

Strategic and Change Management

Models of Strategic Decision Making

Incremental approaches

The Rational- Comprehensive Approach The Rational-Comprehensive approach is closest to full, systematic corporate planning. Administrators work through policy alternatives and evaluate them against stated criteria. This is called the 'Root method'.

The Successive- Limited Comparisons Approach The Successive-Limited Comparisons approach takes the current position and develops strategy in small steps. It does not go right back to assessing objectives and values. This is the 'Branch method'.

Effective business leaders agree that the context for business has changed - therefore strategic planning sessions require a fresh approach, a new methodology, a process that would lead to better outcomes

three camps of strategists for the new business environment:

Those with an **operational efficiency focus**, and who prefer models that would include re-engineering, time-based competition, benchmarking and total quality management (TQM);

Those with a **future focus**, who aim to identify the most critical factors for future success. This includes applying the tried and tested competitive strategy analysis models of Michael Porter and others, or the Hamel and Prahalad scenario analysis and developing industry foresight (the latter often applied by Clem Sunter of Anglo American, who is widely regarded as an expert in this field);

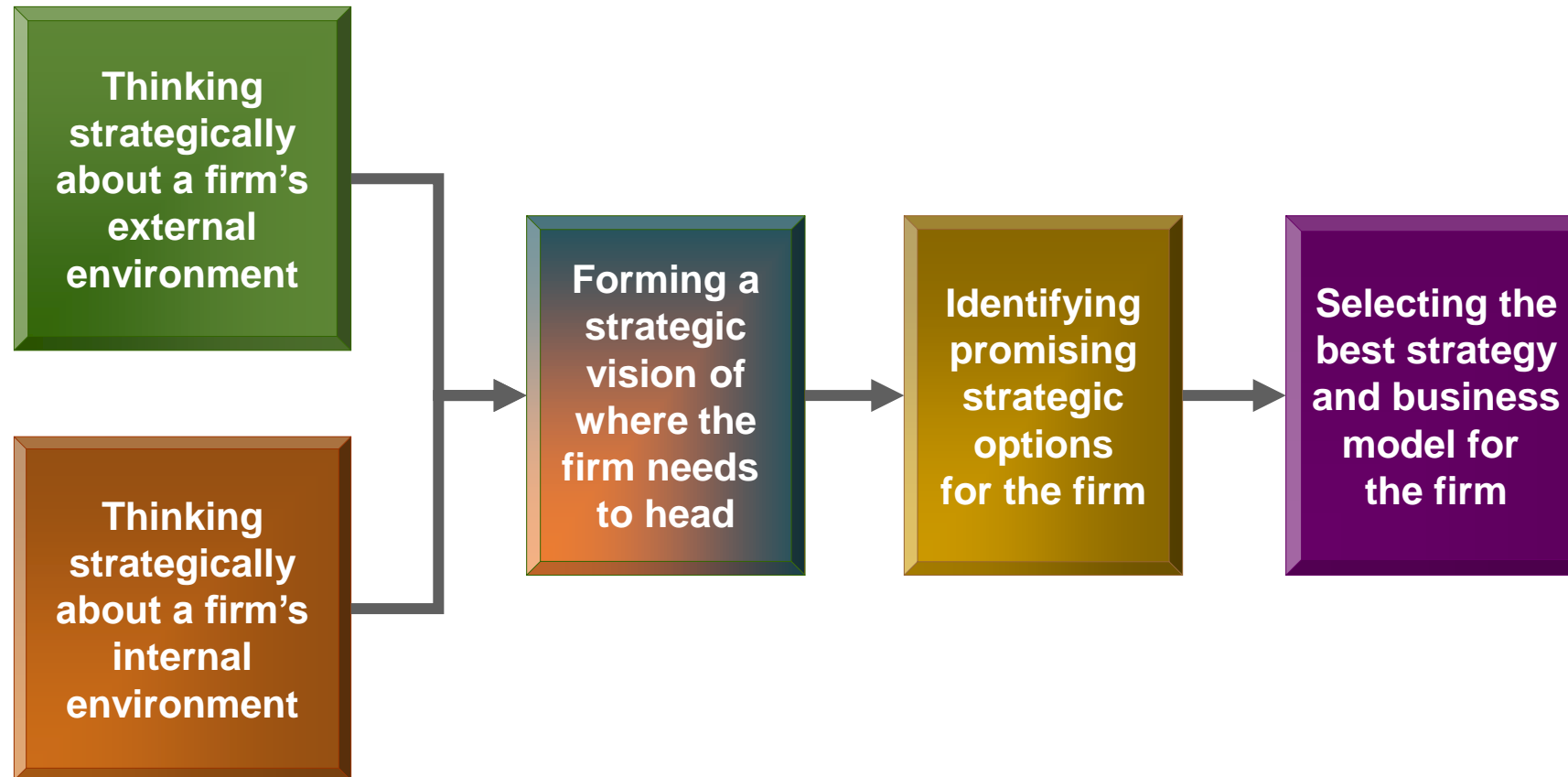
Those who prefer a **behaviour and culture focus**, which includes data-free planning based on a vision that would in fact create cognitive dissonance. The theory is that this will ensure a more energised organisation that would move towards realising its idealised, dream position. Organisational learning, the theories and viewpoints of Peter Senge and others, are included in the developing of these strategic insights.

Gary Hamel in his article “Strategy as Revolution” (Harvard Business Review, July/August 1996) says: “Giving planners’ responsibility for strategy is like asking a bricklayer to create Michelangelo’s Piéta”.

This implies that strategies which are well implemented are firstly professionally facilitated by external consultants.

These professionals are able to stimulate and channel the strategic thinking process to higher levels of insight and understanding. This, to a large extent, determines the effectiveness of the strategic planning process.

Figure 3.1 From Thinking Strategically about the Company's Situation to Choosing a Strategy



WHAT DO WE MEAN BY *STRATEGY*?

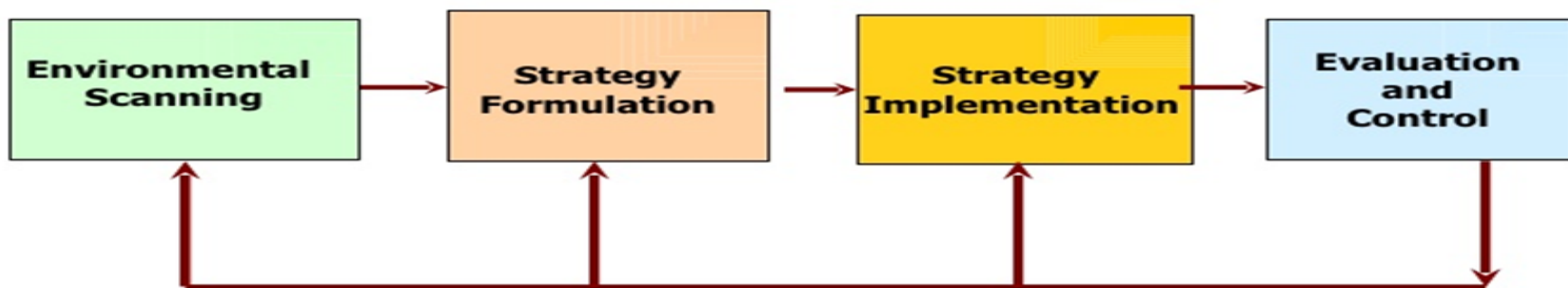
- What is our present situation?
 - Business environment and industry conditions
 - Firm's financial and competitive capabilities
- Where do we want to go from here?
 - Creating a vision for the firm's future direction
- How are we going to get there?
 - Crafting an action plan for heading the firm in the intended direction, staking out a market position, attracting customers, achieving the targeted financial and market performance, and getting the firm where it wants to go is its *strategy*.

Strategy is about competing differently from rivals—doing what competitors don't do or, even better, doing what they can't do!

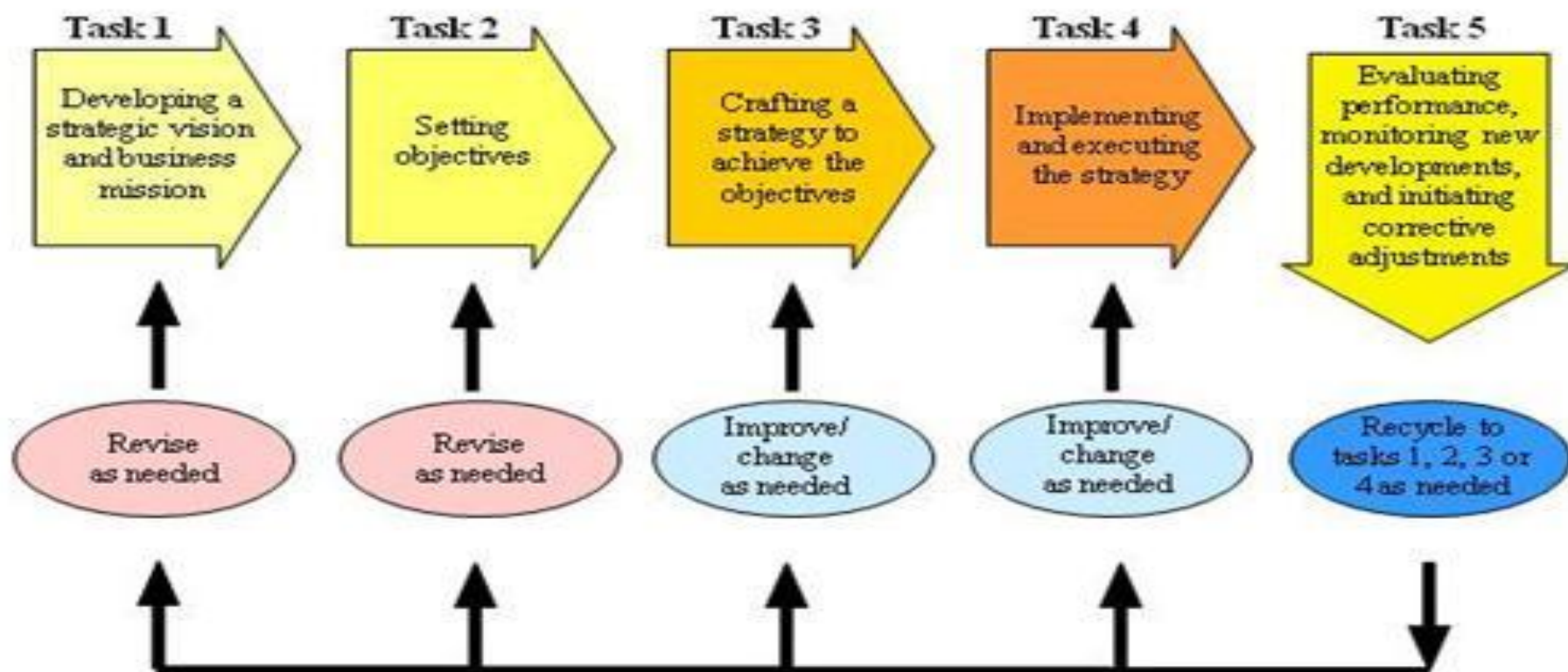
WHAT IS STRATEGY ABOUT?

- Strategy is all about *How*:
 - *How* to attract and please customers.
 - *How* to compete against rivals.
 - *How* to position the firm in the marketplace.
 - *How* best to respond to changing economic and market conditions.
 - *How* to capitalize on attractive opportunities to grow the business.
 - *How* to achieve the firm's performance targets.

