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Seminar

Fred Ludolph

Strategic Management and Organization

2016

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Strategy Definition

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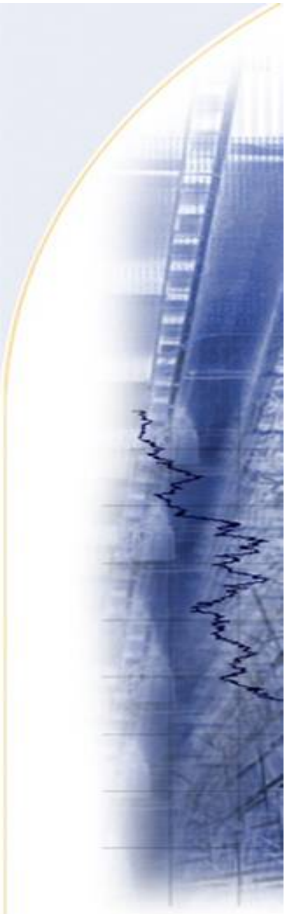

Strategy according to ***Michael Porter*** is the basis for competition → ***competitive strategy***

„Strategy is a broad formula for how a business is going to compete, what its goal should be, and what policies are needed to carry out those goals.“

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Strategy Definition

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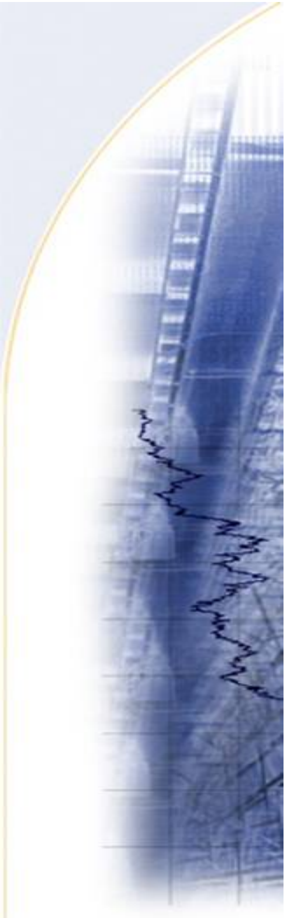

According to **Minzberg** managers use strategy in several ways:

1. Strategy **is a plan**, a „how“, a means of getting from here to there
2. Strategy **is a pattern** in actions over time
3. Strategy **is a position**, it reflects decisions to offer particular products or services in particular markets
4. Strategy **is perspective**, that is, vision and direction

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Strategy Definition

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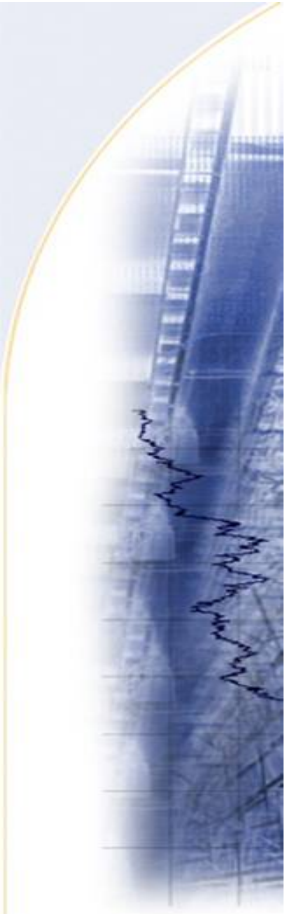
Johnson and Scholes (2005):

Strategy is the direction and scope of an organisation over the **long term**: which achieves advantage in a changing environment through its configuration of **resources and competences** with the aim of fulfilling stakeholder expectations.

The strategy of the firm is the **match between its internal capabilities and its external relationships**. It describes how it responds to its suppliers, its customer, its competitor and the social and economic environment within it operates.

Strategy Definition



Ritter (2013):

Strategy is a **longer-term** systematic aspiration (process) to achieve the vision and objectives, taking into account

- the available resources and core competencies
- the environment (customer, suppliers ...)
- the competition
- The stakeholder (employees, shareholder)

for the positioning of a company in the market.

The process of strategy

The **five core areas** of corporate strategy are:

1. ***strategic goal planning*** (vision, mission, mission statement, strategic objectives)

2. ***strategic analysis***

3. ***strategic development***

4. ***strategy implementation***

5. ***strategy evaluation***

Management

„**Management** is the **transformation** of **resources** into **value**“

Fredmund Malik

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Strategy and Objectives

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Use the

Management-Control-Cycle

for understanding the management functions!

Use the method

Management by Objectives (Peter Drucker)

for the formulation of the objectives !

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Main characteristics →Manager

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1. Visionary thinking
2. To possess a high degree of emotional intelligence
3. Goal-oriented, endurance and insistance
4. Creativity, flexibility, lateral-,strategic-, scenario thinking
5. Enthusiasm, obsession (fighting for success)
6. Power of judgement, decision-making ability
7. Willingness to take risks
8. Communicative competence
9. Willingness for life-long learning
10. To aspire for independency

A pessimist sees the difficulty
in every opportunity;
an optimist sees the opportunity
in every difficulty.

Sir Winston Churchill

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Herzberg´s Two Factor Theory

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Herzberg distinguish between

1923 - 2000

1.Intrinsic factors → Motivators and

→ Recognition, Promotion, Personal Growth, Responsibility, challenge work

2.Extrinsic factors → Hygiene factors

→ Salery, Job Security, Working Conditions ...

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Emotional Intelligence → 5 domains

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1. Knowing your emotions
2. Managing your own emotions
3. Motivating yourself
4. Empathy → Recognising and understanding other people´s emotions
5. Managing relationships, managing the emotions of others

The process of strategy

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The two approaches

- the ***prescriptive approach*** and the
- ***emergent approach***

can be used to develop models for the corporate strategy process!!!

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The process of strategy

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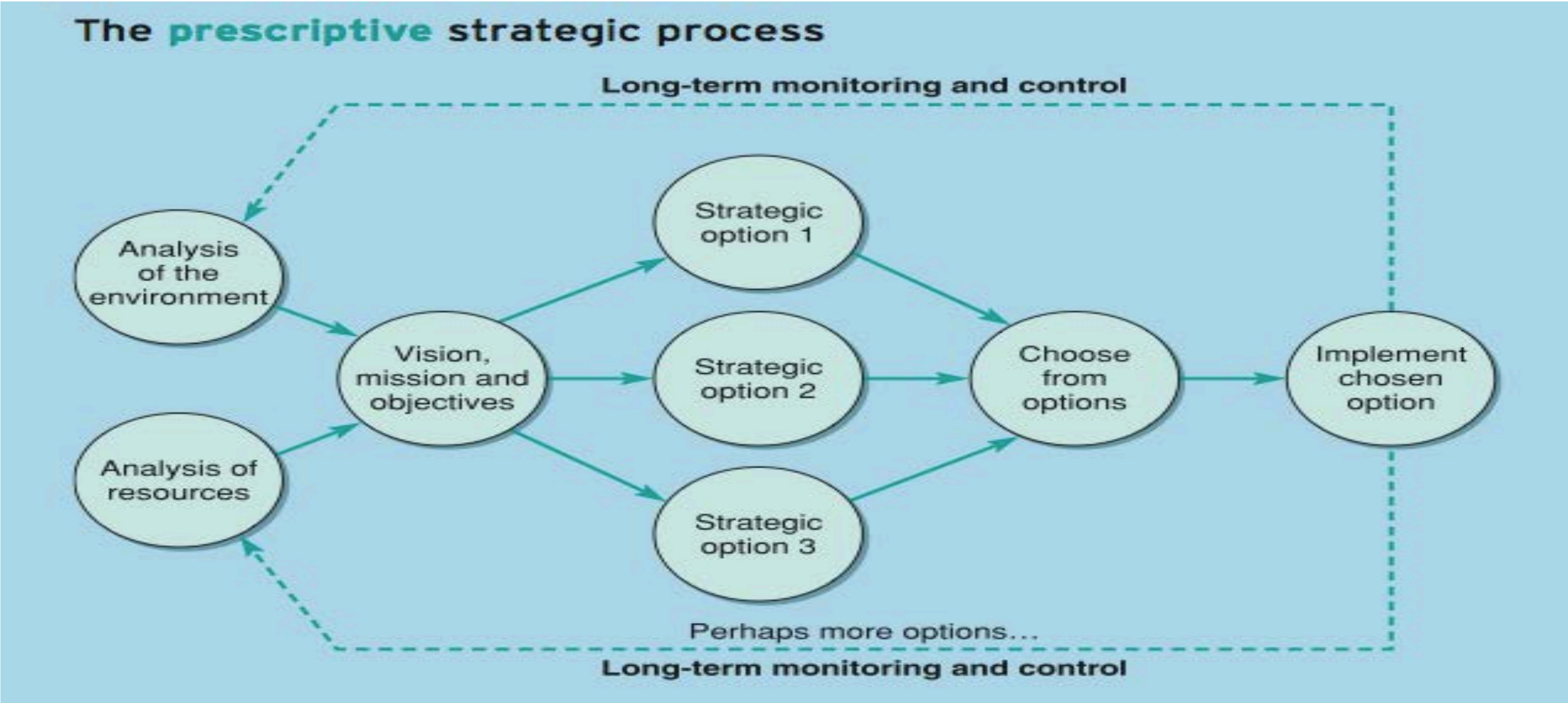

A prescriptive corporate strategy is one whose objective has been defined in advance and whose main elements have been developed before the strategy commences.

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The process of strategy

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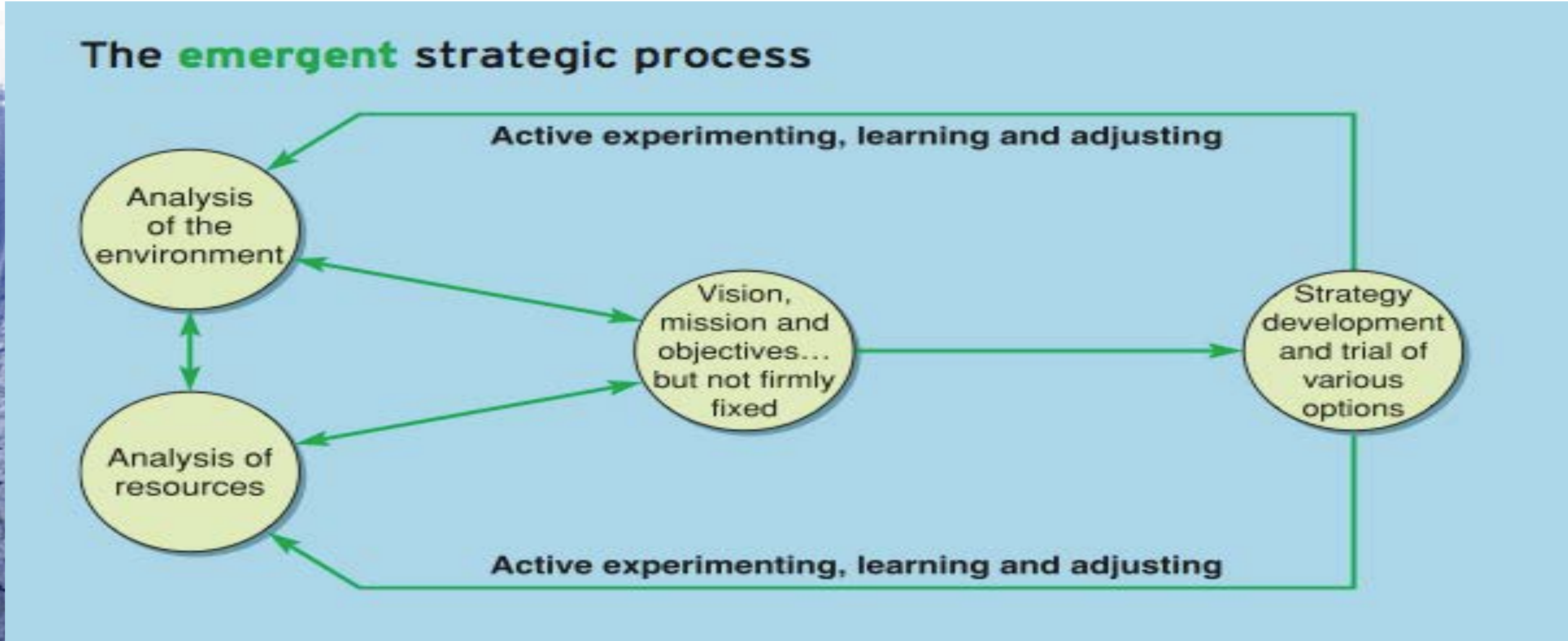

Emergent corporate strategy is a strategy whose final objective is unclear and whose elements are developed during the course of its life, as the strategy proceeds.

