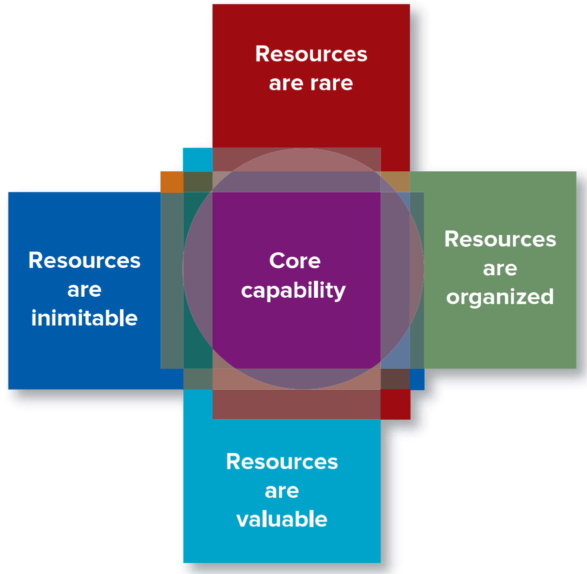
EXHIBIT 4.8

Resources and Core Capability



how well one company's basic functions and skills compare with those of another company or set of companies. As introduced in Chapter 2, the goal of benchmarking is to understand the "best practices" of other firms thoroughly and to undertake actions to achieve lower costs and better performance.

According to consulting firm Accenture, benchmarking consists of four stages:[31]

1. Decide what needs to be measured and which metrics will be used.
2. Collect and validate the data; compile initial findings.
3. Assess initial findings to see if additional data need to be collected.
4. Analyze results and make final recommendations to key stakeholders.

Benchmarking programs have helped many companies, such as Ford, Corning, Hewlett-Packard, Xerox, and Anheuser-Busch, make great strides in eliminating inefficiencies and improving competitiveness.

Benchmarking may be of limited help when it only helps a company perform as well as its competitors; strategic management ultimately is about surpassing those companies. Companies can gain additional advantage via *internal* benchmarking: comparing different internal units against one another to disseminate the company's best practices throughout the organization.

AXA Canada, an insurance company, used internal benchmarking to compare results among its regions. However, in a country as vast as Canada, the differences among regions were so great that performance couldn't really be compared. More energy went to arguing about the numbers than looking for ways to close performance gaps. The most success came from gathering performance data from several insurance companies, analyzing it, and reporting on areas of strength and weakness. Using this benchmarking information, AXA Canada found areas where it could operate more efficiently by applying other companies' practices. The company uses the benchmarking data primarily for cutting costs and identifying potential new markets.[32]

Bottom Line

Benchmarking can identify best practices both outside and inside your company. *In some famous benchmarking examples, businesses learned from pit crews for race car teams. What kinds of bottom-line practices could that industry demonstrate?*

Step 4: SWOT Analysis and Strategy Formulation

Once managers have analyzed the external environment and internal organizational resources, they have the information they need to assess the organization's strengths, weaknesses, opportunities, and threats. Such an assessment is called a **SWOT analysis**.

SWOT analysis

A comparison of strengths, weaknesses, opportunities, and threats that helps executives formulate strategy.

Strengths and weaknesses refer to internal resources. For example, an organization's strengths might include skilled management, positive cash flow, and well-known and highly regarded brands. Weaknesses might be lack of spare production capacity and the absence of reliable suppliers.

Opportunities and threats arise in the macroenvironment and competitive environment. Examples of opportunities are a new technology that could make the supply chain more efficient, and an underserved market niche. Threats could include the possibility that competitors will enter the underserved niche if it is shown to be profitable.

