

Chapter 1: What Is Strategy and Why Is It Important?



Chapter Learning Objectives



- 1.** Understand the role of business strategies in moving a company in the intended direction, growing its business, and improving its financial and market performance.
- 2.** Develop an awareness of the four most reliable strategic approaches for setting a company apart from rivals and winning a sustainable competitive advantage.
- 3.** Learn that business strategies evolve over time because of changing circumstances and ongoing management efforts to improve the company's strategy.
- 4.** Understand why a company's strategy must be underpinned by a business model that produces revenues sufficient to cover costs and earn a profit.
- 5.** Gain awareness of the three tests that distinguish a winning strategy from a so-so or flawed strategy.
- 6.** Learn why good strategy and good strategy execution are the most trustworthy signs of good management.

Chapter Roadmap

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- **What Do We Mean by “Strategy?”**
 - **Strategy and the Quest for Competitive Advantage**
 - **Identifying a Company’s Strategy**
 - **Why a Company’s Strategy Evolves Over Time**
 - **A Company’s Strategy Is Partly Proactive and Partly Reactive**
 - **Strategy and Ethics: Passing the Test of Moral Scrutiny**
 - **The Relationship Between a Company’s Strategy and Its Business Model**
 - **What Makes a Strategy a Winner?**
 - **Why Are Crafting and Executing Strategy Important?**

Thinking Strategically: The Three Big Strategic Questions

1. What's the company's present situation?
2. Where does the company need to go from here?
 - ❖ Business(es) to be in and market positions to stake out
 - ❖ Buyer needs and groups to serve
 - ❖ Direction to head
3. How should it get there?
 - ❖ A company's answer to "how will we get there?" is its strategy



What Do We Mean By “Strategy?”

- Consists of ***competitive moves*** and ***business approaches*** used by managers to run the company
- Management’s ***“action plan”*** to
 - ❖ Grow the business
 - ❖ Attract and please customers
 - ❖ Compete successfully
 - ❖ Conduct operations
 - ❖ Achieve the targeted levels of organizational performance




The Hows That Define a Firm's Strategy

- **How** to grow the business
- **How** to please customers
- **How** to outcompete rivals
- **How** to manage each functional piece of the business (R&D, production, marketing, HR, finance, and so on)
- **How** to respond to changing market conditions
- **How** to achieve targeted levels of performance



Choosing the “Hows” of Strategy

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- Strategic choices about “how” are based on
 - ❖ Trial-and-error organizational learning about what has worked and what has not worked
 - ❖ Management’s appetite for taking risks
 - ❖ Managerial analysis and strategic thinking about how best to proceed, given market conditions and a company’s circumstances
 - In choosing a strategy, management is in effect saying,

“Among all the many different ways of competing we could have chosen, we have decided to employ this combination of competitive and operating approaches to move the company in the intended direction, strengthen its market position and competitiveness, and boost performance.”

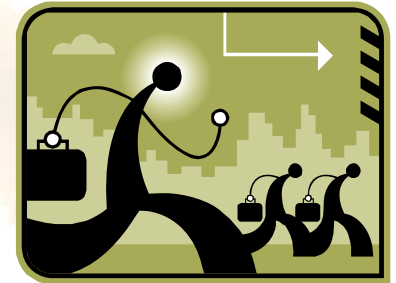
Key Elements of a Successful Strategy

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- Developing a successful strategy **hinges** on making **competitive moves** aimed at
 - ❖ Appealing to buyers in ways to set the company apart from rivals *and*
 - ❖ Carving out its own market position
 - Involves **developing** a **distinctive “aha”** element to
 - ❖ Attract customers *and*
 - ❖ Produce a competitive edge


Copying competitive moves of other successful companies rarely works!

Strategy and the Quest for Competitive Advantage

- The **heart and soul** of any strategy are actions a company makes to
 - ❖ Improve its financial performance,
 - ❖ Strengthen its competitive position, and
 - ❖ Gain a competitive advantage over rivals
- A **creative, distinctive strategy** that sets a company apart from rivals and yields a competitive advantage is a company's most reliable ticket to above average profitability
 - ❖ Operating with a competitive advantage is more profitable than operating without one
 - ❖ Operating with a competitive disadvantage nearly always results in below-average profitability



A Powerful Strategy Leads to *Sustainable* Competitive Advantage

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- A company achieves *sustainable competitive advantage* when
 - ❖ An attractive number of buyers prefer its products/services over those of rivals *and*
 - ❖ The basis for this preference is durable
 - It's nice when a *strategy* produces
 - ❖ A temporary competitive edge *but*
 - ❖ A sustainable edge over rivals greatly enhances a company's prospects for above-average profitability