Vision

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Vision is the pictorial image about sense and the purpose of the enterprise. She should describe a future picture of the enterprise which makes this unique and unmistakeable **(*identity function*)**. The vision should indicate to the employees the deeper sense and use of their work ***(identification function)***. The vision should inspire the employees to aspire the aimed future picture as a common aim (***mobilisation function)***.

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Vision

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„A computer on every desk and in every home!“

Bill Gates – at the beginning of the 80th

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Mission

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In contrast to the enterprise vision

the mission

defines the order which the employees of the enterprise have to fulfill. With other words: What they do if they come to the work.

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Mission

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„ We create the optimum market entry for our customers in Russia !“

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Mission

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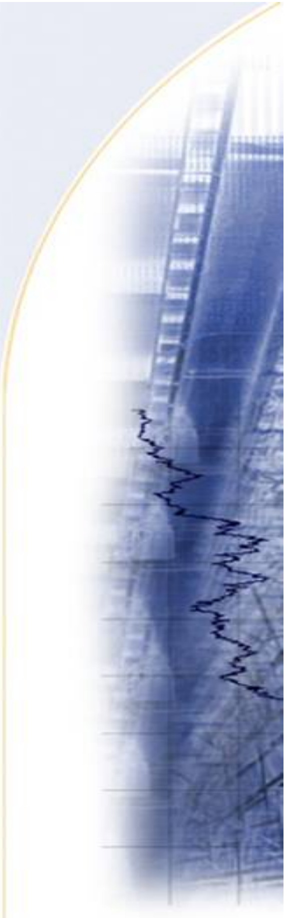
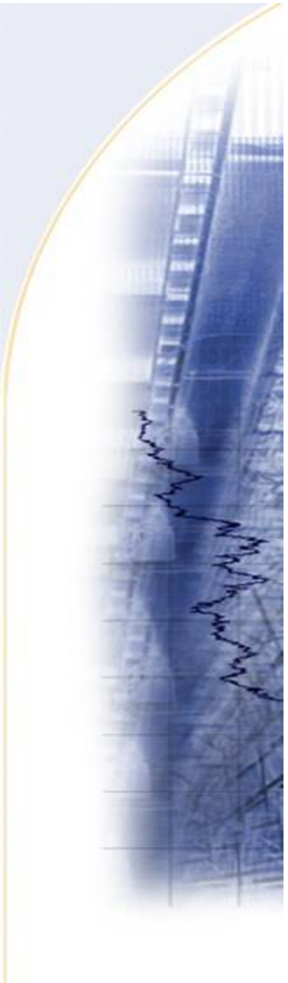


„We make our clients with excellent and innovative products of the highest goodness fit and healthy.“

Fitness-Company

Mission Statement



... is a summary of the strategic objectives, the enterprise values and enterprise principles.

The mission statement as a guideline should stimulate all employees to long-term thinking and acting!

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Mission Statement

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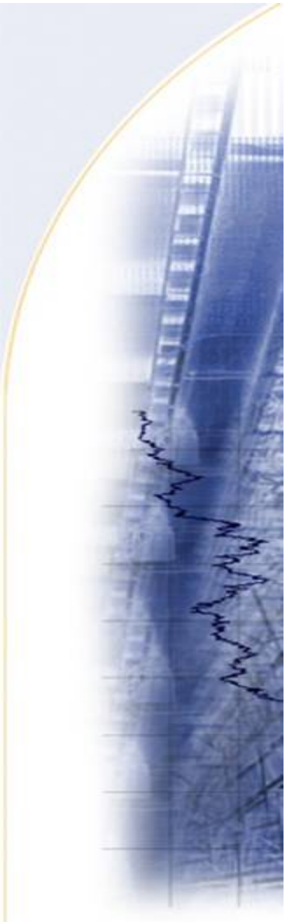

GOLDEX Group is a leading player in the market of east-west business, providing to well-known European manufacturers of industrial equipment an entry to the Russian market, Ukraine and Central Asia, and presenting high-class financing solutions. For many years, an extensive network of contacts between suppliers and customers has been established, which is characterized by reliability and trust.

For our skilled staff with international experience the interests and needs of the customer are in the first place. We attach great importance to the high professionalism and flexibility in working with our customers and partners

RBV Resource-based View

In searching for **sustainable competitive advantage**, the resource-based view (RBV) argues that the individual resources of an organisation provide a stronger basis for strategy development than industry analysis. The reason is that RBV will identify those resources that are exceptional and deliver competitive advantage.

The source of competitive advantage lies in the organisation's resources!!!

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Market-Based View (MBV)

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Market-based theories emphasise the importance of the market place to develop sustainable competitive advantage!!!

Dynamic Capability Approach

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The **Dynamic Capability approach** is a combination of RBV and MBV and

is defined by Teece et al. (1997) as

"the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments".

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Environmental Analysis →PESTEL

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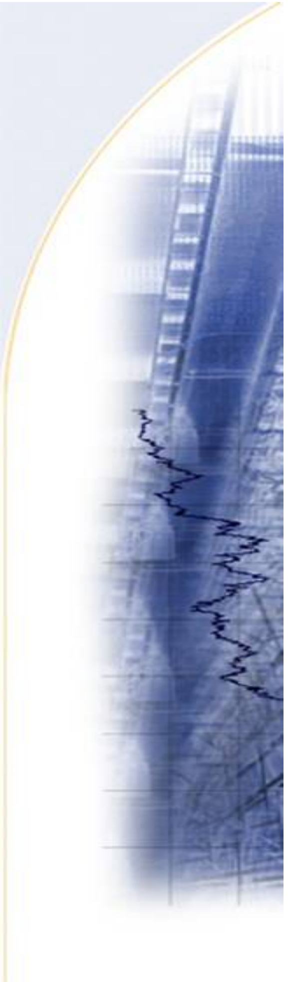

Political

Economical

Social

Technological

Environmental

Legal

Political

- ***Legislation***, e.g. on ***taxation*** and ***employment law***
- ***Relations*** between government and the organisation (possibly influencing the preceding items in a major way and forming a part of future corporate strategy)
- ***Government ownership*** of industry and attitude to monopolies and competition

...

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Government Analysis

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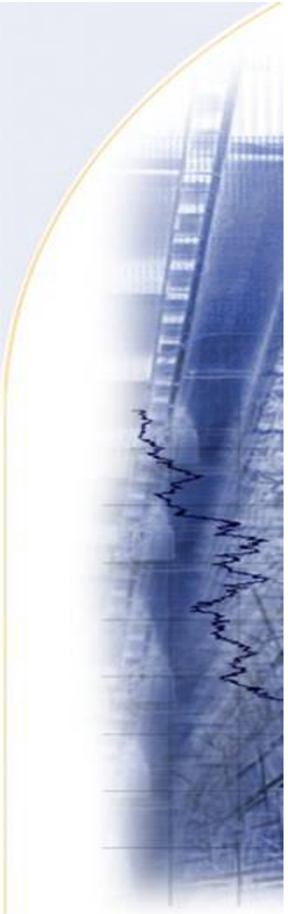

Government policies can have a general impact on corporate strategy:

Some countries have adopted a laissez-faire, free-marke approach, while others have ollowed a dirigiste, more centrally directed approach to industrial development.
Corporate strategy needs to be acutely aware of the benefits and problems of these areas.

- Public expenditure
- Competition policy.
- Taxation policy.
- Regional policy.

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Environmental Analysis →PESTEL

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Political

Economical

Social

Technological

Environmental

Legal

Economical

- Total GDP and GDP per head
- Inflation
- Consumer expenditure and disposable income
- Interest rates
- Currency fluctuations and exchange rates
- Unemployment
- Energy costs, transport costs, communications costs, raw materials costs

...

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Environmental Analysis →PESTEL

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Political

Economical

Social

Technological

Environmental

Legal

***S**ocial*

- Shifts in values and culture
- Change in lifestyle
- Attitudes to work and leisure
- Education and health
- Demographic changes
- Distribution of income

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Environmental Analysis →PESTEL

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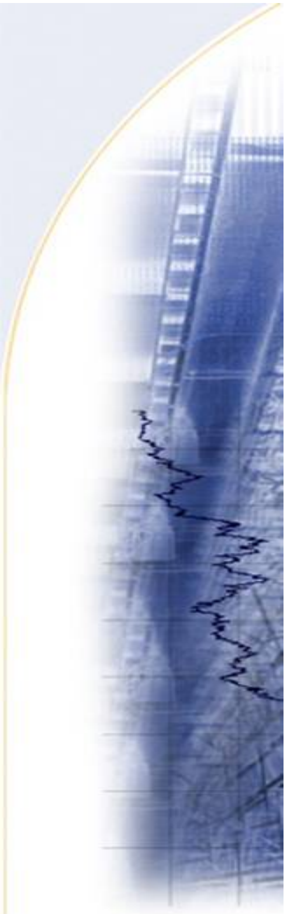

Political

Economical

Social

Technological

Environmental

Legal

Technological

- Government and EU investment policy
- Identified new research initiatives
- New patents and products
- Speed of change and adoption of new technology
- Level of expenditure on R&D by organisation's rivals

...

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Environmental Analysis →PESTEL

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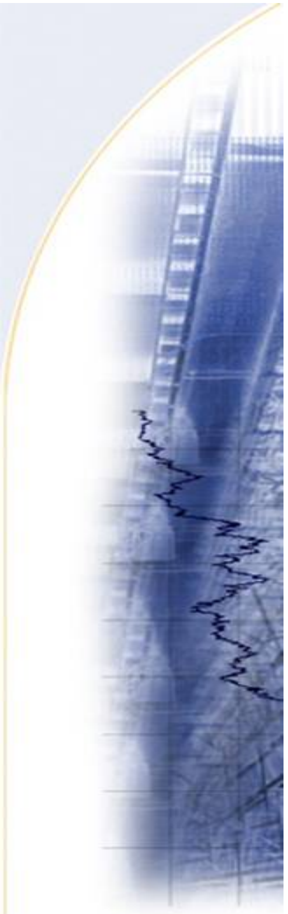

Political

Economical

Social

Technological

Environmental

Legal

***E**nvironmental*

- ‘Green’ issues that affect the environment
- Level and type of energy consumed – renewable energy?
- Rubbish, waste and its disposal

…

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Environmental Analysis →PESTEL

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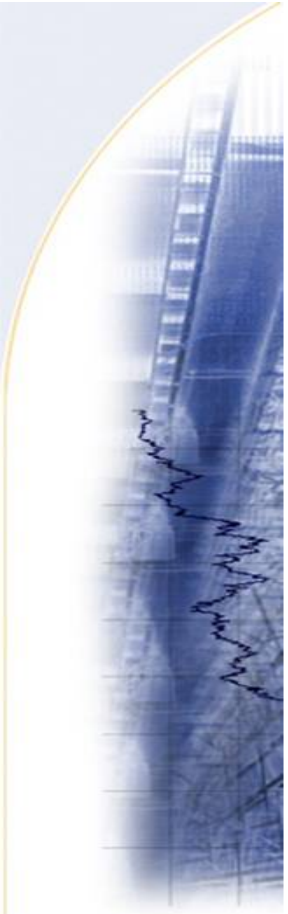

Political

Economical

Social

Technological

Environmental

Legal

Legal

- Competition law and government policy
- Employment and safety law
- Product safety issues

...

