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CHAPTER 6

Strategy formulation Development of long range plans for the effective management of environmental opportunities and threats in light of corporate strengths and weaknesses.

SWOT analysis Identification of strengths, weaknesses, opportunities, and threats that may be strategic factors for a specific company

SFAS (Strategic Factors Analysis Summary) matrix A chart that summarizes an organization's strategic factors by combining the external factors from an EFAS table with the internal factors from an IFAS table.

EFAS (External Factor Analysis Summary) table A table that organizes external factors into opportunities and threats and how well management is responding to these specific factors

Propitious niche A portion of a market that is so well suited to a firm's internal and external environment that other corporations are not likely to challenge or dislodge it.

TOWS matrix A matrix that illustrates how external opportunities and threats facing a particular company can be matched with that company's internal strengths and weaknesses to result in four sets of strategic alternatives.

Business strategy Competitive and cooperative strategies that emphasize improvement of the competitive position of a corporation's products or services in a specific industry or market segment.

Competitive strategy A strategy that states how a company or a business unit will compete in an industry.

Lower cost strategy A strategy in which a company or business unit designs, produces, and markets a comparable product more efficiently than its competitors.

Differentiation Strategy Ability of a company to provide and unique and superior value to the buyer in terms of product quality, special features, or after sale service.

Competitive scope The breadth of a company's or a business unit's target market.

Cost leadership A low-cost competitive strategy that aims at the broad mass market.

Differentiation A competitive strategy that is aimed at the broad mass market and that involves the creation of a product or service that is perceived throughout its industry as unique.

Cost focus A low-cost competitive strategy that concentrates on a particular buyer group or geographic market and attempts to serve only that niche.

Differentiation focus A differentiation competitive strategy that concentrates on a particular buyer group, product line segment, or geographic market.

Cost proximity A process that involves keeping the higher price a company charges for higher quality close enough to that of the competition so that customers will see the extra quality as being worth the extra cost.

Fragmented industry an industry in which no firm has large market share and each firm serves only a small piece of the total market.

Consolidated industry an industry in which a few large companies dominate

Dynamic capabilities Capabilities that are continually being changed and reconfigured to make them more adaptive to an uncertain environment

Timing tactics Tactics that determines when a business will enter a market with a new product. Deals with when a company implement a strategy.

Late movers Companies that enter a new market only after other companies have done so.

First mover The first company to manufacture and sell a new product or service

Market location tactics Tactics that deter mine where a company or business unit will compete.

Offensive tactic A tactic that calls for competing in an established competitor's current market location.

Defensive tactic A tactic in which a company defends its current market.

Frontal Assault very expensive tactic and may serve to awaken a sleeping giant, depressing profit for the whole industry.

Flanking Maneuver a firm may attack a part of the market where the competitor is weak.

By pass attack tactic attempts to cut the market out from under the established defender by offering a new type of product that makes the competitor's product unnecessary

Encirclement occurs as an attacking company or unit encircles the competitor's position in terms of products or markets or both.

Guerrilla warfare is characterized by the use of small, intermittent assaults on different market segments held by the competitor.

Defensive tactic A tactid in which a company defends its current market.

Cooperative strategies Strategies that involve working with other firms to gain competitive advantage within an industry.

Collusion The active cooperation of firms within an industry to reduce output and raise prices in order to get around the normal economic law of supply and demand. This practice is usually illegal.

Strategic alliance A partnership of two of more corporations or business units to achieve strategically significant objectives that are mutually beneficial

Mutual service consortium/consortia A partnership of similar companies in similar industries that pool their resources to gain a benefit that is too expensive to develop alone.

Joint venture An independent business entity created by two or more companies in a strategic alliance.

Licensing arrangement An agreement in which the icensing firm grants rights to another firm in another country or market to produce and/or sell a branded product.

Value-chain partnership A strategic alliance in which one company or unit forms a long-term arrangement with a key supplier or distributor for mutual advantage.

CHAPTER 7

Corporate strategy A strategy that states a company's overall direction in terms of its general attitude toward growth and the management of its various business and product lines.

Directional strategy A plan that is composed of three general orientations: growth, stability, and retrenchment.

Portfolio analysis An approach to corporate strategy in which top management views its product lines and business units as a series of investments from which it expects a profitable return.

Parenting Strategy manner in which management coordinates activities and transfers resources and cultivates capabilities among product lines and business units

Growth strategies expand the company's activities.

stability strategies make no change to the company's current activities.

retrenchment strategies reduce the company's level of activities.

