

# Tools for Business Strategy Development



By

**Robert W. Jerome, PhD**

Program Director, International Management and Collegiate Professor  
The Graduate School  
University of Maryland University College



University of Maryland University College

# Developing a Tool Kit



- In crafting strategy, it is important to be
  - Analytical
  - Intentional
  - Methodical
  - Comprehensive
- In order to accomplish this, it is useful to rely on models of analysis to help structure your thinking
- Everyone's tool kit will likely be different; I encourage you to build your own!
- This presentation focuses on several tools and methodologies useful in analysis of a business



# What is “Strategy”?



- Various definitions
- The Pathway of Getting from A to B as cost-effectively as possible
- Implicit in the strategy process:
  - Assessing Existing Situation of Enterprise (A)
  - Clarifying the Strategic Objective (B)
  - Determine the Pathway of Long-Term Activities (Strategy) leading from A to B
  - Encompassing both internal & external aspects of the firm



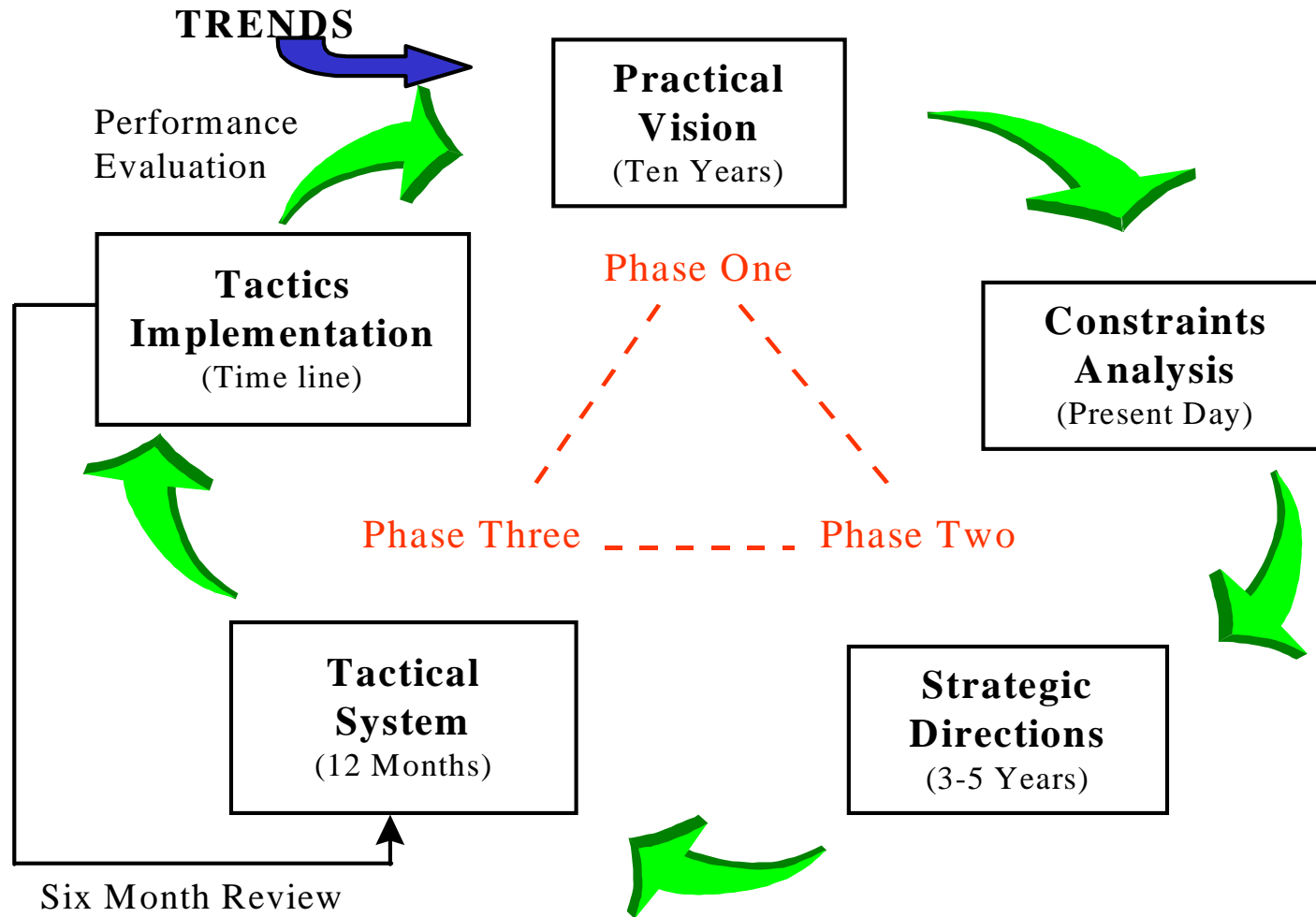
# The Missing Link



- But in order to craft a strategy, you need information!



# Strategy is a Repetitive Ongoing Process



# Steps in the Strategy Process



1. Formulate the Firm's **Practical Vision** (Goals)
2. Determine the Vision's **Supporting Elements**
  - **Value Proposition** – the customer perspective
  - **Business Model** – operating system for profitably delivering the value proposition
  - **Core Competencies** – critical org'l capabilities
3. Assess Firm's **Present Situation**
  - **SWOT Analysis**
  - **Core Competencies**
  - **Confirm Practical Vision**



# Steps in the Strategy Process cont.



4. **Identify Organizational Constraints** – that block/impede attaining the Vision
5. **Formulate Strategies** (long-term activities) that address/overcome the Constraints and position the firm competitively/globally
6. **Assess Strategic Trade-offs** re: technological, organizational & transactional dimensions.



