

Strategic Planning

MBA 687

Hall # 3'

Assessing an Organization's External
Environment and Managing Internal
Operations

Format for Hall sessions

- Introduction of the Hall
- Hall Topics
- Christian worldview applications
- Major points for the week's learning

Introduction to Hall



- We will learn how to assess a company's external environment
- We examine how to manage internal operations

Topics we'll cover

- Evaluating an organization's external environment
- Managing internal operations to effectively accomplish strategy

Hall Objectives



- Learn how to evaluate an organization's external environment
- Understand how to manage internal operations to effectively accomplish strategy

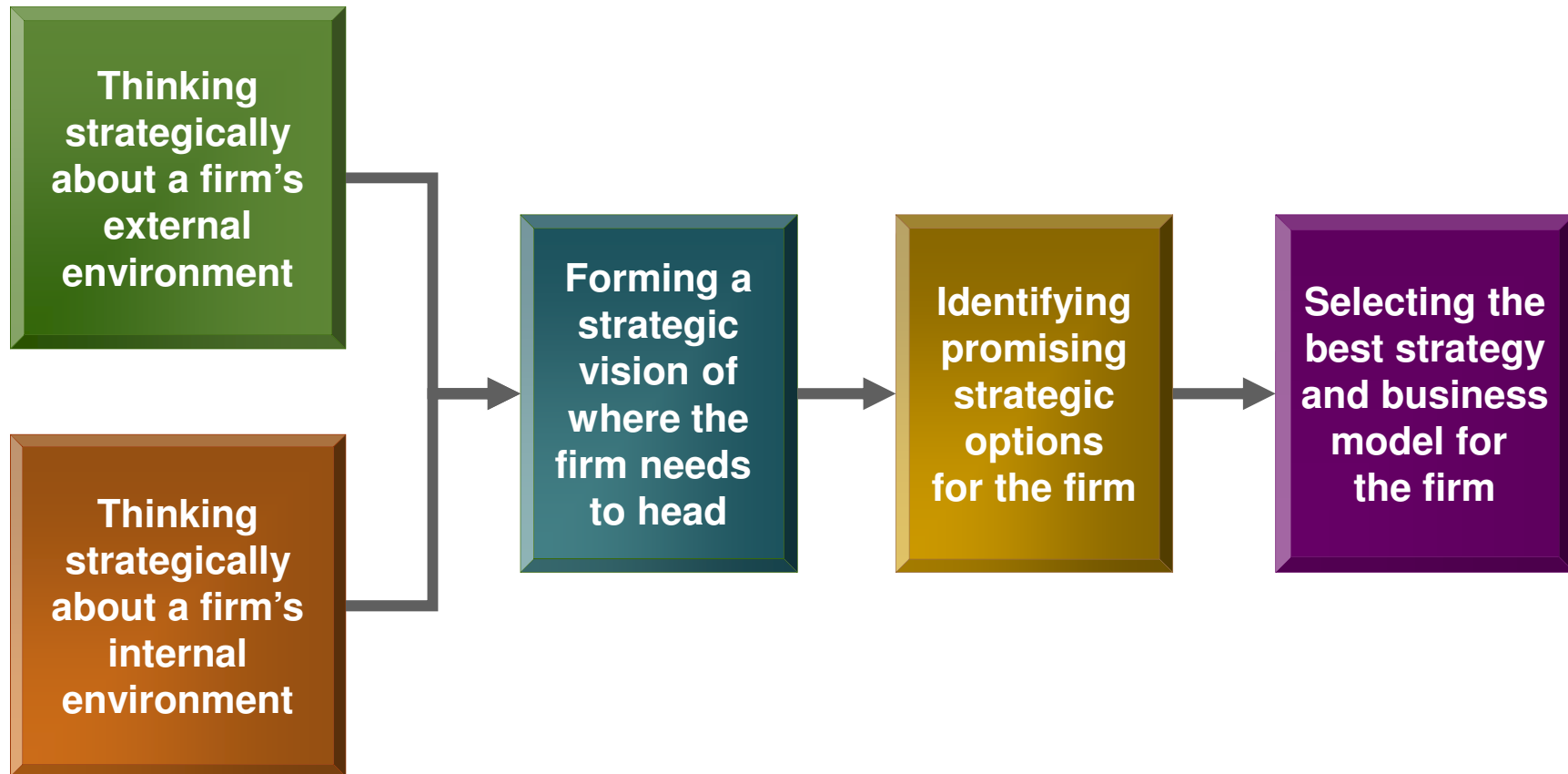
Biblical Foundation



- Genesis 1:1 – 2:1 God’s strategy for people
 - God spoke and took action according to His plan. There is no “strategy” without action!
 - There is a timing to strategy execution
 - Economics (the basis for business) can be defined as “the effective use of scarce resources” (Sowell).
 - Genesis 1:28

