

Strategic Management Course

Oct. 2005 – June 2006

Lessons 3 & 4 - Business Strategy


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Course Outline and Contents

- Introduction to Strategy and Strategic Management
- ➔ • Business Strategy
- Competitive Advantage
- Internal Context: Organisation Design
- Market 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

Lessons 3 & 4 - Business Strategy

- Back flashes of Lessons 1 & 2 and open questions
- Business and Corporate Strategy: Definition and Scope
- Describing Business Strategy
 - Goals, Scope, Competitive Advantage and Logic
- Relationship between Strategy, Mission, Purpose, Values
 - The Strategy Statement
 - Why Strategy Statement
 - What are the benefits of an explicit Strategy Statement
- Developing Strategy: The Strategy Process
 - Strategy Evaluation: Testing the Logic
 - Strategy Process and Strategic Change

 This lesson was based on pages 19 to 38 of the course textbook or pages 21 to 46 in the Italian version of the course textbook.

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Summary of Lessons 1 & 2

Strategic management is the decisive and administrative contextualisation of company actions so as to guarantee company performance.

SM is a framework in which a company encompasses its overall approach to its business.

A vision is a mental image of what the company will be or is striving to be.

The primary role of business strategy is to ensure that the internal context of a company matches the external context so as to guarantee (sustainable) performance.

Business Strategy is the framework of a company in which it intends to compete and obtain revenues.

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Summary of Lessons 1 & 2

The internal context is defined as the companies internal assets, while the external context is the environment in which the company is competing.

Strategic planning is about what we have to do today so as to be ready for (an uncertain) tomorrow.

From Vision to Actions



Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

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Summary of Lessons 1 & 2

Performance measures can also be non-monetary (both in profit and non-profit organisations)

Without goals and objectives it is impossible to establish if you have arrived!

Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

Business strategy = Objectives, Products & Markets, Competitive advantage, Internal Context

Vision and Strategic thinking have a Top-Down approach

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Strategy and Management

Strategy

Tactical, calculated, key, vital, planned, decisive, essential, crucial, diplomatic, deliberate etc.

Management

Administration, direction, control, supervision, handling, conduct, care etc.

Strategic management is the decisive and administrative contextualisation of company actions so as to guarantee company performance.

Strategic & Operational Management

Strategic Management

- A sense of direction
- Positioning
- Ambiguous and complex
- Long-term implications
- Organisation-wide
- Fundamental

Operational Management

- Organising
- Supervising and controlling
- Routine
- Short-term implications
- Operationally specific

Keywords of Lessons 1 & 2

- Strategy
- Sun Tzu
- Business Model-Proposition
- Mission
- Vision
- Planning
- Thinking
- Catch Phrases
- Impact
- Performance
- Context (Internal and External)
- Objectives
- Operational
- Leadership
- Sun Tzu
- Evolution
- Features
- Commonalities
- Assets
- Logic and Why
- SWOT
- Levels of Strategy
- Functional
- Business-Corporate Strategy
- Management
- Actions

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Sample Examination Questions

Define the terms strategy, business, functional and corporate strategies, strategic management? Discuss the link between military and business strategies then defend and oppose this link.

Define strategic management and explain the scope of SM. What are the essential differences between Strategic and Operation Management. Strategy relies on understanding internal and external contexts, explain why this is necessary and provide examples of both contexts. What is the link called between these 2 contexts?

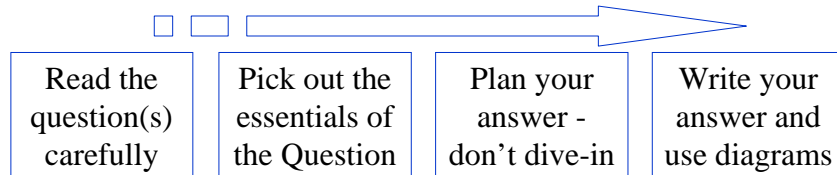
Performance is a fundamental concept in SWOT analysis and strategic management, define the usage, usefulness and application for profit and non-profit organisations.

