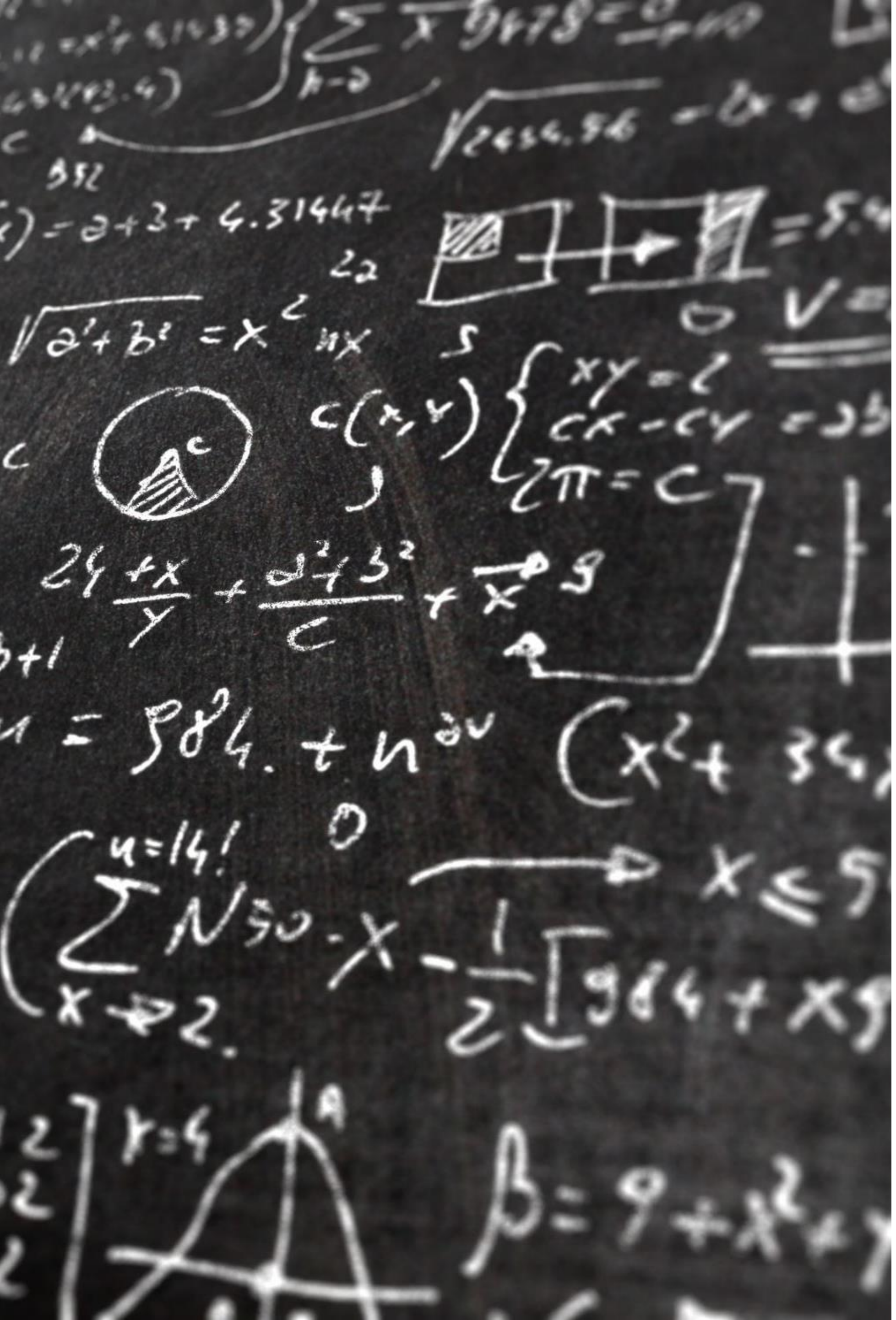
Strategy, business initiatives, and competitive advantage



Defining a Strategy

- A business strategy is “a broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out these goals.” (Porters)

Business strategy is a three-phase process:

- Phase 1: **Determine the current position of the company.** The formal strategy process begins with a definition of where the company is now—what its current strategy is—and the assumptions that the company managers commonly make about the company’s current position, strengths and weaknesses, competitors, and industry trends.
- Most large companies have a formal strategy and have already gone through this exercise several times. Indeed, most large companies have a strategy committee that constantly monitors the company’s strategy.