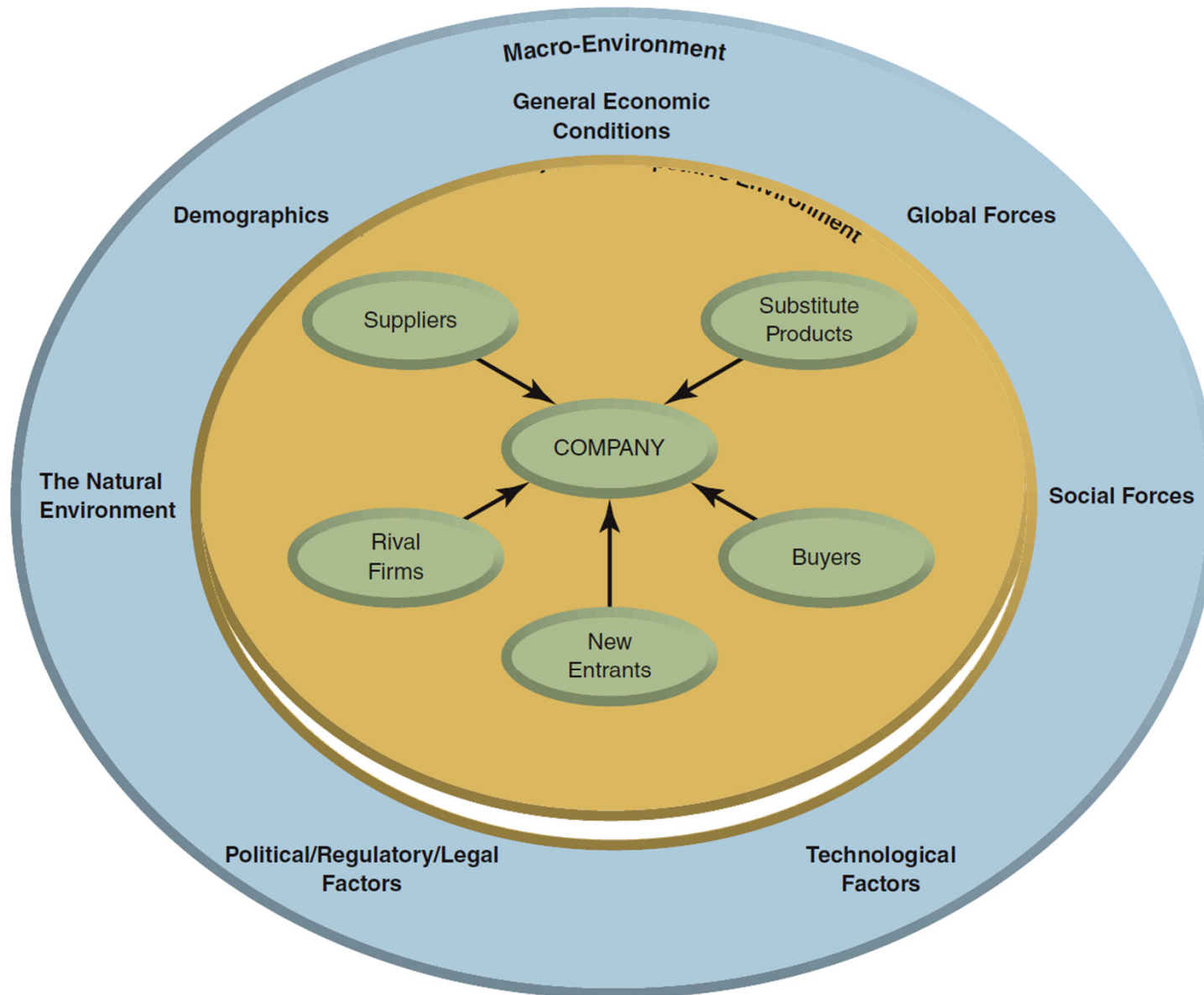
From Thinking Strategically about the Company's Situation to Choosing a Strategy

Chapter 3



Chapter 4

The Components of a Company's Macro-Environment



The Seven Components of the Macro-Environment

Component	Description
Demographics	The size, growth rate, and age distribution of different sectors of the population. It includes the geographic distribution of the population, the distribution of income across the population, and trends in these factors.
Social forces	Societal values, attitudes, cultural factors, and lifestyles that impact businesses. Social forces vary by locale and change over time.
Political, legal, and regulatory factors	Political policies and processes, as well as the regulations and laws with which companies must comply—labor laws, antitrust laws, tax policy, regulatory policies, the political climate, and the strength of institutions such as the court system.
Natural environment	Ecological and environmental forces such as weather, climate, climate change, and associated factors like water shortages.
Technological factors	The pace of technological change and technical developments that have the potential for wide-ranging effects on society, such as genetic engineering, the rise of the Internet, changes in communication technologies, and knowledge and controlling the use of technology,
Global forces	Conditions and changes in global markets, including political events and policies toward international trade, sociocultural practices and the institutional environment in which global markets operate.
General economic conditions	Rates of economic growth, unemployment, inflation, interest, trade deficits or surpluses, savings, per capita domestic product, and conditions in the markets for stocks and bonds affecting consumer confidence and discretionary income.

Thinking Strategically About a Company's Industry And Competitive Environment

1. Does the industry offer attractive opportunities for growth?
2. What kinds of competitive forces are industry members facing, and how strong is each force?
3. What factors are driving changes in the industry, and what impact will these changes have on competitive intensity and industry profitability?
4. What market positions do industry rivals occupy—who is strongly positioned and who is not?
5. What strategic moves are rivals likely to make next?
6. What are the key factors for competitive success in the industry?
7. Does the industry offer good prospects for attractive profits?

