



Strategic Management: How Exceptional Managers Realize a Grand Design

Chapter Six

Major Questions You Should Be Able to Answer

- 6.1** Am I really managing if I don't have a strategy?
- 6.2** What's the five-step recipe for the strategic management process?
- 6.3** How can competitive intelligence, SWOT, and forecasting help me establish my strategy?

Major Questions You Should Be Able to Answer

- 6.4** How can four techniques—Porter's competitive forces, competitive strategies, diversification and synergy, and the BCG matrix—help me formulate strategy?
- 6.5** How does effective execution help managers during the strategic-management process?

The Dynamics of Strategic Planning

★ **Strategy**

↳ large-scale action plan that sets the direction for an organization

★ **Strategic management**

↳ process that involves managers from all parts of the organization in the formulation and the implementation of strategies and strategic goals

Question?

Wal-Mart is guided by the following credo:
“Find out what customers want, then provide it to them as cheaply and quickly as possible.”
This is Wal-Mart's:

- A. Mission
- B. Vision
- C. Strategy
- D. Forecast



Why Strategic Management & Strategic Planning are Important

1. Provide direction and momentum
2. Encourage new ideas
3. Develop a sustainable competitive advantage



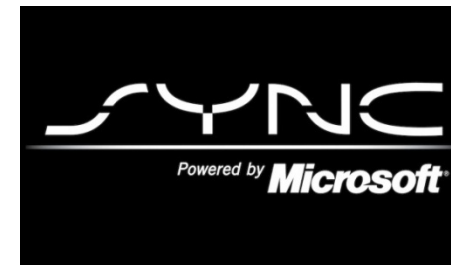
Why Strategic Management & Strategic Planning are Important

Sustainable competitive advantage occurs when an organization can stay ahead in four areas:

- ★ Being responsive to customers
- ★ Innovation
- ★ Quality
- ★ Effectiveness

Example: Developing Competitive Advantage

- ★ “Ford is transforming the car into a powerful smartphone”
- ★ Ford has developed the Sync in-dash communications platform
- ★ Ford is introducing voice-activated apps
- ★ A driver can say “I’m hungry” and receive advice on nearby restaurants



What Is an Effective Strategy?

★ **Strategic positioning**

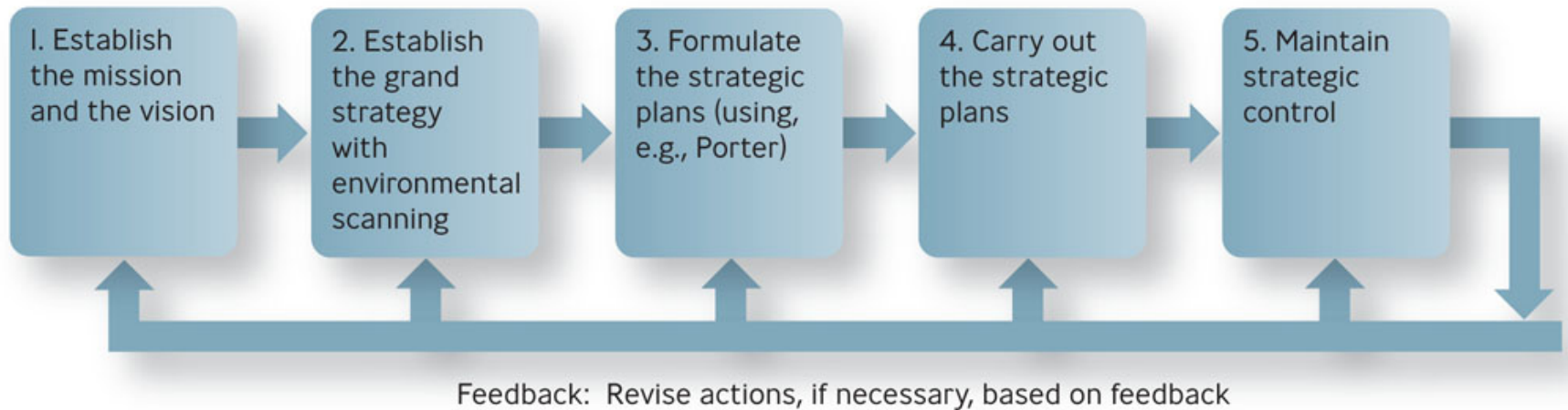
- ↳ attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company
- ↳ “performing different activities from rivals, or performing similar activities in different ways”

