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LEARNING

# **Management: Arab World Edition**

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## **Chapter 8: Strategic Management**

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# What is Strategic Management?

- **Strategic management**

- Is what managers do to **develop an organization's strategies**.

- **Strategies**

- **Plans** that determine the long-run performance of an organization.

# Recap

## Goals (also Objectives)

**Desired outcomes** for individuals, groups, or entire organizations

## Plans

**Outline how goals** are to be **accomplished**

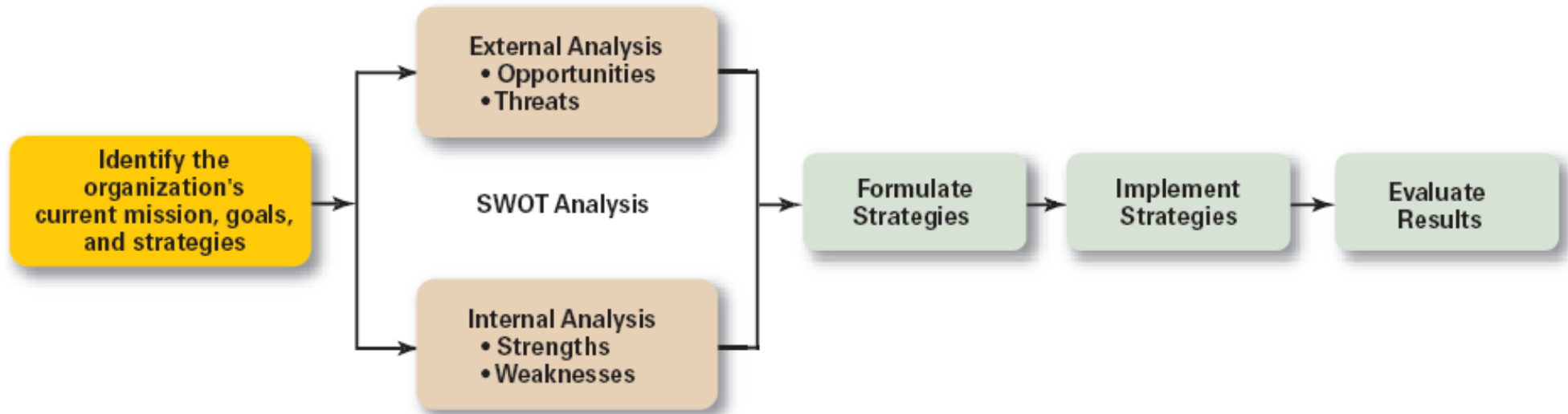
# Why Is Strategic Management **Important**?

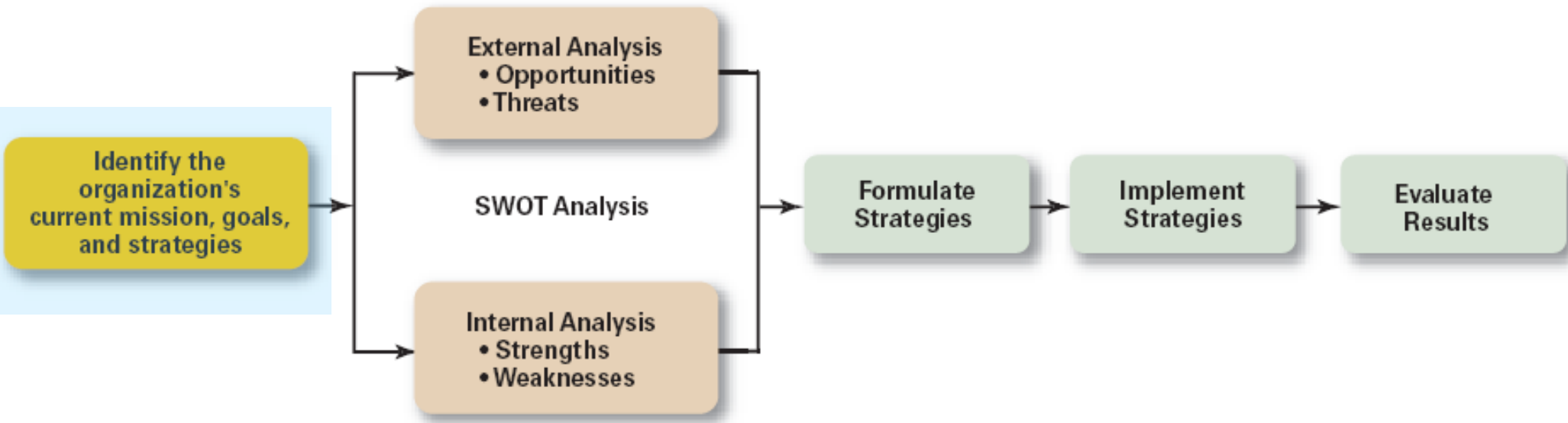
- ✓ It focuses on the **higher** organizational performance.
- ✓ It **coordinates diverse** organizational units, helping them focus on organizational goals.
- ✓ It requires that managers examine and **adapt** to business environment changes.

