1 Fundamentals

1.1 Definitions

Etymological origins of the term "Strategy":

- Greek Strategia: Art of leading armed forces ("stratos" = Army and "agein" = leading)
- The formulation of strategies is always aimed against competitors.

Strategy includes all measures to assure the long-term success of a corporation.

1.2 Changes in corporate environment

- Economic causes (shrinking product life cycles, globalisation of demand, saturation of traditional markets, changes in customer behaviour and industry structure, emergence of cooperations)
- Technological causes (development of information and communication technology, improvement in transportation infrastructure)
- Political causes (deregulation of international flow of capital and goods, de-monopolisation of former national industries, governmental cooperation and integration, reorientation of economic systems)
- Social causes (changes in social values and orientation, desire for self-realisation)

1.3 Demands on business organisations

	Demands:	**Required measures (e.g.):**
External orientation	• Openness • Market proximity • Customer orientation • Ability to cooperate	• Early-warning systems • Flexible organisation models • Cross-organisational coordination
Internal orientation	• Flexibility • Creativity • Innovation	• Development of strong resources, potentials, and competencies

1.4 Development stages of strategic management

1.4.1 Planning (1945-1960)

Planning of financial flows:

External situation:	Internal situation:	Research focus:	Research results:
Reconstruction after World War II -> Environment: limited dynamics, low complexity	Scarce resources, sellers market, supply orientation	Financial planning and controlling, budgeting	Comprehensive financial modelling, decision and optimisation models

1.4.2 Long-term planning (1960-1973)

Development of long-term forecasts:

External situation:	Internal situation:	Research focus:	Research results:
Economic growth -> Environment: dynamic, limited complexity	Corporate growth, new markets, sellers market, supply orientation	Management and control of businesses, behavioural aspects	Forecast and growth models, long term planning models, comprehensive business modeling, KPI systems

1.4.3 Strategic planning (1973-1980)

Analysis of opportunity & threats:

External situation:	Internal situation:	Research focus:	Research results:
Oil crisis and destabilisation -> Environment: turbulent-dynamic, complex	Growth crises, buyers market/ demand orientation, diversification	Early identification of opportunities/ threats and strengths/ weaknesses, corporate identity, IT-support of management, controlling	Early warning systems, scenario analysis, market research, planning models, Stake-holder/Shareholder-analysis, Portfolio Analysis, Learning Curve Product Life Cycle, PIMS, Value Chain, MIS

1.4.4 Strategic management I (1980-2000)

Focus on soft factors:

External situation:	Internal situation:	Research focus:	Research results:
Growth limitations, globalisation, service economy -> Environment: hyper-turbulent, complex	Internationalisation buyers market, demand orientation differentiation, reengineering, cost cutting, concentration, strategic alliances	Success potentials, core competencies, outsourcing, outplacement, corporate culture, institutional learning	Integration of all management sub-systems, bench-marking, business reengineering, lean management, shareholder value

1.4.5 Strategic management II (2000-today)

Integrative-systematic, holistic conception:

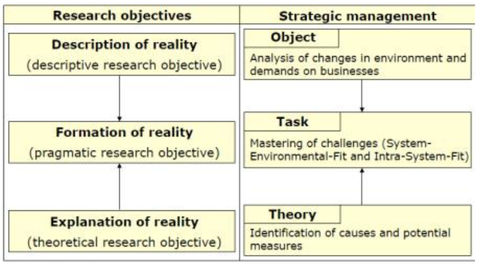
External situation:	Internal situation:	Research focus:	Research results:
Global financial markets, global knowledge society, virtual markets ->Environment: hyper-turbulent, complex	Customer orientation, global M&A, emergence of global players, virtual, polycentric corporate structures, collapse of new economy (2003), worldwide financial crisis (2009)	Self-organisation, management and leadership in virtual polycentric structures, learning, knowledge management	Holistic value management, balanced scorecard, corporate ethics

Strategy is of vital importance. Strategy is a matter of life and death, a path, leading to glorious victory or humiliating doom.
(Sun Tsu, Chinese general)

2 Approaches in strategy research

2.1 Research objectives

see on the left



2.2 Tasks of strategy research

The task of research into strategy is the **identification of strategic success factors** to explain success in business and the **identification of ways to achieve lasting increases in success.**

The most important approaches are dealt with in the following:

- Market-based approach
- Resource-based approach
- Evolutionary approach

2.3 Market-based view

- Origins in the industrial organization developed in the **1940s by Edward Mason, and further deepened by Joe Bain** through the Structure-Conduct-Performance-Paradigm
- Competitive advantages are explained by the industry structure and the strategic behavior of a corporation
- Analysis of an enterprise by an external, market based perspective **(outside-in-perspective)**

- The prerequisite of success is a superior competitive strategy, which is derived from the market requirements.
- Market-based view developed in the early 1980s by Michael E. Porter
- Industry attractiveness can be assessed by five competitive forces
- Basic strategies: Overall cost leadership and differentiation
- **Disadvantages: orientation toward established industry structures**

Porter's five forces:

- *Threat of Entrants*
- *Power of Suppliers*
- *Power of Buyers*
- *Threat of Substitutes*
- *Industry Rivalry.*

2.4 Resource-based view

- Foundation in the 1950s by Edith Penrose and in the 1980s by Birger Wernerfelt
- A corporation is defined as a system of productive resources **(inside-out-perspective)**
- Resources are the basis for strategic behavior resulting in corporate success (resource-conduct-performance-paradigm)

- types of corporate resources: tangible resource, intangible resources, human resources

Variants of the resource-based approach:
- Concept of core competences
- Knowledge-based approach
- Concept of dynamic capabilities

2.5 Theory of evolution

Nobody is immune against mistakes; the essential is to learn from them. (Karl R. Popper)

- Based on the systems theory developed by Hans Ulrich and the theory of spontaneous order by Friedrich August von Hayek
- A corporation is a **highly complex and dynamic system**, which can rarely be controlled
- Therefore a corporate management based on strategic planning seems to be inappropriate
- **Objective: Trial and error process, resulting in a learning process**

3 Strategic planning

3.1 Definition

Strategic planning is an information processing task (set of tasks)

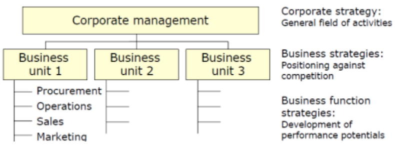
- to align the requirements of the corporate environment with the potentials of a company,
- to assure long-term success by developing appropriate strategies.

