chapter 4

# Planning and Strategic Management

"*Manage your destiny, or someone else will.*"

— Jack Welch, former CEO, General Electric

## LEARNING OBJECTIVES

**After studying Chapter 4, you will be able to:**

LO 1 Summarize the basic steps in any planning process. p. 126

LO 2 Describe how strategic planning should be integrated with tactical and operational planning. p. 130

LO 3 Identify elements of the external environment and internal resources of the firm to analyze before formulating a strategy. p. 137

LO 4 Define core competencies and explain how they provide the foundation for business strategy. p. 140

LO 5 Summarize the types of choices available for corporate strategy. p. 145

LO 6 Discuss how companies can achieve competitive advantage through business strategy. p. 148

LO 7 Describe the keys to effective strategy implementation. p. 150

## CHAPTER OUTLINE

# Management Close-Up

## WHAT STRATEGIES CAN OLLI-PEKKA KALLASVUO USE TO KEEP NOKIA RINGING UP PROFITS?

Nokia CEO Olli-Pekka Kallasvuo should have plenty of reasons to be happy these days. More than a billion reasons, you might say. Finland-based Nokia is the world's leading cell phone maker, and more than 1 billion people use its phones. Nokia leads the market in Europe, Asia, the Middle East, and Africa, selling more than its top three competitors combined. In addition, the company regularly wins praise from Greenpeace and *Fortune* magazine for its environmentally responsible practices.

However, Nokia doesn't have bragging rights in North America. Although it posted worldwide sales of $74 billion in a recent year, Nokia has yet to capture the hearts and wallets of U.S. and Canadian consumers. Nokia's high-end models with satellite mapping features do well in Europe and Asia, and in developing countries its low-end phones have been wildly successful. But when it comes to smart phones in North America, both Apple's iPhone and Research in Motion's BlackBerry models eclipse Nokia. Nokia's strong overall position may more than offset its lesser market share in the United States and Canada, but in the wireless world no manufacturer can afford to be off its game.

Industry observers regarded Nokia's 2006 decision not to produce folding clamshell handsets as a strategic error. Then in 2007 Apple made a splash with the iPhone's alphabetic touch screen—a feature not available in Nokia phones. When Google announced advancements in software that would bring Internet capability to cell phones, Nokia reacted coolly at first. How would the resulting buzz about convergence—the marriage of cell phone mobility and Internet capability—influence the way Nokia plans for the future?[1]

{ Wireless communication and the Internet have transformed how the world communicates, and new technologies are emerging almost daily. As you read this chapter, consider how Olli-Pekka Kallasvuo needs to bring a different kind of discipline to the planning at Nokia. }

To imagine cell phone giant Nokia—or any organization—dealing with the significant challenges it faces without developing a plan beforehand is almost impossible. Planning is a formal expression of managerial intent. It describes what managers decide to do and how they will do it. It provides the framework, focus, and direction required for a meaningful effort. Without planning, any improvements in an organization's innovation, speed, quality, service, and cost will be accidental, if they occur at all. This chapter examines the most important concepts and processes involved in planning and strategic management. By learning these concepts and reviewing the steps outlined, you will be on your way to understanding the current approaches to the strategic management of today's organizations.

# An Overview of Planning Fundamentals

The importance of formal planning in organizations has grown dramatically. Until the mid-1900s, most planning was unstructured and fragmented, and formal planning was restricted to a few large corporations. Although management pioneers such as Alfred Sloan of General Motors instituted formal planning processes, planning became a widespread management function only during the last few decades. Initially, larger organizations adopted formal planning, but today even small firms operated by aggressive, opportunistic entrepreneurs engage in formal planning.[2]

*Planning* is the conscious, systematic process of making decisions about goals and activities that an individual, group, work unit, or organization will pursue in the future. Planning is not an informal or haphazard response to a crisis; it is a purposeful effort that is directed and controlled by managers and often draws on the knowledge and experience of employees throughout the organization. Planning provides individuals and work units with a clear map to follow in their future activities; at the same time this map may be flexible enough to allow for individual circumstances and changing conditions.

LO 1

## The Basic Planning Process

Because planning is a decision process—you're deciding what to do and how to go about doing it—the important steps followed during formal planning are similar to the basic decision-making steps we discussed in Chapter 3. Figure 4.1 summarizes the similarities between decision making and planning—including the fact that both move not just in one direction but in a *cycle*. The outcomes of decisions and plans are evaluated, and if necessary, they are revised.

We now describe the basic planning process in more detail. Later in this chapter, we will discuss how managerial decisions and plans fit into the larger purposes of the organization—its ultimate strategy, mission, vision, and goals.

**situational analysis**

A process planners use, within time and resource constraints, to gather, interpret, and summarize all information relevant to the planning issue under consideration.

**Step 1: Situational Analysis** As the contingency approach advocates, planning begins with a **situational analysis.** Within their time and resource constraints, planners should gather, interpret, and summarize all information relevant to the planning issue in question. A thorough situational analysis studies past events, examines current conditions, and attempts to forecast future trends. It focuses on the internal forces at work in the organization or work unit and, consistent with the open-systems approach (see Chapter 2), examines influences from the external environment. The outcome of this step is the identification and diagnosis of planning assumptions, issues, and problems.

A thorough situational analysis will provide information about the planning decisions you need to make. For example, if you are a manager in a magazine company considering the launch of a sports publication for the teen market, your analysis will include such factors as the number of teens who subscribe to magazines, the appeal of the teen market to advertisers, your firm's ability to serve this market effectively,

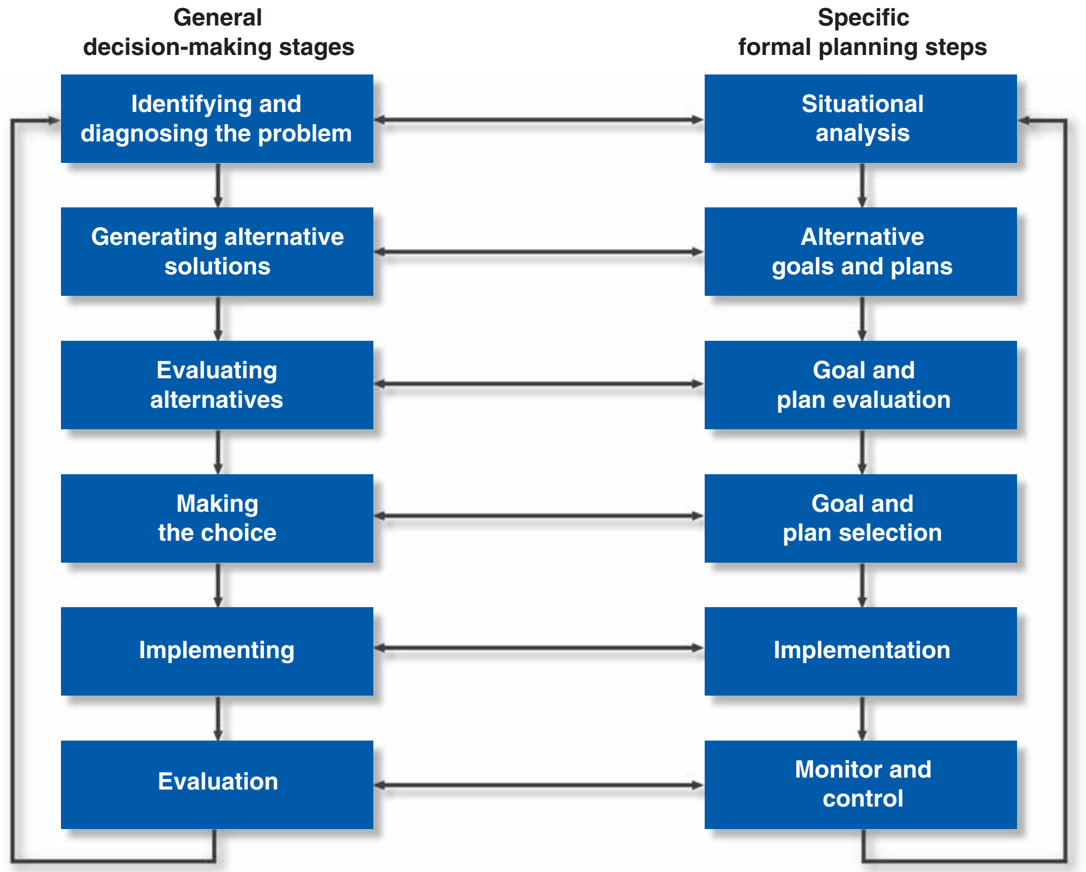



FIGURE 4.1
Decision-Making Stages (Chapter 3) and Formal Planning Steps (Chapter 4)

current economic conditions, the level of teen interest in sports, and any sports magazines already serving this market and their current sales. Such a detailed analysis will help you decide whether to proceed with the next step in your magazine launch.

**Step 2: Alternative Goals and Plans** Based on the situational analysis, the planning process should generate alternative goals that may be pursued in the future and the alternative plans that may be used to achieve those goals. This step in the process should stress creativity and encourage managers and employees to think in broad terms about their jobs. Once a range of alternatives has been developed, the merits of these different plans and goals will be evaluated. Continuing with our magazine publishing example, the alternatives you might want to consider could include whether the magazine should be targeted at young men, young women, or both groups, and whether it should be sold mainly online, through subscriptions, or on newsstands.

**goal**
A target or end that management desires to reach.

**Goals** are the targets or ends the manager wants to reach. To be effective, goals should have certain qualities, which are easy to remember with the acronym SMART:

*Specific*—When goals are precise, describing particular behaviors and outcomes, employees can more easily determine whether they are working toward the goals.

*Measurable*—As much as possible, the goal should quantify the desired results, so that there is no doubt whether it has been achieved.

*Attainable (but challenging)*—Employees need to recognize that they can attain the goals they are responsible for, or else they are likely to become discouraged. However, they also should feel challenged to work hard and be creative.

*Relevant*—Each goal should contribute to the organization's overall mission (discussed later in this chapter), while being consistent with its values, including ethical standards (see Chapter 5). Goals are most likely to be relevant to the organization's overall objectives if they are consistent within and among work groups.

*Time-bound*—Effective goals specify a target date for completion. Besides knowing what to do, employees should know when they need to deliver results.

General Electric's goal of being first or at least second in all its markets is a well-known example of a goal that is specific, measurable, and challenging. SMART goals such as these not only point individual employees in the direction they should be going but also tend to be accepted by the managers and employees who are charged with achieving them. Thus, they both direct employees and motivate them (for more on the importance of motivation, see Chapter 13).

**plans**

The actions or means managers intend to use to achieve organizational goals.

**Plans** are the actions or means the manager intends to use to achieve goals. At a minimum, planning should outline alternative actions that may lead to the attainment of each goal, the resources required to reach the goal through those means, and the obstacles that may develop. IBM has goals to increase its profits, and the fastest-growing area of growth is in software. To meet profit goals, the software unit acquires existing software companies that have high-potential products but lack the means to promote them aggressively enough. IBM's software group, under the leadership of Steve Mills, plans how its giant sales force will sell the new products. Those plans include training the salespeople in what the new software does and how it can help IBM's clients. To improve the effectiveness of the sales force, the software group planned a selling system for categorizing and keeping track of each salesperson's leads.[3]

**The bottom line**

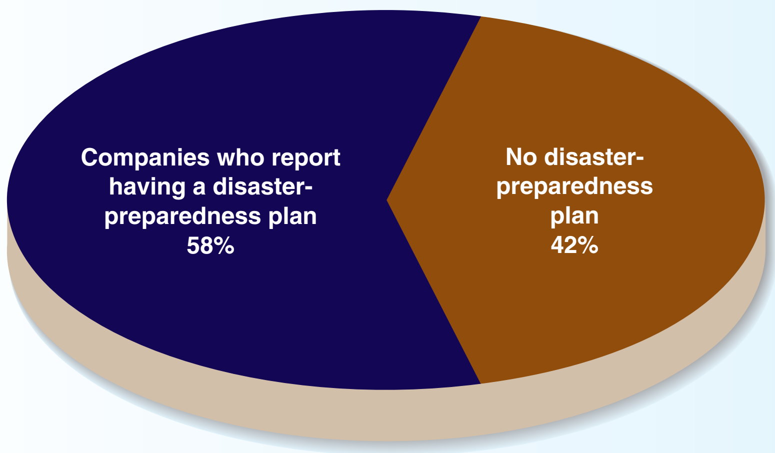
**Service**

Contingency plans that keep service levels high during a crisis can seal a company's reputation for caring about customers. But this commitment requires highly dedicated and creative employees, and access to the necessary resources can be expensive. Managers must decide how crucial service is to their strategy—and how willing customers will be to forgive them for service lapses under pressure.

