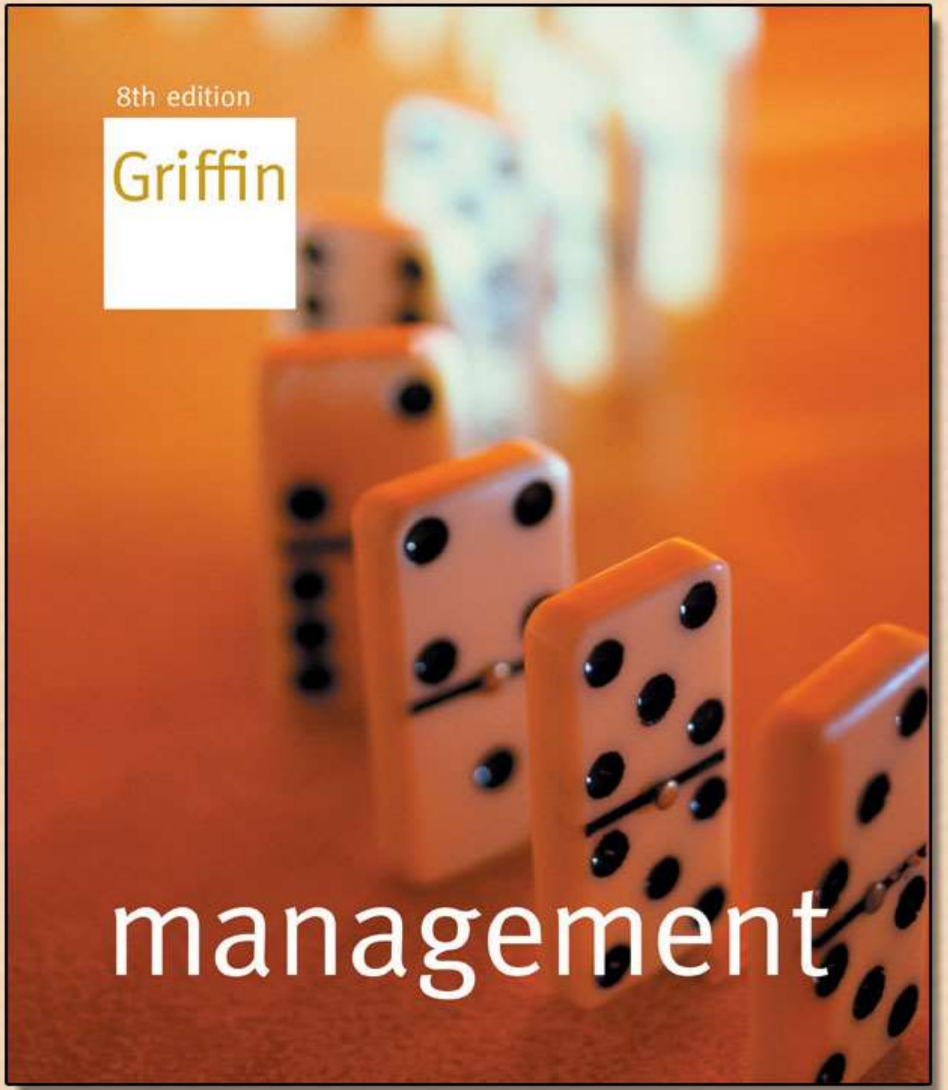

chapter **8**

Ready Notes

Managing Strategy and Strategic Planning

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Slide content created by Joseph B. Mosca, Monmouth University.

The Nature of Strategic Management

- Strategy: a comprehensive plan for accomplishing an organization's goals.
- Strategic management: a comprehensive and ongoing management process aimed at formulating and implementing effective strategies; it is a way of approaching business opportunities and challenges.

Effective Strategy

- A strategy that promotes a superior alignment between the organization and its environment and between the organization and the achievement of its strategic goals.

The Components of Strategy

- Distinctive components: an organizational strength possessed by only a small number of competing firms.
- Scope: when applied to strategy, it specifies the range of markets in which an organization will compete.
- Resource deployment: how an organization will distribute its resources across the areas in which it competes.

Types of Strategic Alternatives

- Business-level strategy is the set of strategic alternatives that an organization chooses from as it conducts business in a particular industry or market.
- Corporate-level strategy is the set of strategic alternatives that an organization chooses from as it manages its organization and operations simultaneously across several industries and markets.

