


## Strategic Management Course

Oct. 2005 – June 2006

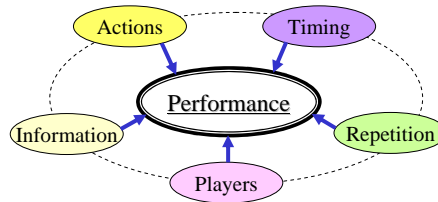
### Lessons 13-14 : Forecasting Trends in Industry

*Prof. David Ward*

## Course Outline and Contents

- Introduction to Strategy and Strategic Management
- Business Strategy
- Competitive Advantage
- Internal Context: Organisation Design
- Organisation and Competitive Advantage
- External Context: Industry Analysis
-  • The Spectrum of Competition and Niche Markets
- Competition in Concentrated Markets
- Entry and the Advantage of Incumbency
- Creating and Capturing Value in the Value Chain
- Globalisation and Strategy
- Current trends in Strategic Management
- Strategic Management in a Changing Environment

## Elements of Strategic Interaction



Lessons 11-12

More recently large companies have begun to realise the competitive potential of archiving, accessing, assessing and communicating (internal or external) knowledge, this activity is known as Knowledge Management.

**ANTI-TRUST:** Opposing business monopolies in the context of unfair competition with the deliberate (an act of conspiracy) scope of reducing competition and pushing a monopolistic strategy.

two types of antitrust issues:

1. **Aggressiveness:** Large companies bully their smaller counterparts and push competition out of the market.
2. **Collusion:** Where companies decide not to compete i.e. price fixing.

Lessons 11-12

## 5 Elements of Strategic Interaction

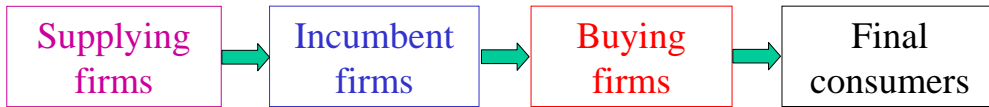
**Players:** These are the companies whose actions affect each other.

**Actions:** The choices available to incumbent companies can condition competition especially when it concerns investments, time-to-market, production output etc.

**Timing:** Timing may be critical not just for first movers but also for those who want to follow.

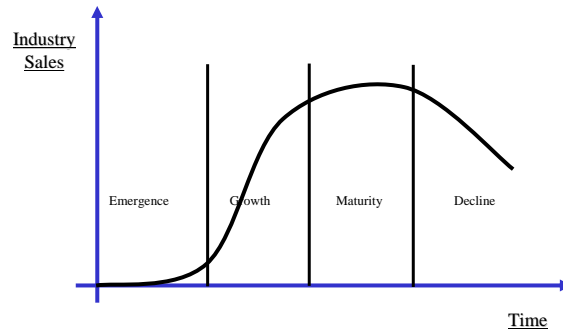
**Information:** There is also the exploitation of information within and between companies. This exploitation of information allows managers to make the right decisions.

**Repetition:** Often in oligopolistic firms there is a long competitive history and interaction leads to a more cooperative behaviour and the opportunity to leverage reputation repeatedly.



The above is the traditional upstream to downstream model. But there many examples where supplying firms deal directly with the consumer e.g. factory outlet shops, corner shops like farms etc.

Often trends help us to understand the birth of a new life cycle, the direction a company should take or even the birth of new or a cluster of industries.



## Sun Tzu's 5 Elements

- The way (tau): incite the people so they (follow) believe the ideas of the leader(s).
- Atmospheric condition (t'ien): Cold and hot (yin and yang), seasons (cycles)
- The terrain (ti): Risky or easy, close or far, ....
- The Leader (Chiang): his qualities; sincerity, intelligence, audacity etc.
- The Tactics (fa): Flexibility, Military hierarchy

## Innovation Advantage

Lessons 11-12

The innovation or product development process is split into steps. Henceforth in order to make a breakthrough and/or develop a next generation of product implies building on a series of skills, learnings, inventions etc. Often this series of elements provides companies with an “innovation advantage”. More often than not it leads to intellectual property.

Innovation=  
Invention+.....+Exploitation

Exploitation



*Invention*

NB Innovation can be anywhere: product, process, distribution, service but inevitably impacts the value of the offering

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## From Declared to Latent Needs

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Many companies emphasise declared needs too much in their strategies often making them one of the major drivers in product feature enhancement.

Those companies that are *close to the customer* not only do they take less time and effort in defining and delivering declared needs but are also very good at discovering latent needs.

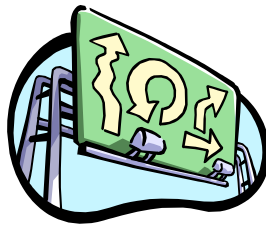
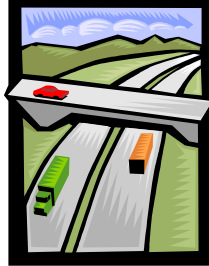
When sensitivity to latent needs becomes second nature part not only does it effect culture and creed , it becomes much more difficult for the competition to offset this advantage. Apply, Sony and 3M are very good examples of this.

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## The road to Exploitation is long



## Creating Value

The creation of value depends on the “investments” made by the firm in the value chain e.g. investments in cost reduction or product development, training and deployment, promotion, coordination, incentives, resource creation etc. can all increase value.

Creating value may also be achieved by simply working better (coordination) or providing incentives with/for buyers and suppliers.

Good examples of coordination are the Japanese car and Indian bicycle industries or incentives are franchising shops, strategic alliances etc.

## Creating Value

Lessons 11-12

The creation of value depends on the “investments” made by the firm in the value chain e.g. investments in cost reduction or product development, training and deployment, promotion, coordination, incentives, resource creation etc. can all increase value.

