




THE STRATEGIC MANAGEMENT PROCESS

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Without a strategy the organization is like a ship without a rudder, going around in circles."

Joel Ross and Michael Kami



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 **Thinking Strategically:
The Three Big Strategic Questions**

1. Where are we now?
2. Where do we want to go?
 - Business(es) to be in and market positions to stake out?
 - Buyer needs and groups to
 - Outcomes to achieve?
3. How do we get there?




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 **What is Strategy?**


- A company's strategy consists of the set of competitive moves and business approaches that management is employing to run the company
- Strategy is management's **"game plan"** to
 - Attract and please customers
 - Stake out a market position
 - Conduct operations
 - Compete successfully
 - Achieve organizational objectives




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 **What is a Business Model?**

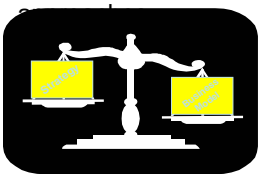
- A company's **business model** addresses "How do we make money in this business?"
 - Is the strategy that management is pursuing capable of delivering good bottom-line results?
- Do the **revenue-cost-profit economics of the company's strategy make good business sense?**
 - Look at the revenue streams the strategy is expected to produce
 - Look at the associated cost structure and potential profit margins
 - Do the resulting earnings streams and ROI indicate the strategy makes sense and that the viable business model?




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 **Strategy vs. Business Model :
What is the Difference?**

<p>Strategy -- Deals with a company's competitive initiatives and business</p>	<p>Business Model -- Concerns whether the revenues and costs flowing from the strategy demonstrate that the business can be amply profitable and viable</p>
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 **Microsoft's Business Model**

- Employ a cadre of highly skilled programmers to develop proprietary code; keep source code hidden from users
- Sell resulting operating system and software packages to PC makers and users at relatively attractive prices and achieve large unit sales
- Most costs arise in developing the software; variable costs are small—once breakeven volume is reached, revenues from additional sales are almost pure profit.
- Provide technical support to users at no cost

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 **Redhat Linux's Business Model**

- Use volunteer programmers to create the software; make source code open and available to all users
- Give Linux operating system away free of charge to those who download it (charge a small fee to users who want a copy on CD)
- Make money by employing a cadre of technical support personnel who provide technical support to users for a fee

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 **Why Are Strategies Needed?**

To **proactively** shape how a company's business will be conducted

To mold the independent actions and decisions of managers and employees into a **coordinated, company-wide** game plan



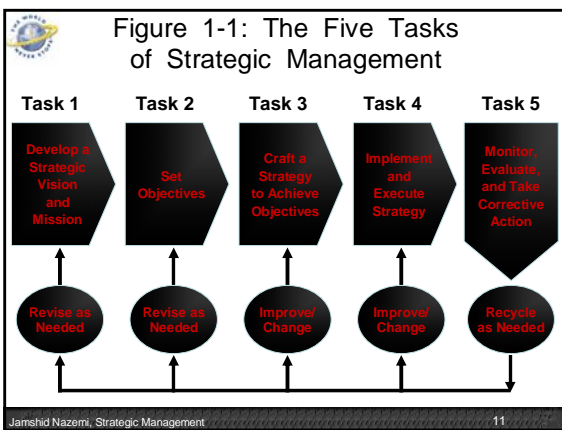
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Strategic Management Concept

Competent execution of a well-conceived strategy is the *best* test of managerial excellence and a proven recipe for organizational success!

Good Strategy + Good Strategy Execution = Good Management

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Developing a Strategic Vision
First Task of Strategic Management

- Involves **thinking strategically** about
 - Firm's future business plans
 - Where to "go"
- Tasks include
 - Creating a **roadmap** of the future
 - Deciding **future business position** to stake out
 - Providing **long-term direction**
 - Giving firm a **strong identity**

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 **Characteristics of a Strategic Vision**

- A roadmap of a company's future
 - Future technology-product-customer focus
 - Geographic and product markets to pursue
 - Capabilities to be developed
 - Kind of company management is trying to create




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 **Missions vs. Strategic Visions**