Defining a Strategy

Phase 2: Determine what is happening in the environment

- **Perform business intelligence**
  - Identify current environmental constraints and opportunities facing all the companies in their industry
  - Examine trends in the industry
  - Review the capabilities and limitations of competitors.
  - Review likely changes in society and government policy that might affect the business
  - Reconsider the company’s strengths and weaknesses, relative to the current environmental conditions

Case 1: Delivery company

Case 2: Youtube

Case 3: Online platforms

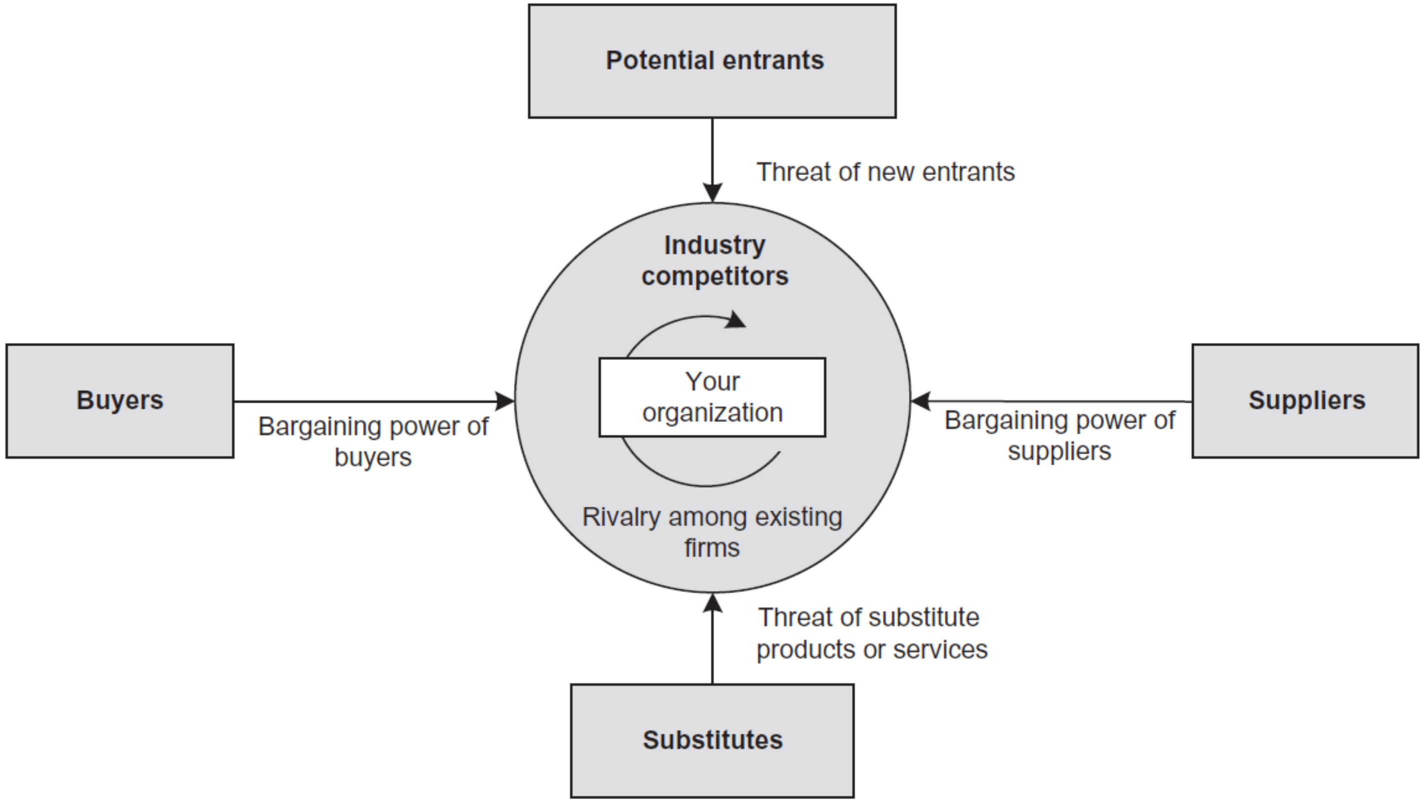
Case 4: Uber case

Defining a Strategy

- **Phase 3: Determine a new strategy for the company.**
  - compares the company's existing strategy with the latest analysis of what is happening in the environment.
  - generates a number of scenarios or alternate courses of action that the company could pursue

“The essence of formulating competitive strategy is relating a company to its environment.”

