

SCEQA Framework

SITUATION

- Where are we now vs. where do we want to be?

COMPLICATIONS

- What are the hurdles that may prevent us from getting to where we want to be?

ENABLERS

- What do we have (or face) that can help us get where we want to be?

CORE QUESTION

- Hence, what is the core question that needs to be solved?

ANSWER

- What actions can we take to address the core question?

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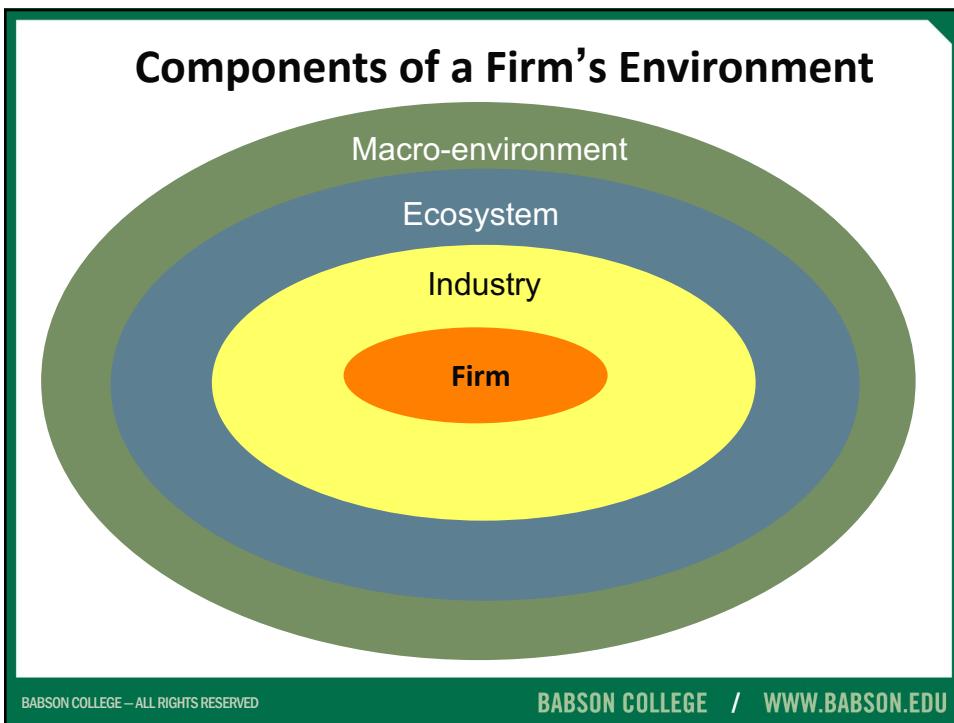
Maldives Key Takeaways

This class is about teaching **you** to solve firms' **complex** problems.

- For **complex** problems, the questions are unclear and the answer is rarely apparent.
 - Looking too narrowly limits creativity.
 - Looking too broadly makes it hard to get started.
 - “Plunging in,” is a trap that can lead you to **solve the wrong problem**.

By applying the right framework and knowing the core concepts of strategy, you can be more **CONFIDENT** that your answer is the right one.

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A Definition

An **ecosystem** is a collection of different kinds of firms, organizations, and people involved directly or indirectly in creating and delivering a set of products and services to consumers.

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Industry vs. Ecosystem

- The industry is part of a larger **ecosystem** of firms and organizations and overlapping industries.
 - E.g. Amazon's Kindle ecosystem includes:
 - phone service providers (telecom)
 - Hardware and tablet companies
 - Publishers
 - Authors
 - Bookstores?

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Value of an Ecosystem Perspective

- With the accelerating pace of technological change, scientific advances, and innovation, **specialization** ("depth, not breadth") among firms and organizations has increased.
- Specialization increases the need for **collaboration**.
- Consequently, a greater variety of firms and organizations are relevant to understanding how goods and services are created and delivered.
- **Complements** play a bigger role in competition than they ever did before.
- **Innovation, capabilities, competitive advantage** reside not just in a company but in the larger set of organizations with which it is connected.

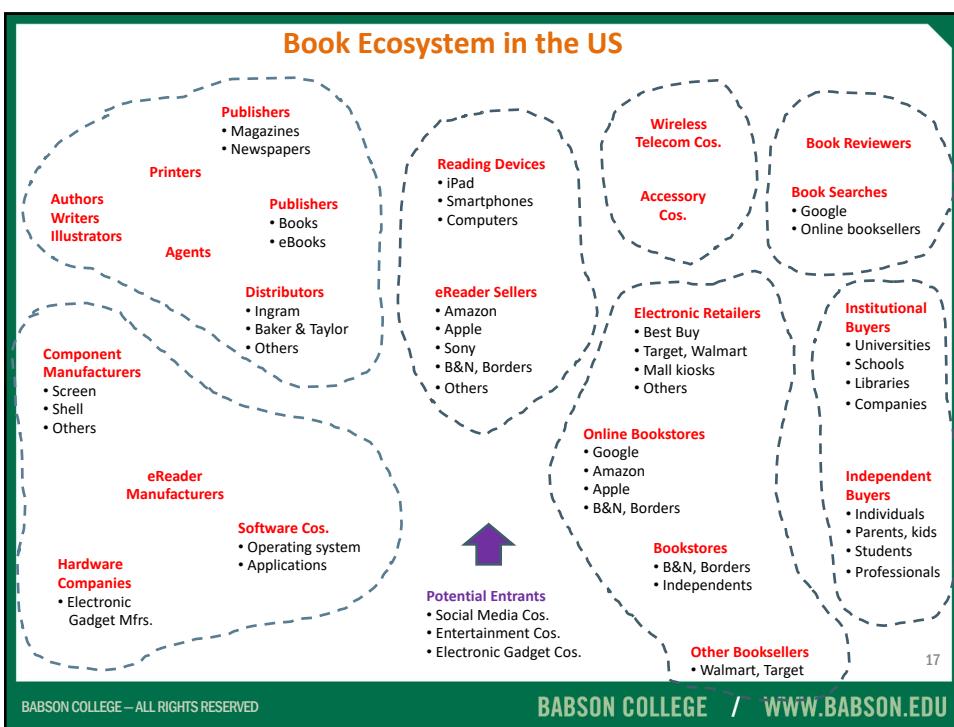
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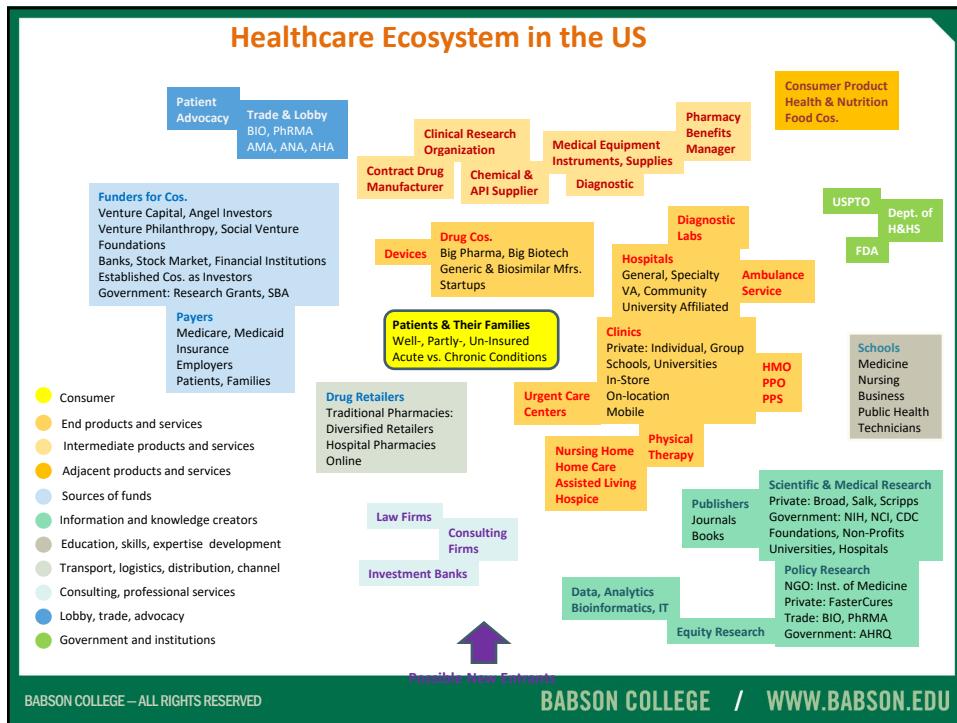
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	Industry Analysis	Ecosystem Analysis
Emphasis	Competition	
Setting	Industry	
Focus	Buyers, Suppliers, Current Competitors (Rivals), Potential competitors (New entrants), Substitutes	
Firm Activity	Positioning – Providing Products and Services	