In this chapter we will talk about various types of plans. Some plans, called *contingency plans*, might be referred to as "what if" plans. They include sets of actions to be taken when a company's initial plans have not worked well or if events in the external environment require a sudden change. Disasters of recent years, including the 2001 terrorist attacks and Hurricanes Katrina and Rita, have reminded many businesses how important contingency planning can be.

Most major corporations now have contingency plans in place to respond to a major disaster—to make sure vital data are backed up and can be recovered in an emergency, for instance, or that employees know what to do when a crisis occurs. But contingency plans are important for more-common situations as well. For example, many businesses are affected by snowstorms, increases in gasoline prices, computer breakdowns, or changes in consumer tastes. JetBlue initially achieved success as an airline that would "bring humanity back to air travel" by caring about its customers and employees. But the airline was humiliated by its inability to cope with a February snowstorm during which at least one plane notoriously sat on a runway for 10 hours; the company took days to recover, canceling a thousand flights.[5]

Are small companies prepared?[4]




**Step 3: Goal and Plan Evaluation** Next, managers will evaluate the advantages, disadvantages, and potential effects of each alternative goal and plan. They must prioritize those goals and even eliminate some of them. Also, managers will consider carefully the implications of alternative plans for meeting high-priority goals. In particular, they will pay a great deal of attention to the cost of any initiative and

the investment return that is likely to result. In our magazine publishing example, your evaluation might determine that newsstand sales alone wouldn't be profitable enough to justify the launch. Perhaps you could improve profits with an online edition supplemented by Podcasts. To decide, you would estimate the costs and expected returns of such alternatives, trying to following the decision steps advised in Chapter 3.

**Step 4: Goal and Plan Selection** Once managers have assessed the various goals and plans, they will select the one that is most appropriate and feasible. The evaluation process will identify the priorities and trade-offs among the goals and plans. For example, if your plan is to launch a number of new publications, and you're trying to choose among them, you might weigh the different up-front investment each requires, the size of each market, which one fits best with your existing product line or company image, and so on. Experienced judgment always plays an important role in this process. However, as you will discover later in the chapter, relying on judgment alone may not be the best way to proceed.

> "Most discussions of decision making assume that only senior executives make decisions or that only senior executives' decisions matter. This is a dangerous mistake."
>
> Peter Drucker

Typically, a formal planning process leads to a written set of goals and plans that are appropriate and feasible for a particular set of circumstances. In some organizations, the alternative generation, evaluation, and selection steps generate planning **scenarios,** as discussed in Chapter 2. A different contingency plan is attached to each scenario. The manager pursues the goals and implements the plans associated with the most likely scenario. However, the manager will also be prepared to switch to another set of plans if the situation changes and another scenario becomes relevant. This approach helps the firm anticipate and manage crises and allows greater flexibility and responsiveness.


The Hard Rock Café carries its strategy—to be identified with rock 'n' roll—through to its hotel signs.

If a company hasn't already considered relevant scenarios, managers have to be prepared to restart the planning process when an unexpected change brings disappointing results. This flexible approach to planning can help a company survive and even thrive in a turbulent environment. For example, when the economy recently took a downturn, major clients stopped calling on Cor Business, a management coaching firm, for help in developing their managers. Jeffrey Hull and the other partners of Cor Business realized their firm's survival required a new plan for bringing in business.

The partners brainstormed ideas for a new business plan. Looking over the prior year's results, they noticed that most of Cor Business's growth that year had come from small businesses, even though the partners had been directing most of their energy toward large companies like MasterCard and AT&T. As a matter of fact, as the economy had slowed, more and more nervous small-business owners had been looking for help from their firm.

**scenario**

A narrative that describes a particular set of future conditions.

Hull and the other partners drew up a new plan in which they would focus on serving small clients, helping them do what Cor Business's managers were doing—move beyond their fear of change to find new opportunities in challenging times. Hull counseled the owner of a real estate investment company to set aside his fears about the real estate downturn, reevaluate his data on the prospects for converting a warehouse into a restaurant, and go ahead with plans for what was in fact a well-researched, practical idea.[6]

**Step 5: Implementation** Once managers have selected the goals and plans, they must implement the plans designed to achieve the goals. Even the best plans are useless if they are not implemented properly. Managers and employees must understand the plan, have the resources to implement it, and be motivated to do so. Including employees in the previous steps of the planning process paves the way for the implementation phase. As we mentioned earlier, employees usually are better informed, more committed, and more highly motivated when a goal or plan is one that they helped develop.

Finally, successful implementation requires a plan to be linked to other systems in the organization, particularly the budget and reward systems. If the manager does not have a budget with financial resources to execute the plan, the plan is probably doomed. Similarly, goal achievement must be linked to the organization's reward system. Many organizations use incentive programs to encourage employees to achieve goals and to implement plans properly. Commissions, salaries, promotions, bonuses, and other rewards are based on successful performance.

At Wells Fargo, Chairman of the board Dick Kovacevich saw that the bank—one of the nation's largest—could stay competitive by excelling at "cross-selling," the practice of encouraging the bank's existing customers to use more of its financial services. Bank customers typically go to different institutions for different services, but Wells Fargo beat the odds by getting employees at all levels to focus on customer needs, rather than product lines. Tellers and branch managers receive training aimed at this goal, and pay systems reward employees for cross-selling. As a result, Wells Fargo customers use an average of 5.2 of the bank's products, roughly double the average for the industry. Selling to existing customers is much more profitable than winning new ones, so this strategy might seem obvious. Perhaps it is, but Wells Fargo board member Robert Joss says, "It's simple in concept but very hard in execution," adding that this successful implementation reflects Kovacevich's "great capacity to motivate people."[7]

$ The bottom line
COST
Tying plans to a firm's financials is a key element of success.

**Step 6: Monitor and Control** Although it is sometimes ignored, the sixth step in the formal planning process—monitoring and controlling—is essential. Without it, you would never know whether your plan is succeeding. As we mentioned earlier, planning works in a cycle; it is an ongoing, repetitive process. Managers must continually monitor the actual performance of their work units against the unit's goals and plans. They will also need to develop control systems to measure that performance and allow them to take corrective action when the plans are implemented improperly or when the situation changes. In our magazine publishing example, newsstand and subscription sales reports are essential for letting you know how well your new magazine launch is going. If subscription sales aren't doing as well as expected, you may need to revise your marketing plan. We will discuss the important issue of control systems in greater detail later in this chapter and in Chapter 16.

## Levels of Planning

LO 2

In Chapter 1 you learned about the three major types of managers: top-level (*strategic* managers), middle-level (*tactical* managers), and frontline (*operational* managers). Because planning is an important management function, managers at all three levels use it. However, the scope and activities of the planning process at each level of the organization often differ.

**strategic planning**

A set of procedures for making decisions about the organization's long-term goals and strategies.

## Strategic Planning

**Strategic planning** involves making decisions about the organization's long-term goals and strategies. Strategic plans have a strong external orientation and cover major portions of the organization. Senior executives are responsible for the development and execution of the strategic plan, although they usually do not formulate or implement the entire plan personally.

**Strategic goals** are major targets or end results that relate to the long-term survival, value, and growth of the organization. Strategic managers—top-level managers—usually establish goals that reflect both effectiveness (providing appropriate outputs) and efficiency (a high ratio of outputs to inputs). Typical strategic goals include growth, increasing market share, improving profitability, boosting return on investment, fostering both quantity and quality of outputs, increasing productivity, improving customer service, and contributing to society.

Organizations usually have a number of mutually reinforcing strategic goals. For example, a computer manufacturer may have as its strategic goals the launch of a specified number of new products in a particular time frame, of higher quality, with a targeted increase in market share. Each of these goals supports and contributes to the others.

A **strategy** is a pattern of actions and resource allocations designed to achieve the goals of the organization. An effective strategy provides a basis for answering five broad questions about how the organization will meet its objectives: (1) Where will we be active? (2) How will we get there (e.g., by increasing sales or acquiring another company)? (3) How will we win in the marketplace (e.g., by keeping prices low or offering the best service)? (4) How fast will we move and in what sequence will we make changes? (5) How will we obtain financial returns (low costs or premium prices)?[8] In setting a strategy, managers try to match the organization's skills and resources to the opportunities found in the external environment. Every organization has certain strengths and weaknesses, so the actions, or strategies, the organization implements should help build on strengths in areas that satisfy the wants and needs of consumers and other key factors in the organization's external environment. Also, some organizations may implement strategies that change or influence the external environment, as discussed in Chapter 2.


The Chicago Sun-Times and the Chicago Tribune are the only two major daily newspapers that remain in Chicago, a city of 3 million. Both papers are in serious trouble from declining circulation and poor advertising revenues. What kind of new strategy do you think would help to ensure the survival of these two organizations?

**strategic goals**

Major targets or end results relating to the organization's long-term survival, value, and growth.

**strategy**

A pattern of actions and resource allocations designed to achieve the organization's goals.

## Tactical and Operational Planning

Once the organization's strategic goals and plans are identified, they serve as the foundation for planning done by middle-level and frontline managers. As you can see in Figure 4.2, goals and plans become more specific and involve shorter periods of time as they move from the strategic level to the tactical level and then to the operational level. A strategic plan will typically have a time horizon of from three to seven years—but sometimes even decades, as with the successful plan to land a probe on Titan, Saturn's moon. Tactical plans may have a time horizon of a year or two, and operational plans may cover a period of months.

FIGURE 4.2
Hierarchy of Goals and Plans

| | Managerial Level | Level of Detail | Time Horizon |
|---|---|---|---|
| Strategic | Top | Low | Long (3–7 years) |
| Tactical | Middle | Medium | Medium (1–2 years) |
| Operational | Frontline | High | Short (<1 year) |

**tactical planning**

A set of procedures for translating broad strategic goals and plans into specific goals and plans that are relevant to a distinct portion of the organization, such as a functional area like marketing.

**operational planning**

The process of identifying the specific procedures and processes required at lower levels of the organization.

**Tactical planning** translates broad strategic goals and plans into specific goals and plans that are relevant to a definite portion of the organization, often a functional area like marketing or human resources, as discussed in Chapter 10. Tactical plans focus on the major actions a unit must take to fulfill its part of the strategic plan. For example, if the strategy calls for the rollout of a new product line, the tactical plan for the manufacturing unit might involve the design, testing, and installation of the equipment needed to produce the new line.

**Operational planning** identifies the specific procedures and processes required at lower levels of the organization. Frontline managers usually focus on routine tasks such as production runs, delivery schedules, and human resources requirements, as we discuss in Chapters 16 and 17.

The planning model we have been describing is a hierarchical one, with top-level strategies flowing down through the levels of the organization into more specific goals and plans and an ever-more-limited timetable. But in today's complex organizations, the planning sequence is often not as rigid as this traditional view. As we will see later in this chapter, managers throughout an organization may be involved in developing the strategic plan and contributing critical elements to it. Also, in practice, lower-level managers may be making decisions that shape strategy, whether or not top executives realize it. When Intel senior adviser Andy Grove suggested that the company exit the computer memory business, Intel was directing about one-third of its research dollars to memory-related projects. However, on a practical level, the company had already been exiting the business; only 4 percent of its total sales were for computer memory products. Why was this occurring, if it wasn't yet a defined strategy? Manufacturing managers had been directed by finance executives to set up factories in a way that would generate the biggest margins (revenues minus costs) per square inch of microchips produced. As computer memory became a money-losing commodity, manufacturing made less and less of those products. So, when Intel announced it would get out of the memory business, its strategy was catching up with its operational planning, which had been driven by tactical plans.[9] The lesson for top managers is to make sure they are communicating strategy to all levels of the organization *and* paying attention to what is happening at all levels in the organization.

## Aligning Tactical, Operational, and Strategic Planning

Ideally, strategic plans integrate all the bottom-line practices of the firm.

