Corporate Management

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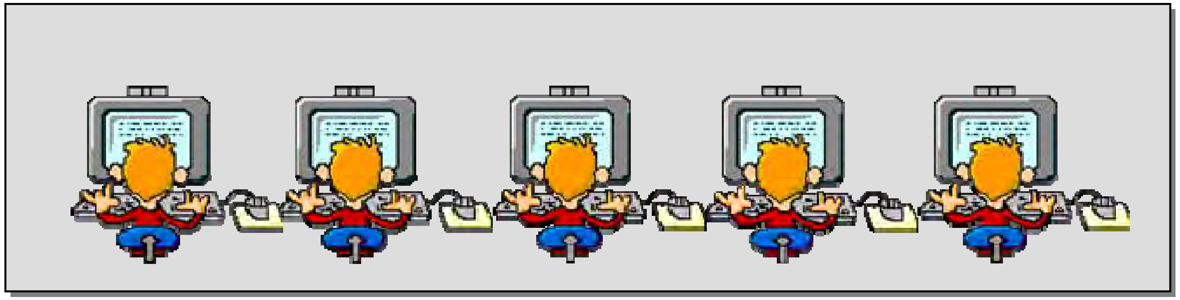
Operations vs. Strategic Management

Don‘t only ask yourself:

- **„Do I run the business right?“**

Also ask (from time to time) :

- **„Do I run the right business?“**



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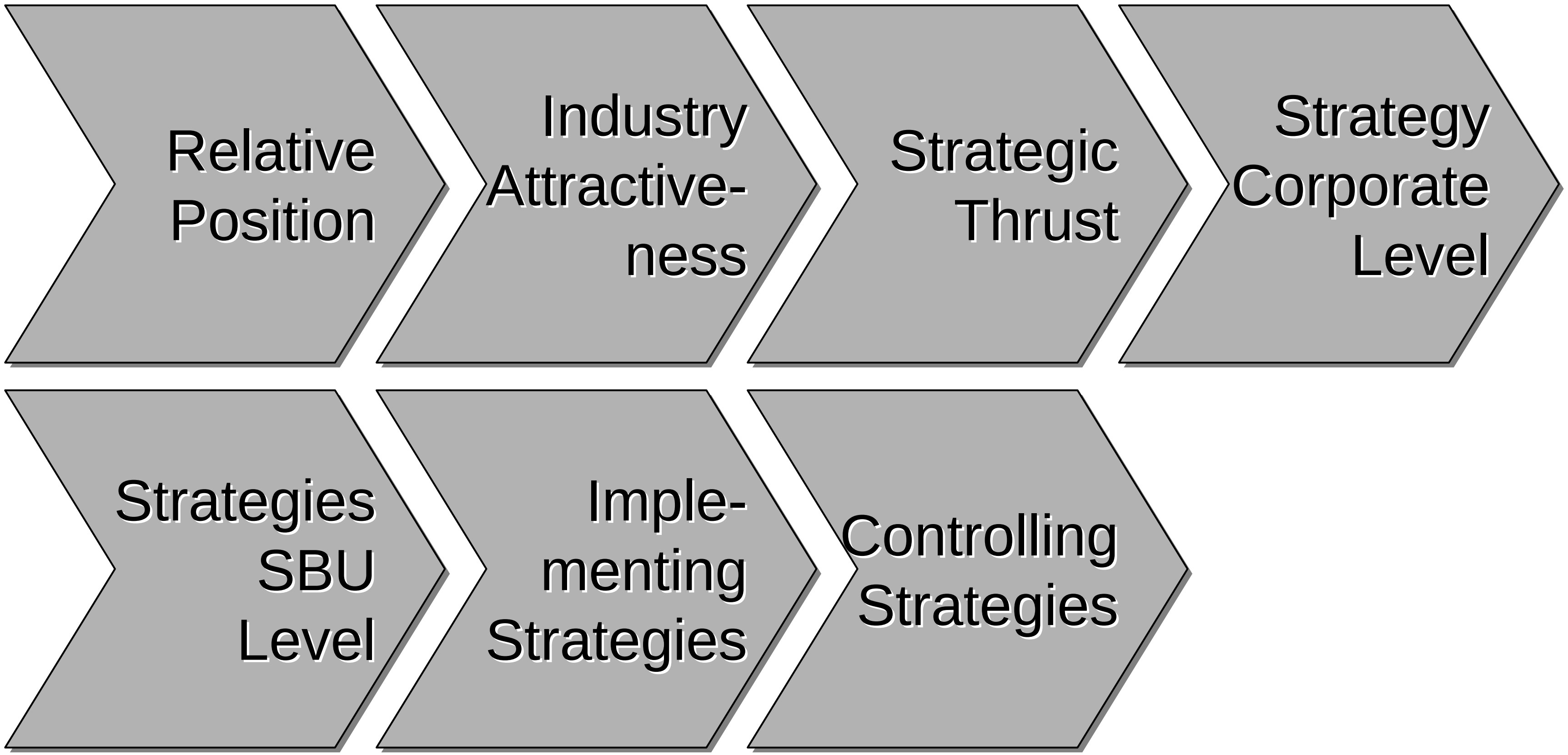
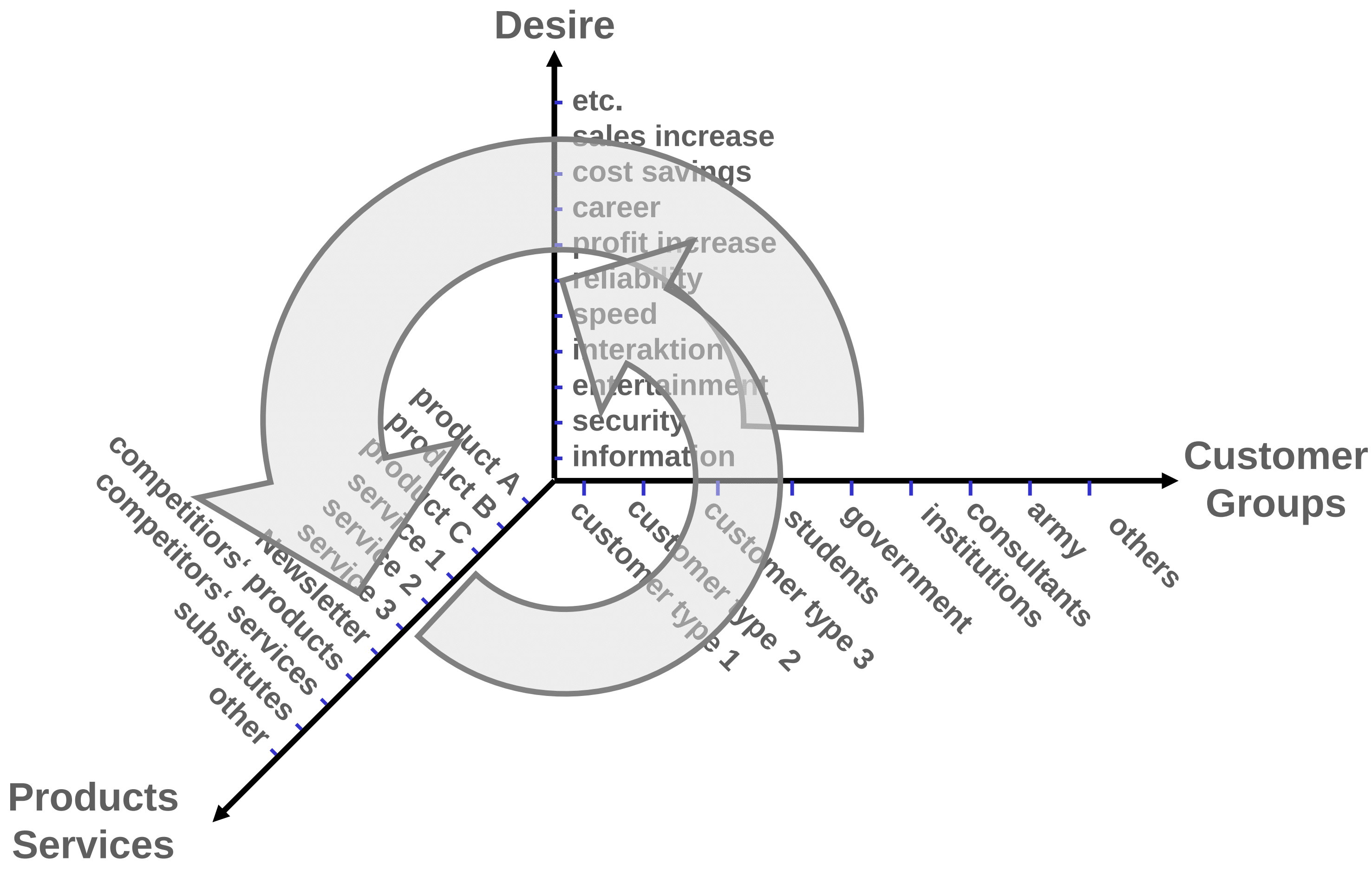
Strategy Development Process



THE STRUCTURAL ANALYSIS OF INDUSTRIES

- Industry Definition
  + Markets
  + Products
  + Customer (needs)
  + Defining SBUs
    (Strategic Business Units)
  + Defining CSFs
    (Critical Success Factors)

Defining & Segmenting Businesses



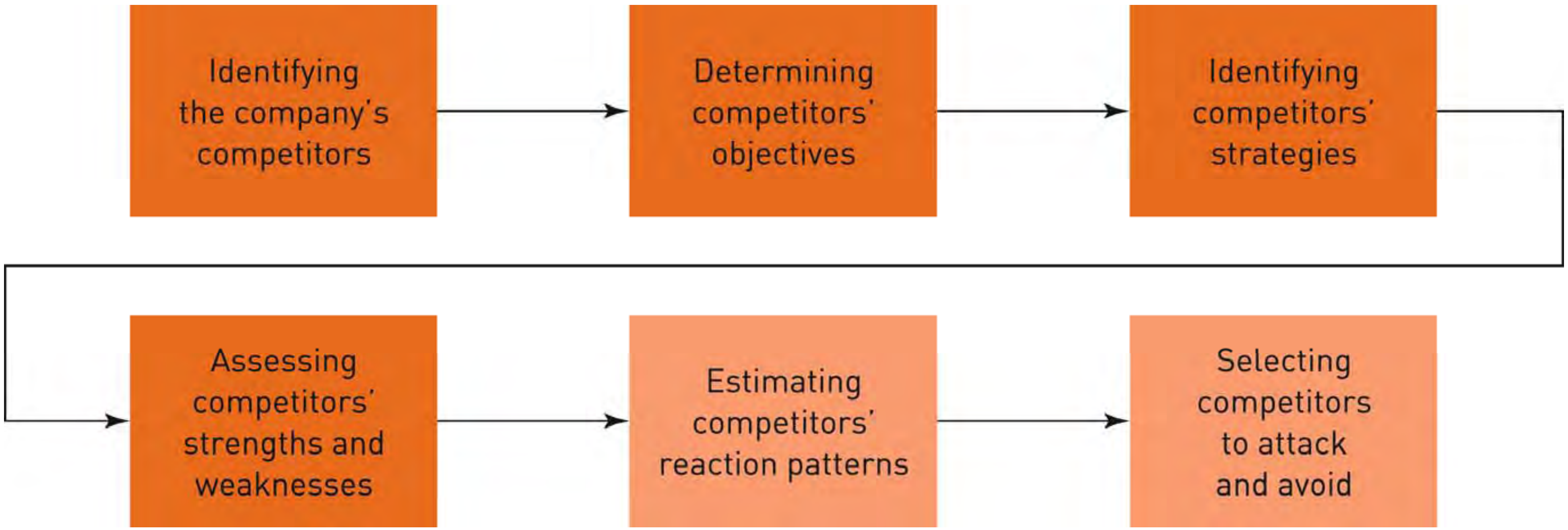
Definition Criteria For a Strategic Business Unit (SBU)

- Has the SBU a unique set of competitors?
- Has the SBU a unique set of customers?
- Are the SBU‘s products substitutes of the products of another SBU?
- Could the SBU be separated and could it operate independently in the market?
- Could the SBU be devested or closed without endangering another?
- Do significant synergies or cost advantages exist concerning another SBU?

Structural Analysis Within Industries

- Implications for Formulation of Strategy
  + Firm´s strengths and weaknesses
  + Strategic opportunities
  + Relative competitive position
  + SWOT Analysis

Steps in analysing competitors



INDUSTRY KEY SUCCESS FACTORS

- KEY SUCCESS FACTORS (KSFs) are the base of competition in an industry and determin
  + Profit & loss.
  + Competitive success or failure.
- Identifying KSFs and their changes over time is top priority to a company’s management.

