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Steps:

- Open zoom “Sign in with SSO”
- Fill “uhd”.zoom.us
- Then UHD login page shows up.

Agenda for Today

- Differentiation strategy
- Strategy Process
- Corporate Governance

- Apple case

Differentiation strategy

- **Differentiation***[a value position]*:
 - ❖ Seeks to create **higher value for customers** than the value that competitors create, by delivering products or services with **unique features** while keeping costs at the same or higher level.

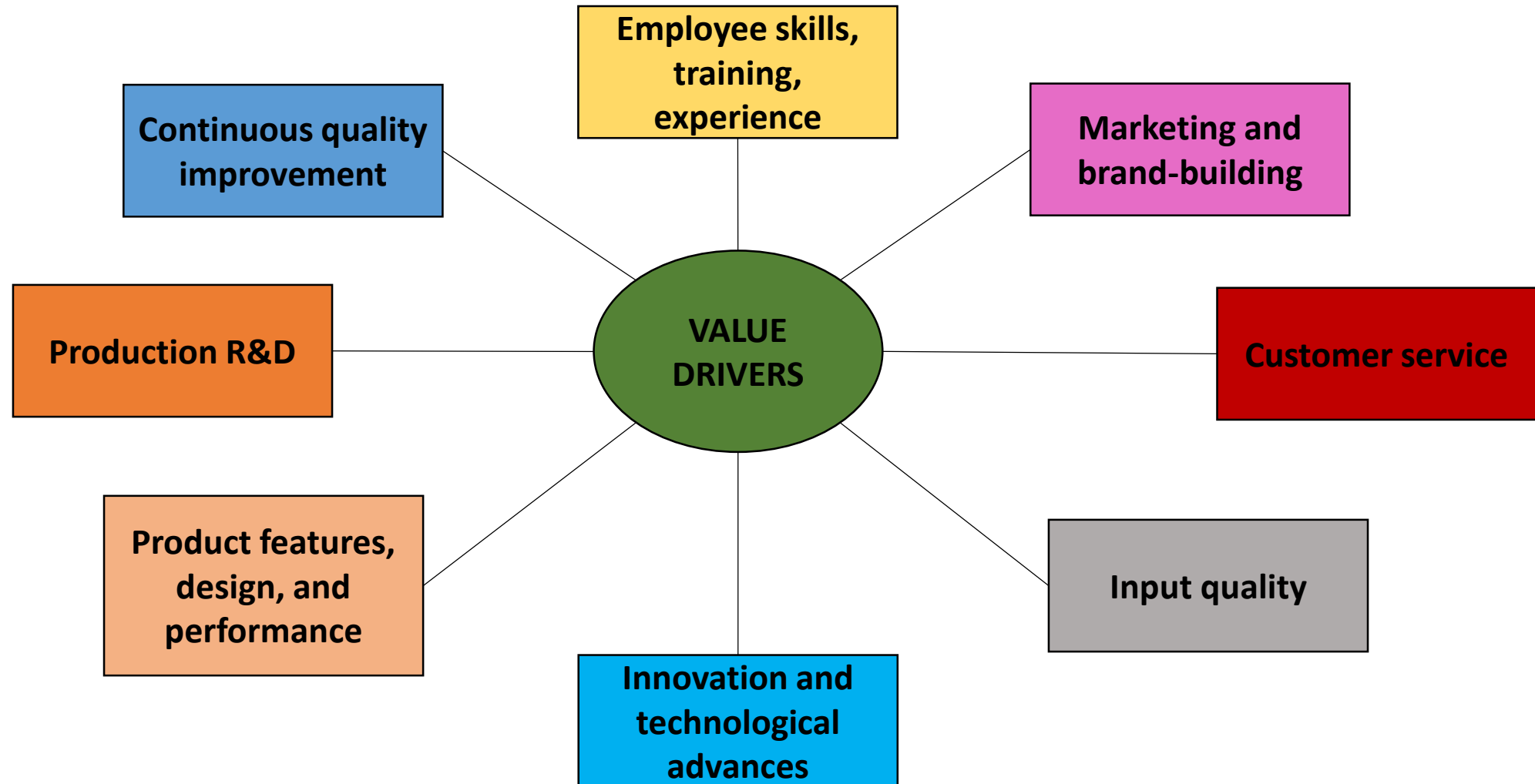
Differentiation strategy

The essence of a **differentiation strategy** is to offer unique product or service attributes that **buyers** find appealing and worth paying for.

Examples:

- **Multiple features:** Apple iPhone
- **Engineering design and performance:** BMW, Mercedes-Benz
- **Luxury and prestige:** Gucci, Chanel
- **Technological leadership:** 3M Corp

Important uniqueness drivers in a company's value chain



Generating Differentiation Advantage

Rule 1: Product Features



Generating Differentiation Advantage

Rule 1: Product Features

- Offer products that have superior product features
 - Dyson Vacuum
- Offer products that have more functional features
 - iPhone
- Provide unique product features
 - LinkedIn

Generating Differentiation Advantage

Rule 2: Brand

- associate their products with positive image in the mind of customers.
- social and emotional dimensions rather than the functional dimension of the product

