

Class 1

July-07-14
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- Contact by email
- Everything is case analysis
- To access cases, click on link in syllabus

Plan, goals, resources

What is strategy

An integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.

Competitive advantage

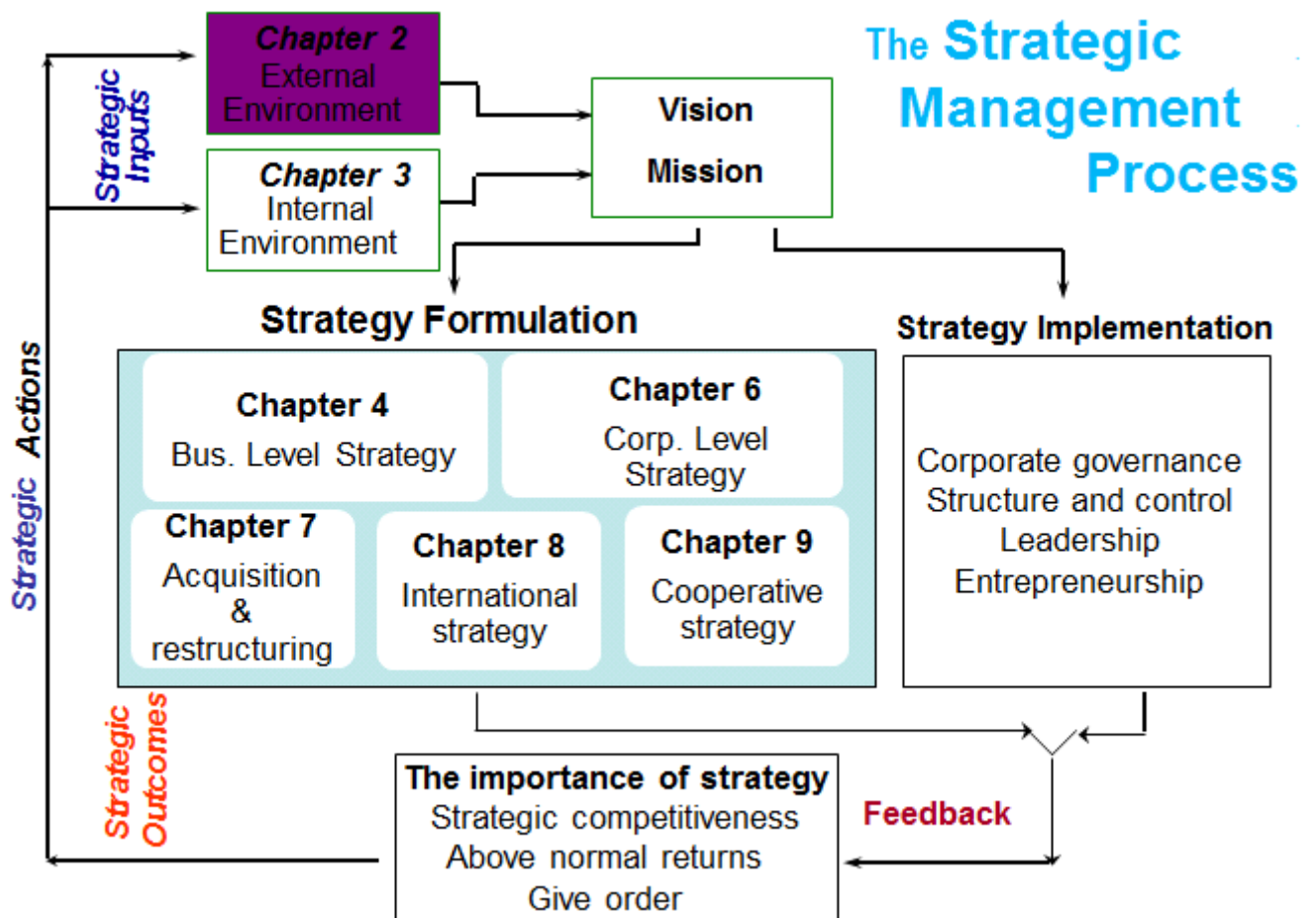
An upper hand on your competitors

Sustained Competitive Advantage

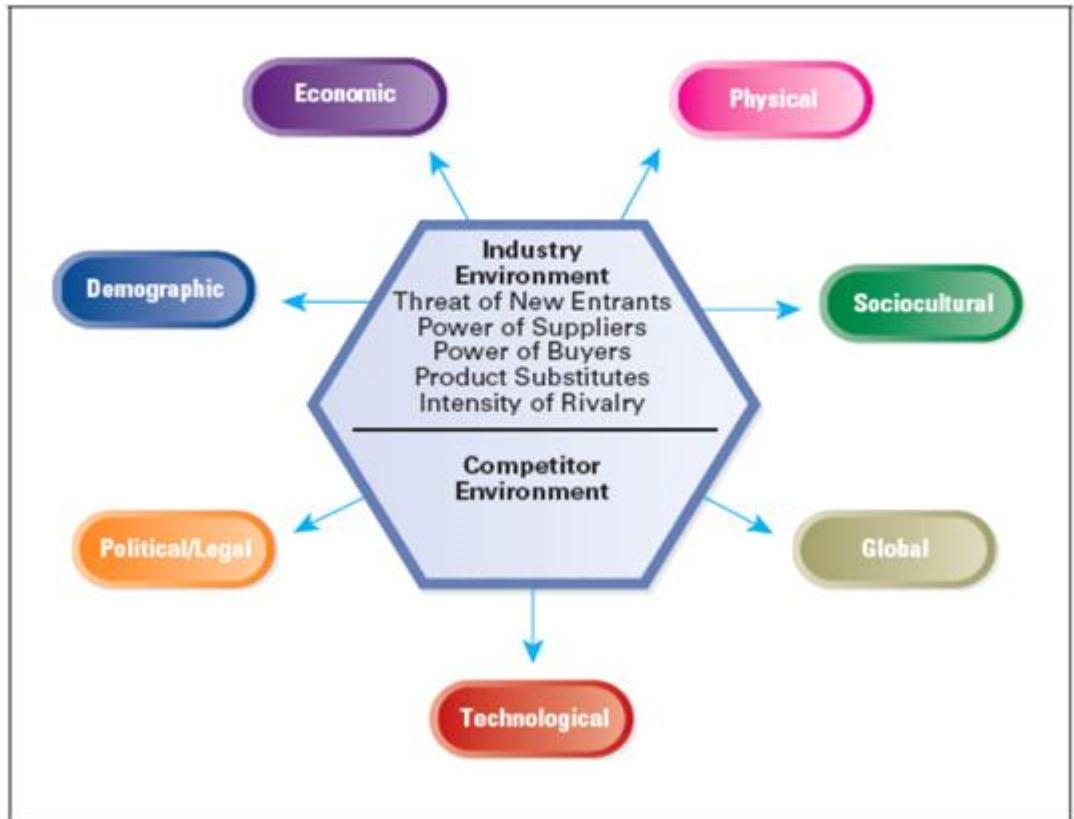
Class 2

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The External Environment: Opportunities, Threats, Industry Competition and Competitor Analysis



The External Environment



General Components of the External Analysis

- The segments of the general environment
- Industry analysis
 - Attractiveness of the industry
 - The success factors in the industry
- The competitor analysis
- No control over general environment

General Environment Components

Demographic Segment	<ul style="list-style-type: none"> • Population size • Age structure • Ethnic Mix 	<ul style="list-style-type: none"> • Geographic Distribution • Income distribution
Sociocultural Segment	<ul style="list-style-type: none"> • Women in the workforce • Workforce diversity • Environmental Concerns • Work life quality attitudes 	<ul style="list-style-type: none"> • Shifts in preferences regarding product / service characteristics
Political/Legal Segment	<ul style="list-style-type: none"> • Antitrust laws • Labor training laws • Taxation laws 	<ul style="list-style-type: none"> • Education philosophies & policy • De-/ Regulation philosophy

5

Economic Segment	<ul style="list-style-type: none"> • Inflation & interest rates • Personal savings rate • Business savings rates 	<ul style="list-style-type: none"> • Trade deficits or surpluses • Budget deficits or surpluses • Gross domestic product
Technological Segment	<ul style="list-style-type: none"> • Product innovations • Applications of knowledge 	<ul style="list-style-type: none"> • Focus of private & government-supported R&D expenditures • New communication technologies
Global Segment	<ul style="list-style-type: none"> • Important political events • Critical global markets 	<ul style="list-style-type: none"> • Newly industrialized countries • Different cultural and institutional attributes
Physical environment segment	<ul style="list-style-type: none"> • Energy consumption • Renewable energy efforts • Minimizing a firm's environmental footprint 	<ul style="list-style-type: none"> • Availability of water as a resource • Producing environmentally friendly products

6

The Industrial/Organizational Model of Superior Returns

The Industrial Organization Model suggests that above-average returns for any firm are largely determined by characteristics outside the firm.

The I/O model largely focuses on industry attractiveness or structure of the external environment rather than internal characteristics of the firm.

Porter's 5 Forces Model of Competition

1) Threat of New Entrants

Barriers to Entry: make it too hard or too costly

- Economies of Scale
- Product differentiation

- Capital requirements
- Switching costs
- Access to distribution Channels
- Cost disadvantages independent of scale
- Government policy
- Expected retaliation

2) Bargaining Power of Suppliers

Suppliers are likely to be powerful if:

- Supplier industry is regulated by few firms
- Supplier's products have few substitutes
- Buyer is not an important customer to supplier
- Supplier's product is an important input to buyer's product
- Supplier's product are differentiated
- Supplier's product have high switching costs
- Supplier poses credible threat of forward integration

Suppliers exert power in industry by threatening to raise prices or to reduce quality

Powerful suppliers can squeeze industry profitability if firms are unable to recover cost increases.