# The Strategic Management Process

The strategic management process is a **six-step process** that encompasses:

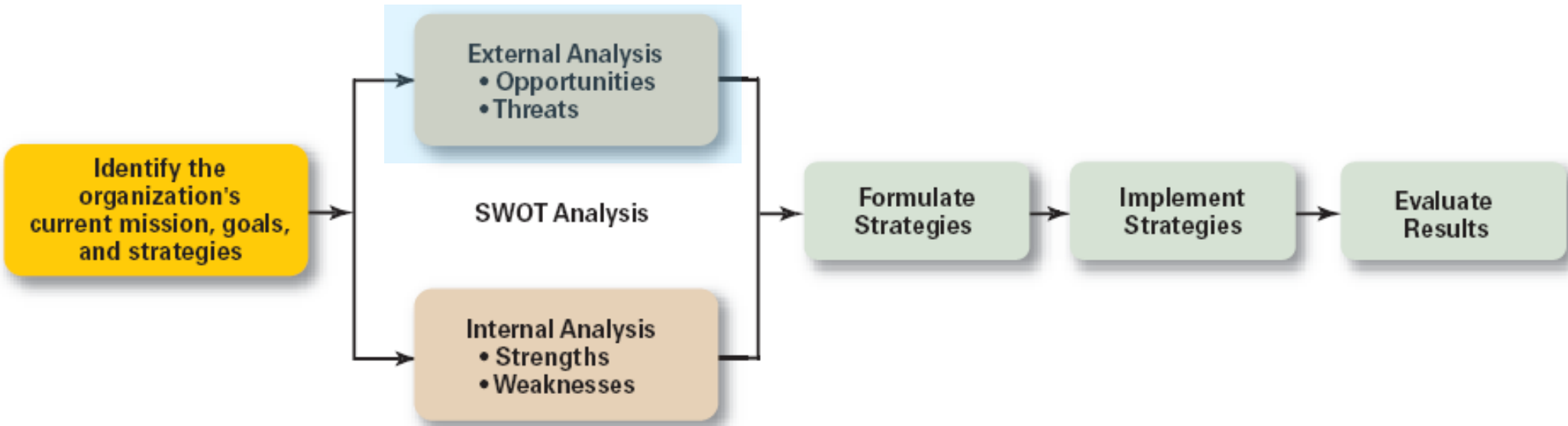
- strategy planning
- implementation
- evaluation