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How Do Ecosystems Evolve?

Players Change: Over time, new players enter the ecosystem (e.g., Apple entering the book ecosystem with its iPad launch) and established players exit (e.g., Borders' exit and liquidation).

Links Form and Dissolve: Collaborations, partnerships, and patterns of buying and selling among players change over time; new links are established and some established ones dissolved.

Players Make Moves: The strategic, competitive, innovative, and entrepreneurial moves that firms and other organizations make transform each of them and the ecosystem.

Trends & Events Overshadow Everything: Significant trends and events affect the firms and organizations in the ecosystem in different ways. Each responds in different ways. And the interaction of these moves changes the nature of ecosystem.

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Ecosystem Analysis

Step 1 of 2. Focus on the Overall Ecosystem

1. Map the ecosystem
(To know what it really is)
2. Identify the major trends
(To see how it may be changing)
3. Assess how the trends and events may differentially affect the various players comprising the ecosystem
(Because change is never uniform across a system)
4. Identify players' unsolved problems. How are they performing? What are their ambitions?
(To predict their possible moves and how competition may unfold, to identify possibilities for collaboration, innovation, and entrepreneurship)

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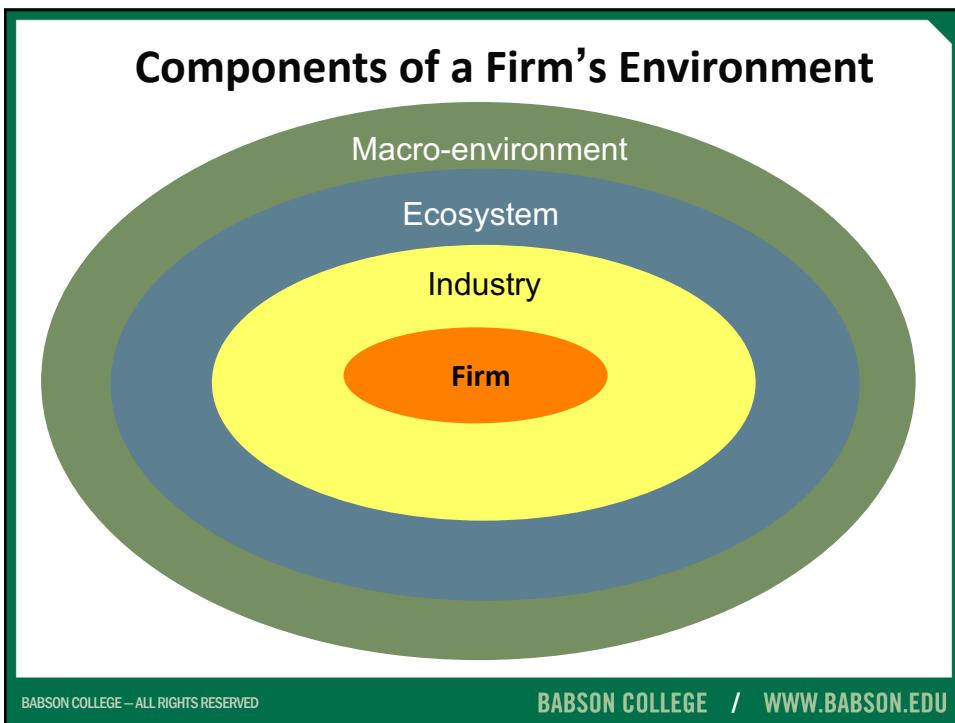
Ecosystem Analysis

Step 2 of 2. Focus on Your Firm and How it Relates to the Ecosystem

1. How are changes in the ecosystem affecting us? Consider trends, events, moves by others, and their unsolved problems.
2. What (and whose) problems should we be solving?
3. Who will be affected (positively, negatively) by our solving this problem?
4. Who could be a hurdle? How can we best overcome the obstacles they may present?
5. Who would have an interest in enabling us? How can we best collaborate with them in devising or implementing solutions?

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Macro-Economic Analysis

- P.E.S.T.L.E.
 - Political (e.g. industry subsidies)
 - Economic (e.g. Consumer confidence, unemployment rate)
 - Social (e.g. aging population)
 - Technological (e.g. information technology)
 - Legal (e.g. FCPA)
 - Environmental (e.g. Climate Change)

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Macro-Economic Analysis

■ Key Questions

- Which element is currently most important to the company?
- What are emerging trends?
- Which element is likely to be most important in the future?

