



Executive Education: Mini MBA Program

Strategic Management

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Modified materials, original courtesy
of Lynn W. Olsen, Ph.D.

Brian J. Reagan, MBA - Background

- Assistant Dean, Opus College of Business – University of St. Thomas
- President and CEO – Orchard Hill Partners
 - Private investment management and business advisory company
- Executive Vice President – BioScrip
 - Publicly traded \$1.5 billion healthcare services company
 - P&L and overall management responsibility for BioScrip Infusion Services
 - Business strategy, operations, sales, finance, IT
- Managing Director – Dain Bosworth
 - Head of Healthcare Investment Banking
 - Led Dain's involvement in over \$1 billion in equity, debt and merger and acquisition transactions
 - Venture capital, LBO's, M&A, Public and Private Debt and Equity
- MBA Dartmouth College
- BS St. John's University

What Does a Business Leader Provide?

- **Strategy** (vision, mission, values, & key drivers)
- **Structure** (framework & organization)
- **Empowerment** (engagement & authority)
- **Thought leadership** (innovation support)
- **Resources** (people, money, & time)
- **Process** (order & due diligence)
- **Governance** (measures & accountability)



Strategic Management Agenda

- Strategy Defined
- Strategic Planning Process
 - Mini Case Study: Chronimed Inc.
- Strategy Considerations
 - Mini Case Study: BioScrip Infusion Services
- 6 Ps of Marketing
- Winners and Losers

On Strategy.....

“In real life, strategy is actually very straightforward, you pick a general direction and implement like hell” Jack Welch

“Everyone has a plan until they get punched in the mouth” Mike Tyson

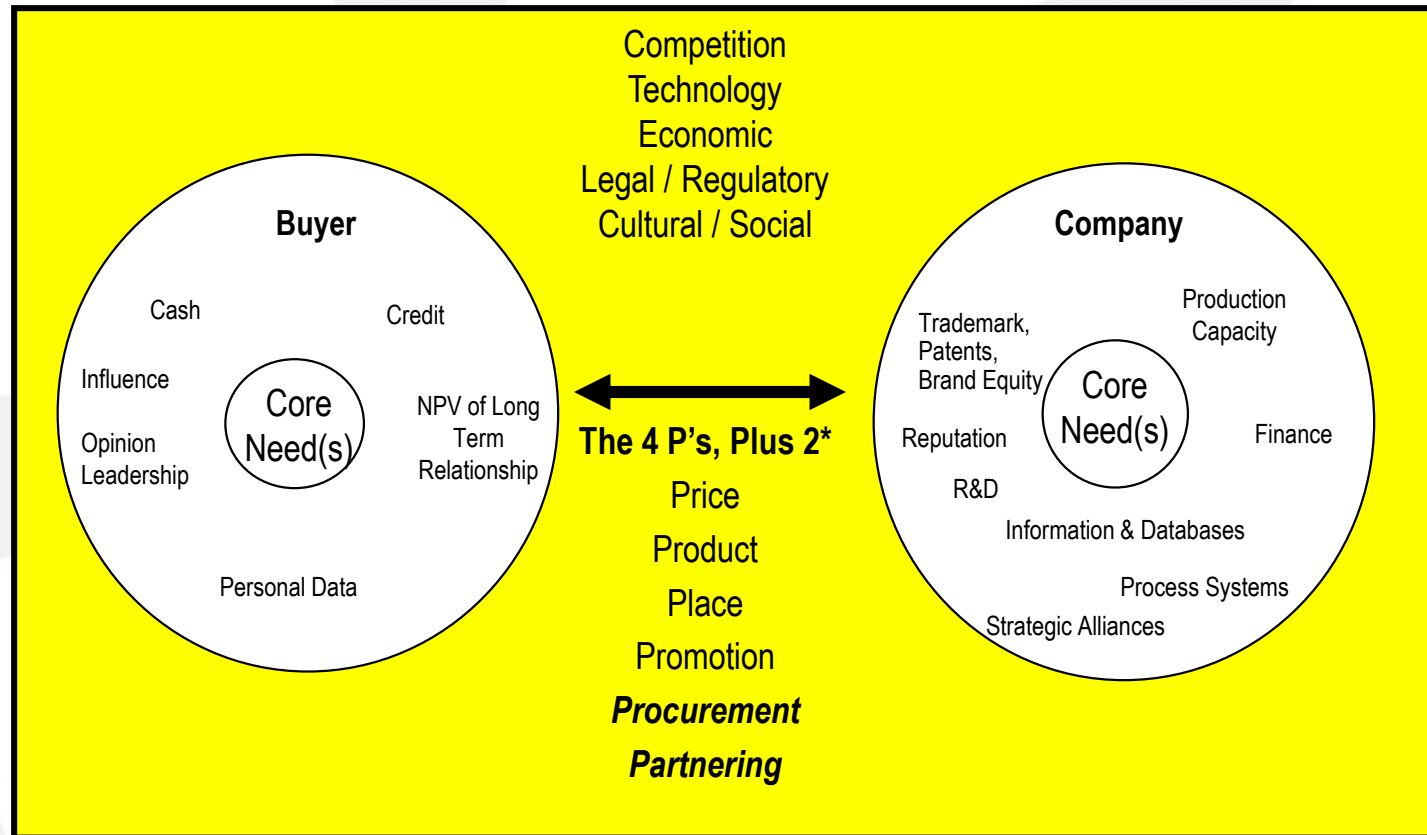
“It’s not the strongest species that survive, nor the most intelligent, but the one most responsive to change” Charles Darwin

“The biggest risk is not taking any risk, in a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking risks” Mark Zuckerberg

Strategy Defined

Business: Managing Exchange Relationships

External Environment



Source: Adapted from Richard Rexeisen, Ph.D., University of St. Thomas

Terminology

- Strategy
 - a learning process that produces ventures which provide value
- Value
 - what the customer will pay & what returns will accrue to the firm
- Goals
 - specific future outcomes that guide strategy
 - progress should be measured regularly
- Objectives
 - shorter-term outcomes to be reached in a specific time frame
- Tactics
 - immediate activities that support the execution of strategy

What Strategy Means

- As a plan
 - a direction, guide into the future, a path to get from here to there
- As a pattern
 - consistency in behavior over time
- As a position
 - the locating of particular products in particular markets
- As a perspective
 - the firm's fundamental way of doing things
- As a ploy
 - specific maneuvers intended to outwit a competitor

Ways Firms Strategize

OUTCOMES

Profit-maximizing

APPROACH

Deliberate

Classical:
Analyze, Plan,
Command –
Create the market

Evolutionary:
Manage from your core,
Watch costs –
Expand the market

Emergent

System:
Relational, Complex,
Work, Open –
Market changes

Process:
Get people on board –
Worry about the market later

Political

Source: Adapted from John Militello, Ph.D., University of St. Thomas

Strategic Planning Process

Strategic Planning Purpose

To collaboratively examine, discuss, and determine strategic direction.

Success will result in a clear vision and holistic development plan for the firm.

Who is Involved in Strategic Planning?

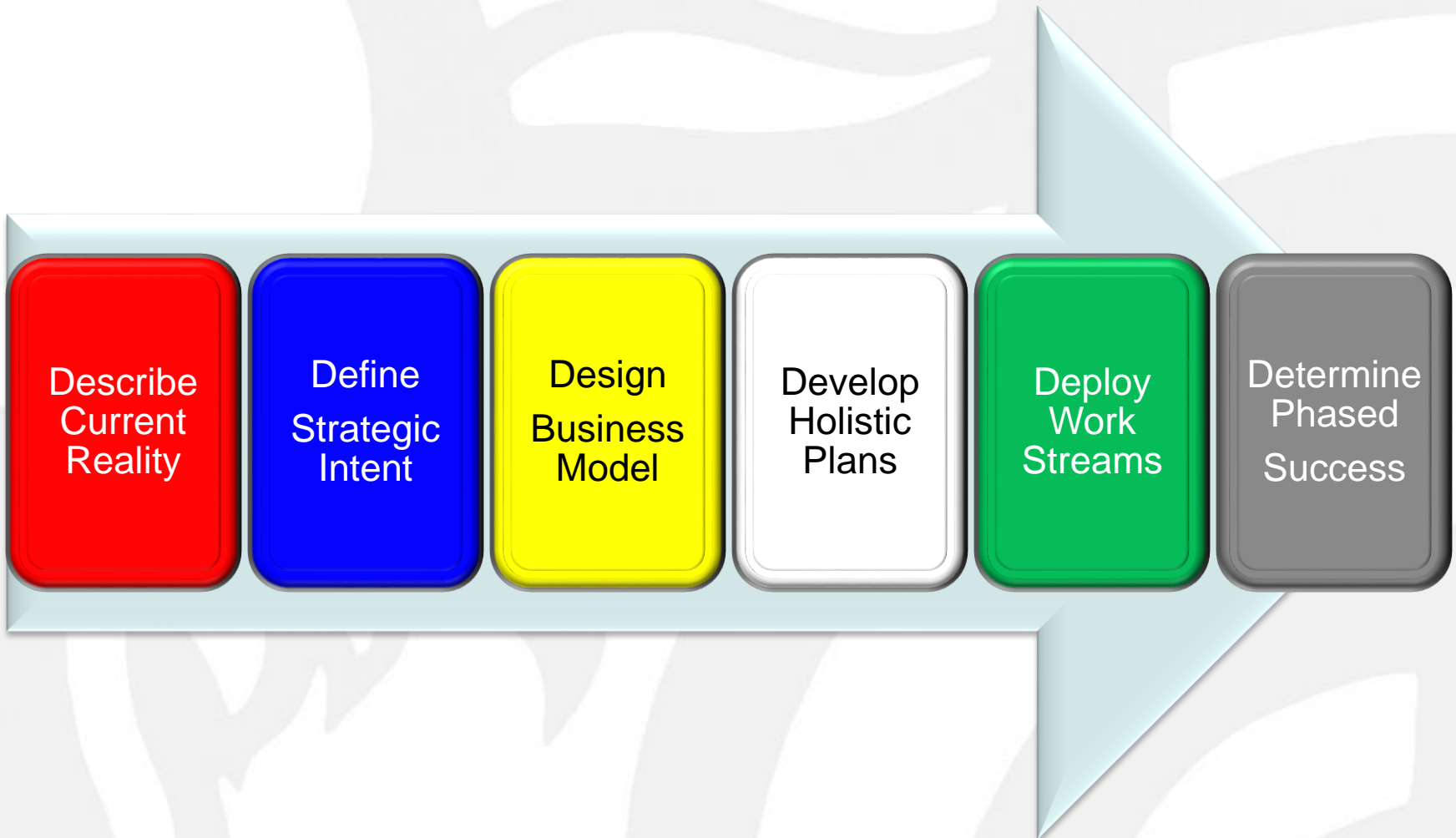
Multi-level Responsibility

Those that are responsible for the future of the firm.

