

## CONTENTS

Preface viii

## >> PART ONE: CONCEPTS AND TECHNIQUES FOR CRAFTING AND EXECUTING STRATEGY

SECTION A: INTRODUCTION AND OVERVIEW

#### CHAPTER 1 WHAT IS STRATEGY AND WHY IS IT IMPORTANT? 1

What Do We Mean by Strategy? 2

Strategy and the Quest for Competitive Advantage 3

Concepts & Connections 1.1: McDonald's Strategy in the Quick-Service Restaurant Industry 4

Why a Company's Strategy Evolves over Time 6
The Relationship Between a Company's Strategy and Its
Business Model 7

The Three Tests of a Winning Strategy 8

 Concepts & Connections 1.2: Netflix and Redbox: Two Contrasting Business Models 9

The Road Ahead 10

Key Points 10

Assurance of Learning Exercises 11

Exercises for Simulation Participants 11

Endnotes 12

# CHAPTER 2 CHARTING A COMPANY'S DIRECTION: VISION AND MISSION, OBJECTIVES, AND STRATEGY 13

What Does the Strategy-Making, Strategy-Executing Process Entail? 14

Stage 1: Developing a Strategic Vision, a Mission, and Core Values 16

© Concepts & Connections 2.1: Examples of Strategic Visions—How Well Do They Measure Up? 18

The Importance of Communicating the Strategic Vision 19

Developing a Company Mission Statement 20

Linking the Strategic Vision and Mission with Company Values 27

Stage 2: Setting Objectives 21

the state of the s	ions 2.2: Zappos Mission and Core Values 2	22
Concepts & Connec	ions 2.3: Examples of Company Objectives	25
Stage 3: Crafting A Str.	tegy 25	
Strategy Making Inv	olves Managers at All Organizational Levels	2
A Company's Strate	y-Making Hierarchy 26	

Stage 4: Implementing and Executing the Chosen Strategy 28

Stage 5: Evaluating Performance and Initiating Corrective Adjustments 28

Corporate Governance: The Role of the Board of Directors in the Strategy-Making,

Strategy-Executing Process 29

Concepts & Connections 2.4: Corporate Governance Failures at Fannie Mae and Freddie Mac 31

Key Points 33

Assurance of Learning Exercises 34

Exercises for Simulation Participants 35

Enduotes 35

#### SECTION B: CORE CONCEPTS AND ANALYTICAL TOOLS

# CHAPTER 3 EVALUATING A COMPANY'S EXTERNAL ENVIRONMENT 37

The Strategically Relevant Components of a Company's Macro-Environment 38

Question 1: What Are the Industry's Dominant Economic Characteristics? 40

Question 2: How Strong Are the Industry's Competitive Forces? 41

Assessing the Company's Industry and Competitive Environment 39

The Competitive Force of Buyer Bargaining Power 42

The Competitive Force of Substitute Products 44

The Competitive Force of Supplier Bargaining Power 46

The Competitive Force of Potential New Entrants 47

The Competitive Force of Rivalry among Competing Sellers 49

The Collective Strengths of the Five Competitive Forces and Industry Profitability 53

# Question 3: What Are the Industry's Driving Forces of Change and What (mpact Will They Have? 54

The Concept of Industry Driving Forces 54

Identifying an Industry's Driving Forces 54

Assessing the Impact of the Industry Driving Forces 57

Determining Strategy Changes Needed to Prepare for the Impact of Driving Forces 58

## Question 4: How Are Industry Rivals Positioned? 58

Using Strategic Group Maps to Assess the Positioning of Key Competitors 58

 Concepts & Connections 3.1: Comparative Market Positions of Selected Retail Chains: A Strategic Group Map Application 60
 The Value of Strategic Group Maps 60

Question 5: What Strategic Moves Are Rivals Likely to Make Next? 67

 Concepts & Connections 3.2: Business Ethics and Competitive Intelligence 62

Question 6: What Are the Industry Key Success Factors? 63

Question 7: Does the Industry Offer Good Prospects for Attractive Profits? 63

Key Points 65

Assurance of Learning Exercises 66

Exercises for Simulation Participants 67

Endnotes 67

## CHAPTER 4 EVALUATING A COMPANY'S RESOURCES, COST POSITION, AND COMPETITIVENESS 69

Question 1: How Well Is the Company's Strategy Working? 70

Question 2: What Are the Company's Competitively Important Resources And Capabilities? 71

Identifying Competitively Important Resources and Capabilities 71.

Determining the Competitive Power of a Company's Resources and Capabilities 72.