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The Exam



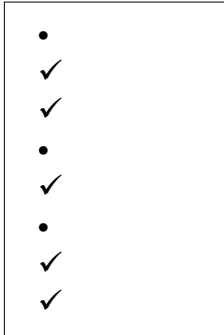
- Look for the minor and major words.
- Tackle the questions you feel more confident about **FIRST**.
- Don't waffle, go for it and get the job done.
- Watch the clock and be ruthless.
- Don't sit there and admire or worry about your answer.
- Never leave the examination room before the time expires.
- Come prepared (not just revision but tools, time and sweets).
- Think positive and mentally charge your exam batteries.
- Check and perfect your answers if you have time to spare.

Exam Question Analysis

Define the value chain and schematically represent it. Describe the essential parts of the value chain for a company that markets products that **DO NOT** require R & D, starting from the upstream section. Porter divides the value chain into primary and support activities, give examples of these **SUPPORT** activities. What are distinctive competencies and how do they fit with the value chain?

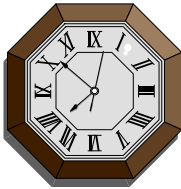
Explain what is meant by the Multinational Company and briefly explain why this type of company requires a specific type of manager. Next briefly discuss Kaizen and Kaikaku and then relate these two types of possible change that one may have to manage or encounter in a multinational company. Explain what Gemba Kaizen is.

Read the question(s) carefully



Which question(s) ?

Pick 5 questions only



- Don't waffle, go for it and get the job done.
- Watch the clock and be ruthless.
- Don't sit there and admire/ worry about your answer.
- Never leave the exam. room before the time expires.
- Check-perfect your answers if you have time to spare.

Pick out the essentials of the Question

Explain what is meant by the Multinational Company and briefly explain why this type of company requires a specific type of manager. Next briefly discuss Kaizen and Kaikaku and then relate these two types of possible change that one may have to manage or encounter in a multinational company. Explain what Gemba Kaizen is.

Explain - briefly explain
Multinational company - Manager

Kaizen - Kaikaku
Change = Kaizen + Kaikaku

Explain
Gemba - Kaizen

Plan your answer - don't dive in

A Multinational company is.....

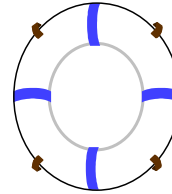
The characteristics of a multinational company manager.....

Kaizen implies/means/signifies.....
Kaikaku implies/means/signifies.....

Kaizen - Kaikaku in multinational.....

Gemba means.... Gemba Kaizen means

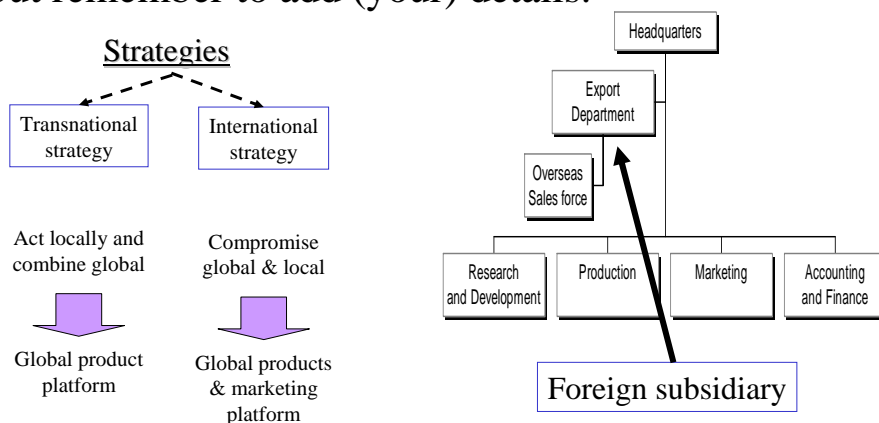
Always add detail, personal experience and views but don't Waffle



Before diving in check the depth of the water first, that is, how difficult the question is!!!