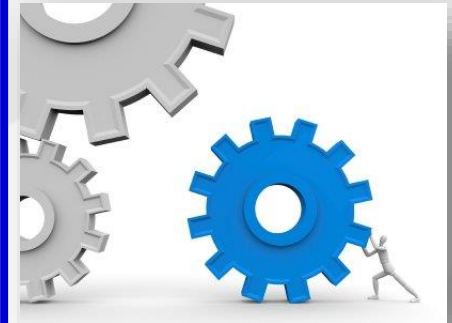
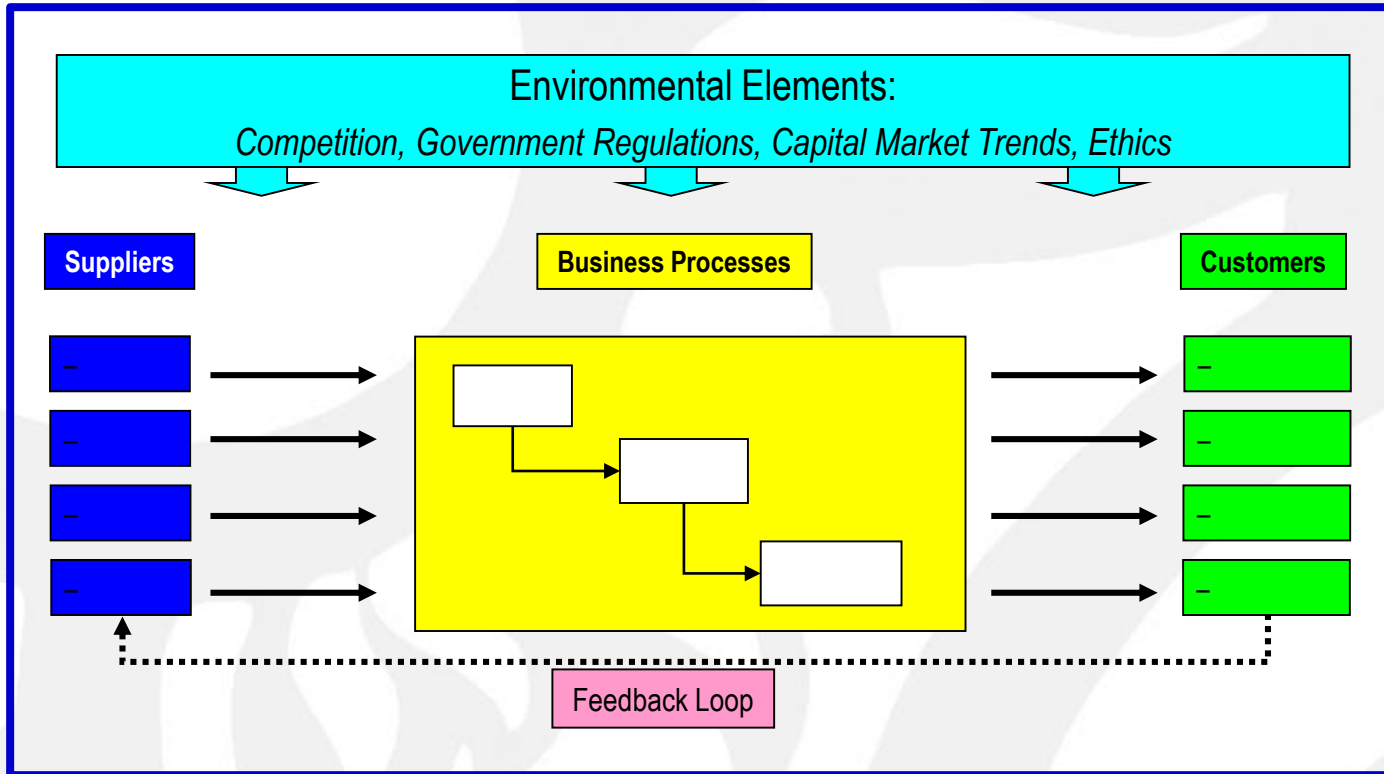
Ends (What is to be achieved?)	Means (How is it to be achieved?)	Board of Directors	Corporate Managers	Business Managers	Functional Managers
Mission, including goals and philosophy		XX	XX	X	
Long-term objectives	Grand strategy	X	X	XX	
Annual Objectives	Short-term strategies and policies		X	XX	XX

Note: XX indicates a principle responsibility: X indicates a secondary responsibility

Broad Strategy Process

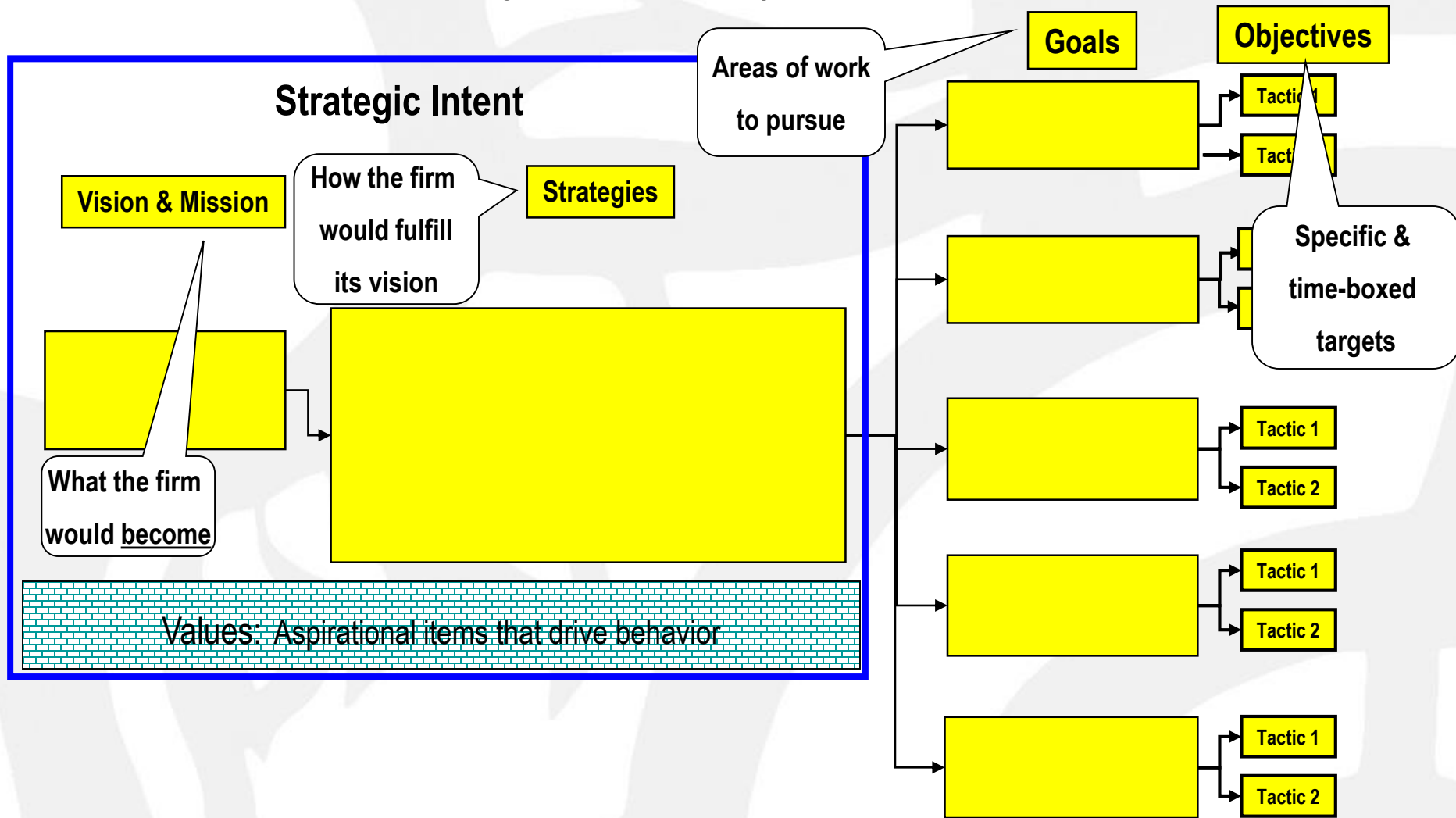


It's Not About the Parts; It's About the Whole Business System



Clear Strategic & Tactical Linkage

Vision & Mission, Values, Strategies, Goals and Objectives



Determining Broad Strategic Vision

Picture of the Outcome

Strategic Vision

- What businesses to be in
- Whom to serve
- Whom to compete with
- What to become
- What success looks like



Determining Broad Strategic Mission

Ways to Reach the Outcome

Strategic Mission

- Where to do business
- Ways to serve
- When to act
- How to behave
- Whom to collaborate with
- Why the firm has made these choices



Clear Strategic & Tactical Linkage

Vision & Mission, Values, Strategies, Goals and Objectives

Strategic Intent

Vision & Mission

What the firm
would become

Business

Markets

Position in Markets

Products & Services

- **Businesses** – describe in clear, specific terms
- **Markets & Customers**– defined in various ways
- **Positioning** – lead, match, or follow
- **Products & Services** – the firm's offering

Mini Case Study – Chronimed – Strategy in Action

Situation

- Chronimed was a small, publicly traded healthcare company
 - ~ \$200 million in revenue
 - Founded as a chronic disease management company
 - Pharmacy based, but product background
 - Drug distribution through mail and retail
 - Restatement of financial results brings turmoil
- My role as a consultant
 - Work with the CEO and the Board to re-invent/refresh the company's strategy

Chronimed – Pieces to Build From

- Strong balance sheet with little debt
- Public company which had ready access to capital markets
- Strong mail order specialty pharmacy distribution platform
- Strong brand in niche retail pharmacy business
- Partnership with Aetna and provider contracts with most major insurance carriers including the government
- Fair/Good contacts with pharmaceutical manufacturers
- A pioneer in the right space – specialty pharmacy distribution

In the Right Space - Environment

- Biologic drugs were like a tidal wave washing over healthcare
 - Very expensive
 - Unique packaging/shipping/distribution requirements
 - Self injectable, not oral
 - Significant patient education and training requirements for self use and home storage
 - Management of side effects a big problem

Dynamics that the current pharmacy system not set up to handle

- Competitors
 - Many “mom and pop” competitors which did not have the capital to inventory and sell biologics
 - Many of these competitors also lacked scale

In the Right Space - Environment

- Healthcare Payers / Insurance Companies & Government
 - Not educated or prepared for the costs associated with biologics
 - Not aware of the implications on cost/distribution/use among their covered populations of biologic drugs

The environment and Chronimed's existing core competencies created an opportunity to build a business model/strategy to support the distribution and use of these new drugs.

