

MGT 512-Strategic Management (Dr. Varanasi Prasad) 20193- Summer

Prepared by : Faris Al Enezi – 201821406

Review of Mid Term / Definition and Ch.1,2,3,4.



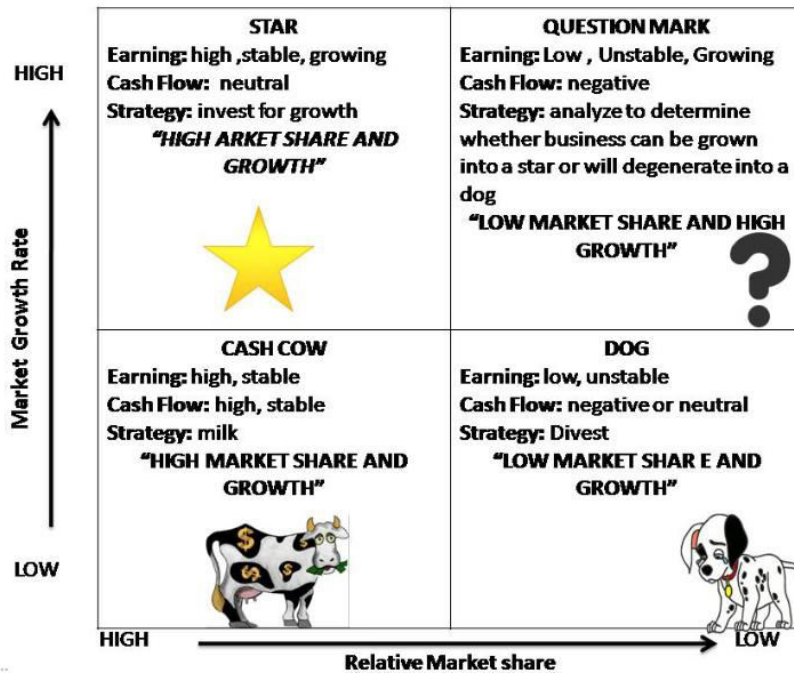
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BUS 404 – CORPORATE POLICIES AND STRATEGIES – DEFINITIONS

1. **Strategic management:** A systems approach for identifying and making the necessary changes and measuring the organization's performance as it moves towards its vision.
2. **Strategy:** A means for achieving a long-range strategic goal; explains how the goal will be attained.
3. **Vision:** An idealized view of a desirable and potentially achievable future state
4. **Mission:** An enduring statement of purpose. The purpose for which an organization is existing. Describes what the organization does, who it does it for, and how it does it.
5. **Objectives :** Specific, measurable, short-term and mid-term performance targets necessary for achieving long-term goals; describes who will do what by when.
6. **Strategic planning:** The process by which the guiding members of an organization envision its future and develop the necessary procedures and operations to achieve that future
7. **Implementation:** Taking the necessary actions to accomplish the goals, strategies, objectives, and action plans.
8. **Environmental scan:** The act of monitoring internal and external conditions of the organization. The information is typically classified as internal strengths and weaknesses and external opportunities and threats.
9. **Focus group:** A group gathered to provide input on specific issues. May include suppliers, customers, process owners, etc.
10. **Question Marks** - Low relative market share – compete in high-growth industry
11. **Stars** - High relative market share and high growth rate
12. **Cash Cows** - High relative market share, competes in low-growth industry
13. **Dogs** - Low relative market share & compete in slow or no market growth.



14. **Gap analysis:** The difference between what an organization is doing today to accomplish its mission and what needs to change to achieve its vision.
15. **Forward integration :** Gaining ownership or increased control over distributors or retailers.
16. **Backward integration:** Seeking ownership or increased control of a firm's suppliers.

17. **Market Penetration:** Seeking increased market share for present products or services in present markets through greater marketing efforts.
18. **Market Development:** Introducing new products or services into a new geographic area.
19. **Product Development :** Seeking increased sales by improving present products or services or developing new ones.
20. **Related Diversification:** Adding new products or services related to the same market or technology.



21. **Unrelated Diversification :** Adding new but unrelated products or services.
22. **Retrenchment:** Regrouping through cost and asset reduction to reverse declining sales and profit.
23. **Divestiture :** Selling a division or part of an organization.
24. **Liquidation:** Selling all of a company's assets in parts for their tangible worth.