<ul style="list-style-type: none"> • A mission statement focuses on current business activities -- "who we are and what we do" <ul style="list-style-type: none"> - Current product and service offerings - Customer needs being served - Technological and business capabilities 	<ul style="list-style-type: none"> • A strategic vision concerns a firm's future business path -- "where we are going" <ul style="list-style-type: none"> - Markets to be pursued - Future technology-product-customer focus - Kind of company that management is trying to create 
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 **Why is a Strategic Vision Important?**

- A managerial imperative exists to **look beyond today** and **think strategically** about the future
 - Impact of new technologies
 - How customer needs and changing
 - What it will take to outrun competitors
 - Which promising market opportunities ought to be aggressively pursued
 - External and internal factors driving what a company needs to do to prepare for the future



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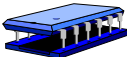
Examples: Mission and Vision Statements

Microsoft Corporation 

Empower people through great software anytime, anyplace, and on any device.

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Examples: Mission and Vision Statements

Intel 


Our *vision*: Getting to a billion connected computers worldwide, millions of servers, and trillions of dollars of e-commerce. Intel's core *mission* is being the building block supplier to the Internet economy and spurring efforts to make the Internet more useful. Being connected is now at the center of people's computing experience. We are helping to expand the capabilities of the PC platform and the Internet.

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Examples: Mission and Vision Statements

Otis Elevator 

Our *mission* is to provide any customer a means of moving people and things up, down, and sideways over short distances with higher reliability than any similar enterprise in the world.

Avis Rent-a-Car 

Our *business* is renting cars. Our *mission* is total customer satisfaction.

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Examples: Mission and Vision Statements

TRADER JOE'S
(a unique grocery store chain)

Our *mission*: To give our customers the best food and beverage values that they can find anywhere and to provide them with the information required for informed buying decisions. We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, and company spirit.



Examples: Mission and Vision Statements



American Red Cross



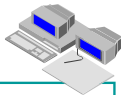
The *mission* of the American Red Cross is to improve the quality of human life; to enhance self-reliance and concern for others; and to help people avoid, prepare for, and cope with emergencies.



Examples: Mission and Vision Statements



3Com



Our *mission* is to connect more people and organizations to information in more innovative, simple, and reliable ways than any other networking company in the world. Our *vision* of pervasive networking is of a world where connections are simpler, more powerful, more affordable, more global, and more available to all.

Examples: Mission and Vision Statements

Ritz-Carlton Hotels

The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest *mission*.

We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed yet refined ambiance.

The Ritz-Carlton experiences enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.

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Examples: Mission and Vision Statements

Wendy's

To be America's best quick service restaurant chain. We will provide each guest great tasting, healthful, reasonably priced fish, seafood, and chicken in a fast, friendly manner on every visit.

Abbott

The *mission* is to extend and enhance human life by providing the highest quality health and personal care products. We intend to be the preeminent global diversified health and personal care company.

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Examples: Mission and Vision Statements

Eastman Kodak

We are in the picture business.


Wit Capital
(an Internet startup company)

Our *mission* is to be the premier Internet investment banking firm focused on the offering and selling of securities to a community of online individual investors.

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Setting Objectives
 Second Task of Strategic Management

- Converts strategic vision and mission into specific performance targets
- Creates yardsticks to track performance
- Pushes firm to be inventive and focused on results
- Helps prevent complacency and coasting




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Types of Objectives Required

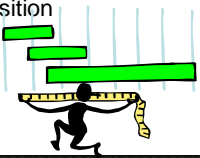
Financial Objectives

Outcomes focused on improving **financial** performance



Strategic Objectives


Outcomes focused on improving **long-term, competitive** business position



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Examples of Financial Objectives

- Grow earnings per share 15% annually
- Boost annual return on investment (or EVA) from 15% to 20% within three years
- Increase annual dividends per share to stockholders by 5% each year
- Strive for stock price appreciation equal to or above the S&P 500 average
- Maintain a positive cash flow every year
- Achieve and maintain a AA bond rating




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 **Examples of Strategic Objectives**

- Increase firm's market share
- Overtake key rivals on quality or product performance
- Attain lower overall costs than rivals
- Boost firm's reputation with customers
- Attain stronger foothold in international markets
- Achieve technological superiority
- Become leader in new product introductions
- Capture attractive growth opportunities



 customer service

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 **Examples: Strategic Objectives**


 **Banc One Corporation** 



To be one of the top three banking companies in terms of market share in all significant markets we serve.

