Welcome

to the Strategic Management Forum

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Strategic Management

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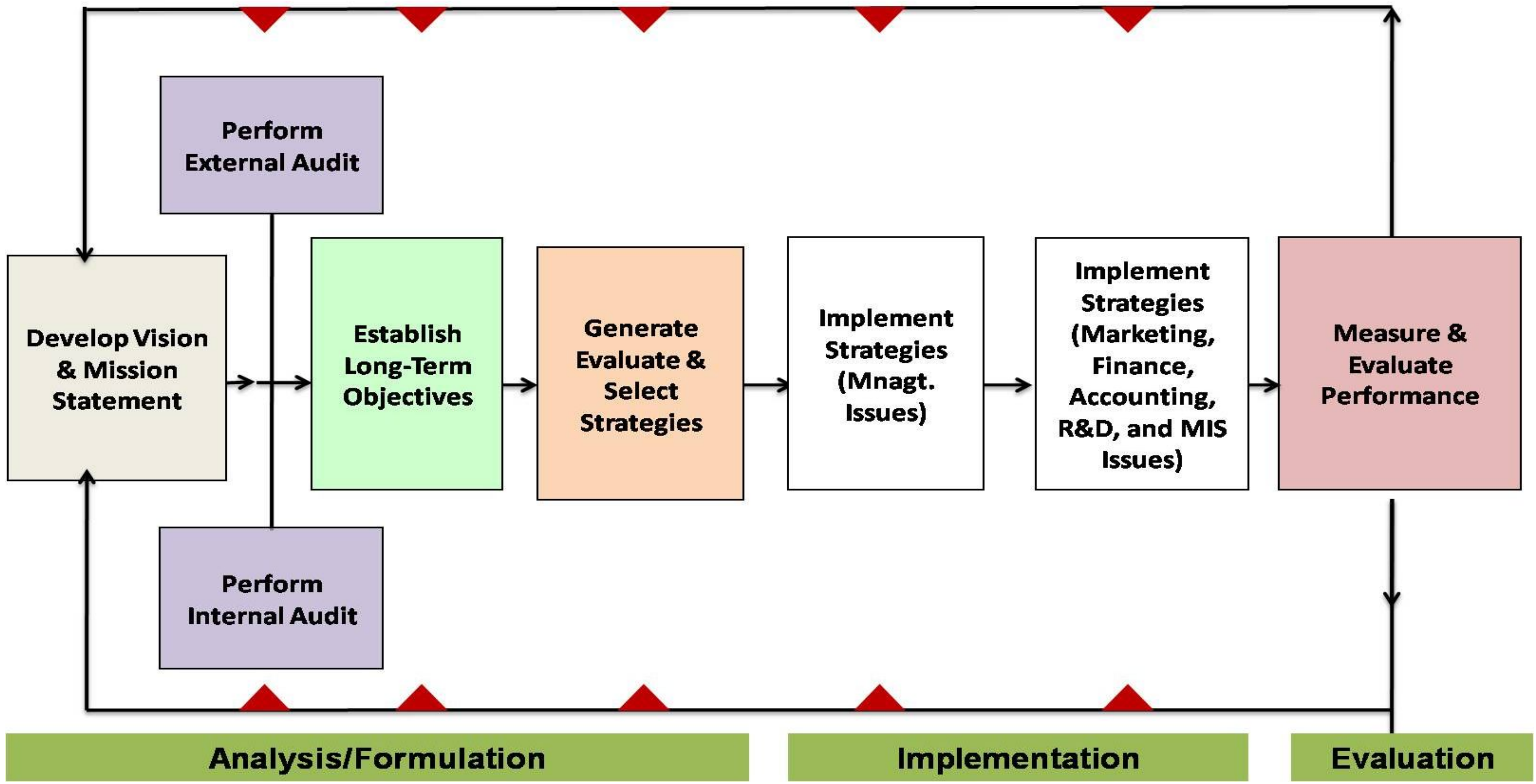
Strategic Management Model



Defining Strategic Management

Coulter (2002) defines:

Strategic Management as the decisions and actions, in which organisational members analyse the current situation, develop appropriate strategies; put those strategies into action; and evaluate, modify or change those strategies.