Can fight it using:

- Buyer/supplier partnership
- Coalition: all car companies negotiate together for tires
- substitute

3) Bargaining Power of Buyers

Buyer groups are likely to be powerful if:

- Buyers are concentrated or purchases are large relative to seller's sales
- Purchase accounts for a significant fraction of supplier's sales
- Products are undifferentiated
- Buyers face few switching costs
- Buyers' industry earns low profits
- Buyer presents a credible threat of backward integration
- Product unimportant to quality
- Buyer has full information

Buyers compete with supplying industry by:

- Bargaining down prices
- Forcing higher quality
- Playing firms off of each other

Fight it using

- Dispersed customer base

4) Threats of Substitute Products

Products with similar functions limit the prices firms can charge

Keys to evaluating substitute products:

Products with improving price / performance tradeoffs relative to present industry products

Examples:

- Electronic security systems in place of security guards
- Fax machines or e-mailed attachments in place of overnight mail delivery

Fight it using:

- Make it expensive to substitute

5) Rivalry Among Existing Competitors

Intense rivalry often plays out in the following ways:

- Jockeying for strategic position
- Using price competition
- Staging advertising battles
- Increasing consumer warranties or services
- Making new product introductions

Occurs when a firm is pressured or sees an opportunity

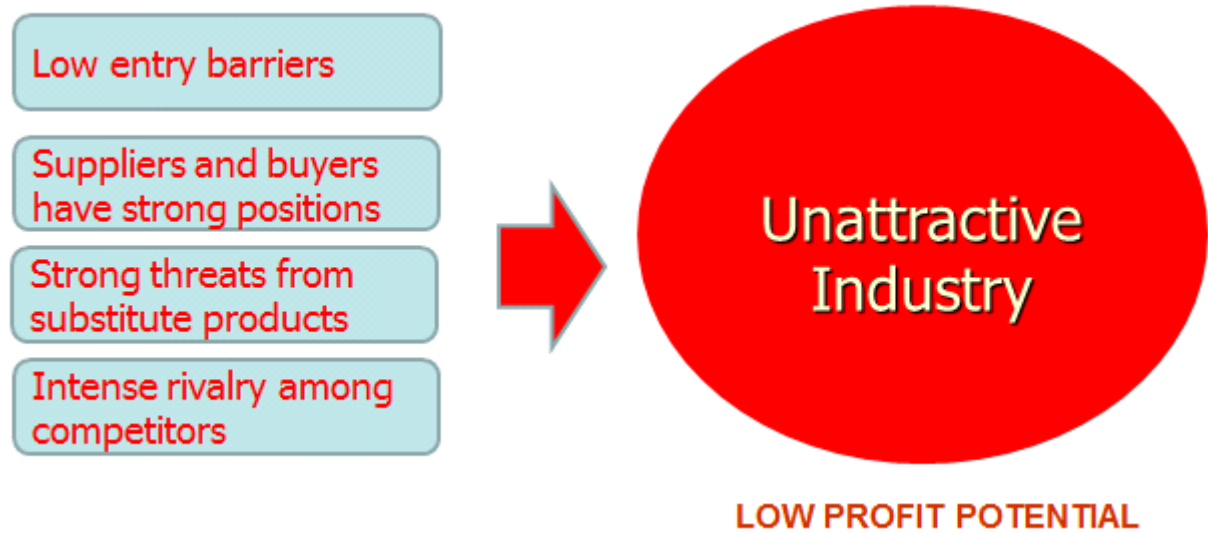
- Price competition usually leaves the entire industry worse off
- Advertising battles may increase total industry demand , but may be costly to smaller competitors

Cutthroat competition is more likely to occur when

- Numerous or equally balanced competitors
- Slow growth industry
- High fixed costs
- High storage costs
- Lack of differentiation or switching costs
- Capacity added in large increments
- Diverse competitors
- High strategic stakes
- High exit barriers

Industry Environment Analysis: The Five Forces of Competition Model

Interpreting Industry Analysis



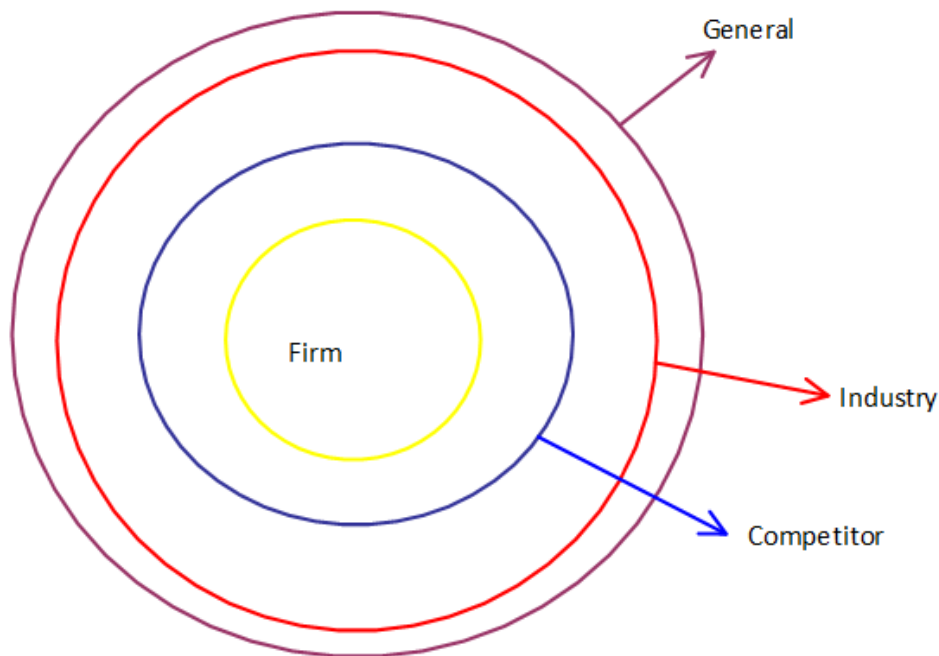
Common Types of Key Success Factors

Technology related	• Such as R&D, using the internet to transfer information
Manufacturing related	• Such as efficiency of production, quality of production
Distribution related	• Such as network of distributors, low distribution costs
Marketing related	• Such as clever advertising, customer service
Skills related	• Such as workforce talent, expertise in specific industry
Other	• Such as location, access to financial capital

Competitor Environment

Competitor intelligence is the **ethical** gathering of needed information and data about competitors' objectives, strategies, assumptions, and capabilities.

- Who are our direct competitors?
- What are their current strategies?
- What are their capabilities?



General

PESTEL: Political, Economical, Social, Environmental, legal

- Economy
- Socio-cultural trends: dual-earner families, green trend
- Environmental (Ecological): weather, climate, tsunami
- Technology
- Political / legal: regulations

Industry

Porter's 5 Forces

- Suppliers
- Consumers
- Competitors
- Substitutes
- New entries

In-class review

Strategic groups = competitor environment

Industry

- 5 forces
 - 2 things to achieve:
- 1) Analyze force itself
 - 2) Counter force

Barriers to entry

- Buyer
- Supplier
- Substitute
- Competition
- New

= attractiveness

Strategic group

Direct competitor: targeting same market segment as me - same pricing, same product, same area

Ex: ferrari and Tata are in the car industry but completely different markets, whereas Nissan, toyota and Honda are in the same strategic group

The size of the circle means the size of the segment. Supercars - small market segment
Nissan, toyota, honda - very large segment

Overlapping circles: not direct competitors now, but they will be

Read the Loblaw case and answer the following questions

1. What are the segments of the general environment that affect the Canadian grocery industry?
2. Is the Canadian grocery industry attractive or not?
3. What are the key success factors in Canadian grocery industry?
4. Who are Loblaw's competitors? And what are their strengths
5. Do you expect Wal-Mart to introduce its supercenters into Canada? Why or why not?
6. What should Loblaw do to prepare for the entry of Wal-Mart?
7. Strategic group?

Class 3

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The Internal Environment: Resources, Capabilities, and Core Competencies

