Organizational Strategy

Chapter 6

CHAPTER OUTLINE

STUDENT RESOURCES

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TiVo Headquarters, Alviso, California.[1] "Hey, who wants to see last night's episode of *The Apprentice*? I TiVo-ed it so we can see who Trump fired this week." TiVo is the easily programmable digital video recorder (DVR), basically a computer, that automatically records the TV shows you specify so that you can watch them whenever you want. *USA Today* described TiVO this way: "More than any previous invention, TiVo has detached TV shows from TV networks. If you own a TiVo, you don't care what channel a show is on. TiVo scoops up everything you want from all the channels and stores it. TiVo users tend to watch TiVo instead of channel surf." Certainly, TiVo customers love their TiVos; 98 percent "couldn't live without" them, and 40 percent said they'd rather go without cell phones than their TiVos. Even former Federal Communcations Commission chairman Michael Powell referred to TiVo as "God's machine."

Xerox, Google, and now TiVo—supposedly, you have arrived when your company's name becomes an everyday verb. Unfortunately, TiVo is still struggling. Five years after its startup, TiVo has just 1.9 million subscribers, still isn't profitable, and is facing difficult competition from copycat DVRs made by ReplayTV, Motorola, and Scientific-Atlanta. Also, satellite and cable TV providers, including Dish Network, Comcast, and Time Warner, are luring new subscribers with free DVRs, similar to TiVos, that are built into their satellite/cable boxes. For example, the Dish Network's free DVR allows customers to record, pause live TV, or fast-forward on a 120 gigabyte hard drive that records 100 hours of TV. And whereas TiVo charges $12.95 a month for its subscription service (that feeds TV scheduling information and software updates to your TiVo), Dish Network charges only $5 a month and will waive that charge if you upgrade to its most expensive package of channels. Even DirecTV, which partnered with TiVo to provide TiVo DVRs to DirecTV customers, has sold its shares of TiVo stock and will begin making its own DVRs. With DirecTV customers accounting for 60 to 70 percent of TiVo's current subscribers, this represents a huge loss of future sales and subscribers for TiVo. Industry analyst Vamsi Sistla, says, "TiVo is going to get hurt, obviously." Furthermore, telephone companies such as Verizon, SBC, and BellSouth are preparing to offer new television subscription services, including DVRs, and Microsoft is partnering with Comcast to produce an easy-to-use software system for its DVRs.

What Would You Do?

Just when it seemed that the news couldn't get any worse for TiVo, it did: company founder Mike Ramsay announced that he is resigning as CEO, although he will stay on as chairman. According to Ramsay, TiVo is searching for a more experienced CEO with "new talents we can bring in to move to the next phase" of growth and development. With the loss of its top management and so many threats to its core business, TiVo must address key questions if it is to survive this competitive onslaught. First, does TiVo still have a competitive advantage, and if so, is there any way to fortify it against such strong competition? Industry analyst Brian Wieser says, "TiVo has to find a niche that allows it to survive as a stand-alone entity, [that is] not dependent on distribution from [cable and satellite companies]." Second, with so many copycat DVRs on the market, how can TiVo differentiate its products and services so that customers will prefer TiVo DVRs to those provided by its competitors? Finally, should TiVo consider an aggressive counterattack against its competitors, such as significant price cuts or the addition of "free services"? Would such a strategy help TiVo at this point? **If you were going to be the new CEO at TiVo, what would you do?**

STUDY TIP

Fresh examples of management topics can be found everyday in the business press. Pick up a copy of the *Wall Street Journal* and read several articles. List the strategy issues facing the companies you read about.

In Chapter 5, you learned that *strategic plans* are overall company plans that clarify how a company intends to serve customers and position itself against competitors over the next two to five years. Although TiVo was the first to sell DVRs, it now faces challenges from numerous competitors and must develop a strategy to recapture its competitive advantage in the DVR business. This chapter begins with an in-depth look at how managers create and use strategies to obtain a sustainable competitive advantage. Then you will learn the three steps of the strategy-making process. Next, you will learn about corporate-level strategies that help managers answer the question: What business or businesses should we be in? You will then examine the industry-level competitive strategies that help managers determine how to compete successfully within a particular line of business. The chapter finishes with a review of the firm-level strategies of direct competition and entrepreneurship.

Basics of Organizational Strategy

America Online (AOL), which provides services such as email, Internet access, and chat rooms, grew from one of the smallest online service providers to the largest in less than a decade, quadrupling its customer base and achieving consistently good profits. In fact, AOL's success enabled it to buy the much larger Time Warner, which owns *Time* magazine (among others), HBO, Cinemax, CNN, and numerous providers of cable television and high-speed Internet services. Now, however, after several years of poor performance, the combined company's stock price is just one-third of AOL's price before it acquired Time Warner. Indeed, in another sign of AOL's decline, the combined company, once called *AOL Time Warner*, changed its name to just *Time Warner*. AOL itself is now just one of Time Warner's many divisions.[2] Although AOL now has 32.7 million subscribers, its two closest competitors, MSN (the Microsoft Network) and Earthlink, trail with 8.95 million and 5.3 million subscribers each. Plus, its market share among Internet service providers has actually shrunk from above 52 percent to 24 percent, as it loses market share to high-speed cable providers like Comcast and high-speed DSL providers like SBC and Verizon![3]

How can a company like AOL, which dominates an industry, though much less completely than before, keep its competitive advantage? What steps can AOL and other companies take to better manage the strategy-making process?

After reading the next two sections, you should be able to

1. indicate the components of sustainable competitive advantage and explain why it is important.
2. describe the steps involved in the strategy-making process.

1 SUSTAINABLE COMPETITIVE ADVANTAGE

resources
The assets, capabilities, processes, information, and knowledge that an organization uses to improve its effectiveness and efficiency, create and sustain competitive advantage, and fulfill a need or solve a problem.

competitive advantage
Providing greater value for customers than competitors can.

Resources are the assets, capabilities, processes, information, and knowledge that an organization controls. Firms use their resources to improve organizational effectiveness and efficiency. Resources are critical to organizational strategy because they can help companies create and sustain an advantage over competitors.[4]

Organizations can achieve a **competitive advantage** by using their resources to provide greater value for customers than competitors can. For example, AOL created competitive advantage for itself and value for its customers through its simplicity. To get online with AOL, you put its software in your computer, typed "Install," and followed the directions (entered your name, credit card number, etc.) as the software automatically dialed AOL's free sign-up number.[5] In less than five minutes, you were an AOL subscriber with full online access.

Though signing up like this for online service is commonplace today, AOL was the first company to make it this easy. Furthermore, AOL's easy-to-understand menus, icons, and instructions made the process simple and intuitive, even for those who knew little about computers. AOL customer George LeMien of Bethel, Connecticut, said, "I like [AOL's] ease of use, especially how it helps guide me around the Net."[6] Other online services were more difficult to use.

The goal of most organizational strategies is to create and then sustain a competitive advantage. A competitive advantage becomes a **sustainable competitive advantage** when other companies cannot duplicate the value a firm is providing to customers. Sustainable competitive advantage is *not* the same as a long-lasting competitive advantage, though companies obviously want a competitive advantage to last a long time. Instead, a competitive advantage is *sustained* if competitors have tried unsuccessfully to duplicate the advantage and have, for the moment, stopped trying to duplicate it. It's the corporate equivalent of your competitors saying, "We give up. You win. We can't do what you do, and we're not even going to try to do it any more." As Exhibit 6.1 shows, four conditions must be met if a firm's resources are to be used to achieve a sustainable competitive advantage. The resources must be valuable, rare, imperfectly imitable, *and* nonsubstitutable.

sustainable competitive advantage
A competitive advantage that other companies have tried unsuccessfully to duplicate and have, for the moment, stopped trying to duplicate.

Valuable resources allow companies to improve their efficiency and effectiveness. Unfortunately, changes in customer demand and preferences, competitors' actions, and technology can make once-valuable resources much less valuable. For example, when AOL charged $9.95 a month for five online hours and $2.95 for every additional hour, it had sufficient resources, meaning phone lines, network computers, and available support staff, to successfully handle the business growth it was experiencing. When it first switched to a flat-rate plan with unlimited connection hours, however, those once-valuable resources became an obstacle to efficiency and effectiveness because they could not keep up with surging customer demand for online access. To this day, AOL is still plagued by network complaints of frequent busy signals, which prevent users from connecting, and dropped connections once they finally get through.[7]

valuable resources
Resources that allow companies to improve efficiency and effectiveness.

For sustained competitive advantage, valuable resources must also be rare resources. Think about it. How can a company sustain a competitive advantage if all of its competitors have similar resources and capabilities? Consequently, **rare resources**, resources that are not controlled or possessed by many competing firms, are necessary to sustain a competitive advantage. When AOL first created the ability to automatically charge monthly bills to customers' credit cards, none of its competitors were offering this service. Any competitive advantage gained from this was short-lived, however; within months, other online services and Internet providers had the same capability. What was initially a rare resource, the capability to bill to credit cards, had become commonplace.

rare resources
Resources that are not controlled or possessed by many competing firms.

As the example shows, valuable, rare resources can create temporary competitive advantage. For sustained competitive advantage, however, other firms must be unable to imitate or find substitutes for those valuable, rare resources. **Imperfectly imitable resources** are impossible or extremely costly or difficult to duplicate. For example, despite numerous attempts by competitors to imitate them, AOL's ease-of-use and simplicity initially were an imperfectly imitable resource. *PC Magazine* once wrote: "AOL's graphical interface, with menus made up of single-click art icons, folders, and other documents, is a best-of-breed design. The total effect is coherent and easy to navigate. Some interface elements are even animated, adding still more visual appeal."[8] Indeed, over its first decade in the online service business, AOL's ease-of-use and intuitive design helped it displace first CompuServe and then Prodigy as the industry leader. Today, though, both MSN and

imperfectly imitable resources
Resources that are impossible or extremely costly or difficult for other firms to duplicate.

Exhibit 6.1
Four Requirements for Sustainable Competitive Advantage

EarthLink have created simple software interfaces, MSN 9.0 and EarthLink Total Access, for much easier email, Web browsing, chat and messaging software, and file uploads and downloads. Cnet.com and *PC Magazine* consistently rank MSN and EarthLink as better and easier to use than AOL.[9] For example, Cnet.com wrote, "Compared with rival AOL, MSN Premium presents better features in a cleaner interface—with fewer overlapping windows and simpler pull-down menus."[10] You can compare AOL 9.0 and MSN 9.0 for yourself in Exhibits 6.2 and 6.3. Today, AOL's imperfectly imitable resources—intuitive design and ease-of-use—aren't that different from those of its competitors, and the competitive advantage that AOL created with its easy-to-use software has clearly slipped away.

nonsubstitutable resource
A resource that produces value or competitive advantage and has no equivalent substitutes or replacements.

Valuable, rare, imperfectly imitable resources can produce sustainable competitive advantage only if they are also **nonsubstitutable resources**, meaning that no other resources can replace them and produce similar value or competitive advantage. For example, as described above, the resource that brought AOL its strongest competitive advantage is its simplicity and ease-of-use. In the Internet service provider (ISP) business, this resource has proved valuable, rare, and imperfectly imitable. AOL's service and connectivity problems (i.e., busy signals and dropped connections), however, have made customers aware that other ISPs are potential substitutes for online access.

For example, when people first started going online, they were happy to pay AOL $9.95 a month for five online hours and $2.95 for every additional hour. But when competitors began offering flat-rate plans with unlimited connection hours, AOL's market share began to shrink. Today, AOL's $23.95 per month dial-up flat-rate plan includes free virus software and firewall protection. However, NetZero and PeoplePC, which offer unlimited connection hours for less than $11 a month, are taking away AOL's price-conscious customers. And, for just a few more dollars per month than AOL's slower $23.95 dial-up plan, consumers who want high-speed Internet connections can go to Verizon, SBC-Yahoo, or Comcast.[11]

Exhibit 6.2
American Online 9.0's Design Interface

Exhibit 6.3
MSN 9.0's Design Interface

Furthermore, MSN, SBC-Yahoo, and AT&T Worldnet are aggressively pursuing new customers, especially AOL's, by offering free software (see **http://www.trueswitch.com**) that automates the process of switching from one ISP to another. TrueSwitch automatically copies all of your personal data (email files, calendar data, Internet favorites, etc.) to your new ISP account, forwards your new email address to everyone in your address book, forwards your email from your old address to your new address, and cancels your account. Walter Mossberg, the technology columnist at the *Wall Street Journal*, wrote: "TrueSwitch is especially popular with people leaving AOL. That's partly because AOL is the largest dial-up ISP, and it has been bleeding members to broadband services offered by cable and phone companies. But it's also because, unlike many smaller ISPs, AOL has deliberately made it hard to switch by using proprietary software and formats from which it's difficult to extract data like email and addresses."[12]

In summary, AOL's resources that provide customers with simplicity and ease-of-use have been valuable, rare, and, in the past, imperfectly imitable. But, if customers decide that the Internet access provided by ISPs is an acceptable substitute, then AOL will not have a sustainable competitive advantage. Indeed, *PC Magazine*'s latest survey of dial-up and broadband ISP customers found that AOL customers were the most dissatisfied with monthly fees, connection speed, connection reliability, email, customer service, and technical support and were by far the least likely to recommend their Internet service to others. And who received the highest overall satisfaction ratings? For dial-up access, the winners were EarthLink and MSN. For broadband access, they were Cox Cable, Optimum Online, and Roadrunner.[13]

Review 1: Sustainable Competitive Advantage

Firms can use their resources to create and sustain a competitive advantage, that is, to provide greater value for customers than competitors can. A competitive advantage becomes sustainable when other companies cannot duplicate the benefits it provides and have, for now, stopped trying. To provide a sustainable competitive advantage, the firm's resources must be valuable (capable of improving efficiency and effectiveness), rare (not possessed by many competing firms), imperfectly imitable (extremely costly or difficult to duplicate), and nonsubstitutable (competitors cannot substitute other resources to produce similar value).

2 STRATEGY-MAKING PROCESS

Companies use a *strategy-making process* to create strategies that produce sustainable competitive advantage.[14] Exhibit 6.4 displays the three steps of the strategy-making process: **2.1 assess the need for strategic change, 2.2 conduct a situational analysis,** and then **2.3 choose strategic alternatives.** Let's examine each of these steps in more detail.

