Strategy as Abstraction

- Strategies are abstractions which exist only in the minds of interested parties-those who pursue them, are influenced by that pursuit, or care to observe others doing so. It is important to remember that no-one has ever seen a strategy or touched one; every strategy is an invention, a figment of someone's imagination, whether conceived of as intentions to regulate behaviour before it takes place or inferred as patterns to describe behaviour that has already occurred

Mintzberg on Strategy



https://www.youtube.com/watch?v=_vpvU5flyOA

What is ***Competitive Advantage***?

- The ability of a company to create better value for customers than rivals by providing products/services that are:
 - Of better quality than that of rivals
 - Provide greater convenience to customers than that of rivals
 - Lower priced than rivals

The ability to create 'shareholder value' better than others:

- Value Creation = Profits
- Profits = Revenue (Up) – Costs (Down)

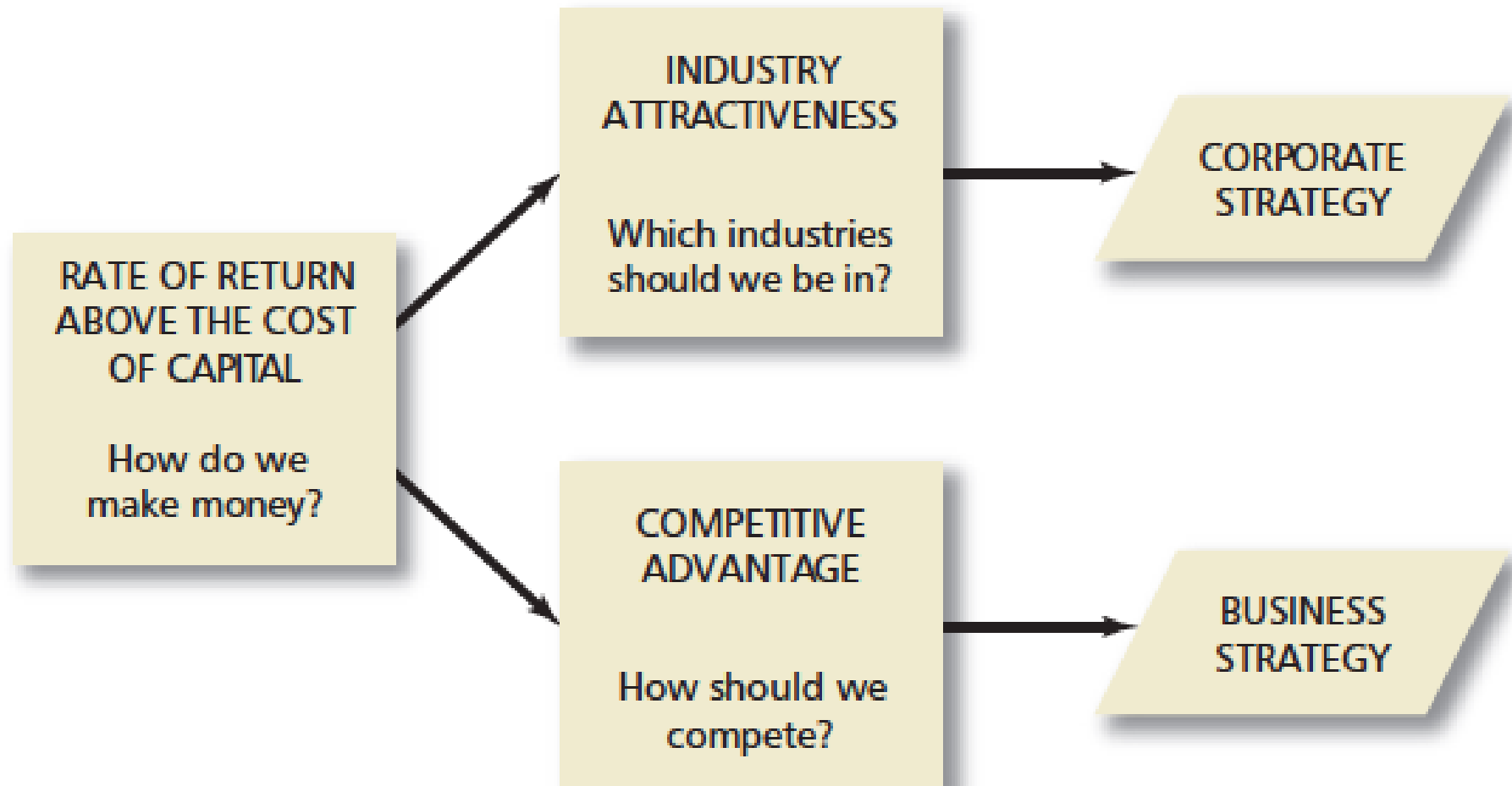
Types of Competitive Positions

Low-Cost Leadership

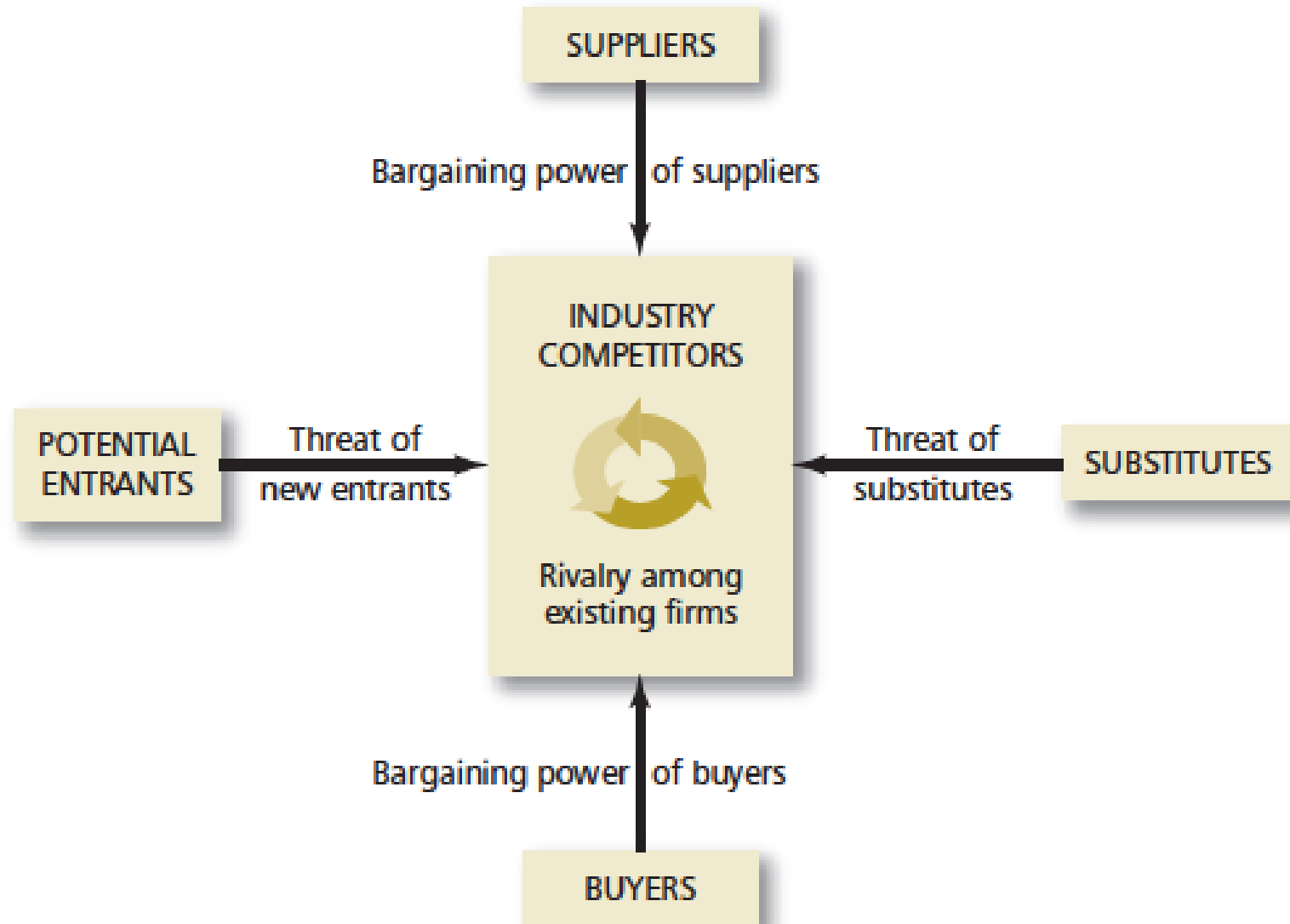
- Achieve the lowest costs in the industry.
- Pass on lower costs in terms of lower prices.
- Become a mass-market player with a large market share.
- E.g.: Southwest Airlines, Walmart, etc.

