

## Definitions of Strategy

A **strategy** is a set of related actions that managers take to improve a company's performance. It is an **action plan** designed to solve a problem or take advantage of an opportunity.

- The **main goal** of strategy is to achieve **superior performance** compared to competitors — this is called **competitive advantage**.
- A company has a **competitive advantage** when its **profitability** is higher than the average of other firms in the industry.
- When a company maintains this advantage for a **long period**, it is called a **sustained competitive advantage**.

### Example:

Apple's strategy of innovation and premium product design gives it a competitive advantage over other smartphone brands.

## Strategic Management

**Strategic Management** is the overall process by which managers **formulate, implement, and evaluate** strategies to achieve organizational goals and maintain a competitive advantage.

It requires **strategic leadership** — guiding the company to long-term success.

### Steps in the Strategic Management Process

1. **Analyzing the environment** – understanding external and internal factors.
2. **Formulating strategies** – deciding what to do.
3. **Implementing strategies** – putting plans into action.
4. **Evaluating outcomes** – checking results and making improvements.

### Two Core Activities

- **Strategy Formulation:** Selecting the right strategies after analyzing internal and external environments.
- **Strategy Implementation:** Putting the strategies into action through proper structure, systems, and culture.

### Example:

Coca-Cola formulates a strategy to enter new markets and implements it by building distribution networks worldwide.

## Emergent and Intended Strategies

Strategy development is viewed as occurring through both formal planning (intended) and ad-hoc responses (emergent).

- **Planned Strategy (Intended Strategy):** This is the strategy that emerges from the formal strategic planning process.
- **Deliberate Strategies:** These are the **planned strategies that are actually put into action (implemented)**.

- **Unrealized Strategy:** These are **planned strategies that are not implemented because of unpredicted changes in the environment.**
- **Emergent (unplanned) strategies:** These are **unplanned responses to unforeseen circumstances.** They can arise from **autonomous action by individual managers** deep within the organization, **serendipitous discoveries or events**, or unplanned strategic shifts by top managers reacting to change.
- **Realized strategy:** A company's realized strategy is the product of its **deliberate strategies** and any **emergent strategies.**

The strategies of most organizations are typically a **combination of the intended and the emergent.** Management must recognize the process of emergence, relinquishing bad emergent strategies and nurturing potentially good ones by judging their worth against the organization's goals, environment, and capabilities.

## Strategic Management Process (Formal Planning Steps)

### Step 1: Define Mission and Goals

A **mission statement** guides the company's purpose and direction. It includes four components:

1. **Mission:** What the company does (Who, What, How).
  - Example: "Nike brings inspiration and innovation to every athlete in the world."
2. **Vision:** What the company wants to achieve in the future.
3. **Values:** How employees and managers should behave.
4. **Goals:** Specific, measurable targets (should be **S.M.A.R.T.** – Specific, Measurable, Achievable, Relevant, Time-bound).

### Step 2: External Analysis

Study the **external environment** to find:

- **Opportunities:** Conditions that help improve performance.  
*Example:* Growth in e-commerce helps delivery companies.
- **Threats:** Factors that may harm the company.  
*Example:* New competitors entering the market.\*

**External analysis includes:**

- **Industry environment**
- **National environment**
- **Macro (social, economic, political) environment**

### Step 3: Internal Analysis

Analyze company **resources, capabilities, and competencies** to identify **strengths and weaknesses.**

**Example:**

Toyota's strength is production efficiency; weakness might be high recall costs.

### Step 4: Strategy Selection (SWOT Analysis)

Use **SWOT analysis:**

- **S** – Strengths

- **W** – Weaknesses
- **O** – Opportunities
- **T** – Threats

Choose strategies that use strengths, fix weaknesses, grab opportunities, and defend against threats.

#### Main Types of Strategies:

1. **Functional-level:** Improve internal efficiency (e.g., better marketing).
2. **Business-level:** Compete through **cost leadership** or **differentiation**.
3. **Global-level:** Expand internationally.
4. **Corporate-level:** Decide which businesses to operate in.

#### Step 5: Implement Strategies

Put the plan into action:

- Build the right **structure**.
- Develop the right **culture**.
- Use proper **control systems** to measure results.