2.1 Assessing the Need for Strategic Change

The external business environment is much more turbulent than it used to be. With customers' needs constantly growing and changing, and with competitors working harder, faster, and smarter to meet those needs, the first step in strategy making is determining the need for strategic change. In other words, the company should determine whether it needs to change its strategy to sustain a competitive advantage.[15]

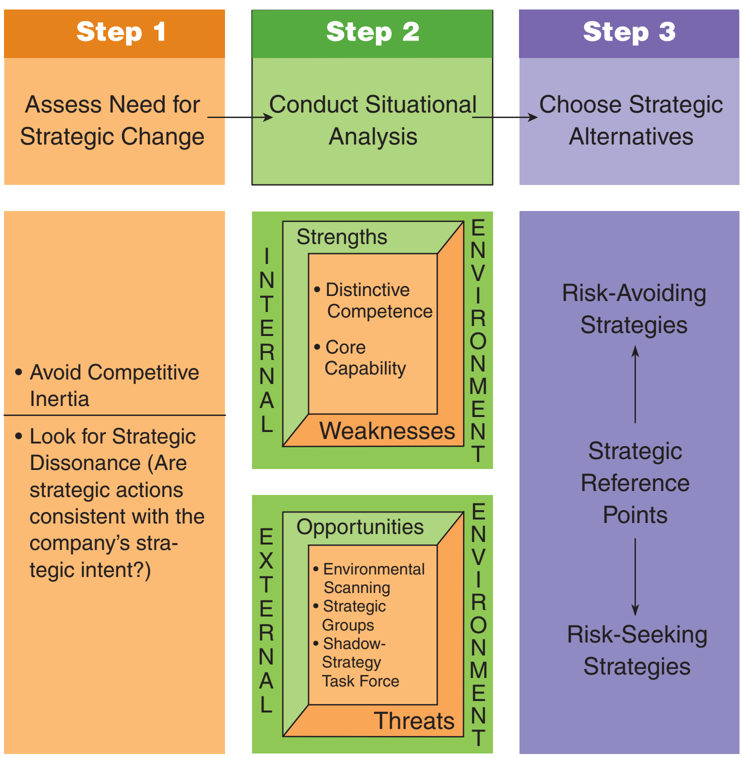
Determining the need for strategic change might seem easy to do, but in reality, it's not. There's a great deal of uncertainty in strategic business environments. Furthermore, top-level managers are often slow to recognize the need for strategic change, especially at successful companies that have created and sustained competitive advantages. Because they are acutely aware of the strategies that made their companies successful, they continue to rely on those strategies, even as the competition changes. In other words, success often leads to **competitive inertia**—a reluctance to change strategies or competitive practices that have been successful in the past.

competitive inertia
A reluctance to change strategies or competitive practices that have been successful in the past.

For example, Kraft Foods makes some of the best-selling food brands around, such as Oreo cookies, Lunchables (prepackaged lunches for children), and Velveeta cheese. But Kraft hasn't introduced a successful new brand since it began selling DiGiorno frozen pizza in the mid-1990s. Instead, Kraft has focused on brand extensions, developing "new and improved" versions of its best-selling brands, such as "mini Oreos, Chocolate Cream Oreos, Fudge Mint Oreos, Mint and Crème Oreos, and Uh-Oh Oreos."[16] Unfortunately, Kraft's competitive inertia—its reliance on extending already established brands and its reluctance to develop new ones—has hurt its performance. According to the *Wall Street Journal*, "years of failing to develop new categories and products has given Kraft a lineup that seems stuck in a time warp."[17] Indeed, Jennifer Stoll, who used to buy Kraft's food brands, says, "My perception of Kraft is that they are the more expensive version of processed food 'junk.'"[18]

So, besides being aware of the dangers of competitive inertia, what can managers do to improve the speed and accuracy with which they determine the need for strategic change?

Exhibit 6.4
Three Steps of the Strategy-Making Process



One method is to actively look for signs of strategic dissonance. **Strategic dissonance** is a discrepancy between a company's intended strategy and the strategic actions managers take when actually implementing that strategy.[19]

strategic dissonance
A discrepancy between a company's intended strategy and the strategic actions managers take when implementing that strategy.

For example, when Edgar Bronfman, Jr. bought the struggling Warner Music Group, his strategy was to cut costs and change a company culture where excessive spending—not uncommon in the entertainment industry—was the norm. Accordingly, he hoped to send a strong message with his first move, laying off 1,200 employees to save $250 million. Then, to drive the point home, he cut remaining salaries by as much as 50 percent. Bronfman justified the cuts by saying that managers, lawyers, accountants, and salespeople shouldn't be earning double or triple their normal salaries just because they worked for a music company. A few weeks later, however, he contradicted his new cost-cutting strategy. First, he signed off on a $13,000 bill to charter a private jet to fly top company managers and the agents of the company's best-selling artists 300 miles, roughly a one-hour flight, to the Grammy awards in Los Angeles. Then, despite his insistence that music industry professionals shouldn't be paid more than their counterparts in other industries, Bronfman quietly restored the salary cuts he had made after top executives complained.[20]

Finally, while strategic dissonance can indicate that managers are not doing what they should to carry out company strategy, it can also mean that the intended strategy is out of date and needs to be changed.

situational (SWOT) analysis
An assessment of the strengths and weaknesses in an organization's internal environment and the opportunities and threats in its external environment.

2.2 Situational Analysis

A situational analysis can also help managers determine the need for strategic change. A **situational analysis**, also called a **SWOT analysis** for *strengths*, *weaknesses, opportunities*, and *threats,* is an assessment of the strengths and weaknesses in an organization's internal environment and the opportunities and threats in its external environment.[21] Ideally, as shown in Step 2 of Exhibit 6.4, a SWOT analysis helps a company determine how to increase internal strengths and minimize internal weaknesses while maximizing external opportunities and minimizing external threats.

When IKEA, the global furniture company, conducts a SWOT analysis, it asks its product-strategy council, a group of widely traveled executives, to identify global trends or opportunities. One trend they observed is that kitchens are now used for entertaining instead of living rooms. But with tiny kitchens in Asian homes, slightly larger kitchens in European homes, and even larger kitchens in U.S. homes, how could IKEA design products that would appeal to consumers in such different markets? IKEA used a price matrix (high, medium, or low) to identify holes, or missing products, in its own lineup and then compared its products in each part of the matrix with those of its competitors, which were focusing on selling expensive kitchen islands. IKEA determined that no one was offering inexpensive kitchen products for small apartments or offices. Accordingly, it came up with a new product opportunity, the small kitchen, meaning cabinets, sink, stove, and refrigerator, for the amazingly low price of $650.[22]

As this example illustrates, IKEA's competitive advantage is the ability to design, manufacture, and sell stylish, good-value, low-cost furniture. However, competitive advantages can erode over time if internal strengths eventually become weaknesses. Consequently, an analysis of an organization's

DOING THE RIGHT THING

IS ETHICS AN OVERLOOKED SOURCE OF COMPETITIVE ADVANTAGE?

Volvo's reputation for selling safe cars has been a source of competitive advantage for years. You didn't buy a boxy Volvo for its looks; you bought it because your family would be well protected in an accident. If safety can be a source of competitive advantage, could ethics be one, too? Though competitive advantage usually comes from physical capital (plant, equipment, finances), organizational capital (structure, planning, systems), and human capital (skills, judgment, adaptability of your work force), Johnson & Johnson is still widely admired, two decades afterwards for its response when several people died after someone put cyanide in Tylenol caplets. It quickly pulled Tylenol from store shelves and introduced tamper-proof packaging. The move cost the company half a billion dollars, but protected consumers from further harm. Should ethics be your first source of competitive advantage? Probably not. It makes more sense to start with low costs, good service, or unique product capabilities. But when you're looking for another way to create or sustain a competitive advantage, consider that a reputation as an ethical corporation may be an additional way to differentiate your company from the competition.[23]

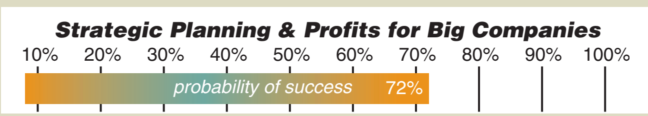
WHAT REALLY WORKS

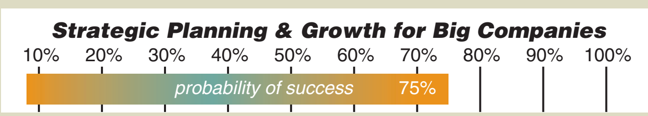
Strategy Making for Firms, Big *and* Small

Companies create strategies that produce sustainable competitive advantage by using the strategy-making process (assessing the need for strategic change, conducting a situational analysis, and choosing strategic alternatives). For years, it had been thought that strategy making was something that only large firms could do well. It was believed that small firms did not have the time, knowledge, or staff to do a good job of strategy making. However, two meta-analyses indicate that strategy making can improve the profits, sales growth, and return on investment of both big *and* small firms.

STRATEGY MAKING FOR BIG FIRMS

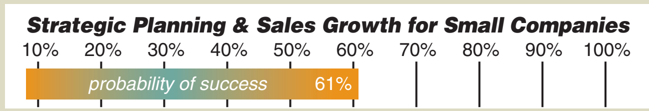
There is a 72 percent chance that big companies that engage in the strategy-making process will be more profitable than big companies that don't. Not only does strategy making improve profits, but it also helps companies grow. Specifically, there is a 75 percent chance that big companies that engage in the strategy-making process will have greater sales and earnings growth than big companies that don't. Thus, in practical terms, the strategy-making process can make a significant difference in a big company's profits and growth.

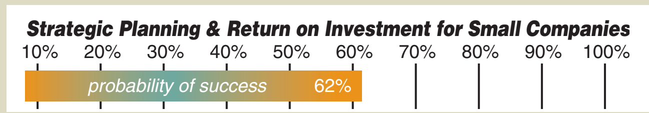




STRATEGY MAKING FOR SMALL FIRMS

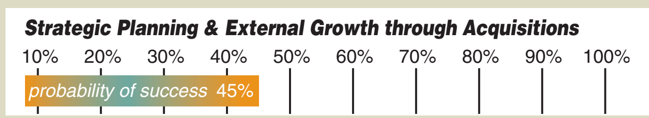
Strategy making can also improve the performance of small firms. There is a 61 percent chance that small firms that engage in the strategy-making process will have more sales growth than small firms that don't. Likewise, there is a 62 percent chance that small firms that engage in the strategy-making process will have a larger return on investment than small companies that don't. Thus, in practical terms, the strategy-making process can make a significant difference in a small company's profits and growth, too.





EXTERNAL GROWTH THROUGH ACQUISITIONS

One way to grow a company is through external growth, or buying other companies (see Section 3.1 on portfolio strategy). However, researchers have long debated whether buying other companies actually adds value to the acquiring company. A meta-analysis based on 103 studies and a sample of 25,205 companies indicates that, on average, acquiring other companies actually *hurts* the value of the acquiring firm. In other words, there is only a 45 percent chance that growing a company through external acquisitions will work![24]



internal environment, that is, a company's strengths and weaknesses, often begins with an assessment of its distinctive competencies and core capabilities. A **distinctive competence** is something that a company can make, do, or perform better than its competitors. For example, *Consumer Reports* magazine consistently ranks Toyota cars number one in quality and reliability.[25] Likewise, for 13 of the last 14 years, *PC Magazine* readers have ranked Dell's desktop computers best in terms of service and reliability.[26]

distinctive competence
What a company can make, do, or perform better than its competitors.

Whereas distinctive competencies are tangible—for example, a product or service is faster, cheaper, or better—the core capabilities that produce distinctive competencies are not. **Core capabilities** are the less visible, internal decision-making routines, problem-solving processes, and organizational cultures that determine how efficiently inputs can be turned into outputs.[27] Distinctive

core capabilities
The internal decision-making routines, problem-solving processes, and organizational cultures that determine how efficiently inputs can be turned into outputs.

competencies cannot be sustained for long without superior core capabilities. IKEA's core capability is the way it works with 1,800 suppliers in 55 countries that make products exclusively for IKEA. IKEA employees in 43 local trading offices work closely with these suppliers to improve quality, cut costs, and improve worker safety. When IKEA develops a new product, such as the $650 small kitchen, the trading offices, with the help of their suppliers, compete to earn the right to produce that product. IKEA uses the same approach for product design, encouraging its nine in-house designers and 80 freelance designers to compete to come up with the best design. This ability to work with so many suppliers and designers, to get them to compete to achieve the best design and the lowest-cost manufactured product, and to keep suppliers happy by guaranteeing them a high volume of work is the core capability that generates IKEA's distinctive competence, selling good-value, low-cost furniture, which it does better than anyone else in the world.[28]

After examining internal strengths and weaknesses, the second part of a situational analysis is to look outside the company and assess the opportunities and threats in the external environment. In Chapter 3, you learned that *environmental scanning* involves searching the environment for important events or issues that might affect the organization. With environmental scanning, managers usually scan the environment to stay up-to-date on important factors in their environment, such as pricing trends and technology changes in the industry. In a situational analysis, however, managers use environmental scanning to identify specific opportunities and threats that can either improve or harm the company's ability to sustain its competitive advantage. Identification of strategic groups and formation of shadow-strategy task forces are two ways to do this.

Strategic groups are not "actual" groups; they are companies, usually competitors, that managers closely follow. More specifically, a **strategic group** is a group of other companies within an industry that top managers choose for comparing, evaluating, and benchmarking their company's strategic threats and opportunities.[29] (*Benchmarking* involves identifying outstanding prac-tices, processes, and standards at other companies and adapting them to your own company.) Typically, managers include companies as part of their strategic group if they compete directly with those companies for customers or if those companies use strategies similar to theirs. For example, it's likely that the managers at Gannett Company, the largest U.S. newspaper publisher (101 daily newspapers and *USA Today*), assess strategic threats and opportunities by comparing themselves to a strategic group consisting of the other major newspaper companies.[30] To assist us in these comparisons, Exhibit 6.5 shows the number of newspapers, TV stations, Web sites, and other businesses that Gannett has in comparison to Knight Ridder, the Tribune Company, the New York Times Company, and Dow Jones Publishing.

strategic group
A group of companies within an industry that top managers choose to compare, evaluate, and benchmark strategic threats and opportunities.

In fact, when scanning the environment for strategic threats and opportunities, managers tend to categorize the different companies in their industries as core, secondary, and transient firms.[31] **Core firms** are the central companies in a strategic group. Except in number of TV stations, Knight Ridder (31 daily newspapers, including the *Detroit Free Press*, the *Philadelphia Inquirer*, and the *Miami Herald*, 158 Web sites, and a total circulation of 8.9 million readers) is clearly the closest to Gannett and would probably be classified as the core firm in Gannett's strategic group.[32] By contrast, given that Gannett owns 101 daily newspapers in 43 states with a total circulation approaching 7.6 million readers, it's unlikely that Gannett's management worries much about the *Arkansas Democrat Gazette*. The *Gazette* is a fine paper and has won numerous awards for its writing and news coverage, but with a total circulation of 183,000, mostly in Arkansas, it would probably not be included in Gannett's strategic

core firms
The central companies in a strategic group.