(Bea/Haas, 2009)

3.2 Planning elements

3.2.1 Planning instances

Planning instances:



Corporate strategy:
General field of activities

Business strategies:
Positioning against competition

Business function strategies:
Development of performance potentials

3.2.2 Coordination of planning

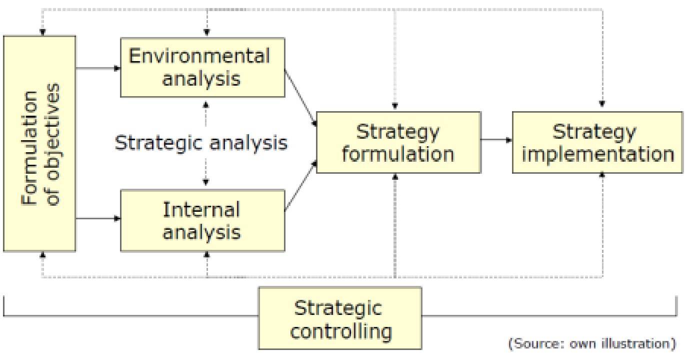
- Chronological coordination: Split of planning period in sub periods (next year in detail, further years roughly)
- Horizontal coordination: successive coordination of business unit plans taking constraints into consideration with feed-back
- Vertical coordination: coordination along the hierarchy

Approaches of vertical planning:

- top-down (retrograde)
- bottom-up (progressive)
- down uo (circulary)

3.2.3 Planning process

Planning process:



Planning process: Synoptical vs. incremental planning

Characteristics:	**Synoptical planning:**	**Incremental planning:**
Planning behavior	Anticipative and target oriented	More reactive, focused on urgent issues
Target horizon	Specific, dominant	Undefined, secondary
Issue horizon (temporal and factual)	More long-term, holistic	More short-term, focused on important and limited to specific issues
Considered alternatives	All possible	Limited scope
Flexibility	Ex ante-flexibility	Ex post-flexibility
	Holistic and systematic	**"muddling through"**

Planning process: assessment

Advantages:	**Disadvantages:**
• Necessity of an analysis of the environment and own company • Generation of alternatives, systematically and rationally evaluated • Planning of the implementation • Strengthening of motivation and communication in the company • Symbolic value for stakeholder	• Decrease of predictability of future as markets and technologies are increasingly dynamic • Gap between staff involved in strategic planning and operational staff • Formalisation limits intuition and creativity • Implemented strategy often differs from planned strategy

4 Corporate objectives

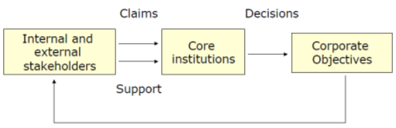
4.1 Aims and objectives

- The essential purpose of corporate management is to define objectives.
- For a corporation as a market economy oriented institution the primary aim is a satisfactory profit. This is often qualified with econdary requirements.
- The involvement of various decision making entities in the planning process requires the development of compromises between the involved parties.

Monetary objectives:
- Attain profit
- Assure and/or increase turnover
- Assure liquidity
- Increase company value

Non-monetary objectives:
- Increase market share
- Expand power
- Assure employment
- Decrease environmental impact

4.2 Objective formulation process



Problems during objective formulation:
- The objectives change
- There is a tradeoff of objectives (compromise)
- Power of those formulating the objectives
- Inaccuracy in the formulation of objectives

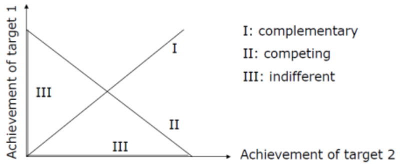
4.3 Types of objectives

Link to value creation
- directly linked to value creation (e.g. procurement and production targets)
- not directly linked to value creation (e.g. sales and profit targets)

Hierarchy of objectives
- top-level: mostly qualitive
- intermediate-level: mostly quantitative
- low-level: imperatively quantitative

Extent of objective achievement
- limited (e.g. achievement of certain value -> increase market share to 35%)
- unlimited (e.g. profit increase, cost reduction)

Relations between objectives



Temporal reference of objectives
- Short-term, medium-term and long-term objectives
- Objectives related to a point in time or a period
- Static and dynamic objectives
- Constant and temporary objectives

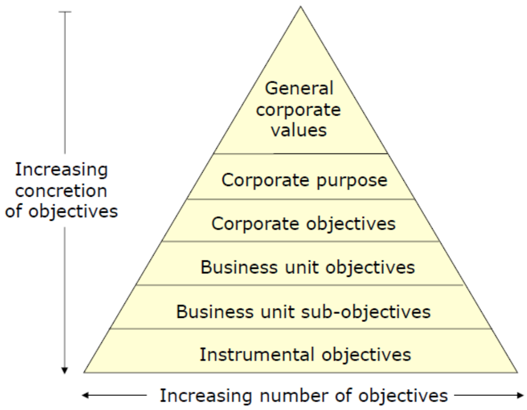
4.4 Formulation of objectives

The formulation of corporate objectives should include the following characteristics to assure comprehensibility, measurability and verification of achievement:
- Content
- Amount
- Time frame
- Business area

4.5 Conflict of objectives

Conflicts caused by competing objectives:
- Individual conflicts (e.g. frictions between personal targets of the employee and corporate objectives)
- Hierarchical conflicts (e.g. set objective is not measurable)
- Inter-organisational conflicts (e.g. business units that need to cooperate are following different objectives)

4.6 Objective pyramid



4.6.1 General corporate values

- Business principles of a corporation
- Definition of own position towards society, economy and competition
- Principles about how employees, customers, shareholders, suppliers, competitors and the general public should be treated

Evolution of corporate values over time

Values in the past:
- Discipline
- Obedience
- Hierarchy
- Performance
- Career
- Efficiency
- Power
- Centralization

Current values:
- Self-determination
- Participation
- Team-orientation
- Focus on own needs
- Individual development
- Creativity
- Ability to compromise
- Decentralisation

General corporate values:
- Corporate governance
- Corporate culture
- Corporate philosophy
- Corporate identity
- Corporate ethics

(details see script p.52-57)

4.6.2 Corporate purpose

- "Mission": description of corporate activities with focus on the actual situation
  - Field of activities: Where are we active?
  - Key competences: How do we work?
  - Core values: Why do we work?
- "Vision": description of corporate activities with focus on the future development
  - Long-term view of the company's future: "Our dream"
- Qualities