Basic Model of Strategic Management



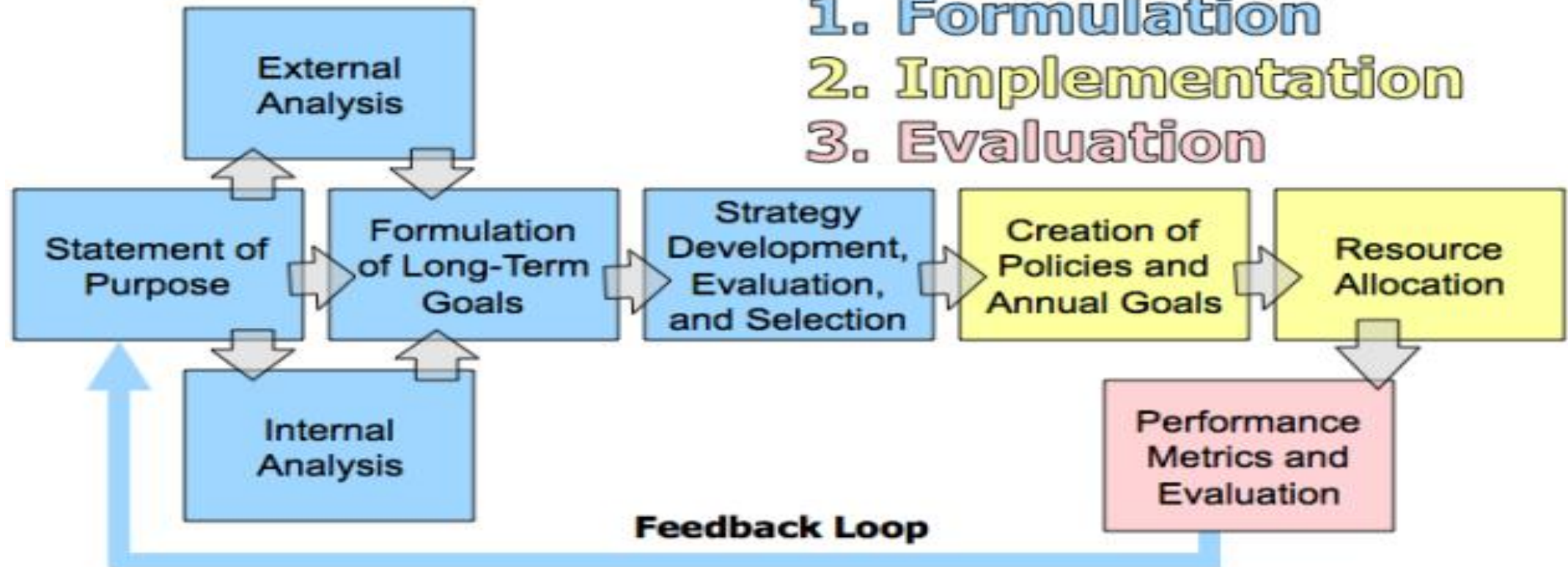
The Five Tasks of Strategic Management



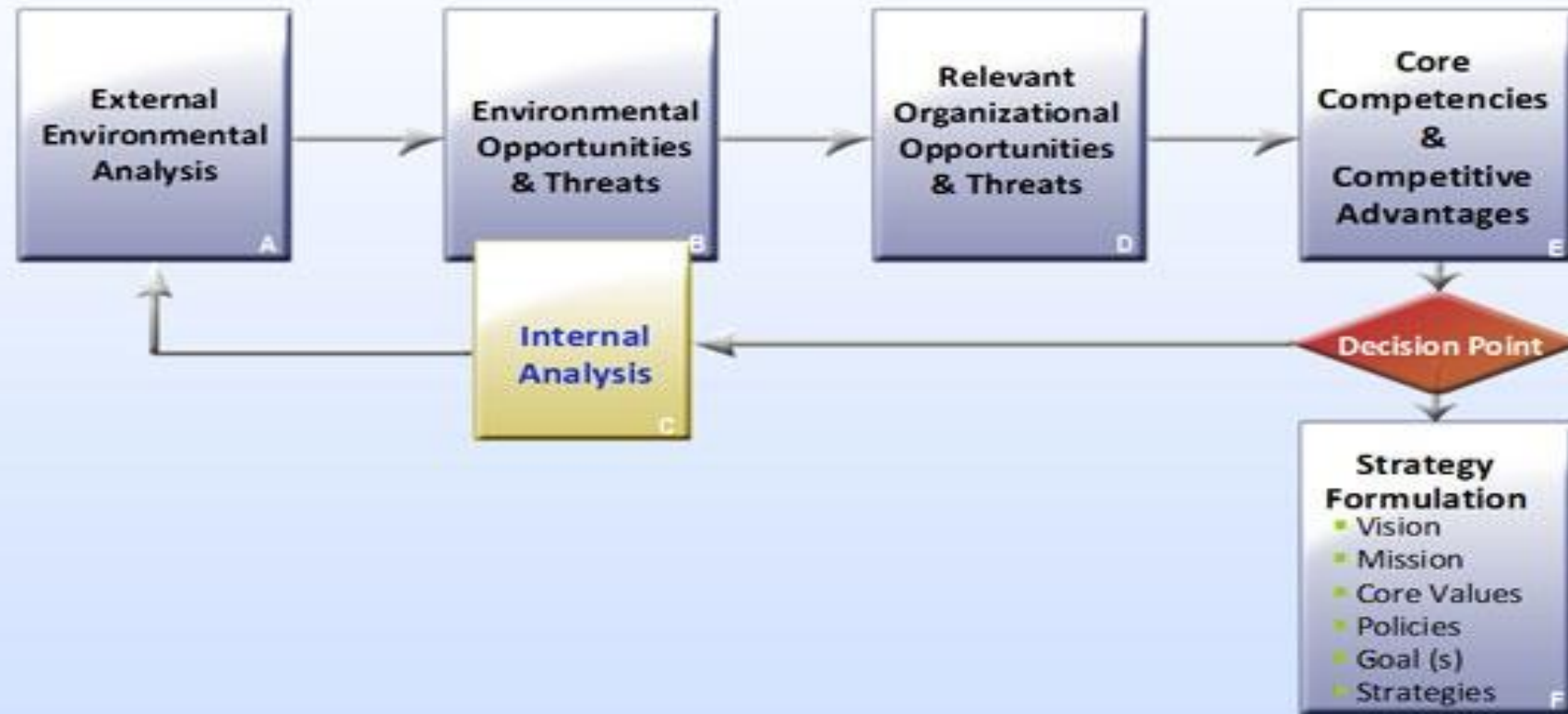


The Strategic Planning Process

1. Formulation
2. Implementation
3. Evaluation



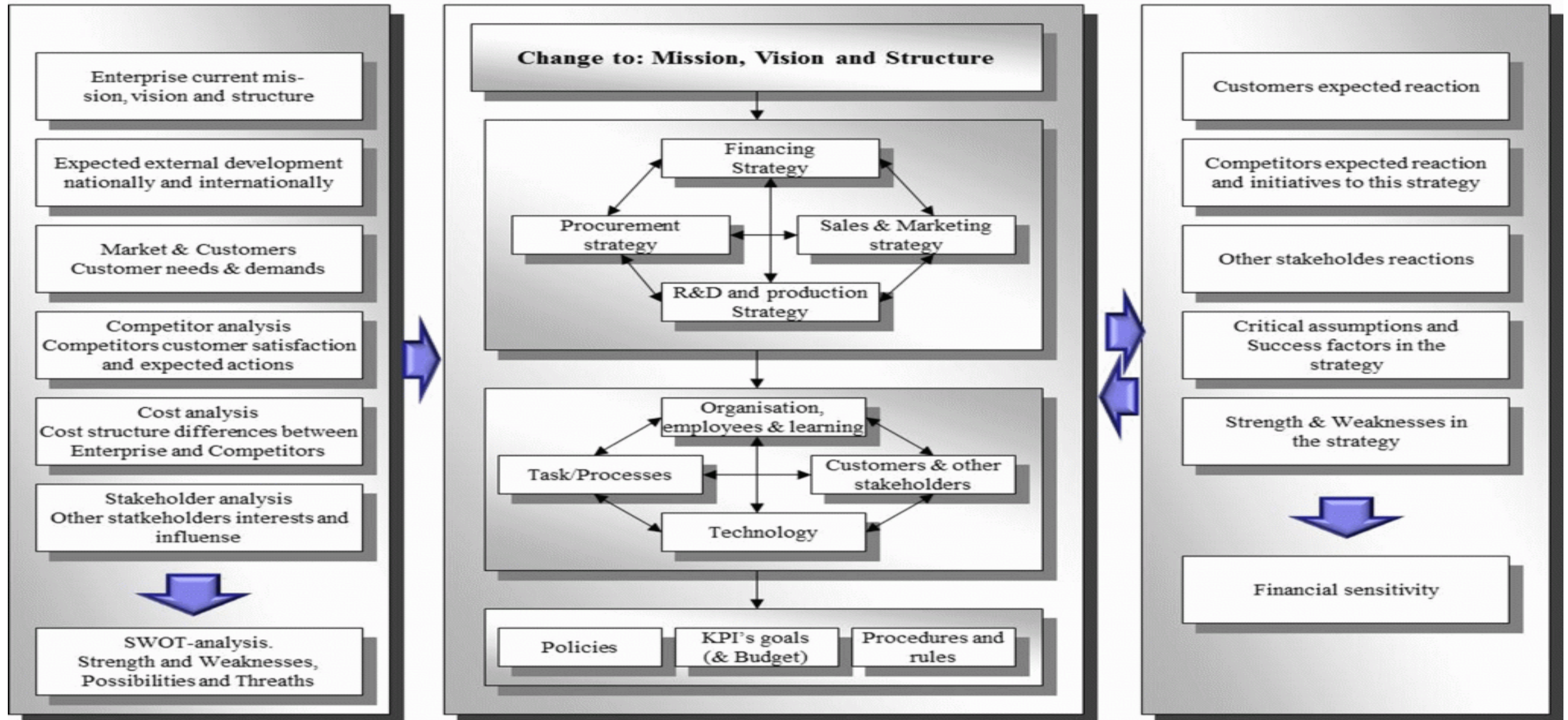
Strategic Thinking Framework



ANALYZE

STRATEGY DEFINITION

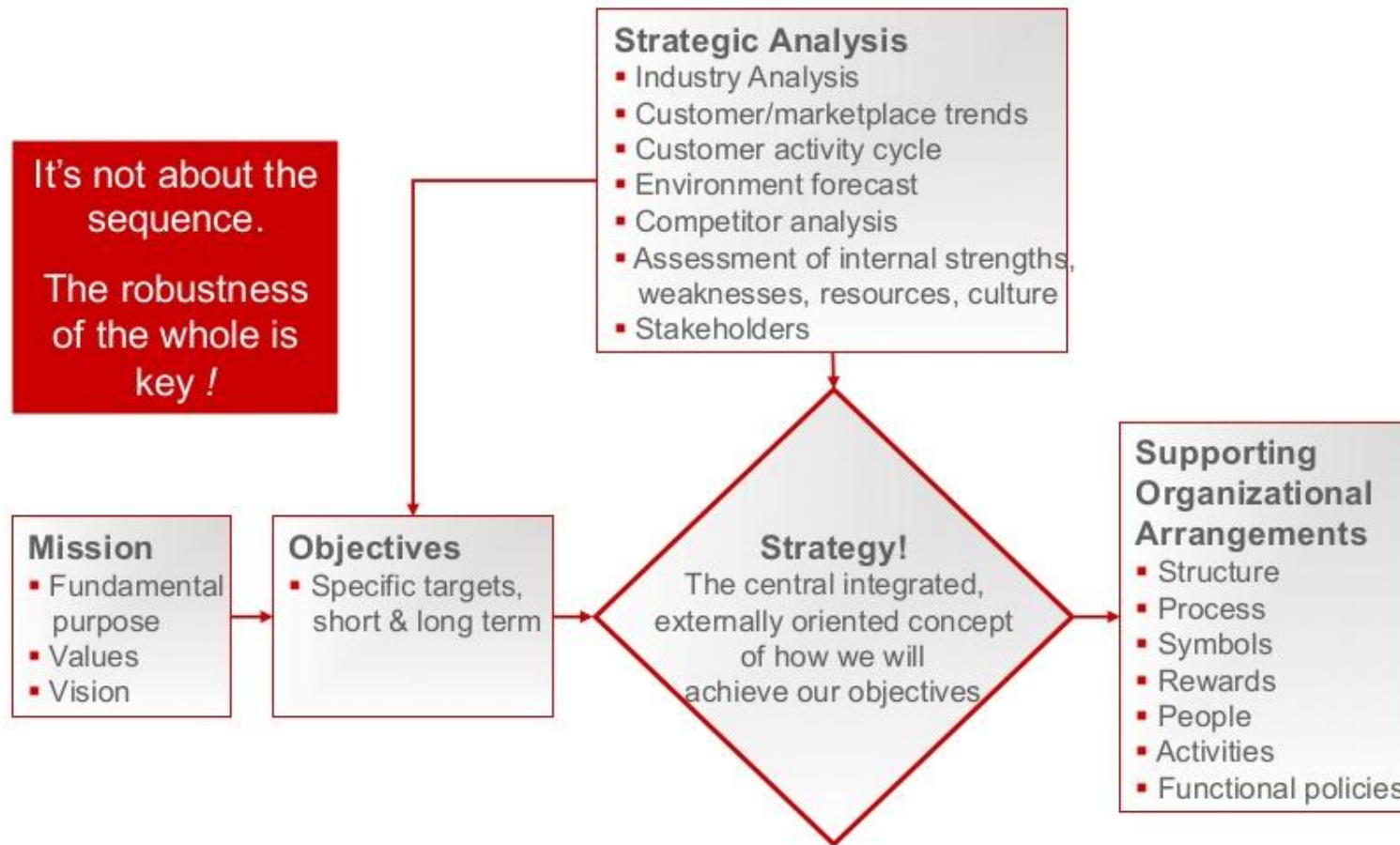
REVIEW



Setting Strategy

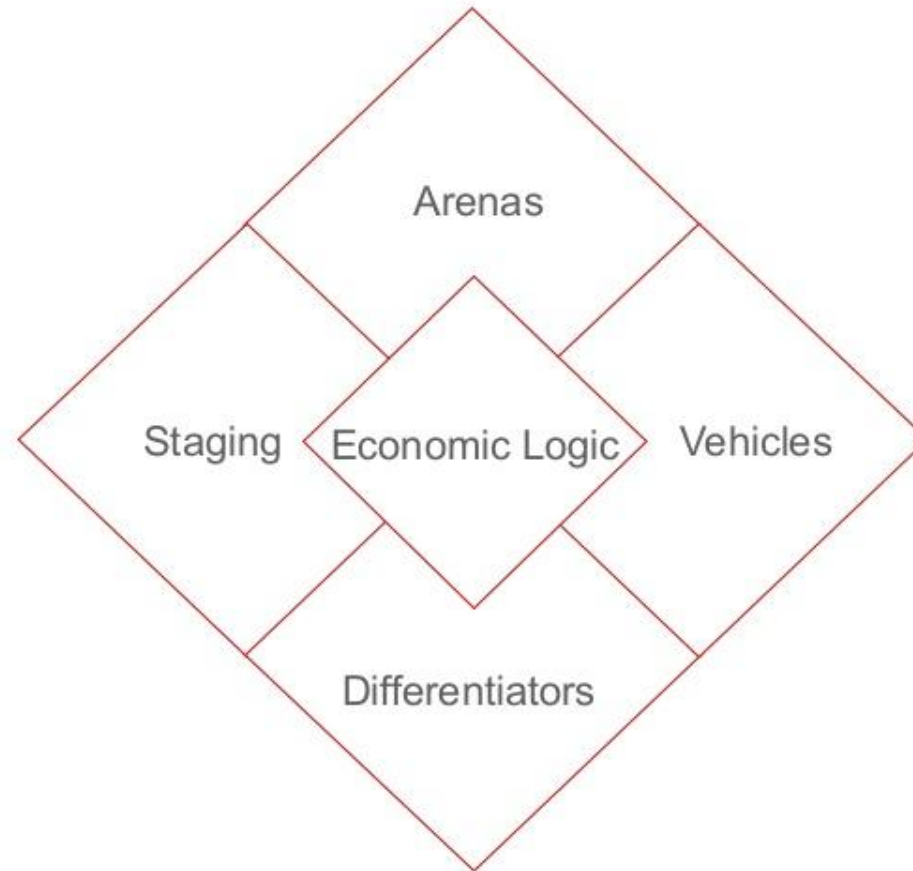
**A great strategy has pieces,
...but they form a coherent
whole!**

Putting strategy in its place



"Are you sure you have a strategy?" Donald C. Hambrick and James W. Frederickson Academy of Management Executive 2001 Vol. 15 No. 4

The five major elements of strategy



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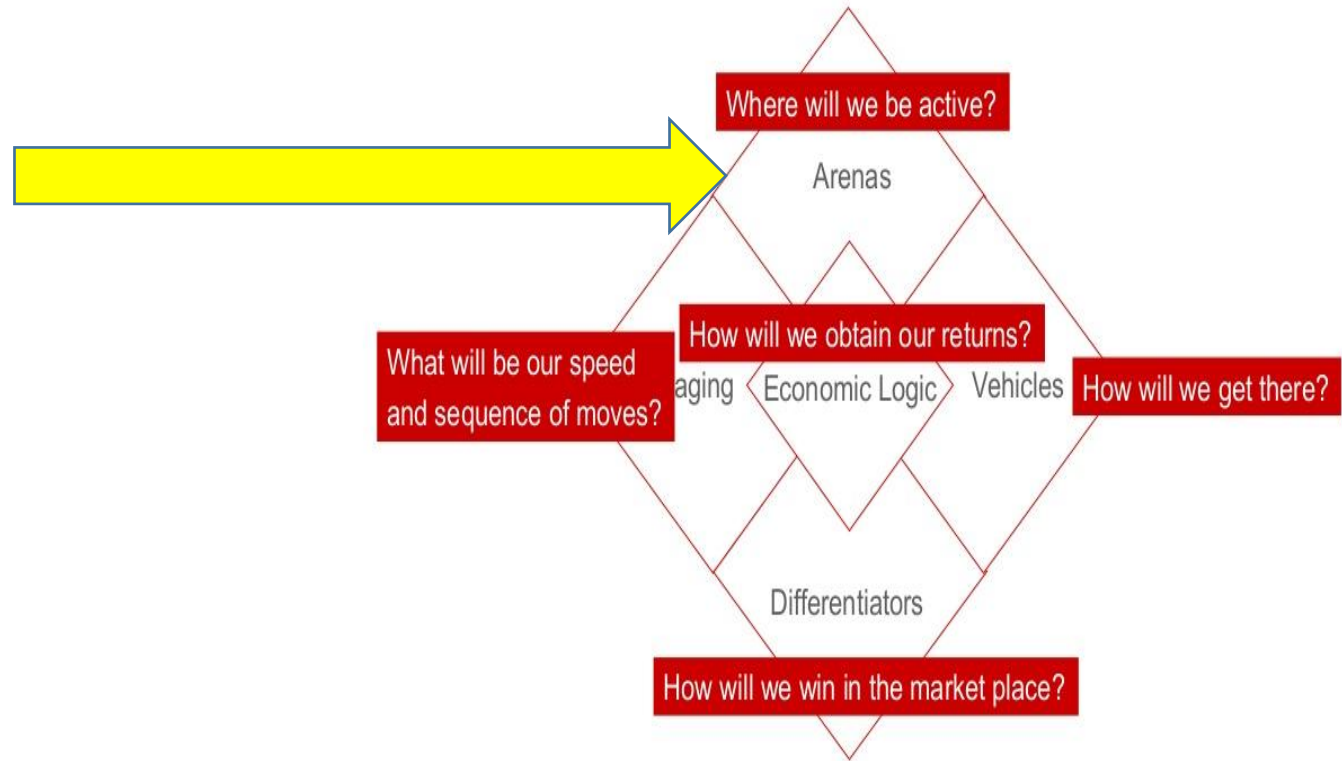
The five major elements of strategy

1

Arenas: Where will we be active?

- With how much emphasis ?
- Which product categories ?
- Which market segments ?
- Which geographic areas ?
- Which core technologies ?
- Which value-creating stages ?