What Is an Effective Strategy?

1. Strategy is the creation of a **unique & valuable** position
2. Strategy requires trade-offs in competing
3. Strategy involves creating a **“fit”** among activities

The Strategic-Management Process

Figure 6.1



Question?

Zach manages a small video rental store. In order to determine if strategic planning will be likely to help his business, Zach should assess:

- A. How many competitors he has
- B. Foot traffic by his location
- C. His profitability in the prior six months
- D. Industry trends

Common Grand Strategies

★ **Growth strategy**

↳ involves expansion - as in sales revenues, market share, number of employees, or number of customers

★ **Stability**

↳ involves little or no significant change

★ **Defensive**

↳ involves reduction in the organization's efforts

↳ retrenchment

How Companies Can Implement Grand Strategies

Table 6.2

Growth strategy

- It can improve an existing product or service to attract more buyers.
- It can increase its promotion and marketing efforts to try to expand its market share.
- It can expand its operations, as in taking over distribution or manufacturing previously handled by someone else.
- It can expand into new products or services.
- It can acquire similar or complementary businesses.
- It can merge with another company to form a larger company.

Stability strategy

- It can go for a no-change strategy (if, for example, it has found that too-fast growth leads to foul-ups with orders and customer complaints).
- It can go for a little-change strategy (if, for example, the company has been growing at breakneck speed and believes it needs a period of consolidation).

Defensive strategy

- It can reduce costs, as by freezing hiring or tightening expenses.
- It can sell off (liquidate) assets—land, buildings, inventories, and the like.
- It can gradually phase out product lines or services.
- It can divest part of its business, as in selling off entire divisions or subsidiaries.
- It can declare bankruptcy.
- It can attempt a turnaround—do some retrenching, with a view toward restoring profitability.

The Strategic Management Process

★ **Strategy formulation**

↳ process of choosing among different strategies and altering them to best fit the organization's needs

★ **Strategy implementation**

↳ putting strategic plans into effect

The Strategic Management Process

★ Strategic control

↳ consists of monitoring the execution of strategy and making adjustments, if necessary

★ Engage people

★ Keep it simple

★ Stay focused

★ Keep moving



Competitive Intelligence

★ **Competitive intelligence**

- ↳ means gaining information about one's competitors' activities so that you can anticipate their moves and react appropriately
- ↳ public prints and advertising, investor information, informal sources

SWOT Analysis

★ Environmental scanning

- ↳ careful monitoring of an organization's **internal** and **external** environments to detect early signs of **opportunities** and **threats** that may influence the firm's plans

SWOT Analysis

Figure 6.2



SWOT Analysis

★ **Organizational strengths**

↳ skills and capabilities that give the organization special competencies and competitive advantages in executing strategies in pursuit of its mission

★ **Organizational weaknesses**

↳ drawbacks that hinder an organization in executing strategies in pursuit of its mission

Question?

When analyzing the “W” in SWOT analysis, Roberta, the manager might be assessing:

- A. Possible challenges in the market
- B. Competitors' actions
- C. High turnover of employees
- D. Good financial resources of the firm

SWOT Analysis

★ **Organizational opportunities**

↳ environmental factors that the organization may exploit for competitive advantage

★ **Organizational threats**

↳ environmental factors that hinder an organization's achieving a competitive

Example: How Would You Analyze Toyota?