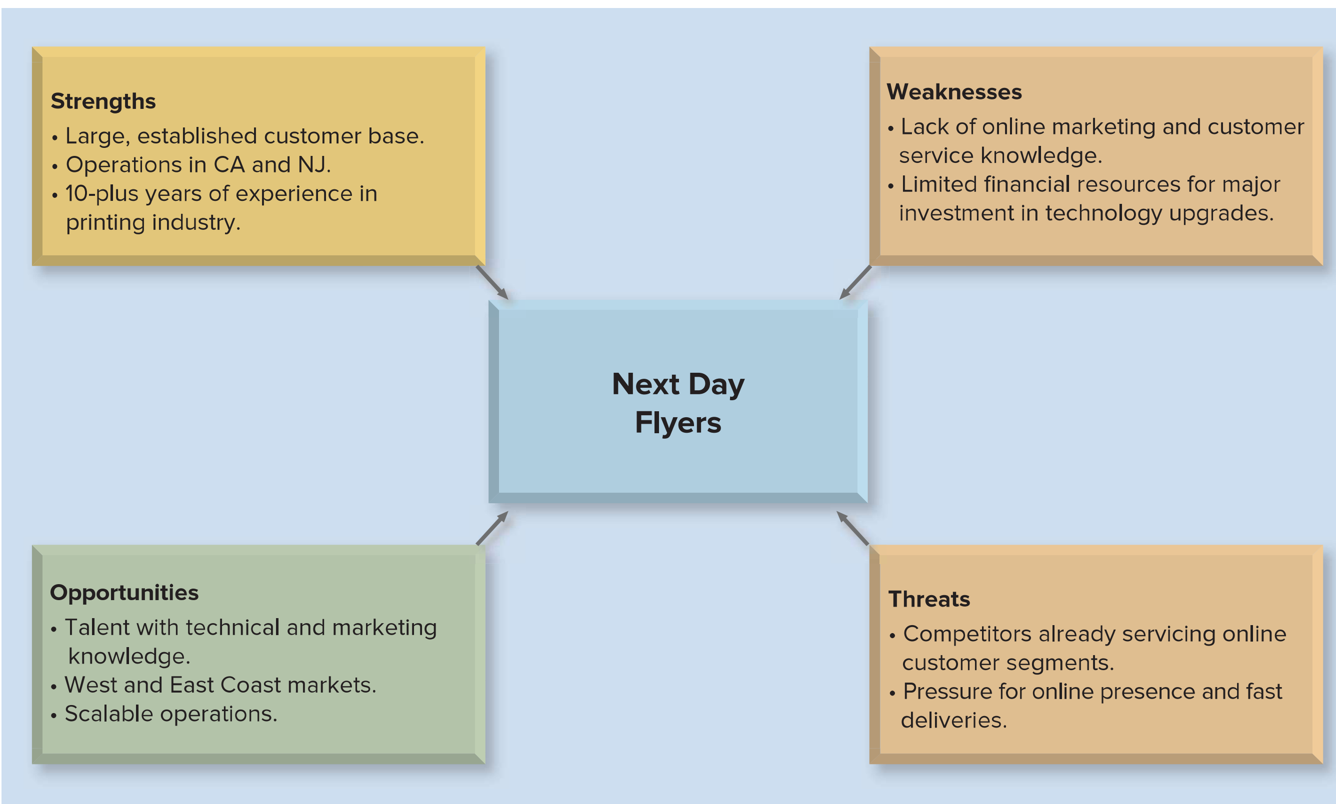
SWOT analysis helps managers summarize the relevant, important facts from their external and internal analyses. Based on this summary, they can identify the primary and secondary strategic issues their organization faces. The managers then formulate a strategy that will use the SWOT analysis to pursue opportunities by capitalizing on the organization's strengths, neutralizing its weaknesses, and countering potential threats.

For example, David Handmaker enjoyed several years of unfettered growth since opening his printing company, Next Day Flyers, in Los Angeles. However, over time he noticed that his competitors were more adept at finding and serving online customers. Handmaker needed a plan to restore healthy business growth by migrating parts of his marketing and printing services online before it was too late. But Next Day Flyers originally aimed at local customers, which raised questions about whether the company could serve the needs of geographically dispersed customers.