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Relative Competitive Position

			Competitors				
	Critical Success Factors	Weight	A	B	C	D	W E
1	a						
2	b						
3	c						
4	d						
5	e						

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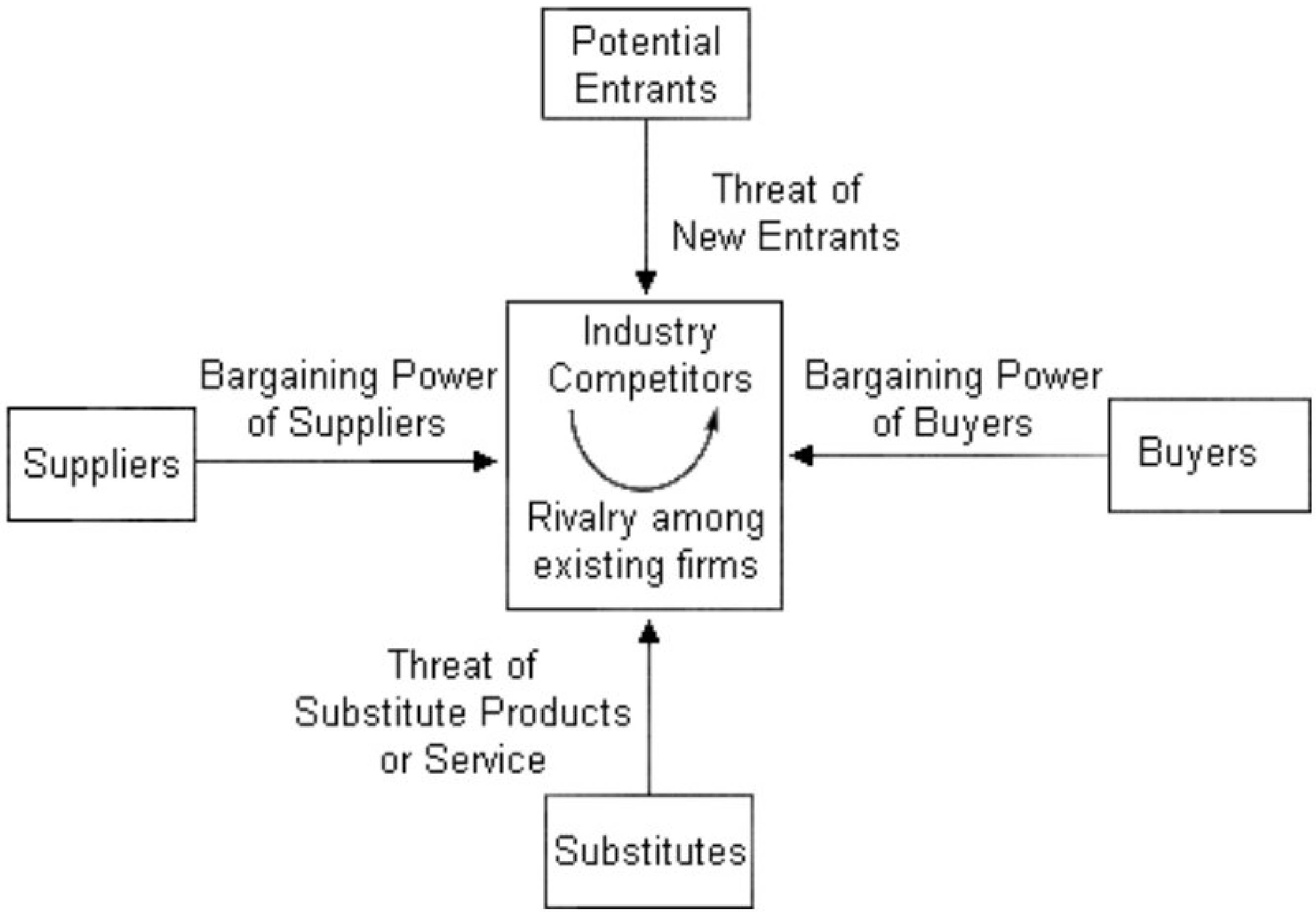
Relative Competitive Position

			Competitors				
	Critical Success Factors	**Weight**	**A**	**B**	**C**	**D**	**W E**
1	Customer Care	30%	5	3	2	4	2
2	Costs	25%	3	1	5	3	2
3	Dealer Network	20%	4	3	3	2	4
4	Innovations	15%	2	5	4	3	5
5	Image	10%	3	2	4	2	4
		Sum:	17	14	18	14	17
	Relative Competitive Positions:		**3,65**	**2,7**	**3,45**	**3**	**3,05**

SWOT Analysis

INTERNAL	**Strengths** •**What are your advantages?** •**What do you do well?** •**What makes you different from your competition?** Consider this from your own point of view and from the point of view of the people you deal with. It's important to be honest and realistic. Ensure your team feels comfortable and understands the purpose.	**Weaknesses** •**What could be done better?** •**What is done badly?** •**What should be avoided?** •**What causes problems or complaints?** It is important to be realistic, and face any unpleasant truths as soon as possible.
EXTERNAL	**Opportunities** •**Where are the good chances facing you?** •**What are the interesting trends?** •For example •Changes in technology and markets •Changes in government policy or regulations •Changes in social patterns, population, lifestyle changes, economical. •Local and global events	**Threats** •**What obstacles do you face?** •**What is your competition doing?** •**Are the specifications for your products or services changing?** •**Is changing technology threatening your business?** •**Do you have bad debt or cash-flow problems?**

Forces Driving Industry Competition



THE FIVE COMPETITIVE FORCES

+ RIVALRY among competing sellers in an industry.
+ SUBSTITUTE PRODUCTS offered by firms in OTHER industries.
+ Potential ENTRY of new competitors.
+ Bargaining power of SUPPLIERS.
+ Bargaining power of BUYERS.

RIVALRY AMONG COMPETITORS

+ ***BASIS OF COMPETITIVE RIVALRY***
  - Price
  - Quality
  - Performance features offered
  - Customer service
  - Warranties and guarantees
  - Advertising & special promotions
  - Dealer networks
  - Product innovation
  - Other

CAUSES RIVALRY TO BECOME STRONGER

+ Lots of firms, equal in size and capability, exist.
+ Demand for product growing slowly.
+ Industry conditions tempt firms to use competitive weapons to boost volume.
+ Switching costs incurred by customers are low.
+ A company initiates moves to bolster its standing at expense of rivals.
+ Costs more to get out of business than to stay in.
+ Firms have diverse strategies, corporate priorities, resources, & countries of origin.

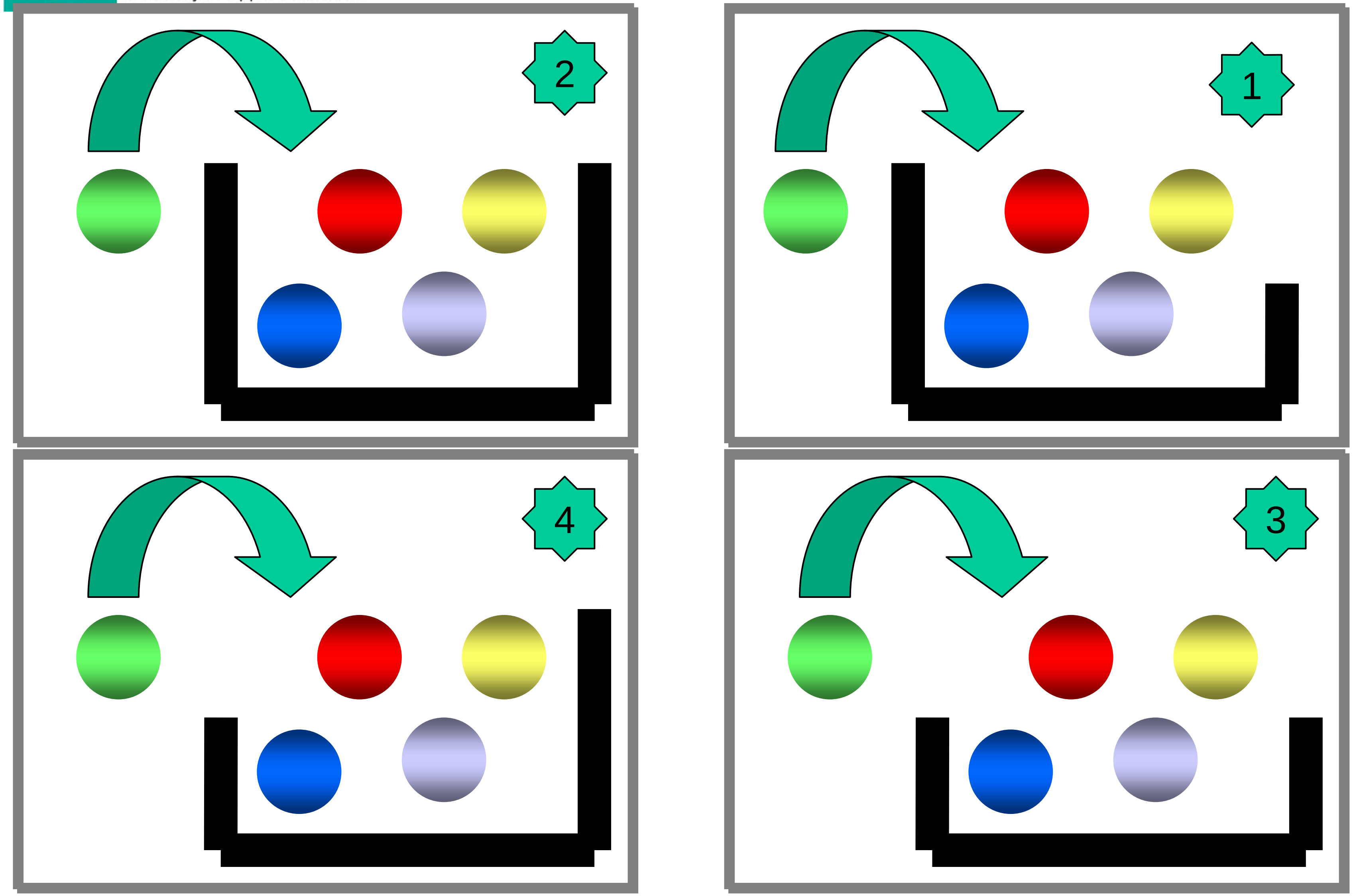
THE COMPETITIVE FORCE OF POTENTIAL ENTRY

+ New entrants boost competitive pressures:
  - By increasing production capacity.
  - Through actions to gain market share.
+ Seriousness of threat of entry depends on:
  - Barriers to entry.
  - Expected reaction of existing firms to entry.
+ Barriers to entry exist in case:
  - It is difficult for newcomers to enter market.
  - A new entrant’s small sales volume puts it a price/cost disadvantage.

COMMON BARRIERS TO ENTRY

+ Economies of scale.
+ Inability to gain access to specialized technology.
+ Existence of learning/experience curve effects.
+ Brand preferences and customer loyalty.
+ Capital requirements.
+ Cost disadvantages independent of size.
+ Access to distribution channels.
+ Regulatory policies.
+ Tariffs & international trade restrictions.

Entry & Exit Barriers



Pause 15.4.

REACTION OF EXISTING COMPETITORS…

- ***… CAN ALSO BE AN ENTRY BARRIER***
  - \+ If existing firms:
    - Indicate they'll aggressively defend their position.
    - Have substantial resources to wage defense.
    - Can use leverage with customers to keep their business.
  - \+ Then potential entrants are likely to be discouraged by:
    - Prospects of a costly struggle.
    - Strong threat of competitive retaliation

COMPETITIVE FORCE OF SUPPLIERS

- Suppliers are a strong competitive force when:
  - Item makes up large portion of costs of product, is crucial to production process, and/or significantly affects product quality.
  - It is costly for buyers to switch suppliers.
  - They have good reputations & growing demand for their product.
  - They can supply a component cheaper than industry members can make it themselves.
  - They do not have to contend with substitutes.
  - Buying firms are not important customers.

COMPETITIVE FORCE OF BUYERS

- Buyers are a strong competitive force when:
  + They are large & purchase a sizable percentage of industry's product.
  + They buy in volume quantities.
  + They incur low costs in switching to substitutes.
  + They have flexibility to purchase from several sellers.
  + Selling industry's product is standardized.
  + They can integrate backward.
  + Product being purchased does not save buyer money or has low value to the buyer.

THE COMPETITIVE FORCE OF SUBSTITUTE PRODUCTS

- SUBSTITUTES matter when products of firms in another industry enter the market.

  + ***EXAMPLES***
    - Eyeglasses vs. Contact Lens
    - Sugar vs. Artificial Sweeteners
    - Plastic Containers vs. Glass vs. Tin vs. Aluminum
    - Aspirin vs. Other Types of Pain Relievers

  + ***DANGERS OF SUBSTITUTE PRODUCTS***
    - Competitively priced substitutes can place ceiling on prices industry can charge for its product.
    - Price ceiling can reduce profits industry members can earn.
    - Availability of substitutes invites customers to make quality & performance comparisons as well as price comparisons.
    - The lower the switching costs, easier it is for customers to shift to substitute products.

DRIVING FORCES ANALYSIS

+ Analysis of driving forces has two steps:
  - Identifying RELEVANT driving forces.
  - ASSESSING IMPACT they will have.
+ Task of driving forces analysis is:
  - SEPARATE MAJOR causes of industry change from MINOR ones.
  - IDENTIFY the THREE or FOUR driving forces likely to have greatest impact on a firm over next 1 - 3 years.

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Teamwork 3

- **Identify main sources of competitive pressures:**
- Rivalry among competitors.
- Substitute products.
- Potential entry.
- Bargaining power of suppliers.
- Bargaining power of buyers.

- **Assess strength of each competitive force:**
- Strong? Moderate? Weak?
- Scale of 1 - 5: 1 = weak; 5 = strong
- **Explain how each competitive force works & its role in overall competitive picture.**

STRATEGIC IMPLICATIONS OF THE FIVE COMPETITIVE FORCES

- Competitive environment is <u>unattractive</u> when:
  + Rivalry is very strong.
  + Entry barriers are low.
  + Competition from substitutes is strong.
  + Suppliers & customers have considerable bargaining power.
- Competitive environment is <u>ideal</u> when:
  + Rivalry is only moderate.
  + Entry barriers are relatively high.
  + There are no good substitutes.
  + Suppliers & customers are in a weak bargaining position.
- ***PRINCIPLE***
- The weaker the competitive forces, the greater an industry's profits!

STRATEGIES RELATED TO THE FIVE COMPETITIVE FORCES

- A company whose strategy and market position provide a good defense against the five forces can earn above-average profits even when some or all of the five forces are strong !
- Objective is to craft a strategy that will:
  - + Insulate company from competitive forces.
  - + Influence industry's competitive rules in company's favor.
  - + Provide a strong position from which "to play the game" of competition.
  - + Help create sustainable competitive advantage.

IDENTIFYING & ASSESSING DRIVING FORCES

+ Role of driving forces analysis in strategy making.
+ Indicates external factors likely to have greatest impact on a firm over next 1 - 3 years.
+ Must assess difference driving forces will make to be able to craft a strategy responsive to emerging conditions.

COMPETITOR ANALYSIS

Company's's strategic moves are affected by:

- + Current strategies of competitors.
- + Actions competitors are likely to take next.

- Profile of key competitors involves studying :
  - + Current position in industry.
  - + Strategic objectives & recent actions.
  - + Basic competitive approaches.
- Successful strategists spend great efford on scouting competitors by:
  - + Understanding their strategies.
  - + Watching their actions.
  - + Evaluating their vulnerability to driving forces & competitive pressures.
  - + Sizing up their strengths & weaknesses.
  - + Trying to anticipate rivals' next moves.