 **Domino's Pizza** 

To safely deliver a hot, quality pizza in 30 minutes or less at a fair price and a reasonable profit.

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 **Example: Strategic Objectives**



 

◆ **To satisfy our customers by providing**



- Quality cars and trucks,
- Developing new products,
- Reducing the time it takes to bring new vehicles to market,
- Improving the efficiency of all our plants & processes, and
- Building on our teamwork with employees, unions, dealers, and suppliers.

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Examples: Strategic and Financial Objectives

 **Alcan Aluminum** 




To be the lowest-cost producer of aluminum and to outperform the average return on equity of the Standard and Poor's industrial stock index.

 **Atlas Corporation** 

To become a low-cost, medium-size gold producer, producing in excess of 125,000 ounces of gold a year and building gold reserves of 1,500,000 ounces.

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Example: Strategic Objective


To focus globally on those businesses in health and personal care where we can be number one or number two through delivering superior value to the customer.

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Example: Financial and Strategic Objectives

 **3M Corporation** 

- ◆ Annual growth in earnings per share of 10% or better, on average;
- ◆ A return on stockholders' equity of 20-25%;
- ◆ A return on capital employed of 27% or better; and
- ◆ Have at least 30% of sales come from products introduced in the past four years.



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Crafting a Strategy
Third Task of Strategic Management

- Strategy involves determining **whether to**
 - Concentrate on a single business or several businesses (diversification)
 - Cater to a broad range of customers or focus on a particular niche
 - Develop a wide or narrow product line
 - Pursue a competitive advantage based on
 - Low cost or
 - Product superiority or
 - Unique organizational capabilities

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Crafting a Strategy

- Involves deciding **how to**
 - Respond to changing buyer preferences
 - Respond to new market conditions
 - Grow the business over the long-term
 - Achieve performance targets
 - Outcompete rivals

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Figure 1-2: A Company's Strategy is Partly Planned and Partly Reactive

Company Experiences, Know-how, Resource Strengths and Weaknesses, and Competitive Capabilities

Abandoned strategy features

Planned Strategy
Initiatives plus ongoing strategy features continued from prior periods


Reactive Strategy
Adaptive reactions to changing circumstances

Actual Company Strategy

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The Hows That Define a Firm's Strategy

- **How** to grow the business
- **How** to please customers
- **How** to outcompete rivals
- **How** to respond to changing market conditions
- **How** to manage each functional piece of the business and develop needed organizational capabilities
- **How** to achieve strategic and financial objectives





Strategy is **HOW** to ...

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Strategic Priorities of McDonald's

- Continued growth
- Providing exceptional customer care
- Remaining an efficient and quality producer
- Developing people at every organizational level
- Sharing best practices among all units
- Reinventing the fast food concept by fostering innovation in the menu, facilities, and technology

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 **Core Elements of McDonald's Strategy** 

- Add 1750 restaurants annually
- Promote frequent customer visits via attractive menu items, low-price specials, and Extra Value Meals
- Be highly selective in granting franchises
- Locate on sites offering convenience to customers and profitable growth potential
- Focus on limited menu and consistent quality
- Careful attention to store efficiency
- Extensive advertising and use of Mc prefix
- Hire courteous personnel; pay an equitable wage; provide good training

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 **Crafting Strategy is an Exercise in Entrepreneurship**


- Strategy-making is a **market-driven** and **customer-driven** activity that involves
 - Keen eye for spotting emerging market opportunities
 - Keen observation of customer needs
 - Innovation and creativity
 - Prudent risk-taking
 - Strong sense of how to grow and strengthen business



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 **Characteristics of Managers with Good Entrepreneurial Skills**

- Boldly pursue new strategic opportunities
- Emphasize out-innovating the competition
- Lead the way to improve firm performance
- Willing to be a first-mover and take
- Respond quickly and opportunistic to new developments



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Why Do Strategies Evolve?