### Coordination and Incentives

Creating value may also be achieved by simply working better (coordination) or providing incentives with/for buyers and suppliers.

Good examples of coordination are the Japanese car and Indian bicycle industries. Incentives are things like franchising shops, strategic alliances, fidelity cards etc.

## Examples of Trends

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- Markets and Globalisation
- Further education (eLearning and continuous education)
- Social Demographics (immigration, ageing population etc.)
- Human rights (European law court)
- Consumer protection (extension of DOC, birth of associations etc.)
- Technology (process, product, manufacturing etc.)
- Transport and infrastructures (car pooling, HS trains, cheap air travel)
- Legislation (EU)
- Standards (ISO9000, ISO14000 etc.)
- Food safety (BSE, e-Coli etc.)
- Health (from good health to fitness to well being)
- The environment (e.g. Kyoto agreement)
- Nationalisation and Privatisation
- Political (e.g. more or less democracy, enlargement of Europe)
- Private-public sponsorships

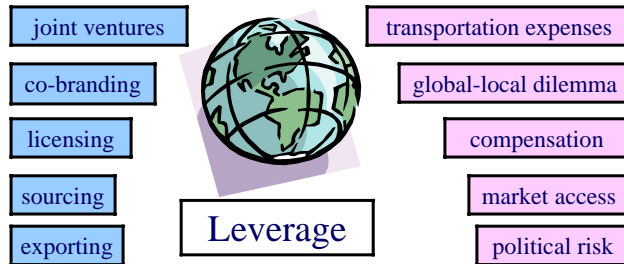
Can you think of any more trends, may next waves?

## General Comments (2)

	Volumes Evolution 98-2001 (Tds units)	Average price evolution 98-01 (Euros)
Ovens	70.1 → 74.6	613 → 593
Hobs	164.8 → 167.9	440 → 449
Hoods (2000)	151.6 → 151	295 → 301
BI Cooling	110.9 → 106.7	553 → 554
BI Dishwashing	70.7 → 69.8	758 → 757
MWO (FS & BI)	243.6 → 234.6	278 → 238
<b>TOTAL (excl. MWO)</b>	<b>568.1 → 570</b>	<b>484 → 486</b>

### DaimlerChrysler's US Automotive Advertising Spending in Magazines (MUS%)

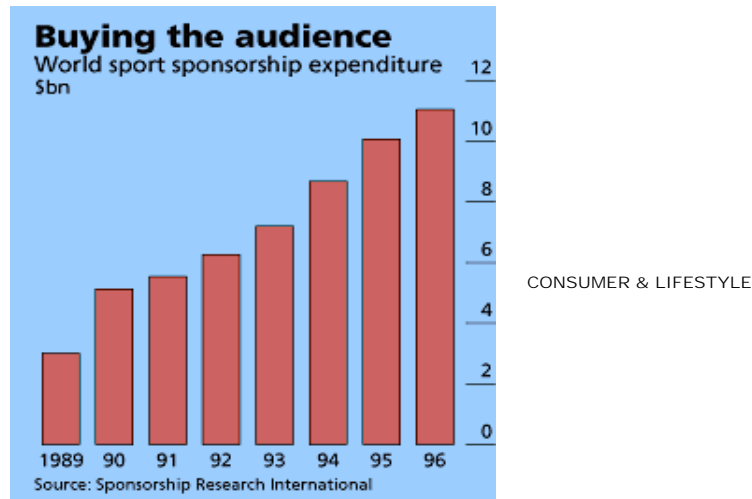
Brand	2002	2001
Dodge	65.9	85.0
Chrysler	108.3	82.7
Jeep	53.3	51.3
Mercedes-Benz	28.5	36.0



### MERCEDES-BENZ: THE GLOBAL EXPANSION

## Sponsorship of sporting events Lessons 11-12

### continues to quickly increase



Source: "The Paymasters," *The Economist*, June 6, 1998.

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## Lifestyles and Mindstyles Lessons 11-12

### *From*

- How old are you?
- Standalone, dedicated rooms
- Product to service
- Alignment
- Drugs are bad
- Environmentally friendly
- Old
- Matter
- Linear relationship
- Two mutually exclusive poles of attraction
- 9 to 5 office work
- Ownership
- Being subjected to nature
- Time = money
- Average
- Stand alone dumb objects

### *To*

- How old do you feel?
- Networked home
- Experience economy
- Creativity
- Drugs are cool
- Environmentally zero tolerance
- New beliefs
- Software
- Borderless relationship
  
- Complementary multipolarity
- Flexible time, work from home
- Just use it!
- Playing God
- Time = life
- Hgh end/ low end - polarisation
- Connected intelligence

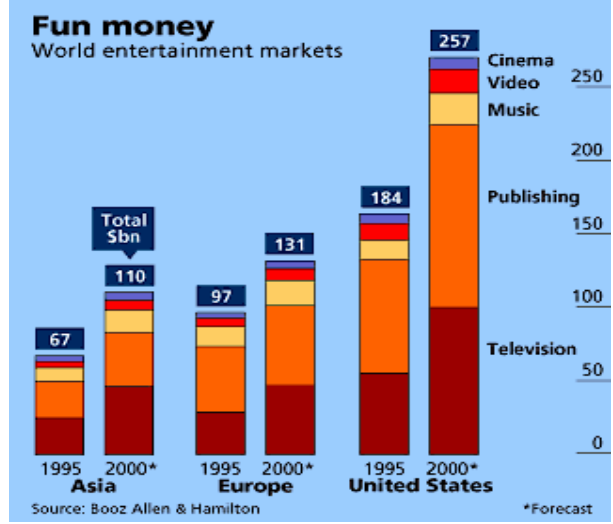
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# Worldwide expenditures on entertainment are rising

