

What Is Strategy and Why Is It Important?



Thinking Strategically: The Three Big Strategic Questions

1. What's the company's present situation?

2. Where does the company need to go from here?

- Business(es) to be in and market positions to stake out
- Buyer needs and groups to serve
- Direction to head

3. How should it get there?

- A company's answer to "how will we get there?" is its strategy



What Do We Mean By “Strategy”?

- Consists of *competitive moves* and *business approaches* used by managers to run the company
- Management’s *“action plan”* to
 - Grow the business
 - Attract and please customers
 - Compete successfully
 - Conduct operations
 - Achieve target levels of organizational performance



Strategy and the Quest for Competitive Advantage

- **The heart and soul of any strategy are the actions and moves in the marketplace that a company makes to strengthen its competitive position and gain a competitive advantage over rivals**
- **A creative distinctive strategy that sets a company apart from rivals and yields a competitive advantage is a company's most reliable ticket to above average profitability**
 - *Competing with a competitive advantage is more profitable than competing with no advantage*
 - *Competing with a competitive disadvantage nearly always results in below-average profitability*

Four “Best” Strategic Approaches to Building Sustainable Competitive Advantage

- **Being the industry’s low-cost provider (a cost-based competitive advantage)**
- **Incorporate differentiating features (a “superior product” type of competitive advantage keyed to higher quality, better performance, wider selection, value-added services, or some other attribute)**
- **Focusing on a narrow market niche (winning a competitive edge by doing a better job than rivals of serving the needs and preferences of buyers comprising the niche)**
- **Developing expertise and resource strengths not easily imitated or matched by rivals (a capabilities-based competitive advantage)**



