Monday, 7 November 2016

Week 1

What is a strategy?

- Strategy articulates (provides) the firm’s preferred environment and the type of organisation it is striving to become.
- Strategic defines what business the company is in or should be in and the kind of company it is or should be.
- Strategy is a process of the search for a competitive advantage and the pursuit of success.

Bad strategy Hallmarks (based on The perils of bad strategy)

- Fluff: It is a superficial statement of the obvious combined with a general sprinkling of buzzwords
- Failing to face core problem
  - If the challenge is not defined, it is difficult or impossible to assess the quality of the strategy. And if you cannot assess that, you cannot reject a bad strategy or improve a good one. If you fail to identify and analyse the obstacles, you don't have a strategy. Instead, you have a stretch goal or a budget or a list of thing you wish would happen. (Stretch goal: Goals that are difficult but achievable with some extra efforts)
- Mistaking goals for strategy
  - It occurs when a leader throws out a big stretch goal and attempts to motivate and inspire his troops into making it happen with no real plan or strategic advantage to accomplish the goal. Motivation and inspiration are keys in any organisation, but setting stretch goals without creating a tactical plan for reaching those goals is bound for quick, if not immediate, fail.
- Fuzzy or overly complex strategic objectives (Bad strategic objectives)
  - one form this problem can take is a scrambled mess of things to accomplish - a dog’s dinner of goals. A long list of things to do, often mislabeled as strategies or objectives, is not a strategy. It usually grow out of planning meeting in which a wide variety of stakeholders suggest things they would like to see accomplished
  - A second type of weak strategic objective is one that is “blue sky” - typically a simple restatement of the desired state of affairs or of the challenge. It skips over the annoying fact that no one has a clue as to how to get there. A leader may

successfully identify the key challenge and propose an overall approach to dealing with the challenge. But if the consequent strategic objectives are just as difficult to meet as the original challenge, the strategy has add little value.

Why so much bad strategy?

- The inability to choose
  - Strategy involves focus and, therefore, choice. And choice means setting aside some goals in favour of others. When this hard work is not done, weak strategy is the result.
- Template-style strategy
  - The juxtaposition of vision-led leadership and strategy work had produced a template-style system of strategic planning.
    - The vision. Fill in your vision of what the school/business/nation will be like in the future. Currently popular visions are to be the best or the leading or the best known
    - The mission. Fill in a high-sounding, politically correct statement of the purpose of the school/business/nation. Innovation, human progress, and sustainable solutions are popular elements of a mission statement
    - The values. Fill in a statement that describe the company value. Make sure they are noncontroversial. Key words include “integrity,” “respect,”, and “excellence.”
    - The strategies. Fill in some aspirations/goals but call them strategies. For example,to invest in a portfolio of performance businesses that create value for our shareholders and growth for our customers.
  - The problem all these creates is that someone who actually wishes to conceive and implement an effect strategy is surrounded by empty rhetoric and bad examples.

What is good strategy?

- Good strategy works by focusing energy and resources on one, or very few, pivotal objectives whose accomplishment will lead to a cascade of favourable outcomes. It also builds a bridge between the critical challenge at the heart of the strategy and action - between desire and immediate objectives that lie within grasp. Thus, the objectives that a good strategy sets stand a good chance of being accomplished, given existing resources and competencies

- Good strategy is:
  - A diagnosis: an explanation of the nature of the challenge. A good diagnosis simplifies the often overwhelming complexity of reality by identifying certain aspects of the situation as being the critical ones
  - A guiding policy: an overall approach chosen to cope with or overcome the obstacles identified in the diagnosis
  - Coherent actions: steps that are coordinated with one another to support the accomplishment of the guiding policy,

The Perils of bad Strategy

- A good strategy does more than urge us forward toward a goal or vision; it honestly acknowledges the challenges we face and provides an approach to overcoming them.

Week 2 Generic Strategy, Frameworks Vision, Mission & Value

- Generic Strategy: Porter
  - Cost leader (competitive advantage: acceptable product at lower cost)
    - A cost leader strategy is one that gains competitive advantages by producing the most products/services at the lowest cost (such as Dell)
    - Objective is to attain lower cost than competition. However, it doesn't imply "cheap and nasty" products, since if the cost leader's products are not perceived as acceptable by buyers, a close leader will be forced to discount prices well below competitors to gain sales, which would nullify the benefits of its favourable cost position.
    - Lower cost partly passed on to customers as lower prices. How to achieve?
      - economic of scale
      - learning effects
      - product design (e.g. standardised, simple designs)
      - proprietary technology/automation
      - capacity utilisation
    - Risk of cost leadership
      - Going too far in cost cutting, thus endangering acceptability
      - Sources of cost leadership (scale, learning effects) rendered (become) obsolete through radical innovation
      - Competitor imitate
  - Differentiation (competitive advantage: price premium due to unique product)
    - Positions the product or services as different to (better than) others, stems from desirable characteristics that make a firm unique.
    - Premium price and high margins
    - However, in trouble if product or service is easily imitated
    - Infinite number of options for achieving differentiation, such as product functionality, quality/reliability, convenience locations…
    - Differentiation based CA relies on obtaining a price premium that exceeds the cost of providing differentiation. In order to allow firm to charge a premium price,

there must be perceived benefits (and thus willingness to pay) attached to the uniqueness.

