

# Lecture 7.

## **Topic 4.** Planning in the organization

### Part 2. Strategic Management



# LEARNING OUTLINE

*Follow this Learning Outline as you read and study this chapter.*

## **The Importance of Strategic Management**

- **Explain why strategic management is important.**
- **Discuss what studies of the effectiveness of strategic management have shown.**

## **The Strategic Management Process**

- **List six steps in the strategic management process.**
- **Describe what managers do when they do external and internal analyses.**
- **Explain the role of resources, capabilities, and core competencies in the internal analysis.**

# LEARNING OUTLINE (cont'd)

*Follow this Learning Outline as you read and study this chapter.*

## **Types of Organizational Strategies**

- **Explain the three growth strategies.**
- **Discuss the BCG matrix and how it's used.**
- **Define SBUs and business-level strategies.**
- **Describe the role of competitive advantage in business-level strategies.**
- **Explain Porter's five forces model.**
- **Describe three generic competitive strategies.**

# LEARNING OUTLINE (cont'd)

*Follow this Learning Outline as you read and study this chapter.*

## **Strategic Management in Today's Environment**

- **Discuss the implications of dynamic and uncertain environments on organizational strategy.**
- **Explain the rule of three and its significance to strategic management.**
- **Describe strategies applying e-business techniques.**
- **Explain what strategies organization might use to become more customer oriented to be more innovative.**

# Strategic Management

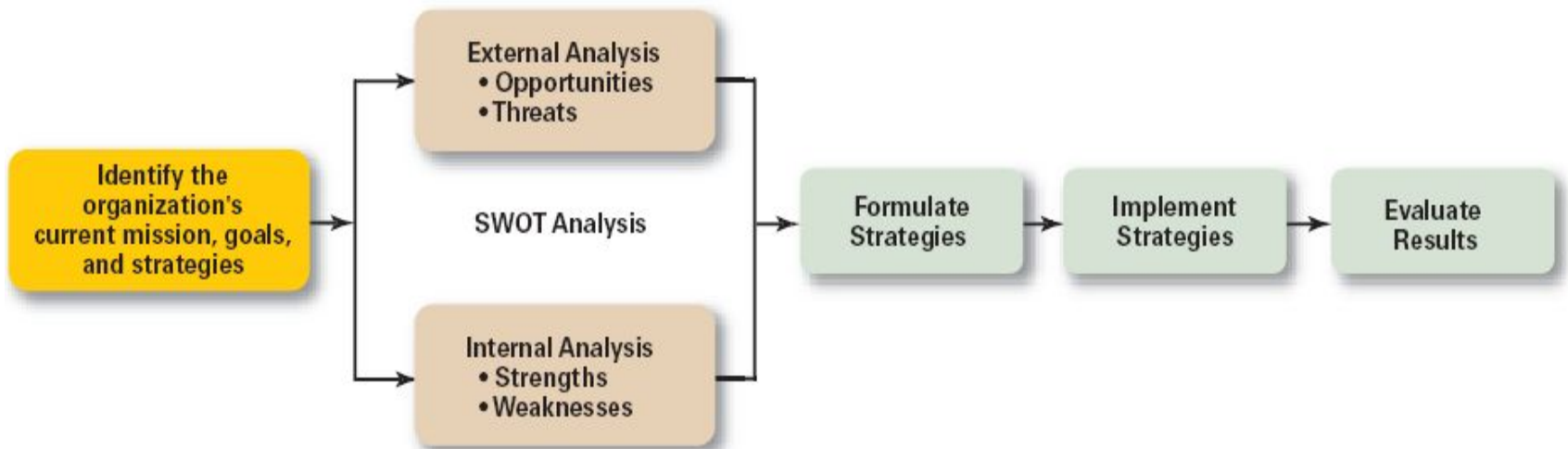
**The set of managerial decisions and actions that determines the long-run performance of an organization.**



# Why Strategic Management Is Important

- 1. It results in higher organizational performance.**
- 2. It requires that managers examine and adapt to business environment changes.**
- 3. It coordinates diverse organizational units, helping them focus on organizational goals.**
- 4. It is very much involved in the managerial decision-making process.**

# The Strategic Management Process



# Strategic Management Process

Step 1: Identifying the organization's current mission, objectives, and strategies

