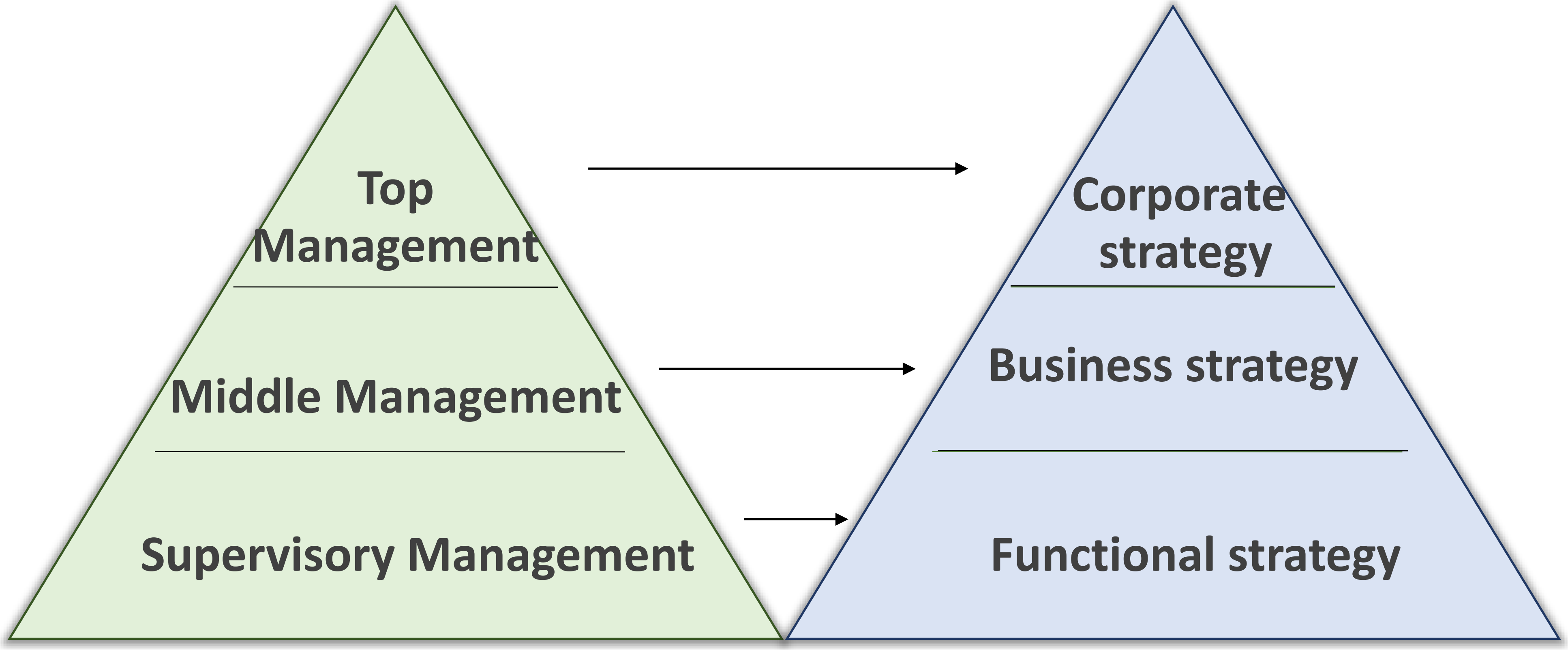
Introduction to Management

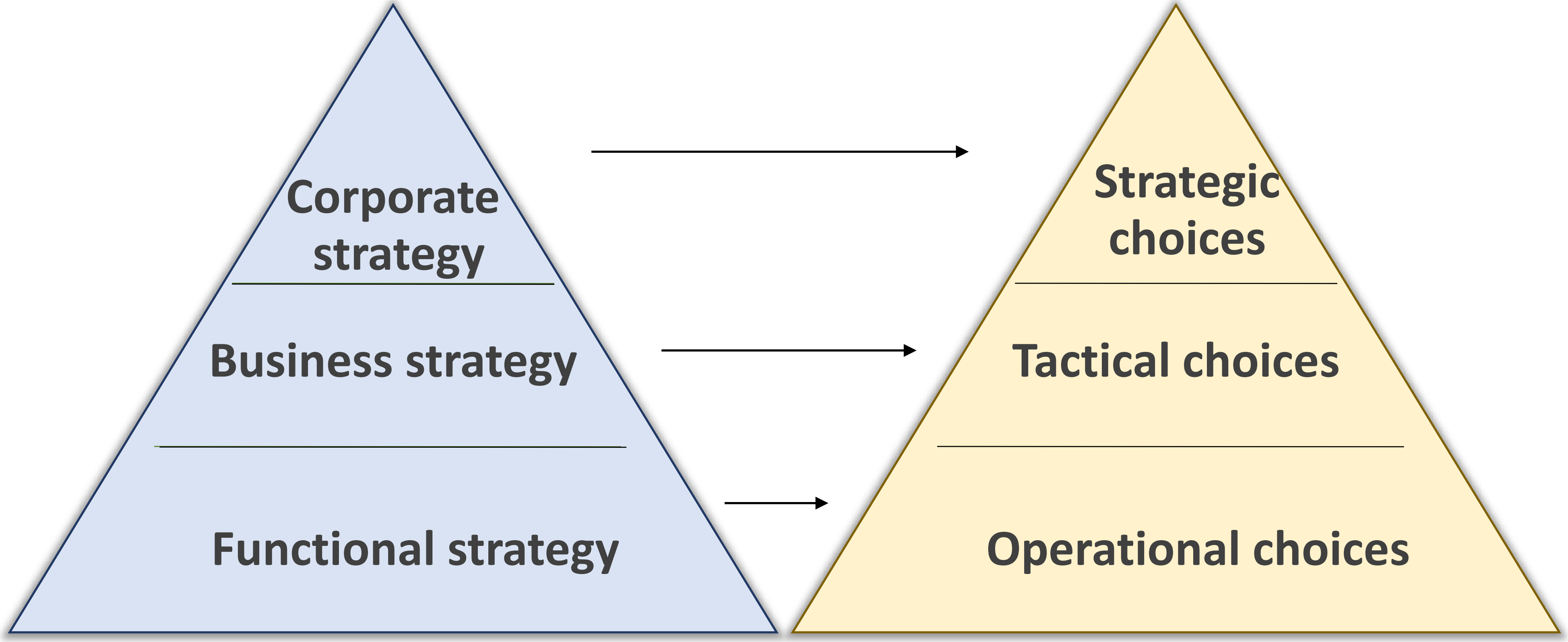
University of Cassino and Southern Lazio
A.A. 2020/2021
Prof. Ylenia Cavacece