To be fully effective, the organization's strategic, tactical, and operational goals and plans must be *aligned*—that is, they must be consistent, mutually supportive, and focused on achieving the common purpose and direction. Whole Foods Market, for example, links its tactical and operational planning directly to its strategic planning. The firm describes itself on its Web site as a mission-driven company that aims to set the standards for excellence for food retailers. The firm measures its success in

Another company that successfully aligns its levels of goals is Boeing, which has a three-part strategy for achieving "aerospace leadership":

1. Run healthy core businesses.
2. Leverage strengths into new products and services.
3. Open new frontiers.

At one of Boeing's core businesses, Commercial Airplanes, running a healthy core business has required some changes in tactical plans. In the past, a single-minded drive to achieve maximum sales of its 737 and 747 planes at the expense of the division's main competitor, Airbus, resulted in poor operational planning and disastrous relations with customers and suppliers. Salespeople wrote up orders for hundreds of aircraft by pricing many of them too low and promising rapid delivery. Production managers scrambled to hire tens of thousands of workers so that they could double production levels, and suppliers were pressed to ramp-up production. Demand for components became so intense that some were delivered by helicopter and taxicab. Costs rose, but profits suffered.

Today, in contrast, Boeing Commercial Airplanes, led by Scott Carson, is trying to grow at a sustainable pace. Tactical planning is more cautious; the unit now expands its production capabilities only when it determines that the need will continue for at least two years. If a customer is interested in placing a major order, a committee that includes engineers and accountants must sign off on it after ensuring the company has the capacity to meet the contract's time requirements. At the operational level, Boeing also focuses more on collaborating with suppliers, sharing information to ensure that enough parts will be available without the expense of rush orders. Suppliers are relieved not to have to staff production lines for a surge and then lay off workers after a year or two. Production planning covers a time frame of several years, because the backlog can be that long. When some customers are uncertain about their needs, planners adjust the schedule to serve customers who are ready to buy and postpone orders from customers who don't mind waiting, keeping everyone satisfied without the need to hire more workers for peak demand. Thanks to the more even staffing levels, Boeing's operational planning can focus on better training for existing workers, rather than constantly hiring and laying off workers as orders surge and fall.[10]

fulfilling its vision by "customer satisfaction, Team Member excellence and happiness, return on capital investment, improvement in the state of the environment, and local and larger community support."

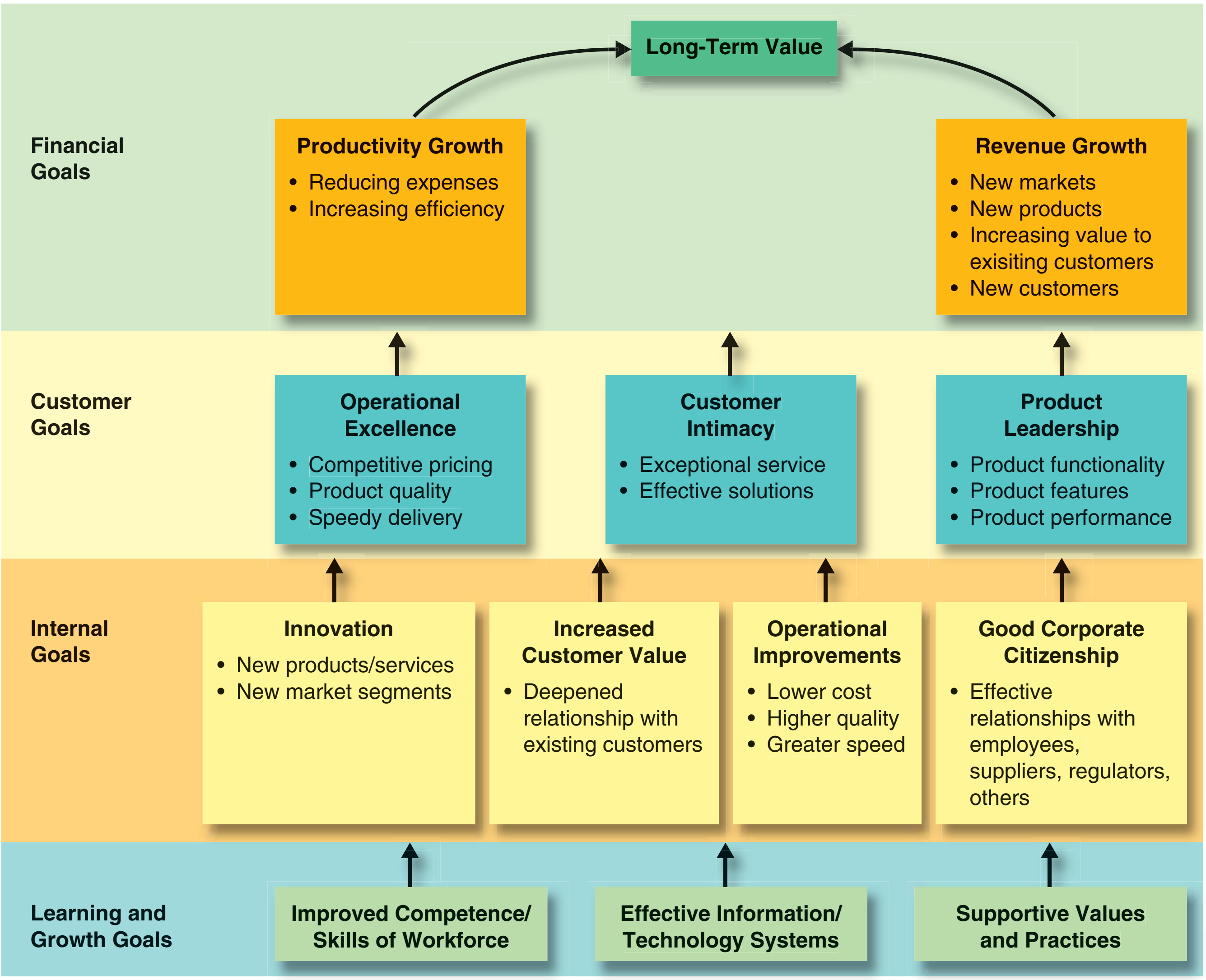
Whole Foods's strategic goal is "to sell the highest-quality products that also offer high value for our customers." Its operational goals focus on ingredients, freshness, taste, nutritional value, safety, and appearance that meet or exceed its customers' expectations, including guaranteeing product satisfaction. Tactical goals include store environments that are "inviting, fun, unique, informal, comfortable, attractive, nurturing and educational" and safe and inviting work environments for its employees.

One method for aligning the organization's strategic and operational goals is the *strategy map.* The strategy map provides a tool managers can use to communicate their strategic goals and enable members of the organization at every level to understand the parts they will play in helping to achieve them. The map illustrates the four key drivers (or "balanced scorecard") of a firm's long-term success: the skills of its people and their ability to grow and learn; the effectiveness of its internal processes; its ability to deliver value to customers; and, ultimately, its ability to grow its financial assets. The map shows how specific plans and goals in each area link to the others and can generate real improvements in an organization's performance.

The strategic map shows the relationship between a firm's practices and its long-term success.

Figure 4.3 shows how a strategy map might be built and how the various goals of the organization relate to each other to create long-term value for the firm. As an example, let us assume that a company's primary *financial goal* is "to increase revenues by enhancing the value we offer to existing customers by making our prices the lowest available." (Target and Wal-Mart might be good examples of companies with this kind of strategy.) The company will then have corresponding goals and plans in the other sections of the map to support that strategy. Its *learning and growth goals* might include bringing in the most efficient production technologies or work processes and training the staff to use them. These in turn will lead to the *internal goals* of improved production speed and lower cost, which in turn leads to the *customer goal* of competitive pricing, making the original financial goal feasible. On the other hand, a financial strategy of revenue growth through new products might lead to people and technology goals that speed up product design, to internal processes that lead to innovation, and to a customer goal of perceived product leadership. Whatever the strategy, the strategic map can be used to develop the appropriate measures and standards in each operational area for that strategy and to show how they are all linked.[11]

**FIGURE 4.3**
The Strategy Map: Creating Value by Aligning Goals




SOURCE: Adapted from Robert Kaplan and David Norton, "Plotting Success with Strategy Maps," *Optimize,* February 2004, online; and Robert Kaplan and David Norton, "Having Trouble with Your Strategy? Then Map It," *Harvard Business Review,* September–October 2000.

## Strategic Planning

Strategic decision making is one of the most exciting and controversial topics in management today. In fact, many organizations currently are changing the ways they develop and execute their strategic plans.

Traditionally, strategic planning emphasized a top-down approach—senior executives and specialized planning units developed goals and plans for the entire organization. Tactical and operational managers received those goals and plans, and their own planning activities were limited to specific procedures and budgets for the units.

Over the years, managers and consulting firms innovated with a variety of analytical techniques and planning approaches, many of which have been critical for analyzing complex business situations and competitive issues. In many instances, however, senior executives spent too much time with their planning specialists to the exclusion of line managers in the rest of the organization. As a result, a gap often developed between strategic managers and tactical and operational managers, and managers and employees throughout the organization became alienated and uncommitted to the organization's success.[12]

**The bottom line**

**Innovation**

New ideas from managers throughout the organization can contribute to a plan's effectiveness.

Today, however, senior executives increasingly are involving managers throughout the organization in the strategy formation process.[13] The problems just described and the rapidly changing environment of the past 25 years have forced executives to look to all levels of the organization for ideas and innovations to make their firms more competitive. Although the CEO and other top managers continue to furnish the strategic direction, or "vision," of the organization, tactical and even operational managers often provide valuable inputs to the organization's strategic plan. In some cases, these managers also have substantial autonomy to formulate or change their own plans. This authority increases flexibility and responsiveness, critical requirements for success in today's organizations.

Because of this trend, a new term for the strategic planning process has emerged: *strategic management.* **Strategic management** involves managers from all parts of the organization in the formulation and implementation of strategic goals and strategies. It integrates strategic planning and management into a single process. Strategic planning becomes an ongoing activity in which all managers are encouraged to think strategically and focus on long-term, externally oriented issues as well as short-term tactical and operational issues.

**strategic management**

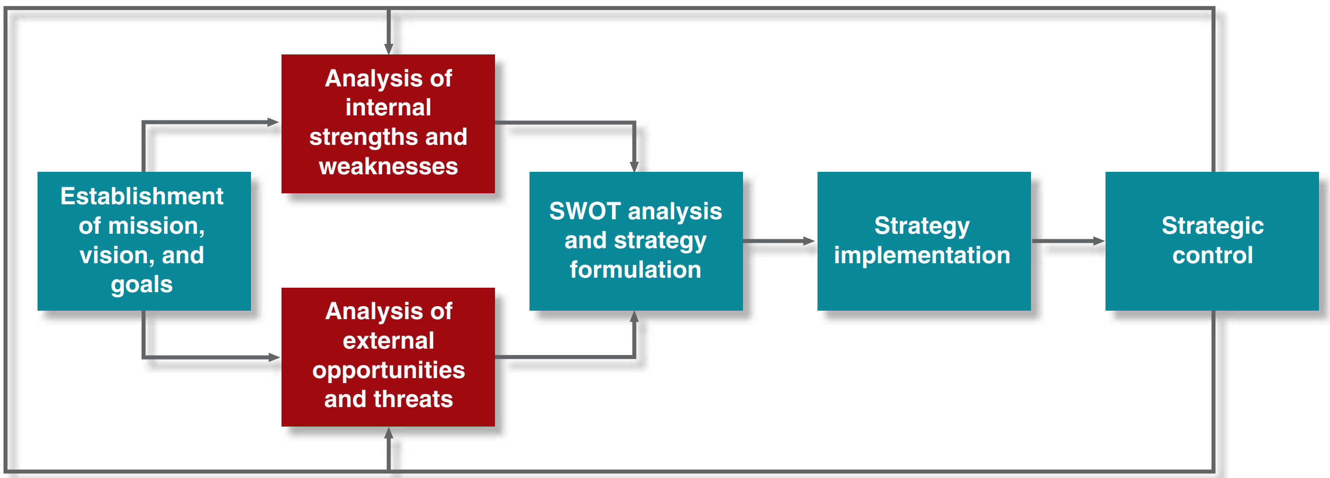
A process that involves managers from all parts of the organization in the formulation and implementation of strategic goals and strategies.

