Strategic Management

Small companies that are prepared can create the disruptions that revolutionize their industries, and, in the process, create a competitive edge:
- Apple Computer and the iPod
- Knowledge has become the critical factor of production
- Intellectual capital counts!

A Major Shift . . .

. . . from financial capital to intellectual capital
- Human
- Structural
- Customer
Strategic Management

- Is crucial to building a successful business
- Involves developing a game plan to guide a company as it strives to accomplish its mission, goals, and objectives, and to keep it on its desired course

Strategic Management and Competitive Edge

- Developing a strategic plan is crucial to gaining a competitive advantage, the aggregation of factors that sets a company apart from its competitors and gives it a unique position in the market
- Example: Honest Tea

Key: Core Competencies

- Unique set of skills, knowledge, or abilities that a company develops in key areas such as superior quality, customer service, innovation, team-building, flexibility, responsiveness, and others that allow it to vault past competitors
Key: Core Competencies

- Core competencies are what a company does best:
  - Durable, forming the building blocks for everything a company does
  - Difficult for competitors to duplicate
  - Must provide customers with a valuable perceived benefit

- Best to rely on a natural advantage (often linked to a company’s “smallness”)

Strategic Management Process

Step 1: Develop a vision and translate it into a mission statement
Step 2: Assess strengths and weaknesses
Step 3: Scan environment for opportunities and threats
Step 4: Identify key success factors
Step 5: Analyze competition
Step 6: Create goals and objectives
Step 7: Formulate strategies
Step 8: Translate plans into actions
Step 9: Establish accurate controls
Step 1: Develop a Vision and Create a Mission Statement

- **Vision** - an expression of what an entrepreneur stands for and believes in; the “sixth sense that tells us why we make a difference in the world”
- **Vision** is based on an entrepreneur’s values - 3 to 6 core values
- A clearly defined vision:
  - Provides direction
  - Determines decisions
  - Motivates people

Step 1: Develop a Vision and Create a Mission Statement

- **Mission** - addresses question: “What business are we in?”
- A written expression of how the company will reflect the owner’s values, beliefs, and vision
- Sets the tone for the entire company and guides the decisions people make

Step 1: Develop a Vision and Create a Mission Statement

- **Elements:**
  - **Purpose**
  - **Business we are in**
  - **Values**
- **Example:** Fetzer Vineyards
Step 2: Assess Company Strengths and Weaknesses

- **Strengths**
  - Positive internal factors that contribute to accomplishing the mission, goals, and objectives

- **Weaknesses**
  - Negative internal factors that inhibit the company’s ability to accomplish its mission, goals, and objectives

Step 3: Scan for Opportunities and Threats

- **Opportunities**
  - Positive external options the company can exploit to accomplish its mission, goals, and objectives

- **Threats**
  - Negative external forces that inhibit the company’s ability to accomplish its mission, goals, and objectives

65 Million Years Ago…

Today...movie theater owners – threats?
Chapter 2: Strategic Management

External Market Forces

- Technological
- Competitive
- Economic
- Political and Regulatory
- Social and Demographic

Step 4: Identify Key Success Factors

- Key success factors: factors that influence a company's ability to compete successfully in an industry
- The keys to unlocking the secrets of succeeding in a particular market segment

Step 5: Analyze Competitors

- Study: Top execs say that their industries are becoming more competitive
- Factors:
  - Smarter rivals
  - More price competition
  - Increased customer awareness
Competitor Analysis

Direct competitors
- Offer the same products and services
- Customers often compare prices, features and deals among these competitors when they shop

Significant competitors
- Offer some of the same or similar products or services
- Product or service lines overlap but not completely

Indirect competitors
- Offer some or similar products in only a small number of areas

Analyzing key competitors allows entrepreneurs to:
- Avoid surprises from existing competitors’ new strategies and tactics
- Identify potential new competitors and the threats they pose
- Improve reaction time to competitors’ actions
- Anticipate rivals’ next strategic moves
- Improve ability to differentiate your company from competitors