#### Example:

McDonald's implements its global strategy through franchise operations.

#### Step 6: Feedback and Evaluation

Monitor performance and decide whether to:

- Continue the same strategy, or
- Modify it based on results.
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#### Example:

If a company's new product fails, managers revise the strategy using customer feedback.

## CHAPTER 2

### Opportunities and Threats

The **purpose of external analysis** is to identify the **strategic opportunities and threats** that exist in a company's external environment.

#### Opportunities

- **Definition:**  
Opportunities are **favorable external factors or conditions** that help a company improve its performance and increase profitability.
- They allow the company to **develop and apply strategies** that lead to growth and success.
- A **weak competitive force** in the market can also be seen as an opportunity because it lets the company earn higher profits.

#### Example:

- Growing demand for electric vehicles is an **opportunity** for Tesla.
- The rise of online shopping is an **opportunity** for delivery companies like FedEx.

## Threats

- **Definition:**  
Threats are **unfavorable external factors or conditions** that could harm a company's performance, stability, or profitability.
- A **strong competitive force** is considered a threat because it reduces profit margins and makes it harder to compete.

### Example:

- New competitors entering the market are a **threat** to existing businesses.
- Changes in government regulations can be a **threat** to manufacturing companies.

## Industry Definition (Easy and Formal for Exam)

### Definition:

An **industry** is a group of companies that offer **products or services which are close substitutes** for each other — meaning they satisfy the **same basic customer needs**.

A company's **closest competitors** (or **rivals**) are those that serve the **same basic customer needs**.

### Key Points:

1. **External analysis** starts by identifying the **industry** in which a company competes.
2. Industry definition should be **customer-oriented**, not **product-oriented**.
  - This means companies should define their industry based on **what need they fulfill**, not just on **what product they make**.
3. **Example:**
  - Carbonated drinks and bottled water are both part of the **soft drink industry** because they satisfy the same need — providing **refreshing, cold, nonalcoholic beverages**.
4. **Industry boundaries** can change over time due to:
  - **Changing customer needs**, or
  - **New technologies** that satisfy existing needs in new ways.
5. A **sector** is a group of **closely related industries**.
6. **Market segments** are **distinct groups of customers** within an industry who have similar preferences or needs.

### Example for Better Understanding:

- The **automobile industry** includes all companies that produce vehicles for transportation — cars, trucks, or electric vehicles — because they all meet the same basic need: **transportation**.
- As technology advances, new segments like **electric vehicles** (EVs) have emerged within the same industry.

✓ In short:

An **industry** = Group of companies meeting the **same customer need**.

A **sector** = Group of related industries.

A **market segment** = Specific customer group within an industry.

## The Five Forces Model

The **Five Forces Model**, developed by **Michael E. Porter**, is used to analyze the **competitive structure of an industry**. It helps managers understand the factors that affect **competition and profitability**.

### Purpose:

To identify the **strength of competitive forces** in an industry and determine how attractive or profitable the industry is.

### The Five Forces:

#### 1. Threat of New Entrants

- Refers to how easily new competitors can enter the industry.
- When new firms can enter easily, competition increases and profits fall.
- **Example:** The food delivery industry faces high new entry because starting an app-based service is relatively easy.
- **Factors affecting entry:**
  - Economies of scale
  - Brand loyalty
  - Capital requirements
  - Government regulations

#### 2. Rivalry Among Existing Competitors

- The intensity of competition between current firms in the industry.
- High rivalry reduces profitability.
- **Example:** Pepsi and Coca-Cola have strong rivalry in the soft drink industry.
- **Factors increasing rivalry:**
  - Many competitors of similar size
  - Slow market growth
  - Low switching cost for customers

#### 3. Bargaining Power of Buyers

- Describes how much influence customers have over prices and terms.
- Strong buyer power can force companies to lower prices or improve quality.
- **Example:** Large retail chains like Walmart have high bargaining power over suppliers.
- **Buyer power increases when:**
  - There are few buyers but many sellers
  - Products are similar or standardized
  - Buyers can easily switch to competitors

#### 4. Bargaining Power of Suppliers

- Describes how much influence suppliers have on input prices or supply terms.
- Strong suppliers can raise costs and reduce profits.