Defining Strategic Management

Thompson (1993) explains that there are three aspects of strategic management:

- The first is about the strategy itself, which is concerned with the development of a clear direction for the organisation and a means of getting there, and which requires the creation of a strong competitive position.
- The second aspect is about excellence in the implementation of strategies in order to yield effective performance.
- The third aspect is about innovation to ensure that the organisation is responsive to pressures for change and that strategies are improved and renewed.

Defining Strategic Management

Thompson (1993) also refers to **Constable (1980),** who defines strategic management as both the management process and the decisions made which determine the long-term structure and activities of the organisation.

This definition incorporates five themes:

- Management process
- Management decision
- Time scale
- Structure of the organisation and
- Activities of the organisation

Defining Strategic Management

Ansoff and McDonnell (1990, p XV):

"Strategic Management is a systematic approach to a major and increasingly important responsibility of general management: to position and relate the firm to its environment, in a way that will assure its continued success and make it secure from surprises."

Defining Strategic Management

Greenley (1989) believes:

Strategic management deals with the overall long-range direction of an organisation and it also provides a framework for operational management. He believes that strategic management includes planning, implementation and control as its fundamental functions.

Johnson et al (2005, p.16),

"Strategic management includes understanding the strategic position of an organisation, strategic choices for the future and turning strategy into action."

Defining Strategy

Grant (1998) explains that the evolution of business strategy has been driven more by the practical needs of business than by the development needs of theorists. The term strategy is derived from the Greek ‘strategos’ meaning a general set of manoeuvres carried out to overcome an enemy (Eden and Ackermann, 1998*).*

The **Oxford Pocket** dictionary gives the definition of *s*trategy as: “The art of war. Especially the planning of movements of troops and ships etc., into favourable positions; plan of action or policy in business or politics etc.”.

Defining Strategy

Chandler (1962, p. 13), strategy is:

"...the determination of the basic long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

Defining Strategy

Ansoff (1965) explains that strategy means rules for making decisions under conditions of partial ignorance. According to him business strategy is the broad collection of decisions, rules and guidelines that define a business's scope and growth direction. Differentiating between policy and strategy, Ansoff (1965, p119) explains

"...policy is a contingent decision, where strategy is a rule for making a decision".

Defining Strategy

Mintzberg (1979) considers strategy formulation as the interpretation of the environment and the development of consistent patterns in streams of organisational decisions.

Andrews (1971) describes strategy as the pattern of objectives, purposes, or goals, and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

Defining Strategy

Porter (1980), strategy is a broadly-based formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals. The essence of formulating competitive strategy is first by relating a company to its environment.

Defining Strategy

Mintzberg (1988) provides five definitions of strategy:

Plan: By this definition the strategies have two characteristics, they are made in advance of the action to which they apply and secondly they are developed consciously and purposefully. Mintzberg (1988) believes that defining strategy as a plan is not sufficient because the definition should also encompass the resulting behaviour.

Defining Strategy

Ploy: As a plan, a strategy can be a ploy as well. By this he means just a specific manoeuvre intended to outwit a competitor.

Pattern: Strategy as a pattern is a stream of actions (Mintzberg and Waters, 1985). Explaining the concept Mintzberg (1988) quotes Quinn (1980) as: *"...gradually the successful approaches merge into a pattern of action that becomes our strategy,"* (Mintzberg 1988, p 11).