Porter’s Model of Competition



Industries, products, and value Propositions

- **A “value proposition” refers to the value that a product or service provides to customers.**
- Managers should always strive to be sure that they know what business (or industry) their company is really in. That’s done by being sure they know what value their company is providing to its customers.
- Example of the bookseller:
  - might think he or she is in the business of providing customers with books
  - In fact, however, the bookseller is probably in the business of providing customers with information or entertainment
  - Once this is recognized, then it becomes obvious that a bookseller’s rivals are not only other bookstores, but magazine stores, TV, and the Web.
  - In other words, a company’s rivals aren’t simply the other companies that manufacture similar products, but all those who provide the same general value to customers.

Questions:

What is the value proposition of Airlines' First-class Tickets

What is the value proposition of bathroom/kitchen cleaning products?

Strategies for Competing

- **Three generic strategies**: (1) cost leadership, (2) differentiation, or (3) niche specialization.

Strategies for Competing

- **Cost leadership:**
  - The cost leader is the company that can offer the product at the cheapest price.
  - price can be driven down by economies of scale
  - the control of suppliers and channels
  - by experience that allows a company to do things more efficiently

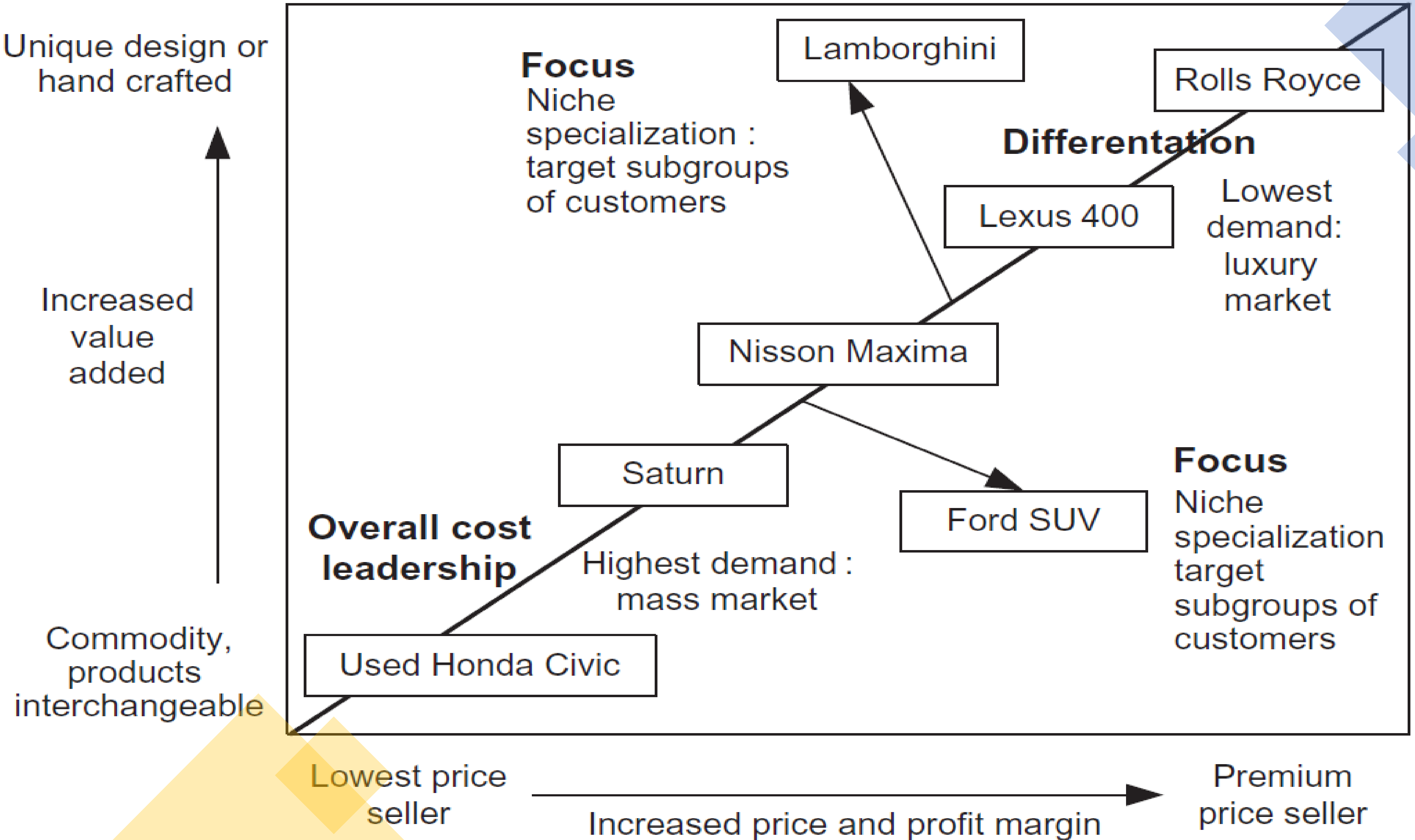
Strategies for Competing

- **Differentiation**
  - **Offering better or more desirable products. Customers are often willing to pay a premium for a better product**
  - Allows companies specializing in producing a better product to compete with those selling a cheaper but less desirable product
  - Companies usually make better products by using more expensive materials, relying on superior craftsmanship, creating a unique design, or tailoring the design of the product in various ways.

Strategies for Competing

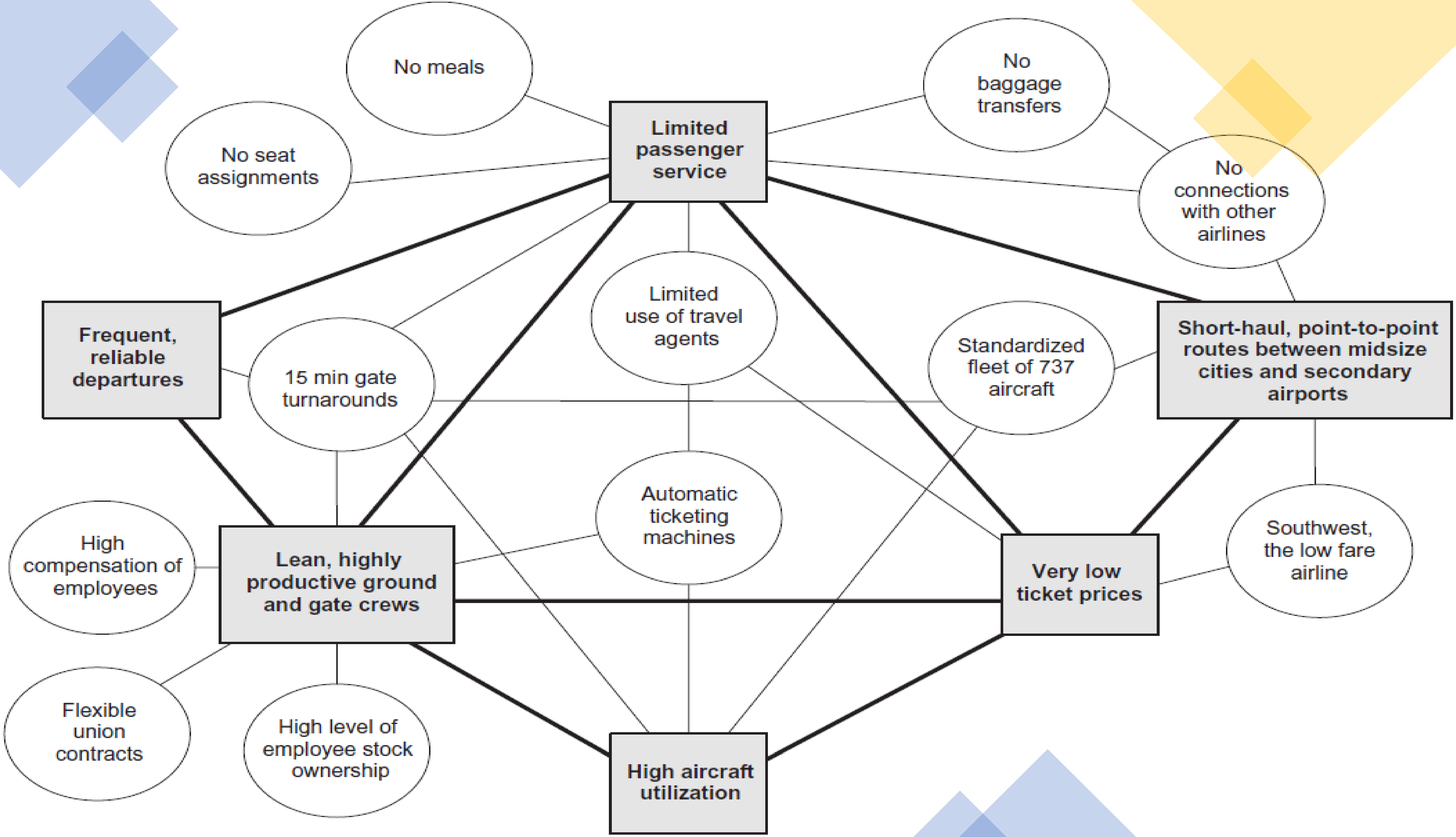
- **Niche specialization**
  - **Niche specialists focus on specific buyers, specific segments of the market**, or buyers in particular geographical markets and **often offer only a subset of the products typically sold in the industry**