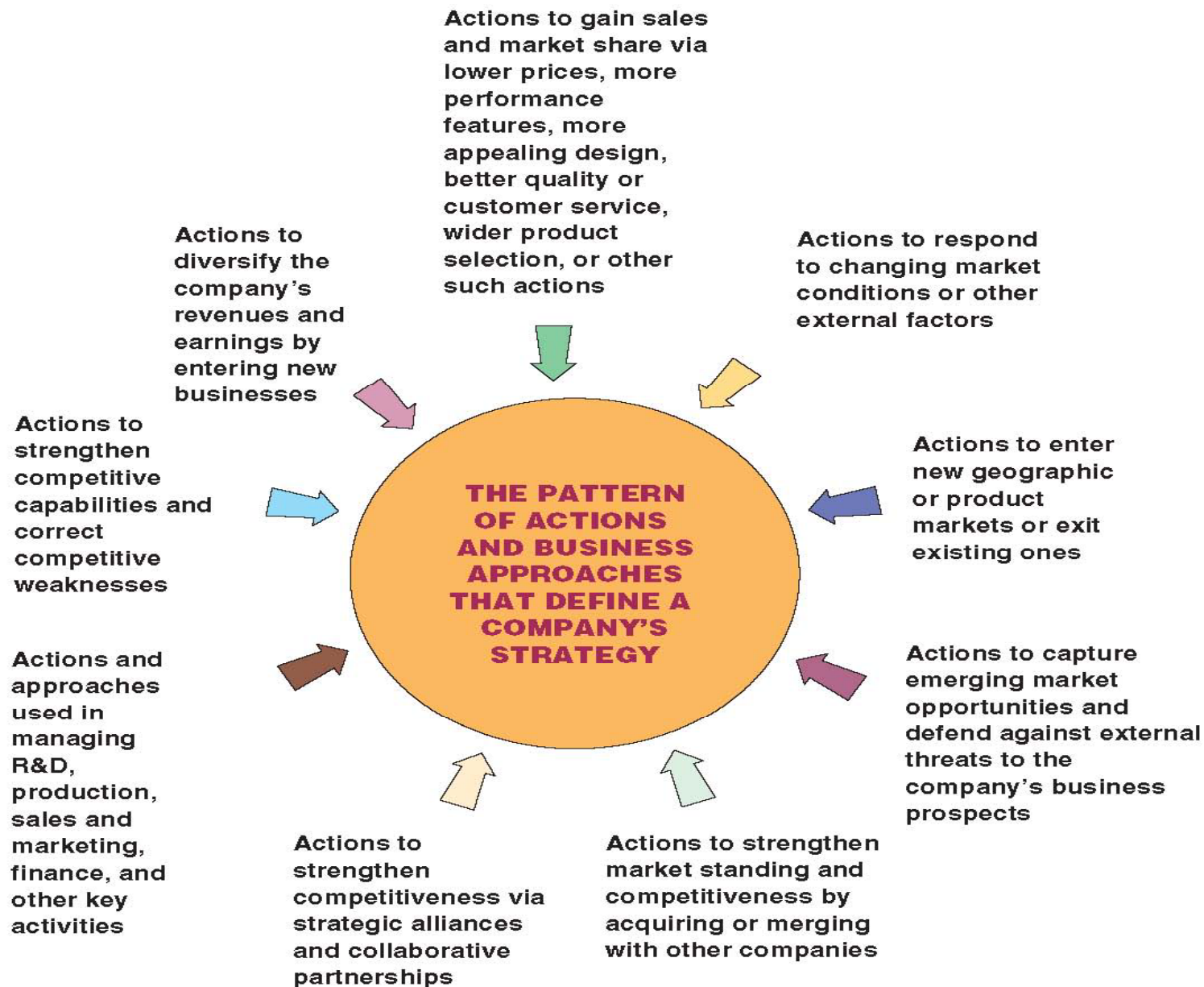
What separates a *powerful strategy* from an ordinary strategy is management's ability to forge a series of moves, both in the marketplace and internally, that *produces sustainable competitive advantage!*

Strategic Approaches to Building Sustainable Competitive Advantage

- Be the industry's ***low-cost provider***
 - ❖ Achieve a cost-based competitive advantage
- Incorporate ***differentiating features***
 - ❖ Superior product/service keyed to higher quality, better performance, wider selection, value-added services, or some other attribute
- Focus on a ***narrow market niche***
 - ❖ Win a competitive edge by doing a better job than rivals of serving the needs and preferences of buyers in the niche
- Develop ***expertise and resource strengths*** not easily imitated or matched by rivals
 - ❖ Achieve a capabilities-based competitive advantage