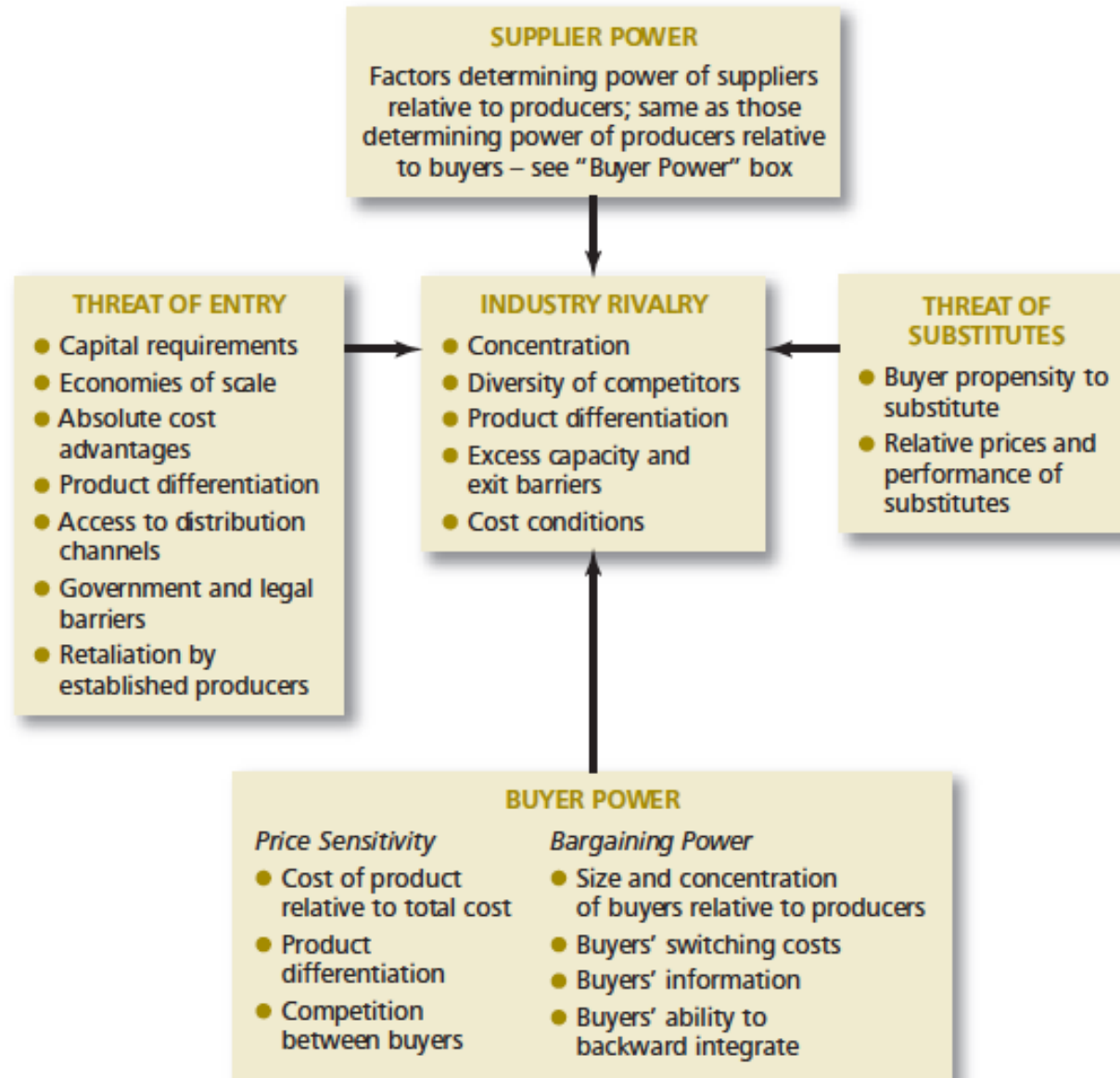
Differentiation

- Provide a 'very distinctive' product or service
- Focus on a segment of the market (that values the distinctive attributes provided).
- Higher cost structure → but can charge 'premium' price
- E.g.: BMW, Tiffanys











https://www.youtube.com/watch?v=mYF2_FBCvXw

Is your company really creating value?