Environmental Analysis

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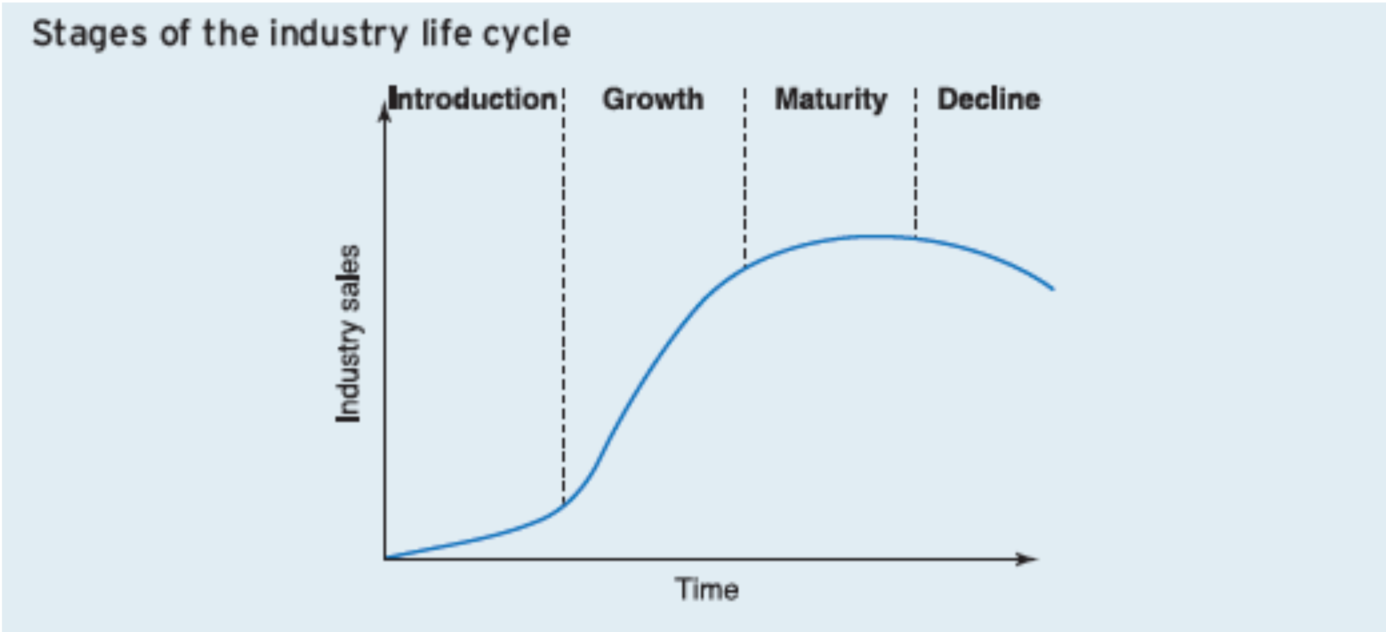

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Scenario-based Analysis

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- Start from an unusual viewpoint → radical change of government, substantial change in technology, deep world-wide crisis, bankruptcy of a key client ...
- Worst case and best case szenarios
- What-if-questions ....
- Formulate strategic options to overcome critical occuranc in the future...

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Competition

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All significant existing and potential competitors must be analyzed!!!

Use

Porter´s Five Forces

The state of competition in an industry depends on five basic competitive forces

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Porter´s Five Forces Model

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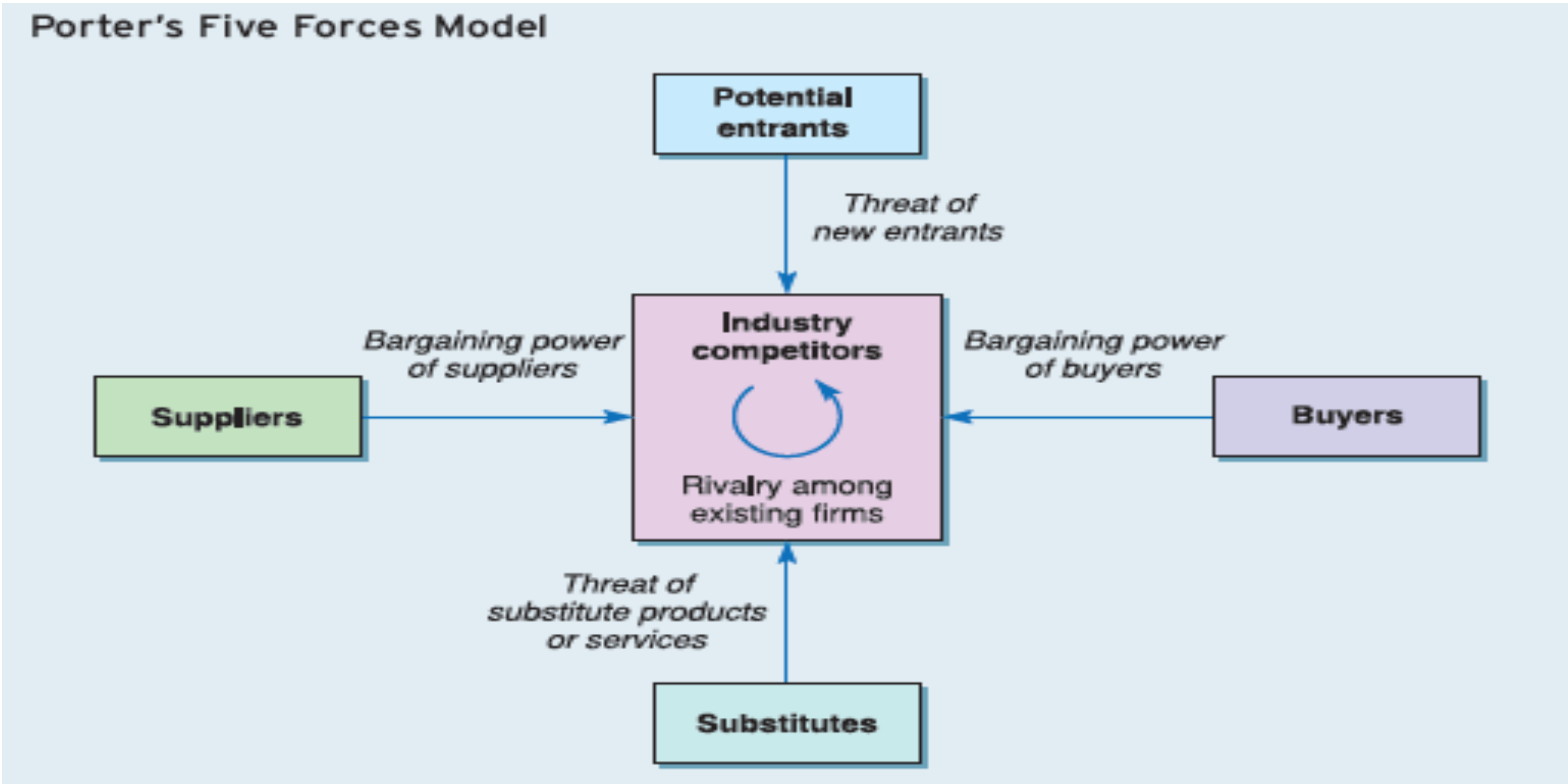

Source: From *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael E Porter. Copyright © 1980 by Michael E Porter.

Bargaining power of suppliers

- If there are only a few suppliers.
- If there are no substitutes for the supplies they offer.
- If suppliers’ prices form a large part of the total costs of the organisation.
- If a supplier can potentially undertake the value-added process of the organisation.

Bargaining power of buyers

- If buyers are concentrated and there are few of them.
- If the product from the organisation is undifferentiated, the buyer can easily switch from one to another without problems.
- If backward integration is possible.
- If the selling price from the organisation is unimportant to the total costs of the buyer.

Threats of potential new entrants

Porter argues that there were seven major sources of barriers to entry:

1. **Economies of scale** → cost reductions because of increasing output
2. **Product differentiation** →branding, special level of service ...
3. **Capital requirements**
4. **Switching costs** → buyer to new entrants
5. **Access to distribution channels** → maybe controlled by companies
6. **Cost disadvantages independent of scale** → relationships ...
7. **Government policies** → protectionism

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The threats of substitutes

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From a strategy viewpoint, the key issues to be analysed are:

- the possible threat of obsolescence;
- the ability of customers to switch to the substitute;
- the costs of providing some extra aspect of the service that will prevent switching;
- the likely reduction in profit margin if prices come down or are held.

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Competitor Analysis

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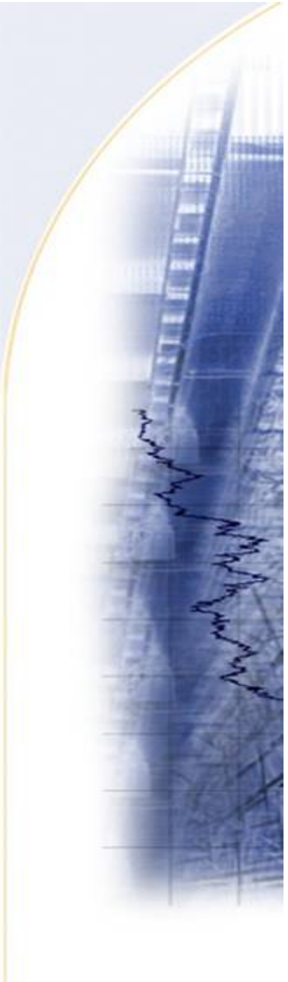

Constantly monitoring:

- company anual reports
- exhibition and trade fairs
- stockbroker analysis
- internet research
- mystery shopping
- ...

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Competitor Analysis

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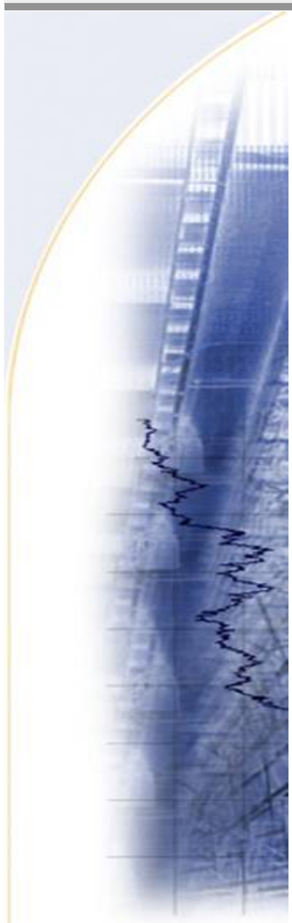
Use the Potential Analysis!

Sustainable Competitive Advantage (SCA)



Sustainable competitive advantage (SCA)

is an advantage over competitors that cannot easily be imitated. The main reason for analysing competitors is to enable the organisation to develop competitive advantages against them, especially advantages that can be sustained over time.

Some possible sustainable competitive advantages in different areas of business

High technology	Services	Small business	Manufacturing market leader
Technical excellence	Reputation for quality of service	Quality	Low costs
Reputation for quality	High quality and training of staff	Prompt service	Strong branding
Customer service	Customer service	Personalised service	Good distribution
Financial resources	Well-known name	Keen prices	Quality product
Low-cost manufacturing	Customer-oriented	Local availability	Good value for money

Sources: See reference[4].