Figure 1.1: Identifying a Company's Strategy

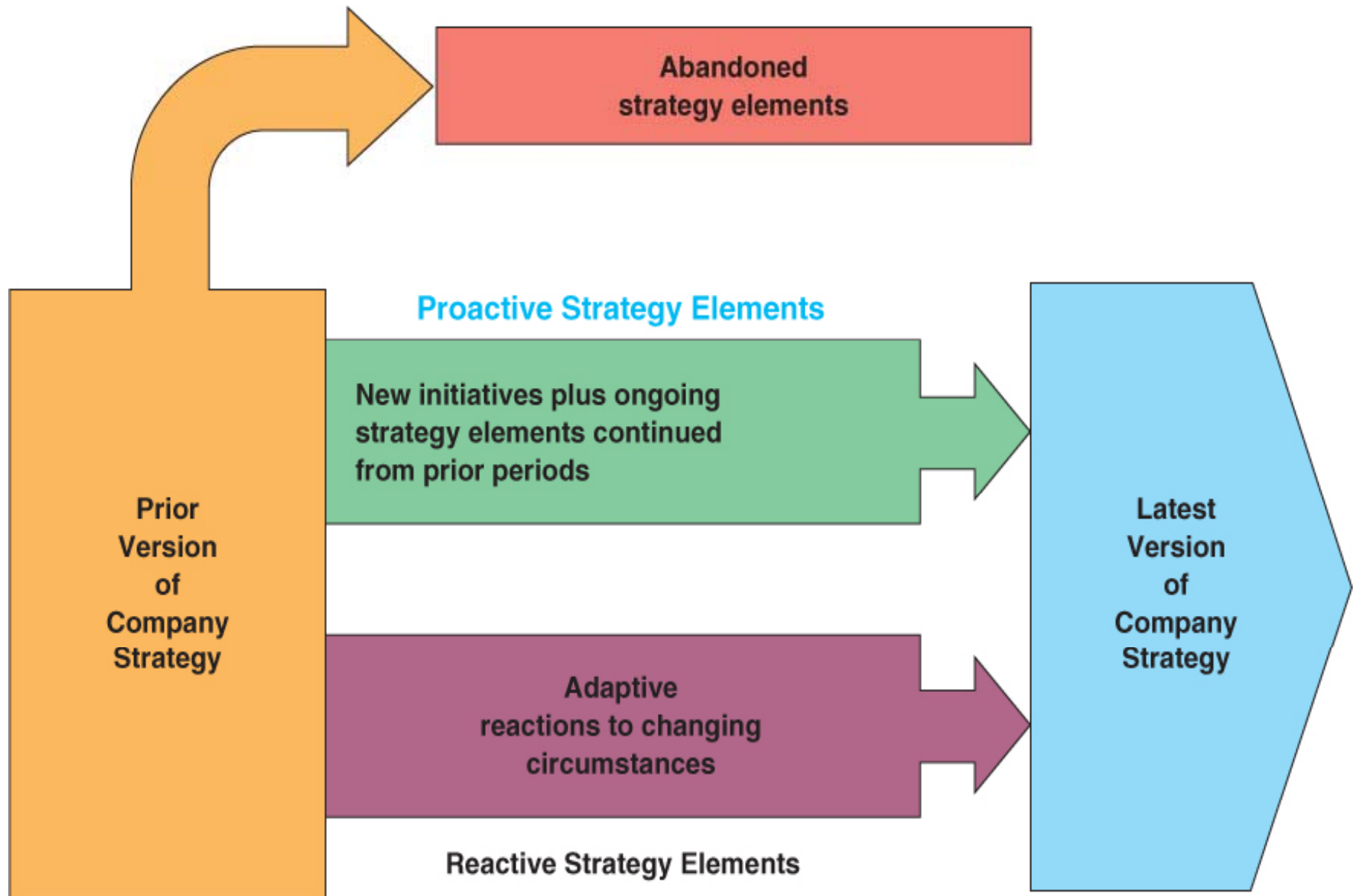


Why Do Strategies Evolve?

