

14th Edition

Crafting and Executing Strategy

The Quest for Competitive Advantage

CONCEPTS AND CASES

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What Is Strategy and Why Is It Important?

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“Without a strategy the organization is like a ship without a rudder.”

Joel Ross and Michael Kami

Chapter Roadmap

- ◆ What Is Strategy?
 - ➔ Identifying a Company's Strategy
 - ➔ Strategy and the Quest for Competitive Advantage
 - ➔ 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. 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 serve
 - Outcomes to achieve
3. How will we get there?
 - A company's answer to "how will we get there?" is its strategy



What Is Strategy?

- ◆ Consists of the *combination* of *competitive moves* and *business approaches* used by managers to run the company
- ◆ Management's "*game plan*" to
 - ➔ Attract and please customers
 - ➔ Stake out a market position
 - ➔ Compete successfully
 - ➔ Grow the business
 - ➔ Achieve targeted objectives



The *How*s That Define a Firm's Strategy

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



What Are a Company's Strategic Choices?

***Strategic choices* are based on . . .**

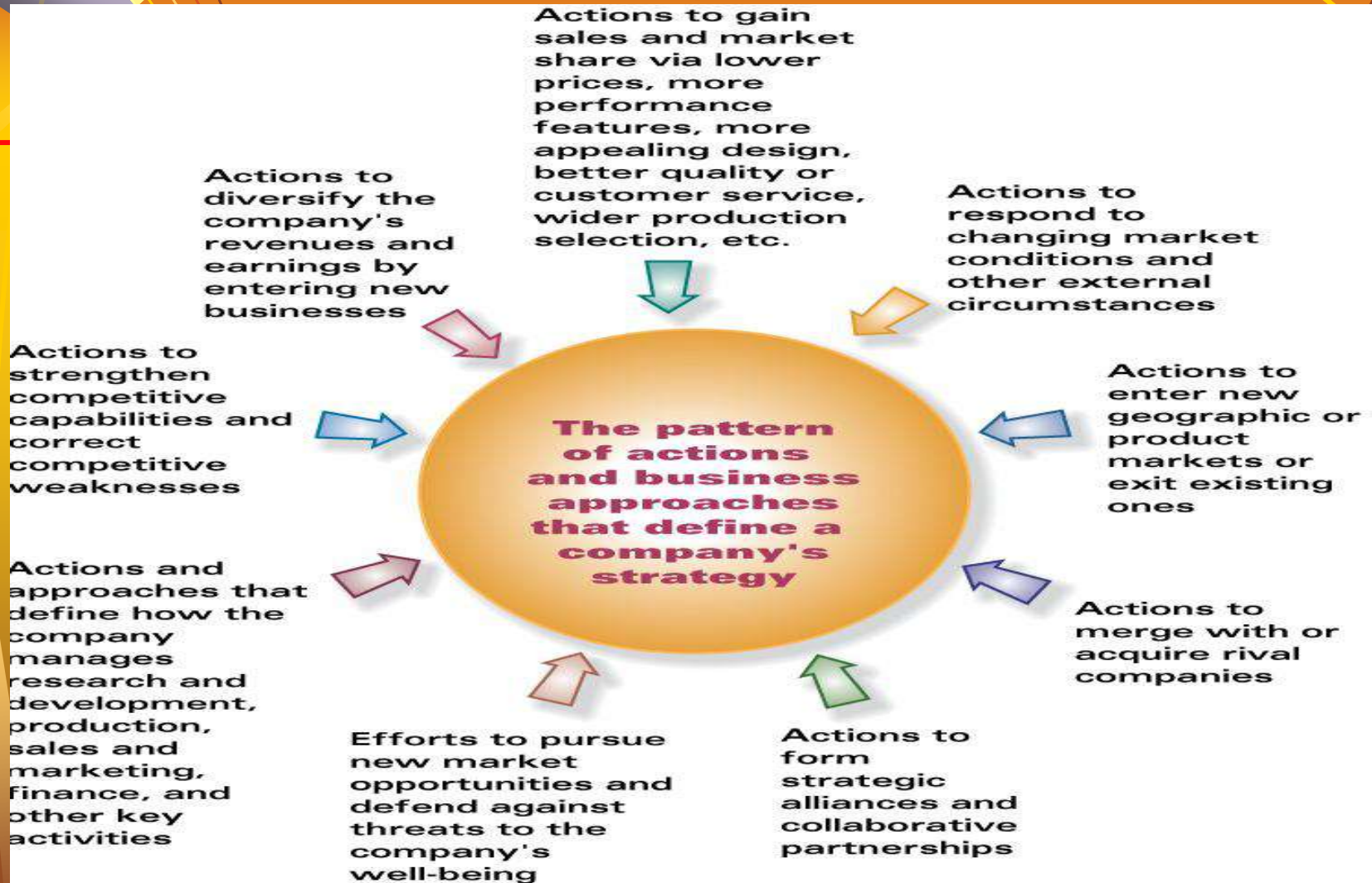
- ◆ Trial-and-error organizational learning about
 - What has worked *and*
 - What has not worked
- ◆ Management's appetite for taking risks
- ◆ Managerial analysis and strategic thinking about how best to proceed, given prevailing circumstances