## Step 1: Identifying the Current Mission, Goals, and Strategies

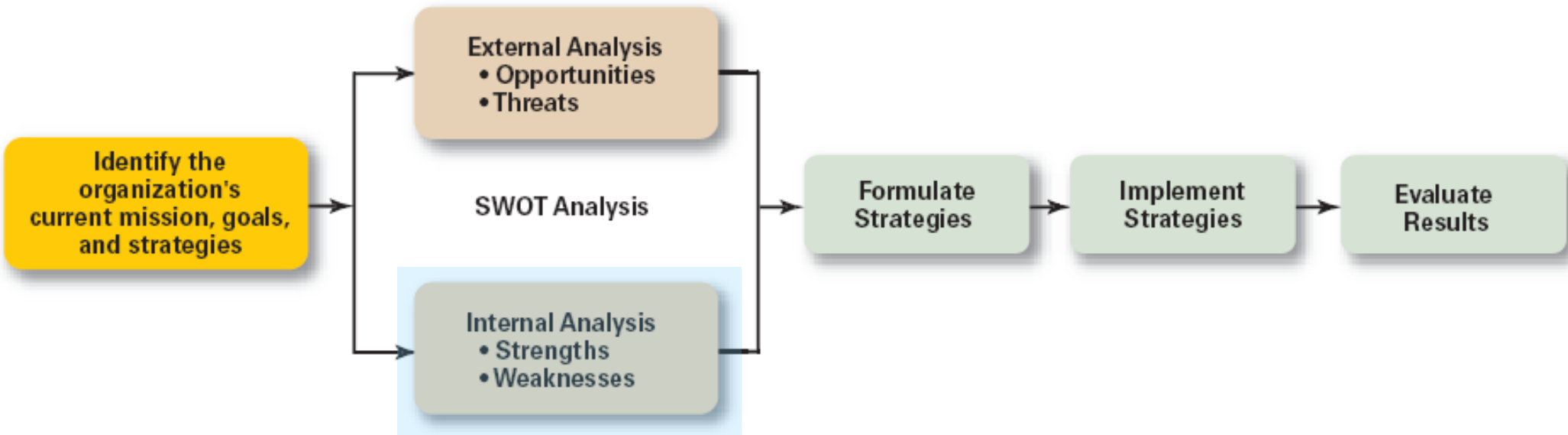
- **Mission:** a **statement of the purpose** of an organization



## Step 2: Doing an external analysis

- The environmental scanning of **specific and general environments**
  - Focuses on identifying opportunities and threats