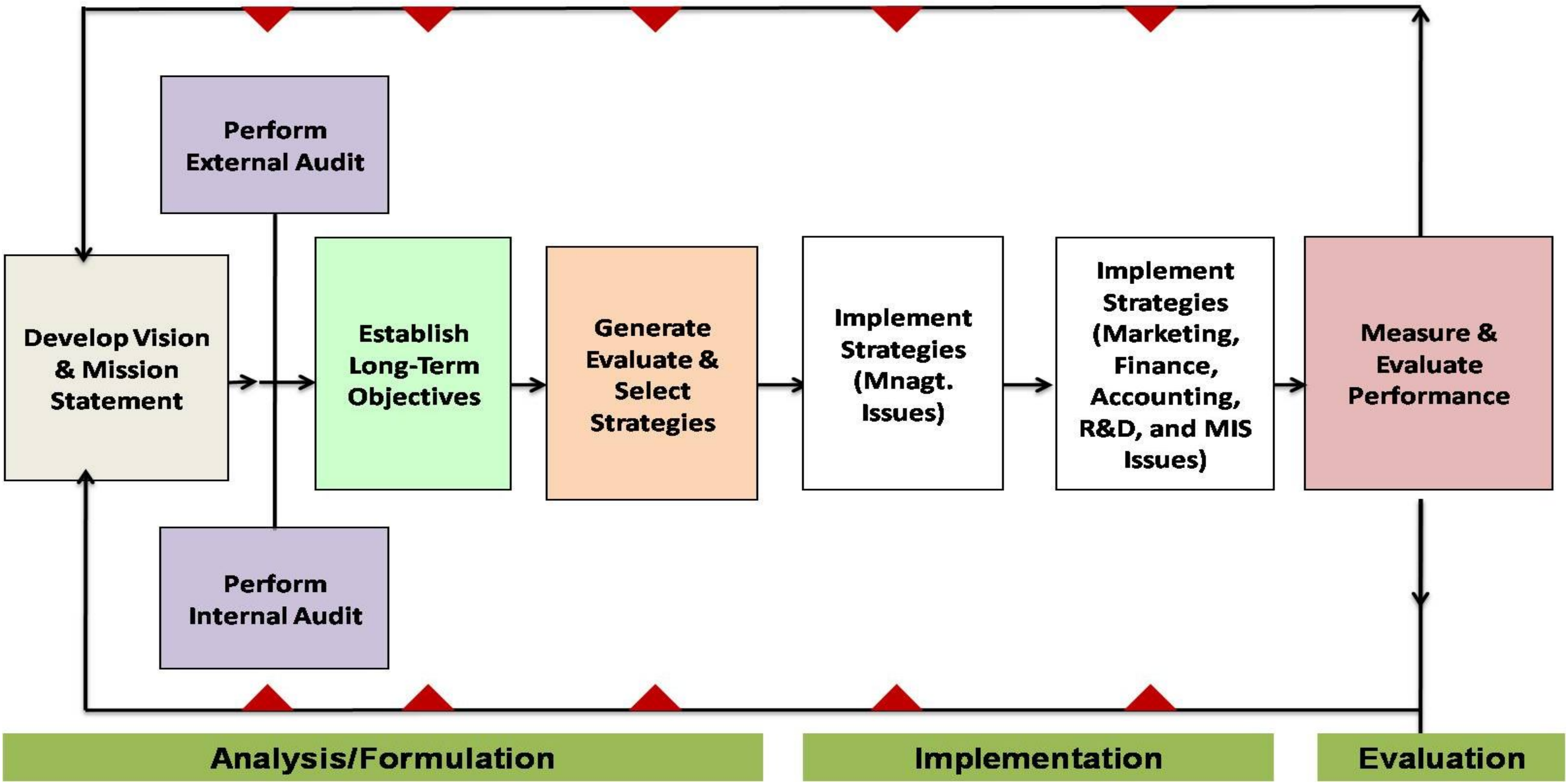
Defining Strategy

Position: strategy as position is a means of locating an organisation in the external environment. This definition can be compatible with the three preceding definitions; a position can be pre-selected and aspired to through a plan or ploy and it can be reached through a pattern of behaviour. The definition of strategy as position, however, allows us to open up the concept to n-person games (that is, for many players) and beyond (Mintzberg 1988, p. 14).

Defining Strategy

Perspective: strategy as perspective looks inside the organisation, inside the heads of its collective strategists, but then moves up to the broader view. It is an ingrained way of perceiving the world. Perspective is shared in terms of culture and ideology. Strategy is a perspective shared by the members of an organisation through their intentions and actions.

External Macro Environment Analysis



External Macro Environment Analysis

PEST/PESTLE

– Political
– Economic
– Social
– Technological

Objectives

The **PEST** subject should be a clear definition of the market being addressed, which might be from any of the following standpoints:

- a company looking at its market
- a product looking at its market
- a brand in relation to its market
- a local business unit
- a strategic option, such as entering a new market or launching a new product
- a potential acquisition
- a potential partnership
- an investment opportunity

Political factors

- Trading policies
- Funding, grants and initiatives
- Home market lobbying/pressure groups
- International pressure groups
- Wars and conflict
- Government policies
- Government term and change
- Elections

Political factors

- Inter-country relationships/attitudes
- Terrorism
- Political trends
- Governmental leadership
- Government structures
- Internal political issues
- Shareholder/ stakeholder needs/ demands