4.6.3 Corporate objectives

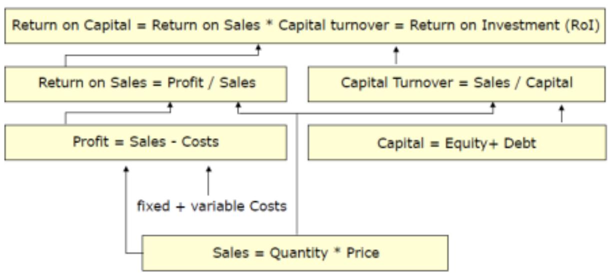
- Translation of the corporate mission and vision into top-level objectives
- The most important objective of a market-oriented company is financial driven: **satisfactory profit.**
- A consistent system of KPIs needs to be established, e.g. Du-Pont-system which is based on Return-on-Investment (RoI)

Business unit objectives:
Mainly non-monetary objectives on business unit level

Business unit sub-objectives:
Contribution to achieve business unit objectives

Instrumental objective:
Contribution to achieve business unit sub-objectives

Corporate objectives: return on investment



Stakeholder vs. Shareholder value

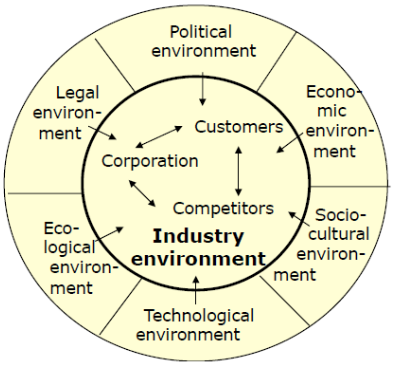
Objective:	Stakeholder-value:	Shareholder-value:
Background:	Corporation exists to satisfy the requirements of all stakeholder groups	Corporation exists to increase the fortune of its shareholders
Measurement:	Maximisation of difference between incentives for and inputs of stakeholders	Maximisation of discounted cash flows for shareholders
Assessment:	Not operational, based on the comparison of interpersonal benefits, pluralistic	Operational, based on market and resource efficiency, monistic

5 Strategic analysis

5.1 Environmental analysis

Objectives of the environmental analysis:

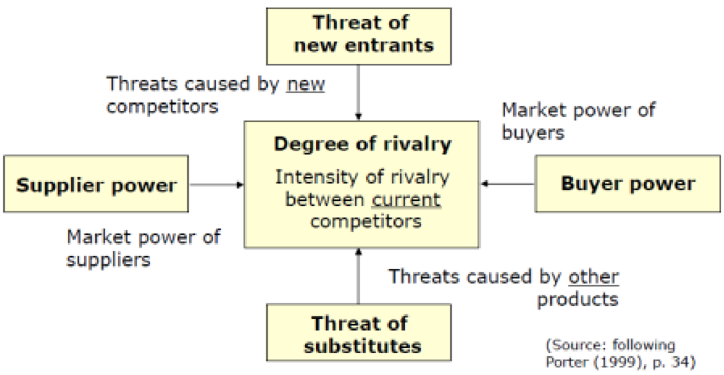
- Raise awareness for environmental developments
- Identification of relevant environmental segments
- Detection of opportunities and threats



Macro environment

Industry environment: definition of markets
A market includes all business relations between suppliers and customers of a specific product or product category.

5.1.1 industry environment: five forces



➔ Details see script p. 73 to 83

Advantages:	Disadvantages:
• Analysis of complex industry relations in a comprehensive way • Very effective at the beginning of a strategic analysis • Simulation of the reactions of industry environment to own strategy changes	• Model appropriate for established, slowly growing markets ("old economy") • Impact of internal resources on dynamic markets not fully considered ("new economy") • Model based on "competition" and less on "cooperation" and "coopetition"

Macro environment:
• Analysis of current state and forecast of future development of relevant environmental factors
• Approaches:
- PESTEL analysis
- Stakeholder analysis

5.1.2 Macro environment: PESTEL analysis

• Selection of proper indicators
• Consideration of:
• Easily measurable hard facts (e.g. gross domestic product)
• Less easily measurable soft facts (e.g. changes in ecological awareness)

Political environment: Possible indicators
- Organisation of political system
- Changes in party landscape
- Changes of governments
- Intergovernmental contracts and agreements (EU, GATT/WTO)
- Subsidy policies

Economical environment: Possible indicators
- Economical development (GDP)
- Development of interest rates,
- currency exchange rates, and
- inflation
- Development of demand
- Development of wages
- Development of unemployment

Socio-cultural environment: Possible indicators
- Attitudes to employment and leisure
- Mobility
- Birth rate
- Demographical development
- Health awareness
- Attitude to materialistic values

Technological environment: Possible indicators
- Development of new technologies
- Product innovation
- Process innovation

- Increase in patent applications

Ecological environment: Possible indicators

- Ecological awareness and behavior
- Increasing pollution
- Increasing ecological regulations and constraints

Legal environment: Possible indicators

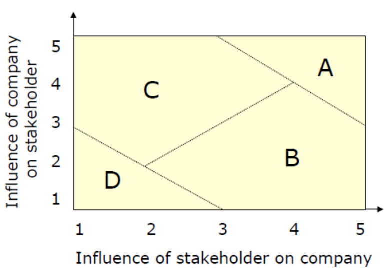
- Introduction of national and international legal frameworks
- Legal changes regarding taxes, product liability, environmental protection and patents
- Initiatives for deregulation

5.1.3 Stakeholder analysis

- Comprehensive consideration of macro environmental factors (e.g. suppliers, customers, employees, shareholders and competitors)
- Stakeholders are groups affected by a company and consequently have a specific interest in the behavior of a company

<u>**Stakeholders**</u>

- Customers
- Suppliers
- Employees and management
- shareholders
- state
- additional: Press, General public, Banks, Competitors, NPOs, Unions



A: Key players:
To be considered with top priority
B: Wild cards / jokers:
Increase ability to influence
C: Established:
To be considered with reasonable effort
D: Outsiders:
Inform on a regular basis

5.1.4 Management of discontinuities

Discontinuities are strategic changes in environment, totally new in manner and effect, almost unpredictable with high impact on companies

Approaches to identify environmental changes with high strategic relevance:

