B0646
Fundamentals of Management

Strategic Management

Strategic Positioning

- To achieve sustainable *competitive advantage* by preserving what is *distinctive* about a company
- To perform different activities from rivals, or perform similar activities in different ways

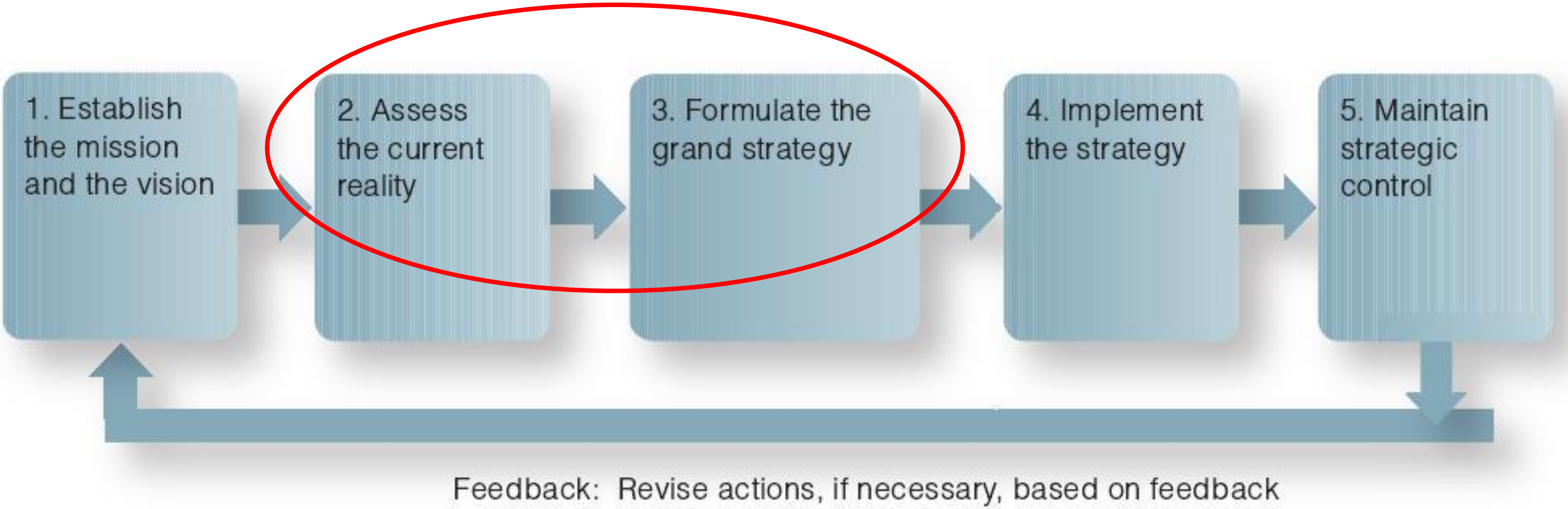
Principles of Strategic Positioning

1. Strategy Is the Creation of a Unique & Valuable Position
   - *Few needs, many customers.*
   - *Broad needs, few customers.*
   - *Broad needs, many customers.*
2. Strategy Requires Trade-offs in Competing
   - A company has to choose not only what strategy to follow, but what strategy not to follow
3. Strategy Involves Creating a "Fit" among Activities
   - A company's activities interact and reinforce one another

Why Planning & Strategic Management Are Important

1. Providing Direction & Momentum
   - Strategy can determine the very structure of the organization
   - A poor plan can send an organization in the wrong direction
2. Encouraging New Ideas
   - Far from being a straitjacket for new ideas, strategic planning can help encourage them by stressing the importance of innovation in achieving long-range success.
   - Apple's strategy innovation
3. Developing a Sustainable Competitive Advantage
   - Produce goods or services more effectively than its competitors do, (1) in being responsive to customers, (2) in innovating, (3) in quality, and (4) in effectiveness.