  - In effect, they represent an extreme version of differentiation, and they can charge a premium for their products since the products have special features beneficial to the consumers in the niche.


Unique design or hand crafted
Increased value added
Commodity, products interchangeable
Focus
Niche specialization : target subgroups of customers
Lamborghini
Rolls Royce
Differentation
Lexus 400
Lowest demand: luxury market
Nisson Maxima
Saturn
Ford SUV
Focus
Niche specialization target subgroups of customers
Overall cost leadership
Highest demand : mass market
Used Honda Civic
Lowest price seller
Increased price and profit margin
Premium price seller

Porter's Strategic Themes

- Strategists **ought to create maps of activity systems** to "show how a company's strategic position is contained in a set of tailored activities designed to deliver it.
- strategists create network diagrams that show how a limited set of high-level strategic themes, and the activities associated with those themes, fit together to support a strategic position.
- Example: In the early 1990s the executives at Southwest Airlines decided on a strategy that emphasized their **being the dependable, low-cost airline.**



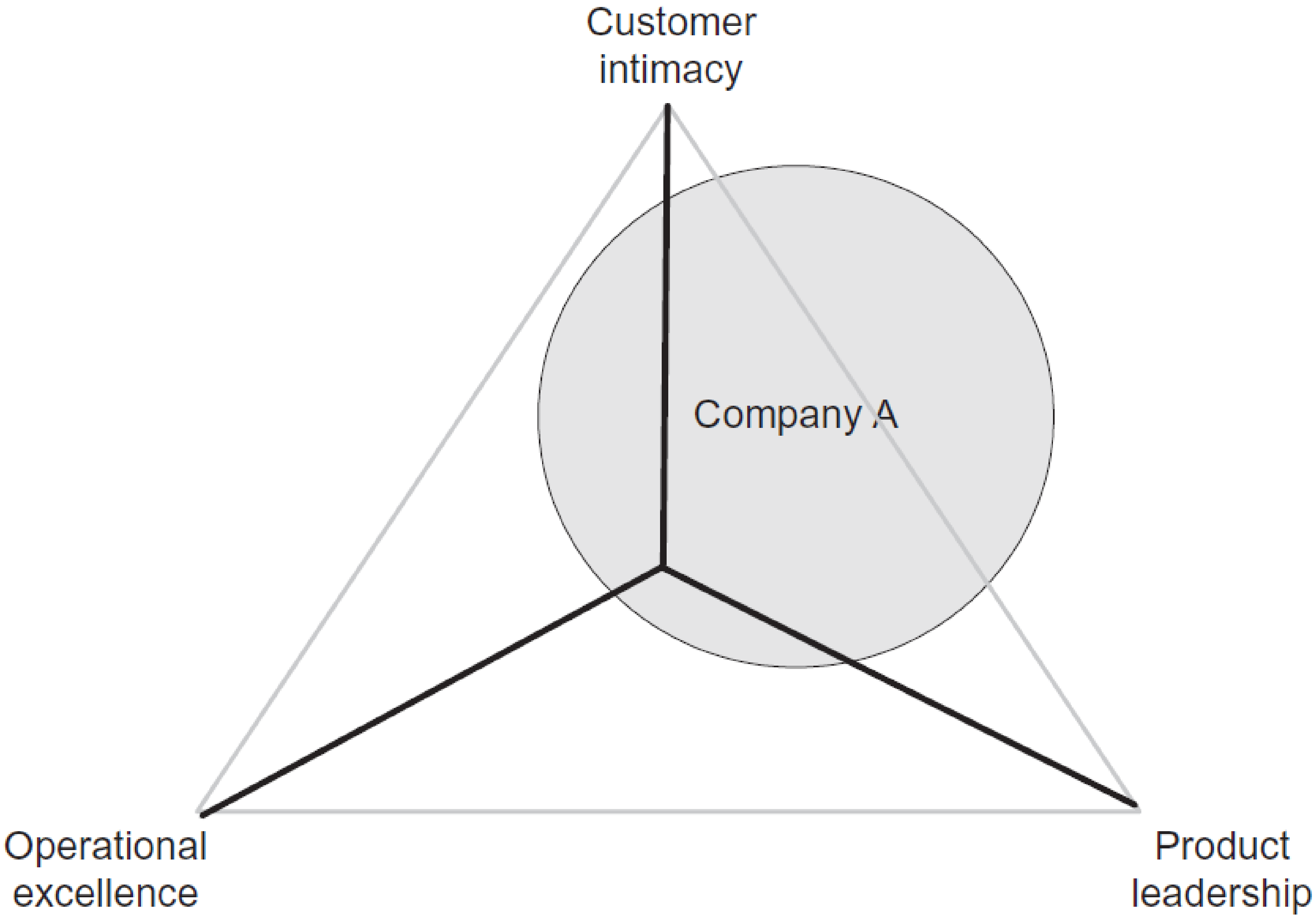
No meals
No seat assignments
Limited passenger service
No baggage transfers
No connections with other airlines
Frequent, reliable departures
15 min gate turnarounds
Limited use of travel agents
Standardized fleet of 737 aircraft
Short-haul, point-to-point routes between midsize cities and secondary airports
Automatic ticketing machines
High compensation of employees
Lean, highly productive ground and gate crews
Very low ticket prices
Southwest, the low fare airline
Flexible union contracts
High level of employee stock ownership
High aircraft utilization