As shown in Figure 4.4, the strategic management process has six major components:

1. Establishment of mission, vision, and goals.
2. Analysis of external opportunities and threats.

FIGURE 4.4

The Strategic Management Process



3. Analysis of internal strengths and weaknesses.
4. SWOT (strengths, weaknesses, opportunities, and threats) analysis and strategy formulation.
5. Strategy implementation.
6. Strategic control.

Because this process is a planning and decision process, it is similar to the planning framework discussed earlier. Although organizations may use different terms or emphasize different parts of the process, the components and concepts described in this section are found either explicitly or implicitly in every organization. Even a small entrepreneurial firm can benefit from the kind of planning framework we describe here.

## Step 1: Establishment of Mission, Vision, and Goals

**mission**

An organization's basic purpose and scope of operations.

The first step in strategic planning is establishing a mission, a vision, and goals for the organization. The **mission** is a clear and concise expression of the basic purpose of the organization. It describes what the organization does, who it does it for, its basic good or service, and its values. Here are some mission statements from firms you will recognize:[14]

*McDonald's:* "To be our customers' favorite place and way to eat."
*Microsoft:* "We work to help people and businesses throughout the world to realize their full potential."
*Allstate:* "To be the best . . . serving our customers by providing peace of mind and enriching their quality of life through our partnership in the management of the risks they face."

The mission statemant at McDonald's is "To be our customers' favorite place and way to eat." How do you see that translated into the atmosphere at your local McDonald's?

Smaller organizations, of course, may have missions that aren't as broad as these. For example, the local bar found next to most campuses has this implicit mission: "To sell large quantities of inexpensive beer to college students in a noisily enjoyable environment."

The mission describes the organization as it currently operates. The **strategic vision** points to the future—it provides a perspective on where the organization is headed and what it can become. Ideally, the vision statement clarifies the long-term direction of the company and its *strategic intent.* Here are some actual vision statements:[15]

**strategic vision**

The long-term direction and strategic intent of a company.

*DuPont:* "To be the world's most dynamic science company, creating sustainable solutions essential to a better, safer and healthier life for people everywhere."
*City of Redmond, Washington:* "Together we create a community of good neighbors."
*Great Lakes Naval Museum:* "To enhance and become an integral part of the training mission of the Naval Service Training Command, Great Lakes, by instilling in our newest sailors a strong sense of tradition and heritage of Naval service in the United States."

The most effective vision statements inspire organization members. They offer a worthwhile target for the entire organization to work together to achieve. Often, these statements are not strictly financial, because financial targets alone may not motivate all organization members. For example, DuPont's vision refers to being a "dynamic science company" that works toward a "better, safer and healthier life" for people. This vision inspires innovation aimed at making the world better—the type of work that is likely to motivate the scientists and other knowledge workers who can give the company an edge, ultimately improving DuPont's competitive position. Likewise, "instilling . . . a strong sense of tradition and heritage" provides an inspirational basis for operating the Great Lakes Naval Museum, in contrast to planning based only on budgets and historical artifacts.

*Strategic goals* evolve from the mission and vision of the organization. The chief executive officer of the organization, with the input and approval of the board of directors, establishes the mission, vision, and major strategic goals. The concepts and information within the mission statement, vision statement, and strategic goals statement may not be identified as such, but they should be communicated to everyone who has contact with the organization. Large firms generally provide public formal statements of their missions, visions, goals, and even values. For example, in support of its vision that "creating a community of good neighbors" is best done "together" with all sectors of the community, the City of Redmond has established goals such as these:

Enhance citizen engagement in city issues.
Sustain the natural systems and beauty of the community.
Sustain a safe community with a coherent, comprehensive, cohesive approach to safety.
Maintain economic vitality.

Different city departments would contribute to various aspects of this vision in the way they carry out their operational plans with an emphasis on collaborating with local businesses and residents.

Lofty words in a vision and mission statement cannot be meaningful without strong leadership support. At McDonald's, the commitment of past and present CEOs has played a large role in the success of the company's strategy implementation. Several years ago, the company was floundering as it lost sight of its commitment to quality, value, speed, and convenience. Under the leadership of James Cantalupo, the company created the mission statement quoted earlier, which placed the emphasis on the customer's experience. In a "Plan to Win," strategic goals such as revamping restaurants for a better drive-through experience and improving the quality of the menu supported the mission. When Jim Skinner took the job of chief executive, he enthusiastically backed the mission statement and its supporting Plan to Win, not hesitating to share credit for the company's continued success.[16]

> "There is no more powerful engine driving an organization toward excellence and long-term success than an attractive, worthwhile, and achievable vision of the future."
> Burt Nanus
>
> SOURCE: *Visionary Leadership* (San Francisco: Jossey-Bass, 1992).

Where leadership is strong, statements of visions and goals clarify the organization's purpose to key constituencies outside the organization. They also help employees focus their talent, energy, and commitment in pursuit of the organization's goals. When the time comes for you to seek employment with a firm, reviewing the firm's statements of mission, vision, and goals is a good first step in determining whether the firm's purposes and values will be compatible with your own.

## Step 2: Analysis of External Opportunities and Threats

LO 3

The mission and vision drive the second component of the strategic management process: analysis of the external environment. Successful strategic management depends on an accurate and thorough evaluation of the competitive environment and macroenvironment. The various components of these environments were introduced in Chapter 2.

**TABLE 4.1**
Environmental Analysis

| Industry and Market Analysis |
|---|
| • *Industry profile:* major product lines and significant market segments in the industry.<br>• *Industry growth:* growth rates for the entire industry, growth rates for key market segments, projected changes in patterns of growth, and the determinants of growth.<br>• *Industry forces:* threat of new industry entrants, threat of substitutes, economic power of buyers, economic power of suppliers, and internal industry rivalry (recall Chapter 2). |
| **Competitor Analysis** |
| • *Competitor profile:* major competitors and their market shares.<br>• *Competitor analysis:* goals, strategies, strengths, and weaknesses of each major competitor.<br>• *Competitor advantages:* the degree to which industry competitors have differentiated their products or services or achieved cost leadership. |
| **Political and Regulatory Analysis** |
| • *Legislation and regulatory activities* and their effects on the industry.<br>• *Political activity:* the level of political activity that organizations and associations within the industry undertake (see Chapter 5). |
| **Social Analysis** |
| • *Social issues:* current and potential social issues and their effects on the industry.<br>• *Social interest groups:* consumer, environmental, and similar activist groups that attempt to influence the industry (see Chapters 5 and 6). |
| **Human Resources Analysis** |
| • *Labor issues:* key labor needs, shortages, opportunities, and problems confronting the industry (see Chapters 10 and 11). |
| **Macroeconomic Analysis** |
| • *Macroeconomic conditions:* economic factors that affect supply, demand, growth, competition, and profitability within the industry. |
| **Technological Analysis** |
| • *Technological factors:* scientific or technical methods that affect the industry, particularly recent and potential innovations (see Chapter 17). |

The important activities in an environmental analysis include the ones listed in Table 4.1. The analysis begins with an examination of the industry. Next, organizational stakeholders are examined. **Stakeholders** are groups and individuals who affect and are affected by the achievement of the organization's mission, goals, and strategies. They include buyers, suppliers, competitors, government and regulatory agencies, unions and employee groups, the financial community, owners and shareholders, and trade associations. The environmental analysis provides a map of these stakeholders and the ways they influence the organization.[17]

**stakeholders**

Groups and individuals who affect and are affected by the achievement of the organization's mission, goals, and strategies.

Collaborating with key stakeholders can help organizations successfully develop and implement their strategic plan. At software company Intuit, CEO Brad Smith launched strategy development by learning what was on the minds of some key stakeholders. He visited with his board of directors and investors and set up meetings with groups of employees who work directly with Intuit's customers.

Smith asked each group of stakeholders some key questions related to strategic analysis: "What is Intuit's biggest untapped opportunity? What is the biggest risk facing Intuit that keeps you up at night? What is the biggest mistake I can make as a CEO in my first year?" From the answers, Smith gained insights that helped him establish priorities for Intuit's strategy.

Smith learned that a sizable number of Intuit's business customers have international activities, so he determined that Intuit would have to become a more global company. Its QuickBooks financial software now handles multiple currencies for international transactions. In response to the competitive threat of a new release of financial software from Microsoft, Smith assembled managers to craft a marketing strategy that would convince customers to wait two more months for the next version of QuickBooks. That campaign caused QuickBooks sales to jump in spite of Microsoft's efforts.[18]

The environmental analysis also should examine other forces in the environment, such as economic conditions and technological factors. One critical task in environmental analysis is forecasting future trends. As noted in Chapter 2, forecasting techniques range from simple judgment to complex mathematical models that examine systematic relationships among many variables. Even simple quantitative techniques outperform the intuitive assessments of experts. Judgment is susceptible to bias, and managers have a limited ability to process information. Managers should use subjective judgments as inputs to quantitative models or when they confront new situations.

Frequently, the difference between an opportunity and a threat depends on how a company positions itself strategically. For example, some states have required that electric utilities get a certain share of their power from renewable sources such as wind and solar energy, rather than from fossil fuels, including coal, oil, and natural gas. This requirement poses an obvious threat to utilities, because the costs of fossil fuel energy are less, and customers demand low prices. However, some companies see strategic opportunities in renewable power. For example, the German conglomerate Schott has developed a solar thermal technology in which sunlight heats oil in metal tubes enclosed in coated glass; the heated oil makes steam, which powers a turbine and generates electricity. Solar thermal energy, although it now costs more than fossil fuels, is more efficient than the solar panels installed on buildings, and it can store extra power to be used on cloudy days.[19] Similarly, overflowing landfills are an expensive challenge for many municipalities, but a growing number are seeing an opportunity in the form of energy generation. As garbage decomposes, it produces methane gas, which is used as a fuel to power generators. In East Brunswick, New Jersey, for example, the Edgeboro landfill generates electricity that powers the county's wastewater treatment plant.[20]

Some changes in the environment can bring one company a combination of threats and opportunities. Recently, the United States and European Union deregulated air travel between their respective countries, allowing any European air carrier to fly to any city in the United States, while U.S. carriers were granted access to all airports in EU countries. Before this agreement, airlines had to negotiate permission with each country whose airport they wanted to use. The deregulation allows American Airlines, for example, to broaden the variety of flights it offers in its oneworld alliance with British Airways—an opportunity. But it also means threats, such as new competition to serve London's Heathrow Airport, where Continental and Delta previously could not land.[21]

> "We wanted Nike to be the world's best sports and fitness company. Once you say that, you have a focus. You don't end up making wing tips or sponsoring the next Rolling Stone world tour."
>
> Philip Knight, Nike Founder

## Step 3: Analysis of Internal Strengths and Weaknesses

As managers conduct an external analysis, they will also assess the strengths and weaknesses of major functional areas inside their organization. Table 4.2 lists some of the major components of this internal resource analysis. For example, is your firm strong enough financially to handle the lengthy and costly investment new projects often require? Can your existing staff carry out its part of the plan, or will additional training or hiring be needed? Is your firm's image compatible with the strategy, or will it have to persuade key stakeholders that a change in direction makes sense? This kind of internal analysis provides strategic decision makers with an inventory of the organization's existing functions, skills, and resources as well as its overall performance level. Many of your other business courses will prepare you to conduct an internal analysis.

LO 4

**resources**

Inputs to a system that can enhance performance.

Amazon's key customer benefits are speed and excellence of service.