Handmaker and his team needed to analyze what the firm did well and how it needed to improve relative to the competitive printing marketplace. Exhibit 4.9 summarizes this example in a format commonly used for a basic SWOT analysis. The company developed a strategy calling for it to hire talent with the skills, knowledge, and experience to help Next Day Flyers establish a professional presence on the web, including simple online ordering; free online design services; free printing templates; blog with design and marketing tips; and customer support by phone, e-mail, and live chat.[33]

As a company is formulating strategy, its competitors are, too. Therefore the strategy management process must keep evolving. The more uncertainty that exists in the external environment,

EXHIBIT 4.9
Sample SWOT Analysis: Next Day Flyers



SOURCES: Based on information from Myers, R., "That Sounds Like a Plan," *Inc.*, no. 36 (2014), pp. 90–92; and Next Day Flyers company website, "About Next Day Flyers," http://www.nextdayflyers.com.

Multiple Generations at Work

Perceived Strengths and Weaknesses of Each Generation

Ernst & Young, the accounting and consulting firm, recently asked managers and employees across multiple generations and industries to describe the strengths and weaknesses commonly associated with different generational cohorts. The following exhibit includes some of the findings:

Baby Boomers	Gen Xers	Millennials
Strengths • *Loyal* • *Mentoring others* • *Hardworking*	**Strengths** • *Revenue generators* • *Adaptable* • *Problem-solvers*	**Strengths** • *Tech savvy* • *Skilled at leveraging social media* • *Enthusiastic*
Weaknesses • *Slower to adapt to change and collaborate with others*	**Weaknesses** • *Displaying executive presence and being cost effective*	**Weaknesses** • *Team player and hardworking*

The results show respondents' perceptions of the work-related strengths and weaknesses of different generations. Of course, caution is advised when generalizing to all members of any group, including generational cohorts.

However, if you do a self-SWOT analysis, you may want to compare your self-assessment to the stereotypes this study revealed. This may prove useful for overcoming or leveraging stereotypes. Millennials can think about how to counter the perceived weaknesses of not being hardworking team players. Gen Xers who want to advance into executive positions may want to observe how current executives dress, communicate, plan, work in teams, and make decisions. A Boomer can overcome the stereotype of being slow to adapt to change by embracing and becoming adept with new technologies at work.[34]

the more the strategy needs to focus on strengthening internal capabilities through practices such as seeking new company expertise, opportunistic knowledge sharing, and continuous process improvement.[35] To keep it competitive, Next Day Flyers identified online customer engagement as the major strategy it needed to commit to and continue to develop.

By the way, you might find a self-SWOT analysis helpful when seeking a job. What are you particularly good at? What weaknesses might you need to overcome to improve your employment chances? What firms offer the best opportunity to apply your skills to full advantage? Who are your competitors? How is your generation perceived in the workplace (see the nearby "Multiple Generations at Work" box)? As with companies, this kind of analysis can lead to a plan of action that improves your own effectiveness.

corporate strategy

The set of businesses, markets, or industries in which an organization competes and the distribution of resources among those entities.

LO 5

Corporate Strategy

A **corporate strategy** identifies the set of businesses, markets, or industries in which the organization competes and the distribution of resources among those businesses. Exhibit 4.10 shows basic alternatives for a corporate strategy that range from very specialized to highly diverse.

concentration

A strategy employed for an organization that operates a single business and competes in a single industry.

A **concentration** strategy (the purple center of the figure) focuses on a single business competing in a single industry. In the food retailing industry, Kroger, Safeway, and A&P all pursue concentration strategies. A company pursues concentration strategies when (perceived) industry growth potential is high or when the company has a narrow range of competencies. An example is Arm & Hammer™, which pursues a concentration strategy by making baking soda for home personal care application; the strategy has enabled the Church & Dwight Company to operate successfully for more than 165 years.