- **Example:** Intel has high supplier power because few firms can produce high-end microchips.
- **Supplier power increases when:**
  - Few suppliers dominate the market
  - Inputs are unique or hard to substitute
  - Switching suppliers is costly

## 5. Threat of Substitute Products or Services

- Refers to the risk of customers switching to alternative products that satisfy the same need.
- The higher the threat, the lower the profitability.
- **Example:** Tea is a substitute for coffee; online learning substitutes classroom education.
- **Substitute threat increases when:**
  - Substitute offers better value or price
  - Switching cost is low

## Conclusion:

- These five forces together determine **industry attractiveness** and **profit potential**.
- A strong force lowers profit potential; a weak force increases it.

# Industry Life Cycle

The **Industry Life Cycle Model** explains how industries evolve over time through **five stages**. Each stage affects the **level of competition** and **profit potential** differently.

## 1. Embryonic Stage

- The industry is **new and developing**.
- **Growth is slow** due to:
  - Lack of customer awareness
  - High prices
  - Poor distribution channels
- **Rivalry** focuses on:
  - Educating customers
  - Building distribution networks
  - Improving product design
- **Price competition** is low because the main goal is to build demand.

**Example:** The early days of electric vehicles when few people knew about them.

## 2. Growth Stage

- **First-time demand rises rapidly** as more customers learn about the product.
- **Low entry barriers**, so new firms often join the market.
- **Rivalry** is still low because fast growth absorbs new entrants.

- **Focus** is on expanding production and market share.

**Example:** The smartphone industry during the 2010s when global demand was increasing fast.

### 3. Shakeout Stage

- **Growth rate slows down**, and demand approaches saturation.
- Companies continue adding capacity, leading to **excess supply**.
- **Rivalry increases** sharply — price cuts and price wars may occur.
- **Weaker firms** may exit the industry.

**Example:** The social media market where only a few strong platforms dominate after many smaller ones failed.

### 4. Mature Stage

- The market is **fully saturated**; growth becomes **low or zero**.
- Demand is mainly for **replacement** purchases.
- **Barriers to entry increase**, and **brand loyalty** is strong.
- **Rivalry** focuses on **price competition**, **cost efficiency**, and **customer retention**.

**Example:** The automobile or soft drink industry — well-established with limited growth.

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### 5. Declining Stage

- **Industry growth turns negative** due to:
  - **Technological changes** (new substitutes)
  - **Shifts in customer preferences**
- **Rivalry increases** because of falling demand and excess capacity.
- **Price wars** and **company exits** are common.

**Example:** The DVD industry declined after the rise of online streaming.

## Industry Evaluation (Limitations and Competitive Changes)

The models for industry analysis (like Porter's Five Forces and the Industry Life Cycle) are helpful but have **limitations**. Managers must also consider **competition within subgroups** and the **dynamic nature of industry change**.

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## Limitations of the Models

### 1. Life-Cycle Issues:

- The industry life-cycle model is a generalization. Some industries may **skip or extend stages**, and others can be **revitalized** by innovation or social change.
- **Example:** The film industry was revived by streaming platforms like Netflix.

### 2. Innovation and Change:

- The models present a **static view** of competition, but real industries change rapidly.
- Innovation often reshapes industries (known as **Punctuated Equilibrium** — long stability interrupted by rapid change).
- **Example:** Smartphones revolutionized the mobile phone industry.

### 3. Company Differences:

- The models may overemphasize industry structure.
- **Company-specific resources and capabilities** often determine profitability more than external forces.
- **Example:** Apple's success depends on brand and innovation, not just industry conditions.

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## Strategic Groups

- **Definition:** Groups of companies within the same industry that follow **similar business models** or strategies.
- Companies within a strategic group are **close competitors**.
- Different groups face **different opportunities and threats**.
- **Mobility Barriers:** Factors that prevent firms from moving between groups (e.g., R&D skills, brand image, technology).

**Example:** In the automobile industry:

- Luxury group → BMW, Mercedes-Benz.
- Economy group → Toyota, Hyundai.

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## Distinctive Competencies

**Definition:** Firm-specific strengths that help a company **differentiate its products** and/or **achieve lower costs** to gain a **competitive advantage**.