# Strategy Formulation

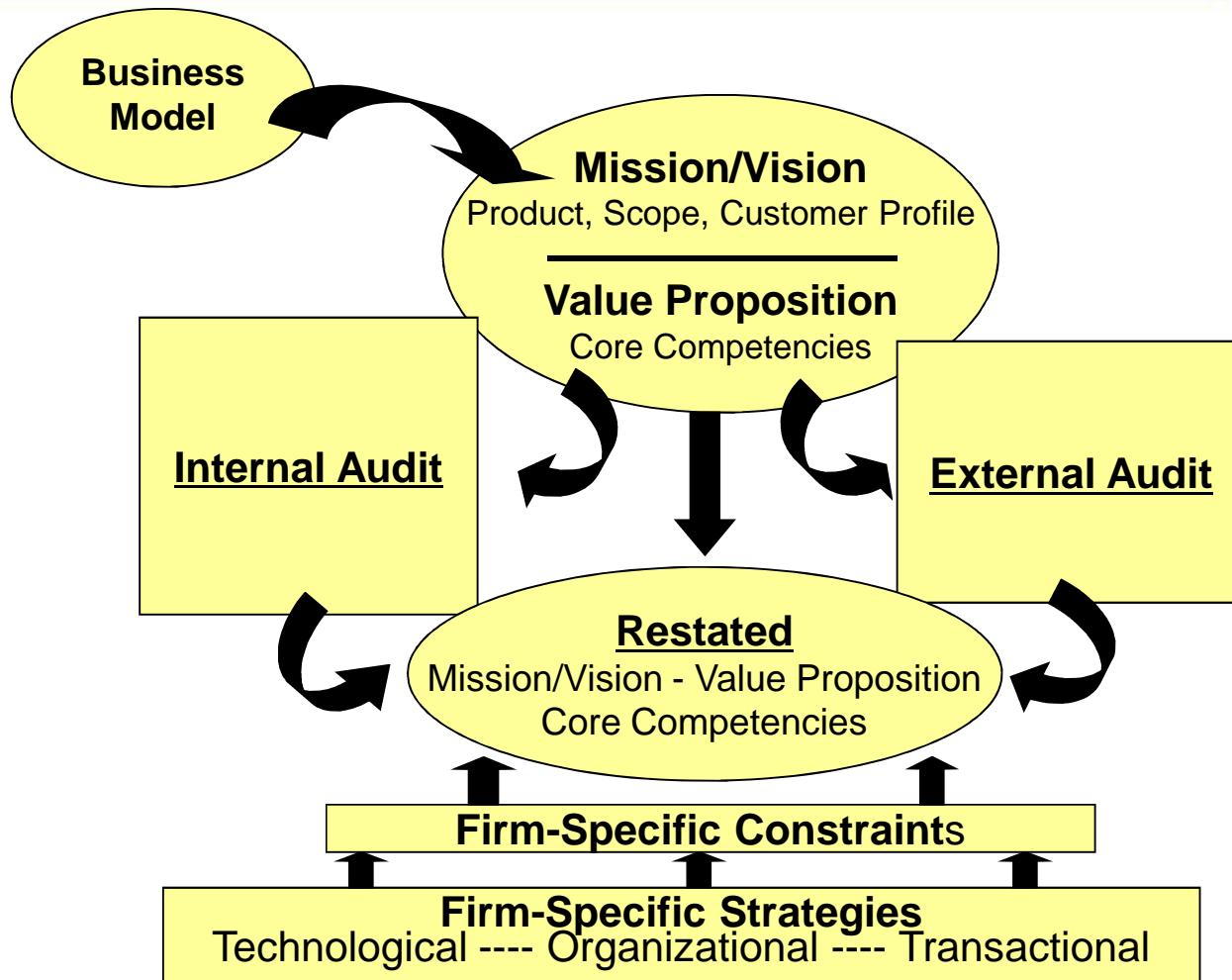


- Based on –
  - Enterprise Audit
    - (Present Situation – Internal & External)
  - Practical Vision
    - (Future Aspirations)





# Strategy Process: One Model



# Importance of Tools/Methodologies



- Several models of strategy development
- Seat of pants analysis can lead to gaps
- Tools and methodologies can ensure that major areas are consistently explored
- And, since strategy is based on analysis,
- Better analysis = better strategy



# Focus of Presentation



- Since entire courses/programs are built around strategy, the focus of this presentation will be on two key aspects
  - Internal audit
  - External audit
- And some useful tools to help conduct those audits



# 3 Tools for Internal Assessment



- Internal assessment
  1. SWOT (strengths, weaknesses, opportunities, threats)
  2. Value Chain
  3. Corporate process triangle