**Resources and Core Competencies** Without question, strategic planning has been strongly influenced in recent years by a focus on internal resources. **Resources** are inputs to production (recall systems theory) that can be accumulated over time to enhance the performance of a firm. Resources can take many forms, but they tend to fall into two broad categories: (1) *tangible assets* such as real estate, production facilities, raw materials, and so on, and (2) *intangible assets* such as company reputation, culture, technical knowledge, and patents, as well as accumulated learning and experience. The Walt Disney Company, for example, has developed its strategic plan on combinations of tangible assets (e.g., hotels and theme parks) as well as intangible assets (brand recognition, talented craftspeople, culture focused on customer service).[22]

Effective internal analysis provides a clearer understanding of how a company can compete through its resources. Resources are a source of competitive advantage only under certain circumstances. First, if the resource is instrumental for creating customer *value*—that is, if it increases the benefits customers derive from a good or service relative to the costs they incur—the resource can lead to a competitive advantage.[23] For example, Amazon's powerful search technology and its ability to track customer preferences and offer personalized recommendations each time its site is accessed, as

**TABLE 4.2**
Internal Resource Analysis

| |
|---|
| **Financial Analysis** |
| Examines financial strengths and weaknesses through financial statements such as a balance sheet and an income statement and compares trends to historical and industry figures (see Chapter 18). |
| **Marketing Audit** |
| Examines strengths and weaknesses of major marketing activities and identifies markets, key market segments, and the competitive position (market share) of the organization within key markets. |
| **Operations Analysis** |
| Examines the strengths and weaknesses of the manufacturing, production, or service delivery activities of the organization (see Chapters 9, 16, and 17). |
| **Other Internal Resource Analyses** |
| Examine, as necessary and appropriate, the strengths and weaknesses of other organizational activities, such as research and development (product and process), management information systems, engineering, and purchasing. |
| **Human Resources Assessment** |
| Examines strengths and weaknesses of all levels of management and employees and focuses on key human resources activities, including recruitment, selection, placement, training, labor (union) relationships, compensation, promotion, appraisal, quality of work life, and human resources planning (see Chapters 10 and 11). |

well as its quick product-delivery system, are clearly valuable resources that enhance Amazon's competitiveness.

Second, resources are a source of advantage if they are *rare* and not equally available to all competitors. Even for extremely valuable resources, if all competitors have equal access, the resource cannot provide a source of competitive advantage. For companies such as Merck, DuPont, Dow Chemical, and others, patented formulas represent important resources that are both rare and valuable. Amazon, too, sought a patent for its one-click shopping technique.

Third, if resources are *difficult to imitate*, they provide a source of competitive advantage. Earlier in this chapter, we saw that Wells Fargo has managed to compete with larger banks by developing expertise in cross-selling. Unlike, say, free checking accounts, this intangible resource is difficult to imitate because it requires training and motivating employees at all levels to adopt customer-oriented thinking and collaborate across divisions. Under the strong leadership of Dick Kovacevich, Wells Fargo was able to inspire its employees to learn and use the necessary skills. Industry analyst Richard Bove says the strategy succeeded because of a hard-to-imitate resource, "the force of [Kovacevich's] personality, which is so strong and so positive that it infects other people."[24] As in this example, where success relies on leadership and collaboration practices, resources tend to be harder to imitate if they are complex, with many interdependent variables and no obvious links between easily explained behaviors and desired outcomes.[25]


Imagine how skilled Coca-Cola's global network of bottlers are to be able to deliver their product worldwide and more efficiently than any of their competitors. Shown here is a truck delivering Coke in India.

Finally, resources can enhance a firm's competitive advantage when they are well *organized*. For example, Coca-Cola's well-organized and global network of bottlers allows the company to quickly introduce a new soft drink worldwide and to distribute it more efficiently than any competitor. IBM, known primarily for computer hardware until it became more of a commodity than a source of competitive advantage, has organized its staff and systems to efficiently produce a consolidated technology product for its corporate clients—hardware, software, and service in one package. This spares its clients the cost of managing technology on their own.

As shown in Figure 4.5, when resources are valuable, rare, inimitable, and organized, they can be viewed as a company's core competencies. Simply stated, a **core competence** is something a company does especially well relative to its competitors.

**core competence**

A unique skill and/or knowledge an organization possesses that gives it an edge over competitors.

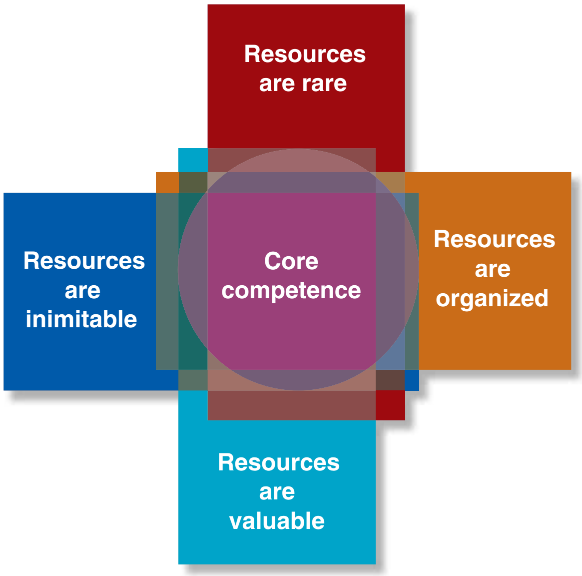



FIGURE 4.5
Resources and Core Competence

Honda, for example, has a core competence in small engine design and manufacturing; Sony has a core competence in miniaturization; Federal Express has a core competence in logistics and customer service. As in these examples, a core competence typically refers to a set of skills or expertise in some activity, rather than physical or financial assets.

Kodak CEO Antonio Perez is attempting to redefine his firm's core competencies. Once a film-based business, Kodak developed digital camera products that eventually became standard fare. But even though these new products generated huge sales, overall profits for Kodak lagged. So Perez wants Kodak to shift its focus, creating innovative products that will help people organize, classify, and manage their personal photo libraries, much the same way Apple products do for their music libraries. In other words, he wants Kodak to concentrate on digital services instead of tangible products like cameras and film. The new digital services include such offerings as online photo sharing and a rapid-fire scanning system called Scan the World, which takes those old shoe boxes filled with snapshots and transforms them into digital images that are organized and catalogued by date. Perez knows that the change will be difficult. It will be "a very hard transformation," he admits. But he believes this move will ultimately yield greater profits and a longer life for Kodak.[26]

**Benchmarking** To assess and improve performance, some companies use benchmarking, the process of assessing how well one company's basic functions and skills compare with those of another company or set of companies. The goal of benchmarking is to thoroughly understand the "best practices" of other firms and to undertake actions to achieve both better performance and lower costs. Benchmarking programs have helped a myriad of companies, such as Ford, Corning, Hewlett-Packard, Xerox, and Anheuser-Busch, make great strides in eliminating inefficiencies and improving competitiveness.

In London, doctors at Great Ormond Street Hospital for Children used benchmarking to improve their procedures for patient handoffs, the times when patients are transferred from one hospital unit or doctor's care to another. A team of doctors benchmarked an organization that excelled in complex procedures: the pit crew for Italy's Formula One Ferrari racing team. They learned, for example, that the pit crew carefully choreographed all their moves, based on information from a human factors engineer and a focus on minor mistakes that wouldn't be obvious. Unlike the surgical teams at Great Ormond, members of the pit crew knew who was in charge, had clearly specific responsibilities, worked in silence, and trained for every imaginable contingency. The doctors developed ways to apply those procedures to their cardiac surgery team, with the result that technical errors declined by 42 percent and failures to share information dropped by half.[27]

Depending on how it is applied, benchmarking may be of limited help in that it only helps a company perform as well as its competitors; strategic management ultimately is about surpassing those companies. Besides benchmarking against leading organizations in other industries, as Great Ormond Street Hospital did, companies may address this problem by engaging in internal benchmarking. That approach involves benchmarking their different internal operations and departments against one another to disseminate the company's best practices throughout the organization and thereby gain a competitive advantage.

Aligning a firm's bottom-line practices with "best practices" can improve its competitiveness.

## Step 4: SWOT Analysis and Strategy Formulation

Once managers have analyzed the external environment and the internal resources of the organization, they will have the information they need to assess the organization's strengths, weaknesses, opportunities, and threats. Such an assessment normally is referred to as a **SWOT analysis.** Strengths and weaknesses refer to internal resources. For example, an organization's *strengths* might include skilled management, positive cash flow, and well-known and highly regarded brands. *Weaknesses* might be lack of spare production capacity and the absence of reliable suppliers. Opportunities and threats arise in the macroenvironment and competitive environment. Examples of *opportunities* are a new technology that could make the supply chain more efficient and a market niche that is currently underserved. *Threats* might include the possibility that competitors will enter the underserved niche once it has been shown to be profitable. In the "Management Close-Up: Taking Action" feature, consider what strengths, weaknesses, opportunities, and threats Olli-Pekka Kallasvuo identified at Nokia.

**SWOT analysis**

A comparison of strengths, weaknesses, opportunities, and threats that helps executives formulate strategy.

SWOT analysis helps managers summarize the relevant, important facts from their external and internal analyses. Based on this summary, they can identify the primary and secondary strategic issues their organization faces. The managers then formulate a strategy that will build on the SWOT analysis to take advantage of available opportunities by capitalizing on the organization's strengths, neutralizing its weakness, and countering potential threats.

To take an example, consider how SWOT analysis might be carried out at Microsoft. The company's size and earnings from its dominant operating system and Office suite of software are an obvious strength. The company has weaknesses as well. One of the fastest-growing areas of the computer business is Internet applications, especially profits from the sale of online advertising. Microsoft has struggled in this area, with its Internet search engine losing market share year after year, and online ad sales growing but only as a tiny segment of the market. The dominant threat to Microsoft in this area is widely considered to be Google, which not only dominates the search business—and its related advertising—but even has challenged Microsoft with free business applications. This analysis would explain Microsoft's recent efforts to buy DoubleClick, which arranges deals between advertisers and online publishers. DoubleClick is a big player in the online-advertising business and has expertise that Microsoft lacks.[28] By purchasing DoubleClick, Microsoft would use one of its strengths (its capital) to neutralize a weakness (inexperience and small market share in online advertising) and counter a threat (Google). Ironically, before the deal could close, Google emerged as another bidder for DoubleClick.[29] In the real world, as a company is formulating strategy, so are its competitors. As a result, the process must

## Management Close-Up TAKING ACTION

When Olli-Pekka Kallasvuo became CEO in 2006, Nokia was viewed as stodgy and slow to react to changes in the cell phone marketplace. What's more, critics characterized its product lineup as "tired." Kallasvuo told the press that despite Nokia's dominant position in most of the world, it could not afford to be overconfident. The company, he said, needed to become flexible and responsive to customer needs and wants.

Kallasvuo also spoke about the importance of humility as a trait in a manager—and a company. He defined a humble company as one that listens to its customers and uses the information in its planning—one whose management teams embrace diversity of opinion. Said Kallasvuo, management teams need to "resist the safe conformity of benchmarking" and embrace change. Kallasvuo also declared that he wanted to move Nokia to a management structure that would better reflect its global presence.

Making these adjustments could be a tall order for a company that, in many respects, already seemed to be doing many things right. Field research has enabled Nokia to learn what consumers in developing economies want and need—for example, a built-in flashlight on the low-cost models Nokia sells in sub-Saharan Africa, where the power grid is often down or spotty. Through high-volume parts purchasing, Nokia has been able to manage unit costs well enough that its competitors can't touch it in the low-end market. Kallasvuo also issued an edict regarding product development: projects must be ready in months, not years.[30]

- Olli-Pekka Kallasvuo says, as a CEO, he can accomplish very little on his own. However, with the Nokia workforce numbering about 100,000, he says there's much that can be accomplished with teams. Do you agree? How does teamwork relate to strategic planning?
- When Google announced it was pioneering software technology to bring Internet capability to cell phones, Nokia's first reaction was that Google did not represent a threat. What do you think of this analysis?

be continually evolving through contingency planning. The more uncertainty that exists in the external environment, the more the strategy needs to focus on building internal capabilities through practices such as knowledge sharing and continuous process improvement.[31] Yet, at a basic level, strategy formulation moves from analysis to devising a coherent course of action, such as Microsoft's plan to purchase (and eventually operate) DoubleClick. In this way, the organization's corporate, business, and functional strategies will begin to take shape.

Before we continue our strategy discussion, we note that many individuals seeking a job or a career change can find a "self-SWOT analysis" helpful. What are you particularly good at? What weaknesses might you need to overcome to improve your employment chances? What firms offer the best opportunity to market your skills to full advantage? Will you have a lot of competition from other job seekers? As with companies, this kind of analysis can be the beginning of a plan of action and can improve the plan's effectiveness.

**corporate strategy**

The set of businesses, markets, or industries in which an organization competes and the distribution of resources among those entities.

**concentration**

A strategy employed for an organization that operates a single business and competes in a single industry.