Write your answer and use diagrams

- Diagrams help keep you on course
- When you write your answer, be scientific (schematic) but remember to add (your) details.



Guidelines for exam question marking

Score	Meaning	Example
0	Not relevant, wrong answer or answer is missing	I ask the spectrum of competition and in return the student speaks about competitive advantage.
1-2	Glimpses of the correct answer such as terminology, graphs, figures etc.	Such as only parts of the spectrum of competition, ARC model etc.
3-4	Very partial answer and/or answer with incorrect definitions, terminology etc.	Spectrum of competition sequence is missing or wrong and/or definitions are wrong or very poor in content. Answer is scribbled.
5-6	Partial answer and/or answer with incorrect definitions, terminology etc.	Answer is clear in parts but overall weakly presented with no or inconsistent examples,
7-8	Correct and complete answer but with sparse definitions and dodgy examples	The answer is fully answered but the content is not rich enough to judge the knowledge of the student
9	Correct answer but with good and plentiful definitions and examples	Very good answer where student shows knowledge of topic.
10	Perfect answer, clearly laid out and presented.	Very good answer where student shows passion, knowledge of topic and is a pleasure to read.

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Tackling Exam Questions

Who would like to attempt to answer one of the questions?

Define strategic management and explain the scope of SM. What are the essential differences between Strategic and Operation Management. Strategy relies on understanding internal and external contexts, explain why this is necessary and provide examples of both contexts. What is the link called between these 2 contexts?

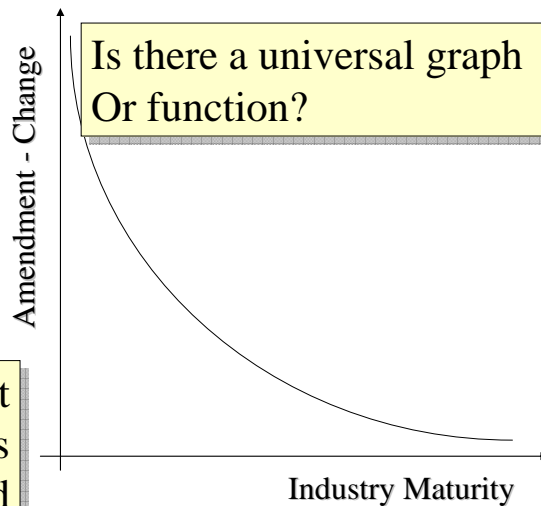
Performance is a fundamental concept in SWOT analysis and strategic management, define the usage, usefulness and application for profit and non-profit organisations.

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From Vision to Actions



Do you think that amendments or changes to Vision....Goals depend on Industry Maturity?

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Strategy starts with the Vision

Interactive activity

Suppose you have the opportunity to start your own business, take five minutes to define and outline this business. You can also do this in a small (4-5 students) group.

- Think about where you want to be in 10-20 years time, be visionary, don't plan just dream.

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Some more definitions of Strategy

- Strategy is about visualising the future (near and distant) of your company, setting and communicating it's relative objectives and putting into action the resources needed to achieve the position it deserves.

- Strategy is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in, or is to be in, and the kind of company it is, or is to be - *Kenneth Andrews*

- The determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals - *Alfred Chander*

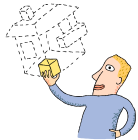
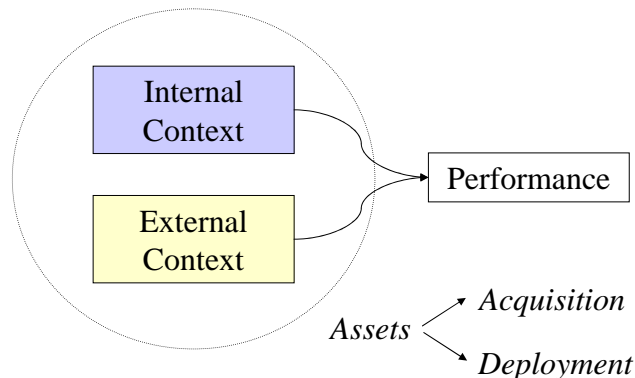