Business Strategy

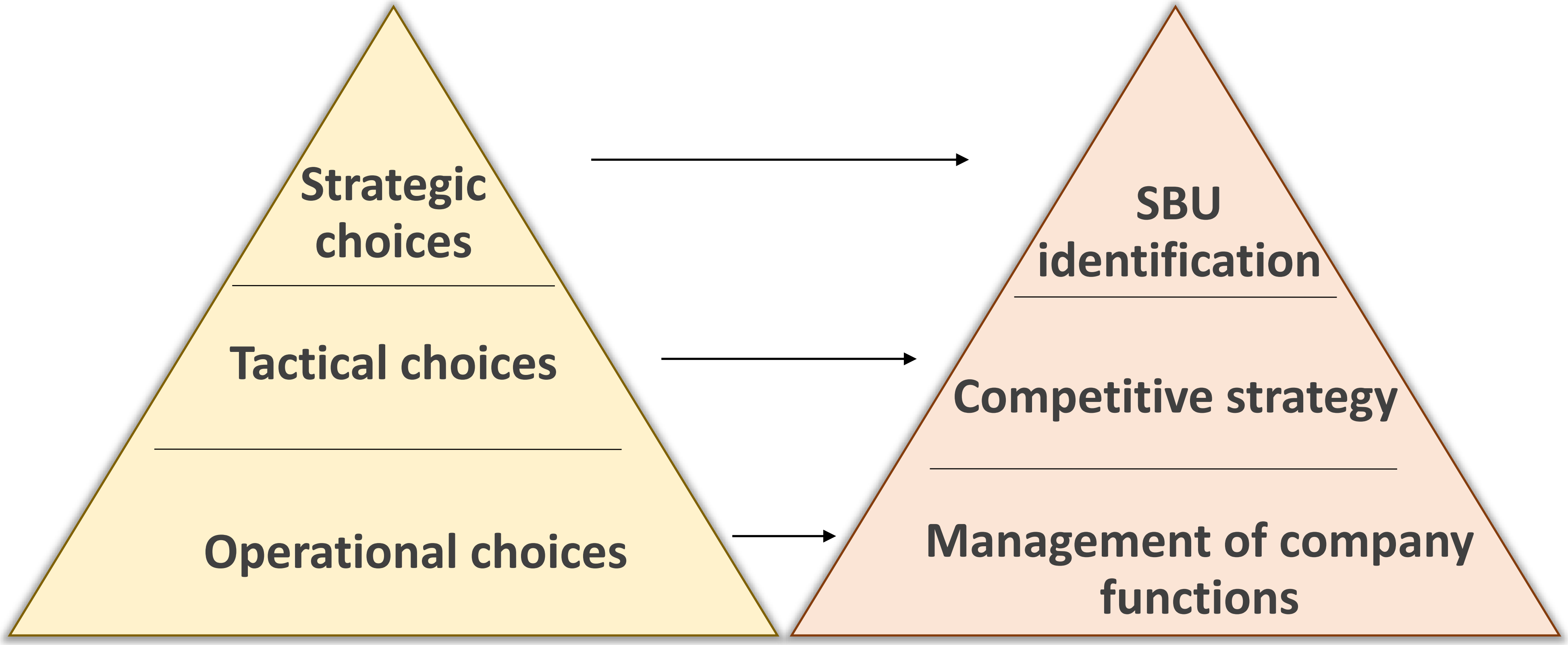
Levels of Business strategy

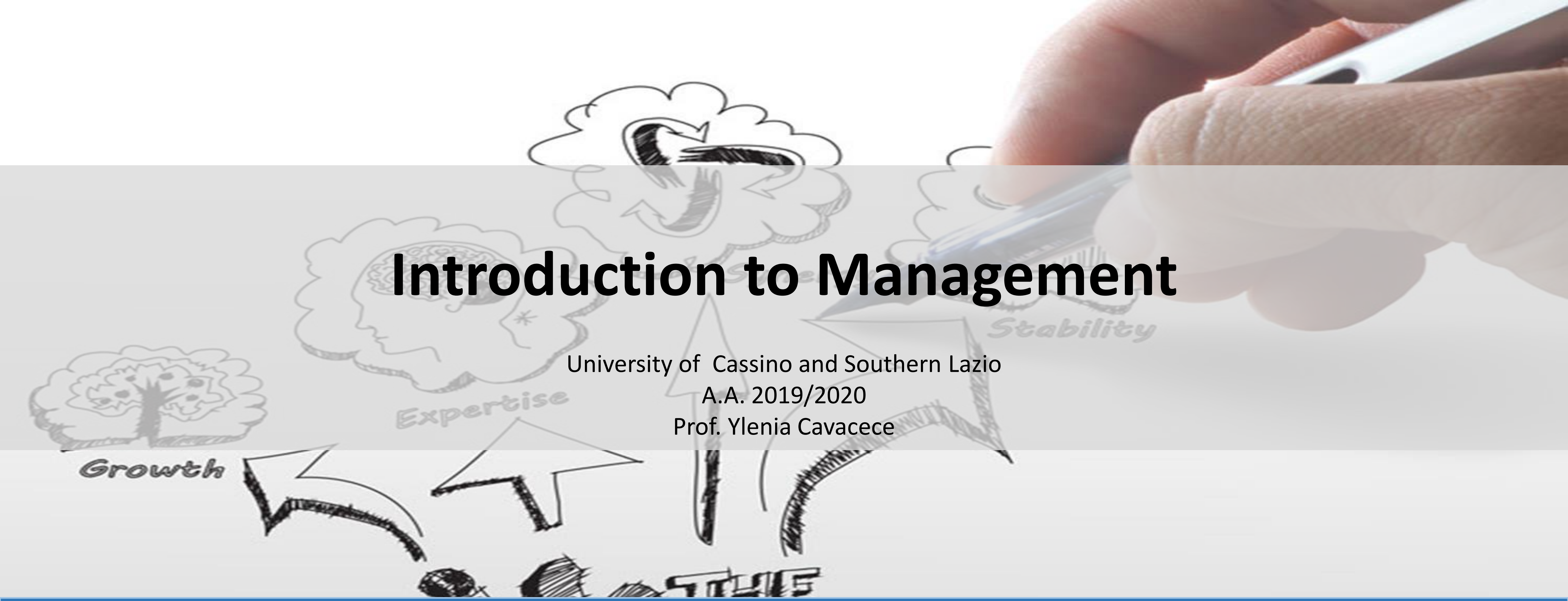


Levels of business choices



Examples of business choices





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Competitive Strategies

Competitive Strategies

Michael Porter, a graduate of Harvard University, wrote a book in 1985 in which identified three strategies that businesses can use to tackle competition. These approaches can be applied to all businesses whether they are product-based or service-based. He called these approaches generic strategies. They include cost leadership, differentiation, and focus. These strategies have been created to improve and gain a competitive advantage over competitors. These strategies can also be recognized as the comparative advantage and the differential advantage.

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Cost leadership strategy

Cost leadership is a business' ability to produce a product or service that will be at a lower cost than those of competitors. If the business is able to produce the same quality product but sell it for less, it gains a competitive advantage over other businesses. Therefore, this provides a price value to the customers.

Lower costs will result in higher profits as businesses are still making a reasonable profit on each good or service sold. If businesses are not making a large enough profit, Porter recommends finding a lower-cost base such as labor, materials, and facilities. This gives businesses a lower manufacturing cost over those of other competitors. The company can add value to the customer via transfer of the cost benefit to them..

Differential strategy

A differential advantage is when a business' products or services are different to those of competitors. In his book, Michael Porter recommended making those goods or services attractive to stand out from their competitors. The business will need strong research, development and design to create innovative ideas.

These improvements to the goods or service could include delivering high quality to customers. If customers perceive a product or service as being different from other products, consumers are willing to pay more to receive these benefits.

Focus strategy

Focus strategy ideally tries to get businesses to aim at a few target markets rather than trying to target everyone. This strategy is often used by smaller businesses since they may not have the appropriate resources or ability to target everyone. Businesses that use this method usually focus on the needs of the customer and how their products or services could improve their daily lives. In this method, some firms may even let consumers give their inputs for their product or service.

This strategy can also be called the segmentation strategy, which includes geographic, demographic, behavioral and physical segmentation. By narrowing the market down to smaller segments, businesses are able to meet the needs of the consumer. Porter believes that once businesses have decided what groups they will target, it is essential to decide if they will take the cost leadership approach or differentiation approach. Focus strategy will not make a business successful.