Merger A transaction in which two or more corporations exchange stock, but from which only one corporation survives.

Acquisition The purchase of a company that is completely bsorbed by the acquiring corporation.

concentration A corporate growth strategy that concentrates corporation's resources on competing in one industry.

diversification A corporate growth strategy that expands roduct lines by moving into another industry.

vertical growth A corporate growth strategy in which a firm akes over a function previously provided by a supplier or distributor.

vertical integration The degree to which a firm operates in nultiple locations on an industry's value chain from extracting aw materials to retailing.

backward integration Assuming a function previously rovided by a supplier.

forward integration Assuming a function previously provided ay a distributor.

Transaction cost economics A theory that proposes that lertical integration is more efficient than contracting for goods and services in the marketplace when the transaction costs of buying goods on the open market become too great.

Full Integration A firm internally makes 100% of its key supplies and completely controls its distributors.

Taper integration A type of vertical integration in which a firm internally produces less than half of its own requirements and buys the rest from outside suppliers.

Quasi-integration, a company does not make any of its key supplies but purchases most of its requirements from outside suppliers that are under its partial control

Long-term contract Agreements between two separate firms to provide agreed-upon goods and services to each other for a specified period of time.

Horizontal growth A corporate growth concentration strategy that involves expanding the firm's products into other geographic locations and/or increasing the range of products and services offered to current markets.

Horizontal integration The degree to which a firm operates in multiple geographic locations at the same point in an industry's value chain.

Exporting Shipping goods produced in a company's home country to other countries for marketing.

Licensing agreement an agreement in which the licensing firm grants rights to another firm in another country or market to produce and/or sell a branded product.

Franchising an international entry strategy in which a firm grants rights to another company/individual to open a retail store using the franchiser's name and operating system.

Green-field development An international entry option to build a company's manufacturing plant and distribution system in another country.

Production sharing The process of combining the higher labor skills and technology available in developed countries with the lower-cost labor available in developing countries.

Turnkey operation Contracts for the construction of operating facilities in exchange for a fee.

BOT (build-operate-transfer) concept A type of international entry option for a company. After building a facility, the company operates the facility for a fixed period of time during which it earns back its investment, plus a profit.

Management contract Agreements through which a corporation uses some of its personnel to assist a firm in another country for a specified fee and period of time.

Diversification Strategies This often occurs when an Industry consolidates, becomes mature, and most of the surviving firms have reached the limits of growth using vertical and horizontal growth strategies

Concentric diversification A diversification growth strategy in which a firm uses its current strengths to diversify into related products in another industry.

Synergy A concept that states that the whole is greater than the sum of its parts; that two units will achieve more together than they could separately.

Conglomerate diversification A diversification growth strategy that involves a move into another industry to provide products unrelated to its current products.

Pause/proceed with caution strategy A corporate strategy in which nothing new is attempted; an opportunity to rest before continuing a growth or retrenchment strategy.

No-change strategy A decision to do nothing new; to continue current operations and policies for the foreseeable future.

Profit strategy A strategy that artificially supports profits by reducing investment and short-term discretionary expenditures.

Turnaround strategy A plan that emphasizes the improvement of operational efficiency when a corporation's problems are pervasive but not yet critical.

Captive company strategy Dedicating a firm's productive capacity as primary supplier to another company in exchange for a long term contract.

Sell-out strategy A retrenchment option used when a company has a weak competitive position resulting in poor performance.

Divestment A retrenchment strategy in which a division of a corporation with low growth potential is sold.

Bankruptcy A retrenchment strategy that forfeits management of the firm to the courts in return for some settlement of the corporation's obligations.

Liquidation The termination of a firm in which all its assets are sold.

BCG (Boston Consulting Group) Growth Share Matrix A simple way to portray a corporation's portfolio of products or divisions in terms of growth and cash flow.

Questions mark sometimes know problem children or wild cats

Star Market leader that is able to generate enough cash to maintain its high market share

Cash cow A product that brings in far more money than is needed to maintain its market share.

Dogs have low market share and do not have potential

Corporate parenting A corporate strategy that evaluates the corporation's business units in terms of resources and capabilities that can be used to build business unit value as well as generate synergies across business units.

Horizontal strategy A corporate parenting strategy that cuts across business unit boundaries to build synergy across business units and to improve the competitive position of one or more business units.

Multipoint competition A rivalry in which a large multi business corporation competes against other large multi business firms in a number of markets.