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Management and Business Strategy 2015/2016

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LEARNING OBJECTIVES

- LO 1 What we mean by a company's *strategy*.
- LO 2 The concept of a *sustainable competitive advantage*.
- LO 3 The five most basic strategic approaches for setting a company apart from rivals and winning a sustainable competitive advantage.
- LO 4 That a company's strategy tends to evolve because of changing circumstances and ongoing efforts by management to improve the strategy.
- LO 5 Why it is important for a company to have a viable business model that outlines the company's customer value proposition and its profit formula.
- LO 6 The three tests of a winning strategy.

CORE CONCEPTS AND RELATED STRATEGIC MANAGEMENT PRINCIPLES

- ▶ Strategy
- ▶ Competitive advantage
- ▶ Sustainable competitive advantage
- ▶ Deliberate Strategy/Emergent strategy
- ▶ Business model

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CORE CONCEPT

A company's **strategy** is the set of actions that its managers take to outperform the company's competitors and achieve superior profitability.

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WHAT DO WE MEAN BY *STRATEGY* ?

▶ **What is our present situation?**

- ✓ Business environment and industry conditions
- ✓ Firm's financial and competitive capabilities

▶ **Where do we want to go from here?**

- ✓ Creating a vision for the firm's future direction

▶ **How are we going to get there?**

- ✓ Crafting an action plan for heading the firm in the intended direction, staking out a market position, attracting customers, achieving the targeted financial and market performance, and getting the firm where it wants to go is its strategy.

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WHAT IS STRATEGY ABOUT?

▶ **Strategy is all about *How*:**

- **How** to attract and please customers.
- **How** to compete against rivals.
- **How** to position the firm in the marketplace to capitalize on attractive opportunities for growth.
- **How** to respond to changing economic and market conditions.
- **How** to manage each functional piece of the business.
- **How** to achieve the firm's performance targets.

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STRATEGY COMES FROM...

- ▶ greek verbs strateuo and stratego; greek nouns strateia and strategos
- ▶ strategos = the art of the general
- ▶ In «The art of war» by Sunzu (2° century BC) the goal is to win the war; the strategy is the way the general beats the enemy, by bringing hidden strenghts against the weaknesses of the enemy;
- ▶ The general adds value to the battle by providing high level of orchestration and vision

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STRATEGIES ...

- ▶ **are of great importance** because company's success depends **on how effectively they are implemented**
- ▶ **are not easily reversible:**
 - ✓ think to the recent «VW emission scandal» and wonder how many time and efforts it will take to overcome such crisis and regaining the previous market share, profit level, brand image etc.

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STRATEGIC MANAGEMENT PRINCIPLE

- ▶ Strategy is about competing differently from rivals—doing what competitors don't do or, even better, doing what they cannot do!

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WHY BOTHER WITH STRATEGY?

- ▶ **A firm needs a strategy to specify what actions are going to be taken:**

- ✓ To improve its financial performance.
- ✓ To strengthen its competitive position.
- ✓ To gain a sustainable competitive advantage over its market rivals.

- ▶ **A creative, distinctive strategy:**

- ✓ Helps produce above-average profits.
- ✓ Increases competitive pressures on rivals.

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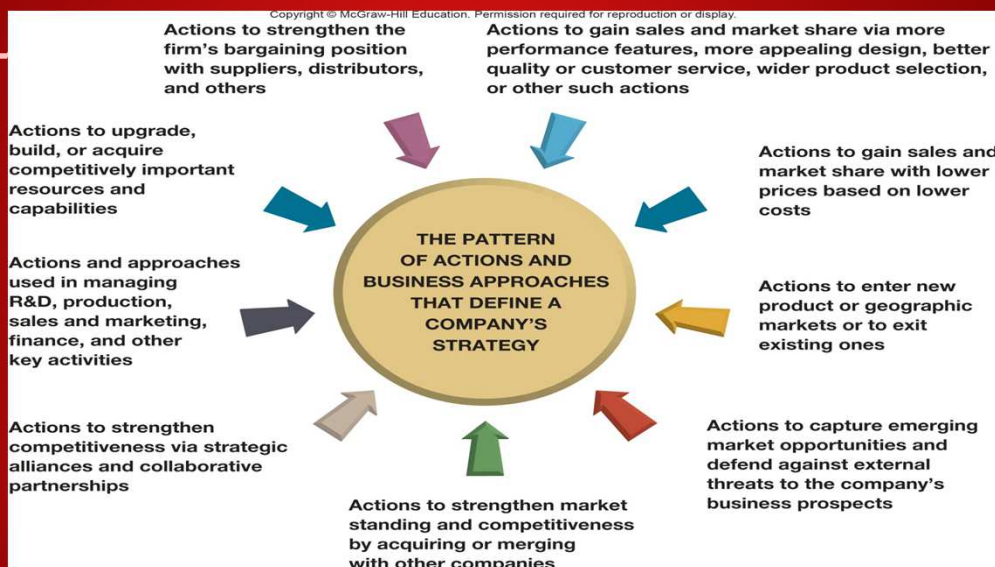
STRATEGY AND COMPETITORS