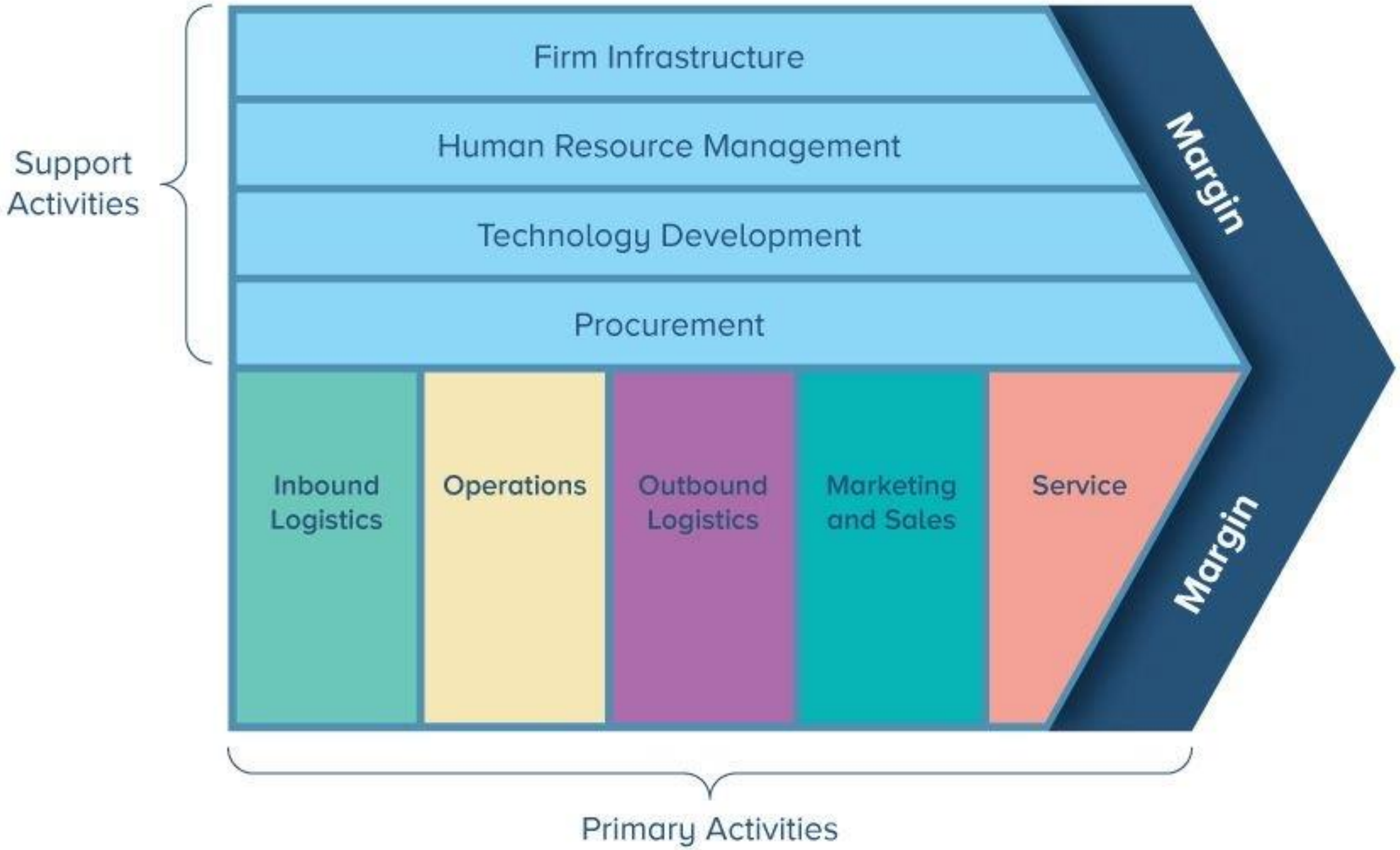
Porter’s Value Chain

A value chain is a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product (i.e., good and/or service) for the market. The concept comes through business management and was first described by Michael Porter in 1985.

The idea of the value chain is based on the process view of organizations, the idea of seeing a manufacturing (or service) organization as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources – money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits.

In Porter's value chains, Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales, and Service are categorized as primary activities. Secondary activities include Procurement, Human Resource management, Technological Development and Infrastructure

Porter's Value Chain



Value and Value Chain

Value is the total amount (i.e. total revenue) that buyers are willing to pay for a firm's product. The difference between the total value and the total cost performing all of the firm's activities provides the margin.

Value Created and Captured – Cost of Creating that Value = Margin

Margin implies that organizations realize a profit margin that depends on their ability to manage the linkages between all activities in the value chain. In other words, the organization is able to deliver a product / service for which the customer is willing to pay more than the sum of the costs of all activities in the value chain.

The way in which value chain activities are performed determines costs and affects profits

The appropriate level for constructing a value chain is the business unit, not division or corporate level. Products pass through a chain of activities in order, and at each activity the product gains some value. The chain of activities gives the products more added value than the sum of added values of all activities.

Primary Activities

The primary activities are directly concerned with creating and delivering a product and they are essential in adding value and creating a competitive advantage.

- Inbound logistics: arranging the inbound movement of materials, parts, and/or finished inventory from suppliers necessary to manufacturing products or services.
- Operations: concerned with managing the process that converts inputs (in the forms of raw materials, labor, and energy) into outputs (in the form of goods and/or services).
- Outbound logistics: is the process related to the storage and movement of the final product and the related information flows from the end of the production line to the end user. It is the distribution of finished goods to wholesalers, retailers or customers.
- Marketing and sales: selling a products and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. Marketing must make sure that the product is targeted towards the correct customer group.
- Service: includes all the activities required to keep the product working effectively for the buyer after it is sold and delivered. This may come in the form of after sales training, guarantees and warranties.

Companies can harness a competitive advantage at any one of the five activities in the value chain. For example, by creating outbound logistics that are highly efficient or by reducing a company's shipping costs, it allows to either realize more profits or pass the savings to the consumer by way of lower prices.

Support Activities

Using support activities helps make primary activities more effective. Increasing any of the four support activities helps at least one primary activity to work more efficiently.

•Infrastructure: consists of activities such as accounting, legal, finance, control, public relations, and quality assurance. Inefficient infrastructures waste resources and could affect the firm's reputation and even leave it open to fines and sanctions.
•Technological development: pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs. Technology can be used in many ways including production to reduce cost thus add value, research and development to develop new products and the internet so customers have 24/7 access to the firm.
•Human resources management: consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel. Staff will have to be motivated and paid the 'market rate' if they are to stay with the organization and add value. Procurement: the acquisition of goods, services or works from an outside external source. In this field company also makes decisions of purchases. This department must source raw materials for the business and obtain the best price for doing so. The challenge for procurement is to obtain the best possible quality available (on the market) for their budget.

Link between Primary and Support Activities

The sources of the competitive advantage of a firm can be seen from its discrete activities and how they interact with one another. The ultimate goals in performing value chain are to maximize value creation while also monitoring and minimizing costs.

Primary activities add value directly to the production process, but they are not necessarily more important than support activities.

Nowadays, competitive advantage mainly derives from technological improvements or innovations in business models or processes. Therefore, such support activities as 'information systems', 'R&D' or 'general management' are usually the most important source of differentiation advantage.

On the other hand, primary activities are usually the source of cost advantage, where costs can be easily identified for each activity and properly managed.

What is Value Chain Analysis?

Value Chain Analysis is mentioned extensively in the first half of the book "Competitive Advantage" in 1985 by Michael Porter.

Value chain analysis is a way to visually analyze a company's business activities to see how the company can create a competitive advantage for itself.

Value chain analysis is based on the principle that organizations exist to create value for their customers. In the analysis, the organization's activities are divided into separate sets of activities that add value. The organization can more effectively evaluate its internal capabilities by identifying and examining each of these activities. Each value adding activity is considered to be a source of competitive advantage.

Value chain analysis helps a company understands how it adds value to something and subsequently how it can sell its product or service for more than the cost of adding the value, thereby generating a profit margin. In other words, if they are run efficiently the value obtained should exceed the costs of running them i.e. customers should return to the organization and transact freely and willingly.

Value Chain Analysis

Porter suggested that activities within an organization add value to the service and products that the organization produces, and all these activities should be run at optimum level if the organization is to gain any real competitive advantage.

