Introduction to Management

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

Introduction to the course

The aim of the course

Understanding how companies work, how they are organized, managed, how business strategies are formulated and competitive advantages are achieved.

Be ready to work in a company, regardless of tasks, role and managerial level

Why Study Management?

- The study of management builds the skills needed in today's workplace to succeed in:
  - Becoming a partner in managing your organization through participative management.
  - Working in a team and sharing in decision making and other management tasks.

- The study of management also applies directly to your personal life in helping you to:
  - Communicate with and interact with people every day.
  - Make personal plans and decisions, set goals, prioritize what you will do, and get others to do things for you.

- Society Needs Leaders and Team Players
  - Be Successful in our Community, Religious, Social, Professional, Recreational and Other Organizations.
  - Become Leaders for a "Just and Humane World"

The Program of the course

- Principles of Management
- The internal and external environment
- SWOT Analysis
- Porter’s five forces
- Abell model and competitive advantage
- Stakeholder theory
- Competitive strategies
- International strategies
- Organizational structure
- Break even point
- The business functions:
  - ✓ Production
  - ✓ Logistics
  - ✓ Marketing
  - ✓ Human resources
  - ✓ Research & Development

The structure of the course

- Frontal lessons
- Seminars
- Case studies
- Project works
- Exercises

Material

- Slides
- Lecture notes provided by the professor

Suggested book:
Charles W.L. Hill and Steven L. McShane, PRINCIPLES OF MANAGEMENT, McGraw-Hill/Irwin.

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Principles of Management

What is Management?

Management involves coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively.

Coordinating and overseeing the work of others is what distinguishes a managerial position from a non-managerial one.

Efficiency is getting the most output from the least amount of inputs in order to minimize resource costs. Efficiency is often referred to as “doing things right”.

Effectiveness is completing activities so that organizational goals are attained and is often described as “doing the right things”.

What is Management?

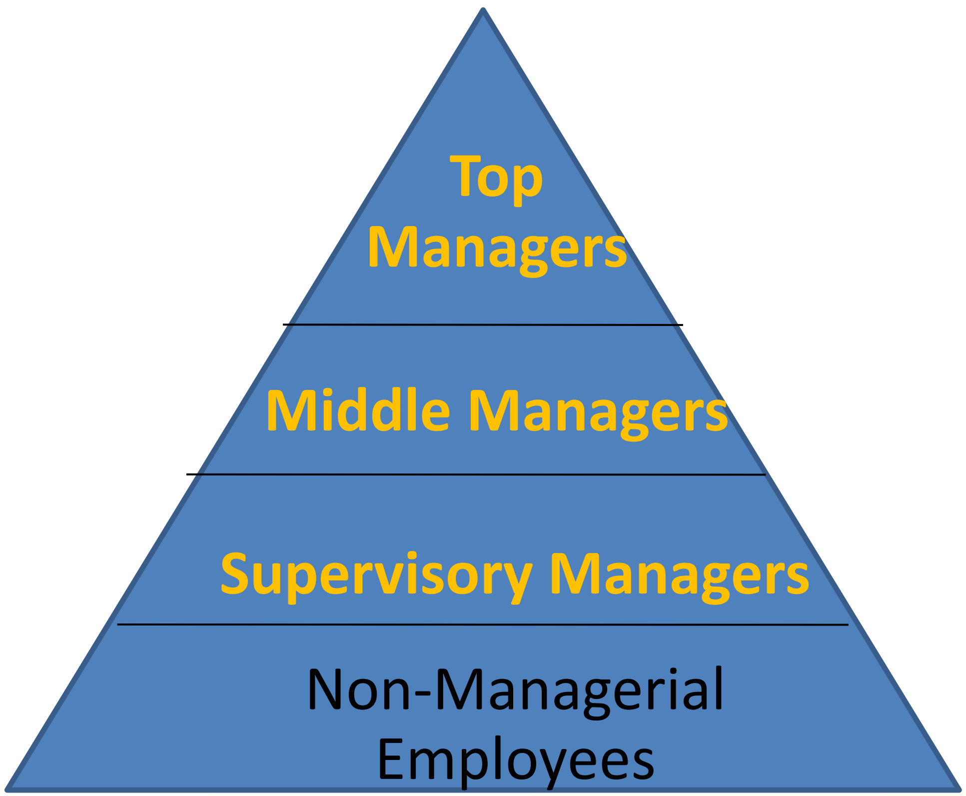
The process of deciding how best to use a business's resources to produce goods or provide services

- Employees
- Equipment
- Money

Who are managers?

A manager is someone who coordinates and oversees the work of other people so that organizational goals can be accomplished.

Managers can be classified by their level in the organization, particularly in traditionally structured organizations—those shaped like a pyramid



Top Management

- Establishes the goal/objectives of the business
- Decides how to use the company's resources
- Not involved in the day-to-day problems
- Set the direction the company will follow
- Chairperson of the company's board of directors, CEO, COO, senior vice presidents

Middle Management

- Responsible for meeting the goals that senior management sets
- Sets goals for specific areas of the business
- Decides which employees in each area must do to meet goals
- Department heads, district sales managers

Supervisory Management

- Make sure the day-to-day operations of the business run smoothly
- Responsible for the people who physically produce the company's products or services
- Forepersons, crew leaders, store managers

Non-Managerial Employees

The changing nature of organizations and jobs often requires employees in formerly non-managerial jobs to perform managerial activities.

Students who are preparing for careers on any organizational level can benefit from acquiring management skills.

Today’s employees need to be cross-trained and multiskilled.

The management process

The management process is the set of ongoing decisions and work activities in which managers engage as they plan, organize, lead, and control.

4 functions:

1. **Planning** involves defining goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities.
2. **Organizing** involves arranging and structuring work to accomplish the organization's goals.
3. **Leading** involves working with and through people to accomplish organizational goals.
4. **Controlling** involves monitoring, comparing, and correcting work performance.

Planning

Decides company goals and the actions to meet them

Ex. CEO sets a goal of increasing sales by 10% in the next year by developing a new software program

Organizing

Groups related activities together and assigns employees to perform them

Ex. A manager sets up a team of employees to restock an aisle in a supermarket

Staffing

Decides how many and what kind of people a business needs to meet its goals and then recruits, selects, and trains the right people

Ex. A restaurant manager interviews and trains servers

Leading

Provides guidance employees need to perform their tasks

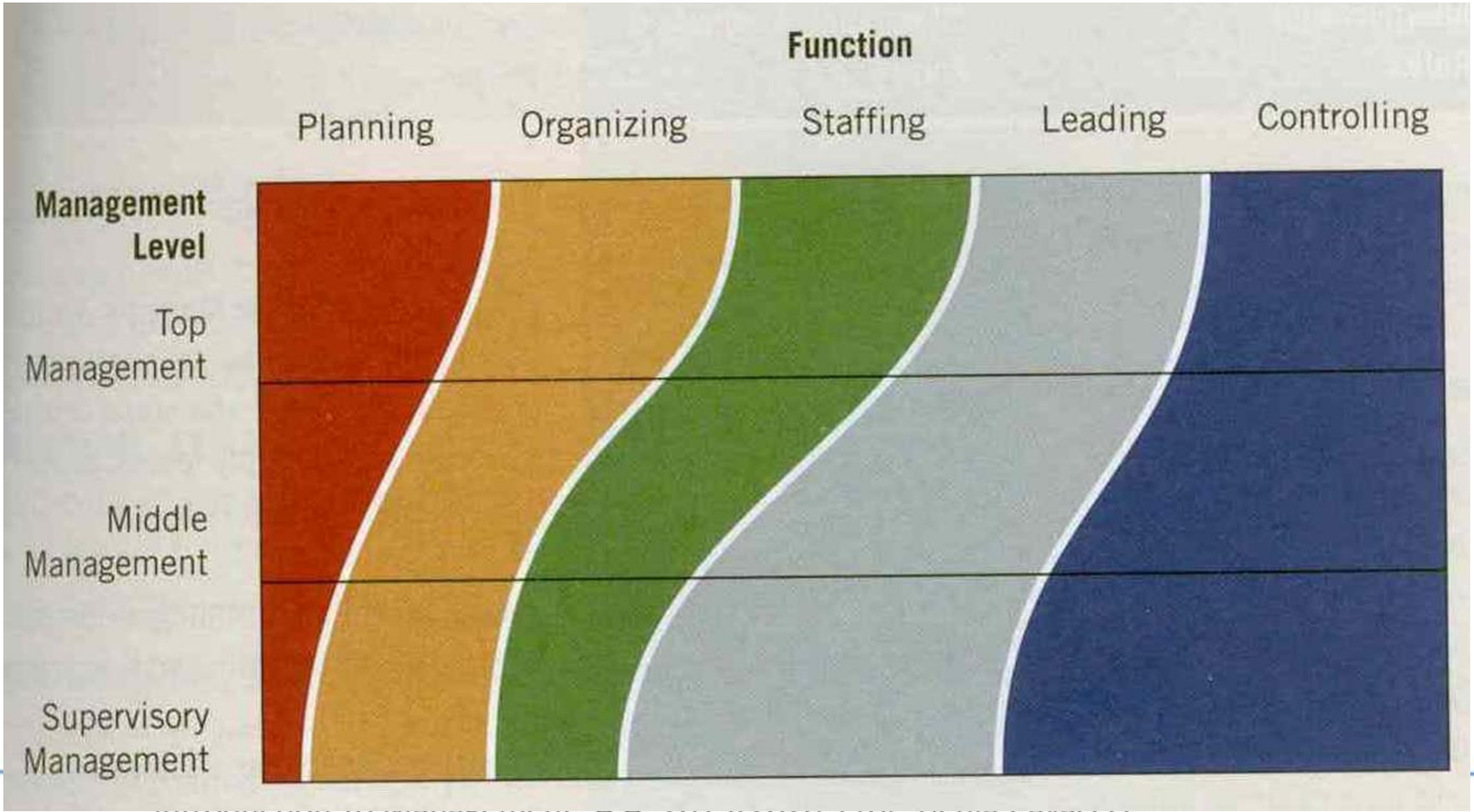
Ex. Keeping the lines of communication open and holding regular staff meetings

Controlling

Measures how the business performs to ensure that financial goals are being met

Ex. Analyzing accounting records and making changes if financial standards not being met

Relative Amount of Emphasis Placed on Each Function of Management



The management roles

Management roles refer to specific categories of managerial behavior:

a. Interpersonal roles include figurehead, leadership, and liaison activities.
b. Informational roles include monitoring, disseminating, and spokesperson activities.
c. Decisional roles include entrepreneur, disturbance handler, resource allocator, and negotiator.

Interpersonal roles

A manager’s relationships with people
Providing leadership with the company
Interacting with others outside the organization

Senior managers spend much of their time on interpersonal roles

They represent the company in its relations with people outside the company, interacting with those people, and providing guidance and leadership to the organization
Determine a company’s culture

Information-related roles

Providing knowledge, news or advice to employees

Holding meetings

Finding ways of letting employees know about important business activities

Decision-making roles

Making changes in policies, resolving conflicts, deciding how to best use resources

Middle and supervisory managers spend more time resolving conflicts than senior managers

The management skills

Managers need certain skills to perform the challenging duties and activities associated with being a manager.

a. Technical skills are job-specific knowledge and techniques needed to proficiently perform specific tasks.
b. Human skills are the ability to work well with other people individually and in a group.
c. Conceptual skills are the ability to think and to conceptualize about abstract and complex situations.

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Micro & Macro Environment

What are organizations?

Organizations need managers. An organization is a deliberate arrangement of people to accomplish some specific purpose.

Organizations share three common characteristics: (1) each has a distinct purpose; (2) each is composed of people; and (3) each develops some deliberate structure so members can do their work.

Organizations changes because the world around them changes continuously. These societal, economic, global, and technological changes have created an environment in which successful organizations must embrace new ways of getting their work done.

Systems Thinking

Companies are open systems that interact and exchange resources with their environment in which there are a lot of actors and forces that influence the business activities and results.

Environment → a synthesis of supra-systems that are able to express and project expectations and pressures on the firm. Supra-systems can place constraints on the way the firm works when their expectations are not adequately met, or they can facilitate the evolution of the firm when their expectations are satisfied.

Hence, the survival of the company depends on its capacity to satisfy the supra-systems expectations and to create and maintain high levels of consonance and resonance with the context.

Complexity of the environment

Variety: high number of elements to consider → competitors, customers, suppliers, distributors, financiers, socio-economic and political context

Variability: each of these elements changes over time

Indeterminacy: it is impossible to have a complete knowledge of these elements and predict their evolution

Complexity of the environment

Internal complexity: depends on the size of the company, the number of its components, the variety of social roles and personalities

External complexity: depends on the variety and variability of the environment in which a company operates → it is the hardest to manage because it depends on variables that are not under the control of managers

Complexity of the environment

Complexity is subjective, each observer perceives different levels of complexity at different moments.

It depends on the level of information and knowledge each observer has about the phenomena.

Company in front of a complex phenomenon needs to increase its knowledge of the same phenomenon

How it does? Through researches, analysis, analytical tools.

The analyses provide the acquisition and the processing of all the information necessary to better frame the environment in which the enterprise operates.

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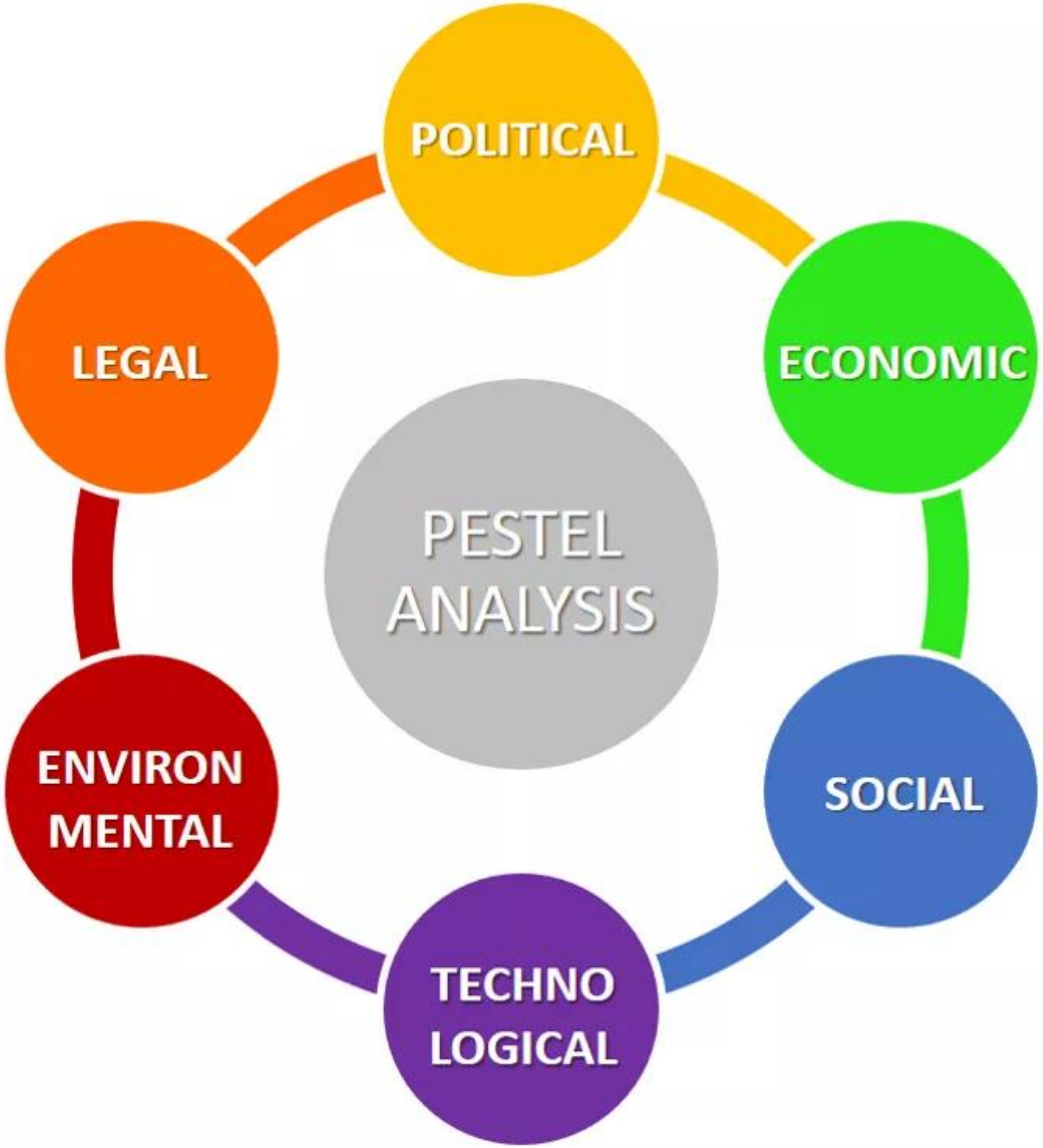
Pestel Analysis

Business Environment

Micro & MacroEnvironment

BASIS FOR COMPARISON	MICRO ENVIRONMENT	MACRO ENVIRONMENT
Meaning	Micro environment is defined as the nearby environment, under which the firm operates.	Macro environment refers to the general environment, that can affect the working of all business enterprises.
Elements	COSMIC, i.e. Competitors, Organization itself, Suppliers, Market, Intermediaries and Customers.	PESTLE, i.e. Population & Demographic, Economic, Socio-Cultural, Technological, Legal & Political and Environmental.
Nature of elements	Specific	General
Are these factors controllable?	Yes	No
Influence	Directly and Regularly	Indirectly and Distantly

Pestel Analysis



P

- Government policy
- Political stability
- Corruption
- Foreign trade policy
- Tax policy
- Labour law
- Trade restrictions

E

- Economic growth
- Exchange rates
- Interest rates
- Inflation rates
- Disposable income
- Unemployment rates

S

- Population growth rate
- Age distribution
- Career attitudes
- Safety emphasis
- Health consciousness
- Lifestyle attitudes
- Cultural barriers

T

- Technology incentives
- Level of innovation
- Automation
- R&D activity
- Technological change
- Technological awareness

E

- Weather
- Climate
- Environmental policies
- Climate change
- Pressures from NGO's

L

- Discrimination laws
- Antitrust laws
- Employment laws
- Consumer protection laws
- Copyright and patent laws
- Health and safety laws

PESTLE ANALYSIS OF UBER

Leading Shared Taxi Service Provider

Political Factor

- Need to make its stand clear about drivers' insurance.
- Have to follow minimum wage rules.
- Have to have deal with bans in many countries.

Economic Factor

- Easily accessible.
- Affordable fare charges
- Offers jobs opportunities, but pay may not be convincing.

Social Factor

- User friendly
- Quick pick up
- Gives better ride experience than taxis

Tech. Factor

- Excellent mobile app for users
- Using social media and other electronic media well for promotion

Legal Factor

- Need to prevent ban in many countries
- Need to follow labor and employee safety laws well
- Copyright laws need to be looked at as well

Environ. Factor

- Fuel usage may increase
- Traffic congestion is a concern as well

PESTLE ANALYSIS OF NIKE

Famous sports shoes and apparel manufacturer

Political Factor

- Must consider the taxation
- and manufacturing rules of each country
- Must follow import and export laws well

Economic Factor

- Must Target customers with good purchasing power
- Developing countries may be good opportunity for NIke

Social Factor

- Need to target health-conscious people
- Shoes and Apparel must be for health-conscious people along with sporty people

Tech. Factors

- Nike uses finest technology
- Constant changes in the technology as well as opportunity as well as threat

Legal Factor

- Must consider the copyrights and designs of shoes and apparel it produces
- Must obey Health and safety rules

Environ. Factor

- Need to come up with environment-friendly products

Coca-Cola

PESTLE ANALYSIS OF COCA COLA

Popular soft drink producer

Political Factor

- Must follow FDA rules to provide people with right beverages
- Labor, accounting and internal marketing laws must be followed

Economic Factor

- Understands cunsumers' tastes and preferences
- Most of income is from sell of soft drinks
- Must focus on launching healthy drinks

Social Factor

- Have launched healthy drinks in US
- Need to do the same in the countries such as Japan and China

Tech. Factor

- They use high technology in producing fine products in short time
- Using social media effectively for promotions

Legal Factor

- Coca Cola has done well in securing all the rights of their business

Environ. Factor

- Must operate in an area where is no shortage of water adidas

PESTLE ANALYSIS OF ADIDAS

Top sports and apparel manufacturer

Political Factor

- Adidas focuses war, terrorrism
- and nationalization much

Economic Factor

- Inflation, per capita income, unemployment and taxation affect its profits
- Must consider the purchasing power of the people

Social Factor

- Adidas shoes and apparel designs meet the latest trends
- It is rightly focused on the sporty and athletic customers
- Must promote its products in Islamic countries

Tech. Factor

- Adidas uses its own technology to manufacture the products
- Using its online sites well to sell the products

Legal Factor

- Must not get in some legal trouble

Environ. Factor

- Adidas keeps control on the volatile and different organic compounds emissions
- They produce sustainable products

PESTLE ANALYSIS OF APPLE

Renowned electronic device producer

Political Factor

- Apple operates in China
- Political rift between US and china may affect its operations.
- Operating in any other country may be expensive

Economic Factor

- Manufacturing cost will increase if China increases labor costs
- Decline in the middle-class income may decrease Apple's market

Social Factor

- Need to taste success in the areas like Africa
- In the US, black people are also against it as it expensive

Tech. Factor

- Increasing use of smartphones and tablets may decrease the demand of Apple products
- Apple device may seem less secure

Legal Factor

- Apple may start automobile manufacturing. It may increase insurance, regulatory costs and legal proceedings for Apple.

Environ. Factor

- Disposal of nonworking electronic devices is the biggest environmental issue Apple has
- Disposing of the lithium batteries costs high

PESTLE Analysis

2.3 Ryanair's PESTEL analysis

PESTEL analysis for Ryanair assists with producing opportunities or seeing what threats disturb Ryanair's operations in the external environment and what is the situation of the company (Yuksel, 2012). PESTEL consists of political, economic, social, technological, environmental and legal factors, see Appendix A for Ryanair's PESTEL analysis.

Political factors of Ryanair are: regional government's regulation on national employment contracts with Britain and France and taxes, European Union's regulations and restrictions on staff welfare and emission fee interrupts Ryanair's strategy (Ryanair, 2015). For Ryanair all regulations from EU have to be reviewed for Ryanair's strategy in order to evade from negative effects on the airline.

Economic factors follow use of secondary airports to escape from extra costs and charges in the primary airports. If exchange rate and fuel price rises then Ryanair's operation costs go up. Since 2015 Ryanair's growth rate last time was affected enormously in 2008 by economic downturn.

Primary Ryanair's social factors are good relationship with staff, "always getting better programme" created in 2013, public image history of providing bad customer service, new IT hub and Ryanair labs for improving the image or the airline (Ryanair, 2015).

Main technological factors are use of internet, online check-in saves time for customers, new improved website without no more of unfair advertisement and new aircraft model contributes to cut emission and cost charges.

Most important environmental and legal factors consist of harsh CO2 management, lower emissions and noise due to new aircraft model, bad working conditions and violation of media have implications on law. Also, acquisition of Aer Lingus was rejected more than three times by UKOFT and EC (Ryanair, 2015).

MicroEnvironment

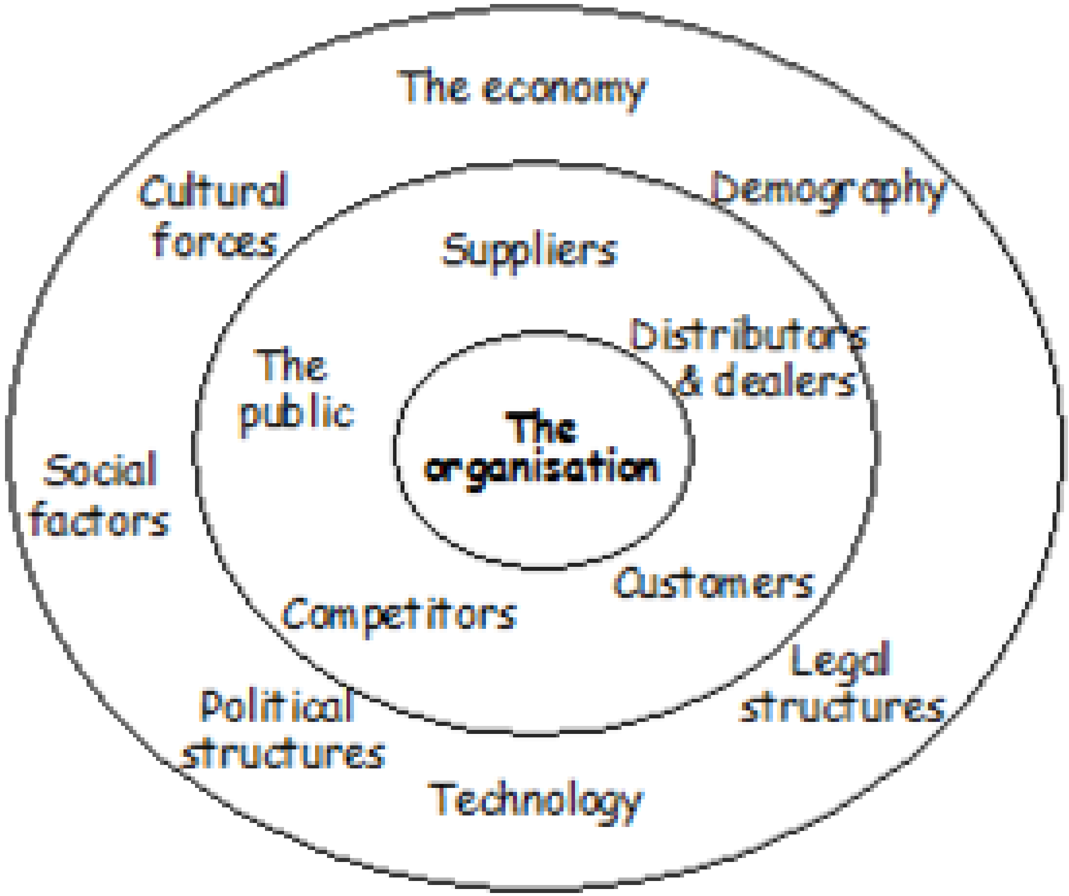
Suppliers: are individuals or organisations that provide (supply) an enterprise with the various inputs (such as raw materials, component parts, or employees) required for production.

Distributors: are organizations that help other organizations sell their goods and services to customers.

Customers: are the individuals and groups that buy the goods and services that an enterprise produces.

Competitors: are businesses that produce goods and services that are similar to a particular organisation's goods and services or that are competing for same customers.

Importance of Micro & MacroEnvironment



Market Analysis

Demand analysis: to study the needs of the consumers, what they want, what they buy and how they buy.

Competition analysis: to understand which are the main competitors, what they offer, how they offer it and in which segments they target.

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Analysis for sector: *companies that belong to the same sector*
Analysis for market*: companies that are direct to satisfy the same need or that are targeted to the same consumers*

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Mission and Vision

Mission and Vision

After analysing the environment, it is very important for the company to define its Mission and Vision statements that summarize the company’s goals and objectives.

Both of these serve different purposes for a company but are often confused with each other. While a mission statement describes what a company wants to do now, a vision statement outlines what a company wants to be in the future.

Mission statement

The Mission Statement concentrates on the present; it defines the customer(s), critical processes and it informs about the desired level of performance.

When developing a mission statement, it should be seen that the following questions are answered:

- What do we do today?
- For whom do we do it?
- What is the benefit?

Features of an effective mission statement are:

- ✓ Purpose and values of the organization
- ✓ What business the organization wants to be in (products or services, market) or who are the organization's primary "clients" (stakeholders)
- ✓ What are the responsibilities of the organization towards these "clients"
- ✓ What are the main objectives that support the company in accomplishing its mission

Vision statement

The Vision Statement focuses on the future.

It should set out the ideal destination- where the organisation wants to be.

It should be challenging, innovative and forward-looking. The vision should be motivating and enable staff, volunteers and others to see how their effort contributes to an overall inspirational purpose.

- The mission statement guides the day-to-day operations and decision-making of the organization. It helps members of the organization get on the same page on what they should do and how they should do it.
- The vision statement is, in a sense, loftier. It outlines the worldview of the organization and why it exists. It attracts people — not just employees but also customers and vendors — who believe in the vision of the organization.

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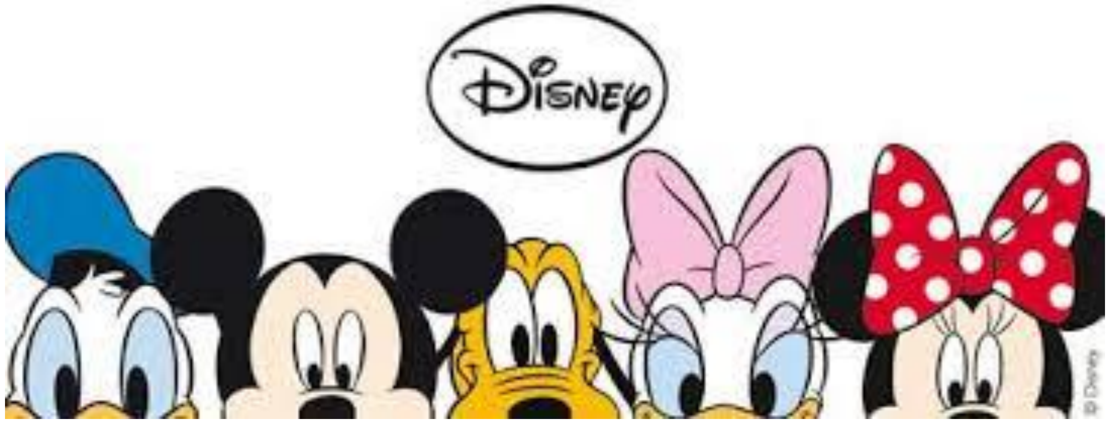
Vision and Mission examples



VISION

To make people happy.

MISSION

to be one of the world's leading producers and providers of entertainment and information by developing the most creative, innovative and profitable entertainment experiences and related products in the world.

Vision and Mission examples

Google

VISION

to provide access to the world's information in one click

MISSION

to organize the world's information and make it universally accessible and useful.

Vision and Mission examples

Microsoft

VISION

To help people around the world realize their full potential.

MISSION

Empower people through great software anytime, anyplace, and on any device.

Vision and Mission examples

VISION

"To create a better everyday life for the many people"

MISSION

To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.

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Abell’s Matrix

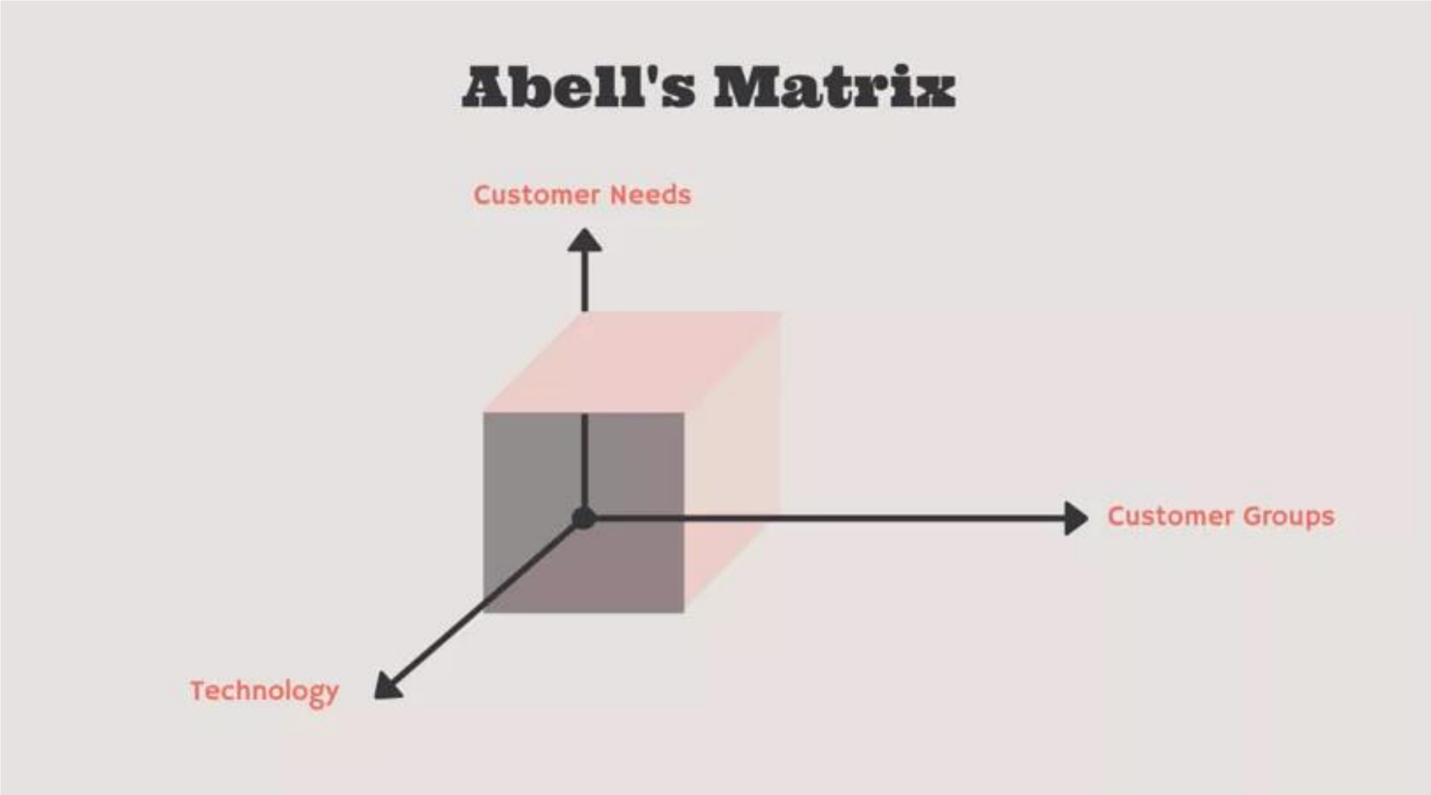
Abell's Model

Three questions play an important part in the formulation of the mission statement:

1. Who are the customers of the organization?
2. How can the organization meet its customer needs?
3. What techniques does the organization use to meet the customer needs?

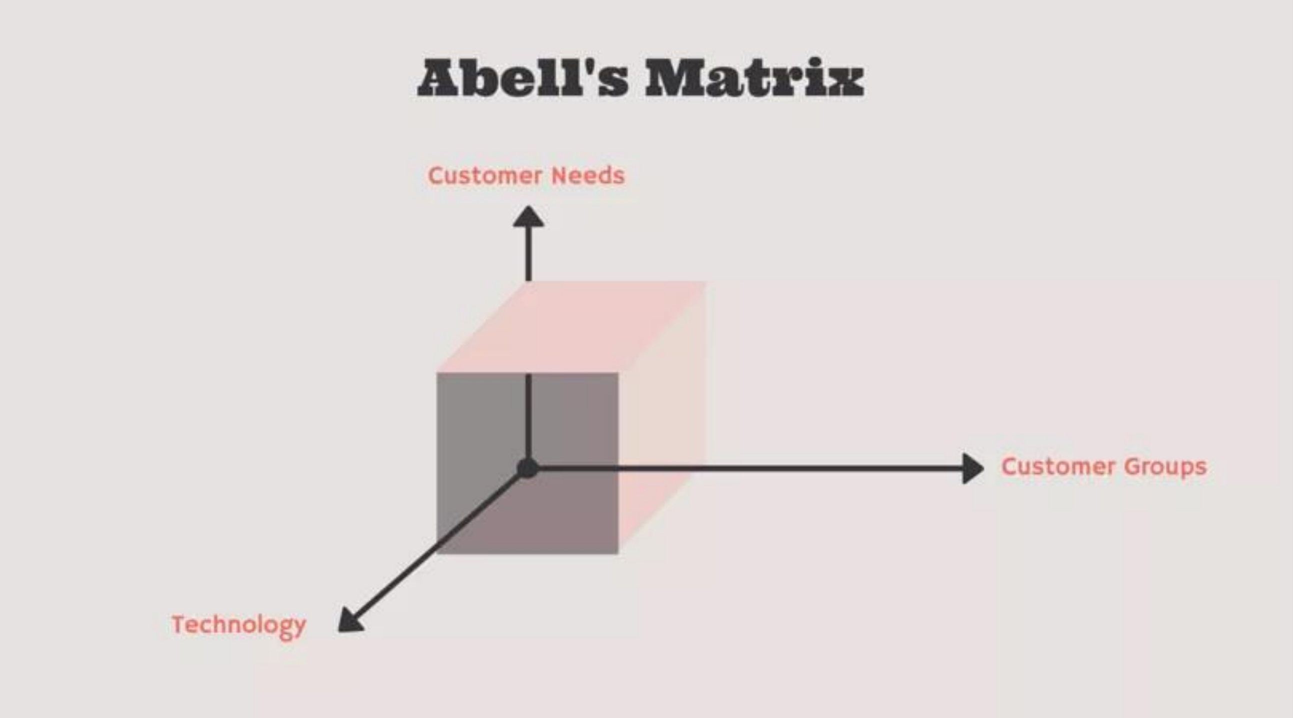
Derek Abell summarized the three questions in a model composed by three axes: a horizontal axis on which he positioned the customers/ user groups, a vertical axis with buying needs and an inclined axis with the applied technologies.