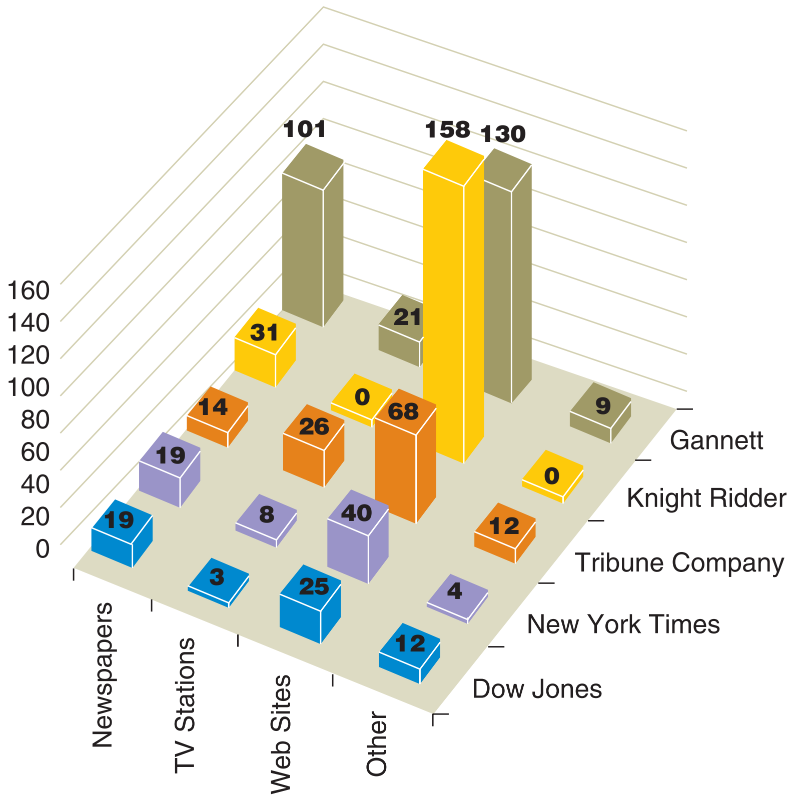


Exhibit 6.5
Strategic Groups for Gannett Company

group.[33] When most managers scan their environments for strategic threats and opportunities, they concentrate on the strategic actions of core firms, not unrelated firms like the *Gazette*.

Where does the New York Times Company fit in? Over the last few years, the New York Times Company has actually become a mini-Gannett, concentrating its resources in newspapers (19 newspapers, including the *New York Times*, the *Boston Globe*, the *International Herald Tribune*), 40 Web sites, and eight TV stations.[34] Nonetheless, because of its small size, Gannett's managers might not classify it as a core firm.

secondary firms
The firms in a strategic group that follow strategies related to but somewhat different from those of the core firms.

Secondary firms are firms that use strategies related to but somewhat different from those of core firms. The Tribune Company, which has a proportionate number of Web sites and slightly more TV stations than Gannett, but significantly fewer newspapers (14 newspapers, including the *Chicago Tribune*, the *Orlando Sentinel*, *Newsday*, and the *Los Angeles Times*, and a total circulation of 9.3 million), would probably be classified as a secondary firm in Gannett's strategic group.[35] Managers are aware of the potential threats and opportunities posed by secondary firms, but they spend more time assessing the threats and opportunities associated with core firms.

transient firms
The firms in a strategic group whose strategies are changing from one strategic position to another.

Transient firms are companies whose strategies are changing from one strategic position to another. With the *Wall Street Journal* and *Barron's*, the Dow Jones Company has been a publisher of daily and weekly financial news since its inception. While those publications continue to thrive, in the last decade Dow Jones has considerably broadened its business, starting *SmartMoney*, a monthly personal investment magazine, and moving into television as a co-owner of CNBC, the leading business and financial cable TV channel in the United States, Europe, and Asia.[36] Because it has such a small number of TV stations and Web sites, Dow Jones bears little resemblance to Gannett and might not be included in Gannett's strategic group. No doubt Gannett would monitor what Dow Jones does because the *Wall Street Journal* and *USA Today* are both national papers with similar circulations, but it would make more sense to concentrate on Knight Ridder and the Tribune Company instead. Note, however, that because the strategies of transient firms are changing, managers may not know what to think about these firms. Consequently, managers may overlook or be wrong about the potential threats and opportunities posed by transient firms.

So, what external threats and opportunities did Gannett see after assessing its strategic group? In terms of threats, Gannett saw little chance for growth in several areas and sold all five of its remaining radio stations and its outdoor advertising company (i.e., billboards). In terms of opportunities, Gannett has focused on technology and television. In the last few years, it has established Gannett Media Technologies International, a software publishing company designed to help newspapers manage multimedia databases and print and electronic advertising, and purchased five television stations. It has also expanded overseas, purchasing Newsquest plc, one of the largest regional publishers in England with 17 daily newspapers, as well as Newscom, which has four papers in the United Kingdom. Finally, continuing to focus on its core business, Gannett acquired 19 daily newspapers in Wisconsin, Ohio, Louisiana, Maryland, and Utah. It also bought two new flagship papers, the *Arizona Republic* and the *Indianapolis Star*.[37]

Because top managers tend to limit their attention to the core firms in their strategic group, some companies have started using shadow-strategy task forces to more aggressively scan their environments for strategic threats and opportunities. A **shadow-strategy task force** actively seeks out its own company's weaknesses and then, thinking like a competitor, determines how other companies could exploit them for competitive advantage.[38] Furthermore, to make sure that the task force challenges conventional thinking, its members should be independent-minded, come from a variety of company functions and levels, and have the access and authority to question the company's current strategic actions and intent. For example, Ciba-Geigy's Industrial Dye division makes color dyes used in carpet manufacturing. One of the difficulties in this business is ensuring color consistency, that is, making sure that the dark gray carpet manufactured next week will be the same dark gray color as the carpet manufactured today. Ciba-Geigy's shadow-strategy task force determined that if its competitors could find ways to consistently, precisely, and cheaply match color carpet dyes (so that carpet colors looked the same regardless of when and where they were manufactured), Ciba-Geigy would be at a considerable competitive disadvantage. After the shadow-strategy task force challenged top management with its conclusions, the company went about developing distinctive competencies in dye research and manufacturing, which allowed it to make dyes with scientific preciseness.[39]

shadow-strategy task force
A committee within a company that analyzes the company's own weaknesses to determine how competitors could exploit them for competitive advantage.

In short, a situational analysis has two basic parts. The first is to examine internal strengths and weaknesses by focusing on distinctive competencies and core capabilities. The second is to examine external opportunities and threats by focusing on environmental scanning, strategic groups, and shadow-strategy task forces.

2.3 Choosing Strategic Alternatives

After determining the need for strategic change and conducting a situational analysis, the last step in the strategy-making process is to choose strategic alternatives that will help the company create or maintain a sustainable competitive advantage. According to Strategic Reference Point Theory, managers choose between two basic alternative strategies. They can choose a conservative, *risk-avoiding strategy* that aims to protect an existing competitive advantage. Or they can choose an aggressive, *risk-seeking strategy* that aims to extend or create a sustainable competitive advantage. For example, Menards is a hardware store chain with 170 locations throughout the Midwest.[40] When hardware giant Home Depot entered the Midwest, Menards faced a basic choice: avoid risk by continuing with the strategy it had in place before Home Depot's arrival or seek risk by trying to further its competitive advantage against Home Depot, which is six times its size. Some of its competitors decided to fold. Kmart closed all of its Builder's Square hardware stores when Home Depot came to Minneapolis. Handy Andy liquidated its 74 stores when Home Depot came to the Midwest. But Menards decided to fight, spending millions to open 35 new stores at the same time that Home Depot was opening 44 of its new stores.[41]

The choice to be risk seeking or risk avoiding typically depends on whether top management views the company as falling above or below strategic reference points. **Strategic reference points** are the targets that managers use to measure whether their firm has developed the core competencies that it needs to achieve a sustainable competitive advantage. For example, if a hotel chain decides to

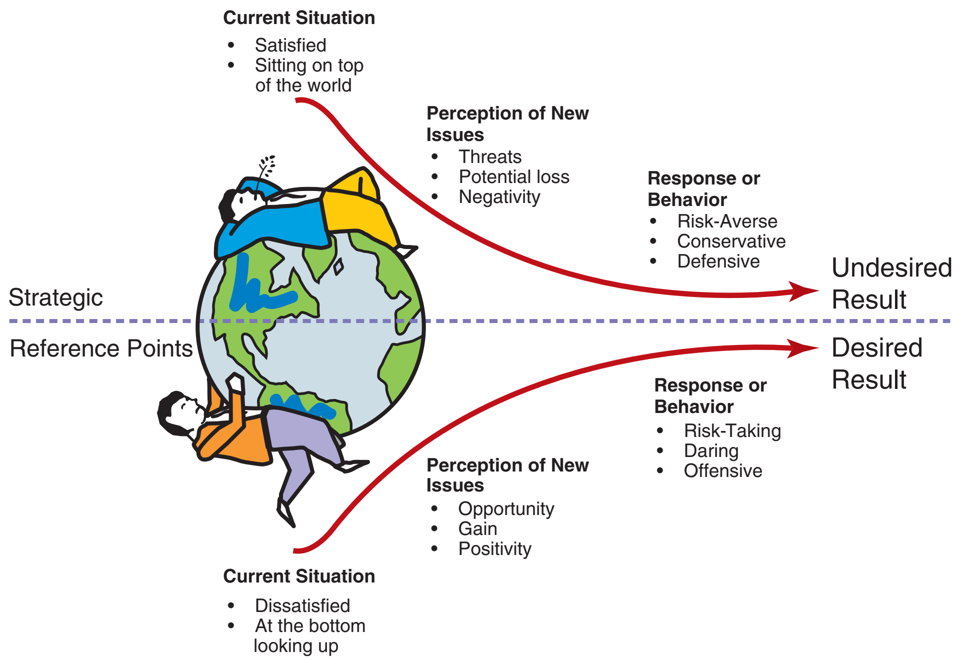
strategic reference points
The strategic targets managers use to measure whether a firm has developed the core competencies it needs to achieve a sustainable competitive advantage.

compete by providing superior quality and service, then top management will track the success of this strategy through customer surveys or published hotel ratings, such as those provided by the prestigious *Mobil Travel Guide*. By contrast, if a hotel chain decides to compete on price, it will regularly conduct market surveys to check the prices of other hotels. The competitors' prices are the hotel managers' strategic reference points against which to compare their own pricing strategy. If competitors can consistently underprice them, then the managers need to determine whether their staff and resources have the core competencies to compete on price.

As shown in Exhibit 6.6, when a company is performing above or better than its strategic reference points, top management will typically be satisfied with the company's strategy. Ironically, this satisfaction tends to make top management conservative and risk-averse. After all, since the company already has a sustainable competitive advantage, the worst thing that could happen would be to lose it. Consequently, new issues or changes in the company's external environments are viewed as threats. In contrast, when a company is performing below or worse than its strategic reference points, top management will typically be dissatisfied with the company's strategy. In this instance, managers are much more likely to choose a daring, risk-taking strategy. After all, if the current strategy is producing substandard results, the company has nothing to lose by switching to risky new strategies in the hopes that it can create a sustainable competitive advantage. Consequently, managers of companies in this situation view new issues or changes in external environments as opportunities for potential gain.

Strategic Reference Point Theory is not deterministic, however. Managers are not predestined to choose risk-averse or risk-seeking strategies for their companies. Indeed, one of the most important elements of the theory is that managers *can* influence the strategies chosen by their company by *actively changing and adjusting* the strategic reference points they use to judge strategic performance. To illustrate, if a company has become complacent after consistently surpassing its strategic reference points, then top management can

Exhibit 6.6
Strategic Reference Points



Source: A. Fiegenbaum, S. Hart, & D. Schendel, "Strategic Reference Point Theory," *Strategic Management Journal* 17 (1996): 219–235.

change from a risk-averse to a risk-taking orientation by raising the standards of performance (i.e., strategic reference points). Indeed, this is what happened at Menards.

Instead of being satisfied with just protecting its existing stores (a risk-averse strategy), founder John Menard changed the strategic referent points the company had been using to assess strategic performance. To encourage a daring, offensive-minded strategy that would allow the company to open nearly as many new stores as Home Depot, he determined that Menards would have to beat Home Depot on not one or two, but four strategic reference points: price, products, sales per square foot, and "friendly accessibility." The strategy appears to be succeeding. In terms of price, market research indicates that a 100-item shopping cart of goods is consistently cheaper at Menards.[42] In terms of products, Menards sells 50,000 products per store, the same as Home Depot. In terms of sales per square foot, Menards ($407 per square foot) outsells Home Depot ($371 per square foot).[43] Finally, unlike Home Depot's warehouse-like stores, Menards' stores are built to resemble grocery stores. Shiny tiled floors, wide aisles, and easy-to-reach products all make Menards a "friendlier" place for shoppers.[44] And now with Lowe's, the second largest hardware store chain in the nation, also entering its markets, Menards has added a fifth strategic reference point, store size. At 225,000 square feet, most new Menards stores are more than double the size of Home Depot's stores and 75,000 square feet larger than Lowe's.[45] John Caulfield, who wrote a book about Home Depot and the hardware business, said, "Menards is clearly throwing the gauntlet down at Lowe's. They're saying, 'If you come into Chicago, here is what you're going to face.'"[46]

PHOTO COURTESY OF LA CROSSE TRIBUNE, WISCONSIN

When Home Depot came to Chicago, Menards implemented an aggressive strategy to expand its presence in the region. It opened more stores and stocked them with as much inventory as the national chain. Because Menards are built to resemble a grocery store more than a warehouse, however, the merchandise seems more accessible, and that has translated into greater sales per square foot that its rival.

So even when (perhaps *especially* when) companies have achieved a sustainable competitive advantage, top managers must adjust or change strategic reference points to challenge themselves and their employees to develop new core competencies for the future. In the long run, effective organizations will frequently revise their strategic reference points to better focus managers' attention on the new challenges and opportunities that occur in their ever-changing business environments.

