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"STRATEGIC PLANNING"

The Project is co-funded by the European Regional Development Fund (ERDF) and by national funds of the countries participating in the Interreg V-A "Greece-Bulgaria 2014-2020" Cooperation Programme

Strategic Thinking

- Where are we now?
- Where do we want to go?
  - In which activities and sectors will we enter?
  - How will we position ourselves in the market?
  - What consumer needs do we want to serve?
  - What results do we want to achieve?
- How will we get there?

Strategy Definition

"Defining the long-term goals and objectives of an organization, as well as adopting a series of actions and identifying the necessary means and resources to achieve these goals" (Chandler, 1962).

- When?
- What?
- How?
- With what?

"Without a strategy, the organization is like a ship without a rudder, going around in circles"
– Joel Ross & Michael Kami

Strategy Definition

"The correlation that an organization makes between internal resources and capabilities and the opportunities and risks created in the external environment" (Hofer & Schendel, 1978).

"The placement of a business in its environment"

OR

"Doing different things or the same things in a different way from your competitors" (Porter, 1996).

Strategy Definition

The direction, scope and type of activities of a business in the medium-long term

- which ensures a competitive advantage through the arrangement / distribution of its resources in a changing environment,
- in order to meet the needs of the markets and the expectations of key stakeholders,
- in order to operate effectively, compete successfully, reach and satisfy the customers, achieve the goals and mission.

Strategic Decisions

- Complex
- Taken in uncertainty conditions
- Influence operational decisions
- Require unified attitude (inside and outside the organization)
- Include significant changes

Strategy Importance

- Sets directions
- Supports coordinated decision making at all levels
- Concentrates effort and coordinates activities
- Defines the business and its position in relation to the competition
- Reduces uncertainty
- Gives a competitive advantage

Strategic Management

The set of decisions and actions required to:

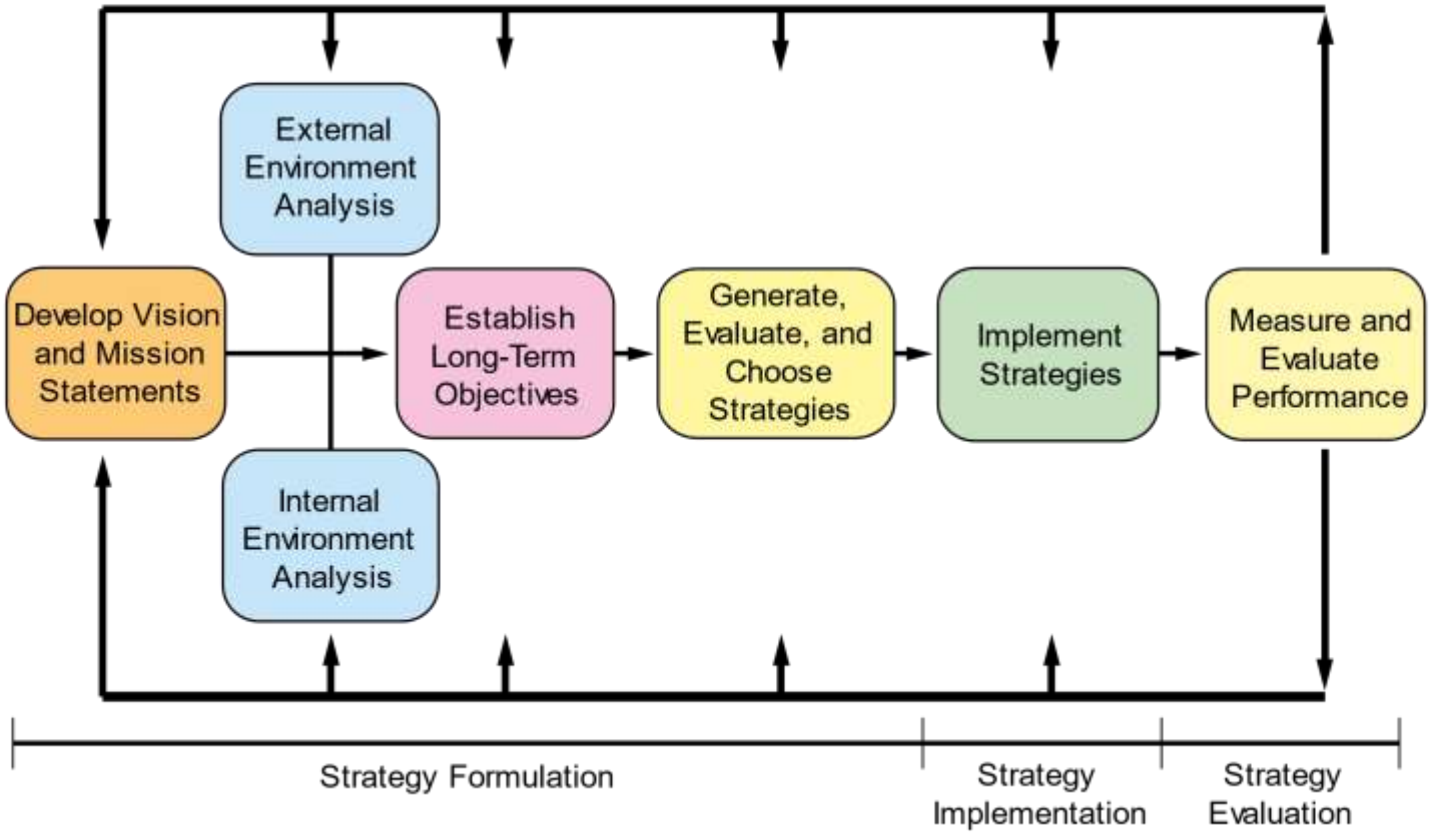
- develop the business vision and mission
- set specific goals
- formulate and implement the selected strategy, in order to achieve the mission and goals
- evaluate the results of the implementation and take corrective actions

Strategic Management Model

- Development of vision and mission statements
- Analysis of internal and external environment
- Strategy formulation
  - Design (axes, measures, specific objectives)
  - Configuration (individual steps, policies, budgets, procedures)
- Strategy implementation
- Evaluation and control
- Adjustment and corrective actions

Wheelen & Hunger, 1995

Model of the Strategic Management Process



David, 2009

Vision

- Future scope and direction
- Ambitions - what we want to achieve
- Leads the mission and the strategy
- Sets general goals
- Must be descriptive, focused, clear, flexible and understandable

Vision Statement Examples

IKEA: *"Our vision is to create a better everyday life for many people".*

Google: *"To provide access to the world's information in one click".*

Mission

- Current activity and purpose
- Identity of the organization and what distinguishes it from others
- Benefits for the stakeholders (customers, employees, shareholders, society, etc.)
- Strategy and goal setting
- Must be specific, direct and brief (read in < 10 seconds)

Mission Statement Examples

IKEA: *"Our mission is to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them".*

Google: *"Our mission is to organize the world's information and make it universally accessible and useful. That's why Search makes it easy to discover a broad range of information from a wide variety of sources".*

Vision VS Mission

Mission statement: what the organization does

Vision statement: what the organization attempts to achieve in the future

The main similarity is that they both need to align with the organization's **core values and culture** because all these elements make up its **identity and differentiation factors.**

Values & Principles

- Corporate values are the beliefs and ideals of the organization (moral compass). They are the basis for making strategic decisions and they direct the organization’s strategy.
- Corporate principles determine what is desirable for an organization and help determine what is right or wrong. They guide the vision, the policies and the goals.

Goals

Turning vision and mission into key goals that define what the organization wants to achieve, focusing on results and identifying ways to achieve these goals.

- Strategic – General Goals (Senior Management)
- Regular Goals – Objectives related to business functions (Middle Executives)
- Operational Goals – Objectives related to specific parts of each business operation (Junior Executives)

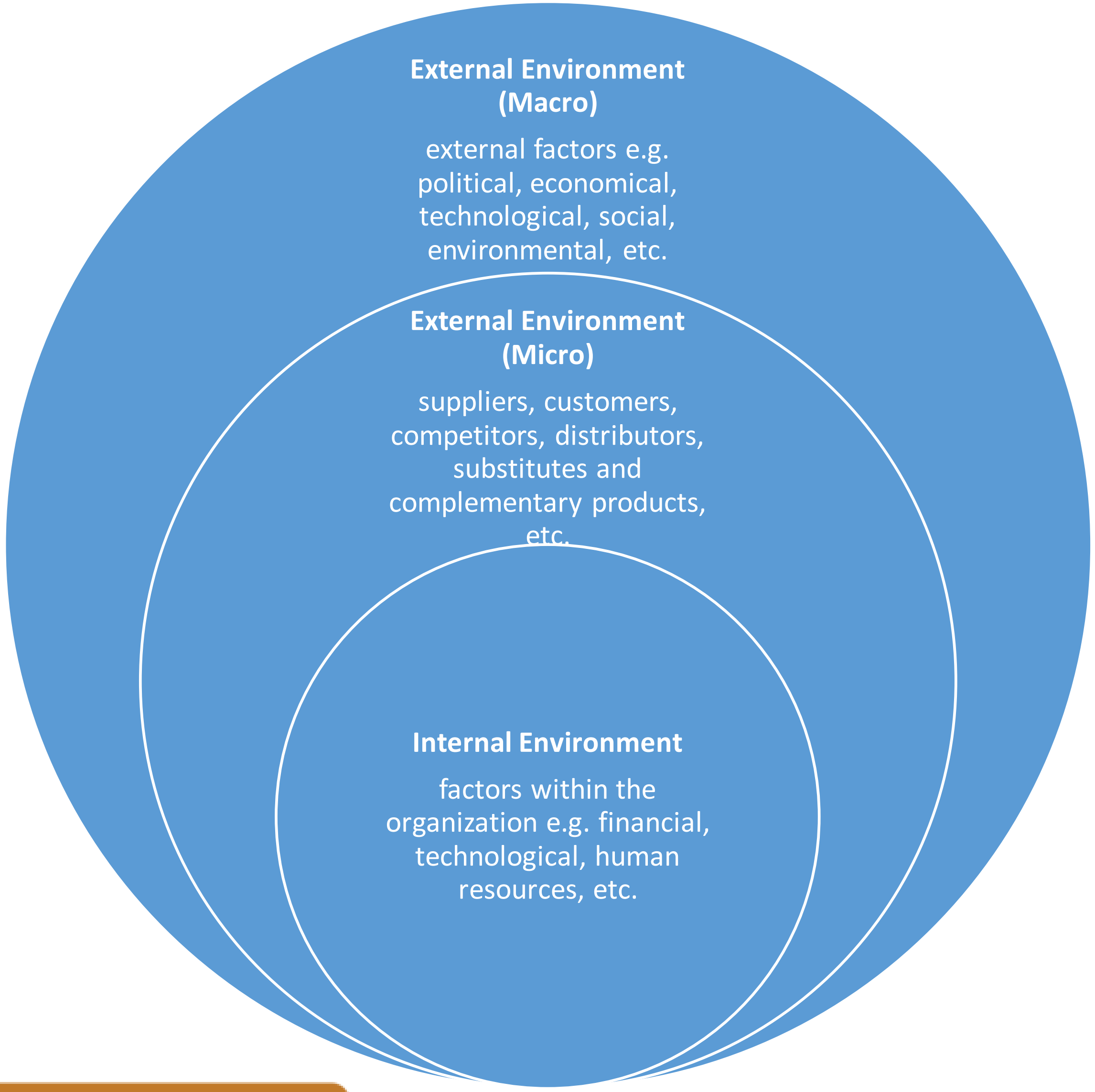
Goals - Examples

- Financial: efficiency, effectiveness, development, profitability, financial structure, etc.
- Market-oriented: market share, quality, image, new markets entrance, products/services portfolio, etc.
- Social: employee satisfaction, contribution to society, etc.
- Environmental: recycling, efficient use of resources, reduction of ecological footprint, etc.

SMART Goals

- **Specific** (simple, sensible, significant)
- **Measurable** (meaningful, motivating)
- **Achievable** (agreed, attainable)
- **Relevant** (reasonable, realistic, results-based)
- **Time-bound** (time-based, time-limited, time-sensitive)

Internal & External Environment Analysis



External Environment

The “space” where the managers must look for opportunities and potential threats.

- **Macro** – wider environment (**PEST** Analysis)
- **Micro** – sectoral environment

The characteristics and factors of the external environment affect the organization.

PEST Analysis

- Political
- Economic
- Socio-Cultural
- Technological

PEST Analysis

Political Factors

tax law, financing/special incentives, trade regulations, political stability, labor law, regulatory authorities, political system, competition laws, governmental stability, EU legislation, lobbying, government policy, conflicts/wars, consumer protection, etc.

PEST Analysis

Economic Factors

GDP, growth/development, interest rates, inflation, unemployment, price controls, wage controls, currency devaluation/revaluation, energy availability and cost, disposable income, economic trends, alternative energy, etc.

PEST Analysis

Socio-Cultural Factors

income distribution (wealth accumulation), lifestyle changes, women position in society/work, career importance, consumerism, consumer/citizen activism/pressure groups, media/advertising influence, attitude towards work and leisure, structure of society, influence of role models (social models) and fashion, ethnic factors, religion, level of education, social cohesion, population movement, customs, ethics, etc.

PEST Analysis

Technological Factors

national/industrial/sectoral R&D expenditure, patent protection, research centers, technology transfer, technology maturity, automation, innovation capacity, telecommunications, internet access, technology access, etc.

PEST – DG

- **P**olitical
- **E**conomic
- **S**ocio-Cultural
- **T**echnological
- **Demographic:** population size and growth rate, average life expectancy, age structure, ethnic mix, demographic trends, gender composition, etc.
- **Global:** new international markets, changes in existing markets, international political events, international market characteristics, immigration, international trade, rapid capital movements, financial market integration, etc.