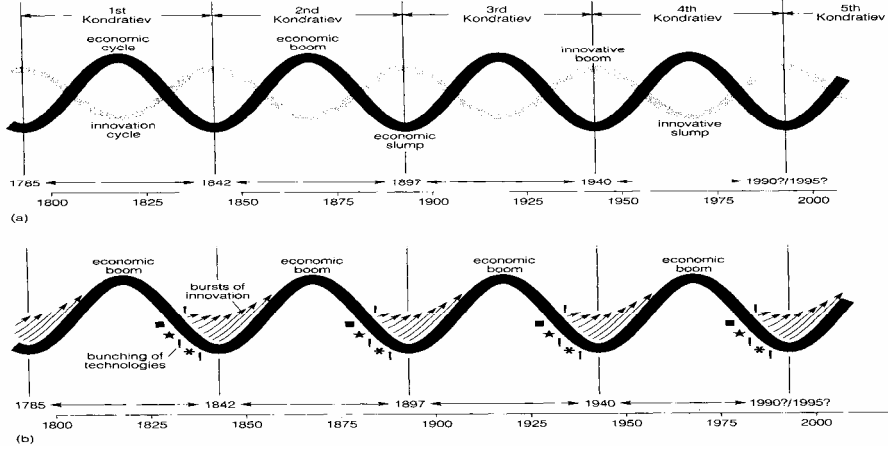
Lessons 11-12



CONSUMER & LIFESTYLE

# Kondratiev Cycles

Lessons 11-12



Can you see any cycles in your company/work place?

## Examples of (Incredible) Innovation

### Chips

Saratoga Springs, New York, 1853 (Inventor: George Crum, Redskin and chef).

### Hamburger

Medieval times in Asia, later from Germany to the USA, 1880

### Hot dog

1500 a.C., Babilonia; Frankfurt (1850's) famous Wurstel sausage was created, it was then exported to USA and called the "dachshund" sausage.

### Ketchup

300 a.C., Rome invention of a very spicy sauce, that was adapted by the Chinese and later by the English in the 18th century (who added tomatoes) and called it 'ketchup'.

**FAST FOOD - e.g. McDonalds**

## Lessons 13 & 14 – Forecasting Trends.....

- Back flashes of Lessons 11 & 12 and open questions
- Some Principles of the Strategy Process
- Definitions of Trends, Discontinuities and Data Mining
- Traditional ways at looking at trends and analysing data.
- Flashes of Trends: Capturing the essence
- Building Opportunities

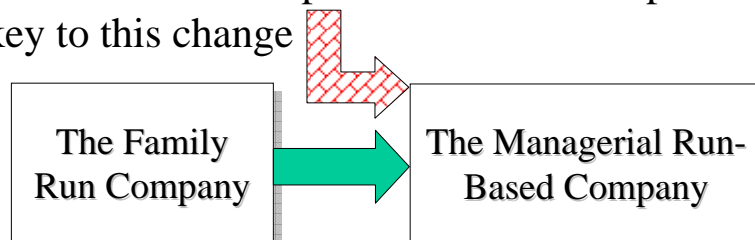
📖 This lesson is not based on any specific parts of the 1° term text book however, it links especially with the initial parts of the definition of the strategy process. I recommend you read pages 381 to 397 of the recommended textbook (1<sup>st</sup> term text) or pages 463 to 484 in the Italian version of the textbook. Also consult pp.204-217 in the Colin White text.

## Some Principles of the Strategy Process

- Strategic thinking is more important than strategic planning.
- The essence of a strategy is a statement of objectives, scope, competitive advantage and logic.
- Strategy is an inherently creative process
- Strategy is not just the responsibility or domain of the firm's most senior management
- Company organisation and strategy are intimately interrelated
- No matter how much planning the firm does, the strategy will still evolve in unintended ways
- Corporate strategy must add value to the business-level strategies.

## The Italian Dilemma

- The Italian industry is plagued by the family run company syndrome....it seems the only one possible.
- It's not just the small companies that *suffer*....think of companies like Agnelli, Benneton, Trussardi, Parmalat, Gucci.... It is time for a change!!!!
- Global minded Entrepreneurs and Entrepreneurship are key to this change



## Definitions

Trends: are directions that have been taken or are taking place within a specific context. For example, more and more commuters are preferring personal transport rather than public transport to reach their workplace and this ‘trend’ is expected to continue.

Discontinuity: a collection of trends and/or circumstances where the general context has changed e.g. digital photography has generated dedicated printers, memory chips (smart cards), cameras, short videos etc. but also *discontinued* traditional film photography.

Data Mining: is a suite of sophisticated statistical techniques aimed at mining numerical data to reveal hidden *treasure* in company and market data-information.

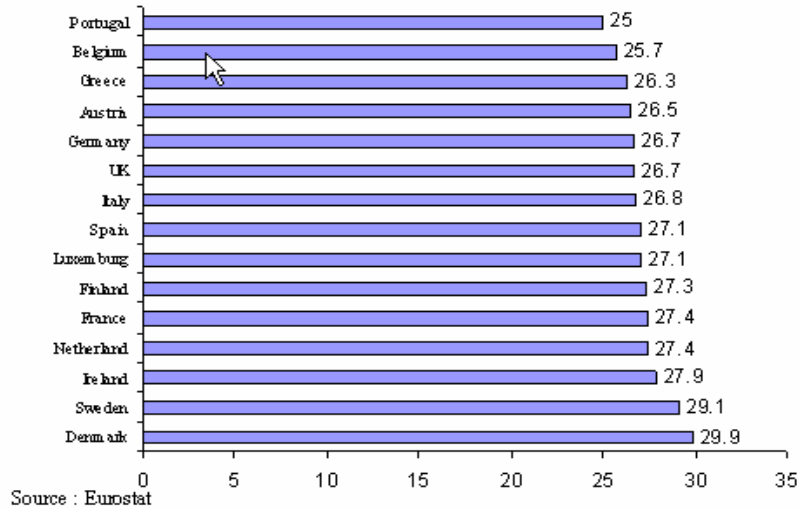
## Traditional Data Mining and Trends

Traditionally we use graphs, plots, tables, pie charts etc. to ‘see and predict’ changes in society, consumer needs, industry etc.

