BA 291 – Strategic Management

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If you know your enemies and know yourself, you will not be imperiled in a hundred battles; if you do not know your enemies but do know yourself, you will win one and lose one; if you do not know your enemies nor yourself, you will be imperiled in every single battle

Sun Tzu, The Art of War

Strategic Management

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The set of decisions and actions used to formulate and implement strategies that will be provide a competitively superior fit between the organization and its environment so as to achieve organizational goals

Strategic Management Process

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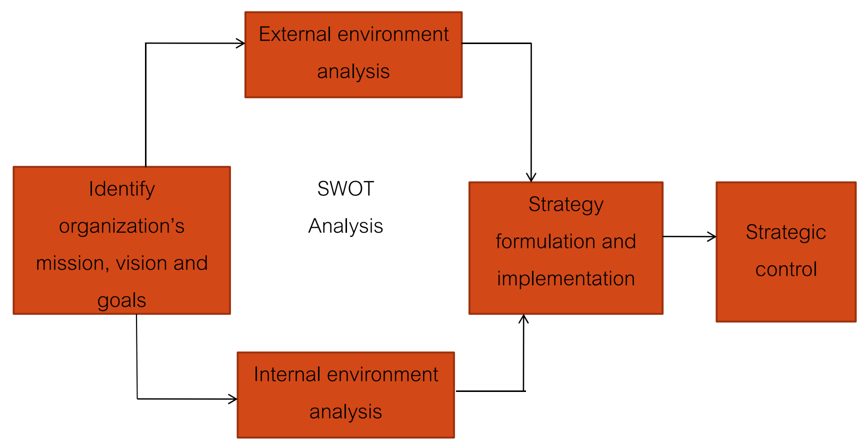


Components of Strategic Management

1. Establishment of Mission, Vision and Goals

Example of Mission Statement

McDonald's "To be the world's best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness and value, so that we make every customer in every restaurant smile."

Levi Strauss "We will market the most appealing and widely casual clothing in the world. We will clothe the world"

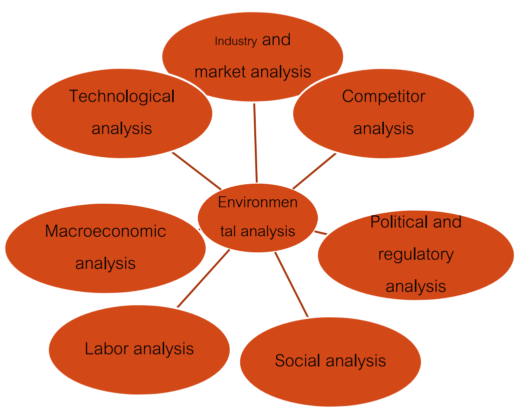
Microsoft "To enable people and business throughout the world to realize their full potential"

Vision vs Mission Statement

While a vision statement might contain references to <u>how</u> the company intends to make that future into a reality, the "how" is really part of a "mission" statement, while the vision statement is simply a description of the "<u>what</u>," meaning, what the company intends to become.

Components of Strategic Management

2. Analysis of external opportunities and Threats



Components of Strategic Management

Using PESTEL to analyze Macro Environment of Business

Components of Strategic Management

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Future Objectives
- How do our goals compare with our competitors' goals?
- Where will emphasis be placed in the future?
- What is the attitude toward risk?

Current strategy
- How are we currently competing?
- Does this strategy support changes in the competitive structure?

Capabilities
- What are our strengths and weaknesses?
- How do we rate compared to our competitors?

Response

What will our competitors do in the future?
Where do we hold an advantage over our competitors?
How will this change our relationship with our competitors?