The five major elements of strategy

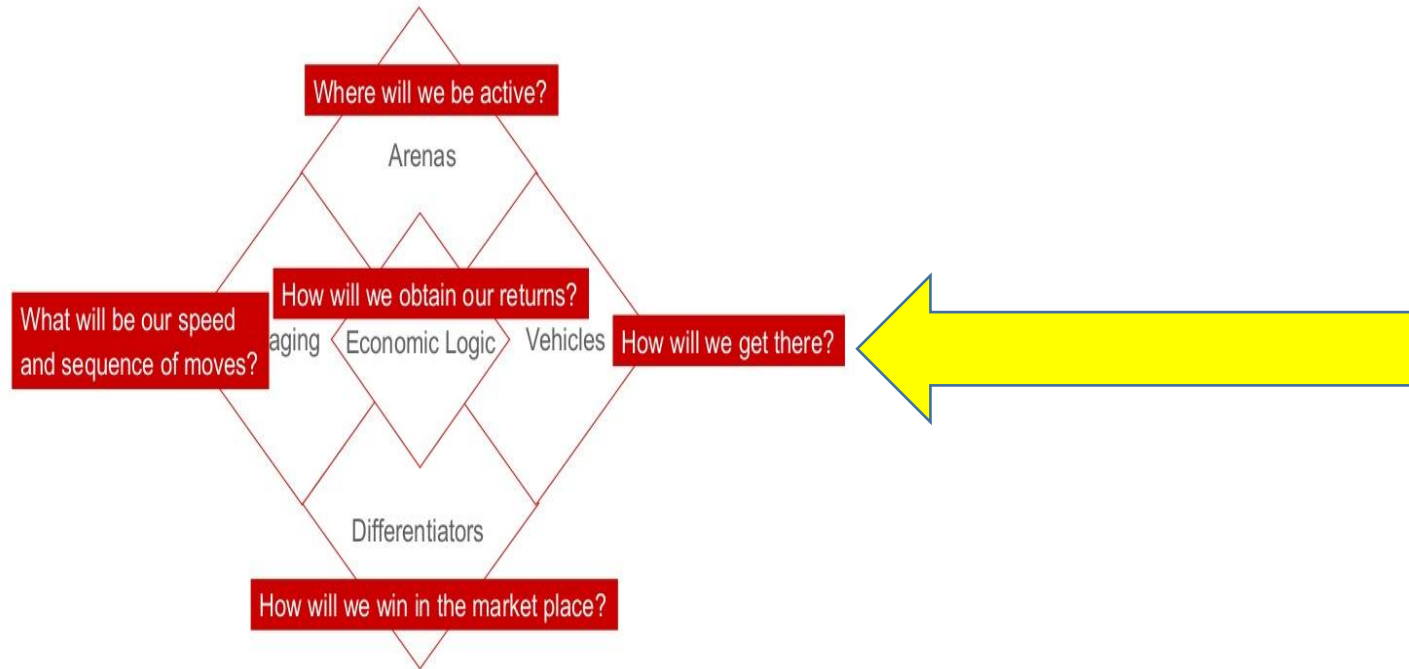


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The five major elements of strategy

2

Vehicles: How will we get there?

- The means for attaining the needed presence in the identified arenas
- Internal development ?
- Joint ventures / alliances ?
- Licensing / franchising ?
- Acquisitions ?
- Which channels ?

"Are you sure you have a strategy?" Donald C. Hambrick and James W. Frederickson Academy of Management Executive 2001 Vol. 15 No. 4

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The five major elements of strategy

3

Differentiators: How will we win?

- The reasons that customers will choose us
- Image ?
- Customization ?
- Price ?
- Styling ?
- Product reliability ?
- Anything else ?

The five major elements of strategy



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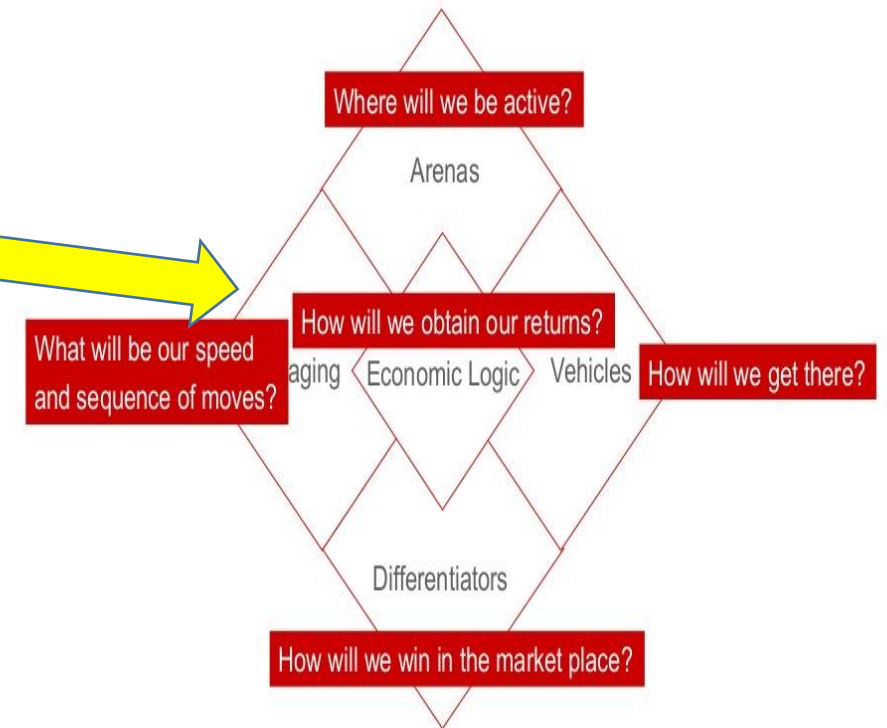
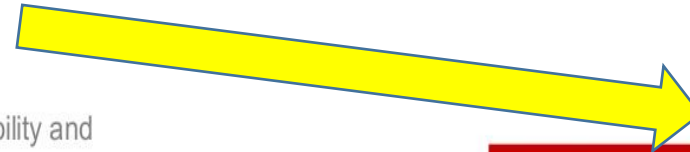
The five major elements of strategy

The five major elements of strategy

4

Staging: What will be our speed & sequence of moves?

- Driven by availability of resources, urgency, need for credibility and need for early wins
- Speed of expansion ?
- Sequence of initiatives ?



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The five major elements of strategy

5 Economic Logic: How will we obtain our returns?

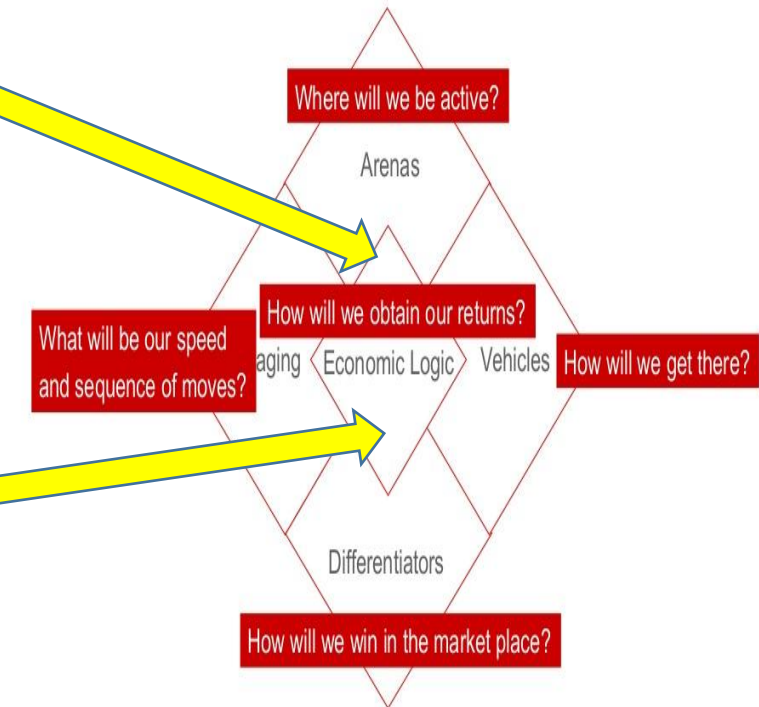
- How profits will be generated, above the firm's cost of capital.
- Lowest costs through scale advantages ?
- Lowest costs through scope and replication advantages ?
- Premium prices due to unmatched service ?
- Premium prices due to proprietary features ?

The five major elements of strategy

5 Economic Logic: How will we obtain our returns?

- What generates cash ?
- What decides your margins ?
- What generates market share growth ?
- How fast do sales turn into cash ?
- What numbers / ratios tell us we're successful ?
- What are our underlying core capabilities ?

The five major elements of strategy



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Testing the Quality of Your Strategy

Some key evaluation criteria

- **Does your strategy exploit your key resources & capabilities?**

With your particular mix of resources, does this strategy give you a good head start on competitors? Can you pursue this strategy more economically than competitors?

- **Do you have enough resources to pursue this strategy?**

Do you have the money, managerial time & talent, & other capabilities to do all you envision? Are you sure you're not spreading your resources too thinly, only to be left with a collection of feeble positions?

- **Will your envisioned differentiation be sustainable?**

Will competitors have difficulty matching you? If not, does your strategy explicitly include a ceaseless regimen of innovation & opportunity creation?

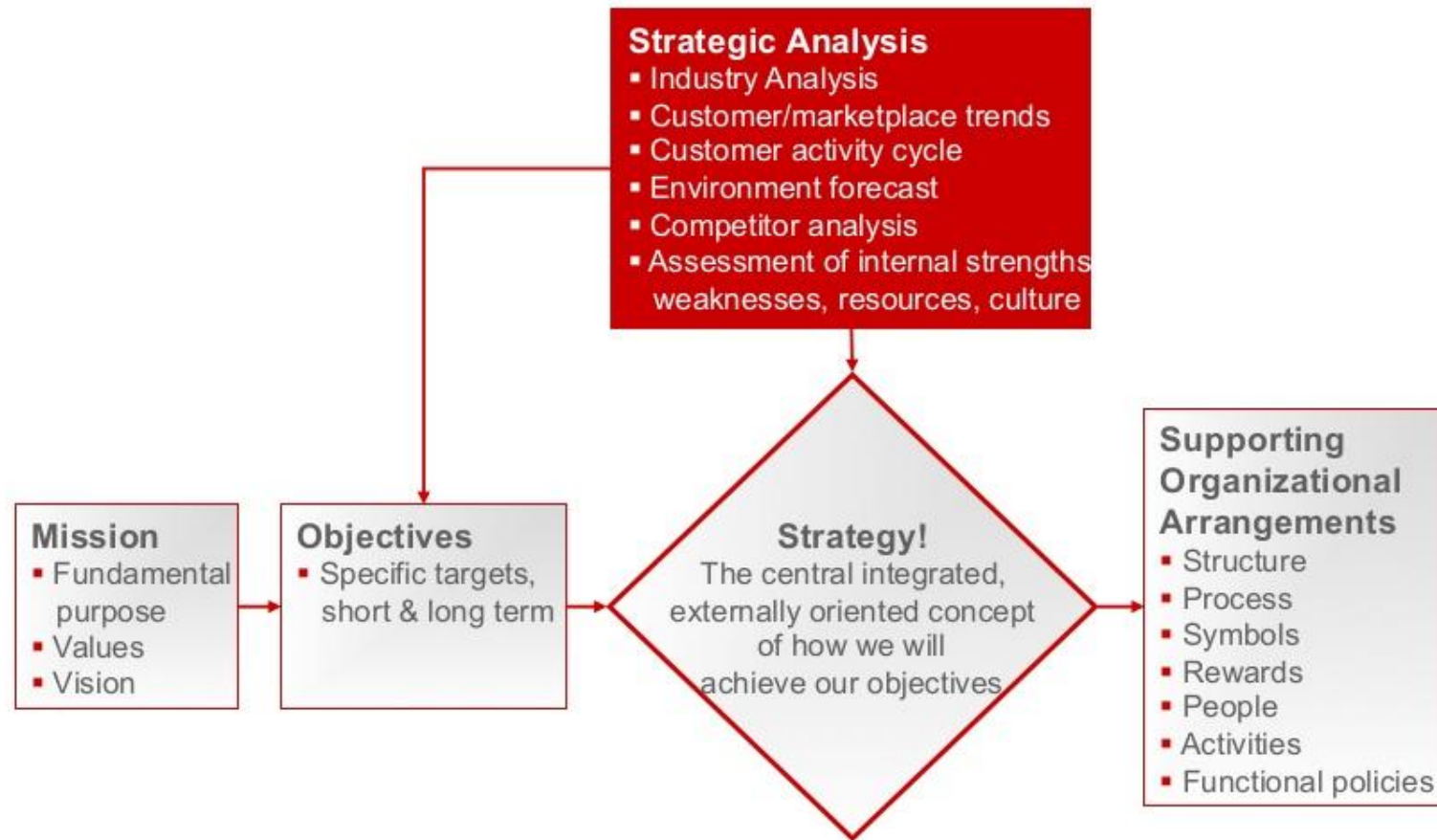
- **Are the elements of your strategy internally consistent?**

Have you made choices of arenas, vehicles, differentiators, and staging, and economic logic? Do they all fit and mutually reinforce each other?

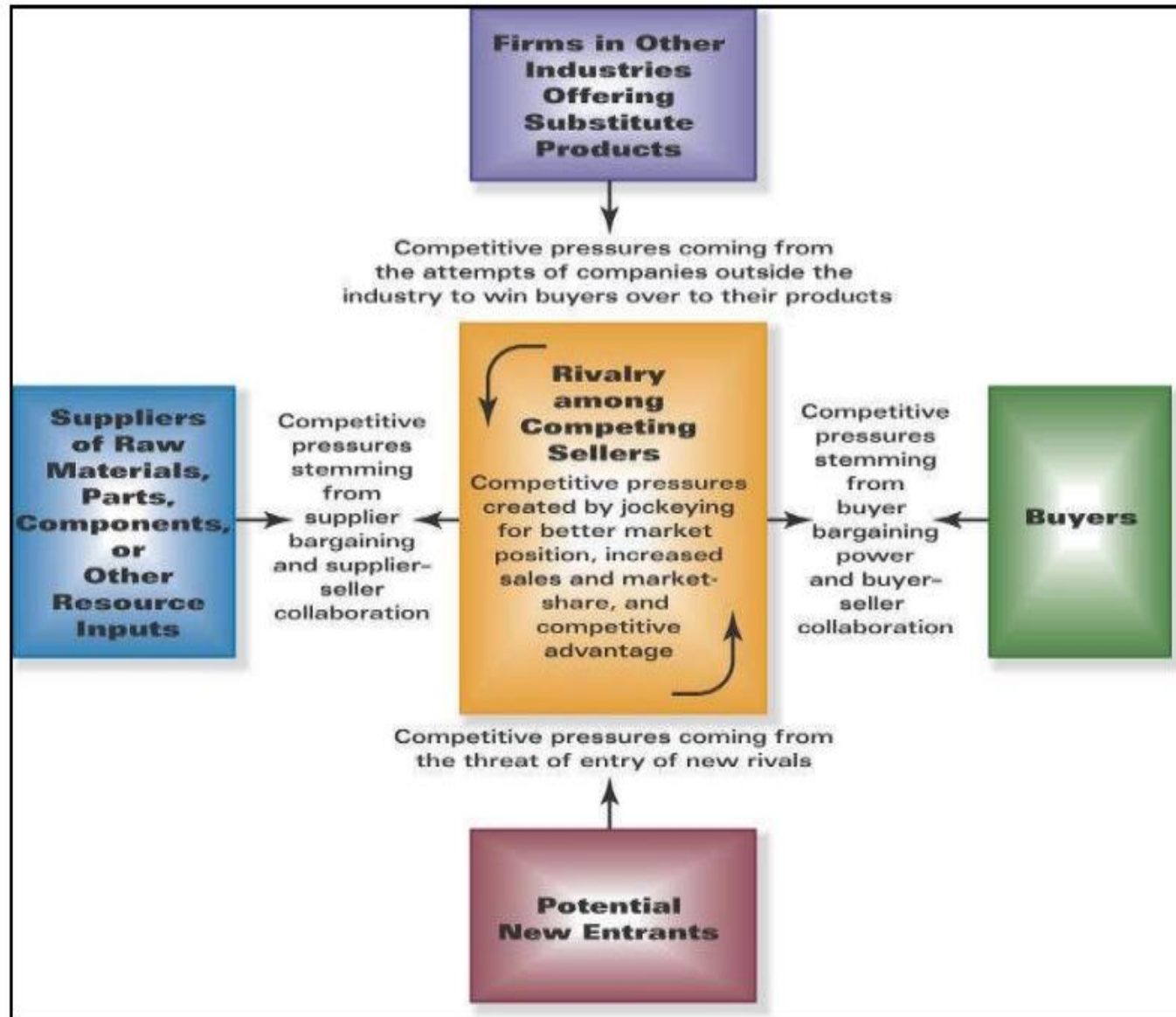
- **Is your strategy implementable?**

Will your key constituencies allow you to pursue this strategy? Can your organization make it through the transition? Are you & your management team able & willing to lead the changes?

Putting strategy in its place



"Are you sure you have a strategy?" Donald C. Hambrick and James W. Frederickson Academy of Management Executive 2001 Vol. 15 No. 4



Competitive Rivalry

Organisations are clearly interested in the degree of rivalry between them and other players in the industry.

Key questions might be:

- Who are my competitors?
- What size are they?
- Is the market growing or declining?
- Is the production capacity impacting the supply/demand considerations of the industry?
- Do rivals have an advantage via differentiation?
- Do rivals have an advantage via lower costs?
- What are the exit barriers should things go wrong?