Company	Market capitalization ^a (\$ bn)	Net income ^a (\$ bn)	Return on sales ^b (%)	Return on equity ^c (%)	Return on assets ^d (%)	Return to shareholders ^e (%)
ExxonMobil	453	40.61	17.42	33.35	29.69	24.30
PetroChina	424	20.75	24.48	19.99	18.85	28.90
General Electric	370	22.21	15.40	19.22	7.46	2.60
Gazprom	300	26.11	38.66	16.11	10.33	103.50
China Mobile	298	12.41	36.21	23.32	22.02	21.50
Microsoft	264	14.07	39.41	48.73	30.90	20.80
AT&T	231	11.95	15.31	10.36	7.40	20.50
Royal Dutch Shell	220	31.33	14.22	25.28	15.12	20.10
Procter & Gamble	216	10.34	19.25	17.38	11.86	16.60
Wal-Mart Stores	211	12.73	5.33	19.70	13.45	4.70
Berkshire Hathaway	207	13.21	17.05	10.94	8.08	28.70
Nestlé	197	10.72	12.57	20.99	13.10	31.60

Notes

^aSource: *Financial Times*.

^bPretax profit as a percentage of sales revenues. Source: Hoovers

^cNet income as a percentage of (year end) shareholders' equity. Source: Hoovers.

^dOperating income as a percentage of (year end) total assets. Source: Hoovers.

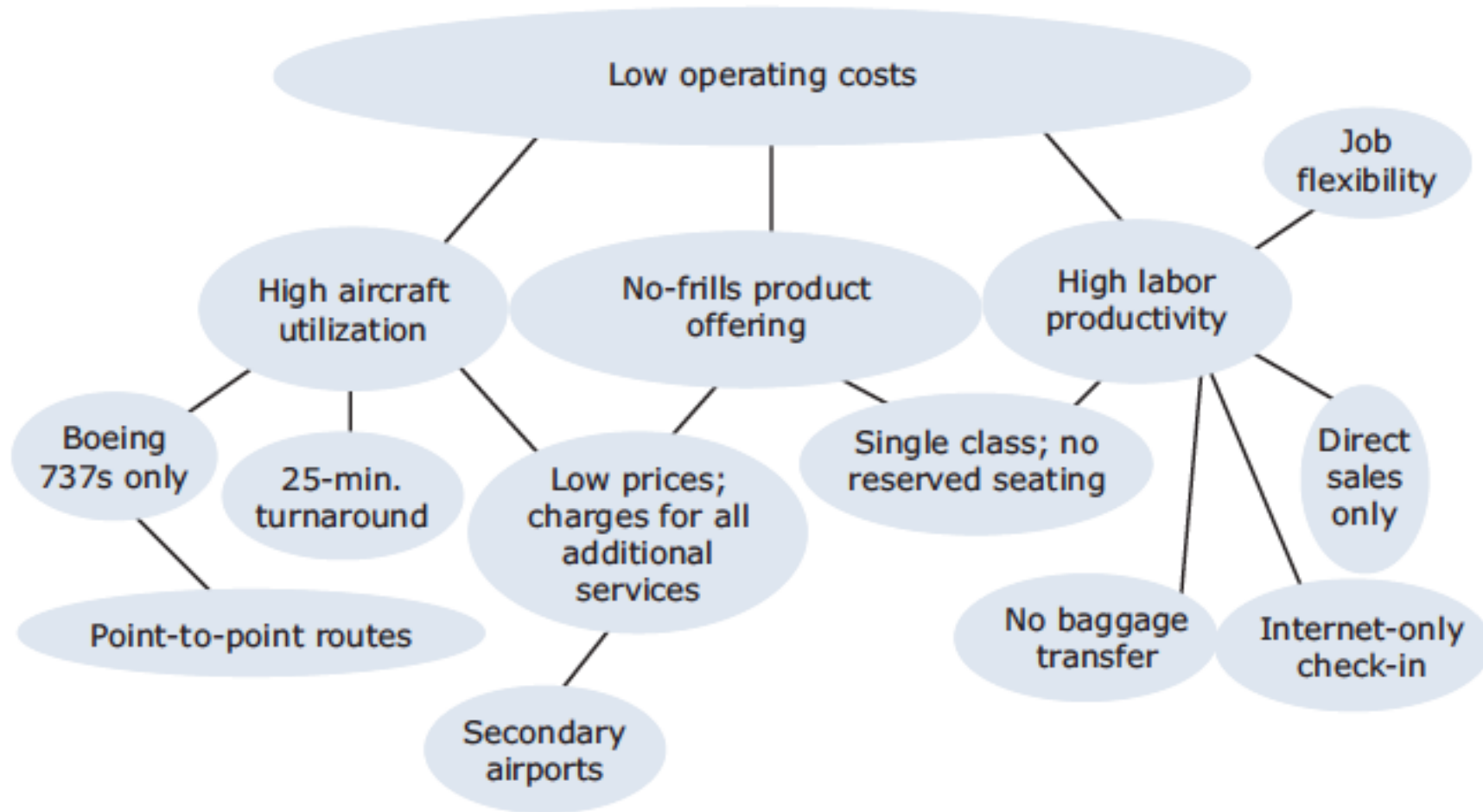
^eDividend + share price appreciation during 2007. Source: *Fortune*.