Abell’s Model



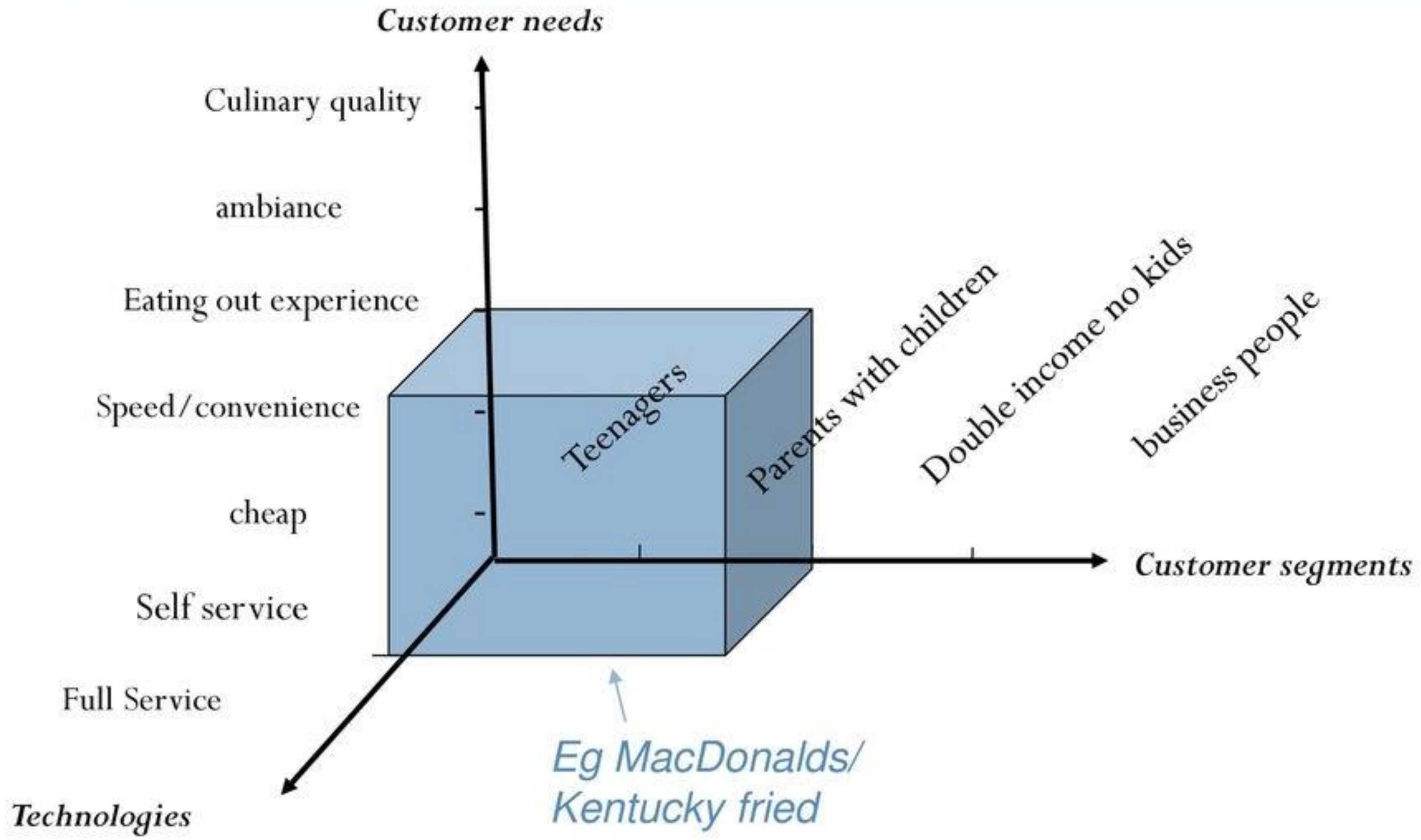
When plotted on a three dimensional model, the horizontal axis is taken as the customer groups, the vertical axis as their buying needs and the inclined axis is taken as the applied technologies. Taken together, the Strategic Business Unit (SBU) of the company can be viewed.

Abell’s Model



A major point of importance in this matrix is to focus on understanding the customer rather than the industry and its products and services. Through these three dimensions, this tool helps define a business by its competitive scope and the extent of competitive differentiation of its products/services.

Abell's Matrix of McDonalds



Practical Use Tips

To begin implementing this model, it is first important to understand the dimensions and the entire model space. The three-dimensional space of the cube is the business scope of the company. The model helps identify what the company has been doing and also helps create a conceptual framework to identify opportunities for the future. Some key questions to help create this model include:

- What are the current customer groups/segments the company is serving?
- What needs is the company satisfying for these customers?
- What features or uses of the company's products are fulfilling these needs?
- Are there new customer groups with similar needs that are not being served?
- Can there be other uses of the product to fulfill other needs?
- Are there other technologies that need to be utilized to serve the needs of existing customers?

Reflecting on the Three Dimensions

The matrix is built to question the business model along three dimensions

1. Who?

Here, the idea is to completely identify and understand customer profiles of those segments being served. Once the segments are identified, work can be done to retain the segments that are most relevant. Segments can be individual customers, business customers, they can be segmented according to geographical location, sedentary or nomadic, role in the industry, social professional category, purchasing power or level of education among others.

Reflecting on the Three Dimensions

2. What?

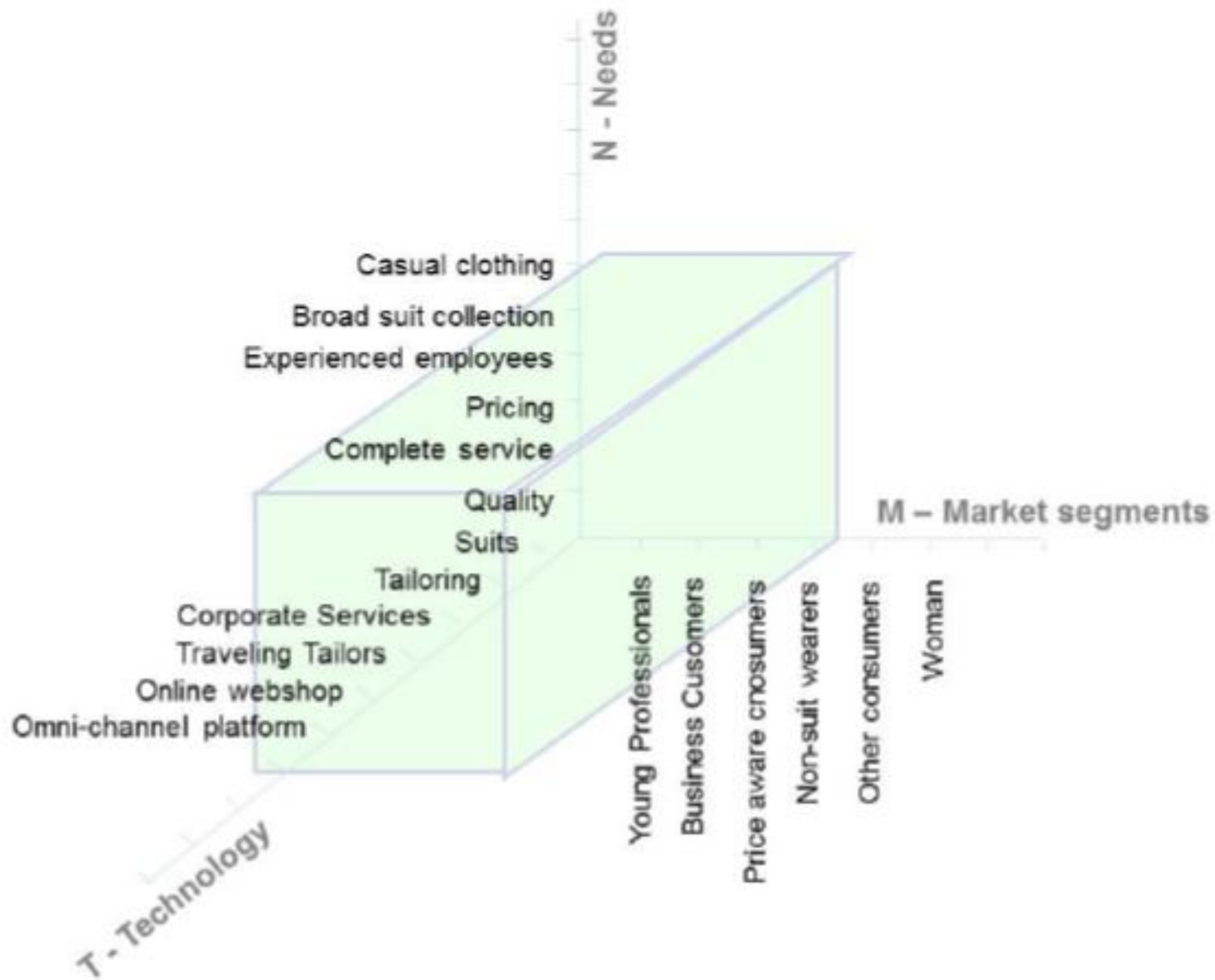
In this dimension, the objective is to identify the needs of the consumer that are met by the product. This is done by identifying and characterizing the solution (the product or service) in terms of its features that it brings to the customer segments identified in the "who" category. These features may include improved effectiveness or efficiency, better risk management, greater well-being among others.

Reflecting on the Three Dimensions

3. How?

At this stage, those means are identified and characterized through which the highlighted features are manufactured and delivered to customers. These means or technology include manufacturing techniques such as a choice of technical processes or a specific form of organization, distribution techniques such as home delivery, retailers, wholesalers, and large distribution and provision technologies such as user license, remote operation among others.

Abell's Matrix of a fashion company



Applications of the Abell's Model

The matrix can be used in a number of ways by an organization. Some of these uses include:

- ✓ Defining the business scope
- ✓ Describing and communicating changes in the business definition.
- ✓ Describing and communicating the business of any competitors in the market.
- ✓ Analyzing the growth opportunities for a business in a systematic and organized way
- ✓ Describing and communicating the evolution of markets

Strengths of the Abell's Model

- It emphasizes that products are merely a physical manifestation of the application of a particular technology to the satisfaction of a particular function for a particular customer group. The choice is one of the technologies, functions and customer groups to serve, instead of the products to offer.
- Central in the model of Abell is the customer, not the company itself.
- This framework can be used to describe both the current status and the desired status.
- The graph is easy to understand for each employee.

Limits of the Abell's Model

- The model provides only abstract growth directions.
- The model does not provide assistance to determine the appropriate scale or size of a business.
- The three-dimensional thinking is more complex than two-dimensional thinking

EXAMPLE
Starting a Car Dealership

Whether starting a new business or evaluating an existing one, the Abell business definition framework is a useful tool for stating out all the relevant information in an easy to assess format. In this example, we will consider what would need to be considered if you set out to start a car dealership.

EXAMPLE
Starting a Car Dealership

Who?

The first question to ask is who will the business be serving?

For a car dealership, some segment options include:

- The rich and powerful executive
- The working-class hero
- The urban party goer
- The suburban family

EXAMPLE
Starting a Car Dealership

What?

Some reasons for buying a car may include:

- Peer pressure
- Status in an existing or aspirational peer group
- Sex Appeal
- Masculinity
- Peace of mind and safety
- Excellent driving experience

EXAMPLE
Starting a Car Dealership

What?

Some questions that customers may ask themselves when buying a car may be among the following, depending on their hidden desire:

- Is it efficient and cost effective?
- Is it fast and sporty?
- Is it bold and strong?
- Is it comfortable and luxurious?
- Is it spacious and reliable?

EXAMPLE
Starting a Car Dealership

How?

If the segment identified requires cars that are powerful with big wheels, bold and spacious but not too fancy or expensive, depending on the purchase power, the prime cars to sell would be muscle cars or pick-up trucks. As a dealer, your technology will be the systems needed to acquire these cars and market them in the right way, at the right time to the right people.

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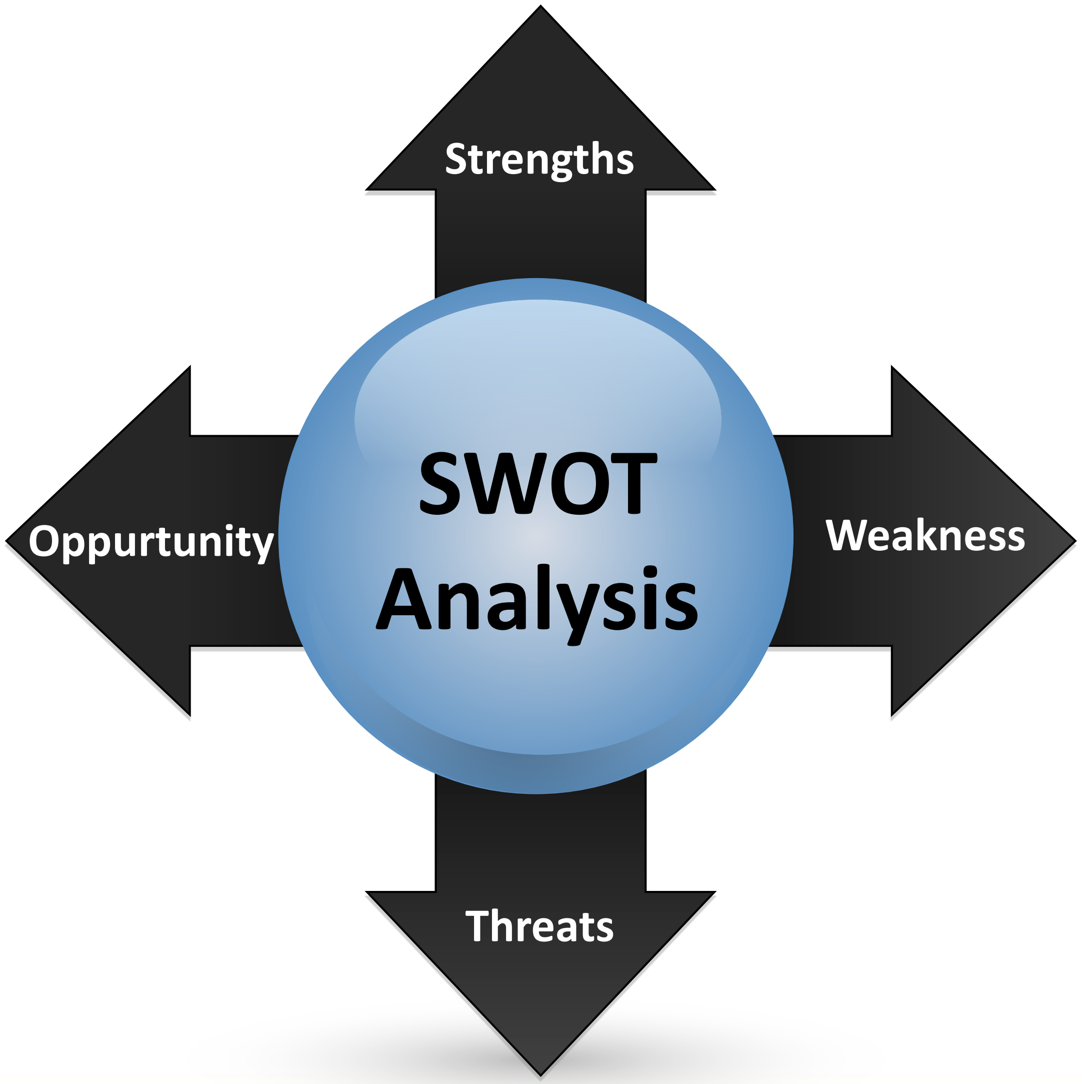
SWOT Analysis

What is SWOT Analysis?

SWOT is a business or strategic planning technique used to summarise the key components of the company's strategic environment.

SWOT analysis (strengths, weaknesses, opportunities, and threats analysis) is a framework for identifying and analyzing the internal and external factors that can have an impact on the viability of a project, product, place or person.

What is SWOT Analysis?



- Acronym for **Strengths**, **Weaknesses**, **Opportunities**, and **Threats**.
- **Planning tool** used to understand Strengths, Weaknesses, Opportunities, & Threats involved in a project / business.
- Technique that enables a group / individual to move from everyday problems / traditional strategies to a **fresh perspective**.

SWOT Analysis

SWOT is a summary of

- **Strengths**
- **Weaknesses**
- **Opportunities**
- **Threats**

Internal

External

Internal vs. External

- **Strengths and Weaknesses** are considered ***internal*** factors---meaning you as the business owner can control them. How a company manage or market the business controls whether it is a strength or weakness

- **Opportunities and Threats** are considered *external* factors---meaning company have little control over them. It is the job as a business owner to **respond** appropriately .

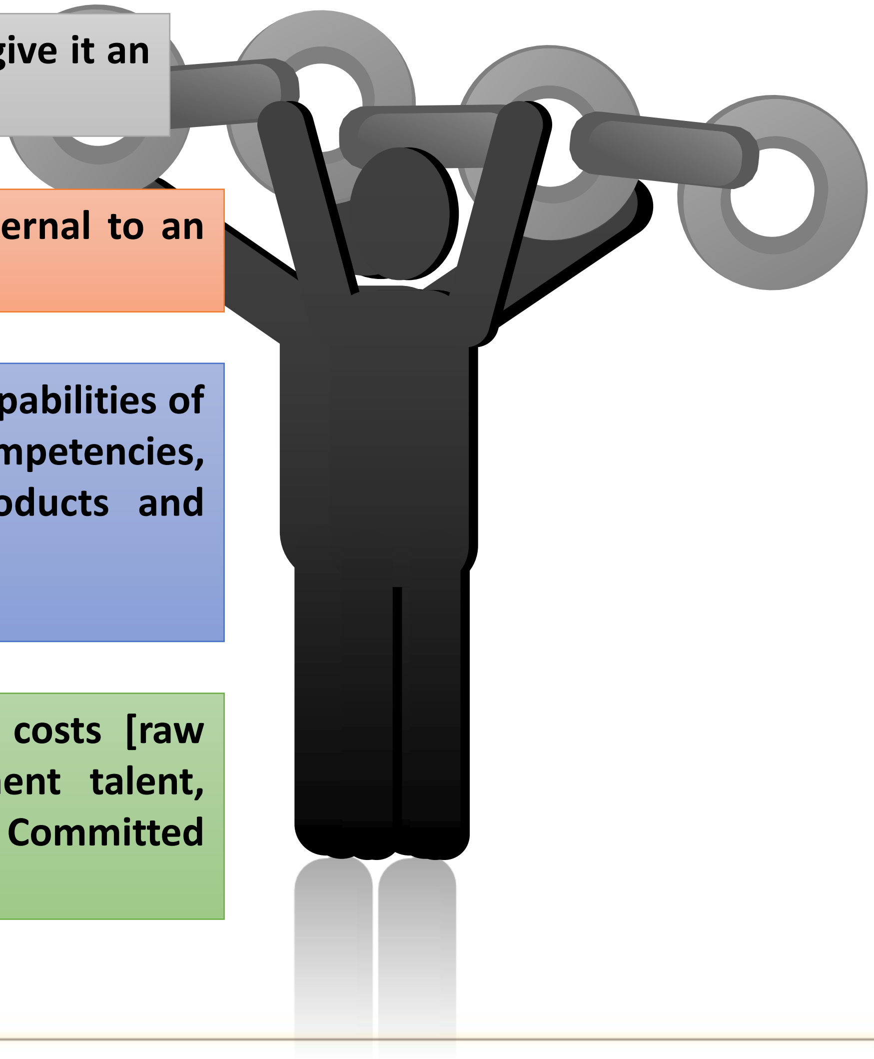
SWOT analysis examines four elements…

- Strengths - internal attributes and resources that support a successful outcome.
- Weaknesses - internal attributes resources that work against a successful outcome.
- Opportunities - external factors the project can capitalize on or use to its advantage.
- Threats - external factors that could jeopardize the project.

What is SWOT Analysis?

STRENGTHS

- Characteristics of the business or a team that give it an advantage over others in the industry.
- Positive tangible and intangible attributes, internal to an organization.
- Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.
- Examples - Well-known brand name, Lower costs [raw materials or processes], Superior management talent, Better marketing skills, Good distribution skills, Committed employees.



What is SWOT Analysis?

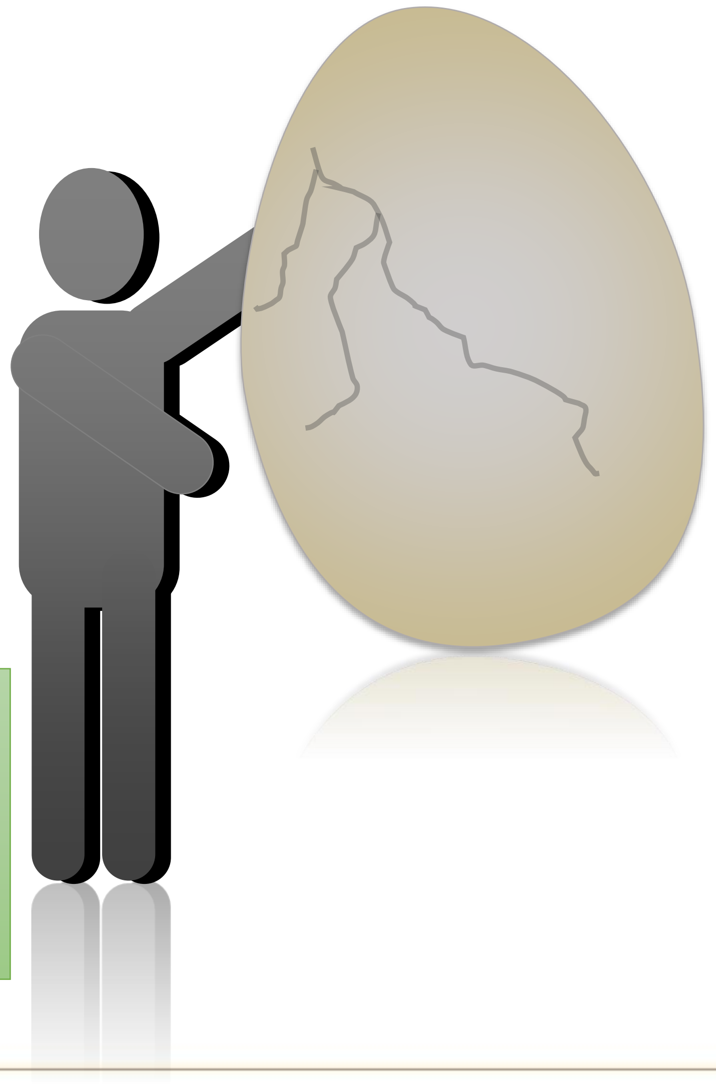
WEAKNESSES

- **Characteristics that place the firm at a disadvantage relative to others.**

- **They detract the organization from its ability to attain the core goal and negatively affect its growth.**

- **Weaknesses are the factors that do not meet the standards they should meet. However, often weaknesses are controllable. They must be minimized and eliminated.**

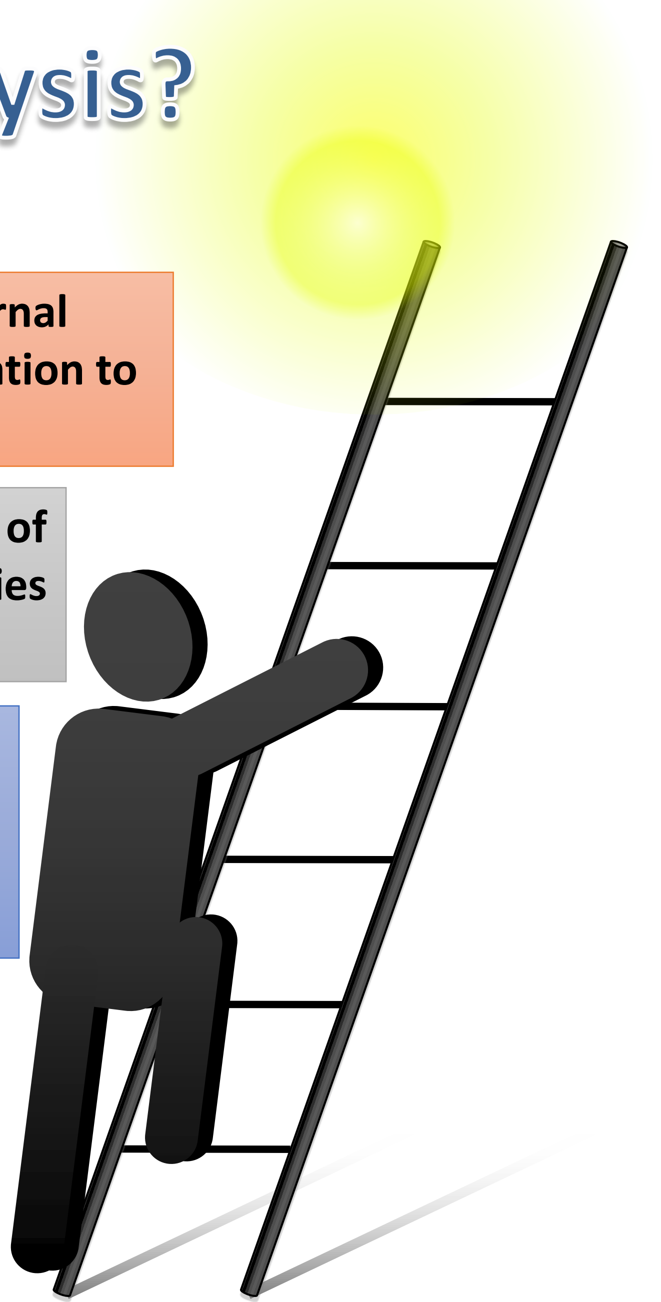
- **Examples - Limited financial resources, Limited distribution, Higher costs, Out-of-date products / technology, Weak market image, Poor marketing skills, Limited management skills.**



What is SWOT Analysis?

OPPORTUNITIES

- Chances to make greater profits in the environment - External attractive factors that represent the reason for an organization to exist & develop.
- They arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable.
- The organization should recognize the opportunities and grasp them whenever they arise. Opportunities may arise from market, competition, industry/government and technology.
- Examples - Rapid market growth, Changing customer needs/tastes, New uses for product discovered, Economic boom, Sales decline for a substitute product.



What is SWOT Analysis?

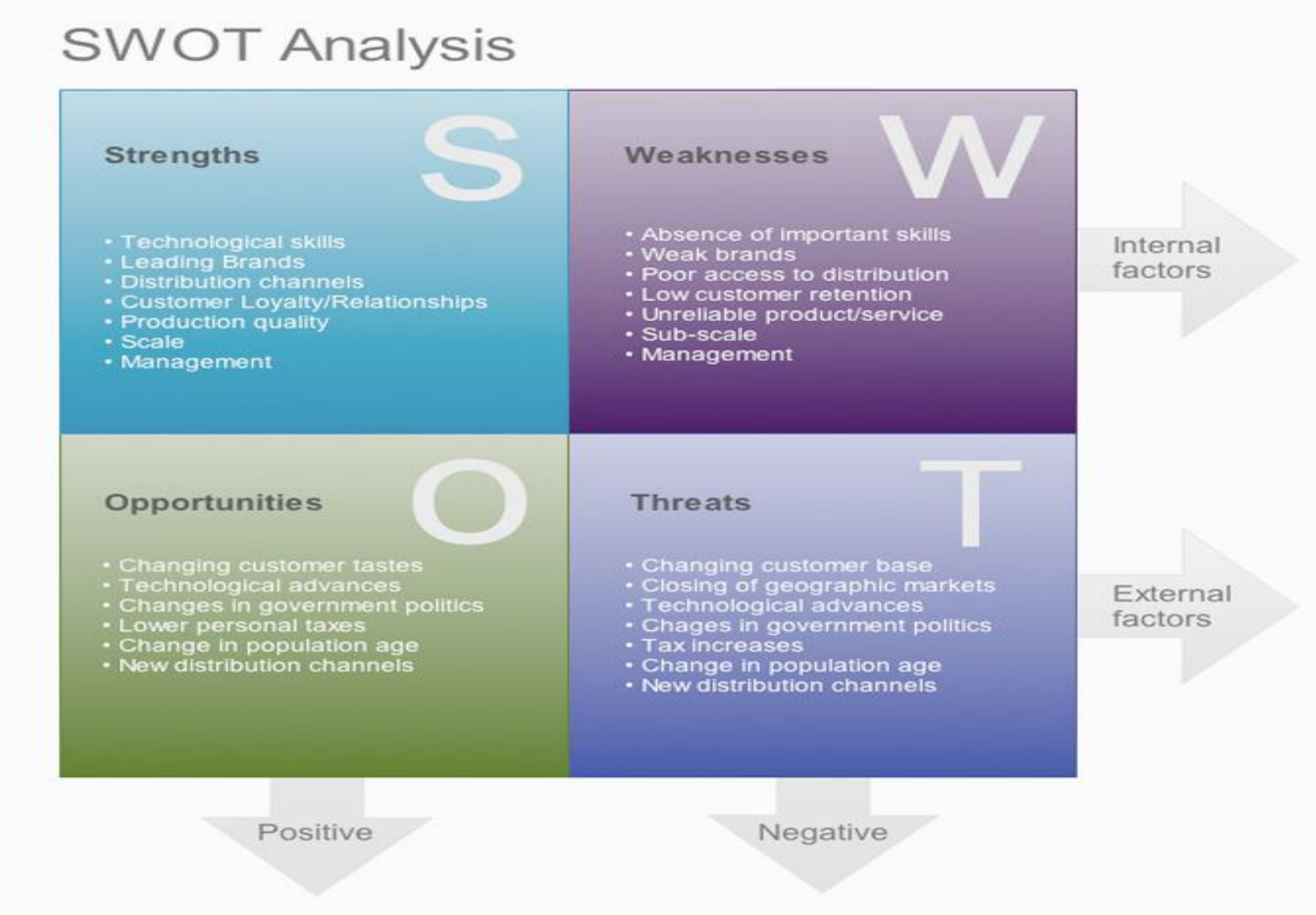
THREATS

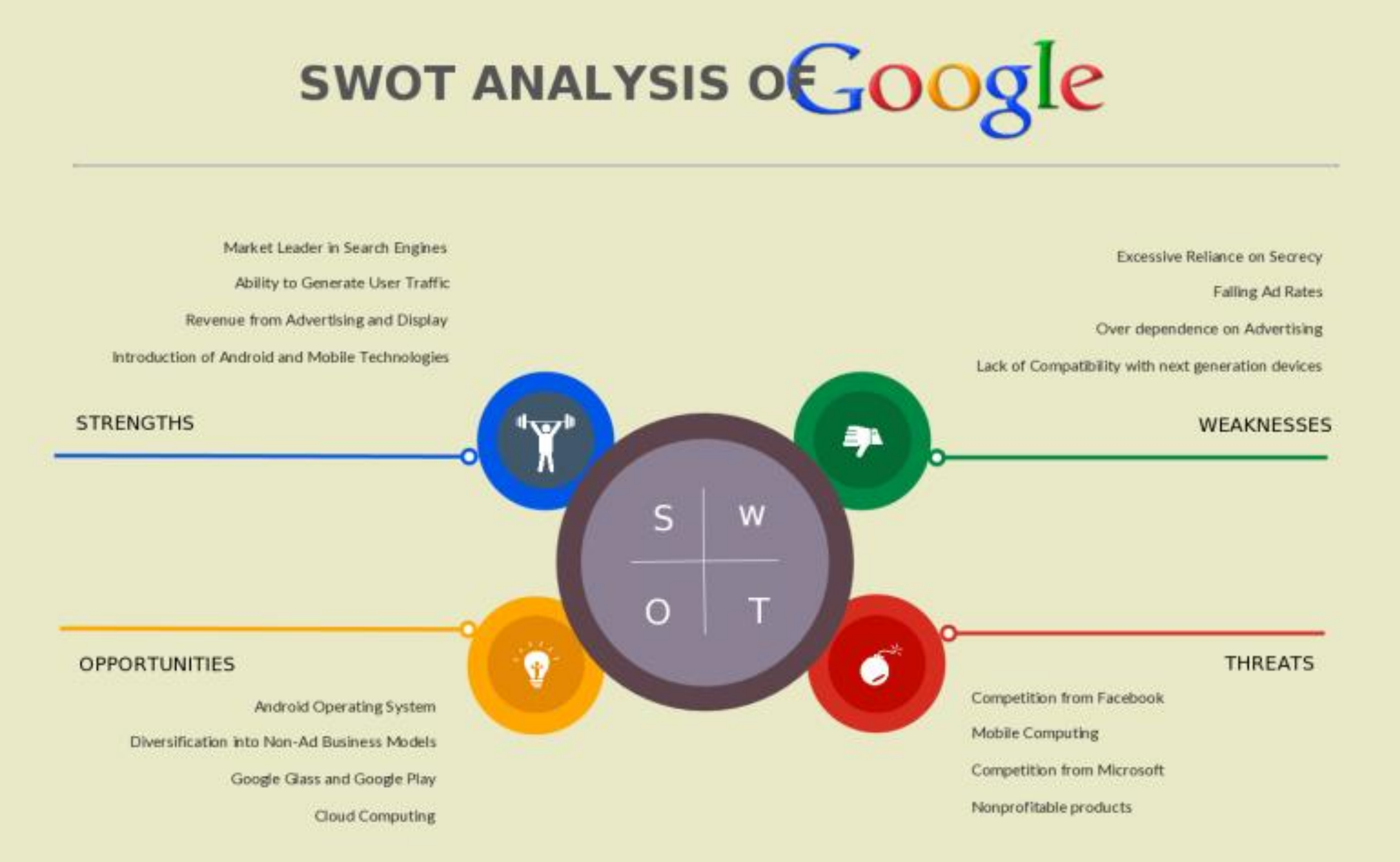
- **External elements in the environment that could cause troubles for the business - External factors, beyond an organization's control, which could place the organization's mission or operation at risk.**

- **They arise when conditions in the external environment jeopardize the reliability and profitability of the organization's business.**

- **Examples - Entry of foreign competitors, Changing customer needs/tastes, Rival firms that adopt new strategies, Increased government regulation, Economic downturn.**

How to conduct SWOT Analysis?




SWOT ANALYSIS OF Google
STRENGTHS
Market Leader in Search Engines
Ability to Generate User Traffic
Revenue from Advertising and Display
Introduction of Android and Mobile Technologies
WEAKNESSES
Excessive Reliance on Secrecy
Falling Ad Rates
Over dependence on Advertising
Lack of Compatibility with next generation devices
S
W
O
T
OPPORTUNITIES
Android Operating System
Diversification into Non-Ad Business Models
Google Glass and Google Play
Cloud Computing
THREATS
Competition from Facebook
Mobile Computing
Competition from Microsoft
Nonprofitable products


SWOT ANALYSIS OF NIKE
S
W
O
T
Nike is the world's no. 1 shoemaker. It designs and sells shoes for a variety of sports including baseball, golf, cheer leading, volleyball, tennis and football. Nike uses a "Make to Stock" customer order which provides a fast service to customers from available stock.
Nike operates Nike Town shoe and sportswear stores, Nike factory outlets and Nike Women shops. Nike sells its products throughout US and in more than 180 countries.
Nike is strong at research and development, as is evidenced by its evolving and innovative product range. They then manufacture wherever they can produce high quality product at the lowest possible price.
Nike is a global brand. It is the number one sports brand in the World. Its famous 'Swoosh' is instantly recognizable, and Phil Knight (Founder and CEO) even has it tattooed on his ankle.
The income of the business is still heavily dependent upon its share of the footwear market. This may leave it vulnerable if for any reason its market share erodes.
The retail sector is very price sensitive. However, most of its income is derived from selling into retailers. Retailers tend to offer a very similar experience to the consumer. So margins tend to get squeezed as retailers try to pass some of the low price competition pressure onto Nike.
The brand is fiercely defended by its owners whom truly believe that Nike is not a fashion brand however consumers that wear Nike product do not always buy it to participate in sport. In youth culture especially, Nike is a fashion brand.
There is also the opportunity to develop products such as sport wear, sunglasses and jewelry. Such high value items do tend to have associated with them, high profit
The business could also be developed internationally, building upon its strong global brand recognition. There are also global marketing events that can be utilized to support the brand such as the World Cup (soccer) and The Olympics.
Nike is exposed to the international nature of trade. It buys and sells in different currencies and so costs and margins are not stable over long periods of time. Such an exposure could mean that Nike may be manufacturing and/or selling at a loss. This is an issue that faces all global brands.
The market for sports shoes and garments is very competitive. Competitors are developing alternative brands to take away Nike's market share.
JUST DO IT.

