Strategic Management

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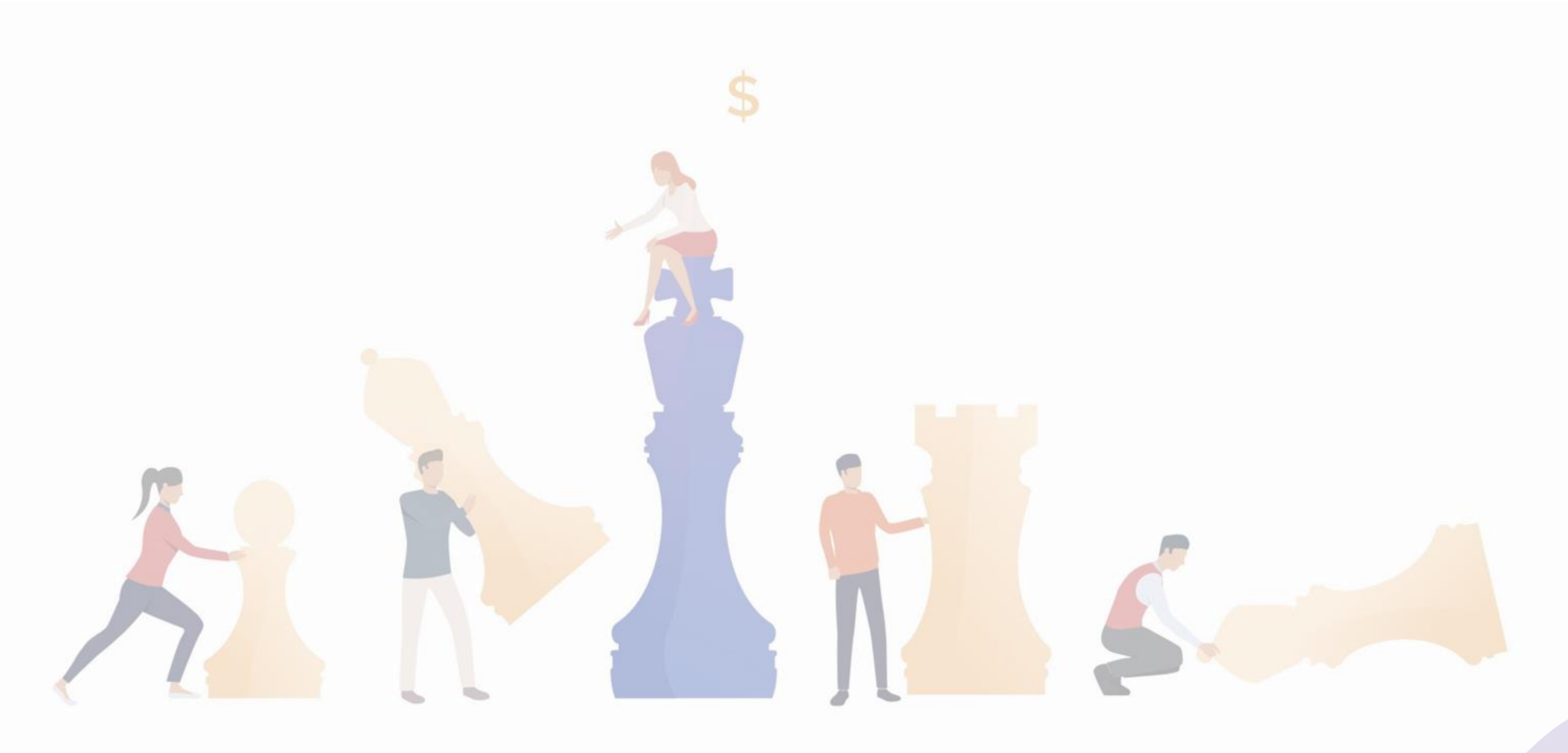
Chapter 1

Introduction to Strategic Management



Overview

Case studies

Learn some case studies from Nokia, Kodak, and Google

Definitions

Understand basic definitions of strategic management.

Competitive advantage

We will see this key term many times in the course.

“If you do not invest for long-term, there will be no short-term.”

George David

Case study 1 - Nokia

Image by CSIRO from Wikimedia Commons

September 2000
First launch of the world famous Nokia3310

Image by Rafael Fernandez From Wikimedia Commons

July 2008
First launch of the iPhone3G, a smartphone that disrupted the entire industry

Nokia continued to develop their button cell phones and Symbian OS. Later, they developed touchscreen smartphones with Microsoft Mobile OS.