The Strategic Management Process



Step 1: Establish the Mission & the Vision

- The mission is the organization's purpose or reason for being, and it is expressed in a mission statement.
- An organization's vision is its long-term goal describing what it wants to become, and it is expressed in a vision statement, which describes its long-term direction and strategic intent.

- The mission statement of McGraw-Hill (publisher of this textbook):
  - To serve the worldwide need for knowledge at a fair profit by gathering, evaluating, producing, and distributing valuable information in a way that benefits our customers, employees, authors, investors, and our society.

- Walt Disney’s vision for Disneyland :
  - Disneyland will be something of a fair, an exhibition, a playground, a community center, a museum of living facts, and a showplace of beauty and magic. It will be filled with the accomplishments, the joys and hopes of the world we live in. And it will remind us and show us how to make those wonders part of our own lives.
- Google’s vision:
  - To organize the world’s information and make it universally accessible and useful.

MISSION STATEMENTS: DOES YOUR COMPANY'S MISSION STATEMENT ANSWER THESE QUESTIONS?

1. Who are our customers?
2. What are our major products or services?
3. In what geographical areas do we compete?
4. What is our basic technology?
5. What is our commitment to economic objectives?
6. What are our basic beliefs, values, aspirations, and philosophical priorities?
7. What are our major strengths and competitive advantages?
8. What are our public responsibilities, and what image do we wish to project?
9. What is our attitude toward our employees?

VISION STATEMENTS: DOES YOUR COMPANY'S VISION STATEMENT ANSWER "YES" TO THESE QUESTIONS?

1. Is it appropriate for the organization and for the times?
2. Does it set standards of excellence and reflect high ideals?
3. Does it clarify purpose and direction?
4. Does it inspire enthusiasm and encourage commitment?
5. Is it well articulated and easily understood?
6. Does it reflect the uniqueness of the organization, its distinctive competence, what it stands for, what it's able to achieve?
7. Is it ambitious?