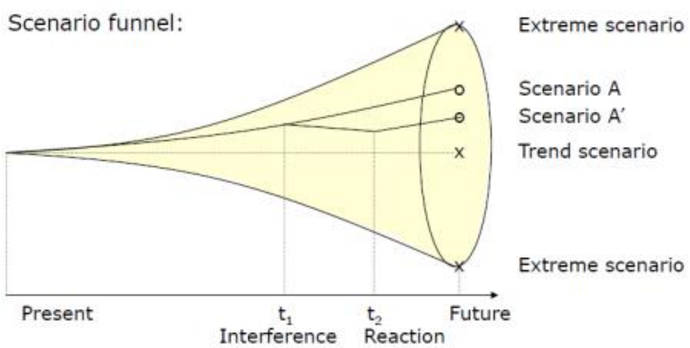
- Forecasting approaches
- Scenario analysis
- Early detection systems
- Concept of weak signals

→ for details on approaches see Slide 95 - 117

Forecasting methods
A projection is based on probability statements of future incidents. It relies on observations of the past, a theory to explain these and the assumption that the explained phenomena have endurance in the future.

Scenario analysis
A scenario describes a future development of a projection object under changing conditions.

The scenario analysis is a planning technique that describes, starting from the present, future developments of an analysis object under changing conditions



Advantages:	Disadvantages:
• Stimulates identification of developments in industry and macro environment • Verification of existing strategies by considering potential interference events • Development and simulation of new strategies	• Fading out relevant environment to reduce complexity (covering areas whose relevance is only visible later on) • High demands for professional qualification and capability for an holistic and integrated thinking • Acceptance issues in case of lacking management participation • High resource consumption

Early detection system
An Early detection system is a special form of an information system whose objectives are early identification, diagnosis and transfer of relevant management knowledge.

Concept of weak signals
Developed by Harry Igor Ansoff based on following propositions:

- Environmental dynamics have increased: time span between the identification of a discontinuity and it's effects on company is reduced
- Company's responsiveness has deteriorated: time span needed to respond on a perceived discontinuity has increased

Derivation of the following consequences:

- Discontinuities are announced by weak signals
- Weak signals need to be detected and processed
- Adapted strategic responses are possible

Discontinuities are announced by weak signals:

- Discontinuities do not occur suddenly, but are a result of developments over time
- Signs and indications are described as weak signals
- Weak signals are usually qualitative, e.g. opinions and statements from experts or organisations, or developments in related areas

5.2 Internal analysis

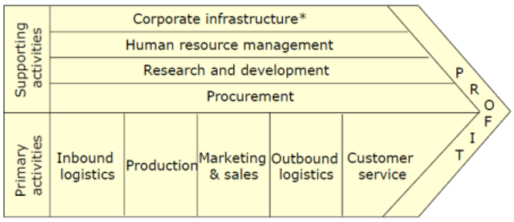
Objectives of internal analysis:

- Inward orientation
- Coordination of resources and capabilities of a company with the requirements of the corporate environment
- Identification of internal strengths and weaknesses
- Methods:
  - Value chain analysis
  - Potential analysis
  - VRINE model

5.2.1 Value chain analysis

According to Michael E. Porter, each company has an individual value chain that is embedded in a system of upstream and downstream activities of suppliers and customers.

- Primary activities are directly related to manufacturing and marketing of products
- Supporting activities assist primary activities
- A company’s value chain is the source of cost and differentiation advantages against competitors

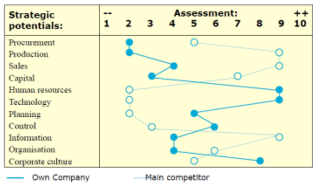


*Corporate infrastructure = Management, Accounting, Controlling, and Legal

5.2.2 Potential analysis

- A company is successful if it succeeds in adjusting its potentials with the requirements of the corporate environment, particularly the competition
- The strategic success factors of a company can be deducted from these potentials

Performance potentials:	Strategic success factors:
Procurement	Quality of purchased goods, purchase prices and conditions, order times, dependency on suppliers
Production	Flexibility of fabrication systems, utilisation of production capacity, production costs, product quality
Sales	Market share, product life cycle, distribution channels, customer loyalty, ability to deliver, quality of after sales service
Human Resources	Qualification, employee satisfaction, age and education structure, entrepreneurial spirit
Capital	Liquidity, debt, return on capital, credit rating
Technology	Innovation capacity, research efficiency, patents



Leadership potentials:	Strategic success factors:
Planning	Degree of integration of planning systems, flexibility, application of planning techniques
Control	Classification and degree of integration of control system, implementation of control techniques
Information	Strategic orientation of corporate accounting (e.g. target costing), management of discontinuities, integrated systems
Organization	Degree of decentralisation, flexibility, cooperation capabilities
Corporate Culture	Characteristic and anchorage, innovation capacity, customer and quality orientation

5.2.3 VRINE model

	A resource or capability is:
• **V**aluable:	valuable, so that opportunities can be used and threats reduced
• **R**are:	scarce, if availability is lower than demand
• **I**nimitable:	inimitable, if competitors can not obtain them (or only under great disadvantages)
• **N**on-substitutable:	not replaceable through a combination of other resources and capabilities
• **E**xploitable:	usable, if company can draw benefits from them

5.2.4 Empirical studies

A strategic plan can only be successful if:

- strategic success factors are identified and
- their effects are determined through empirical studies

Three Methods (see below).

PIMS study
On suggestion of General Electric, initiative started in the early 1960s (PIMS = Profit Impact of Market Strategy)
→ key factors influencing ROI

Advantage:	Disadvantage:
• Structuring of strategic problems	• Lack of transparency
• Development of different solutions	• Overrepresentation of US-based companies
• Falsification of intuitive decisions	• Related to past
	• Interactions between variables not strongly reflected
	• Qualitative success factors are not taken into consideration

Product life cycle

- Product life cycle shows relations between age, sales and profit development of a product

- No binding rule, but empirical studies are showing the effects
- Product life cycle of specific products may differ from ideal model
- The product life cycle includes development, market and phase out cycle
- Product life cycles are becoming shorter as a result of the increasing pace of innovation

Reasons for shorter product life cycles:
- Behaviour of customers: readiness to change habits and increasing acceptance of innovations encourage penetration of new products
- Behaviour of suppliers: efforts to participate in growth by developing new products continuously