Case study 2 - Kodak

"Razor and Blades" business plan

- Sell devices at low affordable prices
- Sell consumable products at high prices

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Image by Steve Harwood from Flickr

Image by Rafael El Grafo From Wikimedia Commons

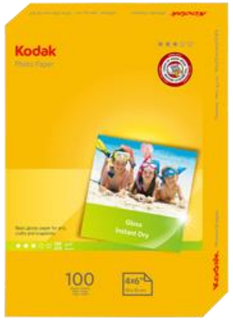

Image from kodakbatteries.com

What would happen if customers no longer need consumable parts.

How Kodak missed the digital revolution

Image from open-organization.com

Steve Sasson invented the world first-ever digital camera in 1975 when he was an electrical engineer at Kodak.

When Steve told his bosses at Kodak about his invention, their response was, “That’s cute, but don’t tell anyone about it.”

Kodak ignored digital cameras because their business of films and paper was very profitable at that time.

Source: startuptalky.com

Case study 3 - Google

Google was founded in 1996 by Larry Page and Sergey Brin, two graduate students at Stanford University.

The name was derived from "**googol**", which is 10^{100} implying the massive amount of information the service was designed to organize.

Because of that big data, Google knows what individuals are looking for and use it for their advantages (e.g., Google Ads.).

Definitions

Long-run goals and objectives of an enterprise, and the adoption of course of action and the allocation of resources necessary for carrying out these goals (Alfred Chandler, 1962).

The pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be (Kenneth Andrews, 1987).

The fundamental pattern of present and planned resource deployments and environmental interactions that indicate how the organization will achieve its objectives (Charles Hofer and Dan Schendel, 1978).

What business strategy is all about is, in a word, competitive advantage … the sole purpose of strategic planning is to enable a company to gain, as efficiently as possible, a sustainable edge over its competitors (Kenichi Ohmae, 1982).

A set of important decisions derived from a systematic decision-making process, conducted at the highest levels of the organization (Daniel Gilbert et al., 1988).

An integrated and coordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage (Hoskisson et al., 2008).

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Common definition

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- Analyzing the environment
- Integrating the firm’s activities
- Learning and adapting to change
- Creating value in both the present and into the future

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This framework can be used in every type of organization, large or small, new or old, domestic or international, even commercial and non-profit.

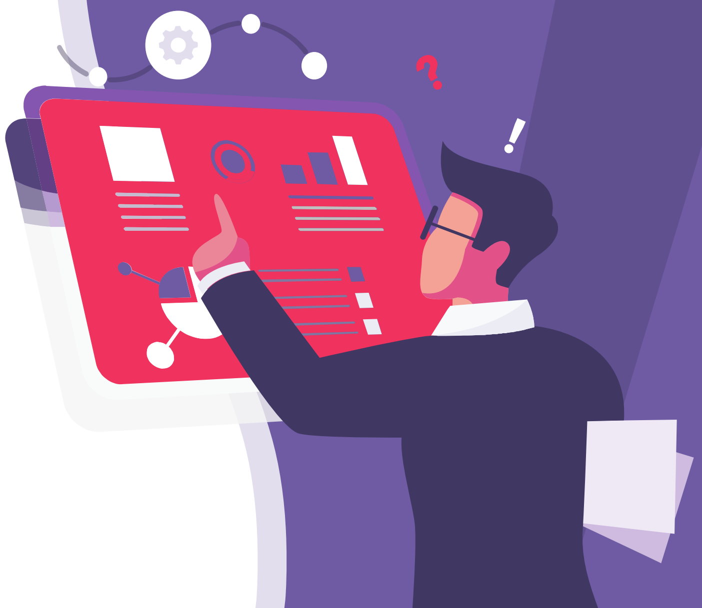
Mintzberg's 5 Ps of Strategy

Plan

- Planning is fundamental to strategic management.
- It is a forward-looking process.
- It incorporates understanding about the environment, the firm, the ongoing developments and changes.
- Threats and opportunities are identified and analyzed.

Ploy

- A plan or action designed to turn a situation to one's own advantage.
- Used to gain an advantage over a competitor
- Intended to lure a competitor into a poor decision.
- Create an illusion of strength to mask some vulnerability.