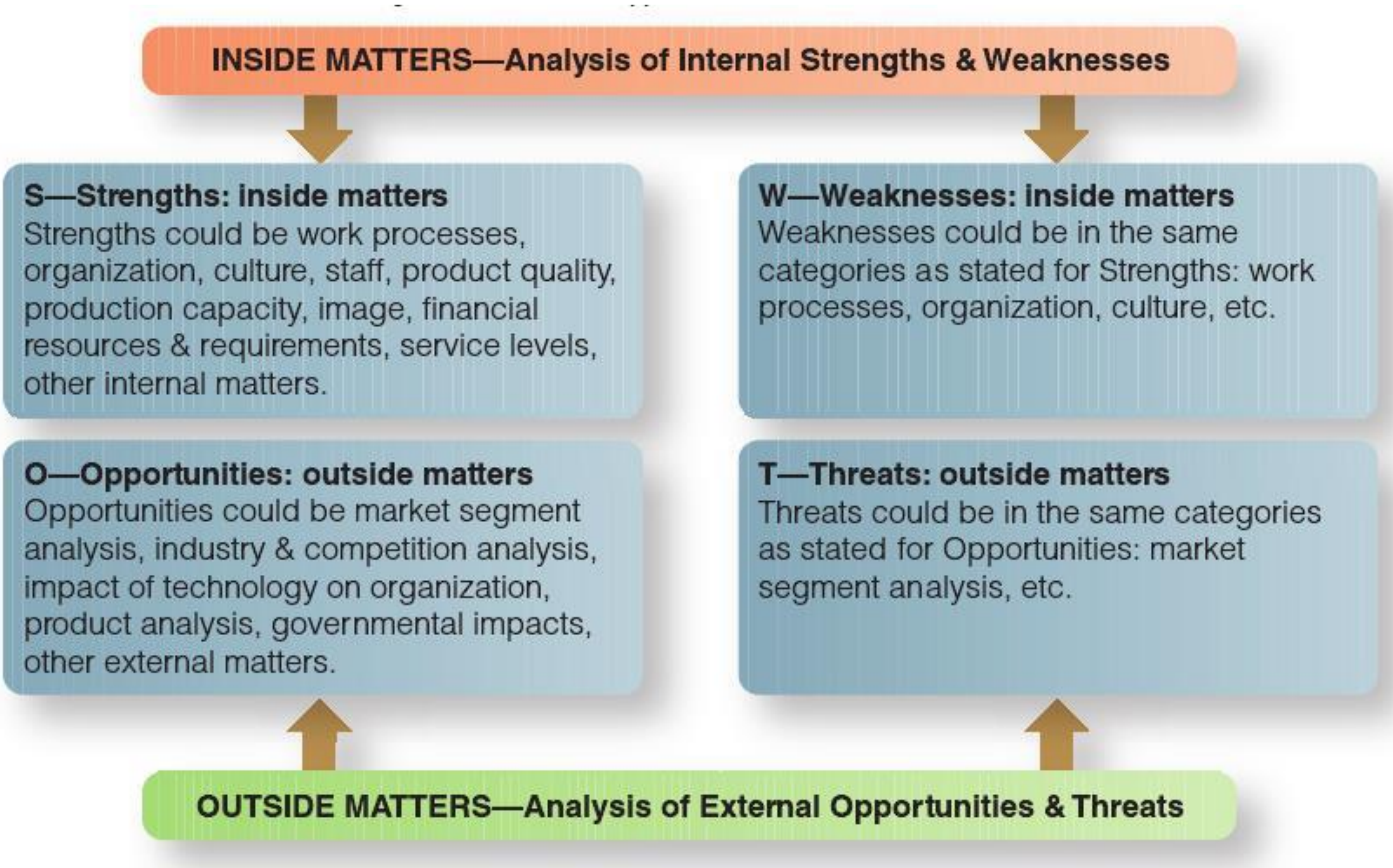
Step 2: Assess the Current Reality

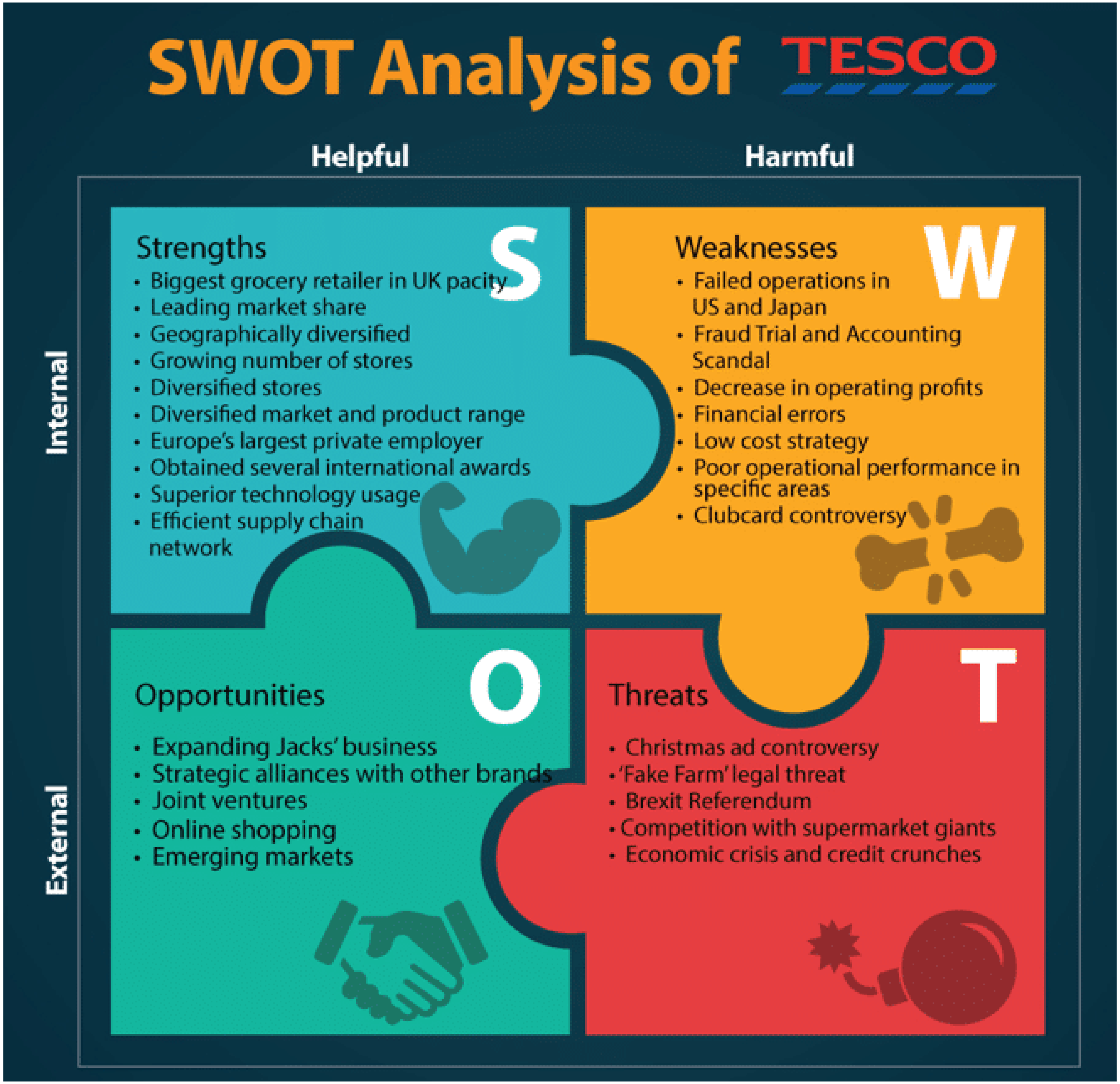
- To look at where the organization stands and see what is working and what could be different so as to maximize efficiency and effectiveness in achieving the organization's mission.
- The tools for assessing the current reality:
  - *SWOT analysis*
  - *forecasting*
  - *benchmarking*
  - *Porter's model for industry analysis*