The internal environment explains up to 40%

The external environment explains 25-35%

Other, risk, 30%

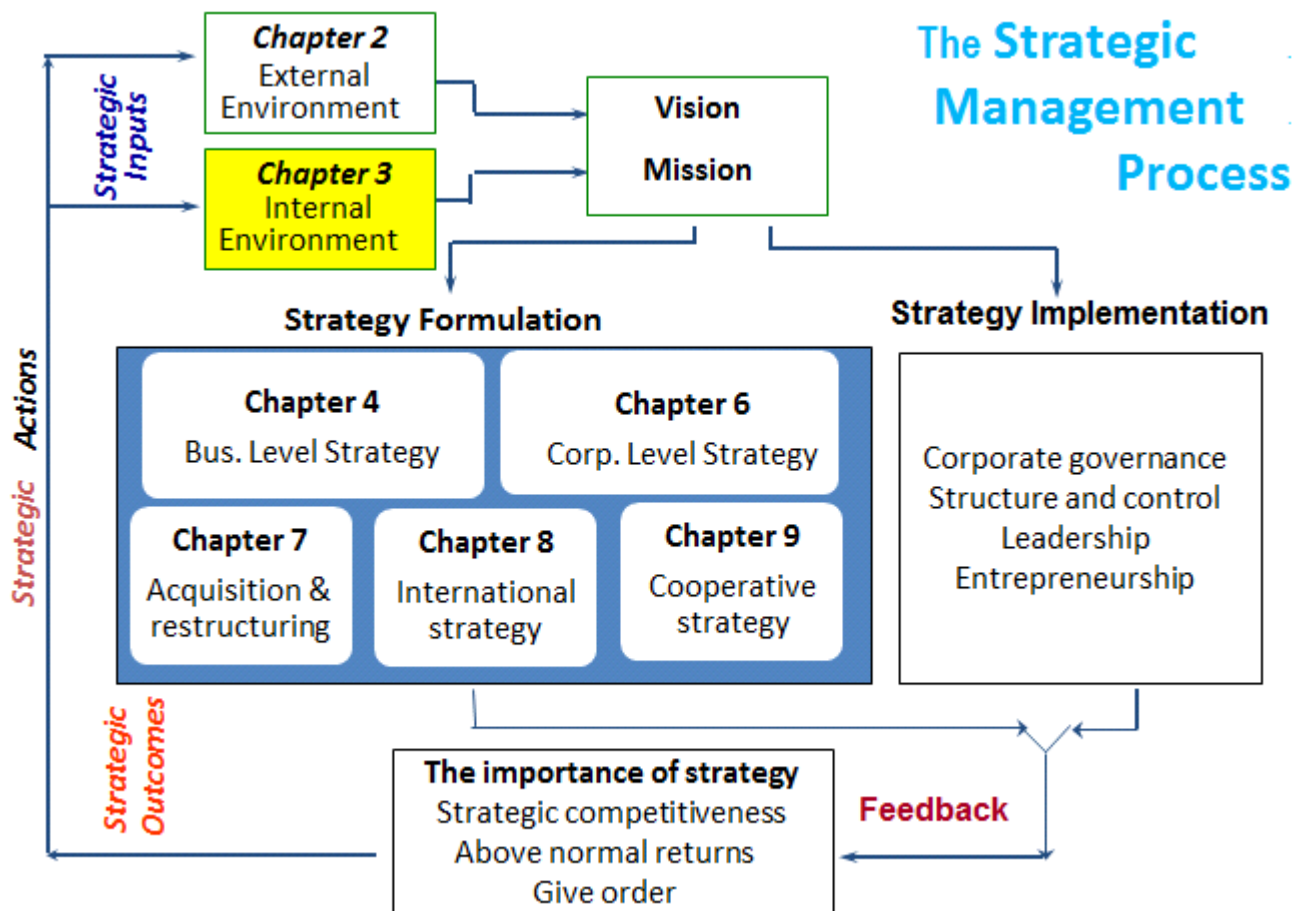
- As good strategists, we concentrate on both of these - to guarantee 70% of performance (internal and external)

Use SWOT analysis to develop strategies.

Must combine resources to obtain competitive advantages.

Competitive advantage

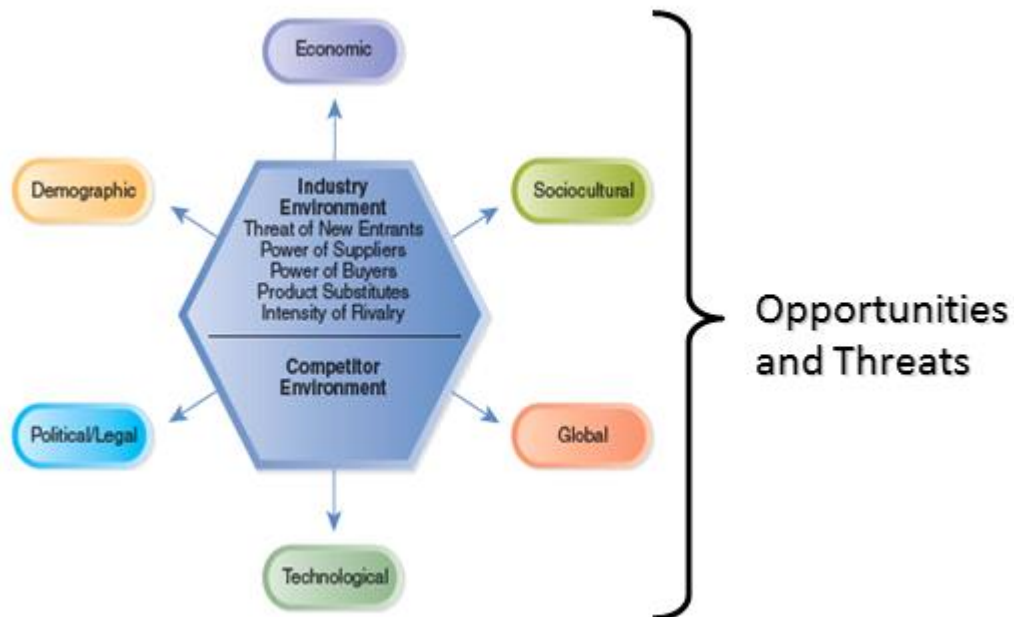
- 1) Resources
- 2) Capabilities
- 3) Core competence



The Resource-Based model of Above Average Returns

The resource based view suggests that a firm's unique resources and capabilities provide the basis for a strategy.

External Analyses Outcome



By studying the external environment, firms identify what they MIGHT CHOOSE TO DO

Internal Analysis Outcome



By studying the internal environment, firms identify what they CAN DO

Resources, Capabilities & Core Competencies

Resources

Tangible resources are assets that can be seen and quantified

Financial Resources	<ul style="list-style-type: none"> • The firm capacity to borrow • Generate fund internally
Organizational resources	<ul style="list-style-type: none"> • Formal reporting systems
Physical resources	<ul style="list-style-type: none"> • The sophistication of a firm's plants and equipment • Distribution facilities • Location • Product inventory
Technological resources	<ul style="list-style-type: none"> • Availability of technology-related resources such as copyrights, patents, trademarks, and trade secrets

Intangible resources includes assets that are rooted deeply in the firm's history and have accumulated over time

Human resources	<ul style="list-style-type: none"> • Knowledge • Trust • Skills • Abilities to collaborate with others
Innovation resources	<ul style="list-style-type: none"> • Ideas • scientific capabilities • capacity to innovate
Reputational resources	<ul style="list-style-type: none"> • Brand name • Perception of product quality, durability and reliability • Firm's reputation with customers or suppliers

Capabilities

Capacity for integrated set of resources to integratively perform a task or activity

- Resources put together to create value
- Way to capitalize on resources
- Usually within a function

Table 3.3 Examples of Firms' Capabilities

Functional Areas	Capabilities	Examples of Firms
Distribution	<ul style="list-style-type: none"> • Effective use of logistics management techniques 	<ul style="list-style-type: none"> • Walmart
Human Resources	<ul style="list-style-type: none"> • Motivating, empowering, and retaining employees 	<ul style="list-style-type: none"> • Microsoft
Management Information Systems	<ul style="list-style-type: none"> • Effective and efficient control of inventories through point-of-purchase data collection methods 	<ul style="list-style-type: none"> • Walmart
Marketing	<ul style="list-style-type: none"> • Effective promotion of brand-name products • Effective customer service • Innovative merchandising 	<ul style="list-style-type: none"> • Procter & Gamble • Ralph Lauren Corp. • McKinsey & Co. • Nordstrom Inc. • Crate & Barrel
Management	<ul style="list-style-type: none"> • Ability to envision the future of clothing 	<ul style="list-style-type: none"> • Hugo Boss • Zara
Manufacturing	<ul style="list-style-type: none"> • Design and production skills yielding reliable products • Product and design quality • Miniaturization of components and products 	<ul style="list-style-type: none"> • Komatsu • Witt Gas Technology • Sony
Research & Development	<ul style="list-style-type: none"> • Innovative technology • Development of sophisticated elevator control solutions • Rapid transformation of technology into new products and processes • Digital technology 	<ul style="list-style-type: none"> • Caterpillar • Otis Elevator Co. • Chaparral Steel • Thomson Consumer Electronics

Core Competencies

For a strategic capability to be a Core Competency, it must be(4 tests - VRIN model):

Valuable

Allow a firm to neutralize threats or exploit opportunities in its external environment.

- Adds value to my operations
- Invaluable resource: losing money, unproductive employee

Rare

Possessed by few, if any, current and potential competitors

-

Costly to imitate

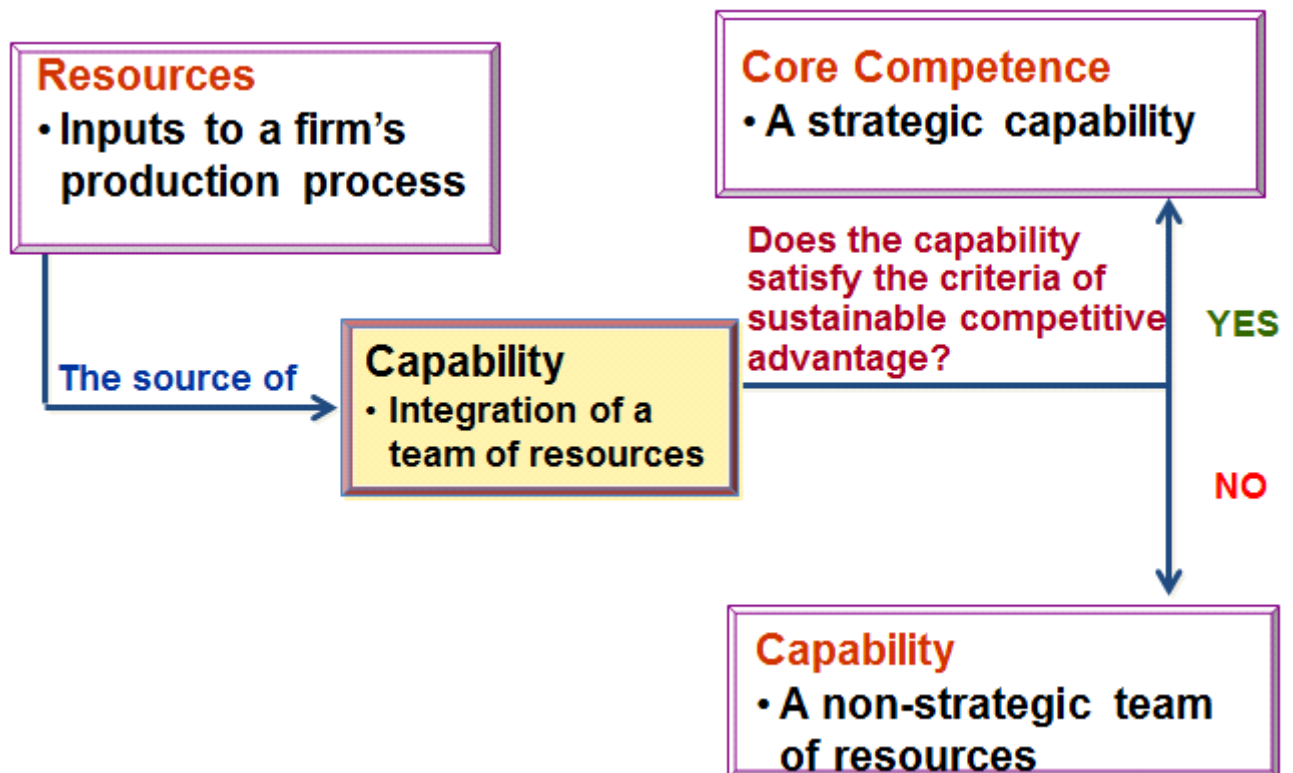
When other firms either cannot obtain them or must obtain them at a much higher cost.

