

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

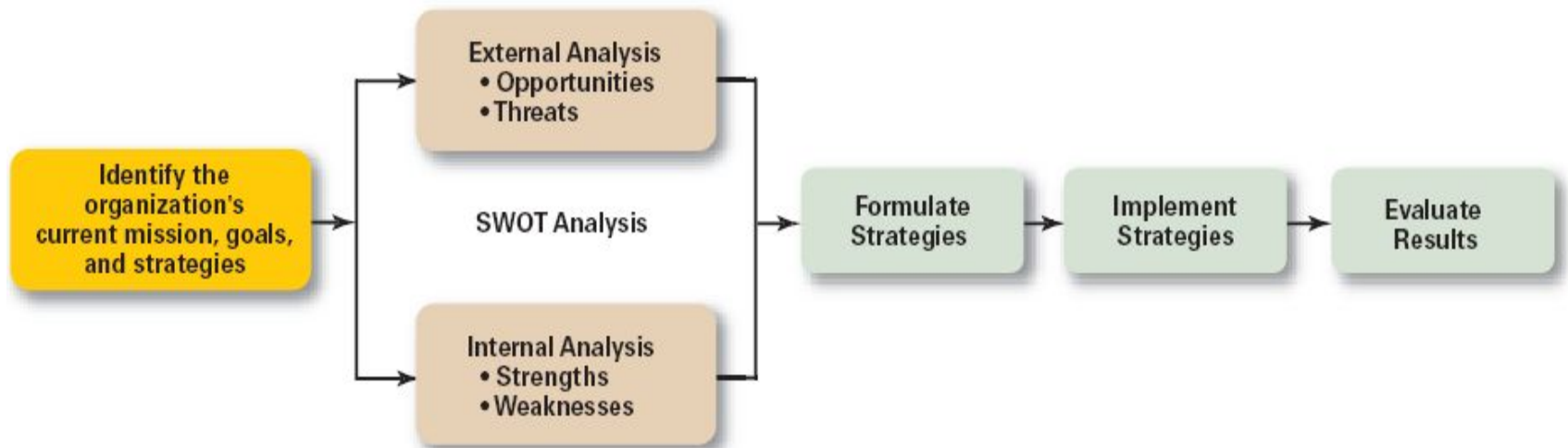
The set of managerial decisions and actions that determines the long-run performance of an organization.