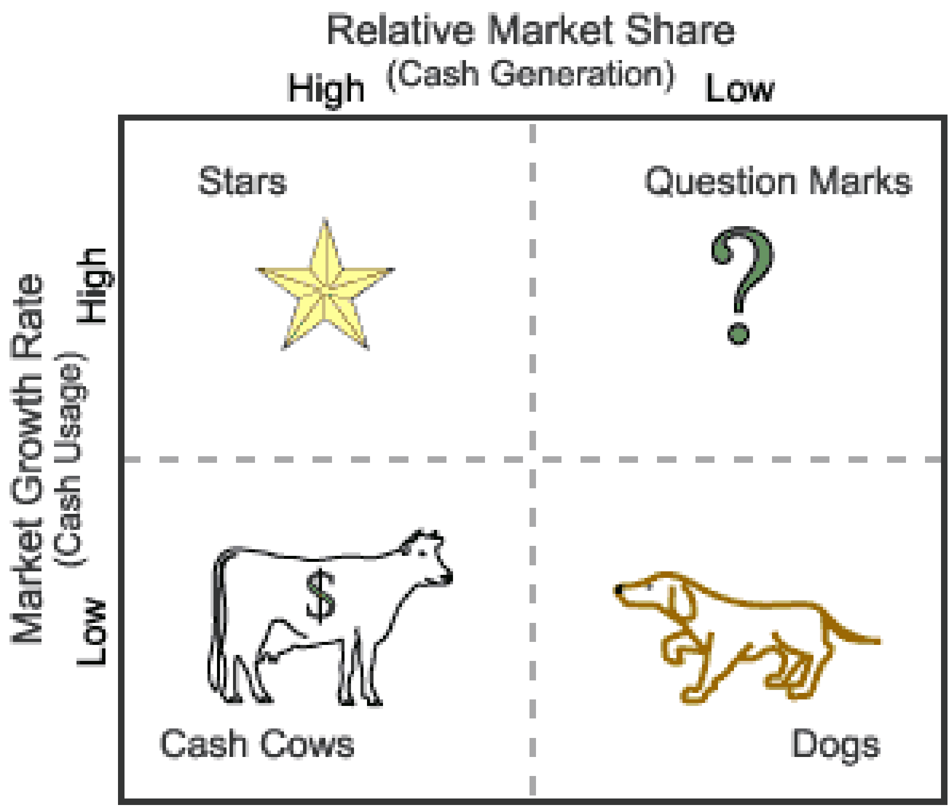
OVERALL INDUSTRY ATTRACTIVENESS

- ***Objective***
  + To review overall situation & develop conclusions about relative attractiveness or unattractiveness of the industry, both near- and long-term.
- ***Principle***
  + A firm uniquely well suited in an otherwise unattractive industry can, under certain circumstances, still earn unusually high profits.

OVERALL INDUSTRY ATTRACTIVENESS

- ***ASSESSING OVERALL INDUSTRY ATTRACTIVENESS***
- Industry’s market size & growth potential.
- Whether industry will be favorably or unfavorably impacted by driving forces.
- Potential for entry/exit of major firms.
- Stability/dependability of demand.
- Will competitive forces become stronger or weaker.
- Severity of problems facing industry.
- Degree of risk & uncertainty in industry’s future.

Portfolio Management: BCG Matrix



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Portfolio Management: BCG Matrix

- **Dogs**
  + These are businesses with a low share of a low growth market. These are the canine version of 'real turkeys!'. They do not generate cash for the company, they tend to absorb it. Get rid of these products.

- **Cash Cows**
  + These are businesses with a high share of a slow growth market. Cash Cows generate more than is invested in them. So keep them in your portfolio of products for the time being.

- **Problem Children / Questions Marks**
  + These are businesses with a low share of a high growth market. They consume resources and generate little in return. They absorb most money as you attempt to increase market share.

- **Stars**
  + These are businesses that are in high growth markets with a relatively high share of that market. Stars tend to generate high amounts of income. Keep and build your stars.

Portfolio Management: BCG Matrix

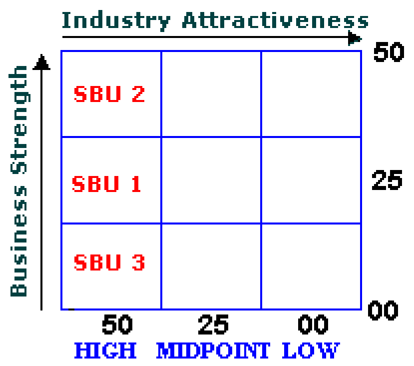
- Look for some kind of balance within your portfolio.

- Try not to have any Dogs.

- Cash Cows, Problem Children and Stars need to be kept in a kind of equilibrium. The funds generated by your Cash Cows is used to turn problem children into Stars, which may eventually become Cash Cows.

- Some of the Problem Children will become Dogs, and this means that you will need a larger contribution from the successful products to compensate for the failures.

GE-McKinsey Industry Attractiveness - Business Strength Matrix



INDUSTRY ATTRACTIVENESS

Rank	BUSINESS STRENGTH	HIGH	MED	LOW
	HIGH	INVEST & GROW Seek dominance Maximize Investment	SELECTIVITY GROWTH Identify growth area Invest in growth	SELECTIVITY Maintain position Seek cash position
	MED	SELECTIVE GROWTH Identify weaknesses Build on strengths	SELECTIVITY Specialize Invest selectively	HARVEST/DIVEST Prue lines Minimize Investment
	LOW	SELECTIVITY Specialize niche Seek acquisition	HARVEST/DIVEST Specialize niche Consider exit	HARVEST/DIVEST Attack rivals Time exit

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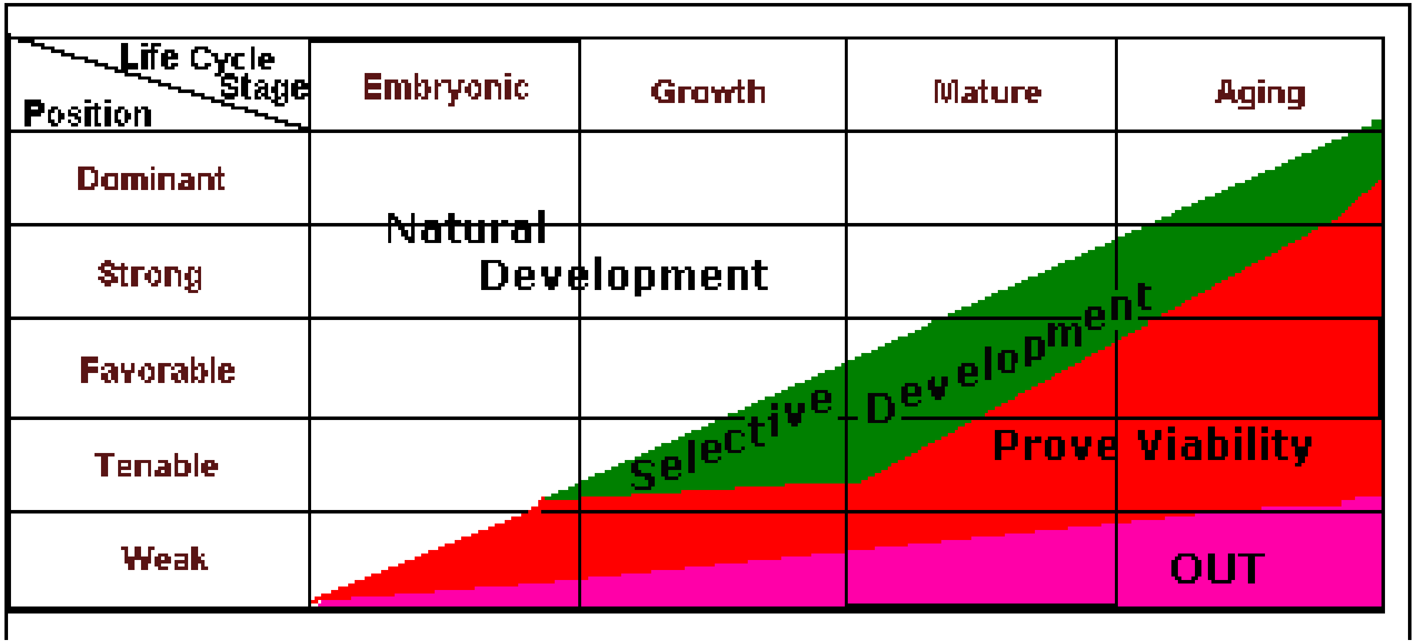
Portfolio Management:
Arthur D. Little Life Cycle Approach



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Portfolio Management: Arthur D. Little Life Cycle Approach

The competitive position of a company / SBU:

- a) **Dominant**: These are rare. Dominance often results from a near monopoly or protected leadership.
- b) **Strong**: A strong SBU can usually follow a strategy without consideration of rival counter moves.
- c) **Favorable**: The industry is fragmented. There is no clear leader among stronger rivals.
- d) **Tenable**: Typically the SBU has a niche, either geographical or defined by the product.
- e) **Weak**: Typically too small to be profitable or survive over the long term. May be a large firm, but suffers from prior mistakes or a critical weakness.

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Portfolio Management: Arthur D. Little Life Cycle Approach

STRATEGIC POSITIONING IN TERMS OF INVESTMENT REQUIREMENT

	EMBRYONIC	GRC		AGING
DOMINANT	Invest slightly faster than market share.	Invest to sustain growth rate or to preempt new rivals	Reinvest as necessary.	Reinvest as necessary.
STRONG	Invest as fast as market dictates..	Invest to increase growth rate and improve position.	Reinvest as necessary.	Minimum reinvestment or maintenance.
FAVORABLE	Invest selectively.	Selective investment to improve position.	Minimum and/or selective reim-bursement.	Minimum maintenance investment or disinvest.
TENABLE	Invest very selectively	Selective investment.	Minimum selective reinvestment.	Disinvest or divest.
WEAK	Invest or divest	Invest or divest.	Invest selectively or disinvest.	Divest.

Portfolio Management: Arthur D. Little Life Cycle Approach

STRATEGIC POSITIONING IN TERMS OF MARKET SHARE				
	EMBRYONIC	GROWTH	MATURE	AGING
DOMINANT	All out push for share. Hold position.	Hold position. Hold share.	Hold position. Grow with industry.	Hold position
STRONG	Attempt to improve position. All out push for share.	Attempt to improve position. Push for share.	Hold position. Grow with industry	Hold position or Harvest
FAVORABLE	Selective or all out push for share. Selectively attempt to improve position.	Attempt to improve position. Selective push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phased out withdrawal
TENABLE	Selectively push for position	Find niche and protect it.	Find niche and hang on, or phased out withdrawal	Phased out withdrawal, or Abandon
WEAK	Up or out.	Turnaround or abandon.	Turnaround, orphaned out withdrawal.	Abandon

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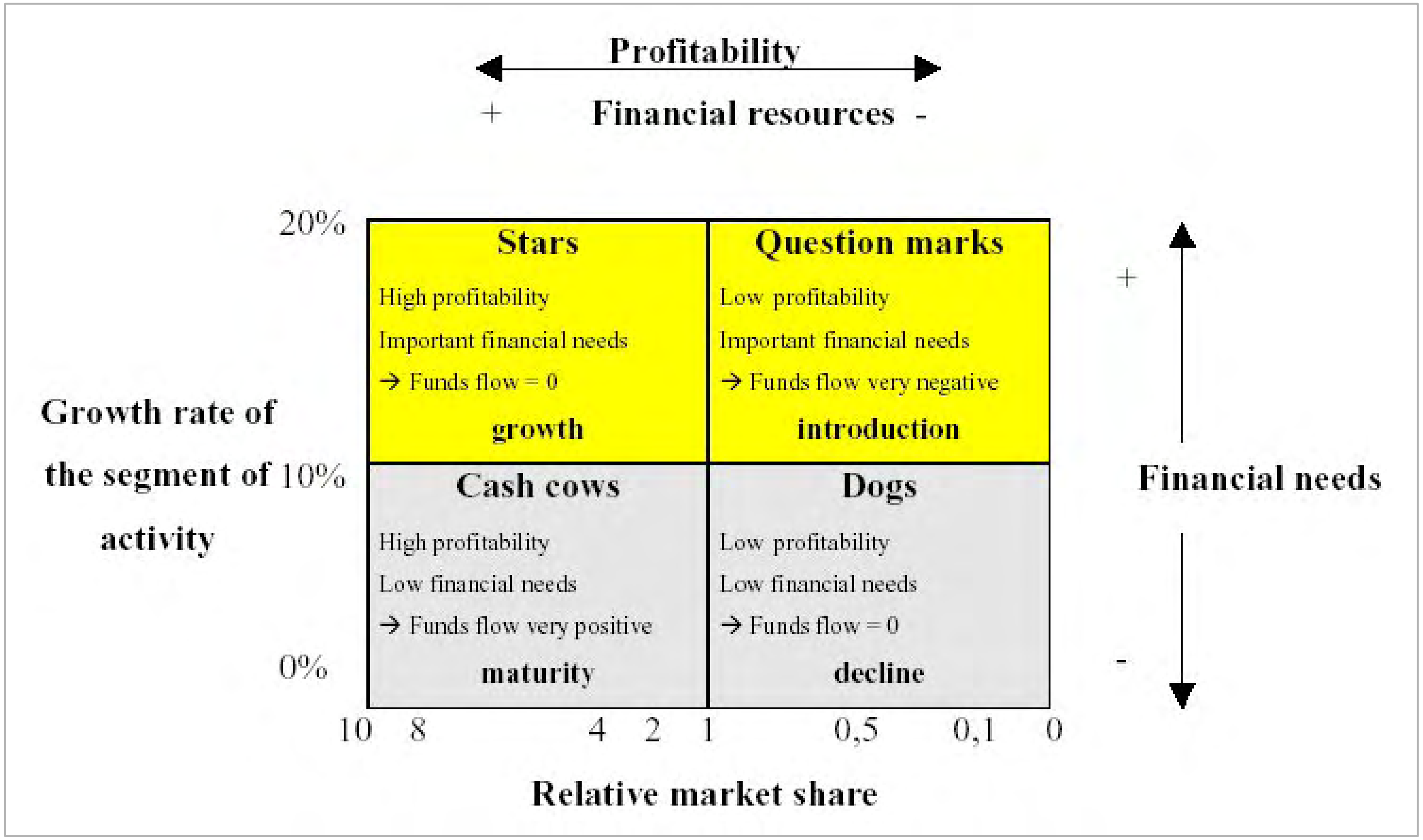
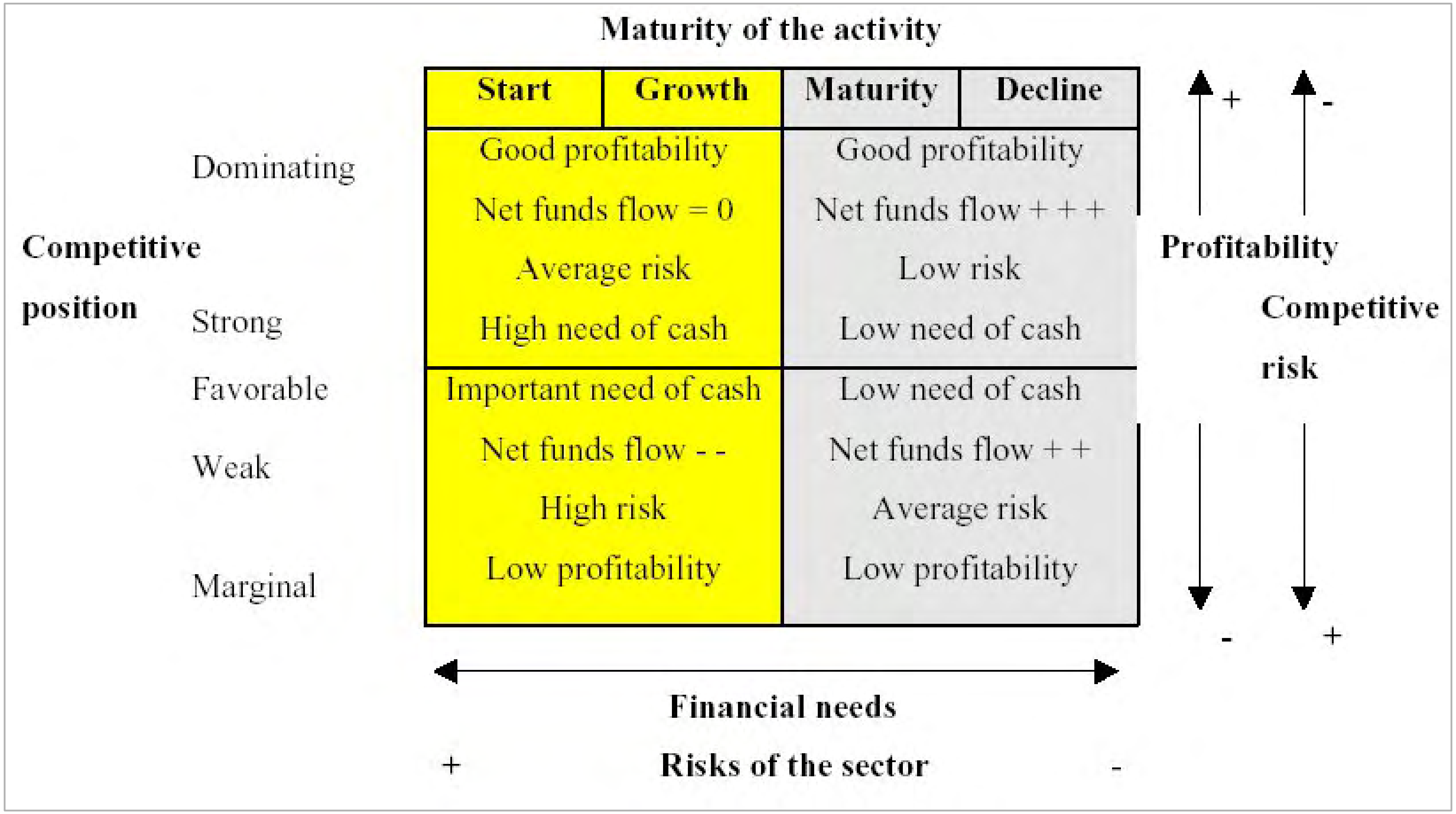
Portfolio Management: Arthur D. Little Life Cycle Approach