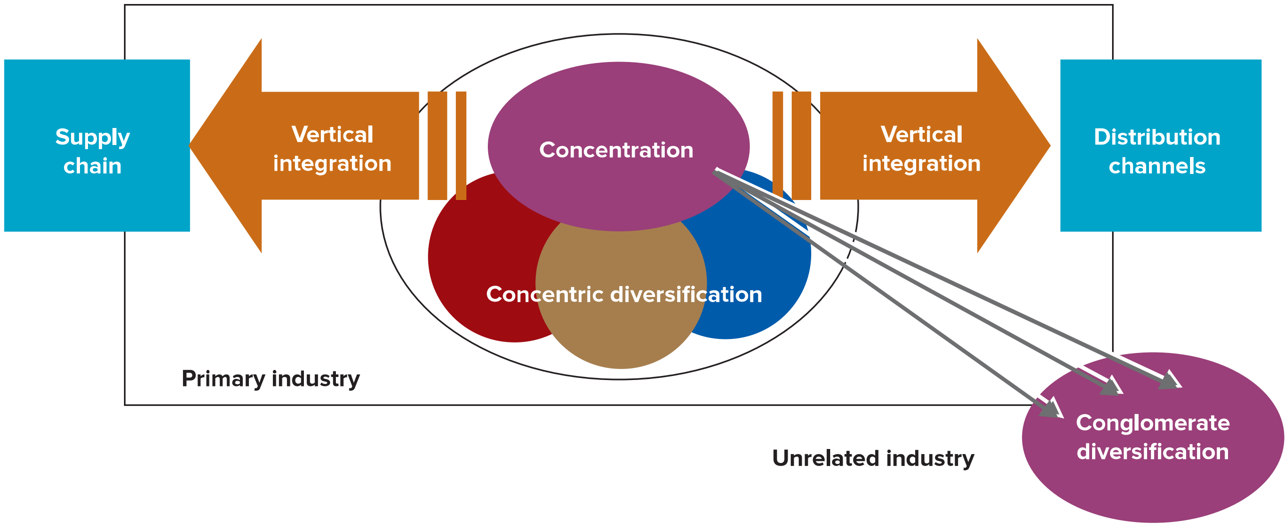


EXHIBIT 4.10
Summary of Corporate Strategies

A **vertical integration** strategy (horizontal arrows in the figure) involves expanding the company's domain to include supplier and distributors. At one time, Henry Ford had fully integrated his company from the ore mines needed to make steel all the way to the showrooms where his cars were sold. Vertical integration generally is used to reduce costs associated with suppliers or distributors and to reduce the uncertainties created by unpredictable business relationships.

A strategy of **concentric diversification** (expanded center of the figure) moves into new but related businesses. William Marriott expanded his original restaurant business outside Washington, DC, by moving into airline catering, hotels, and fast food. Each of these businesses within the hospitality industry is related in terms of the services it provides, the skills necessary for success, and the customers it attracts. Often companies such as Marriott pursue a strategy of concentric diversification to take advantage of their strengths in one business to gain advantage in another. Because the businesses are related, the products, markets, technologies, or capabilities used in one business can be transferred to another.

Success in a concentric diversification strategy requires adequate management and other resources for operating more than one business. Guitar maker C. F. Martin once tried expanding through purchases of other instrument companies, but management was stretched too thin to run them well. The company divested the acquisitions and returned to its concentration strategy.[36]

In contrast to concentric diversification, **conglomerate diversification** (multiple arrows pointing outside the primary industry) is a corporate strategy of expansion into unrelated businesses. For example, General Electric Corporation diversified from its original base in electrical and home appliance products into health, finance, insurance, truck and air transportation, and media with its ownership of NBC (now owned with Comcast). Typically, companies pursue a conglomerate diversification strategy to minimize risks due to market fluctuations in one industry.

The diversified businesses of an organization are sometimes called its business *portfolio.* One of the most popular techniques for analyzing a corporation's strategy for managing its portfolio is the BCG matrix, developed by the Boston Consulting Group. Exhibit 4.11 shows the BCG matrix. Each business in the corporation is plotted on the matrix based on the growth rate of its market and the relative strength of its competitive position in that market (market share). To convey additional information visually, each business can be represented by a circle whose size indicates its contribution to corporate revenues.