Advantages:	Disadvantages:
• Strategic importance of forecasts and sales strategies • Awareness regarding need to develop sensitivity for weak signals • Awareness regarding degeneration of products	• Exact product life cycle can only be known ex post • Duration of product life cycle and each stage depends on a number of environmental conditions difficult to anticipate

<u>Experience curve</u>
- First systematic observation of the learning curve effect in aircraft industry in the 1920s: production time decreased with increasing output and thus cost per unit
- Extension to other types of costs (capital, R&D, marketing, sales and administrative costs) by the Boston Consulting Group in the 1960s: Experience Curve
- Description of the evolution of the average cost per unit of a product as a function of the accumulated quantity produced
- Basic thesis: Doubling of accumulated production of a product over all periods there is a potential to reduce unit costs (inflationadjusted) by about 20-30%

<u>Reasons for the experience curve:</u>
- Learning effect by repeated operative activities by individuals (individual learning) and groups (collective learning)
- Division of labor with the aim of specialisation and standardisation
- Increased productivity through improved production equipment and elimination of malfunctions in production process
- Better utilisation of existing production capacities
- Standardisation of products, components and parts
- Fixed cost degression: fix costs are allocated to a higher output

<u>Strategic implications:</u>
- Cost reduction will not happen automatically with higher output
- Requirements for output growth: market growth in existing markets, increase of market share or entering new markets
- Pioneers may have advantages over competitors (first-mover advantage)
- Demand for individual solutions is increasing while demand for homogeneous mass products is decreasing -> implementation of mass customisation

Advantage:	Disadvantage:
• Fast and simple procedure • Focus on costs and market shares	• No automatic cost reduction • Approaches to utilise cost reduction potential remain unclear • Appropriate rather for homogeneous mass products than for customer-specific solutions

5.3 Portfolio analysis

Originated on portfolio theory developed by Harry M. Markowitz in the 1950s to assure efficient diversification of financial investments

- Comparison of environmental and internal factors
- Description, explanation and decision model
- Integrated management of strategic business units (or product groups or products) with regard to development opportunities

Procedure:

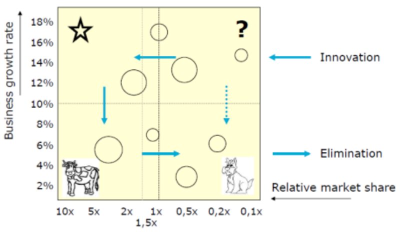
- Business growth rate vs. relative market share (BCG Matrix)
- Market attractiveness vs. competitive strength (McKinsey Matrix)
- Competitive position, market life cycle portfolio (ADL Matrix)

5.3.1 BCG-Matrix

y-axis: sales growth in a market per time unit

x-axis: relative market share (sales of own company in comparison to largest competitor)

size of circle: indicating sales volume



“Question marks” – Innovative products

- Innovative products in introductory phase with low relative market share in markets with high growth
- High financial resources needed to expand market share (developing to "Star")
- Due to low margins, need for cross-subsidisation or external capital funding
- Alternative is a premature elimination, if in an advanced life cycle stage no significant market share can be achieved

“Stars” – Young market leaders

- In a fast growing market established products with a high relative market share
- To secure and develop market share high investments are continuously needed
- Cross subsidies are required from cash cows

“Cash cows” – Cash generating products

- High market share, well-established products in a mature phase
- Based on experience curve the cost per unit can be reduced
- Due to low growth or stagnation of a market, investments and marketing activities can be reduced
- Generated cash flow can be used to promote "?" and "Stars"

“Poor dogs” – Expiring products

- Products with low relative market share, are situated in the decline stage of the product life cycle
- A decline in demand leads to a decline in sales and a rise in unit costs
- Negative cash flow and future prospects might require the elimination of this product

Strategic positioning:

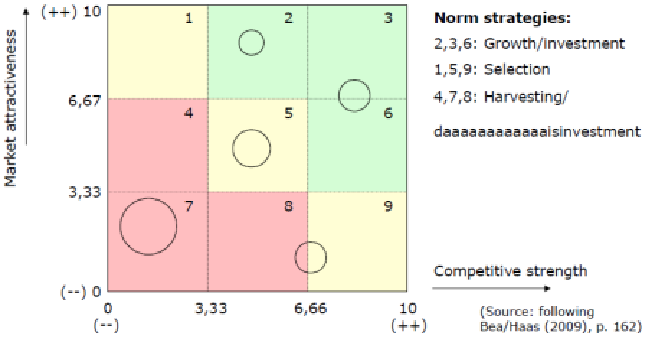
Area:	Profit:	Standard strategy:	Investments:	Cash Flow:
?	low/negative low/negative	Offensive strategy Defensive strategy	very high none	very negative low
Stars	high	Investment strategy	high	low/very negative
Cash cows	high	Harvesting strategy	low	very positive
Poor dogs	low/negative	Disinvestment strategy	none	low

(Source following Kohlöffel (2000), p. 157)

Advantages:	Disadvantages:
• Clear and systematic analysis and evaluation of the overall strategic position of a company • Recommendations by specifying norm strategies • Comparison between planned and actual situation	• Rather difficult data collection • Identification of relevant market difficult • Reduction of internal factors on relative market share and environmental factors on business growth rate

5.3.2 McKinsey matrix

- Developed by McKinsey in collaboration with GE in the 1970s
- Environmental success factors are individually recognized by market analysis and aggregated to market attractiveness (y-axis)
- Internal success factors are analyzed in accordance with potential and aggregated to competitive strength (x-axis)
- Target value is return on investment (ROI)



Assessment of market attractiveness and competitive strengths (potential analysis) and weight each factor

Advantage:	**Disadvantage:**
• Differentiated analysis and evaluation of two performance dimensions • Recommendations by norm strategies • Comparison between planned and actual situation	• Information gathering and measuring problems • Subjectivity in expert assessment and weighting • Complex data collection and processing

5.3.3 ADL Matrix

- Developed by Arthur D. Little in the 1970s
- Transfer of life cycle model on market perspective
- Corporate environment (x-axis): different life cycle stages: introduction, growth, maturity and degeneration
- Company situation (y-axis): competitive position: dominant, strong, favorable, durable and weak

Competitive situation	Life Cycle Stage			
	Introduction	Growth	Maturity	Degeneration
Dominant	Hold or improve position	Hold or improve position	Hold position	Hold position
Strong	Improve position	Improve position	Hold position	Hold position
Favorable	Improve position	Improve position	Find and hold niche	Reduce
Durable	Improve position	Find and hold niche	Find and hold niche	Reduce
Weak	Improve position	Reduce	Reduce	Liquidate