What activities a business undertake is directly linked to achieving competitive advantage.
For example:

- A business which wishes to outperform its competitors through **differentiating** itself through higher quality will have to perform its value chain activities better than the oppositions.

- By contrast, a strategy based on seeking **cost leadership** will require a reduction in the costs associated with the value chain activities, or a reduction in the total amount of resources used.

Using Porter's Value Chain

Porter's Value Chain is a useful strategic management tool.

It works by breaking an organization's activities down into strategically relevant pieces, in order to see a fuller picture of the cost drivers and sources of differentiation, and then make changes appropriately.

Step 1 – Identify subactivities for each primary activity

For each primary activity, determine which specific subactivities create value. There are three different types of subactivities:

•**Direct activities** create value by themselves. For example, in a book publisher's marketing and sales activity, direct subactivities include making sales calls to bookstores, advertising, and selling online.

•**Indirect activities** allow direct activities to run smoothly. For the book publisher's sales and marketing activity, indirect subactivities include managing the sales force and keeping customer records.

•**Quality assurance** activities ensure that direct and indirect activities meet the necessary standards. For the book publisher's sales and marketing activity, this might include proofreading and editing advertisements.

Using Porter's Value Chain

Step 2 – Identify subactivities for each support activity.

For each of the Human Resource Management, Technology Development and Procurement support activities, the company must determine the subactivities that create value within each primary activity.
For example, the company has to consider how human resource management adds value to inbound logistics, operations, outbound logistics, and so on.

Then, as in Step 1, the company has to look for direct, indirect, and quality assurance subactivities.

Using Porter's Value Chain

Step 3 – Identify links

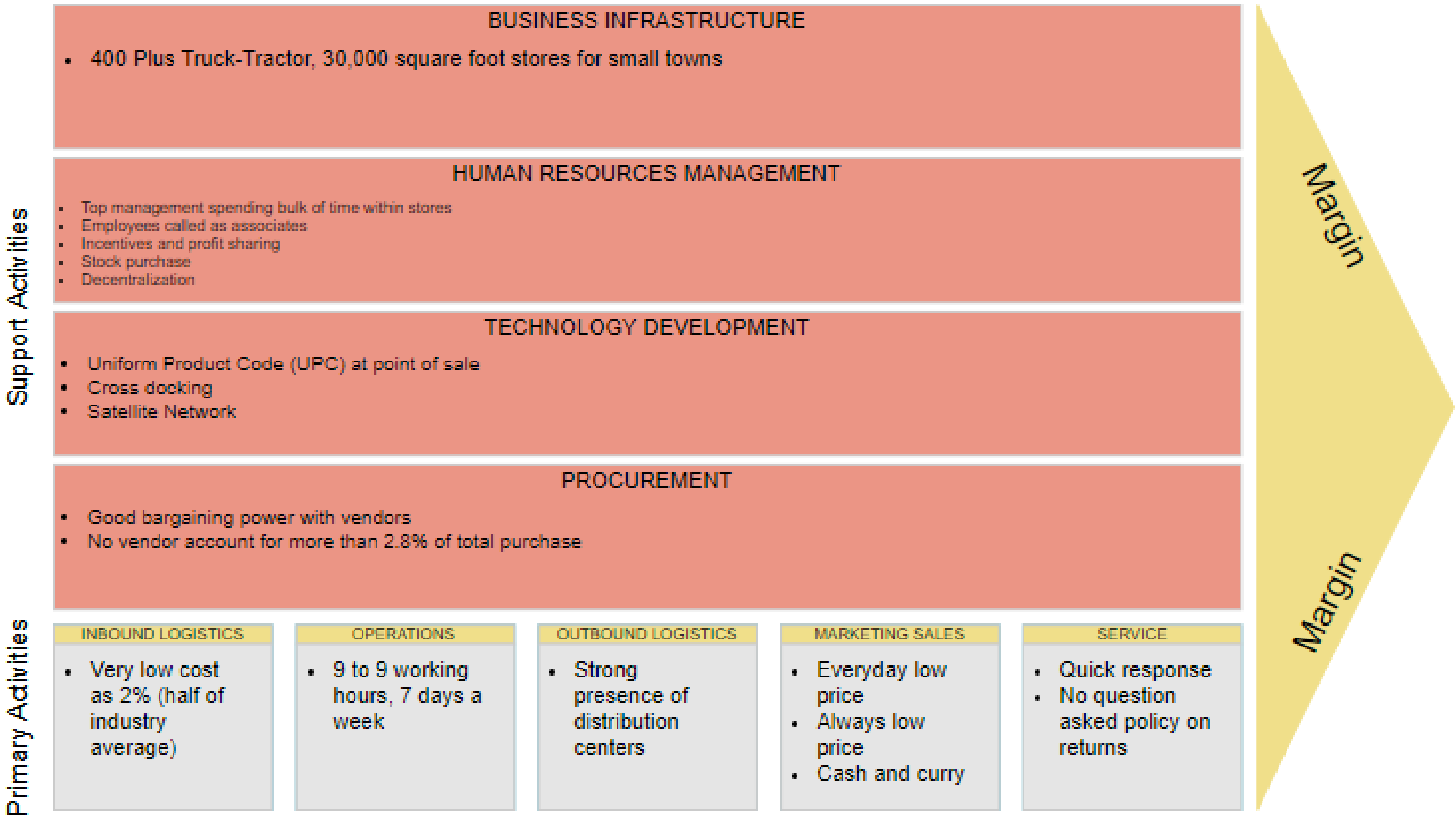
The company has to find the connections between all of the value activities identified. This will take time, but the links are key to increasing competitive advantage from the value chain framework.

For example, there's a link between developing the sales force (an HR investment) and sales volumes. There's another link between order turnaround times, and service phone calls from frustrated customers waiting for deliveries.

Step 4 – Look for opportunities to increase value

Finally, the company has to review each of the subactivities and links identified, and think about how it is possible change or enhance it to maximize the value offered to customers (customers of support activities can be internal as well as external).