STRATEGIC POSITIONING IN TERMS OF PROFITABILITY AND CASH FLOW				
	EMBRYONIC	**GROWTH**	**MATURE**	**AGING**
DOMINANT	Probably profitable. Net cash borrower.	Profitable. Probably not cash producer.	Profitable. Net cash producer.	Profitable. Net cash producer.
STRONG	May be unprofitable. Net cash borrower.	Probably profitable. Probably not cash producer.	Profitable. Net cash producer.	Profitable. Net cash producer.
FAVORABLE	Probably unprofitable. Net cash borrower.	Marginally profitable. Net cash borrower.	Moderately profitable. Net cash producer	Moderately profitable. Cash flow balance.
TENABLE	Unprofitable. Net cash borrower.	Unprofitable. Borrower or cash balance,	Minimally profitable. Cash balance.	Minimally profitable. Cash balance.
WEAK	Unprofitable. Net cash borrower.	Unprofitable. Net cash borrower.	Unprofitable. Possibly net cash borrower.	Unprofitable.

BCG Financial Implications



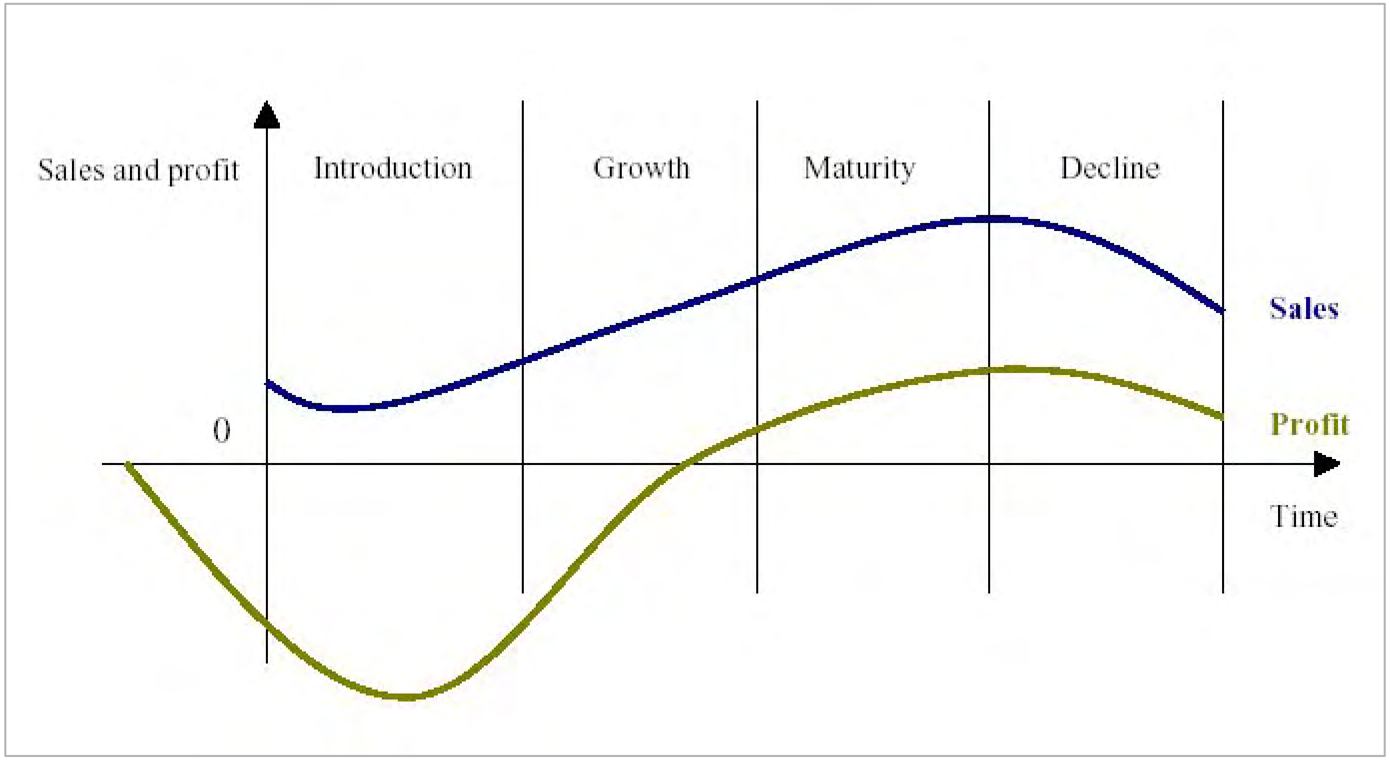
Life-Cycle & Financial Implications



Identification Of a Business‘ Life-Cycle Phase

Phases / Criteria	Start	Growth	Maturity	Decline
Growth rate	Average	High	Weak and stable	Null or negative
Growth potential	Important	Important	Non-existing	Negative
Number of competitors	Low to important	Important	Low	Low
Competitive structure and stability of the positions	Repartee and volatile	Crystallization of the positions	Stability of the leaders	Oligopoly
Technology	Stammering	Evolving	Fixed	Fixed
Access	Easy	Possible	Very difficult	Without interest
Typical strategies	Innovate or copy	Invest in market shares	Profitability	Milk

Life-Cycle & Sales/Profit Profile



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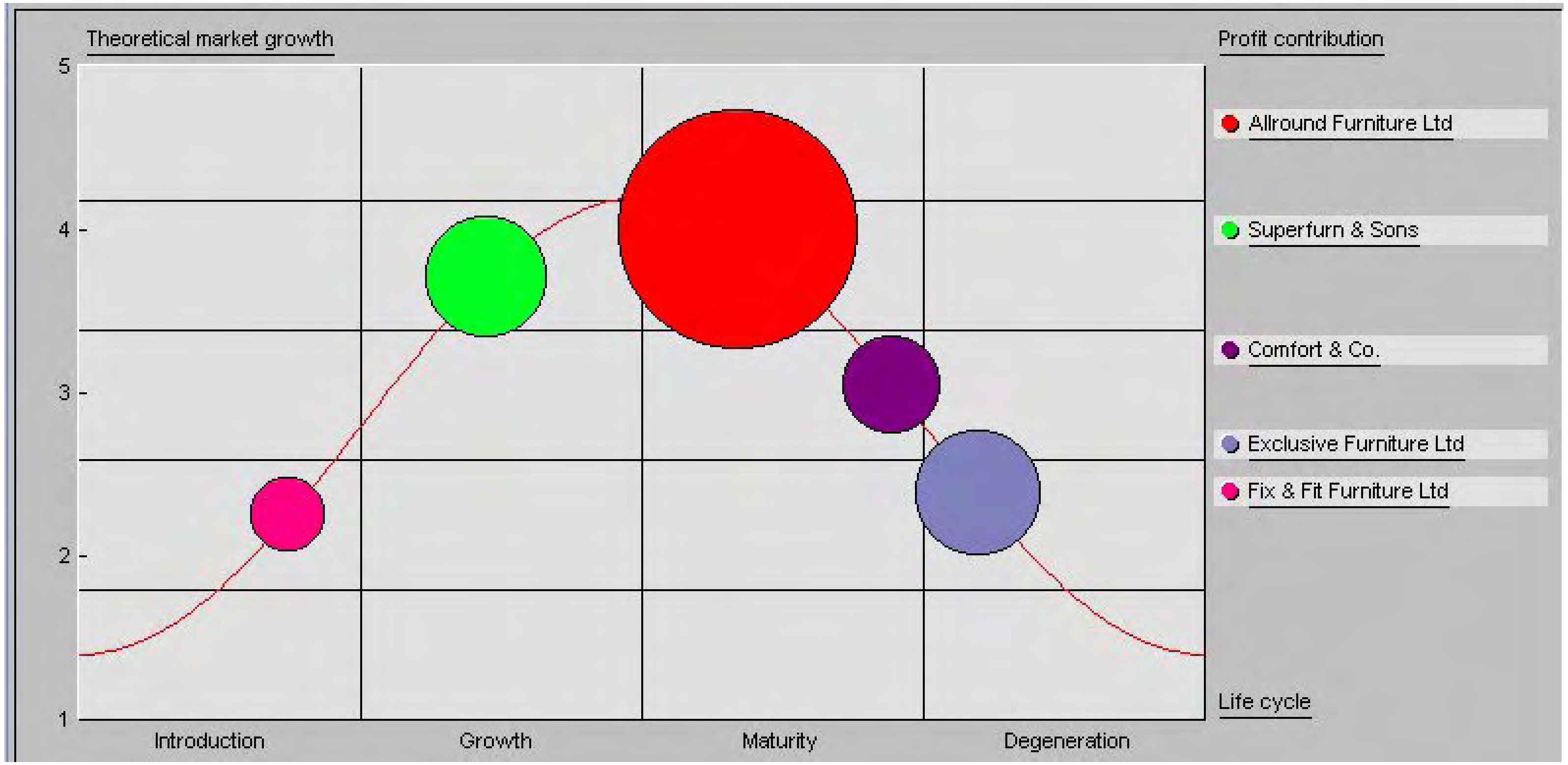
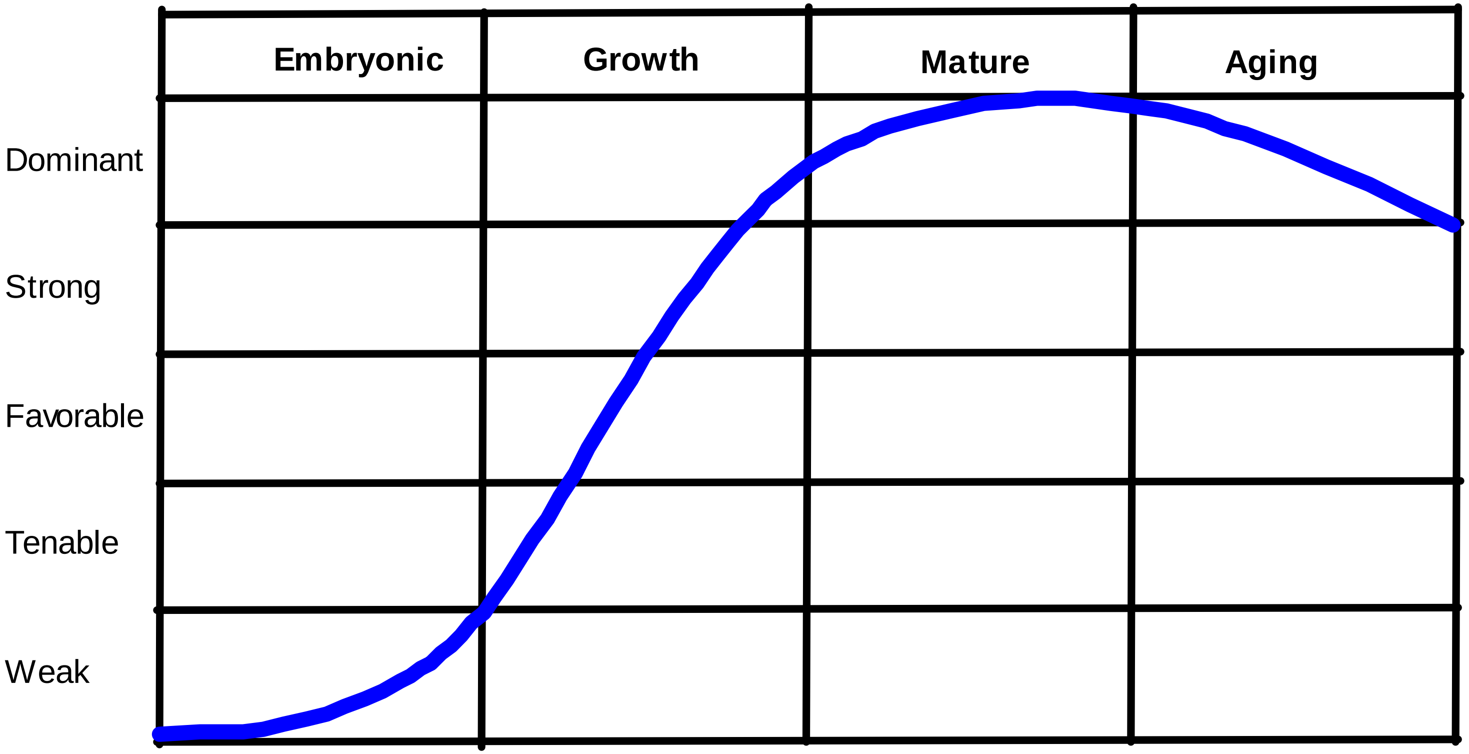


Teamwork 4

- **„Tell It On The Mountain“**, a small travel agency specialised in mountain walking tours with high potential for internet services
- **„Bakery One“**, an old and well established bakery
- **„Green Cross“,** the leading local pharmacy with internet-minded management
- **„Heaven Print“**, a small book printing company highly specialised in printing black & white religious literature
- **„catch me if you can“**, a young internet based dating service for singles
- **„Silver Line“,** an internet shop providing specific consumer goods dedicated to senior people
- **„Mr. Fix It“**, the only local repair service for housing and gardening

Portfolio


Embryonic
Growth
Mature
Aging
Dominant
Strong
Favorable
Tenable
Weak


Heaven Print
Bakery One
Green Cross
S. L.
CM IYC
Tell It...
Mr. F.I.