GIORGIO ARMANI

PRADA



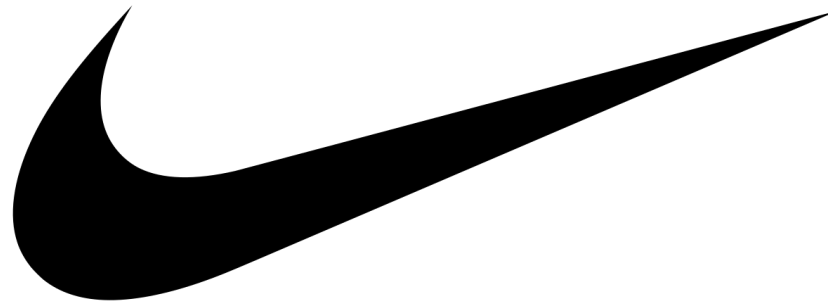
Generating Differentiation Advantage

Rule 3: Customization

- Product features
 - Customized sneakers at Nike.com
 - BMW's customized vehicles
- Customer services
 - High-end hotel chains



FOUR SEASONS
HOTELS AND RESORTS



When a Differentiation Strategy Works Best

- Buyer needs and uses of the product are diverse.
- There are many ways to differentiate the product or service that have value to buyers.
- Rival firms are following a similar differentiation approach.
- Technological change is fast-paced and competition revolves around rapidly evolving product features.

Common Pitfalls in Differentiation

- Looking too narrowly at the sources of differentiation
- Creating differentiation that buyers do not value
- Failing to recognize buyer segments
- Charging an excessive price premium
- Failing to understand costs of differentiation

Sources of competitive advantage

- **Cost leadership:** Achieving lower overall costs than rivals
 - Performing activities differently (cheaper process)
 - Cost proposition
- **Differentiation:** Possessing the capability to differentiate the firm's product or service and command a premium price
 - Performing different (valuable) activities
 - Value proposition

Successful competitive strategies are resource based

- Low-cost providers
 - Must have the resources and capabilities to keep costs below those of competitors
 - Must have expertise to cost-effectively manage value chain activities better than rivals
- Differentiators
 - Must have the resources and capabilities to incorporate unique attributes that a broad range of buyers will find appealing and worth paying for

Strategy Formulation and Execution Process

External and internal factors shaping strategic and operating decisions



The diagram consists of a red rectangular box at the top containing the text 'External and internal factors shaping strategic and operating decisions'. From the bottom edge of this box, four vertical black arrows point downwards, spaced evenly across the width of the box. These arrows likely represent the flow of influence from these factors into the subsequent stages of the strategy formulation and execution process.

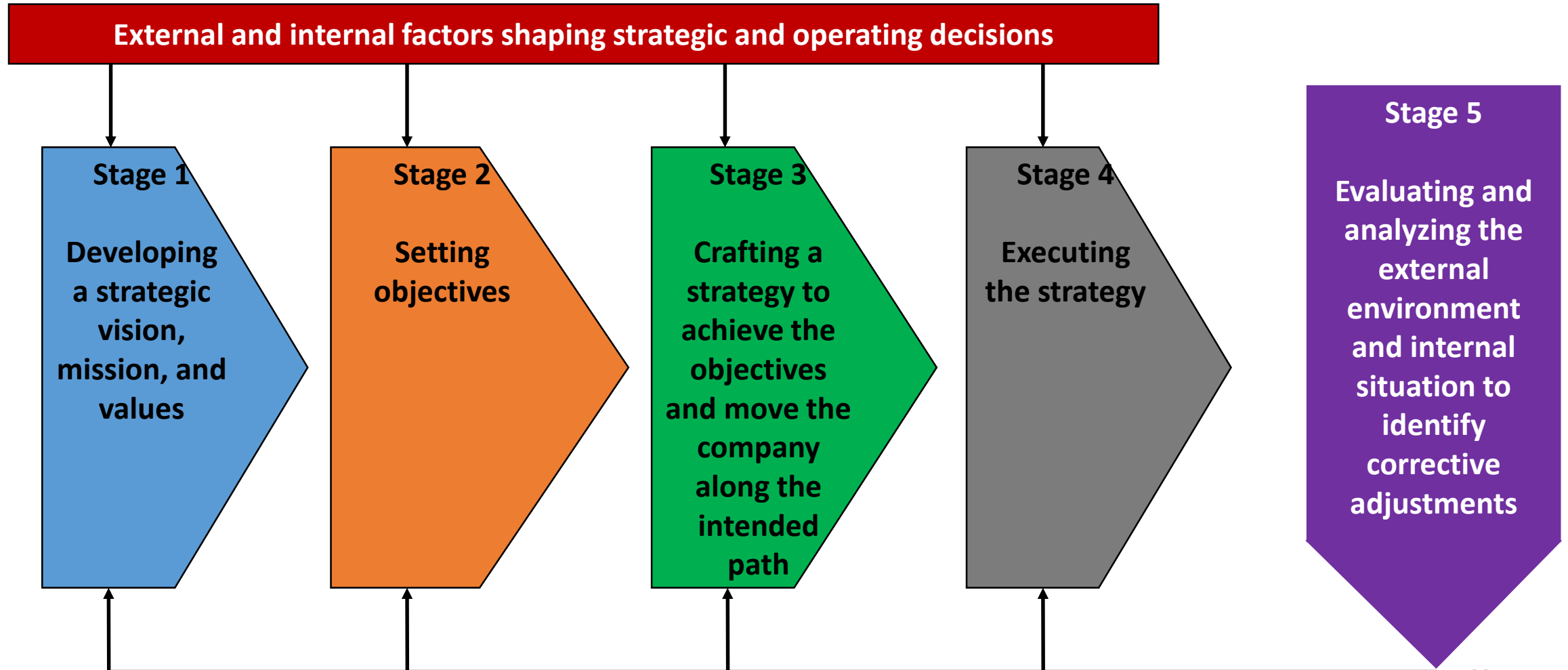
External Considerations (Five forces)

- Attractive opportunities for growth and profitability?
- Competitive forces?
- Industry change?
- Strategic attacks?
- Key factors of future competitive success?