Critical Comment of 5 Forces Model

- It assumes that buyers have no greater importance than other aspects of environment.
- Ignoring the human resource aspect of strategy
- Underestimation of the Recourced-based View

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Products and services

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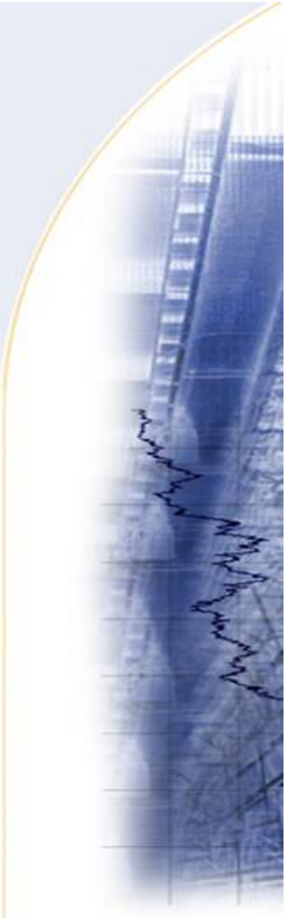

Describe your portfolio of products and services
Innovation → R & D
Life cycle of the several products
Trade mark protection
Patenting

Portfolio analysis → BSC Matrix

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Portfolio Analysis BSC-Matrix

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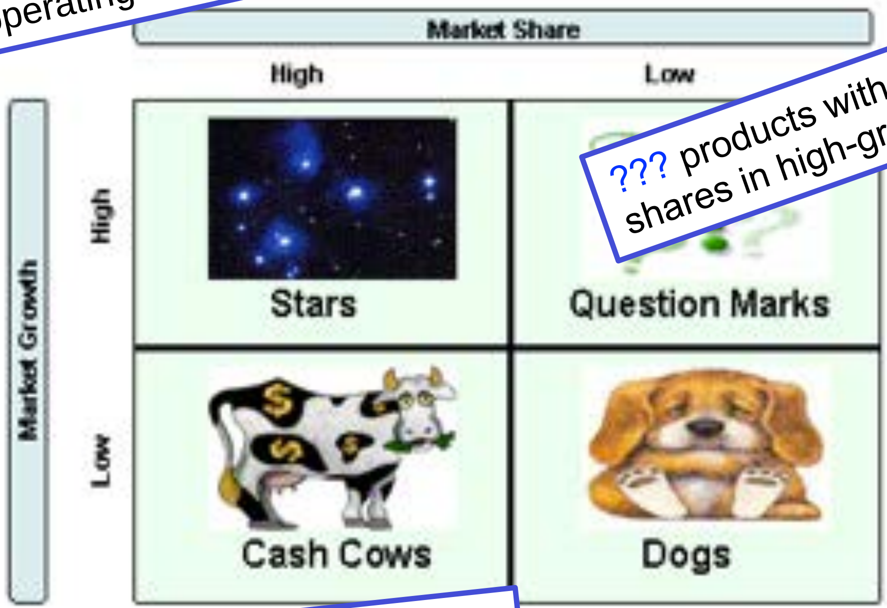
Stars: products with high relative market shares operating in high-growth markets.

??? products with low relative market shares in high-growth markets



The **portfolio matrix** analyses the range of products possessed by an organisation (its portfolio) against two criteria:
relative market share and
market growth.
It is sometimes called the growth–share matrix.

cash cows: product areas that have high relative market shares but exist in low-growth markets.

dogs: products that have low relative market
shares in low-growth businesses.

Markets

Quantitative market datas

→market potential, market volume, market share

→market barriers

Qualitative market datas

→ customer structure (***ABC analysis***)

→ customer needs, buying habits, buying motives, trends, market gaps, specific buying processes

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Customer-driven strategy

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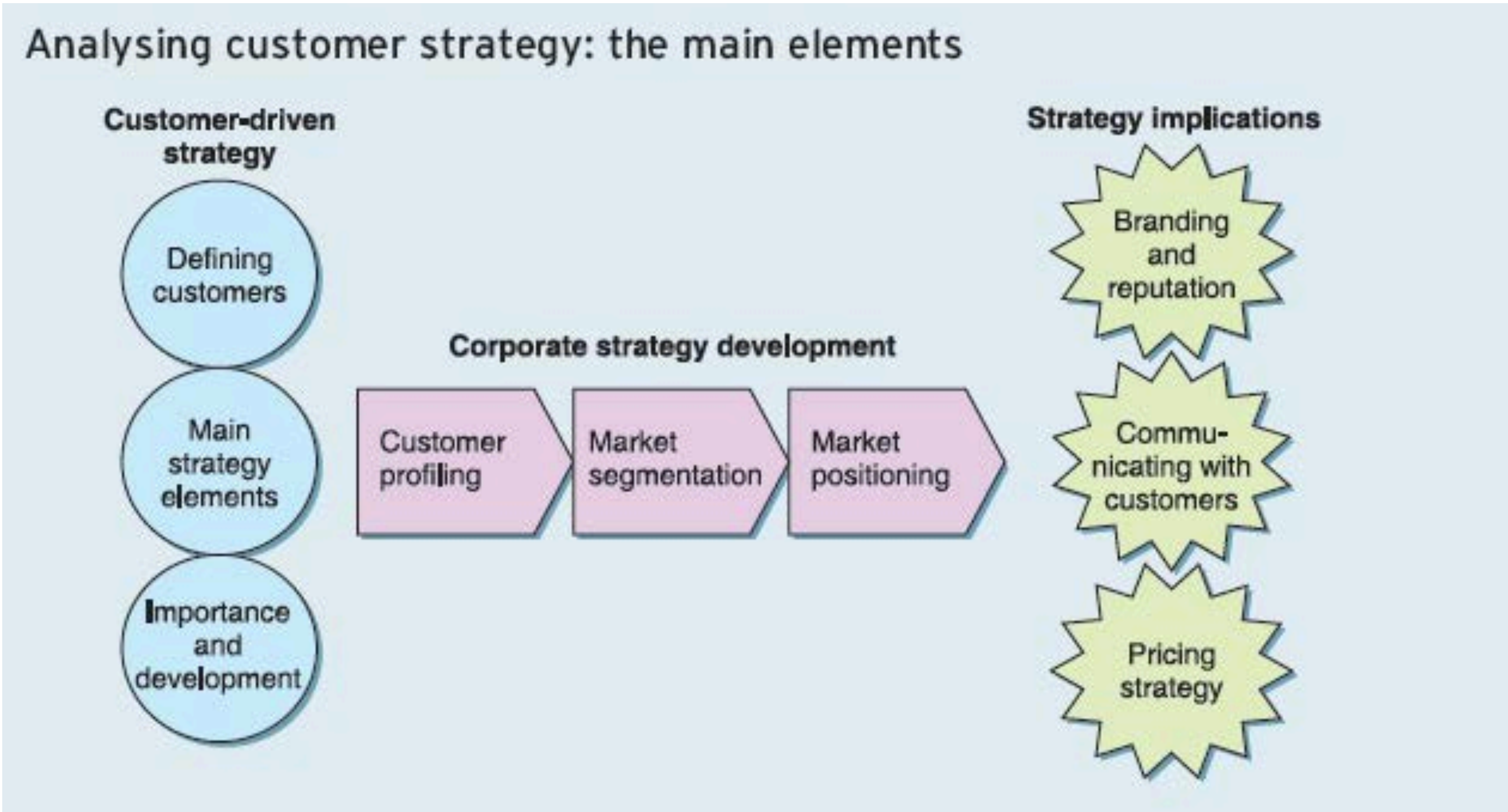

Customer-driven Strategy

In a ***customer-driven strategy*** every function of an organisation is directed towards customer satisfaction!!!

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Customer-driven Strategy

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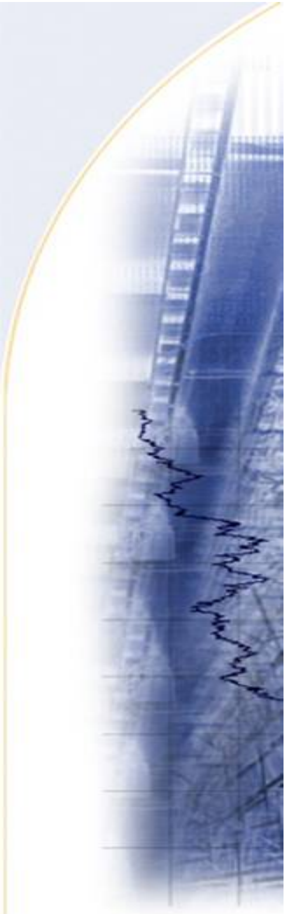
„To live with the customer!!!!“

Customer-driven Strategy



Why is customer-driven strategy so important?

- ***Loyal customers are more profitable***: they tend to account for the majority of the sales of most organisations and their loyalty means that they are less sensitive to price increases and may even encourage new customers.

- ***Attracting new customers* costs** organisations **more** than retaining loyal customers: the extra cost may be three to five times as much.

- ***Retaining existing customers*** can dramatically increase profit. Some 10 per cent of customers will leave an organisation every year. However, according to one study, increasing customer retention by 5 per cent produced an 85 per cent increase in profits.

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Customer-driven Strategy

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Customer/competitor matrix

Customer needs		Competitor advantage: *Small, so easily imitated*	Competitor advantage: *Large, so difficult to imitate*
	Very varied, so many sources of competitive advantage	Fragmented strategies	Specialised strategies
	Largely the same, so few sources of competitive advantage	Stalemate strategies	Volume strategies

Customer needs

Competitor advantage

Competitor Analysis

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Use the

SWOT Analysis

for the formulation of a strategy !

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Competitor Analysis

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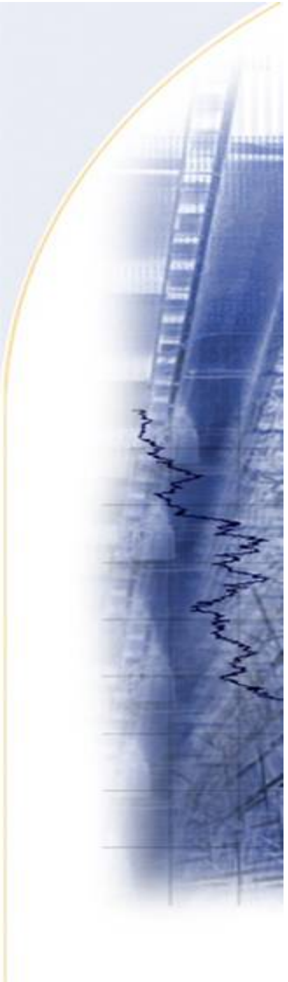

Some possible factors in a SWOT analysis

INTERNAL

Strengths	Weaknesses
• Market dominance	• Share weakness
• Core strengths	• Few core strengths and low on key skills
• Economies of scale	• Old plant with higher costs than competition
• Low-cost position	• Weak finances and poor cash flow
• Leadership and management skills	• Management skills and leadership lacking
• Financial and cash resource	• Poor record on innovation and new ideas
• Manufacturing ability and age of equipment	• Weak organisation with poor architecture
• Innovation processes and results	• Low quality and reputation
• Architecture network	• Products not differentiated and dependent on few products
• Differentiated products	
• Product or service quality	

EXTERNAL

Opportunities	Threats
• New markets and segments	• New market entrants
• New products	• Increased competition
• Diversification opportunities	• Increased pressure from customers and suppliers
• Market growth	• Substitutes
• Competitor weakness	• Low market growth
• Strategic space	• Economic cycle downturn
• Demographic and social change	• Technological threat
• Change in political or economic environment	• Change in political or economic environment
• New takeover or partnership opportunities	• Demographic change
• Economic upturn	• New international barriers to trade
• International growth	

Note: See text for dangers of lists and bullet points!