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Changing times (1951)



<http://www.nytimes.com/2008/10/07/business/media/07adco.html>

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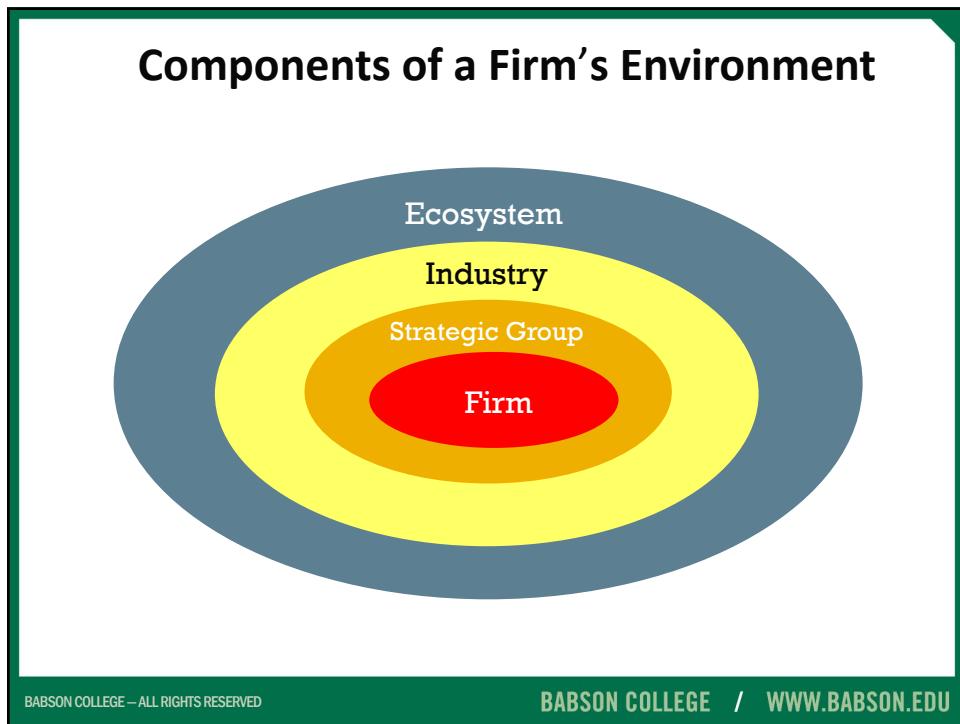
Changing times (Today)

The screenshot shows the homepage of Philip Morris USA. At the top, there's a navigation bar with links for Home, Search Help, and a search bar. Below the header, there's a main content area with several sections:

- Welcome to Philip Morris USA**: A brief introduction stating they are the largest tobacco company and provide information about their business and health issues.
- About our Products**: Information about health issues, with links to Smoking & Health Issues and Smokeless Tobacco Health Issues.
- Our Approach to Responsibility**: A list of initiatives including Stakeholder Engagement, Helping Reduce Underage Tobacco Use, Supporting Cessation, Investing in Our Communities, Reducing Environmental Impact, Agricultural Practices, Supply Chain, Compliance & Integrity, and Government Affairs.
- Company Highlights**: News items such as Wisconsin Federal Court Denies Class Certification in 'Light' Case, West Virginia Jury Rejects Most Claims and Punitive Damages in Consolidated Trial, and Philip Morris USA Sues New York Retailers for Selling Counterfeit Cigarettes.
- Other Topics**: Links to Federal Tobacco Excise Tax Increase, Smokeless Tobacco, and Market Information.
- About this Site**: A note that the site is the corporate website of Philip Morris USA and does not sell, advertise or offer promotions for their products.
- Footer**: Links to Contact Us, Site Map, Terms of Use, Privacy, Altria Group, Inc., and a copyright notice from 1999-2013.

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Market Identification

- How do people meet their significant other?

Market Segmentation

- What are the most strategically significant or relevant ways we could segment the market?
 - Can we combine any of these?
- Pick two:
 - Most relevant
 - Can be loosely quantified
- Draw a segmentation chart or matrix
- Analyze segment attractiveness
 - Identify KSFs (Key success factors)
 - Consider issues related to *economies of scope*

Two Basic Sources of Competitive Advantage



- Cost-based advantage: Providing a similar product or service at a lower cost
- Differentiation-based advantage: Providing a unique product or service at a premium price

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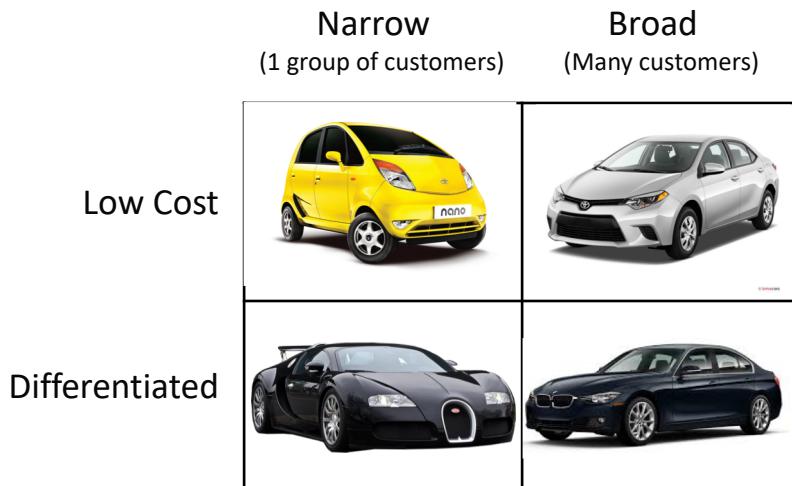
Porter's Generic Strategies

	Narrow (1 group of customers)	Broad (Many customers)
Low Cost	Focused Cost Leadership	Broad Cost Leadership
Differentiated	Focused Differentiation	Broad Differentiation