Conducting Competitor Analysis

Components of Strategic Management

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The Five Forces That Shape Industry Competition

Using 5 Forces to analysis industry environment

Components of Strategic Management

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3. Analysis internal strengths and weaknesses

Internal Environment - Firm's Resources

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Tangible resources	Intangible resources
Financial resources	Human resources
- The firm's borrowing capacity	- Knowledge
- The firm's ability to generate internal funds	- Trust
Organizational resources	- Managerial capabilities
- The firm's formal reporting structure and its formal planning, controlling and coordination systems	- Organizational routines
Physical resources	Innovation resources
- Sophistication and location of a firm's plant and equipment	- Ideas
- Access to raw material	- Capacity to innovate
Technological resources	Reputational resources
- Stock of technology, such as patents, trademarks, copyrights and trade secrets	- Reputation with customers
	- Brand name
	- Perception of product quality, durability and reliability
	- Reputation with suppliers

Internal Environmental – Org Activities

Management and Organization

Management quality
Staff quality

Degree of centralization

Organization charts

Planning, information,
control systems

Finance

Profit margin

Debt-equity ratio

Inventory ratio

Return on investment

Credit rating

Marketing

Distribution channels

Market share

Advertising efficiency

Customer satisfaction

Product quality

Service reputation

Sales force turnover

Production

Plant location

Machinery obsolescence

Purchasing system
Quality control

Productivity/efficiency

Human Resources

Employee experience,
education

Union status
Turnover, absenteeism

Work satisfaction
Grievances

Research and Development

Basic applied research

Laboratory capabilities

Research programs

New-product innovations

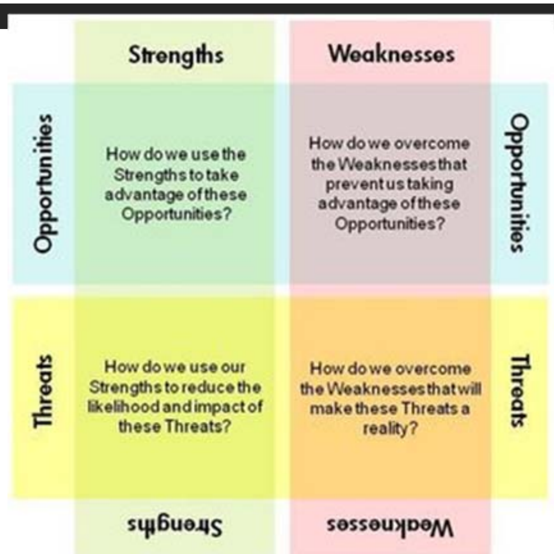
Technology innovations

Internal Environment - Value Chain Analysis

Figure 1: Porter's Generic Value Chain

Components of Strategic Management

- SWOT Analysis



TOWS Matrix (variation of SWOT)

TOWS Strategic Alternatives Matrix

	External Opportunities (O) 1. 2. 3. 4.	**External Threats (T)** 1. 2. 3. 4.
Internal Strengths (S) 1. 2. 3. 4.	**SO** *"Maxi-Maxi" Strategy* Strategies that **use strengths** to **maximize opportunities.**	**ST** *"Maxi-Mini" Strategy* Strategies that **use strengths** to **minimize threats.**
Internal Weaknesses (W) 1. 2. 3. 4.	**WO** *"Mini-Maxi" Strategy* Strategies that **minimize weaknesses** by **taking advantage of opportunities.**	**WT** *"Mini-Mini" Strategy* Strategies that **minimize weaknesses** and **avoid threats.**

ที่มา: http://www.mindtools.com

Components of Strategic Management

- Strategies formulation and Implementation

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Strategy Formulation = stage of strategic management that involves planning and decision making that lead to the establishment of the organization's goals and of a specific strategic plan

Strategy Implementation = stage of strategic management that involves the use of managerial and organizational tools to direct resources toward achieving strategic outcomes

Strategy

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Strategy is a plan of action that prescribes resource allocation and other activities for dealing with the environment, achieving a competitive advantage, that help the organization attain its goals

- Where is the business trying to get to?
- In which market should business compete?
- How to perform better than competitor?
- Which resources are required?
- What are the expectations of customers and stakeholders?