Non-substitutable

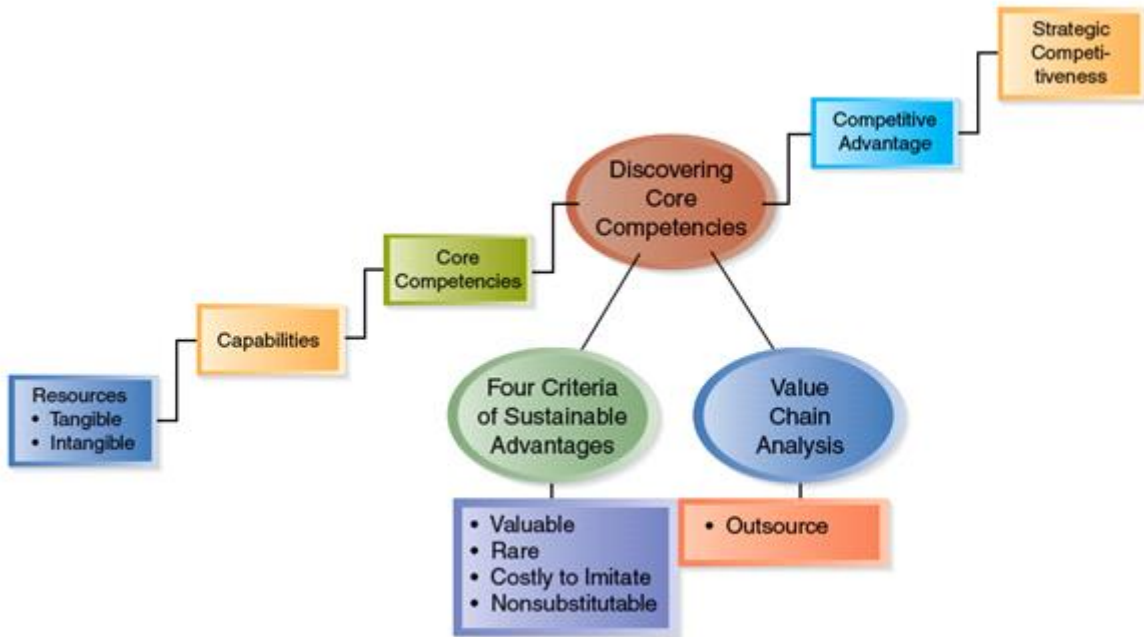
When these capabilities do not have strategic equivalents.

- Temporary if others can substitute

If you pass all 4, sustainable competitive advantage



Components of internal analysis leading to competitive advantage and strategic competitiveness
3.1



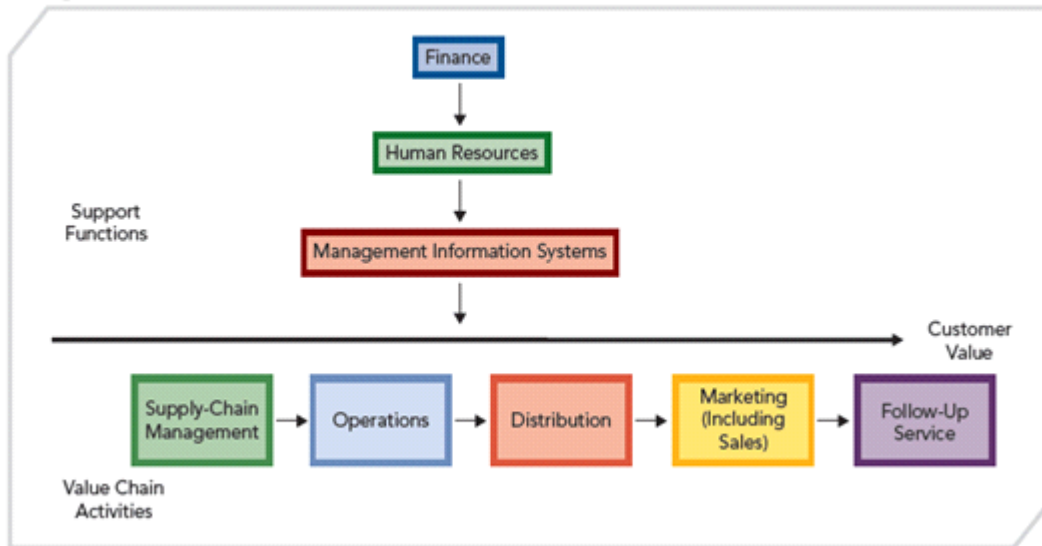
The VRIN Network

Valuable	Rare	Costly to Imitate	Non-substitutable	Competitive Consequences	Performance Implications
NO	NO	NO	NO	Competitive Disadvantage	Below Average Returns
YES	NO	NO	YES	Competitive Parity	Average Returns
YES	YES	NO	YES	Temporary Competitive Advantage	Avg./Above Average Returns
YES	YES	YES	YES	Sustainable Competitive Advantage	Above Average Returns

Value Chain Analysis

enables firms to understand which parts of their operations or activities create value by segmenting the value chain into primary and secondary activities

Figure 3.3 A Model of the Value Chain



Firms often buy a **portion** of their value-creating activities from specialty external suppliers who can perform these functions **more efficiently**.

How to use the value chain analysis to identify core competencies

For the primary and supporting activities to be sources of competitive advantage, a firm must be able to:

1. Perform an activity in a manner that provides value superior to that provided by competitors
2. Perform an activity that competitors cannot perform

Core competencies - Cautions and reminders

1. Never take for granted that core competencies will continue to provide a source of competitive advantage
2. A core competency can become a core rigidities
3. Core rigidities
 1. They are former core competencies that sow the seeds of organizational inertia
 2. Prevent the firm from responding appropriately to change in the external environment

Read the case and answer the following questions

In exam these would be summarized by : conduct an internal environment analysis

1. From the case, what are Starbucks' resources, capabilities? And what are its core competencies?
2. Do you see any weaknesses of Starbucks from the value chain analysis? Do you recommend any type of outsourcing?
3. Do the external analysis for Starbucks case.

In-Class Review

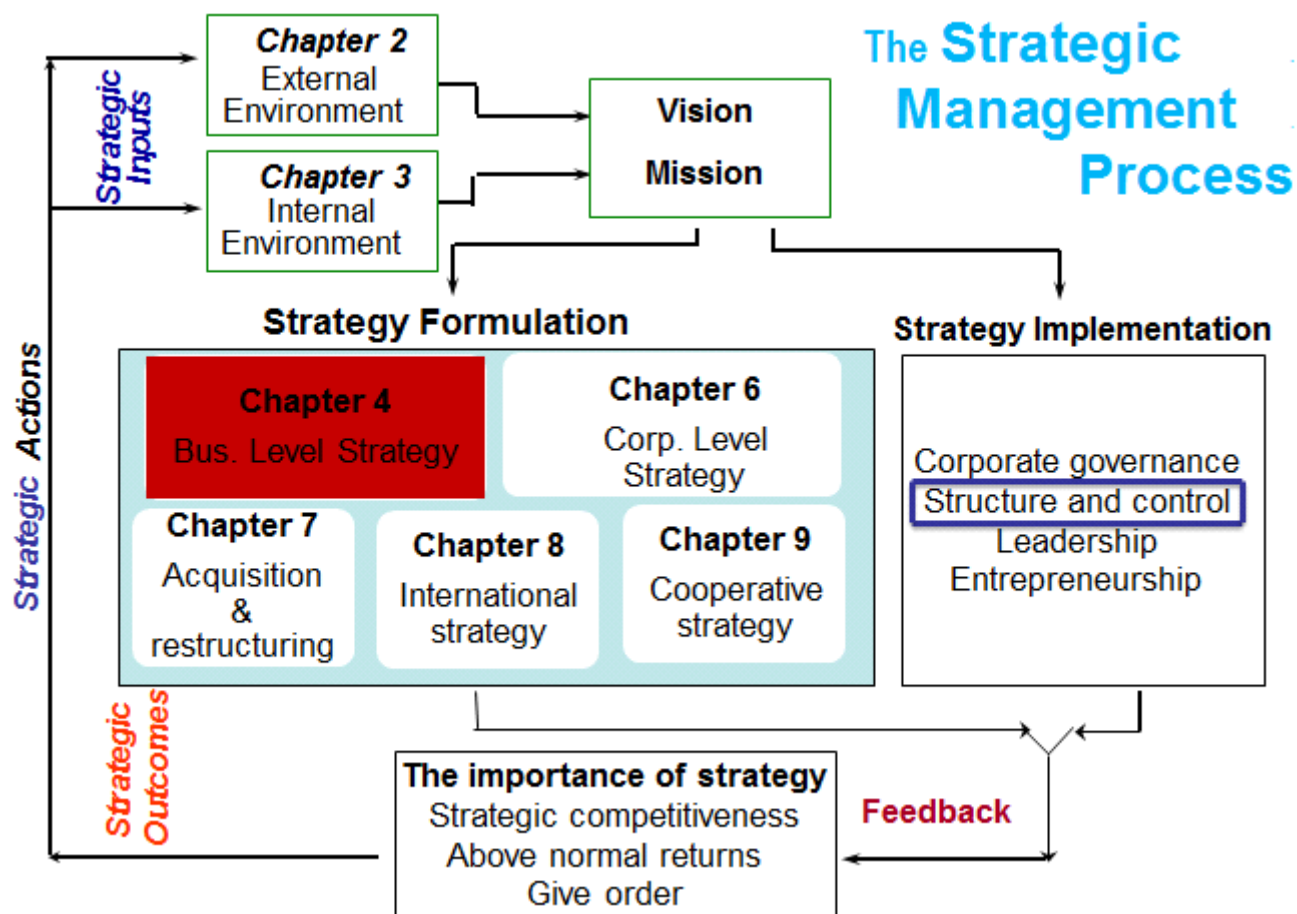
- Strengths and weaknesses
- Resources are assets you acquire in order to add value to your operations
 - o Physical
 - o Financial
 - o Human
 - o Organizational
- Resources are easy to imitate or acquire
- To get a competitive advantage - get capabilities