► **Strategy is about competing differently from rivals—**

- ✓ Doing what they do *not* do or doing it better!
- ✓ Doing what they cannot do!
- ✓ Doing things in ways that attract customers and set a firm apart from its rivals.
- ✓ Doing things in a manner calculated to produce a competitive edge over rivals.
- ✓ Knowing what the firm must do and also what it must not do.

FIGURE 1.1

IDENTIFYING A COMPANY'S STRATEGY—WHAT TO LOOK FOR



STRATEGY AND THE QUEST FOR COMPETITIVE ADVANTAGE

► Competitive Advantage

- ✓ Requires meeting customer needs either more **effectively** (with products or services that customers value more highly) or more **efficiently** (by providing products or services at lower cost).

► Sustainable Competitive Advantage

- ✓ Requires giving buyers **lasting** reasons to prefer a firm's products or services over those of its competitors.

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BASIC STRATEGIC APPROACHES



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STRATEGIC APPROACHES

► Building a competitive advantage by:

- ✓ Striving to become the industry's low-cost provider (efficiency).
- ✓ Outcompeting rivals on differentiating features (effectiveness).
- ✓ Offering the lowest (best) prices for differentiated goods (best-cost provider).
- ✓ Focusing on better serving a niche market's needs (efficiency and effectiveness).

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CORE CONCEPT

- A firm achieves a **competitive advantage** when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm.
- The firm achieves a **sustainable competitive advantage** if its advantage persists despite the best efforts of competitors to match or surpass its advantage.

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GAINING SUSTAINABLE COMPETITIVE ADVANTAGE

► How to create a sustainable competitive advantage:

- ✓ Develop valuable expertise and competitive capabilities over the long-term that rivals cannot readily copy, match or best.
- ✓ Put the constant quest for sustainable competitive advantage at center stage in crafting your strategy.

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WHY A COMPANY'S STRATEGY EVOLVES OVER TIME

► Managers modify strategy in response to:

- ✓ Changing market conditions
- ✓ Advancing technology
- ✓ Fresh moves of competitors
- ✓ Shifting buyer needs
- ✓ Emerging market opportunities
- ✓ New ideas for improving the strategy

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STRATEGIC MANAGEMENT PRINCIPLE

- ▶ Changing circumstances and ongoing management efforts to improve the strategy cause a company's strategy to evolve over time—a condition that makes the task of crafting strategy a *work in progress*, not a one-time event.
- ▶ A company's strategy is shaped partly by management analysis and choice and partly by the necessity of adapting and learning by doing.

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THE EVOLVING NATURE OF A FIRM'S STRATEGY

- ▶ **Realized (current) strategy is a blend of:**
 - ✓ Proactive (deliberate) strategy elements that include both continued and new initiatives.
 - ✓ Reactive (emergent) strategy elements that are required due to unanticipated competitive developments and fresh market conditions.

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CORE CONCEPT

- ▶ A company's **deliberate strategy** consists of proactive strategy elements that are both planned and realized as planned; its **emergent strategy** consists of reactive strategy elements that emerge as changing conditions warrant.