- **Mission:** the firm's reason for being

- ❖ The scope of its products and services

- **Goals:** the foundation for further planning

- ❖ Measurable performance targets

Step 2: Conducting an external analysis

- **The environmental scanning of specific and general environments**

- ❖ Focuses on identifying opportunities and threats



# Components of a Mission Statement

- **Customers:** Who are the organization's customers?
- **Products or services:** What are the organization's major products or services?
- **Markets:** Where does the organization compete geographically?
- **Technology:** How technologically current is the organization?
- **Concern for survival growth, and profitability:** Is the organization committed to growth and financial stability?
- **Philosophy:** What are the organization's basic beliefs, values, aspirations, and ethical priorities?
- **Self-concept:** What is the organization's major competitive advantage and core competencies?
- **Concern for public image:** How responsive is the organization to societal and environmental concerns?
- **Concern for employees:** Does the organization consider employees a valuable asset?

# Strategic Management Process (cont'd)

## Step 3: Conducting an internal analysis

- Assessing organizational resources, capabilities, activities, and culture:
  - ❖ Strengths (*core competencies*) create value for the customer and strengthen the competitive position of the firm.
  - ❖ Weaknesses (things done poorly or not at all) can place the firm at a competitive disadvantage.

***Steps 2 and 3 combined are called a SWOT analysis. (Strengths, Weaknesses, Opportunities, and Threats)***

# Identifying the Organization's Opportunities



# Strategic Management Process (cont'd)

## Step 4: Formulating strategies

- Develop and evaluate strategic alternatives
- Select appropriate strategies for all levels in the organization that provide relative advantage over competitors
- Match organizational strengths to environmental opportunities
- Correct weaknesses and guard against threats

# Strategic Management Process (cont'd)

## Step 5: Implementing strategies

- **Implementation:** effectively fitting organizational structure and activities to the environment
- The environment dictates the chosen strategy; effective strategy implementation requires an organizational structure matched to its requirements.

## Step 6: Evaluating Results

- How effective have strategies been?
- What adjustments, if any, are necessary?

# Types of Organizational Strategies

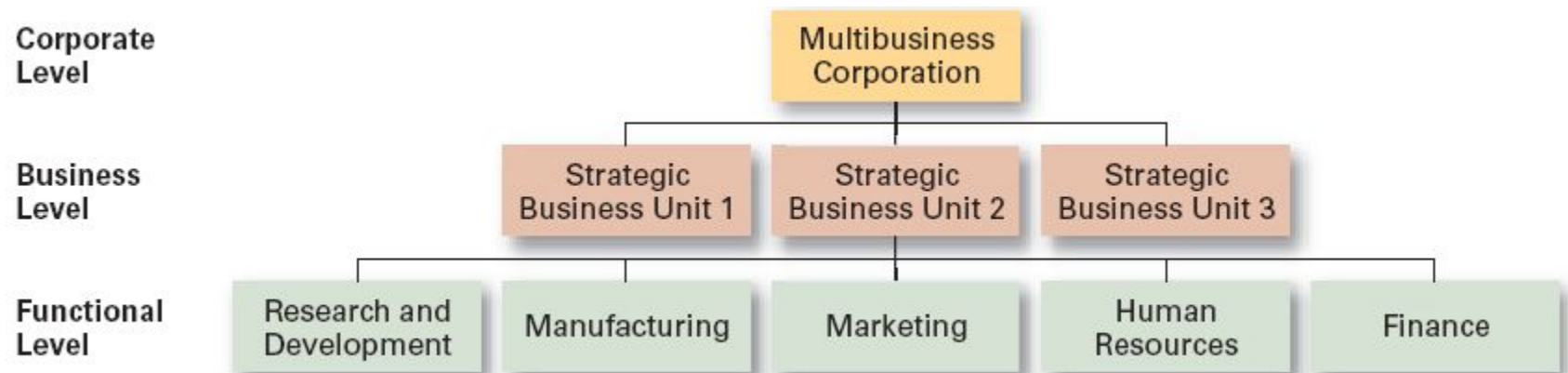
## Corporate-Level Strategies

- Top management's overall plan for the entire organization and its strategic business units

## Types of Corporate Strategies

- Growth: expansion into new products and markets
- Stability: maintenance of the status quo
- Renewal: redirection of the firm into new markets

# Levels of Organizational Strategy



# Corporate-Level Strategies

## Growth Strategy

- Seeking to increase the organization's business by expansion into new products and markets.