# 1. SWOT Analysis



*Internal to Firm*

*External to Firm*

**Strengths**

**Opportunities**

**Weaknesses**

**Threats**



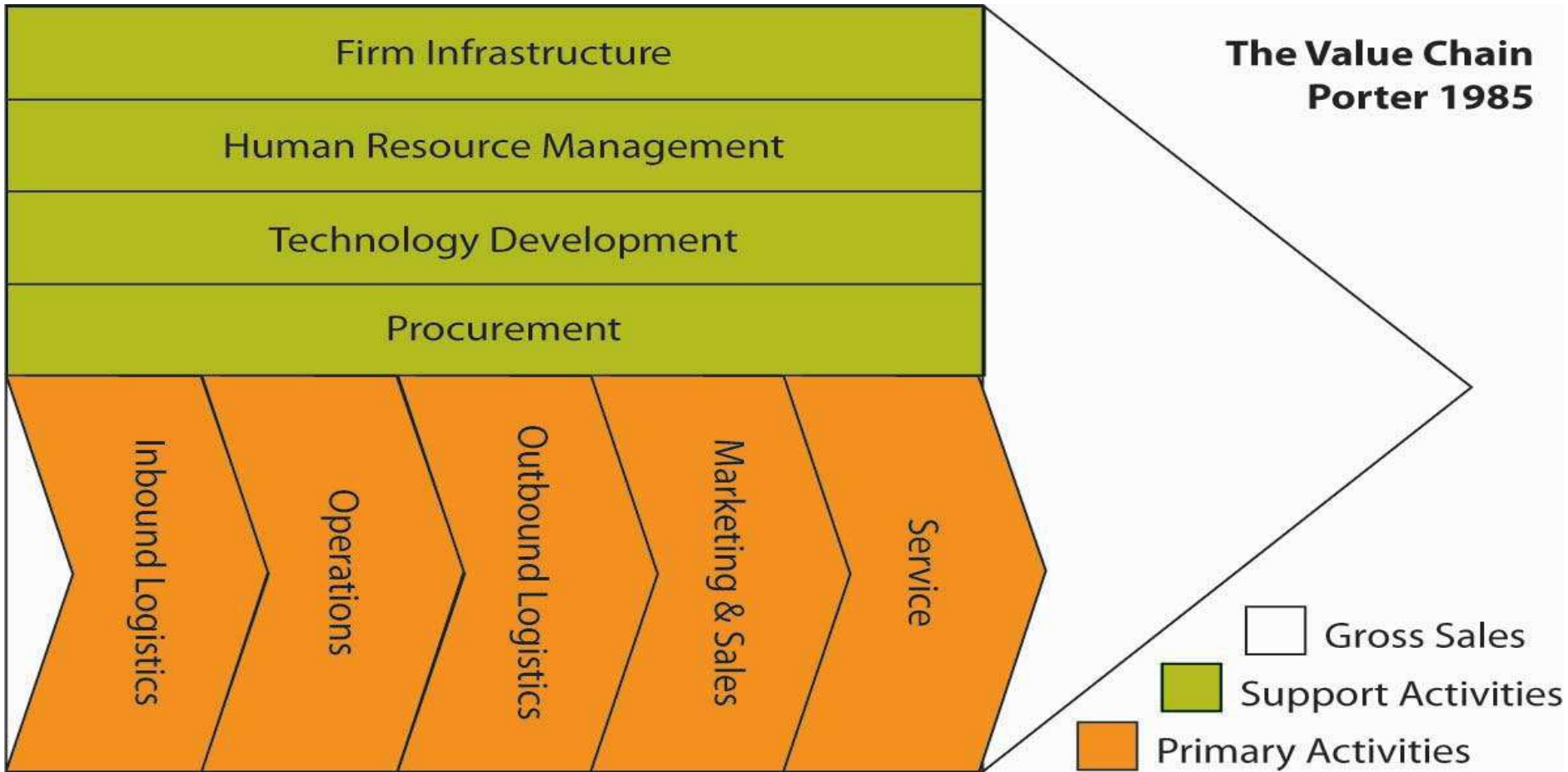
# SWOT



- Advantages
  - Simple to remember
  - Comprehensive (covering internal and external)
  - A good starting point
- Disadvantages
  - But perhaps too simple to be really useful
- Examples of each?



# 2. Value Chain



# 'Global' Scope of an Industry

What is the geographic logic of each element of an industry's value chain?  
 Why are there differences in this logic?



Industry Scope/ Value Chain	Local	National	Regional	Bi-Regional	Global
<b>Markets</b> ■Major ■Secondary					
<b>Competitors</b> ■Who (value props) ■Logic of competition					
<b>Production (Centers of Excellence)</b>					
<b>Trade &amp; Non-Trade Barriers</b>					
<b>Technology (R&amp;D centers)</b> ■IPR – Scope of Protection ■Sources (of excellence)					
<b>Finances</b> ■Financial sources ■Tax factors ■Regulatory standards					
<b>Regulatory Regimes – national and international</b>					