Economic factors

- Home economy situation
- Home economy trends
- Overseas economies and trends
- General taxation issues
- Taxation changes specific to product/services
- Seasonality/weather issues
- Market and trade cycles
- Specific industry factors
- Market routes and distribution trends
- Customer/end-user drivers
- International trade/monetary issues

Economic factors

- Disposable income
- Job growth/unemployment
- Exchange rates
- Tariffs
- Inflation
- Interest and exchange rates
- Consumer confidence index
- Import/export ratios
- Production level
- Internal finance
- Internal cash flow
- ________________

Social factors

- Consumer attitudes and opinions
- Media views
- Law changes affecting social factors
- Brand, company, technology image
- Consumer buying patterns
- Major events and influences
- Buying access and trends
- Ethnic/religious factors
- Advertising and publicity
- Ethical issues
- Demographics (age, gender, race, family size,)

Social factors

- Lifestyle changes
- Population shifts
- Education
- Trends
- Diversity
- Immigration
- Health
- Living standards Housing trends
- Fashion & role models

Social factors

- Attitudes to work
- Attitudes to people doing certain types of work
- Leisure activities
- Occupations
- Earning capacity
- Staff attitudes
- Management style
- organizational culture
- Changes to education system

Technological factors

- Competing technology development
- Research funding
- Associated/dependent technologies
- Replacement technology/solutions
- Maturity of technology
- Manufacturing maturity and capacity
- Information and communications
- Consumer buying mechanisms/technology
- Technology legislation
- Innovation potential
- Technology access, licensing, patents

Technological factors

- Intellectual property issues
- Global communications
- Inventions
- Innovations
- New discoveries
- Research
- Energy uses/sources/fuels
- Communications
- Rate of obsolescence
- Health (pharmaceutical, equipment, etc.)
- Manufacturing advances

Technological factors

- Information technology
- Internet
- Transportation
- Bio-tech
- Genetics
- Waste removal/recycling
- Email
- M-learning
- E-learning
- Collaboration tools
- Software changes
- RSI
- ____________________

External Macro Environment Analysis

SWOT

- Strengths
- Weaknesses
- Opportunities
- Threats

SWOT - Strengths

People

- ____________________

Resources

- ____________________

Innovation & Ideas

- ____________________

Marketing

- ____________________

Operations

- ____________________

Finance

- ____________________

SWOT - Weaknesses

People

- ____________________

Resources

- ____________________

Innovation & Ideas

- ____________________

Marketing

- ____________________

Operations

- ____________________

Finance

- ____________________

SWOT- Opportunities and Threat

Threats

- Strengths Threats and Alternatives / Strategies
- Weaknesses Threats and Alternatives / Strategies

Opportunities

- Strengths Opportunities and Alternatives / Strategies
- Weaknesses Opportunities and Alternatives / Strategies

Critical Success Factors (CSF's)

- **Industry CSF's** resulting from specific industry characteristics;
- **Strategy CSF's** resulting from the chosen competitive strategy of the business;
- **Environmental CSF's** resulting from economic or technological changes; and
- **Temporal CSF's** resulting from internal organizational needs and changes

Strengths &Weaknesses - Internal Factors-1

- What advantages does your company have?
- What do you do better than anyone else?
- What unique or lowest-cost resources do you have access to?
- What do people in your market see as your strengths?
- What factors mean that you "get the sale"?
- What could you improve?
- What should you avoid?
- What are people in your market likely to see as weaknesses?
- What factors lose you sales?

Strengths &Weaknesses - Internal Factors-2

- Advantages/ Disadvantages of proposition?
- Capabilities/ Gaps?
- Competitive advantages?
- USP's (unique selling points)/ reputation?
- Resources, Assets, People?
- Experience, knowledge, data?
- Financial reserves, likely returns?
- Marketing - reach, distribution, awareness?
- Innovative aspects?
- Geographical Location?

Strengths &Weaknesses - Internal Factors-3

- Price, value, quality?
- Accreditations, qualifications, certifications?
- Processes, systems, IT, communications?
- Cultural, attitudinal, behavioral?
- Management cover, succession?

Other factors may include:

Strengths &Weaknesses - Internal Factors-4

- Resources: financial, intellectual, location
- Cost advantages from proprietary know-how
- Creativity / ability to develop new products
- Valuable intangible assets: intellectual capital
- Competitive capabilities
- Big company selection

Opportunities & Threats - External Factors-1

- Where are the good opportunities facing you?
- What are the interesting trends you are aware of?