Figure 4.1: The Five Forces Model

Source: Thompson et al. (2006:55)

What drives competition in the industry?

Porter's Five Forces

Entry Barriers

Economies of scale
 Proprietary product differences
 Brand identity
 Switching costs
 Capital requirements
 Access to distribution
 Absolute cost advantages

- Proprietary learning curve
- Access to necessary inputs
- Proprietary low-cost product design

 Government policy
 Expected retaliation

Rivalry Determinants

Industry growth
 Fixed (or storage) costs/value added
 Intermittent overcapacity
 Product differences
 Brand identity
 Switching costs
 Concentration and balance
 Informational complexity
 Diversity of competitors
 Corporate stakes
 Exit barriers



Determinants of Supply Power

Differentiation of inputs
 Switching costs of suppliers and firms in the industry
 Presence of substitute inputs
 Supplier concentration
 Importance of volume to supplier
 Cost relative to total purchases in the industry
 Impact of inputs on cost or differentiation
 Threat of forward integration relative to threat of backward integration by firms in the industry

Determinants of Buyer Power

Bargaining Leverage
 Buyer concentration versus firm concentration
 Buyer volume
 Buyer switching costs relative to firm switching costs
 Buyer information
 Ability to backward integrate
 Substitute products
 Pull-through

Price Sensitivity

Price/total purchases
 Product differences
 Brand identity
 Impact on quality/performance
 Buyer profits
 Decision makers' incentives

Determinants of Substitution Threat

Relative price performance of substitutes
 Switching costs
 Buyer propensity to substitute

SWOT Analysis

Strengths



Weaknesses



Opportunities



Threats



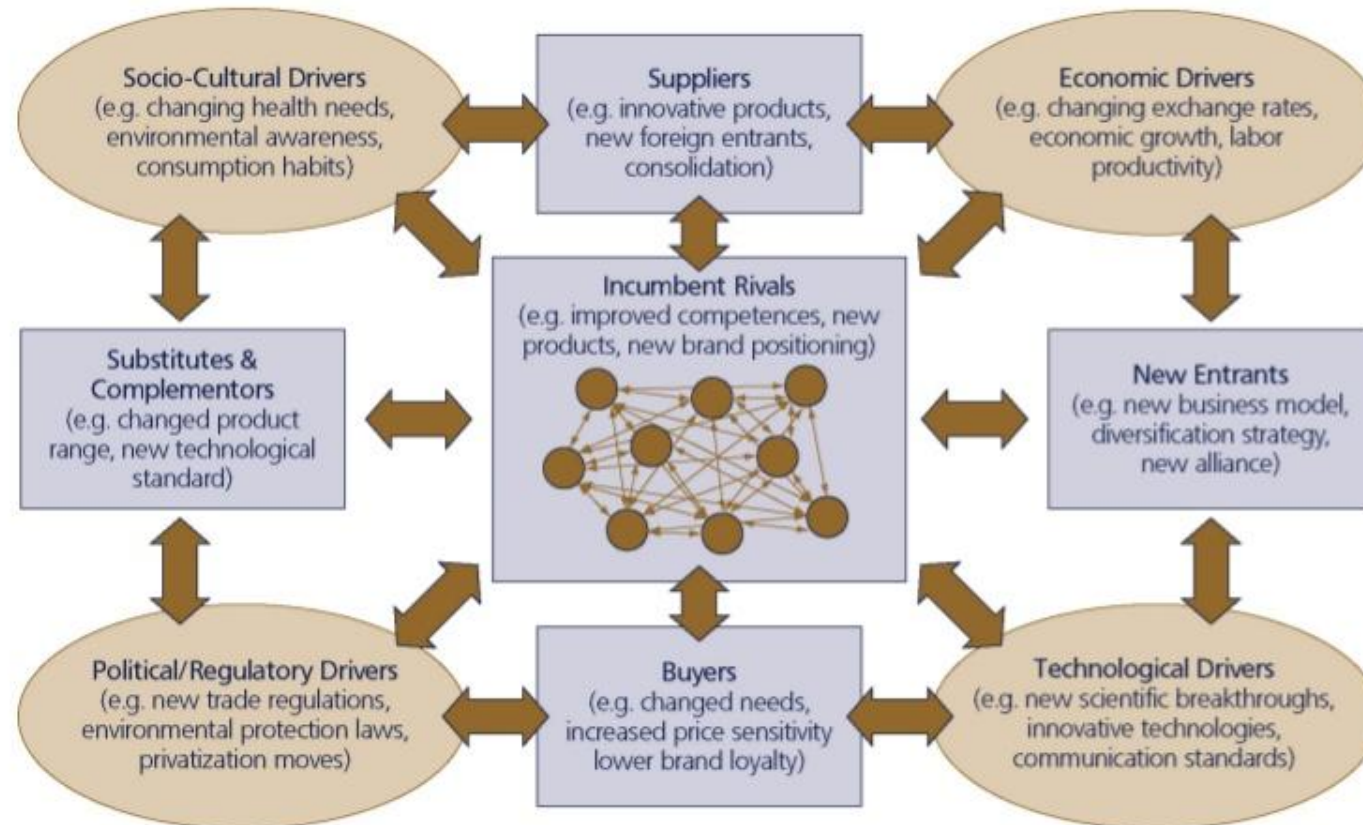
4.6 Forecasting

To illustrate with a mature product – passenger motorcar tyres – several basic forecasts can be made with considerably confidence. Technologically, belted tyres, which have already been around for a few decades will continue to be more dominant. Lighter cars will reduce tyre wear. Politically, safety will continue to be stressed. Socially, both potential car owners and cars per capita continue to increase, but at a slower pace. Economically, the replacement tyre market will flatten out, because of the longer life of belted tyres, lighter cars, and some driving restraint (because of high petrol prices). Also, the original equipment market will continue to be dominated by a few, low-cost producers; except for well-established companies like Michelin, no new producers will have the clout to enter the original equipment business.

This sort of forecast has reasonable reliability because of inertia – the energy required to stop a prevailing force and the energy needed to launch an alternative.

Peter Drucker once said: “The best way to predict the future is to create it”. **Scenarios** are a powerful way of moving towards a more desired future,

Anything else?



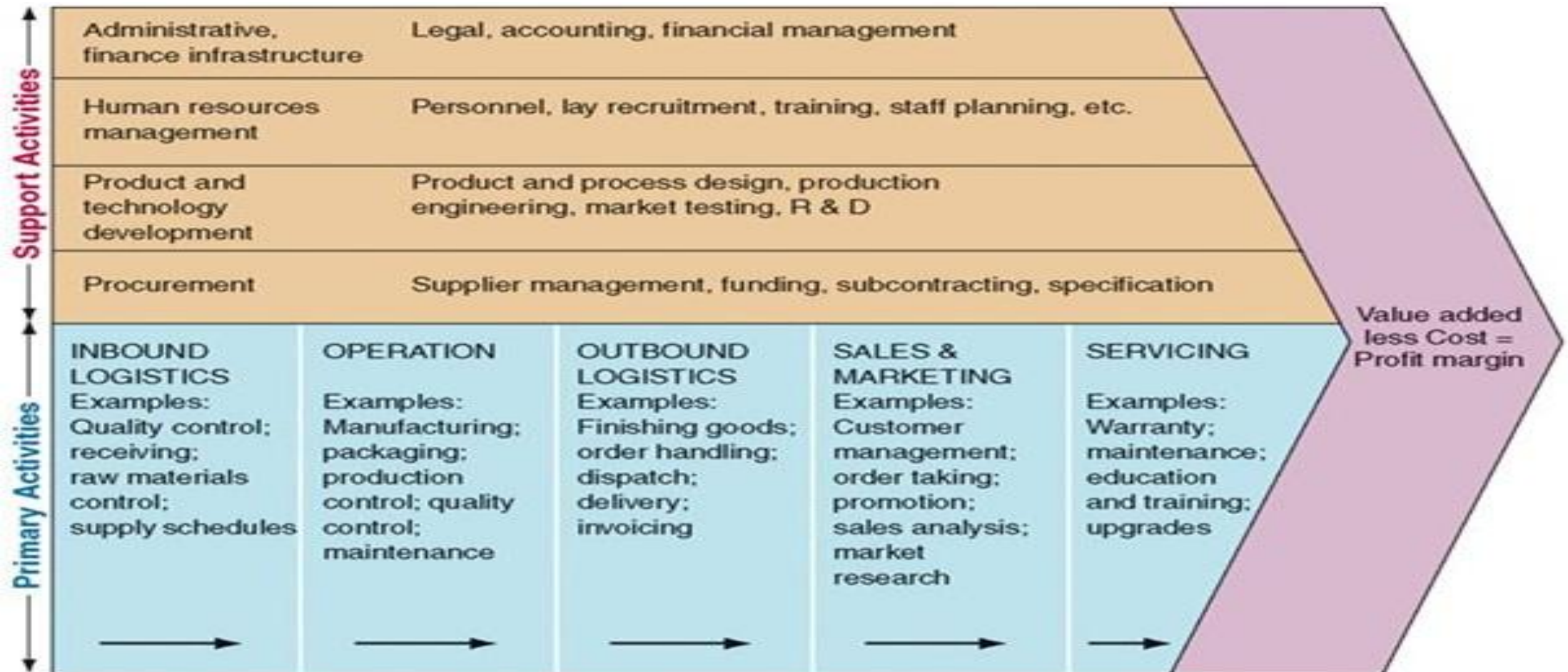
Business System, Model & the value chain

- A **business system** is the chain of activities through which a product is developed, produced and delivered to its end-customers.
- A **business model** describes the way a company has selected to exploit its capabilities, relative to the industry characteristics.
- The **value chain** is the chain of activities through which a product is developed, produced and delivered to its end-customers, when *done by one company*.

What's your Business Model

KEY PARTNERS Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from our partners? Which key activities do partners perform?	KEY ACTIVITIES What key activities do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?	VALUE PROPOSITIONS What value do we deliver to the customer? Which one of our customers' problems are we helping to solve? What bundles of products and services are we offering to each segment? Which customer needs are we satisfying? What is the minimum viable product?	CUSTOMER RELATIONSHIPS How do we get, keep, and grow customers? Which customer relationships have we established? How are they integrated with the rest of our business model? How costly are they?	CUSTOMER SEGMENTS For whom are we creating value? Who are our most important customers? What are the customer archetypes?
	KEY RESOURCES What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?		CHANNELS Through which channels do our customer segments want to be reached? How do other companies reach them now? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?	
COST STRUCTURE What are the most important costs inherent to our business model? Which key resources are most expensive? Which key activities are most expensive?			REVENUE STREAMS For what value are our customers really willing to pay? For what do they currently pay? What is the revenue model? What are the pricing tactics?	

Analysing your company's value chain



Achieving a Cost Advantage

Once you're clearly defined your value chain for your proposed venture, then the next step is to perform a thorough cost analysis by assigning costs to each value chain activity. Porter mentioned 10 cost drivers where you might gain a cost advantage by controlling these drivers better your competitors.

- Economies of Scale
 - Learning
 - Capacity utilization
 - Linkages between activities
- Interrelationships between business units
 - Degree of vertical integration
 - Timing of market entry
- Firms policy of cost or differentiation
 - Geographic location
- Institutional factors (regulation, unions, taxes, etc)

- See more at: <http://managementhelp.org/blogs/business-planning/2011/08/18/value-chain-your-way-to-profitability/#sthash.dWhGnZ7A.dpuf>

Differentiation

Another way you can gain competitive advantage is through differentiation, which can occur anywhere in the value chain. Differentiation comes from providing unique value at some point in the value chain which lowers costs or improves the quality of the final product. Here's Porter's drivers of uniqueness:

- Policies and decisions
- Linkages among activities
 - Timing
 - Location
- Interrelationships
 - Learning
 - Integration
 - Scale
- Institutional factors

Finally, your company's value chain links to the value chains of suppliers and buyers in a larger stream of activities that Porter calls the value system. Development of your competitive advantage will depend not only on your value chain, but also on the value system within which you will operate

- See more at: <http://managementhelp.org/blogs/business-planning/2011/08/18/value-chain-your-way-to-profitability/#sthash.dWhGnZ7A.peWzytUs.dpuf>

The Ten Schools of Thought model breaks down the field of Strategic Management into 10 categories of thinking

Executive Summary

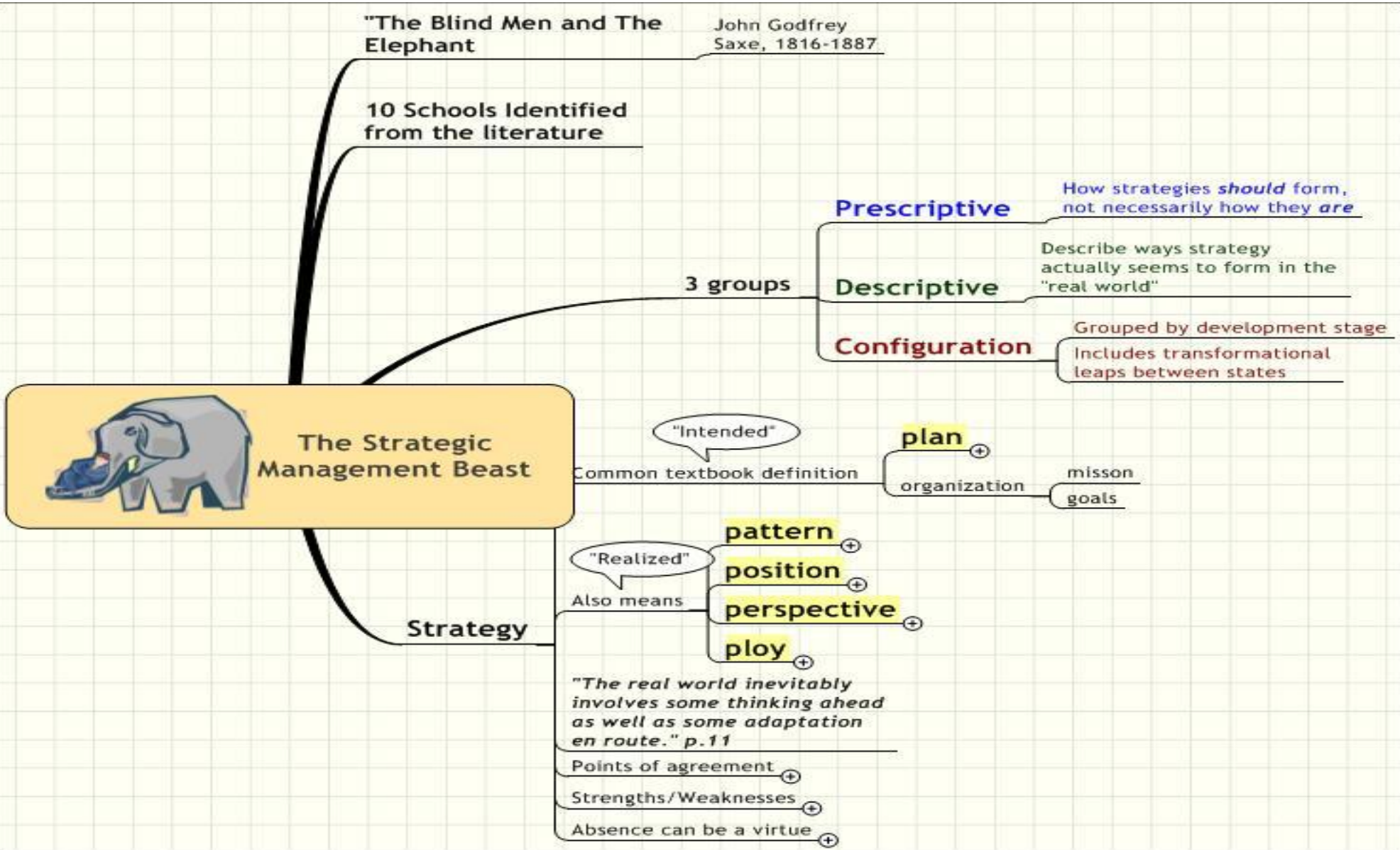
The Ten Schools of Thought model from Henry Mintzberg is a framework that can be used to categorize the field of Strategic Management. It describes each school in context and provides a critique. Thus, it acts as a very good overview to the entire field of Strategic Management.