SWOT Analysis

- Environmental scanning: careful monitoring of an organization’s internal and external environments to detect early signs of opportunities and threats that may influence the firm’s plans.
- SWOT analysis—a situational analysis—a search for the Strengths, Weaknesses, Opportunities, and Threats affecting the organization.
- The SWOT analysis is divided into two parts:
  - *Internal strengths and weaknesses*
  - *External opportunities and threats*

- Inside matters:
  - organizational strengths—the skills and capabilities that give the organization special competencies and competitive advantages in executing strategies in pursuit of its vision.
  - organizational weaknesses—the drawbacks that hinder an organization in executing strategies in pursuit of its vision.
- Outside matters:
  - organizational opportunities—environmental factors that the organization may exploit for competitive advantage.
  - organizational threats—environmental factors that hinder an organization’s achieving a competitive advantage.


INSIDE MATTERS—Analysis of Internal Strengths & Weaknesses
S—Strengths: inside matters
Strengths could be work processes, organization, culture, staff, product quality, production capacity, image, financial resources & requirements, service levels, other internal matters.
W—Weaknesses: inside matters
Weaknesses could be in the same categories as stated for Strengths: work processes, organization, culture, etc.
O—Opportunities: outside matters
Opportunities could be market segment analysis, industry & competition analysis, impact of technology on organization, product analysis, governmental impacts, other external matters.
T—Threats: outside matters
Threats could be in the same categories as stated for Opportunities: market segment analysis, etc.
OUTSIDE MATTERS—Analysis of External Opportunities & Threats