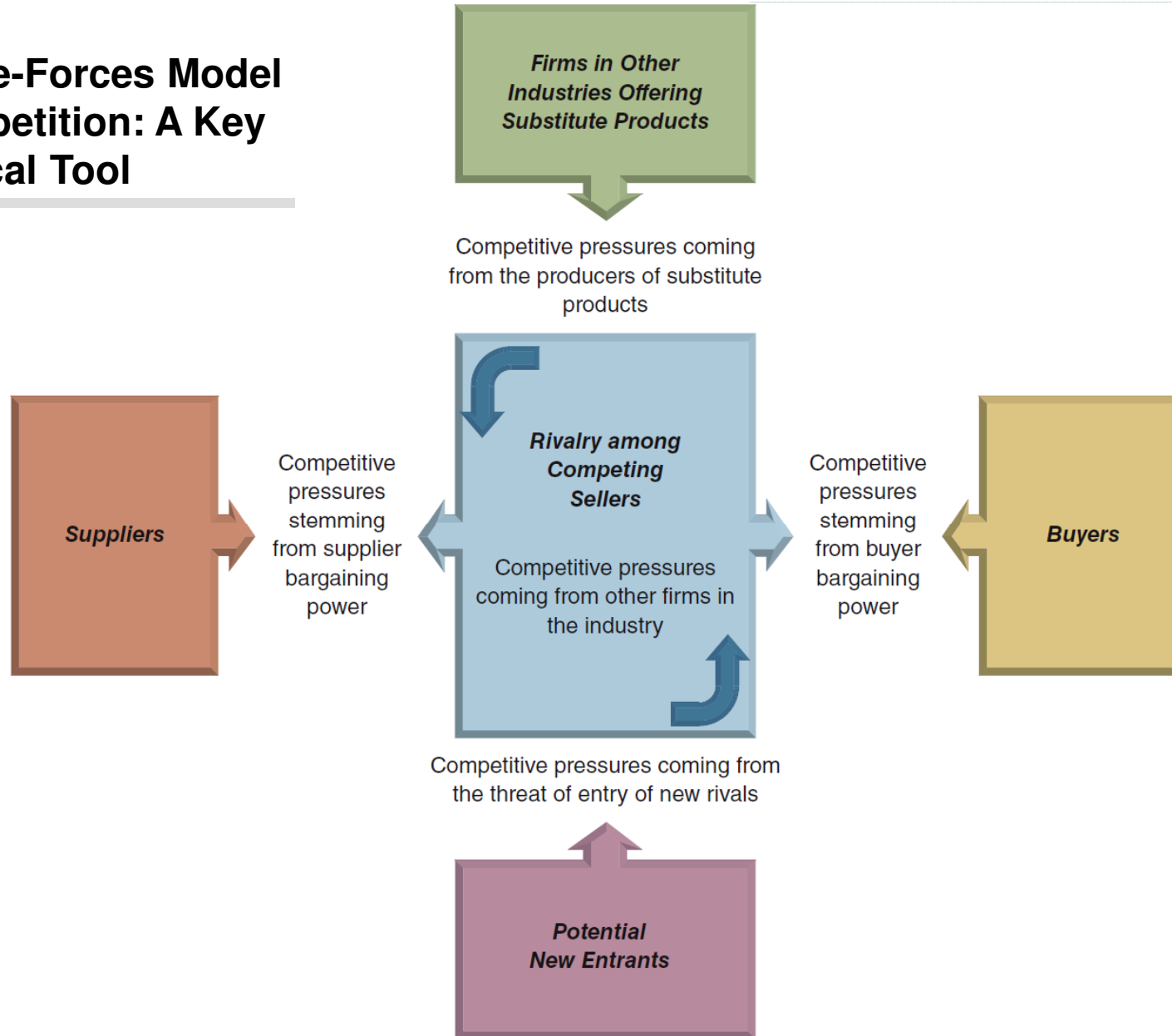
QUESTION 1: Does the Industry Offer Attractive Opportunities For Growth?

- Defining Growth:
 - What is the current market size in units or sales?
 - What is the past, current and expected rate of growth for the market\industry?
- Considerations:
 - Different sectors\regions of a market grow at different rates.
 - Growth varies with the industry's life cycle stage—emergence, rapid growth, maturity, and decline.
 - Growth does not guarantee profitability.

QUESTION 2: What Kinds of Competitive Forces Are Industry Members Facing, and How Strong Are They?

- The Five Competitive Forces:
 - Competition from rival sellers
 - Competition from potential new entrants
 - Competition from substitute products producers
 - Supplier bargaining power
 - Customer bargaining power

The Five-Forces Model of Competition: A Key Analytical Tool



Using the Five-Forces Model of Competition

Step 1

For each of the five forces, identify the different parties involved, and the specific factors that bring about competitive pressures.

Step 2

Evaluate how strong the pressures stemming from each of the five forces are (strong, moderate to normal, or weak).

