# CHAPTER ONE

- A company's strategy is the coordinated set of actions that its managers take in order to outperform the company's competitors and achieve superior profitability
- The objective of a well-crafted strategy is not merely a temporary competitive success and profits in the short run, but rather the sort of lasting success that can support growth and secure the company's future over the long term
- Mimicking the strategies of successful industry rivals (i.e. copycat product offerings or manoeuvres to stake out the same market position) rarely works
- Strategy is about competing differently – doing what rival firms don't do or what rival firms can't do
- A company has competitive advantage whenever it has some type of edge (i.e. higher perceived value or lower costs for the customers) over rivals in attracting buyers and coping with competitive forces
- Strategy has to be distinctive if a company wants to achieve competitive advantage (i.e. operate more efficiently than others) e.g. Apple has a distinctive strategy to create a "must have" product image that are sleek, cool, easy to use and sold in many stores globally product
- Sustainable competitive advantage has elements that give buyers lasting reasons to prefer a company's product or services over those of competitors; contributes to a firm's future profitability. E.g. Apple's products, reputations and knowledgeable customer service makes them hard to be duplicated
- A low-cost provider strategy – achieving a cost-based advantage over rivals; gain competitive edge when rivals find it hard to match the low-cost leader's approach to driving costs out of the business e.g. Walmart, Southwest Airlines
- A broad differentiation strategy – seeking to differentiate the company's product or service from that of rivals in ways that will appeal to a broad spectrum of buyers e.g. Apple (innovative products), Johnson & Johnson (product reliability), Rolex (luxury and prestige), BMW (engineering design and performance)
- A focused low-cost strategy – concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by having lower costs and thus being able to serve niche members at lower price e.g. IKEA
- A focused differentiation strategy – concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by offering buyers customised attributes that meet their specialised needs and tastes better than rival's products e.g. Lululemon specialises in high-quality yoga clothing, LinkedIn specialises in the business and employment aspects of social networking, Tesla specialises in electric cars
- A best-cost provider strategy – giving customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations; blends elements of low-cost provider and differentiation strategies as the aim is to have lower costs than rivals while simultaneously offering better differentiation attributes e.g. Target is a low-cost provider but also differentiating itself because of its collabs with designers
- There is not one strategy that can be sustainable forever; managers must be ready for changes to their strategies either due to industry changes or when the strategy is clearly failing. Thus, a typical company strategy is a blend of proactive (planned) initiatives to improve the company's financial performance and secure a competitive edge and reactive responses to unanticipated developments and market conditions.

- A strategy cannot be considered ethical just because it involves actions that are legal. To meet the standard of being ethical, a strategy must entail actions and behaviour that can pass moral scrutiny in the sense of not being deceitful, unfair or harmful to others, disreputable, or unreasonably damaging to the environment
- A business model is a management's blueprint for delivering a valuable product or service to customers in a manner that will generate revenues sufficient to cover costs and yield an attractive profit; consists of customer value proposition and profit formula
- Customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customer will consider a good value i.e. how much value am I getting out for my money? V - P
- Profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition. P - C
- From a customer's perspective, the greater the value (V) and the lower the price (P) is, the more attractive is the company's value proposition or the lower the costs (C), given the customer value proposition (V – P), the greater the ability of the business model to be a money-maker
- The 3 tests of a winning strategy
    - The Fit Test asks how well does the strategy fit the company's situation – both external and internal? Exhibits good external fit with respect to prevailing market conditions yet also tailored to the company's resources and competitive capabilities and be supported by a complementary set of functional activities (i.e. activities in the realms of supply chain management, operations, sales and marketing, etc.). Winning strategies also exhibit dynamic fit in the sense that they evolve over time in a manner that maintains close effective alignment with the company's situation even as external and internal conditions change
    - The competitive advantage test asks if the strategy is helping the company achieve a competitive advantage? Is the competitive advantage likely to be sustainable? The bigger and more durable the competitive advantage, the more powerful it is
    - The performance test asks if the strategy is producing superior company performance? Performance indicators are competitive strength and market standing and profitability and financial strength.
- Even the best-conceived strategies will result in performance shortfalls if they are not executed proficiently. Good Strategy + Good Strategy Execution = Good Management. The rationale is the better conceived a company's strategy and the more competently it is executed, the more likely the company will be a standout performer in the marketplace