Strategy and Purposses

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Strategy should

Exploit core competencies

Build synergy (The condition that exists when the organization's parts interact to produce a joint effect that is greater than the sum of the parts acting alone)

Create value

Types of Organizational Strategies

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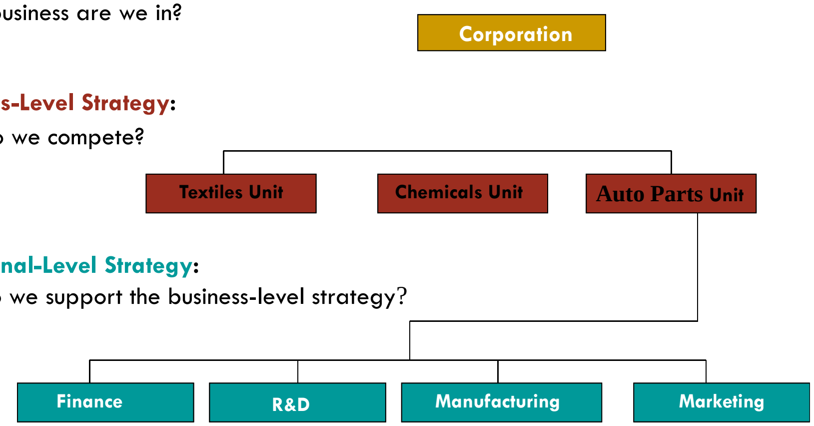
Corporate-Level Strategy:
What business are we in?

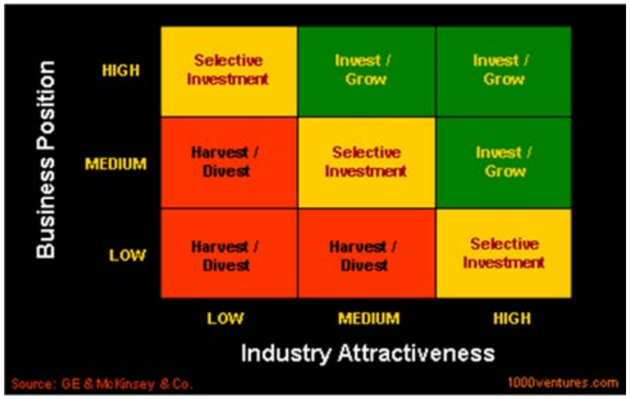
Business-Level Strategy:
How do we compete?

Functional-Level Strategy:
How do we support the business-level strategy?



Grand Corporate Strategy

- GE McKinsey Matrix



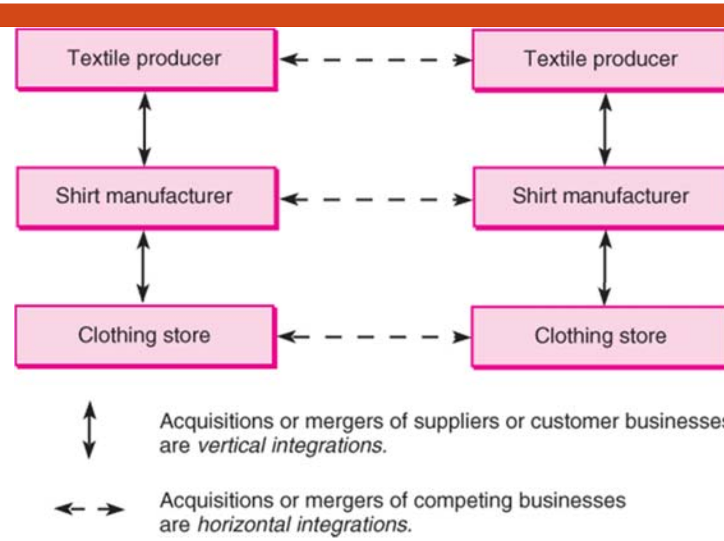
Horizontal Integration

- When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called **horizontal integration**
- Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets

Vertical Integration

- When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products), **vertical integration** is involved
- The main reason for backward integration is the desire to increase the dependability of the supply or quality of the raw materials used as production inputs

Vertical and Horizontal Integration



Concentric Diversification

- **Concentric diversification** involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products
- With this grand strategy, the selected new businesses possess a high degree of compatibility with the firm's current businesses
- The ideal concentric diversification occurs when the combined company profits increase the strengths and opportunities and decrease the weaknesses and exposure to risk