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PESTEL

- **P**olitical
- **E**conomic
- **S**ocio-Cultural
- **T**echnological
- **Ecological**
- **Legal**

STEEPLE

- **P**olitical
- **E**conomic
- **S**ocio-Cultural
- **T**echnological
- **E**cological
- **L**egal
- **Ethics**

LoN(R)G – PEST

- **Lo**cal
- **N**ational
- **R**egional
- **G**lobal
- **P**olitical
- **E**conomic
- **S**ocio-Cultural
- **T**echnological

Modern Global Trends

- growing interest in the environment and health (S-C)
- population aging (S-C)
- impact of the millennials (S-C)
- family composition (S-C)
- impact of technology on lifestyle and consumer behavior (S-C)
- climate change and natural disasters (Env)
- importance of sustainable development (Env)
- corporate social responsibility (Env)
- alternative energy sources (T)
- Robotics (T)
- technology in agriculture (T)
- interest rate increase (E)
- oil / energy costs (E)

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Globalization

- industrial globalization (strengthening and expansion of multinational companies)
- financial globalization (emergence of global financial markets and easier access to external financing, rapid capital movements and completion of financial markets)
- political globalization (expansion of interests to regions and countries not adjacent to powerful states)
- globalization of information (increasing the flow of information between geographically remote regions)
- cultural globalization (development of intercultural contacts and creation of a global culture)

PEST Analysis Significance

- Changes -some of which are difficult to predict- affect the competition “battlefield”.
- Different factors may be more powerful in different countries.
- The same trend or factor is likely to affect different industries and companies OR companies in the same industry in different ways.

PEST Analysis Significance

- Understanding of market growth or decline and the organization's position, perspective and direction
- Future trends and challenges in the environment (the organization is better prepared to face them)
- Objective knowledge before entering a new country, region or market
- **Opportunities** identification and **threats** warning
- **Strategic decision** making

PEST Analysis Significance

Changes and trends in the dimensions and characteristics of the external environment, affect companies regarding the following:

- operation – organization – administration
- value chain (inventory management – production – distribution)
- equipment and other resources
- operating costs
- installation location choice
- financing
- products and services they offer
- etc.

External Changes Prediction

- Identification of a specific topic and relevant assumptions
- Identification of external factors to be included (PEST)
- Formulation of alternative scenarios
- Estimation of probabilities for each scenario
- Impact assessment
- Strategy review

External Micro Environment

- Industry / Stakeholders
- Suppliers
- Buyers / Consumers
- Competitors
- Supplements / Substitutes
- Distributors / Wholesalers / Retailers
- Financial Institutions / Creditors / Banks / Investors
- Local Government / Government Policy
- Labor Unions

External Micro Environment Analysis

- Industry economic characteristics
- Competitive forces (industry structural analysis)
- Driving forces and their effects on competition intensity and profitability
- Position of competitors (strong / weak / direct opponents)
- Competitive intelligence (competitors' future moves prediction)
- Key success factors
- Industry attractiveness and prospects for high profits

Industry Economic Characteristics

- Market size and growth rate
- Number of rivals
- Scope of competitive rivalry
- Number of buyers
- Product differentiation degree
- Product innovation
- Demand / supply conditions
- Technological change pace
- Vertical integration
- Economies of scale
- Learning / experience curve effects

Market size and growth rate

- How big is the industry and how fast is it growing?
- What does the industry's position in the product life cycle (early development, rapid growth and takeoff, early maturity and slowing growth, saturation and stagnation, decline) reveal about the industry's growth prospects?

Number of rivals

- Is the industry fragmented into many small companies or concentrated and dominated by a few large companies?
- Is the industry consolidating to a smaller number of competitors?

Scope of competitive rivalry

- Is the geographic area over which most companies compete local, regional, national, multinational, or global?
- Is having a presence in foreign markets becoming more important to a company’s long term competitive success?

Number of buyers

- Is market demand fragmented among many buyers?
- Do some buyers have bargaining power because they purchase in large volume?

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Degree of product differentiation

- Are products of rivals becoming more differentiated or less differentiated?
- Are the products of rivals becoming increasingly similar and causing heightened price competition?

Product Innovation

- Is the industry characterized by rapid product innovation and short product life cycles?
- How important is R&D and product innovation?
- Are there opportunities to overtake key rivals by being first – to- market with next – generation products?

Demand and supply conditions

- Is a surplus of capacity pushing prices and profit margins down?
- Is the industry overcrowded with competitions?

Pace of technological change

- What role does advancing technology play in this industry?
- Are ongoing upgrades of facilities /equipment essential because of rapidly advancing production process technologies?
- Do most industry members have or need strong technological capabilities? Why?

Vertical Integration

- Do most competitors operate in only one stage of the industry (parts and components production, manufacturing and assembly, distribution, retailing), or do some competitors operate in multiple stages?
- Is there any cost or competitive advantage or disadvantage associated with being fully or partially integrated?

Economies of scale

- Is the industry characterized by economics of scale in purchasing, manufacturing, advertising, shipping, or other activities?
- Do companies with large -scale operations have an important cost advantage over small -scale firms?

Learning / experience curve effects

- Are certain industry activities characterized by strong learning and experience effects (learning by doing) such that unit costs decline as a company's experience in performing the activity builds?
- Do any companies have significant cost advantages because of their learning / experience in performing particular activities?

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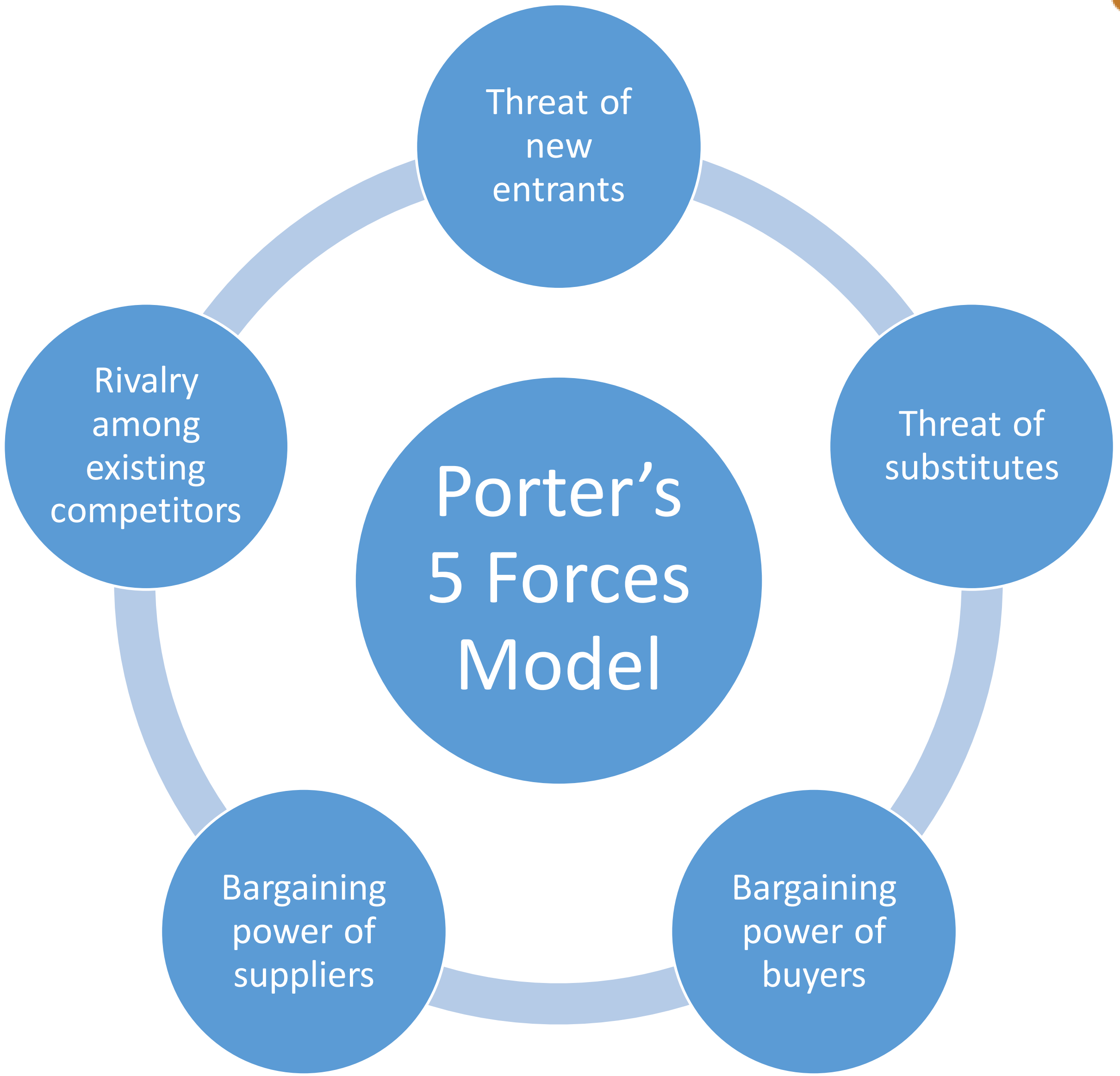
Industry Structural Analysis



Rivalry among existing competitors

- number and size of competitors
- differentiation of competitors
- industry growth rates
- strategic alliances
- etc.

Threat of new entrants

- high demands on capital and other resources
- strong existing brands and differentiation
- difficulties in accessing distribution channels
- legal and regulatory restrictions
- high cost of suppliers changing
- retaliation from established rivals
- etc.

Threat of substitutes

- existence of substituents
- cost - price relations
- replacement cost
- competitors' tendency towards substitutes
- etc.

Bargaining power of buyers

- number and size of buyers
- purchases volume
- product/service importance to the buyer
- standardized or differentiated product/service
- cost of supplier changing
- backward integration ability
- information available to the buyer
- etc.

Bargaining power of suppliers

- competition between suppliers
- volume of supplies
- price/quality/differentiation
- forward integration ability
- information available to the supplier
- etc.

Different Levels of Analysis

- General global level
- Geographical sectors (e.g. Greek hotels)
- Product sectors (e.g. luxury hotels)
- Combination (e.g. Greek luxury hotels)

Porter's 5 Forces Analysis in Decision Making

- Which industries should we enter?
- What are the profit margins?
- How do the structural elements of the industry affect us?
- How much influence can we exert?

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Porter's 5 Forces Analysis

Disadvantages

- The model is static –not dynamic- therefore unable to predict future changes and developments.
- The model does not include important factors such as the phases of the Industry Life Cycle, the demand for complementary products and services, business partnerships, technological advances, globalization, etc.

Industry Driving Forces

The factors that cause changes in an industry and change the landscape of the industry (more or less attractive), as they lead industry participants (competitors, customers, suppliers) to modify their actions.

Industry Driving Forces

- New technologies and applications
- Globalization of the industry (production location)
- Changes in the long-term growth rate of the industry (surplus/deficit, entry/exit, intensity of competition)
- Product innovation
- Innovation in marketing /promotion/production

- Acquisitions and mergers
- Entry/exit of big players
- Changes in consumers' preferences / values / lifestyle
- Preference for differentiated products
- Reduction of uncertainty and business risk
- Government influences - policy changes

Position of Competitors

- Strategic groups consist of organizations with similar strategic traits that follow similar strategies or compete on a similar basis.
- Companies within an industry are categorized in groups according to specific differentiation characteristics.

Strategic Teams Formulation

- Identification of business differentiation characteristics e.g. price/quality (high, medium, low), product range (wide, limited)
- Illustration of two or more differentiation characteristics on axes
- Classification of companies into categories
- Placing circles on the "map" - each group depicting homogeneous companies (similar sales volume as a percentage of the total industry sales)
- Positioning arrows that indicate movement trends

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Strategic Groups Detection Characteristics

- Degree of product differentiation
- Degree of geographical coverage
- Number of market segments served
- Distribution channels used
- Marketing intensity (e.g. marketing expenses as % of sales)
- Degree of vertical integration
- Product/service price
- Product/service quality
- Technological leadership (leader or follower)
- Organization size
- Ability for R&D costs
- Possibility of influencing the government and relations with interest groups
- Payment policy
- Total cost per customer
- etc.

Strategic Groups Analysis Significance

- Recognizes companies with similar strategic characteristics
- Locates the most direct competitors
- Detects mobility barriers between groups
- Recognizes strategic opportunities / gaps which have not been exploited by competitors
- The less differentiated the teams, the greater the intensity of the competition
- The boundaries of an industry are defined
- The potential risks and problems are diagnosed

Competitive Intelligence
Predicting Competitors' Future Strategy

- Who are our present/potential competitors?
- How do our competitors see themselves? (goals, values, strengths, weaknesses)? How do they see us?
- What are our competitors' key people?
- How & where are our competitors marketing their products /services? Any new directions?
- What markets/geographic areas will /won't be tapped by our competitors?

Competitive Intelligence
Predicting Competitors' Future Strategy

- How did our competitors respond to the short & long-term trends in our industry in the past?
- How are they likely going to respond in the future?
- What patents our contemporary (potential competitors) obtained (will obtain)? What do these changes mean to us?
- What are our competitors' overall plans for the next … months/years?

Competitive Intelligence Tools

- Industry Structure and Competitiveness
- Competitor's Management Team Profile
- Future Trends' Analysis
- Competitive Strategy Exploration
- Predicting Competitors’ Future Strategy

Competitive Intelligence: Outlining Goals & Strategies

- Competitive purpose: local, national, multinational, global
- Competitive intention: leader, among top … positions, competitor acquisition, retention, survival, etc.
- Market share goals: development through M&As, market share increase, profit retention / share decrease, etc.
- Competitive position: strengthening, able to retain position, trying to survive, trying to change position, etc.
- Strategic attitude: defensive, aggressive, risk-taker, etc.
- Competitive strategy: cost leadership, differentiation (e.g. quality, service, superiority, range), focused strategy (e.g. geographical, customer range)

Key Success Factors

- How do customers choose? What product features are of value to them?
- What resources and capabilities are important, given the characteristics of the industry to strengthen the competitive position of the company?
- How can a company outperform its competitors (competitive advantage)? What elements can put the company in a disadvantageous position?