Strategy Formulation and Implementation

- Strategy formulation: the set of processes involved in creating or determining the strategies of the organization; it focuses on the content of strategies.
- Strategy implementation: the methods by which strategies are operational or executed within the organization; it focuses on the processes through which strategies are achieved.

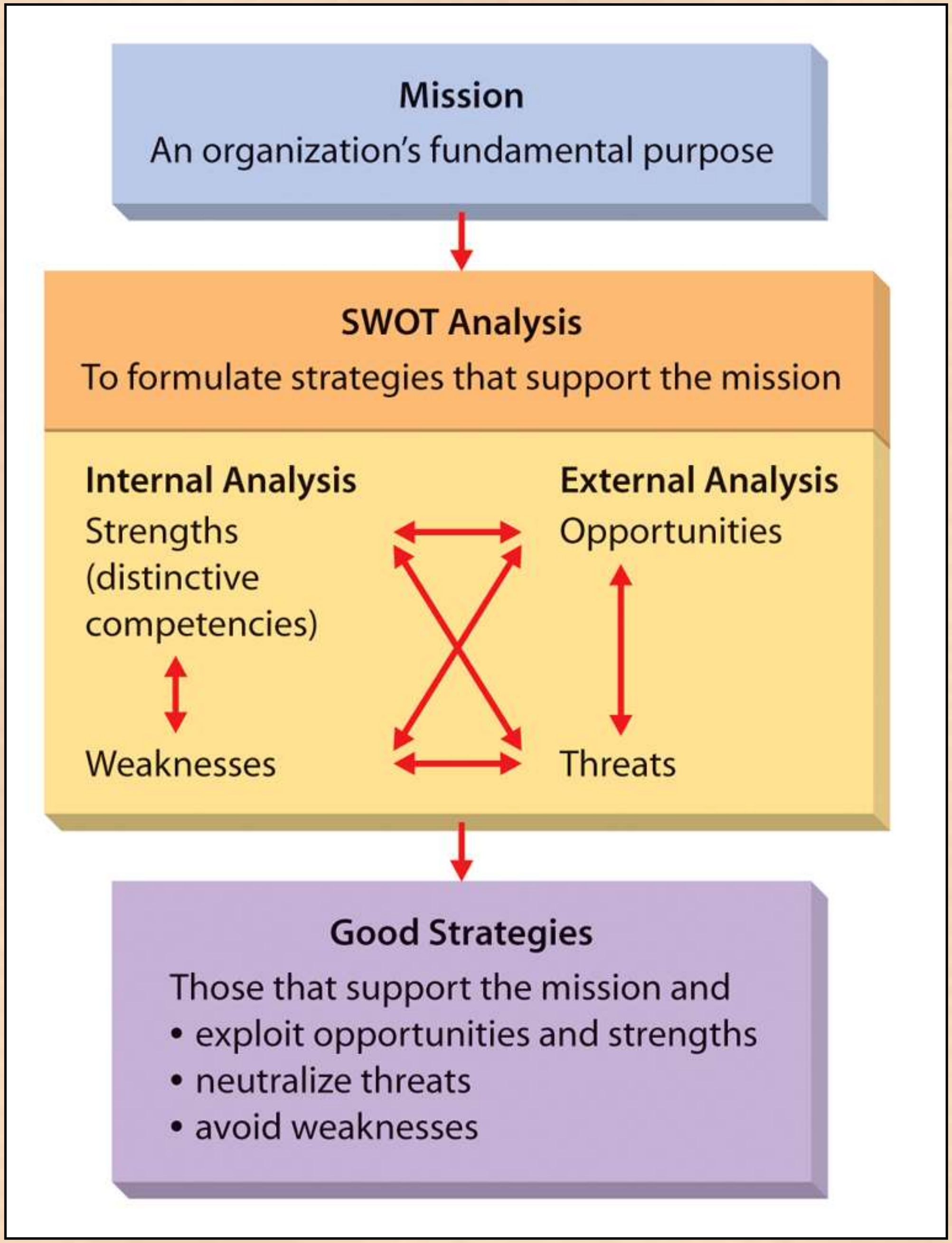
Formulation and Implementation (cont'd)

- Deliberate strategy: a plan chosen and implemented to support specific goals.
- Emergent strategy: a pattern of action that develops over time in an organization in the absence of missions and goals or despite missions and goals.

