Goals: Generally more is better; You are never sure you achieved it or have enough of it.
Objectives: have to be measurable, and are time dependent. Concrete things you want to achieve to move towards your goals.
Strategy: Choice between structurally different alternatives. Are you doing the right things? What battles are worth fighting?
Tactics: Actions to execute idea of your strategy. Are you doing things right?
Risk = Probability of failure x Cost of failure

Strategic Lessons from military:
- Defense is the stronger form of competition.
- Attack only those you can beat.
- Victory should preserve the value of the objective.

Lessons of Competitive Advantage:
- To win you must (a) Create more value and (b) Capture more value. VALUE = Utility / Price.
- Winners increase value by (a) Delivering higher utility and (b) Delivering lower cost.
- Determinants of value captured (Porter’s 5 forces): (a) Customer value sets ceiling on value available to chain. (b) Firm’s bargaining power in value chain. (c) In long run firms only capture value they create. (d) Competition / rivalry in the industry.
- Customers capture value when (a) Product has little differentiation (b) Switching costs are low (c) Buyers buy in large volume; Buyers are fully informed; Buyers earn low profits (d) Product performance is not premium need.
- Suppliers capture value when (a) Supplier’s product has few substitutes (b) Switching costs are high (c) Suppliers are few in number (d) Supplier’s product performance is important.
- Industry rivalry determines value captured by firms in that industry. If all are equal players, competition is intense and no one gets a good share of the pie. If there are high fixed costs, high exit barriers (cable, telephone, etc.) and the strategic stakes are high, rivalry is intense. An unequal size of players allows each to cater to a segment of the market and allows value capture in that segment. Firm’s competitive advantage determines its share of value captured.
- Finally, the threat of substitutes limits the price an industry can charge. Threat of new entry also limits abnormal profits.

Characteristics of Winning strategies:
- Radically change the value equation; Push the boundaries of the product market; Increase accessibility, reduce distribution cost.
- Act before rivals do; Enables sustainable delivery of superior value & keep / increase share of value created.

Competitive Strategy
- Strategy is 3 questions: (1) What? Are my objectives, goals. (2) How? Am I creating, capturing value. (3) Why should I win?
- Good strategists put their resources behind their strengths, and try to leverage their opportunities.

A basic model for Strategy Formulation

Understand source of your competitive adv. & target market

Define a complete strategy after understanding your competitive advantage and by analyzing your resource needs (cash, people etc.)

Use competitive advantage (corporate strength) vs. market attractiveness matrix to determine a firm’s strategic choices:

Leadership comes by following 3 rules:
- Leaders offer best value by excelling in a specific dimension of value.
- Leaders maintain threshold standards on all other dimensions of value.
- Leaders dominate by improving value continuously.
Use Value Maps to define the value positions held by competitive offerings and to define your firm’s strategic direction:

**Value Maps**
- Worse value
- Average
- Premium

**Mission**
- Present
- New

**Technology Patterns**
1. **Law of Progress**: A technology’s performance improves over time.
2. **Law of Limits**: But the technology that delivers that performance changes: Paraffin to Edison to Sodium to Mercury to Fluorescent. (Lumens per watt—lighting). The changes might go through an “S-curve”.
3. **Technology evolution pattern**: (a) Technological discontinuity (Innovation) (b) Era of ferment (Technological and design competition) (c) Dominant design established (standardization) (d) Era of incremental change (Imitation).
4. **Technology & Adoption**: (a) Availability of complementary products speeds adoption. (b) Learning by users expands usage and speeds adoption (c) High switching cost of current technology slows adoption. (d) Expectations of high rates of technological progress and / or improvements in cost can delay adoption. (e) Forecasting speed of technology adoption is difficult.
5. **Rate and type of innovations changes with market development**: In the initial stages of development, innovation focuses on Product R&D; As a dominant design emerges, innovation shifts to Process R&D.

**Experience Curve**: Plot of “cost of the Nth unit” vs. “Cumulative units produced.” The 80% experience curve implies costs go down by 20% every time volume doubles. X% experience curve => costs go down (100-X)% each time volume doubles.
- On average, across several products, the average slope of the experience curve is 85%.
- Three causal drivers of the experience effect are:
  - Technology: Bench to Pilot to Batch to Continuous (?); Personal selling to Mass media.
  - Scale Economies: Plant size & vessels; R&D, Administration, and Advertising.
- Largest cost savings are realized in the early stages of the life cycle. Cumulative production most easily doubled when vol. low.

**Arguments for Early Entry**
- Easier to gain share in early stages of evolution; Lesser price pressure in growth markets.
- Early entrants ride down experience curve effects faster.
- Pioneer’s competitive advantage:
  - Consumer tastes and preferences can be shaped by the pioneer. Switching costs reduce follower’s value.
  - Later entrants have to offer more than pioneer (well, not always true; sometimes offering less is better: IBM PCs vs PARC Star)

**Risks for Pioneers / Early Entrants**
- Uncertain demand. Technology and standards may change: pioneer’s design may not be adopted by market.
- Too many competitors too fast.

<table>
<thead>
<tr>
<th>Present Mission</th>
<th>New Mission</th>
<th>BCG Growth Share Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Penetration</td>
<td>Product Development</td>
<td>High Share</td>
</tr>
<tr>
<td>Market Development</td>
<td>Diversification</td>
<td>Low Share</td>
</tr>
<tr>
<td>Present Product</td>
<td>New Product</td>
<td>High Growth</td>
</tr>
<tr>
<td>High Growth</td>
<td>Low Growth</td>
<td>Star</td>
</tr>
<tr>
<td>?? (Divest?)</td>
<td>Cash Cow</td>
<td>Dog</td>
</tr>
</tbody>
</table>

**Decision Tree Analysis** to help Analyze Strategic Option Decision Space.
- Improve Profitability
  - Increase Sales rev.
  - Reduce Manuf. cost
  - Reduce Variable costs
  - Reduce labor costs: (A) Use less labor OR (B) Find cheaper labor source
  - Reduce materials costs: (A) Increase material yield OR (B) Use less expensive raw mats.