Business Strategy

- Business Strategy is the strategical framework in which a company intends to compete and obtain revenues.
- It is the link between the internal and external contexts.
- It can take a front seat or a back seat depending on internal and external conditions.
- Business strategy is a (senior) management tool.

The role of Business Strategy

The primary role of business strategy is to ensure that the internal context of a company matches the external context so as to guarantee (sustainable) performance.



Features of Business Strategy

- Because the external contexts are inherently dynamic, business strategy is DYNAMIC, it is (should) never (be considered) static.
- It can take a front seat or a back seat depending on internal and external conditions and why you are in implementing it.
- BS is a (senior) management tool and requires continuous monitoring. Some companies have specific departments for this purpose alone.
- A change in business strategy implies a change in the internal and/or external contexts

Can you give examples of external contexts that change?

Introduction to Business Strategy

Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

Business strategy **MUST** answer or cover the fundamental questions e.g. how do we make money, who are our customers, what are the benefits for us and the customer.

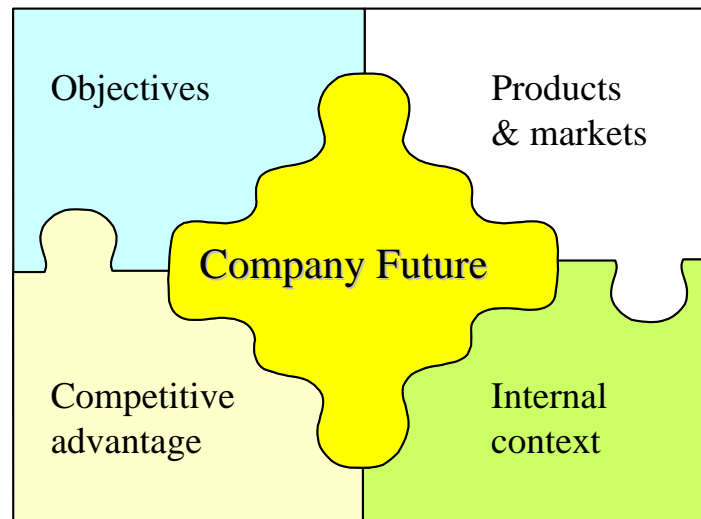
Note that the strategy is different from the plan.

The plan is the effective implementation of the strategy and involves details e.g. timing, capital.

Backbone of Business Strategy

- ⊗ 'Long term' objectives and intermediate goals.
- ⊗ What products the company will offer to its consumers.
- ⊗ The markets in which it intends to compete (Asia, NA, Europe etc.).
- ⊗ Area of activity where it will be allocated (beverages, automobile, shipping etc.).
- ⊗ What is the projected outcome (competitive advantage) it will achieve and be able to sustain.
- ⊗ What is company's internal context that will make the strategy work (essentially its internal assets).

Business Strategy Blocks



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Objectives

Objectives and Scope of BS

Objectives are intended to provide direction and guidance for what actions will be taken by the company.

But they also provide motivation and a sense of competition.

Example: USA want to win the World Cup by 2012.

Scoping the BS involves defining the products, markets, locations, technologies, processes when the company will compete.

The scope is always explicit but can also be implicit:

e.g. Ryanair will provide flights at the lowest price.....

implicitly means they do not want first class passengers.

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Business or Corporate Strategy

Business (strategy) refers to the single entity like a, business unit, division or indeed a collection of product divisions.

Examples: Finvest (TV channels), GEC (appliances), FIAT (cars: Alfa, Fiat, Lancia, Ferrari, Maserati).