Table 5-4 Alternative Strategies Defined and Exemplified (2 of 2)

Strategy	Definition	Example
Related Diversification	Adding new but related products or services	Facebook acquired the text-messaging firm WhatsApp for \$19 billion.
Unrelated Diversification	Adding new, unrelated products or services	Kroger and Whole Foods Market are cooking meals, becoming restaurants.
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	Staples closed 250 stores and reduced by 50% the size of other stores.
Divestiture	Selling a division or part of an organization	Sears Holdings divested its Land's End division to Sears' shareholders.
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	The Trump Taj Mahal in Atlantic City, New Jersey, faces liquidation.

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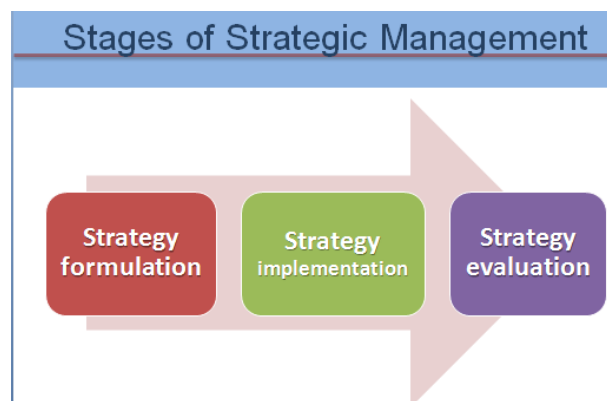
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25. **Horizontal Integration** : *Seeking ownership or increased control over competitors.*
26. **Market Segmentation**- subdividing of a market into distinct subsets of customers according to needs and buying habits.
27. **Cost Leadership** - *To employ a cost leadership strategy successfully, a firm must ensure that its total costs across its overall value chain are lower than competitors' total costs*
28. **Differentiation**-*strategy aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price-insensitive.*
29. **Functional Structure** - Groups tasks and activities by business function (e.g., production, finance, marketing, R&D, HR, IT, etc.).
30. **Divisional Structure** - **Can be organized in one of four ways:** By geographic area; By product or service; By customer; By process
31. **Strategic Business Unit Structure (SBU)** - Groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer.
32. **Matrix Structure** - The most complex of all structures because it depends upon both vertical and horizontal flows of authority and communication.
33. **Restructuring** -reducing the size of an organization. Alsocalled: Downsizing, Rightsizing, Delaying.
34. **Market segmentation** - Subdividing of a market into distinct subsets of customers according to needs and buying habits
35. **Product Positioning** - Product Positioning entails developing schematic representations that reflect how a firm's products or services compare to competitors' on dimensions most important to success in the industry.
36. **Projected Financial Statement Analysis** - Allows an organization to examine the expected results of various actions and approaches
37. **Financial Budget** - Details how funds will be obtained and spent for a specified period of time
38. **Evaluating the Worth of a Business** - Central to strategy implementation – integrative, intensive, and diversification strategies often implemented through acquisitions of other firms
39. **Research & Development** -New products and improvement of existing products that allow for effective strategy implementation
40. **Strategy Evaluation** - Strategy Evaluation includes three basic activities: (1) Examining the underlying bases of a firm's strategy, (2) Comparing expected results to actual results, (3) Taking corrective actions to ensure that performance conforms to plans.
41. **Whistle Blowing** - refers to policies that require employees to report any unethical violations they discover or see in the firm.
42. **Balanced Scorecard** - Balanced Scorecard is a strategy evaluation tool to evaluate strategies with reference to (1) customers, (2) managers/employees, (3) operations/processes, (4) community/social responsibility, (5) business ethics/natural environment, and (6) financial. It uses both quantitative and qualitative measures to evaluate strategies.
43. **Business Ethics** - Principles of conduct within organizations that guide decision making and behavior.
44. **Social Responsibility** - Actions an organization takes beyond what is legally required to protect or enhance the well-being of living things.
45. **Social Policy** - Concerns what responsibilities the firm has to its employees, consumers, environmentalists, minorities, communities, shareholders, and other groups
46. **Environmental Sustainability** - The extent that an organization's operations and actions protect, mend, and preserve rather than harm or destroy the natural environment.

CH.1 The Nature of Strategic Management

- ❖ **Strategic management** : the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives
- ❖ **Strategic management** is used synonymously with the term strategic planning.
- ❖ Sometimes the term strategic management is used to refer to strategy formulation, implementation, and evaluation, with strategic planning referring only to strategy formulation.
- ❖ **A strategic plan** is a company's game plan.
- ❖ **A strategic plan** results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations.

The strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation.