THE SWOT ANALYSIS OF amazon

S

Being the world's leading online retailer
Three-pronged strategic thrust on cost leadership, differentiation, and focus
Enjoys top of the mind recall from consumers globally and this recognition has helped it enter new markets, which were hitherto out of bounds for many e-commerce companies
Using superior logistics and distribution systems, the company has been able to actualize better customer fulfillmen
t

W

In recent years, Amazon as part of its diversification strategy has been "spreading itself too thin" meaning that it has allowed its focus to waver from its core competence of retailing books online and allowed itself to venture into newer focus areas
As Amazon offers free shipping to its customers, it is in the danger of losing its margins and hence, might not be able to optimize on costs because of this strategy
Considering the fact that Amazon is an online only retailer, the single-minded focus on online retailing might "come in the way" of its expansion plans particularly in emerging market
s

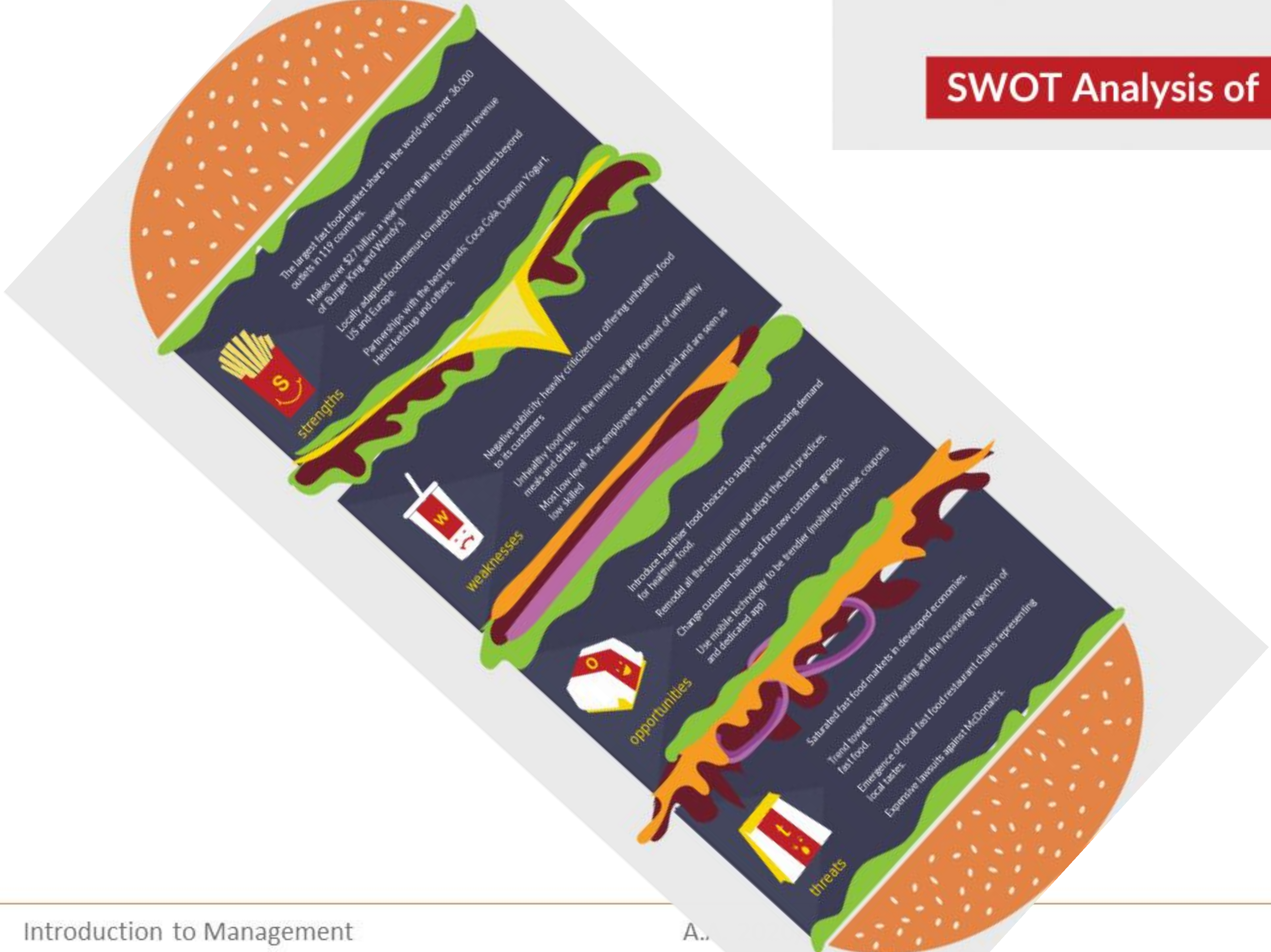
O

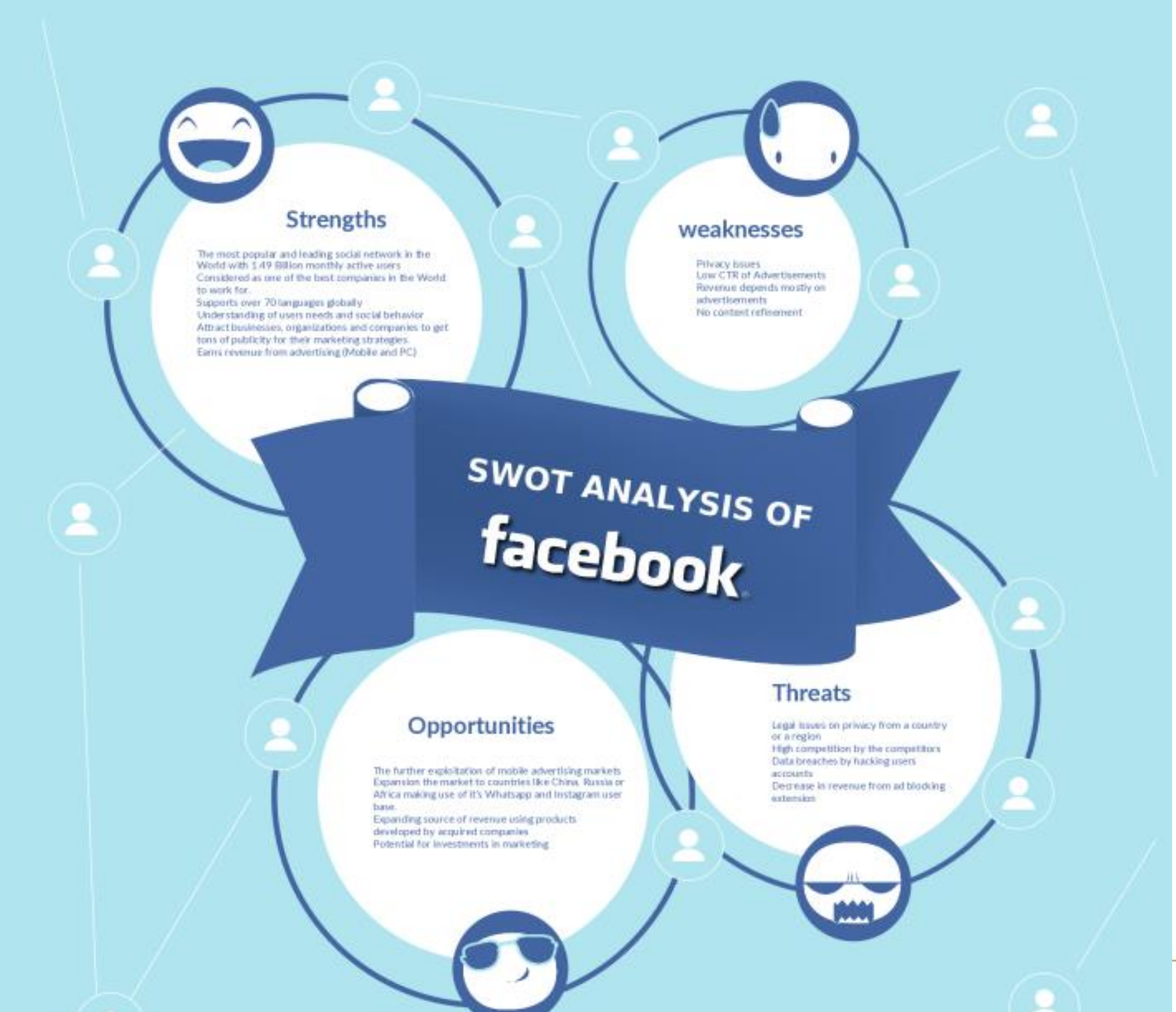
Opportunity to scale up considerably considering the fact that concerns over online shopping as far as security and privacy are concerned are among the topmost issues on the minds of consumers. Further, this would improve the company's margins as it lets it reap the advantages of using its own payment gateway
Amazon can capitalize on, relates to it rolling out more products under its own brand instead of being a forwarding site for third party products. In other words, it can increase the number of products under its own brand instead of merely selling and stocking products made by its partner
s

T

Increasing concern over online shopping because of identity theft and hacking which leaves its consumer data exposed. Therefore, Amazon has to move quickly to allay consumer concerns over its site and ensure that online privacy and security are guaranteed
Because of its aggressive pricing strategies, the company has had to face lawsuits from publishers and rivals in the retailing industry. The obsessive focus on cost leadership that Amazon follows has become a source of trouble for the company because of the competitors being upset with Amazon taking away the business from them

SWOT Analysis of




Strengths
The most popular and leading social network in the World with 1.49 Billion monthly active users
Considered as one of the best companies in the World to work for.
Supports over 70 languages globally
Understanding of users needs and social behavior
Attract businesses, organizations and companies to get tons of publicity for their marketing strategies.
Earns revenue from advertising (Mobile and PC)
weaknesses
Privacy issues
Low CTR of Advertisements
Revenue depends mostly on advertisements
No content refinement
SWOT ANALYSIS OF
facebook
Opportunities
The further exploitation of mobile advertising markets
Expansion the market to countries like China, Russia or Africa making use of it's Whatsapp and Instagram user base.
Expanding source of revenue using products developed by acquired companies
Potential for investments in marketing
Threats
Legal issues on privacy from a country or a region
High competition by the competitors
Data breaches by hacking users accounts
Decrease in revenue from ad blocking extension

STRENGTHS

- Ryanair is the 1st to launch low cost flights in Europe and has continuously maintained the low fare policy.
- They have a strong brand image and strong bargaining power in airport deals.
- New fleets results in maximum aircraft utilization.

WEAKNESSESS

- Earn publicity through negative press reporting which affect brand image.
- Very poor customer relations which is damaging to the success.
- Low level of understanding for employees.
- Misleading advertisements about ticket fares and destinations.

SWOT ANALYSIS

OPPORTUNITIES

- Withdrawal of traditional companies from most of the less traffic intense point to point routes using regional airports.
- Industry growth in European air travel industry
- Being an fine choice of most of the market due to recession

THREATS

- Upper middle class economy travelers may seek greater value proposition than just low fares.
- Increasing Prices of Oil Markets and fluctuating currency issues
- Terrorism
- Impending legislations for environment protection.

RYANAIR
THE LOW FARES AIRLINE

Introduction to Management

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

Competitive Advantage

Competitive Advantage

In business management, a competitive advantage is the attribute that allows an organization to outperform its competitors. A competitive advantage may include access to natural resources, such as a low-cost power source, highly skilled employees, good geographic location, high entry barriers, and access to new technology.

Competitive advantage is the leverage that a business has over its competitors. This can be gained by offering clients a better and greater value. Consumers can be interested in products or services with lower prices or higher quality. Target markets recognize these unique products or services. This is the reason behind brand loyalty, or why customers prefer a particular product or service over another.

Competitive Advantage

These conditions allow the business to generate more sales or superior margins compared to its market rivals. Competitive advantages are attributed to a variety of factors including cost structure, branding, the quality of product offerings, the distribution network, intellectual property and customer service.

Value proposition is important when understanding the competitive advantage. Value proposition refers to a business or marketing statement that summarizes why a consumer should buy a product or use a service. If the value proposition is effective, that is the value proposition offers clients a better and greater value, it can produce a competitive advantage. The value proposition should be realistic otherwise it could create customer expectations that the business is not able to meet thus creating customer dissatisfaction.

Comparative Advantage

The two main types of competitive advantages are comparative advantage and differential advantage.

Comparative advantage is generated by a firm's ability to produce a good or service at a lower cost than its competitors, thus generating greater margins on sales. Rational consumers will choose the cheaper between perfect substitute products. For example, a car owner will buy gasoline from a gas station that is five cents cheaper than others in the proximity. For imperfect substitute products, for example Pepsi versus Coke, the comparative advantage doesn’t increase the sales, but it allows the company to reach higher margins of its competitors and eventually bring superior returns.

Comparative Advantage

Comparative advantage can be derived from economies of scale. Economies of scale refer to reduced costs per unit that arise from increased total output of a product. For example, a larger factory will produce power hand tools at a lower unit price, and a larger medical system will reduce cost per medical procedure. Comparative advantage can be also derived from efficient internal systems and geographic location. Some regions offer lower cost labor or low property expenses. A comparative advantage does not imply a better product or service, only that a product or service of the same value can be offered at a lower price. In the context of international trade economics, comparative advantages are determined by opportunity costs. Amazon.com Inc. is an example of a company focused on building and maintaining a comparative advantage. The ecommerce platform has a level of scale and efficiency that is difficult for retail competitors to replicate. Amazon has risen to prominence largely through price competition.

Differential Advantage

Differential Advantage

A differential advantage is created when a firm's products or services differ from those of competitors and are seen as superior than the competitors' offerings. Differential advantages can be driven by advanced technology, patent-protected products or processes, superior personnel or a strong brand identity. These factors support wide margins and large market shares. Apple Inc. is famous for creating innovative products, such as the iPhone, and supporting their market leadership with marketing campaigns to build an elite brand. Major drug companies can also market branded drugs at high prices because they are protected by patents.

Competitive Strategies

Michael Porter, a business scholar from the 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.

Cost leadership strategy

Cost leadership is the 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 competitors. The company can add value to the customer by transferring the cost benefit to them.

Differential strategy

A differential advantage is when the business' products or services are different to those of its 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 thinking to create innovative ideas. These improvements of the goods or services could include delivering high quality to customers. If customers perceive a product or service as different and better from others, consumers are willing to pay more to receive these benefits.

Focus strategy

Focus strategy ideally tries to get businesses to aim at a smaller 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 customers and on how their products or services could improve their daily lives. By adopting 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", because it is based on the geographic, demographic, behavioral and physical segmentation of customers. By narrowing the market down to smaller segments, businesses are able to meet the needs of consumers. 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.

Competitive Factors

Porter mentions that it is important not to use all 3 generic strategies because there is a high chance that companies will come out achieving no strategies instead of achieving success. This can be called "stuck in the middle", and the business won't be able to have a competitive advantage

When businesses can find the perfect balance between price and quality, it usually leads to a successful product or service. A product or service must offer value through price or quality to ensure the business is successful in the market.

To succeed, it’s not enough to be "just as good as" another business.

Success comes to firms that can deliver a product or service in a manner that is different, meaningful, and based on their customers' needs and desires.

Deciding on the appropriate price and quality depends on the business's brand image and what they hope to achieve in relation to their competition

Internal factors

Positioning is an important marketing concept. The main purpose of positioning is often to create the right perceptions in comparison to competitors. Thus, create competitive advantage. This positioning, or competitive advantage, is based on creating the right "image" or "identity" in the minds of the target group.

This positioning decision exists of selecting the right core competencies to build upon and emphasize.

Therefore, both corporate identity and core competencies are underlying internal factors of competitive advantage.

Corporate Identity

Corporate identity through corporate communication creates corporate image and reputation, with an end result of competitive advantage.

Corporate identity is the reality of an organization. It refers to the distinct characteristics or core competencies of the organization. It is the mental picture of the company held by its audiences. Corporate communication refers to all the official and informal communication sources, through a variety of media, by which the company outsources its identity to its audiences or stakeholders.

Core Competencies

Core competencies are part of the corporate identity.

A core competency is, for example, a specialised knowledge, technique, or skill.

To sustain leadership in a chosen core competency area, companies should seek to maximize their factoring share in the core products. When a company achieves this goal, it is able to shape the evolution of an end market.

The competitive advantage is stronger when it lasts for a long period of time. The companies able to maintain a competitive advantage for many years achieve a sustainable competitive advantage.

Low pricing

Economies of scale and efficient operations can help a company keep competition out by being the low-cost provider. Being the low-cost provider can be a significant barrier to entry. In addition, low pricing done consistently can build brand loyalty (i.e. Wal-Mart).

Market or Pricing Power

A company that has the ability to increase prices without losing market share is said to have pricing power. Companies that have pricing power are usually taking advantage of high barriers to entry or have earned the dominant position in their market.

Powerful Brands

It takes a large investment in time and money to build a brand. It takes very little to destroy it. A good brand is invaluable because it causes customers to prefer the brand over competitors. Being the market leader and having a great corporate reputation can be part of a powerful brand and a competitive advantage.

Strategic assets

Patents, trademarks, copy rights, domain names, and long-term contracts are examples of strategic assets that provide sustainable competitive advantages. Companies with an excellent research and development function may have valuable strategic assets.

Barriers To Entry

Cost advantages of an existing company over a new company is the most common barrier to entry. High investment costs (i.e. new factories) and government regulations are common impediments to companies trying to enter new markets. High barriers to entry sometimes create monopolies or near monopolies (i.e. utility companies).

Adapting Product Line

A product that never changes is ripe for competition. A product line that can evolve allows for improved or complementary follow up products that keeps customers coming back for the "new" and improved versions (i.e. Apple iPhone) and possibly some accessories to go with it.

Product Differentiation

A unique product or service builds customer loyalty and is less likely to lose market share to a competitor than an advantage based on cost. The quality, number of models, flexibility in ordering (i.e. custom orders), and customer service are all aspects that can positively differentiate a product or service.

Strong Balance Sheet / Cash

Companies with low debt and/or lots of cash have the flexibility to make opportune investments and never have a problem with access to working capital, liquidity, or solvency. The balance sheet is the foundation of the company.

Outstanding Management / People

There is always the intangible of outstanding management. This is hard to quantify, but there are winners and losers. Winners seem to make the right decisions at the right time. Winners somehow motivate and get the most out of their employees, particularly when facing challenges. Management that has been successful for a number of years is a competitive advantage.

Resources and Capabilities

According to the resource-based view, in order to develop a competitive advantage the firm must have resources and capabilities that are superior to those of its competitors. Without this superiority, the competitors simply could replicate what the firm is doing, and any advantage quickly would disappear.

Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can easily acquire.

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization, are not easily documented as procedures and, thus, are difficult for competitors to replicate.

The firm's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality, and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

Dynamic capabilities

Dynamic capabilities are defined as the ability of companies to create, adapt or modify their own resources and skills in response to rapidly changing contexts.

There are three macro-categories of dynamic capabilities:

- Sensing - the firm’s capability to identify opportunities and threats in the environment through research activities, tests and experimentation, aimed at understanding the expressed or latent needs of consumers, the responses of suppliers and competitors as well as the structural evolution of markets and the opportunities for innovation and technological development;
- Seizing - the firm’s capability to seize the opportunities identified by adapting the sizing of its offer, its business model, its boundaries, and by critically analyzing the errors made to redefine its decision-making processes;
- Reconfiguration - the firm’s capability to recombine and reconfigure its assets according to the changes in the environment, particularly through the adaptation of the organizational structure, the knowledge management, the collaboration with other companies and the exchange of best practices for innovation.

Introduction to Management

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A.A. 2020/2021

BCG Matrix

Models and strategies

BCG Matrix

BCG Matrix

- In Boston Consulting Group Matrix, Strategic Business Units (SBUs) are evaluated on the basis of 2 elements: (a) The attractiveness of the SBU’s market *(market growth)* and (b) the strength of the SBU’s position in that market *(market share).*

- In BCG approach, the company classifies all its SBUs into 4 types as “star”, “cash cow”, “question mark” and “dog” according to their **market growth** and relative **market share**.

What is an SBU?

- The first step in the portfolio analysis is to identify the **key businesses** making up the company. The company's key businesses (a company division, a product line, or a single product or brand) are called *strategic business units (SBU)*.

- It may be less difficult to define SBUs in multibusiness organizations (such as General Electric, Christian Dior, etc) which are diversified into many different businesses.
- They can be classified by adopting the Abell's model.

How to Identify SBUs?

The following are some characteristics and attributes of a SBU:

- It is the basic competitive unit of a company.
- It has a specific and identifiable group of customers.
- It has specific and identifiable competitors.
- It can be measured as an independent entity in terms of profit and loss.
- Therefore, it may require a separate marketing strategy.

How to Identify SBUs?

- In order to identify the company's SBUs, one of the simplest way is to develop a matrix.
- On the horizontal axis, there will be the customer groups the company currently serves.
- On the vertical axis, there will be the product or product groupings the company currently serves.
- To define the company SBUs, each customer group will be needed to match up with a product.
- When the matrix is finished, there will be some blocks containing "x". X represents where the company has a strategic business unit.

How to Identify SBUs?

	Customer Group 1	Customer Group 2	Customer Group 3
Product(s) 1	X	X	
Product(s) 2		X	X
Product(s) 3		X	X

Growth and Market-Share Dimension

- The BCG growth-share matrix, being both simple and easily quantifiable, suggests that an analysis of the market can best be summarized by knowing its growth rate, and that the best indicator of a business unit's strength in a market is its relative market share.
- The growth dimension is usually set at a 10-percent annual growth rate. Thus, markets growing more than 10 percent in one year are considered as high-growth markets.
- The market-share dimension is measured as the total sales of the company's divided for the total sales of the market or of the leader in the market.

BCG Growth-Share Matrix

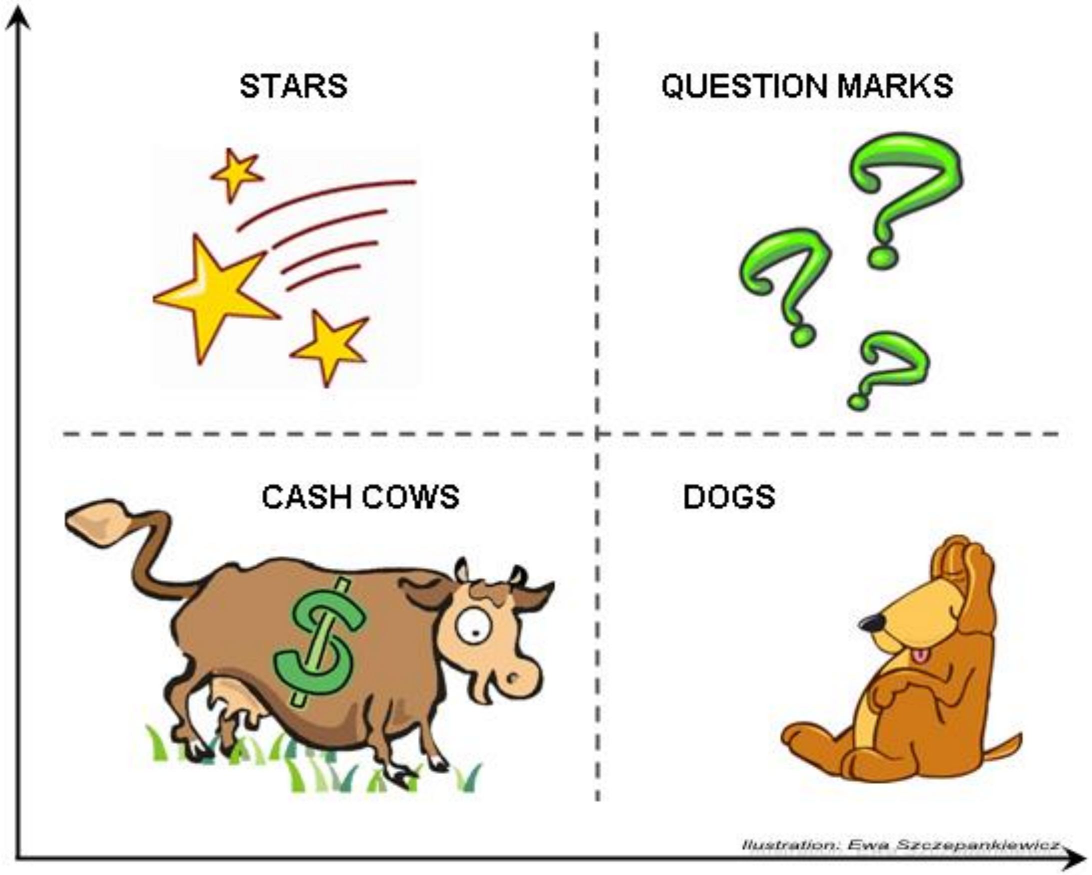
Market

Growth

Rate

high

low



high **low**

Market Share

BCG Growth-Share Matrix

RELATIVE MARKET SHARE

Cash Generation

MARKET GROWTH RATE

Cash Usage

	HIGH	LOW
HIGH	**STARS** Earnings: *low, stable, growing* Cash flow: *neutral* Strategy: *invest for growth*	**QUESTION MARKS** Earnings: *low, unstable, growing* Cash flow: *negative* Strategy: *invest ,if has potential, otherwise sell*
LOW	**CASH COWS** Earnings: *high & stable* Cash flow: *high & stable* Strategy: *invest to maintain current level or harvest*	**DOGS** Earnings: *low, unstable* Cash flow: *neutral or negative* Strategy: *divest*

BCG Growth-Share Matrix

- **Stars**; are high-growth, high-share businesses or products. They often need heavy investment to finance their rapid growth. Therefore, they may not produce a positive cash flow. The business strategy is generally to support their growth by acquiring external capital. If they are not able to grow they will turn into cash cows.

- **Cash cows**; are low-growth, high-share businesses or products. These established and successful SBUs need less investment to keep their market share. They produce a lot of cash to be used for other business units of the company. They are either milked for investment in stars or question marks or harvested if there is little optimism for a stable future.

BCG Growth-Share Matrix

- **Question marks**; sometimes called problem children, are low-share business units in high-growth markets. They need a lot of cash to keep and increase their share; they can not generate enough cash themselves. Management must decide which question marks should be moved into stars and which should phase out.

- **Dogs**; are low-growth, low-share businesses and products. They often have poor profitability. Therefore, the business strategy for a dog is often to divest, but occasionally it could be considered a possible strategic repositioning as a question mark or cash cow.

Strategy Implications

- Once the company classifies its SBUs, it must determine what to do with them.

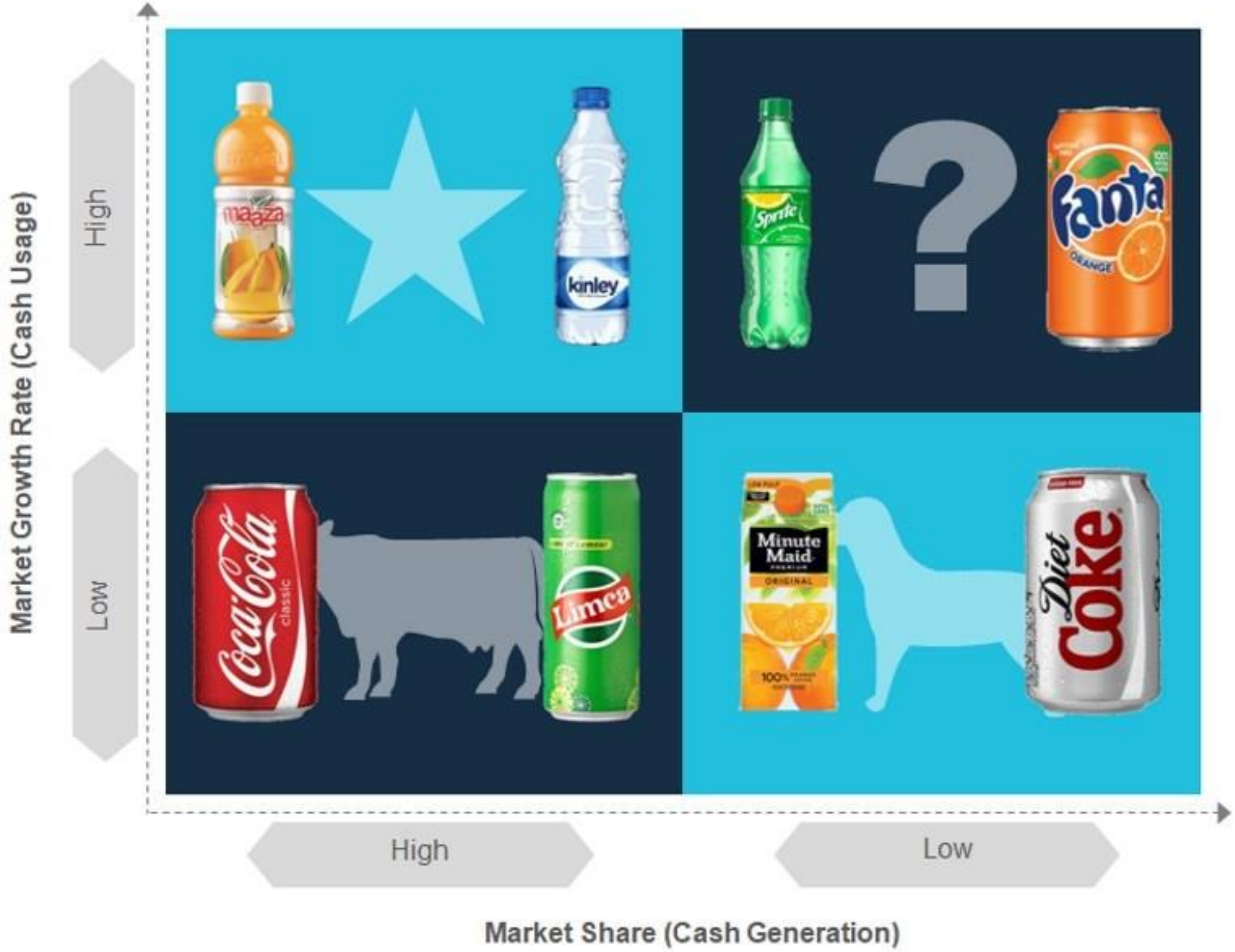
- Imagine yourself in a poker game. The other players at the table are your competitors. The cards in your hand represent your business. Each card represents a single strategic business unit. To win the game, you need to decide how strong your hand is and what you must do with each card in order to give you the highest probability of holding a winning hand.

Strategy Implications

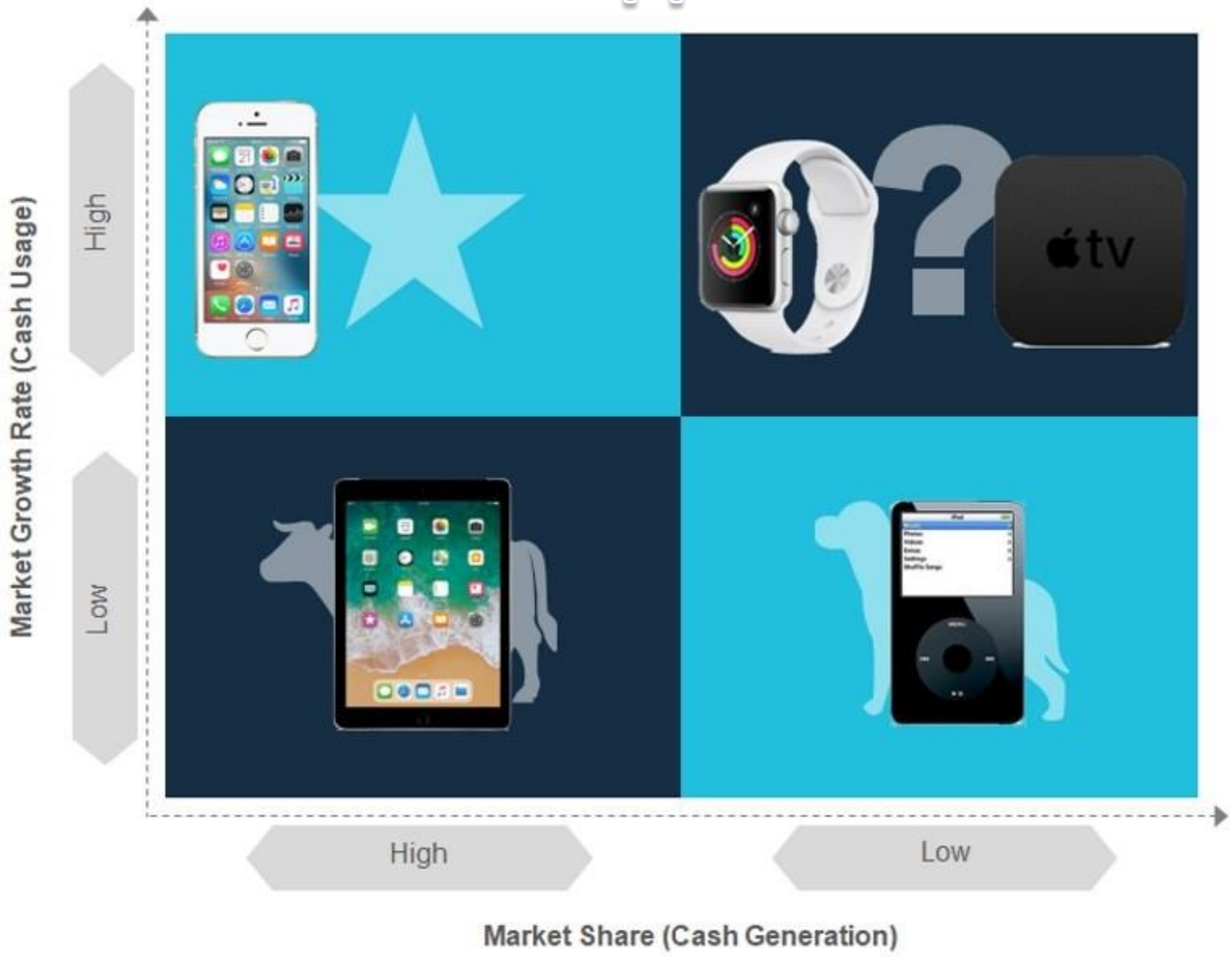
There are four strategies. The company can follow:

- invest more in the business unit in order to *build* (increase) its share.
- invest just enough to *hold* (keep) the SBU's share at the current level.
- it can *harvest* the SBU, milking its short-term cash flow regardless of the long-term effect .
- *divest* (kill) the SBU by selling it or phasing it out and using the resources elsewhere.