The main advantage is that these techniques are based on numbers thus making comparison (exclusively) objective. The conviction is that the more data you have the better (and safer) it is. The main disadvantage is that trends and discontinuities are often initially subjective and too much objectiveness can lead people to base their decisions on data that is too old, misleading or even wrong.

**Examples:** Bill Gates stated that 640k RAM was more than sufficient for all PC programs, IBM stated that they could not see why people would want PCs in their homes.....

## MARRIAGE: AVERAGE AGE IN EU COUNTRIES



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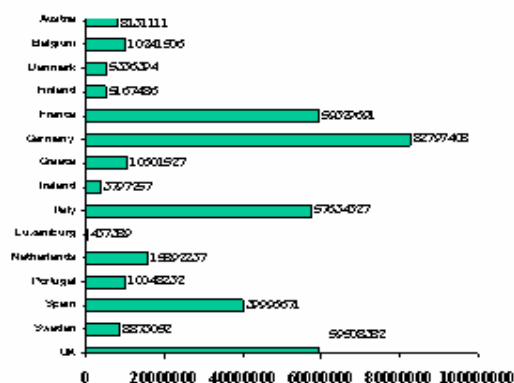
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## Populations and Growth

### Populations of EU Countries

Country	2000	2005 (proj)
Austria	8,131,111	8,221,258
Belgium	10,241,506	10,313,492
Denmark	5,336,394	5,413,717
Finland	5,167,486	5,203,936
France	59,329,691	60,354,863
Germany	82,797,408	83,854,106
Greece	10,601,527	10,703,497
Ireland	3,797,257	4,001,525
Italy	57,634,327	57,746,706
Luxembourg	437,389	465,253
Netherlands	15,892,237	16,304,207
Portugal	10,048,232	10,135,376
Spain	39,996,671	40,171,141
Sweden	8,873,052	8,879,786
UK	59,508,382	60,129,050

### Year 2000



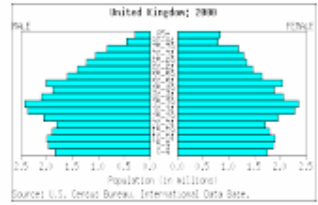
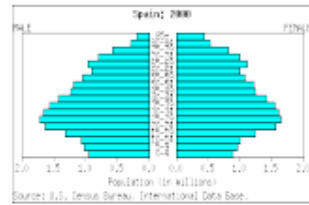
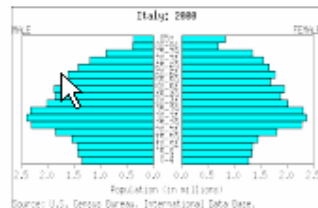
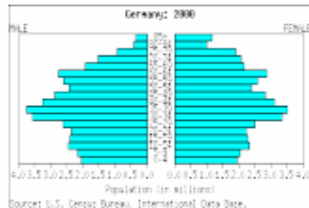
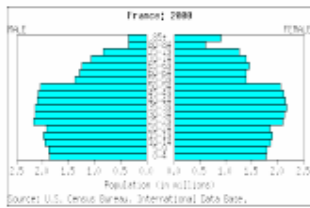
Source : U.S. Bureau of the Census, International Database, table 001, found at [www.census.gov/cgi-bin/ipc/idb/prd](http://www.census.gov/cgi-bin/ipc/idb/prd), viewed on 10/19/2000

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## EU Aging

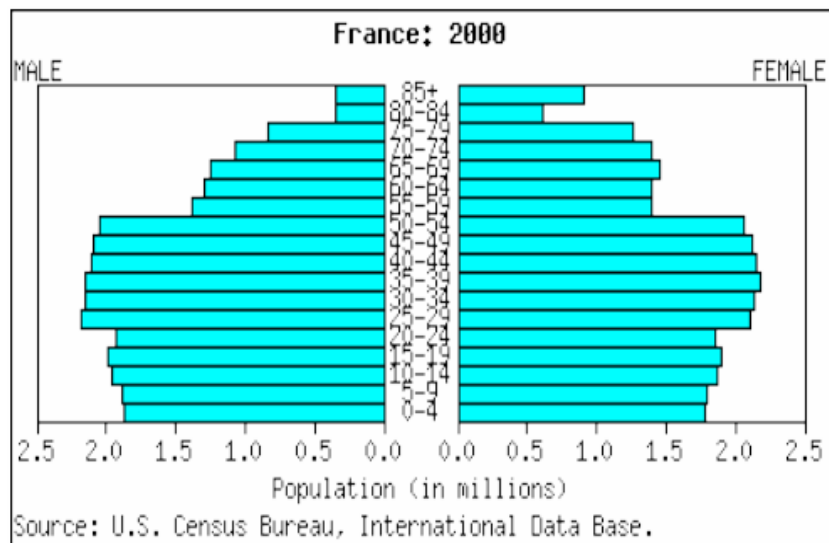


### Trends

- The EU population is aging.
- Life expectancies in the EU are rising.
- Women continue to outlive men, by as much as eight years.
- In most EU countries, government action to limit impacts of aging are likely.
- Admitting more younger people from less developed countries remains controversial.