Corporate (strategy) means collective. It therefore refers to a much greater company set-up and in general companies like these have a multitude and variety of business interests e.g. from finance to products.

Examples: Finvest (from insurance to television), GEC (from appliances to aero-engines), FIAT (from cars to energy).

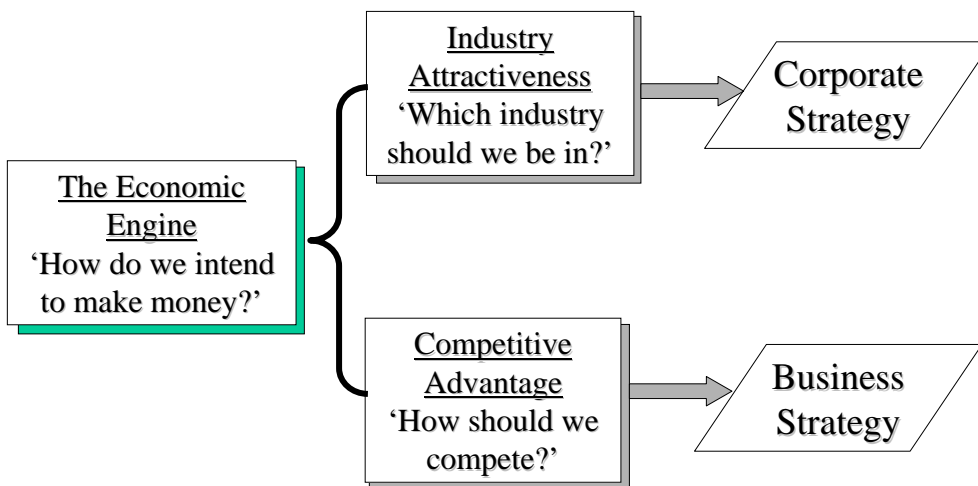
Important: When we speak of business interests we mean direct involvement not shares in other companies!

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Business & Corporate Strategy

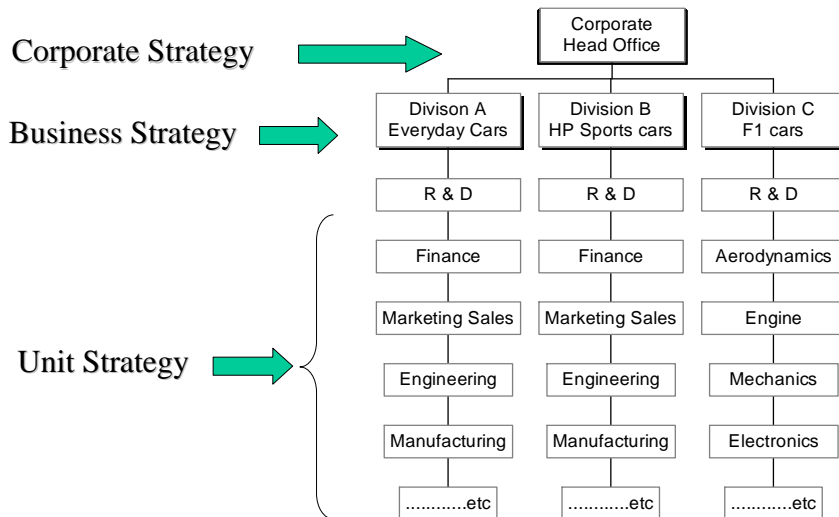


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Levels of Strategy



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Long-term Goals

Long-term goals refer to the market position or status a company aims for through its strategy.

Goals or objectives are the targets of the strategy.

Strategy (Business or Corporate) is an instrument, i.e. the means for success.

However, the efficacy of goals is not just about company status it is also about:

Goals provide MOTIVATION and COMPETITION.

Challenging long-term goals STRETCH the company

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Competitive Advantage = HOW

Competitive advantage discusses the HOW of strategy.

