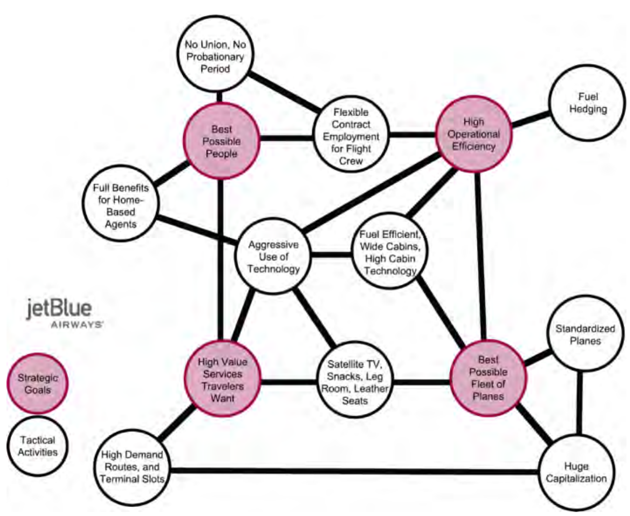
Strategy

- **Strategy(Porter)**: performing different activities from rivals or performing them in a different way
    - Choose the right configuration of activities, incentives, systems
    - Makes the right trade-offs
    - Rests on unique activities
- **Operational Effectiveness:** the extent to which perform similar activities better than rivals
- Porter believes that firms can achieve **<u>competitive advantage</u>** only if they have **BOTH *operational effectiveness*** and a ***superior strategy***
- **Strategic Activities Map:** a picture that identifies the key activities of a firm and identifies the linkage between them
    - These can be further linked to costs and customer willingness-to-pay



- **Strategy (Grant):** not a detailed plan or program of instructions; it is a unifying theme that gives a coherence and direction to the actions and decision of an individual or an organization
    - strategy is designed to help the firm use its internal resources & characteristics to deal with its industry & competitive environment
    - must FIT with the firms and its environment

- If entry barriers are *low,* then firms could more easily enter industry and compete away profits
- If entry parries are *low,* then firms in the industry must act to deter potential entry – either by lower prices or driving up costs (quality)

- *What factors affect*
  - Economies of scale
  - Product differentiation
  - Capital requirements
  - Cost disadvantages for new entrants
  - Access to distribution channels
  - Government policy

    *if barriers to entry are HIGH, the threat to entry is low
- *How they affect*
  - Economies of scale = high
  - Differentiated = high
  - High capital requirements = high
  - Cost disadvantages = high
  - Access to distribution channels difficult = high
  - Favorable government policies = high

Economies of Scale: when average costs decline as output increases

- big firms = lower average costs
- this will happen when there are *very large fixed costs*

***an industry that faces limited threats to its profitability is FAVORABLE**

***industry average profits could decline if any force is too strong – "the collective strength of the five forces determines the profit potential of the industry"**

- **five forces analysis suggests that firm is in a favorable industry**
  - **expect that data shows a POSITIVE industry influence**
- *What is the role of the government?*
  - Porter notes that all government actions/policies can affect any or all of the Five Forces
  - Thus, he suggests considering each government influence separately and under that appropriate force

1. What is Strategy?
    a. explaining firm profits
    b. how companies achieve competitive advantage
    c. Operational Effectiveness
        i. extent to which perform similar activities better than rivals
        ii. necessary for firms but not sufficient for a competitive advantage
    d. Strategy
        i. Performing different activities from rivals
        ii. Choosing the right configuration of activities and incentives
        iii. Making trade-offs
        iv. Intended strategy → conceived by top management by compromising
        v. Realized Strategy → actual strategy, implemented decisions that emerge from complex processes in which managers interpret strategy
    e. Continuous change causes strategy to become about developing responsiveness and flexibility to create successive temporary advantage instead of sustaining competitive advantage

** Porter believes firm can achieve competitive advantage if they have both operations effectiveness and a good strategy

    f. Strategy Activities Map → a picture that identifies key activities of firm and identifies link between them
    g. Taxi Drivers and Coffee Shop owners → low margin industry, hard to make profits
    h. Oakland A's → developed strategy to help them succeed in competitive environment
    i. Variety Based Positioning → specialize in one thing
        i. Jiffy Lube: only does oil changes and they are the best
        ii. Ikea: positioned as convenient and cheap
    j. Need Based Positioning → based on customers needs
        i. Citibank targets middle class and provides services for them
        ii. Bessemer targets elite
    k. Customer Based Positioning → understanding who the customer is
2. Grant's strategy theory
    a. Unifying theme that gives direction to the actions and decisions of a firm
    b. Help the firm use its internal resources & characteristics to deal with competitive environment
    c. Corporate Strategy: "which industries should we be in?"
    d. Business Strategy: "how should we compete?"
    e. Strategy Design: Planning and rational choice = intended strategy
    f. Strategy Emergence: decision makers responding to multitude of external forces = emergent strategy
    g. Fundamental Fact → some industries have systematically higher profits than others & some firms have systematically higher avg. profits
        i. Best performing supermarkets earn substantially lower profits than all of the worst performing pharmaceutical companies

1. Each has vested stake in corporation
2. Narrow Stakeholder: groups vital to survival/success of organization
3. Wide stakeholder: any group/individual who can affect or is affected by corporation
4. Moral/Social obligation: suggests that those most affected, most negatively affected, or weakest should matter the most
5. Magnitude: biggest stake should matter most
6. Expedience: can harm the firm the most should matter most

x. Freidman vs. Freeman
1. Agree firms should maximize value
   a. When pleasing stakeholders boost profits, social responsibility is good for shareholders
2. Disagree
   a. Freeman – balancing stakeholder interests is a moral question and cant always place stockholders first, every situation is different
   b. Friedman – shareholders interests are supreme and managers are agents who deal with other stakeholders on behalf of owners
3. Porter – firms primary responsibility lies with investors/stockholders **but** keeping other stakeholders happy is important in achieving profitability

10. Extras:
    a. Competitive Advantage
       i. Porter – operational effectiveness + strategy
       ii. Relative Cost Analysis – increase WTP and decrease costs
           1. Does not address sustainability
       iii. Coughlan – explains which market conditions are likely to enable leaders to sustain advantage
       iv. Resourced-Based View – using resources within company to sustain advantage
11. Cola Wars
    a. Concentrate producers – make Coke and Pepsi formula
       i. New Entrants (low): protected formulas
       ii. Substitutes (medium): other carbonated soft drinks, health effects
       iii. Buyers (low): bottler contracts
       iv. Suppliers (low): easy access to raw materials
       v. Rivalry (low): helps profitability because it keeps Coke and Pepsi on their toes and keep other rivals out
12. Ducati
    a. Cut costs – installed platform production approach by shifting responsibility from Ducati to suppliers who put together all the parts of bikes and then sell it to Ducati
    b. Branding – Ducati ownership club, Ducati specific stores that were considered an experience to go to
    c. Brand ambassadors – used current customers to act as voice for company
    d. Got customers willingness to pay to increase by creating loyalty
    e. Broad differentiation, priced a little higher than average incurred less in house manufacturing costs
13. Ice-Fili