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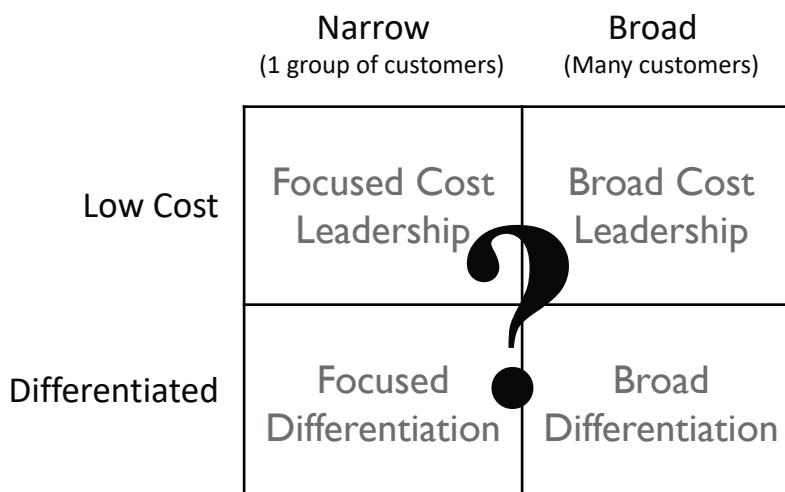
Porter's Generic Strategies: Cars



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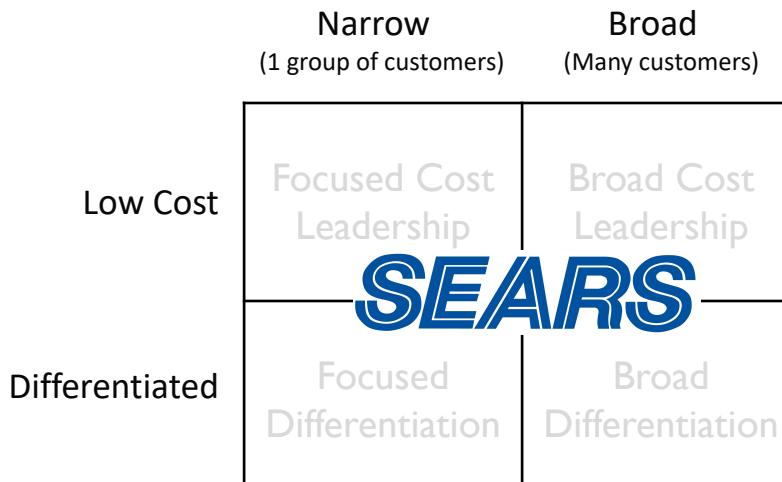
Porter's Generic Strategies



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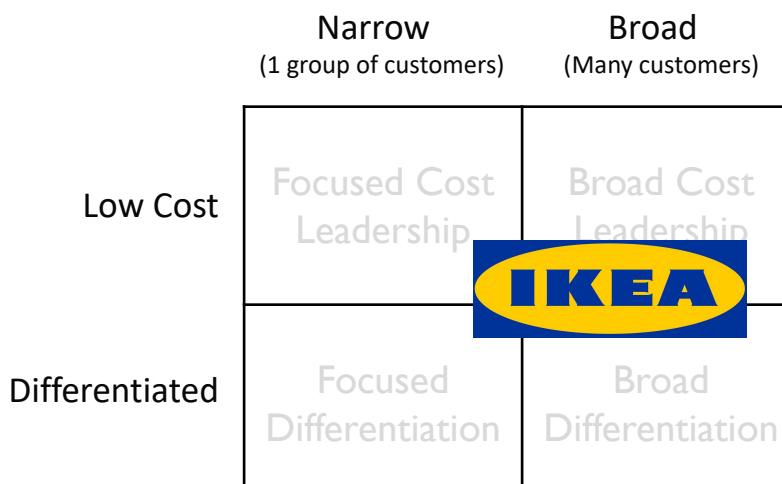
Porter's Generic Strategies



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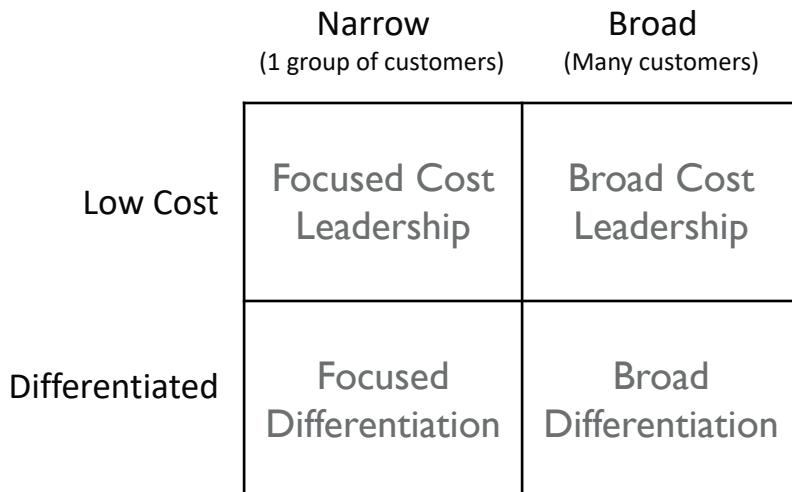
Porter's Generic Strategies



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Where would you put eHarmony?



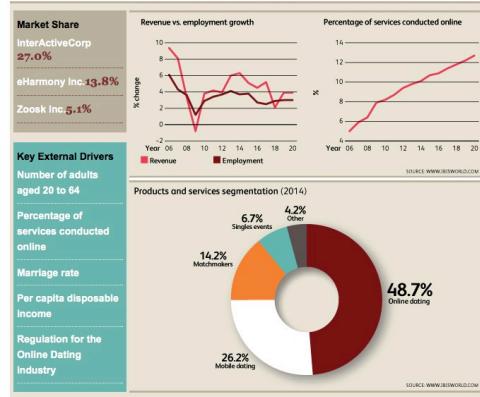
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Online Dating Market Since the Case

Industry at a Glance

Key Statistics Snapshot	Revenue \$2.2bn	Annual Growth 09-14 4.8%	Annual Growth 14-19 4.2%
Profit \$293.8m	Wages	Businesses	
	\$604.4m	3,851	



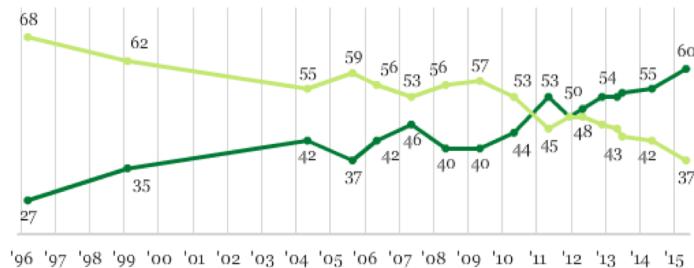
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PESTLE since the Case (focus on the S)

Do you think marriages between same-sex couples should or should not be recognized by the law as valid, with the same rights as traditional marriages?