### Corporate Strategy

A **corporate strategy** identifies the set of businesses, markets, or industries in which the organization competes and the distribution of resources among those businesses. Figure 4.6 shows four basic alternatives for a corporate strategy, ranging from very specialized to highly diverse. A **concentration** strategy focuses on a single business competing in a single industry. In the food-retailing industry, Kroger, Safeway, and A&P all pursue concentration strategies. Frequently, companies

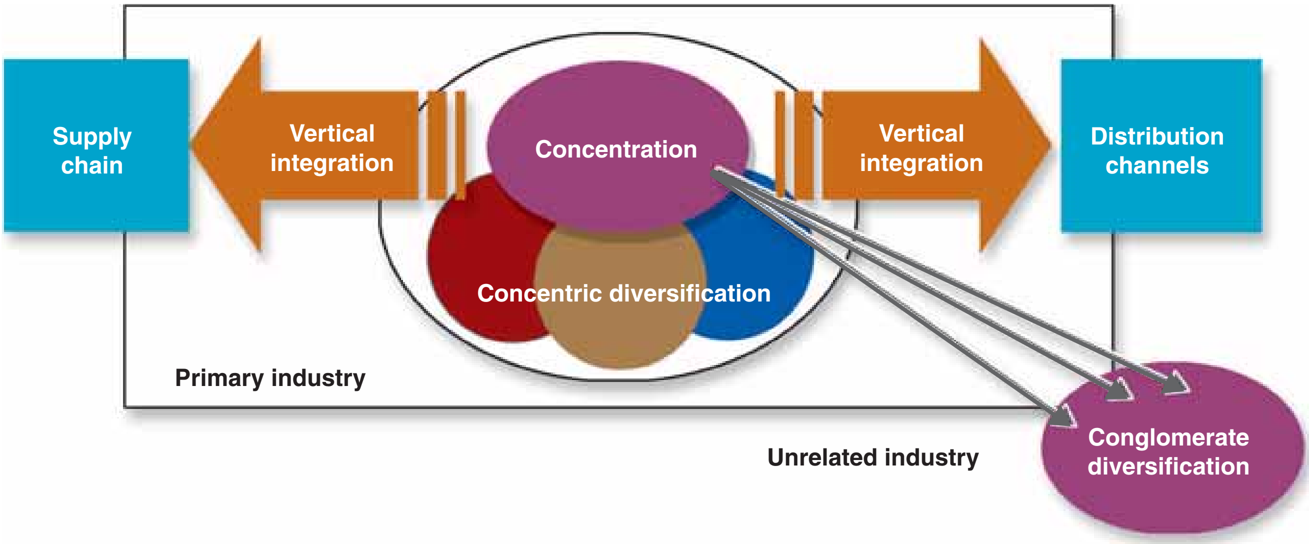



FIGURE 4.6
Summary of Corporate Strategies

pursue concentration strategies to gain entry into an industry when industry growth is good, or when the company has a narrow range of competencies. An example is the Chinese company Baidu.com, described in the *BusinessWeek* box. C. F. Martin & Company pursues a concentration strategy by focusing on making the best possible guitars and guitar strings, a strategy that has enabled the family-owned business to operate successfully for more than 150 years.

LO 5

**vertical integration**
The acquisition or development of new businesses that produce parts or components of the organization's product.

A **vertical integration** strategy involves expanding the domain of the organization into supply channels or to distributors. At one time, Henry Ford had fully integrated his company from the ore mines needed to make steel all the way to the showrooms where his cars were sold. Vertical integration generally is used to eliminate uncertainties and reduce costs associated with suppliers or distributors.

A strategy of **concentric diversification** involves moving into new businesses that are related to the company's original core business. William Marriott expanded his original restaurant business outside Washington, D.C., by moving into airline catering, hotels, and fast food. Each of these businesses within the hospitality industry is related in terms of the services it provides, the skills necessary for success, and the customers it attracts. Often companies such as Marriott pursue a strategy of concentric diversification to take advantage of their strengths in one business to gain advantage in another. Because the businesses are related, the products, markets, technologies, or capabilities used in one business can be transferred to another. Success in a concentric diversification strategy requires adequate management and other resources for operating more than one business. Guitar maker C. F. Martin once tried expanding through purchases of other instrument companies, but management was stretched too thin to run them all well, so the company eventually divested the acquisitions and returned to its concentration strategy.[32]

General Electric's ownership of NBC is an example of conglomerate diversification. Shown from left to right during the giant merger announcement in 1986 are Grant Tinker, outgoing Chairman of NBC; Jack Welch, CEO of GE during the takeover; and Bob Wright, incoming Chairman of NBC.

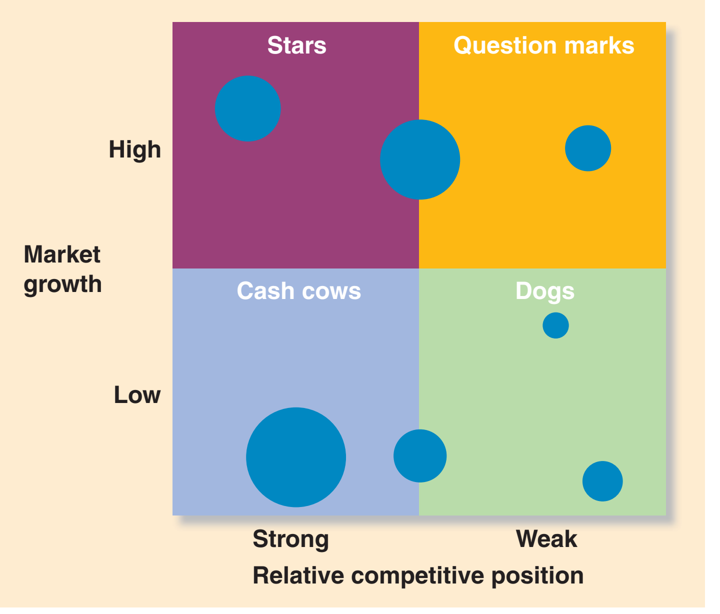



FIGURE 4.7
The BCG Matrix

**concentric diversification**

A strategy used to add new businesses that produce related products or are involved in related markets and activities.

**conglomerate diversification**

A strategy used to add new businesses that produce unrelated products or are involved in unrelated markets and activities.

In contrast to concentric diversification, **conglomerate diversification** is a corporate strategy that involves expansion into unrelated businesses. For example, General Electric Corporation has diversified from its original base in electrical and home appliance products to such wide-ranging industries as health, finance, insurance, truck and air transportation, and even media, with its ownership of NBC. Typically, companies pursue a conglomerate diversification strategy to minimize risks due to market fluctuations in one industry.

The diversified businesses of an organization are sometimes called its business *portfolio*. One of the most popular techniques for analyzing a corporation's strategy for managing its portfolio is the BCG matrix, developed by the Boston Consulting Group. The BCG matrix is shown in Figure 4.7. Each business in the corporation is plotted on the matrix on the basis of the growth rate of its market and the relative strength of its competitive position in that market (market share). The business is represented by a circle whose size depends on the business's contribution to corporate revenues.

FROM THE PAGES OF **BusinessWeek**

## Baidu Thinks It Can Play in Japan

Facing slower growth and increased competition at home, Baidu.com, the dominant search engine in China, is making its first foray overseas. Baidu Chairman and Chief Executive Officer Robin Li said the company will spend $15 million trying to replicate its at-home success in Japan this year.

The company started investing in Japan last year, and management argues that the same magic that made Baidu.com tops in China will give Baidu.jp an edge in Japan. "We are very confident" about Baidu's ability to make an impact in the Japanese market, Li said in a conference call from Beijing.

Baidu certainly has had an impressive run in China. The company reported profits for 2006 of $38.7 million, up 533.9 percent from a year earlier, on sales of $107.4 million, an increase of 162.5 percent from the year before. Baidu has more than half of the total search market in China, and it has formed partnerships with some of the top names in the tech world, from IBM to Intel to Microsoft.

Baidu's accomplishments are all the more impressive given the attempts by both Google and Yahoo to become more competitive in the Chinese search market. Even Baidu, though, can't keep that kind of torrential growth going in China. In the fourth quarter of the previous year, Baidu only added 6,000 new customers on a base of more than 100,000 advertisers. Google and Yahoo aren't the only ones going after Baidu's core business. Local players such as portal Sohu.com and Shenzhen-based instant-messaging provider Tencent are also boosting their Chinese-language search offerings.

That's one reason Baidu is expanding to Japan. Some people who follow the industry believe that Baidu's strengths—especially its ability to cope with tens of thousands of Chinese characters—will help there. Written Japanese uses many of the same characters as written Chinese, and that plays to Baidu's biggest advantage over Western rivals, says Gerhard Fasol, CEO of Tokyo-based consulting firm Eurotechnology Japan. "They may be able to exploit their knowledge of Chinese characters better," he says.

Fasol also believes that Baidu has an opportunity to establish itself in Japan's mobile search market, which is in its infancy. "The momentum on development is moving from fixed-line to mobile," he says, pointing out that search via mobile phones is only about six months old in Japan. "You know, it's very early, so it's not mature at all. The dice have not fallen yet."

Still, some people who follow Chinese companies have their doubts about Baidu's ability to do well in Japan. There are several big-name competitors vying for the same market as Baidu. The field is dominated by Yahoo Japan. Google is stronger in Japan than in China, too. And Japanese cellular operator NTT DoCoMo operates a mobile search service of its own.

Li said Baidu has plenty of experience in coming from behind to take over a market. "Baidu wasn't number one in China from Day One," he said. "We started quite late. So we are familiar with how to play the catch-up game."

SOURCE: Excerpted from Bruce Einhorn, "Baidu Thinks It Can Play in Japan," *BusinessWeek,* February 15, 2007, http://www.businessweek.com.

High-growth, weak-competitive-position businesses are called *question marks*. They require substantial investment to improve their position; otherwise, divestiture is recommended. High-growth, strong-competitive-position businesses are called *stars*. These businesses require heavy investment, but their strong position allows them to generate the needed revenues. Low-growth, strong-competitive-position businesses are called *cash cows*. These businesses generate revenues in excess of their investment needs and therefore fund other businesses. Finally, low-growth, weak-competitive-position businesses are called *dogs*. The remaining revenues from these businesses are realized, and then the businesses are divested.

$ The bottom line
COST
Companies that integrate vertically often do so to reduce their costs.

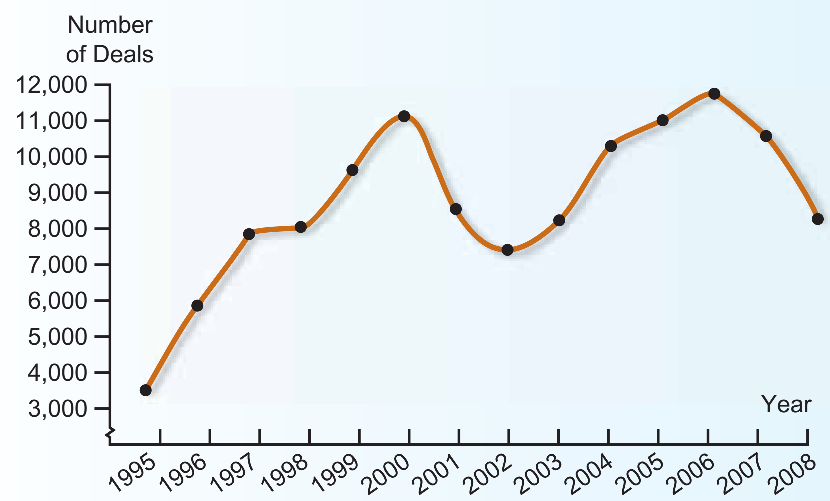
Concentric diversification can melt national boundaries. Internet search giant Google recently acquired a portion of the rapidly growing Chinese Web site Xunlei.com, which allows users to download music and video clips from the Internet. Google's investment in—and partnership with—Xunlei.com will allow the Chinese site to use Google's search capabilities, while giving Google direct access to China's 130 million Internet users. Google has also formed an alliance with China Mobile, the country's largest mobile phone carrier, to offer mobile Internet search service to Chinese consumers.