Using SWOT Analysis to Formulate Strategy

- SWOT: An acronym that stands for strengths, weaknesses, opportunities, and threats.
- Organizational strength: a skill or capability that enables an organization to conceive of and implement its strategies.
- Common strength: an organizational capability possessed by numerous competing firms.

Figure 8.1: SWOT Analysis



SWOT: Evaluating Strengths

- Strategic imitation: the practice of duplicating another organization's distinctive competency and thereby implementing a valuable strategy.
- Sustained competitive advantage: a competitive advantage that exists after all attempts at strategic imitation have ceased.

Evaluating an Organization's Weaknesses

- Organizational weakness: a skill or capability that does not enable an organization to choose and implement strategies that support its mission.
- Competitive disadvantage: a situation in which an organization is not implementing valuable strategies that are being implemented by competing organizations.

Evaluating an Organization's Opportunities and Threats

- Organizational opportunity: an area in the environment that, if exploited, may generate higher performance.
- Organizational threats: an area in the environment that increases the difficulty of an organization performing at a high level.

Porter's Generic Strategies

- Differentiation strategy: a strategy in which an organization seeks to distinguish itself from competitors through the quality of its products or services.
- Overall cost leadership strategy: a strategy in which an organization attempts to gain a competitive advantage by reducing its costs below the costs of competing firms.
- Focus strategy: a strategy in which an organization concentrates on a specific regional market, product line, or group of buyers.

The Miles and Snow Typology

- Prospector strategy: a strategy in which the firm is constantly seeking new markets and new opportunities and is oriented toward growth and risk taking.
- Defender strategy: a strategy in which the firm concentrates on protecting its current markets, maintaining stable growth, and serving current customers.

Table 8.1

Porter's Generic Strategies

Michael Porter has proposed three generic strategies. Each of these strategies—differentiation, overall cost leadership, and focus—is presumed to be widely applicable to many different competitive situations.

Strategy Type	Definition	Examples
Differentiation	Distinguish products or services	Rolex (watches) Mercedes-Benz (automobiles) Nikon (cameras) Cross (writing instruments) Hewlett-Packard (handheld calculators)
Overall cost leadership	Reduce manufacturing and other costs	Timex (watches) Hyundai (automobiles) Kodak (cameras) BIC (writing instruments) Texas Instruments (handheld calculators)
Focus	Concentrate on specific regional market, product market, or group of buyers	Tag Heuer (watches) Fiat, Alfa Romeo (automobiles) Polaroid (cameras) Waterman (writing instruments) Fisher-Price (handheld calculators)

Miles and Snow Typology (cont'd)

- Analyzer strategy: a strategy in which the firm attempts to maintain its current businesses and to create new market opportunities.
- Reactor strategy: a strategy in which a firm has no consistent approach to strategy.

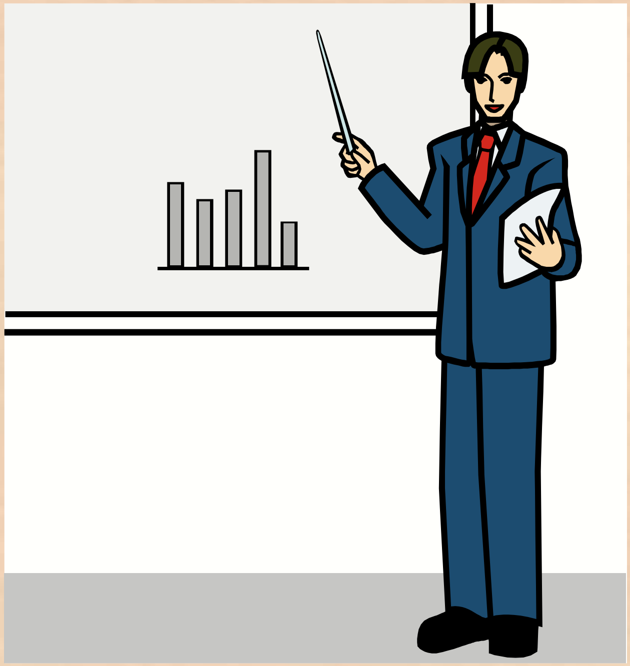


TABLE 8.2

The Miles and Snow Typology

The Miles and Snow typology identifies four strategic types of organizations. Three of these—the prospector, the defender, and the analyzer—can all be effective in certain circumstances. The fourth type—the reactor—represents an ineffective approach to strategy.