Review 2: Strategy-Making Process

The first step in strategy making is determining whether a strategy needs to be changed to sustain a competitive advantage. Because uncertainty and competitive inertia make this difficult to determine, managers can improve the speed and accuracy of this step by looking for differences between top management's intended strategy and the strategy actually implemented by lower-level managers (i.e., strategic dissonance). The second step is to conduct a situational analysis that examines internal strengths and weaknesses (distinctive competencies and core capabilities), as well as external threats and opportunities (environmental scanning, strategic groups, and shadow-strategy task forces). In the third step of strategy making, Strategic Reference Point Theory suggests that when companies are performing better than their strategic reference points, top management will typically choose a risk-averse strategy. When performance is below strategic reference points, risk-seeking strategies are more likely to be chosen. Importantly, however, managers can influence the choice of strategic alternatives by actively changing and adjusting the strategic reference points they use to judge strategic performance.

Corporate-, Industry-, and Firm-Level Strategies

To formulate effective strategies, companies must be able to answer these three basic questions:

- What business are we in?
- How should we compete in this industry?
- Who are our competitors, and how should we respond to them?

These simple, but powerful questions are at the heart of corporate-, industry-, and firm-level strategies.

After reading the next three sections, you should be able to

3 explain the different kinds of corporate-level strategies.

4 describe the different kinds of industry-level strategies.

5 explain the components and kinds of firm-level strategies.

3 CORPORATE-LEVEL STRATEGIES

corporate-level strategy The overall organizational strategy that addresses the question "What business or businesses are we in or should we be in?"

Corporate-level strategy is the overall organizational strategy that addresses the question "What business or businesses are we in or should we be in?" Malachi Mixon, chairman and CEO of Invacare Corporation, explains how Invacare changed its corporate-level strategy from just a "wheelchair company" to a "home-medical-products company":

When I led the [leveraged buyout] of Invacare . . . , the company had sales of $19 million, no new products were under development and the principal product was a line of standard wheelchairs. The wheelchair market was monopolized by a much larger company, eight times our size, with access to capital through the public market. As I walked around the company and visited with our 350 associates, I asked them, "What business are we in? What should we become?" The answer was always the same: "We make standard wheelchairs. We should become a larger wheelchair company." Every day I would tell someone that Invacare would become No. 1 in wheelchairs; but more than that, we were a home-medical-products company and that we should be the world leaders in this field. Initially, no one believed this vision. But after a few years, the buy-in began and soon everyone became excited when they experienced the explosive growth and began to believe this vision was possible. Today, Invacare is on the NYSE and is the world leader in the manufacture and distribution of medical products used in the home. Sales exceed $1 billion and the original market stock capitalization has grown from $1 million to over $1 billion. Associates number 5,500. The defining moment was clearly associate buy-in to the worldwide home-medical-products vision.[47]

On the next page, Exhibit 6.7 shows the two major approaches to corporate-level strategy that companies use to decide which businesses they should be in: **3.1 portfolio strategy**[48] and **3.2 grand strategies.**

3.1 Portfolio Strategy

diversification A strategy for reducing risk by buying a variety of items (stocks or, in the case of a corporation, types of businesses) so that the failure of one stock or one business does not doom the entire portfolio.

One of the standard strategies for stock market investors is **diversification**: buy stocks in a variety of companies in different industries. The purpose of this strategy is to reduce risk in the overall stock portfolio (i.e., the entire collection of stocks). The basic idea is simple: if you invest in 10 companies in 10 different industries, you won't lose your entire investment if one company performs poorly. Furthermore, because they're in different industries, one company's losses are likely to be offset by another company's gains. Portfolio strategy is based on these same ideas. We'll start by taking a look at the theory and ideas behind portfolio strategy and then proceed with a critical review that suggests that some of the key ideas behind portfolio strategy are *not* supported.

Portfolio strategy is a corporate-level strategy that minimizes risk by diversifying investment among various businesses or product lines. Just as a diversification strategy guides an investor who invests in a variety of stocks, portfolio strategy guides the strategic decisions of corporations that compete in a variety of businesses. For example, it could be used to guide the strategy of a company like 3M, which makes 55,000 products for seven different business sectors: consumers and offices (Post-Its, scotch tape, etc.); display and graphics (for computers, cell phones, PDAs, TVs); electro and communications (flexible circuits used in printers and electronic displays); health care (medical, surgical, dental, and personal care products); industrial (tapes, adhesives, supply chain software); safety, security, and protection services (glass safety, fire protection, respiratory products); and transportation (products and components for the manufacture, repair, and maintenance of autos, aircraft, boats, and other vehicles).[49] Similarly, portfolio strategy could be used by Johnson & Johnson, which has 200 divisions making health-care products for the pharmaceutical, diagnostic, consumer, and health-care professionals markets.[50] Furthermore, just as investors consider the mix of stocks in their stock portfolio when deciding which stocks to buy or sell, managers following portfolio strategy try to acquire companies that fit well with the rest of their corporate portfolio and to sell those that don't. Portfolio strategy provides the following guidelines to help them do this.

PORTFOLIO STRATEGY	GRAND STRATEGIES
• Acquisitions, unrelated diversification, related diversification, single businesses	• Growth
• Boston Consulting Group matrix	• Stability
• Stars	• Retrenchment/recovery
• Question marks	
• Cash cows	
• Dogs	

Exhibit 6.7
Corporate-Level Strategies

portfolio strategy
A corporate-level strategy that minimizes risk by diversifying investment among various businesses or product lines.

First, according to portfolio strategy, the more businesses in which a corporation competes, the smaller its overall chances of failing. Think of a corporation as a stool and its businesses as the legs of the stool. The more legs or businesses added to the stool, the less likely it is to tip over. Using this analogy, portfolio strategy reduces 3M's risk of failing because the corporation's survival depends on essentially seven different business sectors. Because the emphasis is on adding "legs to the stool," managers who use portfolio strategy are often on the lookout for **acquisitions**, that is, other companies to buy.

acquisition
The purchase of a company by another company.

Second, beyond adding new businesses to the corporate portfolio, portfolio strategy predicts that companies can reduce risk even more through **unrelated diversification**—creating or acquiring companies in completely unrelated businesses (more on the accuracy of this prediction later). According to portfolio strategy, when businesses are unrelated, losses in one business or industry should have minimal effect on the performance of other companies in the corporate portfolio. One of the best examples of unrelated diversification is Samsung Corporation of Korea. Samsung has businesses in electronics (computer memory chips, computer and telecommunication equipment, color TV picture tubes, glass bulbs); machinery and heavy industries (shipbuilding, construction, airplane engine manufacturing, fiber optics, semiconductors); chemicals (engineering plastics, and specialty chemicals); financial services (life and accident insurance, credit cards, and financial securities and trusts); and other areas ranging from automobiles to hotels and entertainment.[51] Because most internally grown businesses tend to be related to existing products or services, portfolio strategy suggests that acquiring new businesses is the preferred method of unrelated diversification.

unrelated diversification
Creating or acquiring companies in completely unrelated businesses.

Third, investing the profits and cash flows from mature, slow-growth businesses into newer, faster-growing businesses can reduce long-term risk. The best-known portfolio strategy for guiding investment in a corporation's businesses is the Boston Consulting Group (BCG) matrix. The **BCG matrix** is a

BCG matrix
A portfolio strategy, developed by the Boston Consulting Group, that categorizes a corporation's businesses by growth rate and relative market share, helping managers decide how to invest corporate funds.

portfolio strategy that managers use to categorize their corporation's businesses by growth rate and relative market share, helping them decide how to invest corporate funds. The matrix, shown in Exhibit 6.8, separates businesses into four categories based on how fast the market is growing (high-growth or low-growth) and the size of the business's share of that market (small or large). **Stars** are companies that have a large share of a fast-growing market. To take advantage of a star's fast-growing market and its strength in that market (large share), the corporation must invest substantially in it. The investment is usually worthwhile, however, because many stars produce sizable future profits. **Question marks** are companies that have a small share of a fast-growing market. If the corporation invests in these companies, they may eventually become stars, but their relative weakness in the market (small share) makes investing in question marks more risky than investing in stars. **Cash cows** are companies that have a large share of a slow-growing market. Companies in this situation are often highly profitable, hence the name "cash cow." Finally, **dogs** are companies that have a small share of a slow-growing market. As the name "dogs" suggests, having a small share of a slow-growth market is often not profitable.

star
A company with a large share of a fast-growing market.

question mark
A company with a small share of a fast-growing market.

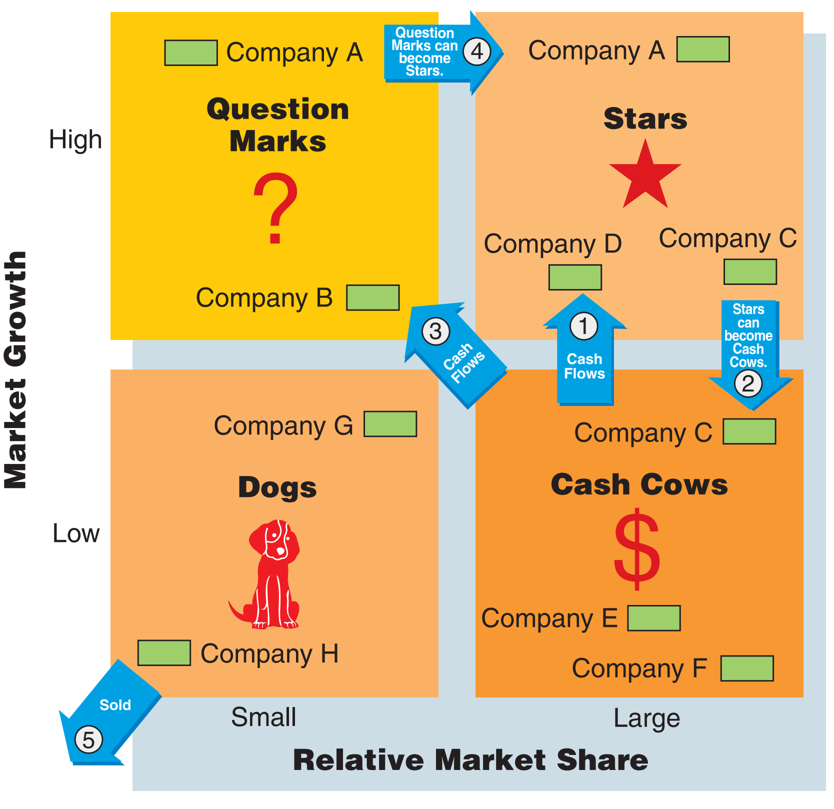
cash cow
A company with a large share of a slow-growing market.

dog
A company with a small share of a slow-growing market.

Since the idea is to redirect investment from slow-growing to fast-growing companies, the BCG matrix starts by recommending that while the substantial cash flows from cash cows last, they should be reinvested in stars (see arrow 1 in Exhibit 6.8) to help them grow even faster and obtain even more market share. Using this strategy, current profits help produce future profits. Over time, as their market growth slows, some stars may turn into cash cows (see arrow 2). Cash flows should also be directed to some question marks (see arrow 3). Though riskier than stars, question marks have great potential because of their fast-growing market. Managers must decide which question marks are most likely to turn into stars, and therefore warrant further investment, and which ones are too risky and should be sold. Over time, hopefully some questions marks will become stars as their small markets become large ones (see arrow 4). Finally, because dogs lose money, the corporation should "find them new owners" or "take them to the pound." In other words, dogs should either be sold to other companies or be closed down and liquidated for their assets (see arrow 5).

Although the BCG matrix and other forms of portfolio strategy are relatively popular among managers, portfolio strategy has some drawbacks. The most significant is that contrary to the predictions of portfolio strategy, the evidence does *not* support the usefulness of acquiring unrelated businesses. As shown in Exhibit 6.9, there is a U-shaped relationship between diversification and risk. The left side of the curve shows that single businesses with no diversification are extremely risky (if the single business fails, the entire business fails). So, in part, the portfolio strategy of diversifying is correct—competing in a

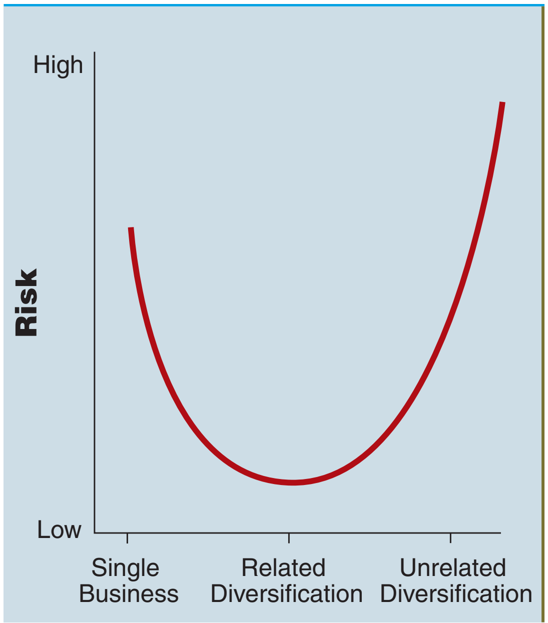
Exhibit 6.8
Boston Consulting Group Matrix



variety of different businesses can lower risk. However, portfolio strategy is partly wrong, too—the right side of the curve shows that conglomerates composed of completely unrelated businesses are even riskier than single, undiversified businesses.