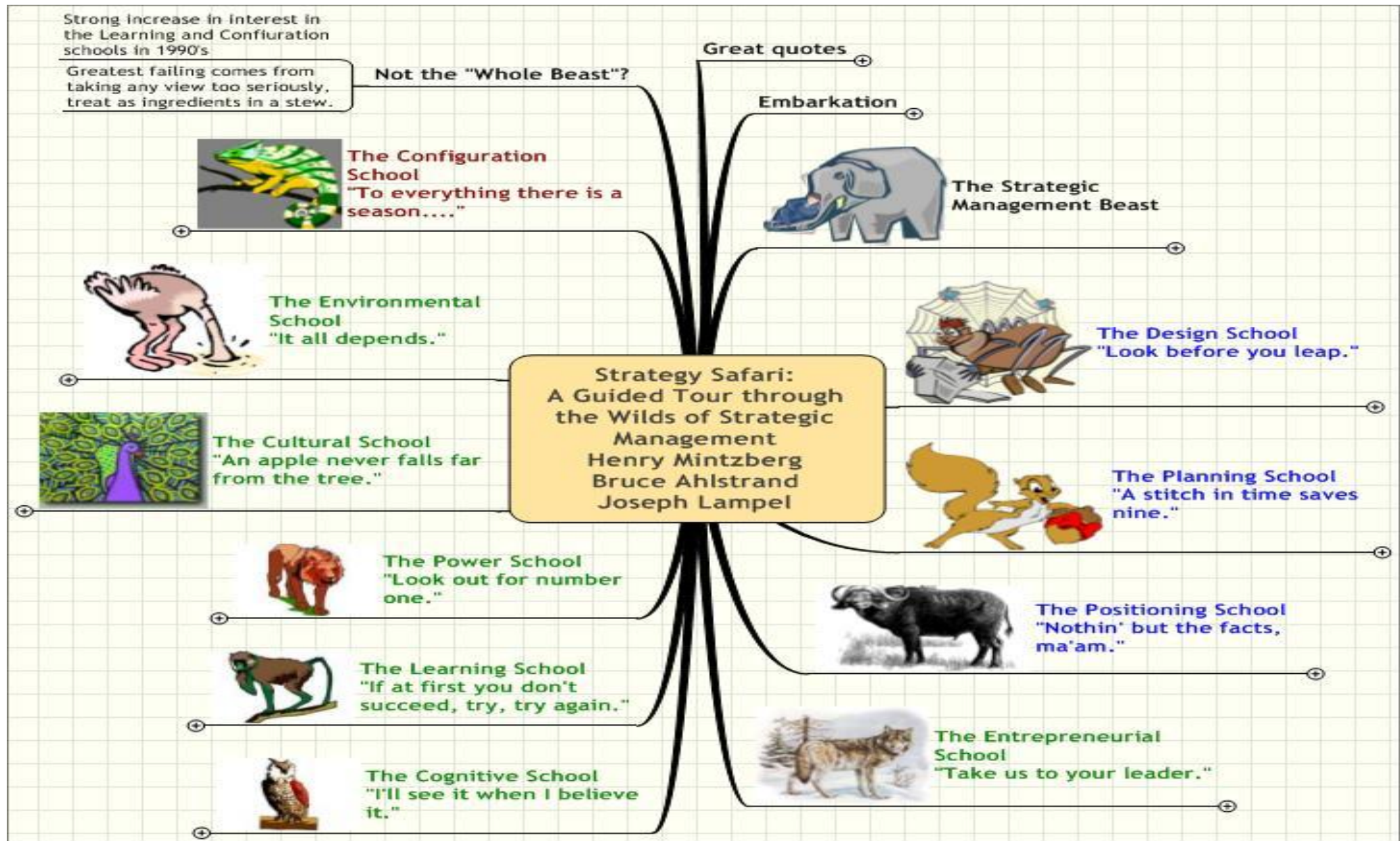
While academics and consultants keep focusing on these narrow perspectives, business managers will be better served if they strive to see the wider picture. Some of strategic management's greatest failings, in fact, occurred when one of these concepts was taken too seriously.

These 10 Schools of Thought are as follows:

- The Design School
- The Planning School
- The Positioning School
- The Entrepreneurial School
- The Cognitive School
- The Learning School
- The Power School
- The Cultural School
- The Environmental School
- The Configuration School







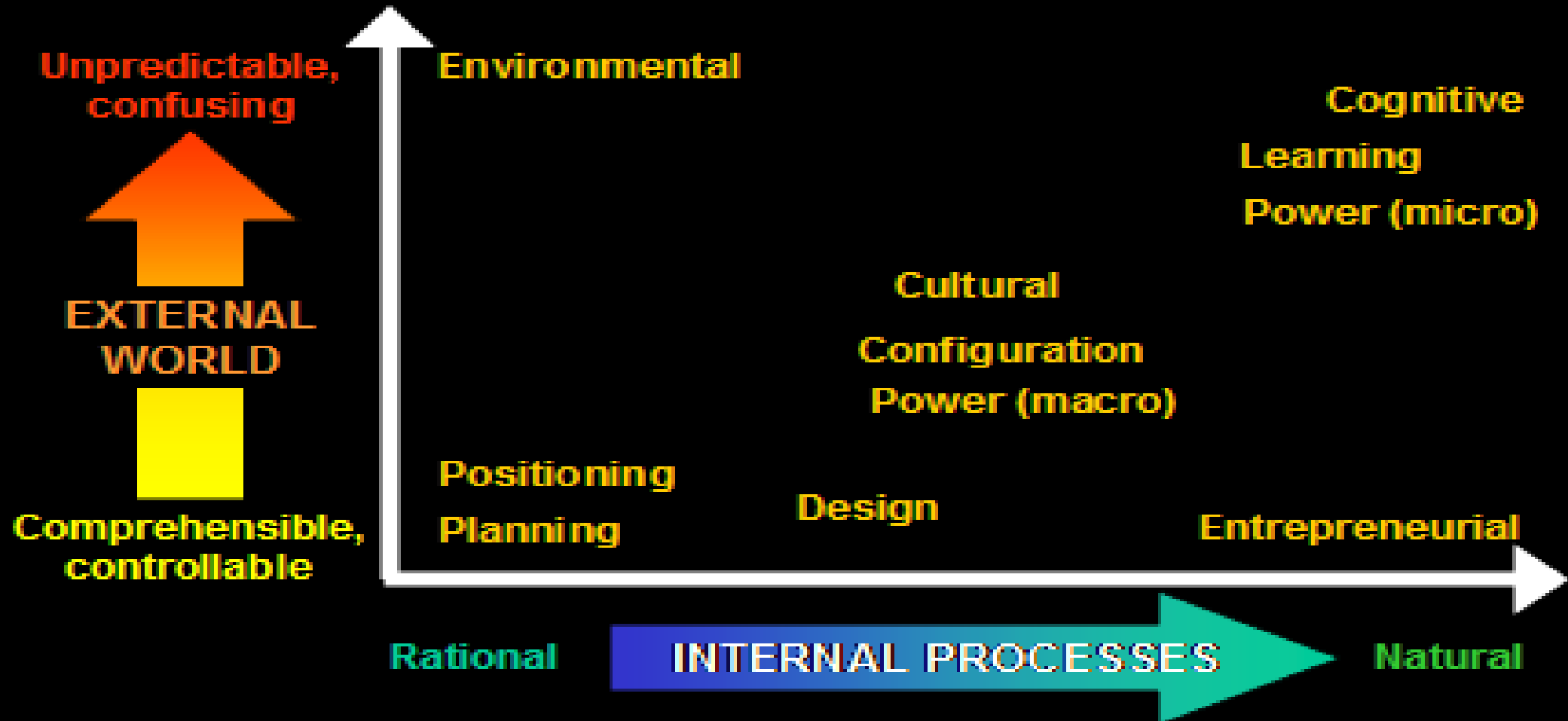
The Schools of Strategy (developed from The Strategy Safari – Mintzberg, 1998)

- **Design** seek a fit between internal capabilities and external possibilities, through **analysis**
- **Planning** **plan** the objectives, and budgets of all parts of the organisation in a cascade
- **Entrepreneurial** develop the vision of the leader, based on a **search** for new opportunities
- **Learning** develop strategies through **experimentation**
- **Power** **network**; develop strategy through **negotiation** amongst stakeholders
- **Capability-based** **build** a strategy around resources and capabilities
- **Environmental** **adapt** to the environment



