

Strategic Management

Strategic Planning
Strategy Implementation
Strategic Control

What is Strategy?

- The long term action plan
- The game plan
- Company or organization direction
- What we're doing

- The plan to achieve competitive advantage

Competitive advantage

- Low-cost provider
- Differentiating feature(s)
- Narrow market niche
 - Serving unique needs better
- Expertise, resource strengths, and capabilities not easily imitated
- And so on

Distinctive Capabilities

- Sophisticated distribution systems – Wal-Mart
- Product innovation capabilities – 3M
- Defect-free manufacturing – Toyota and Honda
- Superior e-commerce capabilities – Dell computer
- Personalized customer service – Ritz Carlton Hotels
- Others?

"I skate to where the puck
is going to be,

not where it has been."

–Wayne Gretzky

Strategy is the answer to:

1. What do we want to do?
2. What do we bring to the table?
3. Where should we put our efforts, and why?
4. What do we need to do to compete, survive, and meet our goals?

“Hows” of strategy

- How to please customers
- How to respond to changing market conditions
- How to outcompete rivals
- How to grow the business
- How to manage each functional piece of the business and develop needed organizational capabilities
- How to achieve strategic and financial objectives
- How to balance short term and long term

Strategic Management

vs Tactical Management

vs Operations Management

Strategic Planning

- Identify stakeholders
 - Who is involved, concerned
- Develop vision, mission, & objectives
 - What do we want to be? (the vision)
 - What do we want to do? (the mission)
 - Clarify values
 - Setting strategic & financial objectives
- External analysis
- Internal analysis
- Crafting the best strategy

Why is vision important?

A clear vision will attract the right strategy.

No strategy will save an organization that doesn't have a clear vision of where they are going.

“If you want to build a ship,
don't drum up the men to
gather wood, divide the work
and give orders.

Instead, teach them to yearn
for the vast and endless sea.”

—Antoine de Saint-Exupéry

Vision and Mission Statements should have three elements:

- Overall vision and mission
- Management's key philosophical values
- Key objectives to be accomplished

Three questions to improve focus

- Which consumer or customer groups are being satisfied?
- What needs are being satisfied?
- How are customer needs being satisfied?

Objectives

Financial objectives

- Specific measures of financial performance

Strategic objectives

- Activities that affect competitive position

- Long-term and Short-term objectives

External Analysis

External Analysis

1. Macro environment?
2. Dominant economic traits?
3. Competitive forces?
4. Factors driving change?
5. Strongest & weakest positions?
6. Next strategic moves?
7. Key success factors?
8. Attractiveness & profitability?

The Macro Environment

- Macroeconomic environment
- Technological environment
- Social environment
- Demographic environment
- Political and legal environment

Dominant Economic Traits

- Market size
- Scope of competitive rivalry
- Market growth rate & position in the growth cycle
- Number of rivals and their relative sizes
- Number of buyers and their relative sizes
- Prevalence of backward and forward integration
- Ease of entry and exit

Dominant Economic Traits (cont.)

- Pace of technological change
- Level of differentiation of the rival products or services
- Presence of economies of scale
- Capacity utilization levels
- Impact of learning and experience
- Capital requirements
- Industry profitability

Porter's Five Competitive Forces

1. Risk of entry by potential competitors
2. Rivalry among established firms
3. Bargaining power of buyers
4. Bargaining power of suppliers
5. Substitute products

Forces Driving Change in Industry Structure and Business Environment

1. Changes in the industry growth rate
2. Changes in who buys the product and how they use it
3. Product innovation
4. Technological change
5. Marketing innovation
6. Entry or exit of major firms & countries
7. Diffusion of technical knowledge

Forces Driving Change (cont.)

8. Increasing globalization of the industry
9. Changes in cost and efficiency
10. Emerging buyer preferences for differentiated products instead of a commodity product (or for a more standardized product instead of strongly differentiated products)
11. Regulatory influences and government policy changes
12. Changing societal concerns, attitudes, and lifestyles
13. Changes in uncertainty and business risk

Strong and Weak Competitive Positions

- What competitive characteristics differentiate firms?
- What are the characteristics of the strongest?
- The weakest?
- Consider these points at least: size, location, production methods, age of equipment and/or workforce, specialization, diversification, and vertical integration.

The Next Strategic Moves

- Based on their competitive positions, what moves are competitors likely to make?
- Which companies, regions, or countries may change?
- What are the makers of substitute products doing or what might they be changing?
- Will their potential changes make a large impact?

Key Success Factors

- Key success factors must be kept at performance levels required by the industry.
- If the KSFs are not met, the farm will not perform adequately and its viability is threatened.
- A KSF can be identified as the word or phrase that would complete this sentence for a farmer: "If we _____, we will be successful."

KSFs can be grouped in several ways:

- Technology-related
- Manufacturing-related
- Distribution-related
- Marketing-related
- Skills-related
- Organizational capability
- Other factors: reputation, location, access to capital, etc.

Attractiveness and Profitability

- This is an overall assessment of the industry's attractiveness or unattractiveness, special issues and problems, and its profit outlook.

In review, External Analysis consists of answering 8 questions:

1. Macro environment?
2. Dominant economic traits?
3. Competitive forces?
4. Factors driving change?
5. Strongest & weakest positions?
6. Next strategic moves?
7. Key success factors?
8. Attractiveness & profitability?