Industry Attractiveness

- Dynamics / growth rate of the industry
- Competition forces (stronger/weaker) and how they will affect the level of profitability
- Competitive position of the company (strengthening/maintaining/weakening)
- Risk and degree of uncertainty
- Problems of the industry and relationships with other industries
- Probability for high profits (above average)

Summary: Steps for successful positioning

- Knowledge of dominant economic characteristics
- Porter's 5-force analysis
- Understanding the industry's driving forces
- Strategic team analysis: understanding of direct competition, identifying strategic gaps
- Analysis of main competitors e.g. readiness, attitude, strategies, competitive advantage
- Market segmentation: customer understanding
    - characteristics
    - reaction (faith, attitude, selection criteria, purpose of use)
    - needs and preferences (value: price vs utility)
- Decisions about the company's positioning in the industry

Internal Environment

The term refers to the resources, capabilities and competencies of the organization, as well as the ways they are utilized, in order to achieve competitive advantage.

- VRIN(O) Analysis
- Value Chain Analysis

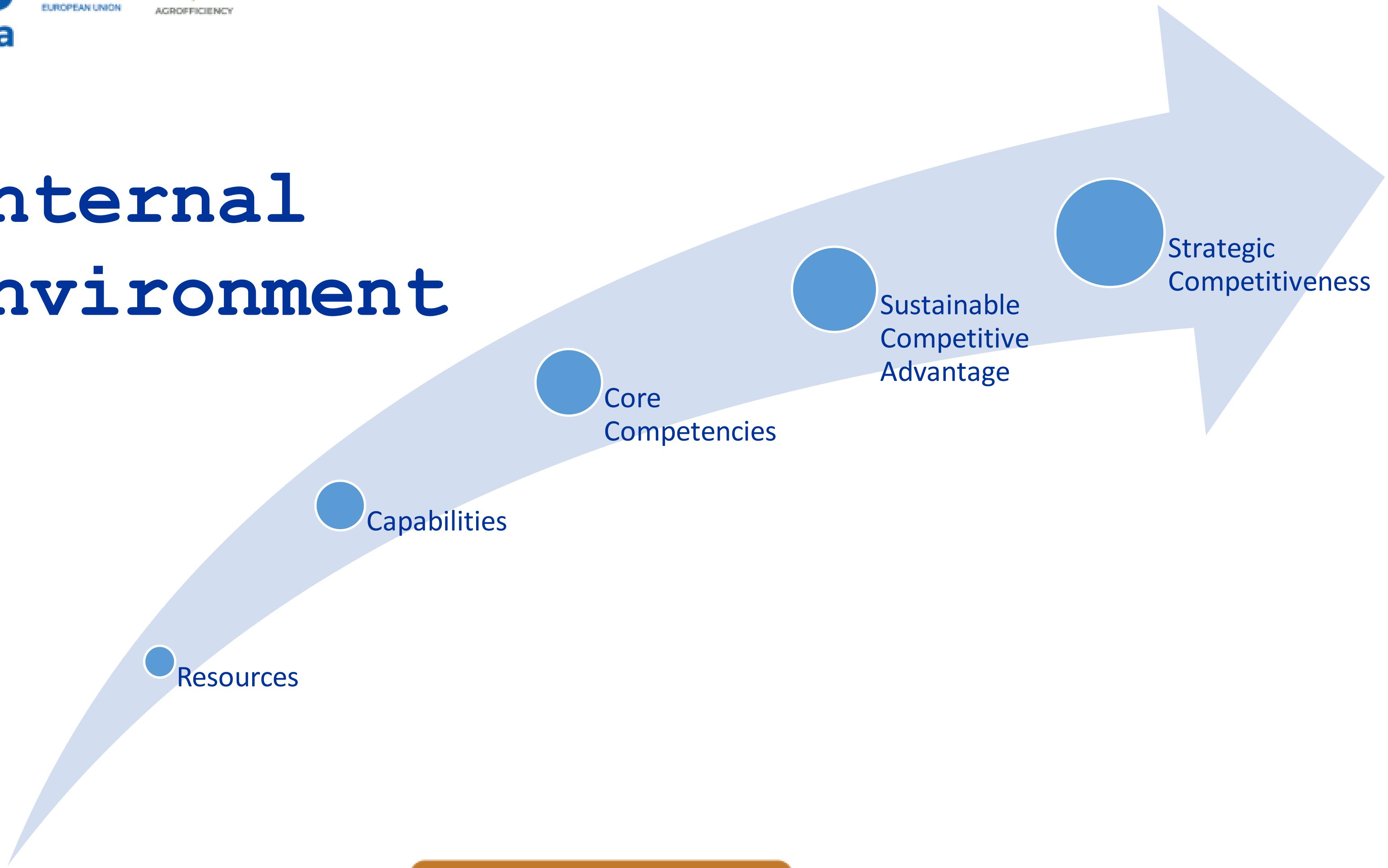
Internal Environment Analysis

- Is the strategy followed by the organization appropriate?
- What resources and capabilities are important for the organization’s competitiveness?
- Is the cost structure and value proposition to the customer "competitive"?
- What is the main competitive advantage (strength) of the organization?
- What strategic issues and problems should the organization face?

Success Indicators

- Profitability and financial position strengthening
- Share price
- Improving competitive position and market presence
- Sales trends
- Customer loyalty ratios
- Rate of gaining new customers
- Market share
- Business image and reputation
- Efficiency indicators (e.g. employee productivity, delivery times, defects, rate of introduction of new products)

Internal Environment



Resources

- Assets that represent inputs into an organization’s production process
- Source of the organization’s capabilities
- They do not yield a competitive advantage alone
- Tangible / Intangible
- Threshold / Unique

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Resources

Tangible resources	Intangible resources
• Financial resources • Physical resources • Technological resources • Organizational resources	• Human resources • Culture • Innovation resources • Reputational resources

Threshold	Unique
• Resources needed to satisfy customers to a minimum • Usually tangible • Competitors already have or can easily acquire them	• Difficult to copy • Usually intangible • Organization’s reputation, managerial skills, knowledge and experience, etc.

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Tangible Resources	Examples
Financial resources	• Cash and cash equivalents • Borrowing capacity • Ability to generate internal funds
Physical resources	• Location and facilities • Machinery and equipment • Product inventory
Technological resources	• Innovative production processes • Copyrights, patents, trademarks, and trade secrets
Organizational resources	• Formal reporting structure • Evaluation, control and coordination systems

Intangible Resources	Examples
Human resources	• Knowledge and experience • Trust and loyalty • Skills • Collaboration ability
Culture	• Values, beliefs, attitudes • Organizational behavior
Innovation resources	• Technical skills • Scientific capabilities • Capacity to innovate
Reputational resources	• Brand name • Trademarks • Perceptions of product quality, durability and reliability • Positive reputation with stakeholders such as suppliers and customers

Resources

Possession of resources is **not enough.**

Resources must be combined and managed in the context of business processes/operations, creating capabilities and offering a competitive advantage (e.g. unique product quality).

Capabilities

- They emerge through complex interactions among tangible and intangible resources
- They are often developed in specific functional areas or as part of a functional area
- The foundation of many capabilities lies in the unique skills, knowledge and functional expertise of the employees

Functional Areas	Capabilities (Examples)
Distribution	Effective use of logistic management techniques
Human resources	Motivating, empowering, retaining
Management information systems	Effective and efficient control of inventories
Marketing	Effective promotion, customer service, innovative merchandising
Management	Ability to envision the future of clothing
Manufacturing	Product and design quality
Research & development	Rapid transformation of innovative technology into new products and processes

Competencies

- **Threshold Competencies:** the ones that competitors either already have or can easily imitate (e.g. technology) – **Competitive Equality**
- **Core Competencies:** the ones that competitors do not have, or can not easily imitate (e.g. business culture, work climate) – lead to strategic competitiveness – **Competitive Superiority**

Core Competencies

- Activities that an organization performs especially well compared to competitors
- Activities through which the organization adds unique value to its products or services over a long period of time (usually not linked with only one product)
- Long lasting and difficult to duplicate
- They emerge over time through an organizational process of accumulating and learning how to deploy different resources and capabilities
- They offer differentiation compared to the competition
- They provide the opportunity to enter new markets

Strategy Formulation

- Resource and capabilities recognition
- Core competencies recognition
- Assessment of strengths and weaknesses
- Evaluation of the potential return of resources and capabilities (possibility of achieving sustainable competitive advantage)
- Strategy Selection
- Identifying shortages of resources that need to be addressed immediately

Grant, 1991

VRIN(O) Analysis

Method of analyzing the internal environment that helps characterizing resources and capabilities as strengths or weaknesses and potential sources of competitive advantage

Examines whether resources and capabilities are

Valuable
Rare
Inimitable
Non-substitutable

and the firm is appropriately **Organized** to take advantage of them.

VRIN(O) Analysis

Valuable	Valuable for the business and its customers Help neutralize threats or exploit opportunities Can be the basis for developing competitive advantage
Rare	Not possessed by many others
Inimitable	• Historical: unique and a valuable organizational culture or brand name • Ambiguous:the causes and uses are unclear • Social complexity: interpersonal relationships, trust
Non-substitutable	No strategic equivalent (specific knowledge, superior execution of the chosen business model, culture, etc.)

VRIN(O) Analysis Outcomes

Valuable	Rare	Inimitable	Non-substitutable	Competitive Consequences	Performance Implications
NO	NO	NO	NO	Competitive Disadvantage	Below Average Returns
YES	NO	NO	YES/NO	Competitive Parity	Average Returns
YES	YES	NO	YES/NO	Temporary Competitive Advantage	Average to Above Average Returns
YES	YES	YES	YES	Sustainable Competitive Advantage	Above Average Returns

Value Chain Analysis

- Shows how a product moves from the raw-material stage to the final customer.
- Allows a firm to understand the parts of its operations that **create value** and those that do not.
- Is used to understand the cost position, as well as to identify multiple means that might be used to facilitate implementation of a chosen business-level strategy.

Value Chain Analysis

To be a source of competitive advantage, a **resource or capability** must allow the firm:

- to perform an **activity** in a manner that is superior to the way competitors perform it, or
- to perform a **value-creating activity** that competitors cannot complete.

Value Chain Analysis

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Value Chain Analysis

Primary Activities	Support Activities
Product/service physical creation, sale and distribution to the buyers and after sale services	They provide the assistance necessary for the primary activities to take place
• Supply Chain Management • Operations • Distribution • Marketing (including Sales) • Follow-up Service	• Finance • Human Resources • Management Information Systems

Creating Value through Value Chain Activities

Supply – Chain Management

Activities including sourcing, procurement, conversion and logistics management that are necessary for the firm to receive raw materials and convert them into final products.

Creating Value through Value Chain Activities

Operations

Activities necessary to efficiently change raw materials into finished products. Developing employees’ work schedules, designing production processes and physical layout of the operations’ facilities, determining production capacity needs, selecting and maintaining production equipment are examples of specific operations activities.

Creating Value through Value Chain Activities

Distribution

Activities related to getting the final product to the customer. Efficiently handling customers' orders, choosing the optimal delivery channel and working with the finance support function to arrange for customers' payments for delivered goods are examples of these activities.

Creating Value through Value Chain Activities

Marketing (including Sales)

Activities taken for the purpose of segmenting target customers on the basis of their unique needs, satisfying customers’ needs, retaining customers and locating additional customers. Advertising campaigns, developing and managing product brands, determining appropriate pricing strategies and training and supporting a sales force are specific examples of these activities.

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Creating Value through Value Chain Activities

Follow-up Service

Activities taken to increase a product’s value for customers. Surveys to receive feedback about the customer’s satisfaction, offering technical support after the sale and fully complying with a product’s warranty are examples of these activities.

Creating Value through Support Functions

Finance

Activities associated with effectively acquiring and managing financial resources. Securing adequate financial capital, investing in organizational functions in ways that will support the firm's efforts to produce and distribute its products in the short and long term and managing relationships with those providing financial capital to the firm are specific examples of these activities.

Creating Value through Support Functions

Human Resources

Activities associated with managing the firm's human capital. Selecting, training, retaining and compensating human resources in ways that create a capability and hopefully a core competence are specific examples of these activities.

Creating Value through Support Functions

Management Information Systems

Activities taken to obtain and manage information and knowledge throughout the firm. Identifying and utilizing sophisticated technologies, determining optimal ways to collect and distribute knowledge and linking relevant information and knowledge to organizational functions are activities associated with this support function.

Value Chain Analysis

- Each activity should be examined relative to competitor's abilities and rated as superior, equivalent or inferior.
- Few organizations possess the resources and capabilities required to achieve competitive superiority in all primary and support activities.

Outsourcing

The purchase of a value-creating activity from an external supplier.

- A firm can concentrate on those areas in which it can create value.
- Specialty suppliers can perform outsourced capabilities more efficiently.

A firm may outsource all or only part of one or more primary and/or support activities.

Value Chain Analysis Importance

- Contributes to the understanding of the cost structure (cost drivers) and the achievement of differentiations (differentiations drivers) against competitors
- Identifying the contribution of each activity to the cost (cost position) and the differentiation of the product / service
- Identifying linkages between activities
- Identifying strengths and weaknesses

Value Chain Analysis Importance

- Highlights activities that have room for improvement
- Emphasizes the importance of creating value for customers
- Provides guidelines for efficiency and effectiveness evaluation
- Allows understanding of factors (resources, capabilities, core competencies) that can be sources of competitive advantage

Value Constellation

- Suppliers
- Subcontractors
- Collaborating companies
- Interest groups
- Strategic alliances
- Customers

Value is created by the cooperation of all parts of a value system.

The organization must determine how it will be positioned in the system.