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Marketing

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Marketing Strategy → concentration of limited recources on the greatest opportunities

Porters **Generic strategies:**

- **Cost leadership**
- **Product differentiation**
- **Focus→ Market segmentation**

The Four P´s

- **Product**
- **Price**
- **Promotion**
- **Place** **(Distribution Strategy)**

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Growth strategies

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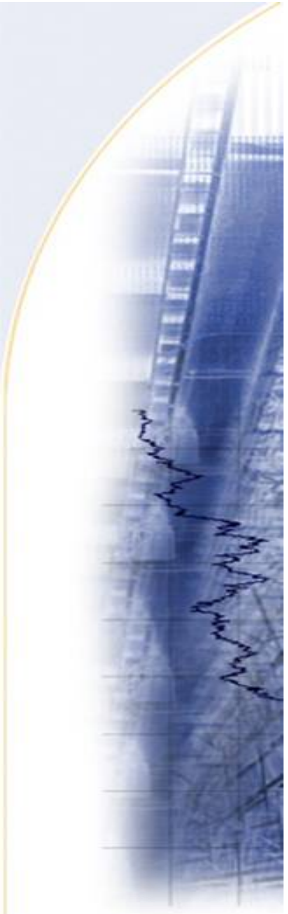
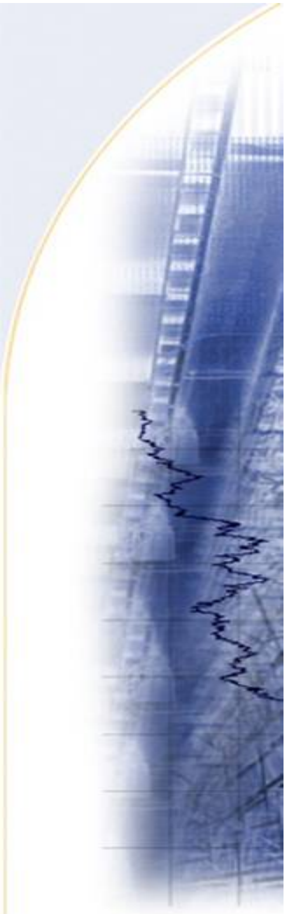


		Products	
		Present	New
Markets	Present	Market penetration	Product development
	New	Market development	**Diversification**

Co-Operative Strategies

Co-operative strategies involve companies working with rivals or other related companies to the mutual benefits of both organisations.

Co-Operative Strategies



- ***Strategic alliances:*** co-operative strategies where organisations combine or share some of their resources.

- ***Joint ventures:*** co-operative strategies where two or more organisations set up a separate jointly-owned subsidiary to develop the cooperation.

- ***Franchises:*** co-operation strategies in which a master company (the franchisor) develops a business concept which it then shares with others (the franchisees) to their mutual benefit.

- ***Collusive alliances:*** co-operative strategies in which firms seek to share information in order to reduce competition and/or raise prices.

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Strategic pricing → Target Pricing

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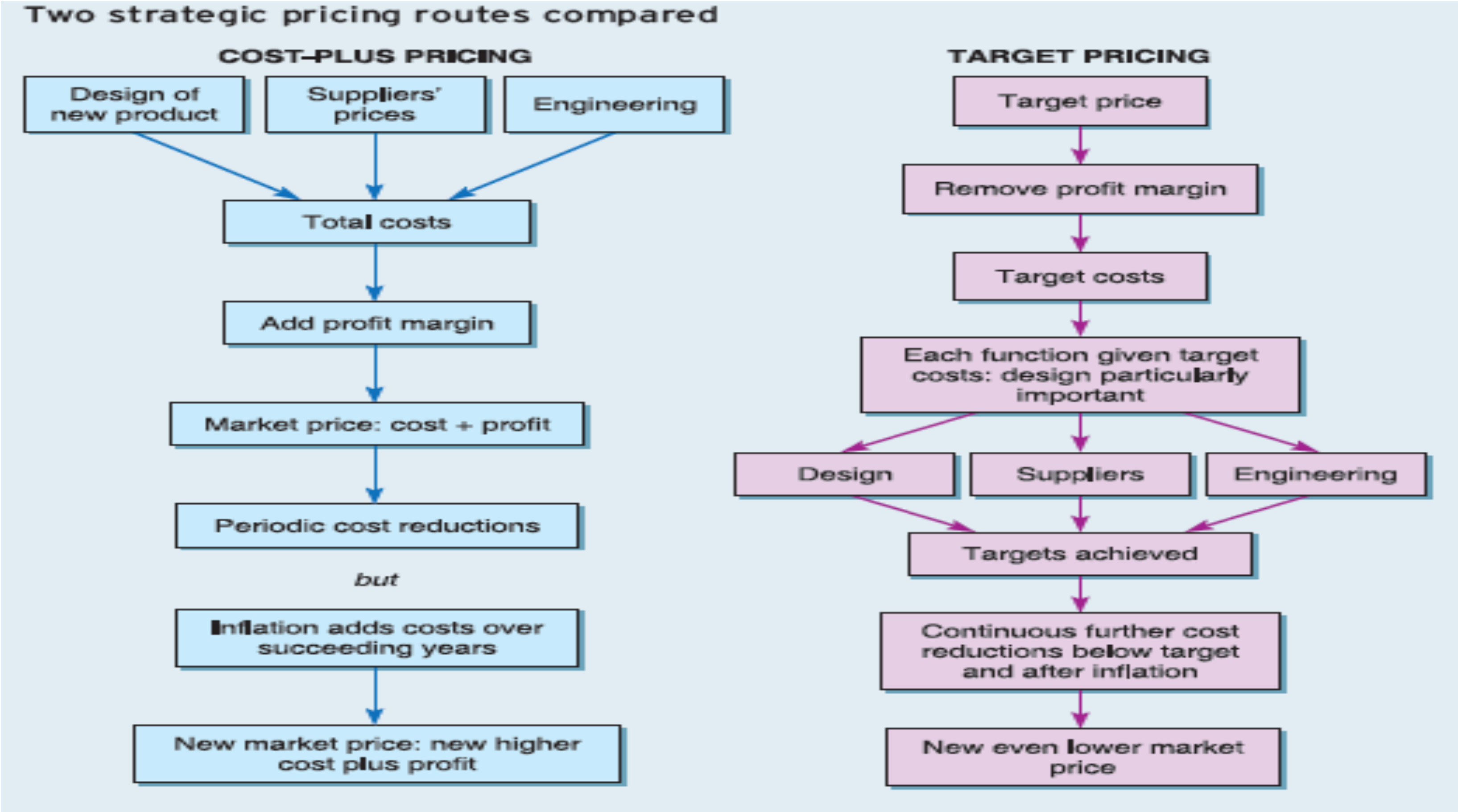

RBV Analysing Resources

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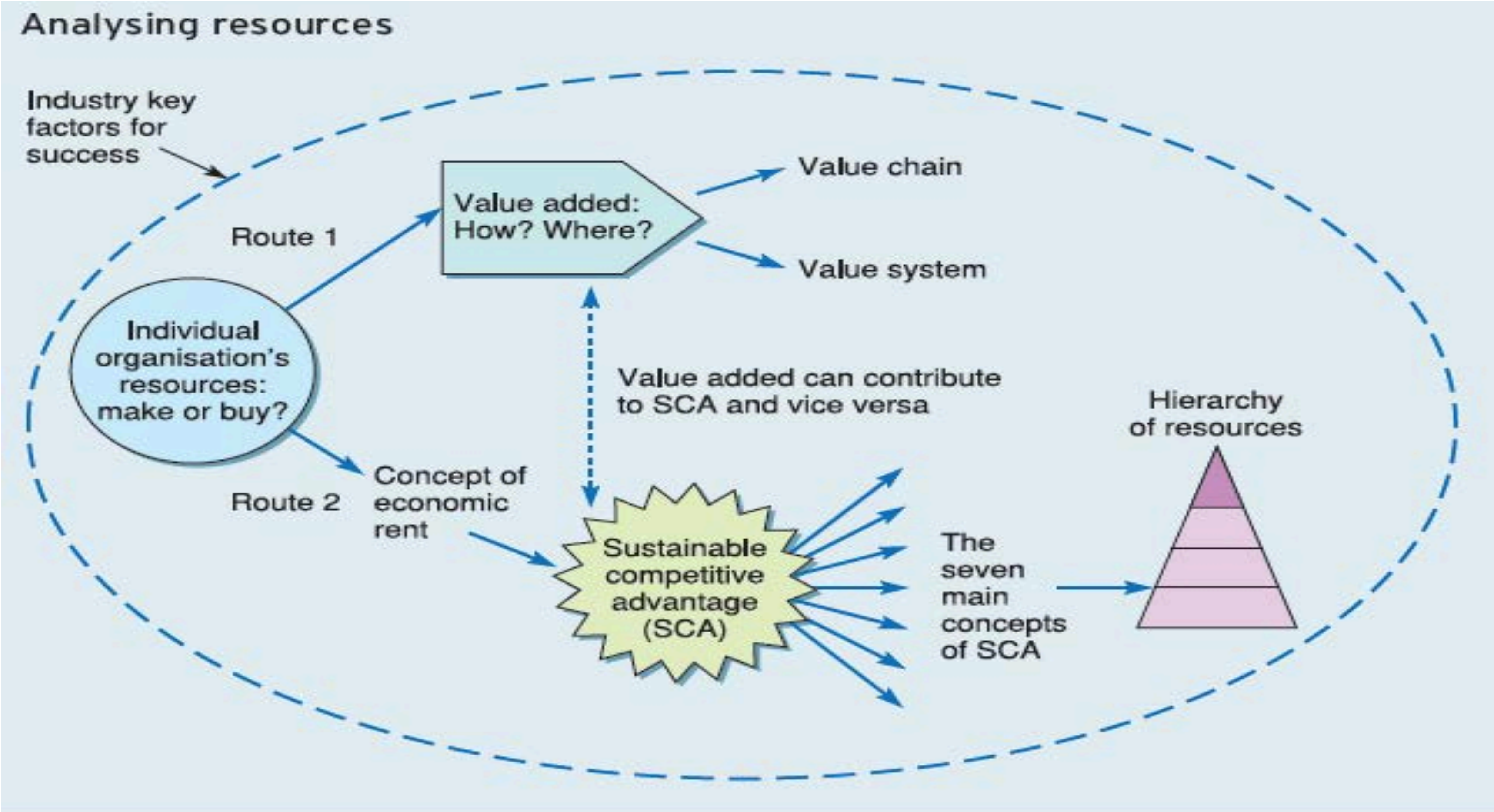

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RBV Analysing Resources

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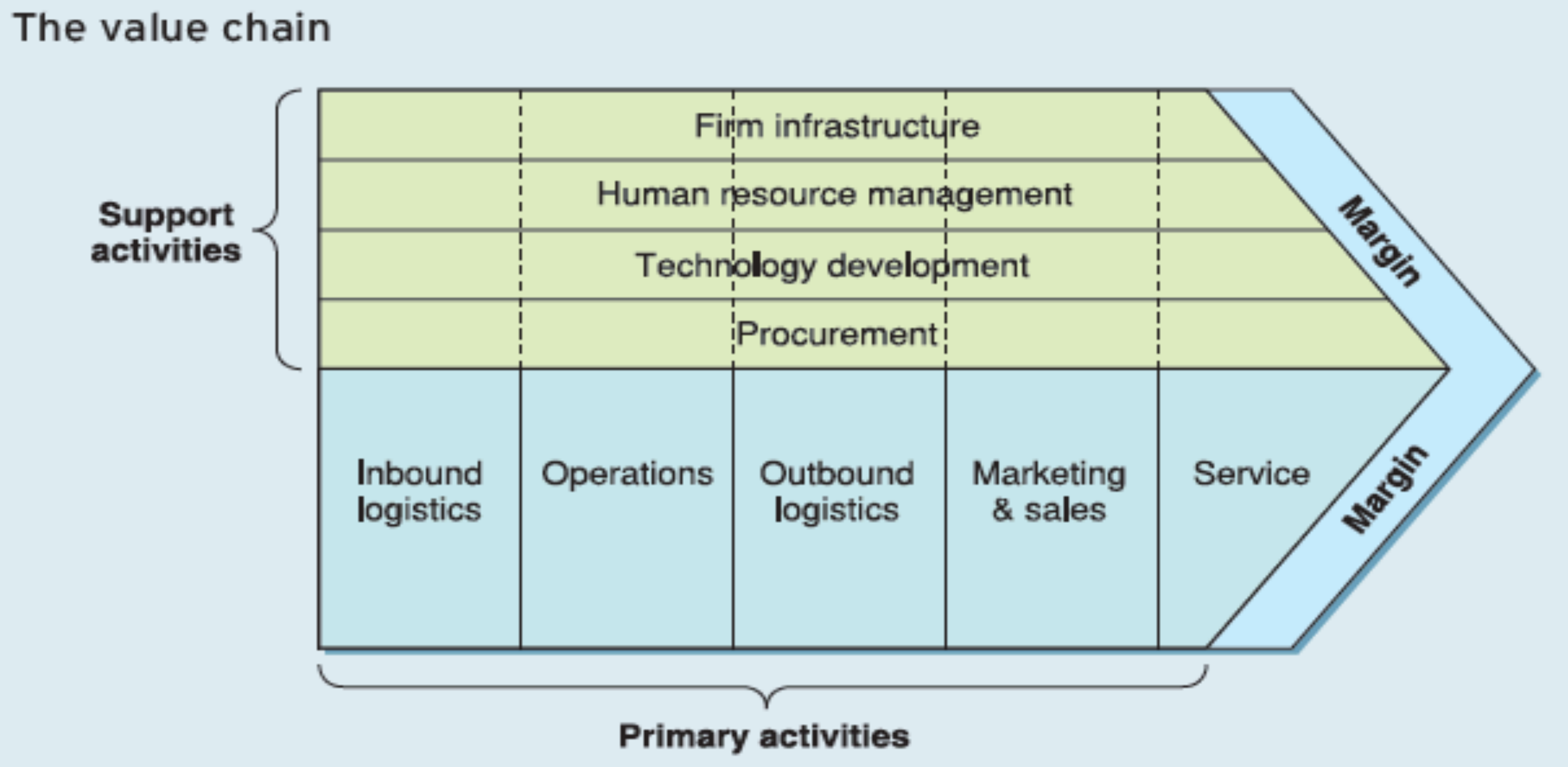