## Types of Growth Strategies

- Concentration
- Vertical integration
- Horizontal integration
- Diversification



# Growth Strategies

## Concentration

- Focusing on a primary line of business and increasing the number of products offered or markets served.

## Vertical Integration

- Backward vertical integration: attempting to gain control of inputs (become a self-supplier).
- Forward vertical integration: attempting to gain control of output through control of the distribution channel and/or provide customer service activities (eliminating intermediaries).

# Growth Strategies (cont'd)

## Horizontal Integration

- Combining operations with another competitor in the same industry to increase competitive strengths and lower competition among industry rivals.

## Related Diversification

- Expanding by merging with or acquiring firms in different, but related industries that are “strategic fits”.

## Unrelated Diversification

- Growing by merging with or acquiring firms in unrelated industries where higher financial returns are possible.

# Growth Strategies (cont'd)

## Stability Strategy

- A strategy that seeks to maintain the status quo to deal with the uncertainty of a dynamic environment, when the industry is experiencing slow- or no-growth conditions, or if the owners of the firm elect not to grow for personal reasons.

# Growth Strategies (cont'd)

## Renewal Strategies

- Developing strategies to counter organization weaknesses that are leading to performance declines.
  - ◆ **Retrenchment:** focusing on eliminating non-critical weaknesses and restoring strengths to overcome current performance problems.
  - ◆ **Turnaround:** addressing critical long-term performance problems through the use of strong cost elimination measures and large-scale organizational restructuring solutions.

# Corporate Portfolio Analysis

## BCG Matrix

- Developed by the Boston Consulting Group
- Considers market share and industry growth rate
- Classifies firms as:
  - ◆ **Cash cows:** low growth rate, high market share
  - ◆ **Stars:** high growth rate, high market share
  - ◆ **Question marks:** high growth rate, low market share
  - ◆ **Dogs:** low growth rate, low market share