In the BCG matrix, high-growth, weak-competitive-position businesses are called *question marks.* They require substantial investment to improve their position; otherwise divestiture is recommended. High-growth, strong-competitive-position businesses are the *stars.* These businesses require heavy investment, but their strong position allows them to generate the needed revenues.

vertical integration

The acquisition or development of new businesses that produce parts or components of the organization's product.

concentric diversification

A strategy used to add new businesses that produce related products or are involved in related markets and activities.

conglomerate diversification

A strategy used to add new businesses that produce unrelated products or are involved in unrelated markets and activities.

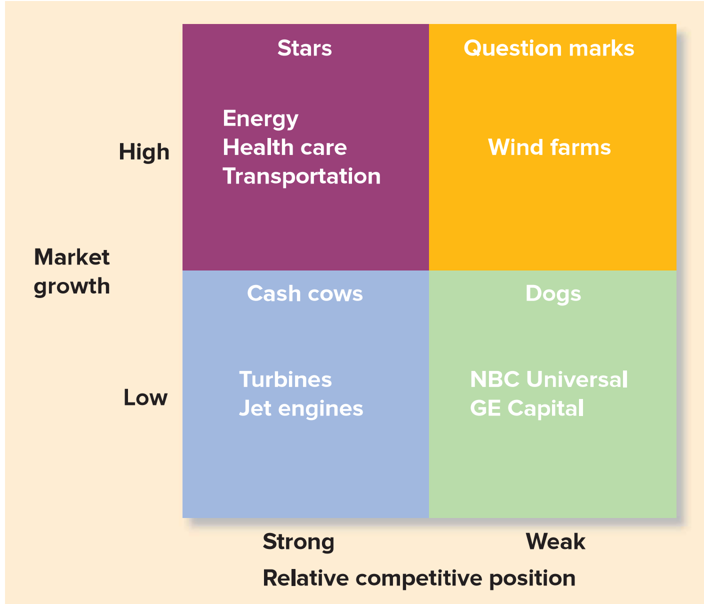


EXHIBIT 4.11
Mapping GE's Business Units and Product Lines to the BCG Matrix

Low-growth, strong-competitive-position businesses are called *cash cows.* These businesses generate revenues in excess of their investment needs and therefore fund other businesses. Finally, low-growth, weak-competitive-position businesses are the *dogs.* Once any remaining revenues from these businesses are realized, the businesses are divested.

The BCG matrix alone is not a substitute for management judgment, creativity, insight, or leadership. But it is a well-known tool that, along with others, can help top corporate executives and the individual business managers understand their business portfolios and strategic options.[37] This approach helps companies like General Electric that need to weigh the relative merits of many business units and product lines.

When GE struggled in some of its widely diversified businesses, the company refocused on its strength as a manufacturer, targeting three industries: energy, health care, and transportation. Not only do these industries offer significant growth potential, but GE already dominates the markets for electric turbines and jet engines. Therefore, besides selling off NBC Universal and GE Capital, GE acquired wind farms and blade manufacturers, and 3D printing companies to manufacture aircraft components.[38]

Bottom Line
Companies that integrate vertically often do so to reduce their costs.
Why might buying from a division of your company be less costly than buying on the open market?

Trends in Corporate Strategy

Corporate America periodically is swept by waves of mergers and acquisitions (M&As). The targets chosen for mergers and acquisitions depend on the corporate strategy of either concentraing or diversifying the business portfolio.