Case Study: The IKEA Example

- one of the most successful and largest furniture retailers in the world, which sells self-assemble furniture, home decoration and daily necessities
- provides quality products at low prices, aiming to be accessible to a wide range of consumers
- able to keep low prices through **redefining roles within the value chain system**
  - customers participate in the value chain
  - they create value by undertaking the product's transportation and assembly
  - IKEA enhances this role by providing product catalogs, decoration advice, precise assembly instructions, pencil and note paper (self-service tools)

Case Study: The IKEA Example

- simple and flexible company structure
- easy and fast intra-company communication and good working relations
- effective distribution network
- very careful suppliers' selection: having access to global markets, IKEA requires low cost and good quality from its 1800 suppliers

Exercise: Identifying IKEA's major choices within the value chain system →

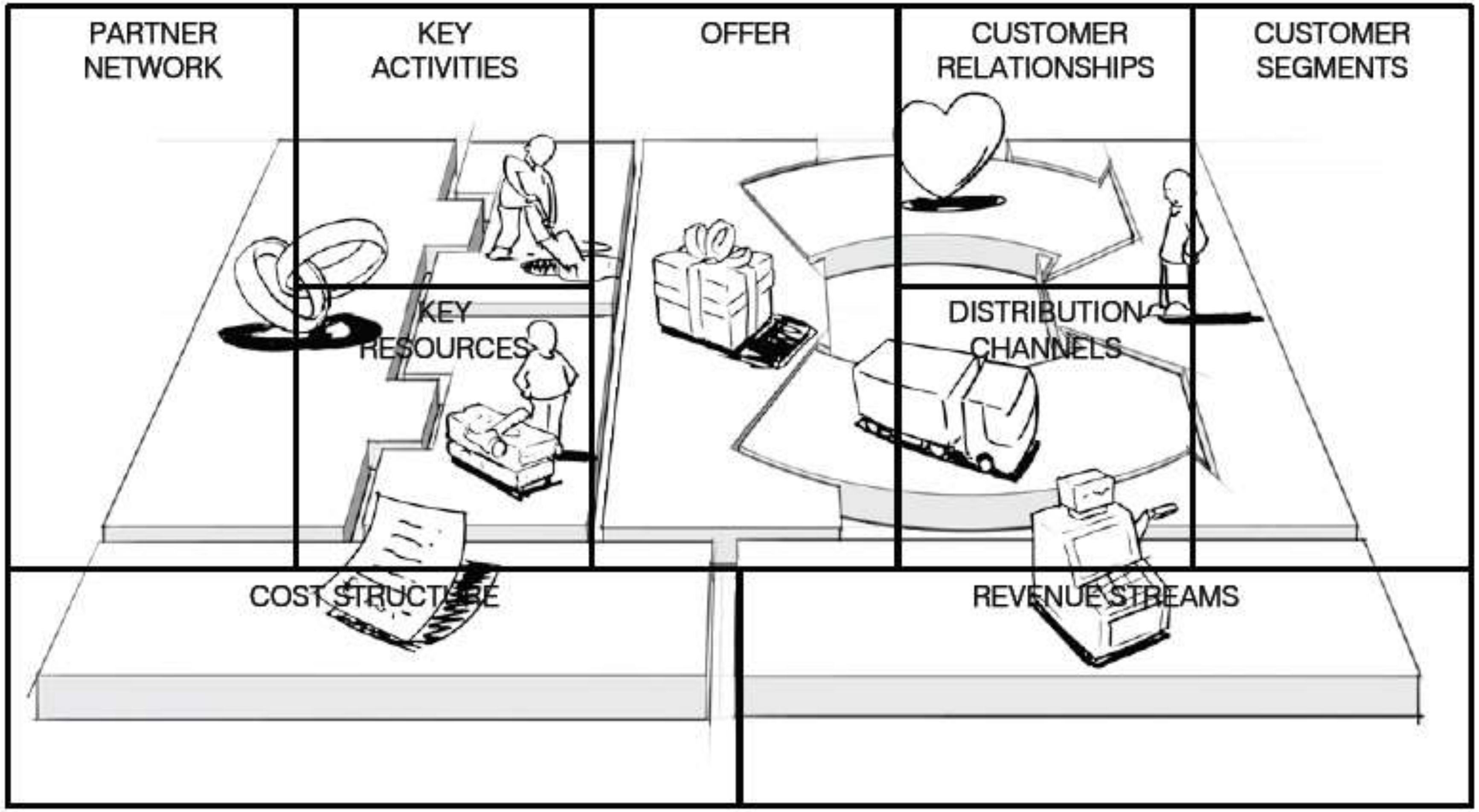
Case Study: The IKEA Example

Value Chain	Major Choice
Design	Simple, high quality, designed to lower cost
Parts	Standard, common, global supplier network
Assembly	By the customer
Transportation/stocking	Computerized system for suppliers and warehouses
Marketing	Scandinavian image
Display	Focus on designs (not pieces) to create value
Home Delivery	By the customer

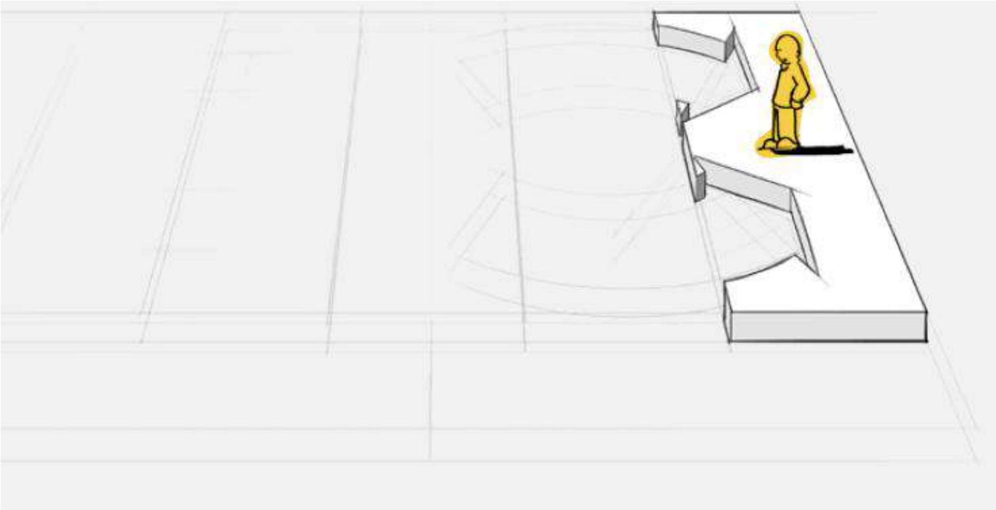
Business Model Canvas

- A **business model** describes the rationale of how an organization creates, delivers and captures value.
- **Business Model Canvas** is a strategic management template used for developing new business models and documenting existing ones. It offers a visual chart with elements describing a firm's or product's value proposition, infrastructure, customers, and finances, assisting businesses to align their activities.

Business Model Canvas



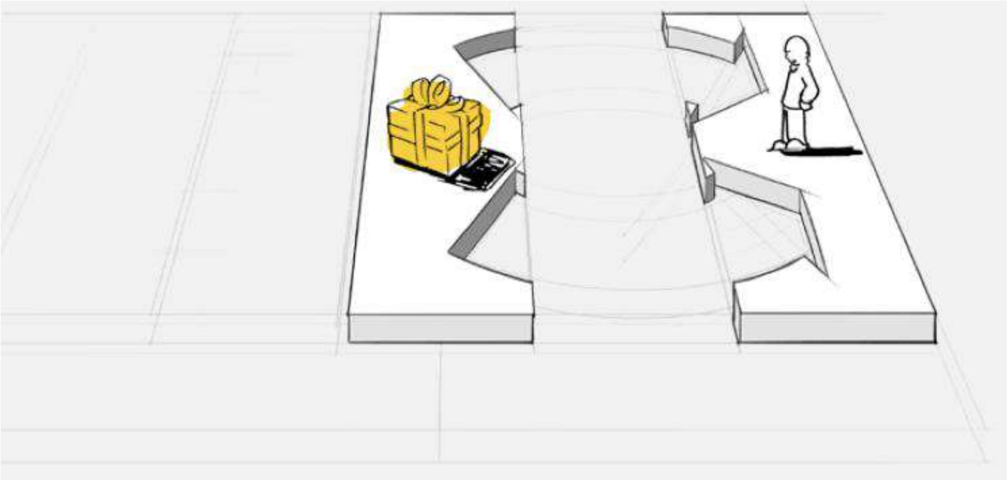
Customer Segments



To which customers and market segments do we address?

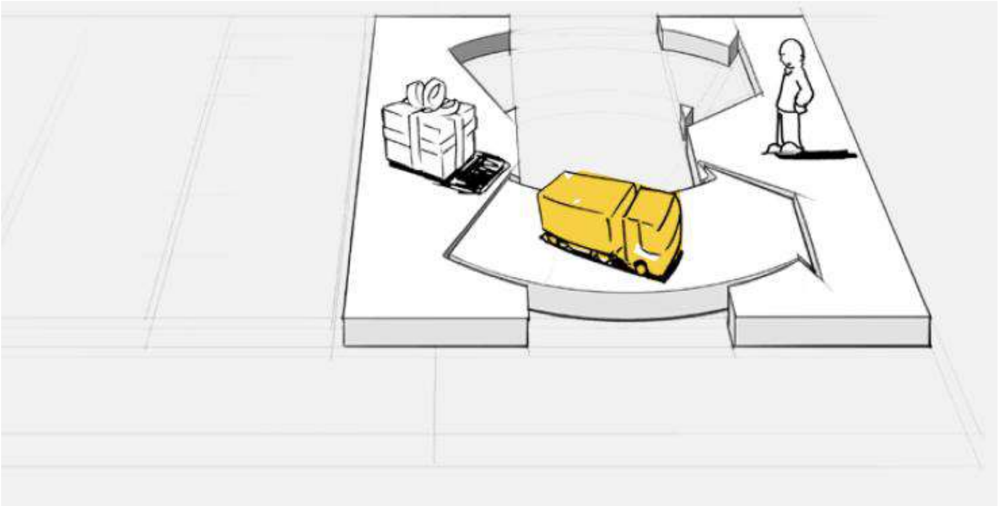
Target market?
Costumer profile?

Value Proposition



The set of products and services that produce value for a specific market segment.

Channels



How should we approach each market segment?

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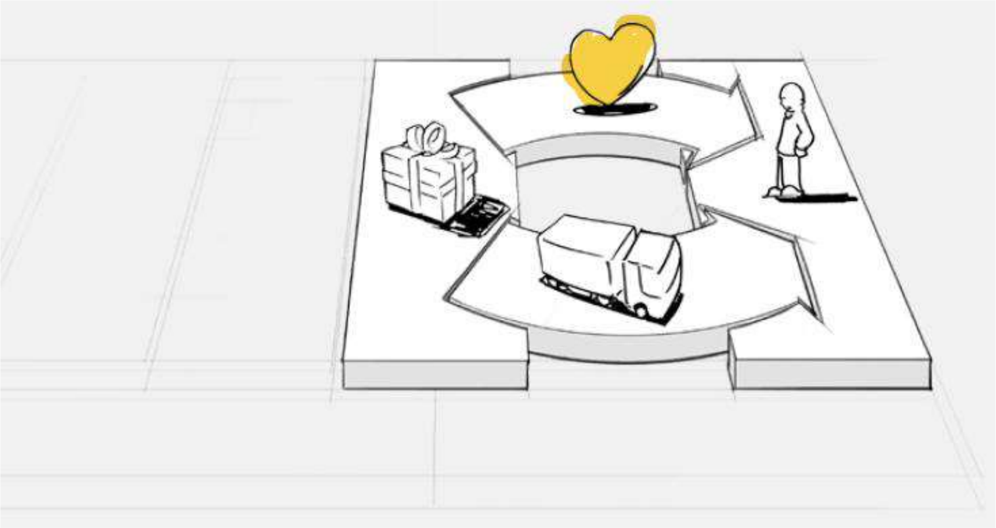
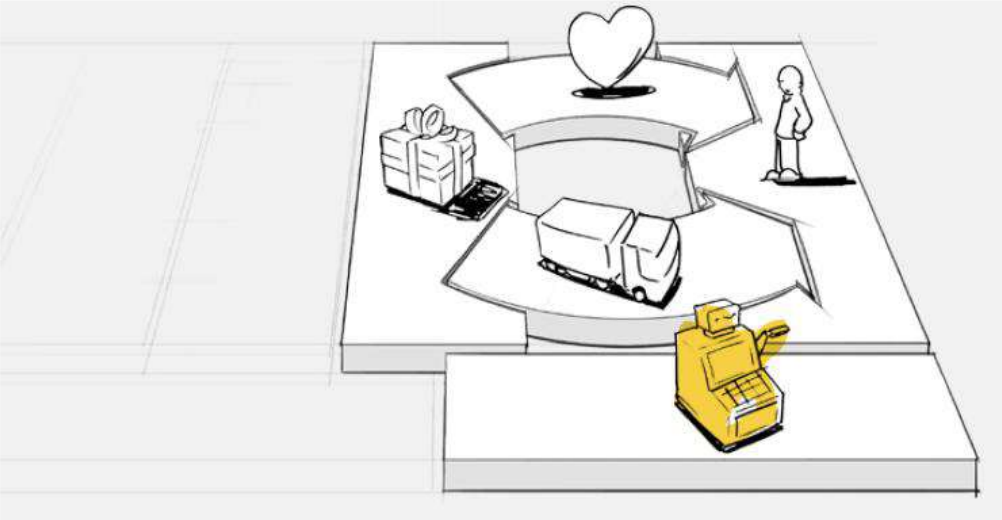
Customer Relationships



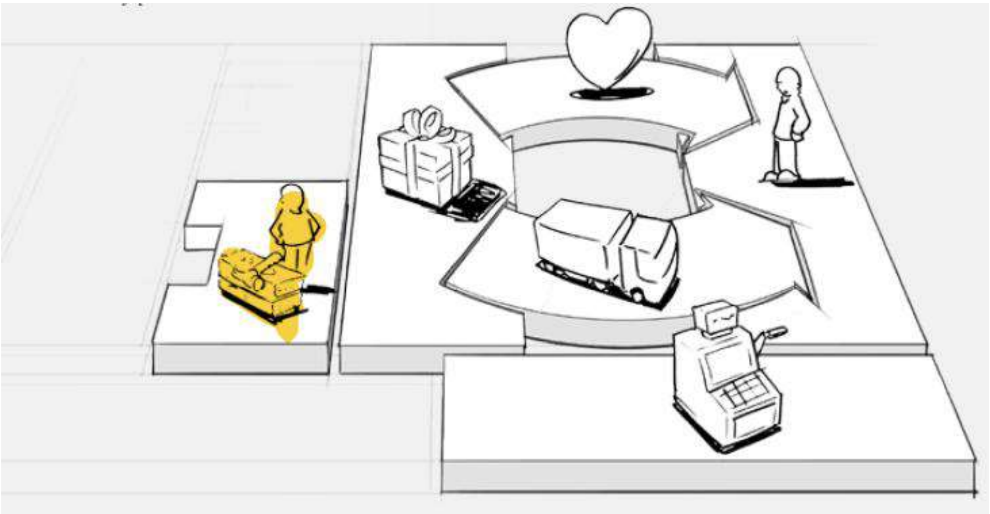
What types of relationships are created with each market segment?