Source: U.S. Bureau of the Census, International Database, Population Pyramids, found at <http://www.census.gov/ipeds/www/oldipeds.html>, viewed 10/19/2000

## A Closer look: France



# Technology Prediction

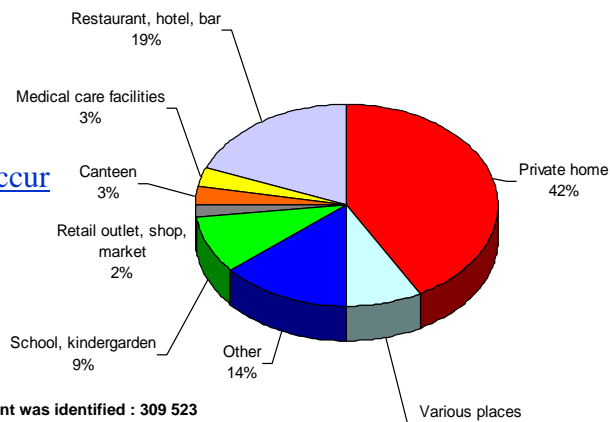
	1995	2000	2005	2010
<b>TIME/EFFORT</b>				
Laundry Process Time	2-1/2 hr.	1-1/2 hr.	1 hr.	1/2 hr.
User Involvement Time (% of Total Process Time)	100%	50%	25%	10%
Capacity KG	3-10 Kg	3-11 Kg	4-12 Kg	4-12 Kg
Wrinkling (% need ironing/pressing)	50%	20%	10%	0%
<b>EASE OF USE</b>				
Size/W t. (Portability)	29-100 Kg	26-95 Kg	24-90 Kg	20-85 Kg
# of Cycles Used	3	2 - 5	1-infinity	1-infinity
Unskilled unable user (Expert User)	80%	40%	20%	10%
No Use & Care Guide Required (Customer Instruct SIR)	4%	2%	1%	0%
<b>NOISE REDUCTION</b>				
dbA	X	X-6db	X-12db	Room Amb.
Sound Quality (S.Q.U. in % of Line)	0%	20%	60%	100%
<b>RESOURCE EFFICIENCY</b>				
KW H / Energy Factor	1.9KW H/3.18	1.5 KW H/2.5	1.2 KW H/2.1	1.0 KW H/1.9
Water l/KG	7.3-22 l/KG	7.3-18l/KG	5.5-7l/KG	4.5-5l/KG
<b>ALL FABRIC CARE</b>				
% Fabrics Washed by Whirlpool Machines	50%	70%	80%	100%
<b>PERFORMANCE</b>				
Whites (delta Units)	X	X-10 Delta	X-15 Delta	X-20 Delta
Stain/Pretreat (% of stains removed)	20%	40%	70%	100%
Dye Transfer / Sort (sorting required)	100%	90%	50%	0%
Clothes Look Like New (cycles)	10	20	40	50

This is ideal for the engineers but says very little about what consumer wants or may want.

# Food Safety and Quality

- Recent crises (BSE, E.Coli, Listeria, Salmonella...)
- Consumers are more aware about food safety issues and rights

## Places where Outbreaks Occur



No. of outbreaks in which agent was identified : 309 523  
(European Commission , Health & Consumer Protection Directorate-General)

## Flashes of Trends

In the remaining part of this presentation I want you to think about the future (your future, the world's future etc.). Try and predict things that might happen or that you think should happen. Think out of the box ....you can think of anything:

- Sit back and just capture the feelings and sensations.
- Even better climb a mountain and watch the scenery.

Wrap your feelings up in a sentence (*capture the essence and make it your Vision and Mission*)

## Work and Organisation

Work is becoming more project, delivery and team based. If the team fails everyone fails.



Increase in work automation

## Work and Organisation



→ The gap between the economic winners and losers is widening.

← Increase of need and desire to connect work and family - “balance of life”.



## Work and Organisation



→ Diminishing loyalty from employees towards companies. Flexibility works both ways!

← Money is diminishing in importance as the key motivator in work compensation. How do I empower my workforce?



## Work and Organisation



Most new jobs are being created in services and information technology.

More and more young people are confused in their professional choices.



## Work and Organisation



Rise of alternative education approaches (eLearning), needs (industry), continuous education.

Search for the Thrill, Survival and the extreme



## Work and Organisation



Time is becoming more important than money



More women in the workplace

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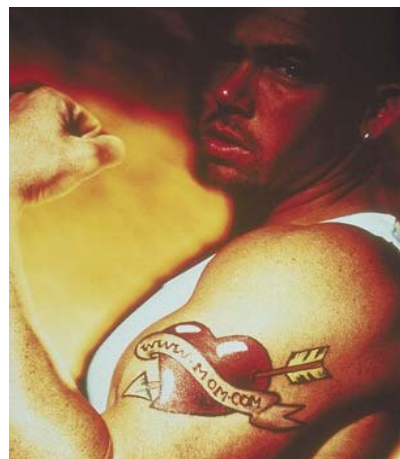
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## Consumer Lifestyles



Personal Expression



Internet and ID

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## Consumer Lifestyles



Pressured by the Fashion world women are being pushed to want to be thinner. This is creating an epidemic of new diseases....food disorders.

Increase in gambling (Bingo halls in Italy)



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## Consumer Lifestyles

Search for authentic products



Increase in spirituality and inner-self (going against a fall in religiousness)

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## Population and Sociology



Increase of time spent in urban transportation.

More people are in touch with their relatives and friends through new communication.