Coca Cola

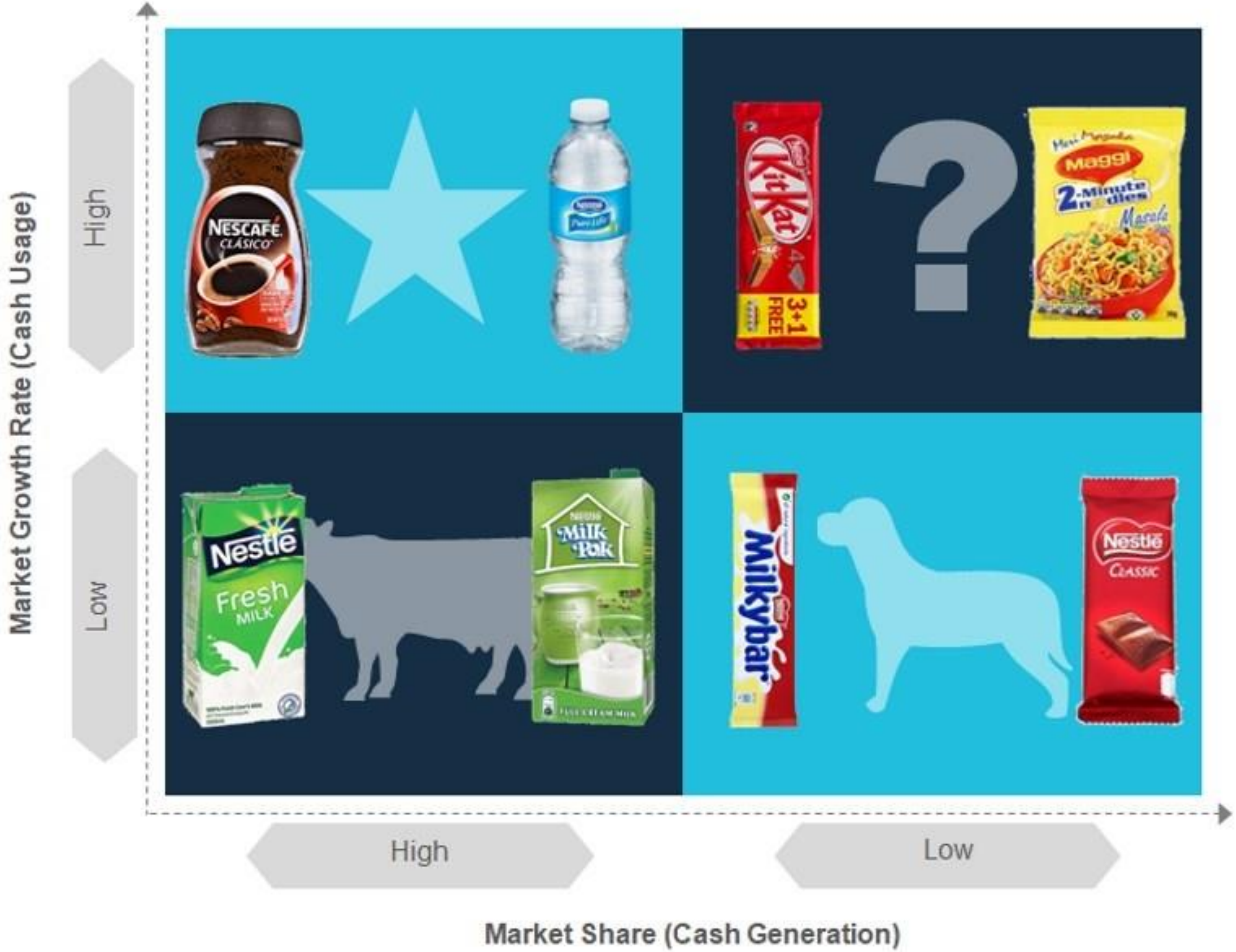

Market Growth Rate (Cash Usage)
High
Low
High
Low
Market Share (Cash Generation)

Apple



Market Growth Rate (Cash Usage)
High
Low
tv
High
Low
Market Share (Cash Generation)

Nestlè


Market Growth Rate (Cash Usage)
High
Low
High
Low
Market Share (Cash Generation)
NESCAFÉ
CLÁSICO
KitKat
Maggi
2-Minute Noodles
Masala
Nestlé
Fresh
MILK
Milk Pak
Milkybar
Nestlé
CLASSIC

Limitations of the BCG Matrix

- It focuses only on two dimensions - growth and market share. Although their importance, they are not sufficient to evaluate the company position in the market. E.g. a restaurant could have a low market share with minimal industry growth but be producing an excellent profit.

- It assumes that high-growth markets are attractive markets, therefore strategies are developed accordingly.

- The analysis is highly sensitive to the definition of the product market. E.g. laptop computers or all personal computers?

- It focuses on cash flow. However, ROI, sales growth, risk etc are also important.

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A.A. 2020/2021

Ansoff Matrix

Models and strategies

Ansoff Matrix

The Ansoff Matrix

Ansoff describes four growth alternatives for companies that want to grow in existing or new markets, with existing or new products. Each alternative presents different levels of risk for an organization

The Ansoff Matrix is a strategic planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth.

Market penetration

In market penetration strategy, the organization tries to grow using its existing offerings (products and services) in existing markets. In other words, it tries to increase its market share in current market scenario. This involves increasing market share within existing market segments. This can be achieved by selling more products or services to established customers or by finding new customers within existing markets. Here, the company seeks increased sales for its present products in its present markets through more aggressive promotion and distribution. This can be accomplished by:

Price decrease

Increase in promotion and distribution support

Acquisition of a rival in the same market

Modest product refinements

This is the least risky growth option.

Market development

In market development strategy, a firm tries to expand into new markets (geographies, countries etc.) using its existing offerings and also, with minimal product/services adaption.

This can be accomplished by:

Different customer segments

Industrial buyers for a good that was previously sold only to the households;

New areas or regions of the country

Foreign markets.

This strategy is more likely to be successful where:

The firm has a unique product technology it can leverage in the new market

It benefits from economies of scale if it increases output

The new market is not too different from the one it has experience of

The buyers in the market are intrinsically profitable.

This strategy increases uncertainty and the risk.

Product development

In product development strategy, a company tries to create new products and services targeted at its existing markets to achieve growth. This involves extending the product range available to the firm's existing markets. These products may be obtained by:

Investments in research and development;

Acquisition of rights to produce someone else's product;

Buying products by other producers to sell them with the own brand;

Creating partnerships with other companies which need access to the firm's distribution channels or brands.

This is riskier than Market penetration and has a similar risk of Market development strategy.

Diversification

In diversification an organization tries to grow its market share by introducing new offerings in new markets. It is the most risky strategy because both product and market development is required.

Related Diversification— there is relationship and, therefore, potential synergy, between the firms in existing business and the new product/market space. Concentric diversification, and Vertical integration.

Unrelated Diversification: This is otherwise termed conglomerate growth because the resulting corporation is a conglomerate, i.e. a collection of businesses without any relationship to one another. A strategy for company growth by starting up or acquiring businesses outside the company’s current products and markets.

Diversification consists of changing both markets and products so it is the riskiest growth option.

Uses

The Ansoff Matrix is a useful tool for organizations wanting to identify and explore their growth options. Although the risk varies between quadrants, with Diversification being the riskiest, it can be argued that if an organization diversifies its offering successfully into multiple unrelated markets, its overall risk portfolio is lowered.

Criticisms

Isolation challenges

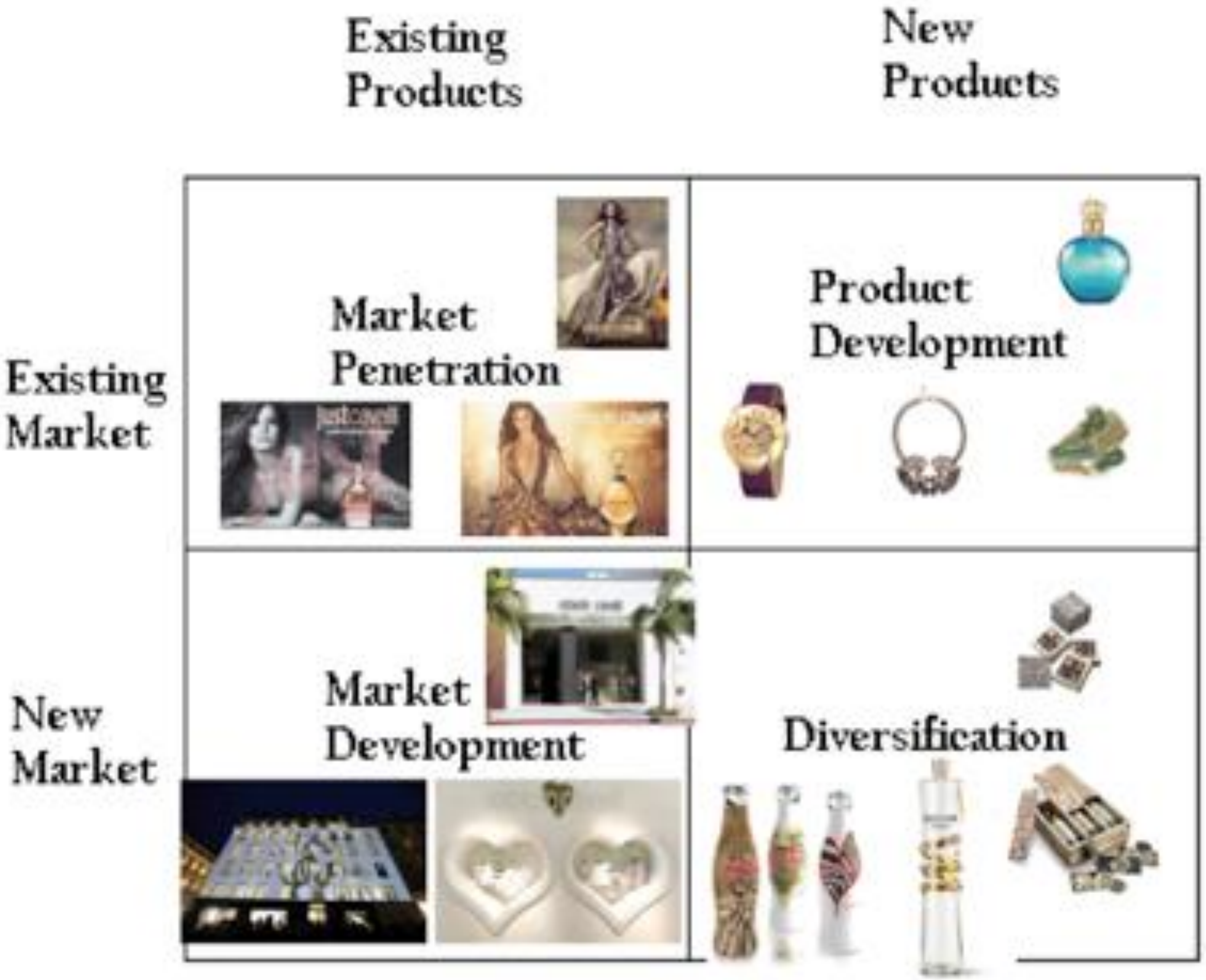
Used by itself, the Ansoff matrix could be misleading. It does not take into account the activities of competitors and the ability of competitors to moves into other industries. It also fails to consider the challenges and risks of changes to business-as-usual activities. An organization hoping to move into new markets or create new products (or both) must consider whether it possesses transferable skills, flexible structures, and agreeable stakeholders.

Logical consistency challenges

The logic of the Ansoff matrix has been questioned. The logical issues pertain to interpretations about newness. If a new product really is new to the firm, in many cases a new product will simultaneously take the firm into a new, unfamiliar market. In that case, one of the Ansoff quadrants, diversification, is redundant. Alternatively, if a new product does not necessarily take the firm into a new market, then the combination of new products into new markets does not always equate to diversification, in the sense of venturing into a completely unknown business.

Ansoff Matrix McDonald’s

Ansoff Matrix Just Cavalli



Ansoff Matrix Coca Cola

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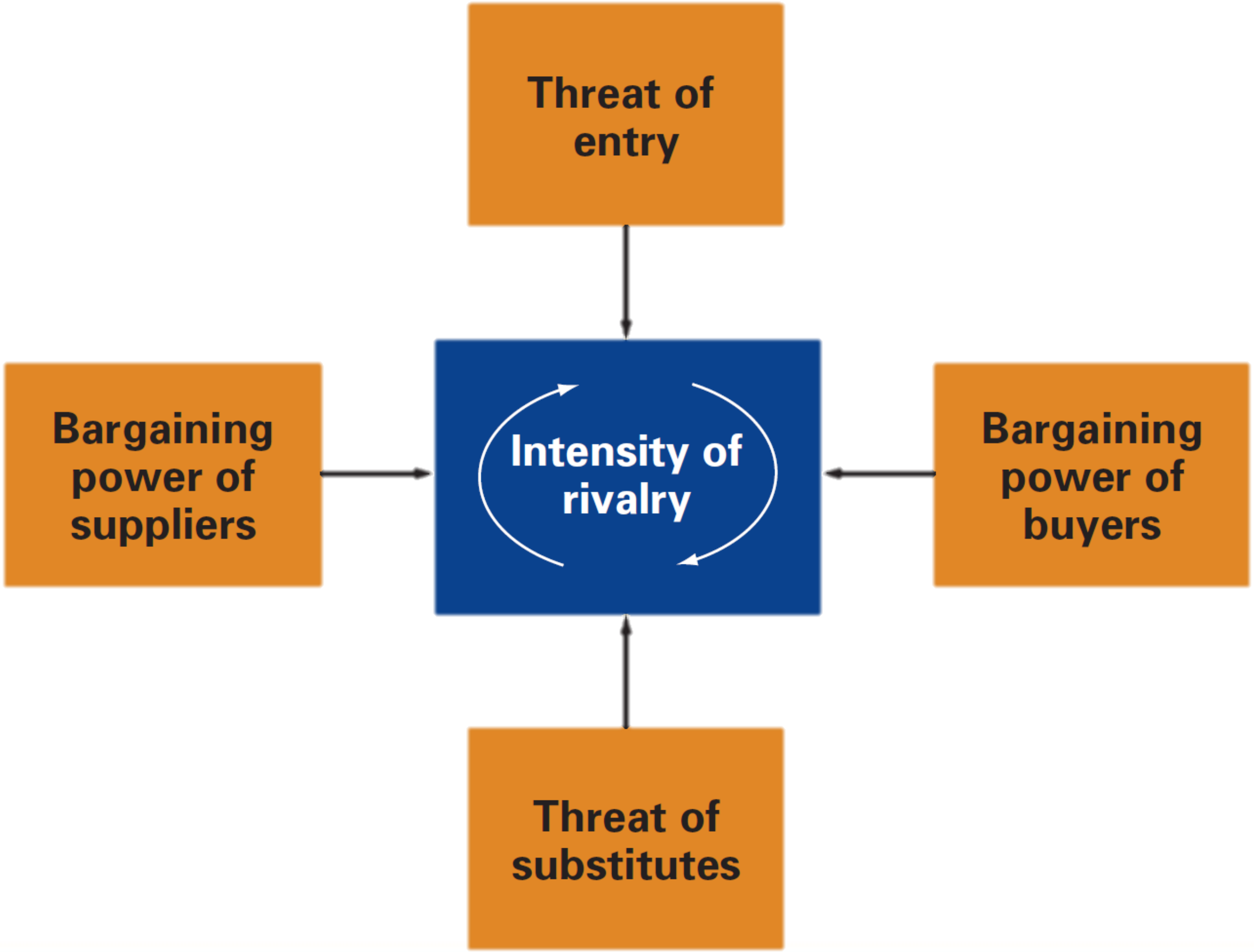
Porter’s five forces model

Porter’s Competitive Forces Model

- the most popular frameworks for analyzing the task or industry environment is a model developed by Professor Michael Porter (1980);
- the ability of an organization to make a profit is influenced by **five competitive forces**: the *threat of entry by potential competitors, the power of buyers, the power of suppliers, the threat of substitute products, and the intensity of rivalry between firms already in the industry*
- A strong force thus constitutes a threat, whereas a weak force often gives managers the opportunity to increase sales, raise prices, and make higher profits.
- Despite the fact that the ‘‘five forces’’ framework focuses on business concerns rather than public policy, it also emphasizes extended competition for value rather than just competition among existing rivals, and the simpleness of its application inspired numerous companies as well as business schools to adopt its use (Wheelen and Hunger, 1998).

Porter's five forces model



The intensity of rivalry

Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry.

The intensity of rivalry is greatest if:

1. **Competitors are numerous or are roughly equal in size and power.** Without an industry leader, practices desirable for the industry as a whole go unenforced.
2. ***Industry growth is slow.*** Slow growth precipitates fights for market share.
3. **Exit barriers are high.** Exit barriers, the flip side of entry barriers, arise because of such things as highly specialized assets or management's devotion to a particular business.
4. **Rivals are highly committed to the business and have aspirations for leadership.** Clashes of personality and ego have sometimes exaggerated rivalry to the detriment of profitability in fields such as the media and high technology.
5. **Firms cannot read each other's signals** well because of lack of familiarity with one another, diverse approaches to competing, or differing goals.

Factors that affect the intensity of rivalry

1. The nature of the product – a commodity product;
2. Demand and supply conditions;
3. Barriers to exit:
   a) the fixed costs of closing down capacity, such as the financial charges that must be taken to shut down a plant and lay off employees;
   b) an unwillingness to reduce capacity due to a belief, which may be misplaced, that demand will soon rebound and,
   c) government regulations,
4. Cost structure of firms;
5. The competitive structure of industry.
6. Complementary products and services.

The dimensionality of rivalry

- whether rivals converge to compete on the same dimensions, have a major influence on profitability.
- Rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers.
- **Price competition** is most liable to occur if:

1. Products or services of rivals are nearly identical and there are few switching costs for buyers.
2. Fixed costs are high and marginal costs are low.
3. Capacity must be expanded in large increments to be efficient.
4. The product is perishable. Perishability creates a strong temptation to cut prices and sell a product while it still has value.

- **Competition on dimensions other than price—on product features, support services, delivery time, or brand image, for instance—is less likely to erode profitability because it improves customer value and can support higher prices.**

threat of entry

- Managers often strive to reduce the threat of entry by pursuing strategies that raise barriers to entry.

Barriers to entry are the factors that make it costly for potential competitors to enter an industry and compete with firms already in the industry:

1. <u>Economy of scale</u> - cost reduction linked to the large output (Walmart & Lidl);
2. <u>Brand loyalty</u> - preference of consumers for the products of established companies (e.g. Coca-Cola & Pepsi, FedEx & UPS);
3. <u>Demand-side benefits of scale-</u>network effects where a buyer's willingness to pay for a company's product increases with the number of other buyers who also patronize the company;
4. <u>Capital requirments;</u>
5. <u>Unequal access to distribution channels;</u>
6. <u>Restrictive government policy.</u>

Bargaining power of buyers

- Ability of buyers **to bargain down prices** charged by firms in the industry or to raise the costs of firms in the industry by demanding better product quality and service;
- Powerful buyers should be viewed as a threat;
- Buyers are most powerful when one or more of the following conditions holds:

1. they are few that can purchase large quantities,
2. they can choose between equivalent products from many different firms, and
3. they can switch easily between the offerings of different firms (their switching costs are low),

(e.g. Walmart can demand to Procter & Gamble to lower prices in return for access to shelf space in store).

Bargaining power of buyers

Buyers are in a weak position when:

1. they are plentiful and purchase in small quantities,
2. they have little choice, and
3. they cannot switch easily between the offerings of different firms.

   (e.g. Microsoft's Windows and Apple operating system)

- **Switching costs** arise when it costs a buyer time, energy, and money to switch from a product offered by one enterprise to that offered by another;
- Managers often try to gain bargaining power over buyers by trying to increase the switching costs they must bear to adopt a rival product.

Bargaining power of suppliers

- Ability of suppliers to bargain up prices charged by firms in the industry or to raise the costs of firms in the industry by supplying lower-quality products and service.
- The analysis of supplier power typically focuses first on **the relative size and concentration of suppliers relative to industry participants** and
- second on **the degree of differentiation in the inputs supplied.** The ability to charge customers different prices in line with differences in the value created for each of those buyers usually indicates that the market is characterized by high supplier power and at the same time by low buyer power (Porter, 1989, 1996);
- <u>Threat</u>- where there is <u>only a single supplier</u> of an important input, that supplier has substantial bargaining power over the firm and can use this power to raise input prices and increase costs;
- <u>Opportunity</u>- when **buyers have bargaining power over them** and can reduce the prices they pay for inputs.

Bargaining power of suppliers

The bargaining power of an enterprise over its suppliers is greater if one or more of the following conditions holds:

1. the firm purchases in large quantities,
2. it can choose between multiple suppliers,
3. the costs of switching between suppliers is low, and
4. the firm is not dependent on any single supplier for important inputs.

The threat of substitutes

- **Substitute products** : the goods or services of different businesses or industries that can satisfy similar customer needs (e.g. coffe, tea, cola)
- If an industry's products have few close substitutes, so that substitutes are a weak competitive force, then other things being equal, firms in the industry have <u>the opportunity to raise prices</u> and earn additional profits (e.g. Intel & AMD)
- The <u>threat of substitution</u> is also affected by switching costs – that is, the costs in areas such as retraining, retooling and redesigning that are incurred when a customer switches to a different type of product or service. The substitution process follows an S-shape curve. It starts slowly as a few trendsetters risk experimenting with the substitute, picks up steam if other customers follow suit, and finally levels off when nearly all the economical substitution possibilities have been exhausted.

Demand (supply) ~ Barriers to exit (entry)

	High barriers to entry	Low barriers to entry
Excess demand	Excess demand will persist Significant opportunity	Excess demand will not persist Transitory opportunity
	High barriers to exit	**Low barriers to exit**
Excess supply (capacity)	Excess capacity will persist Significant threat	Excess capacity will not persist Transitory threat

Fixed costs and competitive structure

- Fixed costs that require significant capital investments
- Fixed costs are high and marginal costs are low =>*This creates intense pressure for competitors to cut prices below their average costs, even close to their marginal costs, to steal market share while still making some contribution to covering fixed costs (Porter, 2008).*
- High fixed costs should be viewed as a threat, particularly when combined with weak demand conditions or excess capacity.
- One strategy involves trying to push off high fixed costs onto another organization-outsourcing.

Fixed costs and competitive structure

The **competitive structure** of an industry is the number and size distribution of required firms-relatively stable.

Relatively stable

Fragmented industry consists of many small or medium-sized companies, none of which is in a position to determine industry price.

Low entry barriers and commodity products

A **consolidated industry** is dominated by a few large companies (an oligopoly) or in extreme cases by just one company (a monopoly); here companies often are in a position to determine industry prices.

Firms are interdependent, actions of one firm affect directly its rivals

Complementary products and services

- **Complementors** are firms that provide goods or services that are *complementary* to the product produced by enterprises in the industry.

- Complements arise when the customer benefit of two products combined is greater than the sum of each product's value in isolation (e.g. hardware and software)

"Awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack." (Porter, 2008)

Porter's five forces model-synthesis

RIVALRY AMONG EXISTING COMPETITORS:
- Number of competitors
- Diversity of competitors
- Industry concentration
- Industry growth
- Quality differences
- Brand loyalty
- Barriers to exit
- Switching costs

THREAT OF NEW ENTRANTS

THREAT OF NEW ENTRANTS:
- Barriers to entry
- Economies of scale
- Brand loyalty
- Capital requirements
- Cumulative experience
- Government policies
- Access to distribution channels
- Switching costs

BARGAINING POWER OF SUPPLIERS

BARGAINING POWER OF BUYERS

BARGAINING POWER OF SUPPLIERS:
- Number and size of suppliers
- Uniqueness of each supplier's product
- Focal company's ability to substitute

BARGAINING POWER OF BUYERS:
- Number of customers
- Size of each customer order
- Differences between competitors
- Price sensitivity
- Buyer's ability to substitute
- Buyer's information availability
- Switching costs

THREAT OF SUBSTITUTE PRODUCTS:
- Number of substitute products available
- Buyer propensity to substitute
- Relative price performance of substitute
- Perceived level of product differentiation
- Switching costs

THREAT OF SUBSTITUTE PRODUCTS

Threat of new entrants	Bargaining power of suppliers	Bargaining power of buyers	Threat of substitute products or services	Rivalry among existing competitors
- Barriers to entry - Economies of scale - Brand loyalty - Capital requirements - Cumulative experience - Government policies - Access to distribution channels - Switching costs	- Number of suppliers - Size of suppliers - Uniqueness of each supplier's product or service - Focal company's ability to substitute - Switching costs	- Number of customers - Size of each customer order - Differences between competitors - Price sensitivity - Buyer's ability to substitute - Buyer's information availability - Switching costs	- Number of substitute products available - Buyer propensity to substitute - Relative price performance of substitute - Perceived level of product differentiation - Switching costs	- Number of competitors - Diversity of competitors - Industry concentration - Industry growth - Quality differences - Brand loyalty - Barriers to exit - Switching costs

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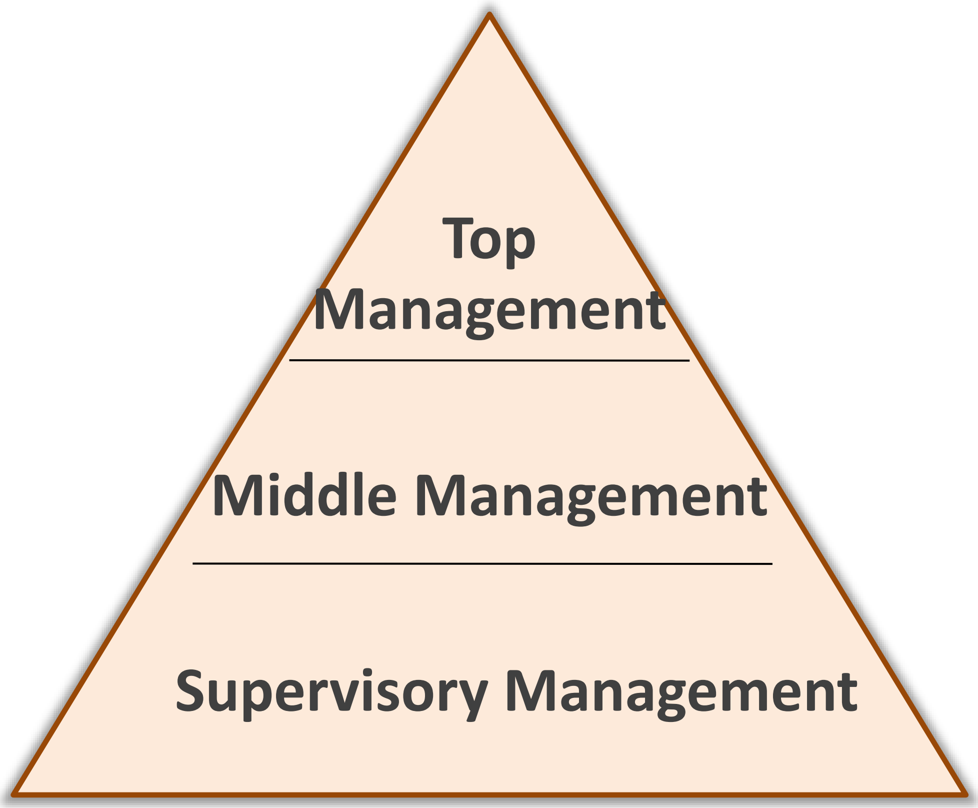
Strategic Management

Levels of Management



Top Management

- Establishes the goal/objectives of the business
- Sets the direction the company will follow
- Not involved in the day-to-day problems
- Chairperson of the company’s board of directors, CEO, COO, senior vice presidents

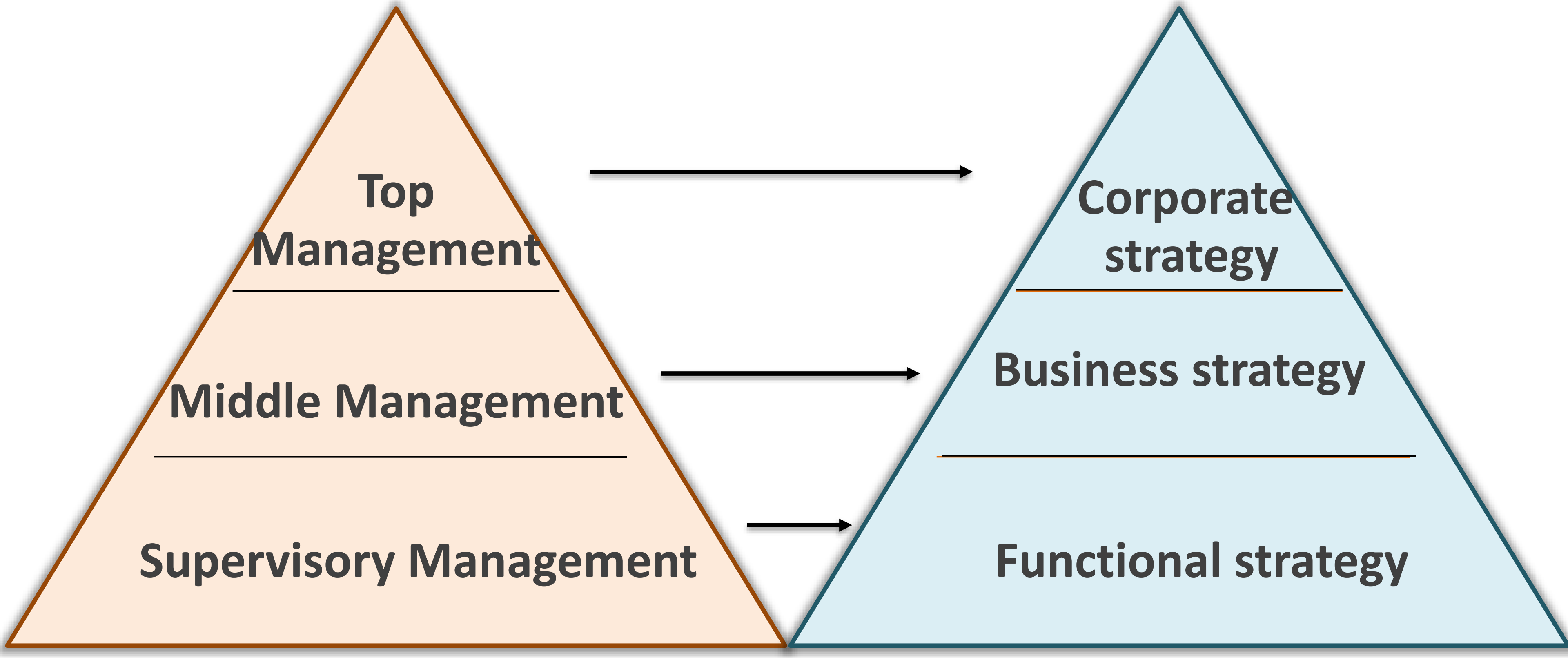
Middle Management

- Responsible for meeting the goals that top management sets
- Sets goals for specific areas of the business
- Decides how to use the company’s resources
- Decides which employees in each area must do to meet goals
- Department heads, district sales managers

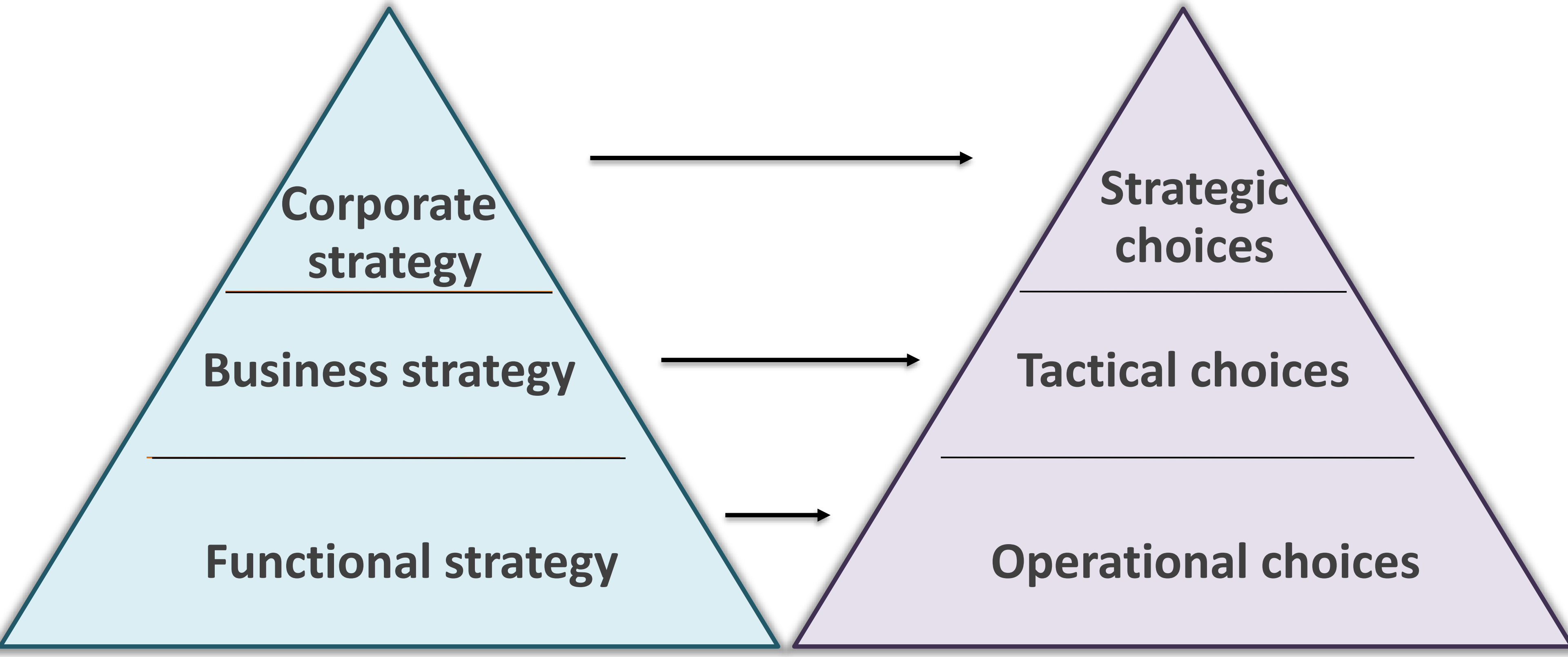
Supervisory Management

- Make sure the day-to-day operations of the business run smoothly
- Responsible for the people who physically produce the company's products or services
- Forepersons, crew leaders, store managers

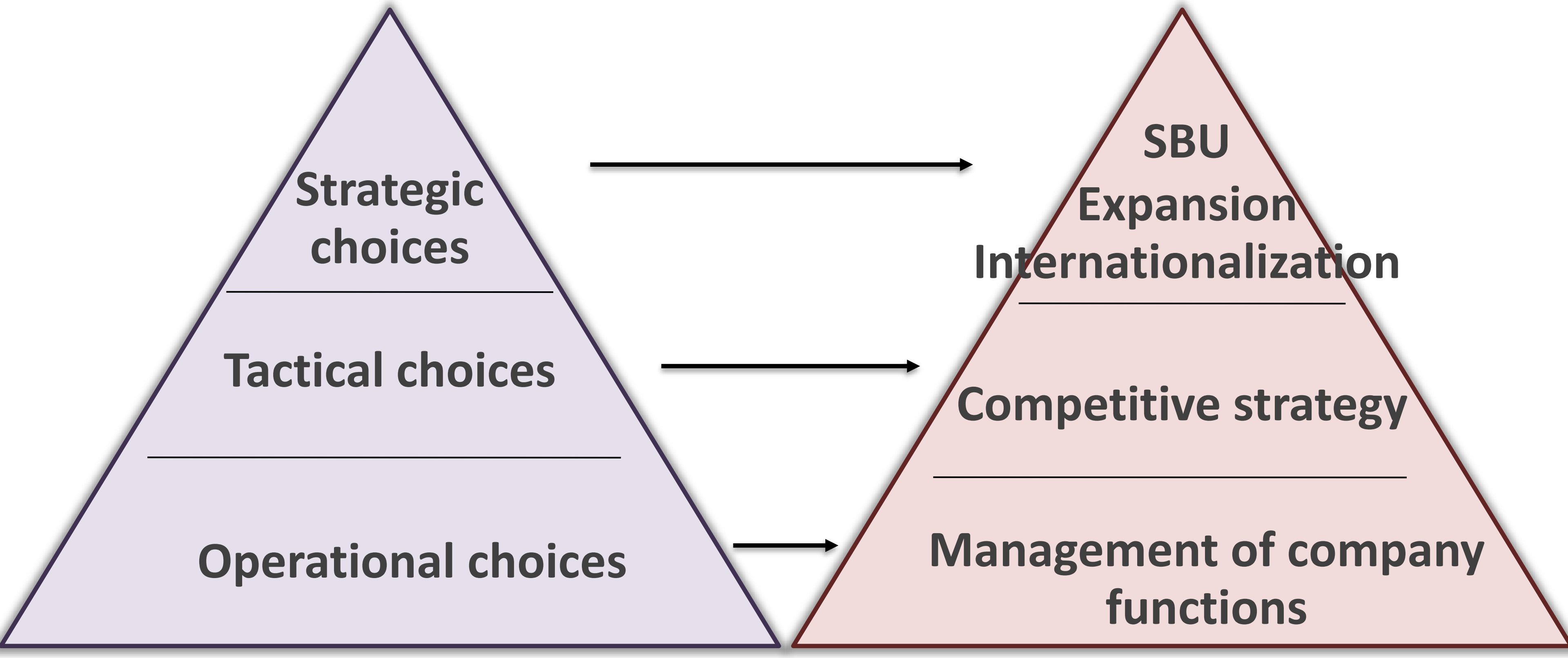
Levels of Business strategy



Levels of business choices



Examples of business choices



Strategic attitude of Top Management

Waiting attitude: It consists in waiting for evolutionary phenomena to occur in the environment to promote, afterwards, the appropriate adaptations to management.