- Team of integrated resources
- Resources combined in order to create more value
- Capabilities are found in functional areas
 - Distribution
 - Sales
 - Marketing
- Evaluate if capabilities are core competencies using the VRIN model
 - Valuable
 - Rare
 - Costly to imitate
 - Non-substitutable
- Value-Chain
 - Outsource the support functions

Class 4

July-16-14
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Business-level strategy and competitive dynamics



3 Levels of Strategy

- 1) Corporate Level Strategy - Top management - Where to compete on the value chain?
- 2) Business Level Strategy - middle management - How to compete? (this class)
- 3) Operational/Functional Level Strategy - Front line management - How to implement?

Example- Yum! Brands

- 1) Corporate - expand into Vietnam, 120 restaurants by 2016
- 2) Business - KFC middle managers must choose to either compete with cost or quality (always these 2 dimensions), in other countries western fast food is higher quality and costs more. They chose cost and quality.
- 3) Operational - marketing: market research, r and d: use marketing info, sales: sell concept to business people, hr: recruit, accounting - each of these will devise a strategy do fulfill corporate goal.

The central role of customers

A customer focus requires that firms simultaneously evaluate or consider

1. who to serve (customer segmentation)

2. what customer needs will be satisfied
3. how those needs will be satisfied through the strategy selected

All firms must use their core competencies (the how) to satisfy the need (the what) of the target group of customers (the who) the firm has chosen to serve by using its business-level strategy

Generic Business Level Strategies

Uniqueness = quality - charge premium for the quality

Differentiation - can charge premium price

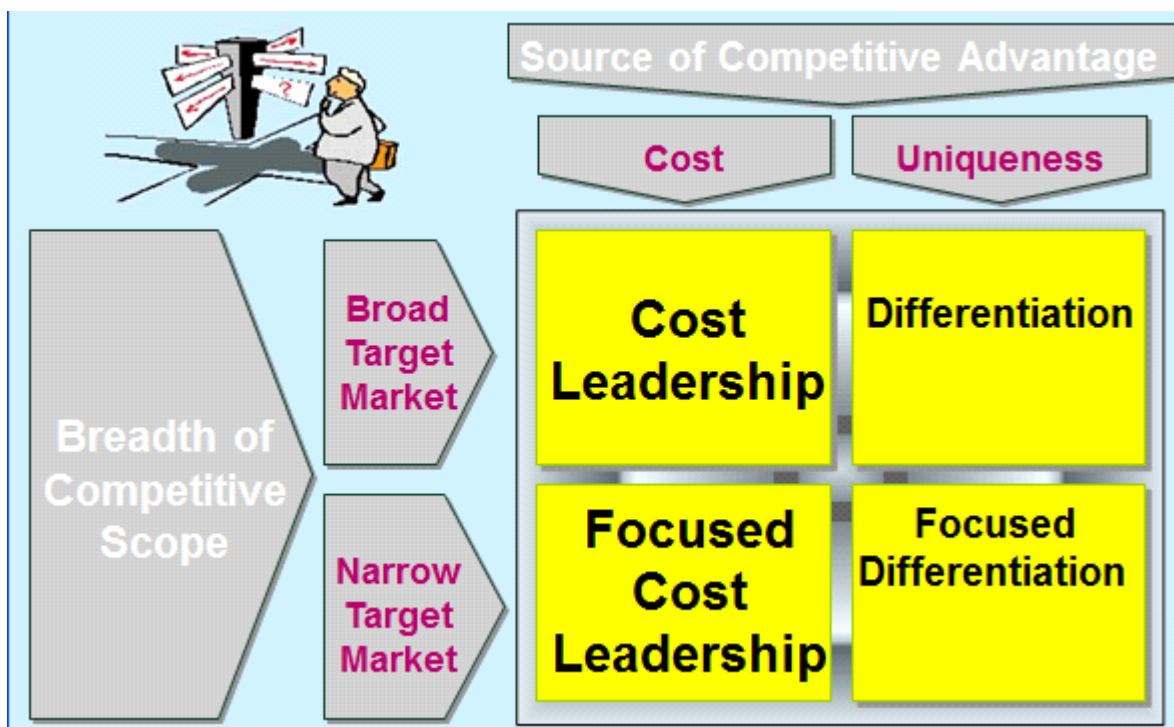
Focused = niche = customers that share characteristics, can be small or large

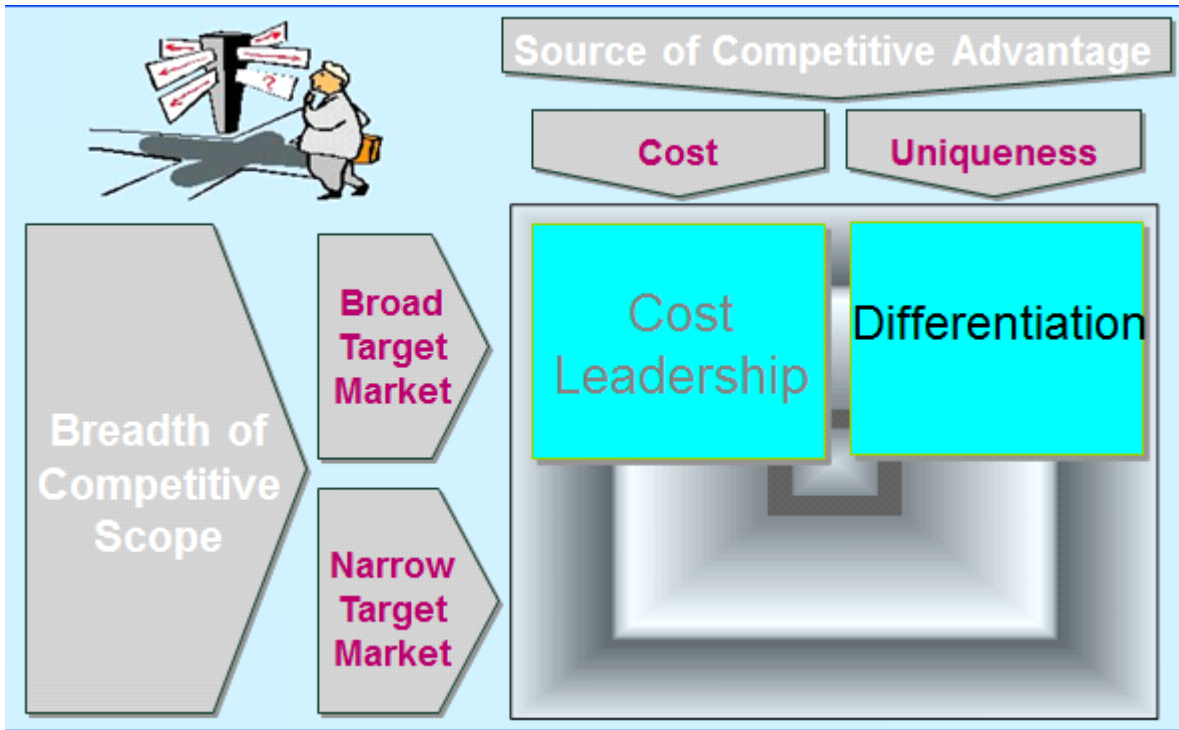
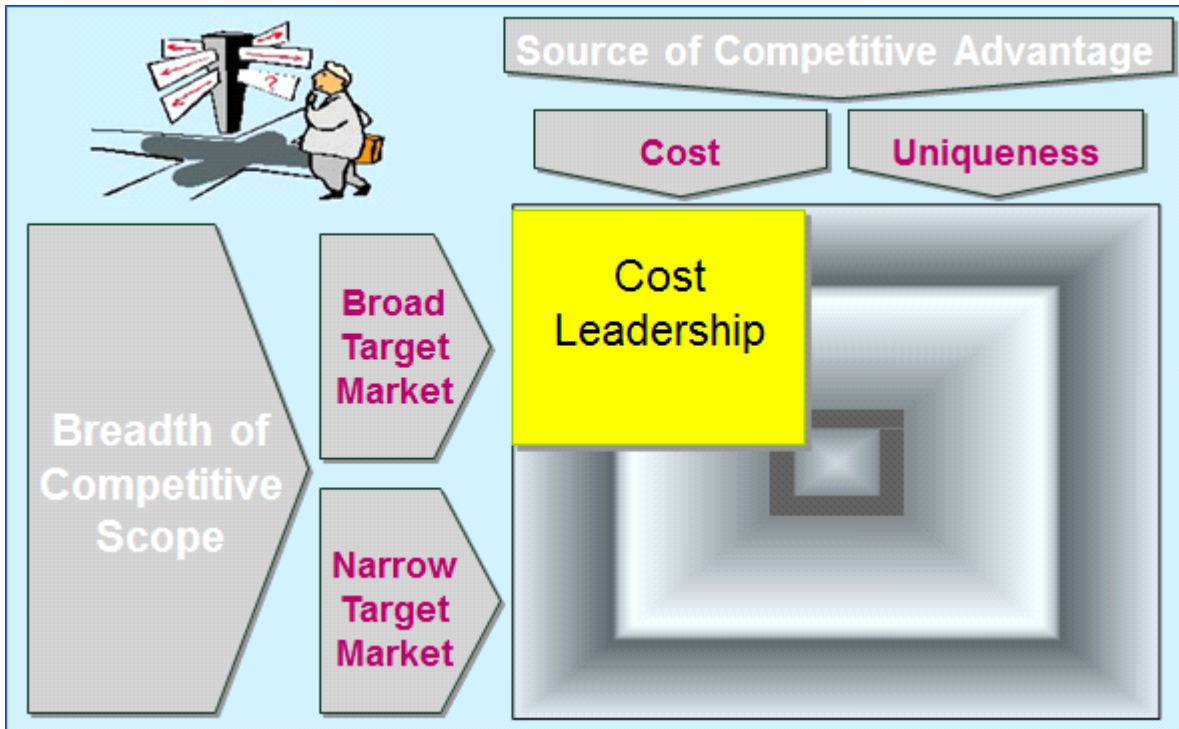
People change their interests