.....how the Company intends to achieve it's goals based on the products, markets, locations, technologies, processes.

.....competitive advantage provides a company also with a sense of existence.

Potential Sources of Competitive Advantage

-Price (the lowest price, the 'right' price)
-Innovation - at the cutting edge of technology
-Quality
-Design
-Styling
-Reliability ('Zoppas li fa e nessuno li distrugge')
-Consumer loyalty
-Time-to-market
-Manufacturing cost
-Better business location and access to local markets
-Better logistics
-Product mix and flexibility

Can you think of examples of competitive advantage?

The Logic of Strategy

In essence the “WHY” of strategy is its underlying LOGIC. That is, the explanation of WHY the strategy will work.

*Often when a strategy is wrong or fails, the consumer will say:
‘...ok, it’s cheap but the quality is poor’ Skoda, FIAT?
‘...ok, I like the product but I can’t wait that long’ VW, Toyota?
‘...you could see they were going to fail, just look at the design!’ LADA, FIAT MULTIPLA?*

Can you think of examples of where a company has failed or been (is) successful in it’s strategy?

Mission, Purpose and Values

Mission statements are essentially about purpose (for this reason they are sometimes called “Statement of Purpose”).

Mission statements often report the ‘core’ values of the company.

Values can be considered the main features of a company, the distinguishing features. If values are truly shared by the workforce they can a true competitive advantage (e.g. Ferrari F1 team, Juve, MUFC, SONY)



Mission Statements

Constructing a mission statement is simply a matter of expressing why you do what you do in 50,100,150 words or less.

All you have to do is look at the big picture and paint it on the head of a pin. For example, “we will land a manned spacecraft on the moon by the end of the decade” (J.Kennedy)

Warning: It is actually much harder than you think!

ESE's Mission

The screenshot shows the website header for the European School of Economics (ESE) with the logo and the motto "visibilia ex invisibilibus". Below the header is a navigation menu with links: home, ESE Group, BA (Hons), post graduate, short courses, online courses, prospects, campuses, contacts, news, and jobs. The main content area features a photograph of graduates in academic regalia on the left. To the right, the heading "The Mission of the European School of Economics" is followed by a paragraph: "The European School of Economics dreamt of a revolution, it dreamt of a School which teaches that the "dream" is the most realistic thing there is. In politics, in the world of business, there is a need for a new generation of leaders, men with a vision, philosophers of action, pragmatic dreamers who can harmonise the continual conflict between business and ethics; thought and action; financial power and love. It is the mission of the ESE to prepare these new leaders." Below this text is the quote: "The world is such because you are such and not viceversa." To the right of the text is a small image of a person kneeling in prayer or reflection.

The MS of John Hancock

At John Hancock, we are determined not just to compete but to advance, building our market share by offering individuals and institutions the broadest possible range of products and services. Apart from insurance, John Hancock encompasses banking products, full brokerage services and institutional investment, to cite only a few of our diversified activities. We believe these new directions constitute the right moves . . . the steps that will drive our growth throughout the remainder of this century.

Do you think this is convincing?

Coffee Break

you have 10 minutes!

Crafting a Mission Statement

In essence.....

“Interview” your customers, suppliers, strategic partners and other external parties whose opinions you value about the benefits of and ideals behind your product.

I would also suggest you do the same with your colleagues i.e. what do they think!

Purpose and Mission Statements

O'Reilly Company

Purpose: To give people power over their tools.

Mission:

- To create information products for networked computer users that are affordable, convenient, useful and truthful.
- To continue to be a pillar of the company's prosperity, widening the base from which other businesses can be launched; to inspire other groups to do the same.
- To produce "evergreen" products that sell for as long as the topic has importance and to produce books that reach "just the right" audience, not necessarily the largest one.
- To create new models for online products, that optimise the technology and create new opportunities for O'Reilly people.

Company Values

They correspond to a way of thinking and behaving of the company - *The Creed*.