Internal Considerations (VRIN)

- Important resources and capabilities?
- Cost proposition or value proposition?

Strategy Formulation and Execution Process



Vision and Mission

Vision

The course and direction management has charted and the company's future product-customer-market-technology focus.

Mission

The company's present business scope and purpose.

Difference between Vision and Mission

Vision

Where we are going

- Future business scope
- Future product / market / customer / technology focus

Mission

Who we are, what we do and why we are here

- Present business and purpose
- Current product and service

Well-conceived Strategic Visions

- **Graphic**
 - Paints a picture of the kind of firm that management is trying to create
- **Directional**
 - Is forward looking to change
- **Focused**
 - Is specific enough to provide guidance in decision making
- **Flexible**
 - Is not so focused that it makes it difficult to adjust
- **Feasible**
 - Is within the realm of what is possible
- **Desirable**
 - Indicates why the directional path makes sense
- **Easy to Communicate**
 - Can be explained in simple terms

Strategic Vision



Procter&Gamble

We will provide branded products and services of superior quality and value that improve the lives of the world's consumers, now and for generations to come. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper.

The Importance of Strategic Vision

- Shared views
- Guide decision making
- Motivate employee commitment
- Guide lower level missions

Does Vision Statement Change?

Strategic Inflection Points

A change in vision is required when it becomes evident to management that *the industry has changed* in a significant way that renders the company's *current vision obsolete*.

Mission Statements Address Three Key Questions

1. **Why** the organization exists
 - “Give back to the community and sustain the environment” – The Body Shop
 - “To preserve and improve life” – Merck

2. **How** the organization succeeds
 - “Innovation” – 3M
 - “Solutions” – IBM

3. How **people** should be managed
 - “Tolerance for honest mistakes” – 3M

Well-Conceived Mission Statement

- Identify a company's products or services
- Specify the buyer needs it seeks to satisfy
- Specify the customer groups or markets it is endeavoring to serve
- Specify its approach to pleasing customers
- Give the company its own identity

Mission Statement



The mission of Trader Joe's is to give our customers the best food and beverage values that they can find anywhere and to provide them with the information required for informed buying decisions. We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride, and company spirit.

Linking Strategic Vision and Mission with Company Values

Values – individual expectation

A firm's values are the beliefs, traits, and behavioral norms that the firm's personnel are expected to display in conducting the firm's business and pursuing its strategic vision and mission.

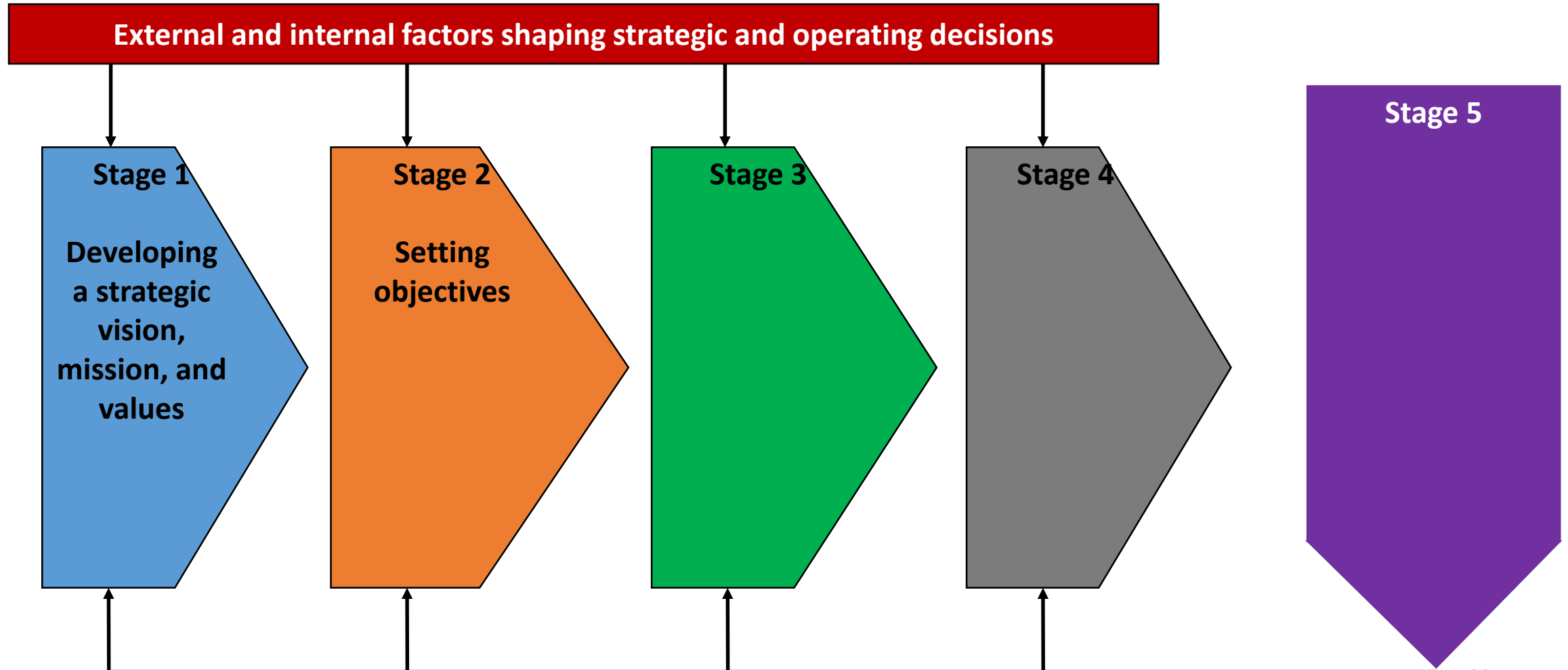
Values are embodied in corporate culture



McDonald's Values

- We place the customer experience at the core of all we do.
- We are committed to our people.
- We believe in the McDonald's System.
- We operate our business ethically.
- We give back to our communities.
- We grow our business profitably.
- We strive continually to improve.