Treacy and Wiersema's Positioning Strategies

- According to Treacy and Wiersema the three value positions that companies must choose between are:
- **Product leadership**. These companies focus on **innovation and performance leadership**. They strive to turn new technologies into breakthrough products and focus on product life cycle management.
- **Customer intimacy**. These companies focus on **specialized, personal service.** They strive to become partners with their customers. They focus on customer relationship management.
- **Operational excellence**. These companies focus on **having efficient operations to deliver the lowest priced product or service to their customers**. They focus on their supply chain and distribution systems to reduce the costs of their products or services.

Treacy and Wiersema's Positioning Strategies

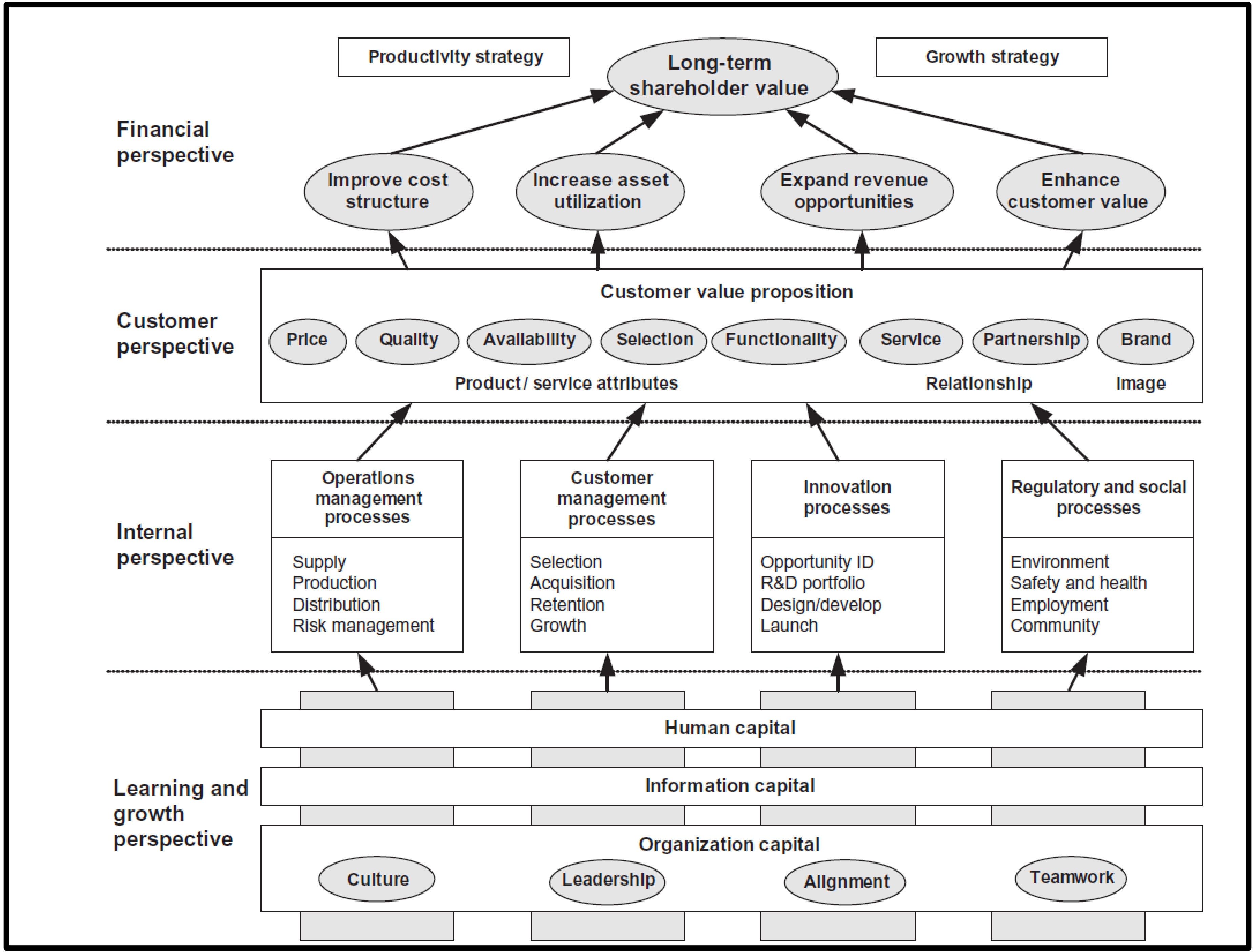
- A company culture dominated by technologists is likely to focus on innovation and **on product leadership.**
- A company culture dominated by marketing or salespeople is more likely to focus **on customer intimacy.**
- A company culture dominated by financial people or by engineers is likely to focus **on cutting costs and operational excellence.**


Customer intimacy
Company A
Operational excellence
Product leadership

The Balanced Scorecard Approach to Strategy Robert S. Kaplan and David P. Norton

- The Balanced Scorecard approach insists that management track four different types of measures: financial measures, customer measures, internal business (process) measures, and innovation and learning measures
- **Entails identifying corporate objectives within each of the four categories**
- Aligns the management hierarchy by assigning each manager his or her own scorecard with more specific objectives in each of the four categories