### Examples:

- **Toyota:** Lean production and just-in-time manufacturing.
- **Amazon:** Brand, logistics, and advanced distribution systems.

### Types of Resources:

1. **Basic Factors:** Labor, land, management, equipment.
2. **Advanced Factors:** Process knowledge, organizational design, and intellectual property.

Advanced factors are often **human-made** and essential for **sustained competitive advantage**.

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## The VRIO Framework

A tool for evaluating a company's resources based on **Value, Rarity, Inimitability, and Organization**.

Element	Key Question	Meaning
<b>Value (V)</b>	Does it exploit opportunities or counter threats?	Valuable resources increase demand or reduce cost.
<b>Rarity (R)</b>	Is it rare among competitors?	If rivals lack it, it creates an advantage.
<b>Inimitability (I)</b>	Is it hard to copy?	Tacit or hidden resources create barriers.
<b>Organization (O)</b>	Is the firm organized to exploit it?	Structure, culture, and systems help capture value.

If a resource is **Valuable, Rare, Inimitable, and well-Organized** → it provides **sustained competitive advantage**.

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## The Value Chain

The **Value Chain** shows how a company's activities add value to products or services. It includes **Primary** and **Support Activities**.

### Primary Activities:

1. **R&D:** Improves product design and production efficiency.
2. **Production:** Transforms inputs into outputs efficiently.
3. **Marketing and Sales:** Builds brand, identifies needs, and promotes value.
4. **Customer Service:** Maintains customer satisfaction through after-sales support.

### Support Activities:

1. **Materials Management (Logistics):** Efficient flow of materials lowers costs.
2. **Human Resources:** Recruitment, training, and motivation enhance performance.
3. **Information Systems:** Digital tools that improve decision-making and control.
4. **Company Infrastructure:** Organizational structure, culture, and leadership support all activities.

**Example:** Apple's strong design (R&D) and marketing create superior perceived value.

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## The Building Blocks of Competitive Advantage

Four main factors help a company achieve and sustain a competitive advantage:

1. **Efficiency:**
  - Output per unit of input.
  - Higher productivity = lower cost.
  - **Example:** Toyota's production system.
2. **Quality:**
  - **As Excellence:** Superior design and features.
  - **As Reliability:** Product performs consistently.
  - Improves value and reduces waste.
3. **Innovation:**
  - **Product Innovation:** New or improved products (e.g., iPhone).
  - **Process Innovation:** New ways of production or delivery (e.g., Amazon's logistics).
4. **Customer Responsiveness:**
  - Ability to identify and satisfy customer needs better than rivals.
  - **Example:** Quick delivery by Amazon Prime.

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# Business Understanding (Chapter 4 Summary)

## 1. Introduction

Strategy formulation begins with understanding the business and the goal of achieving superior performance.

## 2. Core Objectives and Competitive Advantage

- A company gains **competitive advantage** when its profitability is **above the industry average**.
- Comes from **distinctive competencies** (unique strengths).

### Examples:

- Apple → Innovation and brand.
- IKEA → Low-cost design and efficiency.

## 3. The Business Model

Explains how a company's strategies work together to create profit.

### Examples:

- **Netflix**: Subscription-based online streaming.
- **Uber**: Platform connecting riders and drivers.

## 4. Business-Level Strategy

Answers three key questions:

- **Whom to serve?** (Target customers)
- **What to serve?** (Customer needs)
- **How to serve?** (Way to satisfy those needs)

### Examples:

- McDonald's → Low-cost, fast service.
- Starbucks → High quality and customer experience.

## 5. Porter's Three Generic Strategies

Strategy	Description	Example
<b>Cost Leadership</b>	Lowest cost in the industry.	Walmart, Ryanair
<b>Differentiation</b>	Unique and high-value offerings.	Apple, Coca-Cola
<b>Focus Strategy</b>	Serve a specific segment.	Rolls-Royce, Dollar General

⚠ Firms must choose one strategy clearly. Trying all may lead to being “**stuck in the middle.**”

## 6. Macro-Environmental Factors

External forces that affect business strategy:

1. **Economic:** Growth rate, inflation, interest rates.
2. **Global:** Opportunities and threats from globalization.
3. **Technological:** Innovation changes industries.
4. **Demographic:** Population age, income, and size.
5. **Social:** Changing values and lifestyles.
6. **Political and Legal:** Government policies and laws.