Despite its ranking as the world's largest search engine, in China Google is dwarfed by the Chinese search engine Baidu.com, which claims about 63 percent of China's market share. (Google claims only about 19 percent.) In addition, China is filled with tiny start-ups that have, thus far, shut out U.S. Internet firms. So, Google's strategy is to diversify within that country to capture more of the market. Because of government and cultural restraints in China, Google would have a much more difficult time entering the market there alone. By creating alliances with Chinese firms, Google will have a better chance of gaining the attention of Chinese consumers who are in the market for downloads of videos, music, games, software, and cell phone ringtones.[33]

The BCG matrix is not intended as a substitute for management judgment, creativity, insight, or leadership. But it is a tool that can, along with other techniques, help managers of the firm as a whole and of its individual businesses evaluate their strategy alternatives.[34] This type of thinking has recently helped Abbott Laboratories succeed. When Miles White took over as Abbott's CEO, he began restructuring the company's portfolio to emphasize growth. He sold off much of the company's diagnostics business, which was earning low returns, and purchased businesses with higher risks but the potential to be stars, including Guidant Corporation's vascular division, which makes drug-coated stents, and Kos Pharmaceuticals, which is working on drugs for raising "good" cholesterol. White says his goal is to have a portfolio of businesses that are innovative, growing, and delivering high returns.[35]

**Trends in Corporate Strategy** Corporate America is periodically swept by waves of mergers and acquisitions (M&As). The targets chosen for mergers and acquisitions depend on the organization's corporate strategy of either concentrating in one industry or diversifying its portfolio. Many of the most recent deals, including AT&T's acquisition of BellSouth, have been aimed at helping the companies enjoy the cost advantages of consolidating their marketing, customer service, and other operations. In contrast, during the 1990s, many deals—including the merger of America Online and Time Warner—were made to help traditional businesses enter the hot Internet market.

The past two decades have seen waves of mergers and acquisitions.[36]




The value of implementing a diversified corporate strategy depends on individual circumstances. Many critics have argued that unrelated diversification hurts a company more often than it helps it. In recent years, many diversified companies have sold their peripheral businesses so that they could concentrate on a more focused portfolio. In contrast, the diversification efforts of an organization competing in a slow-growth, mature, or threatened industry often are applauded.

Although the merits of diversification are an issue for continued study, most observers agree that organizations usually perform better if they implement a more concentric diversification strategy, in which businesses are related somehow or similar to one another. For example, near the beginning of the chapter, we saw that IBM has a successful strategy of acquiring small software companies. This strategy succeeds because IBM has a competitive advantage in selling software (including a brand with a strong reputation), has expertise in the product category that can help it appreciate the technical applications sold by these sometimes-obscure companies, and uses the acquisitions to grow faster than it could by hiring its programmers to create similar products. The acquired companies benefit because sales of their products increase—by an average of 25 percent in the first year.[37]

**business strategy**

The major actions by which a business competes in a particular industry or market.

LO 6

**Business Strategy** After the top management team and board make the corporate strategic decisions, executives must determine how they will compete in each business area. **Business strategy** defines the major actions by which an organization builds and strengthens its competitive position in the marketplace. A competitive advantage typically results from one of two generic business strategies introduced here and elaborated in Chapter 7.[38]

First, organizations such as Wal-Mart and Southwest Airlines pursue competitive advantage through **low-cost strategies.** Businesses using a low-cost strategy attempt to be efficient and offer a standard, no-frills product. Southwest Airlines' low-cost strategy is simply stated: "to be *the* low-fare airline." That strategy helps with operational planning; when someone suggested offering passengers chicken salad instead of peanuts on some flights, the chief executive simply asked whether chicken salad would help Southwest be "*the* low-fare airline."[39] Companies that succeed with a low-cost strategy often are large and try to take advantage of economies of scale in production or distribution. In many cases, their scale allows them to buy and sell their goods and services at a lower price, which leads to higher market share, volume, and, ultimately, profits. To succeed, an organization using this strategy generally must be the cost leader in its industry or market segment. However, even a cost leader must offer a product that is acceptable to customers compared with competitors' products.

**low-cost strategy**

A strategy an organization uses to build competitive advantage by being efficient and offering a standard, no-frills product.

$ The bottom line

COST

Low-price strategies usually require low production costs.

Second, an organization may pursue a **differentiation strategy.** With a differentiation strategy, a company attempts to be unique in its industry or market segment along some dimensions that customers value. This unique or differentiated position within the industry often is based on high product quality, excellent marketing and distribution, or superior service.

**differentiation strategy**

A strategy an organization uses to build competitive advantage by being unique in its industry or market segment along one or more dimensions.

Nordstrom's commitment to quality and customer service in the retail apparel industry is an excellent example of a differentiation strategy. For example, Nordstrom's personal shoppers are available online, by phone, or in stores to select items for shoppers' consideration at no charge. Innovation, too, is an important ingredient of a differentiation strategy. In the market for toilet paper, Scott Paper Company once determined that it could not afford to compete for institutional sales based on price. Instead, the company began offering institutions a free dispenser that would hold larger rolls of paper, saving its customers the labor cost of replacing empty rolls more frequently. Scott initially was the only company selling the larger rolls, so it gained market share while competitors scrambled to catch up.[40]

Nordstrom differentiates itself from its competitors with superior customer service and broad product selection.

Whatever strategy managers adopt, *the most effective strategy is one that competitors are unwilling or unable to imitate.* If the organization's strategic plan is one that could easily be adopted by industry competitors, it may not be sufficiently distinctive or, in the long run, contribute significantly to the organization's competitiveness. For example, a strategy to gain market share and, ultimately, profits by being the "first mover" to offer an innovative product may or may not succeed, depending in part on competitive responses. In some industries, such as computers, technology advances so fast that the first company to provide a new product is quickly challenged by later entrants offering superior products.[41]

A high-quality strategy is often more difficult for competitors to imitate.

**Functional Strategy** The final step in strategy formulation is to establish the major functional strategies. **Functional strategies** are implemented by each functional area of the organization to support the business strategy. The typical functional areas include production, human resources, marketing, research and development, finance,

**functional strategies**

Strategies implemented by each functional area of the organization to support the organization's business strategy.

and distribution. For example, IBM's plan to grow through acquisitions of software companies requires functional strategies for training its sales force to understand the new products and for training the acquired company's employees to understand IBM's culture and procedures. Part of the functional strategy includes assigning each new employee to an experienced IBM mentor. At Wells Fargo, the strategy to grow through cross-selling requires functional strategies for advertising, training employees to cross-sell, and developing systems for sharing information across department boundaries. And at Boeing, the strategy to grow at a steady pace, rather than ramping-up production until high costs force cutbacks, requires functional strategies related to hiring and training employees, scheduling production, and negotiating sales.[42]

Functional strategies typically are developed by functional area executives with input of and approval from the executives responsible for business strategy. Senior strategic decision makers review the functional strategies to ensure that each major department is operating consistent with the business strategies of the organization. For example, automated production techniques—even if they saved money—would not be appropriate for a piano company like Steinway, whose products are strategically positioned (and priced) as high-quality and hand-crafted. At companies that compete based on product innovation, strategies for research and development are especially critical. But in the recession that occurred at the beginning of this decade, General Electric cut back on research in lighting technology just as other companies were making advances in LED lighting. When the economy recovered, customers were looking for innovative lighting, but GE had fallen behind. Based on that experience, GE committed itself to an R&D strategy of maintaining budgets even when sales slow down. In the latest economic downturn, the company continued to fund a project in which it is developing new aircraft engines with Honda Motor Company.[43]

LO 7

## Step 5: Strategy Implementation

As with any plan, simply formulating a good strategy is not enough. Strategic managers also must ensure that the new strategies are implemented effectively and efficiently. Recently, corporations and strategy consultants have been paying more attention to implementation. They realize that clever techniques and a good plan do not guarantee success. This greater appreciation is reflected in two major trends.

First, organizations are adopting a more comprehensive view of implementation. The organization structure, technology, human resources, employee reward systems, information systems, organization culture, and leadership style must all support the strategy. Just as an organization's strategy must be matched to the external environment, so must it also fit the multiple factors through which it is implemented. The remainder of this section discusses these factors and the ways they can be used to implement strategy.

Second, many organizations are extending the more participative strategic management process to implementation. Managers at all levels are involved with formulating strategy and identifying and executing ways to implement it. Senior executives still may oversee the implementation process, but they are placing much greater responsibility and authority in the hands of others. In general, strategy implementation involves four related steps:

*Step 1: Define strategic tasks.* Articulate in simple language what a particular business must do to create or sustain a competitive advantage. Define strategic tasks to help employees understand how they contribute to the organization, including redefining relationships among the parts of the organization.

*Step 2: Assess organization capabilities.* Evaluate the organization's ability to implement the strategic tasks. A task force typically interviews employees and managers to identify specific issues that help or hinder effective implementation. Then the results are summarized for top management. In the course of your career, you will likely be asked to participate in a task force. We discuss working effectively in teams in Chapter 14.

*Step 3: Develop an implementation agenda.* Management decides how it will change its own activities and procedures; how critical interdependencies will be managed; what skills and individuals are needed in key roles; and what structures, measures, information, and rewards might ultimately support the needed behavior. A philosophy statement, communicated in terms of value, is the outcome of this process.

*Step 4: Create an implementation plan.* The top management team, the employee task force, and others develop the implementation plan. The top management team then monitors progress. The employee task force continues its work by providing feedback about how others in the organization are responding to the changes.

This process, though straightforward, does not always go smoothly. Table 4.3 shows six different barriers to strategy implementation and provides a description of some key principles for overcoming these "silent killers." By paying closer attention to the processes by which strategies are implemented, executives, managers, and employees can make sure that strategic plans are actually carried out.[44]

## Step 6: Strategic Control

The final component of the strategic management process is strategic control. A **strategic control system** is designed to support managers in evaluating the organization's progress with its strategy and, when discrepancies exist, taking corrective action. The system must encourage efficient operations that are consistent with the plan while

**strategic control system**

A system designed to support managers in evaluating the organization's progress regarding its strategy and, when discrepancies exist, taking corrective action.

TABLE 4.3

Attacking the Six Barriers to Strategy Implementation

Change starts with the leader

| The Silent Killers | Principles for Engaging and Changing the Silent Killers |
|---|---|
| Top-down or laissez-faire senior management style | With the top team and lower levels, the CEO/general manager creates a partnership built around the development of a compelling business direction, the creation of an enabling organizational context, and the delegation of authority to clearly accountable individuals and teams. |
| Unclear strategy and conflicting priorities | The top team, as a group, develops a statement of strategy, and priorities that members are willing to stand behind are developed. |
| An ineffective senior management team | The top team, as a group, is involved in all steps in the change process so that its effectiveness is tested and developed. |
| Poor vertical communication | An honest, fact-based dialogue is established with lower levels about the new strategy and the barriers to implementing it. |
| Poor coordination across functions, businesses, or borders | A set of businesswide initiatives and new organizational roles and responsibilities are defined that require "the right people to work together on the right things in the right way" to implement the strategy. |
| Inadequate down-the-line leadership skills and development | Lower-level managers develop skills through newly created opportunities to lead change and drive key business initiatives. They are supported with just-in-time coaching, training, and targeted recruitment. Those who still are not able to make the grade must be replaced. |

SOURCE: Reprinted from M. Beer and R. A Eisenstat, "The Silent Killers of Strategy Implementation and Learning," *MIT Sloan Management Review* 4, no. 4 (Summer 2000), pp. 29–40, by permission of the publisher. 

allowing flexibility to adapt to changing conditions. As with all control systems, the organization must develop performance indicators, an information system, and specific mechanisms to monitor progress. At Boeing, one obvious measure of its strategy to partner with suppliers is whether suppliers are keeping up with Boeing's need for components that meet its quality standards. In fact, as orders flowed in for the 787 Dreamliner, several suppliers began missing deadlines. Boeing dispatched teams of experts from various functions to visit the suppliers, diagnose the reasons for their difficulties, and help them catch up. It also has modified its strategy by having its own employees do more of the final assembly work in order to avoid falling further behind.[45]

Most strategic control systems include a budget to monitor and control major financial expenditures. In fact, as a first-time manager, you will most likely confront your work unit's budget—a key aspect of your organization's strategic plan. Your executive team may give you budget assumptions and targets for your area, reflecting your part in the overall plan, and you may be asked to revise your budget once all the budgets in your organization have been consolidated and reviewed.