Conglomerate Diversification

- Occasionally a firm, particularly a very large one, plans acquire a business because it represents the most promising investment opportunity available. This grand strategy is commonly known as **conglomerate diversification.**
- The principal concern of the acquiring firm is the profit pattern of the venture
- Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing businesses

Turnaround

The firm finds itself with declining profits

- Among the reasons are economic recessions, production inefficiencies, and innovative breakthroughs by competitors
- Strategic managers often believe the firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competences. This is **turnaround.**
- Two forms of retrenchment:
  - Cost reduction
  - Asset reduction

Divestiture

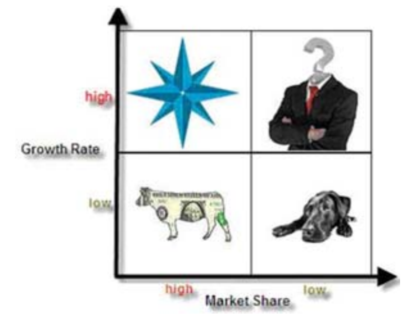
- A **divestiture strategy** involves the sale of a firm or a major component of a firm
- When retrenchment fails to accomplish the desired turnaround, or when a nonintegrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm
- Reasons for divestiture vary

Bankruptcy

- *Liquidation bankruptcy*—agreeing to a complete distribution of firm assets to creditors, most of whom receive a small fraction of the amount they are owed
- *Reorganization bankruptcy*—the managers believe the firm can remain viable through reorganization
- Two notable types of bankruptcy
  - *Chapter 7*
  - *Chapter 11*

Corporate Portfolio Analysis – BCG Matrix

Portfolio strategy: The organization's mix of strategic business units and product lines that fit together in such a way as to provide the corporation with synergy and competitive advantage



Example: General Electric (GE)

GE has been reshuffling the corporation's mix of business in a way that will give GE a better position in the long run. GE is investing heavily in its stars and question marks to ensure that its portfolio will continue to include cash cows in a future that might be very different from today's world.

What are stars, question mark, cash cow? What do you think?

Business Level Strategy

STRATEGIC ADVANTAGE

	Uniqueness Perceived by the Customer	Low Cost Position
Industrywide	DIFFERENTIATION	OVERALL COST LEADERSHIP
Particular Segment Only	FOCUS	

Cost leadership

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An integrated set of actions designed to produce or deliver goods or services at the lowest cost relative to competitors.

Cost saving actions required by this strategy:

- building efficient facilities, lower waste in manufacturing process
- tightly controlling production costs and overhead
- minimizing costs of sales, R&D and service
- monitoring costs of activities provided by outsiders
- simplifying production processes (mass production, mass customization) – economies of scale

Differentiation

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The attempt to distinguish products or services from that of competitors

(think “out of the box”)

Focus strategy

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A focus strategy must exploit a narrow target’s differences from the balance of the industry by:

- isolating a particular buyer group
- isolating a unique segment of a product line
- concentrating on a particular geographic market
- finding their “niche”

Focus strategy

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Factors driving focus strategy

- Large firms overlook small niches
- Firm may lack resources to compete in the broader market
- May be able to serve a narrow market segment more effectively than can larger industry-wide competitors
- Focus may allow the firm to direct resources to certain value chain activities to build competitive advantage

Functional Level Strategy

Functional –level strategies are the action plans adopted by major department to support execution of business level strategy.

- concerned with coordinating the functional areas of the organization (marketing, finance, human resources, production, research and development, etc.)

Strategy implementation

Strategy Implementation: stage of strategic management that involves the use of managerial and organizational tools to direct resources toward achieving strategic outcomes

Strategy

Leadership
- Persuasion
- Motivation
- Culture/values

Structural Design
- Organization Chart
- Teams
- Centralization
- Decentralization,
- Facilities, task design

Human Resources
- Recruitment/selection
- Transfers/promotions
- Training
- Layoffs/recalls

Information and Control Systems
- Pay, reward system
- Budget allocations
- Information systems
- Rules/procedures

Performance