Values express the beliefs of a company and its employees. If the consumer shares and agrees with the values it provides a very solid basis for consumer loyalty.

In general the 'man-in-the-street' is often unaware of a company's values unless they are reflected in the product and the way the company works. Even if a value is known it may not be a competitive advantage or be considered unique.

Examples: Teamwork in Ferrari is clearly a value but it is what you expect from them.

Whirlpool's Values

Respect - We do our best work when we trust one another as individuals, encourage diversity in our workplace, value the capabilities and contributions of each person, and recognise that work is but one part of a full and rewarding life.

Integrity - We conduct all aspects of our business in an honourable way, recognising there is no right way to do a wrong thing.

Diversity - The broad diversity of our people and their ideas is the fundamental foundation for the future success of our company. Differences create value.

Teamwork - Pride results in our working together to unleash the potential of every person. By working together we will achieve exceptional results.

More on Values

- Honesty
- Caring
- Freedom
- Fairness
- Livelihood
- Fun
- Well being
- Balance
- Clarity
- Open-endedness
- Creativity
- Personal growth
- Balanced life
- Your voice matters
- Each person matters
- Freedom to fail

Oftel's Goal and Strategy Statement



What is Ofcom?

The Office of Telecommunications (Ofcom) is the regulator for the UK telecommunications industry.

Ofcom was set up under the Telecommunications Act 1984.

Our goal is to make sure you receive the best quality, choice and value for money for all your telephone services.

This is an example of the 'L' in the PESTEL model

Ofcom strategy statement:
Achieving the best deal for telecoms consumers.

Strategy Statements

Who says this?

Taking the lead in air travel.

Strategy plays a key role in YYYYYY. The company is focused on the cutting edge of national and international YYY travel, environmental protection, infrastructural development, communication and technology.

What should the strategy statement really be?

Why a Strategy Statement

Strategy is a pattern or theme that gives coherence to the decisions of an organisation.

- Simplification in decision making
- Consistency (over time) in decision making
- Application and identification of targeted analytical tools
- Improves or enables better communication
- To spearhead you going ahead
- Providing tangible targets and goals
- etc....

Why else do you think a Strategy statement could be needed or useful?

What are the benefits of an Explicit Strategy Statement

Documenting means Clarity

Putting it into words improves clarity, removes (reduces) ambiguity, provides a written basis for consensus

Coordination

If a strategy is shared and communicated properly it drives its application.

Incentives and Commitment

By explicitly committing to what you intend to do in the future provides a platform for rewards

What are the benefits of an Explicit Strategy Statement

Efficiency based on Fitting the Strategy

Daily business is matched against the strategy to make sure it fits the future!

Evaluation

Evaluation of company progress and the status it is in can also be obtained from the strategy.

Change (Management)

Strategy statements also highlight the direction, consequences and changes a company is expected to see.

Developing a Strategy

In order to develop a strategy it is common, advised or necessary to follow a process.

There is no fixed or perfect process for strategy development but there are standard steps that help it happen.

The Strategy Process

Steps for setting Strategy



Strategy Evaluation: Testing the Logic

The logic of a strategy contains the argument for how the scope and competitive advantage(s) will enable the company to reach its goals based on its internal assets and external environment.

Testing implies looking at the internal and external contexts.