Useful opportunities can come from such things as:

- Changes in technology and markets on both a broad and narrow scale
- Changes in government policy related to your field
- Changes in social patterns, population profiles, lifestyle changes, etc.
- Local Events
- Market developments?
- Competitors' vulnerabilities?
- Industry or lifestyle trends?

Opportunities & Threats - External Factors-2

- Technology development and innovation?
- Global influences?
- New markets, vertical, horizontal?
- Niche target markets?
- Geographical, export, import?
- New USP's (unique selling points)/ reputation?
- Tactics - surprise, major contracts, etc?
- Business and product development?

Opportunities & Threats - External Factors-3

- Information and research?
- Partnerships, agencies, distribution?
- Volumes, production, economies?
- Seasonal, weather, fashion influences?
- What obstacles do you face?
- What is your competition doing that you should be worried about?
- Are the required specifications for your job, products or services changing?

Opportunities & Threats - External Factors-4

- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?
- Political effects?
- Legislative effects?
- Environmental effects?
- IT developments?
- Competitor intentions - various?
- Market demand?

Opportunities & Threats - External Factors-5

- New technologies, services, ideas?
- Vital contracts and partners?
- Sustaining internal capabilities?
- Obstacles faced?
- Insurmountable weaknesses?
- Loss of key staff?
- Sustainable financial backing?
- Economy - home, abroad?
- Seasonality, weather effects?

Opportunities & Threats - External Factors-6

Other factors may include:

- Takeover's
- Market Trends
- Economic condition
- Mergers
- Joint ventures
- Strategic alliances
- Expectations of stakeholders
- Technology
- Public expectations
- Competitors and competitive actions

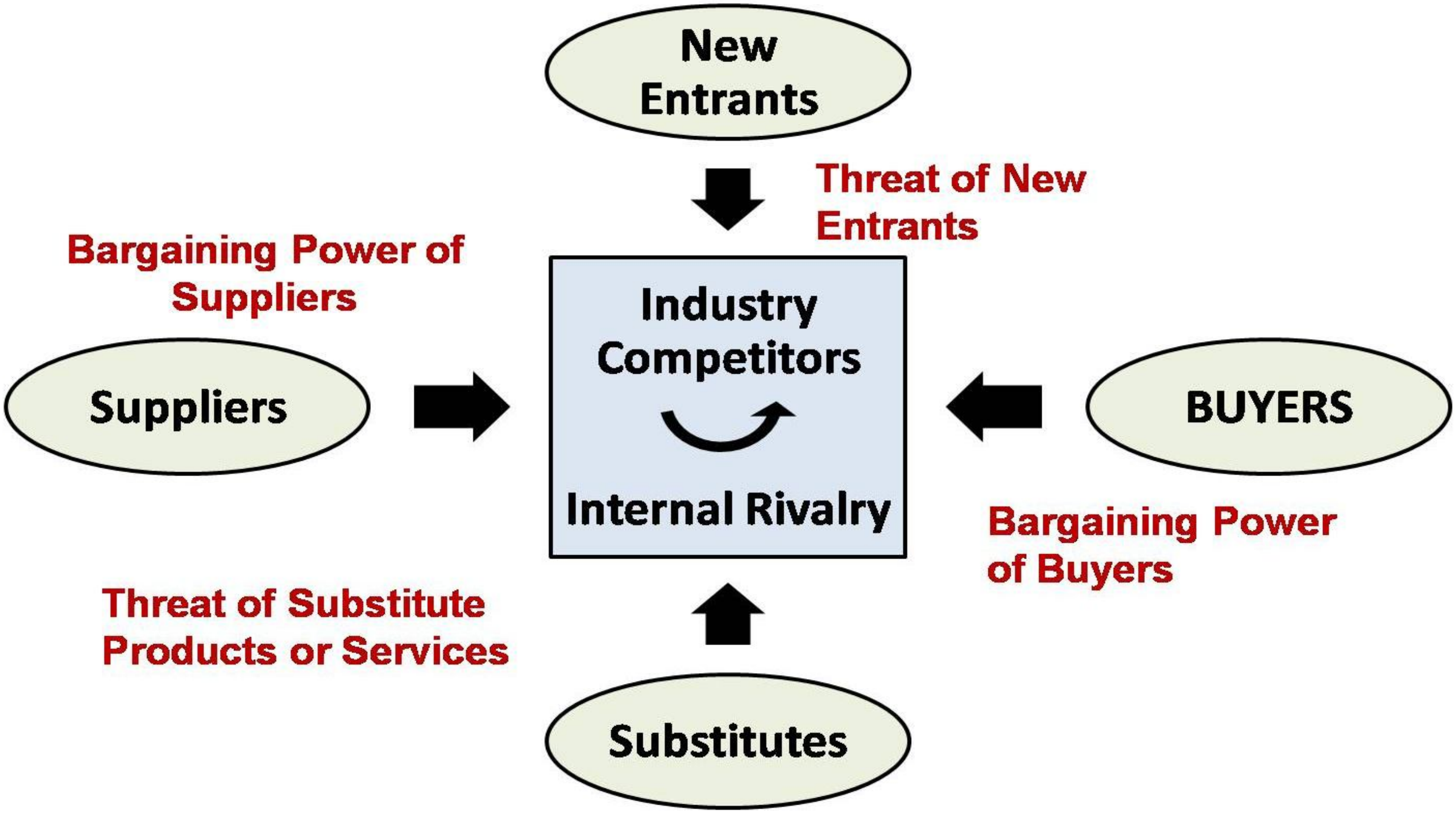
Opportunities & Threats - External Factors-7