Revenue Streams



What are customers willing to pay for? In what ways? Does the revenue come from periodic or repeated transactions?

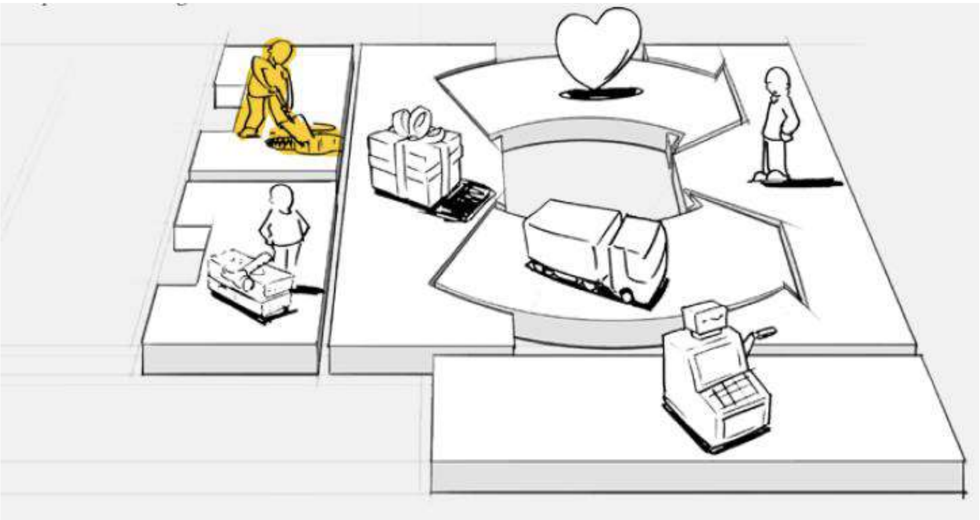
Key Recourses



What resources support the business plan?

What assets are essential?

Key Activities



Identifying the most important activities

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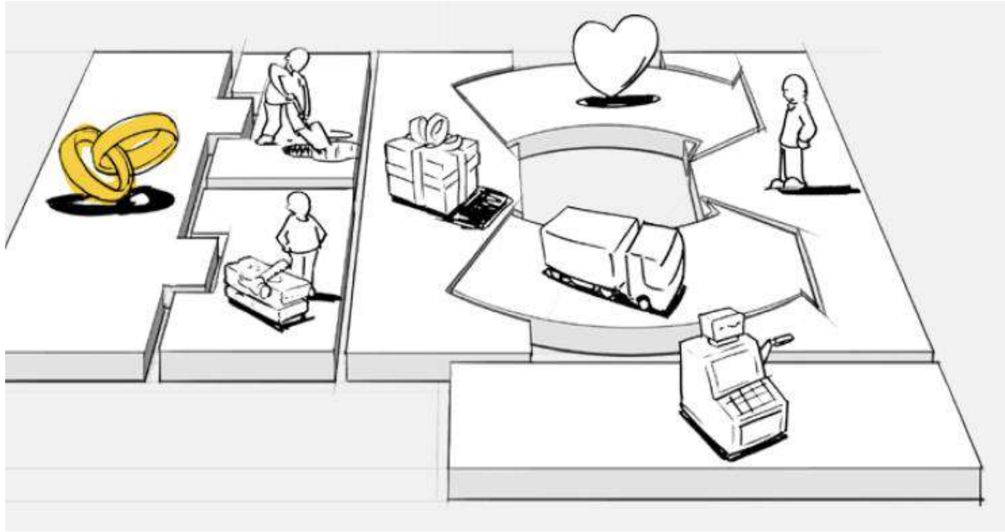
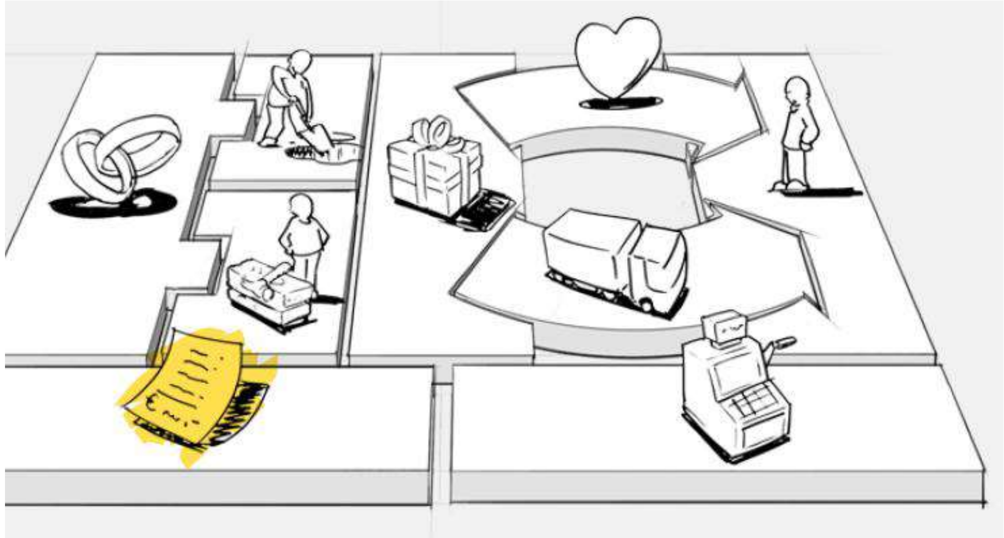
Key Partnerships



Which partners and suppliers influence the business?

Cost Structure



What is the cost structure?

What factors affect costs?

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Case Study: IKEA Business Model Canvas

Key Partners

- Worldwide suppliers
- Delivery Companies
- IKEA Group
- T-Mobile
- EA

Key Activities

- International expansion
- New product development
- Digital Expansion
- **Adaptation to the Gig Economy**
- **Global Operations**
- **Acquisitions**

Key Resources

- Inventory and catalog
- Design team
- Ikea stores
- Intellectual Property and Brand
- Swedwood industrial group

Value Proposition

- Affordable home furniture
- DIY easy assembly
- Unique furniture products
- IKEA dining
- Childcare
- **Online shopping**

Customer Relationships

- Restaurant
- IKEA family club (offering discounts for loyal customers)
- Self-service
- Childcare
- IKEA experience
- **TaskRabbit**

Channels

- Catalogs
- IKEA stores
- IKEA online store
- IKEA foundation

Customer Segments

- Young households looking for a new and affordable furniture
- Low income, working-class and middle-income households
- Small businesses
- Restaurant lovers

Cost Structure

- Production
- Designing new furniture
- Acquiring more customers
- Building new stores
- **Digital development**

Revenue Streams

- Selling furniture and other household goods
- IKEA Restaurant & IKEA Food
- Online store
- Sims 2 game
- **Franchise fees**
- **Investments**

ProfitableBusinessModels.com

SWOT Analysis

- Internal - External Environment Connection Tool
- Groups the available information after the analysis of the external (threats - opportunities) and internal (strengths - weaknesses) environment
- Guides the goals and strategic choices of the company

SWOT Analysis Implementation

1. External environment analysis (e.g. PEST - DG, Porter's 5 forces): identification of opportunities - threats
2. Internal environment analysis (e.g. resource and capabilities theory – VRIN(O), value chain – system, business model): identification of strengths - weaknesses
3. Evaluation of the importance of each issue (EFAS, IFAS, SFAS)
4. Goals and strategic choices (TOWS)

Opportunities

- any favorable conditions in the external environment of the organization
- factors or developments e.g. political, economic and technological changes that can be exploited by the company

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Potential Opportunities

- Serving additional customer groups or expanding into new geographic markets or product segments
- Expanding the company's product line to meet a broader range of customer needs
- Utilizing existing company skills or technological know-how to enter new product lines or new businesses
- Using the internet and e-commerce technologies to dramatically cut costs and /or to pursue new sales growth opportunities
- Integrating forward or backward
- Falling trade barriers in attractive foreign markets

Potential Opportunities

- Openings to take market share away from rivals
- Ability to grow rapidly because of sharply rising demand in one or more market segments
- Acquisition of rival firms or companies with attractive technological expertise
- Alliances or joint ventures that expand the firm’s market coverage or boost its competitive capability
- Openings to exploit emerging new technologies
- Market openings to extend the company’s brand name or reputation to new geographic areas

Threats

- any adverse situation in the external environment of the organization that is potentially harmful
- obstacles to the organization's smooth course / future perspective

Potential External Threats

- Likely entry of potent new competitors
- Loss of sale to substitute products
- Mounting competition from new internet startup companies pursuing strategies
- Increasing intensity of competition among industry rivals –may cause squeeze on profit margins
- Technological changes or product innovations that undermine demand for the firm’s product
- Slowdowns in market growth

Potential External Threats

- Adverse shits in foreign exchange rates and trade policies of foreign governments
- Costly new regulator requirements
- Growing bargaining power of customers or suppliers
- A shift in buyer needs and tastes away from the industry’s product
- Adverse demographic changes that threaten to curtail demand for the firm’s product
- Vulnerability to industry driving forces

Strengths

- advantages and skills that an organization can use to achieve its goals
- basis for competitive capabilities

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Potential Strengths and Competitive Capabilities

- A powerful strategy supported by competitively valuable skills and expertise in key areas
- A strong financial condition / financial resources to grow the business
- Strong brand name image/company reputation
- A widely recognized market leader and an attractive customer base
- Ability to take advantage of economies of scale and/or learning and experience curve effects
- Proprietary technology/superior technological skills/important patents
- Superior intellectual capital relative to key rivals
- Cost advantages

Potential Strengths and Competitive Capabilities

- Strong advertising and promotion
- Product innovation skills
- Proven skills in improving production processes
- Sophisticated use of e-commerce technologies and processes
- Superior skills in supply chain management
- A reputation for good customer service
- Better product quality relative to rivals
- Wide geographic coverage and/ or strong global distribution capability
- Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets

Weaknesses

- limitations, errors or shortcomings in the organization that prevent the achievement of its goals
- disadvantages or weaknesses according to the current situation

Potential Weaknesses and Competitive Deficiencies

- No clear strategic direction
- Obsolete facilities
- A weak balance sheet / Burdened with too much debt
- Higher overall unit costs relative to key competitors
- Missing some key skills or competencies/lack of management depth/a deficiency of intellectual capital relative to leading rivals
- Plagued with internal operating problems
- Falling behind rivals in placing e-commerce capabilities and strategies

Potential Weaknesses and Competitive Deficiencies

- Too narrow a product line relative to rivals
- Weak brand image or reputation
- Weaker dealer network than key rivals and/or lack of adequate global distribution capability
- Subpar e-commerce systems and capabilities relative to rivals
- Short on finical resources to fund promising strategic initiatives
- Lots of underutilized plant capacity
- Behind on product quality and/or technological know – how
- Not attracting new customers as rapidly as rivals

Assessment and Comparison

- External Factor Analysis Summary (EFAS Matrix)
- Internal Factor Analysis Summary (IFAS Matrix)
- Strategic Factor Analysis Summary (SFAS Matrix)

External Factor Analysis Summary (EFAS)

1. Recording of major threats - opportunities (usually 8-10)
2. Formulation of gravity index for each factor from 1.0 (the most important) to 0.0 (the most insignificant) based on the effect it can have on the strategic position of the company
3. Evaluation of each factor based on the effective or inefficient response of the company from 5 (very effective) to 1 (very ineffective)
4. Weighted score (2*3)
5. The overall score shows how well the company responds to the effects of the external environment (benchmark = 3)

Internal Factor Analysis Summary (IFAS)

1. Recording of major strengths - weaknesses (usually 8-10)
2. Formulation of gravity index for each factor from 1.0 (the most important) to 0.0 (the most insignificant) based on how important the factor is for the future strategic position of the company
3. Evaluation of each factor based on the ability of the management to harness the strength or to handle the weakness 5 (excellent) and 1 (poor)
4. Weighted score (2*3)
5. The overall score shows how well the company responds to existing or future factors in the internal environment (benchmark = 3)

Strategic Factor Analysis Summary (SFAS)

1. Limitation of IFAS - EFAS factors (selection of the most important strengths, weaknesses, opportunities and threats)
2. Reassessment
3. Recalculation of weighted score
4. Timescale

Strategic Directions (TOWS Matrix)

External Environment	Threats	Cautious strategies (S-T)	Defense strategies (W-T)
	Opportunities	Dynamic strategies (S-O)	Strategies of careful adaptations and improvements (W-O)
		Strengths	Weaknesses
		Internal Environment	

Strategic Directions

Cautious strategies (S-T)	exploiting strengths to avoid or reduce threats
Defense strategies (W-T)	defensive tactics to limit weaknesses and avoid threats
Dynamic strategies (S-O)	exploiting strengths to seize opportunities
Strategies of careful adaptations and improvements (W-O)	improving weaknesses that hinder opportunities

SWOT Analysis Importance

- Reduction of uncertainty in relation to the implementation of a specific strategy, policy, action or program
- Identifying the dominant and critical determinants (internal and external) that affect the success of a strategy, policy, action or program
- Avoiding the possibility of ignoring important strengths, weaknesses, opportunities and threats

SWOT Analysis Importance

- a strength may help identify an opportunity
- a weakness may reveal a threat
- if an opportunity arises, this may reveal a strength or weakness of the internal environment
- if a threat is detected in the external environment, this may reveal a strength or weakness

Strategy Levels

- Societal or Enterprise Le
- Corporate level
- Business Unit Level
- Functional Level
- Operational Level

Strategy levels should be in harmony with each other and reinforce each other, so that resources are allocated rationally and the overall
rformance of t

Societal or Enterprise Level

- Defining the organization's relations with the external environment
- Attitude towards interest groups, interest in the environment, ethics, corporate social responsibilities, rights / obligations
- It concerns non-economic goals / social and environmental performance
- It is evident in the vision, in the mission, in the values

Societal or Enterprise Level

- What is our role in the society?
- How do interest groups view us?
- What values and principles do we represent?
- What obligations do we have towards society?
- How do we affect the society?