Anticipatory attitude: It consists in a constant effort to forecast environmental changes, in order to be able to implement, in an early and timely manner, the necessary changes in management behaviours.

Proactive attitude: it consists in the promotion of actions aimed at influencing the environment in the direction most favorable to the prospects for company development.

Types of Corporate Strategy

The corporate strategy of a company depends on its situation.

If the company is in good shape it will be able to aim for growth

If the company is in crisis, it will be concerned above all to survive.

If the company is in a stable position, that is neither in crisis nor in surplus, it needs to keep the positions occupied.

The result is three types of corporate strategy:

1. dimensional growth;
2. recovery;
3. reinforcement.

Dimensional development

The dimensional growth consists in increasing the size of the firm. The size of a firm is determined by its turnover and its number of employees. According to the European direction we can distinguish between micro, small, medium and large enterprises.

	Employees	Turnover
Micro enterprises	<10	<3 Million
Small enterprises	10-49	3-10 Million
Medium enterprises	50-249	11-50 Million
Large enterprises	>250	>51 Million

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Corporate strategy

Dimensional growth advantages

It allows to increase the gap between costs and revenues, and therefore profit, by acting on both variables. It allows you to reduce costs for example through economies of scale, and to increase revenues by expanding sales.

This strategy allows the company to be more competitive and have greater bargaining power towards suppliers, distributors and public institutions. A company that has many employees, for example, has power over the government; if it is in difficulty or in crisis, the government usually helps it in order to not lose the many job positions and increase unemployment.

Dimensional growth Advantages

Larger companies can exploit what are called the learning curve and the experience curve, i.e. the more the production volume increases, the more the production efficiency level increases and, therefore, the cost for unit of product decreases (this is the learning curve). When the advantage of the learning curve is added to that of economies of scale, and the positive effects extend not only to production but also to other business functions (marketing, administration, etc.), we can talk about an experience curve.

The growth in size contributes to the entrepreneur's social success, increasing his/her prestige and power as a growing company is linked to good entrepreneurial skills. In other words, the entrepreneur able to grow his/her own company is considered a good entrepreneur by the public opinion.

Dimensional growth
Optimal size

In the life of companies the expansion process is always gradual, no business born large. The birth of a business generally takes place on a dimensional basis that allows groped start-up in the market and, subsequently, to pursue the aim of enlargement towards the optimal size.

The optimal size is defined by the assessment of the advantages and disadvantages associated with the expansion for which an attempt is made to find a balance. The advantages relate above all to the structure of costs and revenues. Increased sales volumes increase revenues while eventual economies of scale, learning curve and experience reduce costs.

Dimensional growth
Disadvantages

The disadvantages derive above all from the greater rigidity that the larger firms have, for which they can adapt more difficultly to the changes in the external environment; from the difficulties in maintaining the necessary degree of control on the management; from the greater visibility of the enterprise in the market that could recall attacks by competitors and possible diseconomies of scale, that is the increase in costs per unit of production when production volumes increase.

Economies and diseconomies of scale

The company's growth can involve economies of scale or diseconomies of scale. It depends on the cost structure. The increase in the volume of production determines economies of scale when for the production of a good the fixed costs are greater than the variable ones, on the contrary, when for the production of a good, for example services, most of the costs are variable, increasing the production volume could increase the unit cost of the product creating diseconomies of scale.

Factors for dimensional expansion

Internal factors:

- excess of production and distribution capacity that can lead the company to better exploit the available resources by seeking new market opportunities, expanding the range of products, etc.
- excess of managerial capacity, that is, a management capable of handling new activities.

External factors:

- rapid market growth,
- increased demand for goods,
- the liberalization of international trade,
- the failure of a competitor,
- the emergence of new markets in other countries, etc.

Alternatives of dimensional growth

Dimensional growth can take place in various ways. The main alternatives are a concentration of activities or the diversification of the activities managed.

In the first case, it is an expansion in existing business that aims to make the most of the resources, skills and experience already possessed by the company (vertical integration).

In the second case, diversification into new businesses aims at enhancing the interrelationships between old and new business units (related diversification) or aims to reduce risk by entering completely new business units that are not related to the existing ones (conglomerate diversification).

Expansion in existing businesses

It can be achieved through:

- changes in the size of the product-market or through geographical expansion, that is maintaining the same products in the existing markets for example by increasing the number of countries or by acquiring new clients in the same market.

- vertical integration that is, expansion in the production chain. Vertical integration can be Backward when the company acquires the phases before production (i.e. supply) or forward when the company integrates the phases after production (i.e. distribution).

Diversification into new business

It can be achieved through the related diversification or conglomerate (not related) diversification. We can distinguish among them because in the first case the company, in order to enter new business, can use the same product and process technology, supply, raw materials, components, distribution, marketing, services…In the second case no, all is different.

Dimensional growth strategies for sectors

One-sector development, that is realized through the strategies of horizontal integration and vertical integration.

Multiple-sector development that is realized through the strategies of diversification (related and conglomerate).

Horizontal vs. Vertical Integration: An Overview

Horizontal and vertical integrations are strategies used by businesses in the same industry or production process. In the horizontal integration, a company takes over another that operates at the same level of the value chain in an industry (competitor). A vertical integration, on the other hand, involves the acquisition of business operations within the same production vertical (supplier or distributor).

Horizontal Integration

When a company wishes to grow through horizontal integration, its aim is to acquire a similar company in the same industry.

Companies may choose to undergo horizontal integration in order to increase their size, diversify product or service offerings, achieve economies of scale, or reduce competition. They may also wish to gain access to new customers or markets, including overseas. For example, a department store may choose to merge with a similar one in another country to start operations overseas.

The result of horizontal integration, when successful, is the ability to produce more revenues. In addition to this, a newly merged company can cut down on costs by sharing technology, marketing, research and development (R&D), production, and distribution.

Some examples of horizontal integration

AstraZeneca's 2015 acquisition of ZS Pharma

Facebook's 2012 acquisition of Instagram

Disney's 2006 acquisition of Pixar

Problems of horizontal integration

Even though a horizontal integration may make sense from a business standpoint, there are downsides to horizontal integration for the market, especially when they succeed. By merging two companies that operate in the same supply chain together, it can cut down on competition, thereby reducing the choices available to consumers. This may lead to a monopoly, where one company plays a dominant force, controlling the availability, prices, and supply of products and services.

In order to prevent monopolies, horizontal integrations are subject to anti-trust laws. These laws are in place to protect consumers from a merged entity if it has too much influence and a high market concentration.

Vertical Integration

A company that undergoes vertical integration acquires a company that operates in the production process of the same industry. Some of the reasons why companies choose to integrate vertically include strengthening their supply chain, reducing production costs, capturing upstream or downstream profits, or accessing new distribution channels. To do this, one company acquires another that is either before or after it in the supply chain process.

Vertical integration occurs when a company assumes control over several of the production steps involved in the creation of its product or service in a particular market. In other words, vertical integration involves purchasing a part of the production or sales process that was previously outsourced to have it done in-house. Typically, a company's supply chain or sales process begins with the purchase of raw materials from a supplier and ends with selling the final product to the customer.

Vertical Integration

Companies can integrate by purchasing their suppliers to reduce the costs of manufacturing. Companies can also invest in the retail or sales end of the process by opening physical locations as well as service centers for the after-sales process. Controlling the distribution process is another common vertical integration strategy, meaning companies control the warehousing and delivery of their products.

Vertical Integration

This strategy is important for many companies for several reasons: to increase profits from the newly acquired operations by selling the products directly to consumers: to guarantee efficiencies in the production process; to cut down on delays in delivery and transportation.

Vertical integration benefits companies by allowing them to control the process, reduce costs, and improve efficiencies. However, vertical integration has its disadvantages, including the significant amounts of capital investment required.

Types of Vertical Integration

There are various strategies that companies use to control multiple segments of the supply chain. Two of the most common methods of vertical integration include backward and forward integration.

Backward integration is when a company expands backward on the production path into manufacturing, meaning a retailer buys the manufacturer of its products. An example of backward integration might be Amazon.com Inc. (AMZN), which expanded from an online retailer that sold books to becoming a book publisher. Amazon also owns warehouses and parts of its distribution channel.

Forward integration is a strategy that companies use to expand by purchasing and controlling the direct distribution or supply of a company's products. A clothing manufacturer that opens its own retail locations to sell its product is an example of forward integration. Forward integration helps companies cut out the middleman by removing distributors that would typically be paid to sell a company's products—reducing their overall profitability.

Some examples of vertical integration

Netflix is a prime example of vertical integration whereby the company started as a DVD rental company supplying films and TV contents. The company's executive managers realized they could generate more revenue by shifting to original content creation. Today, Netflix uses its distribution model to promote its original contents alongside films from major studios.

Ikea's 2015 purchase of forests in Romania to supply its own raw materials

Vertical integration Advantages

Decreasing transportation costs and reducing delivery turnaround times

Reducing supply disruptions from suppliers that might fall into financial hardship

Increasing competitiveness by getting products to consumers directly and quickly

Lowering costs through economies of scale, which is lowering the per-unit cost by buying large quantities of raw materials or streamlining the manufacturing process

Improving sales and profitability by creating and selling its own brand

Vertical integration Disadvantages

Companies might get too large and mismanage the overall process

Outsourcing to suppliers and vendors might be more efficient if their expertise is superior

Costs of vertical integration such as purchasing a supplier can be quite significant

Increased amounts of debt if borrowing is needed for capital expenditures

The case of Apple

An example of vertical integration is the technology giant, Apple Inc. (AAPL), which has retail locations to sell its products as well as manufacturing facilities around the globe. Apple manufactures its custom A-series chips for its iPhones and iPads. It also manufactures its custom touch ID fingerprint sensor. Apple opened up a laboratory in Taiwan for developing LCD and OLED screen technologies in 2015. It also paid $18.2 million for a 70,000-square-foot manufacturing facility in North San Jose in 2015. These investments, among others, allow Apple to move along the supply chain in backward integration, giving it flexibility and freedom in its manufacturing capabilities.

The case of Apple

However, the company still has suppliers that include Analog Devices, which provides the touchscreen controllers for iPhones. Also, Jabil Circuit supplies phone casings for Apple from its manufacturing facilities in China.

The company has also integrated forward as much as backward. The Apple retail model, one where the company's products are almost exclusively sold at company-owned locations, excluding Best Buy and other carefully selected retailers, allows the business to control its distribution and sale to the end consumer.

What Is a Merger?

A merger is an agreement that unites two existing companies into a new company. There are several types of mergers and also several reasons why companies complete mergers. Mergers and acquisitions are commonly done to expand a company’s reach, expand into new segments, or gain market share. All of these are done to increase shareholder value. Often, during a merger, companies have a no-shop clause to prevent purchases or mergers by additional companies.

How a Merger Works

A merger is the voluntary fusion of two companies on broadly equal terms into a new legal entity. The firms that agree to merge are roughly equal in terms of size, customers, scale of operations, etc. For this reason, the term "merger of equals" is sometimes used. Acquisitions, unlike mergers, are generally not voluntary and involve one company actively purchasing another.

Types of Mergers

Conglomerate

This is a merger between two or more companies engaged in unrelated business activities. The firms may operate in different industries or in different geographical regions. A pure conglomerate involves two firms that have nothing in common. A mixed conglomerate, on the other hand, takes place between organizations that, while operating in unrelated business activities, are actually trying to gain product or market extensions through the merger.

Companies with no overlapping factors will only merge if it makes sense from a shareholder wealth perspective, that is, if the companies can create synergy. A conglomerate merger was formed when The Walt Disney Company merged with the American Broadcasting Company (ABC) in 1995.

Types of Mergers

Congeneric

A congeneric merger is also known as a Product Extension merger. In this type, it is a combining of two or more companies that operate in the same market or sector with overlapping factors, such as technology, marketing, production processes, and research and development (R&D). A product extension merger is achieved when a new product line from one company is added to an existing product line of the other company. When two companies become one under a product extension, they are able to gain access to a larger group of consumers and, thus, a larger market share. An example of a congeneric merger is Citigroup's 1998 union with Travelers Insurance, two companies with complementing products.

Types of Mergers

Market Extension

This type of merger occurs between companies that sell the same products but compete in different markets. Companies that engage in a market extension merger seek to gain access to a bigger market and, thus, a bigger client base. To extend their markets, Eagle Bancshares and RBC Centura merged in 2002.

Horizontal

A horizontal merger occurs between companies operating in the same industry. The merger is typically part of consolidation between two or more competitors offering the same products or services. Such mergers are common in industries with fewer firms, and the goal is to create a larger business with greater market share and economies of scale since competition among fewer companies tends to be higher. The 1998 merger of Daimler-Benz and Chrysler is considered a horizontal merger.

Types of Mergers

Vertical

When two companies that produce parts or services for a product merger the union is referred to as a vertical merger. A vertical merger occurs when two companies operating at different levels within the same industry's supply chain combine their operations. Such mergers are done to increase synergies achieved through the cost reduction which results from merging with one or more supply companies. One of the most well-known examples of a vertical merger took place in 2000 when internet provider America Online (AOL) combined with media conglomerate Time Warner.

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Internationalization strategies

Expansion through Internationalization

The Expansion through Internationalization is the strategy followed by a company that aims to expand beyond the national market.

The need for the Expansion through Internationalization arises when an organization has explored all the potential to expand domestically and looks for the expansion opportunities beyond the national boundaries.

Globalization

Globalization has made internationalization a mandatory strategy for companies, regardless of their resources and capabilities.

Globalization is the process by which economies, societies and cultures have become integrated through a global network of communication, transportation and trade.

Advancements in technology like the Internet, television and other communication tools have driven markets to be more integrated. Customers demands are becoming more similar in all the world.

Globalization

Unlike in the past, people can buy a product from any part of the world, even if it was not produced in the own home country. This led competition to a global scale and firms cannot afford to just serve one market. They have to offer its current or new products to new markets in order to mitigate the risk of loss if conditions become adverse in one market.

The international expansion strategy

The international expansion strategy can simply consist in selling the products in foreign countries or in delocalizing some phases of production abroad to take advantage of lower labor costs or to exploit superior technologies.

This strategy can be aimed at expanding sales volume and / or reducing production costs.

Phases

Before a company internationalizes, it must assess if it is ready, and which countries have attractive markets. It must follow the order of:

1. Analyzing its readiness to internationalize,
2. Assessing the suitability of its products and services for foreign markets,
3. Screening countries to identify attractive target markets,
4. Assessing the market demand for its products or services in the selected target market
5. Selecting qualified business partners, like distributors and suppliers,
6. Estimating the company's sales potential in the target market.

Stages

The firm should first assess the international environment, and then evaluate its own capabilities and plan the strategies to enter the foreign markets.

International expansion generally follows several stages that present increasing levels of commitment and risk. Companies start with the export activity and then move on more stable forms of presence abroad:

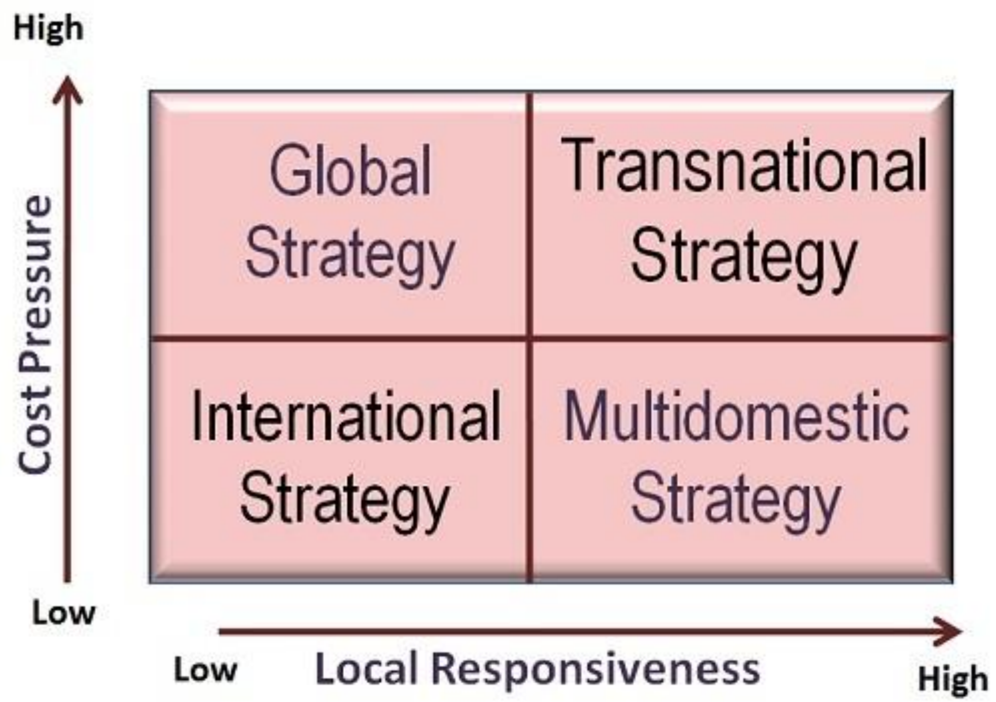
- export of products manufactured exclusively in the domestic country;
- Indirect production: granting manufacturing licenses for the own products to foreign producers;

Stages

- Direct sales: the implementation of direct investments for the creation abroad of the own distribution structures;
- Direct production: the creation in other countries of complete assembly plants and production facilities;
- Establishment of a company abroad: the organization of self-sufficient corporate structures (subsidiaries or affiliates) with management and research centers;
- Multinational organization: management coordination on a multinational level. The multinational company is, in fact, not only an organization that has production plants and distribution networks in several countries of the world, but also and above all a company that pursues an integrated management of domestic and foreign activities. A process of multinational expansion therefore requires a management with very high skills and financial capital to invest and to cover risks.

Strategies

The expansion through internationalization could be realized with the following strategies:



International Strategy

1. International Strategy: The firms adopt an international strategy to create value by offering those products and services to the foreign markets where these are not available. This can be done by practicing a tight control over the operations in the overseas and providing the standardized products with little or no differentiation.

Multidomestic Strategy

2. Multidomestic Strategy: Under this strategy, the multi-domestic firms offer the customized products and services that match the local conditions operating in the foreign markets. Obviously, this could be a costly affair because the research and development, production and marketing are to be done keeping in mind the local conditions prevailing in different countries.

Global Strategy

3. Global Strategy: The global firms rely on low-cost structure and offer those products and services to the selected foreign markets in which they have the expertise. Thus, a standardized product or service is offered to the selected countries around the world.

Transnational Strategy

4. Transnational Strategy: Under this strategy, the firms adopt the combined approach of multi-domestic and global strategy. The firms rely on both the low-cost structure and the local responsiveness, i.e. according to the local conditions. Thus, a firm offers its standardized products and services and at the same time makes sure that it is in line with the local conditions prevailing in the country, where it is operating.

Motivations

The following reasons for internationalization can be distinguished:

- Efficiency seeking: it is aimed at rationalizing production and exploiting economies of specialization and scope (joint production of different products or with the pursuit of different objectives with the same productive factors, such as the same resources, plants, and know-how).
- Market seeking: increasing the volume of sales in the foreign market.
- Resources seeking: Look for more favorable supply conditions (in particular material resources and human resources).
- Strategic asset seeking: access to local knowledge, capabilities, technological resources and innovations (for example, exploiting the knowledge developed in particular production contexts, such as the Silicon Valley).

Motivations

Two other types of motivations can be added to these four macro-categories:

- escaping investment, created to escape restrictive policies in the country of origin;
- support investment, if the main motivation of the investment consists in supporting the activity of the company.

Choice of foreign markets

Possible errors:

- ignoring the countries that offer good opportunities for the product and / or service offered by the company
- spend too much time analyzing countries with scarce perspectives.

Costs for the company:

- economic costs, such as attempts to penetrate markets that subsequently result difficult to manage or with reduced potential
- opportunity costs, that is focusing on countries that then result to be unfavorable, thus neglecting more profitable markets with more potential.

Choice of foreign markets

The psychic distance can hold companies discarding a priori countries with high potential.

There are countries that, despite being far away geographically, have strong cultural affinities with the country of origin, defined as Good Friends

Choice of foreign markets

The cultural element is a very important factor to fully understand the tastes, needs, uses and traditions of consumers and to identify their most significant behaviors.

The condition for implementing an adequate selection process for foreign markets is the development of an adequate international marketing information system.

Choice of foreign markets

The country selection process should be based on two fundamental aspects:

1. the attractiveness of the country (the size and characteristics of the market, potential, opportunities / threats);

2. accessibility of the market (a factor conditioned by the presence and size of barriers to entry).

Choice of foreign markets

Three types of markets can be distinguished:

(1) high priority markets - high accessibility and medium-high attractiveness;
(2) strategic markets – medium accessibility and high attractiveness;
(3) marginal markets - low accessibility and low attractiveness.

Choice of foreign markets

A. Identifying the most attractive countries - estimating the existing potential market.

B. Evaluating the accessibility of the selected countries by identifying the natural and artificial barriers

C. Assessing accessibility by analyzing the competitive environment.

The choice of the entry mode

There are two major types of market entry modes:

1. The non-equity modes category includes export and contractual agreements.

1. The equity modes category includes joint venture and wholly owned subsidiaries.

Exporting

Exporting is the process of selling of goods and services produced in the domestic country to other countries.

Advantages:
Low commitment and investments

Disadvantages:
Low control on the international market

There are two types of exporting: direct and indirect.

Direct exports

Direct exports represent the most basic mode of exporting made by a company, capitalizing on economies of scale in production concentrated in the home country and affording better control over distribution.

Direct export works the best if the volumes are small. Large volumes of export may trigger protectionism.

The main characteristic of direct exports entry mode is that there are no intermediaries.

Direct exports

Sales representatives

Sales representatives represent foreign suppliers/manufacturers in their local markets for an established commission on sales. They provide support services to a manufacturer regarding local advertising, local sales presentations, customs clearance formalities, legal requirements. Manufacturers of highly technical services or products such as production machinery, benefit the most from sales representation.

Direct exports

Importing distributors

Importing distributors purchase the product in their own right and resell it in their local markets to wholesalers, retailers, or both. Importing distributors are a good market entry strategy for products that are carried in inventory, such as toys, appliances, prepared food.

Direct exports

Advantages

- ✓ Control over a selection of foreign markets and possibility to choose a foreign representative company
- ✓ Good information feedback from target market and possibility to develop better relationships with the buyers
- ✓ Better protection of trademarks, patents, goodwill, and other intangible property
- ✓ Potentially greater sales, and therefore greater profit, than with indirect exporting.

Direct exports

Disadvantages

- ✓ Higher start-up costs and higher risks compared to indirect exporting
- ✓ Higher investments of time, resources and personnel and organizational adaptation
- ✓ Greater information requirements
- ✓ Longer time-to-market compared to indirect exporting.

Indirect exports

Indirect export is the process of exporting through domestically based export intermediaries. The exporter has no control over its products in the foreign market.

Indirect exports

Export trading companies (ETCs)

These provide support services of the entire export process for one or more suppliers. Attractive to suppliers that are not familiar with exporting as ETCs usually perform all the necessary work: locate overseas trading partners, present the product, quote on specific enquiries, etc.

Indirect exports

Export management companies (EMCs)

These are similar to ETCs as they usually export for producers. Unlike ETCs, they rarely take on export credit risks and carry one type of product, not representing competing ones. Usually, EMCs trade on behalf of their suppliers as their export departments.

Indirect exports

Export merchants

Export merchants are wholesale companies that buy unpackaged products from suppliers/manufacturers for resale overseas under their own brand names. The advantage of export merchants is promotion. One of the disadvantages for using export merchants result in presence of identical products under different brand names and pricing on the market, meaning that export merchant's activities may hinder manufacturer's exporting efforts.

Indirect exports

Confirming houses

These are intermediate sellers that work for foreign buyers. They receive the product requirements from their clients, negotiate purchases, make delivery, and pay the suppliers/manufacturers. An opportunity is that if the clients like the product they may become trade representatives. A potential disadvantage includes supplier's unawareness and lack of control over what a confirming house does with its product.

Nonconforming purchasing agents

These are similar to confirming houses with the exception that they do not pay the suppliers directly – payments take place between a supplier/manufacturer and a foreign buyer.

Indirect exports

Advantages

- ✓ Fast market access
- ✓ Concentration of resources towards production
- ✓ Little or no financial commitment as the clients' exports usually covers most expenses associated with international sales.
- ✓ Lower risk for companies that consider their domestic market to be more important and for companies that are still developing their R&D, marketing, and sales strategies.
- ✓ Export management is outsourced, alleviating pressure from management team
- ✓ No direct handle of export processes.

Indirect exports

Disadvantages

- ✓ Little or no control over distribution, sales, marketing, etc.
- ✓ The incorrect choice of the distributor, and by effect, of the market, may lead to inadequate market feedback affecting the international success of the company
- ✓ Potentially lower sales compared to direct exporting.
- ✓ Export partners that incorrectly select a specific distributor/market may hinder a firm's functional ability.

Exports

Companies that seriously consider international markets as a crucial part of their success consider direct exporting as the market entry mode. Indirect exporting is preferred by companies that want to avoid financial risk.

Firms that are considering setting up a physical presence in an international market can use exporting as a way of testing the market. If the products sell well in the international market, they can set up its infrastructure.

Licensing

Licensing is an agreement in which the owner of intellectual property grants another firm the right to use that property for a specified period of time in exchange for royalties or other compensation.

An international licensing agreement allows foreign firms, either exclusively or non-exclusively to manufacture a proprietor's product for a fixed term in a specific market.

Licensing

The firm becomes the licensor and the foreign firm that uses its intellectual property the licensee.
The licensee pays a fee called royalties to the licensor for using the intellectual property. The licensor from time to time, chips in to advise the licensee and provide support.
The licensor has a bit more control over its products in the international market using this method.
The risks are higher using licensing compared to exporting.

An example of a license agreement is that of the company Coca-Cola. It is present in almost all the countries of the world, but in most of them it operates under license. A local bottling company can produce and distribute Coca-Cola products on the licensor's behalf.

Licensing

The advantage of this strategy is that it does not require investments in the international market, but it is a source of cash through royalties paid in.

In this foreign market entry mode, a licensor in the home country makes limited rights or resources available to the licensee in the host country. The rights or resources may include patents, trademarks, managerial skills, technology, and other factors that can make it possible for the licensee to manufacture and sell in the host country a similar product to that of the licensor. The licensor earnings usually take forms of one-time payments, technical fees and royalty payments usually calculated as a percentage of sales.

Licensing

As in this mode of entry the transference of knowledge between the parental company and the licensee is strong, the decision of making an international license agreement depend on the respect the host government show for intellectual property and on the ability of the licensor to choose the right partners ensuring that they cannot became potential competitors in other market.

Licensing is a flexible agreement that can be customized to fit the needs and interests of both licensor and licensee.

Licensing

The main advantages and reasons to use licensing for expanding internationally are:

- ✓ Obtaining extra income for technical know-how and services
- ✓ Reaching new markets not accessible by simply exporting the existing facilities
- ✓ Quickly expanding reducing risk and capital investment
- ✓ Paving the way for future investments in the market
- ✓ Minimizing political risks as the licensee is usually 100% locally owned
- ✓ It is highly attractive for companies that are new in international business.

Licensing

The disadvantages of licensing are:

- ✓ Lower income compared to other entry modes
- ✓ Loss of control on the licensee's manufacturing and marketing operations and on the production quality
- ✓ Risk of having the trademark and reputation ruined by an incompetent partner
- ✓ The foreign partner can become a competitor in other markets.

Franchising

The franchising can be defined as: "A system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchisor) in return for the right to be identified with its trademark, to sell its products or services, and often to use its business format.”

Franchising

Compared to licensing, franchising agreements tends to be longer and the franchisor offers a broader package of rights and resources which usually includes: equipment, managerial systems, operation manual, initial trainings, site approval and all the support necessary for the franchisee to run its business in the same way of the franchisor.

In addition, while a licensing agreement involves elements such as intellectual property and trade secrets, franchising is limited to trademarks and operating know-how of the business.

Franchising

The franchisor is more committed of the licensor in supporting the franchisee, because the entire business system (production, marketing, brand, patents and trademarks) is transferred.

The franchisor must fully monitor the operations of the franchisee and make sure they are in line with the agreed procedures of operating.

Examples of firms that have franchising agreements are McDonald’s, Subway, Benetton.

Franchising

Advantages of the franchising mode:

- ✓ Low political risk
- ✓ Low cost
- ✓ The possibility of a simultaneous expansion into different regions of the world
- ✓ Well selected partners bring financial investment as well as managerial capabilities to the operation.

Franchising

Disadvantages of franchising :

- ✓ Maintaining control over franchisee may be difficult
- ✓ Conflicts with franchisee including legal disputes
- ✓ Preserving franchisor's image in the foreign market may be challenging
- ✓ The necessity of monitoring and evaluating the performance of the franchisees, and providing ongoing assistance
- ✓ Franchisees may take advantage of acquired knowledge and become competitors in the future

Turnkey projects

A turnkey project refers to a project in which a company pays contractors to design and construct new facilities and train personnel abroad.

A turnkey project is a way for a foreign company to export its process and technology by building a plant in a foreign country. Industrial companies specialized in complex production technologies normally use turnkey projects as entry strategy.
In this arrangement the focal firm plans, finances, organizes, manages and implements all the phases of a project abroad and then hands it over to a foreign customer after training local personnel.

Turnkey projects

One of the major advantages of turnkey projects is the possibility for a company to establish a plant and earn profits in a foreign country in which foreign direct investment opportunities are limited and the company has a lack of expertise in that area.

A potential disadvantage of a turnkey project is the risk of revealing companies' secrets to rivals.

Entering a market with a turnkey project can prove that a company has no long-term interest in the country. This could become a disadvantage if the country proves to be a profitable market for the company.

Foreign Direct Investment (FDI)

The most involving mode of entering an international market is the foreign direct investment.

With this method the company creates a wholly owned subsidiary in the foreign country.
With FDI, the firm commits its time and resources fully in the international market. It has a physical presence and has direct access to the foreign market.
A wholly owned subsidiary includes two types of strategies: Greenfield investment and Acquisitions. Greenfield investment and acquisition include both advantages and disadvantages. The choice between the two entry modes depends on situations.

Foreign Direct Investment (FDI)

Greenfield investment is the establishment of a new wholly owned subsidiary abroad.

The subsidiary is created directly by the company, often expatriating also the staff.

This entry mode is preferred in service industries where close contact with end customers and high levels of professional skills, specialized know how, and customization are required.

This strategy is attractive if there are no competitors to buy in the foreign country or the competitive advantage of the company is based on its embedded competencies, skills, routines, and culture, forcing it to transfer all these elements abroad to maintain the competitive advantage.

Foreign Direct Investment (FDI)

Greenfield investment is a complex strategy with high costs and risks but it is able to provide full control of the foreign activities and promises higher returns on the investment.

Although the company is independent in creating its wholly owned subsidiary abroad, it may need to acquire knowledge and expertise of the foreign market by third parties, such as consultants, competitors, or business partners.

This entry strategy takes much more time due to the need of establishing new operations, distribution networks, and the necessity of learning and implementing appropriate marketing strategies to compete with rivals in a new market.

Foreign Direct Investment (FDI)

Acquisition is when the company creates its wholly owned subsidiary by acquiring a foreign company that should be a competitor, a distributor, a supplier or a company that operates in a sector related to that of the firm.

Acquisition is a popular mode of entering foreign markets mainly due to its quick access.
Acquisition strategy offers the fastest, and the largest international expansion compared to any of the alternatives.

Acquisition is lower risk than Greenfield investments because the outcomes of an acquisition can be estimated more easily and accurately. The company knows the results achieved by the firm it acquires and gains access to its customers, market share, technologies, facilities, knowledge, etc.

Foreign Direct Investment (FDI)

On the other hand, there are many disadvantages and problems in achieving acquisition success:

- Integrating two organizations can be quite difficult due to different organization cultures, control systems, and relationships. Integration is a complex issue.
- To acquire a new company, some companies significantly increase their levels of debt which may cause bankruptcy.
- Too much diversification may cause problems. A high level of diversification can produce a negative effect on the firm in the long-term performance due to a lack of management of diversification.

Foreign Direct Investment (FDI)

FDI is the riskiest of all the types of internationalization strategies because of the level of resources commitment. The firm faces:

- **Cultural risk.** a cultural miscommunication puts some human values at risk. A firm has to analyze the culture of the country where it chooses to set up operations.
- **Country risk.** Any change in the political, legal, economic or environmental aspects in the foreign country could have adverse effects on the operations and profitability of the company.
- **Commercial risk.** This is a firm's potential loss from poorly developed or executed business strategies, tactics or procedures.
- **Currency risk.** A firm faces the risk of loss of profits due to fluctuating exchange rates. The devaluation of a currency can have a negative impact on a company's profits.

Foreign Direct Investment (FDI)

The main features of foreign direct investment are:

- It requires greater resource commitment
- It implies global presence and operations
- It allows the firm to achieve global scale efficiency
- Firms involved In FDI strive to behave in socially responsible ways.

Foreign Direct Investment (FDI)

When selecting an FDI location, a firm must look at several factors:

- The country should have a market sufficiently large to support its growth and give the right returns on the investment. China, for example, is a large market because of its population and it is an emerging market, so it offers different growth opportunities.
- The country should be close to the firm’s targeted customers to reduce on distribution expenses. Proximity to the firm’s source of inputs as the raw materials is also important
- The country should have low political, cultural, and currency risks.
- Economic factors such as tax, interest and exchange rates, need to be considered as they’ll determine the level of cash available for company’s operations.

Joint venture

Another way a firm can internationalize are the international collaborative ventures. A collaborative venture is a partnership between two or more firms and includes equity joint ventures and non-equity ventures.

An equity joint venture is a business entity created by two or more parties, generally characterized by shared ownership, shared returns and risks, and shared governance.

A non-equity or project-based venture is a partnership formed specifically for a project which has a well-defined timetable, without creating a new legal entity.

Joint venture

Companies typically choice joint ventures for the following reasons:

- to access a new market, particularly emerging markets;
- to gain scale efficiencies by combining assets and operations;
- to share risk for major investments or projects;
- to access skills and capabilities.

There are four common objectives in a joint venture: market entry, risk/reward sharing, technology sharing, and joint product development. Other benefits include political connections and distribution channel access.

Joint venture

A JV can be brought about in the following major ways:

- A Foreign investor buys an interest in a local company
- A Local firm acquires an interest in an existing foreign firm
- Both the foreign and local entrepreneurs jointly form a new enterprise

Joint venture

By its creation, the JV becomes a new entity with some implications:

- it is officially separated from its Founders;
- it can contract in its own name, acquire rights (such as the right to buy new companies);
- it has a separate liability from that of its founders, except for invested capital;
- it can sue (and be sued) in courts in defense as independent part.

Joint venture

Joint ventures often are preferred when:

- The partners' strategic goals converge while their competitive goals diverge
- The partners' size, market power, and resources are small compared to those of the leaders of the market
- Partners are able to learn from one another while limiting access to their own proprietary skills

Joint venture

The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions.

Potential problems include:

- Conflict over asymmetric new investments
- Mistrust over proprietary knowledge
- Performance ambiguity - how to split the pie
- Lack of parent firm support
- Cultural clashes
- If, how, and when to terminate the relationship

Joint venture

Joint ventures have conflicting pressures to cooperate and compete:

- Strategic imperative - the partners want to maximize the advantage gained with the joint venture, but they also want to maximize their own competitive position.
- The joint venture attempts to develop shared resources, but each firm wants to develop and protect its own proprietary resources.
- The joint venture is controlled through negotiations and coordination processes, while each firm would like to have hierarchical control.

Joint venture

An example of joint venture is Sony Ericsson.

The Japanese electronics company Sony Corporation and the Swedish Telecommunications company Ericsson formed a joint venture in 2001 to create a new company called Sony Ericsson. The reason for the venture was to combine expertise to produce superior products. Both companies have stopped making their own mobile phones focusing on the joint venture.

This type of venture is an equity venture.

Strategic alliance

Strategic alliance is a type of cooperative agreement between different firms.

Each firm remains independent and no new entities are created. Companies decide to cooperate in order to achieve common goals by sharing knowledge, research activities, creating networks for distribution, advertising and promotion (co-branding), acquiring a higher negotiating power with suppliers.

Generally, the main goal is creating new products and/or technologies.