SWOT Analysis of TESCO
Helpful
Harmful
Internal
External
Strengths
S
• Biggest grocery retailer in UK pacity
• Leading market share
• Geographically diversified
• Growing number of stores
• Diversified stores
• Diversified market and product range
• Europe's largest private employer
• Obtained several international awards
• Superior technology usage
• Efficient supply chain network
Weaknesses
W
• Failed operations in US and Japan
• Fraud Trial and Accounting Scandal
• Decrease in operating profits
• Financial errors
• Low cost strategy
• Poor operational performance in specific areas
• Clubcard controversy
Opportunities
O
• Expanding Jacks' business
• Strategic alliances with other brands
• Joint ventures
• Online shopping
• Emerging markets
Threats
T
• Christmas ad controversy
• 'Fake Farm' legal threat
• Brexit Referendum
• Competition with supermarket giants
• Economic crisis and credit crunches

TABLE 6.2 **SWOT Characteristics That Might Apply to a College**

S—STRENGTHS (INTERNAL STRENGTHS)	W—WEAKNESSES (INTERNAL WEAKNESSES)
• Faculty teaching and research abilities • High-ability students • Loyal alumni • Strong interdisciplinary programs	• Limited programs in business • High teaching loads • Insufficient racial diversity • Lack of high-technology infrastructure
O—OPPORTUNITIES (EXTERNAL OPPORTUNITIES)	**T—THREATS (EXTERNAL THREATS)**
• Growth in many local skilled jobs • Many firms give equipment to college • Local minority population increasing • High school students take college classes	• Depressed state and national economy • High schools enrollments in decline • Increased competition from other colleges • Funding from all sources at risk

SWOT and TOWS

SWOT	Helpful	Harmful
Internal Origin	**Strengths** **S1:** **S2:** **S3:..**	**Weaknesses** **W1:** **W2:** **W3:..**
External Origin	**Opportunities** **O1:** **O2:** **O3:..**	**Threats** **T1:** **T2:** **T3:..**

TOWS	Opportunities **O1:** **O2:** **O3:..**	Threats **T1:** **T2:** **T3:..**
Strengths **S1:** **S2:** **S3:..**	**SO Strategies** Leverage S Maximize O	**ST Strategies** Leverage S Minimize T
Weaknesses **W1:** **W2:** **W3:..**	**WO Strategies** Counter W Maximize O	**WT Strategies** Counter W Minimize T

Practice

- Do a SWOT analysis for a company of your interest.
- List at least 3 elements of S, W, O and T

SWOT	Helpful	Harmful
Internal	**Strengths** **S1:** **S2:** **S3:..**	**Weaknesses** **W1:** **W2:** **W3:..**
External	**Opportunities** **O1:** **O2:** **O3:..**	**Threats** **T1:** **T2:** **T3:..**

Forecasting & Benchmarking

- A forecast is a vision or projection of the future.
- A trend analysis is a hypothetical extension of a past series of events into the future.
- Contingency planning—also known as scenario planning and scenario analysis—is the creation of alternative hypothetical but equally likely future conditions.
- Benchmarking is a process by which a company compares its performance with that of high-performing organizations.

Porter’s Five Competitive Forces

- Porter’s model for industry analysis demonstrates that business-level strategies originate in five primary competitive forces in the firm’s environment:

  (1) threats of new entrants,

  (2) bargaining power of suppliers,

  (3) bargaining power of buyers,

  (4) threats of substitute products or services,

  (5) rivalry among competitors.

Porter’s 5 Forces - Identify the threats

How many competitors do you have?
How is the quality of their offerings compared with yours?

Bargaining power of ***Suppliers***

How easy it is for your suppliers to increase their prices?
How many potential suppliers do you have?
How expensive would it be to switch to another supplier?

How easy is it to get a foothold in your industry or market?
How much would it cost?
How tightly is your sector regulated?

Threat of ***New Entrants***

Industry Rivalry

Threat of ***Substitutes***

The likelihood of your customers finding a different way of doing what you do.

How easy it is for buyers to drive your prices down.
How many buyers are there
How big are their orders?
How much would it cost them to switch from your offerings to those of a rival?