Key Elements: Southwest Airlines' Strategy

- ◆ Grow the business by gradually adding more flights on existing routes and initiating service to new airports
- ◆ Make friendly service a company trademark
- ◆ Maintain an aircraft fleet of only Boeing 737s
- ◆ Encourage customers to make reservations and purchase tickets at the company's Web site
- ◆ Avoid flying into congested airports
- ◆ Employ a point-to-point route system
- ◆ Economize on
 - ➔ Amount of time it takes terminal personnel to check passengers in and on-load passengers
 - ➔ Costs



Fig. 1.1: Identifying a Company's Strategy



Striving for Competitive Advantage

- ◆ To achieve sustainable competitive advantage, a company's strategy usually must be aimed at either
 - Providing a distinctive product or service *or*
 - Developing competitive capabilities rivals can not match
- ◆ Achieving a sustainable competitive advantage greatly enhances a company's prospects for
 - Winning in the marketplace and
 - Realizing above-average profits

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 Competitive Advantage

- ◆ Strive to be the industry's low-cost provider
- ◆ Outcompete rivals on a key differentiating feature
- ◆ Focus on a narrow market niche, doing a better job than rivals of serving the unique needs of niche buyers
- ◆ Develop expertise, resource strengths, and capabilities not easily imitated by rivals

Examples: Strategies Based on Distinctive Capabilities

- ◆ Sophisticated distribution systems – *Wal-Mart*
- ◆ Product innovation capabilities – *3M Corporation*
- ◆ Complex technological process – *Michelin*
- ◆ Defect-free manufacturing – *Toyota and Honda*
- ◆ Specialized marketing and merchandising know-how – *Coca-Cola*
- ◆ Global sales and distribution capability – *Black & Decker*
- ◆ Superior e-commerce capabilities – *Dell Computer*
- ◆ Personalized customer service – *Ritz Carlton hotels*