Specialty Pharmacy

Business Model Implications

- Scale
 - Distribution businesses are notoriously low margin
 - Lots of low margin transactions makes money
 - Creating operating leverage across an efficient mail order distribution platform
 - At \$100 million in mail order revenue no where near scale
- Value Added
 - How could we add value to the distribution process?
 - Added value would mean
 - Differentiation
 - Better economics

Strategy

- Add Scale and Product/Disease State breadth and depth
 - We would use our balance sheet and capital base to acquire existing businesses which would bring:
 - new disease state or product expertise, or
 - create cost saving opportunities by utilizing our existing distribution platform
 - We would build our portfolio of relationships with
 - drug manufacturers for distribution rights
 - payer organizations for limited provider contracts
- Add Value to our Distribution system by
 - Building patient support systems designed to keep patients healthier

Strategy

Patients

- Patients stay healthier
- Manufacturers have appropriate distribution and faster uptake for their products
- Payers save money thru efficient distribution and better patient health

The Specialty Pharmacy of Choice for Patients, Payers and Manufacturers



Chronimed
The New Model
for Specialty
Pharmacy

Manufacturers

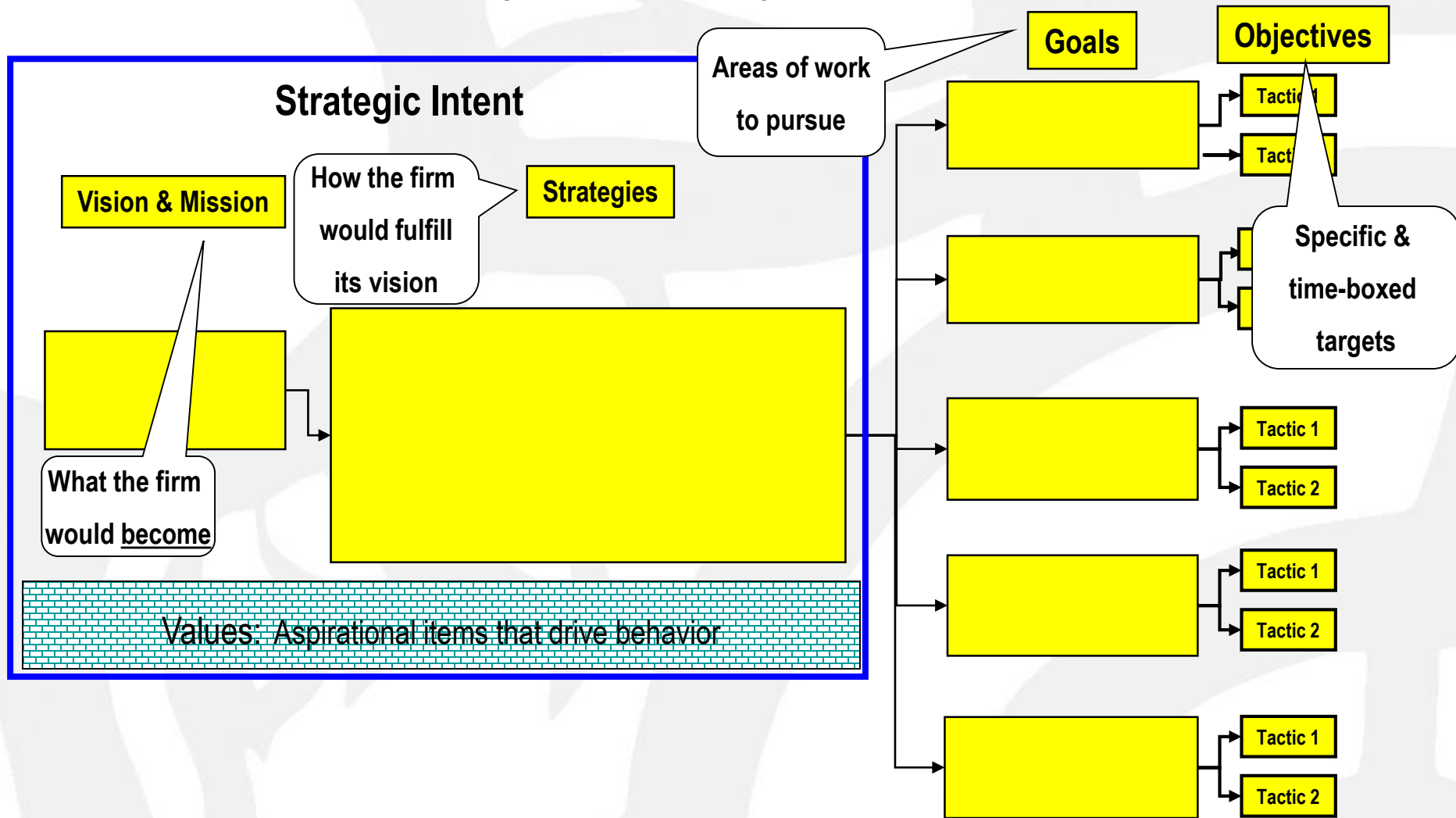
Payers

Implementation Examples

- Strategy : Build patient support systems to keep them healthier
 - Build a nurse call center
 - Design intervention protocols by disease state
 - Buy telephony software to enable a call center to function
 - Adapt patient management database to a new clinical use
 - Create “look-in” capability for nurses into the distribution system
 - Develop a tracking system to monitor patient’s health
 - Tie in physicians to the medication management process
 - Build a reporting protocol for healthcare payers that proved our cost saving model

Clear Strategic & Tactical Linkage

Vision & Mission, Values, Strategies, Goals and Objectives



Vague Vision/Mission Statement

To build total brand value through the efforts of our people, who are the very best in our industry, in innovating to deliver total customer value and customer leadership faster, better, and more completely than our competition . . .

. . . Oh, and to be good neighbors in the communities we serve.

GOOGLE'S Vision/Mission Statement

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

- Business – Information
- Markets – The World
- Position – Universal
- Products & Services – Organization & Access

Values Create Culture



- Culture surrounds and permeates an organization
- Creates the patterns of how things are done
- Determines how people behave
- Establishes “theoretical priorities” - what a firm says
- Establishes “operational priorities” - what a firm does
- Is the key driver of performance

Culture is what employees believe management believes and values

Values Create Culture

- “People don’t buy what you do, they buy why you do it” - Simon Sinek

» YouTube – Simon Sinek Golden Circle

GOOGLE's Cultural Values

- Never settle for the best.
 - Focus on the user and all else will follow.
 - It's best to do one thing really, really well.
 - Fast is better than slow.
 - Democracy on the web works.
 - You don't need to be at your desk to need an answer.
 - You can make money without doing evil.
 - There is always more information out there.
 - The need for information crosses all borders.
 - You can be serious without a suit.
 - Great just isn't good enough.



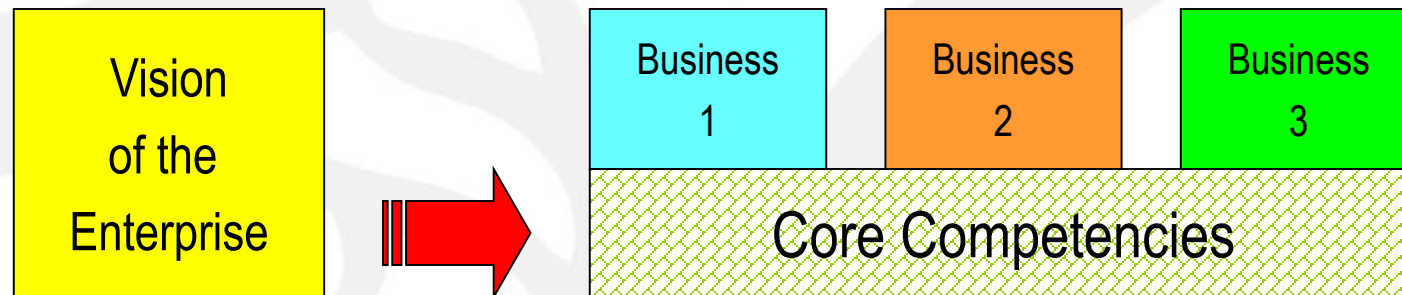
Why are Business Ethics Important?

- How do you react to these names?
 - Tom Petters
 - Enron
 - Martha Stewart
- How about these names?
 - Johnson & Johnson
 - Target
 - Whole Foods Markets

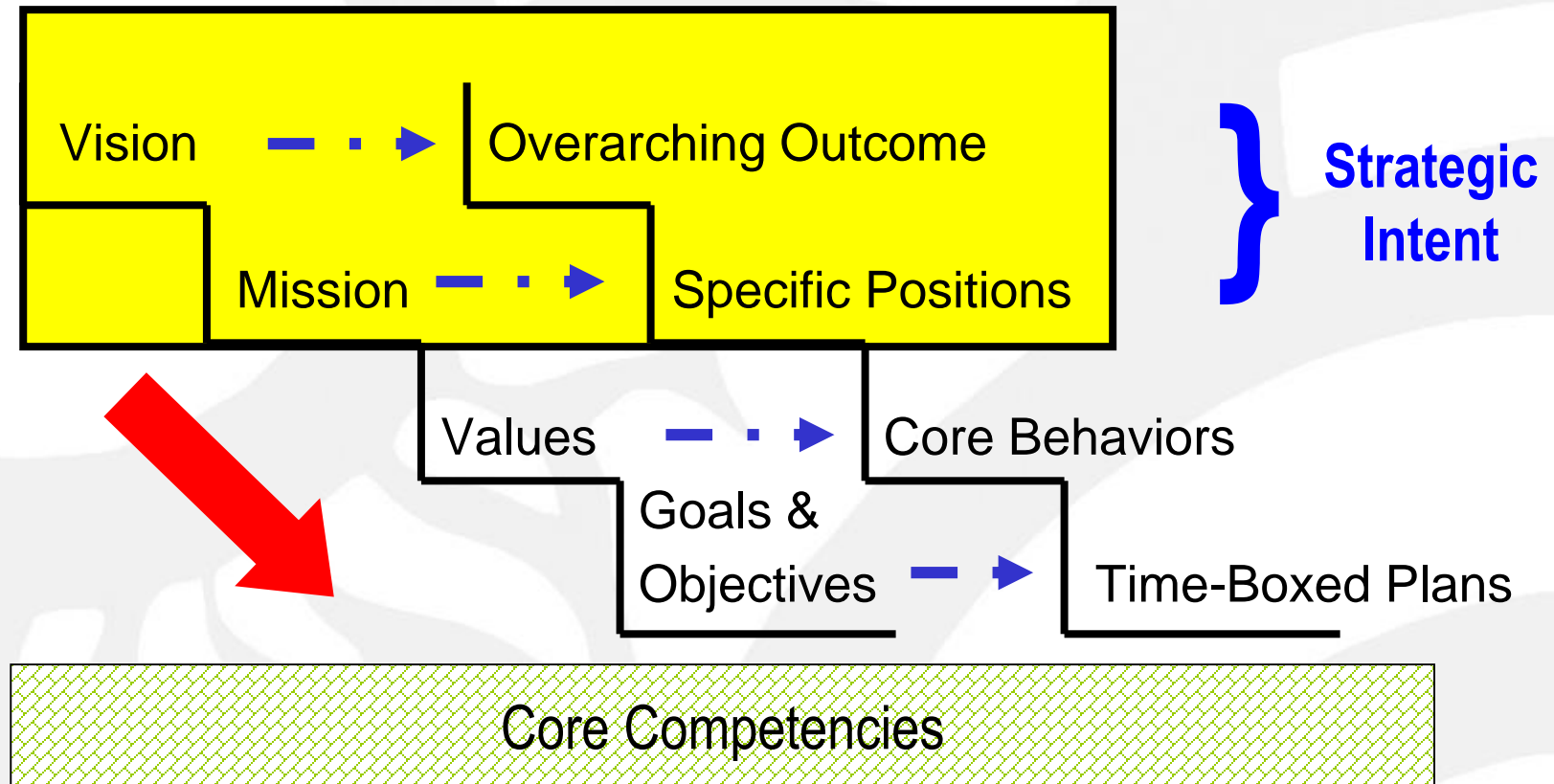
Is there a link between ethical business practices and business relationships that affects sales, profits, and long-term viability?