Source: From *Competitive Advantage: Creating and Sustaining Performance* by Michael E Porter.

RBV Analysing Resources

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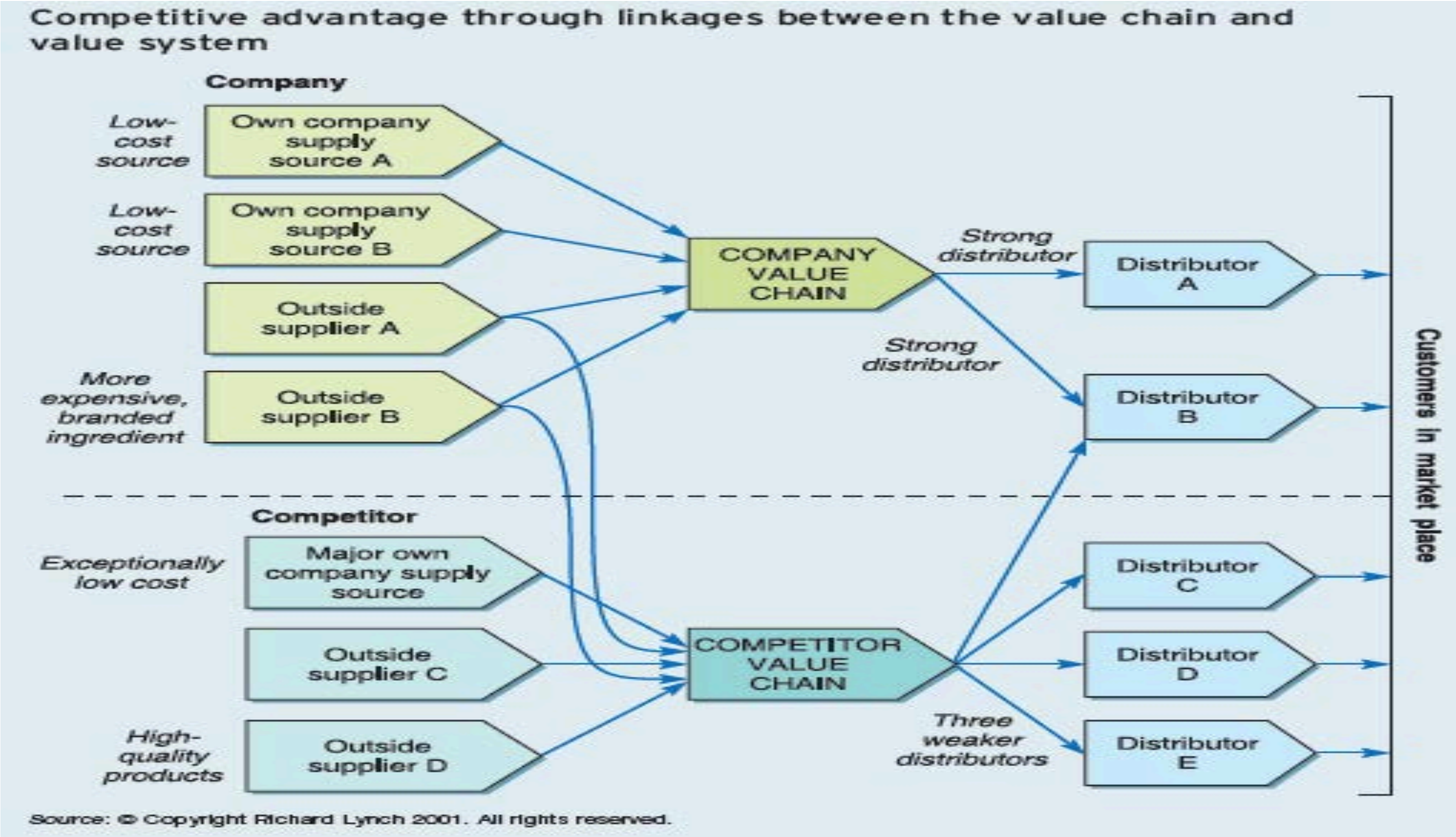

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RBV Analysing Resources

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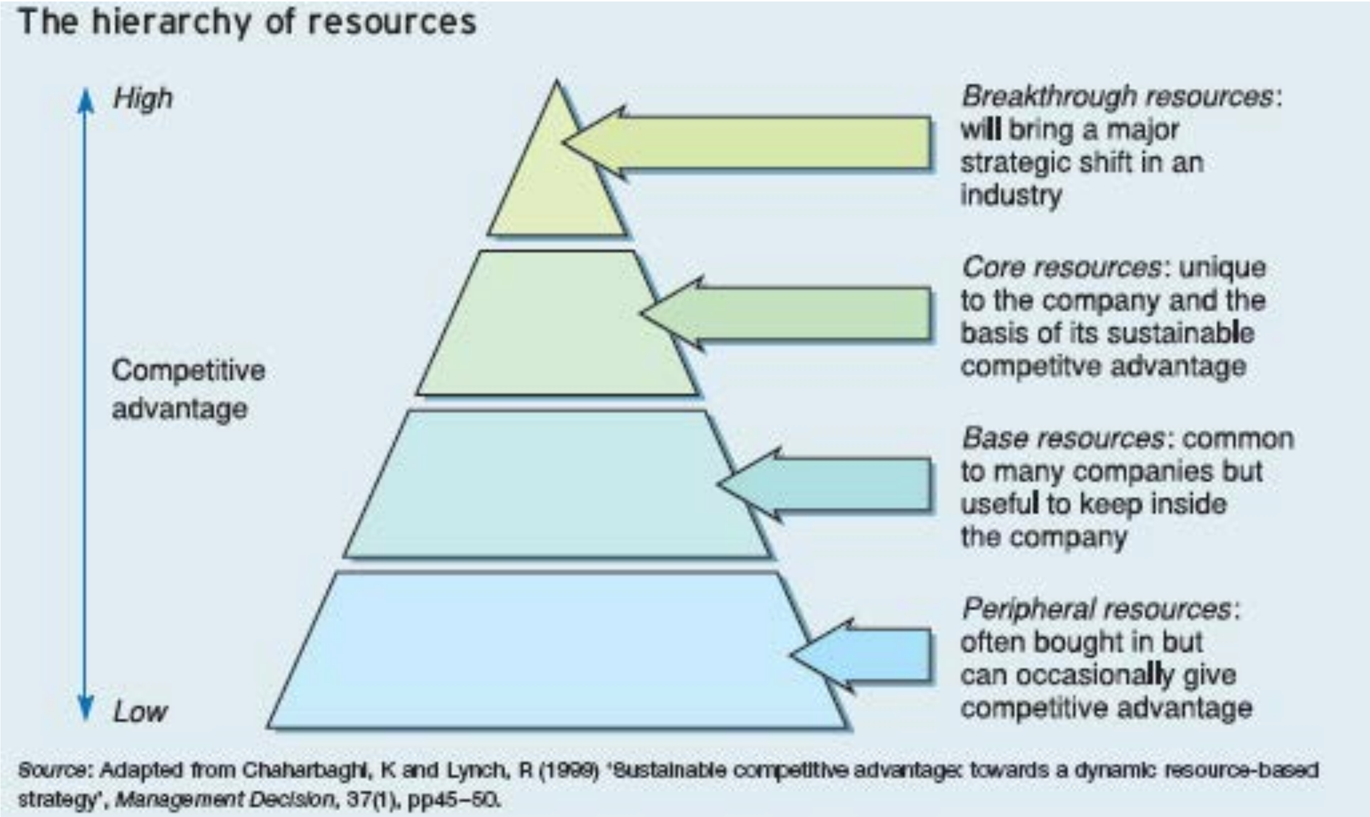

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Recources

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1. **Tangible resources** are the physical resources of the organisation that contribute to its value added.

2. **Intangible resources** are those resources that have no physical presence but represent real benefit to the organisation (human ressources → know-how; brand; relationships; technology)

3. **Organisational capability** is the skills, routines, management and leadership of the organisation.

Sustainable Competitive Advantage (SCA)

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Resource analysis at the worldwide hotel chain Holiday Inns

	Resource
Tangible	• Physical locations at airports, city centres, holiday destinations, etc. • Size and facilities of individual hotels: rooms, restaurants, swimming pool, etc.
Intangible	• Brand name of Holiday Inns • Employees in management, reception, room cleaning, etc.
Organisational capability	• Suppliers of food, telephone services, etc. • Management training to maintain and improve levels of service • Management organisation and leadership • Organisational routines that allow each hotel to run smoothly and efficiently

VRIO Framework

VRIO Framework from Professor Jay Barney of Ohio State University:

- **Valuable.** An organisation's resource needs to be valuable if it is to allow a firm to choose strategies that exploit environmental opportunities or neutralise a competitive threat.
- **Rare.** An organisation's resource needs to be rare. If the resource is available to competitors then exploiting the resource will not generate competitive advantage and economic performance will not be superior to rivals.
- **Cannot be imitated**. An organisation's resource needs to be costly to imitate. If it can beeasily imitated then competitors will be able over time to take advantage of the profitsgenerated in the market place to duplicate the rare resource.
- **Organising capability**. An organisation needs to be able to organise itself to exploit its valuable, rare and inimitable resource. In a sense, this is a balancing factor in relation to the three above.