They are often created for short terms, non equity-based agreements in which companies are separated and independent.

Strategic alliance

Some advantages of a strategic alliance include:

Technology exchange

This is a major objective for many strategic alliances. The reason is that many technological innovations are based on interdisciplinary and/or inter-industrial advances. Hence, it is increasingly difficult for a single firm to possess the necessary resources or capabilities to conduct an effective R&D. This is also perpetuated by shorter product life cycles and the need for many companies to stay competitive through innovation. Some industries that are centers for extensive cooperative agreements are:

Telecommunications, Electronics, Pharmaceuticals, Information technology

Strategic alliance

Some advantages of a strategic alliance include:

Global competition

There is a growing perception that global battles between corporations be fought between teams of players aligned in strategic partnerships. Strategic alliances will become key tools for companies if they want to remain competitive in this globalized environment, particularly in industries that have dominant leaders, such as smartphone manufactures, where smaller companies need to ally in order to remain competitive.

Strategic alliance

Some advantages of a strategic alliance include:

Industry convergence

As industries converge and the traditional lines between different industrial sectors blur, strategic alliances are sometimes the only way to develop the complex skills necessary. Alliances become a way of shaping competition by decreasing competitive intensity, excluding potential entrants, isolating players, and building complex value chains that can act as barriers.

Strategic alliance

Some advantages of a strategic alliance include:

Economies of scale and reduction of risk

Shared resources can contribute greatly to economies of scale, and smaller companies can benefit from strategic alliances in terms of cost reduction because of increased economies of scale.
In terms on risk reduction, in strategic alliances no one firm bears the full risk and cost of a joint activity. This is extremely advantageous to businesses involved in high risk / cost activities such as R&D. This is also advantageous to smaller organizations which are more affected by risky activities.

Strategic alliance

Some advantages of a strategic alliance include:

Alliance as an alternative to merger

Some industry sectors have constraints to cross-border mergers and acquisitions, strategic alliances prove to be an excellent alternative to bypass these constraints. Alliances often lead to full-scale integration if restrictions are lifted by one or both countries.

Strategic alliance

The main **disadvantages** of a strategic alliance include:

Risks of competitive collaboration

Some strategic alliances involve firms that are in fierce competition outside the specific scope of the alliance. This creates the risk that one or both partners will try to use the alliance to create an advantage over the other. The benefits of this alliance may cause unbalance between the parties, there are several factors that may cause this asymmetry.

Strategic alliance

- The partnership may be created to exchange resources and capabilities such as technology. This may cause one partner to obtain the desired technology and abandon the other partner, effectively appropriating all the benefits of the alliance.
- Using investment initiative to erode the partner's competitive position. This is a situation where one partner makes and keeps control of critical resources. This creates the threat that the stronger partner may strip the other of the necessary infrastructure.
- Strengths gained by learning from one company can be used against the other. As companies learn from each other, usually by sharing tasks, their capabilities become reinforced; sometimes this strength exceeds the scope of the alliance and a company can use it to gain a competitive advantage on the partner.

Strategic alliance

Other **disadvantages** of a strategic alliance include:

- **Difficulty in finding a good partner**
- **Risk of an unequal partnership**
- **Loss of control**
- **Relationship management across borders**

Strategic alliance

Choosing a Partner for International Strategic Alliances

<u>Strategic compatibility</u>

The partners need to have the same general goal. The differences in strategy produces more conflicts of interest.

<u>Complementary skills and resources</u>

Partners need to contribute more than just money to the alliance. Each partner must contribute some skills and resources that complement each another.

<u>Relative company size</u>

Different sizes of the partners may cause domination of one firm or unequal agreement.

<u>Financial capability</u>

The partners must have sufficient financial resources to maintain the alliance's efforts, which is also important for long-term partnership.

Introduction to Management

University of Cassino and Southern Lazio
A.A. 2020/2021
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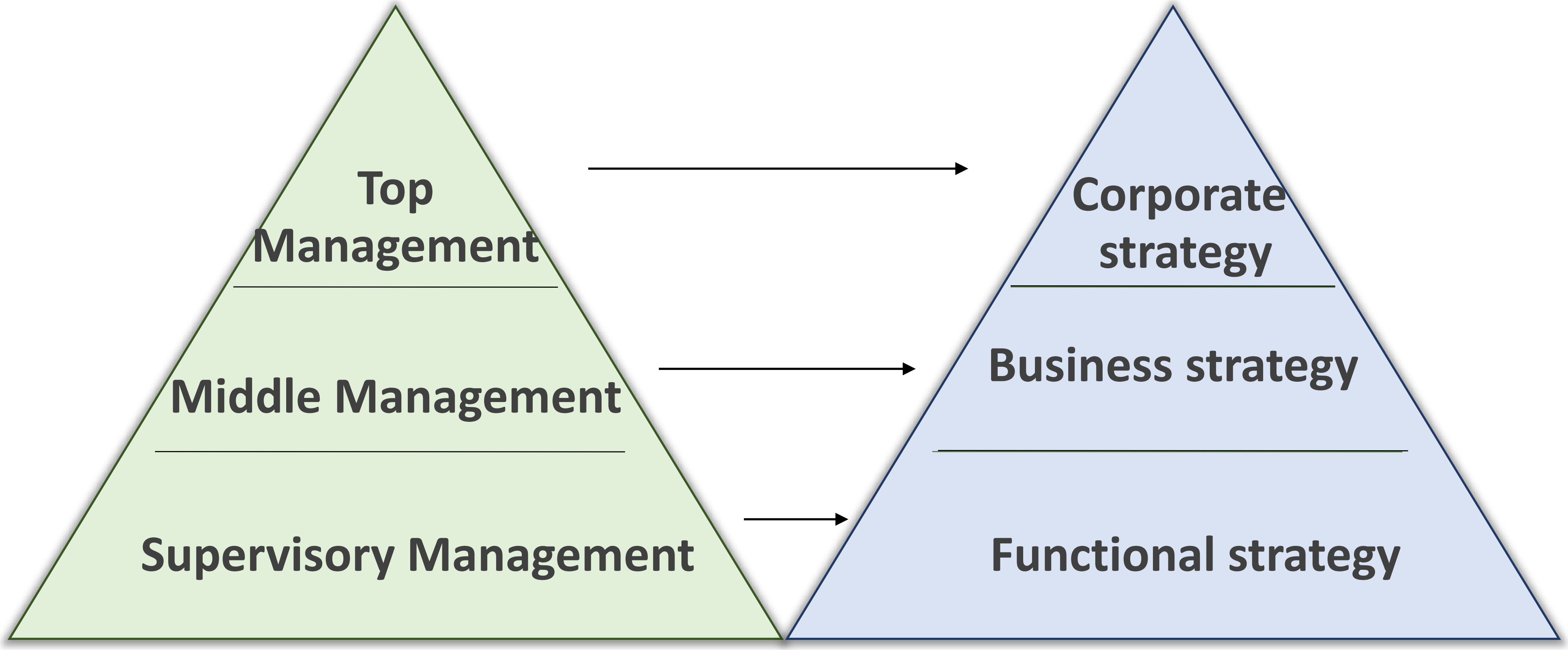
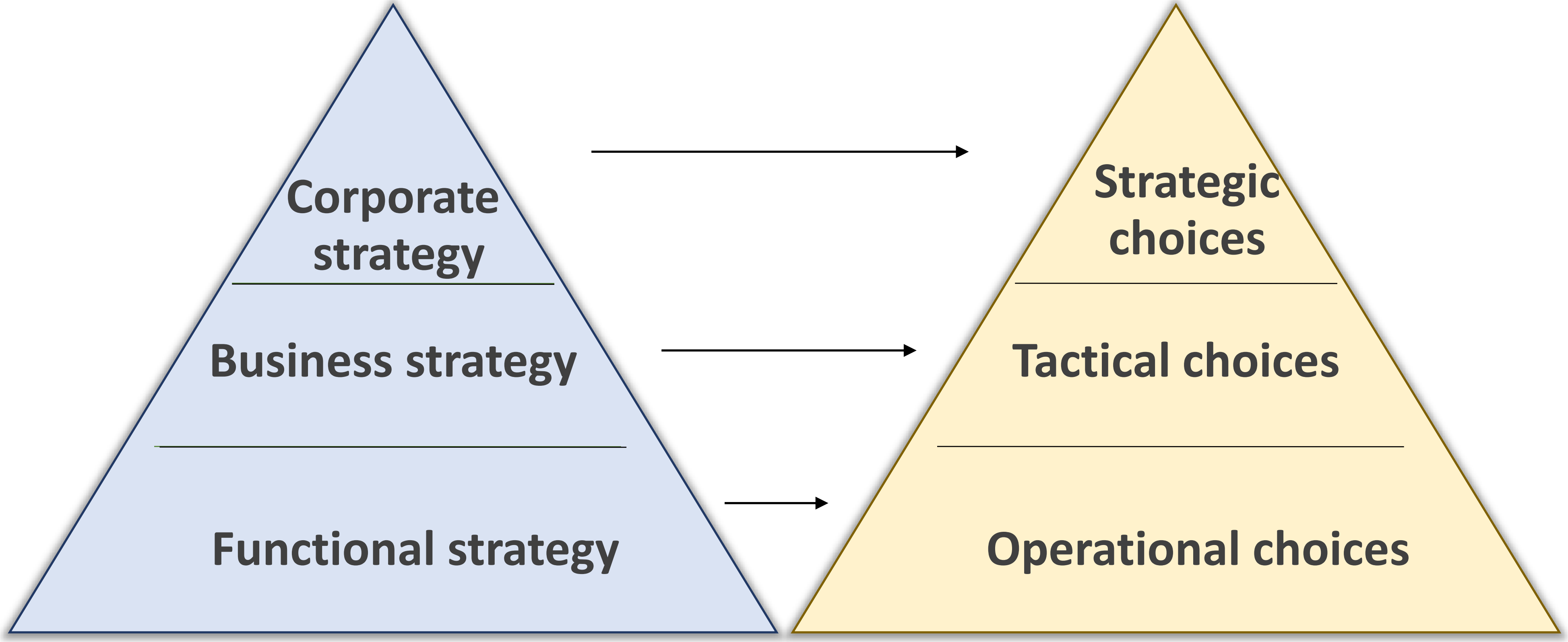
Business Strategy

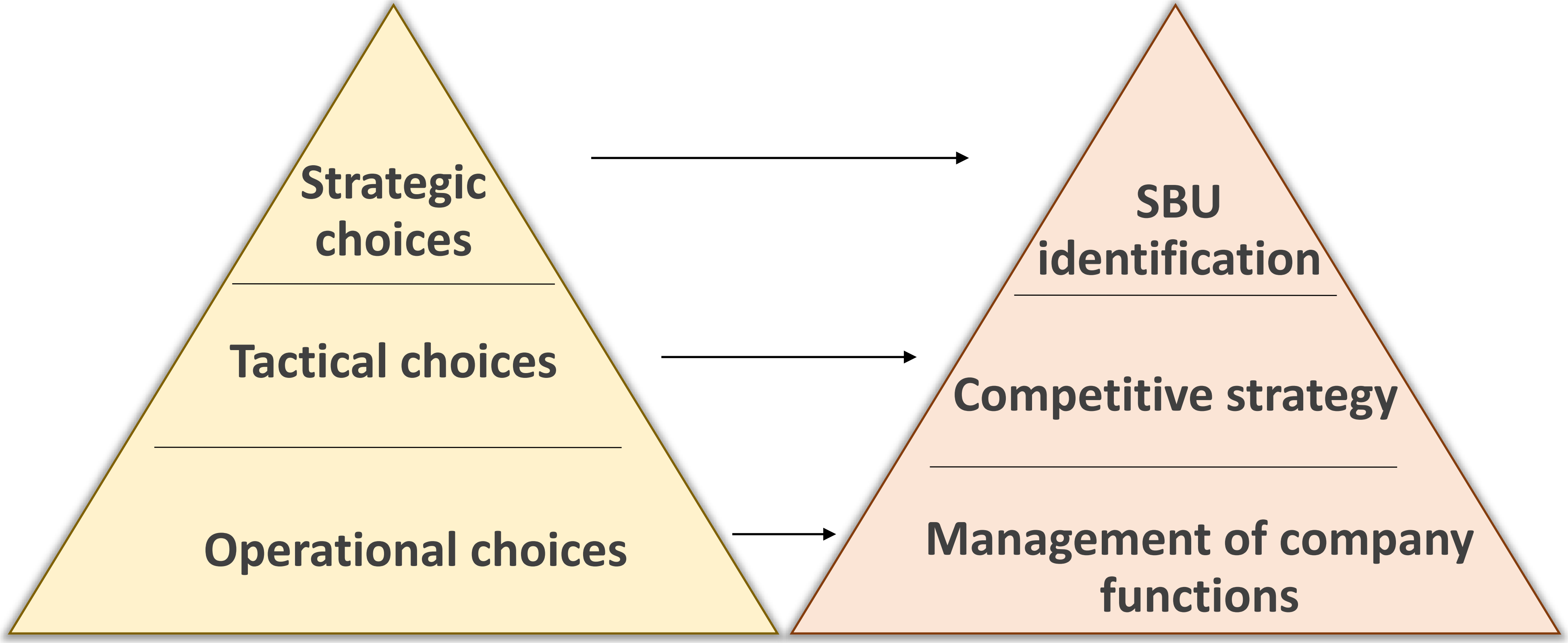
Levels of Business strategy



Levels of business choices



Examples of business choices



Introduction to Management

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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.

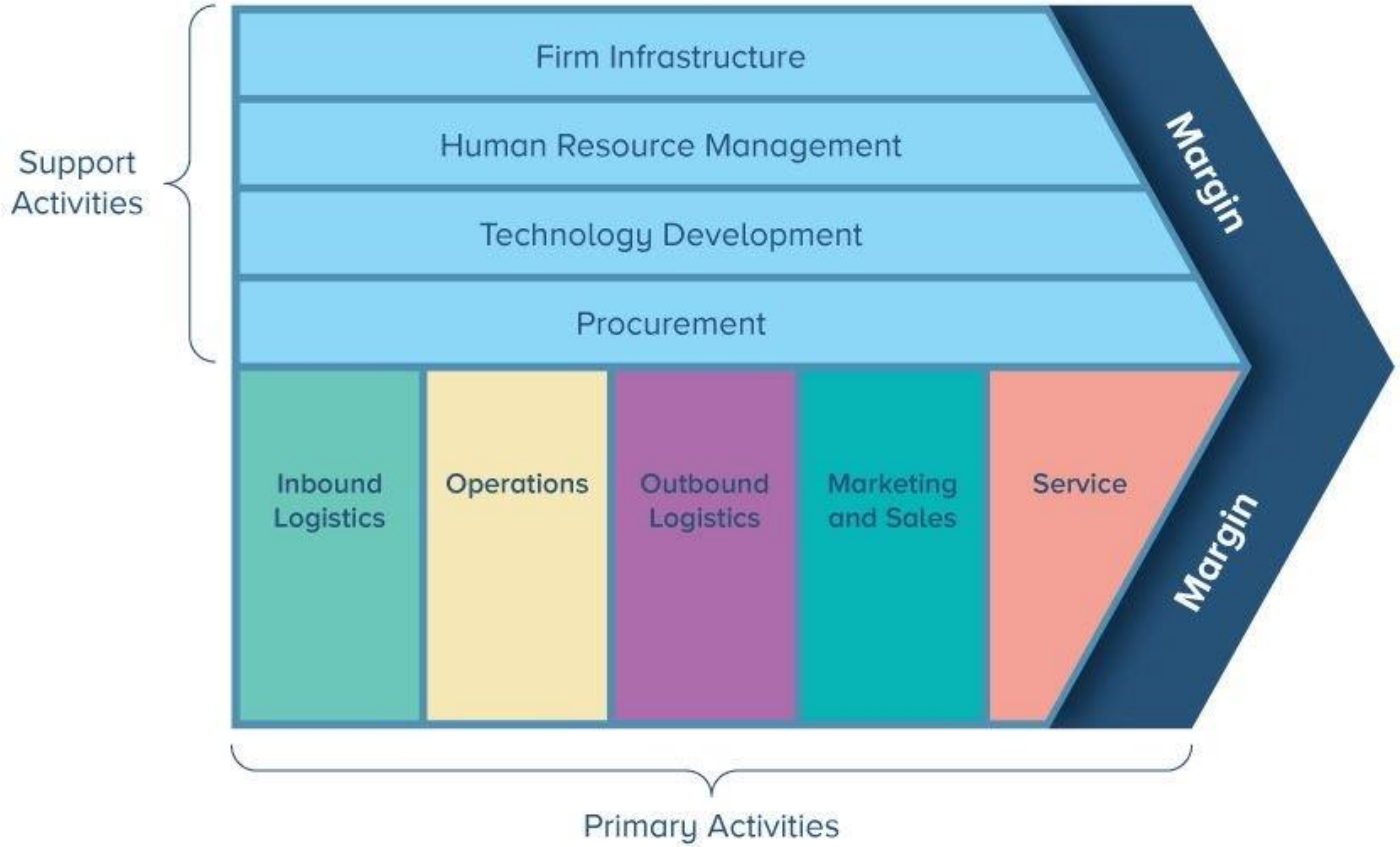
Porter's Value Chain

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

Support Activities

BUSINESS INFRASTRUCTURE

- 400 Plus Truck-Tractor, 30,000 square foot stores for small towns

HUMAN RESOURCES MANAGEMENT

- Top management spending bulk of time within stores
- Employees called as associates
- Incentives and profit sharing
- Stock purchase
- Decentralization

TECHNOLOGY DEVELOPMENT

- Uniform Product Code (UPC) at point of sale
- Cross docking
- Satellite Network

PROCUREMENT

- Good bargaining power with vendors
- No vendor account for more than 2.8% of total purchase

Primary Activities

INBOUND LOGISTICS	OPERATIONS	OUTBOUND LOGISTICS	MARKETING SALES	SERVICE
• Very low cost as 2% (half of industry average)	• 9 to 9 working hours, 7 days a week	• Strong presence of distribution centers	• Everyday low price • Always low price • Cash and curry	• Quick response • No question asked policy on returns

Margin

Margin

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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University of Cassino and Southern Lazio
A.A. 2019/2020
Prof. Ylenia Cavacece

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

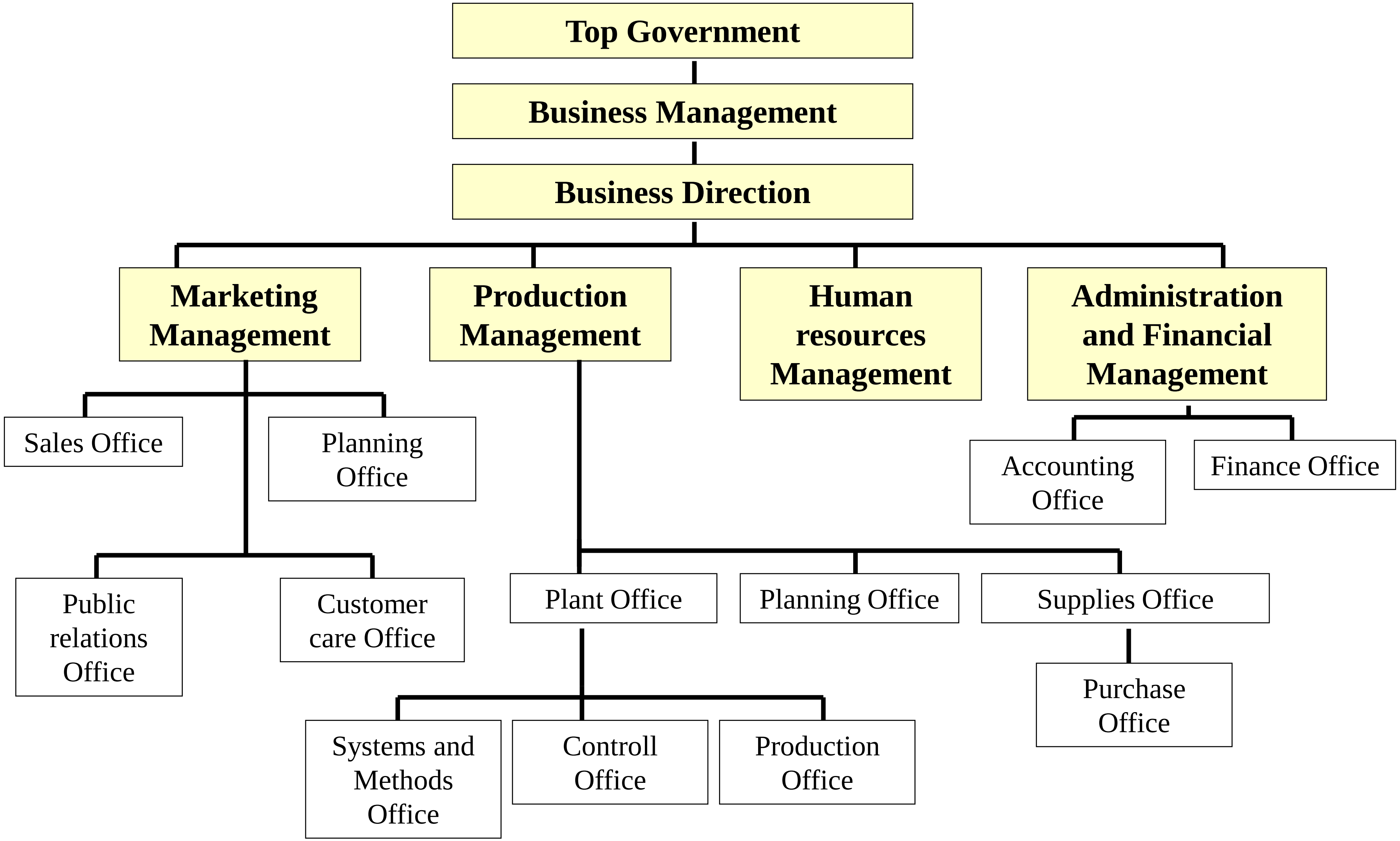
Organizational structure

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

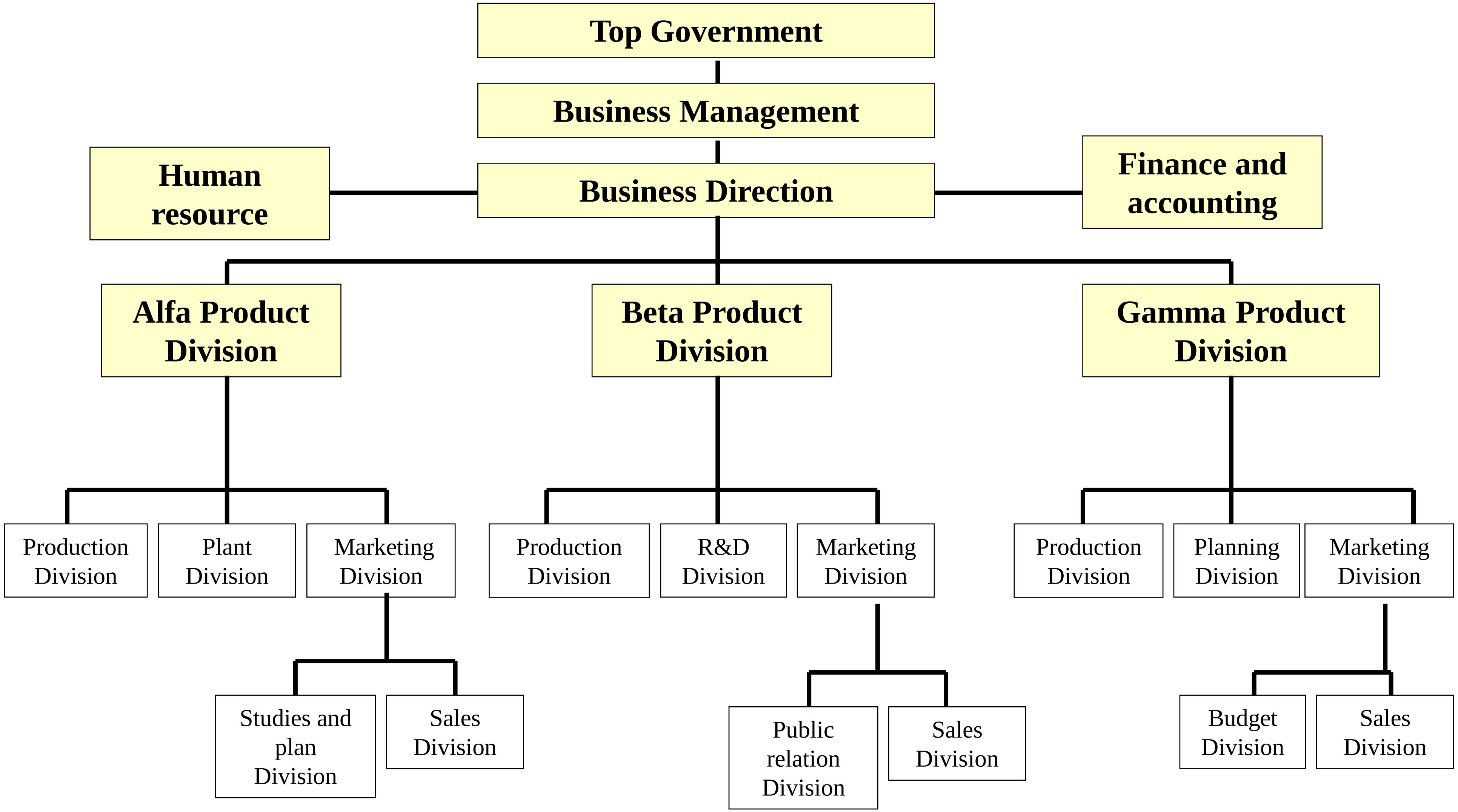
There are three types of organizational structure:

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

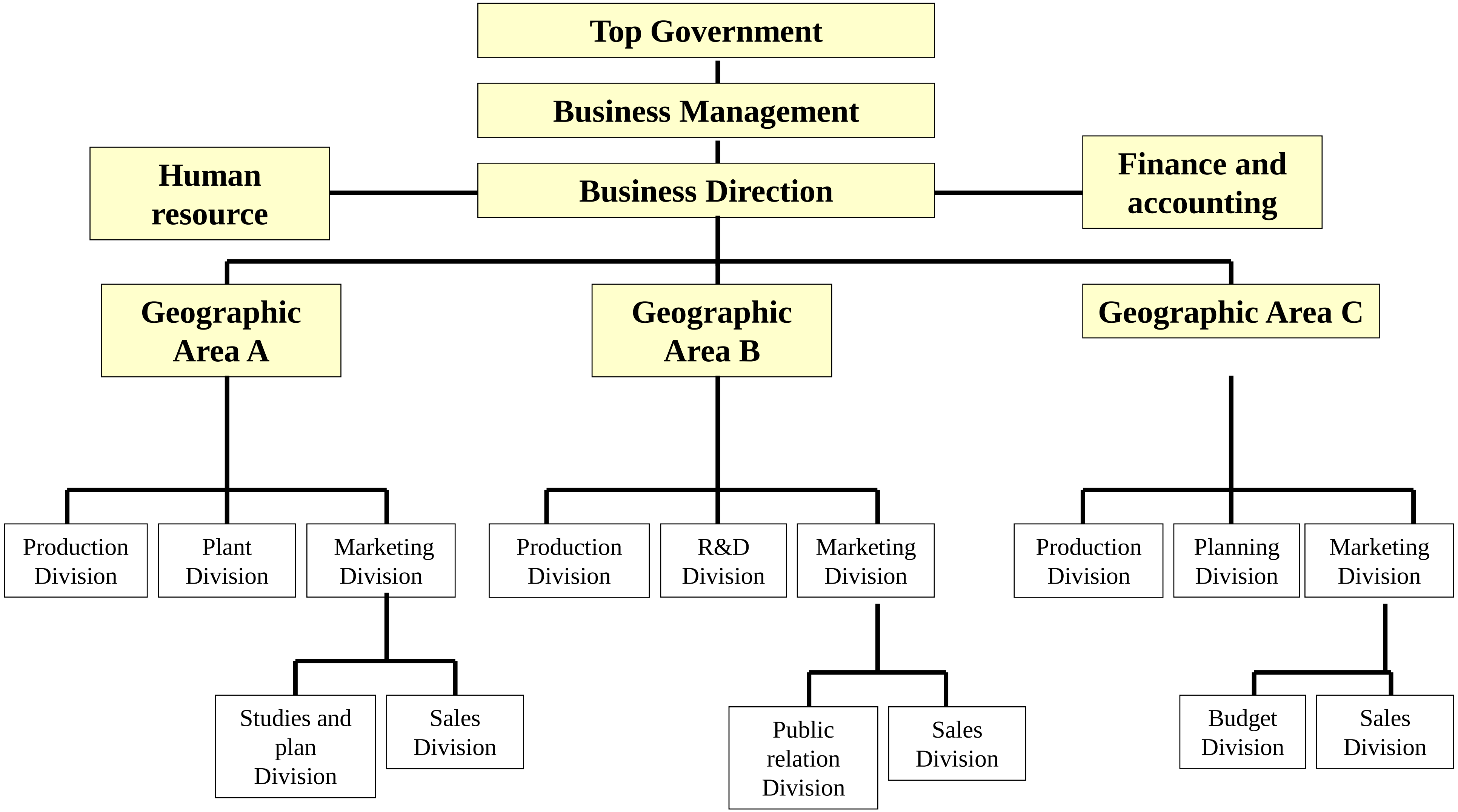
Functional structure



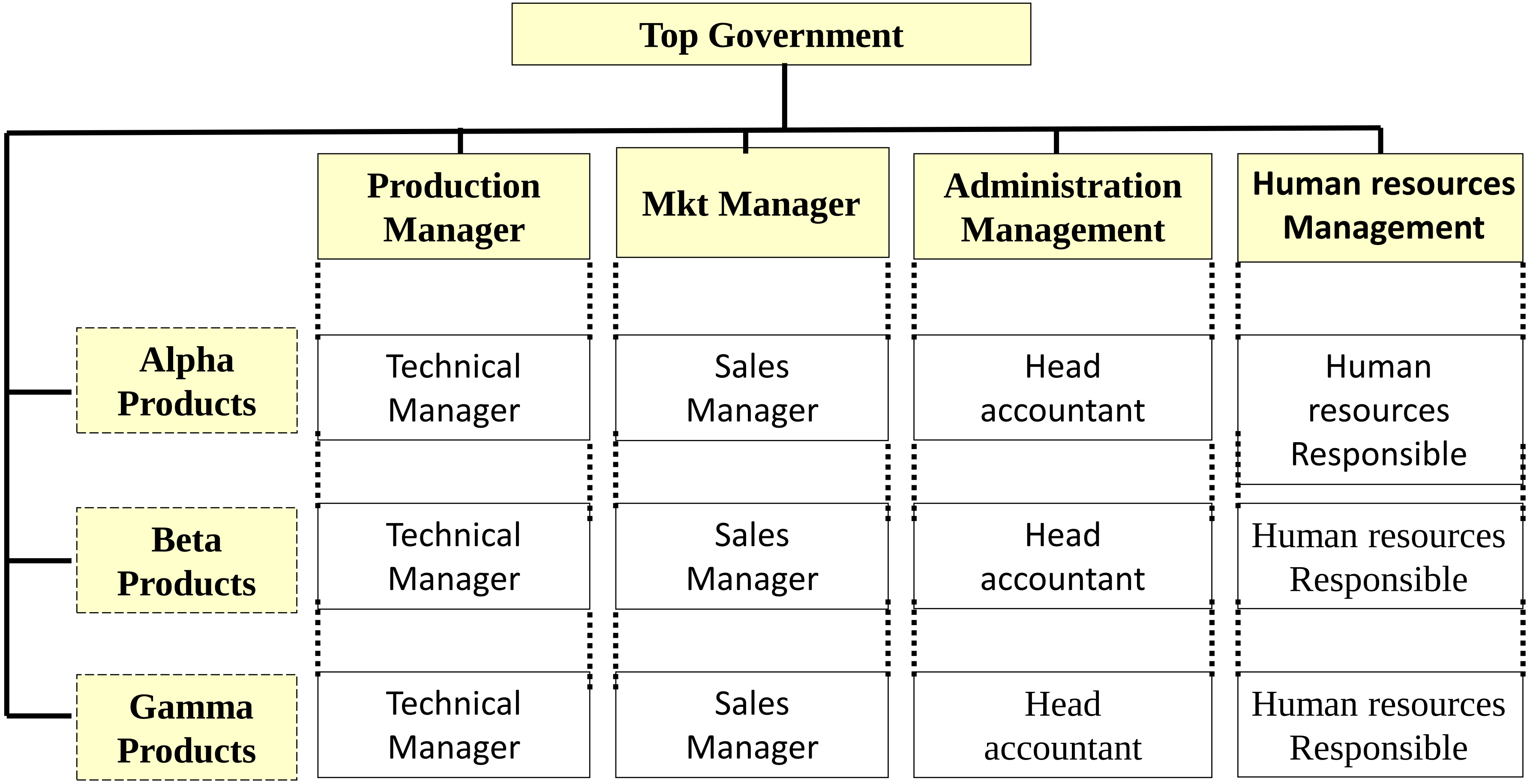
Divisional structure



Divisional structure



Matrix structure



Introduction to Management

Marketing

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A.A. 2020/2021

What is Marketing?

The term "marketing" comes from the verb "to market", which means placing a product on the market.

The marketing function includes the set of activities that a company must undertake in order to launch and maintain a product or service on the market, making a profit from this operation.

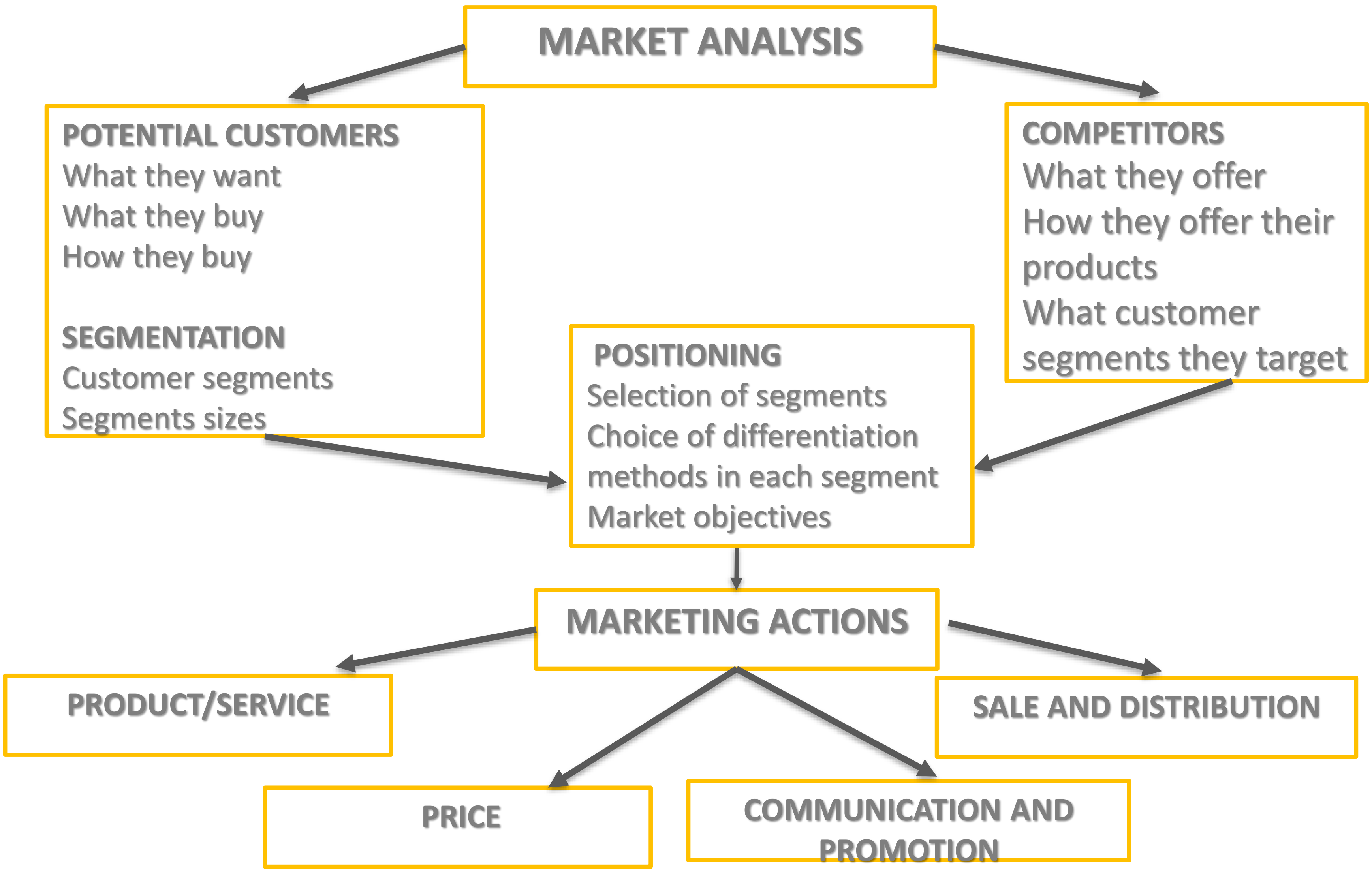
Any product to be sold must meet the real needs of a group of consumers, have an acceptable price, be available in distribution circuits adapted to the buying habits of the target customers, be supported by communication and sales activities aimed at making it known to consumers and enhancing its distinctive qualities.