- ❖ **Strategy formulation** : includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.
- ❖ **Deciding what new businesses to enter,**
- ❖ **What businesses to abandon,**
- ❖ **How to allocate resources,**
- ❖ **Whether to expand operations or diversify,**
- ❖ **Whether to enter international markets,**
- ❖ **Whether to merge or form a joint venture,**
- ❖ **How to avoid a hostile takeover.**
- ❖ **Strategy implementation** : requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed often called the action stage
- ❖ **Strategy evaluation:** reviewing external and internal factors that are the bases for current strategies, measuring performance, and taking corrective actions
- ❖ Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional
- ❖ Strategic management helps a firm function as a competitive team
- ❖ Most organizations can benefit from strategic management, which is based upon integrating intuition and analysis in decision making
- ❖ Intuition is particularly useful for making decisions in situations of great uncertainty or little precedent
- ❖ **Competitive advantage** : anything that a firm does especially well compared to rival firms

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- ❖ **Strategists** : the individuals who are most responsible for the success or failure of an organization
- ❖ **Vision statement** : answers the question “What do we want to become?” often considered the first step in strategic planning
- ❖ **Mission statements**
 - Enduring statements of purpose that distinguish one business from other similar firms
 - identifies the scope of a firm’s operations in product and market terms
 - addresses the basic question that faces all strategists: “What is our business?”
- ❖ **External opportunities and external threats** : refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future

Some opportunities and threats

- Computer hacker problems are increasing.
- Intense price competition is plaguing most firms.
- Unemployment and underemployment rates remain high.
- Interest rates are rising.
- Product life cycles are becoming shorter.
- State and local governments are financially weak.

Internal strengths and internal weaknesses

- an organization’s controllable activities that are performed especially well or poorly
- determined relative to competitors.

- ❖ **Objectives**
 - specific results that an organization seeks to achieve in pursuing its basic mission
 - long-term means more than one year
 - should be challenging, measurable, consistent, reasonable, and clear
- ❖ **Strategies**
 - the means by which long-term objectives will be achieved
 - may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures
- ❖ **Annual objectives**
 - short-term milestones that organizations must achieve to reach long-term objectives
 - should be measurable, quantitative, challenging, realistic, consistent, and prioritized
 - should be established at the corporate, divisional, and functional levels in a large organization.
- ❖ **Policies**
 - the means by which annual objectives will be achieved
 - include guidelines, rules, and procedures established to support efforts to achieve stated objectives
 - guides to decision making and address repetitive or recurring situations

The Strategic-Management Model

Where are we now?

Where do we want to go?

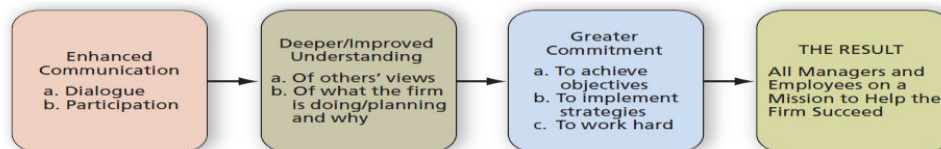
How are we going to get there?

Benefits of Strategic Management

- ❖ Historically, the principal benefit of strategic management has been to help organizations formulate better strategies through the use of a more systematic, logical, and rational approach to strategic choice
- ❖ **Communication** is a key to successful strategic management
- ❖ Through dialogue and participation, managers and employees become committed to supporting the organization.

FIGURE 1-2

Benefits to a Firm That Does Strategic Planning



Financial Benefits

- ❖ Businesses using strategic-management concepts show significant improvement in sales, profitability, and productivity compared to firms without systematic planning activities
- ❖ **High-performing** firms seem to make more informed decisions with good anticipation of both short- and long-term consequences.

Nonfinancial Benefits

- ❖ It allows for identification, prioritization, and exploitation of opportunities.
- ❖ It provides an objective view of management problems.
- ❖ It represents a framework for improved coordination and control of activities.
- ❖ It minimizes the effects of adverse conditions and changes.
- ❖ It allows major decisions to better support established objectives.
- ❖ It allows more effective allocation of time and resources to identified opportunities.
- ❖ It allows fewer resources and less time to be devoted to correcting erroneous or ad hoc decisions.
- ❖ It creates a framework for internal communication among personnel.

Why Some Firms Do No Strategic Planning ?