Definition of Core Competencies

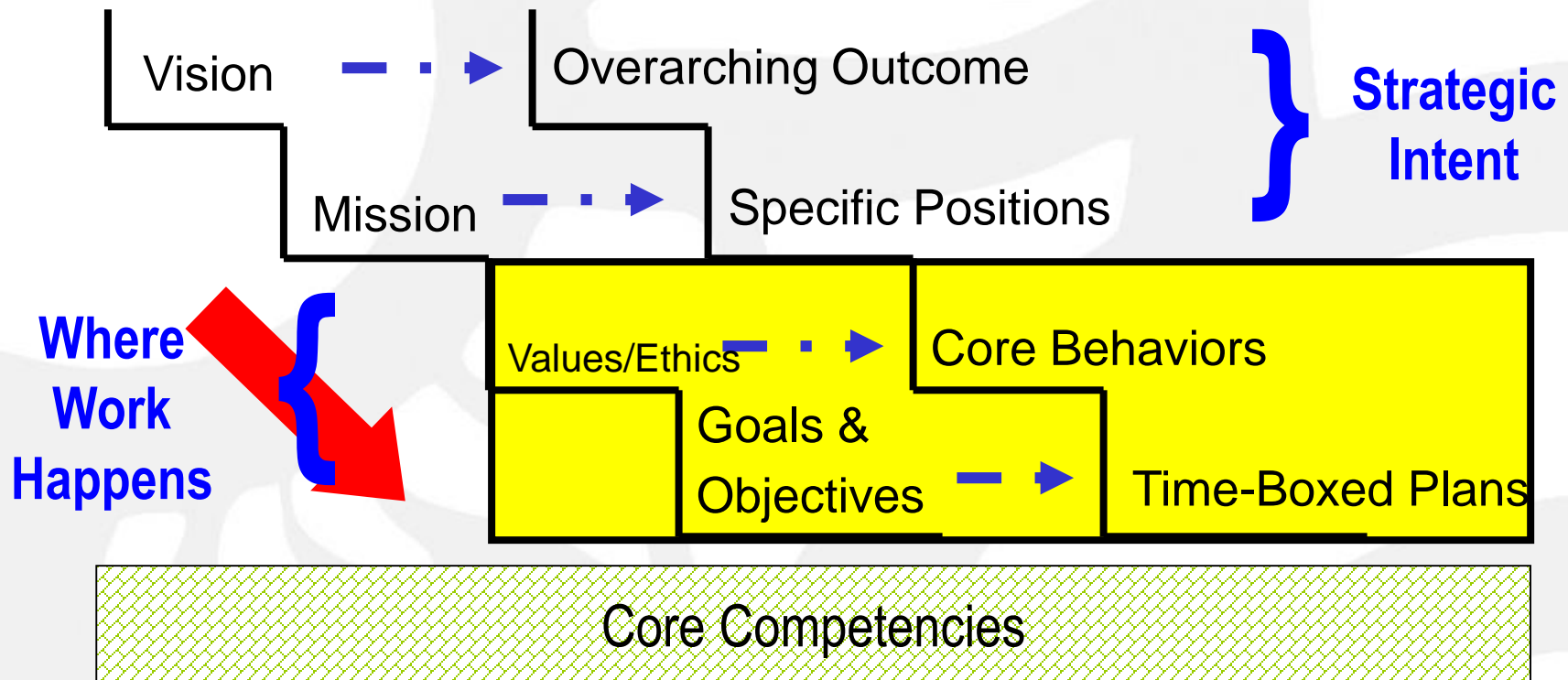
- Skills that flow from the vision of the firm
- Provide the foundation for success
- Embodied in everything done to advance the business
- Able to be manifested in one or more lines of business



Cascading Strategies



Cascading Strategies



Strategy Considerations

How Often is Strategic Planning Done?

- On a fixed timeline?
- When conditions warrant?
- When major changes occur around the firm?
- When a crisis occurs?
- Continuously?

Challenge Point: What should be the driver(s) of strategic change?

Answer: Those things that threaten or alter the future of the firm.

Drivers of Strategy Changes

- New competitors
- Format changes
- New marketing focus and positioning
- New lines of business
- New profit goals - within and outside of budgets
- New suppliers and base costs
- New long-term commodity market changes

Once Decided,
Strategy Should Remain
Fairly Constant, Changing
Based on Major Events

Barriers to Strategic Implementation

- Most people don't like change
- Perceived risk
- Communication through the ranks
- Buy in
- Lack of linkage to operating activities
- Misaligned incentives
 - And more.....

Mini Case Hand out

Marketing Differentiation

- Establishing a position
- Determining the messages
- Creating a personality
- Determining the means
 - Media
 - In-store
 - Word of mouth – including public relations



Treacy Model of Successful Differentiation



Source: Michael Treacy and Fred Wiersma, *The Discipline of Market Leaders*.

Differentiation - Core Competency & Image Examples

Core Competencies

- Wal*Mart
 - Information
 - Logistics
- Nike
 - Design
 - Marketing
- Target
 - Marketing - store as a brand
 - Retail operations
- Amazon.com
 - Customer relationship management
 - Broad assortment

WAL*MART



TARGET

amazon.com.

Image

- Neighborly value
 - Lowest prices, shopping fun, small town honesty, and patriotism
- Cool prowess
 - Performance, endurance
 - Beautiful, talented people
- Upscale value
 - Contemporary cool, value on fashionable products, good citizen
- Easy eCommerce
 - Books and more, computer shopping made easy and inexpensive

Strive for Clarity of Outcomes

- Describe what success looks like
- Describe the benefits of the mission
- Visualize future success
 - Visualization leads to expectation
 - Expectation leads to action
 - Action leads to future success

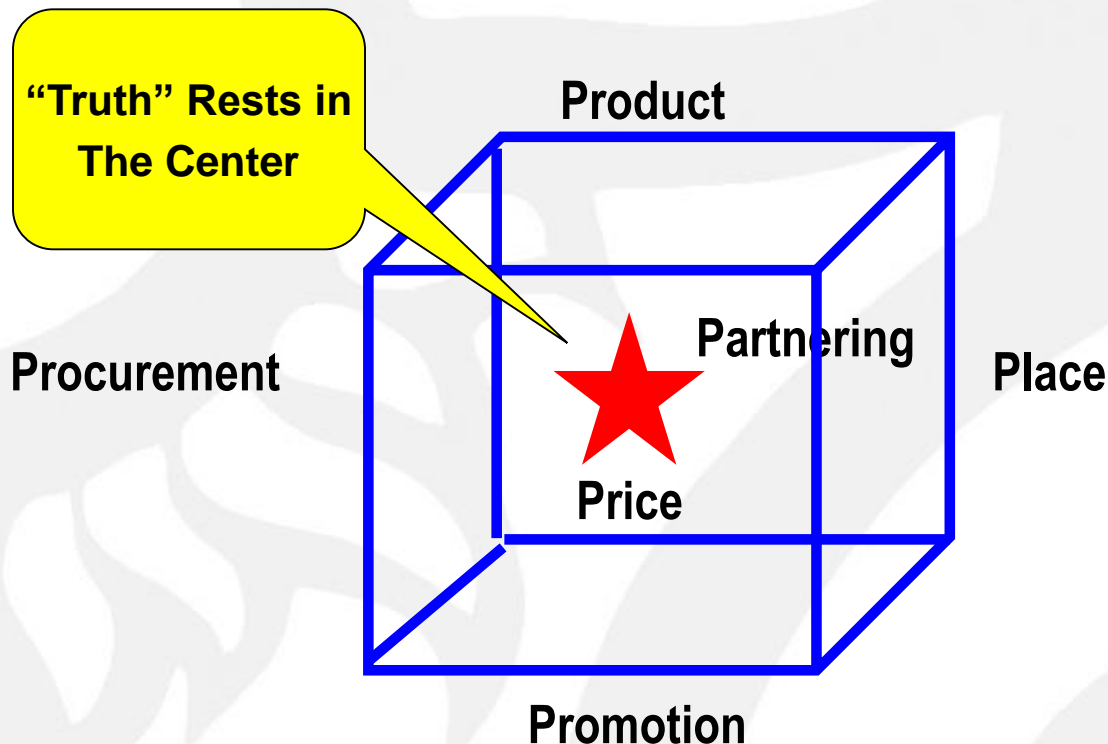


Contingency Planning

- Identifying Risk Factors
- Rapid Response Team
- Rapid Response Rules and Procedures

4 Ps of Marketing Plus 2

Cubical Thinking: Six Marketing Decision Points



Product Category Role Definitions

Role	Retailer View	Consumer View
Signature	Defines banner Creates loyalty Willing to invest resources	Sets store of choice High frequency Expects superiority
Priority	Reinforces loyalty Increase traffic & sales Willing to invest margin	Wants to buy at store of choice Willing to switch if necessary High frequency
Basic	Preserves loyalty Increase order size Majority of items Not willing to invest	Rounds out basic needs Expects competitive price Will switch sizes / brands Moderate frequency
Occasional Seasonal	Accepts lower loyalty May be priority in season No investment off season	Expects availability when needed Expects price in season
Fill-In	Maintain presence May increase order size No investment in margin	Willing to purchase elsewhere Low expectations on offering

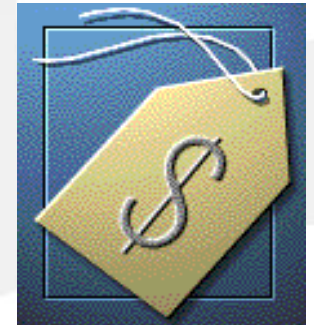
Core Concept: Place Strategies

- Where will the customer find our product and how will it get there?
- Should develop a coherent overall plan for total offering
 - Including Total Floorplan, if retail
 - Catalog
 - Website
 - Other
- Should develop detailed plan by product category
 - Build in replenishment cycle considerations
 - Selection (amount of product available for sale by item)



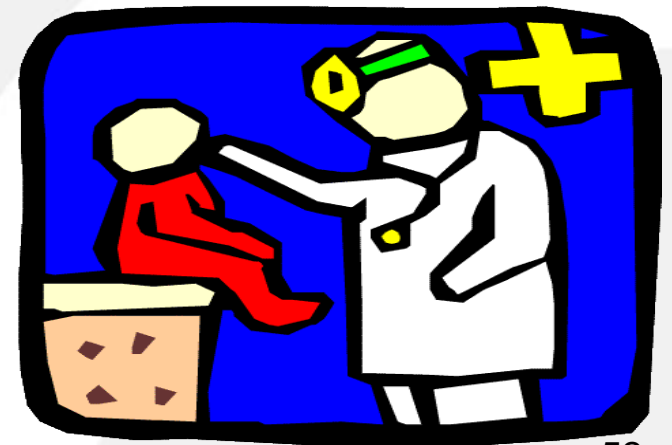
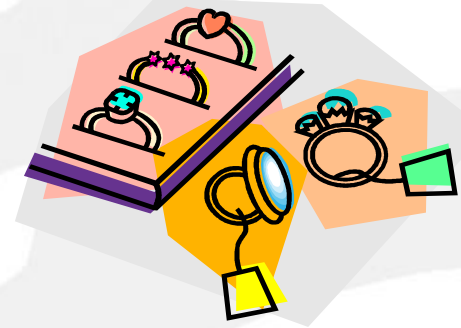
Core Concept: Pricing Strategies

- Must have coherence with overall image and positioning
- Purposes
 - Generate profitable sales
 - Create excitement - the thrill of the hunt
 - Expand consumption
 - Reinforce positioning and image
 - Encourage return trips
 - Build customer loyalty over time
- Deliberate planning is key to keeping revenue dollars flowing and positioning the firm relative to its competitors



Various Pricing Strategies

- Cost-Plus
- Competition-based
- Demand-based
- Margin-based
- Loss Leader
- EDLP (Everyday Low Price)
- High/Low (High base prices with deep discounts)
- Key items
- Rebates
- Coupons
- Seasonal variation

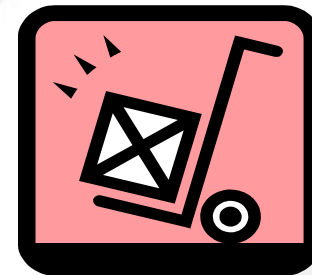


Core Concept: Promotion Strategies

- Must also have coherence with overall image and positioning
- Purposes – similar to pricing strategies
 - Create trial - new customers or new products
 - Create excitement - the thrill of the hunt
 - Expand consumption and sales
 - Reinforce positioning and image
 - Encourage return trips
 - Build customer loyalty over time
- Deliberate promotional planning is key to keeping the product fresh and contemporary in the minds of its customers