Bargaining power of ***individual/group buyers***

Step 3: Formulate the Grand Strategy

- A grand strategy explains how the organization's mission is to be accomplished.
- Strategy formulation is the process of choosing among different strategies and altering them to best fit the organization's needs.
- Tools for formulating the grand strategy:
  - *Three common grand strategies (growth, stability, and defensive)*
  - *Porter's four competitive strategies*
  - *single-product strategy versus diversification strategy*
  - *the BCG matrix*

Three Common Grand Strategies

- The Growth Strategy: a grand strategy that involves expansion—as in sales revenues, market share, number of employees, or number of customers or (for nonprofits) clients served.
  - Example: IBM
- The Stability Strategy: a grand strategy that involves little or no significant change.
  - Example: Timex watches
- The Defensive Strategy: or a retrenchment strategy, is a grand strategy that involves reduction in the organization's efforts.
  - Example: Redbox

GROWTH STRATEGY

- It can improve an existing product or service to attract more buyers.
- It can increase its promotion and marketing efforts to try to expand its market share.
- It can expand its operations, as in taking over distribution or manufacturing previously handled by someone else.
- It can expand into new products or services.
- It can acquire similar or complementary businesses.
- It can merge with another company to form a larger company.

STABILITY STRATEGY

- It can go for a no-change strategy (if, for example, it has found that too-fast growth leads to foul-ups with orders and customer complaints).
- It can go for a little-change strategy (if, for example, the company has been growing at breakneck speed and feels it needs a period of consolidation).

DEFENSIVE STRATEGY

- It can reduce costs, as by freezing hiring or tightening expenses.
- It can sell off (liquidate) assets—land, buildings, inventories, and the like.
- It can gradually phase out product lines or services.
- It can divest part of its business, as in selling off entire divisions or subsidiaries.
- It can declare bankruptcy.
- It can attempt a turnaround—do some retrenching, with a view toward restoring profitability.

Porter’s Four Competitive Strategies

- Porter’s four competitive strategies, also called four generic strategies, are
  (1) cost-leadership
  (2) differentiation
  (3) cost-focus
  (4) focused-differentiation
- The first two strategies focus on wide markets, the last two on narrow markets.
  - For example, Time Warner, which produces lots of media and publications, serves wide markets around the world.
  - Your neighborhood video/book store (if one still exists) serves a narrow market of just local customers.

	Type of market targeted	
Strategy	Wide	Narrow
1. Cost-leadership	✓	
2. Differentiation	✓	
3. Cost-focus		✓
4. Focused-differentiation		✓

- The cost-leadership strategy is to keep the costs, and hence prices, of a product or service below those of competitors and to target a wide market.
  - Timex, computer maker Acer, hardware retailer Home Depot, and pen maker Bic.
- The differentiation strategy is to offer products or services that are of unique and superior value compared with those of competitors but to target a wide market.
  - Ritz-Carlton hotels and the makers of Lexus automobiles.

- The cost-focus strategy is to keep the costs, and hence prices, of a product or service below those of competitors and to target a narrow market.
  - low-end products sold in discount stores, such as low-cost beer or cigarettes
- The focused-differentiation strategy is to offer products or services that are of unique and superior value compared to those of competitors and to target a narrow market.
  - Some luxury cars—Rolls-Royce, Ferrari, Lamborghini; jewelry Cartier and shirt maker Turnbull & Asser.

Single-Product Strategy versus Diversification Strategy

In a single-product strategy, a company makes and sells only one product within its market.

- The benefit—focus
- The risk—vulnerability
- e.g., Green Toys, See’s Candies

The diversification strategy operates on several businesses in order to spread the risk.

- Unrelated diversification—operating several businesses under one ownership that are not related to one another.
  - General Electric began by making lighting products, diversified into such unrelated areas as plastics, broadcasting, and financial services.
  - Disney, Time Warner, and Sony

- Related diversification, in which an organization under one ownership operates separate businesses that are related to one another.
  - Burberry started by making outerwear clothing but since then has expanded into accessories such as umbrellas, children's clothing, and fragrances
  - Related diversification has three advantages:
    - ✓ *Reduced risk—because more than one product.*
    - ✓ *Management efficiencies—administration spread over several businesses.*
    - ✓ *Synergy—the sum is greater than the parts.*