Assessment

Advantage:
• Detailed view of life cycle and competitive position • Differentiated strategic recommendations • Comparison between planned and actual situation

Disadvantage:
• Information gathering and measuring problems • Subjectivity in expert assessment and weighting • Variations in duration of life cycles and sub-phases • Very complex data gathering and processing

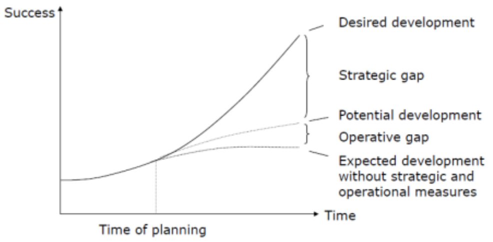
5.4 SWOT analysis

		External analysis	
		Opportunities	**Threats**
Internal analysis	**Strengths**	Do we have the strengths to take advantage of the opportunities?	Do we have the strengths to cope with the threats?
	Weaknesses	Which opportunities do we miss due to our weaknesses?	Which threats are we exposed to due to our weaknesses?

6 Strategy formulation

6.1 Gap analysis

- **The difference between the desired long-term development of a company and the expected development without measures is described as "gap"**
- Predominant use in difficult market conditions or in environmental conditions, such as highly competitive or declining markets and short product life cycles



- Closing of operational gap by mobilisation of entrepreneurial potential without essential strategic change, such as rationalisation, cost reduction and staff motivation
- Closing of strategic gap through strategic reorientation, e.g. market penetration, market development, product development and diversification

6.2 Corporate strategies

The general strategic direction of a company is specified in the corporate strategy.

Direction of development:
• Growth strategies
• Stabilisation strategies
• Disinvestment strategies

6.2.1 Growth strategies

- Product market expansion
- Geographical expansion
- Source of growth (autonomy, cooperation and concentration strategies)

Product Market expansion

Products \ Markets	Current:	New:
Current:	Market penetration	Market development
New:	Product development	Diversification

Geographical expansion

Characteristics:		Description:
National	Local Cantonal Regional National	e.g. City of Lucerne e.g. Canton of Lucerne e.g. Central Switzerland e.g. Switzerland
Supra-national	International Multinational Transnational Global	Few foreign markets Many foreign markets Several countries are treated as one regional market Whole world as one single market

Autonomy strategies

Growth through activation of own potentials

- E.g. innovation strategies based on successful R&D
- Requirement: enough own resources are available

Cooperation strategies

- Cooperation of two or more companies, which remain economically independent in areas that are not subject to the cooperation agreement
- Above-average intensity of cooperation activities can be found in sectors with high technological uncertainty, high complexity of products produced and great importance of production factor knowledge

Commitment to cooperation is increasingly becoming a prerequisite for sustainable business success

Horizontal cooperation:
Cooperation of several companies active in the same value chain, current or potential competitors

Main objectives: cost reduction through economies of scale and scope, sharing of risk

Vertical cooperation:
Cooperation with partners active in earlier and later stages of the same value chain

Main objectives: long-term protection of sourcing and distribution channels, economies of scope

Lateral cooperation:
Cooperation of companies active in different value chains or industries

Main objective: combination of knowledge and complementary products to meet specific customer needs

Concentration strategies

- Change in ownership structure of equity of a company
- Transition of command and control competences
- Options: merger or acquisition
- Main objectives: increase of market power, economies of scale, economies of scope

Merger

- Merger of two or more, previously both legally and economically independent, companies
- At least one of the involved companies looses legal independence
- Often (at least temporary) establishment of an executive board composed of representatives from both companies as a sign of parity in power

Acquisition

- Acquisition of a company or a part of a company
- Types: minority interest (<50%), majority interest (> 50%) or
- full takeover (100%)

Options:

- Share Deal: transfer of company shares (transfer of assets, liabilities, rights and duties)
- Asset Deal: transfer of company assets (real estate, equipment, inventories, accounts receivable, patents, trademarks, as well as possibly staff)

M&A transaction directions

- Horizontal: companies active in the same stage of the value chain
- Vertical: companies active in earlier or later stages of the same value chain
- Lateral: active in different value chains or industries

Advantages compared to cooperation:
• Control of partner

Disadvantages compared to cooperation:
• Large capital requirements • Limited risk sharing • Difficult to revise • High public awareness • Threat of intervention by antitrust authorities

6.2.2 Stabilisation strategies

- Securing of the current position of a company
- Primarily in uncertain business or market situation in terms of a transition strategy
- Main objective: risk reduction and preparation of a growth or divestment initiative

6.2.3 Divestment strategies

In the context of growing importance of shareholder value the cross-subsidisation of unprofitable business units is prohibited

Reasons for divestment:
- Stagnation of demand
- Insufficient profit or loss
- Offer of a potential buyer
- Reduction of overcapacities
- Improving liquidity and reducing debt
- Focus on core competences

Divestment barriers:
- Purchase offer lower than actual value
- Costs due to social compensation plans and payments
- Resulting tax duties
- Loss of economies of scope
- Traditional ties to company
- Image loss

Divestment strategies

Exit costs \ Exit duration	Long:	Short:
Relatively low:	Reduction of market barriers to exit	Fast sale ("Liquidation")
High:	Harvesting	Closing of activities

Disinvestment modes:
- Management buy-out: sale of a company or certain parts of a company to current management
- Spin-off: sale of shares of previously released and legally dissolved parts of a company
- Sell-off: sale of a part of a company to an external buyer
- Closure: termination of all activities of a company or a part of a company

divestment = disinvestment

6.3 Business strategies

The business strategy reflects the relation of a business unit to the competitors.

