Session 2b

Formulating Competitive Strategy
In this session you will learn:

1. How to use the strategy hierarchy as the basis for the strategy formulation process
2. How to formulate business strategy through a SWOT analysis
3. How to use the generic strategies matrix to determine the source of your firm’s competitive advantage
4. How to use the competitive advantage, market attractiveness matrix to determine a firm’s strategic choices
5. How decision trees can be used to delineate the specific choices a firm has to achieve its objectives
Strategy is the Route to Competitive Advantage

- GOALS
- OBJECTIVES
- STRATEGY
- TACTICS
In this Course We Work Between Market Selection and Segment Selection and Down in the Hierarchy

- Industry Selection (corporate strategy)
- Market Selection (corporate business strategy)
- Segment Selection (business/marketing strategy)
- Niche Selection (marketing/positioning strategy)
- Customer Selection (sales strategy)
A Basic Model of the Strategic Thought Process

Environment

Competitive Capabilities and Resources

Internal Capabilities and Resources

Opportunities
Threats

Strengths
Weaknesses

Strategy Options

Objectives

Strategic Principles

Intelligence

Analysis

Alternative generation

Evaluation

Objectives

Strategic Principles

BusStrat Sess 2b-5
The Strategy Formulation Process

Situation Assessment
- Business definition
- Current position
- Environmental situation
- Competitive analysis

Situation Generation
- Strategic options
- Sources of competitive advantage
- Issues analysis

Strategy Selection
- Rewards and risks
- Objectives
- Resource allocation

Implementation
- Functional plans
- Programs
- Budgets
- Performance measures

Business Definition

Environmental Situation

Competitive Situation

Resources and Capabilities

Analysis of Past Performance

Preliminary Objectives

Opportunities and Threats

Strengths and Weaknesses

Strategic Thinking
- Identify key issues
- Develop strategy options

Analysis
- Resolve issues
- Evaluate options

Decisions
- Strategy
- Performance objectives

Implementation
- Tasks
- Timing
- Responsibility

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It Starts With Understanding My Competitive Advantage and Competitive Target

<table>
<thead>
<tr>
<th>Competitive Target</th>
<th>Lower Cost</th>
<th>Differentiation</th>
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<tbody>
<tr>
<td>Broad</td>
<td>Cost Leadership</td>
<td>Differentiation</td>
</tr>
<tr>
<td>Narrow</td>
<td>Cost Focus</td>
<td>Differentiation Focus</td>
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Next, I Need to Understand the Resource Needs and Implications

- Foresight
- Luck
- Competitive Failure
- Superior Skills
- Competitive Advantage
- Superior Resources
- Superior Profit Performance

BusStrat Sess 2b-8
A Strategy is Incomplete Unless Both Are Specified

Resource Strategy
- Cash Usage
- Cash Neutral
- Cash Generating
- Manage for Cash
- Harvest for Cash

Competitive Advantage Strategy
- Cost Leadership
- Differentiation
- Cost Focus
- Cost Differentiation

Complete Strategy
Corporations and Businesses Invest Cash in Attractive Sectors Where They Are Advantaged

(Market)

<table>
<thead>
<tr>
<th>Competitive Attractiveness</th>
<th>Unattractive</th>
<th>Average</th>
<th>Attractive</th>
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<tbody>
<tr>
<td>Weak</td>
<td>Disinvest</td>
<td>Phased</td>
<td>Double or</td>
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<td>Withdrawal</td>
<td>Quit</td>
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<td>Average</td>
<td>Proceed With</td>
<td>Proceed</td>
<td>Try Harder</td>
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<td>Care</td>
<td>With Care</td>
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<tr>
<td>Strong</td>
<td>Cash Generator</td>
<td>Growth</td>
<td>Leader</td>
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<td></td>
<td></td>
<td>Leader</td>
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BusStrat Sess 2b-10
The Market Attractiveness/Business Strength Matrix Can Be a Major Source of Insight

<table>
<thead>
<tr>
<th>Market Attractiveness</th>
<th>Corporate Strengths</th>
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<tbody>
<tr>
<td>High</td>
<td>Serious entry into the market</td>
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<td>Opportunistic position to test growth prospects; withdraw if indications of sustainable growth are lacking.</td>
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<td>Medium</td>
<td>Limited expansion or withdrawal</td>
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<td>Look for ways of achieving expansion without high risk; if unsuccessful, withdraw before involved too deeply</td>
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<tr>
<td>Low</td>
<td>Loss-minimizing</td>
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<td>Prevent losses before they occur by avoiding investment and by lowering fixed costs; when loss is unavoidable, withdraw.</td>
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A Decision Tree Analysis Can Help to Analyze the Strategic Option Decision Space

- Improve Profitability
  - Increase Sales Revenue
    - Increase Sales Volume
      - Increase Price
        - Increase Price Rate/Customer
        - Raise Market Price
        - Reduce Trade Discount
        - Reduce Labor Cost
      - Reduce Variable Cost
        - Reduce Raw Materials Cost
          - Use Less Expensive Raw Materials
          - Use Less Labor
        - Find Cheaper Labor Source
        - Increase Raw Materials Yield Rate
  - Reduce Manufacturing Costs
    - Improve Product Design
      - Add New Products
        - Increase Share of Market
      - Increase Price
        - Increase Usage Rate/Customer
        - Raise Market Price
        - Reduce Trade Discount
        - Reduce Labor Cost
      - Reduce Variable Cost
        - Reduce Raw Materials Cost
          - Use Less Expensive Raw Materials
          - Use Less Labor
        - Find Cheaper Labor Source
        - Increase Raw Materials Yield Rate
      - Improve Product Design
        - Reduce Manufacturing Costs
          - Improve Profitability
### Sometimes You Win By Staying the Course, Other Times by Changing the Games

<table>
<thead>
<tr>
<th>Scope of Competition (Where)</th>
<th>Mode of Competition (How)</th>
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<tr>
<td>Narrow Market</td>
<td>1. Do more and better of the same</td>
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<td>Broad Market</td>
<td>2. Resegment the market to create a niche</td>
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<td>Same</td>
<td>3. Create and pursue a unique advantage</td>
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<td>New</td>
<td>4. Exploit unique advantage industry-wide</td>
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<td>1. Across-the-board same game</td>
<td><strong>Do more and better of the same</strong></td>
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<td>2. Selective same game</td>
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<td>3. Selective new game</td>
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Defining the Strategic Situation is Key

Remember Hannibal?
The Strategic Situation Facing Hannibal

- He is defending; Varro is attacking
- He is outnumbered in infantry
- His army is pinned by mountain ridges and river
- He cannot augment his troops nor retreat
- By the law of physics, he is expected to lose
- His first objective is to survive, next to win
Strategic Situation Analysis

How the firm finds itself in terms of:

- The actions being taken by the competitor(s)
- The characteristics of the terrain on which the competition is being staged
- The relative strengths and weaknesses of the competitors
- The constraints which limits the players’ action options
- The rules which define who deserves to win
- The objectives(s) which the strategy must achieve to be successful