The dual responsibilities of a control system—efficiency and flexibility—often seem contradictory with respect to budgets. The budget usually establishes spending limits, but changing conditions or the need for innovation may require different financial commitments during the period. To solve this dilemma, some companies have created two budgets: strategic and operational. For example, managers at Texas Instruments control two budgets under the OST (objectives-strategies-tactics) system. The strategic budget is used to create and maintain long-term effectiveness, and the operational budget is tightly monitored to achieve short-term efficiency. The topic of control in general—and budgets in particular—is discussed in more detail in Chapter 16. In the "Management Close-Up: Assessing Outcomes and Seizing Opportunities" feature, consider what performance measures indicate the success of Nokia's strategy. What trade-offs, if any, do you see between innovation and efficiency?

## Management Close-Up

### ASSESSING OUTCOMES AND SEIZING OPPORTUNITIES

After Apple's introduction of the iPhone and its growing multitude of Web applications, how did Nokia respond? Favorably, say industry observers, who have since shifted their outlook on Nokia's prospects. Under Kallasvuo's leadership, they say the company is looking to the future and introducing more interesting phones and services. For example, after Apple introduced its App Store, Nokia upped the ante by launching its Ovi Store on the Internet. The Ovi service, launched in 2007, permits Nokia phone users to access music, games, maps, videos, and more. Ovi applications also provide information targeted to a cell phone user's geographic location.

Nokia's newly launched high-end model, the N97, competes head to head with Apple's iPhone and Research in Motion's BlackBerry. The N97 boasts a slide-out alphabetic keyboard and a 3.5-inch touch screen with 50 percent greater resolution than the iPhone's. What's more, it comes preloaded with Ovi Store.

In another expansion of product capability, Nokia invested $35 million in Obopay, a mobile payment service. Located in India, Obopay enables users to send and receive money using their cell phone. Such services are particularly useful in developing countries, where consumers have little access to banks or credit cards and where holding large amounts of cash can be dangerous.

Nokia is also aggressively building a presence in the United States. Through a joint venture with Siemens AG, it is seeking to buy pieces of bankrupt Canadian carrier Nortel, which had a significant U.S. network and a robust research and development pipeline.

The company also announced it will produce a "green" phone made with recycled steel and environmentally friendly biomaterials. Called the "Remade," the phone has a thin, silver handset whose case is made of renewable materials instead of petroleum-based plastic.[46]

- Olli-Pekka Kallasvuo says that in the mobile-devices industry, one size will not fit all for wireless communications. How does this statement affect strategic planning at Nokia?
- A technology-driven industry like the one in which Nokia operates can be quite fluid. From the discussion in the case, how well do you think Nokia responded to its competition? Do you think its strategic planning has improved overall?

## KEY TERMS



## SUMMARY OF LEARNING OBJECTIVES

Now that you have studied Chapter 4, you should be able to:

**LO 1 Summarize the basic steps in any planning process.**

The planning process begins with a situation analysis of the external and internal forces affecting the organization. This examination helps identify and diagnose issues and problems and may bring to the surface alternative goals and plans for the firm. Next, the advantages and disadvantages of these goals and plans should be evaluated against one another. Once a set of goals and a plan have been selected, implementation involves communicating the plan to employees, allocating resources, and making certain that other systems such as rewards and budgets are supporting the plan. Finally, planning requires instituting control systems to monitor progress toward the goals.

**LO 2 Describe how strategic planning should be integrated with tactical and operational planning.**

Strategic planning is different from operational planning in that it involves making long-term decisions about the entire organization. Tactical planning translates broad goals and strategies into specific actions to be taken within parts of the organization. Operational planning identifies the specific short-term procedures and processes required at lower levels of the organization.

**LO 3 Identify elements of the external environment and internal resources of the firm to analyze before formulating a strategy.**

Strategic planning is designed to leverage the strengths of a firm while minimizing the effects of its weaknesses. It is difficult to know the potential advantage a firm may have unless external analysis is done well. For example, a company may have a talented marketing department or an efficient production system. However, the organization cannot determine whether these internal characteristics are sources of competitive advantage until it knows something about how well the competitors stack up in these areas.

**LO 4 Define core competencies and explain how they provide the foundation for business strategy.**

A core competence is something a company does especially well relative to its competitors. When this competence, say, in engineering or marketing, is in some area important to market success, it becomes the foundation for developing a competitive advantage. It can provide a sustainable advantage if it is valuable, rare, difficult to imitate, and well organized.

**LO 5 Summarize the types of choices available for corporate strategy.**

Corporate strategy identifies the breadth of a firm's competitive domain. Corporate strategy can be kept narrow, as in a concentration strategy, or can move to suppliers and buyers via vertical integration. Corporate strategy also can broaden a firm's domain via concentric (related) diversification or conglomerate (unrelated) diversification.

**LO 6 Discuss how companies can achieve competitive advantage through business strategy.**

Companies gain competitive advantage in two primary ways. They can attempt to be unique in some way by pursuing a differentiation strategy, or they can focus on efficiency and price by pursuing a low-cost strategy.

**LO 7 Describe the keys to effective strategy implementation.**

Many good plans are doomed to failure because they are not implemented correctly. Strategy must be supported by structure, technology, human resources, rewards, information systems, culture, leadership, and so on. Ultimately, the success of a plan depends on how well employees at low levels are able and willing to implement it. Participative management is one of the more popular approaches executives use to gain employees' input and ensure their commitment to strategy implementation.

## DISCUSSION QUESTIONS

1. This chapter opened with a quote from former CEO of GE Jack Welch: "Manage your destiny, or someone else will." What does this mean for strategic management? What does it mean when Welch adds, "or someone else will"?
2. List the six steps in the formal planning process. Suppose you are a top executive of a home-improvement chain and you want to launch a new company Web site. Provide examples of activities you would carry out during each step to create the site.
3. Your friend is frustrated because he's having trouble selecting a career. He says, "I can't plan because the future is too complicated. Anything can happen, and there are too many choices." What would you say to him to change his mind?
4. How do strategic, operational, and tactical planning differ? How might the three levels complement one another in an organization?
5. How might an organization such as Urban Outfitters use a strategic map? With your classmates and using Figure 4.3 as a guide, develop a possible strategic map for the company.
6. What accounts for the shift from strategic planning to strategic management? In which industries would you be most likely to observe these trends? Why?
7. Review table 4.1, which lists the components of an environmental analysis. Why would this analysis be important to a company's strategic planning process?
8. In your opinion, what are the core competencies of Harley-Davidson Motor Company motorcycles? How do these competencies help Harley-Davidson compete against foreign competitors such as Yamaha and Suzuki?
9. How could SWOT analysis help newspaper companies remain competitive in the new media environment?
10. What are the key challenges in strategy implementation? What barriers might prevent strategy implementation?

## CONCLUDING CASE

# Custom Coffee & Chocolate

Bonnie Brewer and Stacy Kim were college roommates. While at school, they shared dreams of opening their own business. To prepare themselves, they took business and marketing courses, along with courses in management. When they graduated, they each found jobs in Seattle, near where they'd gone to school.

Several years later, after working at other companies to gain experience, the two women decided to take the plunge together and made a plan to open a small café where they and their customers could indulge their love of good coffee and fine chocolate. They looked at two locations for their café: one near Pike Place Market, which gets a lot of foot traffic from shoppers and businesspeople, and one near the university, where shops and restaurants are patronized by students, faculty, staff, and local residents. They chose the university location because they thought they knew and understood those customers well. The doors to Custom Coffee & Chocolate opened several months later, with both Brewer and Kim working hard to serve unique coffee blends and specialty chocolates, maintain the shop, and handle the finances.

Custom Coffee & Chocolate's business plan included purchasing only fair trade coffee (priced to provide living wages to coffee growers) and chocolates made by a few local suppliers. Their café was small, but it had several comfortable chairs, couches, and coffee tables to encourage customers to stay and chat or read the newspaper between classes. However, the majority of their business was takeout.

At the beginning, business was slow. Brewer and Kim had struggled to find the right price points for their coffee and chocolates, and they worried they might be set too high. But everyone who came in to the café loved what they bought, and came back—and began to bring friends. Business increased over a period of about five months, when Brewer and Kim had to turn their attention toward longer-term planning. They had exhausted their savings and their initial small-business loan, and their six-month lease was up. They needed to decide whether they were in this for the long haul.

The two women met to consider their options. Right away, they decided they wanted to extend their hours and hire two part-time employees. They would investigate a wireless connection that customers could use. Kim would take over more of the finances, while Brewer would handle marketing—which they both agreed they needed for the café to grow. They evaluated whether to expand the menu to include baked chocolate desserts, tea, and other beverages. They considered delivery service to locations on campus, such as dorms and lounges where students were studying. They discussed holding events at the café such as poetry readings or discussion groups. And they talked about establishing a Web site with a menu and phone number, updates on current coffees and chocolate flavors, and a blog written by Brewer with opportunities for customers to respond. They agreed they were not yet ready to accept online orders, but eventually they might.

As Kim and Brewer finalized their planning, they agreed that managing their own business was a challenge, but one they would never regret.

### QUESTIONS

1. What do you think Custom Coffee & Chocolate's mission is?
2. Create a SWOT analysis for Custom Coffee & Chocolate.
3. Using the owners' ideas for the future of their café, as well as your own ideas, outline a tactical plan for Custom Coffee & Chocolate.

## EXPERIENTIAL EXERCISES

# 4.1 Strategic Planning

### OBJECTIVE

To study the strategic planning of a corporation recently in the news.

### INSTRUCTIONS

*BusinessWeek* magazine frequently has articles on the strategies of various corporations. Find a recent article on a corporation in an industry of interest to you. Read the article and answer the following questions.

## Strategic Planning Worksheet

1. Has the firm clearly identified what business it is in and how it is different from its competitors? Explain.

2. What are the key assumptions about the future that have shaped the firm's new strategy?

3. What key strengths and weaknesses of the firm influenced the selection of the new strategy?

4. What specific objectives has the firm set in conjunction with the new strategy?

# 4.2 Formulating Business Strategy

## OBJECTIVES

1. To illustrate the complex interrelationships central to the formulation of business strategy.
2. To demonstrate the use of SWOT (strengths, weaknesses, opportunities, and threats) analysis in a business situation.

## INSTRUCTIONS

1. Your instructor will divide the class into small groups and assign each group a well-known organization for analysis.
2. Each group will
   a. Study the SWOT Introduction and the SWOT Worksheet to understand the work needed to complete the assignment.
   b. Obtain the needed information about the organization under study through library research, interviews, and so on.
   c. Complete the SWOT Worksheet.
   d. Prepare group responses to the discussion questions.
3. After the class reconvenes, group spokespersons will present group findings.

## DISCUSSION QUESTIONS

1. Why would most organizations not develop strategies for matches between opportunities and strengths?
2. Why would most organizations not develop strategies for matches between opportunities and weaknesses?
3. Why do most organizations want to deal from strength?

## SWOT INTRODUCTION

One of the more commonly used strategy tools is SWOT (strengths, weaknesses, opportunities, and threats) analysis, which is accomplished in four steps:

*Step 1:* Analyze the organization's internal environment, identifying its strengths and weaknesses.

*Step 2:* Analyze the organization's external environment, identifying its opportunities and threats.

*Step 3:* Match (a) strengths with opportunities, (b) weaknesses with threats, (c) strengths with threats, and (d) weaknesses with opportunities.

*Step 4:* Develop strategies for those matches which appear to be of greatest importance to the organization. Most organizations give top priority to strategies that involve the matching of strengths with opportunities and second priority to strategies that involve the matching of weaknesses with threats. The key is to exploit opportunities in areas where the organization has a strength and to defend against threats in areas where the organization has a weakness.

# SWOT Worksheet

**Organization being analyzed:** ______________________________

| Internal Analysis | External Analysis |
|---|---|
| Strengths | Opportunites |
| Weaknesses | Threats |

| Strategies That Match Strengths with Opportunites | Strategies That Match Weaknesses with Threats |
| --- | --- |

| Strategies That Match Strengths with Threats | Strategies That Match Weaknesses with Opportunites |
| --- | --- |