Be realistic

When market attracts the big players

Should make it hard to leave, protect yourself

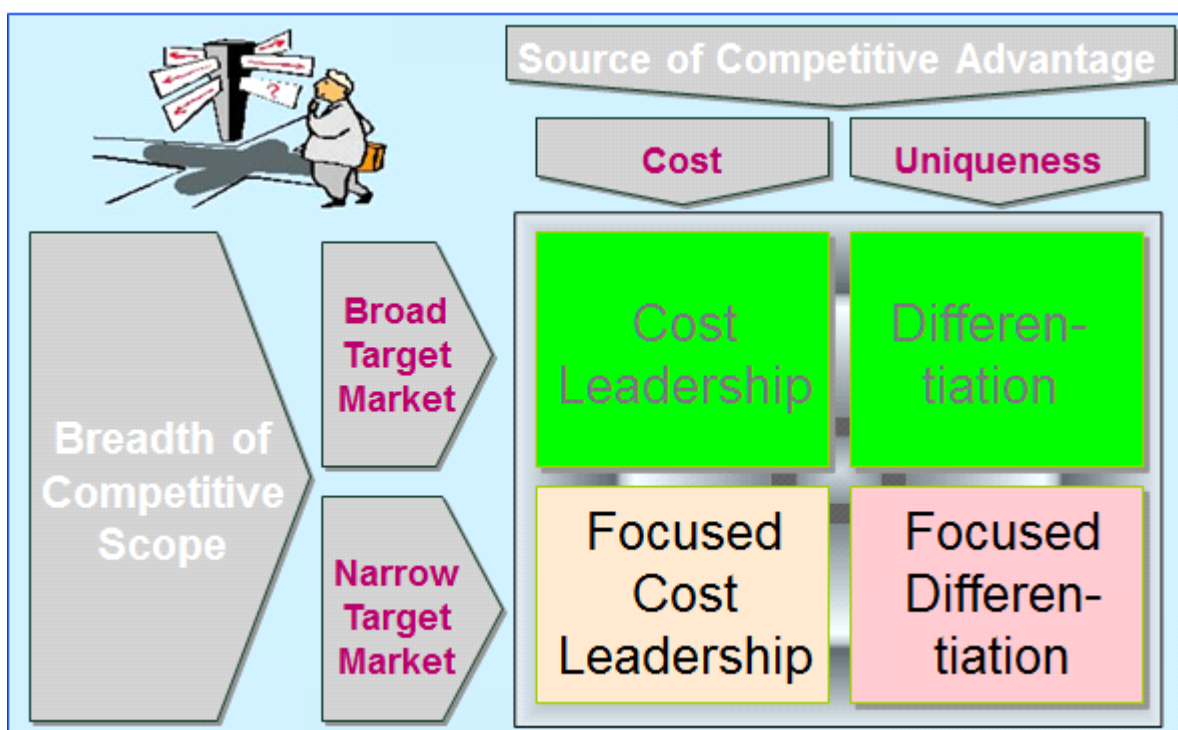




Differentiation Strategy

“An integrated set of actions designed by a firm to produce or deliver goods or services that customers perceive as being different in ways that are important to them.”

Generic Business Level Strategies



Focus Strategy

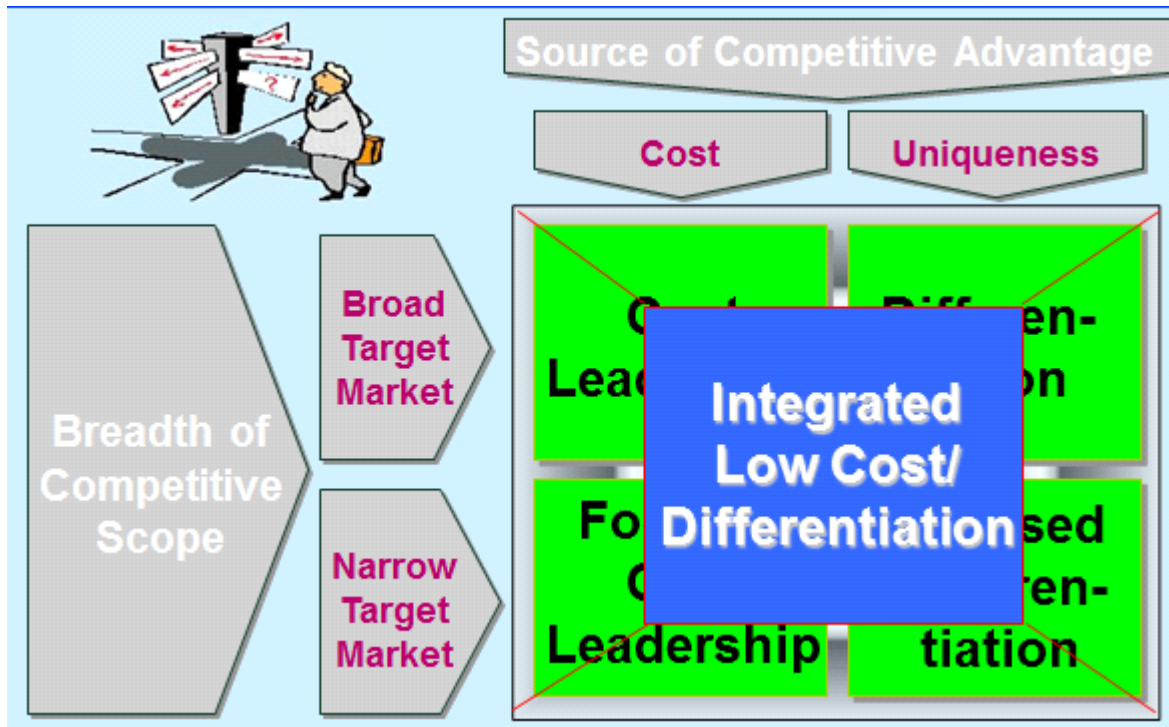
Focus strategies are an integrated set of actions designed to produce or deliver goods or services that serve the needs of a particular competitive segment.

Focused business Level Strategies involve the same basic approach as Broad Market Strategies.

- Differentiated features with low cost products
- Minimize R&D costs by copying innovators
- Example:
 - Ikea -> Good design and Function at Low price

- Purdy's Chocolates -> high quality chocolates
- Focused Differentiators may thrive by selecting a small market that is underserved by large players