Fig. 1.2: A Company's Strategy Is Partly Proactive and Partly Reactive

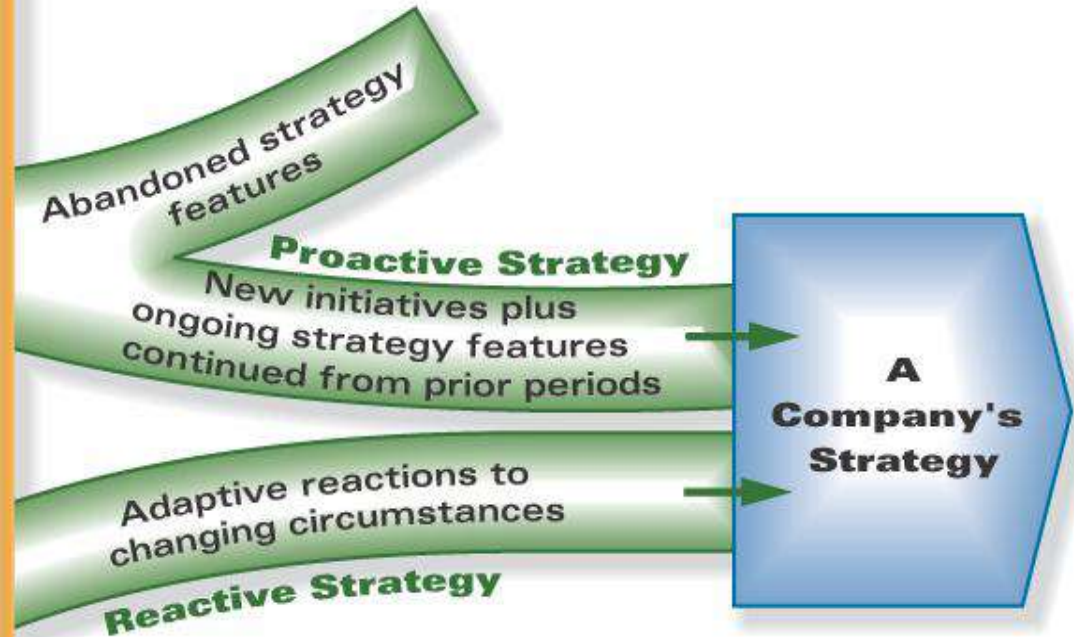
A Company's Situation

External Factors

- Industry and competitive conditions
- Buyer preferences
- Societal, political, economic, regulatory, technological, and environmental considerations

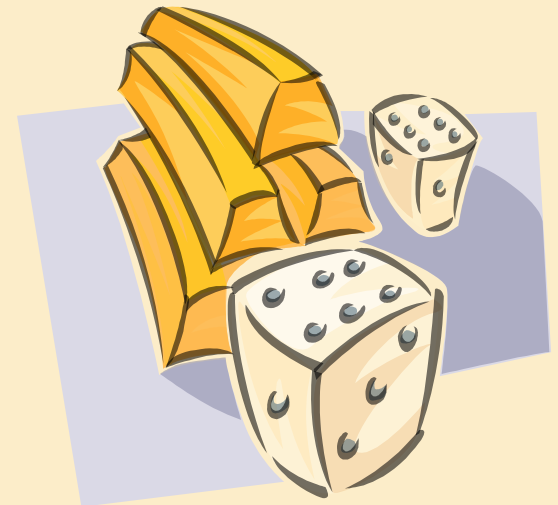
Internal Factors

- Resource strengths and weaknesses
- Competitive capabilities



Why Do Strategies Evolve?

- ◆ A company's strategy is a *work in progress*
- ◆ *Changes* may be necessary to *react* to
 - Fresh moves of competitors
 - Evolving customer preferences
 - Technological breakthroughs
 - Shifting market conditions
 - Crisis situations



Crafting Strategy Is an Exercise in Entrepreneurship

- ◆ Strategy-making is a *market-driven* activity that involves
 - ➔ Studying market trends and competitors' actions
 - ➔ Keen observation of customer needs
 - ➔ Scrutinizing business possibilities based on new technologies
 - ➔ Building firm's market position via acquisitions or new product introductions
 - ➔ Pursuing ways to strengthen firm's competitive capabilities
 - ➔ Proactively searching out opportunities to
 - Do new things *or*
 - Do existing things in new or better ways

Linking Strategy With Ethics

- ◆ Ethical and moral standards go beyond
 - Prohibitions of law and the 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 *“can do”* to *“should not do”* and *“unsavory”* or *“shady”* and
 - 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

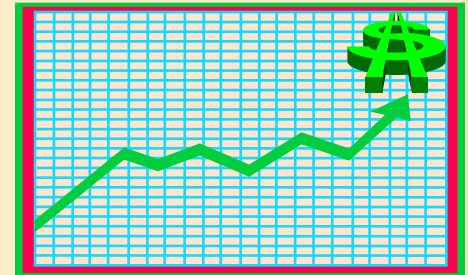
Community - Rightfully expect businesses to be good citizens in their community

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 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?