Low cost or low price?

What do we think about these?



Low Cost Airline



Low Cost Airline Strategy Up Until Now ...

Flying only one type of plane, having a point-to-point route structure, providing one class of service and not having meals and assigned seats are the defining attributes of this mode.

Gaming Industry in China



Analysis of Chinese Game Industry

- \$26 billion market size
- Tenecent and Netease 69% of gaming market
- Tenecent making inroads into American market through aquisitions of Epic Games and Riot Games
- Arena of Valor and Honor of Kings – 200 million active gamers
- Localization vs. Culturalization
- Mode of consumption of games – PC, Mobile, Console
- Government regulations
- Integration with Social Media, gaming community
- Multi Player Online Battle Arena



100

CLAN CULTURE

Friendly place to work; like extended family; emphasis on loyalty, tradition, cohesion. Concern for people; Leaders Value teamwork and consensus

ENTREPRENEUR CULTURE

Entrepreneurial place to work; People willing to take risks; Emphasis on growth and Innovation; Leaders encourage individual freedom/initiative.

HIERARCHY CULTURE

Formal place to work; Emphasis on rules, policies and processes; Focus on stable and smooth operations and performance; Leaders drive decisions and action

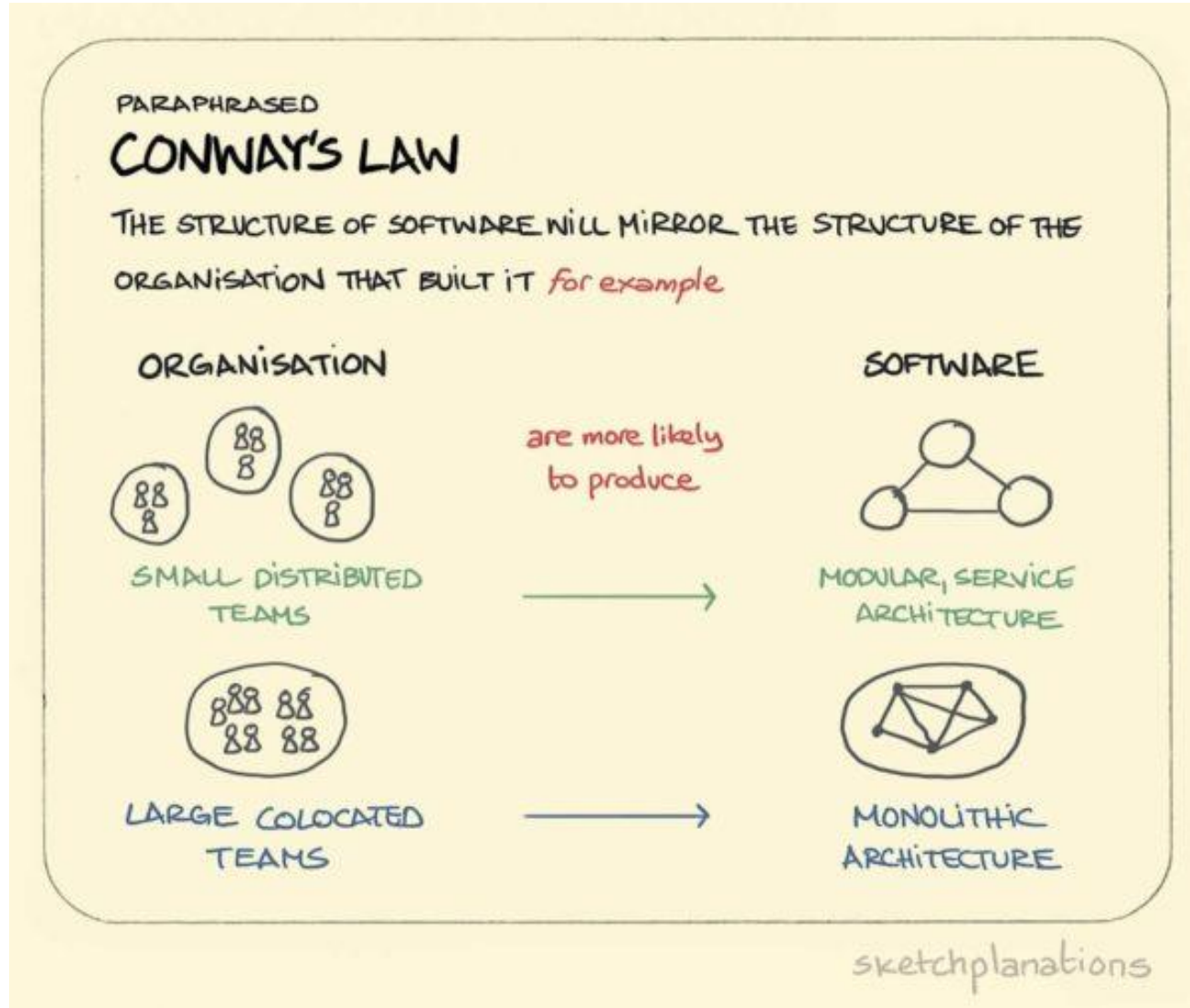
RESULTS ORIENTED

Results-oriented place to work; Focus on getting the job done; People are goal oriented; Focus on winning and Reputation; Leaders are Tough and demanding

Issues around culture

- Fit between organization culture and strategy
- Differences between “current culture” and “desired culture”
- Differences in perception of organizational culture across various managerial levels
- Differences in cultures across functions
- Differences in culture across your organization and the industry rival / leader

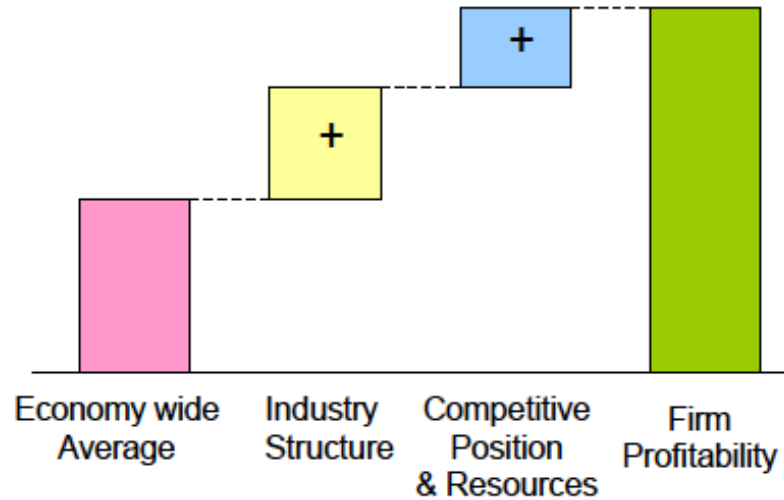
Conway's Law



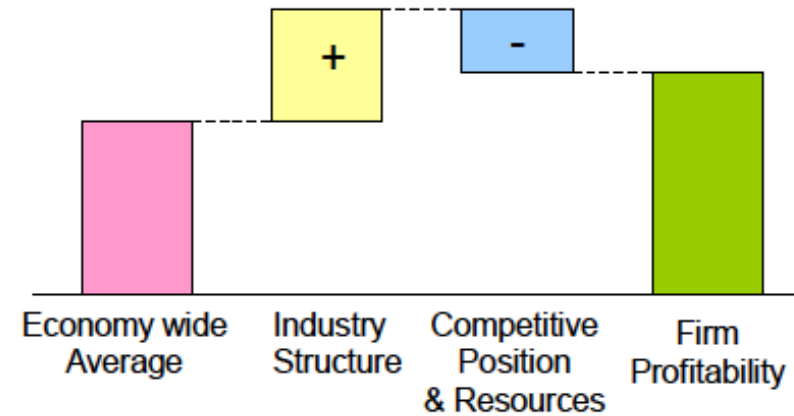
Conway's Law is the theory that organizations will design systems that copy their communication structure.