A second set of problems with portfolio strategy has to do with the dysfunctional consequences that occur when companies are categorized as stars, cash cows, question marks, or dogs. Contrary to expectations, the BCG matrix often yields incorrect judgments about a company's future potential. This is because it relies on past performance (i.e., previous market share and previous market growth), which is a notoriously poor predictor of future company performance. For example, from 1930 until about 10 years ago, Yellow Book, the yellow pages phone directory publisher, was a tiny publisher of community phone directories in Long Island, New York. With phone companies such as Verizon and SBC accounting for 96 percent of the $14 billion yellow pages business, there was no reason, based on its undistinguished past, to expect Yellow Book to suddenly become successful. With only a sliver of a slow-growing market, Yellow Book was undoubtedly a "dog" according to the BCG matrix. In the last decade, however, Yellow Book has had remarkable growth. By aggressively cutting prices (in some markets, charging 40% to 50% less than Verizon's SuperPages), it increased its annual sales from $46 million to over $1 billion. It now has a 10 percent share of the yellow pages directory market and sells 500+ yellow pages directories that are used by 72 million people in 42 states.[52]

Exhibit 6.9
U-Shaped Relationship between Diversification and Risk



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Furthermore, using the BCG matrix can also weaken the strongest performer in the corporate portfolio, the cash cow. As funds are redirected from cash cows to stars, corporate managers essentially take away the resources needed to take advantage of the cash cow's new business opportunities. As a result, the cash cow becomes less aggressive in seeking new business or in defending its present business. For example, Procter & Gamble's Tide, the laundry detergent that P&G brought to market in 1946, is clearly a cash cow, accounting for billions in worldwide revenues. A few years ago, however, in a bid to bring new products to market—P&G hadn't successfully introduced a top-selling new product since Pampers in 1961—the company was diverting up to half a billion dollars from cash cows like Tide to promote potential product blockbusters (i.e., stars) such as Febreze, a spray that eliminates odors; Dryel, which dry cleans clothes at home; Fit, a spray that kills bacteria on fruits and vegetables; and Impress, a high-tech plastic wrap.[53] Finally, labeling a top performer as a cash cow can harm employee morale. Cash cow employees realize that they have inferior status and that instead of working for themselves, they are now working to fund the growth of stars and question marks. P&G

ultimately reversed the diversion of funds from its cash cows as CEO A. G. Lafley refocused the company on biggest brands (i.e., cash cows).[54]

So, what kind of portfolio strategy does the best job of helping managers decide which companies to buy or sell? The U-shaped curve in Exhibit 6.9 indicates that, contrary to the predictions of portfolio strategy, the best approach is probably **related diversification,** in which the different business units share similar products, manufacturing, marketing, technology, or cultures. The key to related diversification is to acquire or create new companies with core capabilities that complement the core capabilities of businesses already in the corporate portfolio. We began this section with the example of 3M and its 55,000 products sold in over seven different business sectors. While seemingly different, most of 3M's product divisions are based in some fashion on its distinctive competencies in adhesives and tape (e.g., wet or dry sandpaper, Post-It notes, Scotchgard fabric protector, transdermal skin patches, reflective material used in traffic signs, etc.). Furthermore, all of 3M's divisions share its strong corporate culture that promotes and encourages risk taking and innovation. In sum, in contrast to a single, undiversified business or unrelated diversification, related diversification reduces risk because the different businesses can work as a team, relying on each other for needed experience, expertise, and support.

related diversification
Creating or acquiring companies that share similar products, manufacturing, marketing, technology, or cultures.

Exhibit 6.10 details the problems associated with portfolio strategy and recommends ways that managers can increase their chances of success through related diversification.

3.2 Grand Strategies

A **grand strategy** is a broad strategic plan used to help an organization achieve its strategic goals.[55] Grand strategies guide the strategic alternatives that managers of individual businesses or subunits may use in deciding what businesses they should be in. There are three kinds of grand strategies: growth, stability, and retrenchment/recovery.

grand strategy
A broad corporate-level strategic plan used to achieve strategic goals and guide the strategic alternatives that managers of individual businesses or subunits may use.

Exhibit 6.10
Portfolio Strategy: Problems and Recommendations

Problems with Portfolio Strategy	Recommendations for Making Portfolio Strategy Work
Unrelated diversification does not reduce risk.	Don't be so quick to sell dogs or question marks. Instead, management should commit to the markets in which it competes by strengthening core capabilities.
Present performance is used to predict future performance.	Put your "eggs in similar (not different) baskets" by acquiring companies in related businesses.
Assessments of a business's growth potential are often inaccurate	Acquire companies with complementary core capabilities.
Cash cows fail to aggressively pursue opportunities and defend themselves from threats.	Encourage collaboration and cooperation between related firms and businesses within the company.
Being labeled a "cash cow" can hurt employee morale.	"Date before you marry." Work with a business before deciding to acquire it.
Companies often overpay to acquire stars.	When in doubt, don't acquire new businesses. Mergers and acquisitions are inherently risky and difficult to make work. Only acquire firms that can help create or extend a sustainable competitive advantage.
Acquiring firms often treat acquired stars as "conquered foes." Key stars' managers, who once controlled their own destiny, often leave because they are now treated as relatively unimportant middle managers.	

Sources: M. Lubatkin, "Value-Creating Mergers: Fact or Folklore?" *Academy of Management Executive* 2 (1988): 295–302; M. Lubatkin & S. Chatterjee, "Extending Modern Portfolio Theory into the Domain of Corporate Diversification: Does It Apply?" *Academy of Management Journal* 37 (1994): 109–136. M. H. Lubatkin & P. J. Lane, "Psst . . . The Merger Mavens Still Have It Wrong!" *Academy of Management Executive* 10 (1996): 21–39.

The purpose of a **growth strategy** is to increase profits, revenues, market share, or the number of places (stores, offices, locations) in which the company does business. Companies can grow in several ways. They can grow externally by merging with or acquiring other companies in the same or different businesses. Some of the largest mergers and acquisitions of recent years include Procter & Gamble acquiring Gillette (consumer products), Kmart acquiring Sears (retailing), and Verizon acquiring MCI, SBC acquiring AT&T, Cingular Wireless acquiring AT&T Wireless, and Sprint acquiring Nextel Communications (all telecommunications).[56]

growth strategy
A strategy that focuses on increasing profits, revenues, market share, or the number of places in which the company does business.

Another way to grow is internally, directly expanding the company's existing business or creating and growing new businesses. For example, over the last decade, Walgreen's, one of the largest pharmacy chains in the United States, opened approximately 100 stores a year. With baby boomers aging and the need for more pharmacies to sell prescription drugs growing rapidly, Walgreen's opened 425 new stores last year and will shoot for 500 this year. In fact, with 4,582 stores in 44 states, it hopes to have 7,000 stores by 2010.[57] Walgreen's CEO says, "Growth is a huge challenge, but it's the right thing to do. And this is absolutely the right time in our history to do it." Because Walgreen's stores tend to draw customers from only a one- to two-mile radius, each additional store should add significant revenues and profits without cannibalizing existing stores' sales.[58]

The purpose of a **stability strategy** is to continue doing what the company has been doing, but just do it better. Consequently, companies following a stability strategy try to improve the way in which they sell the same products or services to the same customers. For example, Subaru has been making four-wheel-drive station wagons for 30 years. But over the last decade, it strengthened this focus by manufacturing only all-wheel-drive vehicles, like the Subaru Legacy and Outback (both come in four-door sedans or two-door coupes), which are popular in snowy and mountainous regions. Subaru's extremely loyal customers have rewarded the company with an average 7 percent annual increase in sales (extremely high for the auto industry) over the last 10 years.[59] Companies often choose a stability strategy when their external environment doesn't change much or after they have struggled with periods of explosive growth.

stability strategy
A strategy that focuses on improving the way in which the company sells the same products or services to the same customers.

The purpose of a **retrenchment strategy** is to turn around very poor company performance by shrinking the size or scope of the business or, if a company is in multiple businesses, by closing or shutting down different lines of the business. The first step of a typical retrenchment strategy might include making significant cost reductions; laying off employees; closing poorly performing stores, offices, or manufacturing plants; or closing or selling entire lines of products or services.[60] For example, each time Home Depot, Menards, Lowe's, or Wal-Mart opened stores near Dave Umber's three Ace Hardware stores, the number of customers in his stores dropped by 10 percent. So, after losing $110,000 over two years, Umber began cutting. He said, "I had to walk up to people who've been employees of mine for years and say, 'I've got to let you go. You're a great person, but I can't afford to pay you anymore.' It was hard." He also reduced health benefits, eliminated bonuses, chopped his advertising budget by $20,000, saved $500 a month by using efficient fluorescent light bulbs, and made sure prices were within 10 percent of his competitors. Says Umber, "If it's the difference between $1.09 and $1.29, customers don't care, particularly if it saves them from having to run across town to Home Depot. But if something is $10 more, they will."[61]

retrenchment strategy
A strategy that focuses on turning around very poor company performance by shrinking the size or scope of the business.

After cutting costs and reducing a business's size or scope, the second step in a retrenchment strategy is recovery. **Recovery** consists of the strategic actions that a company takes to return to a growth strategy. This two-step process of cutting and recovery is analogous to pruning roses. Prior to each growing season, roses should be cut back to two-thirds their normal size. Pruning doesn't

recovery
The strategic actions taken after retrenchment to return to a growth strategy.

damage the roses; it makes them stronger and more likely to produce beautiful, fragrant flowers. The retrenchment-and-recovery process is similar. Cost reductions, layoffs, and plant closings are sometimes necessary to restore companies to "good health." But like pruning, those cuts are intended to allow companies to eventually return to growth strategies (i.e., recovery). So, when company performance drops significantly, a strategy of retrenchment and recovery may help the company return to a successful growth strategy.

Review 3: Corporate-Level Strategies

Corporate-level strategies, such as portfolio strategy and grand strategies, help managers determine what businesses they should be in. Portfolio strategy focuses on lowering business risk by being in multiple, unrelated businesses and by investing the cash flows from slow-growth businesses into faster-growing businesses. One portfolio strategy, the BCG matrix, suggests that cash flows from cash cows should be reinvested in stars and in carefully chosen question marks. Dogs should be sold or liquidated. Portfolio strategy has several problems, however. Acquiring unrelated businesses actually increases risk rather than lowering it. The BCG matrix is often wrong when predicting companies' future potential (i.e., dogs, cash cows, etc.). And redirecting cash flows can seriously weaken cash cows. The most successful way to use the portfolio approach to corporate strategy is to reduce risk through related diversification.

The three kinds of grand strategies are growth, stability, and retrenchment/recovery. Companies can grow externally by merging with or acquiring other companies, or they can grow internally through direct expansion or creating new businesses. Companies choose a stability strategy—selling the same products or services to the same customers—when their external environment changes very little or after they have dealt with periods of explosive growth. Retrenchment strategy, shrinking the size or scope of a business, is used to turn around poor performance. If retrenchment works, it is often followed by a recovery strategy that focuses on growing the business again.

4 INDUSTRY-LEVEL STRATEGIES

industry-level strategy
A corporate strategy that addresses the question "How should we compete in this industry?"

Industry-level strategy addresses the question "How should we compete in this industry?"

Let's find out more about industry-level strategies, shown in Exhibit 6.11, by discussing **4.1 the five industry forces that determine overall levels of competition in an industry** and **4.2 the positioning strategies** and **4.3 adaptive strategies that companies can use to achieve sustained competitive advantage and above-average profits**.

4.1 Five Industry Forces

According to Harvard professor Michael Porter, five industry forces—character of rivalry, threat of new entrants, threat of substitute products or services, bargaining power of suppliers, and bargaining power of buyers—determine an

Exhibit 6.11
Industry-Level Strategies

Five Industry Forces	Positioning Strategies	Adaptive Strategies
Character of rivalry	Cost leadership	Defenders
Threat of new entrants	Differentiation	Analyzers
Threat of substitute products or services	Focus	Prospectors
Bargaining power of suppliers		Reactors
Bargaining power of buyers		

industry's overall attractiveness and potential for long-term profitability. The stronger these forces, the less attractive the industry becomes to corporate investors because it is more difficult for companies to be profitable. Porter's industry forces are illustrated in Exhibit 6.12. Let's examine how these industry forces are bringing changes to several kinds of industries.

character of the rivalry
A measure of the intensity of competitive behavior between companies in an industry.

Character of the rivalry is a measure of the intensity of competitive behavior between companies in an industry. Is the competition among firms aggressive and cutthroat, or do competitors focus more on serving customers than on attacking each other? Both industry attractiveness and profitability decrease when rivalry is cutthroat. For example, selling cars is a highly competitive business. Pick up a local newspaper on Friday, Saturday, or Sunday morning, and you'll find dozens of pages of car advertising ("Anniversary Sale-A-Bration," "Ford March Savings!" and "$99 Down, You Choose!"). In fact, competition is so intense that if it weren't for used-car sales, repair work, and replacement parts, many auto dealers would actually lose money.

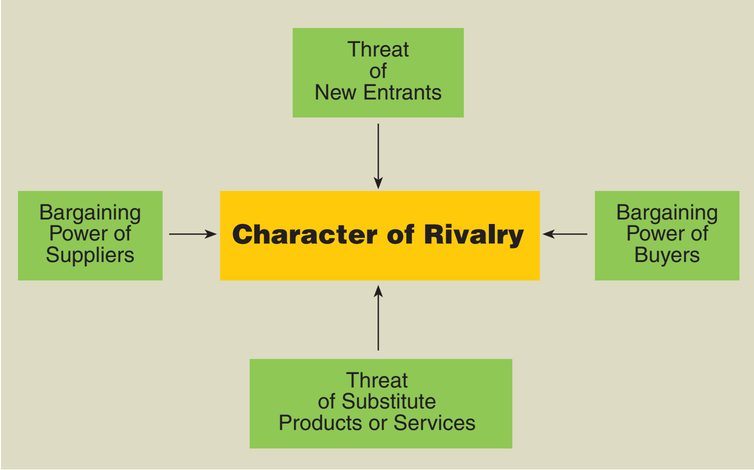
threat of new entrants
A measure of the degree to which barriers to entry make it easy or difficult for new companies to get started in an industry.

The **threat of new entrants** is a measure of the degree to which barriers to entry make it easy or difficult for new companies to get started in an industry. If new companies can easily enter the industry, then competition will increase, and prices and profits will fall. However, if there are sufficient barriers to entry, such as large capital requirements to buy expensive equipment or plant facilities or the need for specialized knowledge, then competition will be weaker, and prices and profits will generally be higher. For instance, high costs and intense competition make it very difficult to *successfully* enter the videogame business. With today's average video game taking 12 to 36 months to create, $5 million to $10 million to develop, and teams of high-paid creative workers that have the skills to develop realistic graphics, captivating story lines, and innovative game capabilities while also being disciplined enough to meet budgets and very strict deadlines and still produce efficient, reliable, bug-free code, the barriers to entry for this business are obviously extremely high. And with already dominant firms like EA Sports chalking up $3 billion in sales, 60 percent profit margins, 254 percent annual growth over the last three years, $2.4 billion in cash, and no debt, it will be extremely difficult to enter the video game industry and be successful.[62]

threat of substitute products or services
A measure of the ease with which customers can find substitutes for an industry's products or services.

