

BU 111 Midterm Exam

Critical Success Factors:

- All factors are interrelated and they affect each other
- The success factors help: GEE
 - Guide strategic and daily actions
 - Ensure success over time
 - Ensure holistic thinking

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1. Products & Services:
2. Uniqueness
3. Innovation = Financial Performance
4. Customers
5. Employees



Diamond-E Framework

- **Uses: AGE**
 - Assess current strategy
 - Generate new strategic proposals
 - Evaluate strategic proposals
- **Assessing Diamond-E**
 - Deals w link b/w strategy & environment
 - Assesses forces and their implications
 - Adjust internal or strategy

Diamond- E : HOW?

- **First task:** Deal with strategy- environment linkage
 - Assess forces at work and their implications
 - Adjust internal or adjust strategy
- **Second step:** focus on internal conditions
 - What can we do, see if the strategy matches internal conditions and fix it if it doesn't

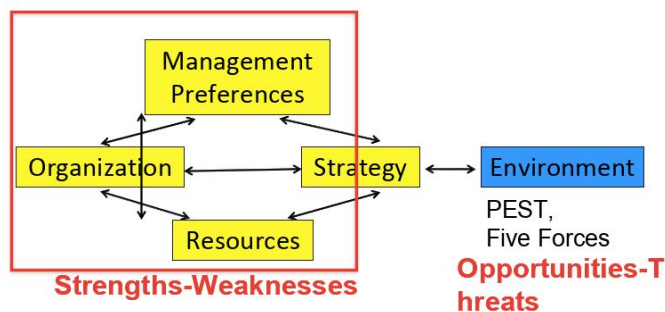
- Strengths and weaknesses (INTERNAL CONDITION) mor

- Relate to our strategy→ which has to relate to our external conditions
 - **Management Preferences:**
 - Vision, Mission, Preferences and biases
 - **Organization: How we do things**
 - Culture

- Capabilities
- Structure
- Resources: Connects everything seamlessly so you can soar to success
 - Human
 - Capital
 - Financial
 - Can also be intangible, any resource we can use as a source of advantage

- Opportunities and threats (EXTERNAL CONDITION)

- Conditions outside of our business that we have **little control over**- the external environment
 - In the external environment: PEST and Five Forces



Strategy- links internal and external

- Internal (strengths and weaknesses) : tells us what can we do?
 - External (Opportunities and threats) : tells us what should we do
 - **Strategy: the plan the business uses to pursue opportunities and avoid threats**
- Internal strategies & external strategies
 → Resources influence what strategies we use
 → Good strategies are internal & external

Diamond- E : Principal logic

Research shows that strategy-structure fit increases firm performance

- consistency and alignment
- Internal consistency within the 3 internal conditions → allows good execution
- External alignment = right strategy for environment

Warning: environment always changing

Examples:

- P&G Strategy in 2000 (inconsistency)
- Ikea Strategy (consistency)
- Kodak vs. Canon (alignment)

How to do and External Analysis

- Scanning and [evaluating the external environment](#)
- Identify opportunity and threats
- Firms face multiple environments:
 - **General Environment**; affects all businesses
 - PEST model
 - Identifies general trends and changes
 - **Specific Environment**; affects industry participants
 - Porter's Five Forces - analyzes competitive pressure; predicts industry profitability
- **Benefits:**
 - Makes managers proactive
 - Provides info used in planning
 - Helps organizations get needed resources
 - Helps organization cope with uncertainty
 - Improves consistency and performance
- **Challenges:**
 - Forecasts imperfect
 - Rapid change
 - Time consuming
- **What to look for in external analysis GENERAL ENVIRONMENT:**

Present Understand	Trends Watch	Quick Change Anticipate
<ul style="list-style-type: none">● Current situations	<ul style="list-style-type: none">● Evolutionary changes● Anticipate	<ul style="list-style-type: none">● Predictable or surprising● Anticipate and plan contingency strategies

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PEST

- [Looks at broad conditions](#)