## Population and Sociology



Geopolitics and Environment leading to.... Unbalance of payments and wealth. Think of the the Argentinian crisis and Nike CSR case.



More global awareness

## Environment and Geopolitics

Attacking the unholy trinity: WTO, IMF, World Bank, G8 etc. (FIAT in Italy).



Strategic alliances (G7, G8, China-India, Expansion of Europe, AOL, GM-FIAT)

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## Technology and the Environment



Monitoring from above.  
Accurate weather forecasts

Recycling.....is not only for the environment but is good for pocket too!



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## Environment and Geopolitics



Sources of new pollution: Electro-smog

New and Old economies



## Industry and economics



Markets are opening.  
Immigration becomes  
a vital factor for  
growth and sustaining  
the economy.

B2B

The middleman is disappearing



## Other Thoughts



- Globalisation is evolutionary and revolutionary
- India and China leapfrogging through new technologies.
- Ability to run after and in front of innovation and global economy.
- Technology push is getting much stronger
- Entrepreneurial spirit grows.
- Computer, mobile phone bugs and network diseases will be more common in the e-economy world.
- Migration of technologies: the rise of the PDA and mobile comms
- Growth in service industries.....

## Building Opportunities

(the following info. Dates back to 2000)

## Always-On Generation

Headline: From Internet as a database to Internet as a communication tool

Description: the new generation stays online for different reasons than their elders. They use Internet for instant messaging and they have become completely dependent upon Internet to complete their studies and to access audio and video.

Opportunity:

Web-pads, eBooks, MMS....



## Shared Work Spaces

Headline: From videoconferencing to shared work spaces

Description: a kind of remote meeting that is suited for most day to day tasks: shared work spaces. In these meetings rooms participants chat and share on-screen presentations and documents.

Opportunity:

Teleworking, reducing air fares and hotels....



## Feeling Safe (Safer)

Headline: From security devices considered too expensive, intrusive and time consuming, to security devices considered absolutely necessary

Opportunity: home safety devices for children and the elderly...



## Wireless Services

Headline: From wireless carriers to wireless services

Description: Combining powerful brands and customer service experience will compete against incumbent wireless carriers. Result: bifurcation of the industry, with some operators and selling services directly from the net.

Opportunity:  
Selling customer service expertise.....



## Renewable energy

Headline: From oil and coal To renewable energy sources like wind, solar and fuel cells.

Description: Developing countries looking to improve their electrical infrastructure will install wind turbines, solar panels and fuel cells. This will lower energy generation cost

Opportunity:

Smaller more compact energy sources (fuel cells, miniature wind farms, Power glass).....



## Gadget madness

Headline: FROM expensive traditional devices TO inexpensive, multifunction, portable computer devices

Description: prices for displays, memory chips, microprocessors etc have dropped tremendously in the past years. This will spark the emergence of inexpensive, multifunction, portable computing devices.

Opportunity:

appliances could be the cradle for multifunction gadgets.....



## On-line learning

Headline: From e-learning for school applications, to e-learning for home applications

Opportunity: IFU online, eBooks, eTutors, cooking classes online, on-line chefs...



## Personalization

Headline: From mass production goods, TO customised products and services, TO custom tailored experiences

Description: theme funerals and theme weddings, design-it-yourself shoes, create your own cereals etc.

Opportunity: personalised products and services....



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## One World One Shop



Opportunity: Growth in personalised services, franchising, theme shops, riding the brand awareness waves.....

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## Ethnic Foods

Headline: From traditional cuisine TO ethnic foods

Description: After Thai and Korean, Caribbean and Middle Eastern dishes are becoming popular

Opportunity:

Ethnic recipes in cookbooks,

Ethnic grocery, Islamic meat shops



## Luxury Sedimentation

Headline: From certain products and services only for the rich TO affordable also for the middle-income customer

Description: A middle-class consumer with more wealth and a sense of entitlement.

Opportunity:

affordable 'luxury' products

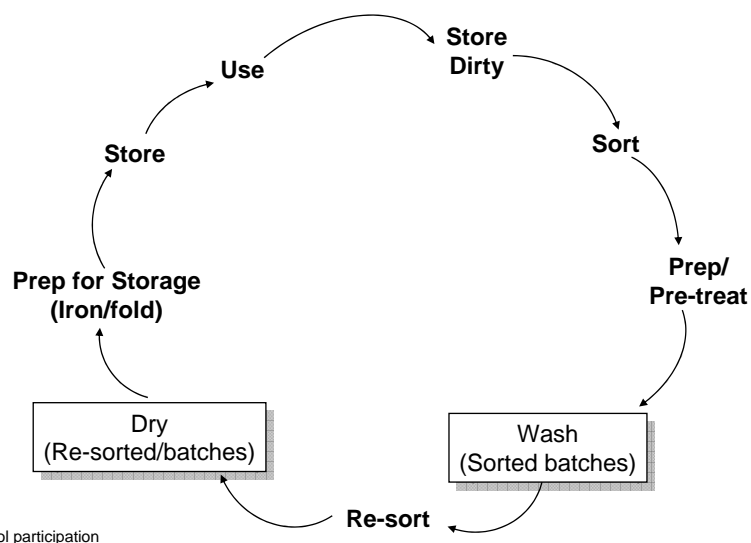


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## Customer Observation: The Customer's Never-Ending "Laundry Cycle"