- Every manager is evaluated based on **a balanced set of performance measures**

- The key point is to **map your strategy**
- **Note: the internal perspective has value-creating processes. These are equivalent of “themes”: operations management, processes (supply chain management), customer management processes (customer relationship management), innovation processes (the design and development of new products and services), and regulatory and social processes.**


Productivity strategy
Long-term shareholder value
Growth strategy
Financial perspective
Improve cost structure
Increase asset utilization
Expand revenue opportunities
Enhance customer value
Customer perspective
Customer value proposition
Price
Quality
Availability
Selection
Functionality
Service
Partnership
Brand
Product / service attributes
Relationship
Image
Internal perspective
Operations management processes
Supply
Production
Distribution
Risk management
Customer management processes
Selection
Acquisition
Retention
Growth
Innovation processes
Opportunity ID
R&D portfolio
Design/develop
Launch
Regulatory and social processes
Environment
Safety and health
Employment
Community
Learning and growth perspective
Human capital
Information capital
Organization capital
Culture
Leadership
Alignment
Teamwork

Business Initiatives

- More often, the executive team will begin with strategies and goals, and then define a few high-priority initiatives
- In most cases, business initiatives are associated with KPIs (Key Performance Indicators), which are carefully monitored
- Business initiatives provide guidance to those doing process work and provide them with clear directions as to how to modify major business processes to keep them aligned with the strategic direction the organization is taking