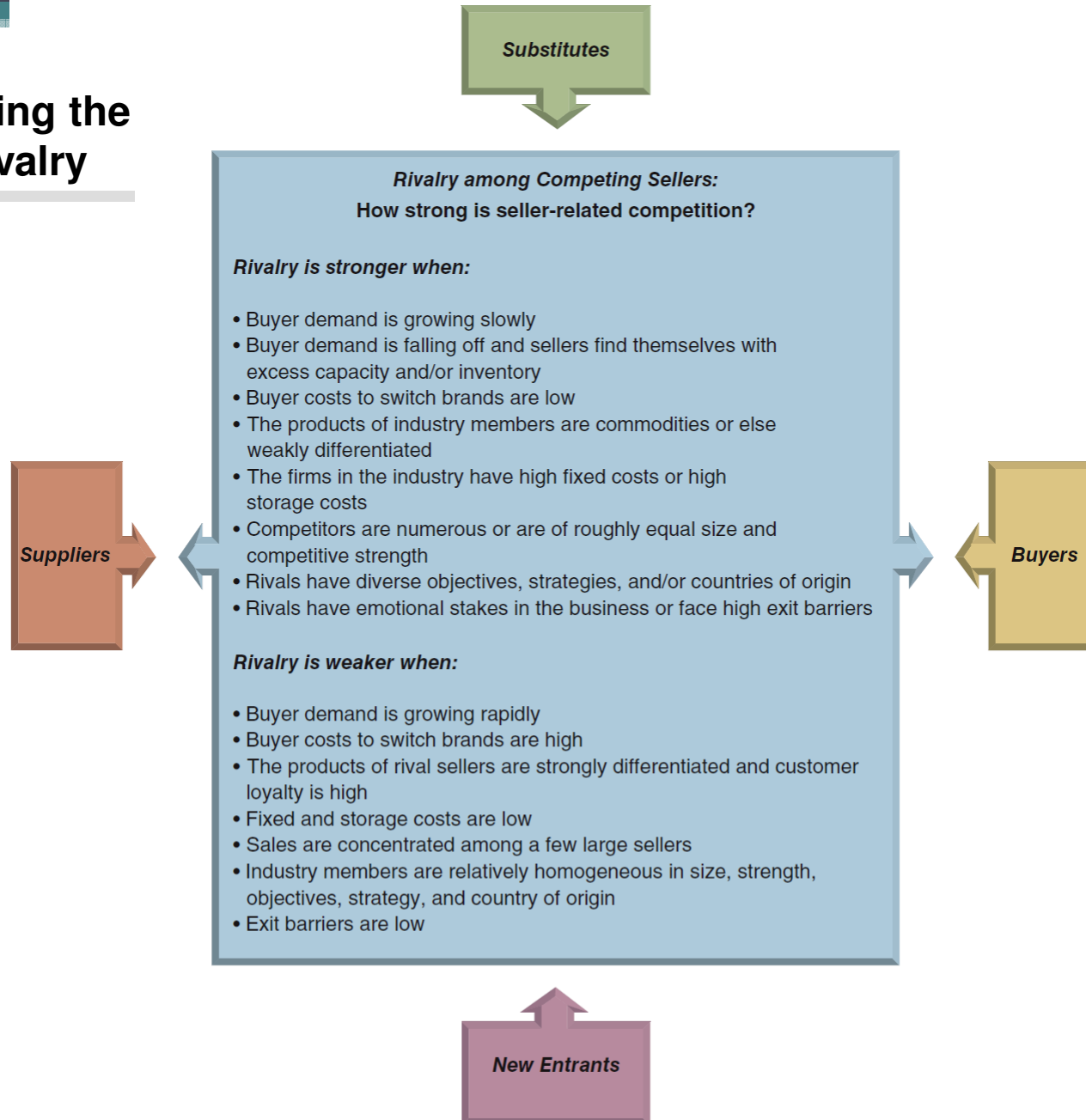
Step 3

Determine whether the strength of the five competitive forces, overall, is conducive to earning attractive profits in the industry.

Common “Weapons” for Competing with Rivals

Competitive Weapons	Primary Effects
Price discounting, clearance sales, “blowout” sales	Lowers price (P), acts to boost total sales volume and market share, lowers profit margins per unit sold when price cuts are big and/or increases in sales volume are relatively small
Coupons, advertising items on sale	Acts to increase unit sales volume and total revenues, lowers price (P), increases unit costs (C), may lower profit margins per unit sold ($P - C$)
Advertising product or service characteristics, using ads to enhance a company’s image or reputation	Boosts buyer demand, increases product differentiation and perceived value (V), acts to increase total sales volume and market share, may increase unit costs (C) and/or lower profit margins per unit sold
Innovating to improve product performance and quality	Acts to increase product differentiation and value (V), boosts buyer demand, acts to boost total sales volume, likely to increase unit costs (C)
Introducing new or improved features, increasing the number of styles or models to provide greater product selection	Acts to increase product differentiation and value (V), strengthens buyer demand, acts to boost total sales volume and market share, likely to increase unit costs (C)
Increasing customization of product or service	Acts to increase product differentiation and value (V), increases switching costs, acts to boost total sales volume, often increases unit costs (C)
Building a bigger, better dealer network	Broadens access to buyers, acts to boost total sales volume and market share, may increase unit costs (C)
Improving warranties, offering low-interest financing	Acts to increase product differentiation and value (V), increases unit costs (C), increases buyer costs to switch brands, acts to boost total sales volume and market share

Factors Affecting the Strength of Rivalry



Matching Strategy to Competitive Conditions

1. Pursuing avenues that shield the firm from as many competitive pressures as possible.
2. Initiating actions calculated to shift competitive forces in the firm's favor by altering underlying factors driving the five forces.
3. Spotting attractive arenas for expansion, where competitive pressures in the industry are somewhat weaker.

QUESTION 3: What Factors Are Driving Industry Change, and What Impacts Will They Have?

- Strategic Analysis of Industry Dynamics:
 1. Identifying the drivers of change.
 2. Assessing whether the drivers of change are, individually or collectively, acting to make the industry more or less attractive.
 3. Determining what strategy changes are needed to prepare for the impacts of the anticipated change.

QUESTION 4: How are Industry Rivals Positioned—Who is Strongly Positioned and Who is Not?

- A Strategic Group
 - Is a cluster of industry rivals that have similar competitive approaches and market positions:
 - Have comparable product-line breadth
 - Sell in the same price/quality range
 - Emphasize the same distribution channels
 - Use the same product attributes to buyers
 - Depend on identical technological approaches
 - Offer similar services and technical assistance

Guidelines for Constructing Group Maps

- Draw map circles proportional to the combined sales of firms in each strategic group to reflect the relative sizes of each group to the total size of the industry.
- Use different variable sets to show different views of relationships among competitive positions in the industry's structure—there is no one best map for portraying how competing firms are positioned.

What Can Be Learned from Strategic Group Maps?

- Maps are useful in identifying which industry members are close rivals and which are distant rivals.
- Not all map positions are equally attractive.
 1. Prevailing competitive pressures in the industry and drivers of change favor some strategic groups and hurt others.
 2. Profit prospects vary from strategic group to strategic group.

QUESTION 5: What Strategic Moves Are Rivals Likely To Make Next?

- **Competitive Intelligence**
 - Information about rivals that is useful in anticipating their next strategic moves.
- **Signals of the Likelihood of Strategic Moves:**
 - Rivals under pressure to improve financial performance
 - Rivals seeking to increase market standing
 - Public statements of rivals' intentions
 - Profiles developed by competitive intelligence units

QUESTION 6: What Are The Key Factors For Future Competitive Success?

- Key Success Factors
 - Are the strategy elements, product and service attributes, operational approaches, resources, and competitive capabilities that are necessary for competitive success by any and all firms in an industry.
 - Vary from industry to industry, and over time within the same industry, as drivers of change and competitive conditions change.

Identification of Key Success Factors

1. What product attributes and service features buyers strongly affect buyers when choosing between the competing brands of sellers?
2. What resources and competitive capabilities are required for a firm to execute a successful strategy in the marketplace?
3. What shortcomings will put a firm at a significant competitive disadvantage?