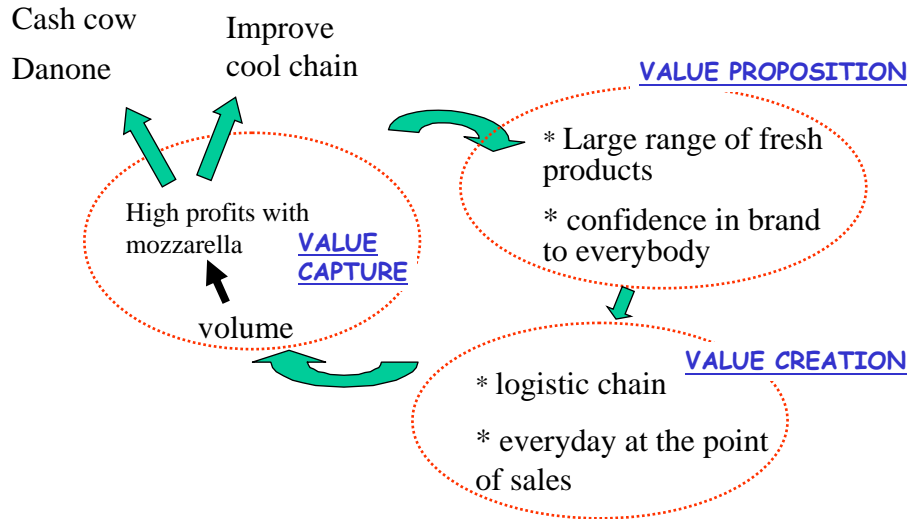
■ Whirlpool participation

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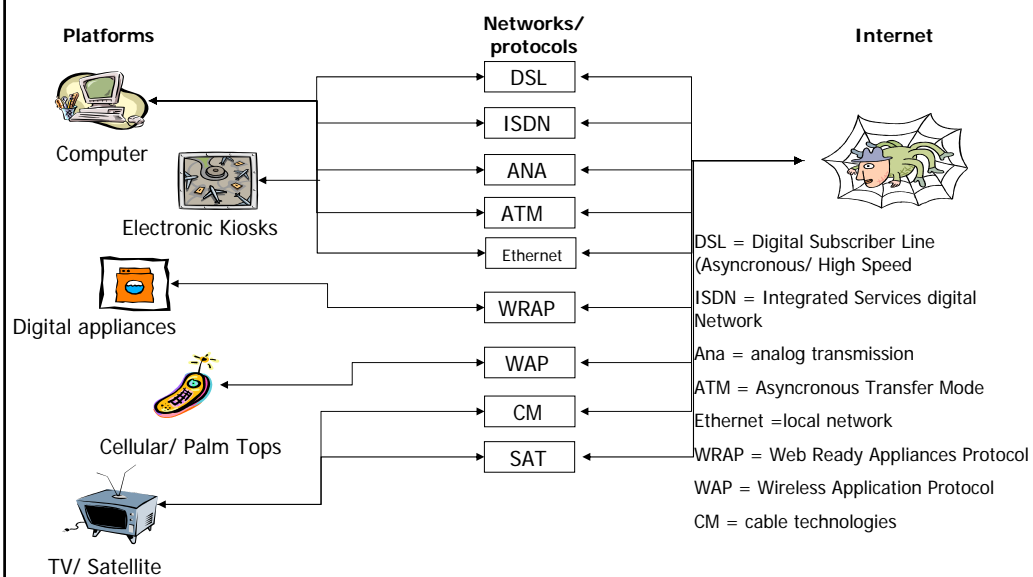
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# Galbani - Economic Engine



# The PC is one of several platforms

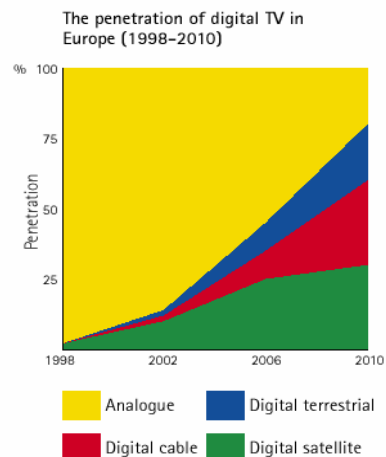
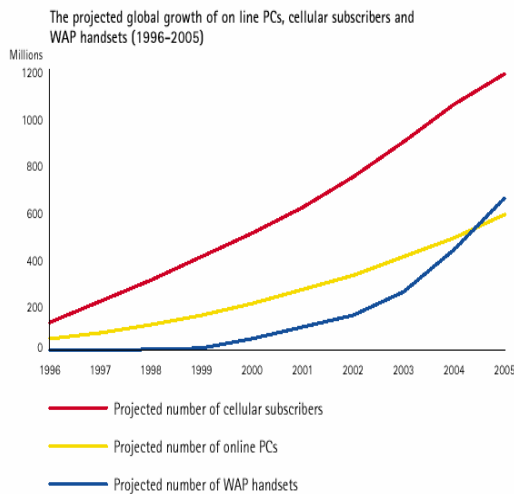


## Different platforms are Emerging

- So far, web access has taken place mainly via PC, with an average investment per fixed site of approx. 1000 US\$ and an average life cycle of 2,5 years
- New “smart” platforms are emerging or under test (Web TV; cellular phones; plam tops; digital appliances) with a lower average investment than a PC.
- *Smart* platforms are designed to maximise user friendliness and customization and to link big numbers of “low tech” users.