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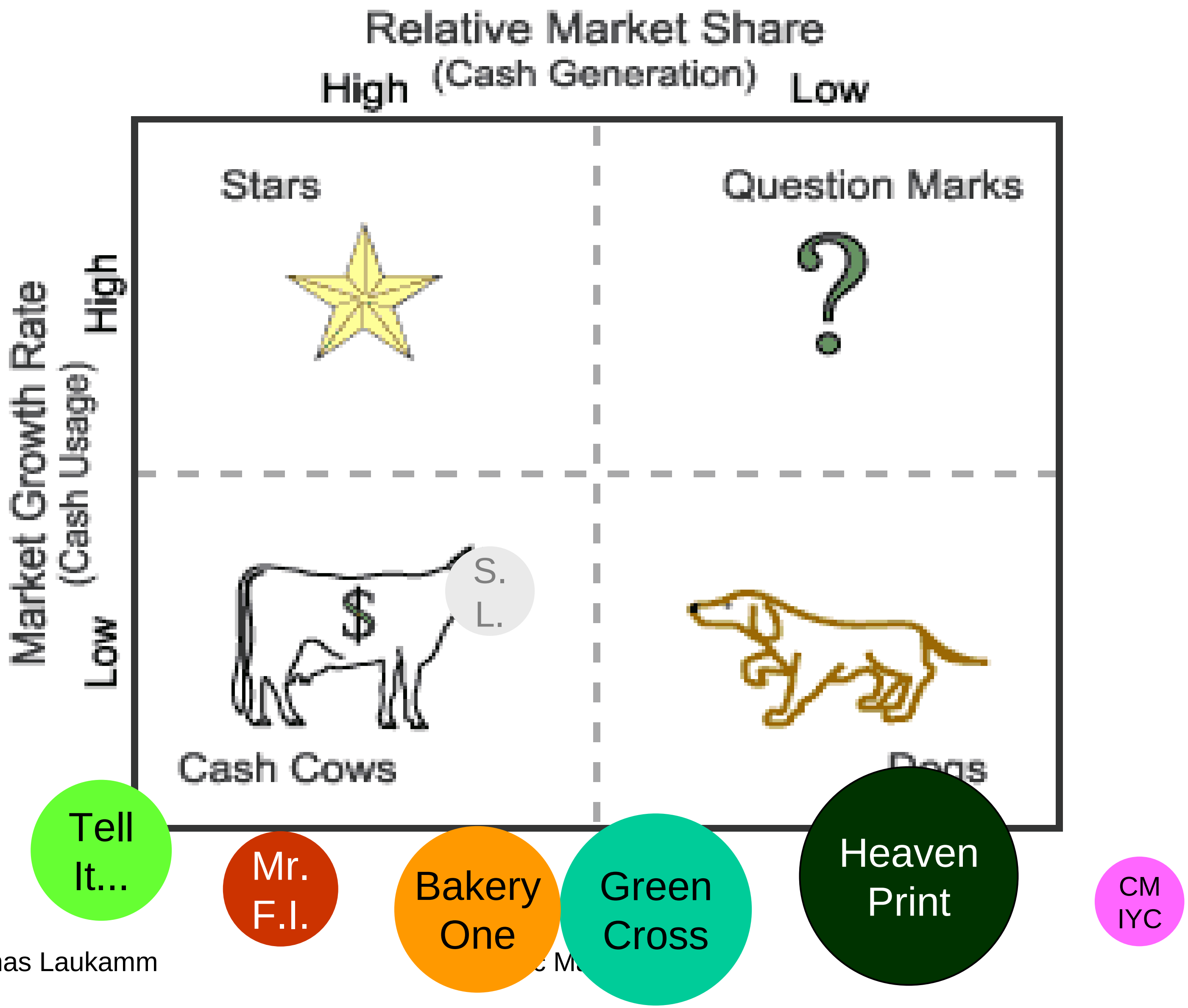
Portfolio



Three stakeholder groups

Capital market stakeholders

- Shareholders
- Major suppliers of capital (e.g. banks)

Product market stakeholders

- Primary customers
- Suppliers
- Host communities
- Unions

Organisational stakeholders

- Employees
- Managers
- Non-managers

Generic Strategies

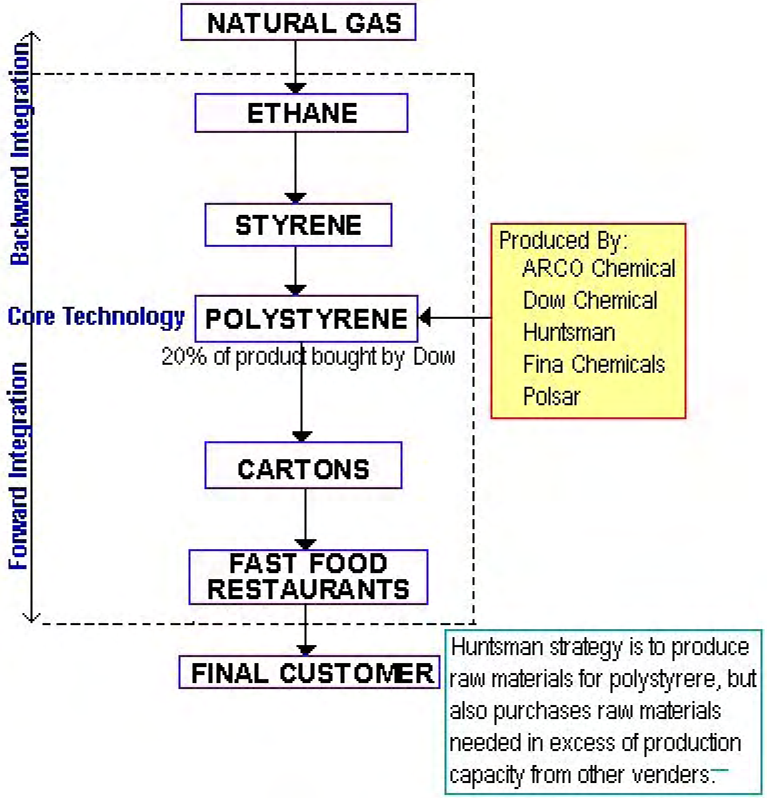
Strategies

Vertical Integration Strategies

- Forward integration
- Backward integration
- Horizontal integration

Vertical Integration Example

VERTICAL INTEGRATION IN THE STYRENE CARTON INDUSTRY



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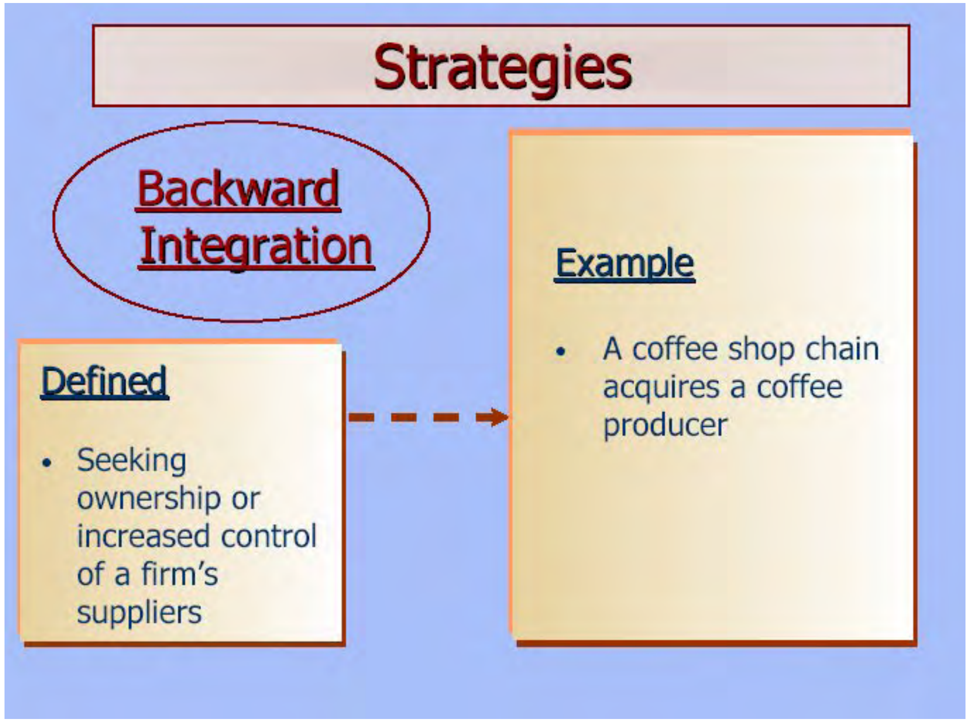
Generic Strategies



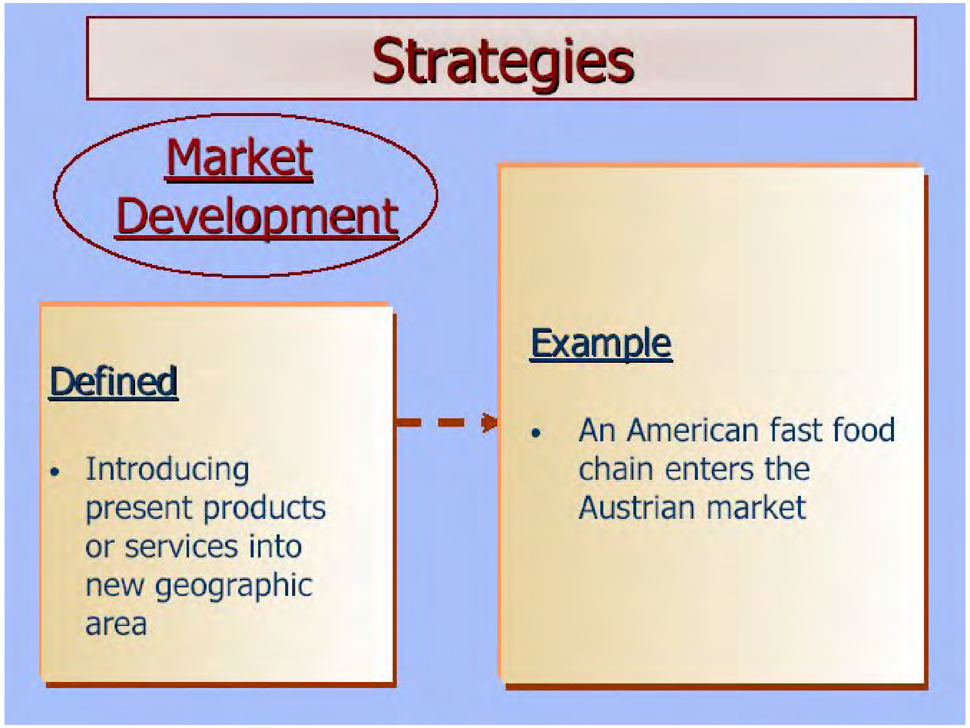
Generic Strategies

Strategies

Intensive Strategies

- Market penetration
- Market development
- Product development

Generic Strategies



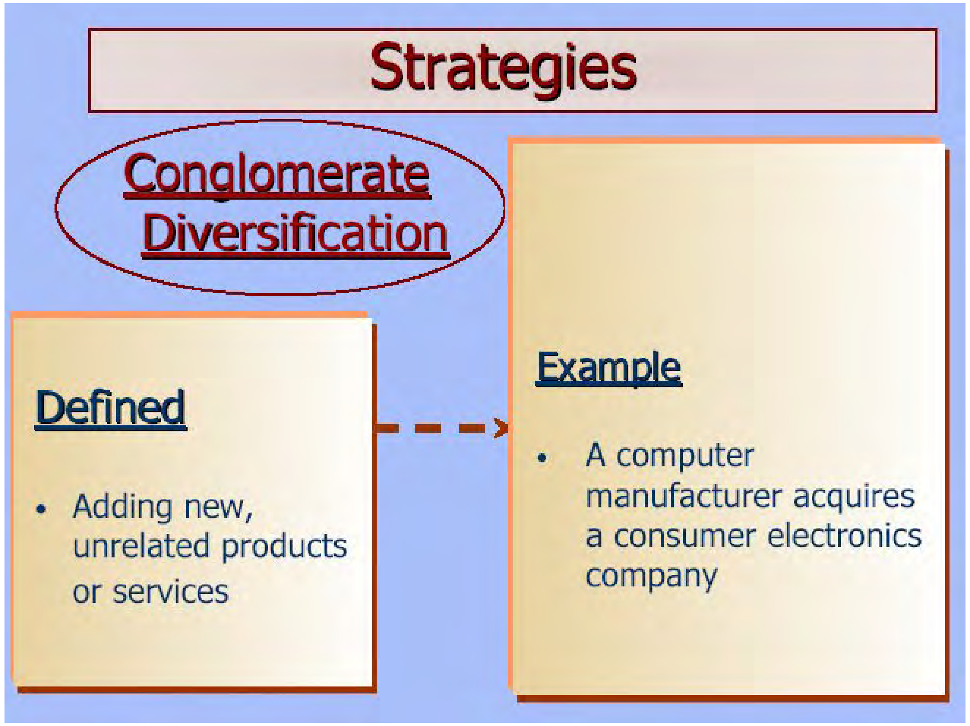
Generic Strategies

Strategies

Diversification Strategies

- Concentric diversification
- Conglomerate diversification
- Horizontal diversification