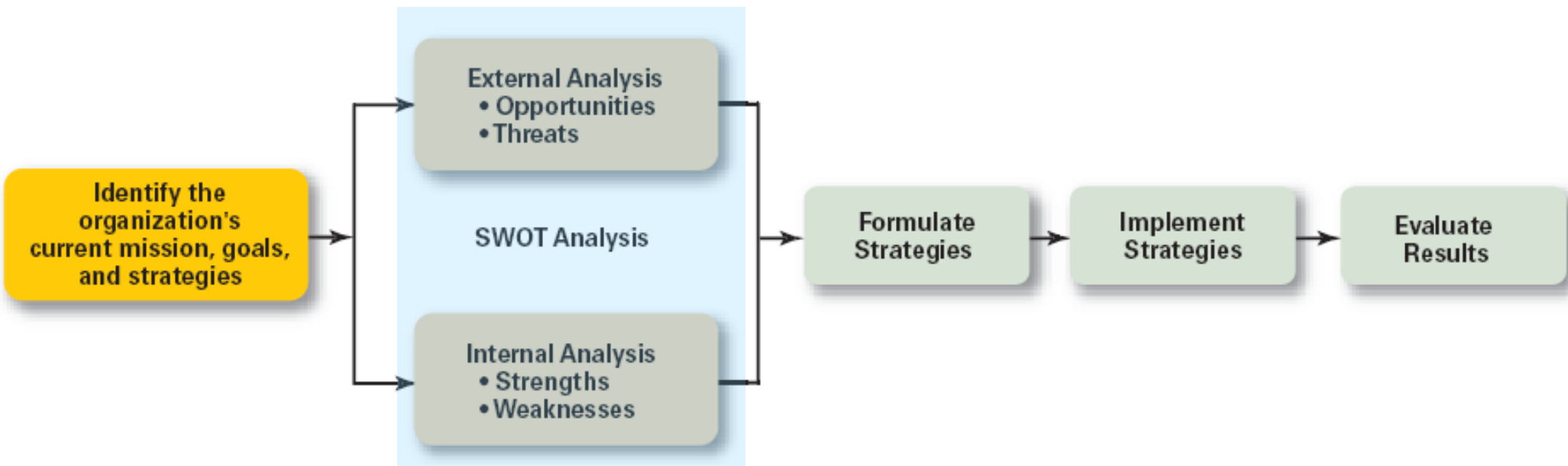




## Step 3: Doing an internal analysis

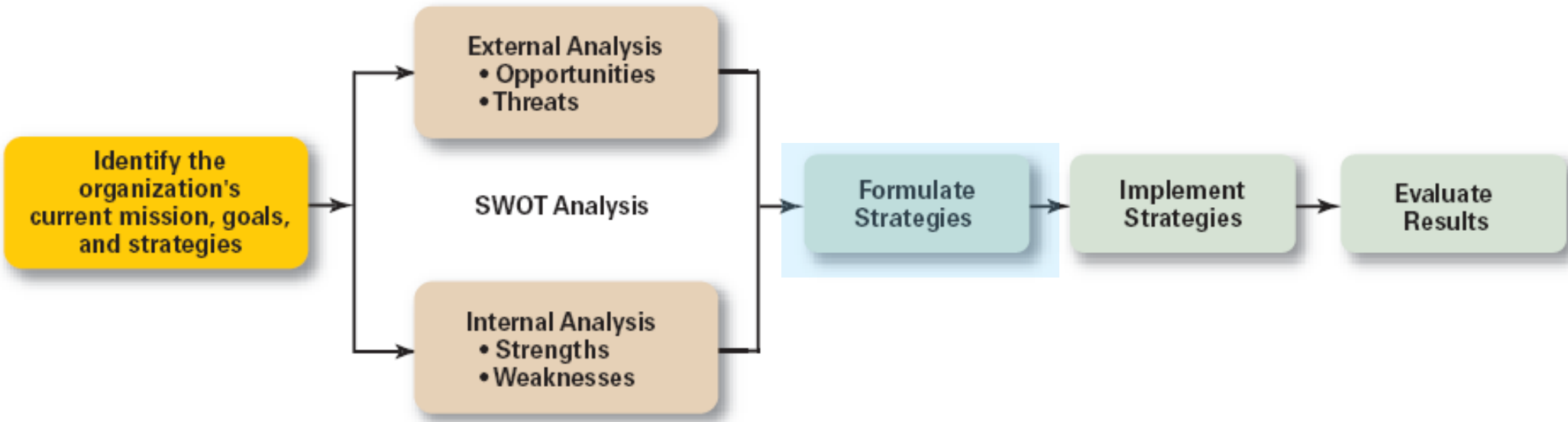
- Assessing organizational resources, capabilities, and activities:
  - **Strengths** create value for the customer and strengthen the **competitive position** of the firm.
  - **Weaknesses** can place the firm at a **competitive disadvantage**.

*Note:* Analyzing financial and physical assets is fairly easy, but assessing **intangible assets** (employee's skills, culture, corporate reputation, and so forth) isn't as easy.



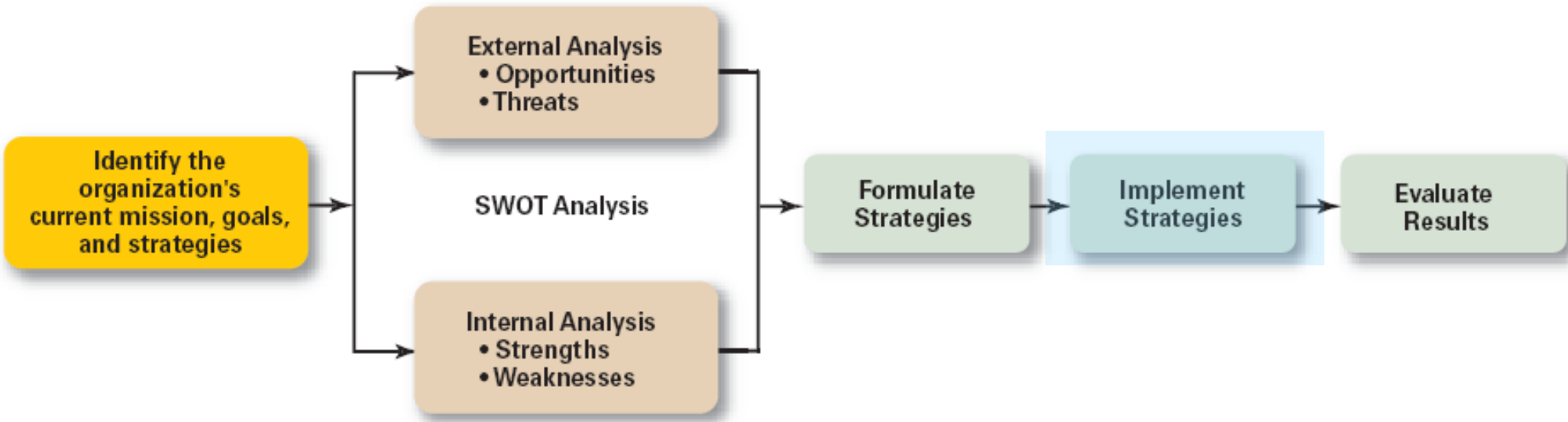
Steps 2 and 3 combined are called a **SWOT analysis**:

- ☐ Strengths
- ☐ Weaknesses
- ☐ Opportunities
- ☐ Threats



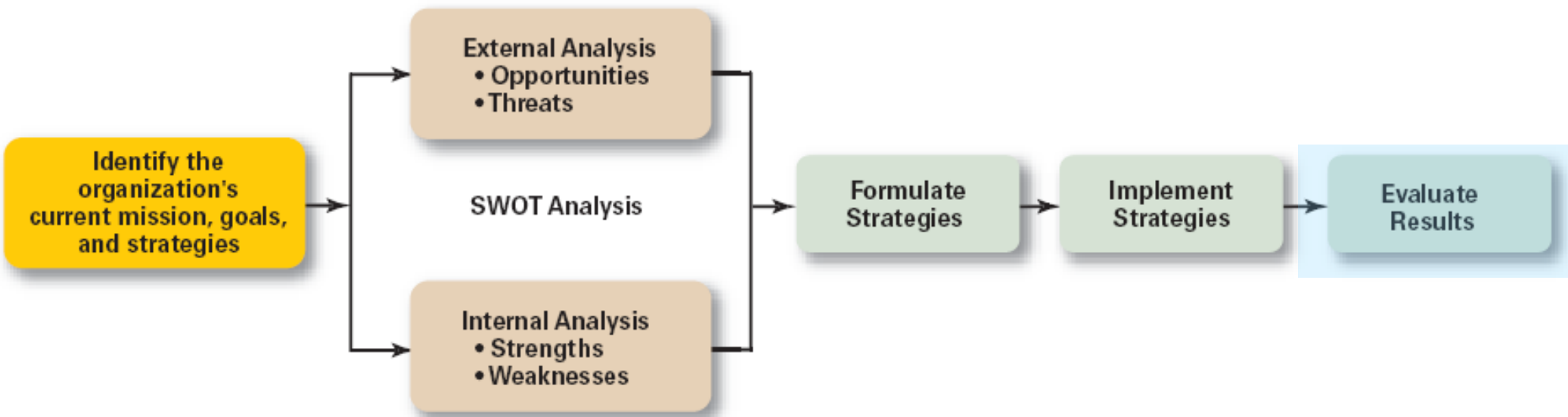
## Step 4: Formulating strategies

- **Develop and evaluate** strategic alternatives.
- Select appropriate **strategies for all levels** in the organization that provide relative advantage over competitors.
- **Match** organizational **strengths** to environmental **opportunities**.
- **Correct weaknesses** and **guard** against **threats**.



## Step 5: Implementing strategies

- Implementation: effectively **fitting** organizational structure and activities **to the environment**.
- effective strategy implementation requires an organizational **structure matched** to its requirements.