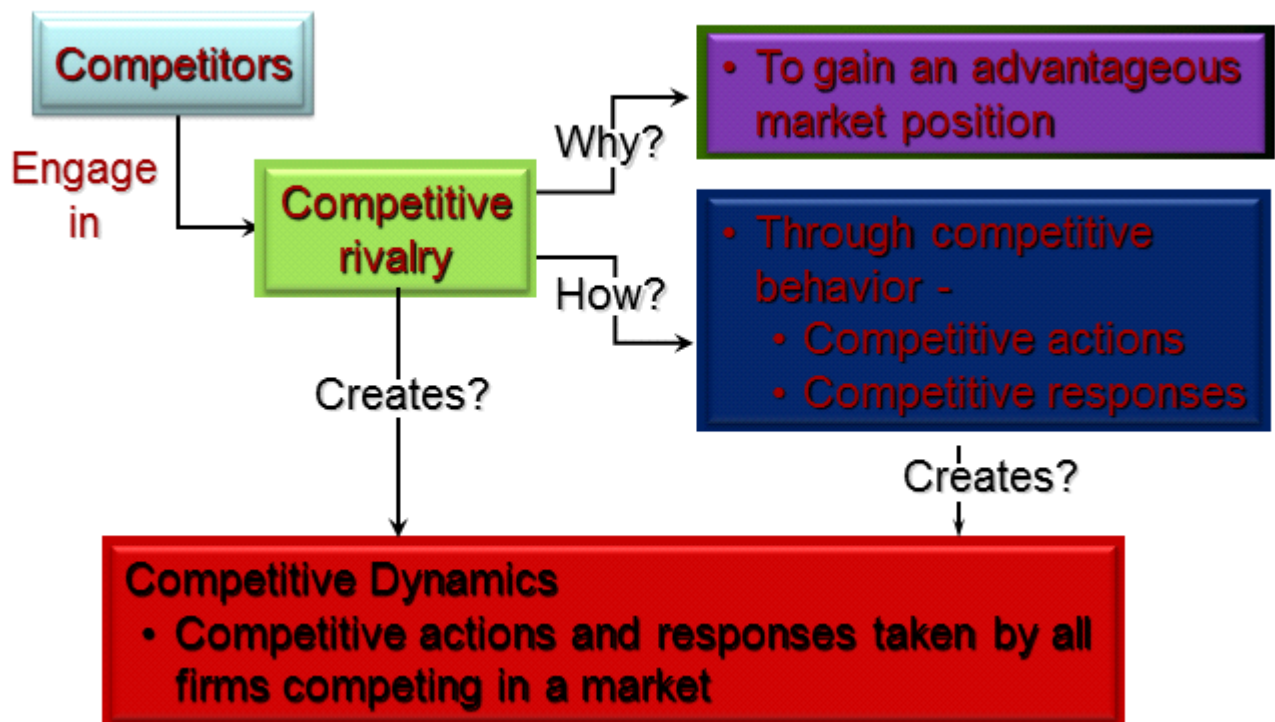
Generic Business Level Strategies



Southwest airlines Value chain

Primary activities	
Operations	<ul style="list-style-type: none"> •15 minutes gate turnover •Short-haul point-to-point routes (no connection) •Midsize cities and secondary airports to reduce airport costs
Marketing and sales	<ul style="list-style-type: none"> •Limited use of traveling agents •Automatic ticketing machines
Service	<ul style="list-style-type: none"> •Limited service (no meals, no seat assignment, no bag transfer)
Supporting activities	
HR	<ul style="list-style-type: none"> •Flexible union contracts •High level of employee stock ownership •High compensation
Procurement	<ul style="list-style-type: none"> •Standardized fleet of 737 aircraft

From Competitors to Competitive Dynamics



Questions of the Walmart Case

- What is the problem that is facing Wal-Mart?
- What is the business level strategy of Wal-Mart? Does it support the introduction of George & Metro 7 lines?
- What are the core competencies of Wal-Mart? Do they support the introduction of George & Metro 7 lines?
- What are the alternatives that can solve the problem of Wal-Mart?
- What is the problem?
- Your recommendations

Walmart Alternatives

- Kill the line
 - Would have to prove it is a dog:
 - Low growth market? No, fashion is a high growth market
 - Low market share
 - Revert back to low-cost strategy because the high priced strategy did not work for them (have proof)
- Follow low-cost theory
 - Keep clothing line
 - Buy bulk basics, do not follow trends
- Keep strategy, better communication
 - Better communication, re-evaluate value chain, better understand the customers
- Integration strategy
 - Revert back to lower quality materials, but increase the stylishness
 - Remove design, increase durability
- Increase scope of line
 - tactic
- Use differentiation and cost leadership
 - Create separate brand, separate quarters
- Focused-cost leadership

- Not good.

Difference between strategic and tactics

- Shelving, etc. tactics

Class 5

July-21-14
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Corporate Level Strategy

★ In HW, in midterm, do not do tactics, do strategies. Don't say «change shelving» etc.

Corporate Strategy

Concerns 2 key questions:

- 1) What businesses should the firm be in?
- 2) How should the corporate office manage the array of business units?

Corporate level strategies

Vertical (up / down with industry in the middle): Raw material -> industry-> end all in the same industry

Forward Vertical integration: moving with value value chain - raw material to end

Backward integration: down to up, end seller to raw materials

Ex of forward vertical: Disney became distributor of movies

Horizontal(right to left, all different industries):

Ex: Dysney acquired NBC, go into Theme parc industry

Diversification: increasing product lines (changing industry)

- Reduce risk
- Increase customer base
- Ex: GE; , mining, money, mining, electrical, motors, etc. GE can hold its ground during recessions.
- Come companies that diversify increase their risks because they are too diluted

Directions vs Modes for Growth: The where and the how to grow

	Same business	Upstream or downstream	Different business	New geographic markets
Internal growth	Business Growth	Vertical Integration	Unrelated Diversification	International Expansion
Alliances	Business Growth	Vertical Integration	Unrelated Diversification	International Expansion
Mergers and acquisition	Business Growth	Vertical integration	Unrelated Diversification	International Expansion

- New geographic markets can be within one city

Economies of scale versus economies of Scope

- Scale: mass produce to reduce costs
- Scope: produce related products to reduce shared costs

Different Types of Diversification

Insert slide

Related-constrained: all diversification should be linked to everything I do, 4 businesses, all four should be linked to all four.

Related-Linked: businesses linked to one, or more, but not to all

Unrelated: risking lack of experience, dilution, but you are almost untouchable for the economy

Facebook	Whatsapp -No profit
Oculus - no profit	Instagram - no profit

Because Facebook is making all money with Facebook, they are not diversified, they are a Single Business

Other

bcg matrix

Market growth



Market is relative: divide market share by leader's share

Market leader: 100%

Market growth: no growth or declining

No market grows forever, the matrix is a snapshot in time. It is all about windows of opportunities.

Example: PepsiCo.

- Food and beverage industry
 - Snacks - cow
 - Healthy - high growth, mid market share - between ? And star
 - Water- steady market, on the vertical line, high market share, between star and market share
 - juices - mid market share, mid growth, ? Near middle
 - gas beverage- cash cow
 - Dairy - dog near middle
 - Energy drinks - star
 - Power drinks - ?
- Very diversified
- Which business should I invest in? Sell?
- 1) Plot them on BCG matrix
- 2) Do the strategic mapping (revenue circles), for a total of 100% of revenue
 - i. ? Is it healthy for Pepsi to depend on gas beverages for 50% of their revenue when it is a cash cow? No. the pie will shrink.
 - ii. Should use the Pepsi revenue to push more ? Into stars.
 - iii. Goals:
 - 1) Push ? Into stars
 - 2) Get rid of dogs
 - 3) Make sure you make enough revenue to sustain strategy

Walt Disney Case

What is the problem?

- The problem is that Disney is facing a growth problem; they have been growing at ____ rate and now are no longer growing.

What is Disney's corporate level strategy

- Horizontal, vertical and geographical expansion (all three strategies)
 - All over the world
 - Became their own distributors
 - Created in studio talents - have their own university in-house

What is the growth strategy

- Disney timeline
 - Animation
 - Live actors
 - Distribution
 - Tv production
 - Disney land
 - Disney world
 - Hotel
 - Travel companies
 - Live shows
 - Broadway
 - Television channel
 - Retail
 - Press
 - Touch stone
 - Home video
 - Nhl
 - Abc
- Hotel and travel was further than the rest at the beginning because they were managed by separate corporation, now it was managed by Disney. It is related linked. Not always clear relationships, but they are somehow connected.

What are your recommendations?

Class 6

July-23-14
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Case with growth problem - do I grow it vertically, horizontally or geographically?

Merger- normally friendly, equal power

Acquisition - can be friendly, or hostile

Takeover - unsolicited bid

Strategic alliance - two companies do not want to commit legally or financially, they work on a certain project. Each remains separate but works together to achieve a certain thing.

Reasons for acquisition

- Increase market power
 - o Reduce competition
- Overcome barriers to entry
- Lower costs for product development
 - o Buying established businesses reduces risk of start-up venture
- Increase speed to market

Problems

Integration difficulties

- Differing cultures may make integration of firms difficult

Inadequate evaluation of firms

Large debt

Inability to achieve synergy

- Justifying acquisitions can increase estimate of expected benefits

Too much diversification

Managers only focus on diversification

- Managers lose track of core business by spending so much effort on acquisitions.

Too large

- Large bureaucracy reduced innovation and flexibility

Some managers continue to make acquisitions because their pay is tied to the size of what they are managing

- Hubris
- Principal - agent : agent, short term that reflect on their reputation and increase their paycheck, principal would like the agent to invest in long term solutions that increase wealth

Class 7

July-30-14

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Incentives

- Expand product life cycle
 - o We never know when maturity comes - s curve, marketing, introduction, growth, maturity, decline
 - o Increasing the life cycle of the product- growth, international expansion
 - o Introduce new product, etc, while the other product is doing well, in the middle of the success
 - o By doing this you have more cycles in growth, so even if one fails, you are not screwed
- Gain access to raw materials
- Integrate operations on a global scale
- Utilise technology
- Access to consumers in emerging markets

BRICS - countries on the rise, high disposable incomes, ten years ago, today, they are too self-sustained

New BRICS = MINT - the new emerging markets that everyone is looking into

Benefits

- Economies of learning
 - o Learning by past expansion; know how to deal with issues, decrease costs without increasing output
 - o Jump to a lower curve, not a slow move
- location advantage

Global integration

- Standardizing products and services with synchronization to achieve economies of scale

Local responsiveness

- Tailoring products to local market

Multidomestic strategy

- High local
- Low global
- Treating each country as a unique and different market
- Operational and business level strategy done locally
- Unilever
 - o Higher cost
 - No economies of learning
 - No economies of scale

Transnational Strategy

- High local
- High global
- Car manufacturers: different car parts for different parts of the world because of the needs

Global strategy

- High global
- Low local
- Apple: all the same, set image
- Economies of scale

- Larger scope
- Some people feel left out

Entry options

Licensing = manufacturing, dangerous because you are giving away your knowhow

Franchising = services

Alliances

Joint ventures

Green = buying a company in a foreign market

BOT Concept - build, operate, transfer -

Class 8

August-04-14
6:35 PM

Cooperative strategy

Why would I cooperate with a competitor ? There is a threat entering the market that I cannot beat on my own. Or, I want to enter a new market.