Strategy Type	Definition	Examples
Prospector	Is innovative and growth oriented, searches for new markets and new growth opportunities, encourages risk taking	Amazon.com 3M Rubbermaid
Defender	Protects current markets, maintains stable growth, serves current customers	BIC eBay Mrs. Fields
Analyzer	Maintains current markets and current customer satisfaction with moderate emphasis on innovation	DuPont IBM Yahoo!
Reactor	No clear strategy, reacts to changes in the environment, drifts with events	International Harvester Joseph Schlitz Brewing Co. Kmart Montgomery Ward

Strategies Based on the Product Life Cycle

- Product life cycle: a model that shows sales volume changes over the life of products.
- Introduction stage: demand may be very high and sometimes outpaces the firm's ability to supply the product.
- Growth stage: more firms begin producing the product, and sales continue to grow.
- Mature stage: overall demand growth begins to slow down.
- Decline stage: demand for product decreases.

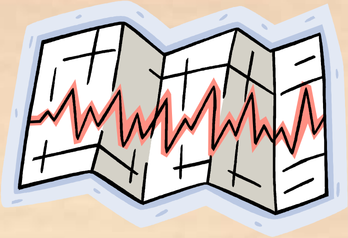


Figure 8.2: The Product Life Cycle

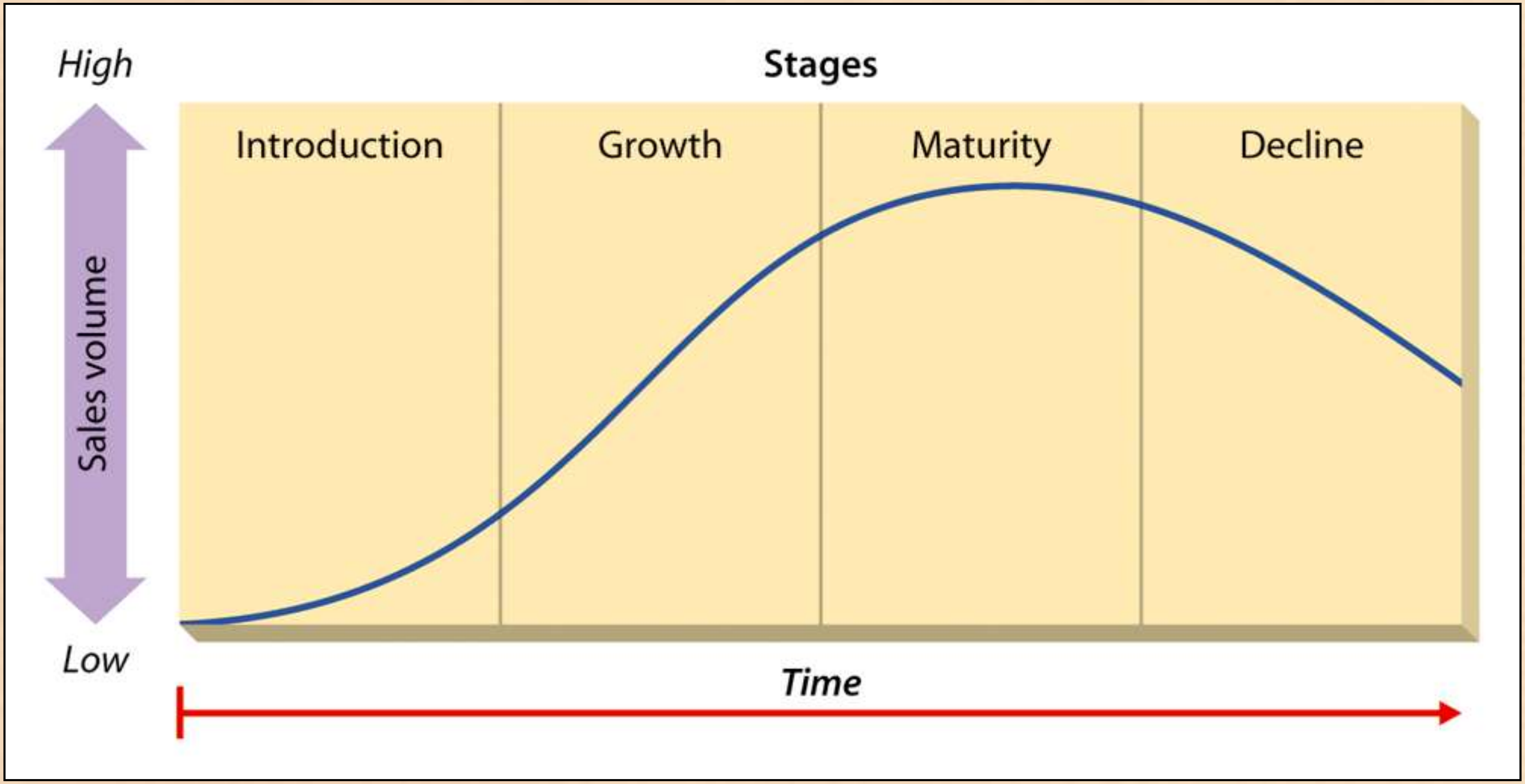


Table 8.3

Bases of Relatedness in Implementing Related Diversification

Firms that implement related diversification can do so using any number of bases of relatedness. Four frequently used bases of related uses for diversification are similar technology, common distribution and marketing skills, common brand name and reputation, and common customers.

Basis of Relatedness	Examples
Similar technology	Philips, Boeing, Westinghouse, Compaq
Common distribution and marketing skills	RJR Nabisco, Philip Morris, Procter & Gamble
Common brand name and reputation	Disney, Universal
Common customers	Merck, IBM, AMF-Head

Formulating Corporate Level Strategies

- Diversification: the number of different businesses that an organization in engaged in and the extent to which these businesses are related to one another.
- Single-product strategy: a strategy in which an organization manufactures just one product or service and sells it in a single geographic market.
- Related diversification: a strategy in which an organization operates in several different businesses, industries, or markets that are somehow linked.
- Unrelated diversification: when a firm operates multiple businesses that are not logically associated with one another.

