

CHAPTER 4

Planning and Strategic Management

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Manage your destiny, or someone else will.
—JACK WELCH, FORMER CEO, GENERAL ELECTRIC

LEARNING OBJECTIVES

After studying Chapter 4, you will be able to:

- LO 1** Summarize the basic steps in any planning process.
- LO 2** Describe how to integrate strategic planning with tactical and operational planning.
- LO 3** Identify elements of the external environment and internal resources of the firm to analyze before formulating a strategy.
- LO 4** Define core capabilities and explain how they provide the foundation for business strategy.
- LO 5** Summarize the types of choices available for corporate strategy.
- LO 6** Discuss how companies can achieve competitive advantage through business strategy.
- LO 7** Describe the keys to effective strategy implementation.

CHAPTER OUTLINE

An Overview of Planning Fundamentals

The Basic Planning Process

Levels of Planning

Strategic Planning

Tactical and Operational Planning

Aligning Tactical, Operational, and Strategic Planning

Strategic Planning

Step 1: Establishing Mission, Vision, and Goals

Step 2: Analyzing External Opportunities and Threats

Step 3: Analyzing Internal Strengths and Weaknesses

Step 4: SWOT Analysis and Strategy Formulation

Step 5: Strategy Implementation

Step 6: Strategic Control

Management in Action

HOW WALT DISNEY COMPANY SCRIPTS ITS OWN SUCCESS

The record-breaking opening weekend for Disney's live-action/digital *Beauty and the Beast* put the movie, starring Emma Watson, on track for becoming the company's latest box-office success, to the tune of an anticipated \$1 billion in ticket sales worldwide. Though this "tale as old as time" has no sequels to count on, Disney planned to repeat the formula of remaking its beloved animated classics in the coming years, with digitally enhanced live-action versions of hits including *Dumbo*, *The Lion King*, *Aladdin*, *Mulan*, and *Pinocchio* all in progress.

The company has honed to perfection its ability to appeal to "children from 6 to 60," as founder Walt Disney described his intended audience. Another of Walt Disney's successful strategies, according to Sean Bailey, president of Walt Disney Studios motion picture production, was to take "beautiful, timeless stories he knew had lasting relevance, and he then sort of applied the sensibilities of his times." The company has continued this strategy, even if it has occasionally meant creating a minor dust-up in overseas markets. Because the company refused to delete a few seconds of *Beauty and the Beast* in which a character is revealed to be gay, Russia limited viewers to those 16 and over, and the Malaysian government would not allow the film to be shown at all. The effect of these lost viewers was expected to be minimal for the \$56 billion company, one of the largest in the entertainment industry. Walt Disney is not merely huge in terms of sales volume; it has four business divisions, engaged in nearly every kind of commercial entertainment.

It all began with Walt Disney Studios, which today produces movies, music, and stage shows under the banners of Disney, Pixar, Marvel Studios, Lucasfilm,



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Touchstone Pictures, and Hollywood Records. The Media Networks group covers publishing, radio, and broadcast and cable television, including Disney/ABC Television and ESPN. The Parks and Resorts group encompasses 11 theme parks and 44 resorts around the world as well as a cruise line. Disney's Consumer Products and Interactive Media division offers entertainment on digital platforms, including console games and the Internet, and extends the business value of characters and story lines by operating Disney Stores and licensing its creations for use on toys, clothing, art objects, and a wide variety of other consumer goods.

The man in charge of keeping the magic alive through activities carried out by more than 195,000 employees is Disney's chief executive officer, Robert Iger. Iger and his executive team must define an overall direction and goal for the company and keep an eye on how well each business group is contributing

As you read this chapter, think about the challenge of drawing new revenue from remakes of old properties. What environmental factors would you be tracking to help determine whether this strategy will be financially successful?

to achievement of that goal. Iger does this by spotting opportunities for growth in the industry—hence the expansion into cable television and, more recently, into interactive entertainment and the revitalization of past movie hits. He also looks for characters and brands Disney can make more valuable because of its access to more channels. For example, Disney could afford to pay generously for Pixar and Marvel because those companies' characters generate sales in products as diverse as theme parks, video games, and sweatshirts.

Another coup for Iger was the purchase of ESPN, the most valuable cable channel in terms of revenues. Iger meets weekly with the heads of the business units. Although he keeps an eye on the company's overall direction, he gives each unit's head wide latitude. As the Walt Disney Studios division embarks on a years-long effort to revitalize some of its classic animated features, Iger and the company's management team will be watching closely to see whether this strategy is as effective abroad as it may be at home, or whether new environmental analyses suggest other avenues for the film company to explore.¹

To imagine Disney—or any organization—navigating into the future without a plan is almost impossible. Planning describes what managers decide to do and how they intend to do it. It provides the framework, focus, and direction for meaningful action. This chapter examines the most important concepts and processes involved in planning and strategic management. By learning these concepts and reviewing the steps outlined, you will be on your way to understanding current approaches to strategic management in today's organizations.

An Overview of Planning Fundamentals

Although management pioneers such as Alfred Sloan of General Motors instituted formal planning processes, planning became a widespread management function only during the past few decades. Initially, larger organizations adopted formal planning, but now even small firms operated by aggressive, opportunistic entrepreneurs engage in formal planning.²

As discussed in Chapter 1, planning is the conscious, systematic process of deciding what goals and activities a person, group, work unit, or organization will pursue in the future. Planning is not an informal or haphazard response to a crisis; it is a purposeful effort that is directed and controlled by managers and often draws on the knowledge and experience of employees throughout the organization. Planning provides individuals and work units with a clear map to follow in their future activities; at the same time, this map should be flexible enough to allow for individual circumstances and changing conditions.

The Basic Planning Process

LO 1

Because planning is a decision process—you're deciding what to do and how to go about doing it—the important steps followed during formal planning are similar to the basic decision-making steps we discussed in Chapter 3. Exhibit 4.1 summarizes the similarities between decision making and planning—including the fact that both move not just in one direction but in a cycle. The outcomes of decisions and plans are evaluated, and if necessary, they are revised.

We now describe the basic planning process in more detail. Later in this chapter, we will discuss how managerial decisions and plans fit into the larger purposes of the organization—its strategy, mission, vision, and goals.

situational analysis

A process planners use to gather, interpret, and summarize all information relevant to the planning issue under consideration.

Step 1: Situational Analysis Planning begins with a **situational analysis**. Within their time and resource constraints, planners should gather, interpret, and summarize all information relevant to the planning issue in question. A thorough situational analysis studies past events, examines current conditions, and attempts to forecast future trends. It focuses on the internal forces at work in the organization or work unit and, consistent with the open-systems approach (see Chapter 2), examines influences from the external environment. The outcomes of this step are the identification and diagnosis of planning assumptions, issues, and problems.

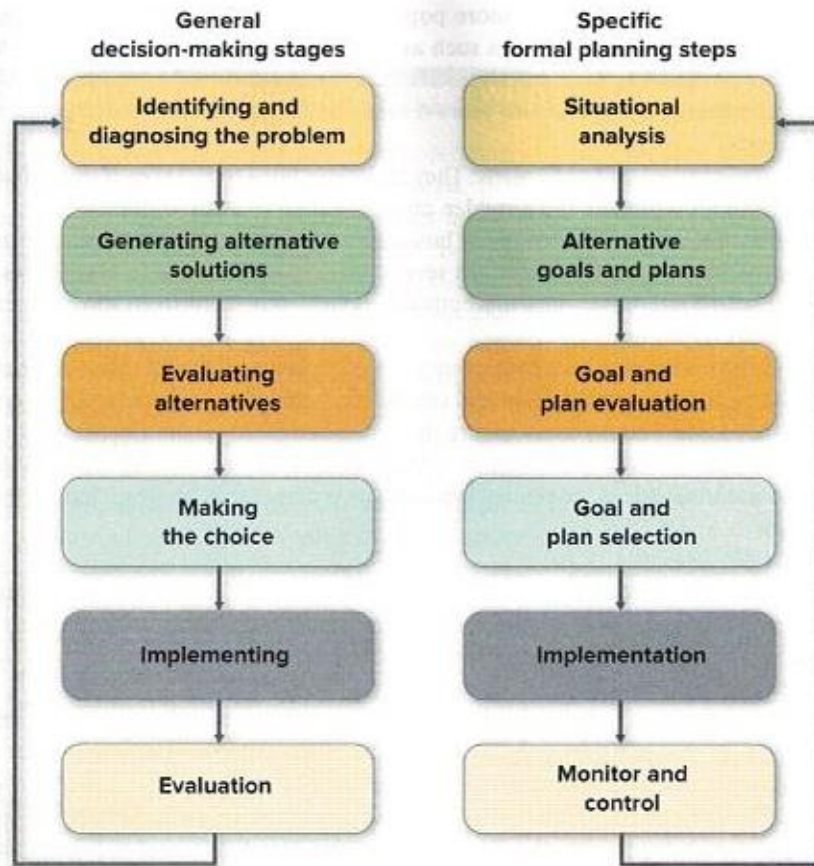


EXHIBIT 4.1
Decision-Making Stages (Chapter 3) and Formal Planning Steps (Chapter 4)

A thorough situational analysis will help you make important planning decisions. For example, if you are a manager in a magazine company considering the launch of a sports publication for the teen market, you should analyze the number of teens who subscribe to magazines, the appeal of the teen market to advertisers, your firm’s ability to serve this market effectively, current economic conditions, the level of teen interest in sports, and any sports magazines already serving this market and their current sales. Such a detailed analysis will help you decide whether to proceed with the next step in your magazine launch.