◆ **Internal strengths**

↳ attention to detail and a frugality that shuns waste of every kind

◆ **Internal weaknesses**

↳ parts were supplied by outside companies rather than trusted traditional suppliers

◆ **External opportunities**

↳ stressed commitment to customers

↳ still ranks high in quality



Forecasting: Predicting the Future

★ **Trend analysis**

↳ hypothetical extension of a past series of events into the future

★ **Contingency planning**

↳ creation of alternative hypothetical but equally likely future conditions

↳ also called scenario planning and scenario analysis

Porter's Five Competitive Forces

1. Threat of new entrants
2. Bargaining power of suppliers
3. Bargaining power of buyers
4. Threat of substitute products or services
5. Rivalry among competitors

Porter's Four Competitive Strategies

Figure 6.3

Strategy	Type of market targeted	
	Wide	Narrow
1. Cost-leadership	✓	
2. Differentiation	✓	
3. Cost-focus		✓
4. Focused-differentiation		✓

Porter's Four Competitive Strategies

★ **Cost-leadership strategy**

↳ keep the costs, and hence prices, of a product or service below those of competitors and to target a wide market



Question?

The company's CEO puts pressure on the firm's R&D managers to **develop** products that can be created **cheaply**. The firm would be following a _____ strategy:

- A. Cost leadership
- B. Differentiation
- C. Cost focus
- D. Retrenchment

Porter's Four Competitive Strategies

★ **Differentiation strategy**

- ↳ offer products that are of unique and superior value compared to those of competitors but to target a wide market

Porter's Four Competitive Strategies

★ **Cost-focus strategy**

↳ keep the costs of a product below those of competitors and to target a narrow market

★ **Focused-differentiation**

↳ offer products that are of unique and superior value compared to those of competitors and to target a narrow market

Single-Product versus Diversification

★ **Single-product strategy**

- ↳ company makes and sells only one product within its market
- ↳ Benefit-focus
- ↳ Risk-vulnerability



The Diversification Strategy

★ **Diversification**

- ↳ operating several businesses under one ownership that are not related to one another
- ↳ Related, unrelated