→ Perform general bus analysis/envir analysis

→ **Political:**

■ **Significance:** protection of customers, support/protection & regulation of domestic businesses, & opportunity creation in foreign markets

- Laws, regulations
- Taxes
- Trade agreements/conditions
- Political system & stability

→ **Economical:**

■ **Significance:** Affect economic stability, employment, economic growth (has nothing to do with a business making decisions to improve financial position, that is just a financial consideration not an economic one)

- inflation/deflation
- Interest rates
- Unemployment rates
- Exchange rates
- Balance of trade
- Productivity

→ **Social:**

■ **Significance:** affect customer preferences, worker attitudes & behaviour, standards of business conduct, & corporate social responsibility

- Customs
- Values
- Attitudes
- Demographic characteristics

→ **Technological:**

■ **Significance:** Demands constant scanning & learning; Legacies/Compatibility make change challenging

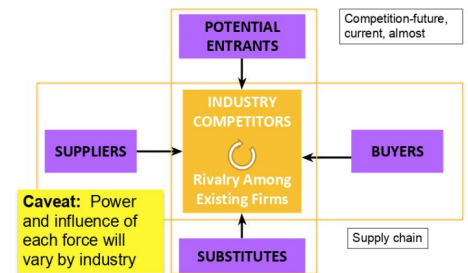
- Internet
- Information technologies
- Not limited to computers & info

→ **Questions we can answer from pest :**

- What current and future factors affect my industry and product?
- What legal protection do I have or laws do I have to comply with?
- What demographic and social trends affect my business and how?
- What technological forces are changing and can affect me now and in the future?
- What opportunities or threats does the environment possess?

Porter's Five Forces CSBNS

1. Competitive Rivalry (MOST POWERFUL FORCE)
2. Supplier Power
3. Customer Power
4. New Entrants
5. Substitutes



3 conditions to define an industry

- 2 or more competitors
- Competitors offer similar services
- Have to be trying to sell to the same customers and be competing

5 Forces- Effects on profitability

- When the forces are high they put downward pressure on revenues
- Strong forces reduce potential for profits

1. Competitive Rivalry: Factors that lead to higher levels/solution

- **Many competitors** = grow demand for industry
- **Low capacity of competitors** = merge w competitors
- **Low consumer switching costs** = Create switching costs/ barriers to switch like a contract

Products are commodities or perishables = differentiate, create loyalty

2. Substitutes: Factors that lead to higher levels/ solution

- **Many good substitutes** = strong marketing/ differentiation
- **Low switching costs** = create switching costs, lock in customers (ex. contract)
- **High buyer propensity to substitute** = create switching costs, lock in customers

3. Potential Entrants: Factors that lead to higher levels/ solution

- **Lack of economy of scale** = grow to achieve scale because if ur costs of production are low PE wont be able to compete
- **No specialized assets**(distribution, knowledge, tech) = control distribution network
- **No regulation/ gov policy** = lobby government to restrict access
- **Low switching costs, no brand loyalty** = differentiate, create loyalty, lock customers in

4. Suppliers: Factors that lead to higher levels of supplier power/ solution

- **Few suppliers** = form strategic alliance
- **Few good substitute suppliers/ inputs** = internal supply
- **High switching costs** = Long run: redesign product or needed input

- **Threat of forward integration** (means supplier may become a competitor eventually because they can learn about the industry and then enter it with them being their own supplier)
5. Buyers: Factors that lead to high buyer power/ solutions
- **Few buyers** = form alliance with other sellers
 - **Discretionary purchase or standardized products** = Strong marketing/ differentiation
 - **Low switching costs** = create switching costs, lock in customers