# The BCG Matrix

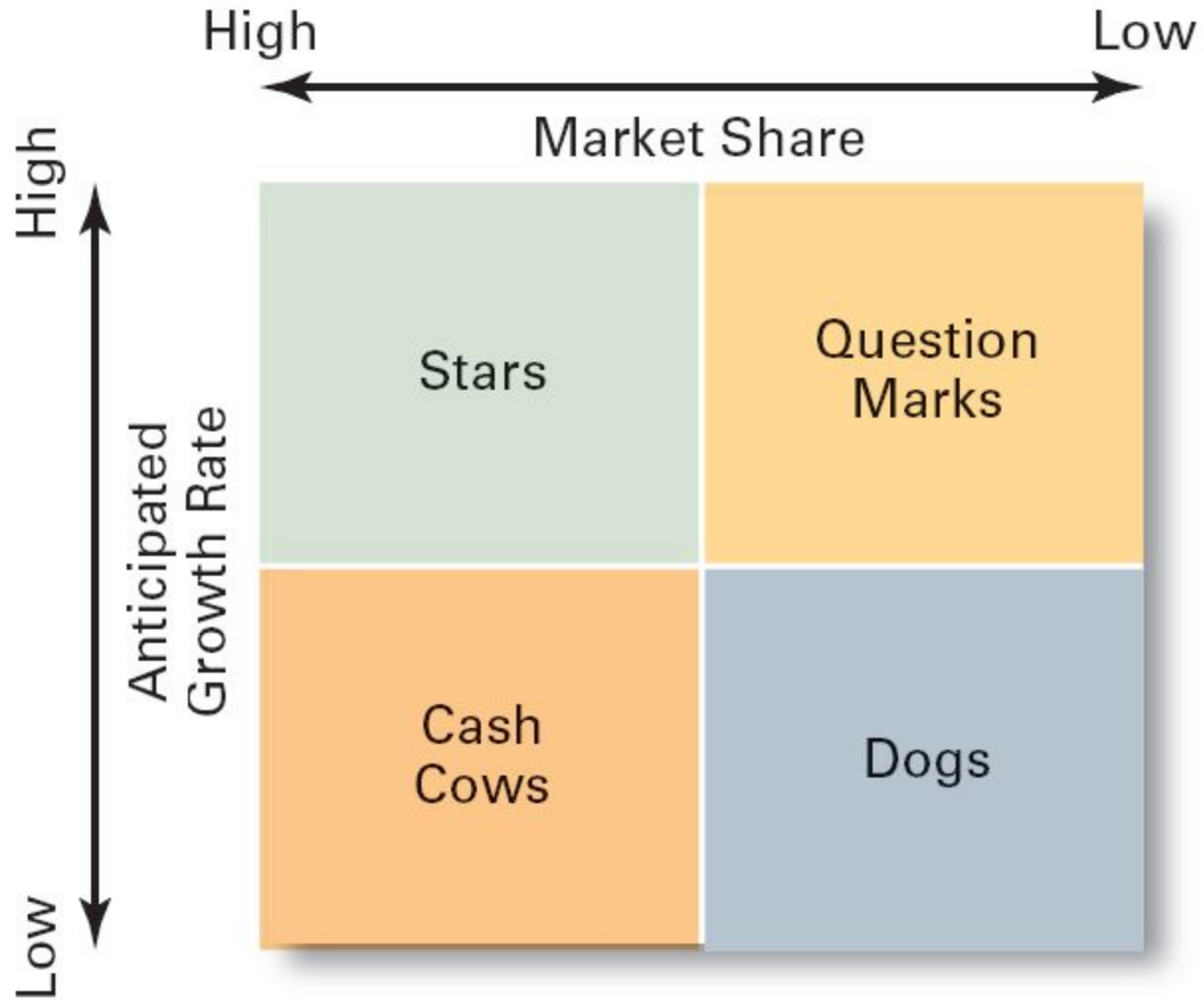


Exhibit 8.5

# Business-Level Strategy

## Business-Level Strategy

- A strategy that seeks to determine how an organization should compete in each of its SBUs (strategic business units).

# The Role of Competitive Advantage

## Competitive Advantage

- An organization's distinctive competitive edge that is sourced and sustained in its core competencies.

## Quality as a Competitive Advantage

- Differentiates the firm from its competitors.
- Can create a sustainable competitive advantage.
- Represents the company's focus on quality management to achieve continuous improvement and meet customers' demand for quality.



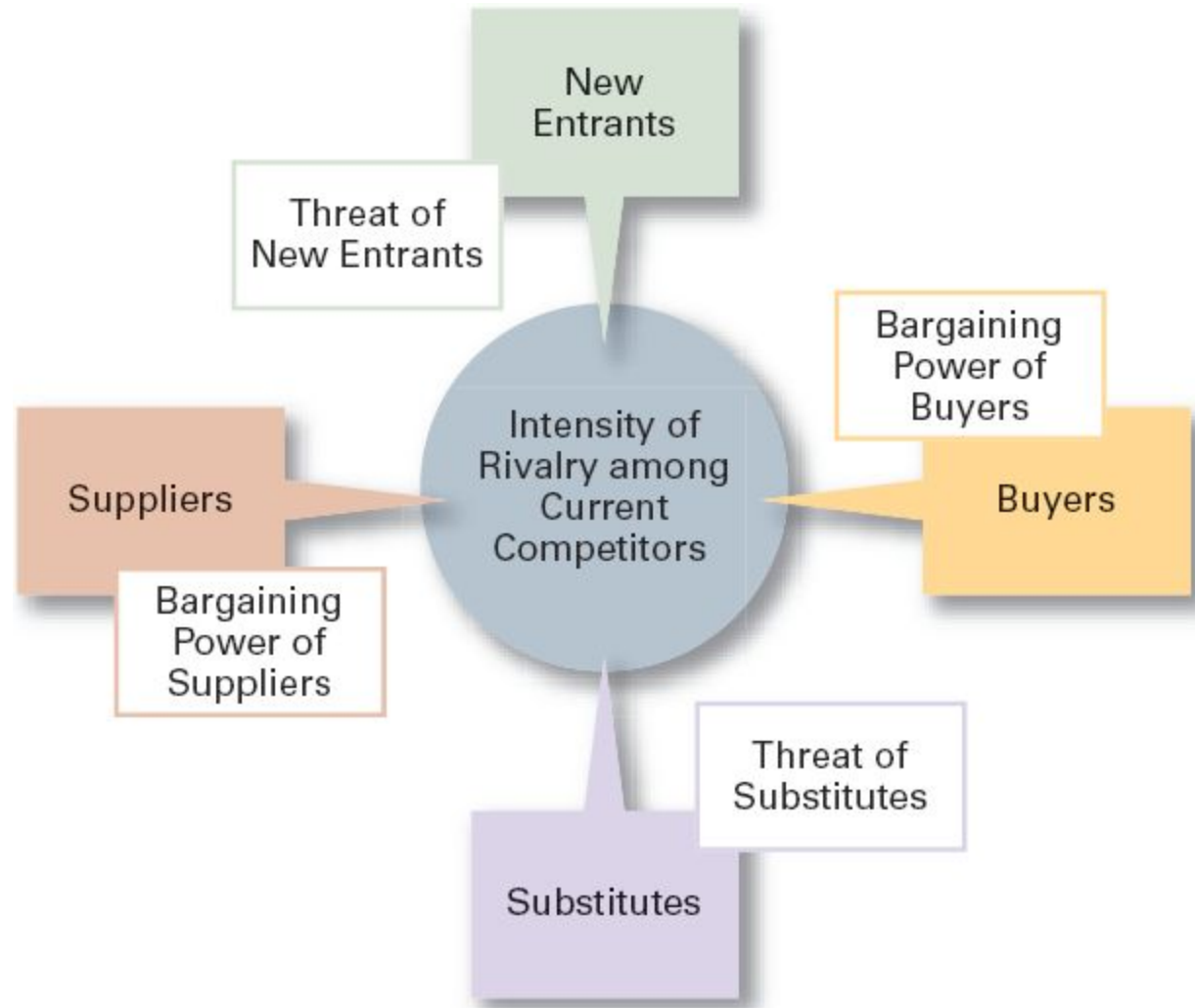
# The Role of Competitive Advantage (cont'd)