- *Lack of knowledge or experience in strategic planning*—No training in strategic planning.
- *Poor reward structures*—When an organization assumes success, it often fails to reward success. When failure occurs, then the firm may punish.
- *Firefighting*—An organization can be so deeply embroiled in resolving crises and firefighting that it reserves no time for planning.
- *Waste of time*—Some firms see planning as a waste of time because no marketable product is produced. Time spent on planning is an investment.
- *Too expensive*—Some organizations see planning as too expensive in time and money.
- *Laziness*—People may not want to put forth the effort needed to formulate a plan.
- *Content with success*—Particularly if a firm is successful, individuals may feel there is no need to plan because things are fine as they stand. But success today does not guarantee success tomorrow.

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- Fear of failure
- *Overconfidence*
- *Prior bad experience*
- *Self-interest*
- *Fear of the unknown*
- *Honest difference of opinion*
- *Suspicion*

Pitfalls in Strategic Planning

- ❖ Using strategic planning to gain control over decisions and resources
- ❖ Doing strategic planning only to satisfy accreditation or regulatory requirements
- ❖ Too hastily moving from mission development to strategy formulation
- ❖ Failing to communicate the plan to employees, who continue working in the dark
- ❖ Top managers making many intuitive decisions that conflict with the formal plan
- ❖ Top managers not actively supporting the strategic-planning process
- ❖ Failing to use plans as a standard for measuring performance
- ❖ Delegating planning to a “planner” rather than involving all managers
- ❖ Failing to involve key employees in all phases of planning
- ❖ Failing to create a collaborative climate supportive of change.

Guidelines for Effective Strategic Management

TABLE 1-3 Seventeen Guidelines for the Strategic-Planning Process to Be Effective

1. It should be a people process more than a paper process.
2. It should be a learning process for all managers and employees.
3. It should be words supported by numbers rather than numbers supported by words.
4. It should be simple and nonroutine.
5. It should vary assignments, team memberships, meeting formats, and even the planning calendar.
6. It should challenge the assumptions underlying the current corporate strategy.
7. It should welcome bad news.
8. It should welcome open-mindedness and a spirit of inquiry and learning.
9. It should not be a bureaucratic mechanism.
10. It should not become ritualistic, stilted, or orchestrated.
11. It should not be too formal, predictable, or rigid.
12. It should not contain jargon or arcane planning language.
13. It should not be a formal system for control.
14. It should not disregard qualitative information.
15. It should not be controlled by “technicians.”
16. Do not pursue too many strategies at once.
17. Continually strengthen the “good ethics is good business” policy.

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Comparing Business and Military Strategy

- ❖ A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with an assumption of *competition*, whereas military strategy is based on an assumption of *conflict*
- ❖ Both business and military organizations must adapt to change and constantly improve to be successful

Excerpts from Sun Tzu's The Art of War Writings

- ❖ War is a matter of vital importance to the state: a matter of life or death, the road either to survival or ruin. Hence, it is imperative that it be studied thoroughly
- ❖ Know your enemy and know yourself, and in a hundred battles you will never be defeated

CH.2 The Business Vision and Mission

What Do We Want to Become?

- ❖ A **vision statement** should answer the basic question, "What do we want to become?"
- ❖ The **vision statement** should be short, preferably one sentence, and as many managers as possible should have input into developing the statement.

Vision Statement

- ❖ Vision statements can take many forms.
- ❖ They answer the question: "What will success look like?"
- ❖ Their main purpose is to articulate the best state of the business.
- ❖ Examples of vision statements:
 - eHam.net - "To build the largest and most complete Amateur Radio community site on the Internet."
 - Microsoft (Bill Gates) – "There will be a personal computer on every desk running Microsoft software."

Mission Statement

- The mission statement describes the "what" of your business.
- It states why your organization is in business and what you are hoping to achieve.
- A mission may begin with these questions:
 - What business are we in?
 - What customers should we serve?
 - How should we develop the firm's capabilities and focus its efforts?
- A typical mission statement contains three components:
 1. The overall purpose of your business - what are you trying to achieve, why are you in business.
 2. What your business does - products and services it provides.
 3. What's important to your business - the values your business lives by.
- ❖ **WHAT IS OUT BUSINESS**
- ❖ **Mission statement**
 - a declaration of an organization's "reason for being."
 - answers the pivotal question "What is our business?"
 - essential for effectively establishing objectives and formulating strategies

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❖ Mission statement

reveals what an organization wants to be and whom it wants to serve

Also called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, and a statement of business principles

Vision Vs Mission Statement

Shared vision creates a commonality of interests that can lift workers out of the monotony of daily work and put them into a new world of opportunity and challenge.