## CHAPTER TWO

- Crafting and executing a company's strategy is an ongoing process that consists of 5 interrelated stages; the first 3 involve making a strategic plan:
    - Developing a strategic vision that charts the company's long-term direction, a mission statement that describes the company's purpose (i.e. present moment), and a set of core values to guide the pursuit of the vision and mission
    - Setting objectives for measuring the company's performance and tracking its progress in moving in the intended long-term direction
    - Crafting a strategy for advancing the company along the path management has charted and achieving its performance objectives
    - Executing the chosen strategy efficiently and effectively
    - Monitoring developments, evaluating performance, and initiating corrective adjustments in the company's vision and mission statement, objectives, strategy, or approach to strategy execution in light of actual experience, changing conditions, new ideas, and new opportunities
- Strategic vision describes management's aspirations for the company's future and the course and direction charted to achieve them; points an organisation in a particular direction, charts a strategic path for it to follow, builds commitment to the future course of action and moulds organisational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders (customers, employees, stockholders, suppliers, etc.)
- Well-conceived visions are distinctive and specific to a particular organisation; they avoid generic, feel-good statements like "we will become a global leader and the first choice of customers in every market we serve."
- An effective strategic vision must be communicated and understood well down the line to the lower-level managers and employees (or provide rationale if introducing dramatically new strategic vision and company direction); they must fully understand everything so they could adapt to any changes necessary
- A slogan that captures a vision well will be short, succinct and be a constant reminder of "where we are headed and why"
- A sound, well-communicated strategic vision matters because it crystallizes senior executives' own views about the firm's long-term direction; it reduces the risk of rudderless decision making; it is a tool for winning the support of organisation members to help make the vision a reality; it provides a beacon for lower-level managers in setting departmental objectives and crafting departmental strategies that are in sync with the company's overall strategy; and it helps an organisation prepare of the future
- Mission statement describes the enterprise's present business and purpose – "who we are (i.e. gives the company its own identify), what we do (i.e. identifies the company's products and/or services), and why we are here (i.e. specifies the buyer needs that the company seeks to satisfy and the customer groups or markets that it serves)." It is purely descriptive and quite brief, e.g. The FedEx Corporation offers express and fast delivery transportation services, delivering an estimated 3 million packages daily all around the globe. Its services include overnight courier, ground, heavy freight, document copying, and logistic services

- Core values – designated beliefs, traits, and behavioural norms that management has determined should guide (and be displayed by company personnel) the pursuit of its vision and mission e.g. fair treatment, honour and integrity, ethical behaviour, innovativeness, teamwork, etc. Usually emphasises 4-8 core values per company.
- The managerial purpose of setting objectives is to convert the vision and mission into specific performance targets (ideally be SMART objectives)
- Stretch objectives are high enough performance targets to stretch an organisation to perform at its full potential and deliver the best possible results (must be reachable)
- Extreme stretch goals can only work under certain circumstances (may mostly fail), e.g. the company must have ample resources available and its recent performance must be strong such as Tesla, 3M, CSX, General Electric, Southwest Airlines
- Financial objectives communicate management's goals for financial performance
- Strategic objectives are goals concerning a company's marketing standing and competitive position (both must contain short and long-term performance targets)
- Short-term targets forces managers to focus on delivering performance improvements in the current period and satisfy shareholder expectations for near-term progress (i.e. quarterly or annually)
- Long-term targets forces managers to consider what to do now to put the company in position to perform better later (i.e. 3-5 years)
- The balanced scorecard is a method to help managers examine if their financial and strategic objectives are balanced. It maps out the key objectives of a company, with performance indicators, along 4 dimensions: financial (listing financial objectives), customer (objectives relating to customers and the market), internal process (objectives relating to productivity and quality), and organisational (objectives concerning human capital, culture, infrastructure and innovation)
    - Corporate strategy orchestrated by the CEO and other senior executives establishes an overall strategy for managing a set of businesses in a diversified, multibusiness company
    - Business strategy is concerned with strengthening the company's market position and building competitive advantage in a single-business company or in a single business unit of a diversified multibusiness corporation
    - Functional-area strategies concern the approaches employed in managing particular functions within a business – like R&D, production, sales and marketing, distribution, customer service, and finance. Lead responsibility for functional strategies within a business is normally delegated to the heads of the respective functions, with the general manager of the business having final approval
    - Operating strategies concern the relatively narrow approaches for managing key operating units (e.g. plants, distribution centers, purchasing centers) and specific operating activities with strategic significance (e.g. quality control, materials purchasing, brand management, Internet sales). E.g. a company's advertising manager needs a strategy for getting maximum audience exposure and sales impact from the ad budget
    - Single-business companies' uppermost level of the strategy-making hierarchy is the business strategy, thus they only have 3 levels of strategy, whereas partnerships, proprietorships or owner-managed enterprises may have 1 or 2 levels

- A strategic vision + mission + objectives + strategy = a strategic plan. A company's strategic plan lays out its directions, business model, competitive strategy, and performance targets for some specified period of time
- Good strategy execution requires diligent pursuit of operating excellence.
- If companies encounter disruptive changes in its environment, questions need to be raised about the appropriateness of its direction and strategy. Is it poor strategy? Poor execution? Both?
- A company's vision, mission, objectives, strategy, and approach to strategy execution are never final; reviewing whether and when to make revision is an ongoing process
- A company's board of directors has 4 important obligations to fulfil:
    - Oversee the company's financial accounting and financial reporting practices – board members have a legal obligation to warrant the accuracy of the company's financial reports and protect shareholders, i.e. GAAP are used properly in preparing the company's financial statements, etc.
    - Critically appraise the company's direction, strategy, and business approaches. Board members must guide management in choosing a strategic direction and to make independent judgments about the validity and wisdom of management's proposed strategic actions
    - Evaluate the caliber of senior executives' strategic leadership skills. The board is responsible for determining whether the current CEO is doing a good job of strategic leadership (as a basis for awarding salary increases and bonuses and deciding on retention or removal) as well as if the other senior executives in line to succeed the CEO (in case he/she quits) are doing well strategically
    - Institute a compensation plan for top executives that rewards them for actions and results that serve stakeholder interests, and most especially those of shareholders. Board must ensure though that they are rewarding based on progress/achievements made for the long-term of the company and not based on quarterly and/or annual targets e.g. the 2008 GFC incident
- Board of directors must be well informed about the company's performance, guides and judges the CEO and other top executives, has the courage to curb management actions the board believes are inappropriate or risky, certifies to shareholders that the CEO is doing what the board expects, provides insight and advice to management and is intensely involved in debating the pros and cons of key decisions and actions