The Marketing function

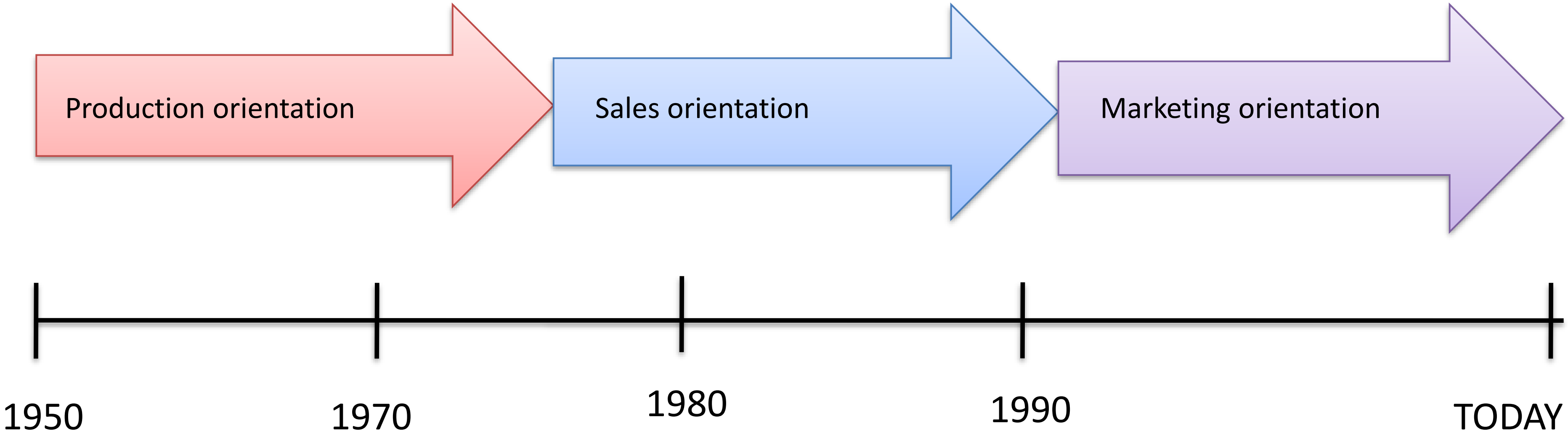
The MARKETING function of a company:

- Examines market opportunities by gathering information on demand, consumers, competitors and market;
- Defines the segment of the market in which to concentrate resources;
- Studies the products required by the market;
- Sets competitive prices;
- Makes products available through distribution;
- Builds and maintains a communication channel with potential customers to inform them about the existence of the products and services and to convince consumers to buy them.

The Marketing function



Marketing evolution



Production orientation

The immediate post-second world war period.
It currently exists in some developing countries.

It is an organizational mode prevailing in an economic environment characterized by a scarcity of offer, as the production capacities are insufficient for the needs of the market. The demand is therefore greater than the offer.
Business efforts are all concentrated on production activities.
Marketing has a limited role: strategic marketing develops spontaneously, since needs are known; operational marketing is reduced to increasing the production capacity.

Sales orientation

Seventies, eighties. Consumer goods manufacturing companies in western economies.

The offer is growing and it becomes greater than the demand. The material organization of the exchange of the companies is scarce. In addition, new forms of distribution appear and there is a physical and psychological distancing between producers and consumers for the geographical enlargement of the markets. Companies that have invested only in production capacity cannot control the access to the final demand.
The main objective is to succeed in selling and operational marketing plays a fundamental role. Personal sales, advertising and distribution control are developed. companies adopt a series of improper sales practices obtaining an increase in sales in the short term but a long-term loss of customers

Marketing orientation

Nineties to the present.

Many markets are entering maturity, there is a progressive saturation of needs, an acceleration and generalization of technological progress and a growing internationalization of the markets.
Many companies realize that efficient production and widespread distribution no longer guarantee the sold of the products. They understand that it is important to understand first which products are desired by customers and then produce them.
Strategic marketing grows in importance. Its role is to identify market segments capable of producing growth, identifying unsatisfied needs, developing solutions to meet these needs.

Marketing dimensions

Marketing has two main dimensions:

Analysis dimension (market knowledge) → strategic marketing

Action dimension (market conquest) → operational marketing

Strategic Marketing

In strategic marketing there are two different approaches:

a) Strategic response;
b) Strategic offer creation.

a) Strategic marketing through a market survey identifies an unsatisfied or poorly satisfied need. This identification is transmitted to the R&D function, which will try to give an adequate answer to this expressed need. Operational marketing will then promote the new solution in the identified target segment.
This is an innovation driven by the market (market-pull).

Strategic Marketing

b) The R&D function discovers a new product or process capable of satisfying a latent need, that is, not expressed by the demand. Strategic marketing will have the task of verifying the existence of a potential market and assessing its size and characteristics. The role of operational marketing is more complex because it will have to create the market for a product that is not explicitly requested and whose adoption may involve changes in consumption habits. These are company-pushed innovations. They are often breakthrough innovations, which stimulate the economic growth of industrialized countries.

Strategic Marketing

Analysis of needs
Definition of the reference market

↓

Segmentation of the reference market
Macro and micro - segmentation

↓

Analysis of attractiveness
Potential market, life cycle

↓

Competitiveness analysis
Defensible competitive advantage

↓

Choice of a strategy

Strategic marketing Analysis needs

The objective of marketing is the satisfaction of customer needs

Why satisfaction?

Customer satisfaction

retention

Increase in the perceived value of the product/service

Customer loyalty

Consumer trust

Profits

Strategic marketing
Analysis of needs

Strategic marketing considers needs as problems that affect potential customers, who seek solutions in this regard through the purchase of products or services.
The desire to satisfy certain needs is the main determinant of consumers' purchasing choices.

It is possible to predict the behavior of an individual starting from the knowledge of his/her needs.

Need is a requirement of nature or social life.
We can distinguish between:

- Innate, natural and generic needs, determined by the nature of the human being;

- Acquired, cultural and social needs, determined by the society.

Strategic marketing
Analysis of needs

ABBOT

Abbott distinguishes the generic need from the derived need, which is the particular technological response (the good) given to the generic need.

EXAMPLE:
GENERAL NEED: INDIVIDUAL TRANSPORTATION
DERIVED NEED: THE CAR

Saturation does not exist for the generic need but only for the derived one, due to the increase in consumption of that good which tends to diminish its marginal utility.
The generic need, on the other hand, becomes non-saturable due to technological progress, which evolves towards higher levels with the introduction into the market of improved products, and therefore, new derived needs.

Strategic marketing Analysis needs

MASLOW

Maslow defines a hierarchy of needs, dividing them into five categories grouped in order of priority. Only after satisfying a need of a lower order people can pass to the satisfaction of higher-order needs.

Strategic marketing
Analysis of needs

The marketing analyzes the purchasing behavior, that is the set of activities that precede, accompany and follow the purchasing decisions and during which the individual actively intervenes in order to make choices with full knowledge of the facts and not randomly.

The reasons for the purchase are divided into three categories:

1. Rational reasons (price-quality ratio)
2. Emotional motivations (related to the sphere of feelings and deriving from factors of taste, aesthetics, etc.)
3. Motivation of patronage (trust in the producer or distributor).

Strategic Marketing
Market segmentation

Because of the heterogeneity of consumer behaviors, each market can be divided into several segments, each including a particular category of buyers.

The process of segmentation consists in identifying the individual characteristics or factors that constitute different layers of the market and in choosing, among these, those better defining the classes of buyers, to which the company has an interest in turning .

Strategic Marketing
Market segmentation

The most frequently used parameters to perform segmentation are:

- **Demographic parameters** (age, sex, race, nationality, size of the family, etc.)
- **Socio-economic parameters** (income, profession, level of education, etc.)
- **Locational parameters** (urban, suburban and rural population)
- **Psychographic parameters** (personality, decision-making autonomy, preference for innovation, etc.)
- **Behavioral parameters** (disposition to purchase, degree of loyalty, desired benefits, etc.)

Strategic Marketing
Attractiveness analysis of segments

Once the segments have been identified, marketing managers proceed with an analysis of their attractiveness:

- in quantitative terms, by identifying the potential market (the theoretical sum of all possible buyers within a given territory);
- in qualitative terms, through the assessment of its accessibility and its organization;
- in dynamic terms, through the definition of its life cycle and its economic duration.

Strategic Marketing
Competitiveness analysis of segments

After analyzing the attractiveness of segments, marketing managers analyze the company's competitiveness within these segments.

It is a matter of analyzing the competitors and defining whether, and to what extent, the company can have a competitive advantage within that segment thanks to distinctive qualities that differentiate it from its rivals or thanks to greater productivity that gives it cost advantages.

Companies can identify competitors by sector, that is, by framing their activity within a sector such as oil, pharmaceutical or beverage; or by market, therefore taking into consideration companies that try to satisfy the same needs of the customer or establish relationships with the same group of customers.

Strategic Marketing
Competitiveness analysis

In general, the concept of competition in terms of the market widens the horizons of the company and reveals a greater number of actual or potential competitors.

After identifying the competitors, the marketing management answers several questions: what are the objectives of the competitors? What is the strategy of each competitor? What are the strengths and weaknesses of the various competitors? How will they react to possible actions of the company?

Once these analyzes have been carried out, it is possible to define the company's mission, objectives and develop a strategy.

Strategic Marketing Competitiveness analysis

Defining a competitive strategy means defining a strategy that gives the company or its products a value higher than that of its competitors. This value is called competitive advantage that should be durable and defensible.
There is no single strategy valid for all companies.

- ✓ Cost leadership, with which the company tries to reduce production and distribution costs as much as possible. The low costs allow it to charge lower prices than its competitors and gain a high market share.
- ✓ Differentiation, with which the company focuses on creating a better product than competitors and a highly differentiated marketing program that make it a leader in a particular market segment.
- ✓ Specialization, with which the company converges its in satisfying few segments instead of satisfying the entire market.

Operational marketing

Product

↓

Placement

↓

Price

↓

Promotion

↓

Marketing program

Operational Marketing

It is placed in the short - medium term.
The essential function of operational marketing is to create turnover, that is, to sell while minimizing sales costs.
This objective is pursued through the marketing mix levers known as the 4 Ps:

1. PRODUCT
2. PLACEMENT
3. PRICE
4. PROMOTION

In recent years, traditional levers have been extended with the introduction of a fifth P:

5. PRODUCT OFFERING

or the set of value attributes and additional services to the product (guarantees, repairs, customer services) that allow greater customer satisfaction.

Product policies

The set of decisions necessary to create a product that is attractive and able to meet the needs of the target audience are:

- **AMPLITUDE OF THE OFFER.**
- **DIFFERENTIATION OF ASSORTMENTS.**
- **INNOVATIVITY OF PRODUCTIONS.**
- **VISIBILITY OF THE PRODUCTS.**

Price policies

THREE BOTTOM ORIENTATIONS:

I. COSTS: the final price is determined by adding a percentage as profit margin (MARK UP) to the production costs of the good.
sale price = production cost + mark up (as a percentage of the cost)

II. COMPETITION: the price is established in line with current market prices (GOING RATE PRICING).

III. CUSTOMERS: The final price is established on the basis of the value perceived by the customers (DIFFERENTIATED POLICIES).

The determination of the selling price almost never results from a single factor; the three basic guidelines are present in every price decision to a greater or lesser extent.

Placement policies

The set of decisions about how the company intends to place products on the market.

Taking into account the purchasing behavior of the target customers, the type of asset to be sold and the strategy chosen by the company, marketing managers proceed to:

- Identify conditionings and constraints
- Evaluate and choose the channel length
- Define the type of intermediary for each channel stage
- Define the intensity of the distribution (intensive, selective or exclusive)
- Evaluate and choose the type of sales organization

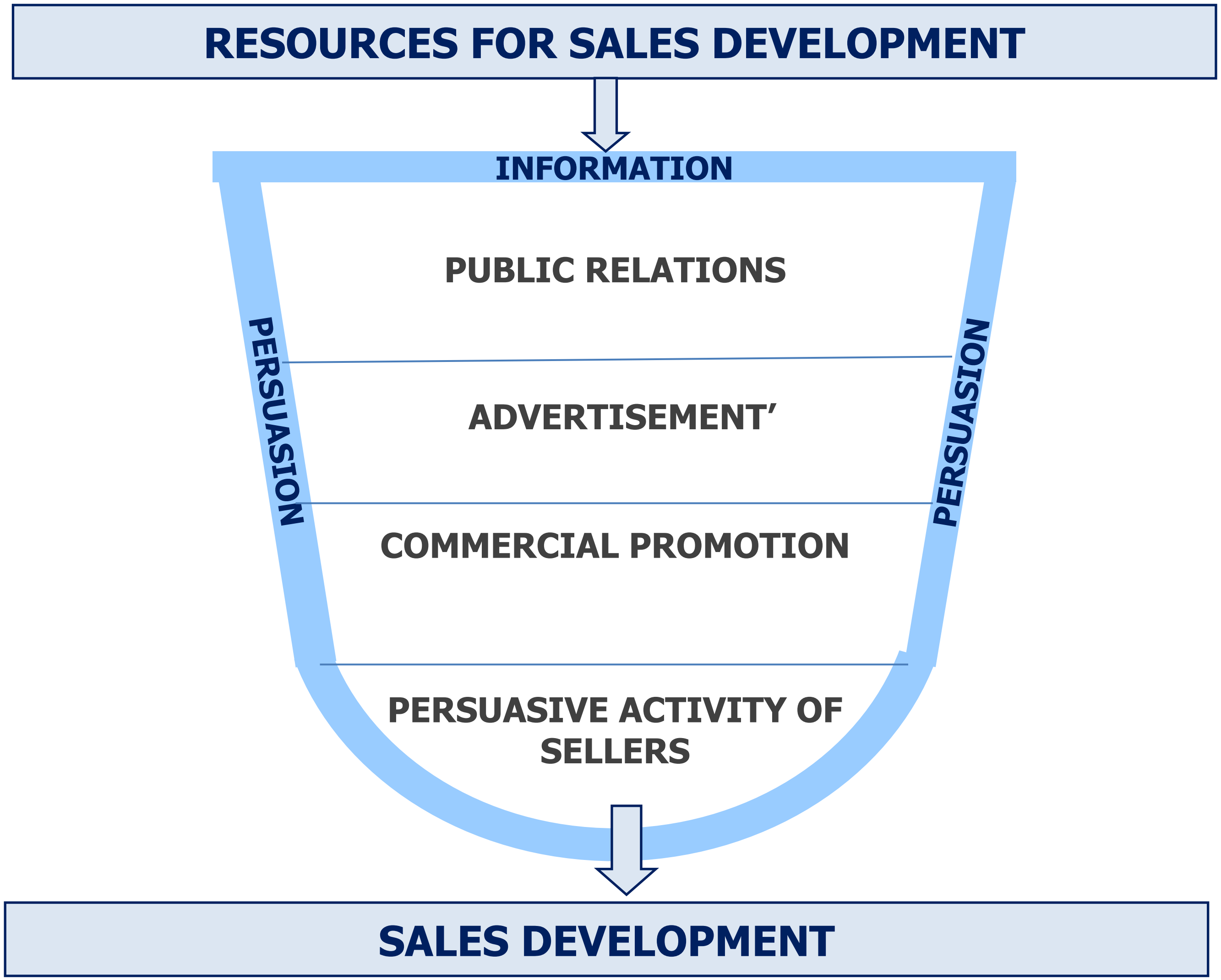
Promotion policies

The set of activities aimed at promoting, publicizing and making known to the market a company or its specific products or services.

A communication plan includes the following decisions

- What are the objectives to be sought
- How much to invest
- What message to send
- What means of communication to use
- How to measure results

Promotional funnel



Advantages and disadvantages of the main means of communication (1)

NEWSPAPERS

ADVANTAGES
- Flexible and timely
- Intensive coverage of local markets
- Widespread acceptance and use
- High credibility of the printed paper

DISADVANTAGES
- Short term
- Hurried reading
- Poor casual audience

TELEVISION

ADVANTAGES
- Combination of images, sounds, movement
- Call for the senses
- Extensive mass audience coverage
- Attention psychology

DISADVANTAGES
- No environmental selectivity
- Fleeting impressions
- Short term
- Very expensive

RADIO

ADVANTAGES
Mass use
Audience selectivity
Low cost per unit of time
Geographical flexibility

DISADVANTAGES
Only audio presentation of the products
Less attention than TV
Chaotic purchase
Short term

Advantages and disadvantages of the main means of communication (2)

DIRECT MAIL

ADVANTAGES
- Audience selectivity
- Flexibility
- No competition
- Customization

DISADVANTAGES
- Relatively high cost
- Consumers often don't pay much attention to advertisements and trash them

JOURNALS

ADVANTAGES
- High geographic and demographic selectivity
- Attention psychology
- Quality of reproductions
- Occasional audience

DISADVANTAGES
- Long notice periods
- Partial waste of material
- Location not guaranteed

OUTDOOR ADVERTISING

ADVANTAGES
- Flexible
- Relative absence of competing advertising
- Repeated exposure
- Relatively inexpensive

DISADVANTAGES
- Limitations on creativity
- Many distractions for the observer
- Possible public opposition
- No selectivity of the audience

Customer Relationship Marketing- Customer Lifetime Value

FINAL OBJECTIVE OF RELATIONAL MARKETING IS THE IMPROVEMENT OF LONG-TERM PROFITABILITY AND THE MAXIMIZATION OF CUSTOMER LIFETIME VALUE

THE CUSTOMER LIFETIME VALUE DEFINES THE VALUE THAT A CUSTOMER CAN GENERATE FOR A CERTAIN BUSINESS IN THE LONG TERM

=

AVERAGE TRANSACTION VALUE × **ANNUAL FREQUENCY OF PURCHASE** × **CUSTOMER EXPECTED LIFE CYCLE**

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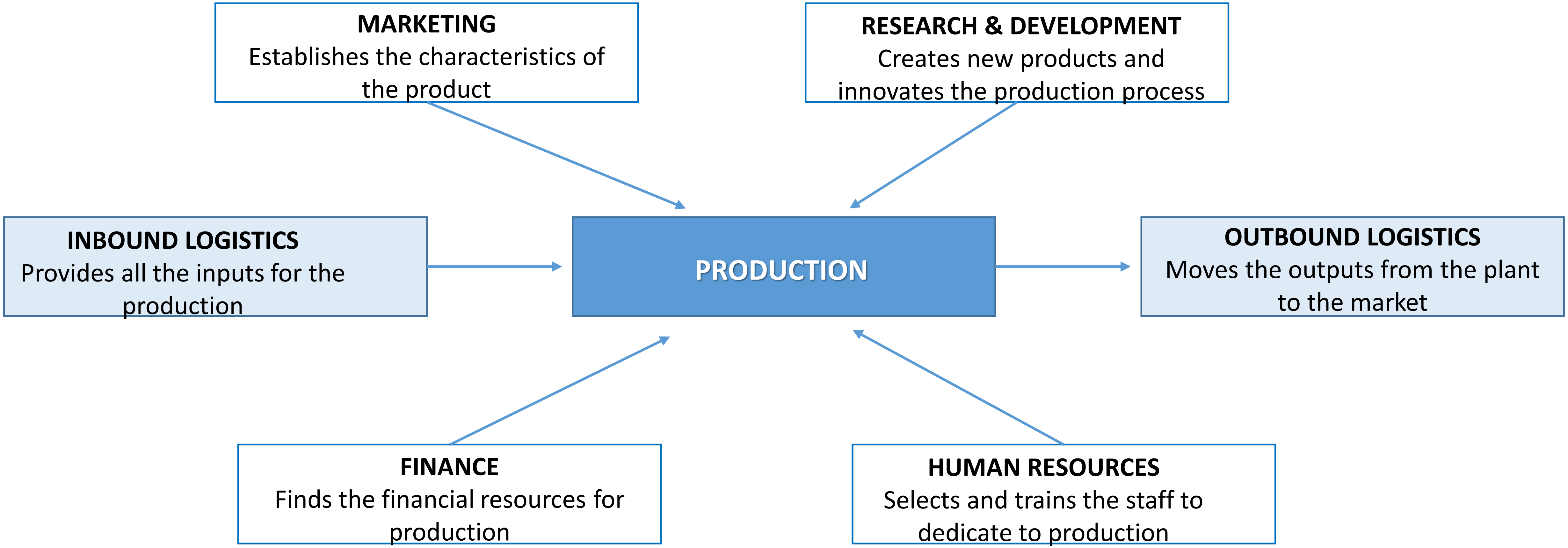
Production

Production Function

The Production Function concerns the process of transformation of assets, that is the set of operations by which the resources purchased (inputs) are turned into finished products (outputs) to be placed in the market

The Production Cycle is at the center of the Management process, as it is preceded by the procurement phase, followed by the distribution and sales phases and continuously related with marketing strategies, with the financial function, with the Human Resources management and with the Research and Development activities of the Company.

Production Function



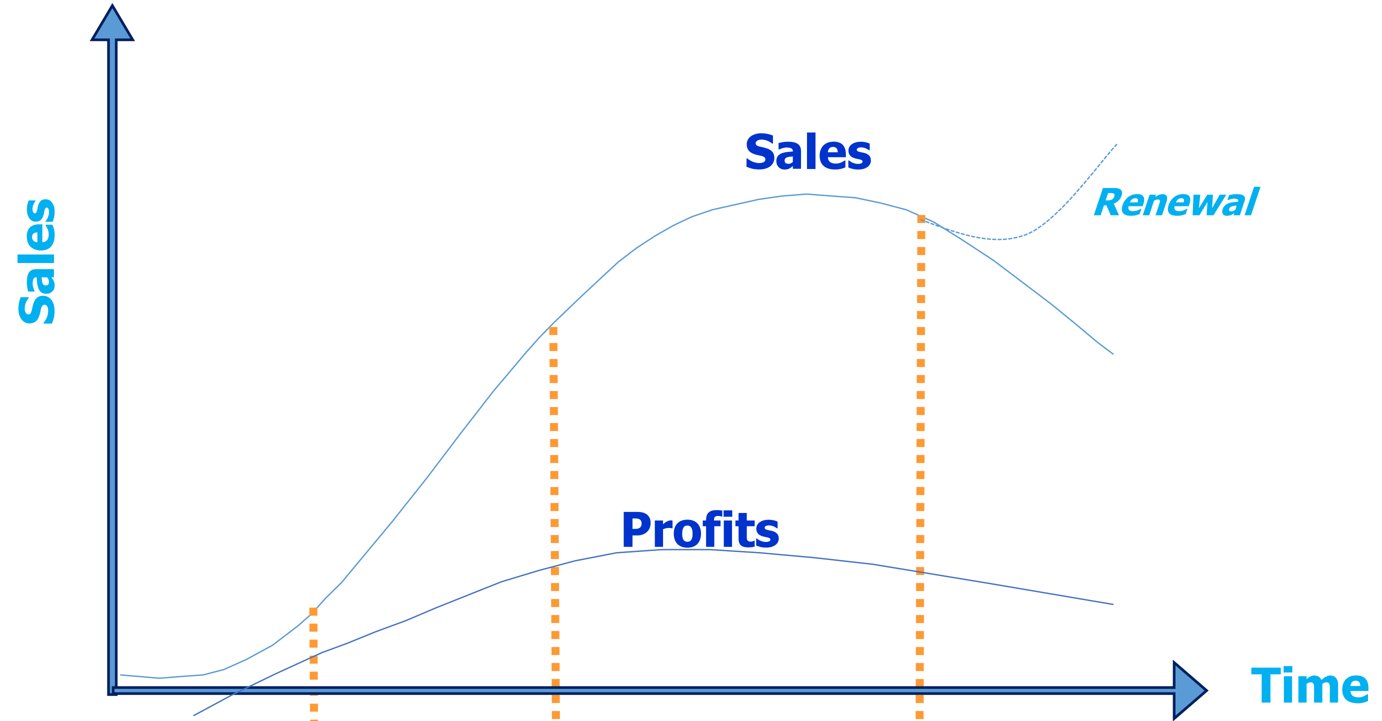
Production and competitive strategy

Low costs → **Low-cost leadership strategy**

Quality → **Differential strategy**

The production strategy must be centered on the priority aspects of the competitive strategy, to ensure the best contribution to the creation of competitive advantage

Curve of the Product Life Cycle



	Introduction	Growth	Maturity	Decline
SALES	Low	Rapid growth	Peak	reduction
COSTS FOR THE CUSTOMER	High	Middle	Low	Low
PROFITS	Negatives	Increasing	High	declining
CUSTOMER TYPE	Innovators	Early adopters	Majority	Latecomers
COMPETITORS	Few	Increasing	Stable	In reduction
ADVERTISING	Knowledge	Awareness	Differentiation	retention
PROMOTION	Intense	Reduction	Increase	Reduction

Categories of new product adopters

Innovators are the first customers to try a new product. They are, by nature, risk takers and are excited by the possibilities of new ideas and new ways of doing things.

Innovators will often have some connection to the scientific discipline in which a new product is generated from and will tend to socialize with other innovators in their chosen product categories.

Innovators are comfortable with the risks that they take. They are aware that some products that they adopt will not deliver the benefits that are promised.

Early adopters are the second phase of product purchasers following innovators. They tend to be the most influential people within any market space and they will often have a degree of "thought leadership" for other potential adopters. They may be very active in social media and often create reviews and other materials around new products that they strongly like or dislike.

Early adopters will normally have a high social status (which in turn enables thought leadership), reasonable access to finances (beyond those of later adopters), high levels of education and a reasonable approach to risk. However, they do not take as many risks as innovators and tend to make more reasoned decisions. They will try to obtain more information than an innovator in this decision making process.

Categories of new product adopters

Majority customers They buy the product when it begins to have mass market appeal. This class of adopter is risk averse and wants to be sure that their, often more limited, resources are spent wisely on products. They are however, generally, people with better than average social status and while not thought leaders in their own right – they will often be in contact with thought leaders and use their opinions when making the adoption decisions.

Latecomers are the last to arrive at the adoption of the product and their arrival is typically a sign that a product is entering decline. Latecomers value traditional methods of doing things and are highly averse to change and risk. Typically they will have low socio-economic status and rarely seek opinions outside of their own limited social set. However, in many cases, Latecomers are older people who are less familiar with technology than younger generations and in these cases they may still have a mid-level of socio-economic status.

Production chain, final product and finished product

Production chain = It is the group of companies that participate in the transformation of a series of materials into final products, contributing to the creation of a good to be delivered to the consumers or to industrial users.

Finished product

It is the output of a company's processing cycle. It requires further transformations in order to be sold to the final market. For example, it could be a semi-component that another company will use to produce its final asset.

Final product

It does not require further processing to be destined for a particular use and be sold to the final consumer.

Outsourcing e delocalization

Outsourcing

abbreviation of outside resourcing, indicates the process by which a company (outsourcee) entrusts an external supplier (outsourcer) with the operational management of one or more phases of the production process.

Delocalization

delocalization of the production process or some phases of it in another country in order to save costs such as the labour costs.

Production plant

Design

- a) Lay out
- b) Economic and technical flexibility
- c) Sizing
- d) Security margin

Economic flexibility: Capacity of the plant to remain competitive even in conditions of partial use

Technical flexibility: Capacity of the plant to adapt to the production of different goods without incurring in costs that cannot be tolerated from a competitive point of view

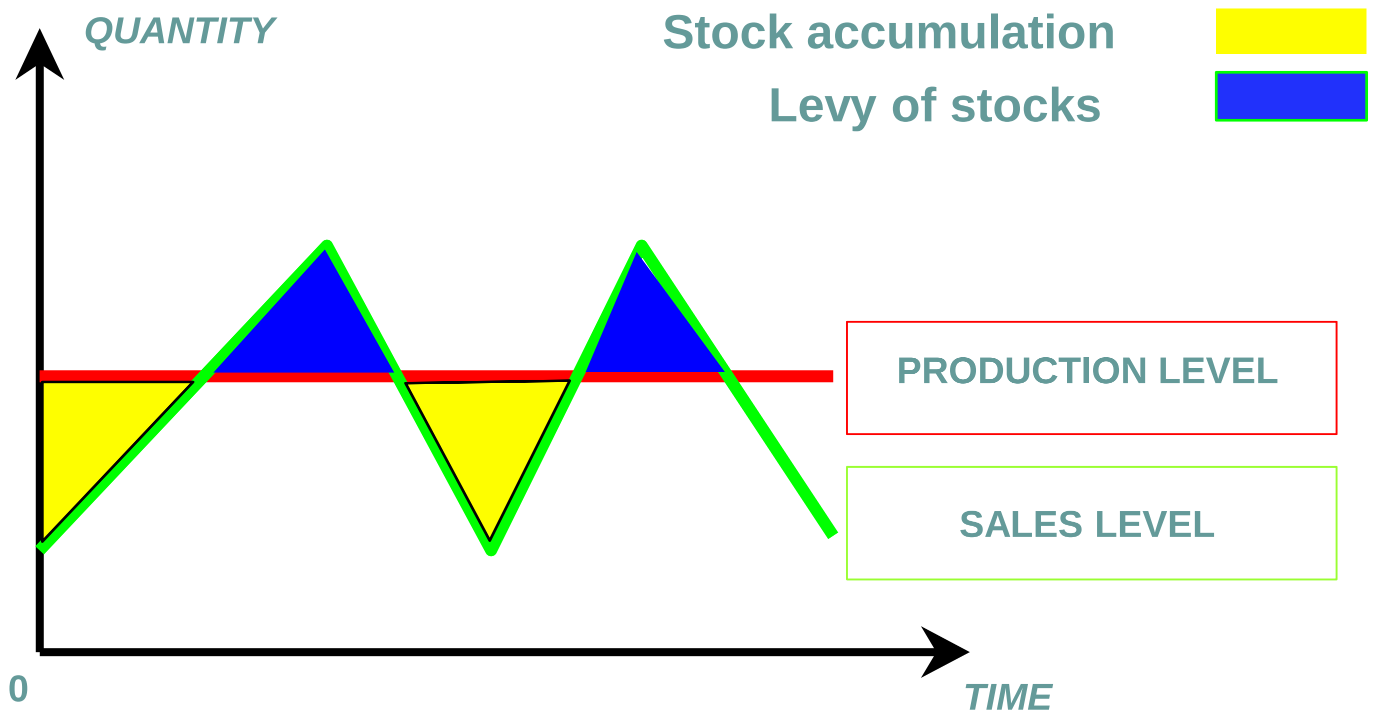
Lay-out

The layout is the arrangement of building structures, machinery, equipment and workstations inside the factory, in order to optimize the 4 M (Men, Materials, Machines, Money)

Layout types	Main features
Functional	*Machines grouped by production processes*
By product	*Machines grouped by processed products*
At fixed locations	*Machines moved around the product*
In cells	*Machines grouped by groups of processed products*

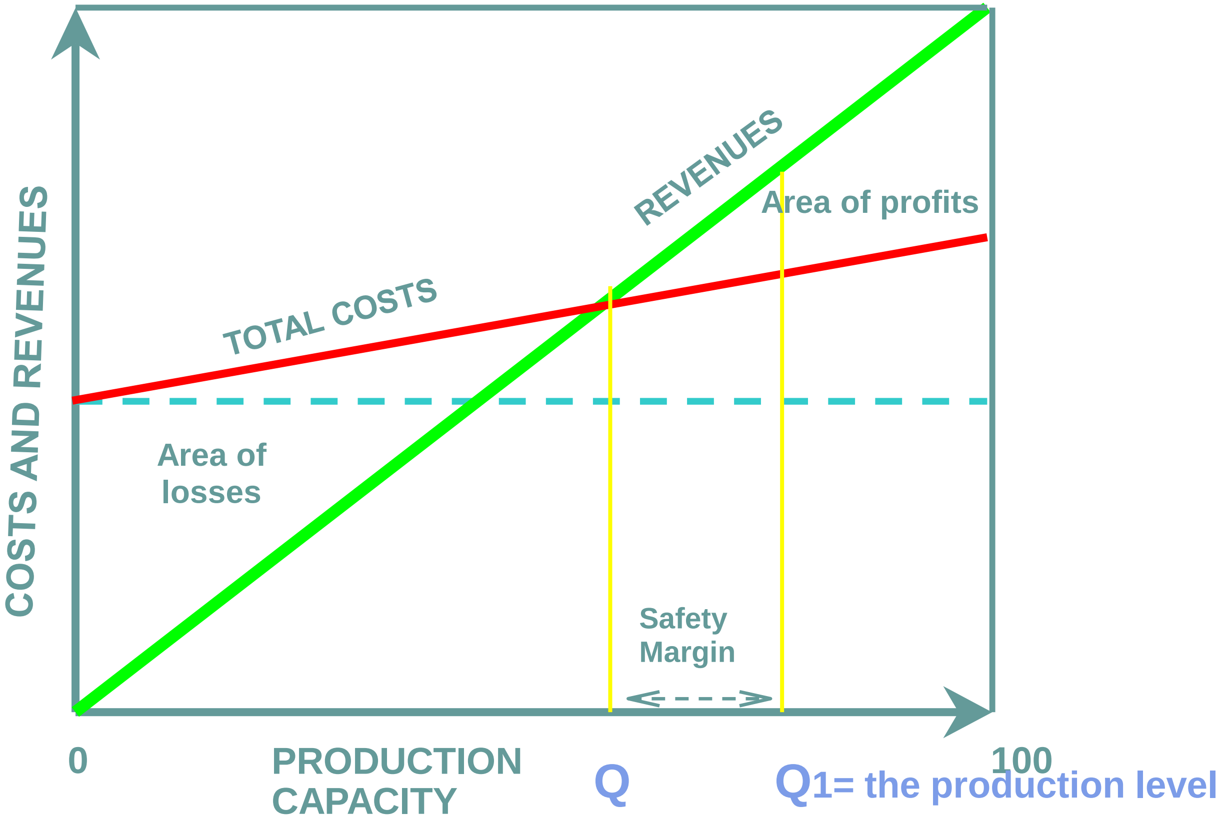
Sizing of the plant

The main sizing choices are:
Determination of maximum production capacity
Determination of the optimal potential of the plant



Break-even point and safety margin

The problem of sizing the global production volume has economic implications linked to the riskiness of the investment and its cost (understood as the minimization of the unit cost of the product).