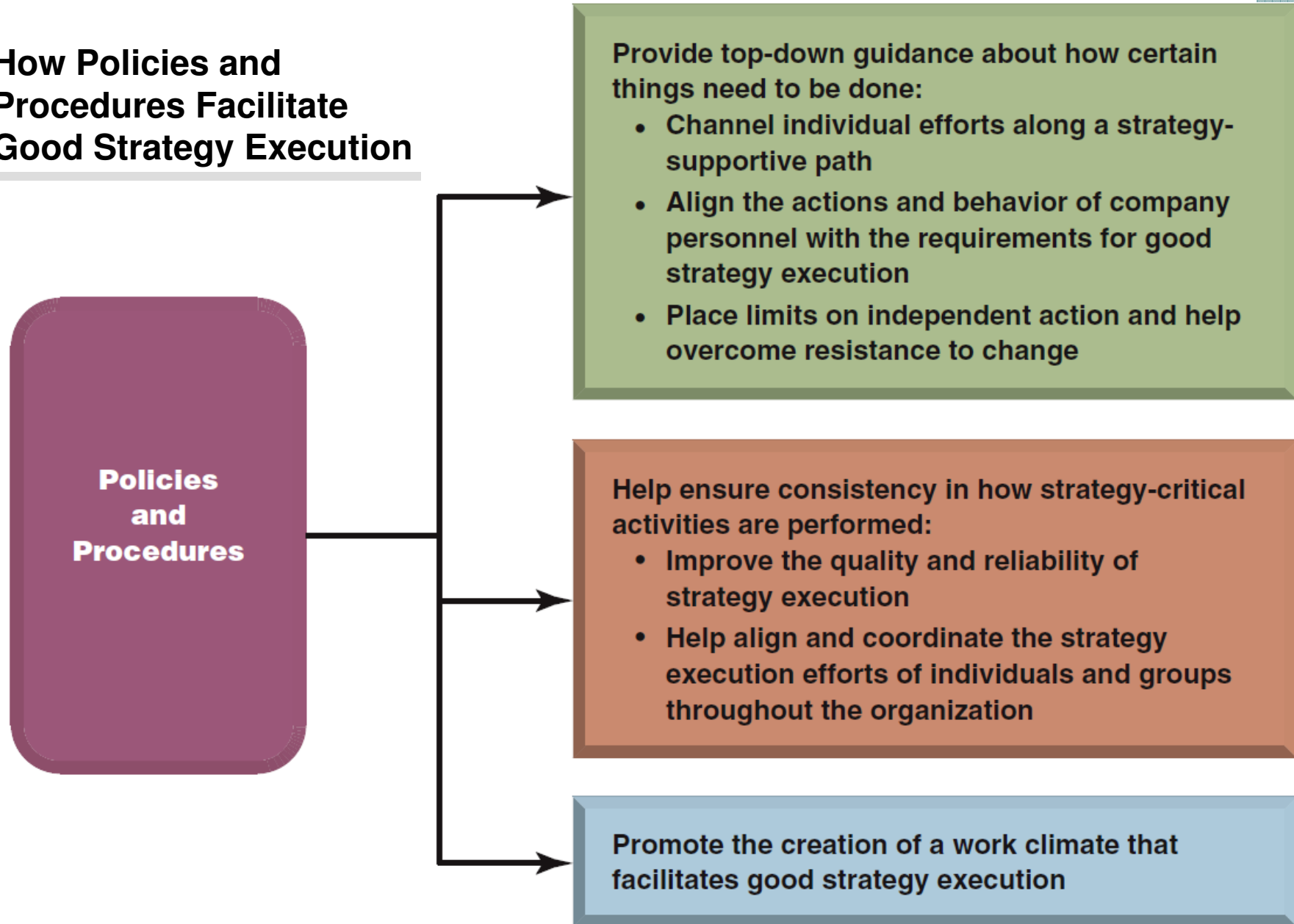
QUESTION 7: Does the Industry Offer Good Prospects or Attractive Profits?

- Industry Profitability Considerations:
 - The industry's overall growth potential
 - Effects of strong competitive forces
 - Effects of prevailing drivers of change in the industry
 - Competitive strength of the firm: its market position relative to its rivals, its capability to withstand competitive forces, and whether its position will change in the course of competitive interactions
 - The success of the firm's strategy in delivering on the industry's key success factors

Promoting Good Strategy Execution

- Allocating resources to the drive for good strategy execution.
- Instituting policies and procedures that facilitate strategy execution.
- Using process management tools to drive continuous improvement in how value chain activities are performed.
- Installing information and operating systems that enable personnel to carry out their strategic roles proficiently.
- Using rewards and incentives to promote better strategy execution and the achievement of strategic and financial targets.

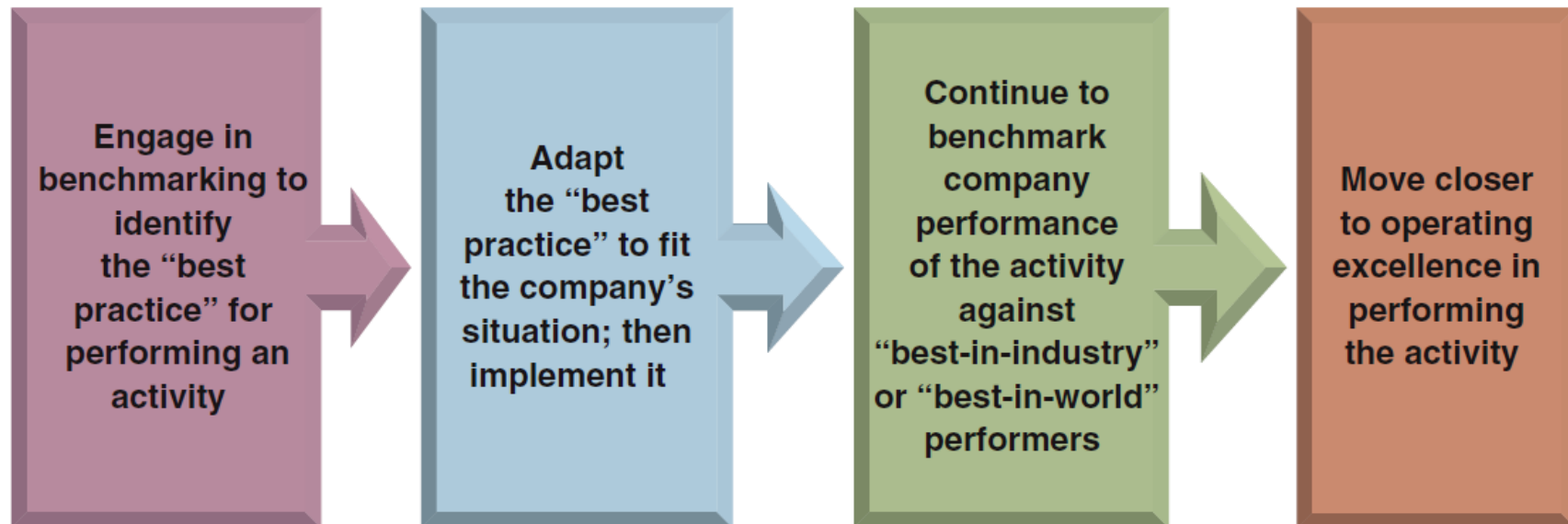
How Policies and Procedures Facilitate Good Strategy Execution