■ % Should be valid ■ % Should not be valid



Note: Trend shown for polls in which same-sex marriage question followed questions on gay/lesbian rights and relations

1996-2005 wording: "Do you think marriages between homosexuals ..."

GALLUP

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eHarmony Since the Case

On Leadership

eHarmony wants to match you with the perfect boss

Candidate.Guru acquires Elevated Careers from eHarmony!

August 14, 2017

Enter your email address to find out more!

e-mail address

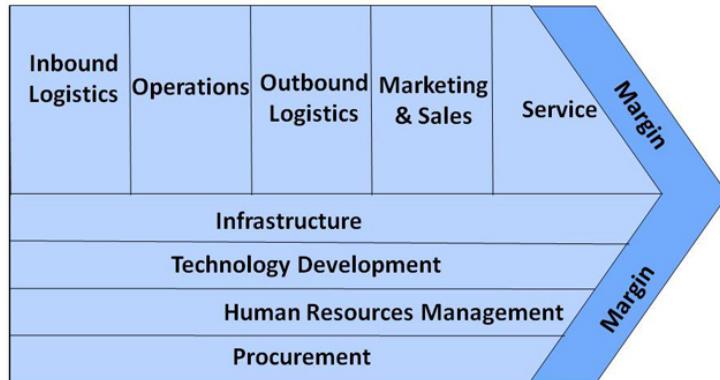
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Porter's (Internal) Value chain



What is it?

Porter's attempt to tie internal characteristics of a firm to its ability to attain SCA.

Rationale?

Value is achieved when a firm effectively carries out the critical activities it must perform

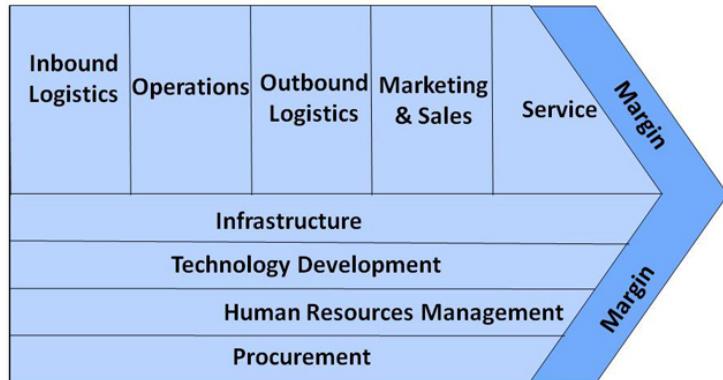
Is it useful?

Most useful in determining **comparative** advantage – how one firm have an advantage over its closest competitors.

Where does Netflix excel?



Where does Uber excel?



SAMSUNG

Exhibit 3 DRAM Average Selling Price (ASP), Operating Cost, and Operating Margin (256Mbit equivalent)

	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	Average
Samsung																		
Average Selling Price(\$)	39.08	38.44	43.79	33.42	20.82	13.24	4.86	5.16	9.31	7.75	6.86	7.58	5.76	5.27	5.79	6.90	6.15	15.25
Operating Cost(\$)	16.95	13.64	14.41	15.70	12.38	12.02	9.53	7.46	5.72	5.33	4.92	5.33	4.77	4.60	4.00	3.82	3.92	8.50
Operating Margin	57%	65%	67%	53%	41%	9%	-96%	-45%	39%	31%	28%	30%	17%	13%	31%	35%	36%	44%
Micron																		
Average Selling Price(\$)	32.49	25.13	30.83	25.65	12.59	8.30	3.76	2.85	5.01	7.48	5.25	4.99	5.10	4.33	4.97	5.32	4.51	11.09
Operating Cost(\$)	34.75	24.00	20.31	19.65	15.81	15.96	12.01	6.67	8.28	8.98	7.97	7.25	7.96	6.65	6.06	5.57	4.75	12.51
Operating Margin	-7%	4%	34%	23%	-26%	-92%	-21%	-134%	-65%	-20%	-52%	-45%	-56%	-53%	-22%	-5%	-5%	-13%
Infineon																		
Average Selling Price(\$)	26.62	26.50	30.93	16.01	10.58	7.98	4.20	4.38	8.90	7.20	5.50	5.90	4.89	4.69	5.41	5.21	4.95	10.58
Operating Cost(\$)	18.11	16.68	10.88	14.14	13.46	13.76	12.00	11.00	9.80	8.20	7.50	7.96	5.62	5.10	4.69	4.75	9.90	
Operating Margin	32%	37%	65%	12%	-27%	-73%	-186%	-151%	-10%	-14%	-36%	-35%	-15%	-9%	13%	10%	4%	6%
Hynix																		
Average Selling Price(\$)	28.72	29.82	37.76	20.95	12.42	7.35	3.86	3.73	8.56	6.30	4.71	4.92	4.57	4.50	5.46	5.36	5.16	11.42
Operating Cost(\$)	22.21	24.68	23.94	17.40	11.82	8.73	9.33	9.38	6.08	9.15	7.47	6.56	6.16	5.61	4.82	4.37	3.89	10.68
Operating Margin	23%	17%	37%	17%	5%	-19%	-142%	-152%	29%	-45%	-59%	-33%	-35%	-24%	12%	18%	25%	6%
Worldwide																		
Average Selling Price(\$)	36	33.8	36.5	22.9	14.30	9.02	4.80	3.49	8.58	7.36	6.21	6.14	5.12	4.62	5.47	5.37	5.06	12.63
ASP Quarterly Change	-6%	8%	-37%	-37%	-37%	-47%	-27%	146%	-14%	-16%	-1%	-17%	-10%	19%	-2%	-6%	-5%	
Price Premium of Samsung ASP over Competitors' ASP	33%	42%	32%	60%	75%	68%	23%	41%	24%	11%	33%	44%	19%	17%	10%	11%	26%	34%
Operating Margin of (Samsung - Competitors' Average)	41%	45%	22%	36%	57%	70%	86%	101%	54%	57%	77%	68%	53%	42%	30%	27%	28%	53%

Source: Merrill Lynch.

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The Learning Curve

- Originated in WWII
 - Everyone estimated poorly
 - Henry Kaiser: Built a ship in four days
- Bruce Henderson
 - Founder of Boston Consulting Group
 - Found the same phenomena existed in multiple industries
- The Experience Curve – adds consideration of technological improvements.