Example-SuperStore Super Market



Example-International Sportswear

Support Activities

FIRM INFRASTRUCTURE

- IT Systems connect the Supply Chain
- E-Commerce
- Strong and Expansive Financial Position
- Emphasis on CSR and Business Substainability

HUMAN RESOURCES MANAGEMENT

- Strong Management Team
- Connected employee Infrastructure
- Learning relationship environment

TECHNOLOGY DEVELOPMENT

- Constraint product development
- Customer orientated product development

PROCUREMENT

- Substainable and progressive relationship with supplier
- Localized and bulk procurement

Primary Activities

INBOUND LOGISTICS

- Locally purchase most raw materials in bulk
- Specialized materials importation
- Inventory control

OPERATIONS

- Outsourcing manufacturing and assembly
- R&D + Technological innovation

OUTBOUND LOGISTICS

- Strong control over global distribution channels
- Just-in-time delivery
- Expensive network of couriers

MARKETING SALES

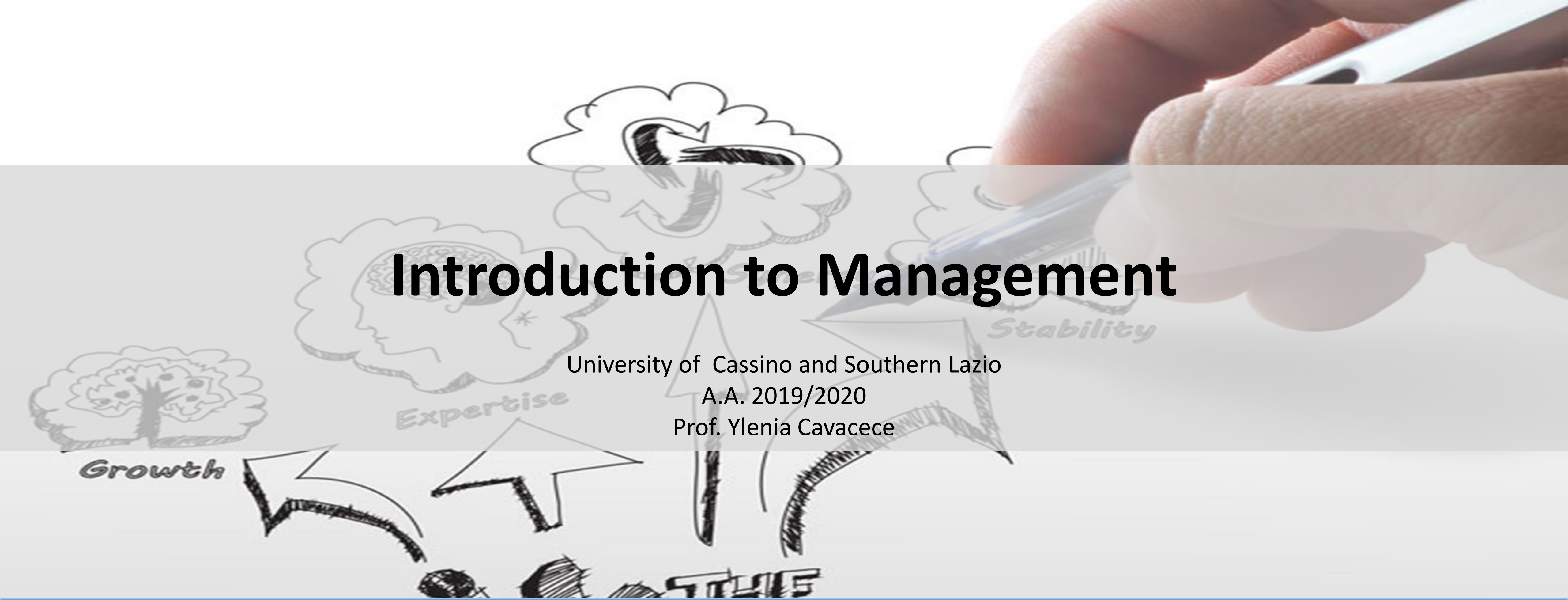
- High brand identity
- Strong brand reputation
- Price leadership and value based pricing
- Innovative role in the introduction of e-commerce in the industry
- Strong and expensive marketing

SERVICE

- Pre and Post sale customer service
- Extensive customer care

Margin

Margin



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Functional Strategies

The functional strategy

The functional strategies are the strategies adopted at the level of the single business functions and they are necessary to implement at the operational level the strategies decided by the upper management levels, that are the corporate strategy defined by the top management and the business strategy defined by the middle management.

The functional strategy is defined and implemented by the supervisory management which is generally composed by the directors of each company function.

The business function

A company function is formed by a series of activities that have the same nature, joined together because they relate to the same operational object and are aimed at achieving the same business objectives.

We can distinguish between:

- The primary functions
- The Support functions

The primary functions are:

- Logistics function
- Production function
- Marketing and sales function

The Support functions are:

- Procurement function
- Human resources function
- Research and development function
- Infrastructure functions:
  - Finance function
  - Accounting function
  - General management function
  - Control function

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Business Organization

Business Organization

Organizational Function

Each Enterprise works as a system, constituted by several components that operate in coordinated manner for a common purpose, that is the survival of the company.

The study of the Organization can be carried out by analyzing the *Structural aspect* related to the ordering of tasks and responsibilities, and the *Behavioural aspect* of the organizational system, considered as a whole.