Fig. 1.1: Identifying a Company's Strategy

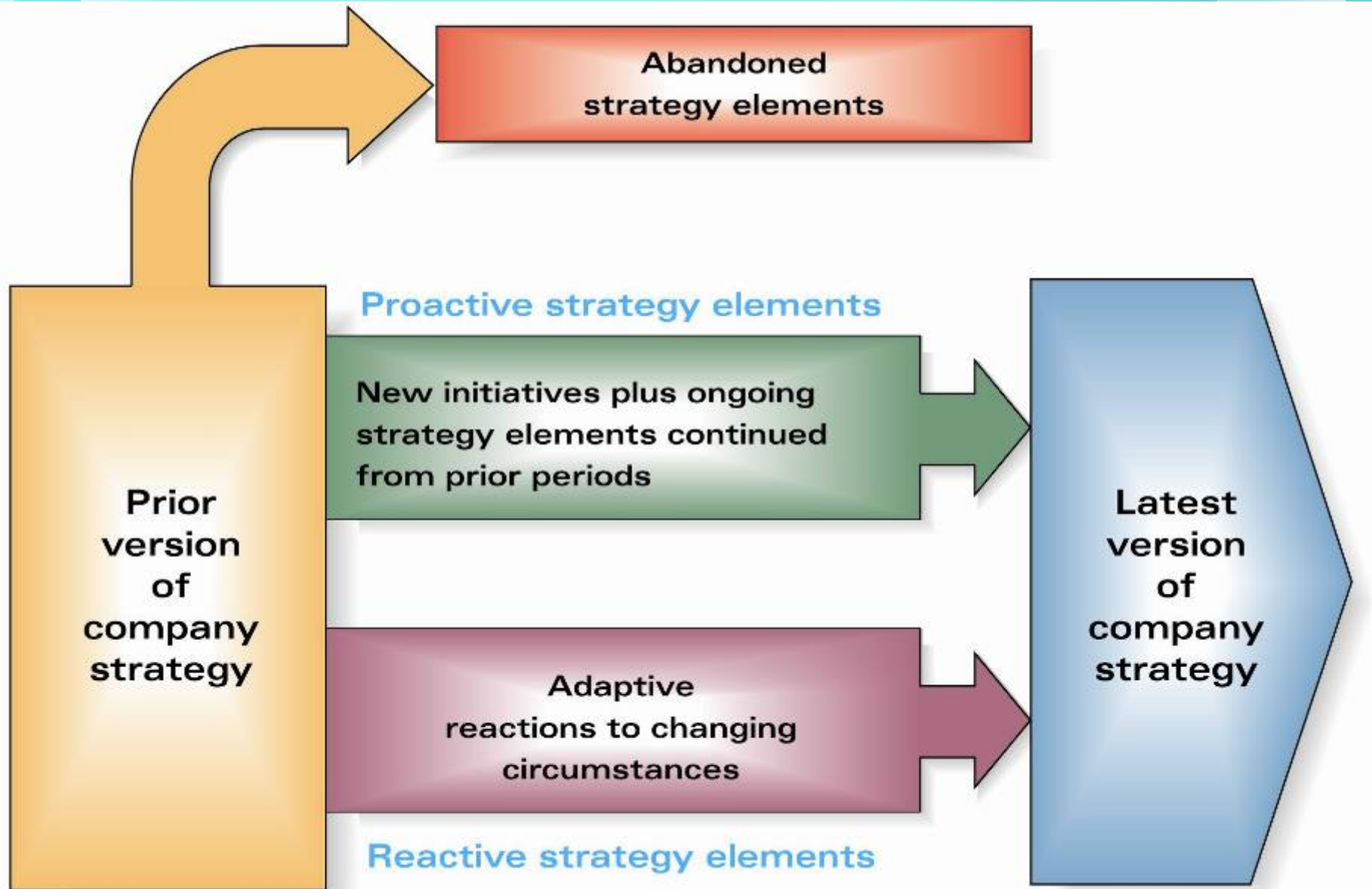


Why Do Strategies Evolve?

- A company's *strategy* is a *work in progress*
- Changes may be necessary to react to
 - Shifting market conditions
 - Technological breakthroughs
 - Fresh moves of competitors
 - Evolving customer preferences
 - Emerging market opportunities
 - New ideas to improve strategy
 - Crisis situations



Fig. 1.2: A Company's Strategy Is Partly Proactive and Partly Reactive



Linking Strategy With Ethics

- **Ethical and moral standards go beyond**
 - Prohibitions of law and the language of “thou shalt not” to issues of
 - Duty and “right” vs. “wrong”
- **Ethical and moral standards address “What is the right thing to do?”**
- **Two criteria of an ethical strategy:**
 - Does not entail actions and behaviors that cross the line from “should do” to “should not do” and “unsavory” or “shady” and
 - Allows management to fulfill its ethical duties to all stakeholders



A Firm's Ethical Responsibilities to Its Stakeholders

Owners/shareholders – Rightfully expect some form of return on their investment

Employees - Rightfully expect to be treated with dignity and respect for devoting their energies to the enterprise

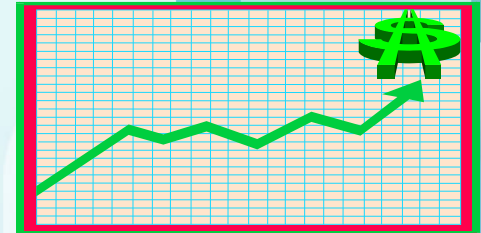
Customers - Rightfully expect a seller to provide them with a reliable, safe product or service

Suppliers - Rightfully expect to have an equitable relationship with firms they supply and be treated fairly

Community - Rightfully expect businesses to be good citizens in their community

What Is a Business Model?

- A business model addresses *“How do we make money in this business?”*
 - Is the strategy capable of delivering good bottom-line results?
- Do the *revenue-cost-profit economics* of the strategy make good business sense?
 - Look at *revenue streams* the strategy is expected to produce
 - Look at associated *cost structure* and potential *profit margins*
 - Do resulting earnings streams and ROI indicate the strategy makes sense and the company has a viable business model for making money?



Relationship Between Strategy and Business Model

Strategy . . .

Deals with a company's competitive initiatives and business approaches



Business Model . . .

Concerns whether revenues and costs flowing from the *strategy* demonstrate a business can be amply profitable and viable



Tests of a Winning Strategy

- *GOODNESS OF FIT TEST*
 - How well does strategy fit the firm's situation?
- *COMPETITIVE ADVANTAGE TEST*
 - Does strategy lead to sustainable competitive advantage?
- *PERFORMANCE TEST*
 - Does strategy boost firm performance?



Why Is Strategy Important?

- A **compelling need exists for *managers* to *proactively shape how a firm's business will be conducted***
- A ***strategy-focused firm* is more likely to be a *strong bottom-line performer* than one that views strategy as **secondary****