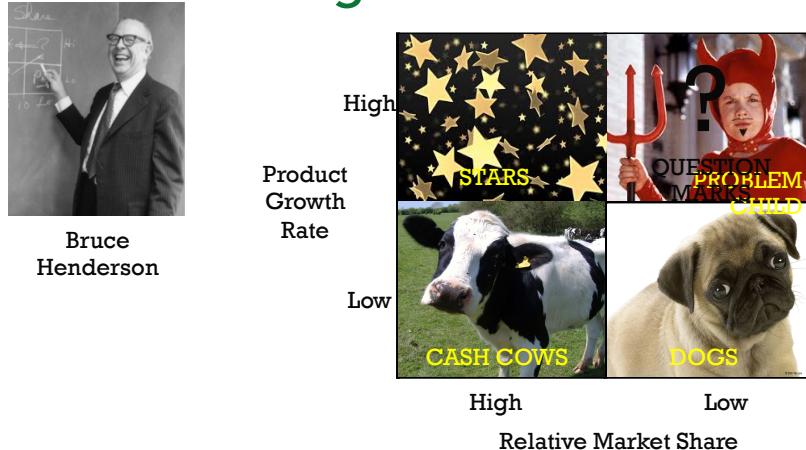
Henry Kaiser



Bruce Henderson

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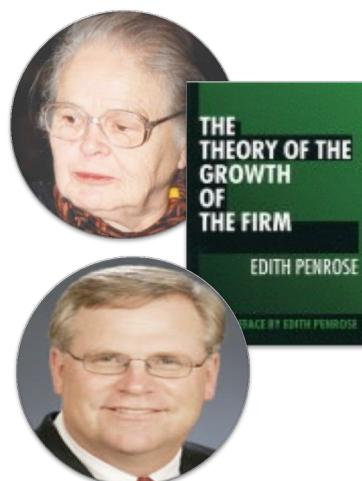
Samsung's Product Mix



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The Resource-based View

- When do resources and capabilities produce competencies?
 - Valuable
 - Rare
 - Inimitable
 - Organized to Capture Value
- Remember V.R.I.O.



Reading: “Corporate Strategy: Resources”

- Resource are tangible, intangible, and organizational capabilities
- They are **valuable**
 - In Demand
 - Scarce
 - Can lead to profits (appropriability)
- A resource-based strategy:
 - Identify
 - Invest
 - Upgrade
 - Leverage

Human Capital: Capabilities

How to Perform a Capabilities Audit

A capabilities audit will help you gauge—and ultimately boost—your organization's intangible value. First, select a business unit (plant, division, region, zone, industry). Then, using the following questions as a guide—and keeping in mind your overall business strategy—assess the unit's performance in each organizational capability (0=worst; 10=best), and rank the capabilities in terms of improvement needed (1=highest priority, 2=next highest, and so on).

Organizational Capabilities	Questions	Assessments	Rankings
Talent	Do our employees have the competencies and the commitment required to deliver the business strategy in question?		
Speed	Can we move quickly to make important things happen fast?		
Shared mind-set and coherent brand identity	Do we have a culture or identity that reflects what we stand for and how we work? Is it shared by both customers and employees?		
Accountability	Does high performance matter to the extent that we can ensure execution of strategy?		
Collaboration	How well do we collaborate to gain both efficiency and leverage?		
Learning	Are we good at generating new ideas via impact and generalizing those ideas across boundaries?		
Leadership	Do we have a leadership brand that directs managers on which results to deliver and how to deliver them?		
Customer connectivity	Do we form enduring relationships of trust with targeted customers?		
Strategic unity	Do our employees share an intellectual, behavioral, and procedural agenda for our strategy?		
Innovation	How well do we innovate in product, strategy, channel, service, and administration?		
Efficiency	Do we reduce costs by closely managing processes, people, and projects?		

From External Analysis to Business Models

Analysis: "Where" and "What"

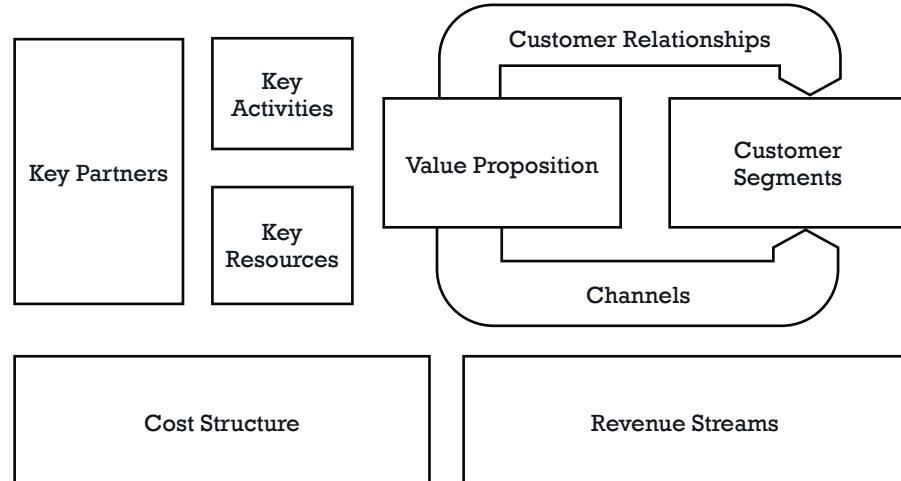
- External Positioning
 - Where do we position ourselves in our industry?
 - How do we win the ecosystem?
 - What macro-environmental factors will affect us, and why?
 - Tools:
 - Porter's Five Forces
 - Complements and Ecosystem Analysis

Business Model: “How”

- How do we **create unique value** for **specific** customers?
 - Qualitative view of what becomes the income statement.
 - Useful in considering and evaluating new markets, ideas, approaches.
 - Allows one to identify specific factors of success and risk.