- Poor Public Relations Development
- Criticism
- Global Markets
- Environmental conditions

Micro external environment

- This include the analysis of an industry you want to enter into

Porter's Five Forces Model



Porter’s Five Forces Model

1. Entry of Competitors

How easy or difficult is it for new entrants to start competing, which barriers do exist

2. Bargaining Power of Buyers

How strong is the position of buyers. Can they work together in ordering large volumes.

3. Threat of Substitutes

How easy can a product or service be substituted, especially made cheaper.

Porter's Five Forces Model

4. Bargaining Power of Suppliers

How strong is the position of sellers. Do many potential suppliers exist or only few potential suppliers, monopoly?

5. Rivalry Among the Existing Players

Does a strong competition between the existing players exist? Is one player very dominant or are all equal is strength and size.

* Sometimes a sixth competitive force is added: Government

Porter's Five Forces Model

Threat of New Entrants Depends on:

- Economies of scale *(The decrease in unit cost of a product or service resulting from large-scale operations, as in mass production.)*
- Capital/investment requirements
- Customer switching costs
- Access to industry distribution channels
- Access to technology
- Brand loyalty. Are customers loyal?
- The likelihood of retaliation from existing industry players.
- Government regulations. Can new entrants get subsidies?

Porter's Five Forces Model

Threat of Substitutes Depends on:

- Quality. Is a substitute better?
- Buyers' willingness to substitute.
- The relative price and performance of substitutes.
- The costs of switching to substitutes. Is it easy to change to another product?

Porter's Five Forces Model

Bargaining Power of Suppliers Depends on:

- Concentration of suppliers. Are there many buyers and few dominant suppliers?
- Branding. Is the brand of the supplier strong?
- Profitability of suppliers. Are suppliers forced to raise prices?
- Suppliers threaten to integrate forward into the industry (brand manufacturers threatening to set up their own retail outlets)
- Role of quality and service.
- The industry is not a key customer group to the suppliers.
- Switching costs. Is it easy for suppliers to find new customers?

Porter’s Five Forces Model

Bargaining Power of Buyers Depends on:

- Concentration of buyers. Are there a few dominant buyers and many sellers in the industry?
- Differentiation. Are products standardized?
- Profitability of buyers. Are buyers forced to be tough?
- Role of quality and service.
- Threat of backward and forward integration into the industry.
- Switching costs. Is it easy for buyers to switch their supplier?

Porter’s Five Forces Model

Intensity of Rivalry Depends on:

- The structure of competition. Rivalry will be more intense if there are lots of small or equally sized competitors; rivalry will be less if an industry has a clear market leader.
- The structure of industry costs. Industries with high fixed costs encourage competitors to manufacture at full capacity by cutting prices if needed.
- Degree of product differentiation. Industries where products are commodities (e.g. Steel, coal) typically have greater rivalry.
- Switching costs. Rivalry is reduced when buyers have high switching costs.
- Strategic objectives. If competitors pursue aggressive growth strategies. Rivalry will be more intense. If competitors are merely ‘milking’ profits in a mature industry, the degree of rivalry is typically low.
- Exit barriers. When barriers to leaving an industry are high, competitors tend to exhibit greater rivalry.