The **threat of substitute products or services** is a measure of the ease with which customers can find substitutes for an industry's products or services. If customers can easily find substitute products or services, the competition will be greater, and profits will be lower. If there are few or no substitutes, competition will be weaker, and profits will be higher. Generic medicines are some of the best-known

Exhibit 6.12
Porter's Five Industry Forces



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examples of substitute products. Under U.S. patent law, a company that develops a drug has exclusive rights to produce and market that drug for 20 years. During this time, if the drug sells well, prices and profits are generally high. After 20 years, however, the patent will expire, and any pharmaceutical company can manufacture and sell the same drug. When this happens, drug prices drop substantially, and the company that developed the drug typically sees its revenues drop sharply. For example, the last year that Prozac, a medication that fights depression, was under patent, it cost $30 a pill and returned $2.7 billion in sales revenues to Eli Lilly & Co. In contrast, fluoxetine, a generic version of Prozac made by Merck-Medco that became available the day the patent for Prozac expired, costs only $5 per pill. As a result, Eli Lilly lost 90 percent of its Prozac business within one year. It faces a similar loss of revenue when patent protection ends for Zyprexa, its even more successful schizophrenia drug.[63]

bargaining power of suppliers
A measure of the influence that suppliers of parts, materials, and services to firms in an industry have on the prices of these inputs.

Bargaining power of suppliers is a measure of the influence that suppliers of parts, materials, and services to firms in an industry have on the prices of these inputs. When companies can buy parts, materials, and services from numerous suppliers, the companies will be able to bargain with the suppliers to keep prices low. On the other hand, if there are few suppliers, or if a company is dependent on a supplier with specialized skills and knowledge, then the suppliers will have the bargaining power to dictate price levels. Today, there are so many suppliers of inexpensive, standardized parts, computer chips, and video screens that dozens of new companies are beginning to manufacture flat-screen TVs. One of those companies is Xoceco (ZO-say-co), a Chinese company that has made inexpensive, low-quality TVs for 19 years. But with dozens of companies able to supply the high-tech parts it needs, Xoceco is now entering the flat-screen TV market without having to spend millions of dollars on research and development. Instead, it is simply buying the parts and software it needs directly from suppliers, assembling the TVs in its Chinese factories, and then undercutting the prices of now struggling market leaders like Sony.[64]

bargaining power of buyers
A measure of the influence that customers have on a firm's prices.

Bargaining power of buyers is a measure of the influence that customers have on the firm's prices. If a company sells a popular product or service to multiple buyers, then the company has more power to set prices. By contrast, if a company is dependent on just a few high-volume buyers, those buyers will typically have enough bargaining power to dictate prices. For example, with 5,170 stores and 138 million weekly shoppers, Wal-Mart is the largest single buyer in the history of retailing. Wal-Mart buys 30 percent of all toothpaste, shampoo, and paper towels made by retail suppliers; 15 to 20 percent of all CDs, videos, and DVDs; 15 percent of all magazines; 14 percent of all groceries; and 20 percent of all toys. And, of course, Wal-Mart uses its purchasing power as a buyer to push down prices. Wal-Mart's Gary Meyers, a vice president of global procurement, admits that "as things get more competitive [in the retail industry], the pressure that comes along with that, yeah, we try to take advantage of it."[65]

4.2 Positioning Strategies

After analyzing industry forces, the next step in industry-level strategy is to protect your company from the negative effects of industry-wide competition and to create a sustainable competitive advantage. According to Michael Porter, there are three positioning strategies: cost leadership, differentiation, and focus.

cost leadership
The positioning strategy of producing a product or service of acceptable quality at consistently lower production costs than competitors can so that the firm can offer the product or service at the lowest price in the industry.

Cost leadership means producing a product or service of acceptable quality at consistently lower production costs than competitors so that the firm can offer the product or service at the lowest price in the industry. Cost leadership protects companies from industry forces by deterring new entrants, who will have to match low costs and prices. Cost leadership also forces down the prices of substitute products and services, attracts bargain-seeking buyers, and increases bargaining power with suppliers, who have to keep their prices low if they want to do business with the cost leader. For example, although it sells the occasional

$106,000 diamond ring or $11,000 Lalique crystal vase, thousands of $3,000 42-inch plasma televisions, and too many cases of $90 Dom Perignon champagne to count, Costco, the second largest warehouse chain (behind Sam's), has a simple strategy—ultra low costs. At Costco, nothing, not even the $106,000 diamond ring, is marked up more than 14 percent over the wholesale price. By contrast, low-priced Wal-Mart uses an average 33 percent markup. "This is not a tricky business. We just try to sell high-quality merchandise at a cost lower than everybody else," says Costco's CEO Jim Sinegal who, to keep overhead costs low, still answers his own phone and eats lunch at the same desk he had when he started the company two decades ago.[66]


COURTESY OF WHIRLPOOL CORPORATION

Differentiation has paid off for Whirlpool's Duet brand, which is tremendously popular despite costing over three times what a regular washer-dryer combination costs. The capacity for huge loads saves time, and the high-efficiency front-load design saves water, two extremely compelling selling points.

Differentiation means making your product or service sufficiently different from competitors' offerings so that customers are willing to pay a premium price for the extra value or performance that it provides. Differentiation protects companies from industry forces by reducing the threat of substitute products. It also protects companies by making it easier to retain customers and more difficult for new entrants trying to attract new customers. For example, why would anyone pay $2,300 for Whirlpool's deluxe, upright washer-dryer combination, called the "Duet," when they could purchase a regular washer-dryer combination for $700 or less? The answer is that the Duet washer does huge loads, almost twice what normal washers hold, with just 16 gallons of water, compared to 40 gallons for conventional washers. So it's incredibly efficient in terms of water and energy. But most importantly, the Duet saves time. Whirlpool brand manager Ali Evans says, "By doing larger loads, women can do fewer loads, and the chore of doing laundry is minimized tremendously. It's giving them back some freedom and time."[67] And, according to Evans, customers love the Duet. She says,"We've been surprised by the passion women have when they talk about it. They call it their 'buddy' or their 'baby.' They invite people over to see it and use it. People say it's changing their lives."[68]

differentiation
The positioning strategy of providing a product or service that is sufficiently different from competitors' offerings that customers are willing to pay a premium price for it.

With a **focus strategy**, a company uses either cost leadership or differentiation to produce a specialized product or service for a limited, specially targeted group of customers in a particular geographic region or market segment. Focus strategies typically work in market niches that competitors have overlooked or have difficulty serving. With 28 stores nationwide, the Container Store sells products to reorganize and rebuild your closets, sort out your kitchen drawers and cabinets, or add shelves, hooks, and storage anywhere in your home, office, or dorm room. But, unlike Wal-Mart or Target, that's all it does. President Kip Tindell says, "The fact is, we don't sell Bounty paper towels or Coca-Cola Classic. We sell complicated stuff like those Elfa storage systems [for closets, garages, etc.] . . . . But selling stuff that's hard to sell is a key business strategy for us. It ends up giving us incredible differentiation from other retailers, because they just can't seem to sell the hard stuff. That's why we give our first-year employees 235 hours of training, as opposed to the industry average of 7 hours."[69]

focus strategy
The positioning strategy of using cost leadership or differentiation to produce a specialized product or service for a limited, specially targeted group of customers in a particular geographic region or market segment.

4.3 Adaptive Strategies

Adaptive strategies are another set of industry-level strategies. Whereas the aim of positioning strategies is to minimize the effects of industry competition and build a sustainable competitive advantage, the purpose of adaptive strategies is to choose an industry-level strategy that is best suited to changes in the organization's external environment. There are four kinds of adaptive strategies: defenders, prospectors, analyzers, and reactors.[70]

Defenders seek moderate, steady growth by offering a limited range of products and services to a well-defined set of customers. In other words, defenders

defenders
An adaptive strategy aimed at defending strategic positions by seeking moderate, steady growth and by offering a limited range of high-quality products and services to a well-defined set of customers.

aggressively "defend" their current strategic position by doing the best job they can to hold on to customers in a particular market segment. At Manoj Patel's small grocery in India, laundry detergent sales soared when Procter & Gamble drastically cut prices. Patel said, "It's so inexpensive now, my customers are buying more." Market leader Hindustan Lever responded by matching P&G's detergent price cuts and by cutting its shampoo prices, too. It also introduced a detergent that needs only half as much water to clean clothes, a considerable advantage since most Indians don't have running water. M.S. Banga, the company's chairman, says, "We have a very strong position that was built up over years. We are determined not just to defend it, but to strengthen our market share."[71] Despite P&G's price cuts, the strategy is working: Hindustan Lever's market share has increased from 27.8 to 29.5 percent in laundry detergent, and from 48.9 to 52.5 percent in shampoo.[72]

prospectors
An adaptive strategy that seeks fast growth by searching for new market opportunities, encouraging risk taking, and being the first to bring innovative new products to market.

Prospectors seek fast growth by searching for new market opportunities, encouraging risk taking, and being the first to bring innovative new products to market. Prospectors are analogous to gold miners who "prospect" for gold nuggets (i.e., new products) in hopes that the nuggets will lead them to a rich deposit of gold (i.e., fast growth). 3M has long been known for its innovative products, particularly in adhesives. Since 1904, it has invented sandpaper; masking, cellophane, electrical, and scotch tapes; the first commercially available audio and video tapes; and its most famous invention, Post-It notes. Lately, 3M has invented a film that increases the brightness of LCD displays on laptop computers; developed a digital system that enables construction companies to detect underground telecommunication, gas, water, sewer, or electrical lines without digging; and created a pheromone spray that, by preventing harmful insects from mating, will protect apple, walnut, tomato, cranberry, and grape crops. For more on 3M's innovative products, see the 3M innovation archive (**www.3m.com/us/about3M/innovation/archive.jhtml**).[73]

analyzers
An adaptive strategy that seeks to minimize risk and maximize profits by following or imitating the proven successes of prospectors.

Analyzers are a blend of the defender and prospector strategies. Analyzers seek moderate, steady growth *and* limited opportunities for fast growth. Analyzers are rarely first to market with new products or services. Instead, they try to simultaneously minimize risk and maximize profits by following or imitating the proven successes of prospectors. India-based Ranbaxy Laboratories follows an analyzer strategy by making low-priced generic copies of already popular patented drugs, such as GlaxoSmithKline's antibiotic Ceftin and Eli Lilly & Co.'s Ceclor. And, with $80 billion of patented drugs losing their patent protection in the next four years, Ranbaxy plans to file applications with the U.S. Food and Drug Administration to make 20 more generic drugs.[74] Says Brian Tempest, president of Ranbaxy's pharmaceuticals division, "Our [drug] pipeline is getting stronger."[75] Since Ranbaxy spends very little on research and marketing, and its costs in India are one-fifth those of U.S. pharmaceutical firms, its profit margins are 16 percent, very close to the 20 percent margins of companies like Eli Lilly that research and develop new drugs.

reactors
An adaptive strategy of not following a consistent strategy, but instead reacting to changes in the external environment after they occur.

Finally, unlike defenders, prospectors, or analyzers, **reactors** do not follow a consistent strategy. Rather than anticipating and preparing for external opportunities and threats, reactors tend to "react" to changes in their external environment after they occur. Not surprisingly, reactors tend to be poorer performers than defenders, prospectors, or analyzers. Fiat, the Italian automaker, the largest automaker in Europe just 15 years ago, has followed a reactor strategy with predictably bad results.[76] Protected from competition by quotas that kept high-quality foreign cars out of Italy until 10 years ago, and repeatedly bailed out of financial crises by Italian banks and the Italian government, it underinvested in research and design and didn't begin serious efforts to improve quality or bring out new models until quotas had expired and Japanese and German companies had exported dozens of stylish, higher-quality cars to Italy.

As a result of this reactive strategy, Fiat's share of the Italian market has dropped from 44 percent to 32 percent. Fiat, which has lost $2.27 billion over the last two years, is $8 billion in debt.[77] Auto analyst Stephen Cheetham gives company management "only a 50–50 chance" of turning the company around.[78]

Review 4: Industry-Level Strategies

Industry-level strategies focus on how companies choose to compete in their industry. Five industry forces determine an industry's overall attractiveness to corporate investors and its potential for long-term profitability. Together, a high level of new entrants, substitute products or services, bargaining power of suppliers, bargaining power of buyers, and rivalry between competitors combine to increase competition and decrease profits. Three positioning strategies can help companies protect themselves from the negative effects of industry-wide competition. Under a cost leadership strategy, firms try to keep production costs low so that they can sell products at prices lower than competitors'. Differentiation is a strategy aimed at making a product or service sufficiently different from competitors' that it can command a premium price. Using a focus strategy, firms seek to produce a specialized product or service for a limited, specially targeted group of customers. The four adaptive strategies help companies adapt to changes in the external environment. Defenders want to "defend" their current strategic positions. Prospectors look for new market opportunities by bringing innovative new products to market. Analyzers minimize risk by following the proven successes of prospectors. Reactors do not follow a consistent strategy, but instead react to changes in their external environment after they occur.

5 FIRM-LEVEL STRATEGIES

Sony brings out its PlayStation2 video game console; Microsoft counters with its Xbox. SprintPCS drops prices and increases monthly cell phone minutes; Verizon strikes back with better reception and even lower prices and more minutes. FedEx, the overnight delivery company, buys Kinko's copying and printing stores and turns them into FedEx Kinko's Office & Print Centers to provide a convenient place for businesspeople to drop off and pick up packages; UPS buys Mail Boxes, Etc. and turns its outlets into UPS Stores for exactly the same purpose. Starbucks Coffee opens a store, and nearby locally run coffeehouses respond by improving service, increasing portions, and holding the line on prices. Attack and respond, respond and attack. **Firm-level strategy** addresses the question "How should we compete against a particular firm?"

firm-level strategy
A corporate strategy that addresses the question "How should we compete against a particular firm?"

Let's find out more about the firm-level strategies (i.e., direct competition between companies) shown in Exhibit 6.13 by reading about **5.1 the basics of direct competition, 5.2 the strategic moves involved in direct competition between companies,** and **5.3 entrepreneurship and intrapreneurship.**

5.1 Direct Competition

Although Porter's five industry forces indicate the overall level of competition in an industry, most companies do not compete directly with all the firms in their industry. For example, McDonald's and Red Lobster are both in the restaurant business, but no one would characterize them as competitors. McDonald's offers low-cost, convenient fast food in a "seat yourself" restaurant, while Red Lobster offers mid-priced, sit-down seafood dinners complete with servers and a bar.

Instead of "competing" with the industry, most firms compete directly with just a few companies. **Direct competition** is the rivalry between two companies

direct competition
The rivalry between two companies that offer similar products and services, acknowledge each other as rivals, and act and react to each other's strategic actions.