Using Process Management Tools To Strive For Continuous Improvement



From Benchmarking and Best-Practice Implementation to Operating Excellence



The more that organizational units use best practices in performing their work, the closer a company moves toward performing its value chain activities as effectively and efficiently as possible.

This is what excellent strategy execution is all about.

Reengineering the Organization

- **Business Process Reengineering**
 - Involves radically redesigning and streamlining work effort, flows and processes to achieve dramatic improvements in performance.
 - Uses cross-functional teams, cutting-edge technology and information systems to reset and refocus the organization's strategy.

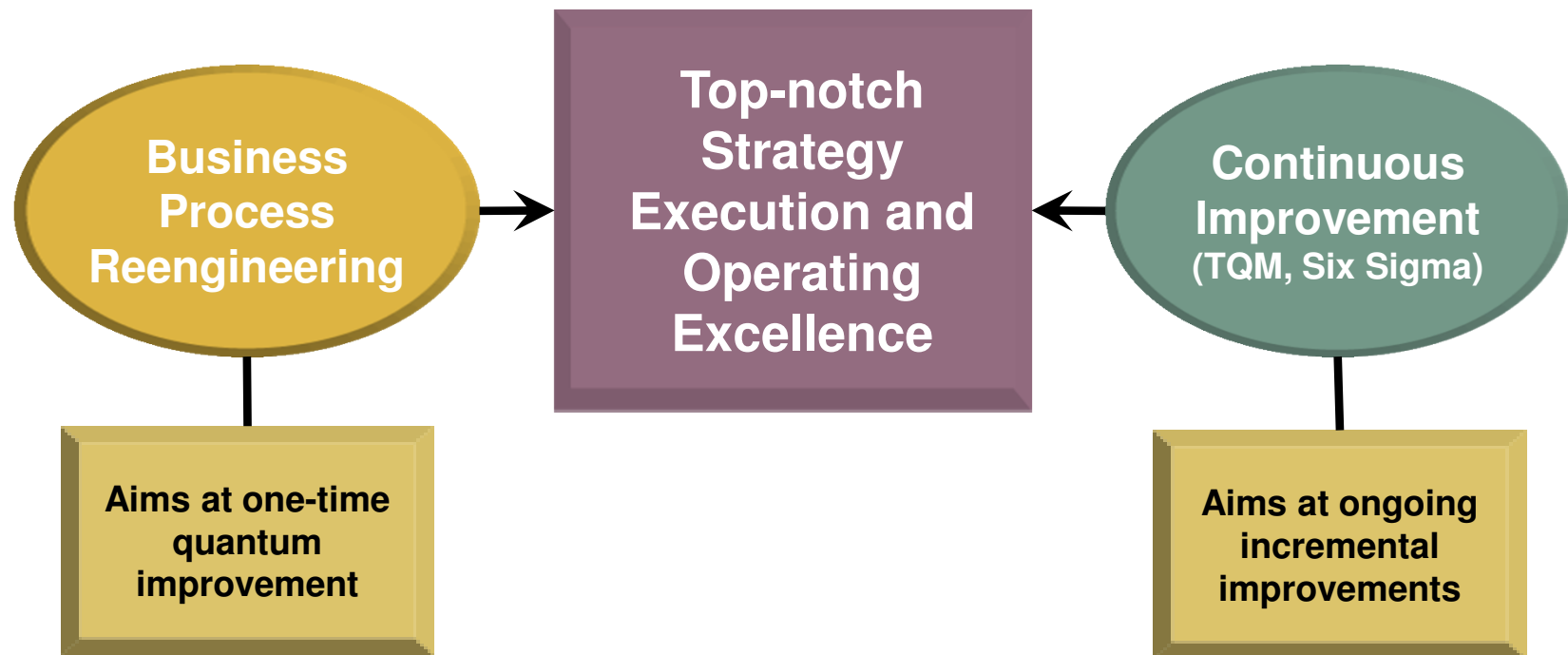
Achieving Continuous Improvement

- Total Quality Management (TQM)
 - Creating a *total quality culture* bent on continuously improving the performance of every task and value chain activity.
 - Is a long-term race without a finish in which success comes slowly in small steps forward (*kaizen*).