The Social Contract

Financial inputs	Financial outputs
• Equity • Raw materials • Human resources	• Products – services • Income – taxes • Dividends – interest
Social inputs	**Social outputs**
• Air – water quality • Labor force quality • Labor force composition	• Pollution • Accidents – diseases • Discrimination – poverty • Values – culture • Lifestyle

The gap between the society's expectations for business performance and the real business' social performance creates the "social problem".

Corporate Level Strategy

- Corporate vision / mission / goals / value proposition
- Scope and type of activity (industries / markets)
- Strategic direction: growth, stability, rescue / reversal
- **Portfolio strategy:** Strategic Business Units / portfolio of products and services composition
- Connections, synergies and collaborations between SBUs
- **Parental strategy:** resource flow and allocation between the SBUs (value creation)

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Corporate Level Strategy

- Allocation of resources between SBUs
- Organization and control of SBUs
- Aiming to coordinate the portfolio of SBUs so that they are worth more under the umbrella of the group than on their own.
- Achieving synergies (e.g. technology transfer)
- Value creation for shareholders (profits, P/E)

Corporate Level Strategic Directions

- Development (horizontal or vertical in the same industry or in other industries / geographical within or outside national borders)
- Stability (no change in activities)
- Rescue / reversal / cessation of activities

Corporate Level Strategy Development: Concentration

	Existing Products	New Products
Existing Markets	**Penetration / Consolidation** • Introducing new ways of use • Increasing the use by existing customers • Attracting new customers	**Product Development** • New features • Quality variations • Extra sizes and models
New Markets	**Market Development** • New geographical areas • New market segments • New distribution channels	**Expansion** • Related / Unrelated Differentiation • Vertical / Horizontal integration

Penetration / Consolidation

The company decides to allocate its resources to increase its market share with existing products by:

- Introducing new ways of use (e.g. advertising new uses)
- Increasing the use by existing customers (e.g. frequency of use, reduction of life time, price incentives, etc.)
- Attracting new customers from the competitors or non-users (e.g. product promotion, lower price, etc.)

Penetration / Consolidation

This strategy is appropriate when:

- Current markets are not saturated
- There is room for increased use of the product by existing consumers
- Market shares are declining and the market is growing
- Economies of scale can offer comparative advantages
- The industry is not subject to technological innovation
- There are barriers to new technologies entry

Product Development

New products are developed for existing markets or significant modifications are made to existing products by:

- Developing of new product features (e.g. color, shape changes, etc.)
- Developing quality variants of the product
- Developing additional sizes and models

This strategy is appropriate when the company:

- has successful products that are in the maturing phase
- is favored by the rapid technological developments in the industry

Market Development

The company strives to promote existing products in new markets by:

- Developing in additional geographical areas (nationally or internationally)
- Attracting customers from other market segments
- Entering new distribution channels

This strategy is appropriate when:

- There are new, not expensive and reliable distribution channels
- There are unexploited or unsaturated markets
- There is excessive production capacity that must be channeled

Expansion of activities

Expansion of activities refers to the strategy search for new products and new markets.

- Related / Unrelated Differentiation
- Vertical / Horizontal integration

This strategy is appropriate when:

- There are efficiency benefits
- Risk dispersion is achieved
- The market in which the company operates is declining

<table>
<tr><td rowspan="6">Concentration:Expansion</td><td rowspan="2">Differentiation</td><td>Related</td><td>development in similar sectors / in products or services that are interconnected (e.g. similarities in terms of technology, production or promotion methods, distribution channels)
capacity utilization / higher profits</td></tr>
<tr><td>Unrelated</td><td>development in non-similar sectors
greater growth / risk dispersion</td></tr>
<tr><td rowspan="4">Integration</td><td rowspan="2">Vertical</td><td>Forward Integration: expanding forward in the production chain (value chain) such as distribution or retail</td></tr>
<tr><td>Backward Integration: supplier position (usually through acquisitions or strategic alliances)</td></tr>
<tr><td rowspan="2">Horizontal</td><td rowspan="2">Expansion of activities at the same stage of the production chain, in competing or substitute products (usually through mergers and acquisitions)</td></tr>
<tr></tr>
</table>

When is Backward Integration indicated?

- Expensive / unreliable / few suppliers
- Poor quality offered by the existing suppliers
- Suppliers enjoy high profit margins
- Resources must be acquired quickly
- The industry is growing rapidly and the future prospects are good
- The necessary financial and human resources are available
- Advantages: fixed prices, constant production volume, storage cost savings, reduction of dependence on suppliers, barriers for new entries, etc.

When is Forward Integration indicated?

- Expensive / unreliable / few distributors of products
- Few distributors and / or low quality
- Distributors enjoy high profit margins
- The industry is growing rapidly
- The necessary financial and human resources are available
- Advantages: stable production, distribution and storage costs reduction, entrance barriers, marketing improvement and product differentiation opportunities, etc.

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When is Horizontal Integration indicated?

- Monopoly advantage acquisition (competition elimination)
- The company is competing in a growing industry
- Growing economies of scale offer competitive advantages
- Available resources to run the new business effectively
- The competitors have problems, but the industry is doing well

Methods of implementing development strategies

- Internal development
- Strategic alliances (2+ organizations share resources and develop joint activities to implement a strategy)
- Mergers and Acquisitions

Strategic Alliances Examples

- collaborative advertising
- R&D partnerships
- lease service agreements
- shared-distribution
- technology transfer
- co-operative bidding
- cross-manufacturing
- resource venturing
- internal spin-offs
- cross-licensing
- government and industry partnering

Portfolio Strategies

The SBUs (but also the products or services) of a company can be divided into categories by the following criteria:

- Market growth rate (higher or lower than the whole economy’s growth rate)
- Relative market share (ratio of market share of a company to the market share held by the most important competitor)

Boston Consulting Group (BSG) Portfolio Technique

Higher market growth rate	**Stars**	**Question marks**
Lower market growth rate	**Cash cows**	**Dogs**
	Higher market share	Lower market share

Strategic decisions for maintenance, development or divestment

Dogs

Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested.

Strategic choices: Retranchement, divestiture, liquidation

Cash cows

Cash cows are the most profitable brands and should be "milked" to provide as much cash as possible. The cash gained from "cows" should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations.

Strategic choices: Product development, diversification, divestiture, retranchement

Stars

Stars operate in high growth industries and maintain high market share, being both cash generators and cash users. They are the primary units in which the company should invest its money, because they are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog.

Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

Question Marks

Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. They have potential to gain market share and become stars, which would later become cash cows. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not.

Strategic choices: Market penetration, market development, product development, divestiture

BCG Matrix Advantages

- Easy to perform
- Understanding the strategic positions of business portfolio
- Good starting point for further more thorough analysis

BCG Matrix Disadvantages

- Confusing to classify an SBU that falls between quadrants
- Does not include other external factors that may change the situation completely (market share and industry growth are not the only factors of profitability)
- High market share does not necessarily mean high profits
- It denies that synergies between different units exist. Dogs can be as important as cash cows to businesses if it helps to achieve competitive advantage for the rest of the company.

Strategic Options

Rapid market growth rate	• Business Focus Strategy Review (turnaround) • Acquisition of another company in the same industry (if possible) • Vertical integration • Differentiation • Acquisition by an opponent • Abandonment of any business activity	• Continuation of the strategic focus (and internationalization if possible) • Vertical integration • Related differentiation
Slow market growth rate	• Business Focus Strategy Review (turnaround) • Merger with a competing company • Vertical integration • Differentiation • Profit harvest and disinvestment • Liquidation	• Internationalization • Related differentiation • Unrelated differentiation • Consortium in new markets • Vertical integration • Continuation of the focus strategy in a business activity
	Strong competitive position	**Weak competitive position**

Parental Strategy

- Parent company and subsidiaries
- Transfer of fundamental / distinguished ability
- Joint activities (e.g. transportation of similar products to similar destinations)
- Efficient internal capital distribution
- Increasing market power (acquisitions of competitors or suppliers, bargaining power)
- Reduced transaction costs

Business Unit Level Strategy

An integrated and coordinated set of commitments and actions the firm uses to gain a **competitive advantage** by exploiting core competencies in specific product markets

- Detection of a competitive advantage for each SBU
- Resources allocation between SBUs, structure and control
- Dealing with competition (strategy that creates differences between the firm's competitive position and those of its competitors)

Core Competencies

Resources & capabilities that are sources of competitive advantage

Strategy

Set of actions taken to exploit core competencies & gain competitive advantage

Business Unit Level Strategy

Providing value to customers

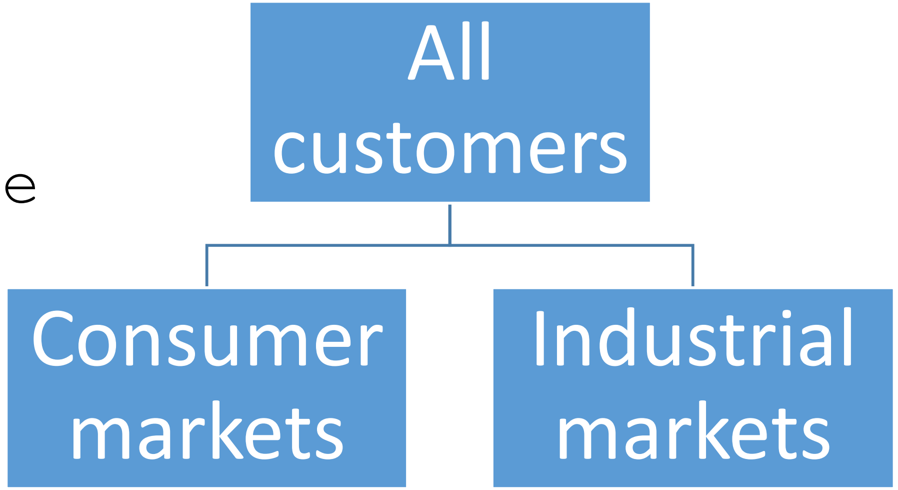
Who will be served?

What needs will be satisfied?

How will those needs be satisfied?

Market Segmentation

clustering people with similar needs into individual and identifiable groups



Consumer Markets

- Demographic factors (age, income, sex, etc.)
- Socioeconomic factors (social class, stage in the family life cycle)
- Geographic factors (cultural, regional, and national differences)
- Psychological factors (lifestyle, personality traits)
- Consumption patterns (heavy, moderate, and light users)
- Perceptual factors (benefit segmentation, perceptual mapping)

Industrial Markets

- End-use segments (identified by SIC code)
- Product segments (based on technological differences or production economics)
- Geographic segments (defined by boundaries between countries or by regional differences within them)
- Common buying factor segments (cut across product market and geographic segments)
- Customer size segments

Customer Needs Satisfaction

- Who will be served? → **target-group**
- What needs will be satisfied?
- How will core competencies be used to implement value creating strategies that satisfy customers' needs?

Firms must continuously improve, innovate and upgrade their competencies, in order to meet and/or exceed customer expectations across time.

Types of Potential Competitive Advantage

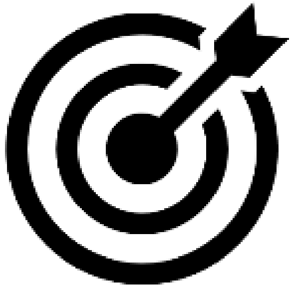
- Performing **activities differently** compared to the competitors (e.g. reducing process costs and achieving lower overall costs, in order to offer lower priced products / services)
- Performing **different / more highly valued activities** compared to the competitors (e.g. possessing the capability to differentiate the product / service and command a premium price)

Competitive Scope

- **Broad:** competing in many customer segments
- **Narrow:** selecting a segment or group of segments in the industry and tailoring the strategy to serving them at the exclusion of others

Porter's Generic Competitive Strategies

Scope	Narrow	Cost leadership	Differentiation
	Broad	Cost **focus**	Differentiation **focus**
		Lowest Cost	Differentiation
		Source of competitive advantage	



Each generic strategy is a fundamentally different approach to creating and sustaining superior performance and requires a **different operating model.**