The Process of Developing Vision and Mission Statements

- ❖ Select several articles about these statements and ask all managers to read these as background information.
- ❖ Ask managers themselves to prepare a vision and mission statement for the organization.
- ❖ Merge these statements into a single document and distribute the draft statements to all managers
- ❖ Process should create an “emotional bond” and “sense of mission” between the organization and its employees

Importance of Vision and Mission Statements

1. To ensure unanimity of purpose within the organization
2. To provide a basis, or standard, for allocating organizational resources
3. To establish a general tone or organizational climate
4. To serve as a focal point for individuals to identify with the organization’s purpose and direction
5. To facilitate the translation of objectives into a work structure
6. To specify organizational purposes

Characteristics of a Mission Statement

- ❖ **First**, a good mission statement allows for the generation and consideration of a range of feasible alternative objectives and strategies without unduly stifling management creativity.
- ❖ **Second**, a mission statement needs to be broad to reconcile differences effectively among, and appeal to, an organization’s diverse *stakeholders*
- ❖ **Stakeholders** : include employees, managers, stockholders, boards of directors, customers, suppliers, distributors, creditors, governments (local, state, federal, and foreign), unions, competitors, environmental groups, and the general public.

Benefits of Having a Clear Mission and Vision

TABLE 2-2 Ten Benefits of Having a Clear Mission and Vision

1. Achieve clarity of purpose among all managers and employees.
2. Provide a basis for all other strategic planning activities, including internal and external assessment, establishing objectives, developing strategies, choosing among alternative strategies, devising policies, establishing organizational structure, allocating resources, and evaluating performance.
3. Provide direction.
4. Provide a focal point for all stakeholders of the firm.
5. Resolve divergent views among managers.
6. Promote a sense of shared expectations among all managers and employees.
7. Project a sense of worth and intent to all stakeholders.
8. Project an organized, motivated organization worthy of support.
9. Achieve higher organizational performance.
10. Achieve synergy among all managers and employees.

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A Customer Orientation

A mission statement should:

- ❖ define what the organization is and what the organization aspires to be
- ❖ be limited enough to exclude some ventures and broad enough to allow for creative growth
- ❖ distinguish a given organization from all others

A mission statement should also:

- ❖ serve as a framework for evaluating both current and prospective activities
- ❖ be stated in terms sufficiently clear to be widely understood throughout the organization
- ❖ A good mission statement reflects the anticipations of customers.
- ❖ The operating philosophy of organizations should be to identify customers' needs and then provide a product or service to fulfill those needs.

Mission Statement Components

1. **Customers**—Who are the firm's customers?
2. **Products or services**—What are the firm's major products or services?
3. **Markets**—Geographically, where does the firm compete?
4. **Technology**—Is the firm technologically current?
5. **Concern for survival, growth, and profitability**—Is the firm committed to growth and financial soundness?
6. **Philosophy**—What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
7. **Self-concept**—What is the firm's distinctive competence or major competitive advantage?
8. **Concern for public image**—Is the firm responsive to social, community, and environmental concerns?
9. **Concern for employees**—Are employees a valuable asset of the firm?

Characteristics of a Mission Statement

TABLE 2-3 Characteristics of a Mission Statement

-
1. Broad in scope; do not include monetary amounts, numbers, percentages, ratios, or objectives
 2. Less than 250 words in length
 3. Inspiring
 4. Identify the utility of a firm's products
 5. Reveal that the firm is socially responsible
 6. Reveal that the firm is environmentally responsible
 7. Include nine components customers, products or services, markets, technology, concern for survival/growth/profits, philosophy, self-concept, concern for public image, concern for employees
 8. Reconciliatory
 9. Enduring
-

Note: Slides # 15 till 23 are examples for Companies with vision & Mission.

CH.3 The External Assessment

❖ External audit

- focuses on identifying and evaluating trends and events beyond the control of a single firm
- reveals key opportunities and threats confronting an organization so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats

The Nature of an External Audit

- ❖ The external audit is aimed at identifying key variables that offer actionable responses
- ❖ Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats.