Step 2: Alternative Goals and Plans Based on the situational analysis, the planning process should generate alternative goals that could be pursued and the alternative plans that could be used to achieve those goals. This step should stress creativity and encourage managers and employees to think broadly about their work.

Once a range of alternatives has been developed, the merits of these different plans and goals will be evaluated. Continuing with our magazine publishing example, the alternatives you might want to consider include whether the magazine should be targeted at young men, young women, or both, and whether it should be sold mainly online, through subscriptions, or on newsstands.

Goals are the targets or ends the manager wants to reach. **Plans** are the actions or means the manager intends to use to achieve goals. At a minimum, plans should outline alternative actions for attaining each goal, the resources required to reach the goal through those means, and the obstacles that may develop.

After General Motors declared bankruptcy and borrowed billions from the U.S. government in 2009, management made plans for a return to profitability. The plans included reducing costs by producing fewer trucks, eliminating several brands, introducing smaller vehicles, keeping fewer vehicles in inventory, and closing hundreds of dealerships. GM also

goal

A target or end that management desires to reach.

plans

The actions or means managers intend to use to achieve organizational goals.

Bottom Line

Contingency plans that keep service levels high during a major storm can seal a utility company's reputation for caring about customers. Managers must decide how crucial service is to their strategy—and how willing customers will be to forgive them for service lapses under pressure. *During a major storm, what utility services—potable water, wastewater, or electricity—do you expect to receive with minimal interruption? Would you pay more to make these services more reliable?*



scenario

A narrative that describes a particular set of future conditions.

Panera Bread officially opened the fifth "Panera Cares Community Cafe" in Boston.
© ZUMA Press, Inc./Alamy Stock Photo



introduced cars it hoped would be more popular, including the Cruze compact and the Sonic subcompact. Despite difficulties such as meeting demand with a reduced workforce and the lower profitability of smaller vehicles, the company moved back into the black a year after the bankruptcy, and in two years it reported its strongest financial performance in over a decade.³

Contingency plans are "what if" plans. They include actions to be taken if initial plans do not work well or if events demand a sudden change.

Recent disasters have reminded many businesses how important contingency planning can be. Walmart in the United States has several crisis plans in place to keep stores open and stocked with food, water, pharmaceutical supplies, and so forth in the aftermath of natural disasters.⁴

Most major corporations have contingency plans in place to respond to major disasters—to make sure vital data are backed up and can be recovered, for instance, and that employees know what to do when a crisis occurs. But contingency plans are important for more common situations as well. For example, many businesses are affected by snowstorms, increases in gasoline prices, computer breakdowns, competitors' moves, changes in consumer tastes.

Step 3: Goal and Plan Evaluation Next, managers will evaluate the advantages, disadvantages, and potential effects of each goal and plan. They must prioritize their goals and eliminate some of them. Also, managers will consider carefully the implications of alternative plans for meeting high-priority goals.

In particular, they will pay a great deal of attention to the cost of any initiative and the investment return that is likely to result. In our magazine publishing example, your evaluation might determine that newsstand sales alone wouldn't be profitable enough to justify the launch. Perhaps you could improve profits with an online edition supplemented by podcasts and promoted via social media. To decide, you would estimate the costs and expected returns of such alternatives, trying to follow the decision steps advised in Chapter 3.

Step 4: Goal and Plan Selection Once managers have assessed goals and plans, they try to select the best. The evaluation process helps to identify trade-offs and decide what to do. For example, if your plan is to launch a number of new online publications, and you're trying to choose among them, you might weigh the different up-front investment each requires, the size of each market, which one fits best with your existing product line or company image, and so on. Experienced judgment always plays an important role in this process. However, as you will discover later in the chapter, relying on this alone may not be the best way to proceed.

Typically, the planning process leads to a written set of goals and plans that are appropriate and feasible for a particular set of circumstances. In some organizations, the alternative generation, evaluation, and selection steps generate planning **scenarios**, as discussed in Chapter 2. A different contingency plan is attached to each scenario. The manager pursues the goals and implements the plans associated with the most likely scenario. However, the manager will also be prepared to switch to another set of plans if the situation changes and another scenario becomes relevant. This approach helps the firm anticipate and manage problems and allows greater flexibility and responsiveness.

Social Enterprise

Novo Nordisk Monitors Progress with Its Triple Bottom Line

While some companies simply talk about operating in a more socially and environmentally conscious manner, others like Novo Nordisk put this philosophy into action. Headquartered in Denmark, Novo Nordisk is a leading global provider of diabetes care solutions. The firm follows a Triple Bottom Line (TBL: economic, societal, and environmental) strategy, meaning decisions are based on the belief that “a healthy economy, environment, and society are fundamental to long-term business success.” Novo Nordisk’s goal is to operate its business so that diabetes solutions benefit both the business and patients, while meeting societal expectations in the process. To ensure that the TBL philosophy would stick, Novo Nordisk took the uncommon step of incorporating it into its company bylaws.⁵

In addition to standard financial performance measures, Novo Nordisk monitors multiple short- and long-term goals within the social and environmental areas. The 2014 Integrated Annual Report Emphasizing Long-Term

Thinking highlights the company’s social and environmental performance.⁶

Novo Nordisk is breaking with traditional profit-only business models by setting and monitoring meaningful social and environmental goals. The TBL model seems to be working. With the diabetes drug market expected to reach \$58 billion by 2018, the company is positioned to perform well financially while making a significant, multilevel impact.⁷

Questions

- According to Novo Nordisk, only four companies have incorporated Triple Bottom Line goals into their bylaws. Why do you think so few companies take this step?
- Assume you want your employer to consider adopting a Triple Bottom Line philosophy. How would you pitch the idea? With whom would you speak?

Social impact

- Diabetes care products reached 24.4 million people with the disease.
- Over 3,000 new jobs were added in the company.

Environmental impact

- Continued to reduce CO₂ emissions from energy consumption for production (45 percent reduction since 2004).
- Decreased energy consumption by 1 percent over previous year.

Step 5: Implementation Once managers have selected the goals and plans, they must implement the plans designed to achieve the goals. Even the best plans are useless if they are not implemented properly. Managers and employees must understand the plan, have the resources to implement it, and be motivated to do so. As we mentioned earlier, employees usually are better informed, more committed, and more highly motivated when a goal or plan is one they helped develop.

Successful implementation requires a plan to be linked to other systems in the organization, particularly the budget and reward systems. If the manager does not have a budget with financial resources to execute the plan, the plan is probably doomed.

Similarly, goal achievement must be linked to the organization’s reward system. Many organizations use incentive programs to encourage employees to achieve goals and to implement plans properly. Commissions, salaries, promotions, bonuses, and other rewards are based on successful performance.

Even the best strategy won’t be effective without a strong focus on implementation.

Bottom Line

Linking plans to a firm's financials is a key element of success. How might a plan to improve employees' job satisfaction be tied to a company's financial measures?



Lyft, the ride-sharing company, recently entered into a long-term strategic alliance with General Motors to build an "integrated network of on-demand autonomous vehicles in the U.S."⁸ As part of the deal, GM bought a \$500 million stake in Lyft, currently the second-largest ride-sharing service in the United States. The initial autonomous fleet will likely be comprised of the Chevrolet Bolt electric vehicle.⁹

The ultimate success of this alliance will hinge on the plan's successful implementation. According to GM executive Mike Ableson, success will require "the ability to engineer autonomous systems, to build self-driving vehicles in volume and to deploy them in a ride sharing fleet."¹⁰

Step 6: Monitor and Control The sixth step in the formal planning process—monitoring and controlling—is essential. Without it, you will never know whether your plan is succeeding. Remember, planning works in a cycle; it is an ongoing, repetitive process. Managers must continually monitor the actual performance of their work units against the units' goals and plans. They also need to develop control systems to measure that performance and allow them to take corrective action when needed.

The nearby "Social Enterprise" box discusses how Novo Nordisk monitors progress toward achieving important organizational goals. We will discuss the important issue of control systems later in this chapter and in Chapter 16.

Levels of Planning

LO 2

In Chapter 1, you learned about the three major types of managers: top-level (strategic managers), middle-level (tactical managers), and frontline (operational managers). Because planning is an important management function, managers at all three levels use it. However, the scope and activities of the planning process often differ at different levels.

strategic planning

A set of procedures for making decisions about the organization's long-term goals and strategies; see also *planning*.

strategic goals

Major targets or end results relating to the organization's long-term survival, value, and growth.

strategy

A pattern of actions and resource allocations designed to achieve the organization's goals.

Strategic Planning

Strategic planning involves making decisions about the organization's long-term goals and strategies. Strategic plans have a strong external orientation and cover major portions of the organization. Senior executives are responsible for the development and execution of the strategic plan, although they usually do not implement the entire plan personally.

Strategic goals are major targets or results that relate to the long-term survival, value, and growth of the organization. Strategic managers—top-level managers—usually establish goals that reflect both effectiveness (providing appropriate outputs) and efficiency (a high ratio of outputs to inputs). Typical strategic goals include achieving growth, increasing market share, improving profitability, boosting return on investment, fostering both quantity and quality of outputs, increasing productivity, improving customer service, and contributing to society.

Organizations usually have a number of mutually reinforcing strategic goals. For example, a computer manufacturer may have as its strategic goals the launch of a specified number of new products in a particular time frame, of higher quality, with a targeted increase in market share. Each of these goals supports and contributes to the others.