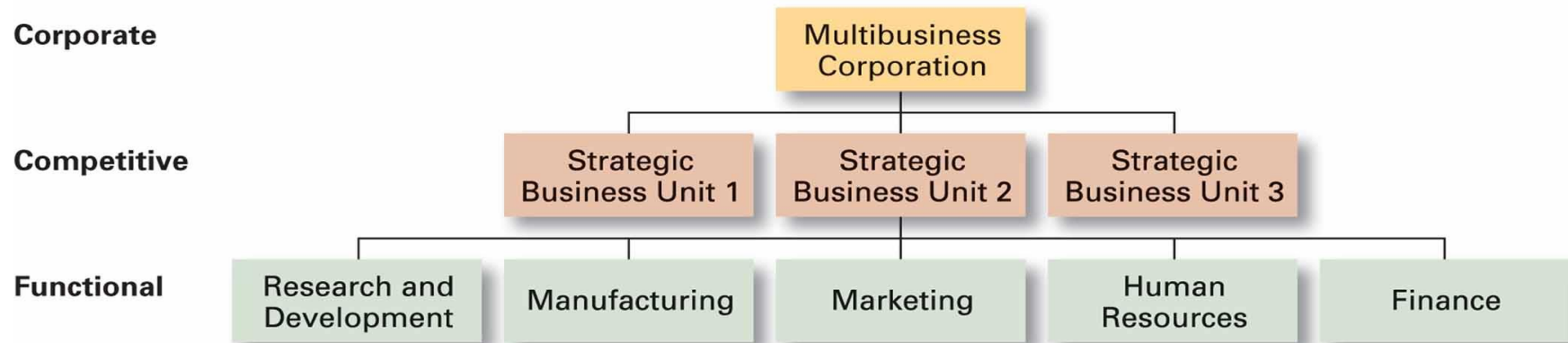


## Step 6: Evaluating results

# Corporate Strategy

# What is a Corporate Strategy?

A corporate strategy is one that specifies **what businesses a company is in** and what it wants to do with those businesses.



# Types of Corporate Strategies

## 1. **Growth:**

- **expansion** into new products and markets

## 2. **Stability:**

- **maintenance** of the status quo

## 3. **Renewal:**

- **examination of organizational weaknesses** that are leading to performance declines



# How are Corporate Strategies Managed?

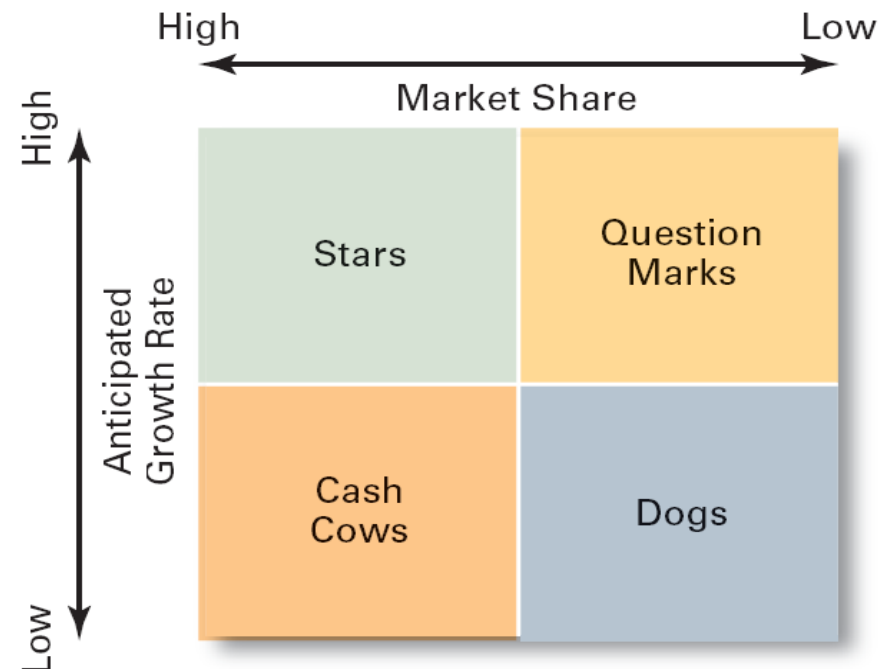
Managers manage a portfolio (or collection) of businesses using a **corporate portfolio matrix** such as the BCG Matrix.

## BCG Matrix

- Considers market share and industry growth rate.

- Classifies firms as:

- **Cash cows:** low growth rate, high market share
- **Stars:** high growth rate, high market share
- **Question marks:** high growth rate, low market share
- **Dogs:** low growth rate, low market share