What is a strategic alliance? It is when two or more companies come together for a competitive advantage. There are three types:

- 1) Joint venture
 - a. A strategic alliance in which two or more firms create a legally independent company to share some of their resources and capabilities to develop a competitive advantage.
 - i. Both companies continue to do what they normally do, but they have a separate company.
 - ii. Separate legally entity
 - iii. 50% ownership each
 - iv. Establishes relationships, enter market, enter industry
- 2) Equity strategic alliance
 - a. Partnership where the 2 partners do not have equal shares
 - i. Bring in tech and knowhow, have larger share in alliance
 - ii. By having a stake in the alliance, they both care about the results
- 3) Non-Equity Alliance
 - a. Contract is given to supply, produce or distribute a firm's goods or services (without equity sharing) e.g. licensing agreements, distribution agreements, supply contract, and outsourcing commitments
 - i. Cross-licensing: Samsung and Sony - Sony had a lot of experience in digital photography, Samsung in LCD, both were trying to get better in the mobile business. They entered this alliance where each has access to each other's patents.

Business Level Cooperative Strategies

- Complementary strategic alliances
 - o Horizontal
 - o Vertical
- Competition responding strategies
 - o Respond to tough competition by forming alliances
- Uncertainty-reducing strategies
 - o When you are unsure about a market you are entering
- Competition reducing strategies
 - o Reduce the number of competitors

90% of businesses fails because they failed to properly carry out their strategies. They failed at the execution.

Before, companies were only concerned with the bottom line. Today, they are more concerned on the Triple Bottom Line; Environment, Social and Financial

Balanced score card:

- 1) Financial
- 2) Customers
- 3) growth and learning
- 4) internal processes

They are all inter-related and they are all related to the vision and strategy.

KPI: concrete objectives assigned to individuals.

Tree diagram

Roots: internal

Trunk: growth

Branches: customers

Fruit: financial

People want the fruit before the tree. It does not work, you must grow the tree and pick the fruit.

Chapter 1: Strategic Management and Strategic Competitiveness

July-15-14
10:15 AM

Strategic competitiveness

Achieved when a firm successfully formulates and implements a value creating strategy

Strategy

A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage

Competitive Advantage

A firm has a competitive advantage when it implements a strategy that creates a superior value for customers and competitors are unable to duplicate or find too costly to imitate.

Above-Average Returns

Are returns in excess of what investors expect to earn from other investments with a similar amount of risk

Risk

Risk is an investor's uncertainty about the economic gains or losses that will result from a particular investment

Strategic Flexibility

Strategic flexibility is a set of capabilities used to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment.

Industrial/ Organizational Model of Above-Average Returns

4 underlying assumptions:

- 1) The external environment is assumed to impose pressures and constraints that determine the strategies that would result in above-average returns.
- 2) Most firms competing within an industry or within a segment of that industry are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources.
- 3) Resources used to implement strategies are assumed to be highly mobile across firms, so any resource differences that may develop between firms will be short lived
- 4) Organizational decision makers are assumed to be rational and committed to acting in the firm's best interest.

I/O Model of Above-Average Returns (external environment - chp 2)

1. Study the external environment, especially the industry environment	The External Environment - the general environment - the industry environment - the competitor environment
2. Locate an industry with high potential for above-average returns	An Attractive Industry An industry whose structural characteristics suggest above-average returns
3. Identify the strategy called for by the attractive industry to earn above-average returns	Strategy Formulation Selection of a strategy linked with above-average returns in a particular industry
4. Develop or acquire assets and skills needed to implement the strategy	Assets and Skills Assets and skills required to implement a chosen strategy

5. Use the firm's strengths (its developed or acquired assets and skills) to implement the strategy	Strategy Implementation Selection of strategic actions linked with effective implementation of the chosen strategy
END	Superior Returns earning above-average returns

Firms use the five forces model to identify the attractiveness of an industry.

- Profitability potential
- Most advantageous position for the firm to take in the industry
- Given firms structural characteristics

Resource-Based Model of Above Average Returns

- Each org is a collection of unique resources and capabilities
- Uniqueness of resources and capabilities is the basis of a firm's strategy and its ability to earn above-average returns
- Ability to combine resources into capabilities

Resources

Inputs into firm's production process

- Capital equipment
- Employee skills
- Patents
- Finances
- Talen of managers

3 categories

- 1) Physical
- 2) Human
- 3) Organizational

Capabilities

The capacity for a set of resources to perform a task or an activity in an integrative manner

- Evolve over time
- Managed dynamically to become a source of above-average returns

For resources and capabilities to create competitive advantage, they must fulfill the 4 following criteria:

- 1) Valuable
 - a. Valuable when they allow the firm to take advantage of opportunities or neutralize threats in the external environment
- 2) Rare
 - a. When they are possessed by few, if any, current and potential competitors
- 3) Costly to imitate
 - a. Other firms cannot obtain them or are at a cost disadvantage at obtaining them compared with the firm that already posses them.
- 4) Non-substitutable
 - a. No structural equivalentents
 - b. Can normally be substituted over time

Resource-Based Model of Above Average Returns

1. Identify the firms resources. Study its strengths, weaknesses compared to competitors.	Resources Inputs into a firm's production process.
2. Determine the firm's capabilities. What do the capabilities allow the firm to do better than it's competitors?	Capability Capacity of an integrated set of resources to integratively perform a

	task or activity.
3. Determine the potential of the firm's resources and capabilities in terms of a competitive advantage	Competitive Advantage Ability of a firm to outperform its rivals
4. Locate attractive industry	An Attractive Industry An industry with opportunities that can be exploited by the firm's resources and capabilities
5. Select a strategy that best allows the firm to utilize its resources and capabilities relative to opportunities in the external environment.	Strategy Formulation and Implementation Strategic actions taken to earn above-average returns
END	Superior Returns Earning above-average returns

Core competencies

Resources and capabilities that serve as a source of competitive advantage

- Often visible in the form of organizational functions

Vision and Mission

Vision

A picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve.

- Ideal description of an org and gives shape to intended future
- Stretches and challenges people
- CEO is responsible for working with others to form the vision
- Should clearly be tied to the firm's external environment and internal org
- Decisions and actions of those involved with developing the vision must be consistent with that vision

Mission

Specifies the business in which the firm intends to compete and the customers it intends to serve.

- Vision is the foundation for the mission
- Mission deals more directly with product markets and customers, and middle and first level managers and other employees have more direct contact with the customers and the markets in which they are served.

Stakeholders

Are the individuals, groups, and organizations that can affect the firm's vision and mission, are affected by the strategic outcomes achieved, and have enforceable claims on the firm's performance.

Capital Market Stakeholders

- Shareholders
- Major suppliers of capital

Product market Stakeholders

- Primary customers
- Suppliers
- Host communities
- Unions

Organizational Stakeholders

- Employees
- Managers
- Non-managers

Strategic Leaders

People located in different areas and levels of the firm using the strategic management process to select strategic actions that help the firm achieve its vision and fulfill its mission.

- Decisive
- Committed to nurturing
- Committed to helping firm create value for stakeholders
- Shape culture
- Better viewed by society

People who view leader as visionary believe that he is doing best for firm, values and stakeholders. Not just profit.

Organizational culture

- The complex set of symbols, ideologies and core values that are shared throughout the firm, and influence how the firm conducts business
- The social energy that drives, or fails to drive, the org
- Reciprocal effect between strategic leader and culture

The Work of Effective Strategic Leaders

- Hard work
- Thorough analysis
- Willingness to be brutally honest
- Wanting the firm to accomplish more
- Strategic orientation
- Embrace change
- Dynamic
- Promote innovation
 - o Diverse teams of experts represented by top management
 - o Leverage relationships with external parties
- Explore external and internal
- Work long hours

Predicting Outcomes for Strategic Decisions: Profit Tools

Profit Pools

A profit pool entails the total profits earned in an industry at all points along the value chain

4 steps to identifying profit pool:

- 1) Define the pool's boundaries,
- 2) Estimate the pool's overall size
- 3) Estimate the size of the value-chain activity in the pool
- 4) Reconcile calculations

Chapter 2: The External Environment - Opportunities, Threats, Industry Competition and Competitor Analysis

July-18-14
10:55 AM

- Opportunities and threats
- Firms understand the external environment by acquiring information about competitors, customers and other stakeholders to build their own base of knowledge and capabilities.
- Strategic actions are influenced by the conditions in the three parts (general, industry and competitor) of its external environment.

Industry Environment

Midterm

July-21-14

7:49 PM

- Can use external resource if it is credible, and if it is properly referenced (3 consecutive words)
- 1500 words (6 pages)- do not exceed limit
- Bullet points encouraged
 - o Internal and external
 - o Political is bad because...
- If you cannot attend next Monday, send in electronic copy before class
- Discussed on week 9

Review

August-06-14
6:29 PM

Major Shortcomings in Midterm

- 1) Problem statement:
 - a. keep it short, concise.
 - b. Focused problem statement.
 - c. Gives direction of alternatives

External Environment

- 1) General environment:
 - a. General, industry, competitor
 - b. Must be precise
 - c. Keep to the format learned in class
 - d. Deeper analysis of factors in internal and external factors
 - i. Do not just write statements about the environment, analyse it, what does it mean, how does this affect alternatives
 - e. If ideas or factors are not there, do not try to stretch it to fit all the factors
 - f. 5 factors:
 - i. Threat of new entrants
 - 1) Minimized by :
 - a) Barriers to entry
 - b) Threat of retaliation
 - g. Must say, based on the analysis, how attractive the industry is. Evaluate it.
 - h. Strategic groups
 - i. Talk about it
 - ii. Draw it if possible
 - iii. Talk about competitors

Internal Environment

- 1) Resources, capabilities, Core competencies
 - i. Use the VRIN
 - ii. Make a VRIN table
- 2) Value chain analysis
 - a. Very important depending on the case
- 3) Can use all business level and corporate level strategies, mergers and acquisitions, cooperatives, international strategies.

Review session

In exam, you can put bullet points or paragraphs, but the idea must be complete.