A **strategy** is a pattern of actions and resource allocations designed to achieve the goals of the organization. As Exhibit 4.2 illustrates, an effective strategy provides a basis for answering five broad questions about how the organization will meet its objectives.¹¹ Former Procter & Gamble CEO A. G. Lafley and consultant Roger Martin emphasize that the answers to the "where" and "how" questions should be aimed at winning (question 3), which requires offering a better "value proposition" than the competition. Merely matching the competition, they say, is neither strategic nor a path to success.

For example, P&G gave new life to its Oil of Olay skin care brand by addressing the concerns of middle-aged women and by improving the active ingredients in its product. In addition, P&G used its strength in selling to mass-market retailers to persuade them to set up attractive displays for Oil of Olay. With the value proposition of an affordable, attractive,

1. Where will we be active?
2. How will we get there (e.g., by increasing sales or acquiring another company)?
3. How will we win in the market (e.g., by keeping prices low or offering the best service)?
4. How fast will we move and in what sequence will we make changes?
5. How will we obtain financial returns (low costs or premium prices)?

EXHIBIT 4.2
Effective Strategies Answer Five Questions

widely available product serving a previously ignored market segment, P&G could meet its strategic goal of leadership in the skin care market.¹²

In setting a strategy, managers try to match the organization’s skills and resources to the opportunities in the external environment. Every organization has certain strengths and weaknesses; strategies should capitalize and help build on strengths that satisfy consumers and other key factors in the organization’s external environment. Organizations also can implement strategies that change or influence the external environment, as discussed in Chapter 2.

Tactical and Operational Planning

Once the organization’s strategic goals and plans are identified, they serve as the foundation for planning done by middle-level and frontline managers. As you can see in Exhibit 4.3, goals and plans become more specific and involve shorter periods of time as they move from the strategic level to the tactical level and then to the operational level. A strategic plan will typically have a time horizon of from three to seven years—but sometimes even decades, as with the successful plan to land a probe on Titan, Saturn’s moon. Tactical plans may have a time horizon of a year or two, and operational plans may cover a period of months.

Tactical planning translates broad strategic goals and plans into specific goals and plans that are relevant to a particular unit in the organization—often a functional area like marketing or human resources. Tactical plans focus on the major actions a unit must take to fulfill its part of the strategic plan. For example, if the strategy calls for the rollout of a new product line, the tactical plan for the manufacturing unit might involve the design, testing, and installation of the equipment needed to produce the new line.

Operational planning identifies the specific procedures and processes required at lower levels of the organization. Frontline managers usually focus on routine tasks such as production runs, delivery schedules, and the human resources requirements described in later chapters.

The planning model we have been describing is a hierarchical one, with top-level strategies flowing down through the levels of the organization into more specific goals and plans and ever-shorter time frames. But the planning sequence is not as rigid as it sounds so far. As we will see later, managers at all levels may be involved in developing and contributing to the strategic plan.

Furthermore, lower-level managers may be making decisions that shape strategy, whether or not top executives realize it. The fast-casual food chain, Chipotle Mexican Grill, has experienced significant growth since its founding in Denver in 1993.¹³ In 2016, however,

tactical planning

A set of procedures for translating broad strategic goals and plans into specific goals and plans that are relevant to a distinct portion of the organization, such as a functional area like marketing.

operational planning

The process of identifying the specific procedures and processes required at lower levels of the organization.

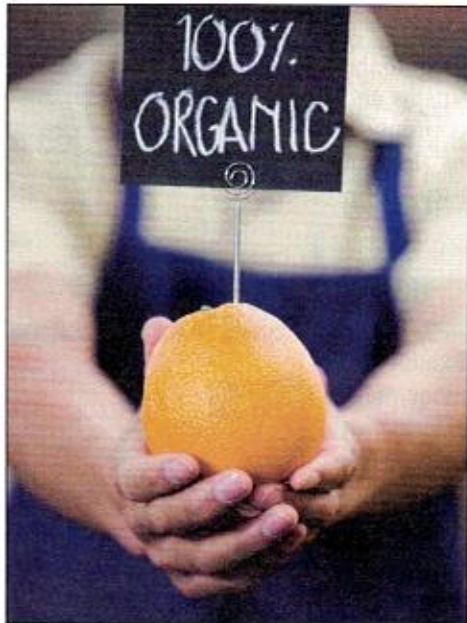
	Managerial Level	Level of Detail	Time Horizon
Strategic	Top	Low	Long (3–7 years)
Tactical	Middle	Medium	Medium (1–2 years)
Operational	Frontline	High	Short (<1 year)

EXHIBIT 4.3
Hierarchy of Goals and Plans

Bottom Line

Ideally, strategic plans integrate all the bottom-line practices of the firm.

What might happen if a company's innovation practices were not aligned with its strategy?



Whole Foods has operational goals that focus on high quality, freshness, taste, nutritional value, safety, and appearance.

©Rubberball/Mike Kemp/Getty Images RF

Bottom Line

The strategy map shows the relationship between a firm's practices and its long-term success.

Where do a company's quality practices show up in the strategy map (Exhibit 4.4)?



its strategy of "Food With Integrity" was negatively affected by food-related health outbreaks that sickened hundreds of customers.¹⁴ At the store level, inconsistent employee management and food preparation practices contributed to its problems.¹⁵ Steve Ells, CEO of Chipotle, then focused on restoring customer and investor confidence in the restaurant chain by correcting several of these operational-level issues: "The [food-safety] events exposed some weaknesses that our momentum in earlier years may have masked."¹⁶

The lesson for top managers is to make sure they are communicating strategy to all levels of the organization *and* paying attention to what is happening at all levels in the organization.

Aligning Tactical, Operational, and Strategic Planning

To be fully effective, the organization's strategic, tactical, and operational goals and plans must be aligned—that is, ideally they will be consistent, mutually supportive, and focused on achieving the common purpose and direction. Whole Foods Market, for example, links its tactical and operational planning directly to its strategic planning. The firm describes itself on its website as a mission-driven company that aims to set the standards for excellence for food retailers. The firm measures its success in fulfilling its vision by "customer satisfaction, team member excellence and happiness, return on capital investment, improvement in the state of the environment, and local and larger community support."

Whole Foods' strategic goal is "to sell the highest-quality products that also offer high value for our customers." Its operational goals focus on ingredients, freshness, taste, nutritional value, safety, and appearance that meet or exceed its customers' expectations, including guaranteeing product satisfaction. Tactical goals include store environments that are "inviting, fun, unique, informal, comfortable, attractive, nurturing, and educational" and are safe and inviting for employees.

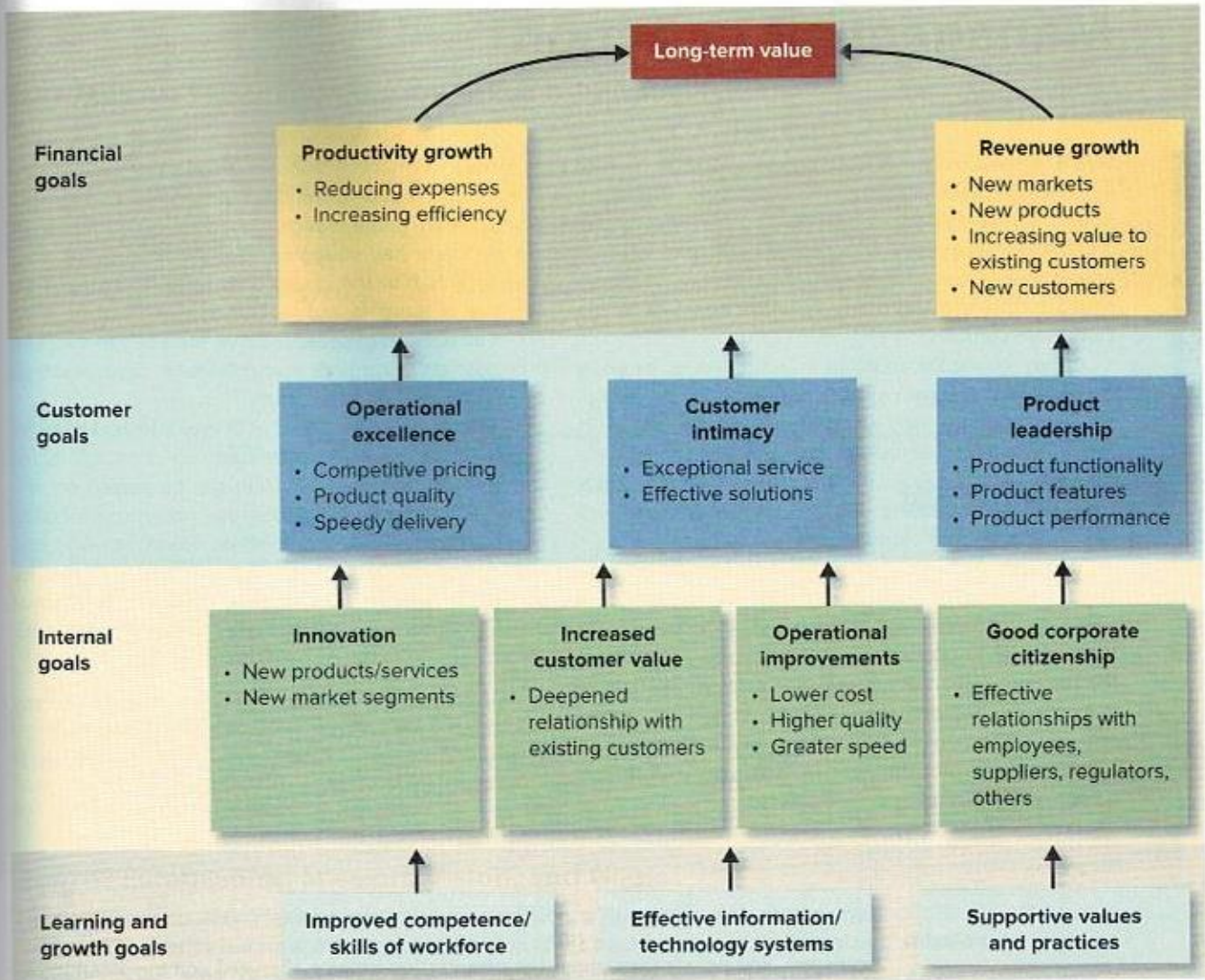
One method for aligning the organization's strategic and operational goals is a *strategy map*. A strategy map is a tool for communicating strategic goals and helping employees to understand the parts they will play in helping to achieve them. The map illustrates the four key drivers (or "balanced

scorecard") of a firm's long-term success: the skills of its people and their ability to grow and learn; the effectiveness of its internal processes; its ability to deliver value to customers; and ultimately its ability to grow its financial assets. The map shows how specific plans and goals in each area link to the others, and can generate real improvements in an organization's performance.