Strategy Formulation and Execution Process



Setting Objectives

- The purpose of setting objectives is to convert the **strategic vision** into **specific performance targets**.
 - Quantifiable or measureable
 - Contain a deadline for achievement

What Kind of Objectives to Set?

- **Financial objectives**

- Communicate management's targets for financial performance
- Relate to revenue growth, profitability, and return on investment
- ***Lagging indicators*** that reflect the results of past decisions and organizational activities

Financial Objectives

- X% increase in annual revenues
- X% increase annually in after-tax profits
- Profit margins of X%
- X% return on capital employed (ROCE)
- Sufficient internal cash flows to fund 100% of new capital investment

What Kind of Objectives to Set?

- **Strategic objectives**

- Related to a firm's market standing and competitive vitality
- If achieved, indicate that a firm's future financial performance will be better than its current or past performance.
- ***Leading indicators*** of a firm's future financial performance and business prospects.

Strategic Objectives

- Winning an X% market share
- Achieving a customer retention rate of X%
- Acquire X number of new customers
- Reduce product defects to X%
- Introduction of X number of new products in the next three years
- Increase employee training to X hours/year
- Reduce turnover to X% per year

Examples of Company Objectives



- **Be** the number one destination for professional contractors.
- **Deliver** differentiated customer service and the know-how that our customers have come to expect.
- **Open** 55 new stores with 5 store relocations in 2008.
- **Improve** in-stock positions so customers can find and buy exactly what they need.
- **Repurchase** \$22.5 billion of outstanding shares during 2008.

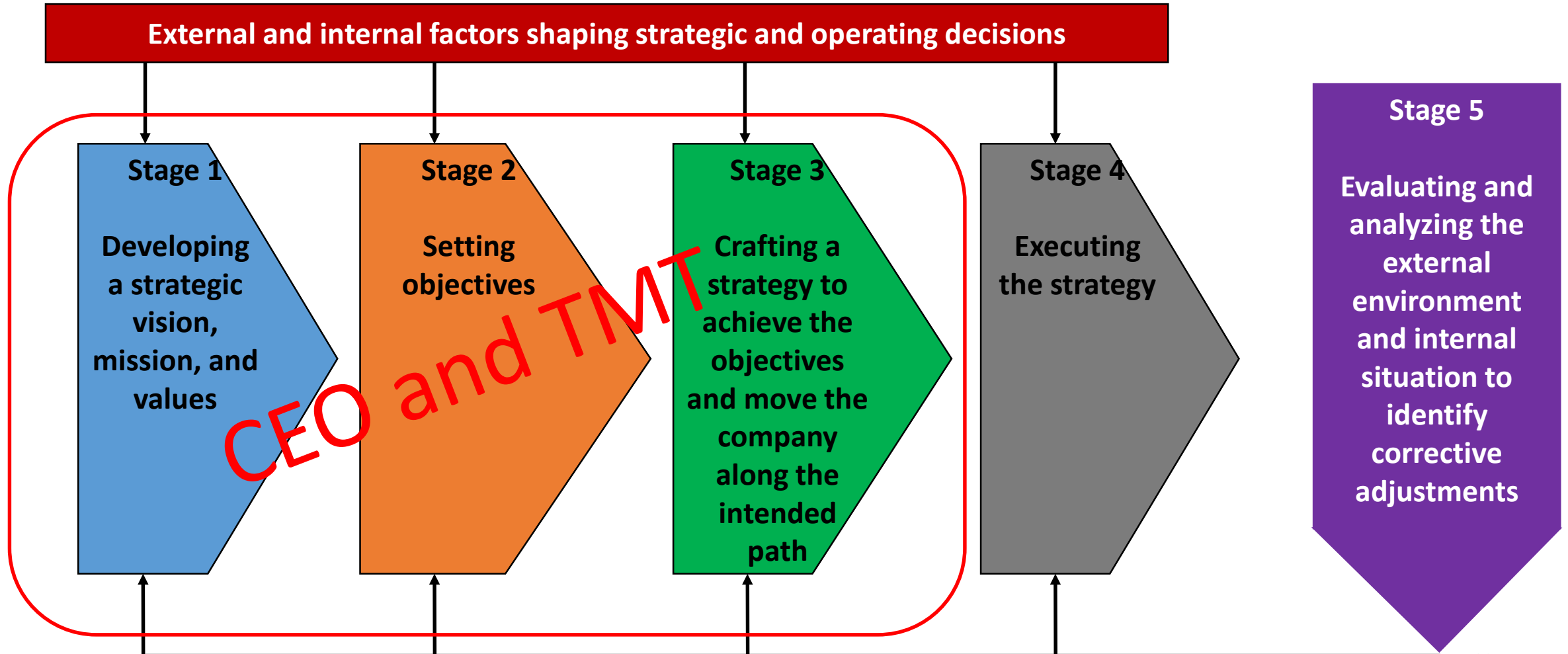
Short-term and Long-term Objectives

- **Short-term objectives**
 - Targets to be achieved soon
 - Milestones or stair steps for reaching long-range performance
- **Long-term objectives**
 - Targets to be achieved within 3 to 5 years

Objectives at Different Levels

- Objectives are needed at **all levels**
 1. Set business-level objectives
 2. Establish functional-area objectives
 3. Set operating-level objectives last