Key External Forces

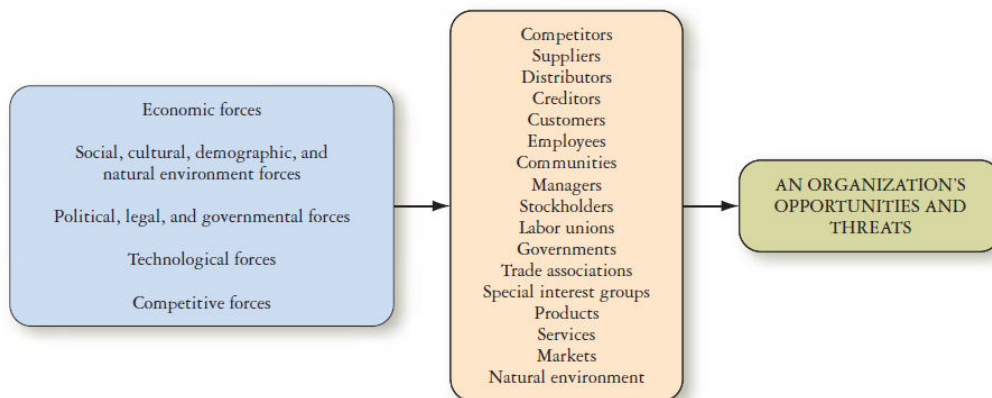
External forces can be divided into five broad categories:

1. economic forces
2. social, cultural, demographic, and natural environment forces
3. political, governmental, and legal forces
4. technological forces
5. competitive forces

Relationships Between Key External Forces and an Organization

FIGURE 3-2

Relationships Between Key External Forces and an Organization



The Process of Performing an External Audit

- ❖ First, gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends.
- ❖ Information should be assimilated and evaluated
- ❖ A final list of the most important key external factors should be communicated

Key **external factors** should be:

1. important to achieving long-term and annual objectives
2. measurable
3. applicable to all competing firms, and
4. hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas

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The Industrial Organization (I/O) View

- ❖ The Industrial Organization (I/O) approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm for achieving competitive advantage.
- ❖ Firm performance is based more on industry properties

Economies of scale

Barriers to market entry

Product differentiation

The economy

Level of competitiveness

Technological Forces

Technological advancements can:

- ❖ Create new markets,
- ❖ Result in a proliferation of new and improved products,
- ❖ Change the relative competitive cost positions in an industry,
- ❖ Render existing products and services obsolete.

Competitive Forces

- ❖ An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies

Characteristics of the most competitive companies:

1. Market share matters
2. Understand and remember precisely what business you are in
3. Whether it's broke or not, fix it—make it better
4. Innovate or evaporate
5. Acquisition is essential to growth
6. People make a difference
7. There is no substitute for quality.

Competitive Intelligence Programs

- ❖ Competitive intelligence (CI): a systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business's own goals.

The three basic objectives of a CI program are:

1. to provide a general understanding of an industry and its competitors
2. to identify areas in which competitors are vulnerable and to assess the impact strategic actions would have on competitors
3. to identify potential moves that a competitor might make that would endanger a firm's position in the market.

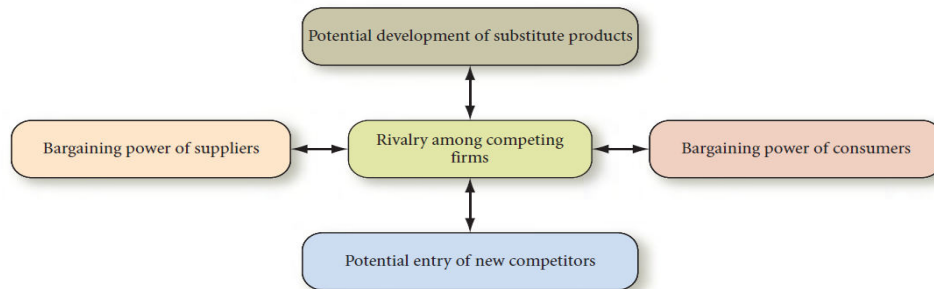
Market Commonality and Resource Similarity

- ❖ **Market commonality** : the number and significance of markets that a firm competes in with rivals
- ❖ **Resource similarity** : extent to which the type and amount of a firm's internal resources are comparable to a rival

The Five-Forces Model of Competition

FIGURE 3-3

The Five-Forces Model of Competition



Barriers to Entry

- ❖ Need to gain economies of scale quickly
- ❖ Need to gain technology and specialized know-how
- ❖ Lack of experience/adequate distribution channels
- ❖ Strong customer loyalty/Strong brand preferences
- ❖ Large capital requirements
- ❖ Government regulatory policies
- ❖ Tariffs
- ❖ Lack of access to raw materials
- ❖ Undesirable locations
- ❖ Potential saturation of the market