- A company's **strategy** is a **work in progress**
- **Changes** may be **necessary** to **react** to
 - ❖ Financial crisis
 - ❖ Fresh moves of competitors
 - ❖ Evolving customer preferences
 - ❖ Technological breakthroughs
 - ❖ Emerging market opportunities
 - ❖ Changing political or economic climate
 - ❖ New ideas to improve strategy



Figure 1.2: A Company's Strategy Is a Blend of Proactive Initiatives and Reactive Adjustments



Linking Strategy With Ethics

- Ethical and moral standards go beyond
 - ❖ Prohibitions of law and language of “thou shalt not”to issues of
 - ❖ Duty and “right” vs. “wrong”
- Ethical and moral standards address ***“What is the right thing to do?”***
- Two criteria of an ethical strategy
 - ❖ Does not entail actions and behaviors that cross the line from “should do” to “should not do” (because such actions are unsavory, shady, unconscionable, injurious to others, or harmful to the environment)
 - ❖ Allows management to fulfill its ethical duties to all stakeholders



A Firm's Ethical Responsibilities to Its Stakeholders

Owners/shareholders – Rightfully expect some form of return on their investment

Employees – Rightfully expect to be treated with dignity and respect for devoting their energies to the enterprise

Customers – Rightfully expect a seller to provide them with a reliable, safe product or service

Suppliers – Rightfully expect to have an equitable relationship with firms they supply and be treated fairly

Community – Rightfully expect businesses to be good citizens in their community

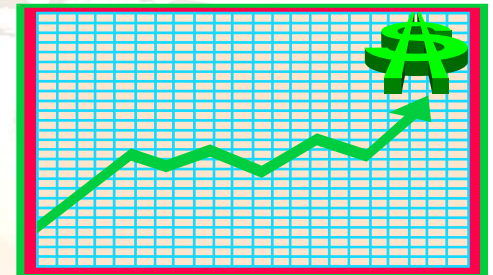
Role of Senior Executives: Linking Strategy with Ethics

- Forbid pursuit of ethically questionable business opportunities
- Insist all aspects of company strategy reflect high ethical standards
- Make it clear that all employees are expected to act with integrity
- Install organizational checks and balances to
 - ❖ Monitor behavior
 - ❖ Enforce ethical codes of conduct
 - ❖ Provide guidance to employees in gray areas
- Display genuine commitment to conduct business activities ethically



What Is a Business Model?

- A business model addresses **“How do we make money in this business?”**
 - ❖ Is the company’s strategy capable of delivering good bottom-line results?
- Do the **revenue-cost-profit economics** of the strategy make good business sense?
 - ❖ Look at **revenue streams** the strategy is expected to produce
 - ❖ Look at associated **cost structure** and potential **profit margins**
 - ❖ Do resulting earnings streams and ROI indicate the strategy has good potential to deliver acceptable profitability?



Relationship Between Strategy and Business Model

Strategy . . .

Deals with a company's competitive initiatives and business approaches



Business Model . . .

Concerns whether revenues and costs flowing from the **strategy** demonstrate a business can be profitable and viable



Tests of a Winning Strategy

■ ***GOODNESS OF FIT TEST***

- ❖ How well does the strategy fit the company's external and internal situation?



■ ***COMPETITIVE ADVANTAGE TEST***

- ❖ Is the strategy helping the company achieve a sustainable competitive advantage?

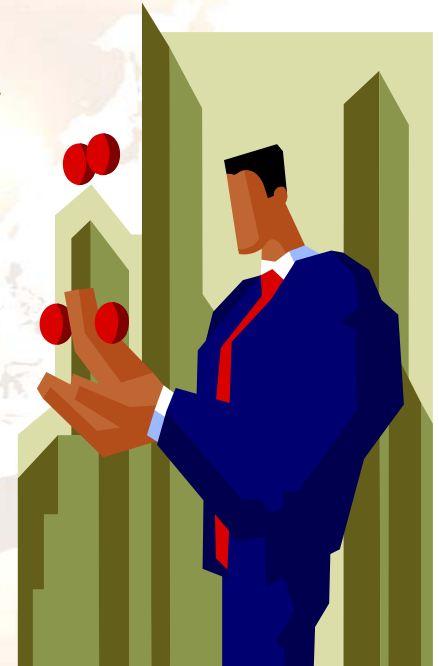
■ ***PERFORMANCE TEST***

- ❖ Is the strategy resulting in better company performance?




Why Should Crafting and Executing Strategy Be Top-Priority Management Tasks?

- A compelling need exists for *managers* to *proactively shape how* a firm's *business* will be *conducted*
- A *strategy-focused firm* is *more likely* to be a *strong bottom-line performer* than one that views strategy as secondary



Good Strategy + Good Strategy Execution = Good Management

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- Crafting and executing strategy are core management functions
 - Among all things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team
 - ❖ Charts a company's direction,
 - ❖ Develops competitively effective strategic moves and business approaches, *and*
 - ❖ Pursues what needs to be done internally to produce good day-in/day-out strategy execution

***Excellent execution* of an excellent strategy is the *best test of managerial excellence* – and the most reliable recipe for winning in the marketplace!**