Production efficiency control

The objective is to prevent anomalies in the cycle and in the products to avoid bearing unnecessary costs and to guarantee quality

Results check

Physical performance in terms of e productivity assortments of committed resources

Quality check

Product compliance with the technical design specifications and with the performance guaranteed to the consumer (sample check)

Economic check
(value analysis)

Identification of possible areas of saving costs in the production function (this control is all the more necessary in the markets in which competition is high)

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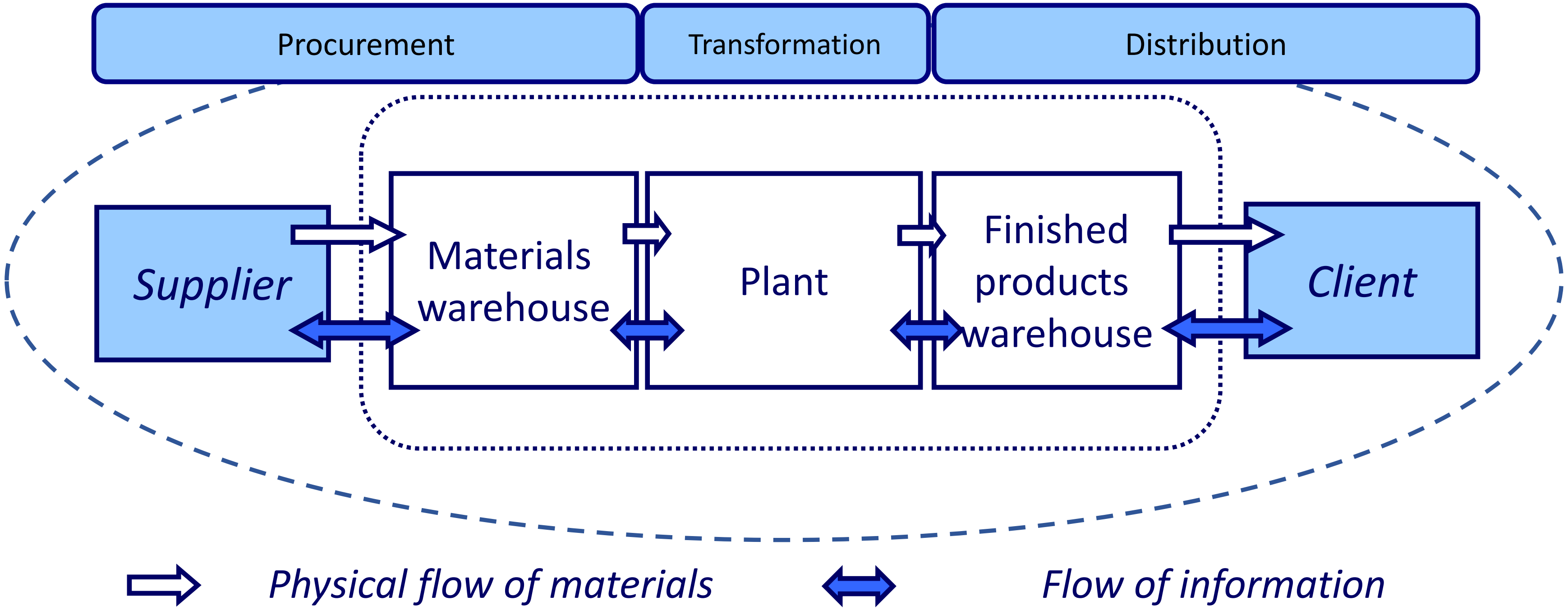
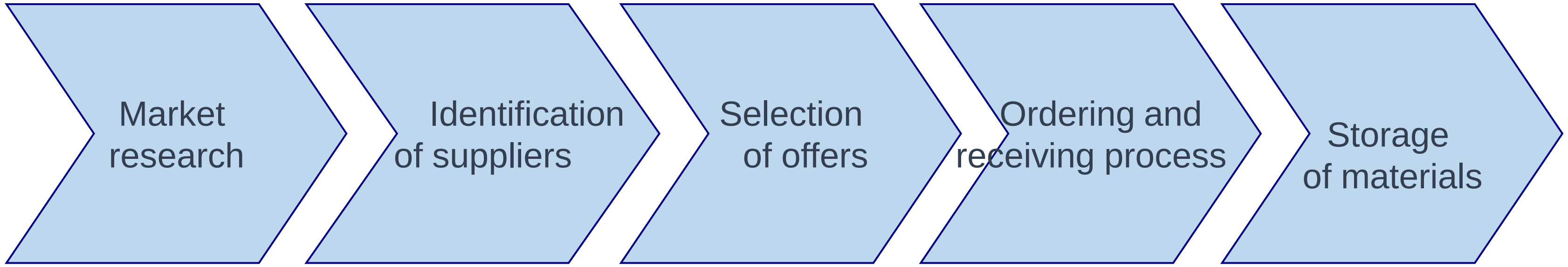
Logistics

The logistics function

Logistics is the system of connection between the supply of materials (inbound logistics), their transformation in products and the placement of the products produced on the market (outbound logistics).



The procurement procedure



The implementation of the procurement function involves the definition of commercial policies towards:

different suppliers;

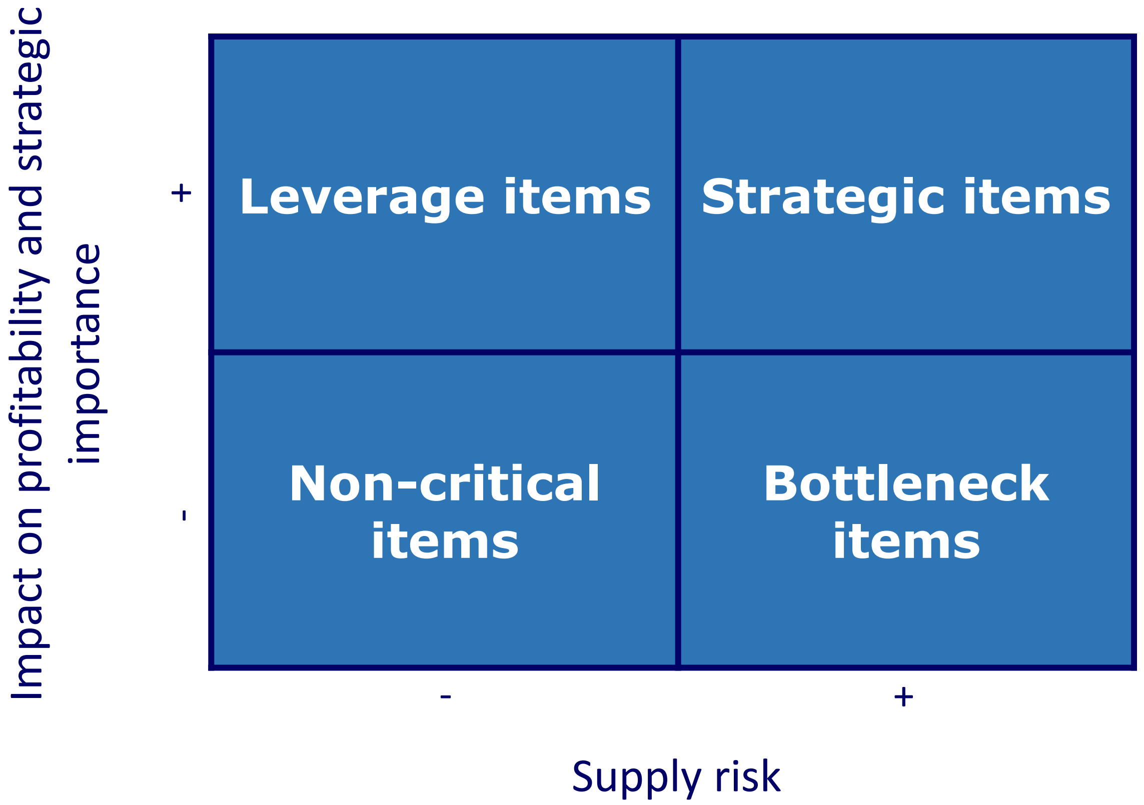
supply quantity and times;

terms of payment;

conditions of receipt of the purchased materials.

The purchasing matrix (di Kraljic)

Types of contracts with suppliers



The Kraljic matrix

Leverage items
Where items have a high profitability, but a low risk factor, buyers possess the balance of power in the relationship and leverage this strength to obtain greater returns. Traditionally, procurement professionals have exploited this status to lower prices, but increasingly more advanced companies are looking to unlock the innovative potential of their suppliers.

The market dynamics of this relationship rest upon an abundance of highly commodified parts. Suppliers can be easily substituted as their offerings are much the same. The only limitation for buyers is perhaps over-playing their hand and forcing a low-profit margin vendor into insolvency.

The Kraljic matrix

Strategic items
Lastly, high supplier risk and high profit impact items cover strategic suppliers. These are critical to the business. These items only represent a handful of suppliers, but ensuring an effective and predictable supplier relationship is key to the future of the buying company.

Managing such suppliers requires a diverse array of skills and can subsume a significant proportion of executive time in sponsoring and directing the relationship. Unlike the non-critical items, each contract is unique and focuses upon the shared gains that equal partners enjoy in a collaborative relationship. Strategic partners should look to innovative both product and process innovation and in return they can expect long-term commitment from the buyer as well as proactive development.

The Kraljic matrix

Non-critical items

These items are low risk and have a low impact upon organizational profitability. The most commonly used example in this segment is office stationery. Although important for employees to perform their duties, pens and paper do not have a significant impact upon the business, nor does their absence represent a serious threat.

For buyers, stationery is a nuisance. It clogs up time with peripheral concerns. As such, the sourcing strategies deployed here focus on efficiency and reducing administrative burden. Techniques such as e-auctioning and catalogs are an excellent means to redirect responsibilities either directly to suppliers or to internal customers that are requisitioning the goods.

The Kraljic matrix

Bottleneck items

The flip side of leverage: risk is high, but profitability is low. Here, the strength is in the hands of the supplier. The market consists of few suppliers that can behave oligopolistically to force prices upward. Procurement Leaders found that these suppliers absorb more of buyers' time compared to any other segment. The supplier relationship is demanding, even though they have a limited impact upon company profitability. The market structure forces buyers to accept an unfavorable deal.

The main strategy rests upon damage limitation. Procurement must recognize that few opportunities will arise from this category. More creative buyers will seek to alter the terms of trade. Innovative internal activities can redevelop product requirements such that the material can be replaced with another and preferably sourced from a leverage supplier.

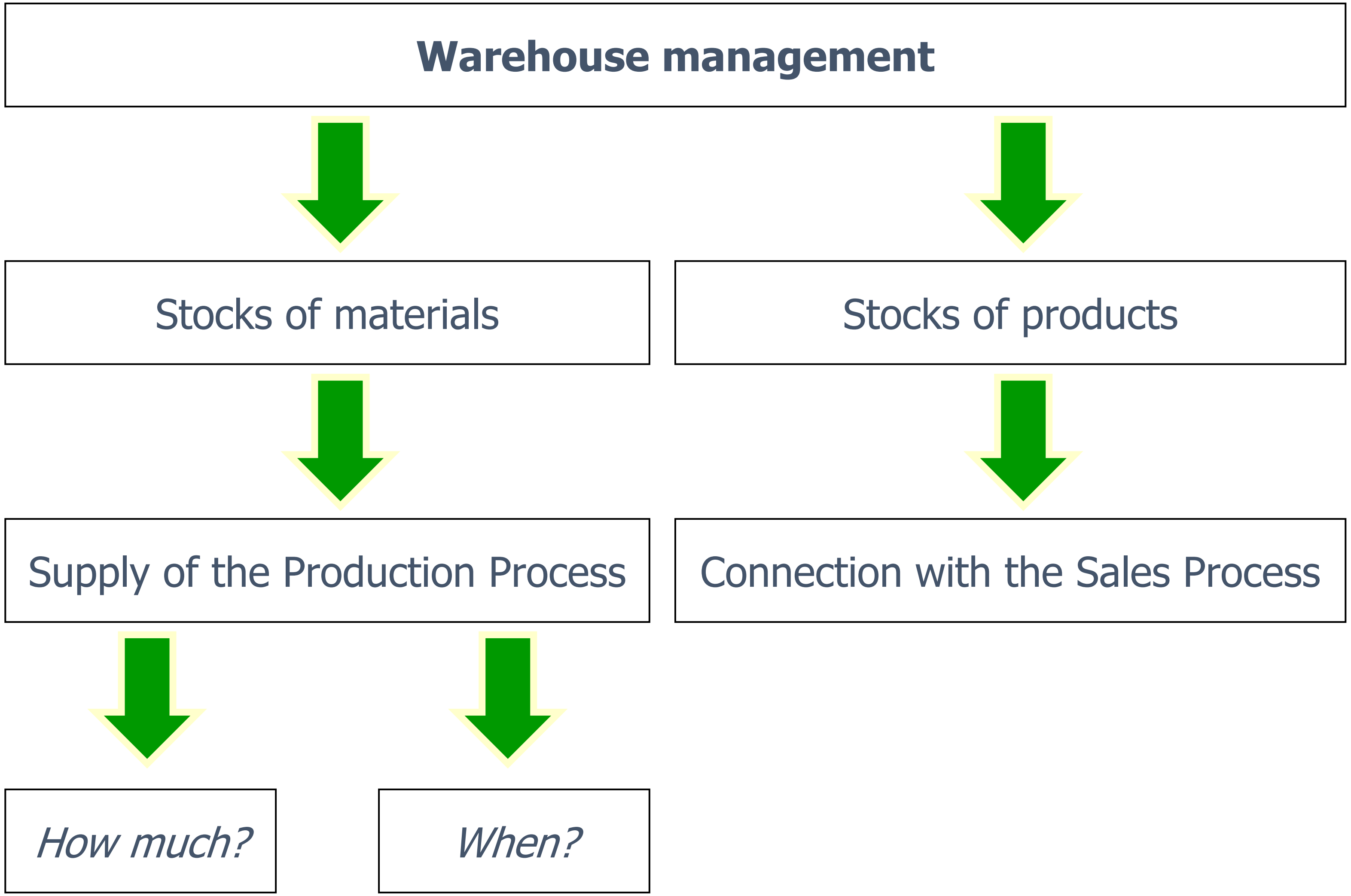
Stock management

Definition

The quantity of material present within the production system waiting to be subjected to a transformation or distribution process (that is the management of materials or products stocked in the warehouses).

- Raw materials
- semi-finished products
- Finished products

Warehouse management



Stock management

Models of Stocks control

Stock Control

- **Two bin System**
  - "Fixed quantity" technique”
- **Ordering Cycle System**
  - "Fixed time" technique

Flow control

- Material Requirement Planning (**MRP**)
  - Attempts are made to match stocks with short-term requirements, in order to minimize the accumulation of stocks
- *Just in Time*

Stock management

Stocks control is concerned with two questions: when to replenish the store and by how much.

There are two main control systems.

The two-bin system (sometimes called the min-max system) involves the use of two bins, either physically or on paper. The first bin is intended for supplying current demand and the second for satisfying demand during the replenishment period. When the stock in the first bin is depleted, an order for a given quantity is generated.

The order-cycle system, or cyclical-review system, consists of ordering at fixed regular intervals.

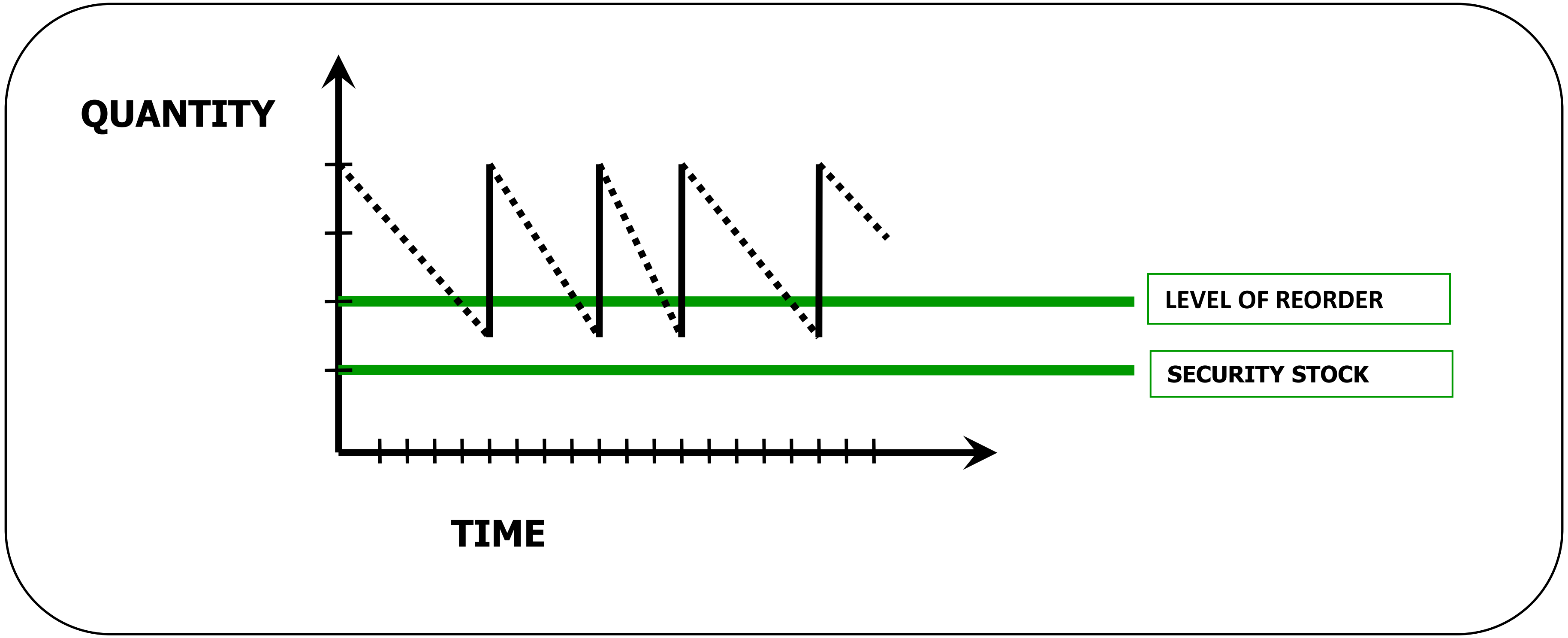
Stock management

Characteristics of Stock Management Systems

Two bin System	Ordering Cycle System
How much order is identified	First the "When" order is determined
It refers to a predetermined minimum level of reordering	It is based on procurement at the end of each cycle
Consequently the "When" is obtained	Consequently the “How much” is determined

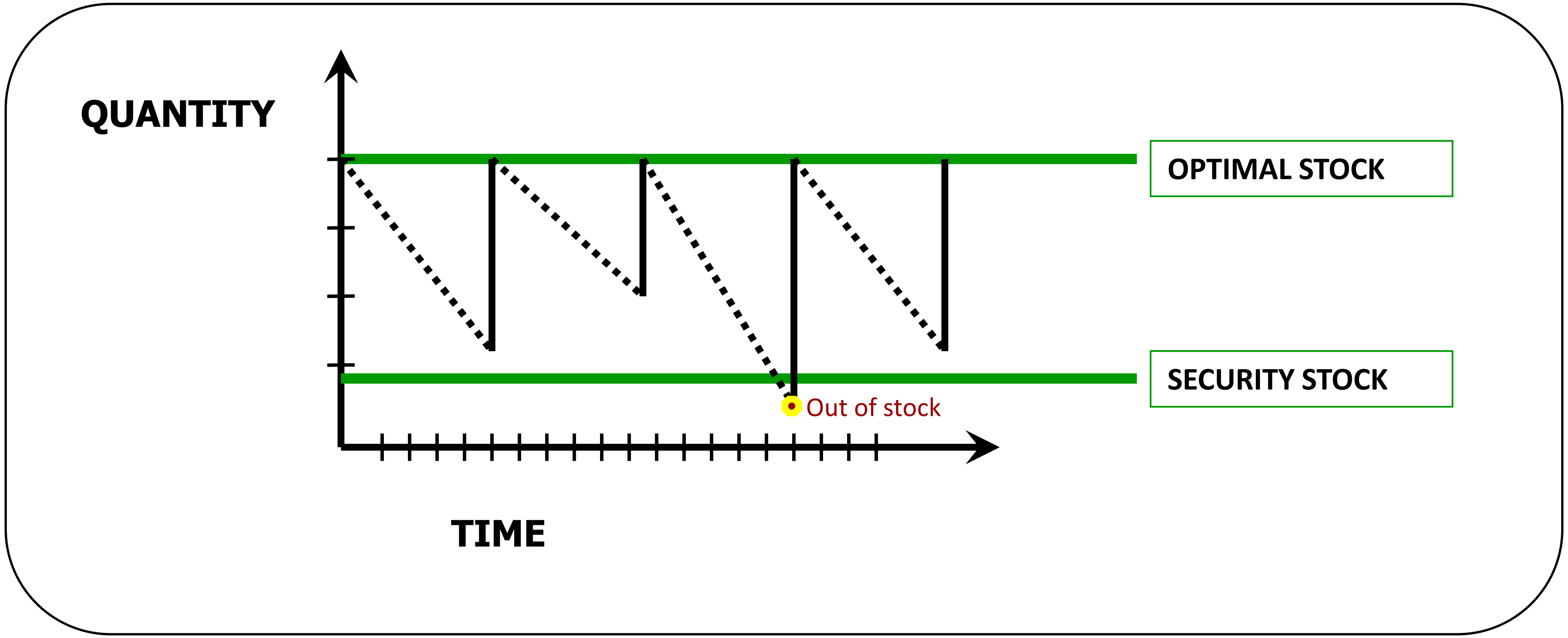
Stock management

Two bin System



Stock management

Ordering Cycle System



Stock management

Just in Time

Aim

Minimization of stock levels of the production cycle to generate economic benefits (cost savings) and at the same time reduce the risk of immobilization (deterioration and obsolescence of stock materials)

Limitation

the risk of remaining without inputs and stopping production

Principle

We talk about the "zero stock" technique, which requires an optimal organization of the entire management cycle

Requirements

It demands the maximum punctuality and qualitative-quantitative correspondence of the materials that the company needs; this type of guarantee requires a high degree of supplier control (eg by establishing sub-supply relationships with them)

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Research & Development

Research & Development function

The research and development (R&S) activity is defined as the set of creative works undertaken in a systematic way both to increase the set of knowledge and to use this knowledge for new applications

- ***Basic research:*** *experimental or theoretical work undertaken mainly to acquire new knowledge on the fundamentals of phenomena and facts susceptible to observation, not aimed at a specific application or use.*

- ***Applied research:*** *original work undertaken mainly to acquire knowledge and aimed at a practical and specific application or use.*

- ***Experimental development:*** *systematic work, based on existing knowledge, acquired through research and practical experience, conducted in order to complete, develop or improve materials, products and production processes, systems and services.*

Research & Development function

PURE OR BASIC RESEARCH PROJECTS	*… characterized by the high degree of technical uncertainty deriving from the low degree of knowledge initially available on the subject of the investigation.*
APPLIED RESEARCH PROJECTS	*…in which efforts are conducted towards the formalization and consolidation of the knowledge acquired during the basic research phase, in order to assess the concrete possibilities of application at the level of innovative product or production process.*
DEVELOPMENT PROJECTS	*…have as a priority the economic exploitation of the invention, with the consequent commitment by the company to the start-up of the new industrial transformation systems and / or the launch policies of the new or innovated product.*

The sources of innovation financing

Difficulty in finding financial resources

High amount of resources to be committed.

Profitability spread over time.

Difficulties in providing adequate guarantees to lenders.

Research & Development function

Collaborations in R&S

Sometimes the development of a project requires activities complementary to those carried out by a company, without which it would be difficult to transform a core of technological knowledge into a marketable product.

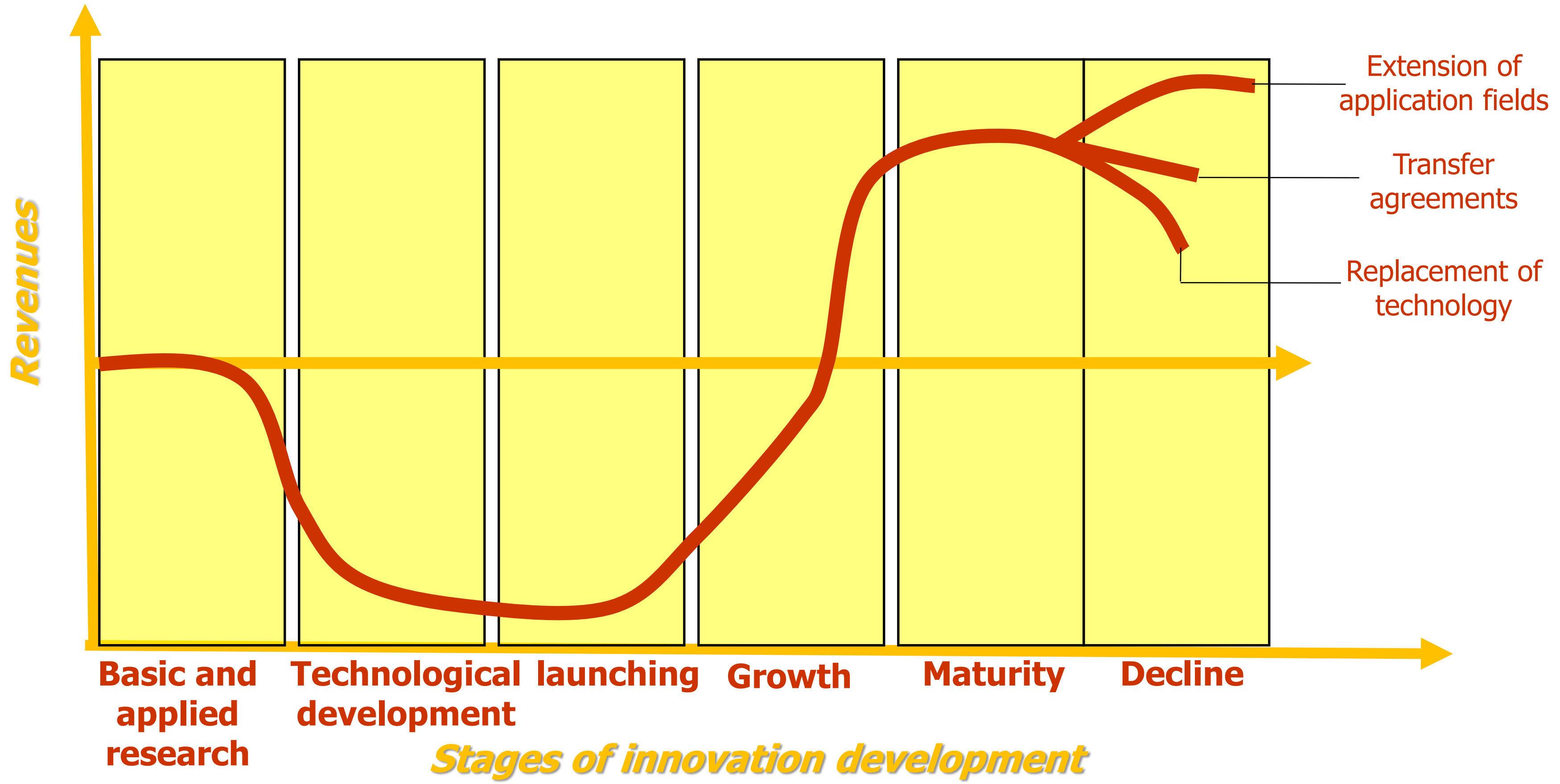
Many times companies therefore have to choose whether to carry out their innovative activities on their own or in collaboration with partners.

The collaboration could allow the company to reach more ambitious targets more quickly and with lower costs and risks.

Through collaboration with other companies, an organization has access to a wealth of knowledge and skills not possesed, which could cost time and money (in case of internal development).

However, collaboration strategies involve a sharing of control power and a sharing of profits, as well as having the risk of unfair and opportunistic behaviors by the partner.

The economic-financial cycle of innovation



Nike: Product development from concept to customer

- Nike is the world's largest sports and fitness company, earning $US14 billion in revenue. The company, with one of the world's most identifiable logos - the 'swoosh', is a leader in sports equipment research and development (R&D). Nike identified a gap in the sports shoe market - a shoe which mimics barefoot running in order to strengthen runners' feet and legs, giving them more power and speed while reducing the risk of injury. After extensive R&D, the shoe, Nike Free, was developed. Nike Free was given an initial, strictly controlled, limited 12 month release before being promoted to consumers worldwide. After reading this Case Study, students should be able to:

- Demonstrate and evaluate the stages involved in the product development, from conception of a product, through the research and development stage, to design, production, promotion and market release
- Understand what is meant by product or brand positioning and analyse market research methods
- Identify promotion strategies and their application as they apply to Nike Free and other Nike products.

Nike's 'swoosh' is one of the world's most identifiable logos and, in just 32 years, Nike has grown to be the industry's largest sports and fitness company. Revenue for Nike in financial year 2005 was $US 13.7 billion.

Nike directly employs approximately 24,300 people and Nike's suppliers, shippers, retailers and service providers employ close to one million people on six continents.

Nike's mission is:

'To bring inspiration and innovation to every athlete in the world.'

According to Bill Bowerman, one of Nike's founders, "If you have a body, you are an athlete."

Research and development

How does Nike develop its products and decide what does and doesn't make the cut when it comes to innovation? The Nike Sports Research Laboratory (NSRL) is located on the Nike campus in Portland, Oregon in the United States of America. The research and development (R&D) centre's role is to identify the physiological needs of athletes. The NSRL works directly with Nike's design teams and has established partnerships with major universities throughout Asia, Europe and North America.

To research and develop products, the scientists have an incredible array of measurement and analysis tools. Their data collection includes virtually every variety of muscle sensor, pressure platform, breath analyser, foot scanner and thermal imaging device. There are high-speed video cameras that capture soccer kick data at 1,000 frames per second and a scanner that produces, in just seconds, a perfect 3D digital image of your foot.
But it does not stop there! There are testing surfaces, such as a huge section of regulation basketball hardwood, artificial soccer turf, a 70-metre sprinters' track runway and endless field testing that takes place outdoors in various terrains.

The NSRL takes an idea, and researches and prepares a design brief. The brief is then passed over to the company's Innovation Kitchen - an incubator for new projects.

In the first phase of developing what was to become Nike Free, the 'cooks' in the Kitchen took the NSRL description of 'natural technology' and started asking what sort of shoe people might be looking for next. In the process of talking to athletes and coaches, the designers spoke to Vin Lananna, then the track coach at Stanford University, who told them about his unusual training method - having athletes run on grass without shoes. According to Lananna, the athletes were stronger, healthier and less injury-prone. This was a great idea but contrary to Nike's business - making and selling sports shoes.

However, the idea led to an extensive biomechanical research project to see exactly what happens when we run barefoot. Sports shoes provide a certain amount of control or cushioning based on the notion that they are needed to complement the natural action of the foot. Nike researchers wanted to know why Lananna's athletes, who ran barefoot in training, raced faster.

The researchers brought in 10 men and 10 women to run barefoot on grass to see exactly how the body reacts without shoes on. They were videotaped with high-speed cameras to capture their movements; they had reflective markers attached to their joints to allow easy calculation of joint angles during their stride, and wafer-thin pressure sensors attached to the bottoms of their feet to measure their impact with the ground. At the end of the experiment, Nike had the most comprehensive picture of the biomechanics of barefoot running ever developed.

The challenge was to translate that barefoot experience, which promotes good biomechanics for runners, into a shoe.

Researchers developed prototypes, using any materials which could closely copy the barefoot. Next came the challenge to build the shoe. A shoe is built on a model of the foot, called a last, allowing the upper and outersole to be built around it. Researchers had to develop a brand new version of the last in order to copy the way a bare foot operates. This resulted in the shoe's upper being designed in a mesh that has small holes in it, allowing the foot to be encased but feel free. There is no heel counter; instead the heel fits snugly in the shoe as the inner sole allows the foot to sit naturally in a neutral position. The key is the outersole which can move and flex independently with each section being sliced so that the foot is allowed to move as naturally as possible in the shoe. The shoes are meant to be used in tandem with other training and racing shoes. The goal is to use Nike Free to help strengthen the feet in addition to using more traditional, supportive running and training shoes.

Testing the prototypes

Independent testing

Before Nike Free was known to the athletic world or commercially released, Nike undertook extensive independent testing. The company used elite athletes as well as everyday runners and a few sports journalists, i.e. people who exercise and run regularly, to undertake product testing. In a six-month trial, 110 every-day runners used the shoe. One group, consisting of 30 men and 27 women, wore the Nike Free shoes for four 30-minute runs, four times a week. The control group - 30 men and 23 women - used their regular personal training shoes. Outside the four 30-minute runs a week, both groups continued their usual workout schedules. All participants were tested at the start of the six-month period on their abilities in a number of physical areas - shuttle runs, lateral running short sprints, and leg strength - and were tested again at the end of the six months. These tests measured qualities such as speed, development, coordination and optimal speed.

Researchers found some slight improvement in the control group, registering a little more speed and a little more coordination - but not enough to be statistically relevant. However, the test results from the group wearing the Nike Free shoes showed improvement in all the parameters measured, and improvements in speed, lateral movement, and coordination were significant - in the 10 to 20 percent range. That is a significant improvement considering the shoes were worn only two hours a week over a six-month period. An improvement of one percent in speed could mean a metre's difference in a 100-metre sprint - often the difference between first and fourth place.

In simple terms, Nike Free was acting not only as a running shoe, but as a training technique! Athletes in the test group using Nike Free were found to be stronger and more flexible. One of the researchers put it this way: "Nike Free is a gym for your feet."

Source: Review of Nike Technology by Larry Eder Summer 2004 ATF Resource Guide, Vol. 11.

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Human Resources Management

What is Human Resources Management?

Human resource management (HRM or HR) is the strategic approach to the effective management of people in a company or organization such that they help their business gain a competitive advantage.
It is designed to maximize employee performance in service of an employer's strategic objectives.

HR departments are responsible for overseeing employee-benefits design, employee recruitment, training and development, performance appraisal, and reward management, such as managing pay and benefit systems.

HR also concerns itself with organizational change and industrial relations, or the balancing of organizational practices with requirements arising from collective bargaining and governmental laws.

Human Resources Management

The overall purpose of human resources (HR) is to ensure that the organization is able to achieve success through people.
HR professionals manage the human capital of an organization and focus on implementing policies and processes. They can specialize in finding, recruiting, training, and developing employees, as well as maintaining employee relations or benefits.

Managing employee benefits includes developing compensation structures, parental leave programs, discounts, and other benefits for employees. On the other side of the field are HR generalists or business partners. These HR professionals could work in all areas or be labor relations representatives working with unionized employees.

Who are Human Resources?

Human Resources are all the people that in one capacity or another work for or contribute to an organization.

These people make up a company’s workforce.

They include independent contractors, workers provided by contract firms, on-call workers, and temporary help agency workers.

HR basics

The main functions of Human Resources Management are:

1. Recruitment & selection
2. Performance management
3. Learning & development
4. Succession planning
5. Compensation and benefits
6. Human Resources Information Systems
7. HR data and analytics

Recruitment & selection

The request for new hires usually starts when a new job is created or an existing job opens up. The direct manager then sends the job description to HR and HR starts recruiting candidates. In this process, HR can use different selection instruments to find the best person to do the work. These include interviews, different assessments, reference checks, and other recruitment methods.

Sometimes, when there are a lot of candidates, HR may deploy preselection tools. These tools help to separate the wheat from the chaff when it comes to suitable candidates. The candidates that are successful then continue to the next round, where they are interviewed and receive a more in-depth assessment.

Performance management

Once employees are on board, performance management becomes important. Performance management is the second HR basic. It involves helping people to perform better in their jobs.
Usually, employees have a defined set of responsibilities that they need to take care of. Performance management is a structure that enables employees to get feedback on their performance – with the goal to reach a better performance.

Usually, companies work with an annual performance management cycle, which involves planning, monitoring, reviewing, and rewarding employee performance. The outcome of this process enables the categorization of employees in high vs. low performers and high vs. low potentials.

Learning & development

If employees struggle to perform well in certain areas, learning and development can help to improve their performance. Learning & development (L&D) is led by HR and good policies can be very helpful in advancing the organization towards its long-term goals.

Many organizations have pre-defined budgets for L&D efforts. This budget is then distributed amongst employees, with trainees, future leaders, and other high potentials often receiving more training opportunities than others.

Succession planning

Succession planning is the process of planning contingencies in case of key employees leaving the company. If, for example, a crucial senior manager quits his/her job, having a replacement ready will guarantee continuity and can save the company significant money.

Succession planning is often based on performance ratings and L&D efforts. This results in the creation of a talent pipeline. This is a pool of candidates who are qualified and ready to fill (senior) positions in case of someone leaving. Building and nurturing this pipeline is key to good people management.

Compensation and benefits

Another one of the HR basics is compensation and benefits. Fair compensation is key in motivating and retaining employees.

Compensation can be split up in primary compensation and secondary compensation. Primary compensation involves directly paid money for work, which often is a monthly salary and sometimes performance-based pay.

Secondary benefits are all non-monetary rewards. This can include extra holidays, flexible working times, day-care, pensions, a company car and laptop, and much more.

The goal here is to reward people in ways that motivate them.

Human Resource Information System

The Human Resource Information System is a system that is used to collect and store data on an organization's employees.
It is a system for recruitment, performance management, learning & development, and more; hence, it supports all the cornerstones discussed above.

All these functionalities can often be done in one single system – the HRIS. Sometimes, however, the management of these functionalities is split up into different HR systems.

The bottom line here is that there is a significant digital element to working in HR which is why the HRIS is the final element when we talk about the HR basics.

HR data and analytics

HR analytics is the systematic identification and quantification of the people drivers of business outcomes

It enables HR to:

- Make better decisions using data
- Create a business case for HR interventions
- Test the effectiveness of these interventions
- Move from an operational partner to a tactical, or even strategic partner