Implementing Corporate Level Strategies

- Backward vertical integration: an organization begins the business activities formerly conducted by its suppliers.
- Forward vertical integration: an organization stops selling to one customer and sells instead to that customer’s customers.
- Merger: the purchase of one firm by another of the same size.
- Acquisition: the purchase of a firm by another that is considerably larger.

International and Global Strategies

- International firms can improve their efficiency through several means not accessible to a domestic firm.
- Location efficiencies, by locating their facilities anywhere in the world that yields the lowest costs.
- They may also lower costs by capturing economies of scale.
- By broadening their product lines they can enjoy economies of scope.

Multinational Flexibility

- Unlike domestic firms which operate in and respond to changes in the context of a single domestic environment, international businesses may also respond to a change in one country by implementing a change in another country.

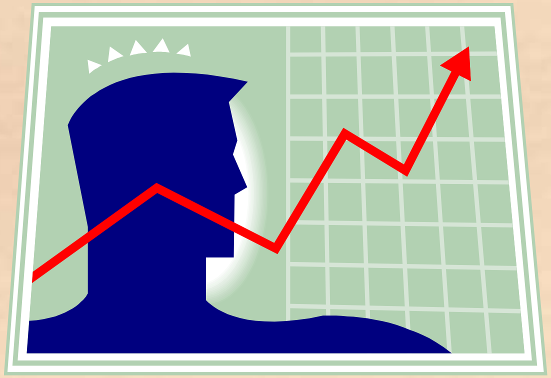
Worldwide Learning

- The diverse operating environments of multinational corporations may also contribute to organizational learning.
- Differences in these operating environments may cause the firm to operate differently in one country than another.

Strategic Alternatives for International Business

- Home replication: a firm utilizes the core competency or firm specific advantage it developed at home as its main competitive weapon in the foreign markets that it enters.
- Multi-domestic strategy: a corporation manages itself as a collection of relatively independent operating subsidiaries and is free to customize its products, its marketing campaigns, and operating techniques to meet local customer needs.

Global Strategy



- A global corporation views the world as a single marketplace and has as its primary goal the creation of standardized goods and services that will address the needs of customers worldwide.
- Transnational strategy: the transnational attempts to combine the benefits of global scale efficiencies, such as those pursued by a global corporation, with the benefits and advantages of local responsiveness, which is the goal of a multi-domestic corporation.