Exhibit 4.4 shows a strategy map and how the various goals of the organization relate to each other to create long-term value. As an example, let's assume that a company's primary financial goal is "to increase revenues by enhancing the value we offer to existing customers by making our prices the lowest available." (Target and Walmart might be good examples.) The company will have corresponding goals and plans to support that strategy. Its learning and growth goals might include bringing in the most efficient production technologies or work processes and training the staff to use them. These in turn will lead to the internal goals of improved production speed and lower cost, which in turn lead to the customer goal of competitive pricing, making the original financial goal feasible.

As a contrasting example, a financial strategy of revenue growth through new products might lead to people and technology goals that speed up product design, internal processes that lead to innovation, and a customer goal of perceived product leadership. Whatever the strategy, the strategy map can be used to develop the appropriate measures and standards in each operational area and to show how they all are linked.¹⁷

As you read the nearby "Management in Action: Progress Report," consider how well tactical, operational, and strategic planning are aligned at Walt Disney Company, particularly with regard to its Disney Interactive unit.



SOURCES: Adapted from Kaplan, R. and Norton, "Plotting Success with Strategy Maps," *Optimize*, February 2004, online; and Kaplan, R. and Norton, "Having Trouble with Your Strategy? Then Map It," *Harvard Business Review*, September–October 2000.

EXHIBIT 4.4
The Strategy Map: Creating Value by Aligning Goals

Strategic Planning

Strategic decision making is one of the most exciting topics in management today. Many organizations are changing the ways they develop and execute their strategic plans.

Traditionally, strategic planning emphasized a top-down approach. Senior executives and specialized planning units developed goals and plans for the entire organization. Tactical and operational managers received those goals and plans, and their own planning activities were limited to specific procedures and budgets for their units.

Over the years, managers and consulting firms created new analytical techniques and planning approaches, many of which have become essential for analyzing complex business challenges and competitive issues. In many instances, however, senior executives spent too much time with their planning specialists to the exclusion of managers in the rest of the organization. A gap often developed between strategic managers and tactical and operational

Management in Action

PLANNING A TURNAROUND FOR DISNEY INTERACTIVE

Walt Disney Company's corporate strategy is to lead in providing entertainment and information. The company's top ranking in the industry and recent profits of \$13.5 billion suggest it is succeeding. Despite years of operating at a loss and recent layoffs, Disney Interactive Media is the fastest-growing business segment in the company's portfolio.

Disney Interactive, founded in 2008, has as its ambitious goal to "entertain kids, families, and Disney enthusiasts everywhere with world-class products that push the boundaries of technology and imagination." Its tactical plans include development of games for every digital media platform, including mobile and social media as well as the major gaming consoles.

Measured by those standards, performance has been less than stellar. The slow pace at which it crafts movies is unsuitable for game creation. The six years required to go from concept to release of Epic Mickey, created only for the Nintendo Wii, meant the release came in 2010, after that console's popularity had peaked. At one point, Disney ran six development studios creating games for consoles, which became a problem when players switched to online games and began using mobile devices.

A basic element of Disney's digital strategy has been its entertainment website, Disney.com, successor to the Go.com web portal, which closed in 2001. However, the company has struggled to make it relevant. One challenge is that the brand aims to serve the diverse interests of toddlers and parents as well as game players of all ages in between. Mostly, the site has focused on cross-promoting its entertainment and licensed merchandise.

James A. Pitaro, president of Disney Interactive Media, is pivoting the unit in two significant ways. First, it is focusing more on mobile gaming that can be played on tablets and smartphones. In Japan, the mobile game Tsumu Tsumu is a big hit with over 8 million downloads. And second, Disney Interactive Media seeks brand sponsors for its popular Disney Online website.¹⁸ Pitaro believes that brand sponsors will generate more revenue than the website advertising model currently being used.

- At which steps of the planning process would you say Disney Interactive most needs improvement? Why?
- How can Pitaro ensure that strategic, tactical, and operational management are well aligned?

Bottom Line

New ideas from managers throughout the organization can contribute to a plan's effectiveness.

What experiences might give frontline managers ideas that top-level executives haven't considered?



strategic management

A process that involves managers from all parts of the organization in the formulation and implementation of strategic goals and strategies.

managers, and people throughout the organization became alienated and uncommitted to the organization's success.¹⁹

Today, however, senior executives increasingly are involving managers throughout the organization in the strategy formation process.²⁰ The problems just described and the rapidly changing environment of the past few decades years forced executives to look to all levels of the organization for ideas and innovations to make their firms more competitive. Although the CEO and other top managers continue to set the strategic direction, or "vision," for the organization, tactical and operational managers can provide valuable input to the organization's strategic plan. In some cases, these managers also have substantial autonomy to formulate or change their own plans. This authority increases flexibility and responsiveness, critical requirements for success today.

Because of these trends, firms often use the term *strategic management* to describe the process. **Strategic management** involves managers from all parts of the organization in the formulation and implementation of strategic goals and strategies. It integrates strategic planning and management into a single process. Strategic planning becomes an ongoing activity in which all managers are encouraged to think strategically and focus on long-term, externally oriented issues as well as short-term tactical and operational issues.

As shown in Exhibit 4.5, the strategic management process has six major components:

1. Establishing mission, vision, and goals.
2. Analyzing external opportunities and threats.
3. Analyzing internal strengths and weaknesses.

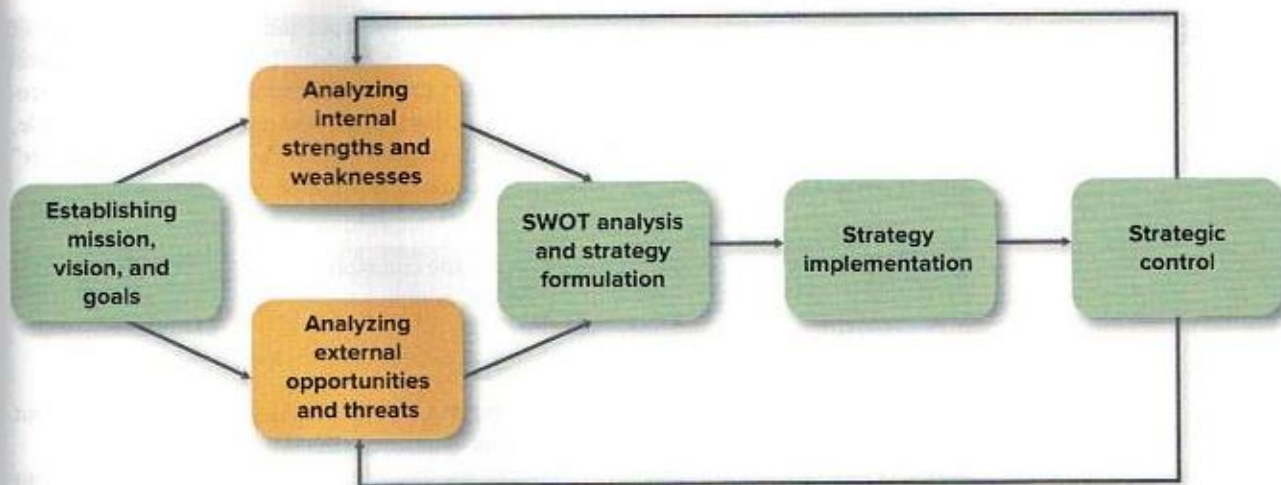


EXHIBIT 4.5

The Strategic Management Process

4. SWOT (strengths, weaknesses, opportunities, and threats) analysis and strategy formulation.
5. Strategy implementation.
6. Strategic control.

Because this process is a planning and decision process, it is similar to the planning framework discussed earlier. Although organizations may use different terms or emphasize different parts of the process, the components and concepts described in this section are found—explicitly or implicitly—in every organization. Even a small entrepreneurial firm can benefit from the kind of planning framework we describe here.