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

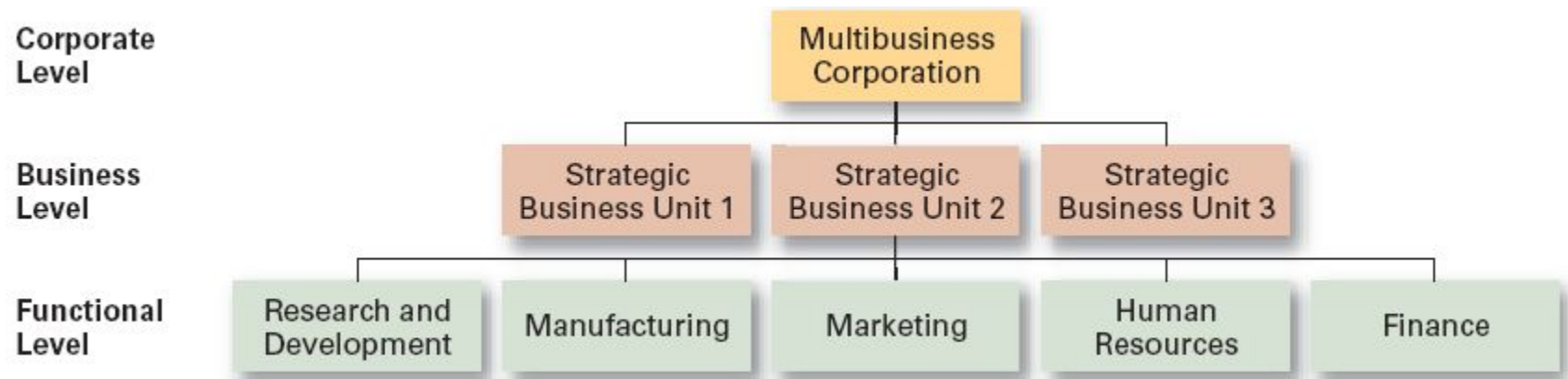
Corporate-Level Strategies

- 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

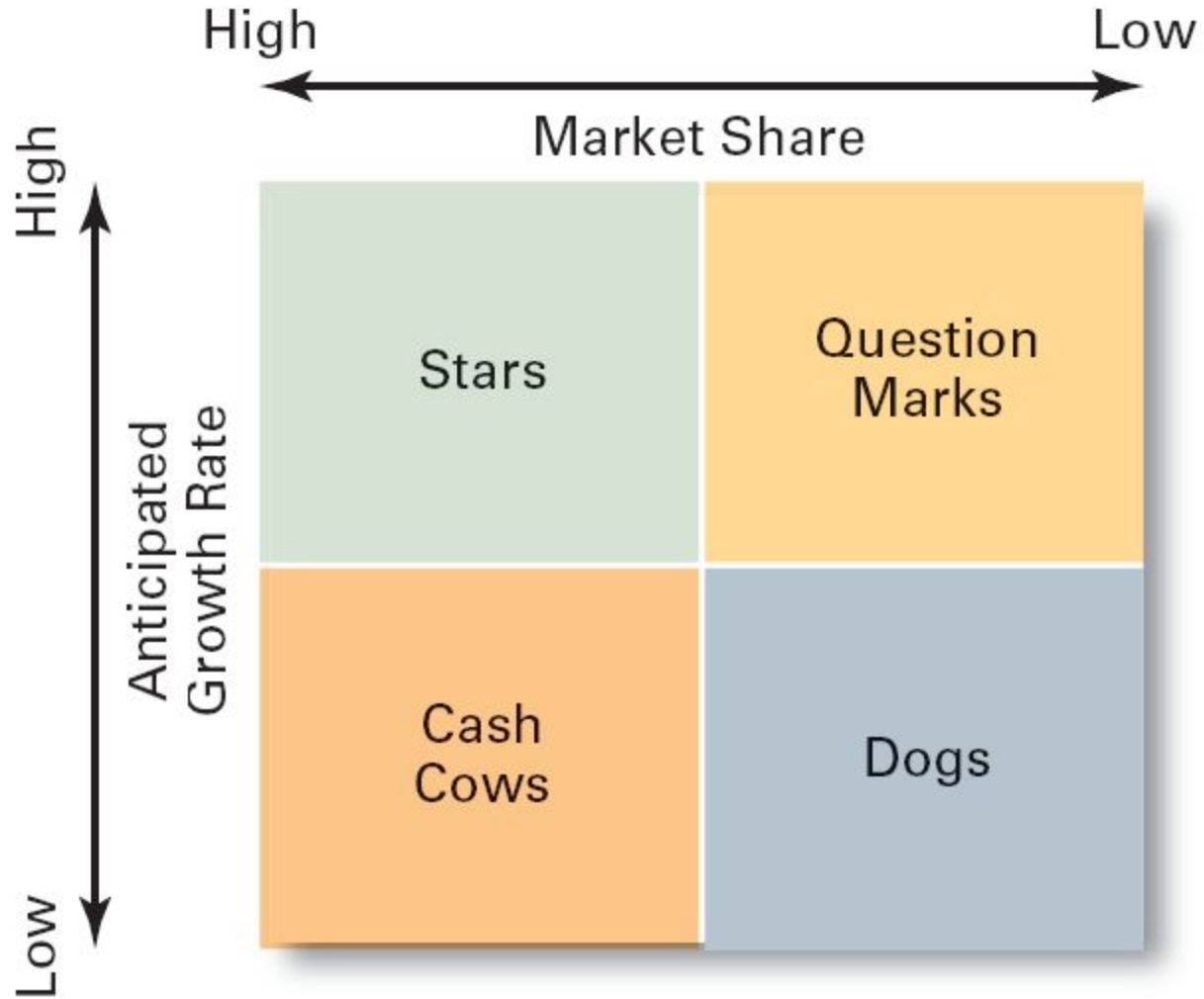
- Developing strategies to counter organization weaknesses that are leading to performance declines.
 - ◆ **Retrenchment:** focusing on eliminating non-critical weaknesses and restoring strengths to overcome current performance problems.
 - ◆ **Turnaround:** addressing critical long-term performance 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



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.