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The Business Model Canvas

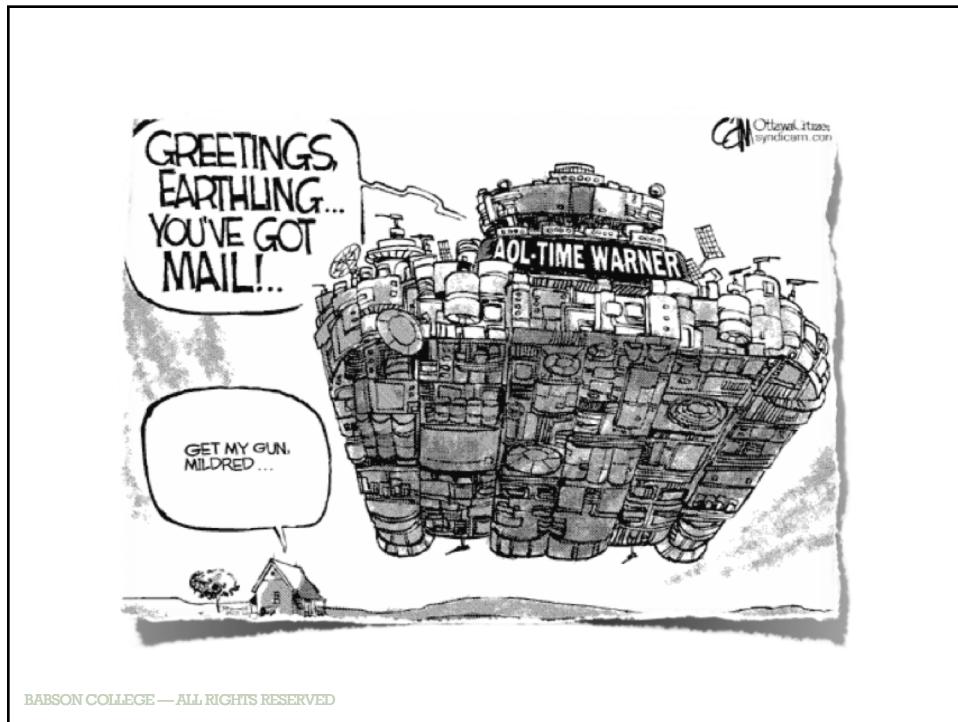
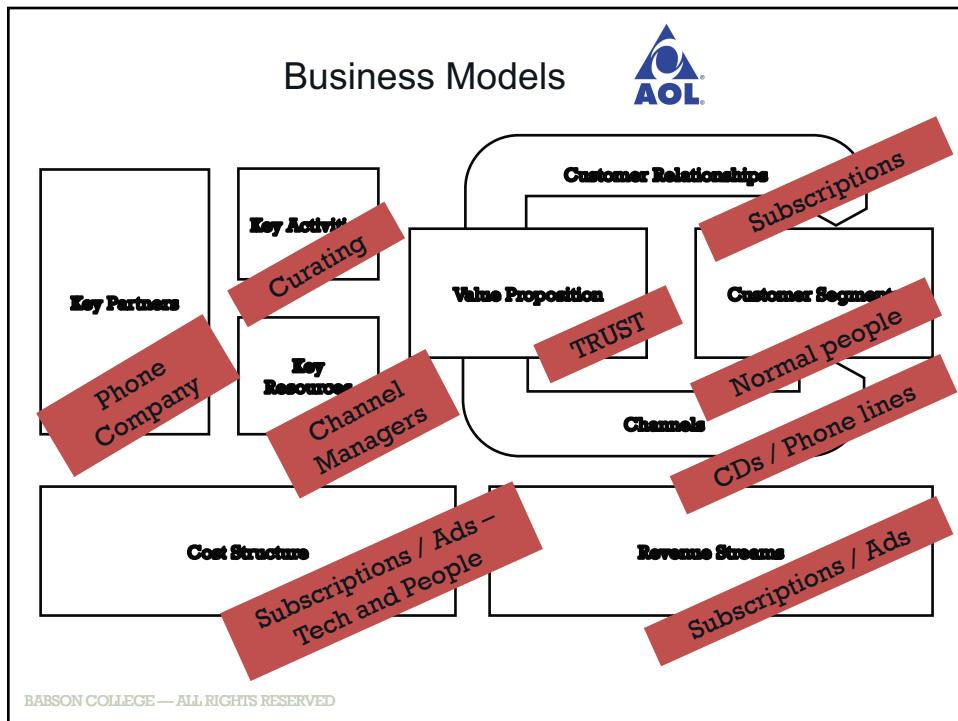


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Business Models in Higher Education			
	Traditional	Online	Hybrid
Customer Segments	Students who can pay.	Those who can't access or afford traditional model	Students who can pay.
Value Propositions			
Channels	Campus (some online classes)	Online only	Traveling temporary campus
Customer Relationships			
Revenue Streams	Tuition / Endowment / Grants / Government	"Completion certificates," Amazon, \$50 track.	
Key Resources			
Key Activities			
Key Partnerships		Excellent Teachers	Prominent Politicians
Cost Structure			

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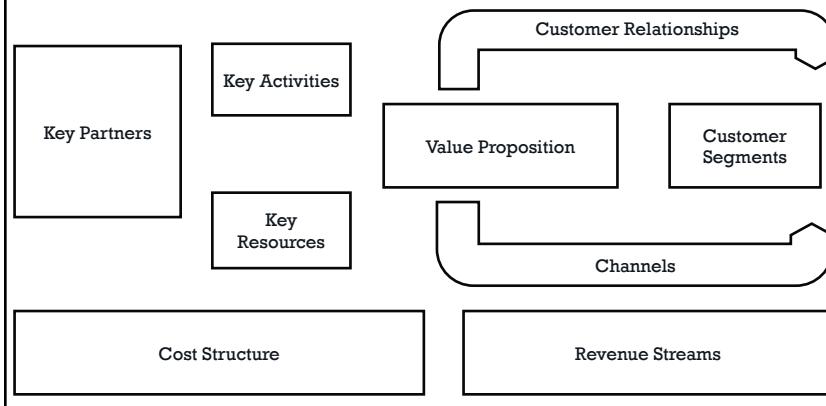


The 9 Business Model Building Blocks

1. Customer Segments: Who are we serving? What are their needs/wants?
2. Value Propositions: What bundle of products creates value for our customer segment?
3. Channels: How do we reach our customers?
4. Customer Relationships: How do we acquire, maintain and upsell our customers?
5. Revenue Streams: How do we generate revenue from each customer segment?
6. Key Resources: What assets are required to make the model work?
7. Key Activities: What are the most important things we must do to make the model work?
8. Key Partnerships: What suppliers and partners (outside our company) do we need to make the model work?
9. Cost Structure: What are the most important costs incurred to operate this business model?

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The Business Model Canvas



A Few Frameworks We've Learned

1. Decision Traps
2. 5-Forces
3. P.E.S.T.L.E.
4. Porter's Generic Strategies
5. Ecosystem analysis
6. Market segmentation
7. VRIO Resources and Capabilities
8. BCG Matrix
9. Learning Curve
10. Internal Value Chain
11. Business Model Canvas

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Understanding the situation

S.C.E.Q.

Situation:

- Google is a technological leader in voice with a large installation base (thanks to Android)
- Increasing search through voice may threaten their cash cow.