Techniques do not require unethical behavior:
- Monitor industry and trade publications
- Talk to customers and suppliers
- Listen to employees, especially sales representatives and purchasing agents
- Attend trade shows and conferences
Techniques do not require unethical behavior:

- Monitor competitors’ employment ads
- Conduct searches for patents filed by competitors
- Check EPA reports about manufacturing
- Search databases for types of materials and equipment competitors are importing

Competitor Analysis

Techniques do not require unethical behavior:

- Study competitors’ literature and “benchmark” their products and services
- Get competitors’ credit reports and SEC filings
- Check out the local library
- Use the World Wide Web to learn more about competitors
- Visit competing businesses to observe their operations

Sample Competitive Profile Matrix

<table>
<thead>
<tr>
<th>Key Success Factors</th>
<th>Your Business</th>
<th>Competitor 1</th>
<th>Competitor 2</th>
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<tr>
<td></td>
<td>Weight Rating</td>
<td>Weighted Score</td>
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<tr>
<td>Total</td>
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<td>2.06</td>
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</table>
Step 6: Create Company Goals and Objectives

- **Goals** - broad, long-range attributes to be accomplished; general and abstract
  - “BHAGS” - one factor that sets apart successful companies from unsuccessful ones
- **Objectives** - more detailed, specific targets of performance that are S.M.A.R.T.
  - **S**pecific
  - **M**easurable
  - **A**ssignable
  - **R**ealistic (yet challenging)
  - **T**imely

Step 7: Formulate Strategies

- **Strategy**
  - A “road map” that guides a company through a turbulent environment as it seeks to fulfill its mission, goals, and objectives
  - Focused on the key success factors identified in Step 4
    - Mission, goals, and objectives = Ends
    - Strategy = Means
Three Strategic Options

Three basic strategies:
- Cost leadership
- Differentiation
- Focus

Three Strategic Options

Source of Competitive Advantage
Uniqueness Perceived by the Customer

Industry

Niche

Cost Leadership

Goal: to be the low-cost producer in the industry or market segment

Advantages:
- Reaching buyers who buy on the basis of price
- Power to set the industry’s price floor

Works well when:
- Buyers are sensitive to price changes
- Competing firms sell the same commodity products
- A company can benefit from economies of scale
Differentiation

- Company seeks to build customer loyalty by positioning its goods or services in a unique or different fashion
- Idea is to be better than the competition at something customers value
- Key: Build basis for differentiation on a distinctive competence, something that a small company is uniquely good at doing in comparison to its competitors
- Example: Pharmaca

Focus

- Company selects one or more customer segments in a market, identifies customers' special needs, wants, or interests, and then targets them with a product or service designed specifically for them
- Strategy builds on differences among market segments

Focus

- Rather than try to serve the total market, the company focuses on serving a niche (or several niches) within that market
- Examples:
  - Amazing Butterflies
  - 1570 Cinema Services
  - Freed of London
Step 8: Strategies into Action Plans

- Create projects by defining:
  - Purpose
  - Scope
  - Contribution
  - Resource requirements
  - Timing

Step 9: Establish Accurate Controls

- The plan establishes the standards against which actual performance is measured
- Entrepreneur must:
  - Identify and track key performance indicators
  - Take corrective action

Balanced Scorecard

- A set of measurements unique to a company that includes both financial and operational measures
- Gives managers a quick yet comprehensive picture of a company's overall performance
Balanced Scorecard

- Five Perspectives:
  1. Customer: How do customers see us?
  2. Internal Business: At what must we excel?
  3. Innovation and Learning: Can we continue to improve and create value?
  4. Financial: How do we look to shareholders?
  5. Corporate Citizenship: What must we do to meet our social responsibility to society as a whole, the environment, the community, and other stakeholders?