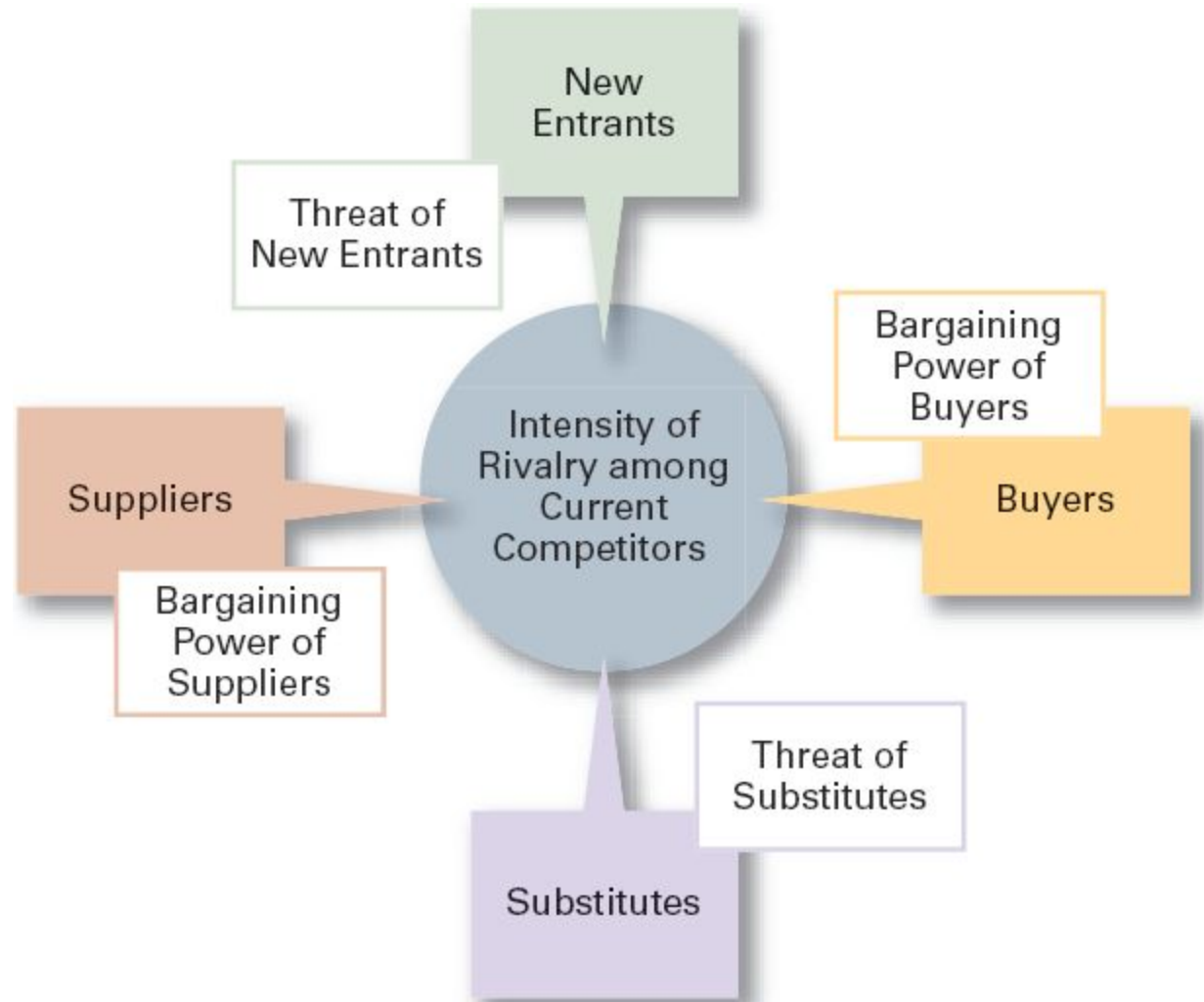
The Role of Competitive Advantage (cont'd)

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