Strategic Management

Correlation between the Ten Dominant Strategy Schools

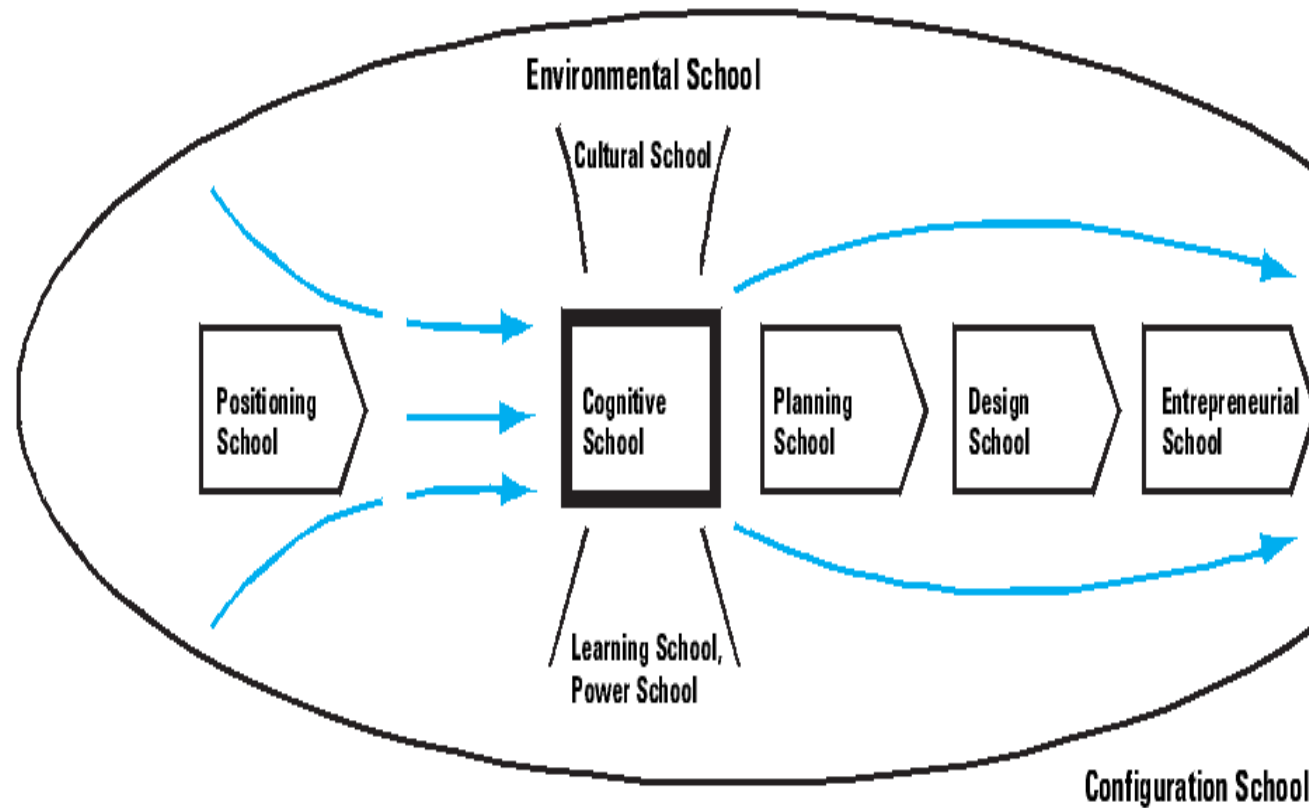


Source: "Strategy Safari", Mintzberg, Ahlstrand, and Lampel

1000ventures.com

Figure 1

Strategy Formation as a Single Process



4.8 VUCA Environment

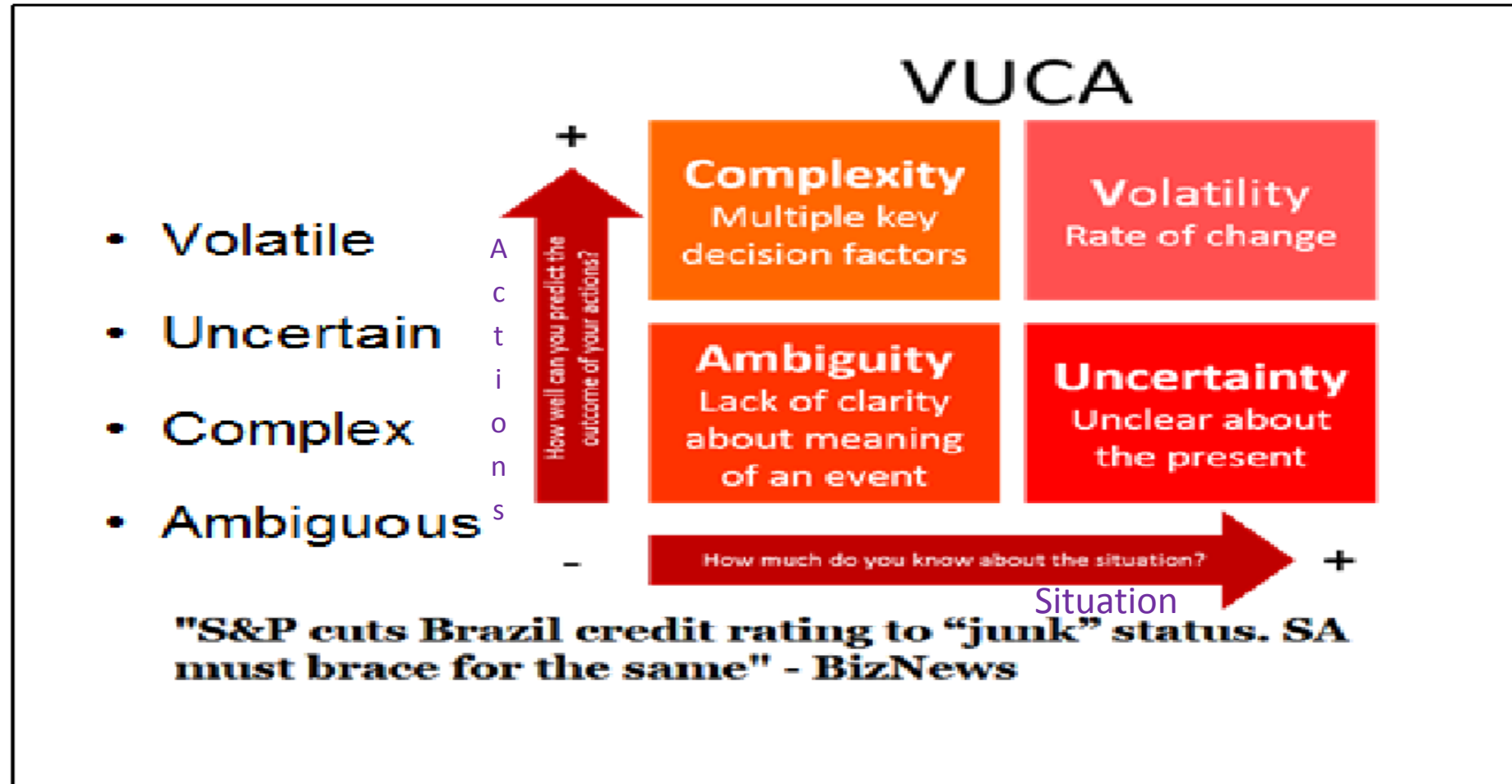


Figure 4.5: VUCA

Chaos and complexity in a VUCA world

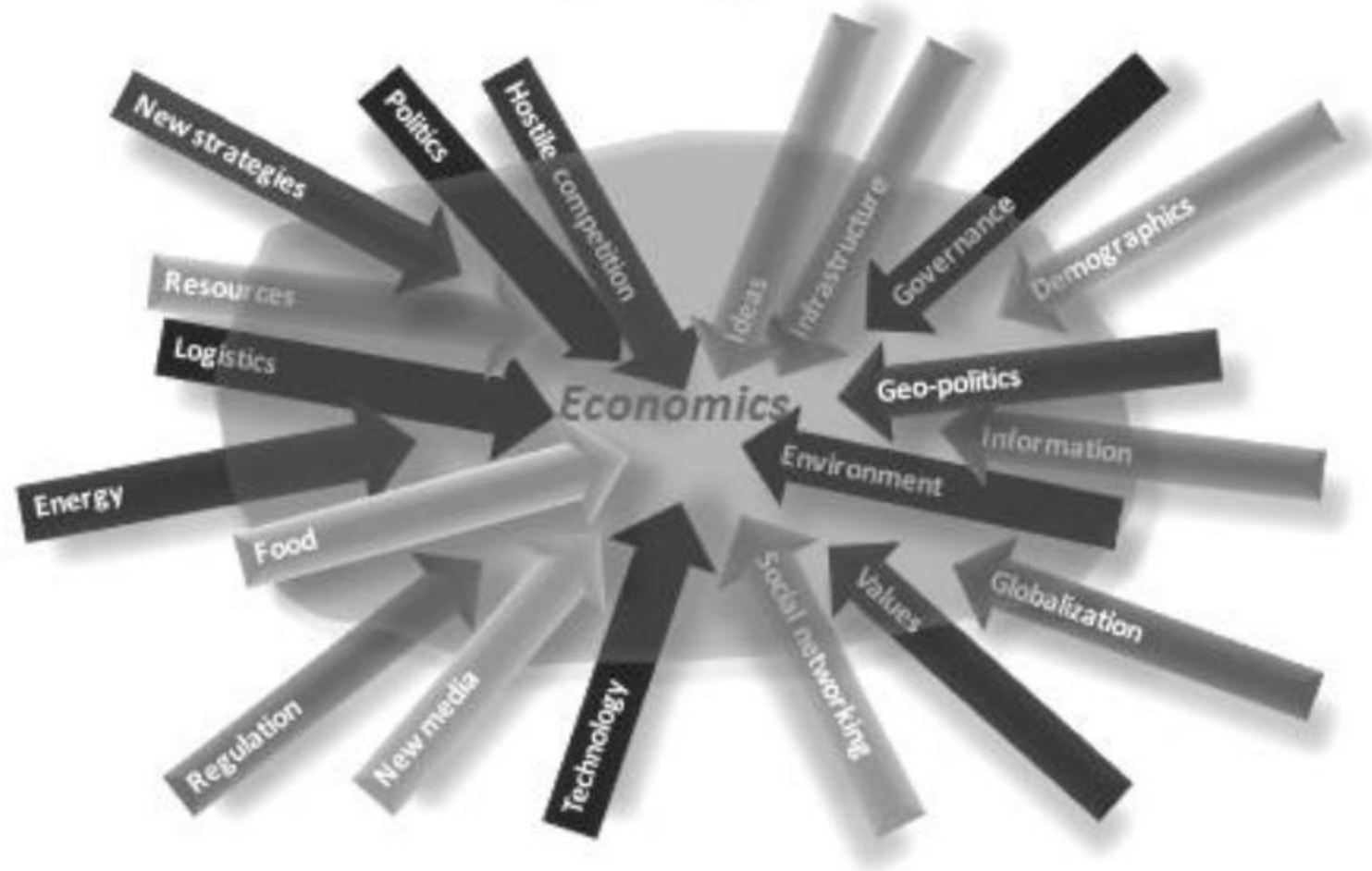
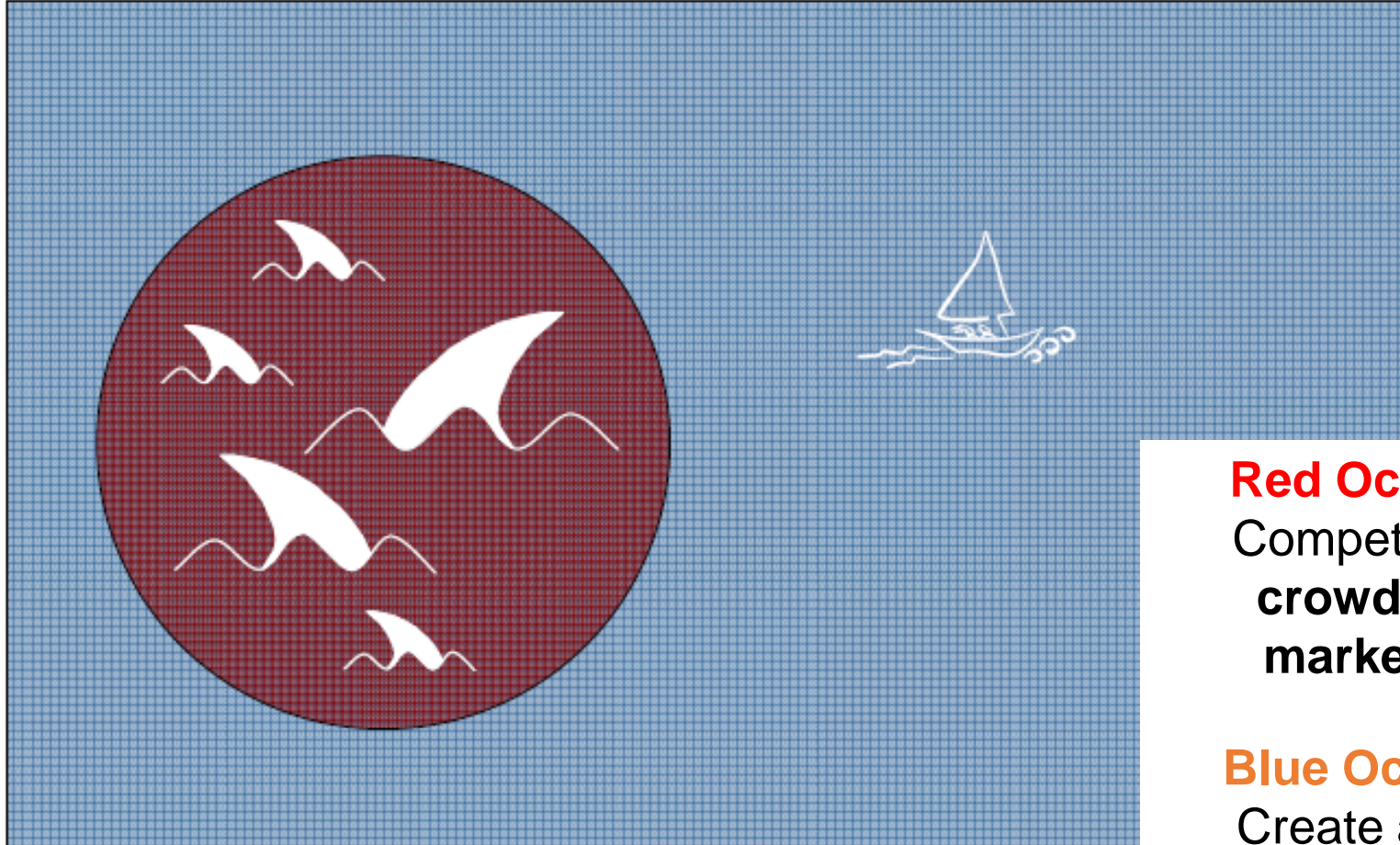


Figure 4.6: Chaos and Complexity in a VUCA World



Two worlds ...



Red Ocean

Compete in
crowded
markets

Blue Ocean

Create and
capture **new**
market space

The Continuing Creation of Blue Oceans

- Although the term *blue oceans* is relatively new, their existence is not. They are a feature of business life.
- How many of today's industries were unknown 100 years ago?
- Now turn the clock back only 30 years....how many?

The Continuing Creation of Blue Oceans

- Now put the clock forward twenty years and ask yourself how many now unknown industries will have appeared by then. If history can be used as a predictor of the future, again the answer is many of them.
- The reality is that industries never stand still. They continuously evolve. Operations improve, markets expand, and players come and go.

The Continuing Creation of Blue Oceans

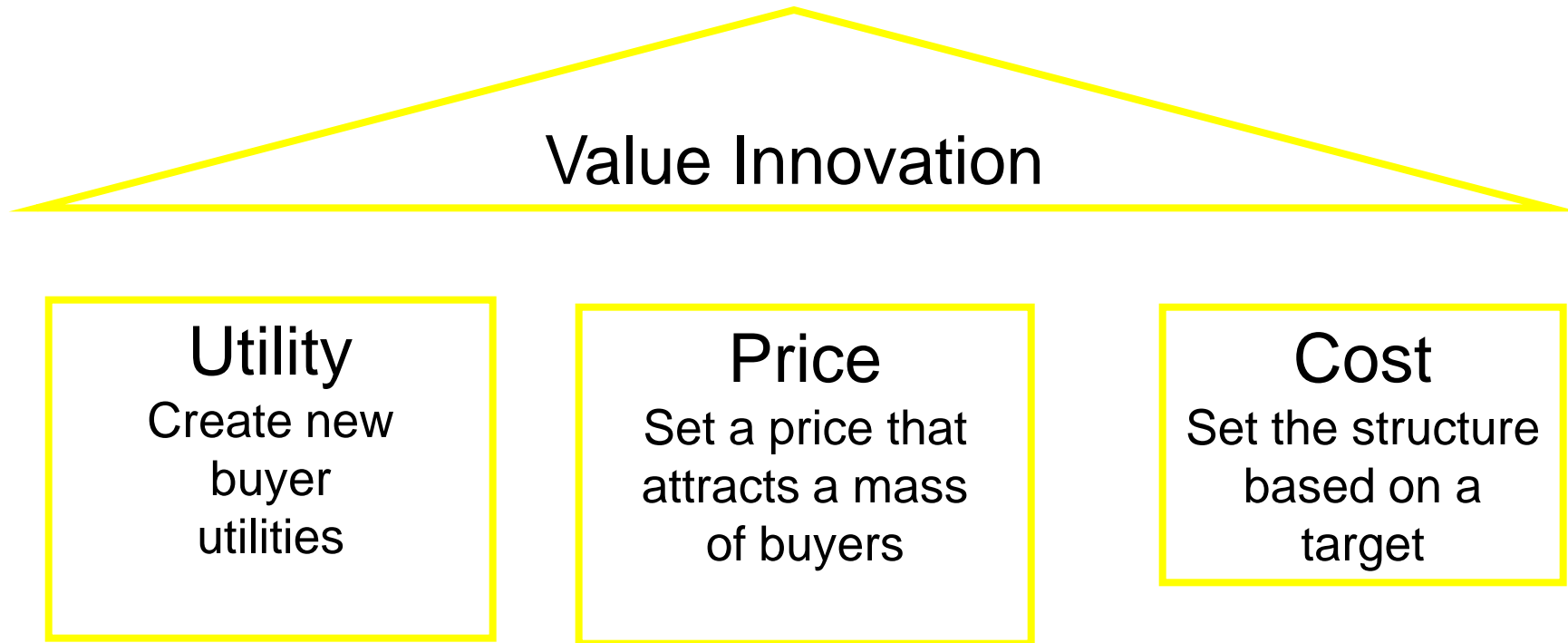
- Blue Ocean Strategy provides a systematic approach to making the competition “irrelevant.”

Refer to Gary Hamel, strategy consultant and London Business School.

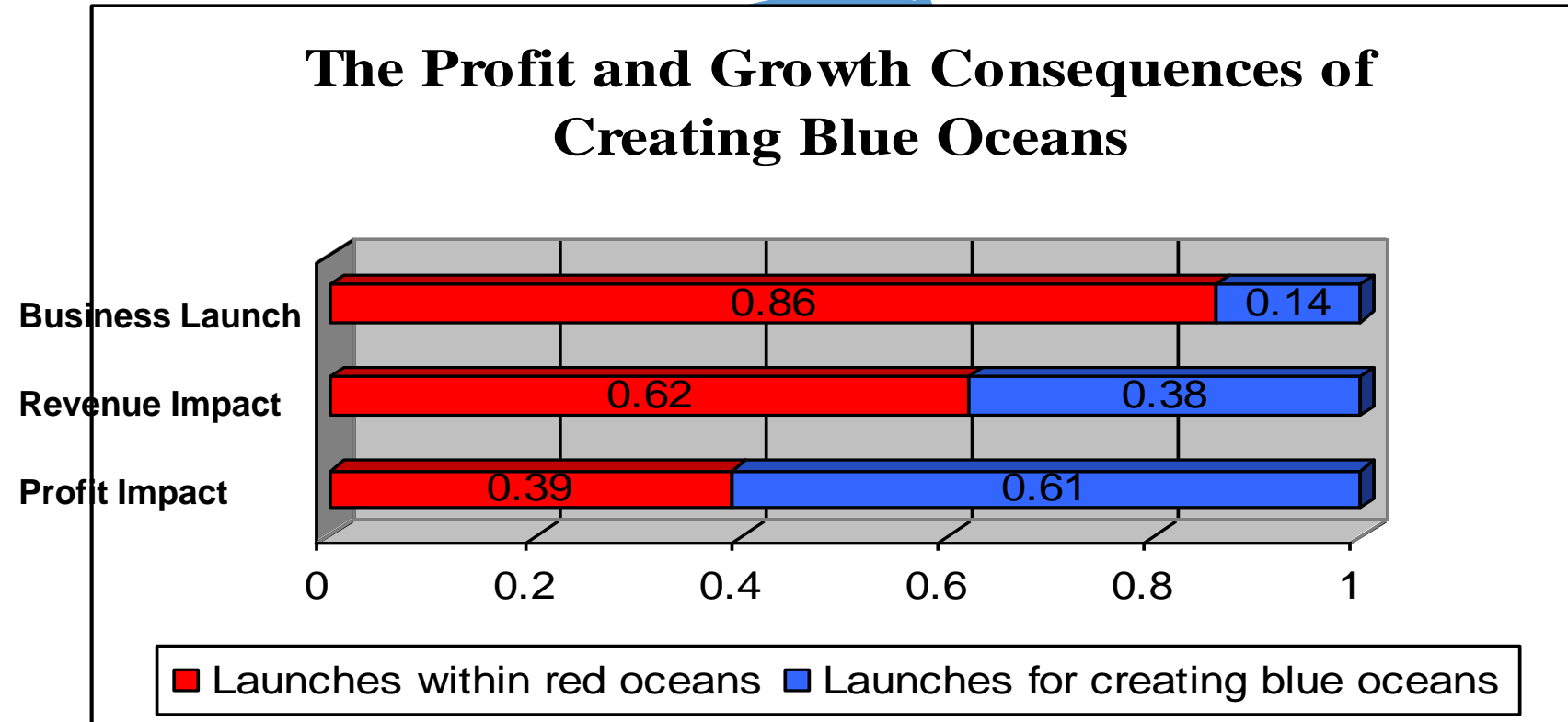
Value Innovation: The Cornerstone of Blue Ocean Strategy

- Value creation alone improves value but is not sufficient to make you stand out in the marketplace
- Innovation alone will often create a product that buyers are not willing to pay for
- Value innovation occurs only when companies align innovation with utility, price, and cost positions
- Value innovation:
 - Make the competition irrelevant
 - Create a leap in value for both buyers and your company
 - Open up new and uncontested market space

Unlocking non-customer demand



The Impact of Creating Blue Oceans



Two worlds ...