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A BLEND OF PROACTIVE INITIATIVES AND REACTIVE ADJUSTMENTS

Abandoned strategy elements

**deliberate strategy
(proactive)**

New planned initiatives plus ongoing
strategy statements from previous periods

**emergent strategy
(reactive)**

New strategy elements emerging in order to
react to changing circumstances

**Realized
strategy
(current)**

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THE RELATIONSHIP BETWEEN A FIRM'S STRATEGY AND ITS BUSINESS MODEL



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A COMPANY'S STRATEGY AND ITS BUSINESS MODEL

► How the business will make money :

- ✓ By providing customers with value.
 - ❖ The firm's *customer value proposition*
- ✓ By generating revenues sufficient to cover costs and produce attractive profits.
 - ❖ The firm's *profit formula*

It takes a proven business model—one that yields appealing profitability—to demonstrate viability of a firm's strategy.

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CORE CONCEPT

- ▶ A company's **business model** sets forth the logic for how its strategy will create value for customers, while at the same time generate revenues sufficient to cover costs and realize a profit.

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BUSINESS MODEL ELEMENTS

▶ The Customer Value Proposition

- ✓ Satisfying buyer wants and needs at a price customers will consider a good value.
 - ❖ The greater the value provided (V) and the lower the price (P), the more attractive the value proposition is to customers.

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BUSINESS MODEL ELEMENTS (CONT'D)

► The Profit Formula

- ✓ Creating a cost structure that allows for acceptable profits, given that pricing is tied to the customer value proposition.
 - ❖ V —the value provided to customers
 - ❖ P —the price charged to customers
 - ❖ C —the firm's costs (per unit costs)
- ✓ The lower the costs (C) for a given customer value proposition ($V-P$), the greater the ability of the business model to be a moneymaker

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Pandora, Sirius XM, and Over-the-Air Broadcast Radio: Three Contrasting Business Models

► Who listens to the radio anymore?

- ✓ Given the changes in how people listen to music, are the business models of Pandora, Sirius XM and over-the-air broadcasters viable over the long term?
- ✓ Which competitor's present strategy best passes the three tests of a winning strategy?
- ✓ What internal and external factors will create particular difficulties for each competitor in changing its strategy or business model?

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IS OUR STRATEGY A WINNER?



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WHAT MAKES A STRATEGY A WINNER?

► A winning strategy must pass three tests:

- ✓ The Fit Test
 - ❖ Does it exhibit dynamic fit with the external and internal aspects of the firm's overall situation?
- ✓ The Competitive Advantage Test
 - ❖ Can it help the firm achieve a significant and sustainable competitive advantage?
- ✓ The Performance Test
 - ❖ Can it produce good performance as measured by the firm's profitability, financial and competitive strengths, and market standing?

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WHY CRAFTING AND EXECUTING STRATEGY ARE IMPORTANT TASKS

► Strategy provides:

- ✓ A prescription for doing business.
- ✓ A road map to competitive advantage.
- ✓ A game plan for pleasing customers.
- ✓ A formula for attaining long-term standout marketplace performance.

Good Strategy + Good Strategy Execution = Good Management

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STRATEGIC MANAGEMENT PRINCIPLE

- How well a company performs is directly attributable to the caliber of its strategy and the proficiency with which the strategy is executed.

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THINKING STRATEGICALLY

- ▶ Google's web browser-based Chrome operating system and its online applications suite are now challenging Microsoft's long-term dominance of those marketplace sectors.
- ▶ What should be Microsoft's first response to this competitive challenge?
- ▶ How will Microsoft's response to this competitor's actions affect its business model?
- ▶ Which competitor's strategy will likely be the eventual winner in the marketplace? Why?

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THE ROAD AHEAD

▶ **Strategy is about asking the right questions:**

- ✓ What must managers do, and do well, to make a firm a winner in the marketplace?

▶ **Strategy requires getting the right answers:**

- ✓ Good strategic thinking and good management of the strategy-making, strategy-executing process.
- ✓ First-rate capabilities and skills in crafting and executing strategy are essential to managing successfully

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Right questions and answers

- ▶ Where do we compete?
- ▶ What unique value do we bring?
- ▶ What resources and capabilities do we utilize to deliver that value?
- ▶ How do we sustain our ability to maintain that unique value?

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