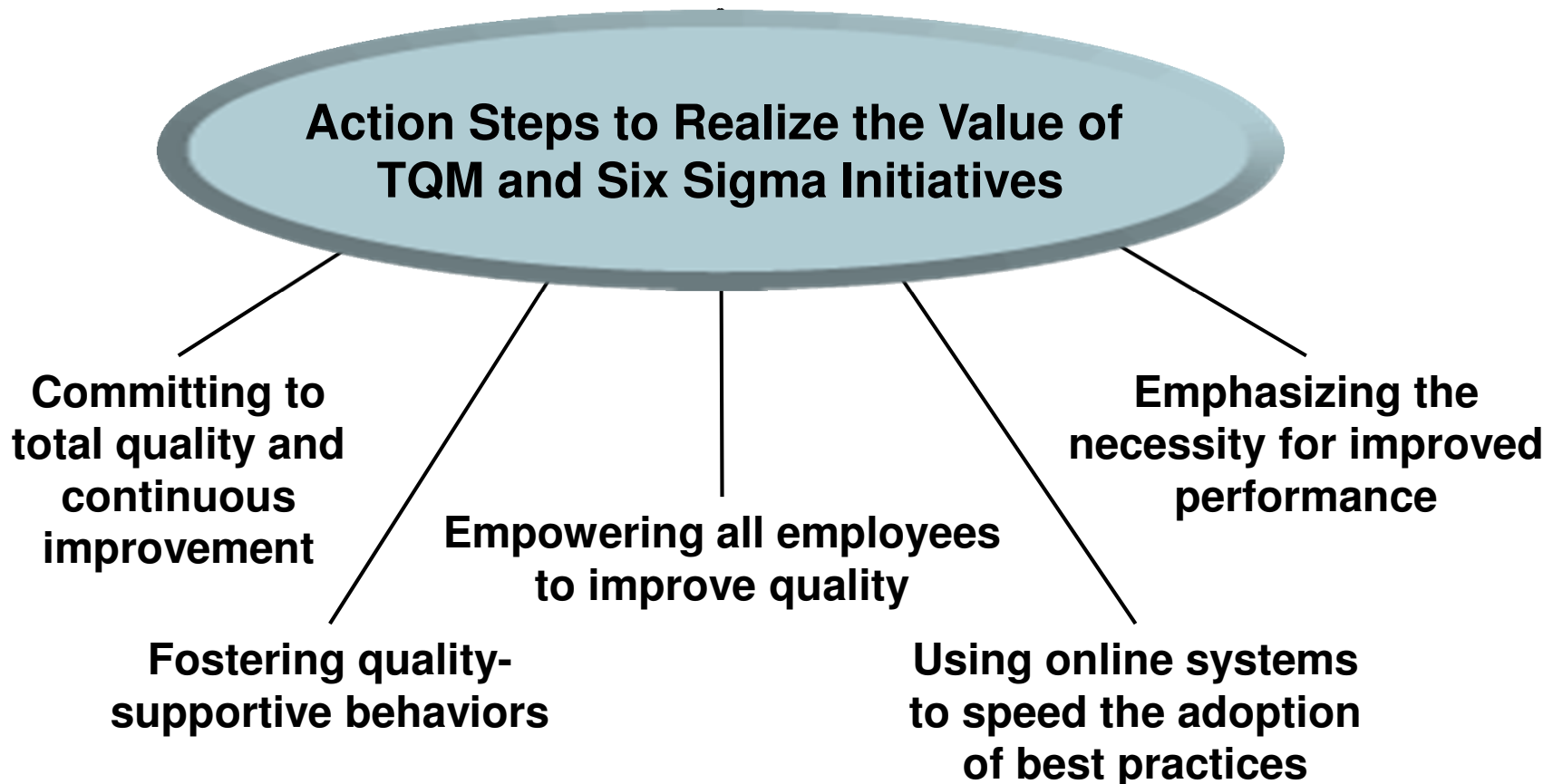
A Statistical Approach to Achieving Continuous Improvement

- Six Sigma Programs
 - Utilize statistical methods to improve quality by reducing defects and variability in business processes.
- Six Sigma Principles
 - All work is a process.
 - All processes have variability.
 - All processes create data that explain variability.

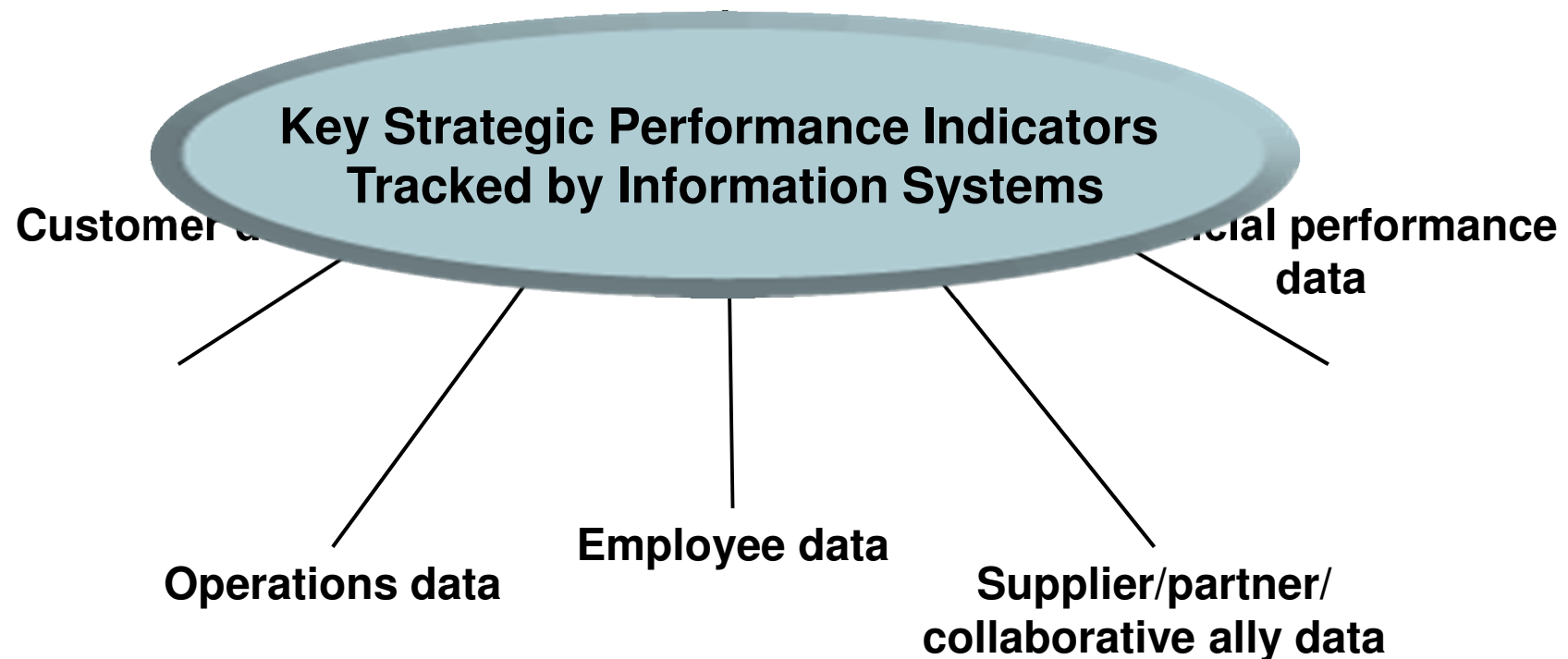
The Difference between Business Process Reengineering and Continuous Improvement