Industry analysis: Porter's five Forces -1

Supplier bargaining power is likely to be high when:

- The market is dominated by a few large suppliers rather than a fragmented source of supply,
- There are no substitutes for the particular input,
- The suppliers customers are fragmented, so their bargaining power is low,
- The switching costs from one supplier to another are high,
- There is the possibility of the supplier integrating forwards in order to obtain higher prices and margins. This threat is especially high when
- The buying industry has a higher profitability than the supplying industry,
- Forward integration provides economies of scale for the supplier,
- The buying industry hinders the supplying industry in their development (e.g. reluctance to accept new releases of products),
- The buying industry has low barriers to entry.

Industry analysis: Porter’s five Forces -2

Customers bargaining power is likely to be high when

- They buy large volumes, there is a concentration of buyers,
- The supplying industry comprises a large number of small operators
- The supplying industry operates with high fixed costs,
- The product is undifferentiated and can be replaces by substitutes,
- Switching to an alternative product is relatively simple and is not related to high costs,
- Customers have low margins and are price-sensitive,
- Customers could produce the product themselves,
- The product is not of strategically importance for the customer,
- The customer knows about the production costs of the product
- There is the possibility for the customer integrating backwards.

Industry analysis: Porter's five Forces -3

The threat of new entries will depend on the extent to which there are barriers to entry. These are typically

- Economies of scale (minimum size requirements for profitable operations),
- High initial investments and fixed costs,
- Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets,
- Brand loyalty of customers
- Protected intellectual property like patents, licenses etc,
- Scarcity of important resources, e.g. qualified expert staff
- Access to raw materials is controlled by existing players,
- Distribution channels are controlled by existing players,
- Existing players have close customer relations, e.g. from long-term service contracts,
- High switching costs for customers
- Legislation and government action

Industry analysis: Porter’s five Forces -4

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. This category also relates to complementary products.

- Similarly to the threat of new entrants, the treat of substitutes is determined by factors like:
- Brand loyalty of customers,
- Close customer relationships,
- Switching costs for customers,
- The relative price for performance of substitutes,
- Current trends.

Industry analysis: Porter’s 5 Forces Model-5

Competition between existing players is likely to be high when:

- There are many players of about the same size,
- Players have similar strategies
- There is not much differentiation between players and their products, hence, there is much price competition
- Low market growth rates (growth of a particular company is possible only at the expense of a competitor),
- Barriers for exit are high (e.g. expensive and highly specialized equipment).

Internal analysis: Resources and Core Competencies

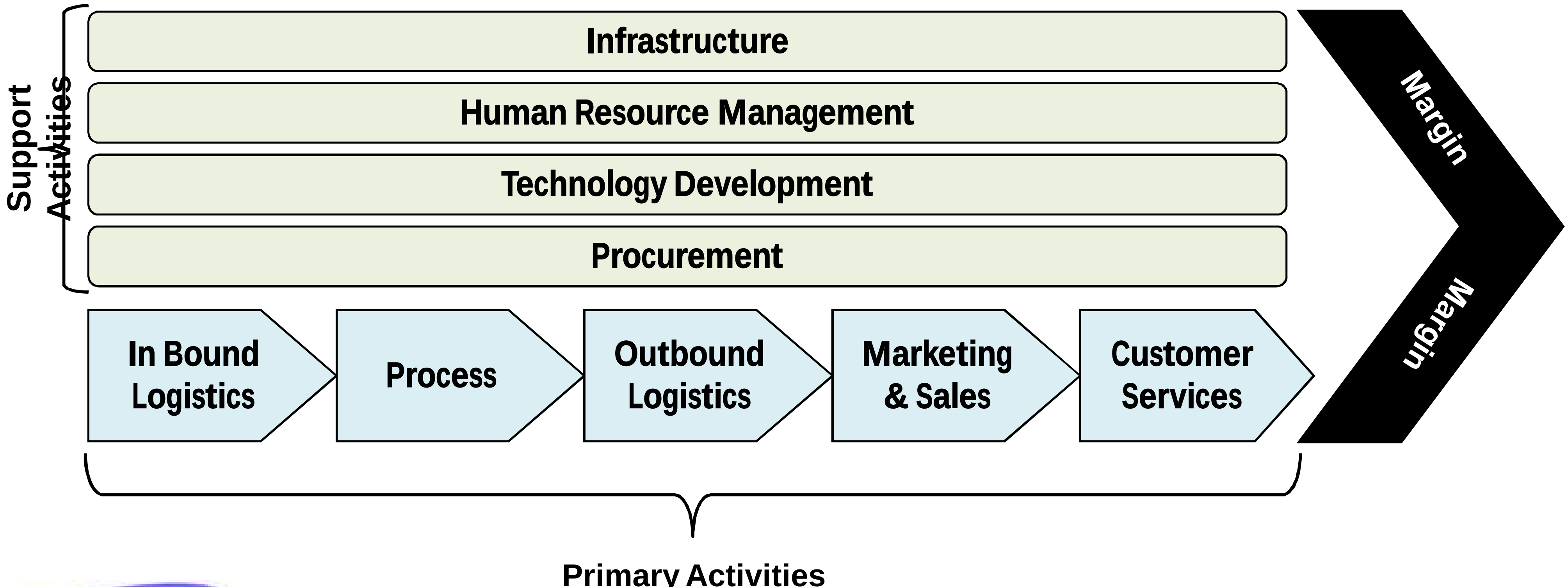
- Financial resources
- Technology
- Human resources
- Products and services
- Markets
- Intangible resources such as goodwill and image in the market
- Research and Development
- Systems and process
- Organizational structure
- Organizational culture