Business Organization

Organizational Decisions

The planning (or re-planning) of the Organization demands the assumption of a set of decisions:

Definition of the *Objectives*	Construction of the *Organizational Structure*
Definition of *vertical integration* degree (efficient border)	Characterization of the *Functions* (inside the Business System)
Analysis of the complex of existing ties (Professional abilities, Investments, Structural costs)	Characterization of the strength elements and valorization of the main meaningful potentialities

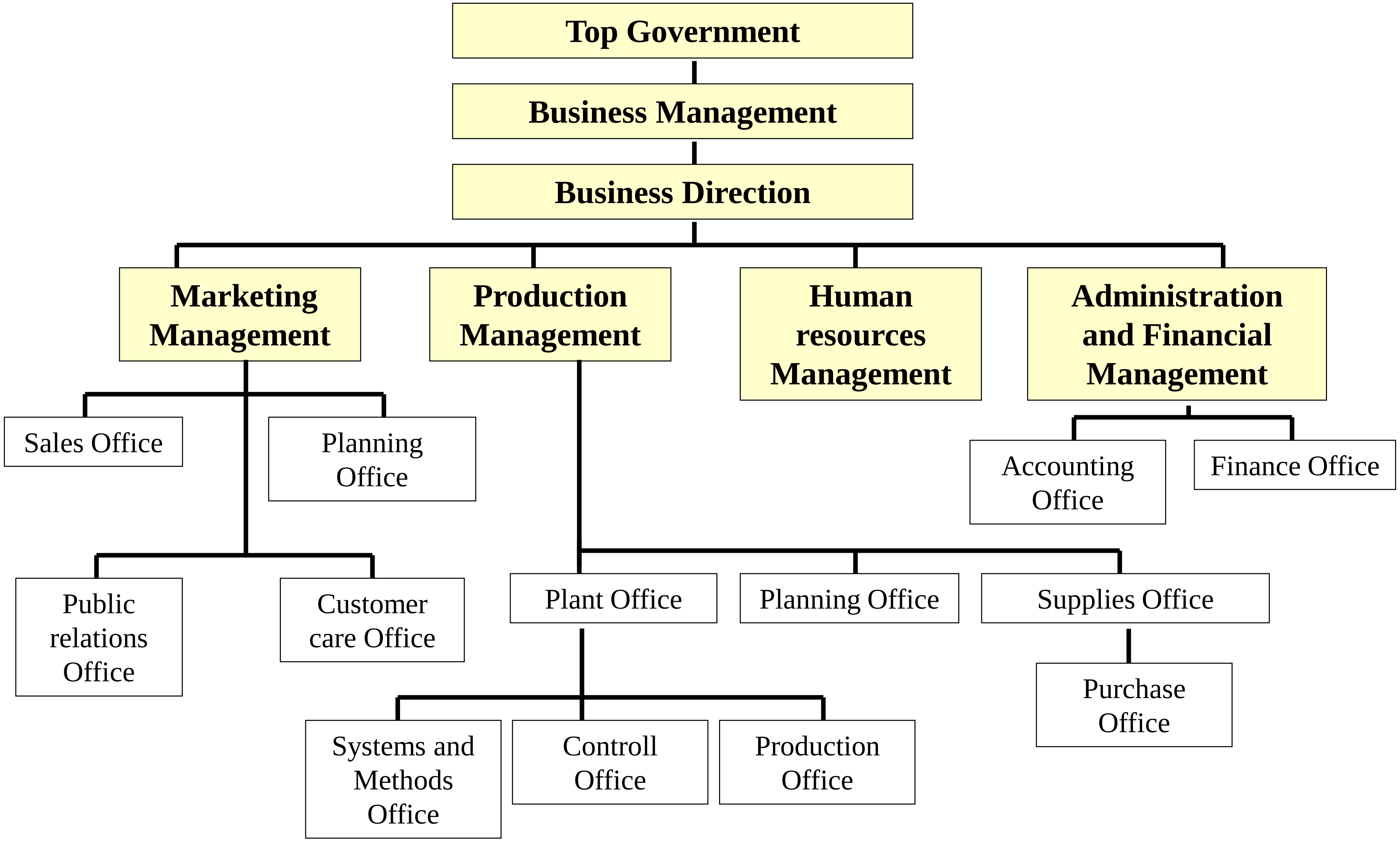
Organizational structure

The organizational structure is the unitary and coordinated configuration of the corporate bodies, tasks and responsibilities