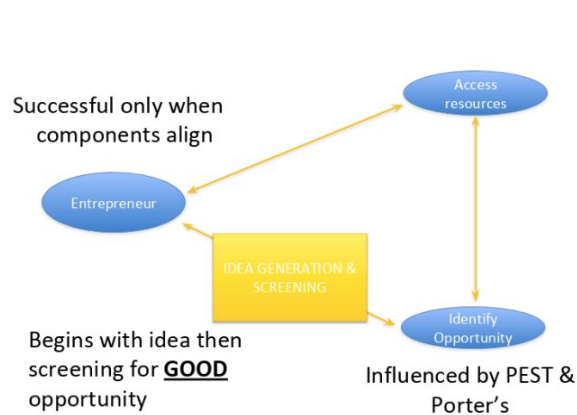
Entrepreneurship

Entrepreneurship: ex. Elon musk =mars,electric cars

→ Identifying an opportunity and accessing resources to capitalize on it

→ High risk

Entrepreneurship Process



Small business are extremely important to Canadian economy and they create new products and services, large companies don't care about small products that will only make 1 million when they are already making hundreds of millions, won't waste their time creating new products for small markets

Advantages: lower tax rate

Idea Generation:

- Listen to complaints and frustrations and try and fix them
- Simplify products, or offer lower prices or more convenient version of an existing products

Three-Component Screening Process VUF

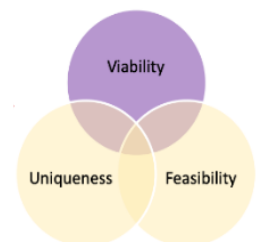
→ Screening is important as 70-90% of new ventures fail

→ Save time, money and screen for viability, feasibility & competitive advantage

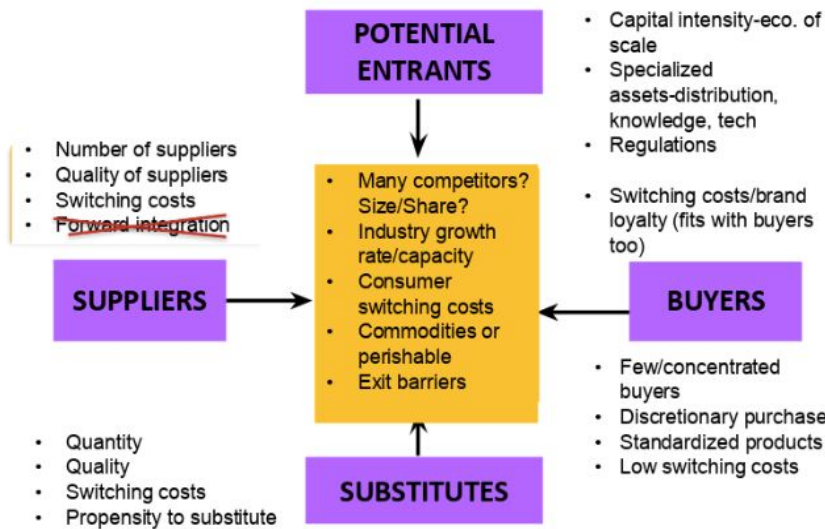
→ **Viability:** An idea that creates value for many paying customers

→ **Solves a problem and meets a need**

→ Customer willing to pay for it (assumes "right price")



- Large & growing demand
 - **Uniqueness**: Idea is unique + defensible
 - Valuable differences from existing products and substitutes
 - Existing firms can't easily or won't want to imitate
 - **Feasibility**: Barriers and challenges can be overcome
 - Can we actually make this work
 - **Five Force Analysis**
- A longer time to profitability or a greater up-front investment needed = riskier venture



Criterion	High Potential - Good Idea	Low Potential - Bada Idea
Product/Value added	Significant value-added; unique; recurring revenue	Incremental improvement only; one-time revenue
Customer/Market	Reachable; large and growing	Loyal to others; small/declining
Competition/Rivalry	Imperfect; fragmented competition; at capacity	Highly concentrated, mature, under capacity
Suppliers	Many, easily switched	Few, high switching cost
Substitutes	Few, inferior, expensive, high switching cost	Many, good quality, inexpensive, low switching cost
Barriers to entry	Low, competition slow, you have needed networks	High, competition stiff, hard to tap needed networks