Advantages of Related Diversification

★ **Reduced risk**

↳ because more than one product

★ **Management efficiencies**

↳ administration spread over several businesses

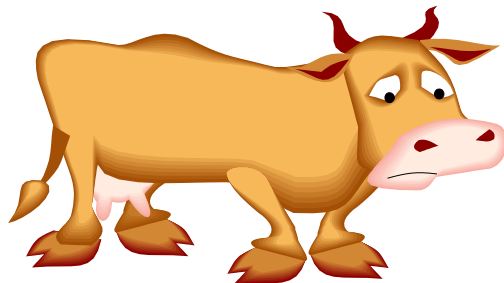
★ **Synergy**

↳ the sum is greater than the parts

The BCG Matrix

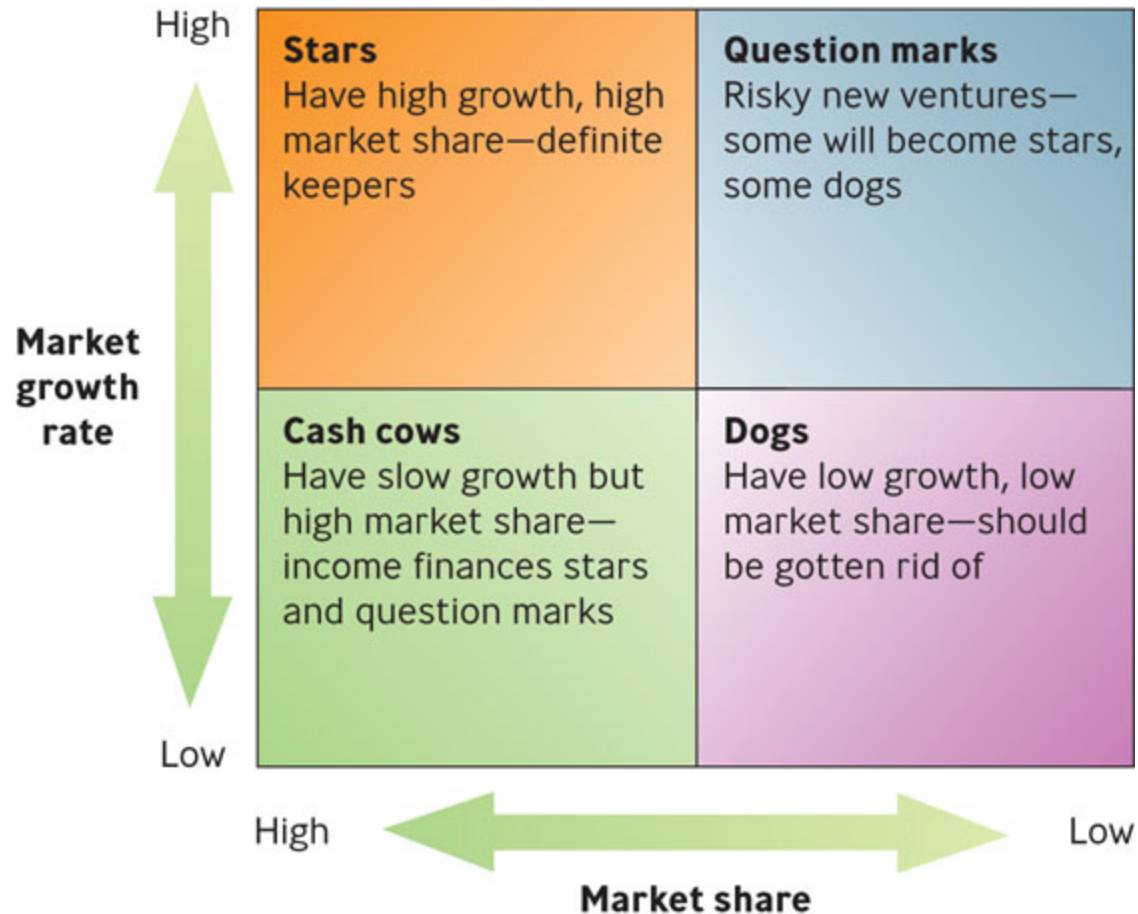
★ BCG matrix

↳ a means of evaluating strategic business units on the basis of (1) their business growth rates and (2) their share of the market.



The BCG Matrix

Figure 6.4



Execution: Getting Things Done

★ Execution

- ↳ consists of using questioning, analysis, and follow-through in order to mesh strategy with reality, align people with goals, and achieve results promised
- ↳ central part of any company's strategy

Question?

John owns a piano sales and tuning store. He wants to be the biggest retailer in the Midlands. Adding salespeople would be part of his strategic _____.

- A. Location
- B. Execution
- C. Efficacy
- D. Efficiency

The Three Core Processes of Business

★ **People**

↳ Consider who will benefit you in the future

★ **Strategy**

↳ Consider how success will be accomplished

★ **Operations**

↳ Consider what path will be followed

What Questions Should a Strong Strategic Plan Address?

Table 6.4

1. What is the assessment of the external environment?
2. How well do you understand the existing customers and markets?
3. What is the best way to grow the business profitably, and what are the obstacles to growth?
4. Who is the competition?
5. Can the business execute the strategy?
6. Are the short term and long term balanced?
7. What are the important milestones for executing the plan?
8. What are the critical issues facing the business?
9. How will the business make money on a sustainable basis?

Building a Foundation of Execution

- ◆ Know your **people** & your **business**
- ◆ Insist on realism
- ◆ Set **clear** goals & priorities
- ◆ Follow through
- ◆ **Reward** the doers
- ◆ Expand the **capabilities**
- ◆ Know yourself