Step 1: Establishing Mission, Vision, and Goals

The first step in strategic planning is establishing a mission, a vision, and goals for the organization. The **mission** is a clear and concise expression of the basic purpose of the organization. It describes what the organization does, for whom it does it, its basic good or service, and its values. Here are some mission statements of firms that you will recognize:²¹

- CVS:* “We will be the easiest pharmacy retailer for customers to use.”
- Naked Juice:* “Making the whole planet feel better. One bottle at a time.”
- Make-A-Wish:* “We grant the wishes of children with life-threatening medical conditions to enrich the human experience with hope, strength and joy.”

Smaller organizations, of course, may have missions that aren’t as broad as these. For example, the local bar close to most campuses has this implicit mission: “to sell large quantities of inexpensive beer to college students in a noisily enjoyable environment.”

While the mission describes the organization’s ongoing purpose, the **strategic vision** points to the future—it provides a perspective on where the organization is headed and what it can become. Ideally, the vision statement clarifies the long-term direction of the company and its strategic intent.

The most effective vision statements inspire organization members. They offer a worthwhile target for the entire organization to work together to achieve. Often these statements are not strictly financial because financial targets alone may not motivate all organization members. For example, NASA’s Armstrong Flight Research Center focuses on the future of flight and exploration. Similarly, Habitat for Humanity envisions “a world where everyone has a decent place to live.”

The strategic vision points to the future—where the organization is headed and what it can become.

mission

An organization’s basic purpose and scope of operations.

strategic vision

The long-term direction and strategic intent of a company.

The chief executive officer of the organization, with the input and approval of the board of directors, establishes the mission, vision, and major strategic goals. These should be communicated or at least accessible to everyone who has contact with the organization. Large firms provide public formal statements of their missions, visions, goals, and even values. For example, in support of its vision that “creating a community of good neighbors” is best done “together” with all sectors of the community, the City of Redmond established goals such as these:

- Enhance citizen engagement in city issues.
- Sustain the natural systems and beauty of the community.
- Sustain a safe community with a coherent, comprehensive, cohesive approach to safety.
- Maintain economic vitality.

Different city departments contribute to various aspects of this vision as they carry out their operational plans in collaboration with local businesses and residents.

Lofty words in a vision and mission statement mean little without strong support from leadership. Elon Musk, CEO of SpaceX, is committed to its mission of revolutionizing space technology to enable individuals to inhabit other planets. Musk, despite significant setbacks (for example, a rocket exploded on the launchpad) and a widely publicized missed deadline, continues to support this goal. Musk wants to help humans become a “spacefaring civilization.” By the mid-2020s, Musk believes that humans will be traveling to Mars with the goal of establishing a colony on the Red planet.²²

Where leadership is strong, statements of visions and goals clarify the organization’s purpose to key constituencies outside the organization. They also help employees focus their talent, energy, and commitment in pursuit of organizational goals. When you consider employment with a firm, reviewing its statements of mission, vision, and goals is a good first step in determining whether the firm’s purposes and values will be compatible with your own.

stakeholders

Groups and individuals who affect and are affected by the achievement of the organization’s mission, goals, and strategies.

Step 2: Analyzing External Opportunities and Threats

LO 3

The mission and vision drive the second component of the strategic management process: analyzing external environment. Effective strategic management depends on an accurate and thorough evaluation of the competitive environment and macroenvironment (Chapter 2).

The important activities in an environmental analysis include the ones shown in Exhibit 4.6. The analysis begins with an examination of the industry. Next, organizational stakeholders are examined. **Stakeholders** are groups and individuals who affect and are affected by the achievement of the organization’s mission, goals, and strategies. These include buyers, suppliers, competitors, government and regulatory agencies, unions and employee groups, the financial community, owners and shareholders, and trade associations. The environmental analysis assesses these stakeholders and the ways they influence the organization.²³

The environmental analysis also should examine other forces in the environment, such as economic conditions and technological factors. One critical task in environmental analysis is forecasting future trends. As noted in Chapter 2, forecasting techniques range from simple judgment to complex mathematical models that examine systematic relationships among many variables. Even simple quantitative techniques outperform the intuitive assessments of experts. Judgment is susceptible to bias, and managers have a limited ability to process information. Managers should use subjective judgments as inputs to quantitative models or when they confront new situations.

The difference between an opportunity and a threat depends in part on how a company positions itself

Some view renewable resources as a threat; others as an opportunity.

©Kim Steele/Getty Images RF



Industry and Market Analysis

- **Industry profile:** major product lines and significant market segments in the industry.
- **Industry growth:** growth rates for the entire industry, growth rates for key market segments, projected changes in patterns of growth, and the determinants of growth.
- **Industry forces:** threat of new industry entrants, threat of substitutes, economic power of buyers, economic power of suppliers, and internal industry rivalry (recall Chapter 2).

Competitor Analysis

- **Competitor profile:** major competitors and their market shares.
- **Competitor analysis:** goals, strategies, strengths, and weaknesses of each major competitor.
- **Competitor advantages:** the degree to which industry competitors have differentiated their products or services or achieved cost leadership.

Political and Regulatory Analysis

- **Legislation and regulatory activities** and their effects on the industry.
- **Political activity:** the level of political activity that organizations and associations within the industry undertake (see Chapter 5).

Social Analysis

- **Social issues:** current and potential social issues and their effects on the industry.
- **Social interest groups:** consumer, environmental, and similar activist groups that attempt to influence the industry (see Chapters 5 and 6).

Human Resources Analysis

- **Labor issues:** key labor needs, shortages, opportunities, and problems confronting the industry (see Chapters 10 and 11).

Macroeconomic Analysis

- **Macroeconomic conditions:** economic factors that affect supply, demand, growth, competition, and profitability within the industry.

Technological Analysis

- **Technological factors:** scientific or technical methods that affect the industry, particularly recent and potential innovations (see Chapter 17).

EXHIBIT 4.6

Environmental Analysis

strategically. For example, some states have required electric utilities to get a certain share of their power from renewable sources such as wind and solar energy rather than from fossil fuels, including coal, oil, and natural gas. This requirement poses a threat to utilities because the costs of fossil fuel energy are less, and customers demand low prices.

However, some companies see strategic opportunities in renewable power. Ocean Renewable Power Company (ORPC) has been developing technology that uses “ocean and river currents to produce clean, predictable electricity to power our homes and businesses while protecting the environment.” At the Bay of Fundy on the border between Maine and Canada, ORPC operates the first commercial tidal power system in the United States. The system converts ocean energy to electricity that is then delivered to the public electricity grid. ORPC’s goal is to increase output to the point where the system will power approximately 2,000 homes and businesses in Maine with clean tidal energy. ORPC has similar renewable energy generation projects under way in Alaska and Nova Scotia.²⁴

Similarly, overflowing landfills are an expensive challenge for many municipalities, but a growing number are seeing an opportunity in the form of energy generation. As garbage decomposes, it produces methane gas, which is used as a fuel to power plants and

The Digital World

Corporations must plan their strategies and analyze external opportunities and threats. Yet technology and online communication have changed the picture and complicated this process. Few in their respective industries realized what Netflix would do to Blockbuster, what Amazon would do to bookstores, what Uber would do to taxi services, or what Airbnb would do to the hotel industry.

Online companies can move fast because they often have the ability to scale exponentially compared to brick-and-mortar businesses. Analysts and strategy makers today bear this in mind as they survey the scene. Despite the most thorough industry and market analysis, a business may be surprised to find new online competitors that didn't exist a year ago.

Many companies are closely watching developments in 3D printing. In the automotive field, for example, it will become possible to diagnose an engine problem, send the digital diagnosis to the technician, send specs for the car's make and model, and print the needed part by the time the car has been towed.

Companies must plan for a dynamic digital future in which their inventory, supply-chain, vendors, timing, and infrastructure issues will evolve quickly. For those able to see the strategic value of new business models, there will be many new opportunities.

manufacturing facilities. The United States Environmental Protection Agency (EPA) formed an outreach program that partners with stakeholders—communities, landfill owners, and utilities—which by 2016 had over 650 methane-to-energy conversion projects.²⁵

Thinking creatively helps managers see opportunities in the face of serious threats. For Farif Ali Abood, who opened a shop to make commercial signs in his hometown of Najaf, Iraq, the difficulties included sporadic electrical service, lack of funds to borrow, and even occasional sniper fire in the area. Despite these challenges, Abood kept the business running by using a generator when the power goes out. As conditions in the city stabilized, business grew enough for Abood to hire several full-time employees and earn a modest profit.²⁶ Those who, like Abood, best serve customer needs in difficult times will earn customer loyalty and longer-term business relationships.

Step 3: Analyzing Internal Strengths and Weaknesses

As managers conduct an external analysis, they also assess the strengths and weaknesses of major functional areas inside their organization. Exhibit 4.7 lists some of the major components of this internal resource analysis. For example, is your firm strong enough financially to handle the lengthy and costly investment new projects often require? Can your existing staff carry out its part of the plan, or do you need to provide new training or hire new people? Internal analysis gives strategic decision makers an inventory of the organization's existing functions, skills, and resources as well as its overall performance level. Many of your other business courses will prepare you to conduct a detailed internal analysis.

LO 4

Resources and Core Capabilities Strategic planning has been strongly influenced in recent years by a focus on internal resources. **Resources** are inputs to production (recall systems theory) that can be accumulated over time to enhance the performance of a firm.