A Company's Resources and Capabilities Must Be Managed Dynamically 74

Are Company Resources and Capabilities Sufficient to Allow It to Seize Market Opportunities and Nullify External Threats? 75

Question 3: Are the Company's Cost Structure and Customer Value Proposition Competitive? 78

Company Value Chains 78

Concepts & Connections 4.1: Value Chain Activities and Costs for Just Coffee, a Producer of Fair Trade Organic Coffee 80 Benchmarking: A Tool for Assessing Whether a Company's Value Chain Activities Are Competitive 80

The Value Chain System for an Entire Industry 82

Strategic Options for Remedying a Cost or Value Disadvantage 83

Question 4: What Is the Company's Competitive Strength Relative to Key Rivals? 84

Interpreting the Competitive Strength Assessments 85

Question 5: What Strategic Issues and Problems Must Be Addressed by Management? 87

Key Points 87

Assurance of Learning Exercises 89
Exercises for Simulation Participants 91
Endnotes 92

## CHAPTER 5 THE FIVE GENERIC COMPETITIVE STRATEGIES 93

#### Competitive Strategies and Market Positioning 94

#### Low-Cost Provider Strategies 96

The Two Major Avenues for Achieving Low-Cost Leadership 96

When a Low-Cost Provider Strategy Works Best 98

© Concepts & Connections 5.1: How Walmart Managed Its Value
Chain to Achieve a Low-Cost Advantage over Rival Supermarket Chains 99
Pitfalls to Avoid in Pursuing a Low-Cost Provider Strategy 100

#### Broad Differentiation Strategies 100

Approaches to Differentiation 101

Delivering Superior Value via a Differentiation Strategy 101

Managing the Value Chain in Ways That Enhance Differentiation 102

Perceived Value and the Importance of Signaling Value 103

When a Differentiation Strategy Works Best 103

Pitfalls to Avoid in Pursuing a Differentiation Strategy 104

#### Focused (or Market Niche) Strategies 105

A Focused Low-Cost Strategy 105

- Concepts & Connections 5.2: Vizio's Focused Low-Cost Strategy 106
  A Focused Differentiation Strategy 106
- © Concepts & Connections 5.3: Nestlé Nespresso's Focused
  Differentiation Strategy in the Coffee Industry 107
  When a Focused Low-Cost or Focused Differentiation Strategy Is Viable 108

The Risks of a Focused Low-Cost or Focused Differentiation Strategy 108

## Best-Cost Provider Strategies 109

 Concepts & Connections 5.4: Toyota's Best-Cost Producer Strategy for Its Lexus Line 110

When a Best-Cost Provider Strategy Works Best 110

The Danger of an Unsound Best-Cost Provider Strategy 110

## Successful Competitive Strategies Are Resource Based 111

## Key Points 111

Assurance of Learning Exercises 113

Exercises for Simulation Participants 113

Endnotes 114

# CHAPTER 6 SUPPLEMENTING THE CHOSEN COMPETITIVE STRATEGY—OTHER IMPORTANT STRATEGY CHOICES 115

Launching Strategic Offensives to Improve a Company's Market Position 116

Choosing the Basis for Competitive Attack 116

Advantage in Online Retailing 122	
Vertical Integration: Operating Across More Industry Value Chain Segments 12	3
The Advantages of a Vertical Integration Strategy 123	
The Disadvantages of a Vertical Integration Strategy 125	
Concepts & Connections 6.2: American Apparel's Vertical Integration Strategy	126
Outsourcing Strategies: Narrowing the Scope of Operations 127	
Strategic Alliances and Partnerships 128	
Failed Strategic Alliances and Cooperative Partnerships 129	
The Strategic Dangers of Relying on Alliances for Essential Resources and Capabilities 129	
Note that the state of the stat	
Merger and Acquisition Strategies 130 Why Mergers and Acquisitions Sometimes Fail to Produce Anticipated Results	137
	4174
Key Points 132	
Assurance of Learning Exercises 133	
Exercises for Simulation Participants 133	
Endnotes 134	
CHAPTER 7 STRATEGIES FOR COMPETING IN INTERNATIONAL MARKETS 135	
Why Companies Expand into International Markets 136	
Factors That Shape Strategy Choices in International Markets 137	
Cross-Country Differences in Buyer Tastes, Market Sizes, and Growth Potential	137
Opportunities for Location-Based Cost Advantages 138	
The Risks of Adverse Exchange Rate Shifts 139	
The Impact of Host Government Policies on the Local Business Climate 139	
Strategy Options for Entering Foreign Markets 140	
Export Strategies 140	
Licensing Strategies 141	
Franchising Strategies 141	

Choosing Which Rivals to Attack 118

and Competitive Advantage 119

Blue Ocean Strategy—A Special Kind Of Offensive 118

Blocking the Avenues Open to Challengers 119
Signaling Challengers that Retaliation Is Likely 120