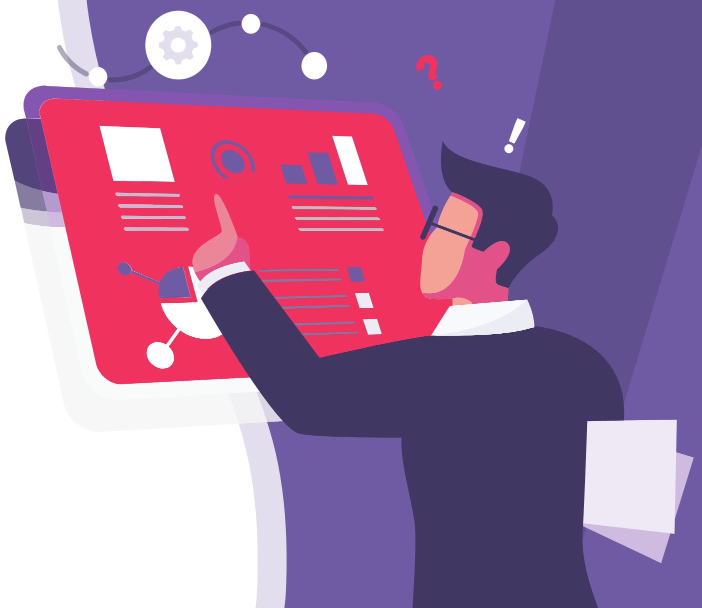


Pattern

- Sometimes, strategy emerges from past actions.
- Maintaining a consistent action that is known to be successful instead of making an immediate decision might be a good strategy

Position

- How you decide your position in the marketplace.
- Explore the fit between your organization and the environment.
- Position the firm within an attractive and manageable environment.
- Many firms seek positions themselves to avoid competition.



Perspective

- Firms differ in how they view the market, as well as how customers view the company.
- Some seek a leadership position in their industries while others are away from the spotlight.
- Some firms are known for their technologically innovative, while others are known for their excellent marketing.

Competitive advantage

A <u>sustainable</u> advantage that a business has over its competitors that enables it to succeed in the market (Jim Riley, 2019).

- That advantage must not be imitated in the near term.
- Something that takes a lot of time and effort to achieve.
- Not something that other people can easily copy.

Cost advantage

A business can offer its products or services at lower prices compared to its competitors.

Note that pricing and cost control require long-term planning.

Differentiation advantage

A business can differentiate its products from what their competitors offer, so that customers can perceive the superior value.

This process often involves R&D, which is a lengthy process.

Focus advantage

A business is expertise in certain parts of the market and use that advantage to create benefits.

It's not easy to be an expert in something.

Market equilibrium

- A situation in which supply and demand are balanced
- A condition where a market price is established through competition and the number of goods/services produced/offered is equal to the number of goods/services sought by consumers.

Consumer surplus

- A consumer surplus happens when the price consumers are willing to pay is more than the actual selling price.
- Consumers get more satisfaction from a product or service than they expect from the price they pay.
- Consumer surplus always increases as the price falls and decreases as the price rises.

Producer surplus

- Producer surplus is the total amount that a producer benefits from producing and selling their goods at the market price (the actual production cost is lower).
- The total revenue that a producer receives from selling their goods minus the total cost of production
- Producer surplus plus consumer surplus is known as a total surplus or social welfare, which means the total benefit to everyone in the market from participating in production and trade of goods.

SWOT

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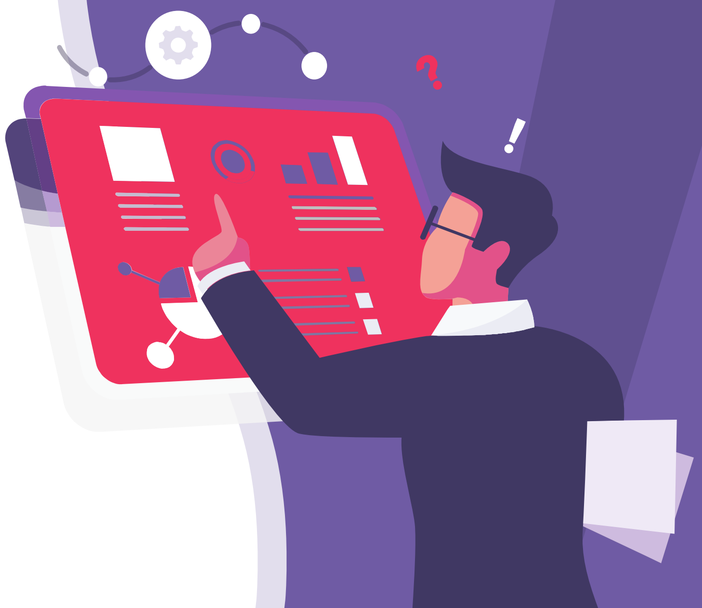

A quest for performance

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