Stronger core questions:

- **(How)** can Google monetize voice?
- **(How)** can Google differentiate its product from others?
- Should we partner?

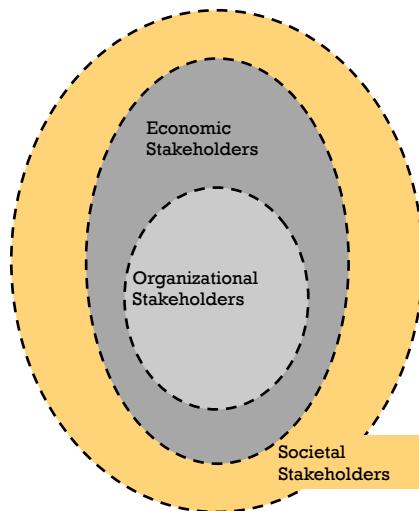
Potential Tools for Analysis (SCEQ and Question Tree)

	Why?
Market segmentation	This is a crowded market with similar products. How can Google find a niche?
VRIO Resources and Capabilities	What resources and capabilities does Google have that others do not? (Android ecosystem.)
Business Model Canvas	Google makes money selling ads (86% of Alphabet's revenue)
BCG Matrix	Advertising is their cash cow... how can they leverage it to move voice from question marks into stars?
Ecosystem analysis	Who are the players in the external ecosystem (e.g. Android), and can they be leveraged to create Google's own?
Internal Value Chain	Where does voice fit in driving margins?
Porter's Generic Strategies	Should they focus broad cost leadership or differentiation?
5-Forces	Unclear what the industry is – voice or ads – this is an ecosystem story.
Learning Curve	Google has the means to move rather fast on the learning curve, so do others.
Decision Traps	Relevant at a high level, but difficult to incorporate
P.E.S.T.L.E.	Easy, not that informative

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A Stakeholder Model



- Organizational:
 - Employees
 - Managers
 - Stockholders
 - Unions
- Economic:
 - Customers
 - Competitors
 - Creditors
 - Distributors
 - Suppliers
- Societal:
 - Government/Regulators
 - Communities
 - Nonprofits & NGOs
 - Environment

Porter's CSV



C	A	G	E
Cultural	Administrative	Geographic	Economic

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Exhibit 2 Metro C&C Store Locations and Opening Dates, as of January 2006

(a) By Market Date			(b) By Location		
Market Entry	Country	# of Outlets	Country	Market Entry	# of Outlets
1964	Germany	117	Austria	1971	12
1968	Netherlands	16	Belgium	1970	9
1970	Belgium	9	Bulgaria	1999	7
1971	Austria	12	China	1996	29
1971	Denmark	4	Croatia	2001	5
1971	France	84	Czech Republic	1997	12
1971	United Kingdom	33	Denmark	1971	4
1972	Italy	46	France	1971	84
1972	Spain	34	Germany	1964	117
1990	Portugal	10	Greece	1992	7
1990	Turkey	9	Hungary	1994	13
1991	Morocco	6	India	2003	2
1992	Greece	7	Italy	1972	46
1994	Hungary	13	Japan	2002	2
1994	Poland	22	Moldavia	2004	1
1996	China	29	Morocco	1991	6
1996	Romania	23	Netherlands	1968	16
1997	Czech Republic	12	Poland	1994	22
1999	Bulgaria	7	Portugal	1990	10
2000	Slovakia	5	Romania	1996	23
2001	Croatia	5	Russia	2001	22
2001	Russia	22	Serbia	2005	3
2002	Japan	2	Slovakia	2000	5
2002	Vietnam	6	Spain	1972	34
2003	India	2	Turkey	1990	9
2003	Ukraine	8	Ukraine	2003	8
2004	Moldavia	1	United Kingdom	1971	33
2005	Serbia	3	Vietnam	2002	6

Source: Company documents.

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The Cosmopolitan Corporation

- “The most critical ingredient in a world that demands adaptation is a diverse management team.”
 - Importance of respecting and managing a diverse workforce.
 - Hire multiple cultures (bicultural or tricultural)

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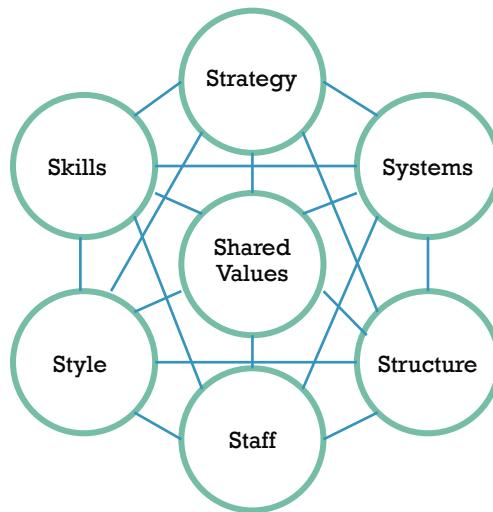
Key Takeaways from Metro Case

- The C.A.G.E. framework can be useful in assessing potential challenges related to geographic expansion or partnerships.
- Think of strategic moves in relation to the Adapt / Aggregate / Arbitrage framework.
- Metro’s business model was based mostly on the “aggregate” framework, where the same model worked in different countries. India’s C.A.G.E. environment forced Metro to consider some major changes in strategic moves.

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The Seven S Framework for Implementation



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What should Tessei Do?

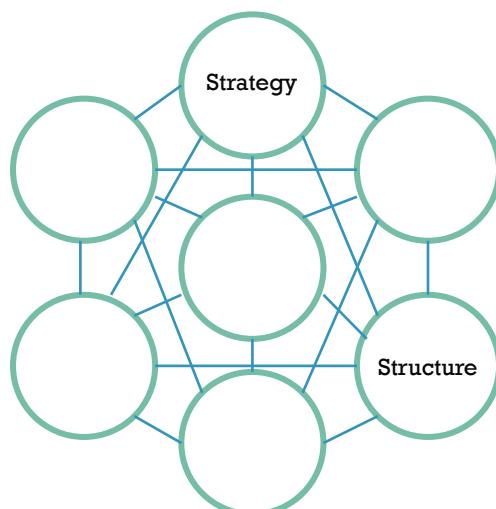
Team	Component of the 7S Framework
Team 1	Strategy
Team 2	Structure
Team 3	Staff
Team 4	Skills
Team 5	Systems
Team 6	Style
Team 7	Shared Values
Team 8	Shared Values

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Finally... What should Tessei do (in a different 7S component) to complement your recommendation?

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The Seven S Framework for Implementation



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