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value-cost trade-off.	Break the value-cost trade-off.
Align the whole system of a strategic firm's activities with its choice of differentiation or low cost.	Align the whole system of a firm's activities in pursuit of differentiation <i>and</i> low cost. ➡ VALUE INNOVATION

Reconstruct Market Boundaries

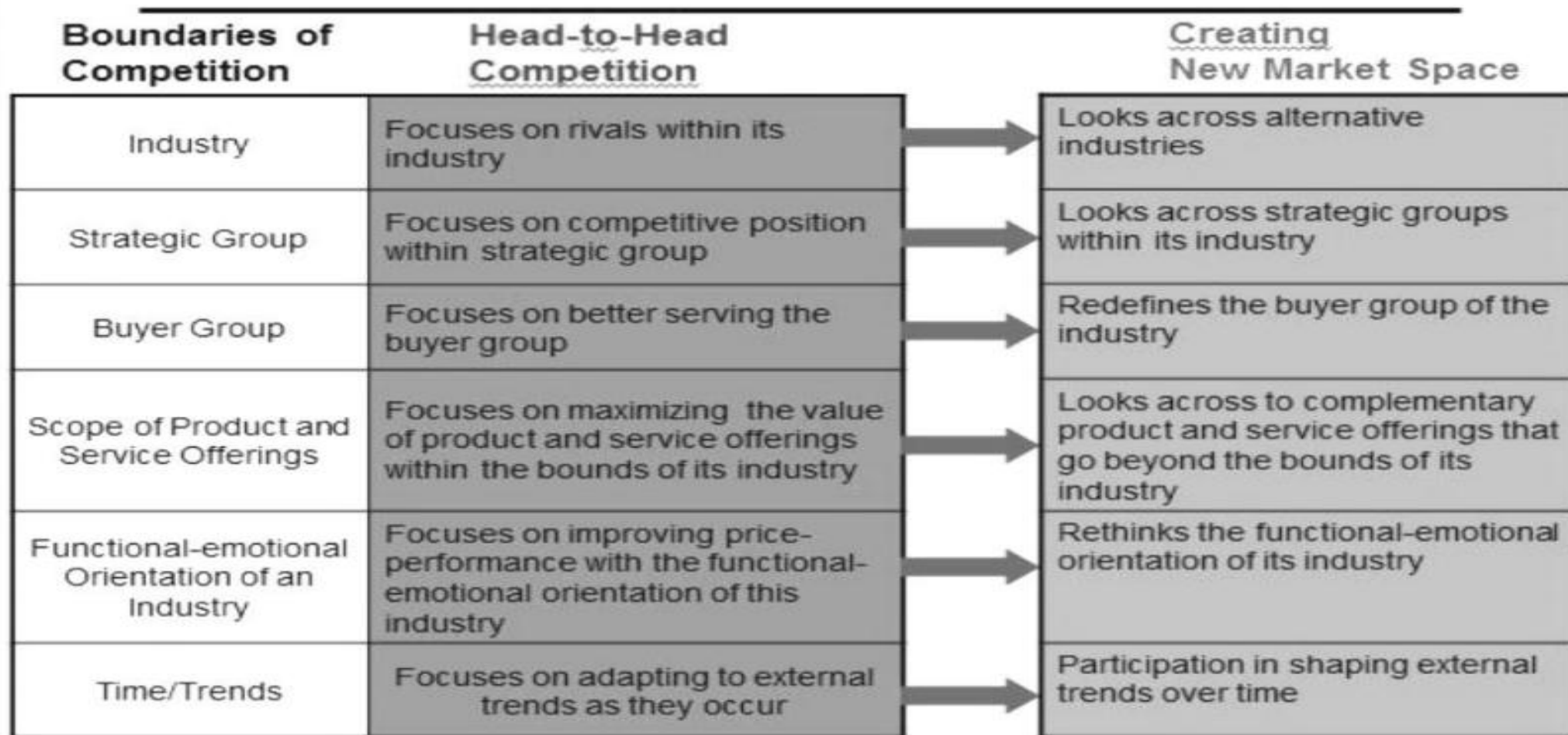
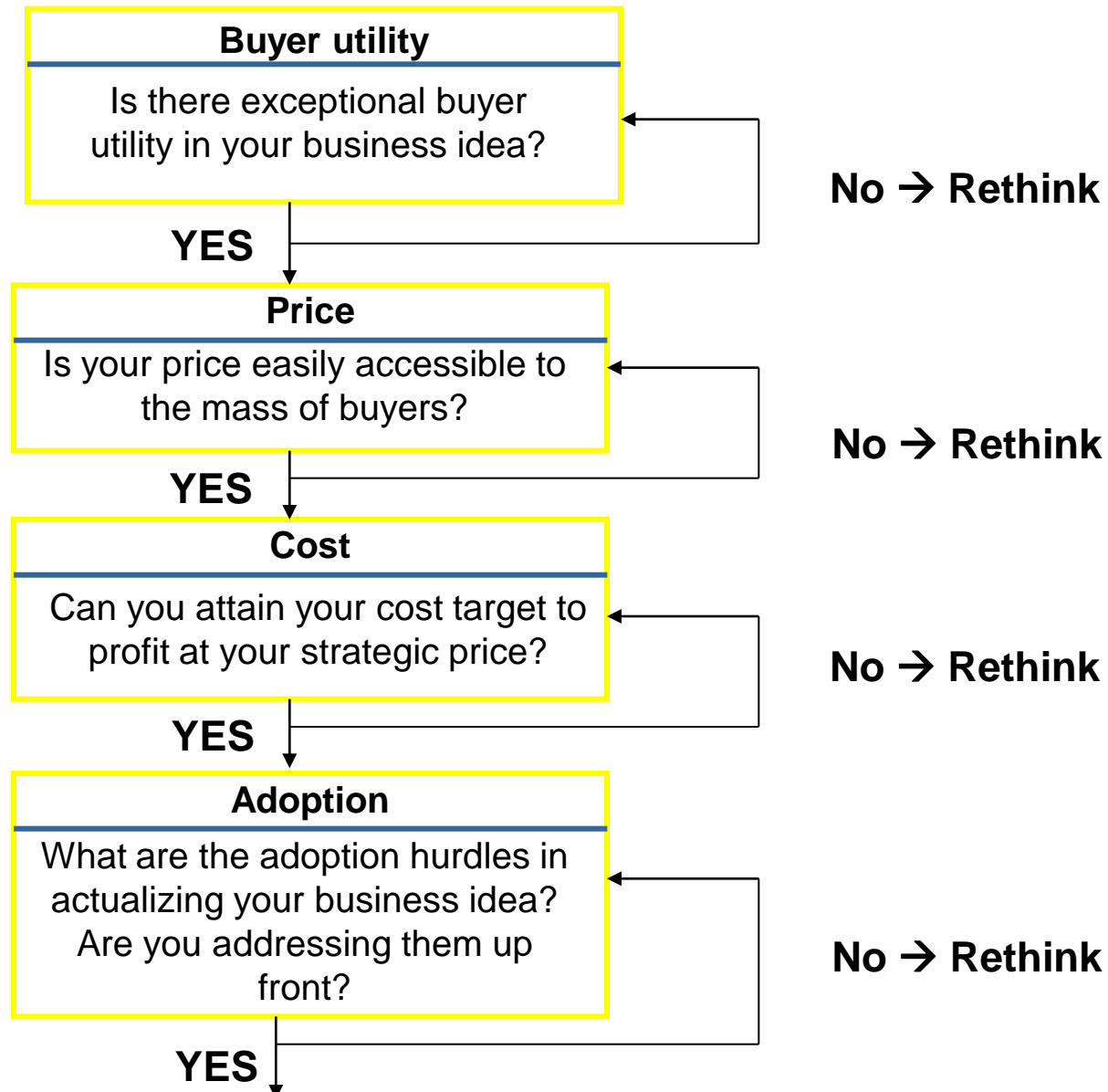


Figure 5.7: Reconstruct the market boundaries

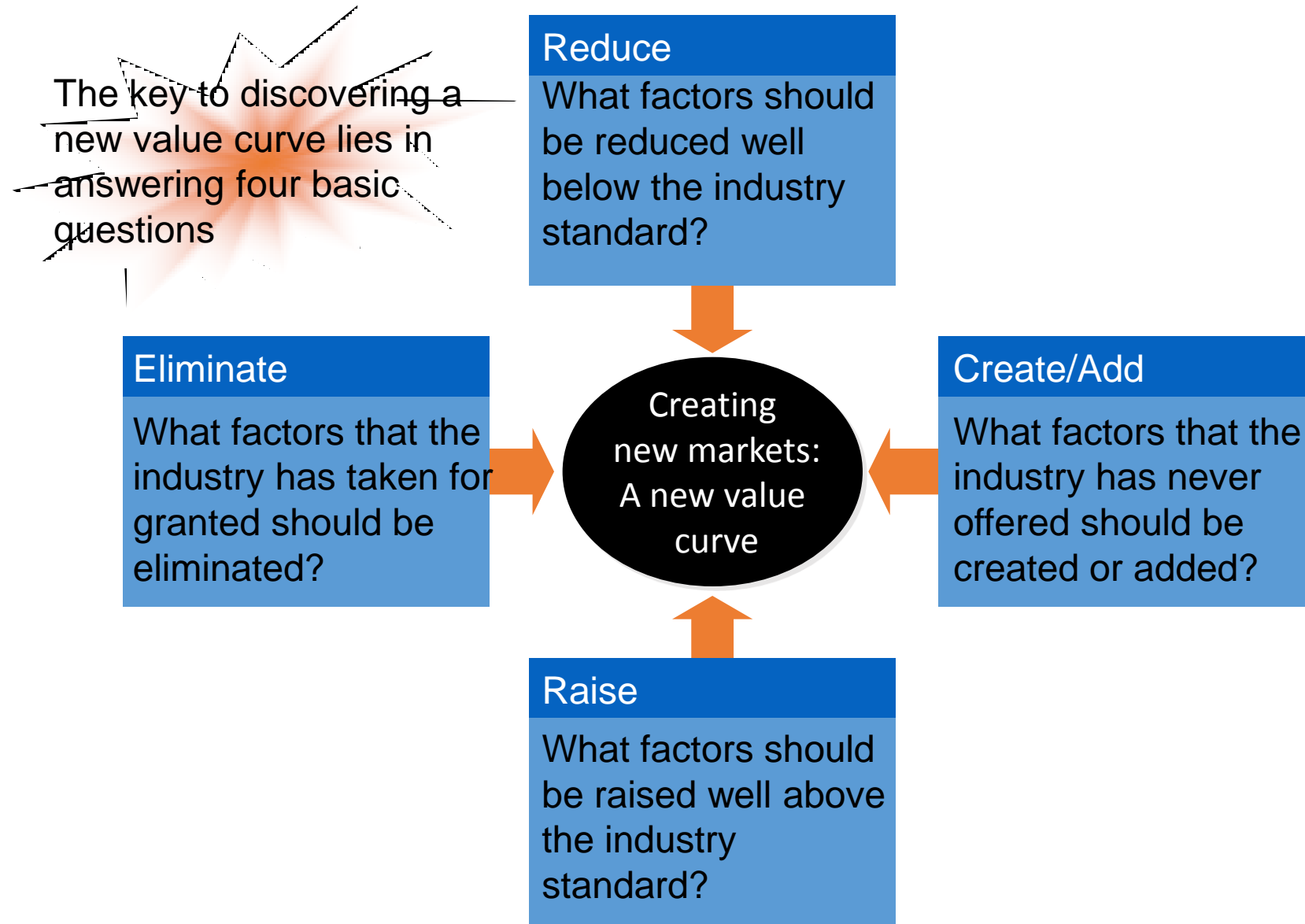
Source: (Kim and Mauborgne, 2005)

BOS Logic: Get the Strategic Sequence right



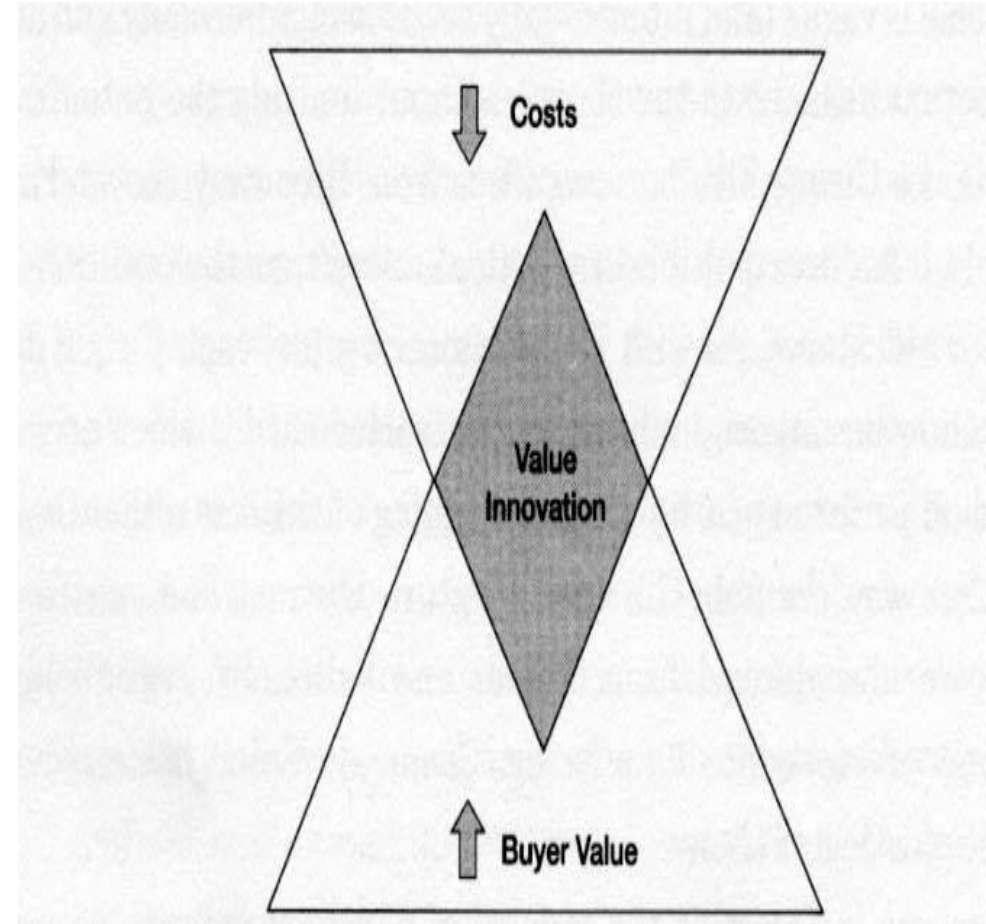
A commercially viable Blue Ocean Strategy

Four Actions Framework: Key to Value Curve



Value Innovation: The Cornerstone of Blue Ocean Strategy

- Creators of blue oceans follow value innovation
- Value Innovation
 - Equal emphasis on value and innovation
 - Defies value-cost trade-off of competition-based strategy
 - Successful value innovation:
 - Drives down costs while driving up buyers' value
 - Uses a whole-system approach
 - Follows reconstructionist view



According to Kim and Mauborgne (2005) companies have to focus on:

1. Utility for the buyer
2. Price
3. Costs
4. Share the new vision
5. Make sure that the vision is understood by all employees

From Company and Industry to Strategic Move

- So just how can a company break out of the red ocean of bloody competition?
- How can it create blue ocean?
- Is there a systematic approach to achieve this and thereby sustain high performance?

Value Innovation: The Cornerstone of Blue Ocean Strategy

- What consistently separates winners from losers in creating blue oceans is their approach to strategy.
- The firms caught in the red ocean followed a conventional approach of racing to beat the competition by building a defensible position within the existing industry order.

Value Innovation: The Cornerstone of Blue Ocean Strategy

- The creators of blue oceans, don't use the competition as their benchmark.
- Instead, they follow a different strategic logic -*value innovation*.
- Value innovation is the cornerstone of blue ocean strategy.
- Focus on making the competition irrelevant as opposed to focusing on beating our competition.
- Creating a leap in value for buyers and the firm by opening up new and uncontested market space.

The Six Principles of Blue Ocean Strategy

This figure highlights the six principles driving the successful formulation and execution of blue ocean strategy and the risks that these principles attenuate.