## Emerging technologies

- Wireless applications and web TV are likely to become hot potatoes

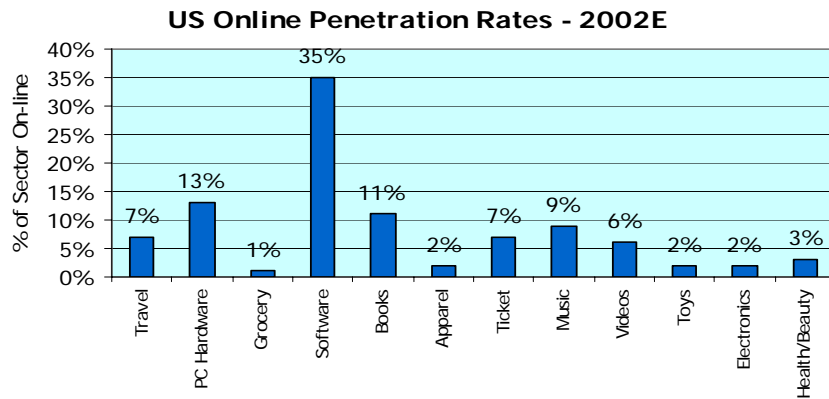


Source: Europe's Digital TV Head Start - Forrester Research Volume One, Number Seven, October 1998

N.B. 'Europe' includes UK, France, Germany, Sweden, Netherlands, Spain, Italy

## Penetration per industry - USA 2002E

- The relative importance of ecommerce on total sales depends heavily from industry to industry
- Flows of goods and flows of information must be taken in consideration to estimate impact



Sources: Jupiter Communication and Salomon Smith Barney

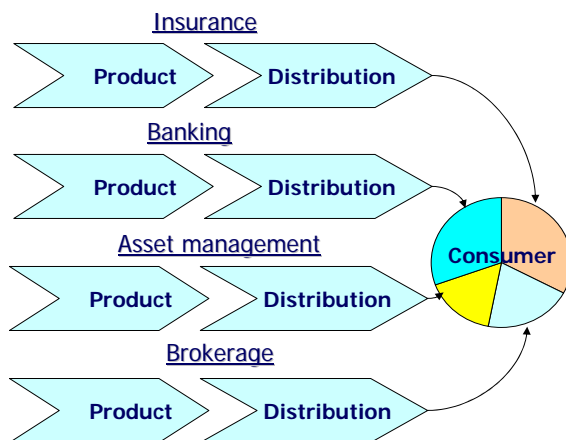
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## Redefining Roles in the financial services industry

From distribution driven by production ...



In the traditional model, different players reach the same customers offering different products/services

Information/Data at the end users are fragmented

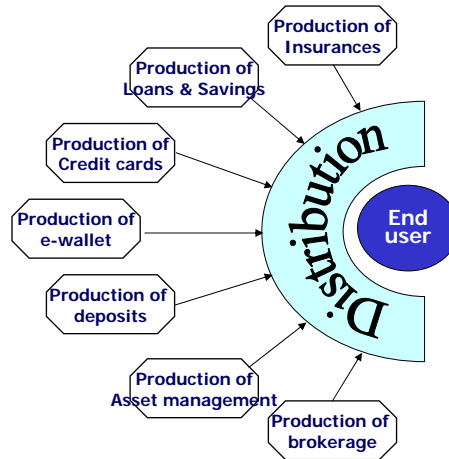
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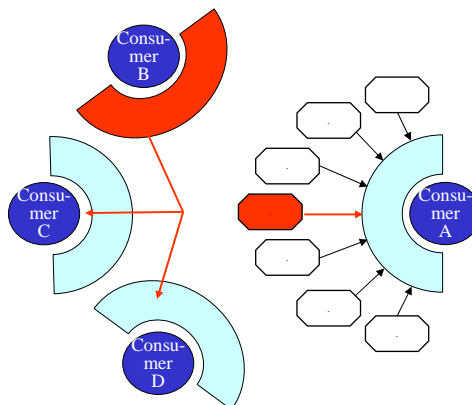
## Focusing on the End-users

- The new business model is based on end user micro-segmentation
- The offering by different producers is packaged by the customer relationship manager
- Interactivity allows to switch from iperproduction and hyposegmentation to a modular structure of customised products
- Information on end users are centralised and used for a detailed segmentation and for cross selling purposes













## ..... to Multichannel Distribution

- Producers offer their products to different market segments through several channels
- The ability to develop alliances with different channels becomes crucial
- Producers may decide to control directly specific distribution channels
- Channel integration is essential to reduce costs and barriers towards end users



# Customer Experience Exploration

What am I paying for? → What do I get?	Describe the customer's experience	What did/does the customer value from the experience?	What are the relevant lessons for Whirlpool?
 			
 			
 			
 			
 			
<p><b>Context:</b> Whirlpool has one magnificent obsession: create meaningful consumer solutions faster and better than anyone else. We can achieve this by understanding customer experiences within and outside our industry.</p> <p><b>Tasks:</b></p> <ol style="list-style-type: none"> <li>1. Think about some of the great service experiences you have enjoyed as a consumer or heard about from others. Use the examples above or create some of your own. In each case, write down in the first column what it is the customer is actually paying for versus what the customer gets.</li> <li>2. Using your direct experience or what you know from others, describe what the customer experience would have felt like. Record your thoughts in Column 2.</li> <li>3. Identify what it is that you think a customer did/does value from the experience. Record your thoughts in Column 3.</li> <li>4. Finally, based on these customer value statements, discuss the ways in which Whirlpool might shift the context of its interactions and relationships with its customers. Record your thought in Column 4.</li> </ol>			

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## Keywords of Lessons 13 & 14

Trends	Ethnic
Discontinuities	Luxury
Subjective	On-line learning (eLearning)
Objective	Renewable energy
Data mining	Life styles
Capture	Mind styles
Opportunities	B2B
Visionary	Emerging
Consumers	Customer experience
Industry	Platforms
Globalisation	Technologies
Strategy process	The future (yours and mine)
Strategy identification	The Italian Dilemma
Strategy evaluation	Global entrepreneurs
Strategic option development	Global entrepreneurship

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