Resources can take many forms, but they tend to fall into two broad categories: (1) tangible assets such as real estate, production facilities, raw materials, and so on; and (2) intangible assets such as company reputation, culture, technical knowledge, and patents as well as accumulated learning and experience. The Walt Disney Company, for example, has based its strategic plan on combinations of tangible assets (e.g., hotels and theme parks) and intangible assets (brand recognition, talented craftspeople, culture focused on customer service).²⁷

Internal analysis provides a clearer understanding of how a company can compete through its resources. Resources provide competitive advantage only under certain circumstances. First, the resource provides advantage if it is instrumental in creating customer value—increasing the benefits customers derive from a good or service relative to the costs they incur.²⁸ For example, Amazon's powerful search technology, its ability to

resources

Inputs to a system that can enhance performance.

Financial Analysis
Examines financial strengths and weaknesses through financial statements such as a balance sheet and an income statement, and compares trends to historical and industry figures (see Chapter 18).
Marketing Audit
Examines strengths and weaknesses of major marketing activities and identifies markets, key market segments, and the competitive position (market share) within key markets.
Operations Analysis
Examines the strengths and weaknesses of the manufacturing, production, or service delivery activities of the organization (see Chapters 9, 16, and 17).
Other Internal Resource Analyses
Examines, as necessary and appropriate, the strengths and weaknesses of other organizational activities, such as research and development (product and process), management information systems, engineering, and purchasing.
Human Resources Assessment
Examines strengths and weaknesses of all levels of management and employees and focuses on key human resources activities, including recruitment, selection, placement, training, labor (union) relationships, compensation, promotion, appraisal, quality of work life, and human resources planning (see Chapters 10 and 11).

EXHIBIT 4.7
Internal Resource Analysis

track customer preferences, its ability to offer personalized recommendations each time its site is accessed, and its quick product delivery system are valuable resources that enhance Amazon's competitiveness.

Second, resources are a source of advantage if they are rare and not equally available to all competitors. Even for extremely valuable resources, if all competitors have equal access, the resource cannot provide competitive advantage. For companies such as W.L. Gore, Intel, Johnson & Johnson, 3M, Dow Chemical, and others, patented formulas are both rare and valuable.

Third, resources provide competitive advantage if they are difficult to imitate. Online retailer Zappos.com seeks competitive advantage via service that makes customers say "Wow!" The company gives new customer service employees seven weeks of training and empowers them to do whatever it takes to delight a customer, from spending hours patiently on the phone, issuing refunds, or sending packages of free cookies. Zappos frees reps from using scripted replies, promotes positive relationships with colleagues through mentoring programs and fun activities, and provides on-site coaching to help employees achieve their career and personal goals.²⁹ This highly motivating combination of training, socializing, and job design is harder to imitate than just a free return policy.³⁰

As shown in Exhibit 4.8, when resources are valuable, rare, inimitable, and organized, they comprise a company's core capabilities. A **core capability** (also referred to as "competence") is something a company does especially well relative to its competitors. BMW has a core competence in high-performance engine design and manufacturing; Chick-fil-A provides a consistently pleasant dining experience for its customers; and Activision Blizzard has a core competence in creating games for video gaming consoles. As in these examples, a core competence typically refers to a set of skills or expertise in some activity rather than physical or financial assets.

Benchmarking To assess and improve performance, some companies use benchmarking, the process of assessing

Bottom Line

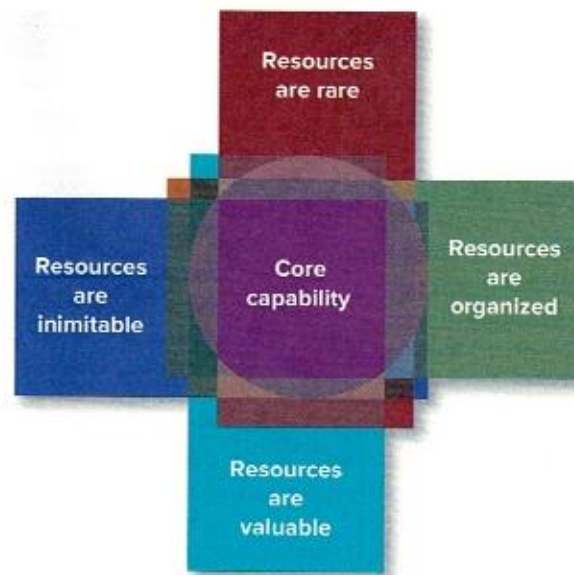
Amazon provides value via speed, low cost, and excellent customer service. *What are some resources Amazon needs to deliver these benefits?*



core capability

A unique skill and/or knowledge an organization possesses that gives it an edge over competitors.



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?*

**SWOT analysis**

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

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**.

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.

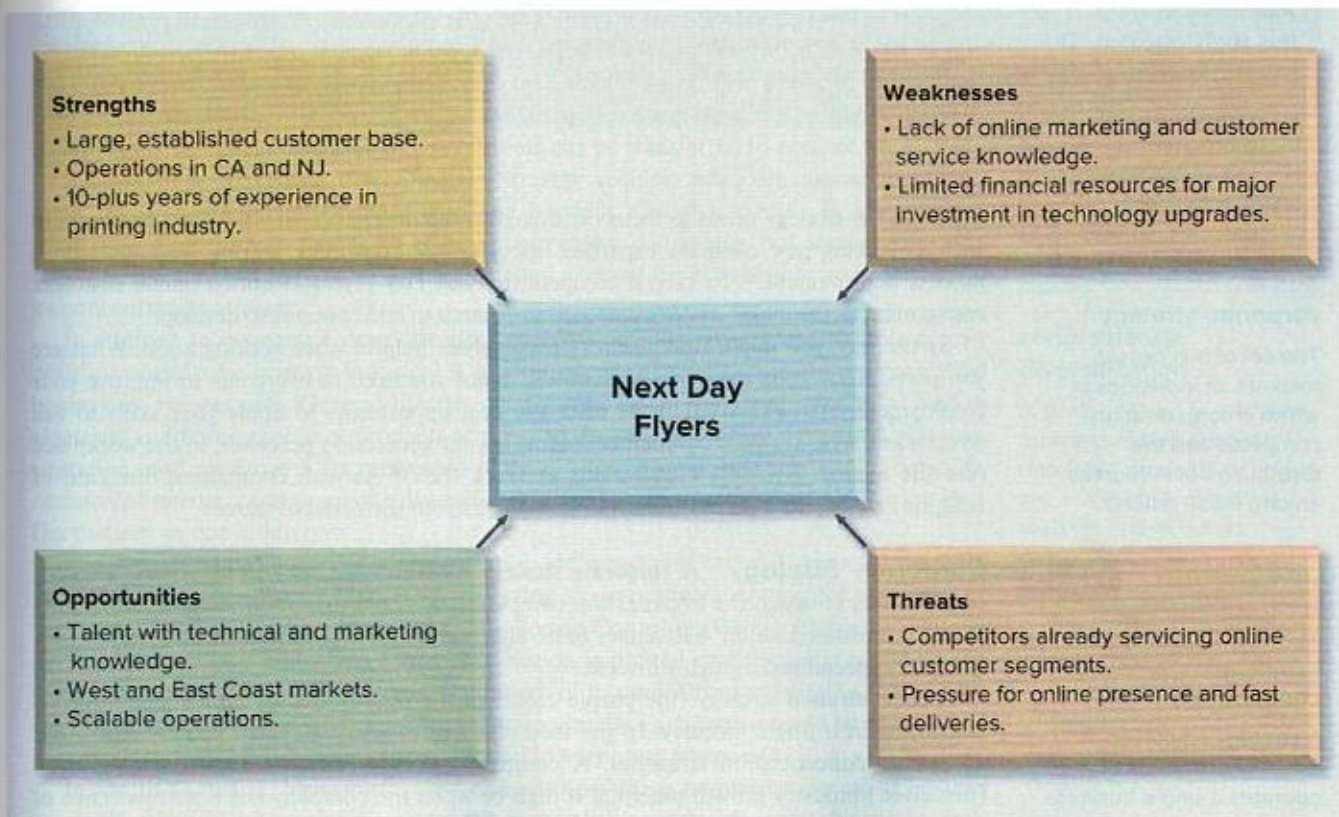
For example, David Handmaker enjoyed several years of unfettered growth since opening his printing company, Next Day Flyers, in Los Angeles. However, over time he noticed that his competitors were more adept at finding and serving online customers. Handmaker needed a plan to restore healthy business 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
<p>Strengths</p> <ul style="list-style-type: none"> • Loyal • Mentoring others • Hardworking <p>Weaknesses</p> <ul style="list-style-type: none"> • Slower to adapt to change and collaborate with others 	<p>Strengths</p> <ul style="list-style-type: none"> • Revenue generators • Adaptable • Problem-solvers <p>Weaknesses</p> <ul style="list-style-type: none"> • Displaying executive presence and being cost effective 	<p>Strengths</p> <ul style="list-style-type: none"> • Tech savvy • Skilled at leveraging social media • Enthusiastic <p>Weaknesses</p> <ul style="list-style-type: none"> • 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

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.