## Sustainable Competitive Advantage

- Continuing over time to effectively exploit resources and develop core competencies that enable an organization to keep its edge over its industry competitors.



# Forces in the Industry Analysis



**Source:** Based on M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).

# Five Competitive Forces

## Threat of New Entrants

- The ease or difficulty with which new competitors can enter an industry.

## Threat of Substitutes

- The extent to which switching costs and brand loyalty affect the likelihood of customers adopting substitutes products and services.

## Bargaining Power of Buyers

- The degree to which buyers have the market strength to hold sway over and influence competitors in an industry.

# Five Competitive Forces

## Bargaining Power of Suppliers

- The relative number of buyers to suppliers and threats from substitutes and new entrants affect the buyer-supplier relationship.

## Current Rivalry

- Intensity among rivals increases when industry growth rates slow, demand falls, and product prices descend.

# Competitive Strategies

## Cost Leadership Strategy

- Seeking to attain the lowest total overall costs relative to other industry competitors.

## Differentiation Strategy

- Attempting to create a unique and distinctive product or service for which customers will pay a premium.

## Focus Strategy

- Using a cost or differentiation advantage to exploit a particular market segment rather a larger market.

# Strategic Management Today

## The Rule of Three

- The competitive forces in an industry, if unfettered, will inevitably create a situation where three companies (full-line generalists) will dominate any given market
- Some firms in the same market become super niche players and while others end up as “stuck-in-the-ditch” bottom dwellers.

# Strategies for Applying e-Business Techniques

## Cost Leadership

- On-line activities: bidding, order processing, inventory control, recruitment and hiring

## Differentiation

- Internet-based knowledge systems, on-line ordering and customer support

## Focus

- Chat rooms and discussion boards, targeted web sites

# Customer Service Strategies

Giving the customers what they want.

Communicating effectively with them.

Providing employees with customer service training.





# Innovation Strategies

## Possible Events

- Radical breakthroughs in products.
- Application of existing technology to new uses.

## Strategic Decisions about Innovation

- Basic research
- Product development
- Process innovation

## First Mover

- An organization that brings a product innovation to market or use a new process innovations

# First-Mover Advantages–Disadvantages

## Advantages

- Reputation for being innovative and industry leader
- Cost and learning benefits
- Control over scarce resources and keeping competitors from having access to them
- Opportunity to begin building customer relationships and customer loyalty

## Disadvantages

- Uncertainty over exact direction technology and market will go
- Risk of competitors imitating innovations
- Financial and strategic risks
- High development costs