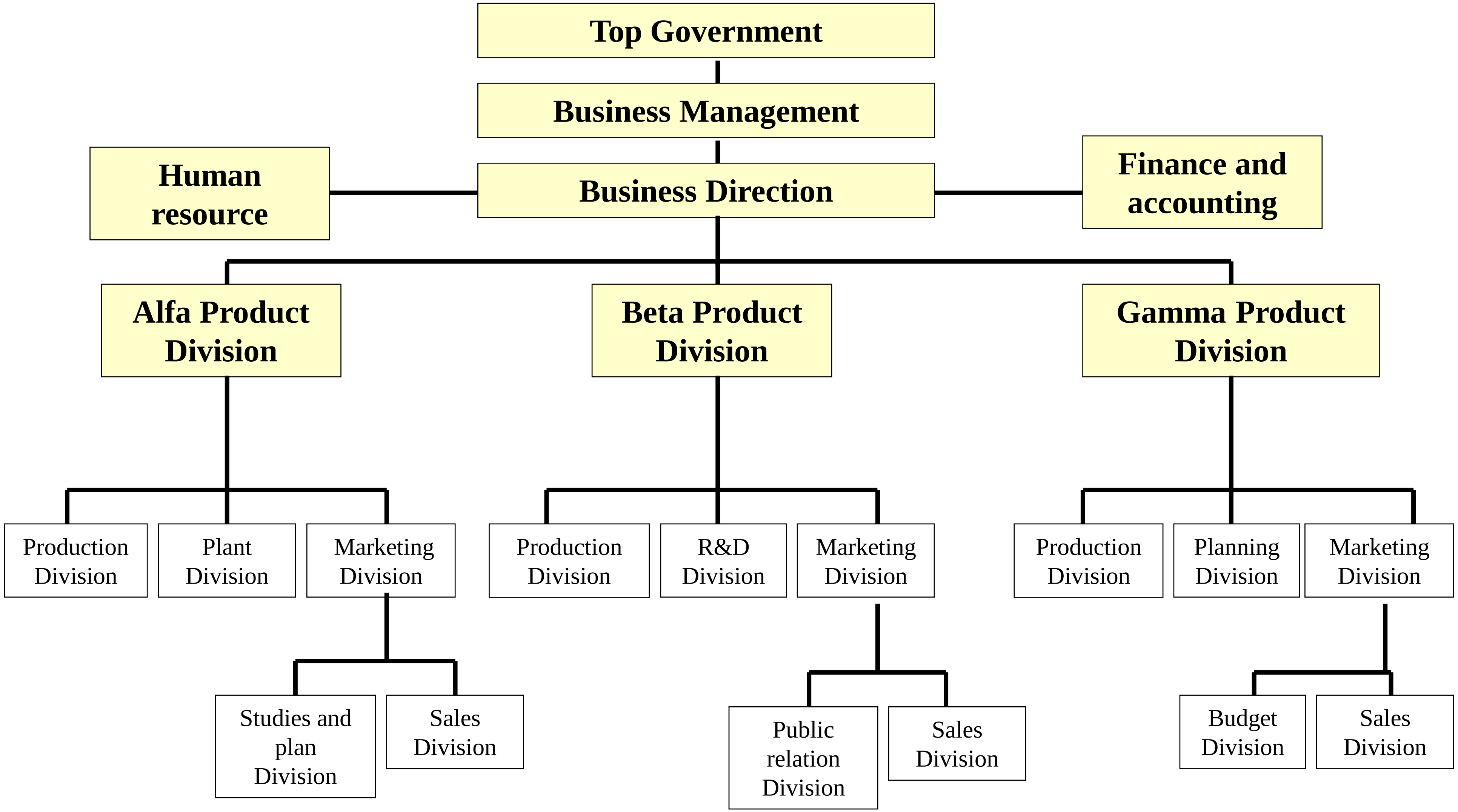
There are three types of organizational structure:

1. Functional structure
2. Divisional structure
3. Matrix structure

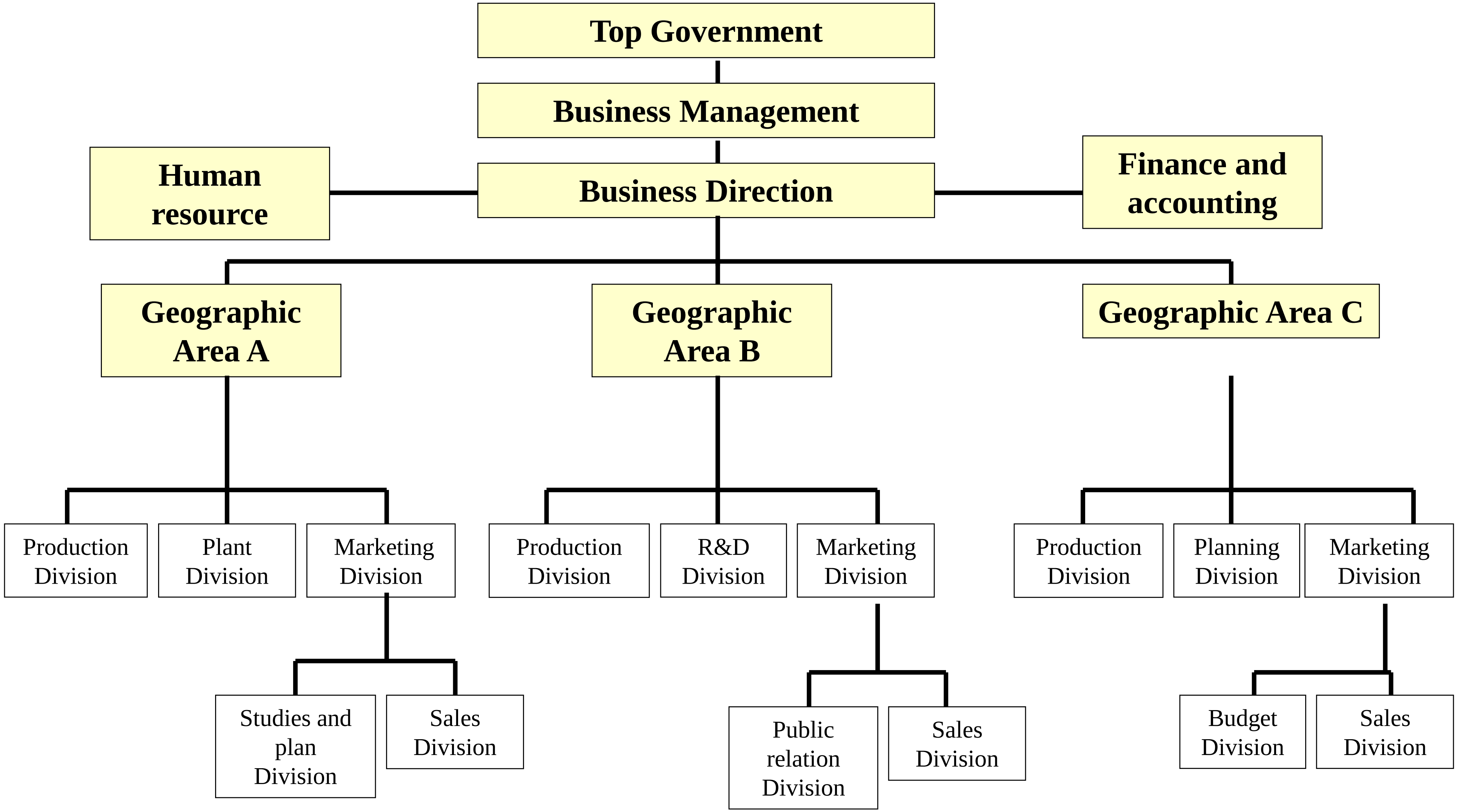
Functional structure



Divisional structure



Divisional structure



Matrix structure