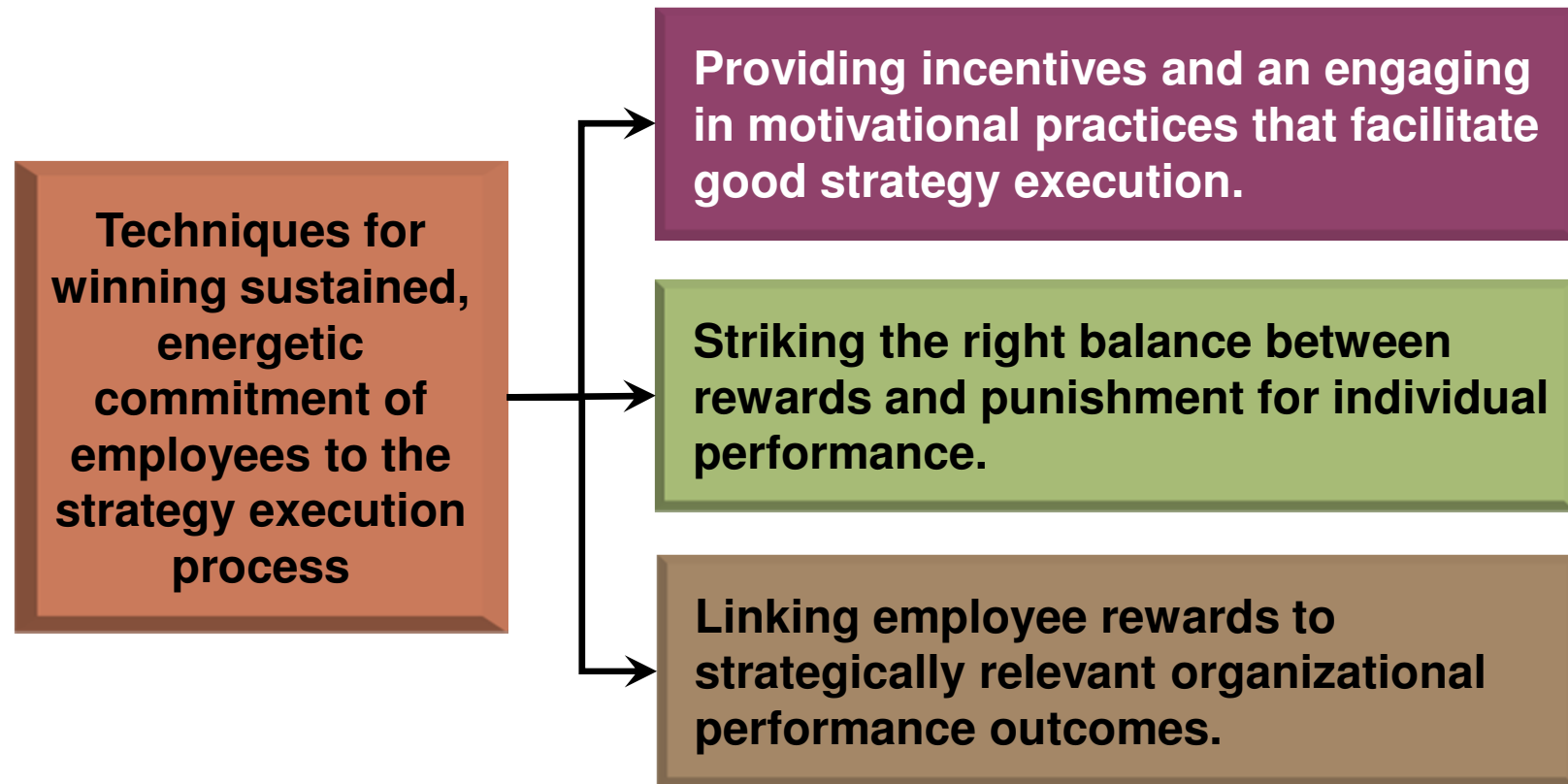
Capturing the Benefits of Initiatives to Improve Operations



Instituting Adequate Information Systems, Performance Tracking, and Controls



Tying Rewards and Incentives to Strategy Execution



Linking Rewards to Strategically Relevant Performance Outcomes

- Focus on and reward results, not effort.
- Create a results-oriented work environment that focuses on what to *achieve*, not what to *do*.
- Set strategically-relevant, specific, and measurable stretch performance goals that are difficult but achievable.
- Link the performance goals of each individual in an organizational unit to the unit's goals.
- Reward and recognize as success superior performance in accomplishing the goals.

Review



- Learned how to evaluate an organization's external environment
- Gained an understanding of how to manage internal operations to effectively accomplish strategy

Recap of Hall



- We learned how to assess a company's external environment
- We examined how to manage internal operations

What next?

- Take the Hall Quiz
- Complete your detailed reading
- Answer the discussion questions
- Complete the writing assignments

References

- Thompson, Jr., A., Strickland III, A. and Gamble, J. (2011). *Crafting and Executing Strategy, 18th edition*. McGraw-Hill/Irwin.
- (NOTE: Slides 7-37 used by permission, all rights reserved by McGraw-Hill/Irwin)

This concludes Hall 3