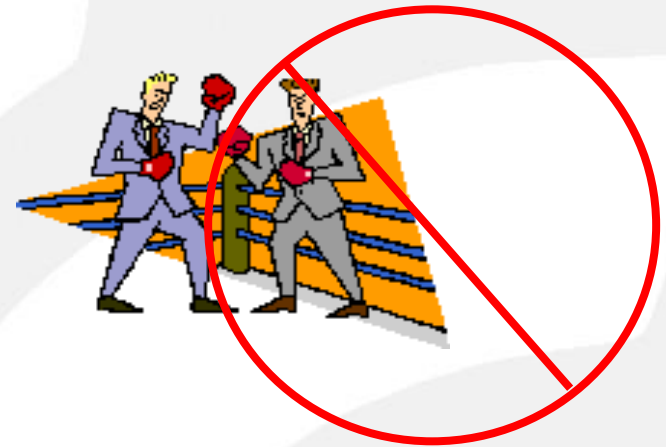
Core Concept: Procurement Strategies

- Cost of goods is the single largest contributor to profit
- Must be complementary between merchandising and operations
- Procurement strategies must change as overall strategies change
 - Tactics must be considered in advance to maximize opportunities driven by short-term demand changes



Negotiable Considerations

- Items
 - Basic merchandise vs. mix (promotional/seasonal etc.)
- Payment terms
 - Discounts for early payment
 - Consignment goods
 - Vendor managed inventory
- Logistics
 - Delivery terms/materials handling
- Negotiated deals
 - Volume discounts
 - Rebates



Negotiating for Success

- Planning
 - Be clear about your goals
 - Understand/support vendor goals
- Executing
 - Style of negotiation
 - Balance of pressure and cooperation
- Evaluating
 - Post hoc analysis prior to next negotiating session








Core Concept: Partnering Strategies

- Flow from vision of company and view of suppliers
- Find ways to work collaboratively with compatible suppliers
- Must be complementary between companies
- Partnering strategies must change as overall strategies do



Examples of Collaboration, Alliances and Networks

- Wal-Mart  • Retail Link, vendor managed inventory, supply contracts, collaborative forecasting
- Auto industry  • Sharing platforms across competitors, supply networks
- Digital electronics  • Phone & airtime agreements, movie & music deals
- Co-branding  • McDonalds & Star Wars, Vicks & Breathe-Right Strips
- Logistics  • Cross-dock shipping, backhauls

Winners & Losers

What Separates Winners and Losers?

- Poor vision and leadership
- Poor strategy – not marketing-driven
- Good strategy not fully understood
- Good, well-understood strategy poorly executed
- Petrified strategy
- Inability to deal with calamity



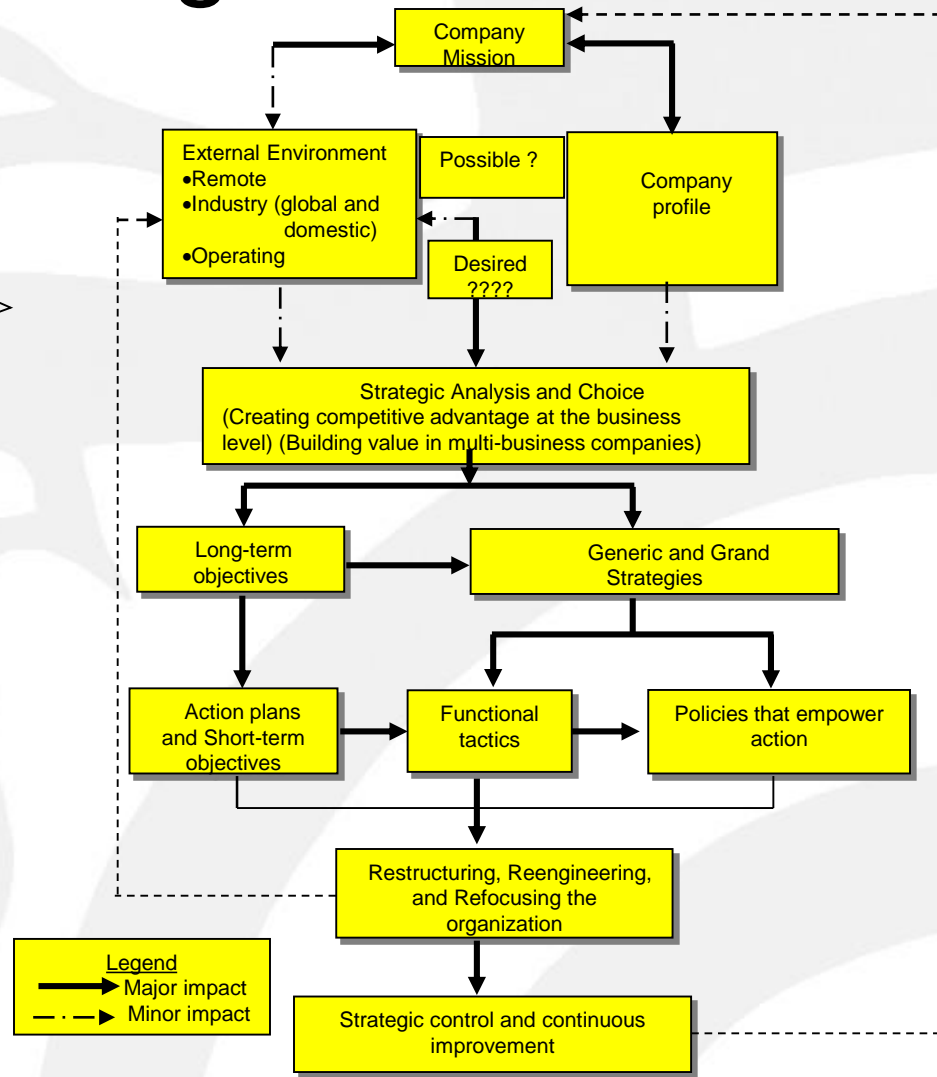
Strategy:

- Drives the long-term future of the firm
- Is about big-picture issues, not operations or tactics
- Involves fundamental choices
- Deserves adequate research, analysis, and debate
- Must be given adequate time to succeed
- Requires review when conditions warrant

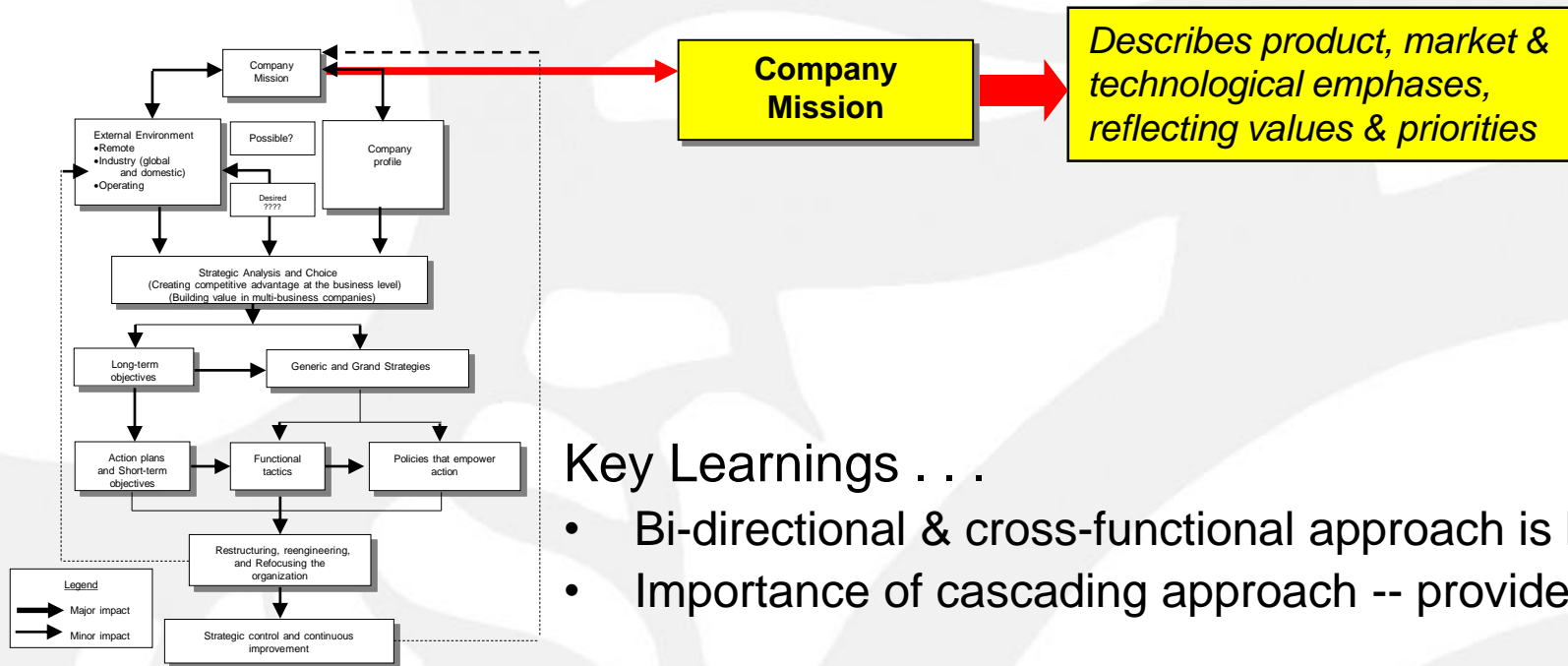
Appendix

A Strategic Planning Model

Strategy requires an underlying belief about what is possible to be achieved.



Setting the Mission

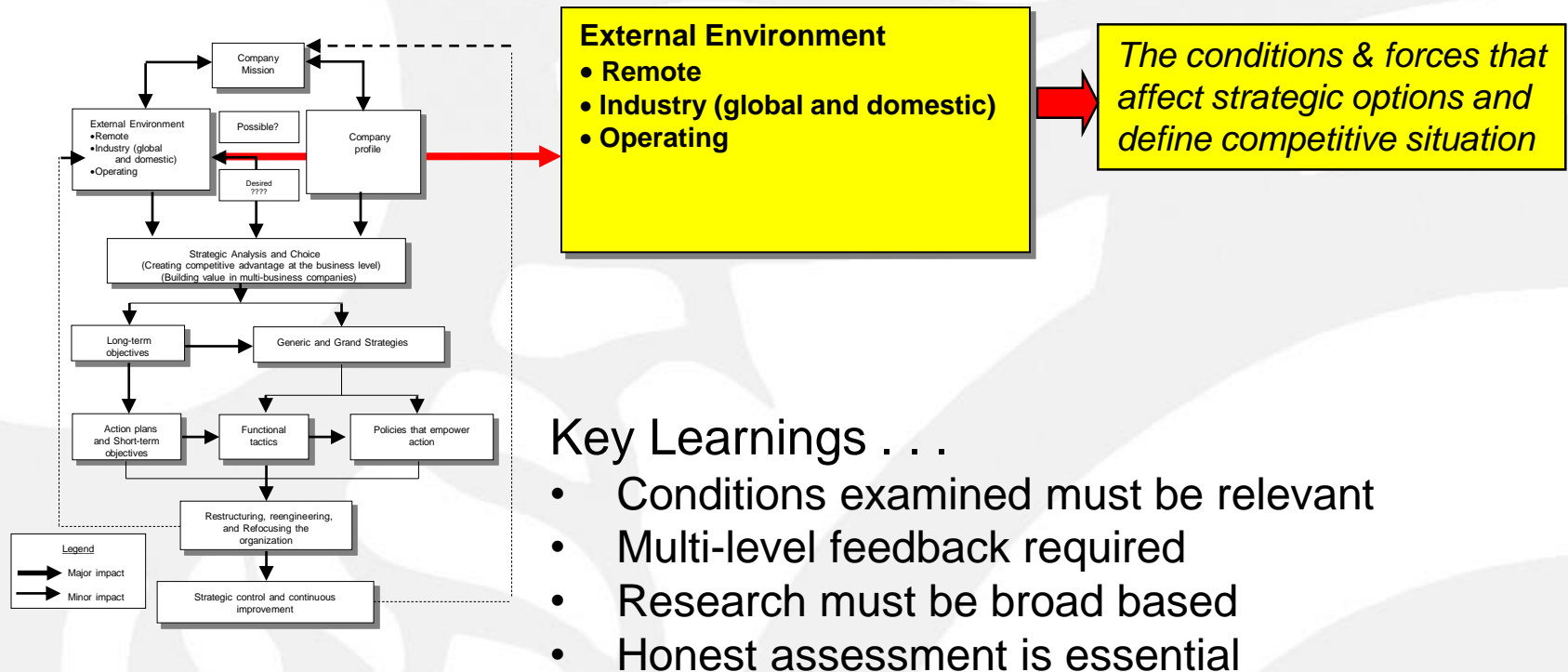


Key Learnings . . .