Many recent deals were aimed at helping companies expand their market share and product offerings within related industries. For example, two telecommunication behemoths, AT&T and Time Warner, merged recently to create a firm with considerable influence in the entertainment space, including cable-TV, broadband Internet, satellite TV, and cellular-data networks.[39]

The value of implementing a more diversified corporate strategy depends on circumstances. Many argue that unrelated diversification hurts a company more often than it helps. Many diversified companies have sold their peripheral businesses so they could concentrate on a more focused portfolio. In contrast, the diversification efforts of an organization competing in a slow-growth, mature, or threatened industry often are applauded.

business strategy
The major actions by which a business competes in a particular industry or market.

low-cost strategy
A strategy an organization uses to build competitive advantage by being efficient and offering a standard, no-frills product.

LO 6

Business Strategy

Once corporate strategies are determined, managers must determine how they will compete in each business area. **Business strategy** defines the major actions by which an organization builds and strengthens its competitive position. A business can gain competitive advantage using one of two generic business strategies: low cost and differentiation.[40]

Businesses using a **low-cost strategy** attempt to be efficient and to offer standard, no-frills products. Walmart Stores uses the power of its giant size to negotiate favorable prices from

6. To what extent do you think the new strategy will be successful in addressing or adapting to the external forces? Explain.

SOURCE: Adapted from McGrath, R. R., Jr., *Exercises in Management Fundamentals*, 1st, p. 15. Upper Saddle River, NJ: Pearson Education, 1985.

Concluding Case

WISH YOU WOOD TOY STORE

Wish You Wood is a toy boutique located in the main shopping strip of a resort town near Piney Lake. People who own cabins near the lake or come to visit the local state park enjoy browsing through the town's stores, where they pick up pottery, landscape paintings, and Wish You Wood's beautifully crafted wooden toys. For these shoppers, Wish You Wood is more than a store; it is a destination they associate with family and fun.

The store's owners, Jim and Pam Klein, personally select the toys from craftspeople and toymakers around the world. They enjoy their regular customers but believe selling mostly to vacationers has limited the company's growth. They decided that the lowest-cost way to expand would be to sell toys online. However, after several years, they had to admit that traffic to the store's website was unimpressive. Thanks to e-mail and Facebook reminders, they were luring some of their loyal in-store shoppers to the site to make off-season purchases, but few other people looking for toys ever found Wish You Wood online.

Jim and Pam concluded that the next-best way to sell online would be to partner with Amazon.com. Amazon's Marketplace service lets other retailers sell products on Amazon. The Kleins signed an agreement to list the store's most popular items with Amazon. For example, if a shopper is searching for wooden dollhouses, Wish You Wood's dollhouses will be included in the search results. A customer who chooses to buy from Wish You Wood places the order right on Amazon's website. Under Amazon's participation agreement, the listings must be honest and may not link to Wish You Wood's own website or invite phone calls from customers. In exchange for giving the products exposure on the site, Amazon charges a monthly fee plus a commission on each sale.

Initially, Jim and Pam were thrilled about their decision to partner with Amazon. They tracked each month's sales and compared them with in-store sales. In the first five months, sales jumped 45 percent, mainly because of sales on Amazon. Then, suddenly, sales of popular toy train sets, which were particularly profitable, stopped altogether. Puzzled, Jim visited Amazon to make sure the train sets were still listed. To his surprise, he found that the train set was there, at the usual price of $149, listed right after the same set available directly from Amazon, at $129. He and Pam concluded that shoppers were now buying the product directly from Amazon. It appeared that their store had helped Amazon identify a product consumers value.

The Kleins worried that they needed a new strategy. If they matched Amazon's price, they would lose most of the profit on their most popular items. Wish You Wood was too small of a business to negotiate better prices from its suppliers. If the store didn't match Amazon's price, it would continue to lose sales at the Amazon site. Jim and Pam wondered whether they should pull out of Amazon altogether or find a way to continue working with the partner that had become a competitor. They also considered rethinking which toys to offer on Amazon.

DISCUSSION QUESTIONS

1. Prepare a SWOT analysis for Wish You Wood, based on the information given.
2. Using the SWOT analysis, what general corporate strategy would you recommend for Wish You Wood? Should the store continue or change its current approach?

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