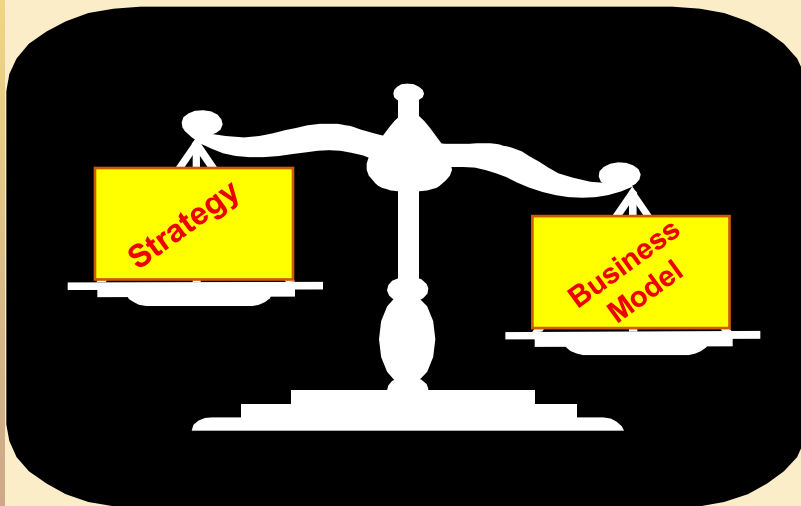
- ◆ A business model addresses *“How do we make money in this business?”*
 - ➔ Is the strategy capable of delivering good bottom-line results?
- ◆ Do the *revenue-cost-profit economics* of the strategy make good business sense?
 - ➔ Look at *revenue streams* the strategy is expected to produce
 - ➔ Look at associated *cost structure* and potential *profit margins*
 - ➔ Do resulting earnings streams and ROI indicate the strategy makes sense and the company has a viable business model for making money?



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 the business can be amply profitable and viable



Microsoft's Business Model

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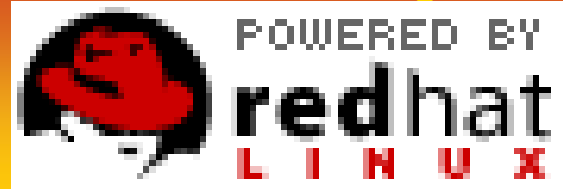
Employ a cadre of highly skilled programmers to develop proprietary code; keep source code hidden from users

Sell resulting OS and software packages to PC makers and users at relatively attractive prices and achieve large unit sales

Most costs in developing software are fixed; 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

Redhat Linux's Business Model



Rely on collaborative efforts of volunteer programmers to create the software

Add value to free, downloadable version of Linux by offering users Red Hat Linux systems containing upgraded and tested features

Charge a modest fee to those preferring to subscribe to Red Hat Linux version

Release updated versions of Red Hat Linux every 4-6 months to small users and every 12-18 months to corporate users

Make source code open and available to all users

Make money by providing fees-based training, consulting, support, engineering, and content management services

Tests of a Winning Strategy

◆ *GOODNESS OF FIT TEST*

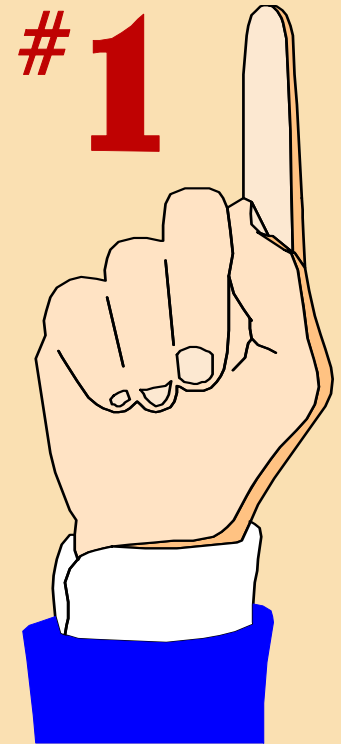
→ How well does strategy fit the firm's situation?

◆ *COMPETITIVE ADVANTAGE TEST*

→ Does strategy lead to sustainable competitive advantage?

◆ *PERFORMANCE TEST*

→ Does strategy boost firm performance?



Other Criteria for Judging the Merits of a Strategy

- ◆ Internal consistency and unity among all pieces of the strategy
- ◆ Degree of risk the strategy poses as compared to alternative strategies
- ◆ Degree to which the strategy is flexible and adaptable to changing circumstances

While these criteria are relevant, they seldom override the importance of the *three tests* of a *winning strategy*!

Why Is Strategy Important?

- ◆ 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

- ◆ 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 the 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!**