Generic Strategies



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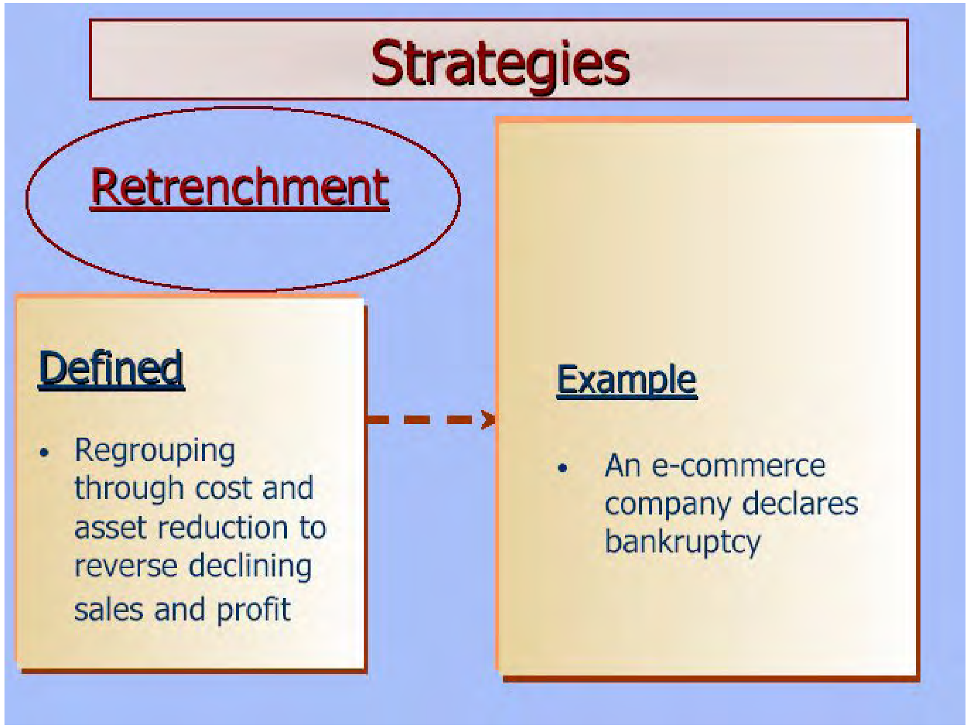
Generic Strategies

Strategies

Defensive Strategies

- Joint venture
- Retrenchment
- Divestiture
- Liquidation

Generic Strategies



Generic Strategies

Strategies

Liquidation

Defined

- Selling all of a company's assets, in parts, for their tangible worth

Example

- After having lost its lease, a small pub sold all its assets and ceased business.

Generic Strategies

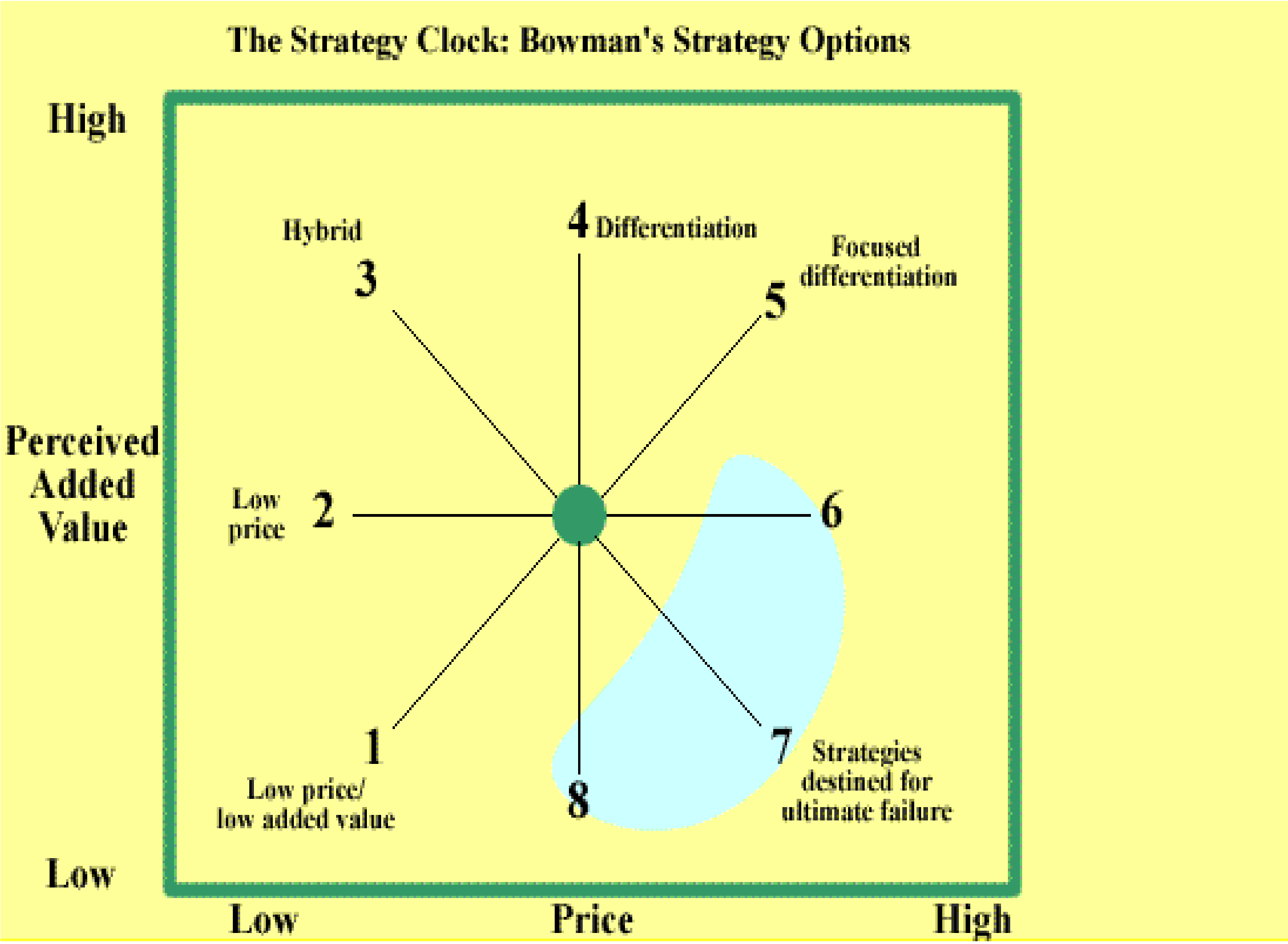
Grand Strategy Matrix

RAPID MARKET GROWTH

	Quadrant II	Quadrant I	
WEAK COMPETITIVE POSITION	• Market development • Market penetration • Product development • Horizontal integration • Divestiture • Liquidation	• Market development • Market penetration • Product development • Forward integration • Backward integration • Horizontal integration • Concentric diversification	STRONG COMPETITIVE POSITION
	Quadrant III	**Quadrant IV**	
	• Retrenchment • Concentric diversification • Horizontal diversification • Conglomerate diversification • Liquidation	• Concentric diversification • Horizontal diversification • Conglomerate diversification • Joint ventures	

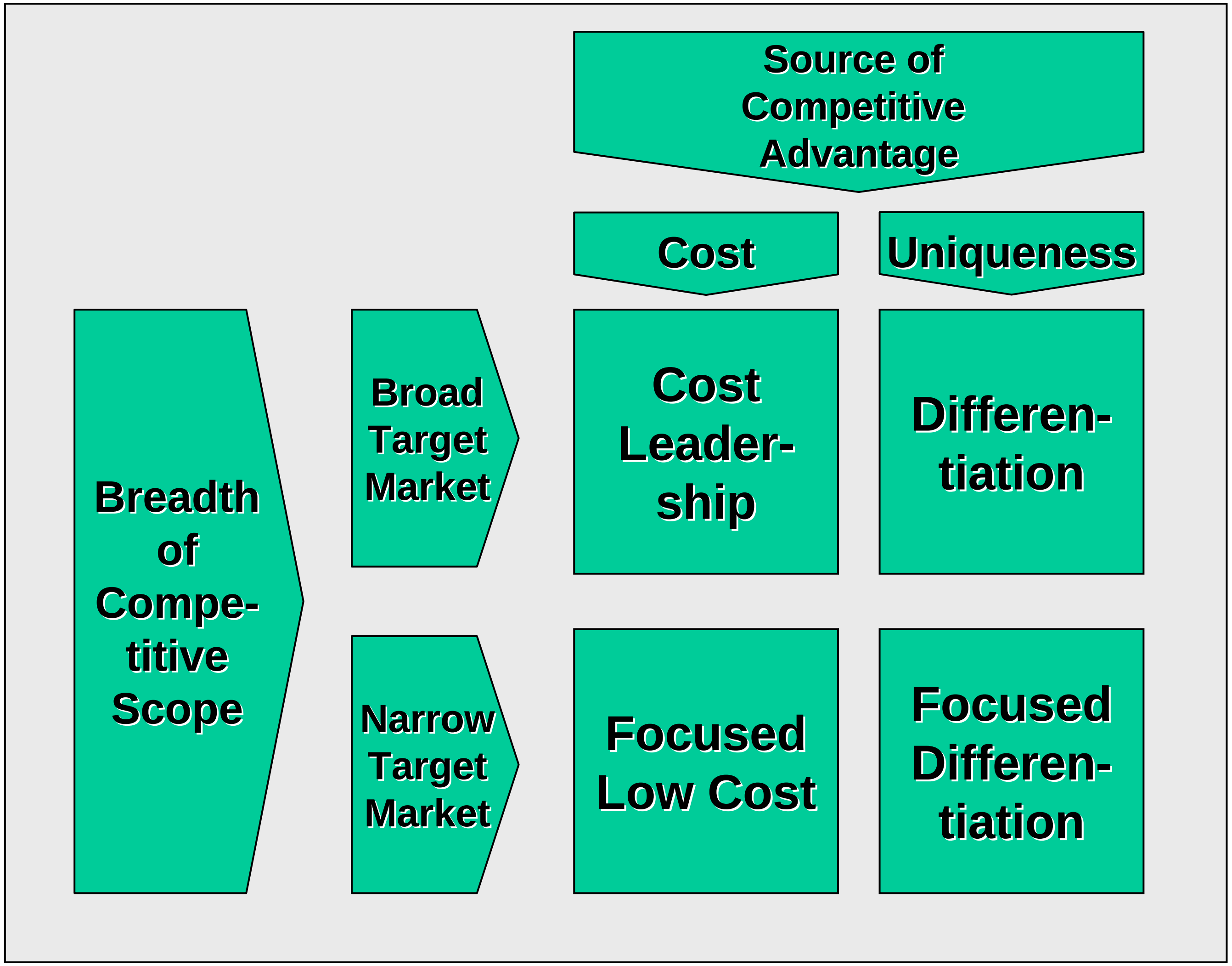
SLOW MARKET GROWTH

Generic Strategies



Generic Strategies

Generic Business Strategies



How to Obtain a Cost Advantage

Determine and Control *Cost Drivers*
Reconfigure the *Value Chain* as needed

- Alter production process
- Change in automation
- New distribution channel
- New advertising media
- Direct sales in place of indirect sales

- New raw material
- Forward integration
- Backward integration
- Change location relative to suppliers or buyers

Factors Driving Costs

- Economies of scale
- Asset utilisation
- Capacity utilisation pattern: Seasonal, cyclical
- Interrelationships: Order processing and distribution
- Value chain linkages:
  - Advertising & sales
  - Logistics & operations

- Product features
- Performance
- Mix & variety of products
- Service levels
- Small versus large buyers
- Process technology
- Wage levels
- Product features
- Hiring, training, motivation

Factors Driving Costs

Three Key Questions

- **How can an activity be performed differently or even eliminated?**
- **How can linked value activities be regrouped or reordered?**
- **How might coalitions with other firms lower or eliminate costs?**

Effective Cost Leaders can remain profitable even when the *Five Forces* appear unattractive

- **You can frighten off new entrants due to the need to:**
  + **Enter at large scale to be cost competitive**
  + **Take time to move through the 'learning curve'**

Threat of New Entrants

Effective Cost Leaders can remain profitable even when the *Five Forces* appear unattractive

- **Can decrease buyer power by:**
  - **Driving prices far below competitors' prices, which may cause them to exit and so shift power back to your firm**

Effective Cost Leaders can remain profitable even when the *Five Forces* appear unattractive

Be well-positioned relative to substitutes in order to:

- **Make investments to create substitutes first**
- **Buy patents developed by potential substitutes**
- **Lower prices to maintain value position**

Threat of Sub-stitute Products

Effective Cost Leaders can remain profitable even when the *Five Forces* appear unattractive

You can decrease supplier power:

- **Low-cost position makes them better able to absorb cost increases**
- **More likely to make very large purchases, which reduces chance of supplier power**

Bargaining Power of Suppliers

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Effective Cost Leaders can remain profitable even when the *Five Forces* appear unattractive

- **Competitors avoid price wars with cost leaders, which creates higher profits for entire industry**

Rivalry in Industry

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The Major Risks involved with a Cost Leadership Business Strategy

- **Dramatic technological change could take away your cost advantage**
- **Competitors may learn how to imitate value chain**
- **Focus on efficiency could cause cost leader to overlook changes in customer preferences**

Cost Leadership Strategies at Aldi

- **discount supermarket Aldi is using a cost leadership strategy to enter markets**
- **other supermarkets carry an average of 30 000 product lines, but Aldi carries only about 600 of the most popular lines**
- **Costs are minimised due to economies of scale in handling low numbers of lines, and because suppliers are on tight long-term contracts**

Differentiation Business Strategy

Key Criteria:

- **Value provided by unique features and value characteristics**
- **Ability to command premium price**
- **High-level customer service**
- **Superior quality Prestige or exclusivity**
- **Rapid innovation**

Differentiation Business Strategy

Requirements

Constant effort to differ-entiateproducts through:

- **Developing new systems and processes**
- **Shaping perceptions through advertising**
- **Quality focus**
- **Capability in R&D**
- **Maximising HR contributions through low turnover and high motivation**

Differentiation Business Strategy

Inbound Logistics

- **Superior handling of incoming raw materials to minimise damage and improve the quality of the final product**

Outbound Logistics

- **Accurate and responsive order-processing procedures**
- **Rapid and timely product deliveries to customers**

Operations

- **Consistent manufacturing of attractive products**
- **Rapid responses to customers' unique manufacturing specifications**