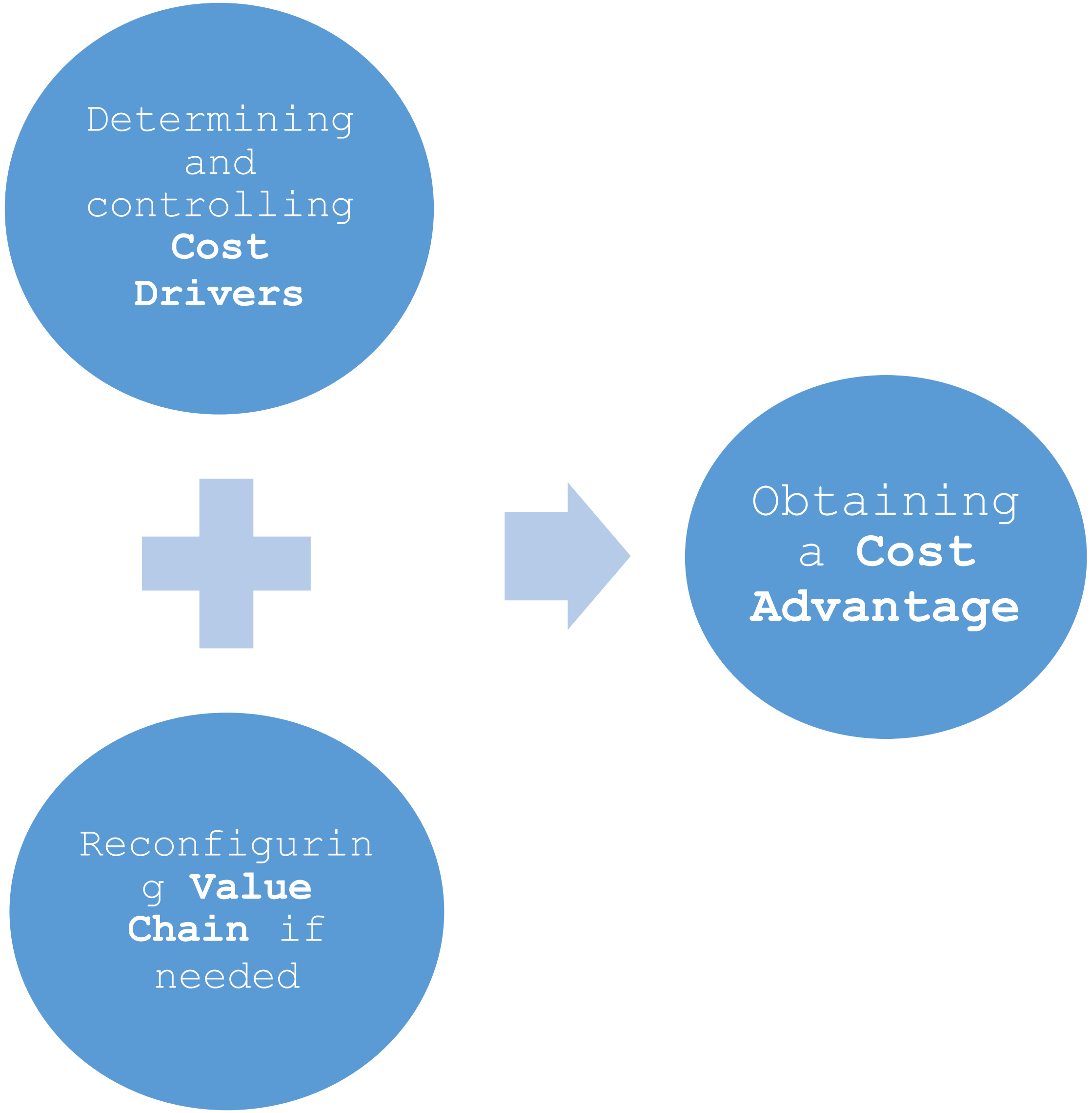
Cost Leadership

- An integrated set of actions taken to produce products or services with features that are acceptable to customers at the lowest cost, relative to that of the competitors.
- The company aggressively seeks efficient large-scale production facilities, cuts costs, uses economies of scale, gains production experience and employs tight cost controls to be more efficient in the production of products or the offering of services than competitors
- The goal is to be the **low-cost producer** in the industry.

Cost Leadership Product Characteristics

- Relatively standardized (commoditized) products
- Features broadly acceptable to many customers
- Lowest competitive price

- Raw materials
- Production processes
- Automation
- Distribution channels
- Direct instead of indirect sales
- Forward/backward integration
- etc.



Value Chain Activities associated with Cost Leadership Strategies

- **Supply chain management:** Effective relationships with suppliers to maintain efficient flow of goods (supplies) for operations
- **Operations:** Build economics and efficient operations (e.g. production processes)
- **Distribution:** Use of low – cost modes of transporting goods and delivery times that produce lowest costs
- **Marketing (including sales):** Targeted advertising and low prices for high sales volumes
- **Follow – up Service:** Efficient follow – up to reduce return

Value-Creating Activities for Cost Leadership

- Cost-effective MIS
- Few management layers
- Simplified planning
- Consistent policies
- Effecting training
- Easy-to-use manufacturing technologies
- Investments in technologies
- Finding low-cost raw materials
- Monitor suppliers' performances
- Link suppliers' products to production processes
- Economies of scale
- Efficient-scale facilities
- Effective delivery schedules
- Low-cost transportation
- Highly trained sales force
- Proper pricing

Support Functions associated with Cost Leadership Strategies

- **Finance:** Manage financial resources to ensure positive cash flow and low debt costs
- **Human Resources:** Develop policies to ensure efficient hiring and retention to keep costs low. Implement training to ensure high employee efficiency.
- **Management information system:** Develop and maintain cost -effective MIS operations

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Cost Leadership Strategy & Porter's 5 Forces Analysis	
Existing Competitors	Competitors hesitate to compete on basis of price, so lack of price competition leads to greater profits. The cost leader can undercut competitors' prices through e.g. penetration pricing and can still offer comparable quality against reasonable profits.
Bargaining Power of Buyers	Driving prices far below competitors, causing them to exit, thus shifting power with buyers (customers) back to the firm.
Bargaining Power of Suppliers	The cost leader is able to absorb cost increases due to low cost position and also to make very large purchases, reducing chance of supplier using power.
Threat of Potential Entrants	The cost leader can frighten off new entrants due to their need to enter on a large scale in order to be cost competitive and also the time it takes to move down the industry learning curve.
Product Substitutes	Cost leader is well positioned to make investments to add features unavailable in substitutes and also buy intellectual property and patents developed by potential substitutes.

Cost Leadership Strategy / Competitive Risks

- Processes used to produce and distribute good or service may become obsolete due to competitors' innovations.
- Too much focus on cost reductions may occur at expense of customers' perceptions of differentiation.
- Competitors, using their own core competencies, may successfully imitate the cost leader's strategy.

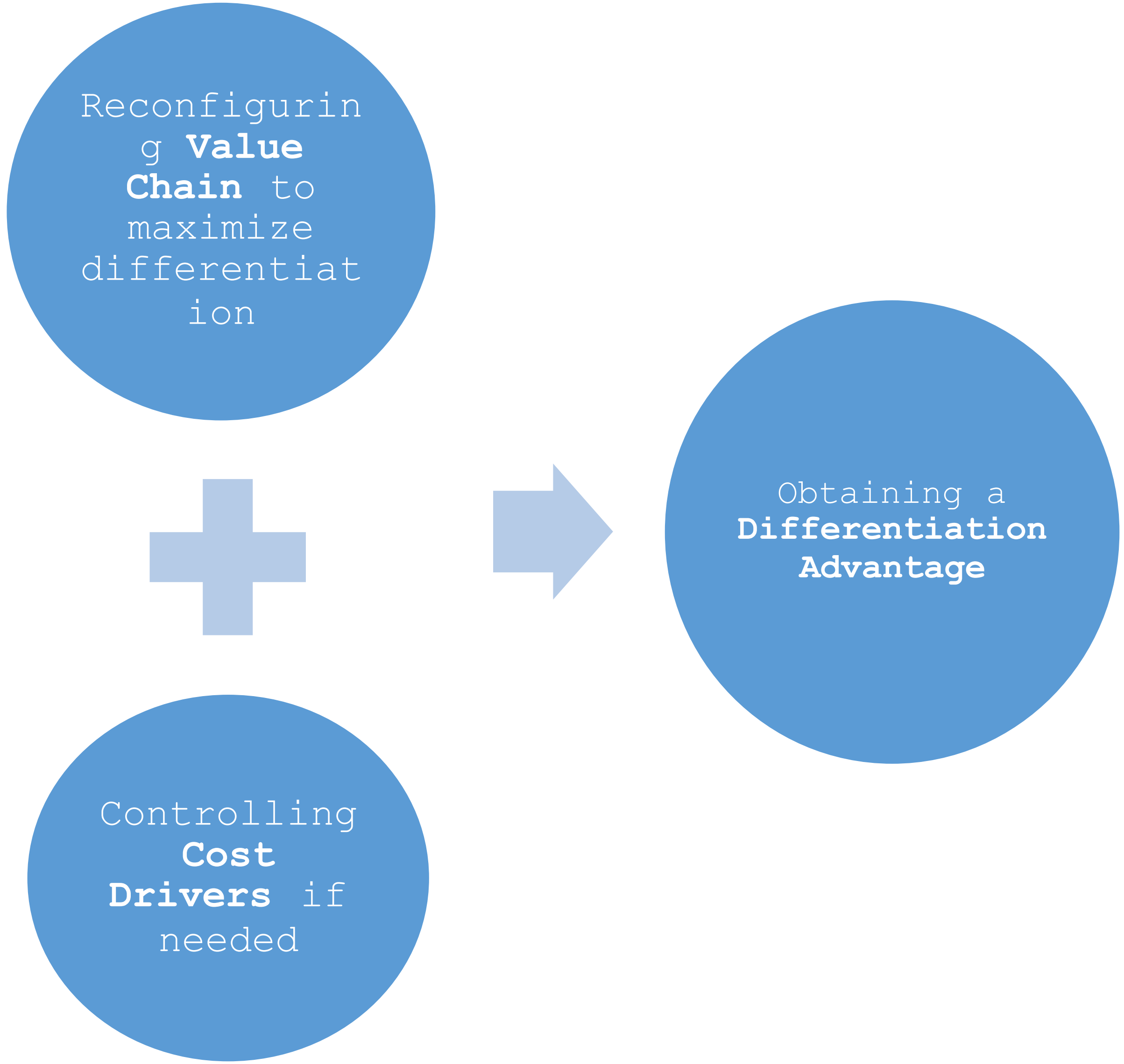
Differentiation

- An integrated set of actions taken to produce goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them.
- The company seeks to distinguish its products or services from that of competitors.
- The goal is to be **unique** and the focus is on non-standardized products.
- Companies with this type of strategy usually price their products higher than competitors.

Differentiation

- This strategy is appropriate when customers value differentiated features more than they value low cost.
- This strategy can reduce rivalry with competitors if buyers are loyal to a company's brand (strong reliability on customer loyalty).
- Creative advertising, distinctive product features, higher quality, better performance, exceptional service or new technology may be used in order to achieve a product being perceived as unique.

- Raising performance of product or service
- Creating sustainability through
  - Customer perceptions of uniqueness
  - Customer reluctance to switch to non-unique product or service



Value Chain Activities associated with Differentiation Strategies

- **Supply chain management:** Develop and maintain positive relation with major suppliers. Ensure the receipt of high quality supplies (raw materials and other goods)
- **Operations:** Manufacture high quality goods. Develop flexible systems that allow rapid response to customers changing needs.
- **Distribution:** Provide accurate and timely delivery of goods
- **Marketing (including sales):** Build strong positive relationships with customers. Invest in effective promotion and advertising program
- **Follow – up Service:** Have specially trained unit to provide after – sales service. Ensure high customer satisfaction

Value-Creating Activities for Differentiation

- Highly developed MIS
- Emphasis on quality
- Worker compensation for creativity/productivity
- Use of subjective performance measures
- Basic research capability
- Technology
- High quality raw materials
- Delivery of products
- High quality replacement parts
- Superior handling of incoming raw materials
- Attractive products
- Rapid response to customer specifications
- Order-processing procedures
- Customer credit
- Personal relationships

Support Functions associated with Differentiation Strategies

- **Finance:** Make long – term investments in development of new technology and innovative products, in marketing and advertising, and in ability to provide exceptional service
- **Human Resources:** Recruit highly qualified employees and invest in training that provides them with the latest technological knowledge and the capabilities to provide breakthrough services.
- **Management information system:** Acquire and develop information systems that provide up to date market intelligent and real time information in all areas relevant for strategic and major operational.

Differentiation Strategy & Porter's 5 Forces Analysis	
Existing Competitors	Defends against competitors because customer's brand loyalty to differentiated product offsets price competition.
Bargaining Power of Buyers	Can mitigate buyers' power because well differentiated products reduce customer sensitivity to price increases.
Bargaining Power of Suppliers	Can mitigate suppliers' power by absorbing price increases due to higher margins or passing along higher supplier prices because buyers are loyal to differentiated brand.
Threat of Potential Entrants	Can defend against new entrants because new products must surpass proven products. New products must be at least equal to performance of proven products, but offered at lower prices.
Product Substitutes	Well positioned relative to substitutes because brand loyalty to a differentiated product tends to reduce customers' testing of new products or switching brands.

Differentiation Strategy / Competitive Risks

- The price differential between the differentiator's product and the cost leader's product becomes too large.
- Differentiation ceases to provide value for which customers are willing to pay.
- Experience narrows customers' perceptions of the value of differentiated features.
- Counterfeit goods replicate the differentiated features of the firm's products.

Focus

- An integrated set of actions taken to produce goods or services that serve the needs of a particular competitive segment.
- Focus strategies emphasizes concentration on a specific regional market or buyer group: a **niche**.
- The company first selects a segment or group of segments in an industry and then tailors its strategy to serve those segments best to the exclusion of others.

Types of Focused Strategies

- Focused cost leadership strategy
- Focused differentiation strategy

The company will either use a differentiation or cost leadership strategy, but only for a **narrow target market** rather than offering it industry-wide.

Focused Strategies Success

Firms must be able to complete various primary and support activities in a **competitively superior manner,** in order to develop and sustain a competitive advantage and earn above-average returns.

Factors That Drive Focused Strategies

- Large firms may overlook small niches.
- A firm may lack the resources needed to compete in the broader market.
- A firm is able to serve a narrow market segment more effectively than can its larger industry-wide competitors.
- Focusing allows the firm to direct its resources to certain value chain activities to build competitive advantage.

Focused Competitive Risks

- A focusing firm may be “out-focused” by its competitors.
- A large competitor may set its sights on a firm’s niche market.
- Customer preferences in niche market may change to more closely resemble those of the broader market.

Integrated Cost Leadership/Differentiation Strategy

A firm that successfully uses an integrated cost leadership/differentiation strategy should be in a better position to:

- Adapt quickly to environmental changes
- Learn new skills and technologies more quickly
- Effectively leverage its core competencies while competing against its rivals

Stuck in the Middle

- a company that tries to engage in each generic strategy but fails to achieve any of them
- no competitive advantage regardless of the industry it is in
- will compete at a disadvantage because the 'cost leader', the 'differentiators' and the 'focusers' in the industry will be better positioned to compete
- maybe still earns interesting profits simply because it is operating in a highly attractive industry or because its competitors are stuck in the middle as well

Porter's Generic Strategies Combination
Case Study: The IKEA Example

IKEA mainly follows the Cost Leadership Strategy

- seeking for suppliers who could manufacture well-designed high-quality subassemblies at the lowest cost,
- assigning the transportation and assembly to the customers, providing them with the necessary self-service tools

in order to reach a wide range of customers and a vast market share.