Strategy Formulation and Execution Process



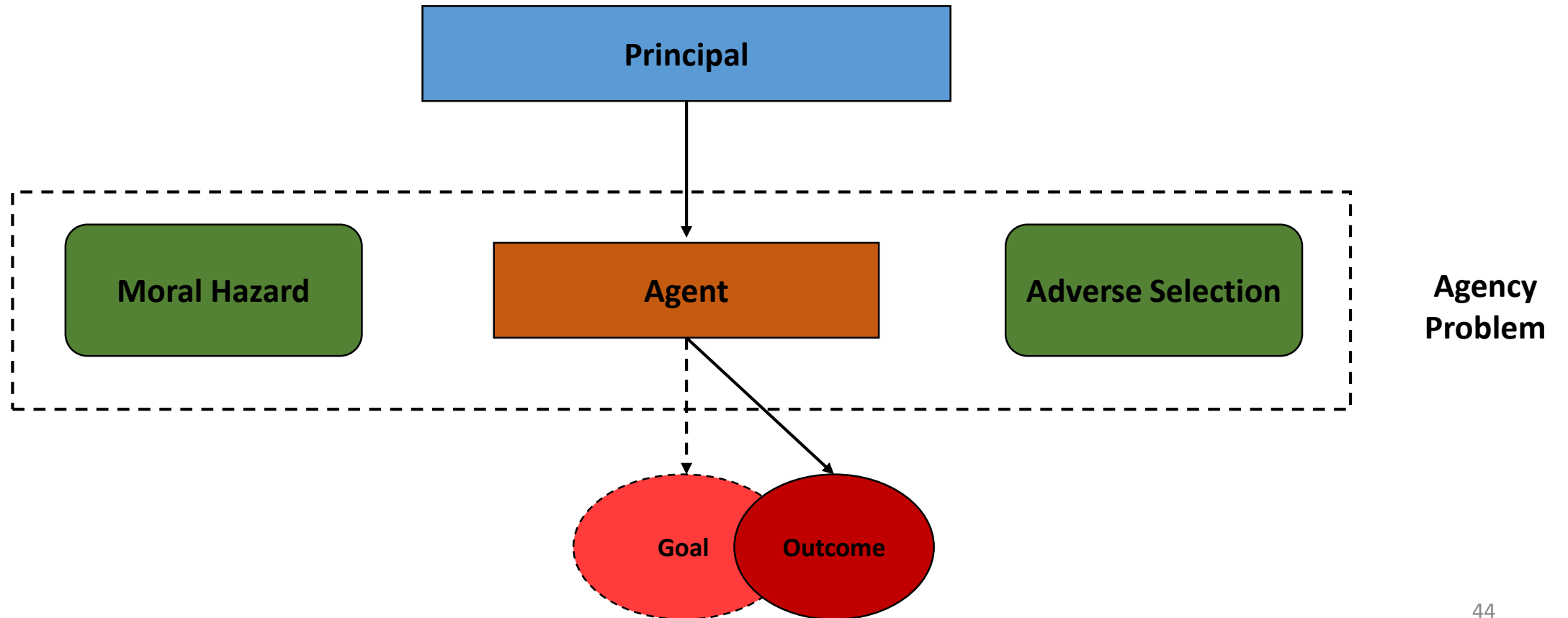
Corporate governance

- Agency theory
- CEO, Board

Agency Theory

- Agency theory explains the relationship between **principals** and **agents** in business. It is concerned with resolving problems that can exist in agency relationships due to **unaligned goals** or different **aversion** levels to risk.
- **Moral hazard**: agents have incentive to take bad risks that principals will pay for.
- **Adverse selection**: select inferior alternatives

Principal – Agent Relationship



Agency Problems in Corporate

Information Asymmetry

- Shareholders are dispersed.
- Most shareholders do not have voting rights.
- Executives or managers can withhold key information from shareholders.