**Examples:**

- Economic growth boosts car sales.
- Social awareness reduces tobacco demand.
- Technological innovation drives EV growth.

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✅ **In short:**

Industry analysis helps managers understand competition, but must be used carefully. Sustained success depends on **distinctive competencies, valuable resources (VRIO)**, and **efficient value creation (Value Chain)** leading to **competitive advantage**.

## The Role of the Macroenvironment in External Analysis

The strategic management process requires managers to undertake **external analysis**, the essential purpose of which is to identify strategic opportunities and threats within the organization’s operating environment. When conducting an external analysis, managers should examine three interrelated

environments: the industry environment, the country or national environment, and the **wider socioeconomic or macroenvironment**.

The macroenvironment refers to the **broader economic, global, technological, demographic, social, and political context** in which companies and industries are embedded. Changes in the forces within the macroenvironment can have a **direct impact** on any or all of Porter's competitive forces, thereby **altering the relative strength of these forces** as well as the **attractiveness of an industry**.

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## The Six Major Macro-Environmental Forces

### 1. Macroeconomic Forces

These forces affect the **general health and well-being of a nation** and the regional economy. The four primary macroeconomic forces include:

- **Growth Rate of the Economy:** Economic growth tends to ease competitive pressures within an industry by leading to an **expansion in customer expenditures**, offering companies the opportunity to expand and earn higher profits. Conversely, economic decline (recession) increases competitive pressures and frequently causes price wars in mature industries.
- **Interest Rates:** These rates determine the **demand for products** when customers borrow money to finance purchases (e.g., housing, autos, appliances). Rising rates are a threat, and falling rates are an opportunity. Interest rates also influence a company's **cost of capital** and its ability to raise funds and invest.
- **Currency Exchange Rates:** These define the comparative value of different national currencies. Movement in exchange rates directly impacts a company's **competitiveness in the global marketplace**; for example, a low or declining dollar reduces the threat from foreign competitors while creating opportunities for increased overseas sales.
- **Inflation (or Deflation) Rates:** High inflation is a **threat** because it destabilizes the economy, making the future less predictable and investment planning hazardous, which can ultimately depress economic activity. Price deflation also has a destabilizing effect, as the real price of fixed payments rises, damaging companies with high levels of debt.

### 2. Global Forces

Over the past half-century, barriers to international trade and investment have declined, leading to the globalization of markets.

- This process has created large, new markets (such as those in Brazil, China, and India) and provided companies with an **opportunity to grow their profits faster** by entering these nations.
- However, falling barriers have also made it easier for foreign enterprises to enter domestic markets, which **increases the intensity of competition** and lowers profitability (a threat).

### 3. Technological Forces

Technological change is both creative and destructive, representing both an opportunity and a threat.

- Technology can render established products obsolete and simultaneously create new product possibilities.

- The pace of technological change has accelerated, leading to a "perennial gale of creative destruction".
- Crucially, technological change can affect the height of **barriers to entry** and thus **radically reshape industry structure**. For instance, the Internet lowered entry barriers into the news industry.

#### 4. Demographic Forces

These result from changes in population characteristics such as age, gender, ethnic mix, or distribution.

- As populations in industrialized nations age, opportunities for organizations catering to older people (e.g., home-health care, recreation industries) increase.
- The aging of the Baby-Boom generation has created a wave of opportunities, from consumer appliances to retirement communities.

#### 5. Social Forces

These involve changes in **social mores and values** that affect an industry.

- Social change creates opportunities and threats. For example, the trend toward greater health consciousness created opportunities for low-calorie product makers (like Miller Lite) but posed a threat to the tobacco industry, which is in decline.

#### 6. Political and Legal Forces

These are the outcomes of changes in laws and regulations.

- Political processes shape society's laws, which constrain organizational operations and can create both **opportunities and threats**.
- A major trend has been the **deregulation** and privatization of industries, which often leads to significant new entry, increased competition, and lower profit rates (as seen in the airline and global telecommunications service industries).