Scope of market \ Strategic advantage	Low-cost:	Uniqueness of products:
Broad:	Overall cost leadership	Differentiation
Narrow:	Focus	

6.3.1 Overall cost leadership

- Achievement of a comprehensive cost advantage over competitors in entire industry
- One-dimensional, low prices aiming on customers' preferences: thereby achieving a significant market share
- Requirements: standardised product development, purchasing of low cost parts, mass production and standardised distribution
- Cost reduction based on experience curve effects and economies of scale with increasing market share leads to growing market power
- Risks: potential threat of a price war and lack of preferences on customer side

6.3.2 Differentiation

- Offering a product with unique features
- Differentiation through high quality, innovative technology, excellent customer service, attractive product design, additional services, product and provider reputation, etc.
- Costs and price are not negligible, however, they

do not represent any decisive strategic success factor
- One distinguishing feature: Unique selling proposition (USP)
- Several distinguishing features: Multiple selling proposition
- Risks: high financial requirements for market research, brand and image building and customer care

6.3.3 Focus

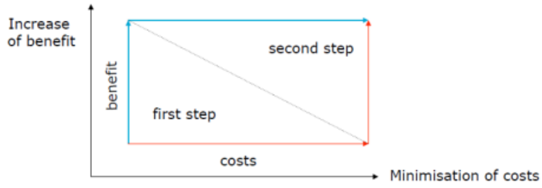
- Fulfillment of specific customer needs in clearly defined market niches with respect to certain customer groups, products or regions
- Options: cost leadership and differentiation
- Achievement of high customer loyalty by considering the individual needs of the customers

6.3.4 Hybrid approach

Porter strongly recommends not to combine the overall cost leadership with the differentiation strategy.
→ "stuck in the middle"

- Today's competitive conditions require a situation-appropriate combination of cost and quality leadership:
    - high quality is nowadays expected
    - significant price differences for similar products are not tolerated anymore
- Empirical studies confirm the success of hybrid business strategies
- Options: sequential or simultaneous

sequential
- Option 1: Differentiator has established a standard in the market and shifts to cost leadership
- Option 2: Cost leader changes to differentiation by providing added value to the customers



simultaneous
- Simultaneous pursuit of overall cost leadership and differentiation
- "Value for money" image, e.g. IKEA and Aldi
- Mass customisation at reasonable cost, e.g. Dell computers and Levi's jeans

6.4 Functional strategies

Development of performance potentials to achieve the business strategies
Types of functional strategies:

- Procurement strategies
- Production strategies
- Marketing strategies
- Financial strategies
- Human Resources strategies
- Technology strategies

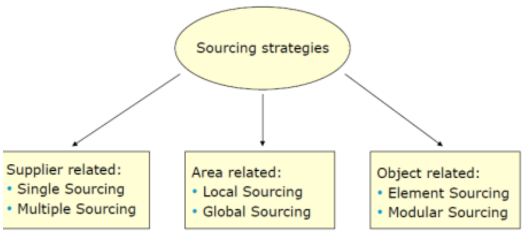
6.4.1 Procurement strategies

Procurement supplies the value creation process of a company with all required goods and services.

Tasks of procurement processes:

- Ensuring availability
- Increasing flexibility
- Reducing procurement costs
- Protecting the environment

Sourcing strategies



Supply chain management:

- Cross-departmental, strategic process
- Interconnection and integration of processes and systems of various players in the value chain
- Consideration of procurement, inventory management, warehousing and logistics
- Strategic objective: Long-term, stable, cost-efficient, cooperative partnership with suppliers and customers

6.4.2 Production strategies

Production means value creation by processing raw materials and parts using human labor and industrial facilities.

Tasks of production:

- Production program (production capacity, manufacturing depth, internal- vs. external production)
- Structure of production (production facilities, infrastructure)
- Production process (automation)

Current requirements:

- Extension of production program by services
- Functional extension (innovation management, quality management, logistics)
- Interdisciplinary extension (IT, ecology, sociology, psychology)

Special production strategies:

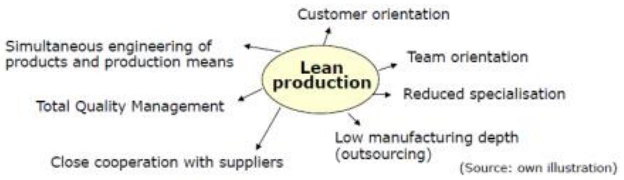
- Flexible manufacturing
- Lean production

Flexible manufacturing:

- Processing an extensive range of manufacturing orders with variable lot sizes
- Increase of flexibility and productivity, e.g. platform strategy in the automotive industry
- Flexible manufacturing systems based on interconnected processing centers
- Cell production including delegation of decision-making responsibilities to production teams

Lean production:

- Manufacturing management concept developed by Toyota in Japan
- Combining advantages of flow production (high productivity and low cost per unit) with the advantages of workshop production (high quality and flexibility)



6.4.3 Marketing strategies

Marketing means a market oriented management, in which all business functions are consequently oriented towards the requirements of the market.

Tasks of marketing management:
➔ **4 P's**
- Product policy
- Pricing policy
- Distribution policy (Place)
- Promotion policy

Customer relationship management:
- Process of focusing on the customer needs and satisfaction
- Acquiring customers, supporting them and improving their loyalty
- Combination of all available customer-related data in one CRM tool
- Main objective: sustainable improvement of customer loyalty to reach high customer profitability

6.4.4 Finance strategies

The strategic oriented finance management includes all tasks of developing and ensuring the financing potential of a company.

Tasks of financial management:
- Optimisation of capital and transaction costs
- Minimisation of exchange and interest rate risks
- Maximisation of earnings from capital investments

Important aspects:
- Strategic portfolio management
- Going public (IPO = initial public offering)
- Investor relations
- Cash management

6.4.5 Human resource strategies

Human resources management serves to meet the requirements of the company regarding its staff and to further develop the individual potential of the employees.

Tasks of human resources management:
- Staff planning
- Recruitment
- Personnel development
- HR administration
- HR controlling

Recruitment, personnel development and incentive strategies considering:
- Competences ("Can")
- Willingness ("Want")
- Requirements linked to the business function
- Requirements linked to the hierarchical level
- Requirements linked to the geographical area

6.4.6 Technology strategies

Technology represents the entire knowledge about procedures, methods and techniques applied or sold by a company.

Tasks of technology management:
- Research (basic research, applied research)
- Development (new development, further development, testing)

Innovation strategies:
- First mover

Imitation strategies:
- Early follower
- Late follower

→ see PM stuff for more about innovation and innovation process

7 Strategy implementation

Strategy implementation includes all activities that are necessary to realise a strategy.