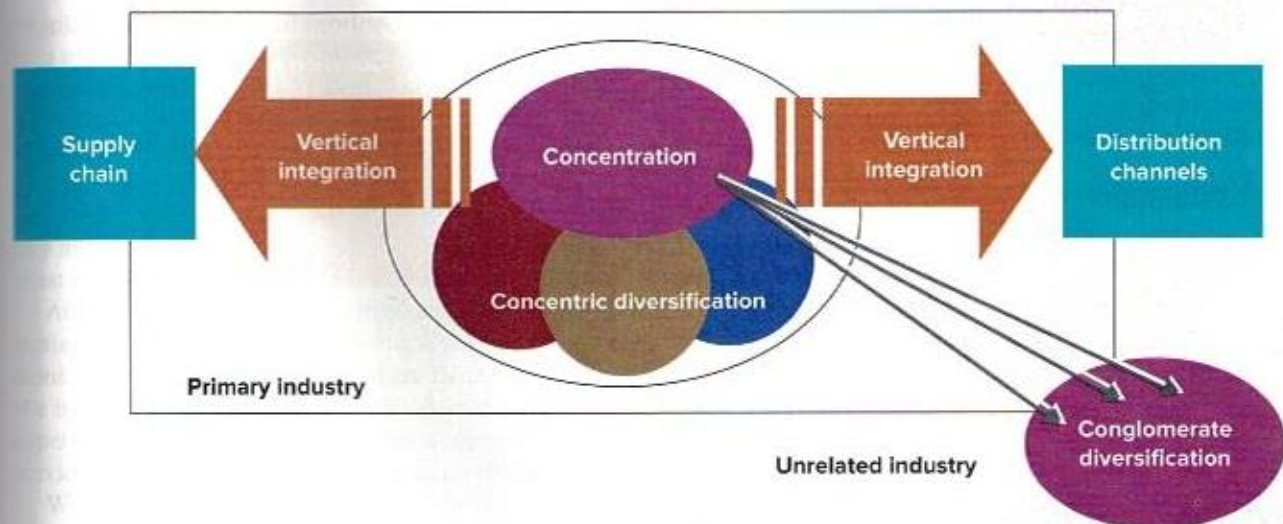
concentration

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 & HammerTM, 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.

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.


EXHIBIT 4.10

Summary of Corporate Strategies

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.

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.

**EXHIBIT 4.11**

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

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?

**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.

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

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 concentrating 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.

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

suppliers, enabling it to sell at prices below those of most competing retailers. Its size allows it to provide goods and services more efficiently (at lower cost), which leads to higher sales, market share, and profits. Recently, when gasoline prices soared, the company promoted its stores as a place where consumers can save on transportation costs by purchasing everything they need at low prices in one trip.⁴¹

Companies that succeed with a low-cost strategy often are large and take advantage of economies of scale in production or distribution. An organization using this strategy generally must be the cost leader in its industry or market segment. However, even a cost leader must offer a product that is acceptable to customers compared with competitors' products.

Alternatively, an organization may pursue a **differentiation strategy**. With a differentiation strategy, a company attempts to be unique in its industry or market segment along some dimensions (other than cost) that customers value. This unique or differentiated position within the industry often is based on high product quality, excellent marketing and distribution, or superior service. Nordstrom's well-known commitment to outstanding, personalized customer service in the retail apparel industry is an excellent example of a differentiation strategy.

Whatever strategy managers adopt, the most effective strategy is one that competitors are unwilling or unable to imitate. If the organization's strategic plan is one that can easily be adopted by industry competitors, it will yield only short-term advantage. For example, a strategy to gain market share by being the first to offer an innovative product may or may not succeed, depending in part on competitive responses. In some industries, technologies advance so fast that the first company to provide a new product is quickly challenged by later entrants offering superior products.⁴²

Functional Strategy The final step in strategy formulation is to establish the major functional strategies. **Functional strategies** are implemented by each functional area of the organization to support the business strategy. The typical functional areas include production, human resources, marketing and sales, research and development, finance, and distribution.

For example, Bloomin' Brands, the parent company of restaurant chains Outback Steakhouse, Bonefish Grill, Carrabba's Italian Grill, and Fleming's Prime Steakhouse, set a business strategy with targets for aggressive growth and greater efficiency built on the chains' reputation for offering good food at affordable prices. To achieve this, functional strategies included improving employee retention through enhanced training and development, adding innovative items to menus, and launching a multi-brand loyalty program.⁴³

Functional strategies typically are developed by functional managers with input and approval from the executives responsible for business strategy. Senior strategic decision makers review the functional strategies to ensure that each major department is operating consistently with the business strategies. For example, even if they saved money, automated production techniques would not be appropriate for a piano company like Steinway, whose products are strategically positioned (and priced) as high-quality and handcrafted.

At companies that compete based on product innovation, strategies for the research and development functions are especially critical. Based on the previous recession, GE committed itself to an R&D strategy of maintaining high budgets even when sales growth slowed.⁴⁴ The company invests over \$10 billion each year in R&D expenditures.⁴⁵

Step 5: Strategy Implementation

As with any plan, simply formulating a good strategy is not enough. Strategic managers also must ensure that the new strategies are implemented effectively and efficiently. The best executives and strategy consultants realize that clever planning techniques and a good strategy do not guarantee success.

differentiation strategy

A strategy an organization uses to build competitive advantage by being unique in its industry or market segment along one or more dimensions.

Bottom Line

A high-quality strategy is often more difficult for competitors to imitate.

What would be hard about imitating Nordstrom's strategy for top-quality service?



functional strategies

Strategies implemented by each functional area of the organization to support the organization's business strategy.

Employees at Bonefish Grill strive to meet the company's business strategy to provide good food at reasonable cost.

©The Washington Post/Getty Images



LO 7

Many organizations are extending more participative strategic management process to implementation. Managers at all levels are involved with formulating strategy and identifying and executing ways to implement it. Senior executives still may oversee the implementation process, but they are placing responsibility and authority in the hands of others.

In general, strategy implementation involves these steps:

Step 1: Define strategic tasks. Articulate in simple language what a particular unit must do to create or sustain a competitive advantage. Define strategic tasks to help employees understand how they contribute.

Step 2: Assess organization capabilities. Evaluate the organization's ability to implement the strategic tasks. A task force might interview employees and managers to identify issues that help or hinder implementation. Then the results are summarized for top management.

Step 3: Develop an implementation agenda. Management decides how it will change its own activities and procedures; what skills and individuals are needed in key roles; and what structures, measures, information, and rewards can best support the needed actions.

Step 4: Implement. The top management team, the employee task force, and others develop the implementation plan. The top management team monitors progress. The task force continues its work by providing feedback about how others in the organization are responding to the changes.

strategic control system

A system designed to support managers in evaluating the organization's progress regarding its strategy and, when discrepancies exist, taking corrective action.

This process, though straightforward, does not always go smoothly. Exhibit 4.12 shows six barriers to strategy implementation and provides some key principles for overcoming these silent killers. By paying closer attention to the processes by which strategies are implemented, executives, managers, and employees can make sure that strategic plans are actually carried out.⁴⁶

Step 6: Strategic Control

The final component of the strategic management process is strategic control. A **strategic control system** helps managers evaluate the organization's progress with its strategy and, when

EXHIBIT 4.12 Attacking the Six Barriers to Strategy Implementation

Change starts with the leader	
The Silent Killers	Beating the Silent Killers
Top-down or laissez-faire senior management style	The CEO creates a partnership with the top team and lower levels to develop a compelling business direction, create an enabling organizational context, and delegate authority to clearly accountable individuals and teams.
Unclear strategy and conflicting priorities	The top team, as a group, develops a statement of strategy and priorities that members are willing to stand behind.
An ineffective senior management team	Involve the top team in all steps in the change process so that its effectiveness is challenged and developed.
Poor vertical communication	Establish an honest, fact-based dialog with lower levels about the new strategy and the barriers to implementing it.
Poor coordination across functions, businesses, or borders	Define a set of businesswide initiatives and new organizational roles and responsibilities that require "the right people to work together on the right things in the right way to implement the strategy."
Inadequate down-the-line leadership skills and development	Lower-level managers develop skills through newly created opportunities to lead change and drive key business initiatives. They are supported with just-in-time coaching, training, and targeted recruitment. Those who still are not able to make the grade must be replaced.

SOURCE: Beer, M. and Eisenstat, R. A., "The Silent Killers of Strategy Implementation and Learning Barriers," *MIT Sloan Management Review* 4, no. 4 (Summer 2000), pp. 29-40.

discrepancies exist, identify needed corrective actions. The system must encourage efficient operations that are consistent with the plan while allowing flexibility to adapt to changing conditions.

Most strategic control systems include a budget to monitor and control major financial expenditures. As a first-time manager, you are likely to work with your work unit's budget—a key aspect of your organization's strategic plan. Your executive team may give you budget assumptions and targets for your area, reflecting your part in the overall plan, and you may be asked to revise your budget once all the budgets in your organization have been consolidated and reviewed.

The dual responsibilities of a control system—efficiency and flexibility—often seem contradictory with respect to budgets. The budget usually establishes spending limits, but changing conditions or the need for innovation may require different financial commitments during the period. To solve this dilemma, some companies use two budgets: strategic and operational. For example, managers at Texas Instruments control two budgets under the OST (objectives-strategies-tactics) system. The strategic budget creates and maintains long-term effectiveness, and the operational budget is tightly monitored to achieve short-term efficiencies.

The broader topic of control, including budgets in particular, is discussed in more detail in Chapter 16. In “Management in Action: Onward,” consider the significance of controls to Disney's decisions about its portfolio of businesses.

Bottom Line

Firms that follow low-cost strategies exert downward pressure on competitors' prices.

How can managers compete against a low-cost strategy so that their firm can continue to charge higher prices for its goods or services?



Management in Action

WALT DISNEY COMPANY'S STRATEGY UNDER ROBERT IGER

Reportedly, Walt Disney Company's mission statement once was “Make people happy.” The corporate website now offers a longer statement: “to be one of the world's leading producers and providers of entertainment and information, using its portfolio of brands to differentiate its content, services and consumer products.” The statement adds, “The company's primary financial goals are to maximize earnings and cash flow, and to allocate capital toward growth initiatives that will drive long-term shareholder value.”