Replacement of Suppliers and Customers

Backward Vertical Integration → **An organization's beginning the business activities formerly conducted by its suppliers**

Forward Vertical Integration → **An organization stops selling to one customer and sells instead to that customer's customers**

Managing Diversification

Portfolio management technique → A method that diversified organizations use to make decisions about what businesses to engage in and how to manage these multiple businesses to maximize corporate performance

BCG matrix → A method of evaluating businesses relative to the growth rate of their market and the organization's share of the market

Figure 8.3: The BCG Matrix

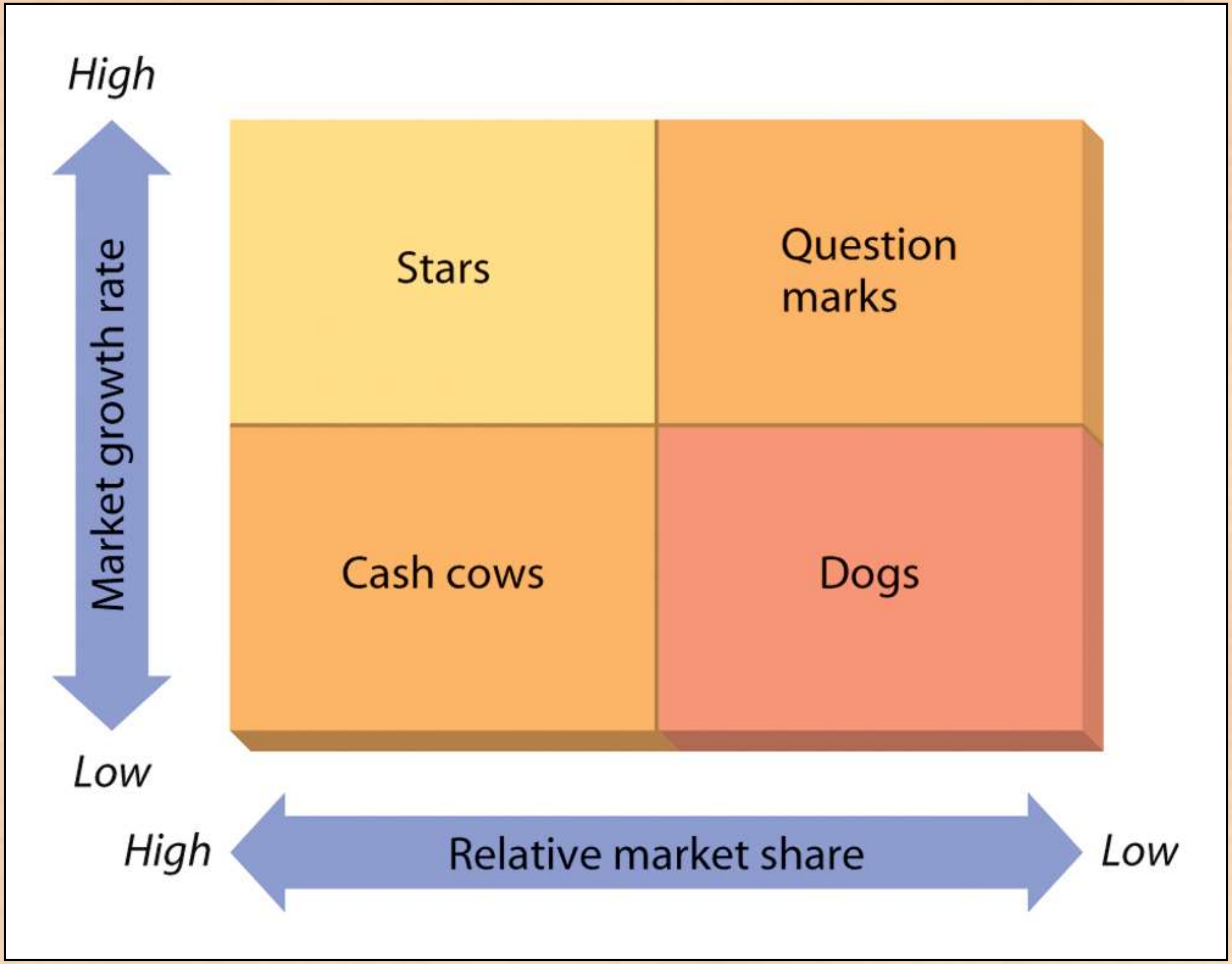


Figure 8.4: The GE Business Screen

Competitive position

1. Market share
2. Technological know-how
3. Product quality
4. Service network
5. Price competitiveness
6. Operating costs

Industry attractiveness

1. Market growth
2. Market size
3. Capital requirements
4. Competitive intensity