Agency Problems in Corporate

Interest Misalignment

Shareholders

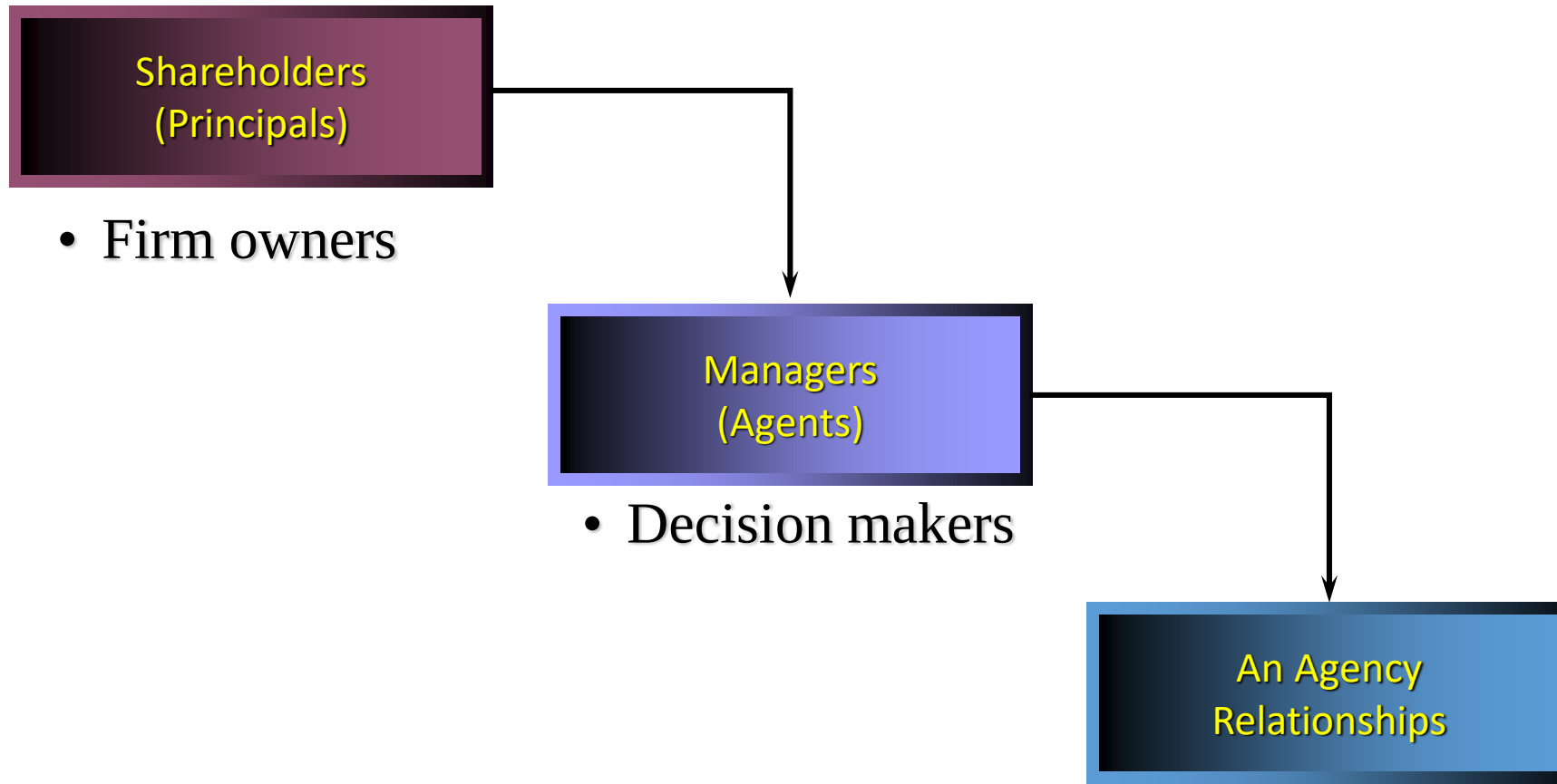
- Long-term performance
- Only value-creating acquisitions
- Real value creation

≠

Executives

- Short-term performance
- All acquisitions to build empire
- Financial fraud or unsound accounting practices

Agency Relationship: Owners and Managers



Corporate Governance

- **Corporate governance** is the system of rules, practices and processes by which a firm is directed and controlled.
- Corporate governance essentially involves **balancing the interests** of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.

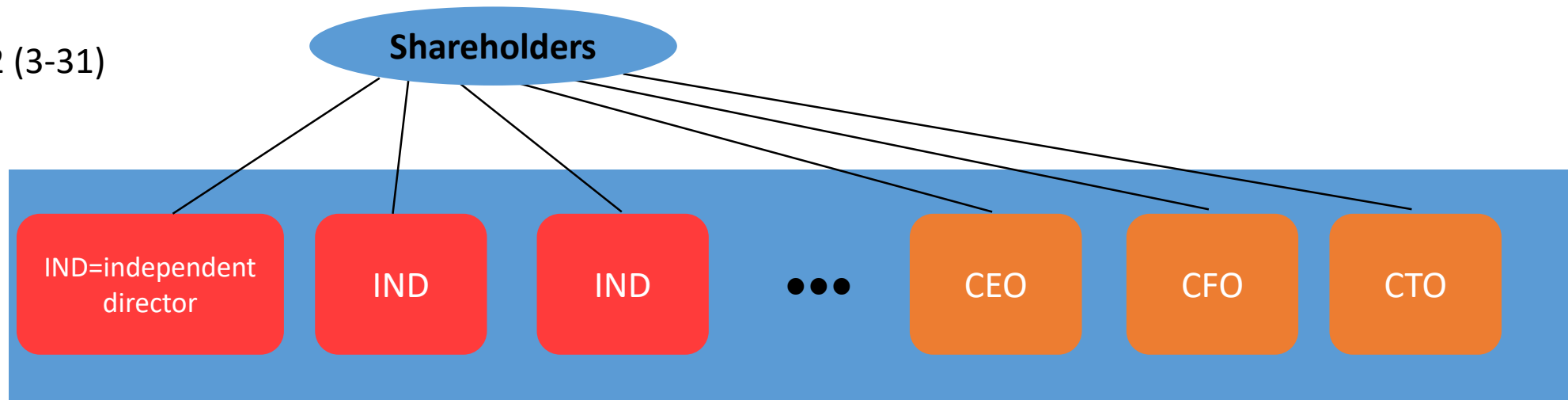
Governance Mechanisms

Ownership Concentration

- Large block shareholders have a strong incentive to monitor management closely
- Their large stakes make it worth their while to spend time, effort and expense to monitor closely

Corporate Board Structure

Size: avg 9.2 (3-31)



The Executive Committee

The Audit Committee

The Compensation Committee

The Nominating Committee

Sarbanes-Oxley Act of 2002:

- Tightened financial reporting standards
- Created additional compliance requirements for public boards: majority of outsiders

Corporate Board Structure

Insiders

- The firm's CEO and other top-level managers

Outsiders

- Individuals who are independent of the firm's day-to-day operations and other relationships

Board of Directors Need to Fulfill the Following Corporate Governance Obligations

1. Oversee the company's financial accounting and financial reporting practices
2. Diligently critique and oversee the company's direction, strategy, and business approaches
3. Institute a compensation plan for top executives that rewards them for actions and result that serve shareholder interests

Board of Directors Compensation

Tiffany & Company paid its directors an annual retainer of **\$46,500**, an additional annual retainer of **\$2,500** if the director is also a chairperson of a committee, a per-meeting-attended fee of **\$2,000** for meetings attended in person, a **\$500** fee for each meeting attended via telephone, stock options, and retirement benefits.