Tools supporting the strategy implementation:

- Businessplan
- Balanced scorecard

7.1 Business Plan

- Documentation of the strategic planning covering a time horizon of 3 to 5 years (next year in detail, following years roughly)
- Planned strategies, milestones during strategy implementation, necessary human and financial resources

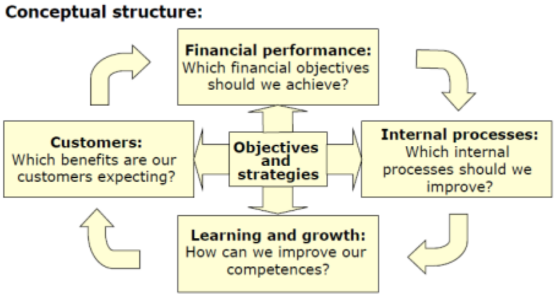
Purpose:

- Detailed documentation of the planned strategies for the top management
- Information and motivation for all employees
- Decision basis for the financial commitment of shareholders and banks

7.2 Balanced Scorecard

- Integrated management concept developed by Robert S. Kaplan and David P. Norton in the 1990s
- Support of strategy formulation, implementation and control
- Apart from the financial performance the concept includes the following three perspectives:
    - Customers
    - Internal processes
    - Learning and growth

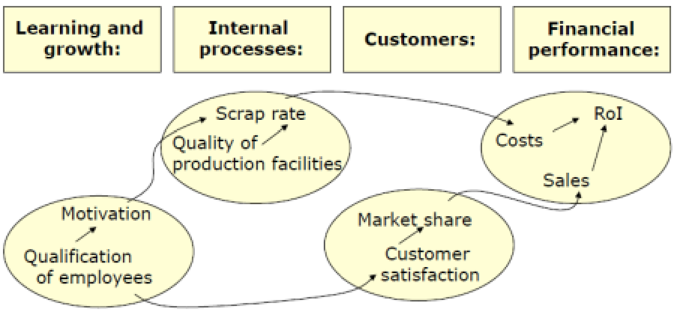
Conceptual structure:



Approach:

- Formulation of specific objectives for each perspective
- Determination of suitable indicators (not more than 20: "Twenty is plenty")
- Development of specific measures and initiatives
- Controlling of target achievement

Examples of cause-effect relationships:



Assessment:

Advantages:	Disadvantages:
• Holistic concept for the implementation of a value-based management • Intensive internal communication process • Visualisation of the cause-effect relationships • Feedback from strategy implementation for strategy formulation	• Difficulties in developing adequate indicators, in particular for the learning & growth perspective • Resource-intensive

8 Strategic controlling

8.1 Definition of terms

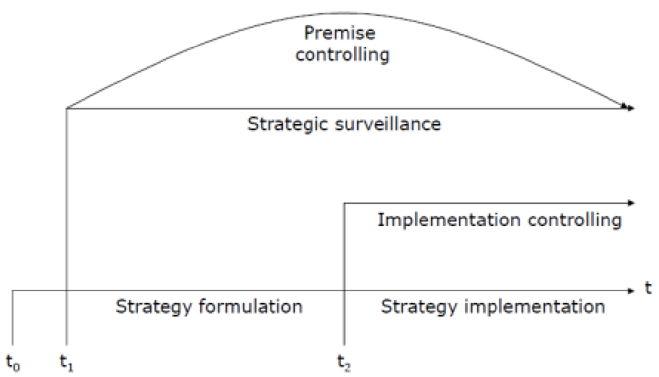
Controlling is a systematic process to identify discrepancies between planned and actual figures.

Strategic controlling is a systematic process that runs in parallel to the strategic planning process and reviews the accuracy of strategy formulation and implementation by identifying discrepancies between planned and actual figures.

8.2 Controlling concept

Concept developed by George Schreyögg and Horst Steinmann in the middle of the 1980s

- Strategic control supports all stages of the strategic planning process
- Compensation of selection risk
- Elements of strategic control conception:
- Premise control
- Implementation control
- Strategic surveillance



Premise controlling:

- The complexity of the strategic planning process requires the setting of various assumptions
- Internal premises: personnel turnover, absence rates, etc.
- External premises: currency exchange rates, market potential, etc.
- Premise control has the purpose to check continuously whether the assumptions are still valid
- Standardisation of premise control is limited

Implementation controlling:

- Implementation controlling is linked to strategy implementation
- Formulation of intermediate targets, e.g. time-, cost- and activityoriented milestones
- Deviations from defined milestones need to be identified in order to ensure the achievement of the objectives
- High degree of standardisation

Strategic surveillance:

- Identification of strategic surprises that are not detected by premise and implementation control
- Continuous observation of the external environment and internal resources regarding unforeseen events that might threat the achievement of the objectives ("Strategic Radar")
- Standardisation of strategic surveillance is barely possible

Comparison of types of strategic controlling:

Types of strategic control / Characteristics	Premise controlling	Implementation controlling	Strategic surveillance
Degree of focus	middle	high	low
Objects of controlling	Planning premises	Milestones	Potential threats

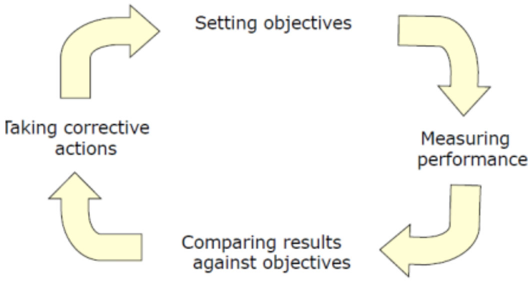
8.3 Control system

8.3.1 Controlling institutions

Delegation of controlling by company owners to specific organs, such as a supervisory board (premise controlling and strategic surveillance)
Controlling function within a company:

- Centralised vs. decentralised controlling
- Self controlling vs. foreign controlling

8.3.2 Controlling process



8.3.3 Controlling techniques

- Techniques to support the ontrolling process (documentation and transparency)
- Comparison of key indicators (such as return on investment)

Benchmarking:
- Comparison of own products, methods or processes with best-practice companies in the same or different industry
- Parameters are usually related to cost, quality, time or customer satisfaction
- Projects are mainly coordinated by neutral external agencies

8.3.4 Controlling areas

Environmental controlling:
- Industry environment
- Macro environment

Internal controlling:
- Corporate strategy
- Business strategy
- Functional strategy

9 Operational planning

- Operational planning is focused on business units
- Objectives and measures are derived from strategic planning
- Time horizon:
    - Medium term (2-3 years): tactical planning
    - Short term (1 year): operational planning

Elements of operational planning:
- Functional planning: procurement, production, marketing, technology
- Resource planning: human resources, assets
- Monetary planning: finance