Porter's Generic Strategies Combination
Case Study: The IKEA Example

IKEA's Cost Leadership Strategy key points:

- strategic location (right outside big cities, usually close to airports, not inside expensive residential zones)
- careful selection of specialized suppliers from the global market (ability to achieve better offers)
- labor cost reduction
- storage and distribution costs reduction by choosing flat packaging
- customers' participation in key activities
- new products launching weekly (sales volume increase leads to further reduction of the prices)

Porter's Generic Strategies Combination
Case Study: The IKEA Example

IKEA also follows Differentiation Strategy at some extent, innovating the way people buy furniture and setting itself completely apart from the average furniture store.

- offering high-quality products in competitive prices
- showing products in miscellaneous and stylish prototype rooms
- providing various decoration choices and suggestions
- assigning key activities directly to the customers
- unique buildings with the noted brand symbol and style, including food courts

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Porter's Generic Strategies Combination
Case Study: The IKEA Example

In some cases, the company also follows the Focused Strategy e.g. offering Chinese traditional designed furniture in IKEA stores in China, matching the Chinese customers' decoration demands.

Strategy Formulation

- Defining general objectives: achievable, realistic, measurable and clearly stated objectives that state what the company will pursue and until when it will be achieved
- Strategy design (axes, measures, specific objectives): corporate / business unit / operational level
- Business policy development: guidelines that make it easier for managers to make decisions and take action, leaving them room for initiative

Strategy Implementation

- Development of programs and definition of procedures
- Description of the objectives, policies, procedures of each operation of the organization and preparation of each respective budget
- Specific actions, methods, rules, steps to be followed to implement the strategic plans

Critical factors: Leadership, Culture, Structure, Technology, Resistance to change

Strategy Implementation

- Goal setting
- Finding and allocating resources
- Change in procedures and practices
- Possible restructuring in the organizational structure
- Adjustment to reward policies
- Information systems support
- Forming an appropriate culture
- Mobilization and participation of human resources / dealing with resistance to change

Strategy Implementation

The implementation of the strategy requires changes in:

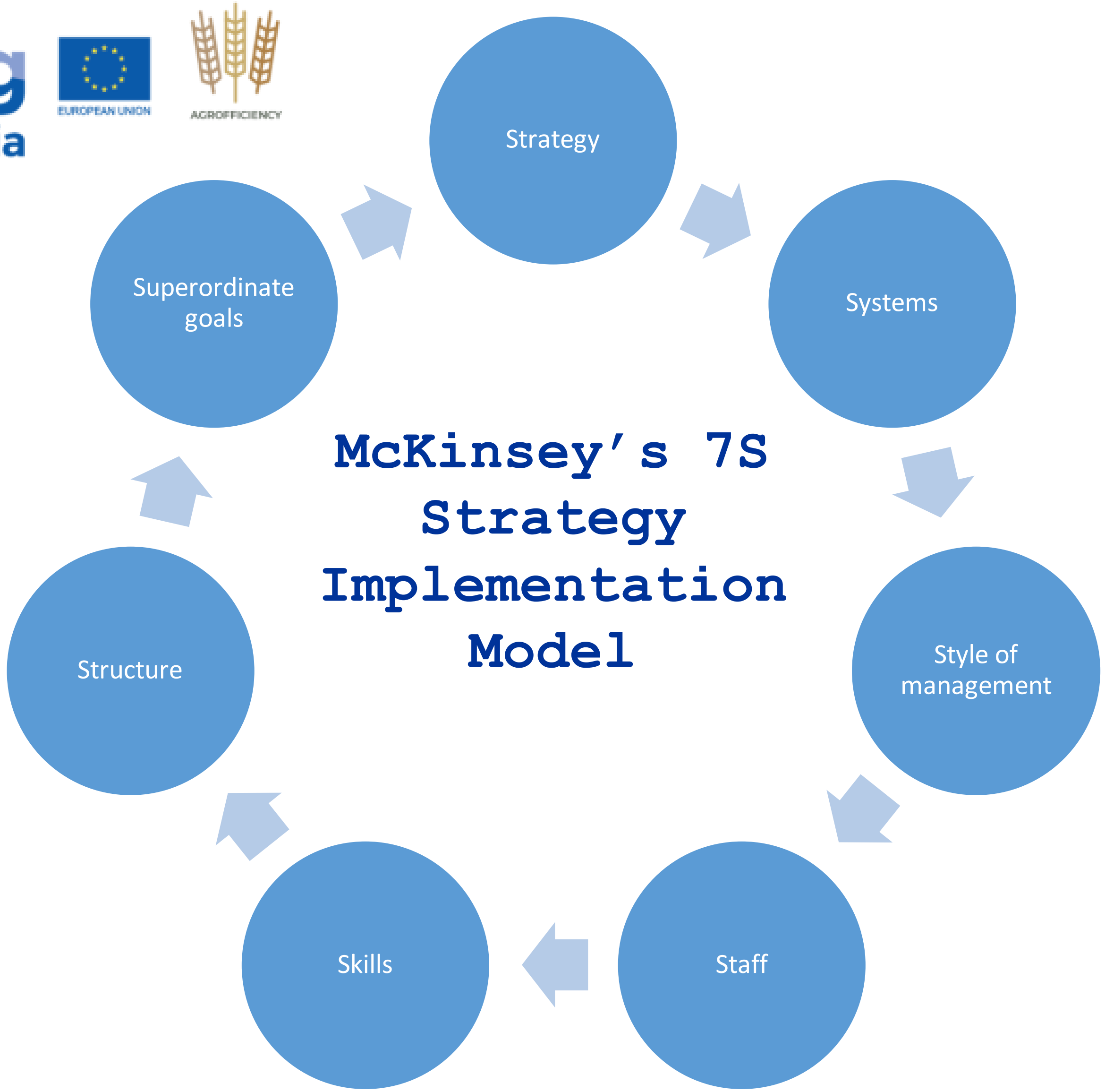
- objectives (types/categories of objectives, MBO)
- processes - policies - technology - information systems
- allocation of resources (budgets)
- organizational structure
- culture
- human resources (employee type, responsibilities, skills, behavior, communication)

And continuous **monitoring** of results.

Strategy Implementation Steps

- Setting annual objectives
- Revising policies to meet the objectives
- Allocating resources to strategically important areas
- Changing organizational structure to meet new strategy
- Managing resistance to change
- Introducing new reward system for performance results if needed

McKinsey's 7S Strategy Implementation Model



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Other important elements to be taken into account:

- Innovation
- Quality
- Customer focus
- Culture
- Leadership

The I/O* Model of Above-Average Returns

The Firm's Strategic Choices:

- Economies of scale
- Barriers to market entry
- Diversification
- Product differentiation
- Industry concentration
- Market frictions

** Industry / Organization*

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The I/O Model of Above-Average Returns

1. Study the external environment, especially the industry environment.	The External Environment • The general environment • The industry environment • The competitor environment
2. Locate an industry with high potential for above-average returns.	An Attractive Industry (an industry whose structural characteristics suggest above-average returns)
3. Identify the strategy called for by the attractive industry to earn above-average returns.	Strategy Formulation (selection of a strategy linked with above-average returns in a particular industry)
4. Develop or acquire assets and skills needed to implement the strategy.	Assets and Skills requires to implement a chosen strategy
5. Use the firm's strengths (developed or acquired assets and skills) to implement the strategy.	Strategy Implementation (selection of strategic actions linked with effective implementation of the chosen strategy)

Strategy Evaluation & Control

- Determining the length of the control period
- Determining sizes - goals
- Data collection - performance measurement
- Performance - goal comparison
- Feedback

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Strategy Evaluation Checklist

- Is the strategy in line with the mission of the organization?
- Is the strategy harmonized with the external environment of the company?
- Is the strategy in line with the operational forces, goals, policies, resources and personal values of executives and employees?
- Does the strategy take into account the provision for the minimum potential risk against the maximum possible profit that can be achieved according to the resources and prospects of the company?

Strategy Evaluation Checklist

- Does the strategy cover a market segment that has not been filled by others so far?
- Does the strategy conflict with other strategies developed and implemented by the organization?
- Is the strategy divided into sub-strategic goals that are completely interdependent and mutually supportive?
- Has the strategy been verified with the appropriate criteria (e.g. alignment with past and present trends) and the appropriate analysis tools (e.g. return on equity, earnings before tax per share)?

Strategy Evaluation Checklist

- Has the strategy been verified by developing feasible implementation programs?
- Does the strategy really match the life cycle of the company's products?
- Is the time right for this strategy?
- Does strategy copy a competitor's strategy? If so, a careful reassessment is suggested.
- Has an honest and accurate assessment of the competition been made? Is competition under- or over-rated?

Competitive Success Factors

Top Corporate Performers:

- Have an entrepreneurial / opportunistic mindset
- Are market / customer needs oriented
- Make effective use of valuable competencies
- Offer new and innovative products and services

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Characteristics of a successful strategy

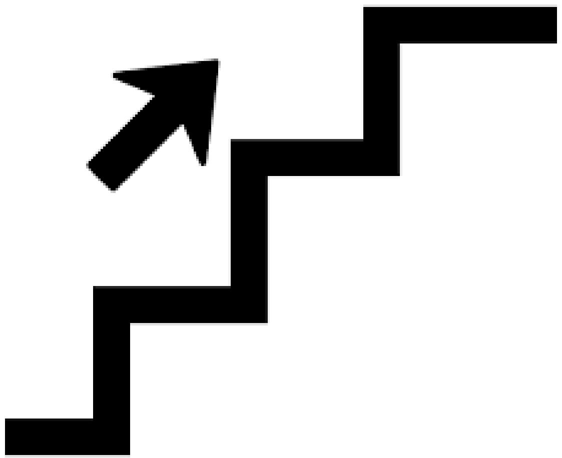
Simple

Timing

Advantage

Implementation

Resources



Characteristics of an unsuccessful strategy

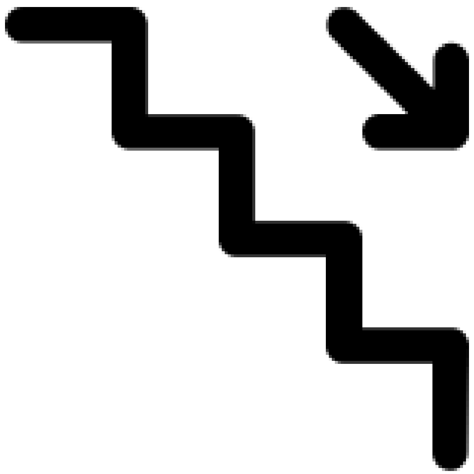
Simplistic and superficial

Temporary and tactical

Actively resisted

Impractical

Risky



Strategy Monitoring

Managers have to **compare their actual results with estimated results** and see if they are successful in achieving their objectives. If objectives are not met, managers should introduce new or revise existing policies.

Balanced Scorecard

The balanced scorecard is a management system aimed at translating an organization's strategic goals into a set of organizational performance objectives that, in turn, are measured, monitored and changed if necessary to ensure that an organization's strategic goals are met.

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Balanced Scorecard 4 Perspectives

Financial Perspective

Revenue, Expenses, Net income, Cash flow, Asset value, etc.

Customer Perspective

Customer satisfaction, Customer retention, Delivery & quality performance, Market share, Brand strength

STRATEGY

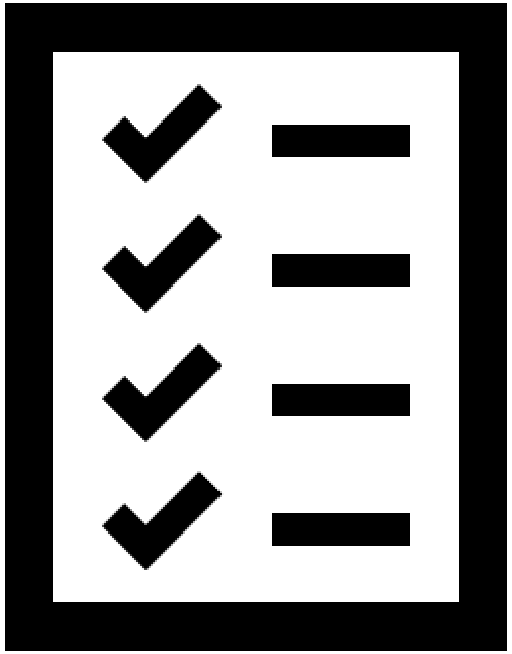
Internal Process Perspective

Inventory, Orders, Resource allocation, Cycle time, Quality control, Process alignment & automation

Learning / Growth Perspective

Employee satisfaction, Employee turnover, Employee education & skills, Training opportunities

Summary: Identifying the necessary steps for a strategic plan elaboration



Strategic Planning

Strategic planning process *is a systematic or emerged way of performing strategic planning in the organization through initial assessment, thorough analysis, strategy formulation, its implementation and evaluation.*

Rothaermel, 2012

Strategic Planning Process

- Initial Assessment
- Situation Analysis
- Strategy Formulation
- Strategy Implementation
- Strategy Monitoring

Strategic Planning Process Initial Assessment

Components: Vision statement and Mission statement

Tools used: Creating the Vision and Mission statements

Strategic Planning Process
Situation Analysis

Components: Internal environment analysis, External environment analysis, Competitor analysis

Tools used: PEST, SWOT, EFAS / IFAS / SFAS Matrixes, Key Success Factors, Competitors Positions, Strategic Groups, Porter’s 5 Forces, Benchmarking, Market Segmentation, Value Chain Analysis, VRIN(O) Framework, Core Competencies, etc.

Strategic Planning Process
Strategy Formulation

Components: Strategy Levels, SBUs, Strategic direction, Objectives

Tools used: Porter’s Generic Strategies, Boston Consulting Group Matrix, Scenario Planning, etc.

Strategic Planning Process
Strategy Implementation

Components: Annual Objectives, Policies, Resource Allocation, Change Management, Organizational chart, Linking Performance and Reward

Tools used: Policies, Motivation, Resistance management, Leadership, Stakeholder Impact Analysis, Changing organizational structure, Performance management

Strategic Planning Process
Strategy Monitoring

Components: Internal and External Factors Review, Measuring Company's Performance

Tools used: Strategy Evaluation Framework, Balanced Scorecard, Benchmarking

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