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Sustainable Competitive Advantage (SCA)

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Core Competence

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Core Competence is what a firm is able to perform with excellence compared to its competitor

→ USP´s Unique Selling Proposition

Core Competencies

Fred Ludolph

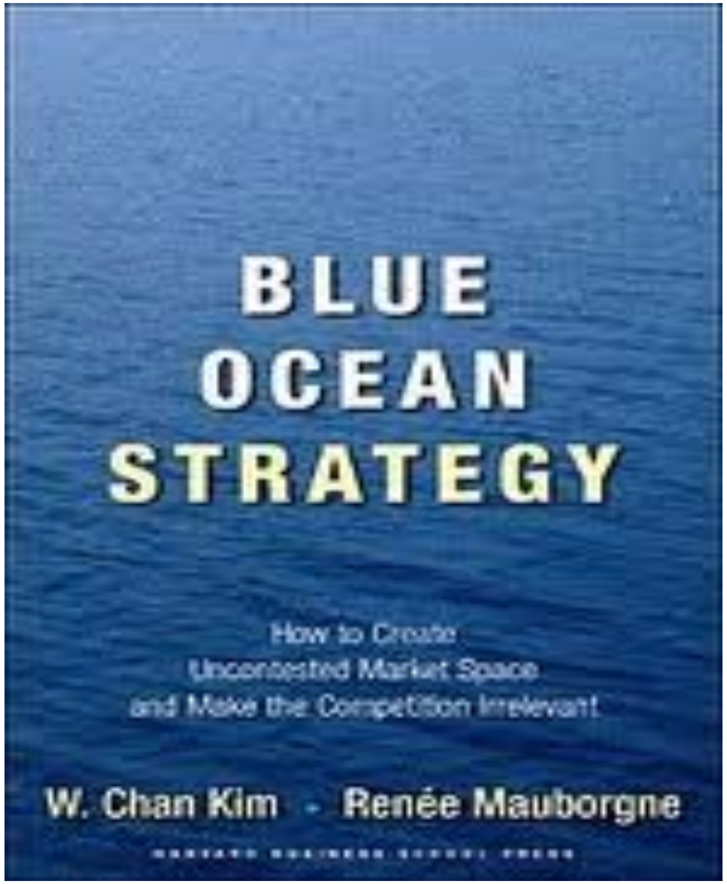
Core competencies are a group of production skills and technologies that enable an organisation to provide a particular benefit to customers; they underpin the leadership that companies have built or wish to acquire over their competitors.

1 **Customer value. Competencies** must make a real impact on how the customer perceives the organisation and its products or services.

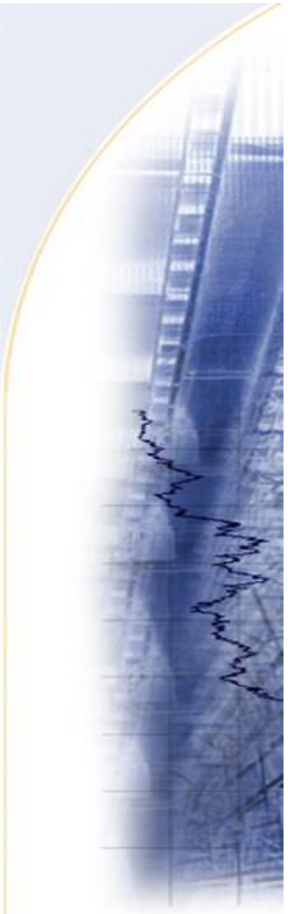
2 **Competitor differentiation.** This must be competitively unique. If the whole industry has the skill, then it is not core unless the organisation's skills in the area are really special.

Blue Ocean Strategy

Fred Ludolph



(Kim and Mauborgne, 2005)



The only way to beat the competition is to stop trying to beat the competition!

The question is: How do you break out of the red ocean of bloody competition to make the competition irrelevant?

Blue Ocean Strategy means to ***create uncontested new market space.***

Most oft the blue oceans are created from within red oceans by expanding existing industry boundaries, as Cirque de Soleil did.

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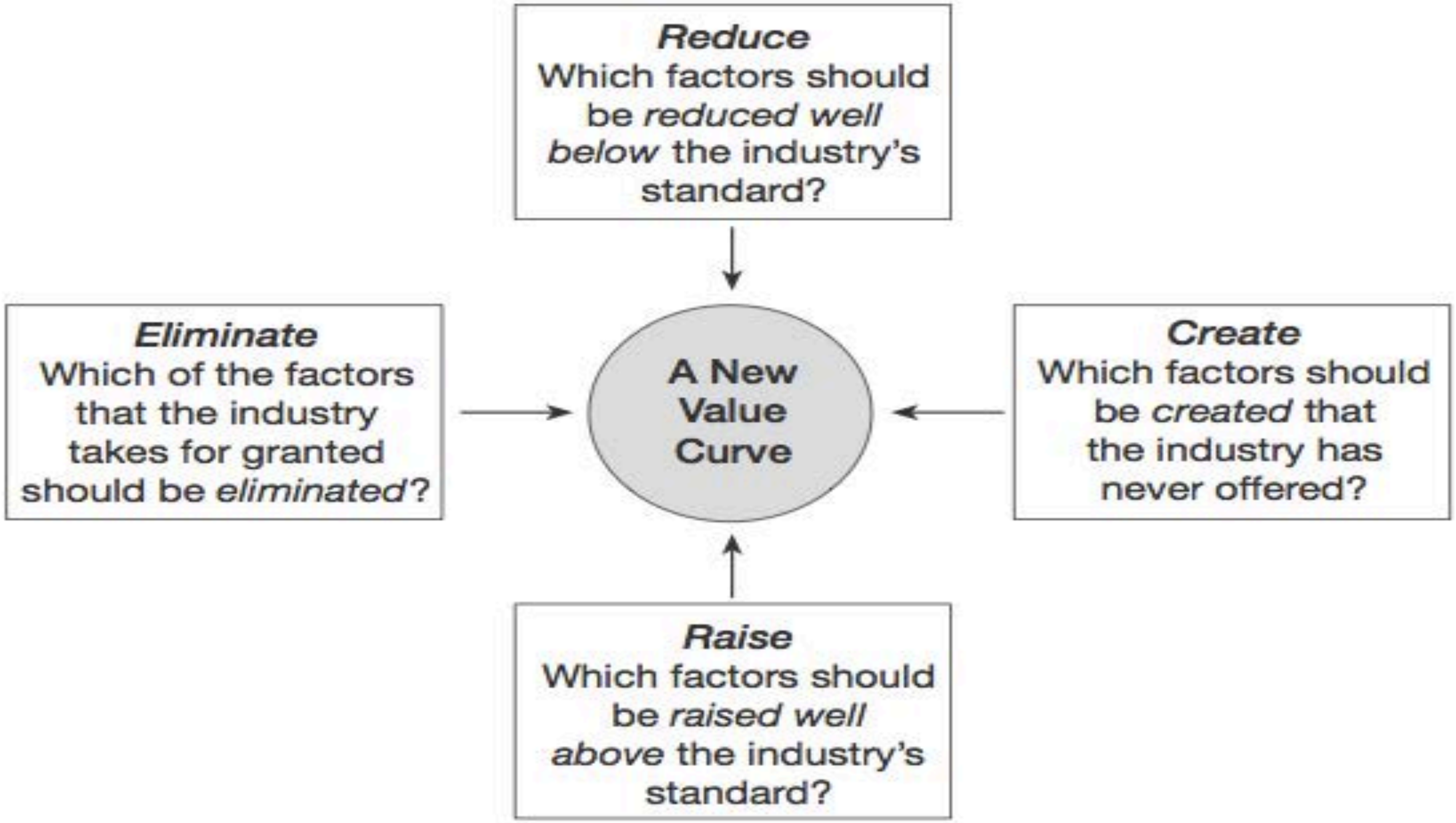
Blue Ocean Strategy
The Four Actions Framework

GOLDEX GROUP

Fred Ludolph



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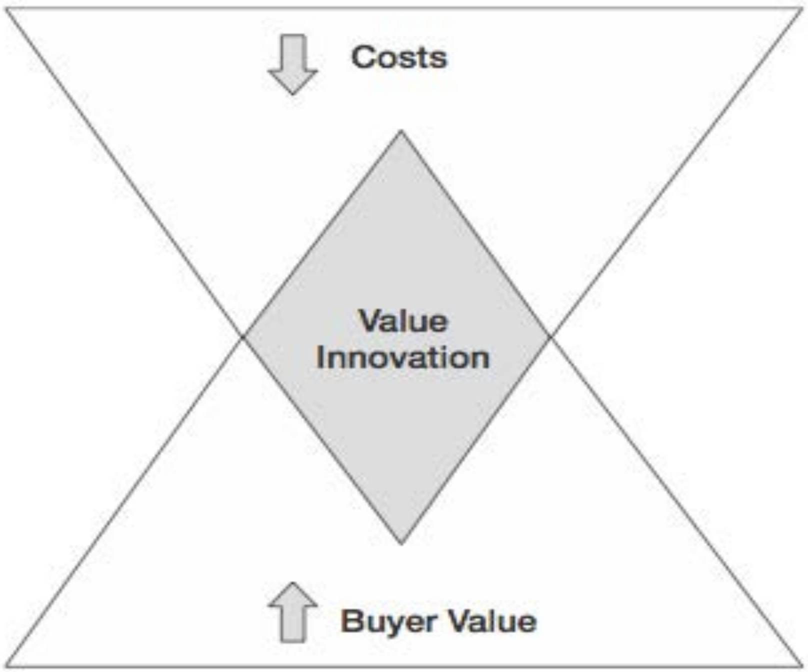
Blue Ocean Strategy
Value Innovation

Fred Ludolph



The Simultaneous Pursuit of Differentiation and Low Cost

Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered.

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Blue Ocean Strategy
Strategy Canvas

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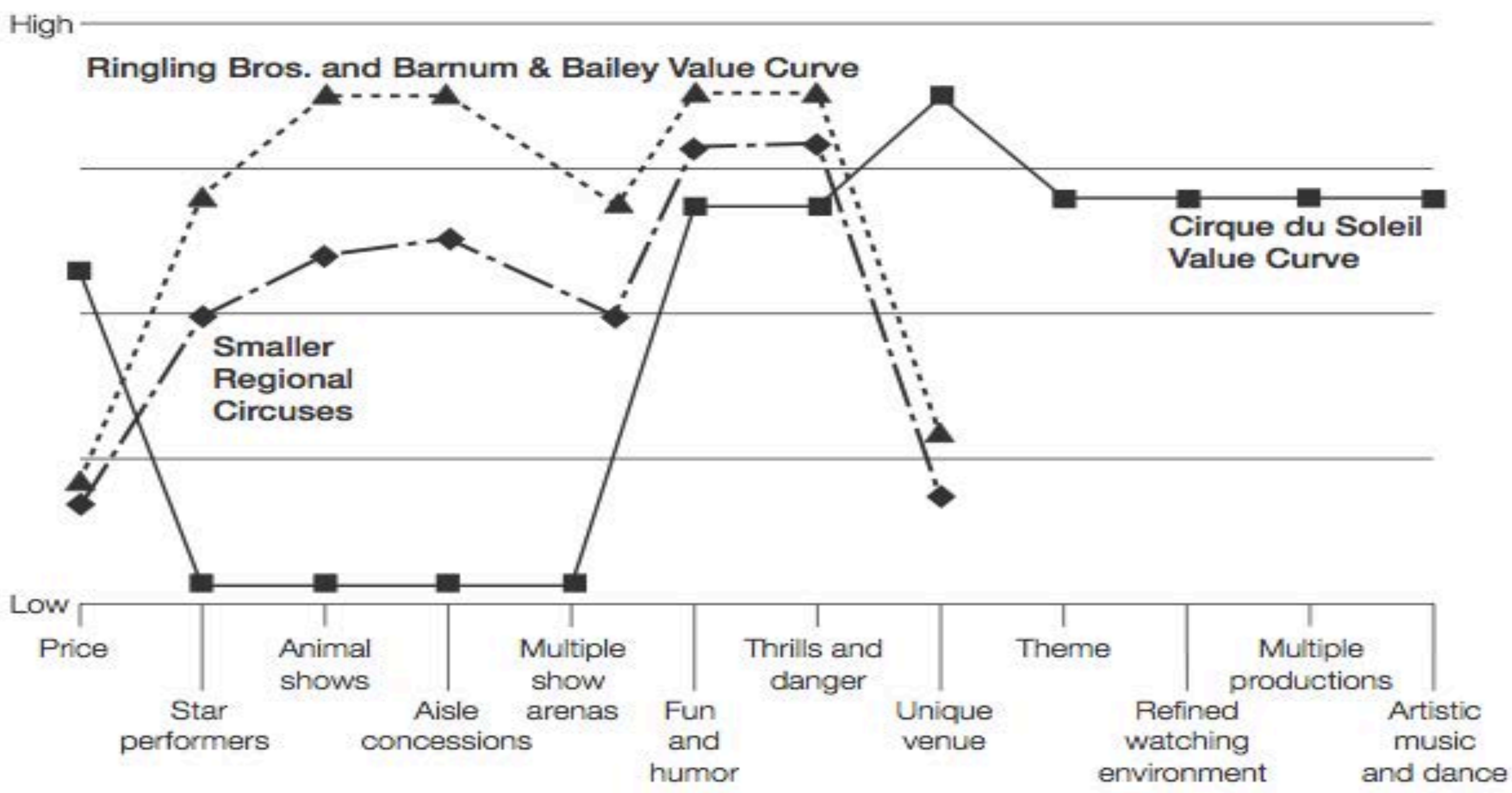
The Strategy Canvas of Cirque du Soleil