Sources of External Information

- ❖ **Unpublished sources** include customer surveys, market research, speeches at professional and shareholders' meetings, television programs, interviews, and conversations with stakeholders.
- ❖ **Published sources** of strategic information include periodicals, journals, reports, government documents, abstracts, books, directories, newspapers, and manuals.
- ❖ marketwatch.multexinvestor.com
- ❖ moneycentral.msn.com
- ❖ finance.yahoo.com
- ❖ www.clearstation.com
- ❖ us.etrade.com/e/t/invest/markets
- ❖ www.hoovers.com
- ❖ globaledge.msu.edu/industries/

Forecasting Tools and Techniques

- ❖ **Forecasts**
 - educated assumptions about future trends and events
 - quantitative, qualitative techniques
- ❖ **Assumptions**
 - Best present estimates of the impact of major external factors, over which the manager has little if any control, but which may exert a significant impact on performance or the ability to achieve desired results.

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Note: Forecasting is complex because of factors such as technological innovation, cultural changes, new products, improved services, stronger competitors, shifts in government priorities, changing social values, unstable economic conditions, and unforeseen events.

CH.4 The Internal Assessment

Key Internal Forces

❖ Distinctive competencies

A firm's strengths that cannot be easily matched or imitated by competitors

❖ Building competitive advantages involves taking advantage of distinctive competencies.

FIGURE 4-2

The Process of Gaining Competitive Advantage in a Firm

Weaknesses $\Rightarrow$ Strengths $\Rightarrow$ Distinctive Competencies $\Rightarrow$ Competitive Advantage

The Process of Performing an Internal Audit

❖ The internal audit

- Requires gathering and assimilating information about the firm's management, marketing, finance/accounting, production/operations, research and development (R&D), and management information systems operations.
- Provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization

The Resource-Based View (RBV)

❖ The Resource-Based View (RBV) approach: contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage

Proponents of the RBV contend that organizational performance will primarily be determined by internal resources that can be grouped into three all-encompassing categories: physical resources, human resources, and organizational resources.

Note: Physical resources include all plant and equipment, location, technology, raw materials, machines; human resources include all employees, training, experience, intelligence, knowledge, skills, abilities; and organizational resources include firm structure, planning processes, information systems, patents, trademarks, copyrights, databases, and so on.

- ❖ For a resource to be valuable, it must be either (1) rare, (2) hard to imitate, or (3) not easily substitutable
- ❖ These three characteristics of resources enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage.

Integrating Strategy and Culture

- ❖ Organizational culture significantly affects business decisions and thus must be evaluated during an internal strategic-management audit.
- ❖ If strategies can capitalize on cultural strengths, such as a strong work ethic or highly ethical beliefs, then management often can swiftly and easily implement changes.

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Review of Mid Term / Definition and Ch.1,2,3,4.

Management

- ❖ The functions of management consist of five basic activities: planning, organizing, motivating, staffing, and controlling.
- ❖ These activities are important to assess in strategic planning because an organization should continually capitalize on its management strengths and improve on its management weaknesses.

Marketing

- ❖ **Marketing** : the process of defining, anticipating, creating, and fulfilling customers' needs and wants for products and services.



- ❖ **Customer analysis**

- the examination and evaluation of consumer needs, desires, and wants
- involves administering customer surveys, analyzing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies
- essential in developing an effective mission statement

Product and Service Planning

- includes activities such as test marketing; product and brand positioning; devising warranties; packaging; determining product options, features, style, and quality; deleting old products; and providing for customer service
- important when a company is pursuing product development or diversification

Pricing

- ❖ **Five major** stakeholders affect pricing decisions: consumers, governments, suppliers, distributors, and competitors
- ❖ Sometimes an organization will pursue a forward integration strategy primarily to gain better control over prices charged to consumers

Distribution

- includes warehousing, distribution channels, distribution coverage, retail site locations, sales territories, inventory levels and location, transportation carriers, wholesaling, and retailing
- especially important when a firm is striving to implement a market development or forward integration strategy

Marketing Research

- the systematic gathering, recording, and analyzing of data about problems relating to the marketing of goods and services
- can uncover critical strengths and weaknesses

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Cost/Benefit Analysis

Three steps are required to perform a cost/benefit analysis:

1. compute the total costs associated with a decision,
2. estimate the total benefits from the decision,
3. compare the total costs with the total benefits.