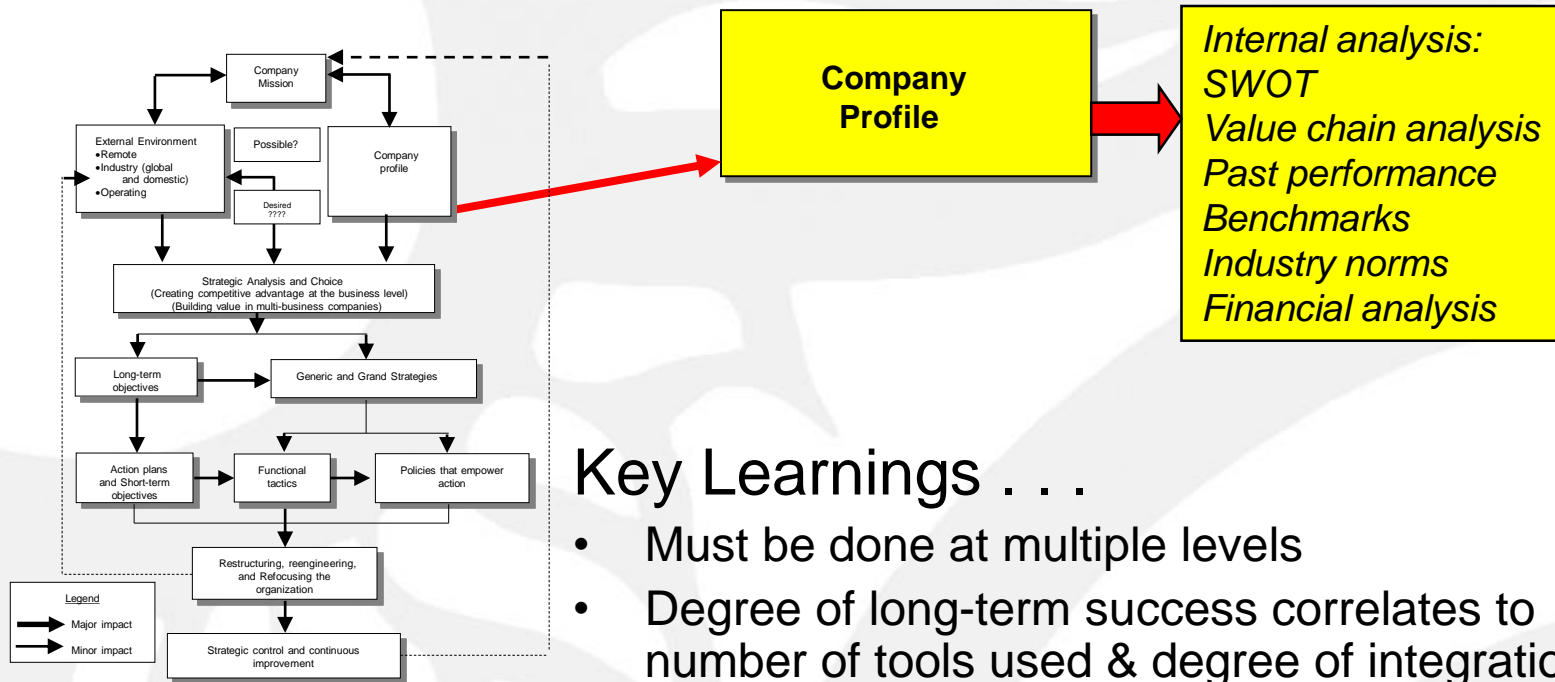
- Bi-directional & cross-functional approach is best
- Importance of cascading approach -- provides focus

Source: Adapted from Pearce & Robinson; *Formulation, Implementation, and Control of Competitive Strategy 11th ed.* Boston. Irwin/ McGraw-Hill. 2009