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Blue Ocean Strategy

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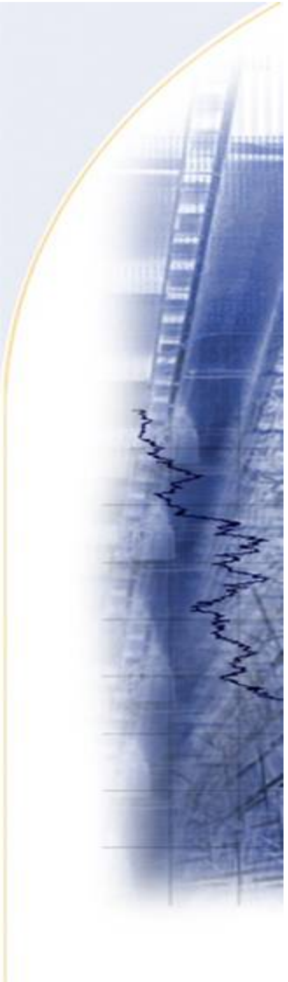
Balanced Scorecard

Fred Ludolph



The balanced sorecard developed by Kaplan/Norton is a strategic planning and management system to translate a company´s or business unit´s vision and strategy into tangible objectives and measures.

BSC is the combination of financial and nonfinancial performance measures.

Contrary to the traditional indicator systems (DuPont...) the BSC combine ***four perspectives***: ***Financial, Customer, Internal Processes, Learning and Growth***

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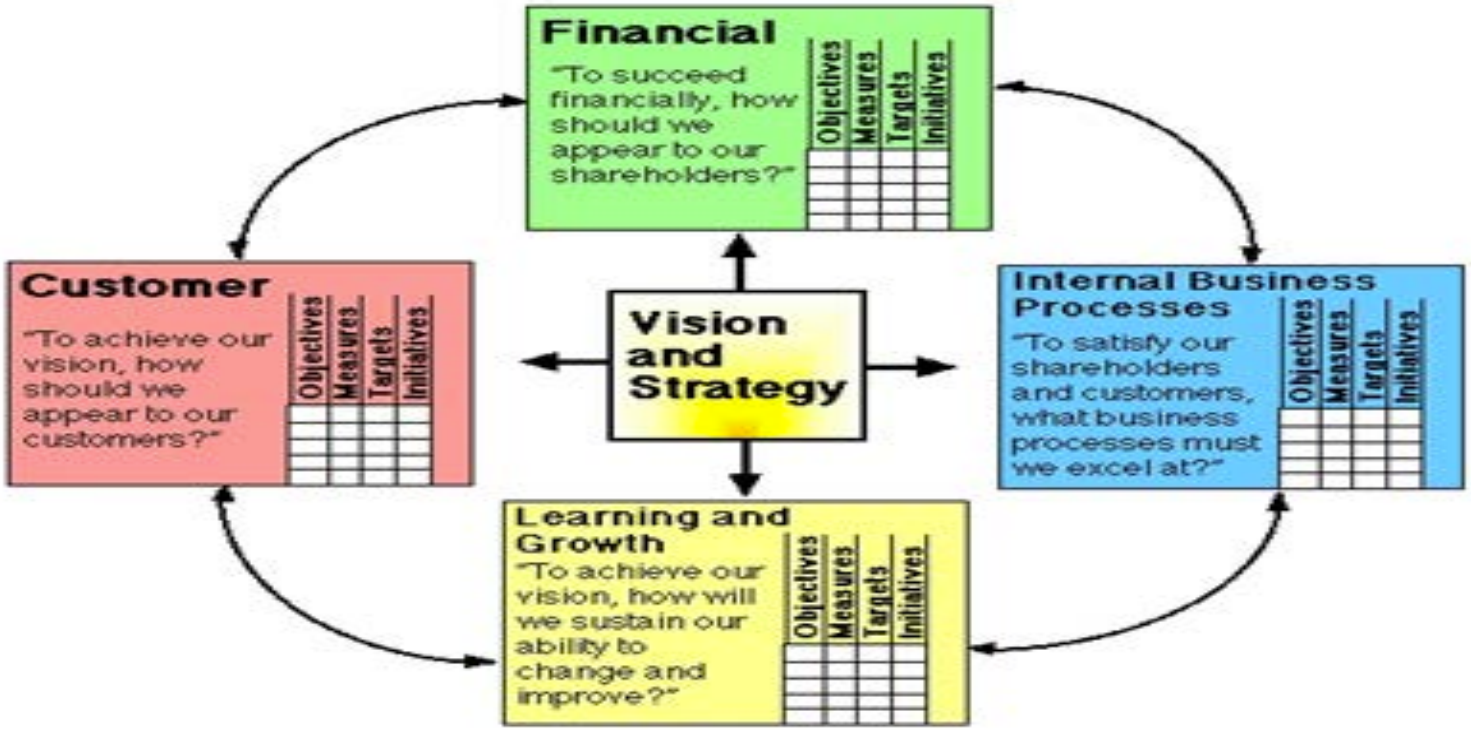
Balanced Scorecard

Fred Ludolph



Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76.

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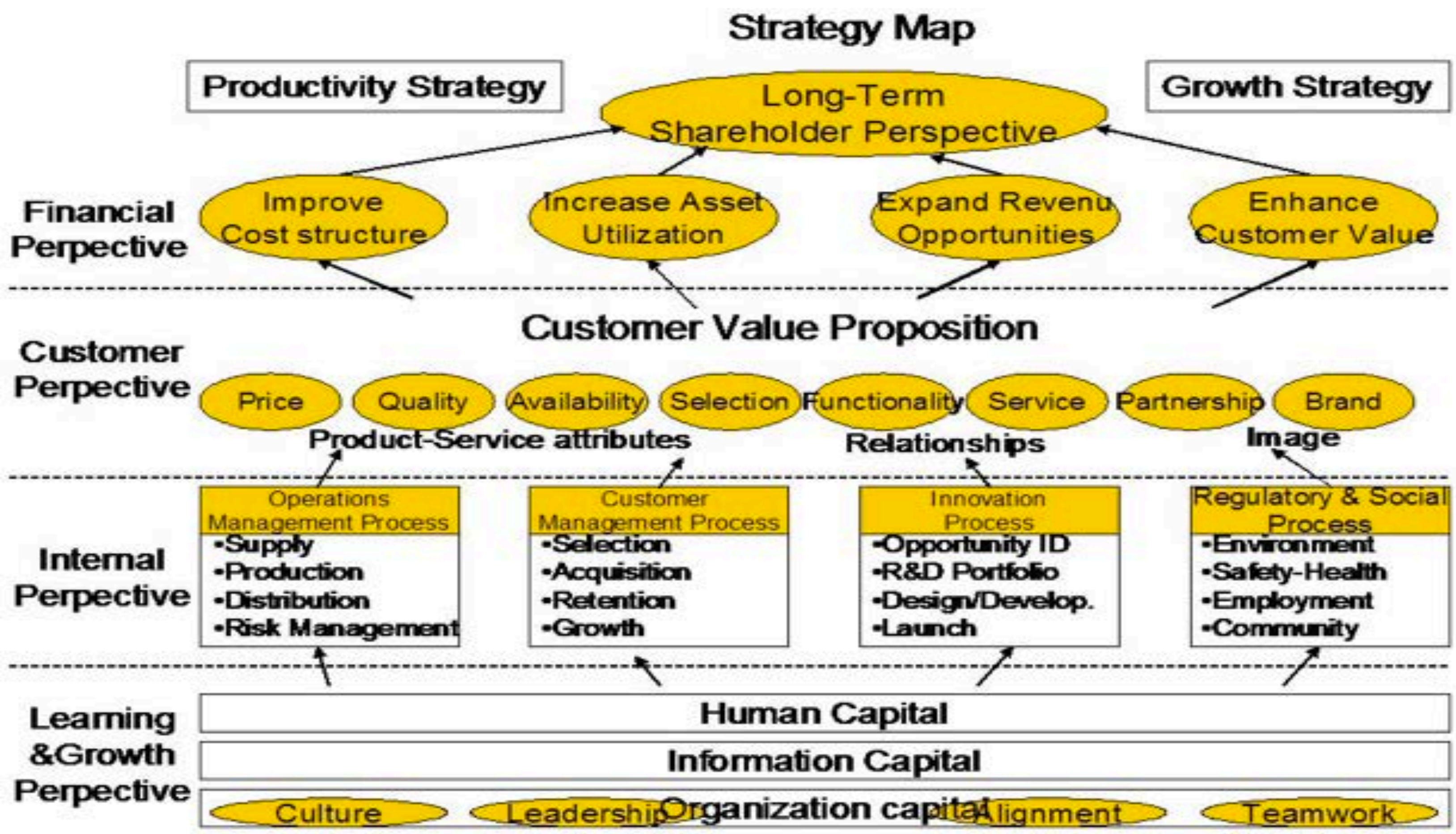
Balanced Scorecard

Fred Ludolph



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Business Model Canvas

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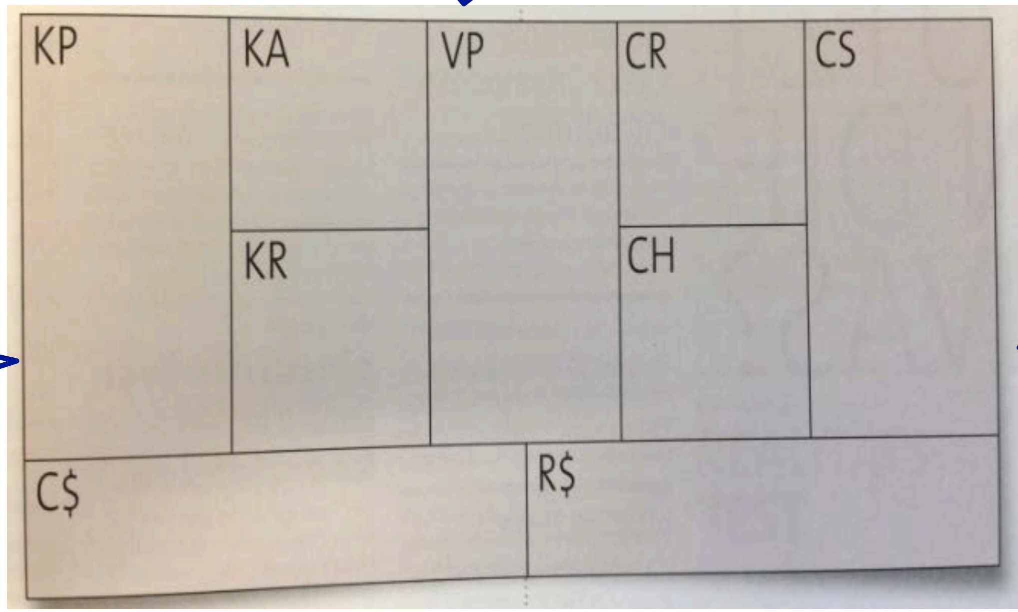
Osterwalder, Pigneur, „Business Model Generation“

Key Trends

Industry Forces



Market Forces

Macro-Economic Forces