Internal Analysis

A full Internal Analysis

Includes consideration of

1. shared values and culture
2. personal ambitions, philosophies, and ethical principles of the managers
3. the farm's strengths, weaknesses, and competitive capabilities
(five key questions)

Five questions for Internal Analysis

- How well is the present strategy working?
- What are the Strengths, Weaknesses, Opportunities, and Threats? (SWOT)
- Are costs competitive?
- How strong is the competitive position?
- What strategic issues need to be addressed?

Is the present strategy working?

- Is the farm achieving it's financial and strategic objectives?
- Is it progressing towards it's vision?
- What is the current financial condition and performance?
- How well have profit objectives been balanced with other financial and strategic objectives?

SWOT analysis

	INTERNAL	EXTERNAL
Good	Strengths	Opportunities
Bad	Weaknesses	Threats

Are Costs Competitive?

- Are the costs of production and delivery lower than for other farms?
- Compare the specific farm's estimated costs to other farms using
 - USDA costs of production surveys
 - Farm record association reports
 - Other private information sources such as bank comparisons

Cost Comparisons

- Horizontally across farms
- Historically over time
- Vertically
- Value chain analysis
- Benchmarking

Strength of the Competitive Position

- Strengths and core competencies need to be strong in relation to trends
- Is the farm making the correct moves to position itself to take advantage of the trends.

Signs of Competitive Strengths

- important core competencies
- distinctive strategies
- cost advantages
- good match of the farm's strategic product groups with the industry's growth areas
- above average profit margins
- taking advantage of cost economies
- above average technological and innovational capability
- creative, entrepreneurially alert management
- capitalizing on opportunities
- possessing skills in key areas

Signs of Competitive Weaknesses

- competitive disadvantages
- losing ground compared to other farms
- below average growth
- short on financial resources
- poor strategic product groups compared to industry growth
- weak where best growth potential is
- high cost producer
- not able to take advantage of cost economies
- poor quality of and/or missing skills in key areas

Strategic Issues to be Addressed

- Putting the external and internal analyses together
- Assessing how well the farm is placed in the industry
- Identifying the strategic issues need to be studied, improved, & changed

- This is the beginning of crafting strategy, the next topic.

In review, five questions for Internal Analysis

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Crafting Strategy

Generic strategies

- Low cost leadership
- Growth
- Prospector
- Protector
- Reactor
- Differentiation
- Focus or niche
- Best-cost provider
- Retrenchment

Patterns of Actions that Define Strategy

1. Actions to out compete rivals
2. Responses to external changes
3. Broadening or narrowing product line, changing quality, & modifying service
4. Actions to alter geographic coverage
5. Actions to merge with or acquire rivals
6. Efforts to integrate backward or forward or to outsource current internal activities

Patterns, cont.

7. Actions to form alliances & partnerships
8. Efforts to pursue opportunities or defend against threats
9. Actions and approaches that define how functional activities are managed
10. Actions to strengthen resources and capabilities
11. Actions to diversify

External factors shaping strategy:

- Societal, political, regulatory, & community considerations
- Industry attractiveness
- Changing conditions
- Specific opportunities & threats

Internal factors shaping strategy:

- Strengths, weaknesses, & competitive capabilities
- Ambitions, philosophies, & ethics
- Shared values & culture

Strategy Evaluation Tests

- Vision Consistency
- Goodness of Fit
- Building for the Future
- Performance
- Importance
- Feasibility
- Resource
- Confidence

Scoring example (subset of Table 2.1)

Proposed Strategy	Vision	Fit	Building future	Other tests	TOTAL SCORE
Low cost	2	3	2	...	23
New Markets	4	3	3	...	23
Merger	3	4	5	...	27
Organic	4	3	4	...	27

Improving Strategic Planning

1. Planning under uncertainty
2. Ivory tower planning
3. Planning for the present
4. Managers' biases
5. Devil's advocacy
6. Dialectic inquiry
7. Advisory board

Using Scenarios

1. Bet on most probable scenario
2. Bet on the "best" scenario & strategy
3. Hedge on what will happen
4. Preserve flexibility
5. Influence the outcome
6. Combine methods

Factors affecting strategy choice

- Robustness
- First mover advantage
- Initial competitive position
- Cost or resources required
- Risk
- Competitor's expected choices

Strategy Implementation

Strategy Implementation

- "The most difficult part of strategic management"
- Designing the organizational structure
- Aligning functional strategies
- Obtaining & directing resources
- Adapting to changes

Implementation activities

- Develop a capable organization
- Allocate resources
- Establish policies & procedures
- Motivate & reward people
- Create culture and work climate
- Install internal support systems
- Institute continuous improvement
- Exert internal leadership, keep the vision in mind

(adapted from Thompson and Strickland, 2003)

Implementation involves developing:

- The correct organization
- Functional strategies
- Strategic project plans
- Strategic programs

Strategic Control

Strategic Control

- Choose key indicators for objectives
- Establish standards
- Create measurement systems
- Compare performance to standards
- Evaluate results
- Take corrective actions as needed

Molz divides control into 2 parts:

- Strategic product
 - Actual outcomes compared to targets
 - Take corrective actions as needed
- Strategic process
 - Reevaluate assumptions and inputs used to develop the strategic plan
 - Decide whether plan needs to be adapted to new conditions

Hill and Jones:

1. Financial controls
2. Output controls
3. Behavior controls
4. Values and norms
5. Reward systems

Concluding Comments

- Strategic management is a continuous process.
 - It is not a one time event.
- After the first strategic plan is developed, a farmer still needs to continuously
 - Scan the external environment
 - Evaluate new conditions and events
 - Take corrective actions as needed