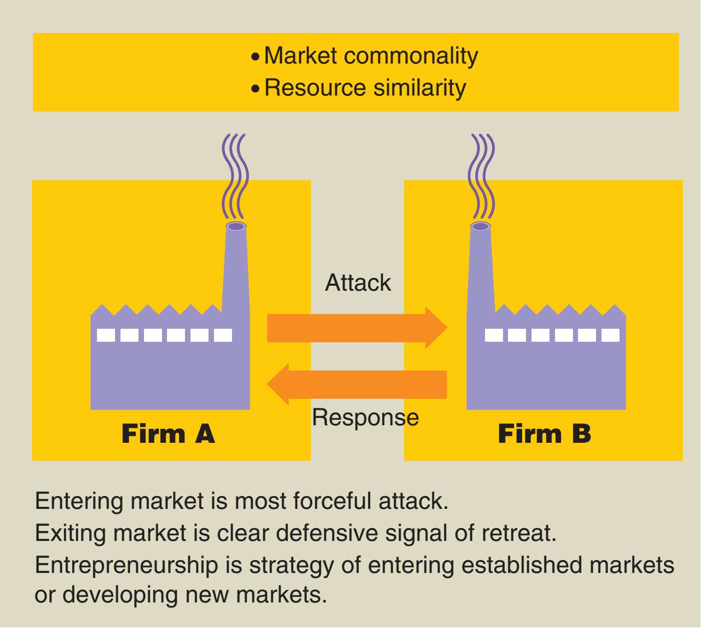

Exhibit 6.13
Firm-Level Strategies (Direct Competition)

offering similar products and services that acknowledge each other as rivals and take offensive and defensive positions as they act and react to each other's strategic actions.[79] Two factors determine the extent to which firms will be in direct competition with each other: market commonality and resource similarity. **Market commonality** is the degree to which two companies have overlapping products, services, or customers in multiple markets. The more markets in which there is product, service, or customer overlap, the more intense the direct competition between the two companies. **Resource similarity** is the extent to which a competitor has similar amounts and kinds of resources, that is, similar assets, capabilities, processes, information, and knowledge used to create and sustain an advantage over competitors. From a competitive standpoint, resource similarity means that your direct competitors can probably match the strategic actions that your company takes.

market commonality
The degree to which two companies have overlapping products, services, or customers in multiple markets.

resource similarity
The extent to which a competitor has similar amounts and kinds of resources.

Exhibit 6.14 shows how market commonality and resource similarity interact to determine when and where companies are in direct competition.[80] The overlapping area in each quadrant (between the triangle and the rectangle, or between the differently colored rectangles) depicts market commonality. The larger the overlap, the greater the market commonality. Shapes depict resource similarity, with rectangles representing one set of competitive resources and triangles representing another. Quadrant I shows two companies in direct competition because they have similar resources at their disposal and a high degree of market commonality. These companies try to sell similar products and services to similar customers. McDonald's and Burger King would clearly fit here as direct competitors.

In Quadrant II, the overlapping parts of the triangle and rectangle show two companies going after similar customers with some similar products or services, but doing so with different competitive resources. McDonald's and Wendy's restaurants would fit here. Wendy's is after the same lunchtime and dinner crowds that McDonald's is. Nevertheless, with its more expensive hamburgers, fries, shakes, and salads, Wendy's is less of a direct competitor to McDonald's than Burger King is. For example, Wendy's Garden Sensation salads (using fancy lettuce varieties, grape tomatoes, and mandarin oranges) bring in customers who would have eaten at more expensive casual dining restaurants like Applebee's.[81] A representative from Wendy's says, "We believe you win customers by consistently offering a better product at a strong, everyday value."[82]

In Quadrant III, the very small overlap shows two companies with different competitive resources and little market commonality. McDonald's and Luby's cafeteria fit here. Although both are in the fast-food business, there's almost no overlap in terms of products and customers. For example, Luby's sells baked chicken, turkey, roasts, meat loaf, and vegetables, none of which are available at McDonald's. Furthermore, Luby's customers aren't likely to eat at McDonald's. In fact, Luby's is not really competing with other fast-food restaurants, but with eating at home. Company surveys show that close to half of its customers would have eaten at home, not at another restaurant, if they hadn't come to Luby's.[83]

Finally, in Quadrant IV, the small overlap between the two rectangles shows that McDonald's and Subway compete with similar resources but with little market commonality. In terms of resources, McDonald's sales are much larger, but with 22,928 stores worldwide (18,206 in the United States), much faster

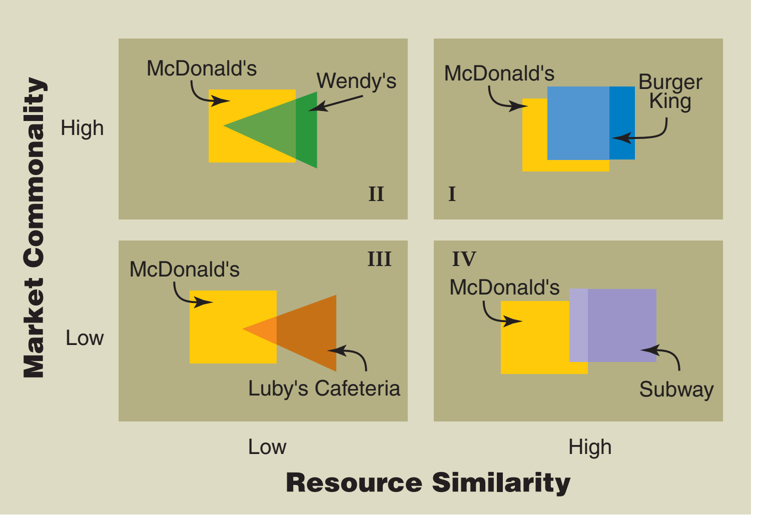

Exhibit 6.14
A Framework of Direct Competition

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growth, and plans to have 30,000 stores worldwide by 2010, Subway will soon approach McDonald's 31,129 stores worldwide (just 13,000 in the United States).[84] Though Subway and McDonald's compete, they aren't direct competitors in terms of market commonality in the way that McDonald's and Burger King are, because Subway, unlike McDonald's, sells itself as a provider of healthy fast food. Thus, the overlap is much smaller in Quadrant IV than in Quadrant I. With its advertising featuring "Jared," who lost 245 pounds eating at Subway, the detailed nutritional information available in its stores, and its close relationship with the American Heart Association, Subway's goal "is to emphasize that the Subway® brand represents all that is good about health and well-being."[85] And while fast-food customers tend to eat at both restaurants, Subway's customers are twice as loyal as McDonald's customers, most likely because of Subway's, healthier food.[86]

5.2 Strategic Moves of Direct Competition

While corporate-level strategies help managers decide what business to be in and industry-level strategies help them determine how to compete within an industry, firm-level strategies help managers determine when, where, and what strategic actions should be taken against a direct competitor. Firms in direct competition can make two basic strategic moves: attacks and responses.

An **attack** is a competitive move designed to reduce a rival's market share or profits. For example, hoping to increase its market share at Burger King's expense, McDonald's began a brutal price war by putting eight items on a new $1 value menu, including two sandwiches, the Big'n Tasty quarter pounder and the McChicken sandwich, that usually sold for $1.99.[87] Sales of those sandwiches doubled within weeks. The attack worked very well at first, as Robert Doughty, a Burger King spokesperson complained, "They've created a senseless price war. That has put a lot of competitive pressure on us and others, too."[88] By contrast, a **response** is a countermove, prompted by a rival's attack, that is designed to defend or improve a company's market share or profit. There are two kinds of responses.[89] The first is to match or mirror your competitor's move. This is what Burger King did to McDonald's by selling 11 menu items for 99 cents, including its popular double cheeseburgers. The second kind of response, however, is to respond along a different dimension from your

attack
A competitive move designed to reduce a rival's market share or profits.

response
A competitive countermove, prompted by a rival's attack, to defend or improve a company's market share or profit.

competitor's move or attack. For example, instead of cutting prices, Burger King could have introduced a new menu item to attract customers away from McDonald's.

Market commonality and resource similarity determine the likelihood of an attack or response, that is, whether a company is likely to attack a direct competitor or to strike back with a strong response when attacked. When market commonality is strong and companies have overlapping products, services, or customers in multiple markets, there is less motivation to attack and more motivation to respond to an attack. The reason for this is straightforward: when firms are direct competitors in a large number of markets, they have a great deal at stake. So, when McDonald's launched an aggressive price war with its value menu, Burger King had no choice but to respond by cutting its own prices.

Whereas market commonality affects the likelihood of an attack or a response to an attack, resource similarity largely affects response capability, that is, how quickly and forcefully a company can respond to an attack. When resource similarity is strong, the responding firm will generally be able to match the strategic moves of the attacking firm. Consequently, a firm is less likely to attack firms with similar levels of resources because it is unlikely to gain any sustained advantage when the responding firms strike back. On the other hand, if one firm is substantially stronger than another (i.e., low resource similarity), then a competitive attack is more likely to produce sustained competitive advantage. With over 30,000 stores to Burger King's 11,000 stores and much more in the way of financial resources, McDonald's launched a price war hoping to inflict serious financial damage on Burger King while suffering minimal financial damage to itself. This strategy worked to some extent. Although Burger King sold 11 menu items for 99 cents, it wasn't willing or able to cut the price of its best-selling Whopper sandwiches to 99 cents (from $1.99). Basically admitting that it couldn't afford to match McDonald's price cuts on more expensive sandwiches, a Burger King spokesperson insisted, "McDonald's can't sell those sandwiches at $1 without losing money. It isn't sustainable." Thanks to its much larger financial resources, McDonald's had the funds to outlast Burger King in the price war. As often happens, though, the price war ended up hurting both companies' profits.[90] McDonald's ended the price war when it became clear that lower prices didn't draw more customers to its restaurants.

In general, the more moves (i.e., attacks) a company initiates against direct competitors, and the greater a firm's tendency to respond when attacked, the better its performance. More specifically, attackers and early responders (companies that are quick to launch a retaliatory attack) tend to gain market share and profits at the expense of late responders. This is not to suggest that a "full-attack" strategy always works best. In fact, attacks can provoke harsh retaliatory responses. When Kimberly-Clark cut the price of Huggies diapers below $10 a box (by reducing the number of diapers), Procter & Gamble, maker of Pampers diapers, retaliated by cutting prices 15 percent and printing "Compare" on Pampers boxes to point out that it had not *reduced* the number of diapers, as well as the price. In the end, Kimberly-Clark had to undo its price cut and increase the number of diapers per box. The price war was so damaging that profits declined, leading to a 12 percent drop in Kimberly-Clark's stock price.[91] Consequently, when deciding when, where, and what strategic actions to take against a direct competitor, managers should always consider the possibility of retaliation.

5.3 Entrepreneurship and Intrapreneurship: Entering New Markets

As the McDonald's–Burger King and Huggies-Pampers examples illustrate, attacks and responses can include smaller, more tactical moves, like price cuts, specially advertised sales or promotions, or improvements in service. On a larger scale, they can also involve resource-intensive strategic moves, such as expanding service and production facilities, introducing new products or services within the firm's existing business, or entering a completely new line of business for the first time.

Of these, *market entries* and *market exits* are probably the most important kinds of attacks and responses. Entering a market is perhaps the most forceful attack or response because it sends the clear signal that the company is committed to gaining or defending market share and profits at a direct competitor's expense. By contrast, exiting a market is an equally clear defensive signal that your company is retreating.[92]

GETTY IMAGES

Using entrepreneurial strategies, Zipcar entered an established market with a competitive product. Shown here is a member holding her membership card that acts as an electronic car key.

Since **entrepreneurship** is the process of entering new or established markets with new goods or services, entrepreneurship is also a firm-level strategy. In fact, the basic strategic act of entrepreneurship is new entry—creating a new business from a brand new startup firm. For example, Scott Griffith created a new rental car company called Zipcar to compete with such established companies as Enterprise, Hertz, and Avis. Zipcar is able to do this by offering more and doing it cheaply. After reserving a Zipcar (by the hour, day, etc.) online or via a toll-free phone number, Zipcar members simply go to a Zipcar location and place their membership card on their chosen rental car's windshield. A wireless access system then unlocks the car—but only during the time it is reserved. That way, no one else can use the car during that time. When finished, the rentor simply returns the car to its original location. Gas and insurance are included in the price (about $60 a day, or $8.50 to $12 an hour), so the car doesn't have to be filled up before it is returned. And all of this is done without filling out forms, dealing with people at a rental counter, and having the paperwork and car inspected by security personnel before leaving the rental car lot.[93]

entrepreneurship
The process of entering new or established markets with new goods or services.

Established firms can be entrepreneurial, too, by entering new or established markets with new goods or services. When existing companies are entrepreneurial, it's called **intrapreneurship**.[94] Think "coffee," and chances are you'll end up at a Dunkin' Donuts, which sells more regular coffee than anybody else. Think "latte," and you'll end up at Starbucks Coffee instead. Dunkin' Donuts, however, is branching out from its regular coffee and donuts and entering a new market. It wants to sell you a tall, medium, or large Latte for 25 percent less than Starbucks. Rather than hire and train new staff to be coffee baristas, Dunkin' Donuts had a Swiss company produce an $8,000 automated, "idiot-proof" machine that consistently makes good cappuccinos and lattes in less than 60 seconds. Boston lawyer Kathleen Brown who has switched from Starbucks to Dunkin' Donuts says, "I can order a plain medium caramel latte and not deal with all that fancy stuff."[95] Customer Leslie Bello agrees, "Both are good, but Starbucks takes too long."[96] With sales surging, Dunkin' Donuts plans to triple its stores to 15,000 over the next decade. As an executive at Dunkin' Donuts points out, "Espresso has become mainstream in America. And who does mainstream better than Dunkin' Donuts?" Accordingly, Dunkin' Donuts advertising proclaims, "Latte for Every Tom, Dick, and Lucciano."[97]

intrapreneurship
Entrepreneurship within an existing organization.

Whereas the goal of an intrapreneurial strategy is new entry, the process of carrying out an intrapreneurial strategy depends on the ability of the company's founders or existing managers to foster an entrepreneurial orientation (remember, intrapreneurship is entrepreneurship in an existing organization).

entrepreneurial orientation The set of processes, practices, and decision-making activities that lead to new entry, characterized by five dimensions: risk taking, autonomy, innovativeness, proactiveness, and competitive aggressiveness.