Ultimately...

An “Out-performer” in an
“Attractive” Industry

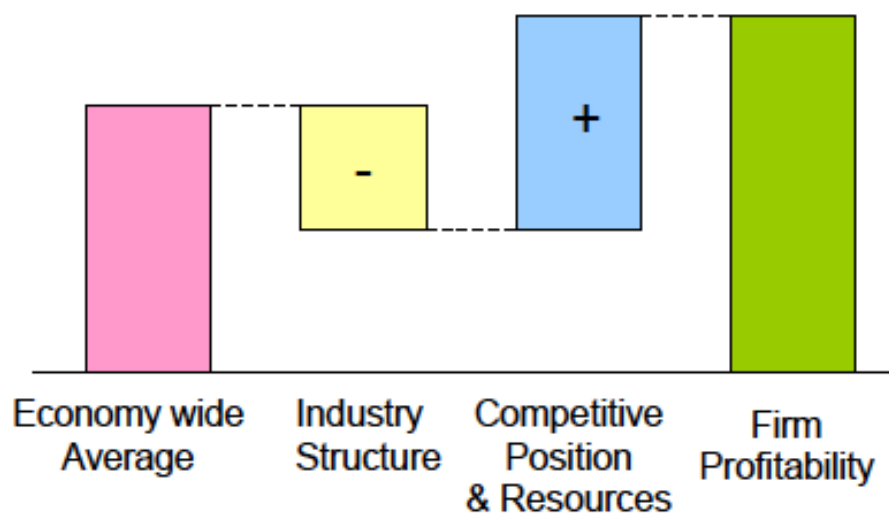


An “Under-performer” in an
“Attractive” Industry

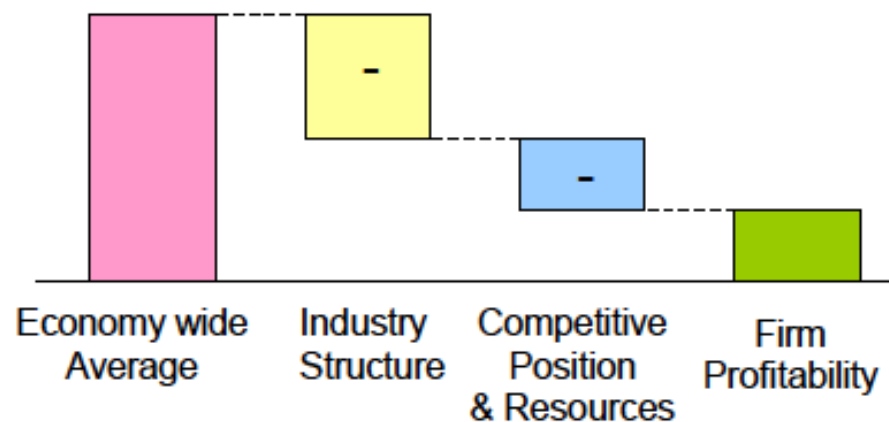


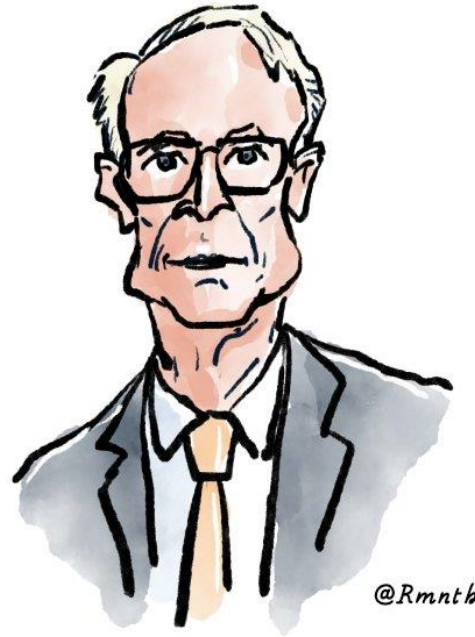
Ultimately...

An “Out-performer” in an
“Tough” Industry



An “Under-performer” in an
“Tough” Industry





The essence of strategy is choosing what *not* to do.

Michael E. Porter