Marketing & Sales

- **Strong Coordination among functions in R&D, Marketing and Product Development**
- **Extensive personal relationships with buyers**
- **Premium Pricing**

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Differentiation Business Strategy

Service

- **Complete field Superior stocking of**
- **replacement parts**

Procurement

- **Systems and procedures used to find the highest quality raw materials**
- **Purchase of highest quality replacement parts**
- **Located in close proximity to suppliers**

Technological Development

- **Strong capability for basic research**
- **Investments in technologies to produce highly differentiated products**
- **Coordination among R&D, marketing and product development**

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Differentiation Business Strategy

Human resource mangement

- **Compensation programs that encourage worker creativity and productivity**
- **Extensive use of subjective performance measures**
- **Superior personnel training**

Firm infrastructure

- **Highly developed Information Systems to better understand customers' purchasing preferences**
- **A company-wide emphasis on producing high-quality products**

Drivers of Differentiation

Lowering Buyers’ Costs
Raising Buyers’ Performance

Examples
- Unique product features
- Unique product performance
- Exceptional service
- New technologies
- Quality of inputs
- Exceptional skill or experience
- Detailed information

Effective Differentiators can remain profitable even when the *Five Forces* appear unattractive

You can fend off New Entrants because:

- **New products must surpass proven products, or be equal in performance at a lower price**

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Effective Differentiators can remain profitable even when the *Five Forces* appear unattractive

You are well positioned relative to *substitutes* because:

- **Brand loyalty tends to reduce new-product trial and brand switching**

Threat of Substitute Products

Effective Differentiators can remain profitable even when the *Five Forces* appear unattractive

You can decrease buyer power because:

- **Well-differentiated products reduce customer sensitivity to price increases**

Bargaining Power of Buyers

Effective Differentiators can remain profitable even when the *Five Forces* appear unattractive

You can decrease supplier power by:

- **Absorbing price increases due to higher margins**
- **Passing on higher supplier prices because buyers are brand-loyal**

Bargaining Power of Suppliers

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Effective Differentiators can remain profitable even when the *Five Forces* appear unattractive

- **Brand loyalty overcomes much price competition**

Rivalry in Industry

The Major Risks involved with a Differentiation Business Strategy are:

- **Customers may decide that the cost of ‘uniqueness’ is too great**
- **Competitors may learn how to imitate value chain**
- **The means of uniqueness may no longer be valued by customers**

Focused Business Strategies

Focused Business Strategies involve the same basic approach as Broad Market Strategies

- **However, opportunities may exist because:**
  - + **Large firms may overlook small niches**
  - + **Firms may lack resources to compete industry-wide**

- **A firm may be able to serve a narrow market segment more effectively than industry-wide competitors**
- **Focus can allow you to direct resources to certain value-chain activities to build competitive advantage**
- **May be able to retrofit old factories to keep costs down**
- **Minimise R&D costs by copying innovators**
- **Focused differentiators may thrive by selecting a small market that is under-served by large players**

Focused Business Strategies

- **Example: Custom manufacturers of parts for Harley-Davidson motorcycles**

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The Major Risks involved with a Focused Business Strategy are:

- **Firm may be‘outfocused’ by competitors**
- **A large competitor may set its sights on your niche market**
- **Preferences of niche market may change to match those of broad market**

Focused Differentiation Business Strategy

- LOEWE
- Bang & Olufsen

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Integrated Low-Cost/Differentiation Strategy

Firms using an integrated strategy may:

- **Adapt more quickly Learn new skills and technologies**
- **Utilise flexible manufacturing systems to create differentiated products at low cost Leverage core competencies through information networks across multiple business units**
- **Utilise total quality management (TQM) to create high-quality differentiated products while simultaneously driving down costs**
- **Recognise that the integrated low-cost/ differentiation business strategy involves a compromise**
- **The risk is that the firm may become ‘stuck in the middle’, lacking a strong commitment to or expertise in either type of generic strategy**

Integrated Low-Cost/Differentiation Strategy

Budget Airlines

- Use a single aircraft model
- Use secondary airports
- Fly short routes
- No meals
- Short turnaround times
- No reserved seats
- No travel agent reservations

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COMPETITIVE STRATEGY IN FRAGMENTED INDUSTRIES

- **What makes an Industry fragmented?**
  - + Low Overall entry barriers
  - + Absence of Economies of Scale or Experience Curve
  - + High transportation costs
  - + High inventory costs or erratic sales flunctuations.
  - + No advantages of size in dealing with buyers or suppliers
  - + Diseconomies of scale
  - + Low overhead
  - + Diverse product
  - + Heavy creative content
  - + Close local control
  - + Personal service
  - + Local image and contacts
  - + Diverse market needs
  - + High product differentiation
  - + Exit barriers
  - + Local regulations or government prohibition of concentration
  - + Newness

COMPETITIVE STRATEGY IN FRAGMENTED INDUSTRIES

- Overcoming Fragmentation

+ Common approaches to consolidation
    - Create economies of scale or Experience Curve
    - Standardize diverse market needs
    - Neutralize or split off aspects of fragmentation.
    - Make acquisitions for a critical mass
    - Recognize industry trends (early)

+ Industries that are „stuck": reasons:
    - Missing resources or skills
    - Firms are short-sighted or complacent *(selbstgefällig)*
    - Lack of attention by other firms

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COMPETITIVE STRATEGY IN FRAGMENTED INDUSTRIES

- **Coping with Fragmentation**
  + Some possible strategic alternatives:
    - Tightly managed decentralization
    - „formula" facilities
    - Increased value added
    - Specialization by product type / product segment
    - Specialization by customer type
    - Specialization by type of order
    - A focused geographic area
    - Bare bones / no frills
    - Backward integration

- **Potential Strategic Traps**
  + Seeking dominance
  + Lack of strategic discipline
  + Overcentralization
  + Missing strategy concerning competitor´s overhead and objectives
  + Overreactions to new products

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COMPETITIVE STRATEGY IN EMERGING INDUSTRIES

- **The Structural Environment**
  + Common Structural Characteristics
  + Early mobility barriers

- **Problems Constraining Industry Development**
  + Inability to obtain raw materials and components
  + Period of rapid escalation of raw materials prices
  + Absence of infrastructure
  + Absence of product or technological standardization
  + Perceived likelihood of obsolescence
  + Customers` confusion
  + Erratic product quality
  + Image and credibility with the financial community
  + Regulatory approval
  + High costs
  + Response of threatened entities

COMPETITIVE STRATEGY IN EMERGING INDUSTRIES

- **Early and Late Markets**
  - + Nature of the benefit
  - + State of the art for significant benefits
  - + Cost of product failure
  - + Introduction or switching costs
  - + Suppoert services
  - + Cost of obsolescence
  - + Asymmetric government, regulatory or labor barriers
  - + Resources to change
  - + Perception of technological change
  - + Personal risk to the decision maker

- **Strategic Choices**
  - + Shaping industry structure
  - + Externalitities in industry development
  - + Changing role of suppliers and channels
  - + Shifting mobility barriers

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THE TRANSITION TO INDUSTRY MATURITY

- Industry Change during Transition

<u>Probable tendencies:</u>

+ Slowing growth means more competition for market share
+ Firms in the industry increasingly are selling to experienced, repeat buyers
+ Competitoin often shifts toward grater emphasis on cost and service
+ There is a topping-out problem in adding industry capacity and personnel.
+ Undergoing changes in e.g. manufacturing, marketing, selling.
+ International competition increases
+ Industry profits often fall during the transition period
+ Dealers´ margins fall, but their power increases

THE TRANSITION TO INDUSTRY MATURITY

- **Some Strategic Implications of Transition**
  + Rationalizing the product mix
  + Correct Prizing
  + Process Innovation
  + Increasing scope of Purchases
  + Buy cheap assets
  + Buyer selection
  + Different cost curves
  + Competiting internationally

- **Strategic Pitfalls in Transition**
  + Company´s self-perceptions
  + Caught in the middle
  + The cash trap
  + Giving up market share too easily
  + Resentment and irrational reaction to market prices.
  + Resentment ans irrational reactions to changes in industry practices
  + Overemphasis on „creative“, „new“ products
  + Clinging to „higher quality“
  + Overhanging excess capacity

THE TRANSITION TO INDUSTRY MATURITY

- Organizational Implications of Maturity
  - + Scaled down expectations for financial performance
  - + More discipline from the organization
  - + Scaled-down expectations for advancement
  - + More intention on the human dimension
  - + Recentralization

- Industry Transition and the Management and Human Ressources

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COMPETITIVE STRATEGY IN DECLINING INDUSTRIES

- Structural Determinants of Competition in Decline

  + **Conditions of demand**
    - Uncertainty
    - Rate and Pattern of decline
    - Structure of remaining demand pockets
    - Causes of decline
  + **Exit barriers**
    - Durable and specialized assets
    - Fixed costs of exit
    - Strategic exit barriers
    - Access to financial markets
    - Vertical integration
    - Information barriers
    - Managerial or emotional barriers
    - Government and social barrers
    - Mechanism for asset disposition

COMPETITIVE STRATEGY IN DECLINING INDUSTRIES

- Strategic Alternatives in Decline
  + Leadership
  + Niche
  + Harvest
  + Quick Divestment
- Choosing a Strategy for Decline
- Pitfalls in Decline
  + Failure to recognize decline
  + A war of attrition
  + Harvesting without clear strengths
- Preparing for Decline
- Human Ressources

COMPETITION IN GLOBAL INDUSTRIES

Sources and Obstacles to Global Competition

+ Sources of global competitive advantage
  - Comparative Advantage
  - Production economies of scale
  - Global experience
  - Logistical economies of scale
  - Marketing economies of scale
  - economies of scale in purchasing
  - Product differentiation
  - Proprietary product technology
  - Mobility of production

Impediments to Global Competition

<u>Economic obstacles:</u>

- Transportation and Storage Costs
- Differing product needs
- Established distribution channels
- Sales force
- Local repair
- Sensitivity to lead times
- Complex segmentation within geographic markets
- Lack of world demand

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COMPETITION IN GLOBAL INDUSTRIES

Managerial obstacles:

- Differing marketing tasks
- Intensive local services
- Rapidly changing technology

Institutional obstacles:

- Governmental impediments
- Perceptual or resource impediments

Evolution to Global Industries

+ Environmental triggers to globalization
+ Strategic innovations stimulating gobalization
+ Access to the U.S. market

- Competition in Global Industries
  + Industrial Policy and competitive behavior
  + Relationships with host governments in major markets
  + Systematic competition
  + Difficulty in competitor analysis

COMPETITION IN GLOBAL INDUSTRIES

- **Strategic Alternatives in Global Industries**
  + Broad Line Global Competition
  + Global focus
  + National focus
  + Protected Niche

- **Trends Affecting Global Competition**
  + Reduction in differences among countries
  + More agressive industrial policy
  + National recognition and protection of distinctive assets
  + Freer flow of technology
  + Gradual emergence of new large-scale markets
  + NDC competition
- **Human Ressources**

ENTRY INTO NEW BUSINESSES

- **Entry through Internal Development**
  + Will Retaliation occur?
  + Identifying target industries for internal entry
  + Generic concepts for entry

- **Entry through Acquisition**
  + The hight of the floor price
  + Imperfections in the market for companies
  + Unique ability to operate the seller
  + Irrational bidders

- **Sequenced Entry**

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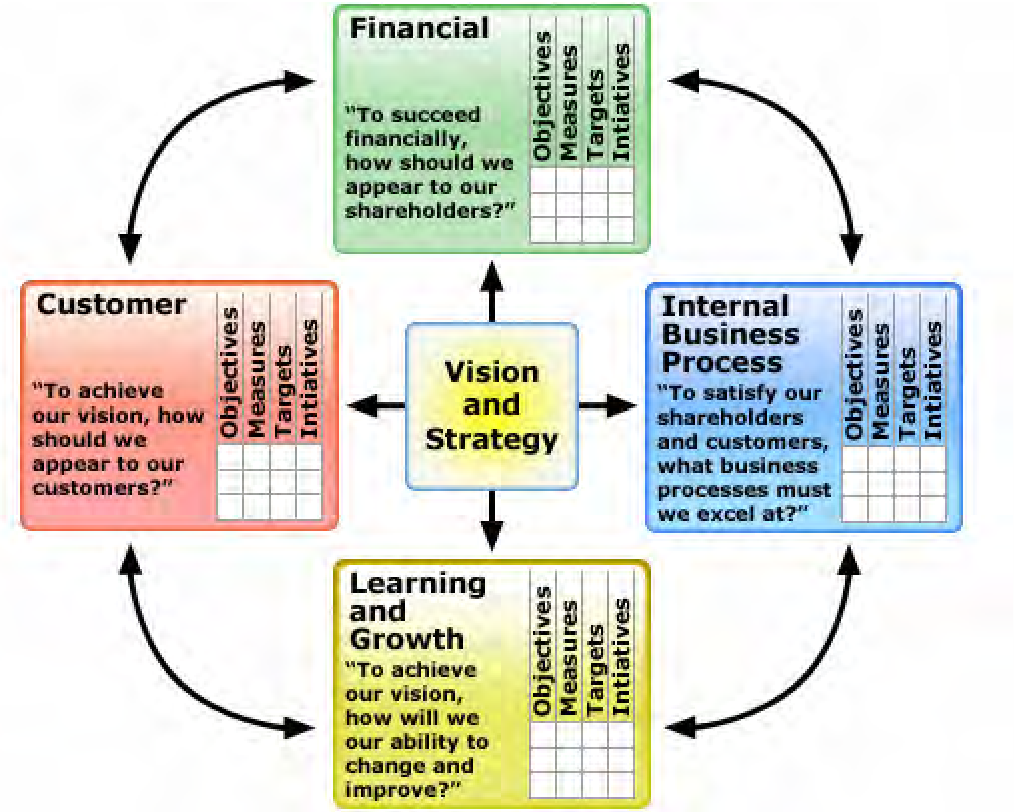
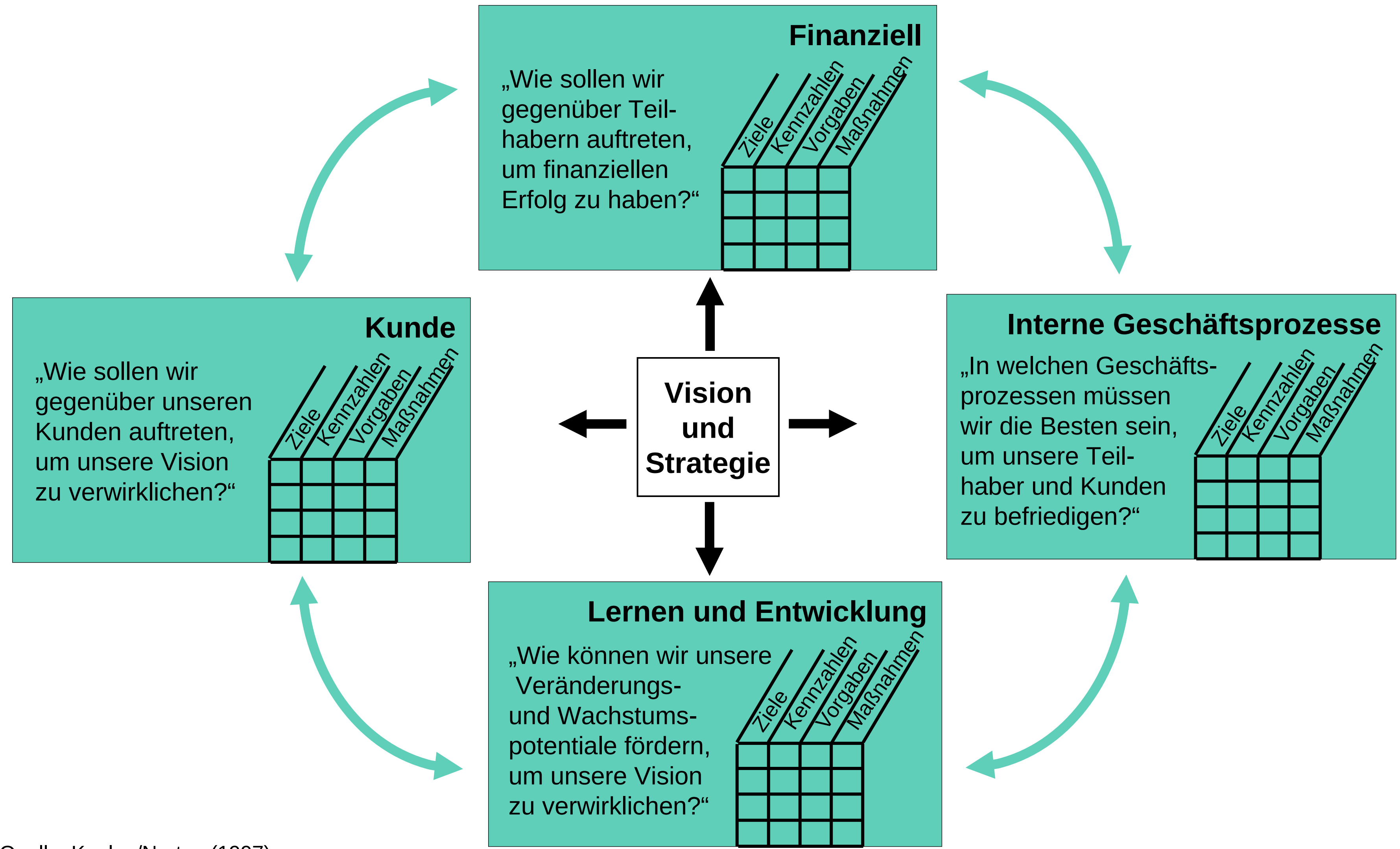
Balanced Scorecard as a Strategic Management System