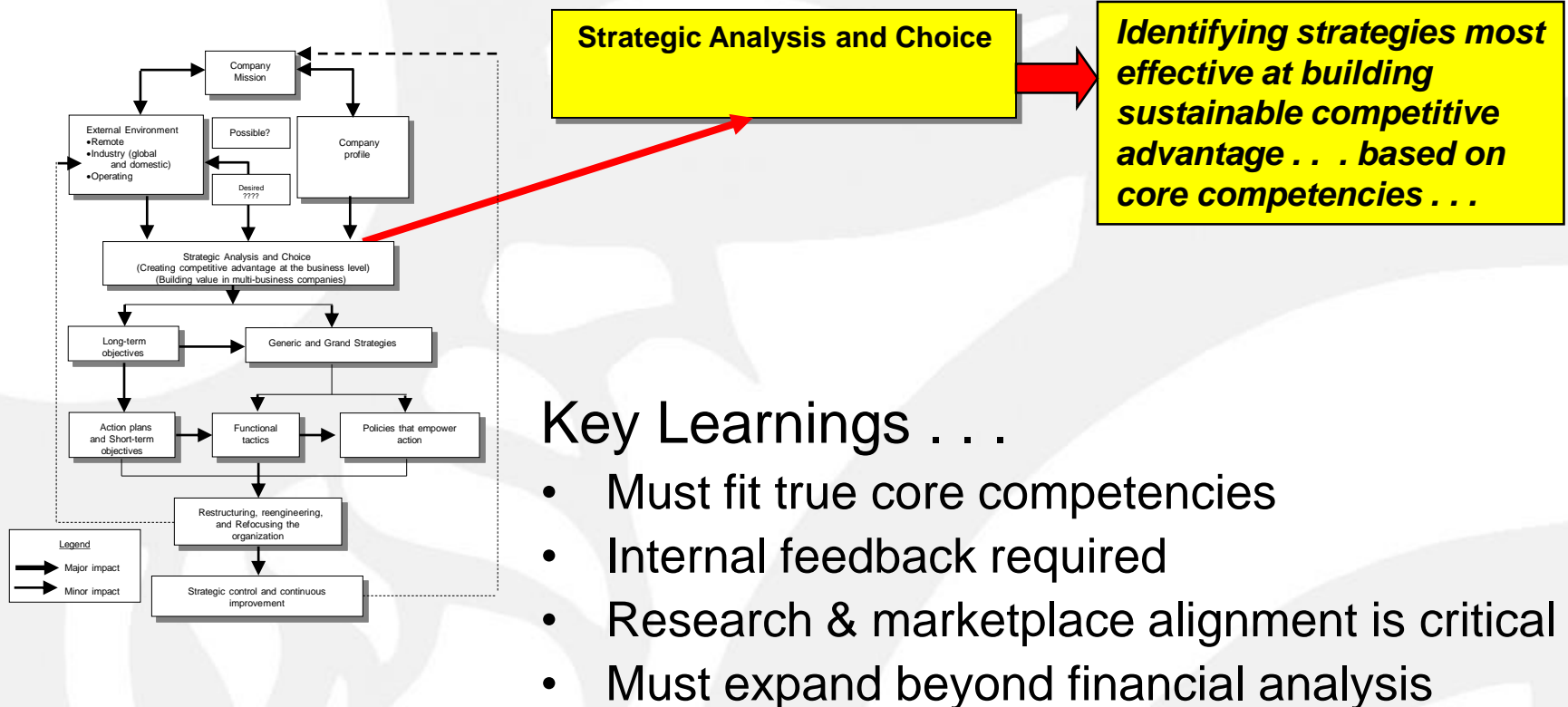
Looking Outside



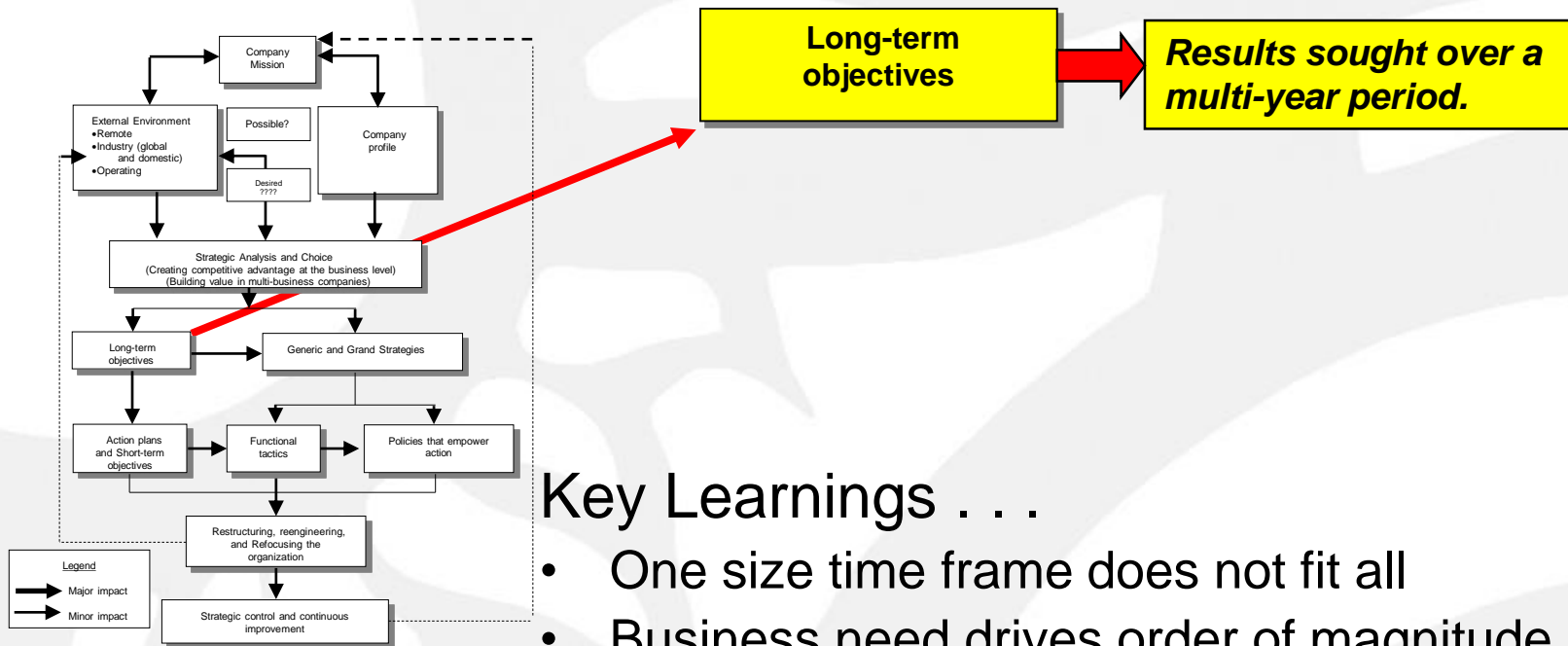
Looking Inside



Making Critical Choices



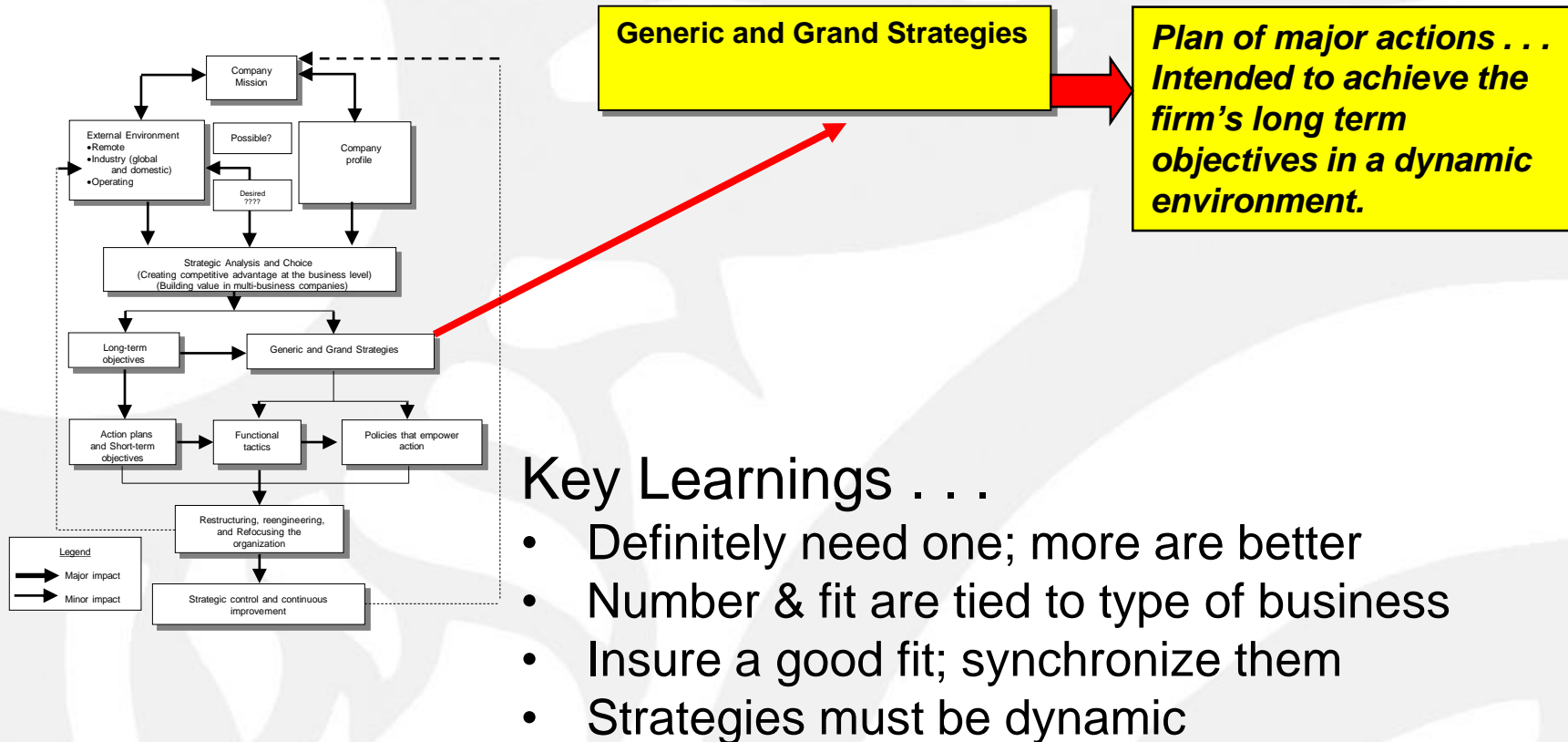
Sustaining the Future



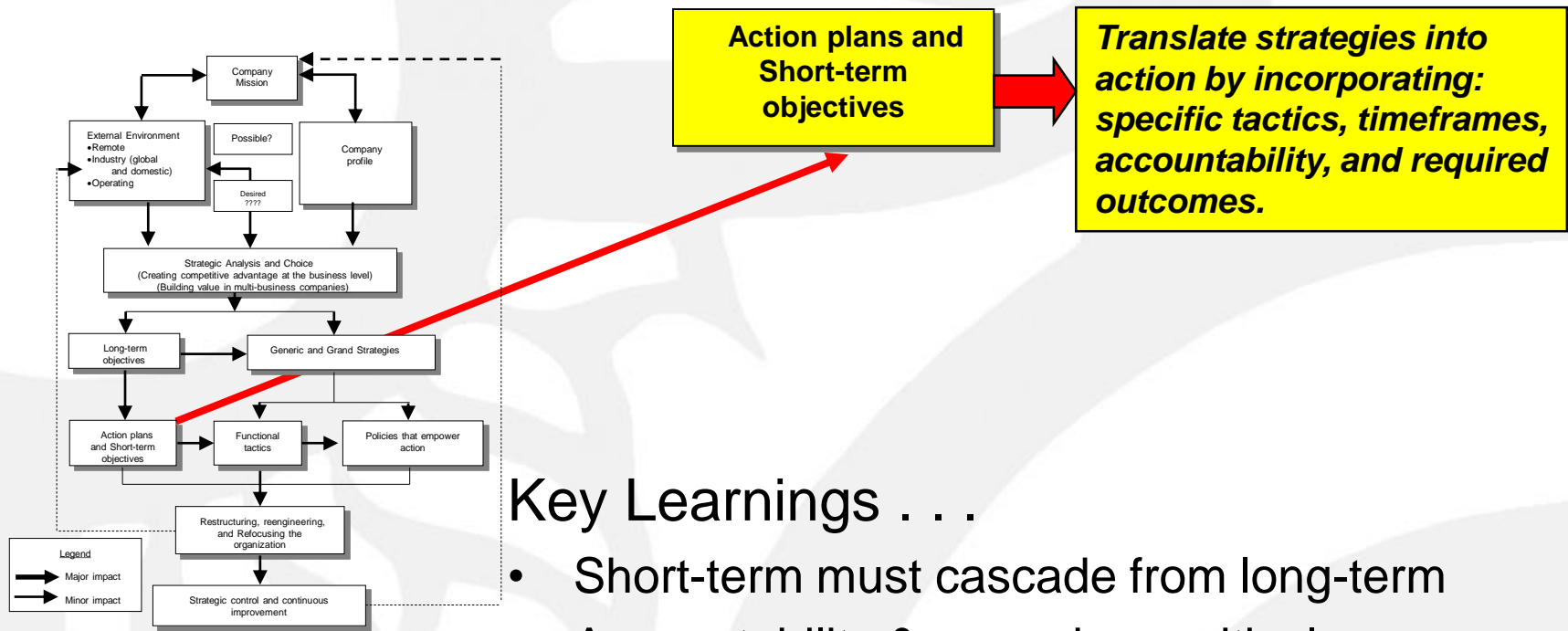
Key Learnings . . .

- One size time frame does not fit all
- Business need drives order of magnitude
- Must go beyond budgets
- Enterprise-wide coordination is essential