An **entrepreneurial orientation** is the set of processes, practices, and decision-making activities that lead to new entry. Five key dimensions characterize an entrepreneurial orientation:[98]

- *Risk taking*. Entrepreneurial firms are willing to take some risks by making large resource commitments that may result in costly failure. Another way to conceptualize risk taking is to think of it as a managerial preference for bold rather than cautious acts.
- *Autonomy*. If a firm wants to successfully develop new products or services to enter new markets, it must foster creativity among employees. To be creative, employees need the freedom and control to develop a new idea into a new product or service opportunity without interference from others. In other words, they need autonomy.
- *Innovativeness*. Entrepreneurial firms also foster innovativeness by supporting new ideas, experimentation, and creative processes that might produce new products, services, or technological processes.
- *Proactiveness*. Entrepreneurial firms have the ability to anticipate future problems, needs, or changes by developing new products or services that may not be related to their current business, by introducing new products or services before the competition does, and by dropping products or services that are declining (and likely to be replaced by new products or services).[99]
- *Competitive aggressiveness*. Because new entrants are more likely to fail than are existing firms, they must be aggressive if they want to succeed. A new firm often must be willing to use unconventional methods to directly challenge competitors for their customers and market share.

Without these, an entrepreneurial orientation is unlikely to be created, and an intrapreneurial strategy is unlikely to succeed.

Review 5: Firm-Level Strategies

Firm-level strategies are concerned with direct competition between firms. Market commonality and resource similarity determine whether firms are in direct competition and thus likely to attack each other or respond to each other's attacks. In general, the more markets in which there is product, service, or customer overlap, and the greater the resource similarity between two firms, the more intense the direct competition between them. When firms are direct competitors in a large number of markets, attacks are less likely because responding firms are highly motivated to quickly and forcefully defend their profits and market share. By contrast, resource similarity affects response capability, meaning how quickly and forcefully a company responds to an attack. When resource similarity is strong, attacks are much less likely to produce a sustained advantage because the responding firm is capable of striking back with equal force.

Market entries and exits are the most important kinds of attacks and responses. Entering a new market is a clear offensive signal, while exiting a market is a clear signal that a company is retreating. Market entry is perhaps the most forceful attack or response because it sends the clear signal that the company is committed to gaining or defending market share and profits at a direct competitor's expense. In general, attackers and early responders gain market share and profits at the expense of late responders. Attacks must be carefully planned and carried out, however, because they can provoke harsh retaliatory responses.

Finally, the basic strategic act of entrepreneurship is new entry. To carry out an entrepreneurial strategy, a company must create an entrepreneurial orientation by encouraging risk taking, autonomy, innovativeness, proactiveness, and competitive aggressiveness.

Key Terms

acquisition, *181*
analyzers, *190*
attack, *193*
bargaining power of buyers, *188*
bargaining power of suppliers, *188*
BCG matrix, *181*
cash cow, *182*
character of the rivalry, *187*
competitive advantage, *168*
competitive inertia, *172*
core capabilities, *174*
core firms, *175*
corporate-level strategy, *180*
cost leadership, *188*
defenders, *189*
differentiation, *189*
direct competition, *191*
distinctive competence, *174*
diversification, *180*
dog, *182*
entrepreneurial orientation, *196*
entrepreneurship, *195*
firm-level strategy, *191*
focus strategy, *189*
grand strategy, *184*
growth strategy, *185*
imperfectly imitable resource, *169*
industry-level strategy, *186*
intrapreneurship, *195*
market commonality, *192*
nonsubstitutable resources, *170*
portfolio strategy, *181*
prospectors, *190*
question mark, *182*
rare resources, *169*
reactors, *190*
recovery, *185*
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resource similarity, *192*
resources, *168*
response, *193*
retrenchment strategy, *185*
secondary firms, *176*
shadow-strategy task force, *177*
situational (SWOT) analysis, *173*
stability strategy, *185*
star, *182*
strategic dissonance, *173*
strategic group, *175*
strategic reference points, *177*
sustainable competitive advantage, *169*
threat of new entrants, *187*
threat of substitute products or services, *187*
transient firms, *176*
unrelated diversification, *181*
valuable resources, *169*

Concept Check

1. Identify the components of a sustainable competitive advantage.
2. Outline the steps in the strategy-making process.
3. What is a corporate-level strategy? Describe the major approaches to corporate-level strategy.
4. What are the elements of the BCG matrix?
5. Identify three grand strategies and give examples of each.
6. What is an industry-level strategy? What tools can companies use to develop successful industry-level strategies?
7. What are Porter's five industry forces, and how do they affect a company's strategy?
8. What is a firm-level strategy?
9. What are the basic elements of direct competition?
10. How do companies implement entrepreneurship as an internal strategy?

Self-Assessment

STRATEGY QUESTIONNAIRE

Generally speaking, a strategy is a plan of action that is designed to help you achieve a goal. Strategies are not limited to grand plans that help you accomplish grand goals. You probably use strategies every day in simple ways. For example, think of a route you regularly drive. Do you know how fast (or slow) you need to go to catch all the lights on green? Or where to swerve to avoid a pothole? Or even when to take a side street to shave a few minutes off your commute? Speeding up for one block in order to catch the green lights at the next five intersections is a strategy. Strategy, then, involves thinking about how you are going to accomplish what you set out (i.e., have planned) to do. On page 617 of the Self-Assessment Appendix, you will find a survey that will provide some baseline information you can use as you develop your strategic managerial skills.

Management Decision

CHEW ON THIS

When William Wrigley, Jr., took over the publicly traded, family-controlled business in 1999, the world's leading gum maker hadn't had a single unprofitable quarter or missed a dividend since 1923.[100] The company was debt-free and dominated the industry with an estimated 50 percent market share. The maker of Juicy Fruit and Doublemint was a sleeping giant—reliable financial performance, reliable products, fairly stable market—but a growth company it was not. Wrigley's first nongum product didn't debut until 2002.

Even though Wrigley sells gum around the world, Bill Jr. wants to transform Wrigley into a much larger company with a much broader reach. In fact, he wants to double the size of the company over a number of years. This could be difficult. People who chew gum are tending toward sugar-free gums. Wrigley's hallmark brands—Juicy Fruit, Doublemint, and Spearmint—are not sugar-free. Sugarless gum now accounts for 60 percent of U.S. gum sales, and sales of sugarless gum consistently grow at the expense of regular gum. Competition from the number two gum maker, Adams, maker of Trident and Dentyne, will only become stiffer since Cadbury Schweppes has purchased it and opened up better distribution for Adams in Latin America (where Wrigley is weak) and Europe (where Wrigley is stronger). In addition, breath mints have gained significant ground against chewing gum. The popularity of high-intensity breath mints like Altoids among teenagers (Wrigley's main customers) has driven gum sales down 30 percent.

Bill Jr.'s aggressive attitude toward growth is no secret. He has considered buying Hershey Foods (for around \$12.5 billion), various assets of Mars Candy not up for sale, and even Tootsie Roll (valued at around \$423 million), also not for sale. He has also considered joint ventures with companies like Procter & Gamble to develop medicinal chewing gum.

Questions

1. Which avenue of growth seems more promising for Wrigley—growing externally through acquisition or merger or growing internally through product development and innovation?
2. Can Wrigley create a sustainable competitive advantage without a growth strategy? Do you think a sustainable competitive advantage is possible in the chewing gum industry? Explain.

Management Team Decision

OF PARAMOUNT IMPORTANCE

The deal was hush-hush, which meant that everyone in Hollywood knew about it. So, rather than being able to slowly, deliberately transition into your new position as head of Viacom's Paramount Motion Pictures, you're going to need to make a splash. As the titled partner in the agency that represented such talent as Jennifer Aniston, Brad Pitt, Nicolas Cage, and Lorne Michaels, you have a unique perspective on movie studios, which makes you keenly aware that you've inherited a company that's facing more challenges than its competitors.

For much of the last decade, Paramount was tightfisted and only modestly profitable. Top managers limited expenses to what they considered operationally necessary, which meant capping budgets at under \$100 million per movie and spending no resources on acquisitions. Paramount's profits in 2004 amounted to \$276 million, an increase of only 5 percent over 2001's profits of \$263 million. In that regard, the competition is eating Paramount's lunch. Over the same three-year period, profits at Time Warner's film unit rose 14 percent to \$1.4 billion, and Disney's profits increased by a stunning 155 percent, from \$260 million to \$662 million!

Those figures confirm the axiom that you have to spend money to make money. The former president of Viacom was known for extreme fiscal restraint, preferring to split production costs with other moviemakers for big films. In contrast, Disney used its resources to purchase smaller studios, like Miramax and Touchstone, and expand its product offerings. Paramount was once known for mega-hits like *Titanic, Forest Gump*, and *The First Wives' Club*, but its recent successes have been more modest like *The Italian Job* and *The SpongeBob SquarePants Movie*, which were trounced at the box office by its competitors' powerhouse franchises (*Lord of the Rings, Shrek, Spiderman*, and *Harry Potter*), not to mention successful independent films (*Passion of the Christ*).

Compounding Paramount's difficulties is the fact that the entertainment industry seems to be undergoing potentially massive change. At Disney alone, the CEO has changed, the head of Miramax is leaving, and Steve Jobs and his Pixar studios are shopping for a distributor other than the House of Mouse. And the big studios of bygone days are now just cogs in large multimedia conglomerates. Sony just bought MGM, and Lions Gate and Artisan have merged. Warner Brothers is part of Time Warner, and your own Paramount is just one of many businesses operated by Viacom. One result of these changes is a reduced number of DVD producers. As DVDs play a larger role in studio revenue sreams, Paramount may be hamstrung by is skimpy library of 1,200 titles. Time Warner boasts a library of 6,600 titles, and Disney enjoys an extraordinary library of classics.

Since you are an outsider with no studio management experrience, you think it best to work closely with your management team to craft a strategy for Paramount Picures. The landsccape has indeed changed since the studio's heyday in the 1990s, and your knowledge of the entertainment industry from a talent management perspective may help the company drastically improve results, if not pull ahead of the competition.[101]

For this exercise, assemble three to four students to play the role of the executive team at Paramount Picures. Before beginning the exercise, you might want to do some preliminary research to familiarize yourself with Paramount's roster of films. Also identify other studios (either those mentoned in the case or others that you know of) and check out their rosters.

Questions

1. After reading the case, you might say that Paramount Pictures obviously needs strategic change, but does it really?
2. Discuss the entertainment industry according to Porter's five industry forces.
3. Using what you know from the chapter, identify a corporate-, industry-, and firm-level strategy that closely matches Paramount Pictures' current strategy.
4. Based on your work in questions 1 to 3, do you change Paramount Pictures' strategy, or do you stick with the existing strategy? If you decide to change it, what changes would you make?

Develop Your Career Potential

AN INDIVIDUAL SWOT ANALYSIS

In order to maintain and sustain a competitive advantage, companies continue to analyze their overall strategy in light of their current situation.[102] In doing so, they often use a SWOT analysis, which focuses on the strengths and weaknesses in the firm's internal environment and the opportunities and threats present in the firm's external environment. One way to gain experience in conducting a SWOT analysis is to perform one on yourself—in other words, conduct a personal SWOT analysis.

Assume you have just completed your college education and are ready to apply for a job as a manager of a small to medium-sized facility. Perform a personal SWOT analysis to determine if your current situation matches your overall strategy. Identifying your strengths will probably be the easiest step in the analysis. They will most likely be the skills, abilities, experience, and knowledge that help differentiate you from your competitors. Take care to be realistic and honest in analyzing your strengths and weaknesses.

One way of identifying both strengths and weaknesses is to look at previous job evaluation comments and talk to former and present employers and coworkers. Their comments will typically focus on objective strengths and weaknesses that you exhibit or exhibited while on the job. You may also gather information about your strengths and weaknesses by analyzing your personal interests and learning more about your personality type. Most college placement offices have software to help students identify their interests and personality types and then match that information to certain career paths. This type of assessment can help ensure that you do not choose a career path that is incongruent with your personality and interests.

Probably the hardest portion of the personal SWOT analysis will be the identification of your weaknesses. As humans, we are often reluctant to focus on our deficiencies; nonetheless, being aware of potential weaknesses can help us reduce them or improve upon them. Since you are preparing for a career in management, you should research what skills, abilities, knowledge, and experience are needed to be a successful manager. Comparing your personal strengths to those needed as a manager can help you identify potential weaknesses. Once you identify weaknesses, develop a plan to overcome them. Remember that most annual evaluations will include both strengths and weaknesses, so don't forget to include this valuable piece of information in your analysis.

You can identify opportunities by looking at employment possibilities for entry-level managers at this particular point in time. In this part of the analysis, it helps to match your personal strengths with opportunities. For example, if you have experience in manufacturing, you may initially choose to apply only to manufacturing-type businesses.

The last step of the analysis involves identifying potential threats. Threats are barriers that can prevent you from obtaining your goals. Threats may include events such as an economic recession that reduces the number of job openings for entry-level managers. By knowing what the barriers are and by assembling proactive plans to help deal with them, you can reduce the possibility of your strategy becoming ineffective.

Focusing on a personal SWOT analysis can be a practical way to prepare for an actual company analysis, and it also allows you to learn more about yourself and your long-term plans.

Questions

1. In light of the SWOT analysis, what plans might you propose for yourself that will help you maximize your strengths, exploit your opportunities, and minimize your weaknesses and threats? Write three S.M.A.R.T. goals (remember Chapter 5) that will help you implement your plans.
2. How might this assignment prepare you for both your academic and your professional career?

Take Two

Biz Flix
Seabiscuit

Seabiscuit is a 2003 American drama film based on the best-selling book *Seabiscuit: An American Legend* by Laura Hillenbrand. The film stars Tobey Maguire as Red Pollard, the jockey for Seabiscuit, an undersized and overlooked thoroughbred race horse whose unexpected successes made him a popular sensation in the United States near the end of the Great Depression. In this scene, a hospitalized Pollard is unable to ride during the final leg of the Triple Crown, so he tries to communicate to his friend and replacement jockey Charley Kurtsinger (played by Chris McCarron) what he needs to do to win the race.

What to Watch for and Ask Yourself

1. What aspects of strategic planning can you identify in the clip?
2. Which strategic alternative (risk seeking or risk avoiding) does Red Pollard advocate that his friend use during the race? Explain.

Management Workplace
Texas Jet

Even the most enthusiastic, determined managers encounter strategic difficulties when environments change and their businesses expand, contract, or are stuck in the status quo. Reed Pigman, owner of Texas Jet, was already experiencing crippling debt and stagnating sales in a commodity market when the competitive environment changed, pushing him to the brink of going out of business. By stepping back to rethink his strategy, he was able to save his company and turn it into a prosperous enterprise in a difficult industry.

What to Watch for and Ask Yourself

1. Describe Reed Pigman's use of strategic reference points.
2. Explain how moving from a firm-level strategy to an industry-level strategy helped Texas Jet to achieve a competitive advantage.
3. Do you think Texas Jet's competitive advantage is sustainable? Explain.