From Strategy Process to Strategic Change

Developing Strategic Options

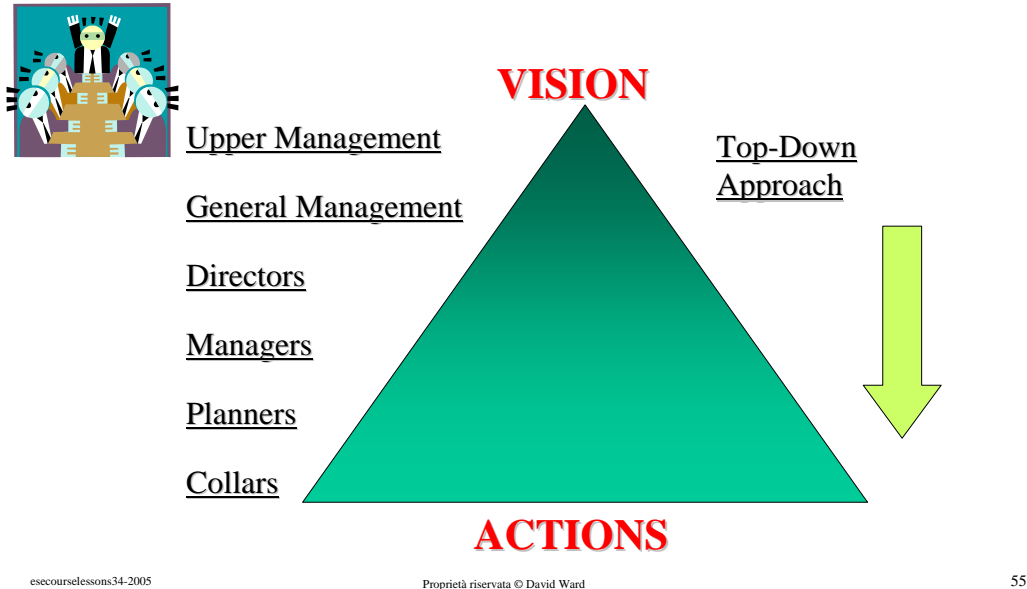
Evaluating the Strategic Options

Selecting the Strategy

Communicating the Strategy

Implementing the Strategy

Implementation of Strategy



Example: Border Books


BORDERS teamed with amazon.com. [VIEW CART](#) | [WISH LIST](#) | [YOUR ACCOUNT](#) | [HELP](#)



Borders Online, Inc. and Amazon.com have teamed up to enhance your online shopping experience and bring you unparalleled service with a familiar look and feel. We think it's a great match: the premier international retailer of books, music, and movies partnered with the leader in online commerce.

.....Our Values...

- Leadership
- Results Orientation
- Respect
- People Development
- Positive Workplace
- Customer Service

 see also fig. 2.6, page 32

More on Border Books

Our Mission...

Our mission is more than just a statement. Everything Borders Group sets out to achieve begins with the core values at the heart of our mission.

In fact, it is so essential to the day-to-day workings of our company that employees display the mission statement and supporting attributes on their ID lanyards.

"To be the best-loved provider of books, music, video, and other entertainment and informational products and services. To be the world leader in selection, service, innovation, ambiance, community involvement, and shareholder value. We recognize people to be the cornerstone of the Borders experience by building internal and external relationships, one person at a time."

Food for Thought

Should company strategy always be made public?

When should company strategy be changed?

Can a company survive, grow, flourish without a strategy?

Look up the strategy of a (any) company - I may ask you to explain it during the next lesson.

Give examples of competitive advantage?

How do you get the workforce (stakeholders) to believe in the Vision and Mission?

Keywords of Lessons 3 & 4

- Business Strategy
- Corporate Strategy
- Scope
- Logic
- How and Why
- Values
- Purpose
- Competitive advantage
- Long-term goals
- Strategy process
- Explicit
- Evaluation
- Implementation
- Economic engine
- Attractiveness
- Assets and Acquisitions
- Performance
- Levels
- Mission
- Statement
- Crafting
- Long-term goals
- Strategy process
- Explicit
- Evaluation
- Implementation

Lesson Info. Sources

- Border Books (www.bordersgroupinc.com/about/index.html)
- Oftel document (www.oftel.gov.uk)
- Whirlpool's Vision and Mission
(www.whirlpoolcorp.com/whr/index.html)
- Re-engineering FORD
(www2.cddc.vt.edu/digitalfordism/10fordecoring.html)
- O'Reilly's purpose and mission departmental
statements (www.tim.oreilly.com)