PEST	Future and current conditions favour your product	Conditions will make profitability difficult or will cause declining perf. in future
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Accessing Resources

→ Bootstrapping

- Make do with as few resources as possible
- Use other peoples' resources where possibly
- Find/ use of free stuff

→ Debt vs. Equity Financing

- Debt = interest control
 - Sources - Financial institutions, suppliers
- Equity = no interest, less control
 - Sources - savings, love money, private investors

→ Crowdfunding - initiator + backer + platform

- Rewards-based
- Equity

Social Enterprise

→ Generates social values while operating with the financial discipline, determination & innovation of private sector businesses

Example:

Grameen Bank – providing (micro-credit) loans to women in impoverished areas of rural Bangladesh

- Wicked problem: poverty, no access to reasonable small loans
- Social Value: women start business; able to invest in children's education, building their own homes etc.
- Self-sustaining: loans are repaid, capital given to others
- Form: not-for profit
- Constraint: no collateral

Social Entrepreneurs

→ Society's change agents: Creators of innovations that disrupt the status quo and transform our world for the better

Example

- *Students Offering Support (SOS) (p. 39 text)*
 - Wicked problem: poor access to education in Latin American countries
 - **Social value:** funds educational development projects in Latin America

- **Self-sustaining**: volunteers run review sessions and student fees funds projects in Latin America
- **Bootstrapping**: Using university resources & volunteers
- **Dual stakeholders**: Students receiving support; developing country students
- **Unique value to paying customer**: provides assistance with exam preparation

Key Facets of Social Enterprises

→ Help overcome market inequities/failures

→ Inefficient allocation of resources; markets don't address all societal need

→ Often in areas of education, health, environment, food insecurity, poverty

→ Social value is the primary objective BUT financial sustainability is imperative

→ Donor and government funding not reliable

→ **Implications**

→ Economic value not required priority

→ Dual stakeholders - those served & those supporting; one or both pay

→ Forms of businesses vary but the social value is still the primary goal

→ Thrive within a highly constrained and complex environment: Bootstrapping and super entrepreneurs

Canadian social enterprise models: CNCFB

- Co-operative- **desjardins**
- Non profit organization-**foodshare**
- Community development - **ZEC**
- First nation business- **KUTERRA**
- Business with a social mission- **groupe convex**

Table B – Summary of Canadian social enterprise models

Models	Co-operative	Non-profit organization	Community development /interest organization	First Nation businesses	Business with a social mission
Legal structure	- Co-operative	- Non-profit corporation - Charities (charitable organization, foundation (private, public)) - Association - Informal group	- Community enterprise - Community-owned organizations - Associations	- Non-profit corporation - For-profit corporation - Partnership - Unincorporated business	- For-profit corporation - Partnership - Unincorporated business - Community Interest Company (CIC) - Community Contribution Company (CCC)
Ownership	Individuals	Members	Community Government (local, provincial, federal)	First Nation	Public Individuals
Examples	MEC; Agropur, Co-op Atlantic, Desjardins, Alterna, Sumac Worker co-operative, Neechi Foods	FoodShare, SABRI	Carrefour Jeunesse Emploi, ZEC	KUTERRA Membertou	JW McConnell Foundation, Groupe Convex, Communauto

	Traditional Entrepreneurship	Social Entrepreneurship
Value definition of financial priority	<ul style="list-style-type: none"> - Financial value - Profits are top priority - Profits to grow profits 	<ul style="list-style-type: none"> - Social value - Profits are second priority - Need money to grow social value - Financial stability
Social benefit focus	<ul style="list-style-type: none"> - Social value is second priority 	<ul style="list-style-type: none"> - Social value is first priority
What they serve/stakeholders	<ul style="list-style-type: none"> - Supports enterprise: investors - Benefits: paying customers 	<ul style="list-style-type: none"> - Donators - Benefits: individuals/communities that cant afford product/service, underserved population
Organizational Form	<ul style="list-style-type: none"> - For profit 	<ul style="list-style-type: none"> - Variety of forms