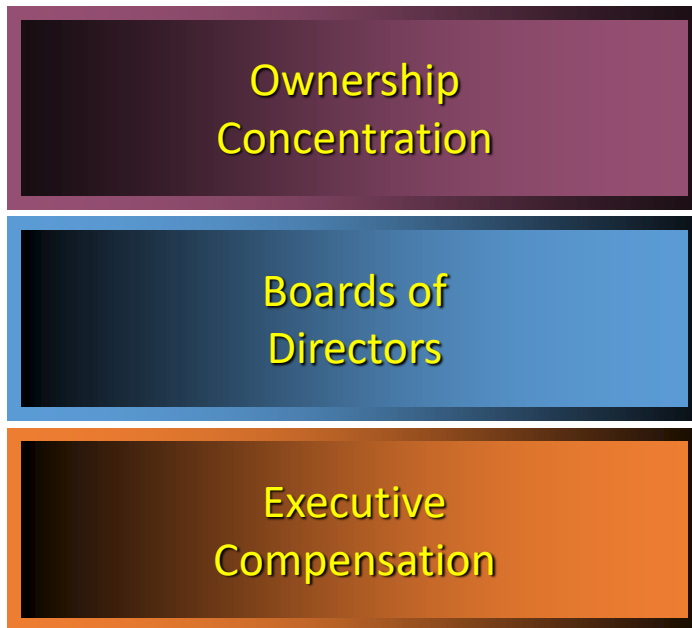
Governance Mechanisms



Recommendations for more effective Board Governance:

- Increase diversity of board members' backgrounds
- Strengthen internal management and accounting control systems

Governance Mechanisms



- Salary, bonuses, stock options, long term incentive compensation

Executive Compensation

- **Stock options** are often part of compensation.
- The average ratio of CEO to employee pay is 300:1.
- About 2/3 of CEO pay is linked to firm performance.
 - But this link is weak
 - Can further increase job stress
 - Can negatively impact job performance

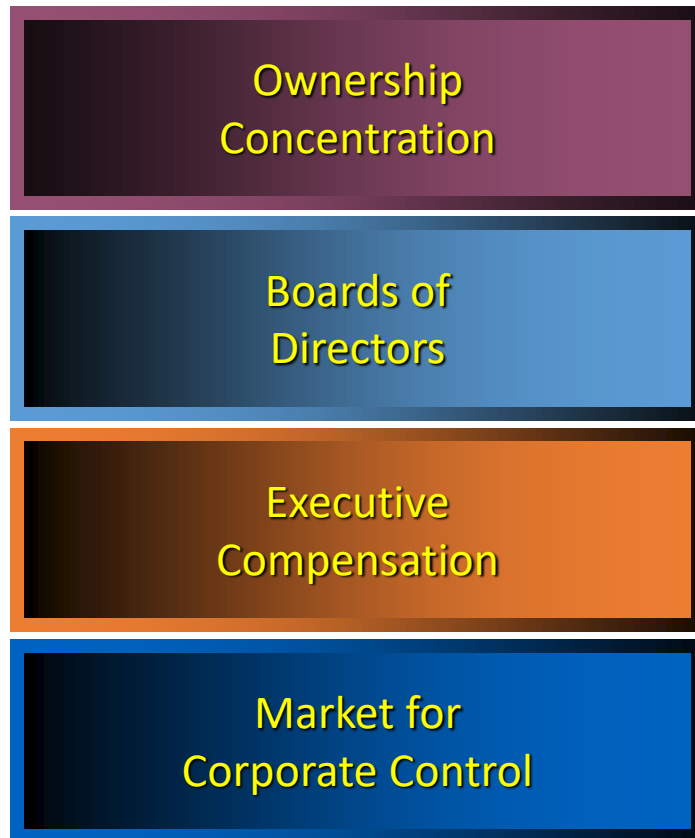
COMPENSATION PAID TO U.S. CEOs

FIRM SIZE	SALARY	BONUS	STOCK OPTIONS	RESTRICTED STOCK & LONG- TERM AWARDS	OTHER
Top 100	18.9%	23.4%	8.6%	38.8%	10.3%
101 to 500	14.3%	20.5%	14.8%	43.3%	7.2%
501 to 1,000	16.1%	21.1%	14.1%	42.1%	6.6%
1,001 to 2,000	21.1%	22.0%	13.2%	38.4%	5.3%
2,001 to 3,000	30.4%	19.7%	15.6%	29.5%	4.8%
3,001 to 4,000	46.9%	15.9%	14.5%	16.0%	6.8%
1 to 4,000	28.5%	19.6%	14.3%	31.5%	6.0%

Based on Equilar compensation data, fiscal years ending June 2013 to May 2014.