- There is **always** an ongoing need to react to
 - Shifting market conditions
 - Fresh moves of competitors
 - New technologies
 - Evolving customer preferences
 - Political and regulatory changes
 - New windows of opportunity
 - Crisis situations



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Figure 1-4: Strategic Approaches to Preparing for Future Market Conditions

		Company Approaches	
		Reactive/Follower	Proactive/Leader
Future Market Conditions	Rapid Revolutionary Change	Keep from being swamped by the waves of change	Aggressively altering strategy to make waves and drive change
	Gradual Evolutionary Change	Revising strategy (hopefully in time) to catch the waves of change	Anticipating change and initiating strategic actions to ride the crest of change

Source: Adapted from Derek F. Abell, "Competing Today While Preparing for Tomorrow," Sloan Management Review 40, No. 3 (Spring 1999), p. 75.

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What is a Strategic Plan?




- Where firm is headed -- **Strategic vision and business mission**
- Short and long term performance targets -- **Strategic and financial objectives**
- Action approaches to achieve targeted results -- **A comprehensive strategy**

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Implementing and Executing Strategy
 Fourth Task of Strategic Management

- Taking actions to put a freshly-chosen strategy into place
- Supervising the ongoing pursuit of strategy
- Improving the competence and efficiency with which the strategy is being executed
- Showing measurable progress in achieving the targeted results and objectives



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Strategy Implementation and Execution

Strategy *implementation and execution* is an action-oriented, “make-it-happen” process involving people management, developing competencies and capabilities, budgeting, policy-making, motivating, culture-building, and leadership

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What Does Strategy Implementation and Execution Include?


- Building a capable organization
- Allocating resources to strategy-critical activities
- Establishing strategy-supportive policies
- Motivating people to pursue the target objectives
- Tying rewards to achievement of results
- Creating a strategy-supportive corporate culture
- Installing needed information, communication, and operating systems
- Instituting best practices and programs for continuous improvement
- Exerting the leadership necessary to drive the process forward and keep improving

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Monitoring, Evaluating, and Taking Corrective Actions as Needed

Fifth Task of Strategic Management

- The **tasks** of crafting, implementing, and executing a strategy are **not** a one-time exercise
 - Customer needs and competitive conditions change
 - New opportunities appear; technology advances; any number of other outside developments occur
 - One or more aspects of executing the strategy may not be going well
 - New managers with different ideas take over
 - Organizational learning occurs
- All these trigger the need for corrective actions and adjustments



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Characteristics of the Strategic Management Process

- Need to do the five tasks **never** goes away
- Boundaries among the five tasks are blurry
- Strategizing is not isolated from other managerial activities
- Time required comes in lumps and spurts
- **The big challenge:** To get the best strategy-supportive performance from employees, perfect current strategy, and improve strategy execution

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Who Performs the Five Strategic Management Tasks?

- Senior Corporate Executives
- Managers of Subsidiary Business Units
- Functional Area Managers
- Operating Managers



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Approaches to Performing the Strategy-Making Task

Chief Architect

Manager personally functions as chief strategist

Delegate-It-to-Down-the-Line Managers

Manager delegates some strategy-making responsibility to subordinates in charge of key organizational units

Collaborative/Team

Manager enlists assistance and advice of key subordinates in hammering out a consensus strategy

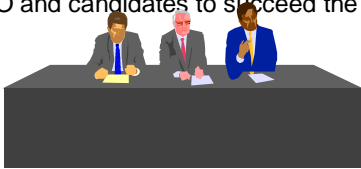
Corporate Intrapreneur

Manager encourages subordinates to develop and champion proposals for new ventures



Strategic Role of a Board of Directors

- Critically appraise and ultimately approve strategic action plans
- Evaluate strategic leadership skills of the CEO and candidates to succeed the CEO





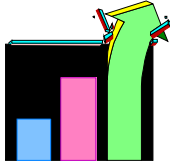
Strategic Management Principle

A board of director's role in the strategic management process is to critically appraise and ultimately approve strategic action plans and to evaluate the strategic leadership skills of the CEO and others in line to succeed the incumbent CEO.



Benefits of “Strategic Thinking” and a “Strategic Approach” to Managing

- Guides entire firm regarding “what it is we are trying to do and to achieve”
- Makes managers more alert to “winds of change, new opportunities, and threatening developments”
- Unifies numerous strategy-related decisions and organizational efforts
- Creates a proactive atmosphere
- Promotes development of an evolving business model focused on bottom-line success
- Provides basis for evaluating competing budget requests



HELPS A COMPANY PREPARE FOR THE FUTURE!