Formulation Principles

Reconstruct market boundaries

Focus on the big picture, not the numbers

Reach beyond existing demand

Get the strategic sequence right

Risk factor each principle attenuates (strategy formulation)

▼ Search risk

▼ Planning risk

▼ Scale risk

▼ Business model risk

Evaluation principles

Overcome key organizational hurdles

Build execution into strategy

Risk factor each principle attenuates (strategy execution)

▼ Organizational risk

▼ Management risk

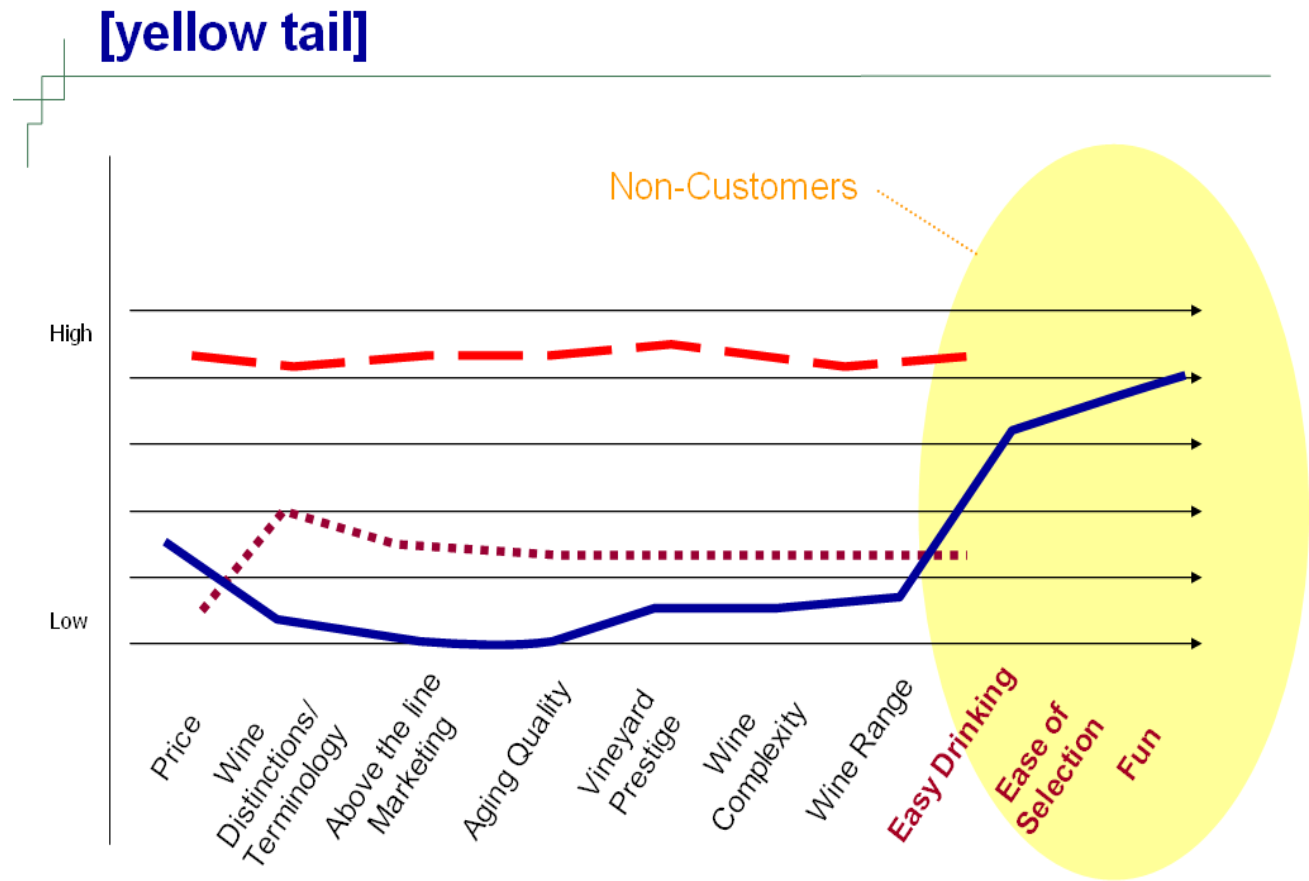
Blue Ocean Strategy is Yellowtail

Eliminate-Reduce-Raise-Create Grid

<p>Eliminate:</p> <ul style="list-style-type: none">Enological terminology and distinctionsAging qualitiesAbove-the-line marketing	<p>Raise:</p> <ul style="list-style-type: none">Price versus budget winesRetail store involvement
<p>Reduce:</p> <ul style="list-style-type: none">Wine complexityWine rangeVineyard prestige	<p>Create:</p> <ul style="list-style-type: none">Easy drinkingEase of selectionFun and adventure

To Be Canvas

- Eliminate
- Reduce
- Raise
- Create



Value Innovation of [yellow tail]

Utility proposition (customers, distributors and retailers)	<ul style="list-style-type: none">•Creating of a social drink that is accessible to anyone•Easy drinking, ease of selection, sense of fun and adventure•Limit number of SKUs•Price to move at volume
Price proposition	<ul style="list-style-type: none">•Targeted at the mass of customers•Priced against the alternative (6-pack)
Cost structure	<ul style="list-style-type: none">•Elimination of working capital tied up in aging wines•Fast product turnover

Results

- No 1 imported wine (outsells France and Italy)
- Fastest growing imported wine in the history of the USA industry
 - New consumers of wine
 - Jug drinkers trade up
 - Premium wine drinkers trade down
- Industry criticizes them mercilessly at first

Now wine press blurb gives it a “best buy” for value; winning wine awards.

Three Characteristics of a Blue Ocean Strategy

1. Focus
2. Divergence
3. Compelling tagline

These three characteristics serve as an initial litmus test of the commercial viability of the blue ocean ideas.

Reconstruct Market Boundaries *aka Six Paths Framework*

There are six basic approaches to remaking market boundaries:

Look across alternative industries

Look across alternative groups within industries

Look across the chain of buyers

Look across complementary product / service offerings

Look across functional / emotional appeal to buyers

Look across time

Focus on the Big Picture; Not the Numbers

- Think of a typical strategic plan.
- It starts with a lengthy description of current industry conditions and the competitive situation.
- Next is a discussion of how to increase market share, capture new segments, cut costs, followed by an outline of numerous goals and Initiatives.
- A full budget is attached as are lavish graphs and spreadsheets.

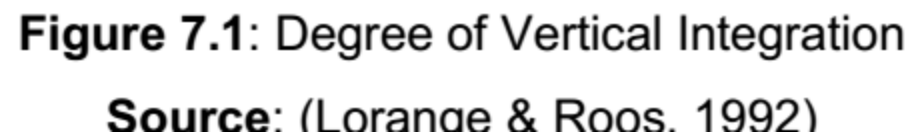
Focus on the Big Picture; Not the Numbers

- The process usually culminates in the preparation of a bulky document culled from a mishmash of data provided by people from various parts of the organization who have conflicting agendas and poor communications.
- In this process, managers spend the majority of strategic thinking time filling in boxes and running numbers instead of thinking blue ocean and developing a clear picture on how to break from the competition.
- Students can see why very few strategic plans lead to the creation of blue oceans or are translated into actions. Executives are paralyzed by this muddle.
- Few employees even know what the strategy is.

Focus on the Big Picture; Not the Numbers

- A closer look reveals that most plans don't include a strategy at all but rather a smorgasbord of tactics that individually make sense but collectively don't add up to a unified clear direction that sets the company apart – let alone makes the competition irrelevant.
- Researchers and consultants have found that drawing a strategy canvas not only visualizes a company's current strategic position in the marketplace but also helps to chart its future strategy.
- By building a firm's strategic planning process around a strategy canvas, a company and its managers focus their main attentions on the big picture rather than becoming immersed in numbers and jargon and getting caught up in operational details.

7.2 Introduction



Source: (Lorande & Roos. 1992)

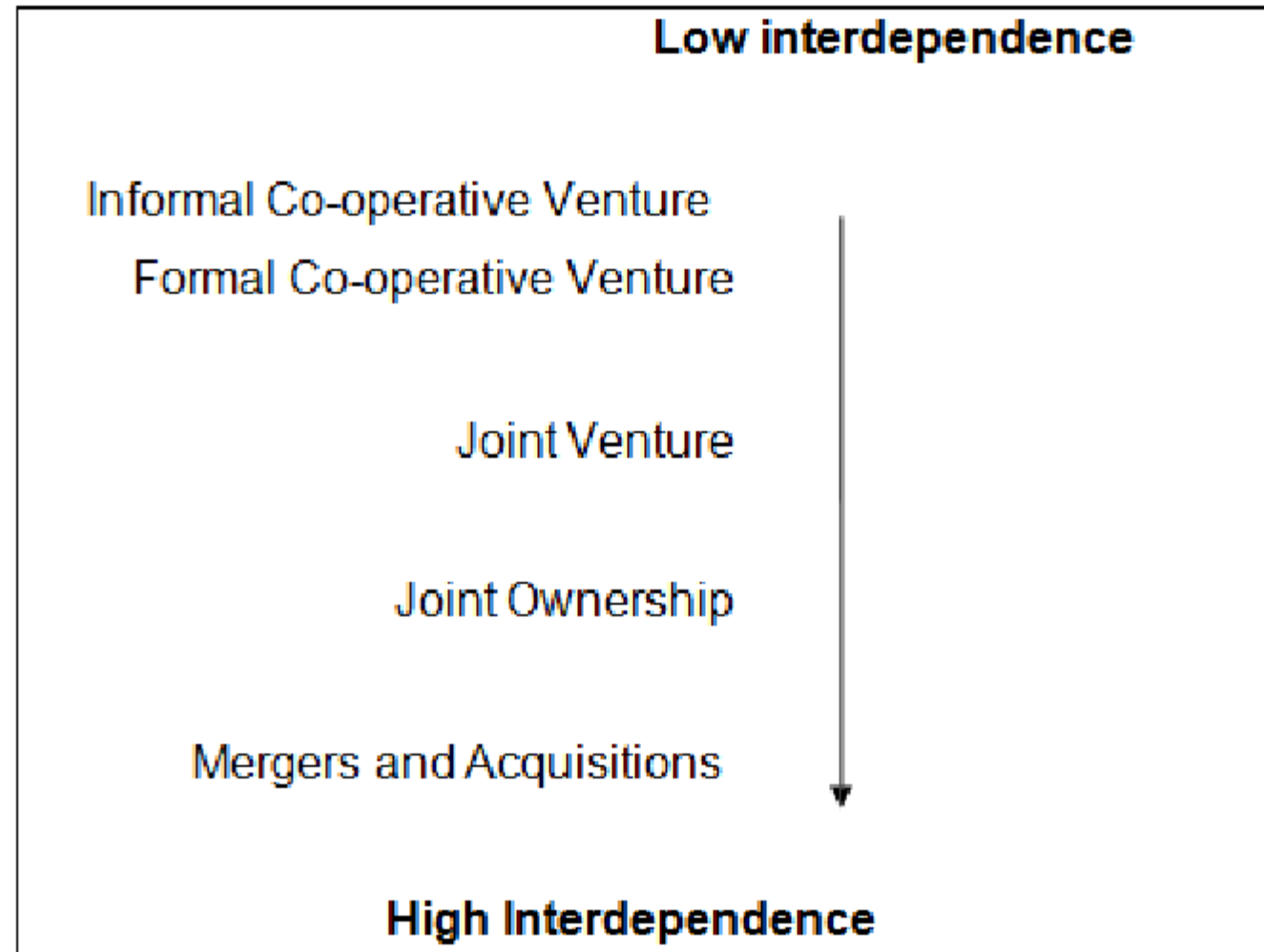


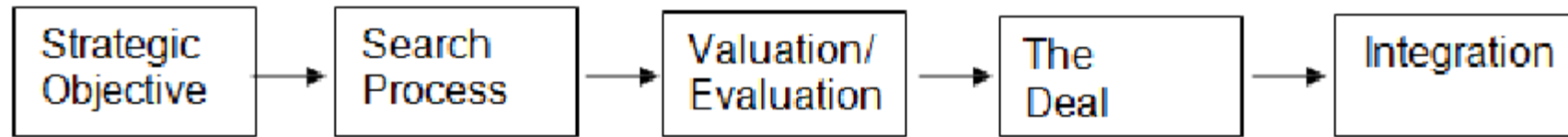
Figure 7.2: Degree of Interdependence

		Leader	Follower
Strategic Importance in Parent's Portfolio	Core	Defend	Catch-up
	Peripheral	Remain	Restructure

Figure 7.3: Strategic Importance in Parent's Portfolio

Source: (Lorange & Roos, 1992)

PHASE



NEED FOR

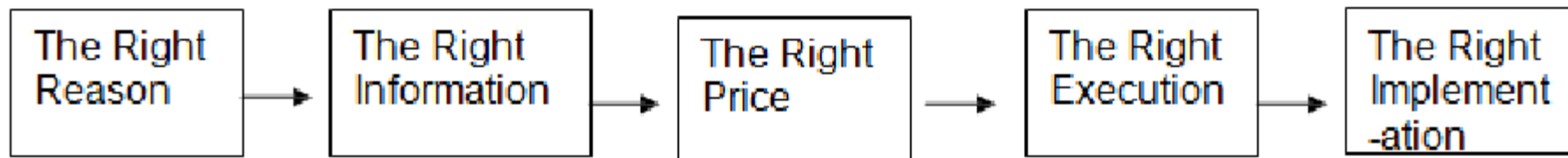


Figure 7.4: Mergers and Acquisitions Process

Source: (Grundy, 1995)

THE STRATEGY PROCESS: CRAFTING STRATEGY

There are also three stages in choosing a strategic direction: generating options
evaluating options selecting a strategy.

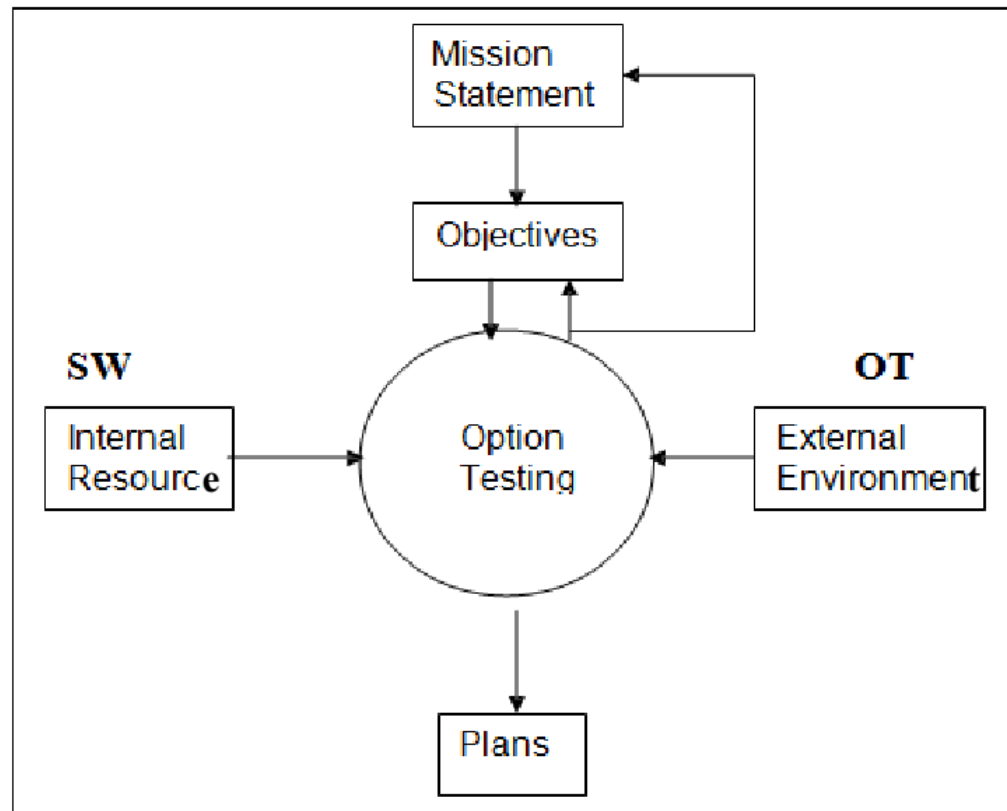


Figure 5.1: Planning Model

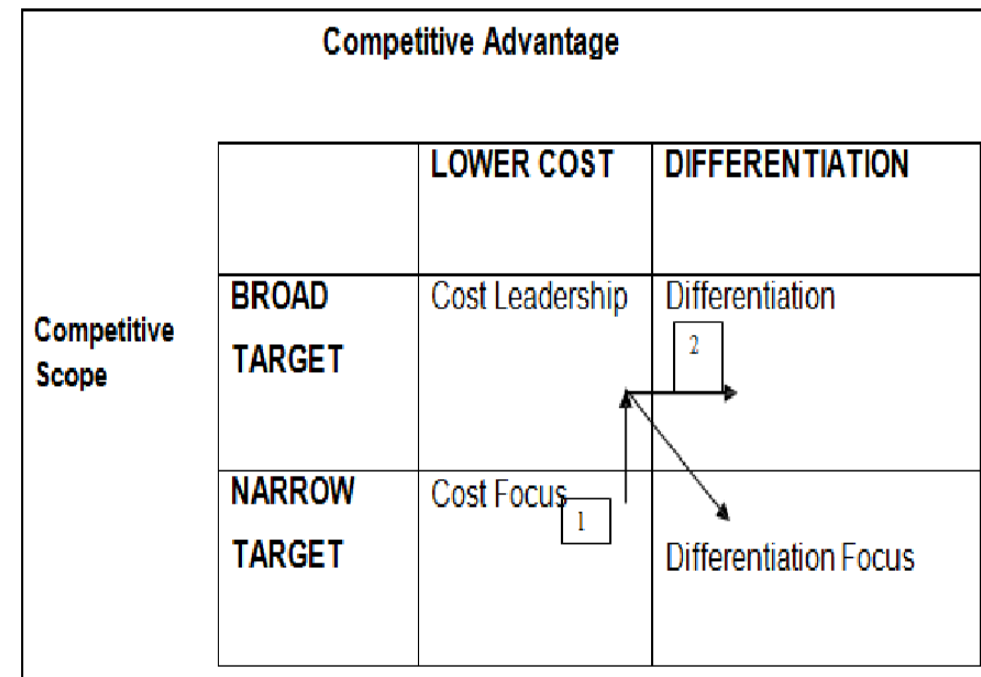


Figure 5.2: Moving on Porter's Matrix

Thank you