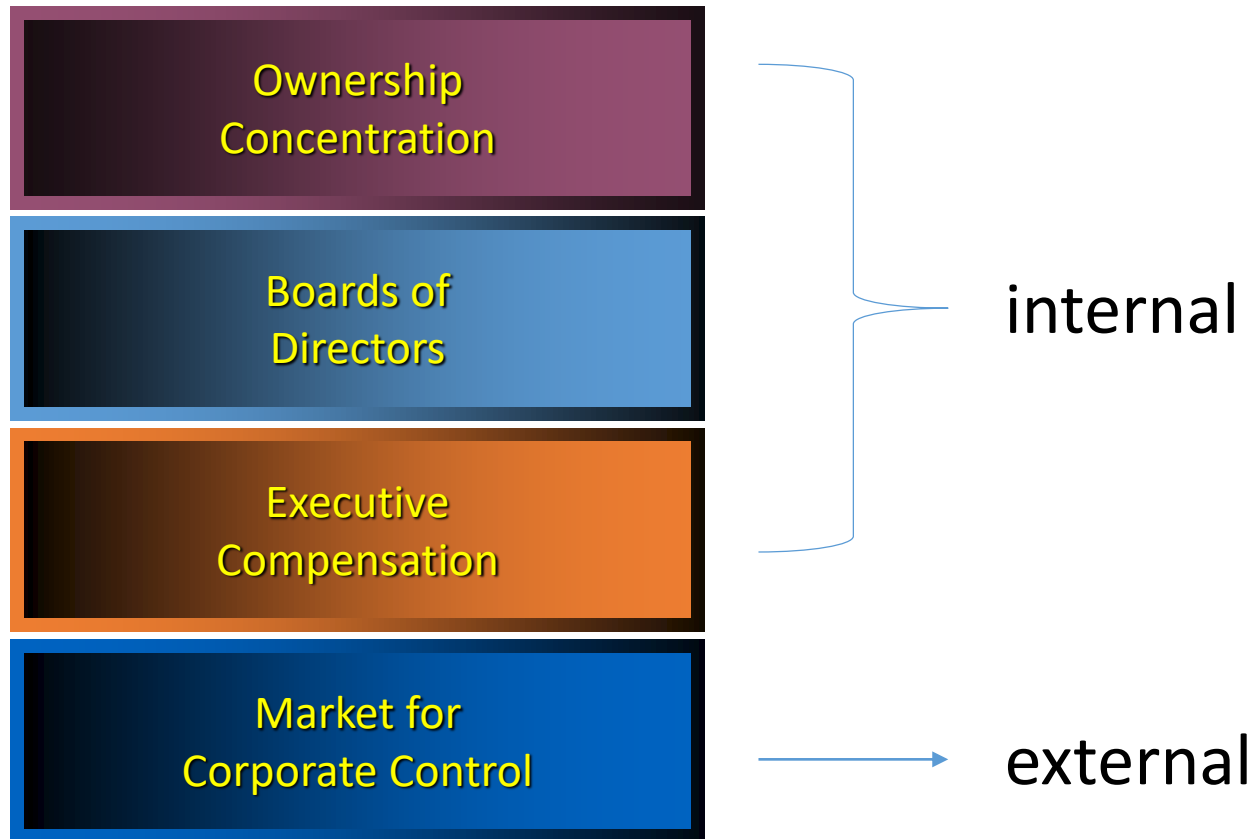
Source: Equilar, Inc.

Governance Mechanisms



- Firms face the risk of takeover when they are operated inefficiently
- Many firms begin to operate more efficiently as a result of the “threat” of takeover, even though the actual incidence of hostile takeovers is relatively small
- Changes in regulations have made hostile takeovers difficult

Governance Mechanisms



Exercise example

- 1. company: apple
- <https://www.apple.com/> (bottom of the page)

About Apple

Newsroom

Apple Leadership

Job Opportunities

Investors

Events

Contact Apple



United States

<https://www.apple.com/leadership/tim-cook/>
(raw content)

- Before being named CEO in August 2011, Tim was Apple's chief operating officer and was responsible for all of the company's worldwide sales and operations, including end-to-end management of Apple's supply chain, sales activities, and service and support in all markets and countries. He also headed Apple's Macintosh division and played a key role in the continued development of strategic reseller and supplier relationships, ensuring flexibility in response to an increasingly demanding marketplace.
- Prior to joining Apple, Tim was vice president of Corporate Materials for Compaq and was responsible for procuring and managing all of Compaq's product inventory.
- Previous to his work at Compaq, Tim was the chief operating officer of the Reseller Division at Intelligent Electronics.
- Tim also spent 12 years with IBM, most recently as director of North American Fulfillment where he led manufacturing and distribution functions for IBM's Personal Computer Company in North and Latin America.
- Tim earned an MBA from Duke University, where he was a Fuqua Scholar, and a Bachelor of Science degree in Industrial Engineering from Auburn University.

<https://www.apple.com/leadership/tim-cook/> (organized content)

- MBA from Duke University
- BS in [Industrial Engineering](#) from Auburn University.
- 12 years with IBM, most recently as director of North American Fulfillment where he led [manufacturing and distribution](#) functions for IBM's PC in North and Latin America.
- COO of the Reseller Division at Intelligent Electronics.
- VP of Corporate Materials for Compaq, responsible for [procuring and managing](#) all of Compaq's product inventory.
- In apple:
 - [COO](#) responsible for all of the company's worldwide [sales and operations](#), including end-to-end management of Apple's supply chain, sales activities, and service and support in all markets and countries.
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<https://www.apple.com/leadership/>

- 7 directors in total: one insider (CEO), two women
- Big corporates: Genentech, Boeing, Northrop (defense), BlackRock
- Nonprofit: Grameen, Government official

Board of Directors

Arthur D. Levinson, Ph.D.
Chairman of the Board, Apple
Former Chairman and CEO
Genentech

James A. Bell
Former CFO and Corporate
President
The Boeing Company

Tim Cook
CEO
Apple

Albert Gore Jr. ↗
Former Vice President of
the United States

Andrea Jung ↗
President and CEO
Grameen America, Inc.

Ronald D. Sugar, Ph.D.
Former Chairman and CEO
Northrop Grumman

Susan L. Wagner
Co-Founder and Director
BlackRock

- No assignments for next week.
- Please come to class on time next Friday.