Balanced Scorecard



Aufbau/Struktur



Quelle: Kaplan/Norton (1997)

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Examples of Measurements

Stakeholder / Customer

- **Current customer satisfaction level**
- **Improvement in customer satisfaction**
- **Customer retention rate**
- **Frequency of customer contact by customer service**
- **Average time to resolve a customer inquiry**
- **Number of customer complaints**

Internal Processes

- **Number of unscheduled maintenance calls**
- **Production time lost because of maintenance problems**
- **Percentage of equipment maintained on schedule**
- **Average number of monthly unscheduled outages**
- **Mean time between failures**

Learning and Growth

- **Percentage employee absenteeism**
- **Hours of absenteeism**
- **Job posting response rate**
- **Personnel turnover rate**
- **Ratio of acceptances to offers**
- **Time to fill vacancy**

Investments

- **% of facility assets fully funded for upgrading**
- **% of IT infrastructure investments approved**
- **# of new hire positions authorized for filling**
- **% of required contracts awarded and in place**

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Using the Balanced Scorecard as a Strategic Management System

How One Company Built a Strategic Management System...

2A *Communicate to Middle Managers:* The top three layers of management (100 people) are brought together to learn about and discuss the new strategy. The balanced scorecard is the communication vehicle. *(months 4 - 5)*

2B *Develop Business Unit Scorecards:* Using the corporate scorecard as a template, each business unit translates its strategy into its own scorecard. *(months 6 - 9)*

5 *Refine the Vision:* The review of business unit scorecards identifies several cross-business issues not initially included in the corporate strategy. The corporate scorecard is updated. *(month 12)*

Time Frame *(in months)*

0	1	2	3	4	5	6	7	8	9	10	11	12

Actions:

1 *Clarify the Vision:* Ten members of a newly formed executive team work together for three months. A balanced scorecard is developed to translate a generic vision into a strategy that is understood and can be communicated. The process helps build consensus and commitment to the strategy.

3A *Eliminate Nonstrategic Investments:* The corporate scorecard, by clarifying strategic priorities, identifies many active programs that are not contributing to the strategy. *(month 6)*

3B *Launch Corporate Change Programs:* The corporate scorecard identifies the need for cross-business change programs. They are launched while the business units prepare their scorecards. *(month 6)*

4 *Review Business Unit Scorecards:* The CEO and the executive team review the individual business units' scorecards. The review permits the CEO to participate knowledgeably in shaping business unit strategy. *(months 9 - 11)*

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Using the Balanced Scorecard as a Strategic Management System

7 *Update Long-Range Plan and Budget:* Five-year goals are established for each measure. The investments required to meet those goals are identified and funded. The first year of the five-year plan becomes the annual budget. *(months 15 - 17)*

9 *Conduct Annual Strategy Review:* At the start of the third year, the initial strategy has been achieved and the corporate strategy requires updating. The executive committee lists ten strategic issues. Each business unit is asked to develop a position on each issue as a prelude to updating its strategy and scorecard. *(months 25 - 26)*

13 14 15 16 17 18 19 20 21 22 23 24 25 26

6A *Communicate the Balanced Scorecard to the Entire Company:* At the end of one year, when the management teams are comfortable with the strategic approach, the scorecard is disseminated to the entire organization. *(month 12 - ongoing)*

6B *Establish Individual Performance Objectives:* The top three layers of management link their individual objectives and incentive compensation to their scorecards. *(months 13 - 14)*

8 *Conduct Monthly and Quarterly Reviews:* After corporate approval of the business unit scorecards, a monthly review process, supplemented by quarterly reviews that focus more heavily on strategic issues, begins. *(month 18 - ongoing)*

10 *Link Everyone's Performance to the Balanced Scorecard:* All employees are asked to link their individual objectives to the balanced scorecard. The entire organization's incentive compensation is linked to the scorecard. *(months 25 - 26)*

Note: Steps 7, 8, 9, and 10 are performed on a regular schedule. The balanced scorecard is now a routine part of the management process.

Using the Balanced Scorecard as a Strategic Management System

The Personal Scorecard

Corporate Objectives

- ☐ Double our corporate value in seven years.
- ☐ Increase our earnings by an average of 20% per year.
- ☐ Achieve an internal rate of return 2% above the cost of capital.
- ☐ Increase both production and reserves by 20% in the next decade.

Corporate Targets					Scorecard Measures	Business Unit Targets				
1995	1996	1997	1998	1999		1995	1996	1997	1998	1999
					Financial					
100	120	160	180	250	Earnings (in millions of dollars)					
100	450	200	210	225	Net cash flow					
100	85	80	75	70	Overhead and operating expenses					
					Operating					
100	75	73	70	64	Production costs per barrel					
100	97	93	90	82	Development costs per barrel					
100	105	108	108	110	Total annual production					

Team/Individual Measures	Targets				
1.					
2.					
3.					
4.					
5.					

Name:

Location:

Team/Individual Objectives and Initiatives

1.

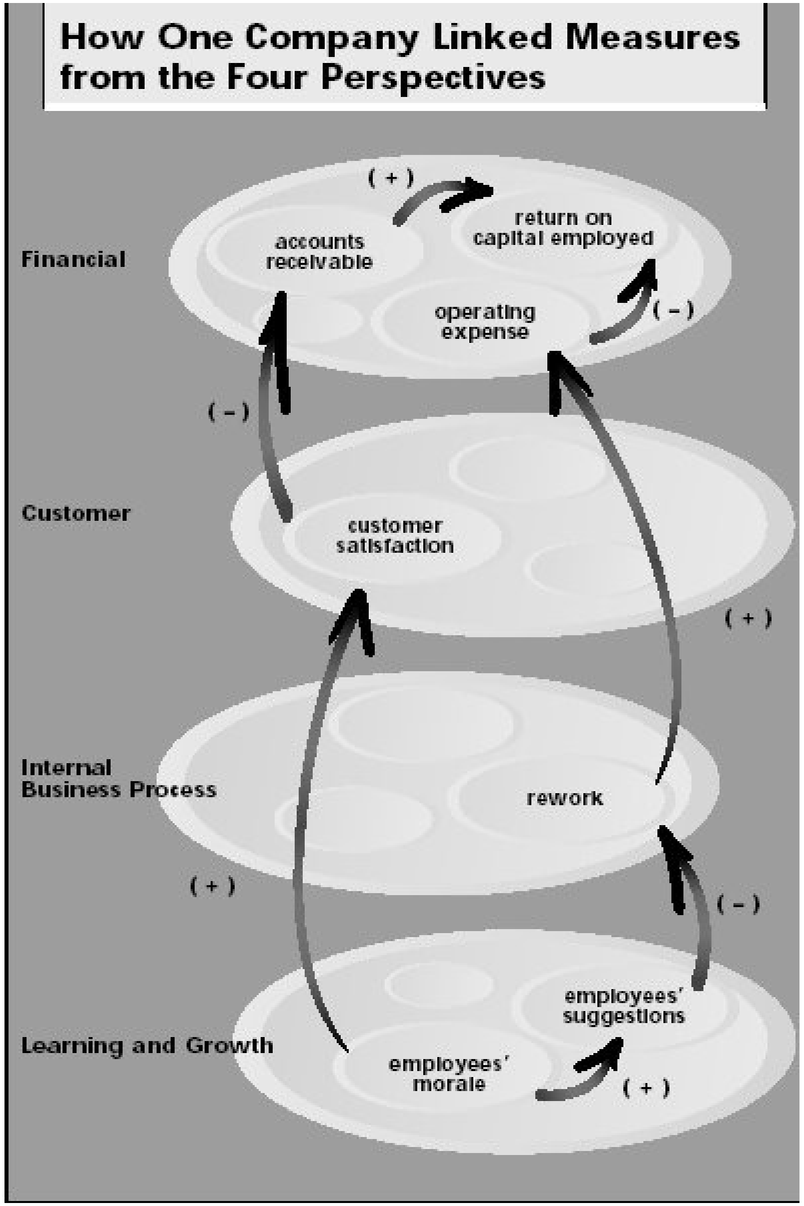
2.

3.

4.

5.

Using the Balanced Scorecard as a Strategic Management System



PIMS

- **Profit Impact of Marketing Strategy** (PIMS) is a database of the market profiles and business results of major American and European companies. It was developed with the intention of providing empirical evidence of which business strategies lead to success, within particular industries. The study identified several strategic variables that typically influence profitability. Some of the most important strategic variables studied were market share, product quality, investment intensity, and service quality, (all of which were found to be highly correlated with profitability).

  PIMS seeks to address issues like:

  + What is the typical profit rate for each type of business?
  + Given current strategies in a company, what are the future operating results likely to be?
  + What strategies are likely to help improve future operating results?
  + characteristics of the business environment?
  + competetive position of the business?
  + structure of the production process?
  + how the budget is allocated?
  + strategic movement?
  + operating results?

Brief history of PIMS

- The PIMS project was started by Sidney Schoeffler working at GE in the 1960s, then picked up by Harvard's Management Science Institute in the early 1970s, and has been administered by the American Strategic Planning Institute since 1975.
- It was initiated by senior managers at GE who wanted to know why some of their business units were more profitable than others. With the help of Sidney Schoeffler they set up a research project in which each of their strategic business units reported their performance on dozens of variables. This was then expanded to outside companies in the early 1970s.
- The survey, between 1970 and 1983, involved 3,000 strategic business units (SBU), from 200 companies. Each SBU gave information on the market within which they operated, the products they had brought to market and the efficacy of the strategies they had implemented.
- The PIMS project analysed the data they had gathered to identify the options, problems, resources and opportunities faced by each SBU. Based on the spread of each business across different industries, it was hoped that the data could be drawn upon to provide other business, in the same industry, with empirical evidence of which strategies lead to increased profitability.

Conclusions drawn by PIMS

- The original PIMS data survey led the PIMS project to identify 37 variables which account for the majority of business success. Two leading marketing texts differ slightly on which variables are the most important, with Dibb, Simkin, Pride and Ferrel (p676) identifying:
- a strong market position
- high quality of product
- lower costs
- lower requirement for capital investment
- and Lanacaster, Massingham and Ashford (p535) citing:
- market share
- investment intensity
- market growth
- life cycle stage
- marketing expense to sales ratio.
- While many of these seem obvious, PIMS has the advantage of providing empirical data that define quantitative relationships and back what some may consider to be common-sense.
-

Critics on PIMS

- It could be argued that a database operating on information gathered in the period 1970 - 1983 is outdated. It has also been suggested that PIMS is too heavily biased towards traditional, metal-bashing industries, such as car manfucaturing; perhaps not surprising, considering the era in which the surveys were carried out. It is also heavily weighted towards large companies, at the expense of small entrepreneurial firms. This resulted from the data collection method used. Only large firms were prepared to pay the consulting fee, provide the survey data, and in return have access to the database in which they could compare their business with other large businesses or SBUs. Mintzberg (1998) claims that because the database is dominated by large established firms, it is more suitable as a technique for assessing the state of "being there rather than getting there". (page 99)
- A serious theoretical criticism has also been mentioned. An empirical correlation does not necessarily imply causation. There is no way of knowing whether high market share caused the high profitability, or whether high profitability caused the high market share. Or even more likely, a spurious factor such as product quality could have caused both high profitability and high market share.
- Tellis and Golder (1996) claim that PIMS defined markets too narrowly. Respondents described their market very narrowly to give the appearance of high market share. This self reporting bias makes the conclusions suspect. They are also concerned that no defunct companies were included, leading to "survivor bias".