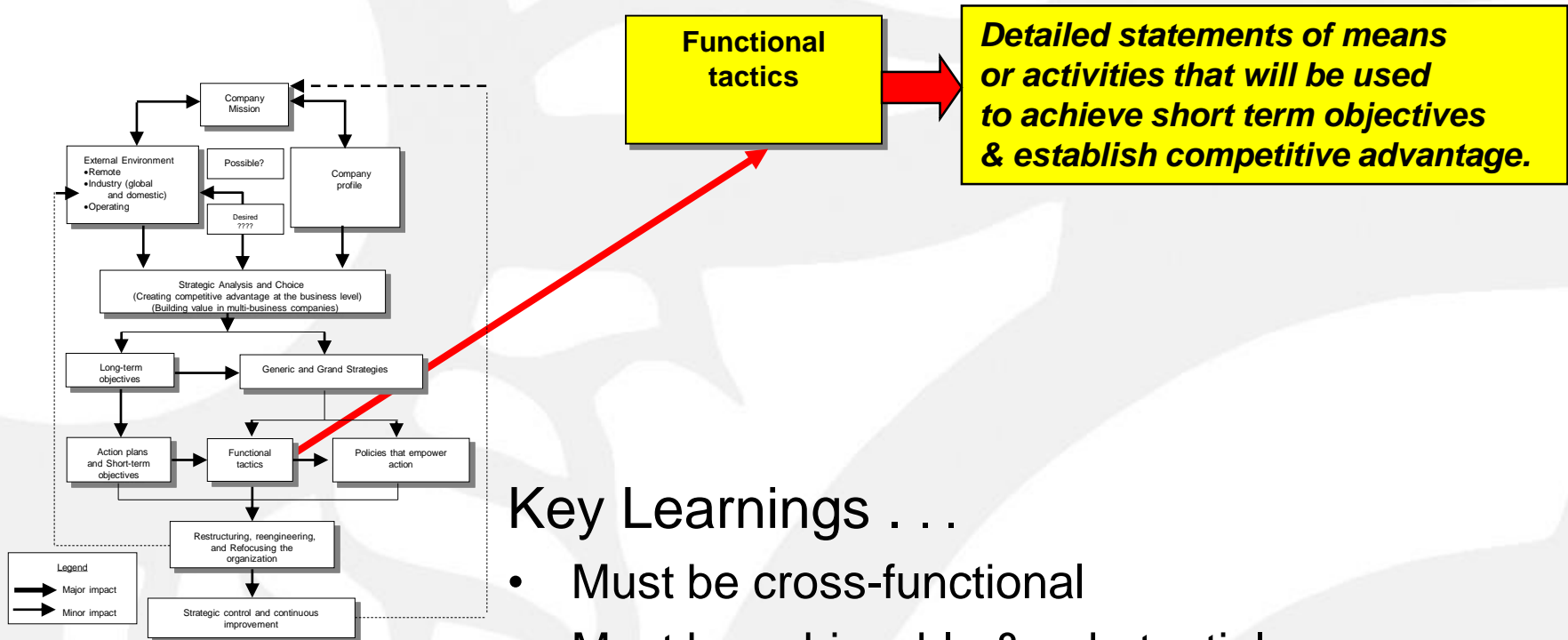
Matching Plans to Long-Term Goals



Sustaining the Present - Bridging to the Future



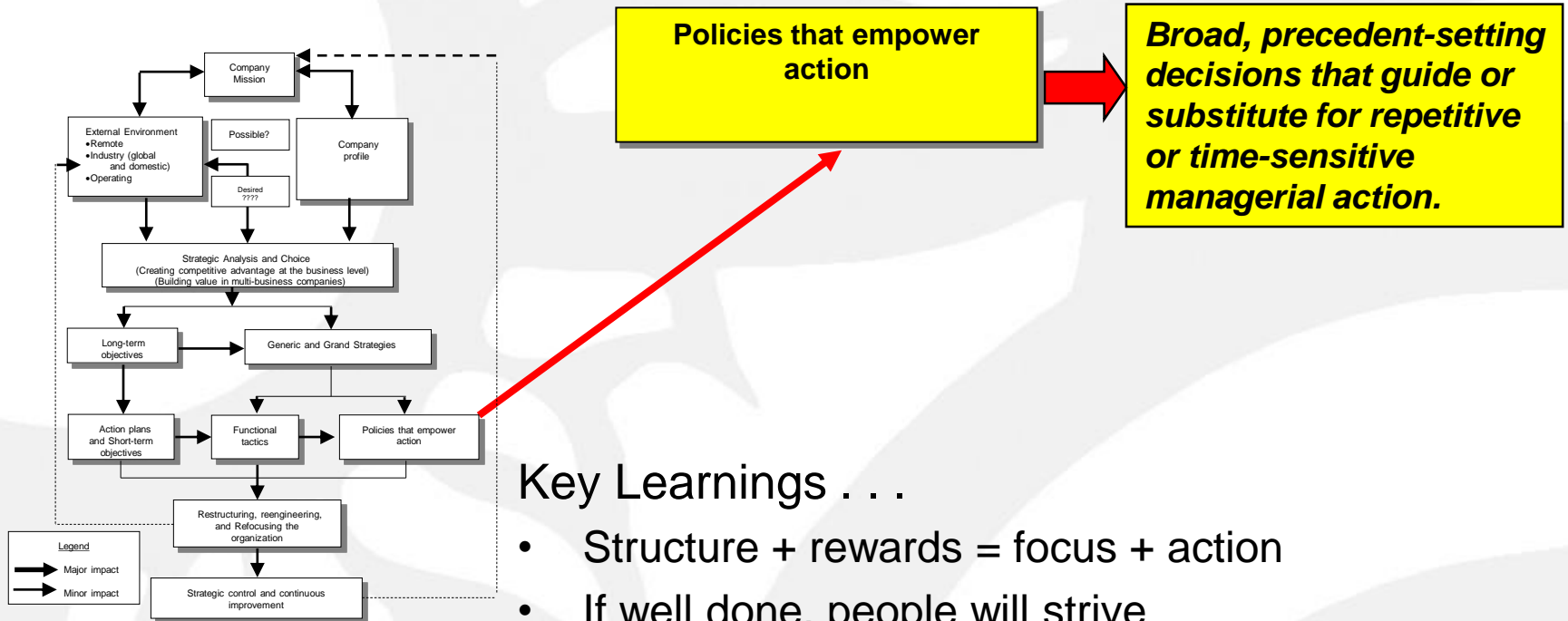
Getting Real



Key Learnings . . .

- Must be cross-functional
- Must be achievable & substantial
- Must be in concert with each other

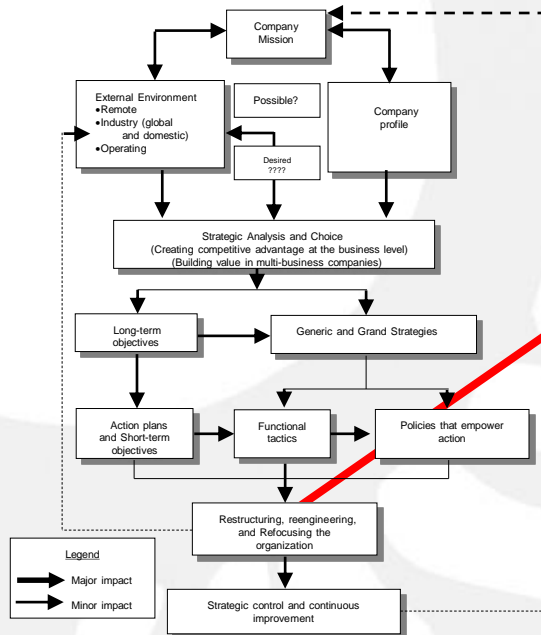
Getting Moving



Key Learnings . . .

- Structure + rewards = focus + action
- If well done, people will strive
- Beware of bureaucratic rules
- Maintain awareness of unwritten policies

Moving Forward



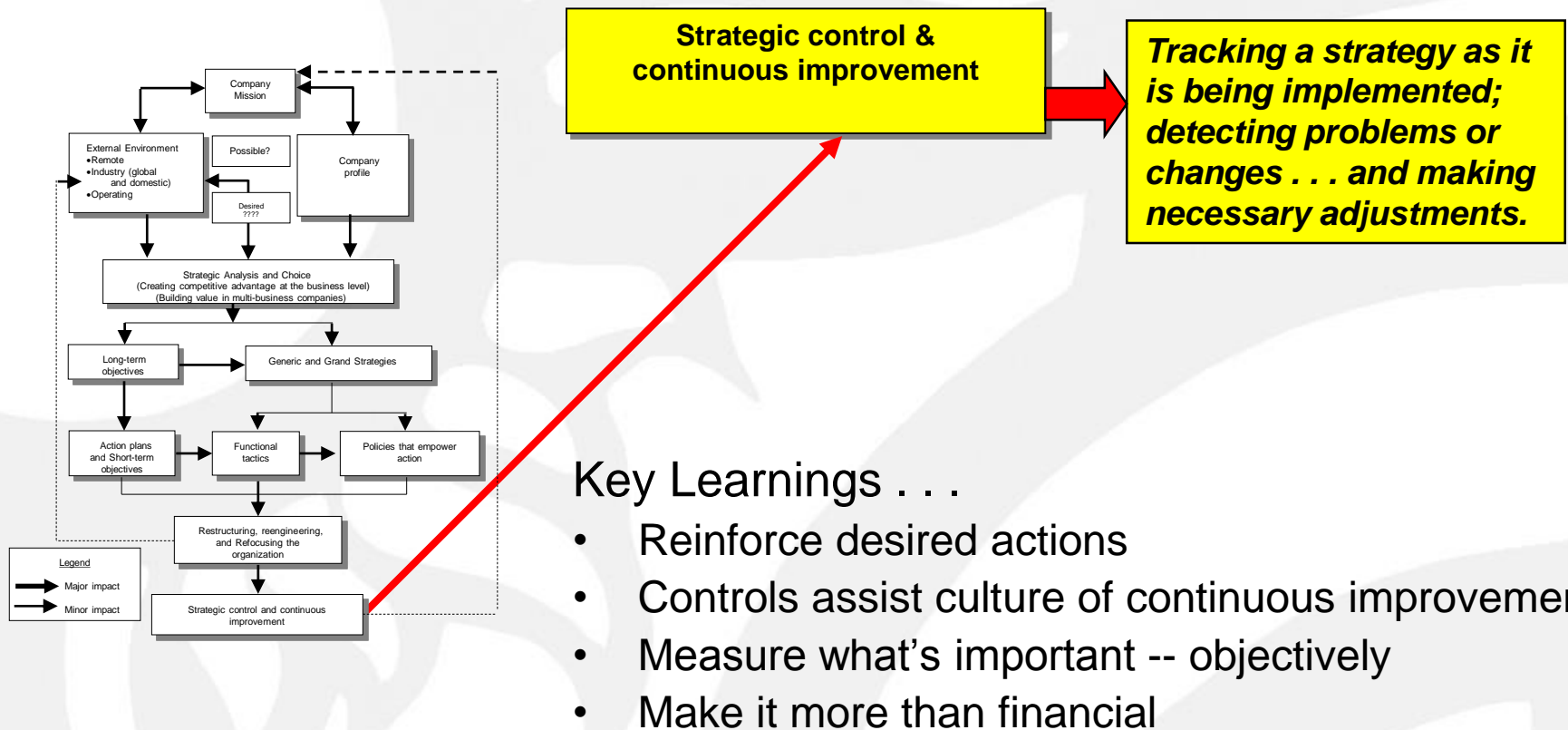
**Restructuring, reengineering,
and Refocusing the organization**

***The critical stage wherein
managers . . . rationalize
and recast organizational
structure, leadership,
culture, and reward
systems to insure a basic
level of competitiveness,
capacity, . . . etc.***

Key Learnings . . .

- Should occur proactively
- Method generally affects level just below
- Should be an event, not a way of life
- Must be tied to specific strategic needs

Measuring and Improving



Examples - Shifting Go-to-Market Strategy

Company	Heritage	Marketplace Change	Business Result	New Marketing Strategy
IBM	Mainframes serviced by army of 'blue suit' technicians; proprietary technology; one-stop; high margins	Personal computer; Ubiquitous PC clones; Network computing Rapid gains in power	Heavy PC losses Move to client-server; Lower sales; Much lower margins; Danger of failure	Shift to consulting; Shift to network services; Maintain mainframe position; Alliances with others; Restored profitability
Best Buy	Started as 'Sound of Music'; focus on stereos and TV's; small stores, commissioned sales staff	PC's, digital electronics became common, easier to use and less costly; people resisted hard sell	Sales and margins flattened; could not drive enough sales to grow at pace needed.	Broad assortment; low prices; brand names; sell electronics, entertainment, & appliances; large bright stores; interactive displays; sell services
Synovis Life Technologies	Started as 'Bio-Vascular' making internal cardiac and vascular devices; almost complete reliance on 'Peri-Strip'	Medicare stopped giving reimbursement for procedures using 'Peri-Strip' device – said were optional therapies	Sales plummeted; Losses mounted; Stock price dropped by 50%;	Used core technologies for new devices and procedures; shifted the mix; bought other small medical firms; changed name; products now used in 50 critical surgeries; sales up 82%; stock doubled; established profitability;
Jennie-O	Poultry firm selling traditional commodity turkeys and processed turkey parts	Increased competition by chicken, pork and beef producers establishing branded 'healthy' alternatives; changing consumer needs toward faster cooking times	Misfit with time-pressed consumers; eroding sales; lower margins due to increasing costs; inability to differentiate the brand	Web site with over 5,000 consumers and growing; expanded value-added product line; recipe-based web marketing around new products; web access for food service lines; gain new feedback for basic advertising

Examples - Shifting Go-to-Market Strategy

Company	Heritage	Marketplace Change	Business Result	New Marketing Strategy
Harley-Davidson	Traditional V-Twin motorcycle company; American icon; Black Leather image	Aging baby boomers now able to afford to buy, but shifting demographics tilt toward Gen-X and Gen-Y buyers in the future	Huge boom now pressured by potential downturn in 3-5 years	Twin focus on Heritage bikes along with innovation of V-Rod and Buell products. Heavy shift toward apparel, mementos, experiential offerings, services and accessories.
Holiday-Inn	First major branded motel chain; common look and feel; moderate family vacation travel host	Many more chains; heavy price competition; labor costs to maintain ancillary services grew higher; lower airfares; shift to resort travel	Flat to lower sales; aging facilities; inability to maintain high service levels; bland image	Moving away from middle toward both lower service "Express" and high-end "InterContinental Hotel" and "Crowne Plaza Resort" brands; Removing restaurants; investing in remodels
Sears	Traditional mid-priced family department and catalog store; free-standing and mall locations	Discounters leverage lower cost model by adopting branded & high quality private brand products at lower prices	Squeezed by higher operating costs and lower sales; threat of full business model decline	~25 years of reinvention; sold Sears Tower; sold Allstate; closed catalog; attempt Home Store; attempt "Softer Side"; attempt home repair services, attempted Sears Grand; bought by KMart
Regions Hospital	General primary care facility serving St. Paul and nearby suburbs as St.Paul-Ramsey Medical Center	Specialty health care operators siphoned away patients with major medical problems	Prominence and overall reputation slipped; revenues flattened as critical care patients went elsewhere	Focus on trauma, surgery, cardiac and now cancer care; establishing reputation as place to go for critical care expertise; established offsite Health Partners clinics, raising overall position in larger radius of cities