Core Competencies

- Core competencies can be defined as the unique combination of the resources and experiences of a particular firm. It takes time to build these core competencies and they are difficult to imitate. Critical to sustaining these core competencies are their:
- Durability - their life span is longer than individual product or technology life-cycles, as are the life spans of resources used to generate them, including people.
- Intransparency - it is difficult for competitors to imitate these competencies quickly.
- Immobility - these capabilities and resources are difficult to transfer.

Prahalad, CK. and Hamel, G. 1990. "The Core Competence of the Corporation". Harvard Business Review, May-June, pp 79-91.

Value Chain Analysis



Value Chain Analysis

* Corporate value-chain analysis for each product/business line:

- Identify major activities
- Assess strengths and weaknesses; how each contributes to competitive advantage and is it sustainable?
- Determine linkages within each value chain; look for opportunities to improve
- Evaluate potential synergies among various value chains (of various business lines, also outside with supplier and channel value chains)

Value Chain: Internal analysis

Value Chain analysis:

- Subdivides organization into several segments
- identifies what is being done, how well it is being done, strengths and weaknesses
- Examines linkages and potential synergies among various value chains & their segments, and/or among functional areas
- Looks for opportunities to improve and create sustainable competitive advantages

Value Chain - Supplier Costs

- Raw Materials
- Fuel
- Energy
- Transportation
- Truck drivers
- Truck maintenance
- Component parts
- Inspection
- Storing
- Warehouse

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Value Chain -Production Costs

- Inventory System
- Receiving
- Plant Layout
- Maintenance
- Plant location
- Computer
- R & D
- Cost accounting

Value Chain - Distribution Costs

- Loading
- Shipping
- Budgeting
- Personnel
- Internet
- Trucking
- Railroads
- Fuel
- Maintenance

Value Chain -Sales and Marketing Costs

- Salespersons
- Web site
- Internet
- Publicity
- Sales Promotion
- Advertising
- Transportation
- Food and Lodging

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Value Chain- Customer Service Costs

- Postage
- Phone
- Internet
- Warranty

Value Chain - Management Costs

- Human Resources
- Administration
- Employee benefits
- Labour relation
- Managers
- Employees
- Finance and Legal

Value Chain Analysis

- The ***value chain*** is a linked set of value-creating activities from raw materials through final goods in the hands of the ultimate consumer
- * ***Vertical integration*** is a measure of how much of the value chain is done by a given firm
- * There are two (complementary) main ways of subdividing a firm to perform internal analysis & evaluate a firm's strengths and weaknesses:

Value Chain - Management Costs

- Functional area analysis
- Value-chain analysis
- * The value chain breaks a firm into its strategically important activities to:
- Understand cost behavior
- Identify existing or potential sources of competitive advantage (i.e., by performing these strategically important activities at a lower cost or better than its competitors)