In pursuit of this two-part objective, Disney has made decisions about its large portfolio of businesses. As it repositions itself for a global marketplace and a social, mobile Internet, it continues making strategic decisions about where to invest and what to divest.

Disney's largest sources of revenues are cable networks and theme parks, with cable providing by far the greatest profits. ESPN alone delivers 45 percent of operating income. Recently, Disney entered into a media rights contract with the NFL and a deal to air NBA games on ESPN and ABC. The company has rolled out apps based on WatchESPN to let cable subscribers watch programming on mobile devices. In the theme park arena, profitability during a sluggish economy lets Disney build when construction costs are low, so it has renovated Disney California Adventure, expanded Hong Kong Disneyland, and added a cruise ship to its fleet. In June 2016, Disney opened a theme park in Shanghai, China.

Disney Interactive is by far the smallest business unit in terms of revenues, and has not been profitable. Still, it

matters because children are spending ever more time online, and winning the hearts of children has been the basis for the company's growth. Disney Interactive will continue to engage fans through mobile games like Frozen Free Fall and Disney Tsum Tsum, as well as connect with parents via Disney.com.

Disney's movie studios, though a relatively small unit, are a core business. To increase the brand's appeal with teenage boys, this unit purchased Lucasfilm, producer of *Star Wars*. Disney also signed a deal giving Netflix the right to stream movies soon after release on DVD, when cable channels air movies. Dealing directly with Netflix signals that movie streaming is an important trend for Disney. And Disney created Keychest, which gives buyers of its DVDs and Blu-ray discs automatic access to streamed versions.

China is a huge growth market, so Iger is heavily investing in a new theme park, Shanghai Disney. The venture is risky; Disney's resort in Hong Kong is just breaking even after a 2005 opening. But it offers access to a billion consumers, and the effort is supported by use of the Disney Channel to build consumer relationships in China and 166 other countries.¹⁷

- How clear is Walt Disney Company's mission? How well does its strategy support the mission?
- In the BCG matrix (see again Exhibit 4.11), where would you place Disney's main businesses? How well is Disney matching its strategic moves to the businesses' positions in the matrix?

KEY TERMS

business strategy, p. 122	low-cost strategy, p. 122	strategic goals, p. 108
concentration, p. 120	mission, p. 113	strategic management, p. 112
concentric diversification, p. 121	operational planning, p. 109	strategic planning, p. 108
conglomerate diversification, p. 121	plans, p. 105	strategic vision, p. 113
core capability, p. 117	resources, p. 116	strategy, p. 108
corporate strategy, p. 120	scenario, p. 106	SWOT analysis, p. 118
differentiation strategy, p. 123	situational analysis, p. 104	tactical planning, p. 109
functional strategies, p. 123	stakeholders, p. 114	vertical integration, p. 121
goal, p. 105	strategic control system, p. 124	

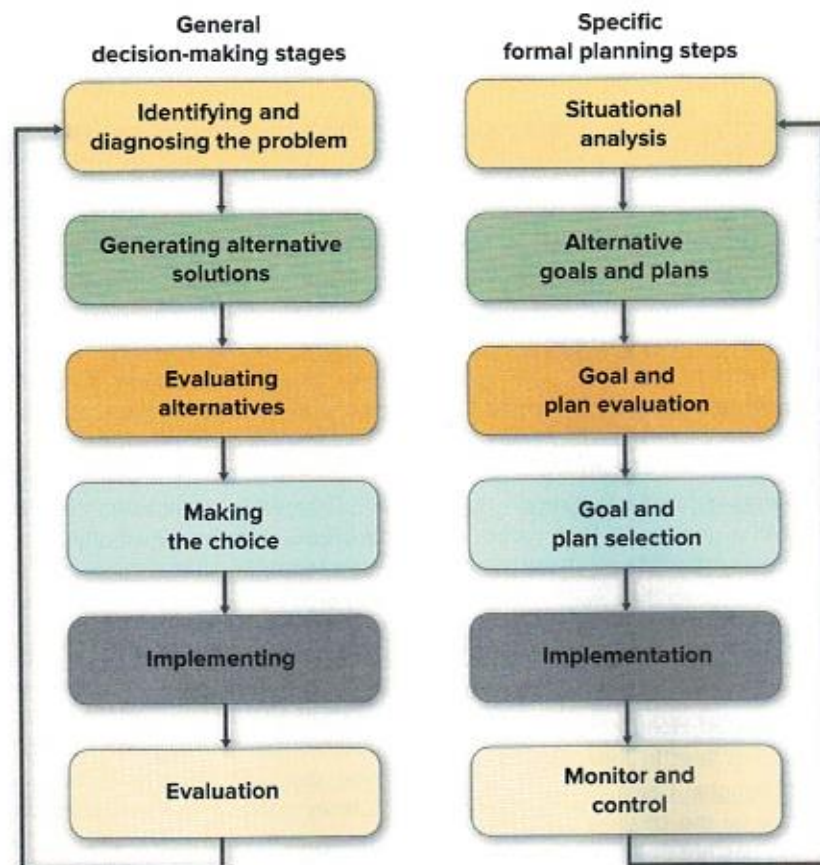
RETAINING WHAT YOU LEARNED

In Chapter 4, you learned that managerial planning is a conscious, systematic process of deciding which goals and activities the organization will pursue in the future. Directed and controlled by managers, this purposeful effort should draw on the experience and knowledge of employees throughout the organization. As shown in Exhibit 4.1, the Chapter 3 decision-making model links closely to the formal planning process. Strategic planning should be integrated

with tactical and operational planning. Before formulating a strategy, managers should analyze the external environment and internal resources, including core capabilities. A firm can concentrate narrowly or broaden its strategy via related or unrelated diversification. Companies can achieve competitive advantage by being unique and differentiated, or by focusing on cost via efficiency and lower prices. Effective implementation is critical to the success of any strategy.

EXHIBIT 4.1 (revisited)

Decision-Making Stages (Chapter 3) and Formal Planning Steps (Chapter 4)



LO 1 Summarize the basic steps in any planning process.

- The planning process begins with a situation analysis of the external and internal forces affecting the organization. This examination helps identify and diagnose issues and problems and can bring to the surface alternative goals and plans for the firm.
- The advantages and disadvantages of these goals and plans should be evaluated and compared against one another.
- Implementing goals and plans involves communicating the plan to employees, allocating resources, and making certain that other systems such as rewards and budgets support the plan.
- Control systems to monitor how implementation is faring: progress toward the goals.

LO 2 Describe how to integrate strategic planning with tactical and operational planning.

- Strategic planning is different from operational planning in that it involves making long-term decisions about the entire organization.
- Tactical planning translates broad goals and strategies into specific actions to be taken within the organization's subunits.
- Operational planning identifies the specific short-term procedures and processes required at lower levels of the organization.

LO 3 Identify elements of the external environment and internal resources of the firm to analyze before formulating a strategy.

- Strategic planning is designed to leverage the strengths of a firm while minimizing the effects of its weaknesses.
- It is difficult to know a firm's potential advantages without a proper internal analysis. Close examine might indicate, for instance, a particularly talented marketing department or a uniquely efficient production system.
- However, managers cannot determine whether internal characteristics are sources of competitive advantage until they learn from external analyses how well competitors compare.

LO 4 Define core capabilities and explain how they provide the foundation for business strategy.

- A core competence is something a company does especially well relative to its competitors.
- When this competence is significantly important to market success, it can be a competitive advantage.
- It can provide a sustainable advantage if it is valuable, rare, difficult to imitate, and well organized.

LO 5 Summarize the types of choices available for corporate strategy.

- Corporate strategy identifies the breadth of a firm's competitive domain.
- Corporate strategy can be kept narrow, as in a concentration strategy, or can move to suppliers and buyers via vertical integration.
- Corporate strategy also can broaden a firm's domain via concentric (related) diversification or conglomerate (unrelated) diversification.

LO 6 Discuss how companies can achieve competitive advantage through business strategy.

- Companies gain competitive advantage in two primary ways. They can attempt to be unique in some way by pursuing a differentiation strategy, or they can focus on efficiency and price by pursuing a low-cost strategy.

LO 7 Describe the keys to effective strategy implementation.

- Many good plans fail due to poor implementation.
- Strategy must be actively supported, for example, by structure, technology, human resources, rewards, information systems, culture, and leadership.
- Ultimately, the success of a plan depends on how well employees at low levels are able and willing to implement it.
- Participative management is one important approach to gaining employees' input and commitment to strategy implementation.

DISCUSSION QUESTIONS

1. This chapter opened with a quote from former CEO of GE Jack Welch: "Manage your destiny, or someone else will." What does "managing your destiny" mean for strategic management? What does it mean when Welch adds, "or someone else will"?
2. List the six steps in the formal planning process. Suppose you manage a local business and you want to launch a new website. What activities you would carry out during each step to create the site?
3. Your friend is frustrated because he's having trouble selecting a career. He says, "I can't plan because the future is too complicated. Anything can happen, and there are too many choices." What would you say to him to change his mind?
4. How do strategic, operational, and tactical planning differ? How might the three levels complement one another in an organization?
5. How might an organization such as Urban Outfitters use a strategy map? With your classmates and using Exhibit 4.4 as a guide, develop a possible strategy map for the company.

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?