Finance/Accounting Functions

The functions of finance/accounting comprise three decisions:

1. the investment decision
2. the financing decision
3. the dividend decision

❖ **Investment decision**

the allocation and reallocation of capital and resources to projects, products, assets, and divisions of an organization

❖ **Financing decision**

determines the best capital structure for the firm and includes examining various methods by which the firm can raise capital

❖ **Dividend decisions**

concern issues such as the percentage of earnings paid to stockholders, the stability of dividends paid over time, and the repurchase or issuance of stock.

determine the amount of funds that are retained in a firm compared to the amount paid out to stockholders.

A Summary of Key Financial Ratios

TABLE 4-6 A Summary of Key Financial Ratios

Ratio	How Calculated	What It Measures
Liquidity Ratios		
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations
Quick Ratio	$\frac{\text{Current assets minus inventory}}{\text{Current liabilities}}$	The extent to which a firm can meet its short-term obligations without relying upon the sale of its inventories
Leverage Ratios		
Debt-to-Total-Assets Ratio	$\frac{\text{Total debt}}{\text{Total assets}}$	The percentage of total funds that are provided by creditors
Debt-to-Equity Ratio	$\frac{\text{Total debt}}{\text{Total stockholders' equity}}$	The percentage of total funds provided by creditors versus by owners
Long-Term Debt-to-Equity Ratio	$\frac{\text{Long-term debt}}{\text{Total stockholders' equity}}$	The balance between debt and equity in a firm's long-term capital structure
Times-Interest-Earned Ratio	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs

Production/Operations

❖ **Production/operations function**

consists of all those activities that transforms inputs into goods and services

❖ **Production/operations management deals with inputs, transformations, and outputs that vary across industries and markets.**

❖ **Decision areas include: Process, Capacity, Inventory, Work force, Quality.**

Implications of Various Strategies on Production/Operations

TABLE 4-8 Implications of Various Strategies on Production/Operations

Various Strategies	Implications
1. Low-cost provider	Creates high barriers to entry Creates larger market Requires longer production runs and fewer product changes
2. A high-quality provider	Requires more quality-assurance efforts Requires more expensive equipment Requires highly skilled workers and higher wages
3. Provide great customer service	Requires more service people, service parts, and equipment Requires rapid response to customer needs or changes in customer tastes Requires a higher inventory investment
4. Be the first to introduce new products	Has higher research and development costs Has high retraining and tooling costs
5. Become highly automated	Requires high capital investment Reduces flexibility May affect labor relations Makes maintenance more crucial
6. Minimize layoffs	Serves the security needs of employees and may develop employee loyalty Helps to attract and retain highly skilled employees

Research and Development Audit

1. Does the firm have R&D facilities? Are they adequate?
2. If outside R&D firms are used, are they cost-effective?
3. Are the organization's R&D personnel well qualified?
4. Are R&D resources allocated effectively?
5. Are management information and computer systems adequate?
6. Is communication between R&D and other organizational units effective?
7. Are present products technologically competitive?

Management Information Systems

- ❖ A **management information system's** purpose is to improve the performance of an enterprise by improving the quality of managerial decisions
- ❖ An effective **information system** thus collects, codes, stores, synthesizes, and presents information in such a manner that it answers important operating and strategic questions.

Value Chain Analysis (VCA)

- refers to the process whereby a firm determines the costs associated with organizational activities from purchasing raw materials to manufacturing product(s) to marketing those products
- aims to identify where low-cost advantages or disadvantages exist anywhere along the value chain from raw material to customer service activities

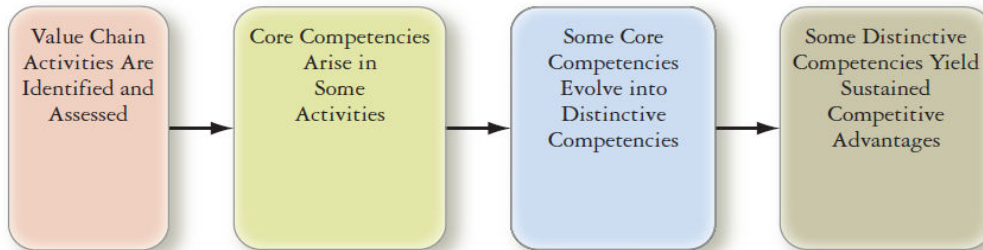
Benchmarking

- an analytical tool used to determine whether a firm's value chain activities are competitive compared to rivals and thus conducive to winning in the marketplace
- entails measuring costs of value chain activities across an industry to determine "best practices"

Transforming Value Chain Activities into Sustained Competitive Advantage

FIGURE 4-8

Transforming Value Chain Activities into Sustained Competitive Advantage



----- End -----