Using Defensive Strategies to Protect a Company's Market Position

Timing a Company's Offensive and Defensive Strategic Moves 120

Deciding Whether to Be an Early Mover or Late Mover 121

Concepts & Connections 6.1: Amazon.com's First-Mover

The Potential for Late-Mover Advantages or First-Mover Disadvantages 121

Establishing a Subsidiary in a Foreign Market 142	
Using International Strategic Alliances and Joint Ventures to Build Competitive Strength in Foreign Markets 143	
Concepts & Connections 7.1: Examples of Cross-Border Strategic Alliances	
Tailoring a Company's International Strategy to Country Differences in Market	
Conditions and Buyer Preferences 145	
Multidomestic Strategy—A Think Local, Act Local Approach to Strategy Making 145	
Global Strategy—A Think Global, Act Global Approach to Strategy Making 147	
Transnational Strategy—A Think Global, Act Local Approach to Strategy Making 148	
Using International Operations to Improve Overall Competitiveness 149	
Using Location to Build Competitive Advantage 149	
Using Cross-Border Coordination to Build Competitive Advantage 150	
Strategies for Competing in the Markets of Developing Countries 150	
© Concepts & Connections 7.2: Yum! Brands' Strategy for Becoming the Leading Food Service Brand in China 151	
Strategy Options for Competing in Developing-Country Markets 152	
Key Points 153	
Assurance of Learning Exercises 154	
Exercises for Simulation Participants 155	
Endnotes 156	
CHAPTER 8 CORPORATE STRATEGY: DIVERSIFICATION	
AND THE MULTIBUSINESS COMPANY 157	
When Business Diversification Becomes a Consideration 159	
n	

When Business Diversification Becomes a Consideration 159 Building Shareholder Value: The Ultimate Justification for Business Diversification 159

## Approaches to Diversifying the Business Lineup 160

Diversification by Acquisition of an Existing Business 160
Entering a New Line of Business Through Internal Development 160
Using Joint Ventures to Achieve Diversification 161

## Choosing the Diversification Path: Related versus Unrelated Businesses 161

#### The Case for Related Diversification 167

Strategic Fit and Economies of Scope 163

The Ability of Related Diversification to Deliver Competitive Advantage and Gains in Shareholder Value 164

### Diversifying into Unrelated Businesses 164

Building Shareholder Value Through Unrelated Diversification 164

The Fittans of Officiated Diversification 105
Misguided Reasons for Pursuing Unrelated Diversification 166
Corporate Strategies Combining Related and Unrelated Diversification 166
Evaluating the Strategy of a Diversified Company 167
Step 1: Evaluating Industry Attractiveness 167
Step 2: Evaluating Business-Unit Competitive Strength 170
Step 3: Determining the Competitive Value of Strategic Fit in Multibusiness  Companies 174
Step 4: Evaluating Resource Fit 174
Step 5: Ranking Business Units and Setting a Priority for Resource Allocation 177
Step 6: Crafting New Strategic Moves to Improve the Overall Corporate Performance 178
© Concepts & Connections 8.1: VF's Corporate Restructuring Strategy That Made It the Star of the Apparel Industry 181
Key Points 182
Assurance of Learning Exercises 183
Exercises for Simulation Participants 185
Endnotes 186
CHAPTER 9 STRATEGY, ETHICS, AND CORPORATE SOCIAL RESPONSIBILITY 187
What Do We Mean by Business Ethics? 188
Drivers of Unethical Strategies and Business Behavior 189
The Business Case for Ethical Strategies 190

The Ditfelle of Herelated Dispersification 165

Concepts & Connections 9.1: Apple's Challenges in Enforcing Its Supplier Code of Conduct 191

Ensuring a Strong Commitment to Business Ethics in Companies with International Operations 192

The School of Ethical Universalism 192

The School of Ethical Relativism 192

Integrative Social Contracts Theory 193

Corporate Social Responsibility and Environmental Sustainability 194

Environmental Sustainability Strategies: A New Priority 196

Concepts & Connections 9.2: John Deere's Approach to Corporate Social Responsibility 197

The Business Case for Socially Responsible Behavior 199

Key Points 201

Assurance of Learning Exercises 202 Exercises for Simulation Participants 203 Endnotes 203

# CHAPTER 10 SUPERIOR STRATEGY EXECUTION—ANOTHER PATH TO COMPETITIVE ADVANTAGE 205

The Principal Managerial Components of the Strategy Execution Process 206 Building an Organization with the Capabilities, People, and Structure Needed for Good Strategy Execution 207

Staffing the Organization 208

Building and Strengthening Core Competencies and Competitive Capabilities 209

Matching Organizational Structure to the Strategy 210

Concepts & Connections 10.1: Toyota's Legendary Production
 System—A Capability That Translates into Competitive Advantage

211

Allocating Resources to Strategy-Critical Activities 213

Instituting Strategy-Supportive Policies and Procedures 214

Striving for Continuous Improvement in Processes and Activities 215

The Difference Between Business Process Reengineering and Continuous Improvement Programs 217

Installing Information and Operating Systems 217

Using Rewards and Incentives to Promote Better Strategy Execution 218

Motivation and Reward Systems 219

Guidelines for Designing Monetary Incentive Systems 219

Nonmonetary Rewards 220

Concepts & Connections 10.2: What Companies Do to Motivate and Reward Employees 221

## Instilling a Corporate Culture That Promotes Good Strategy Execution 221

High-Performance Cultures 222

Adaptive Cultures 222

Unhealthy Corporate Cultures 223

Changing a Problem Culture 225

## Leading the Strategy Execution Process 227

Staying on Top of How Well Things Are Going 228

Putting Constructive Pressure on Organizational Units to Achieve Good Results and Operating Excellence 228

Pushing Corrective Actions to Improve Both the Company's Strategy and Its Execution 229

Key Points 229

Assurance of Learning Exercises 231

Exercises for Simulation Participants 232

Endnotes 232