- Risk of differentiation
    - Unique but of no/little value
    - Too high a premium (too few can afford)
    - Source of differentiation rendered obsolete through radical innovation
    - Competitor imitate
    - Changing perceptions of buyers (no longer valued)

However, since market segments are sufficiently different, a broad-based competitor will find it difficult to serve all market segments equally well. Hence, focussed competitors can single-mindedly serve a particular segment. The objective is the exploitation of a narrow target's differences from the balance of the industry

	Cost	Uniqueness
Broad	low cost leadership	Differentiation
Narrow	Focus cost based	Focussed differentiation

- Niche/Focussed
    - Focussed strategy could be separated to cost leadership strategy or differentiation in the chosen segment. It is limited to a submarket and may not appeal to most consumers. Especially attractive when competitors are pursuing broader cost or differentiation strategies that fail to deliver consistent B-C across all customer segments. These narrow niche market segments should provide focussed competitors protection from broad-based rivals, due to specialization and familiarity with users.
    - Risk of focus
        - Sustainability against broad-based competitor: technology may make serving the specialised segment less demanding for broad-based competitors
        - Sustainability against imitators
        - Segment disappears or no longer viable (e.g. demographic changes)
- Stuck in the middle
    - Firms trying to marry two or more generic strategies may end up **"stuck in the middle"**

        - If consumers have sufficiently differentiated preferences, then the firms that pursue value creation may end up offering high value to the small number of median consumers, leaving the bulk of the market to firms that focus on the high or low end
        - Might also because of problems with strategic implementation.
    - Porter's Generic strategy
        - Firms need to make a strategic choice in order to maintain a competitive advantage
        - Firms must either seek to offer low price through cost leader or offer more value through differentiation or target one particular customer segment through focus.
        - Porter argued these four generic strategies were mutually exclusive since "successfully executing each generic strategy involves different resources, strengths, organizational arrangements, and managerial style.
- Value Approach (B-C): Value based strategy, is an alternative to generic strategy. More flexible than generic strategy approach and builds not he generic strategies by allowing us to think quantitatively about positioning.
    - Core competencies vs profits
        - Core competencies do not guarantee profits. One reason for the frequent disconnect between core competencies and profits is that several firms may possess the same competencies, leading to destructive competition. Even firms that seems enjoy a dominant market position can see their dominance erode over time as new firms enter the market. Even with competition and entry, some firms with core competencies often fail to prosper since they are squeezed by their top employees. The problem these firms face is that they have not tied up the key assets that create their competence. Some other firms are squeezed by distributors or retailers. For a firm to be profitable, it is not enough to possess a competency, but the following must also be true:
            - The firm must avoid the ravages of competition
            - The firm must survive the treat of entry
            - The firm must control the assets that determine the value of its competence
        - Focus on value
        - Value as difference between customer benefits and cost of production. In a competitive market, we can only earn a profit if the firm creates more value than rivals. It is sufficient that consumers perceive that a product offers superior benefits, even if there is no tangible evidence of those benefits.

- What the firm can control
  - B-C: B as the maximum amount that consumers would be willing to pay to purchase the product, C measure production costs
    - B-P = The benefits enjoyed by consumers, above and beyond the purchase price
    - P-C = the seller's profit per unit sold
    - Firms that create high B-C do not have to aim for both a higher market share and higher margins at the same time. It might make more sense for a firm with a B-C advantage to increase its price to the point where it enjoys very high margins but a relatively small market share. Also it could be keep price low, resulting in a dominant share but with lower margins.
  - Problems to expect
    - Disruptive Technologies, New products that offer consumers low quality but are also much cheaper to produce than existing technologies. These products have the potential to fundamentally change the landscape of an industry. It enables new firms to offer attractive B-P because of dramatically lower C and somewhat lower B.
    - New from entry
    - New technology
    - External factors
- The target
  - In B-C, the target segment is the particular set of customers for whom the firm generates the highest B-C. Using Porter's terminology, targeting is relevant to firms pursuing a niche strategy. In identifying their target, firms should not only isolate customers who perceive a higher B when consuming the firm's output, but also determine the cost differential of serving different customers. Successful B-C requires managers to assess value creation by customer segment, and stick to those segments for which the firm delivers superior B-C
- Targeting Suppliers: it creates value by reducing the costs of critical inputs, which have a large impact on unit costs.Supplier targeting means identifying inputs whose outside options are unattractive relative to being employed by the firm in question. The firm can enhance the power of supplier targeting by creating targeted benefits. Two characteristics of targeted benefits: 1. the target's valuation of these benefits should exceed the cost of creating them. 2. they are not likely to be offered by other firms