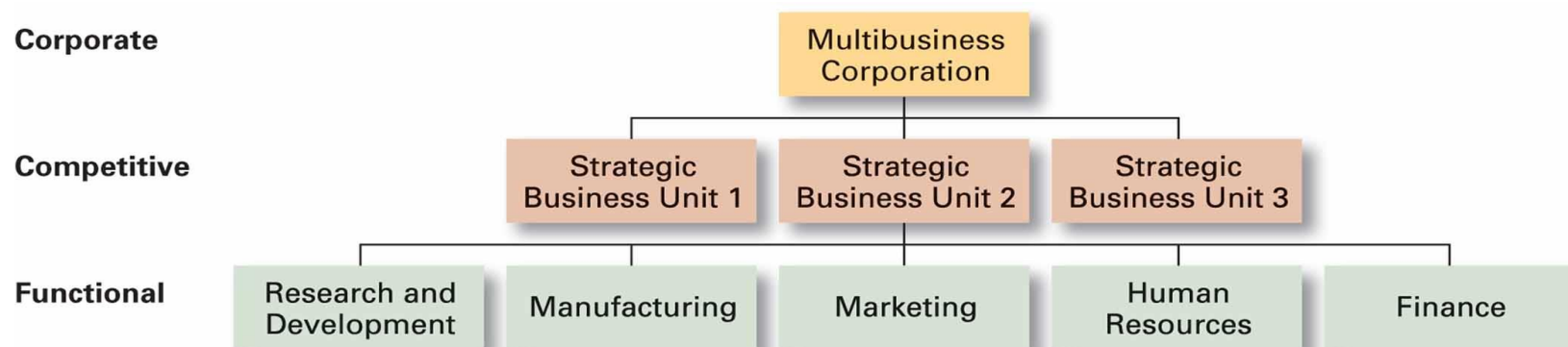


# Competitive Strategy

# What is a Competitive Strategy?

A strategy focused on how an organization will **compete** in its business(es).

- For an organization in **only one line of business**, the competitive strategy describes how it will compete in **its primary or main market**.
- For organizations in **multiple businesses**, however, **each business** has its own **competitive strategy** that defines its **competitive advantage**, the products it will offer, the customers it wants to reach.



# Competitive Advantage

- ✓ Competitive Advantage sets an organization's **distinctive** competitive edge.
- ✓ That distinctive edge comes from the organization's **core competencies** because the organization does something that others **cannot do** or does it **better** than others can do it.

## Quality as a Competitive Advantage:

- **Differentiates** the firm from its competitors.
- Can create a **sustainable** competitive advantage.
- Represents the company's focus on quality management to achieve **continuous improvement** and meet customers' demand for quality.

# Five Competitive Forces

1. Threat of New Entrants
2. Threat of Substitutes
3. Bargaining Power of Buyers
4. Bargaining Power of Suppliers
5. Current Rivalry

## Threat of New Entrants:

The **ease or difficulty** with which new competitors can enter an industry



# Five Competitive Forces

1. Threat of New Entrants
2. Threat of Substitutes
3. Bargaining Power of Buyers
4. Bargaining Power of Suppliers
5. Current Rivalry

## Threat of Substitutes:

The extent to which **switching costs and brand loyalty** affect the likelihood of customers adopting substitute products and services.



# Five Competitive Forces

1. Threat of New Entrants
2. Threat of Substitutes
3. **Bargaining Power of Buyers**
4. **Bargaining Power of Suppliers**
5. **Current Rivalry**

## Bargaining Power of Buyers

The degree to which buyers have the **market strength** to hold sway over **and influence competitors in an industry.**



# Five Competitive Forces

1. Threat of New Entrants
2. Threat of Substitutes
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4. **Bargaining Power of Suppliers**
5. Current Rivalry

## Bargaining Power of Suppliers

The relative **number of buyers** to suppliers and **threats from substitutes** and **new entrants** affect the buyer-supplier relationship.





# Five Competitive Forces

1. Threat of New Entrants
2. Threat of Substitutes
3. Bargaining Power of Buyers
4. Bargaining Power of Suppliers
5. Current Rivalry

## Current Rivalry

Intensity among rivals increases when industry growth rates slow, demand falls, and product prices descend.



# Choosing a Competitive Strategy

## ❑ **Cost Leadership Strategy:**

- Seeking to attain the **lowest total overall costs** relative to other industry competitors.

## ❑ **Differentiation Strategy:**

- Attempting to create a **unique and distinctive** product or service for which customers will pay a premium.

## ❑ **Focus Strategy:**

- Using a cost or differentiation advantage to exploit a **particular market segment** rather than a larger market.

# New Directions: Strategies for Applying e-Business Techniques

## **Cost Leadership**

- On-line activities: bidding, order processing, inventory control, recruitment and hiring

## **Differentiation**

- Internet-based knowledge systems, online ordering and customer support

## **Focus**

- Chat rooms and discussion boards, targeted Web sites

# Terms to Know

strategic management

strategies

strategic management process

mission

opportunities

threats

strengths

weaknesses

SWOT analysis

corporate strategy

BCG matrix

competitive strategy

competitive advantage

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