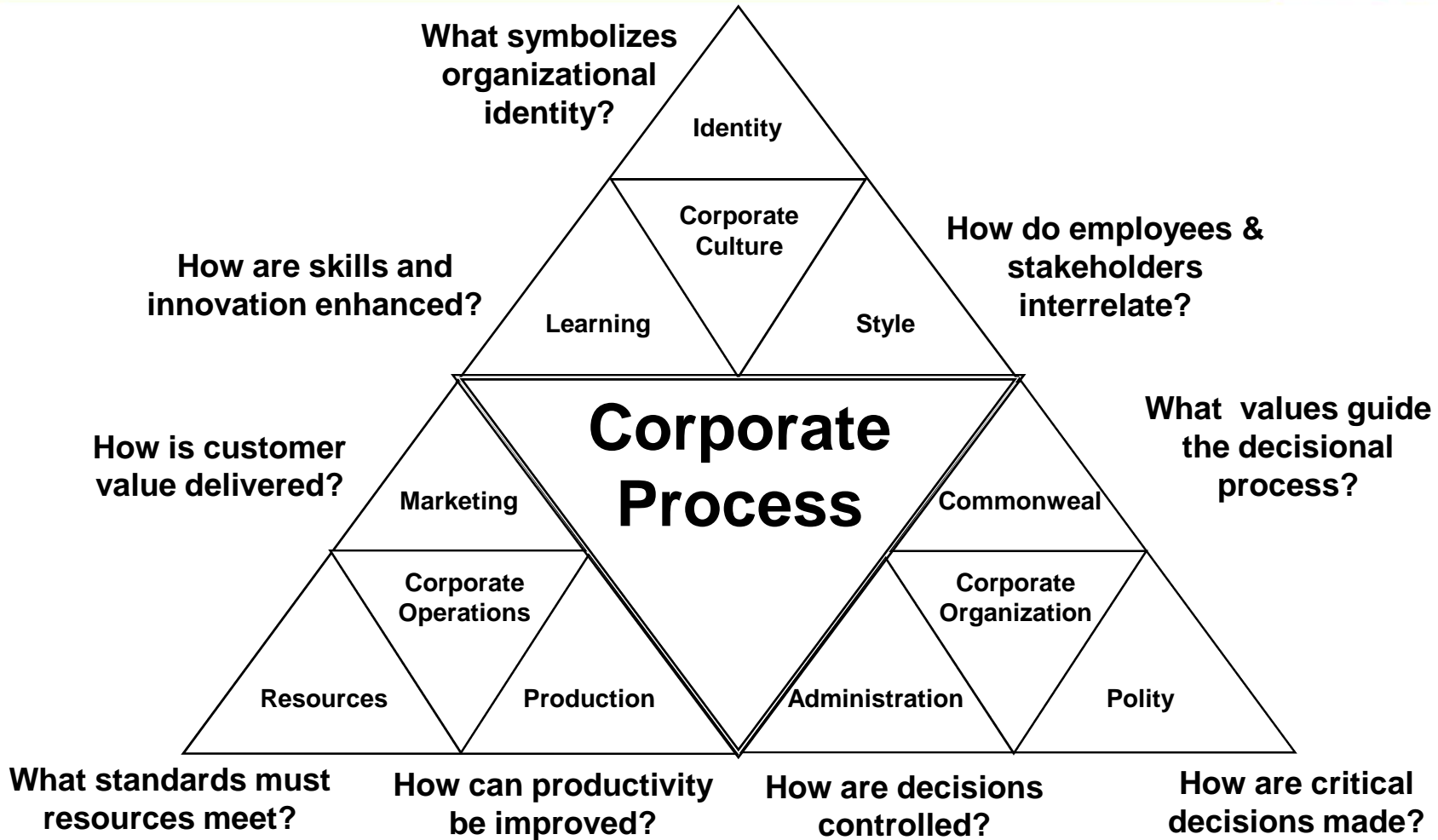
# Value Chain Pros and Cons



- Advantages
  - Helpful to identify core competencies
  - Helpful to see bottlenecks
  - Helpful to identify global scope
  - Can link to buyer's value chain to assess similarities/differences
  - Useful to determine cost analysis
  - Useful to assign costs
- Disadvantages
  - Ignores intangibles, such as management style, personal values of key implementers; broader societal expectations
- Examples?



# 3. Corporate Process Triangle



# 3. Corporate Process Triangle

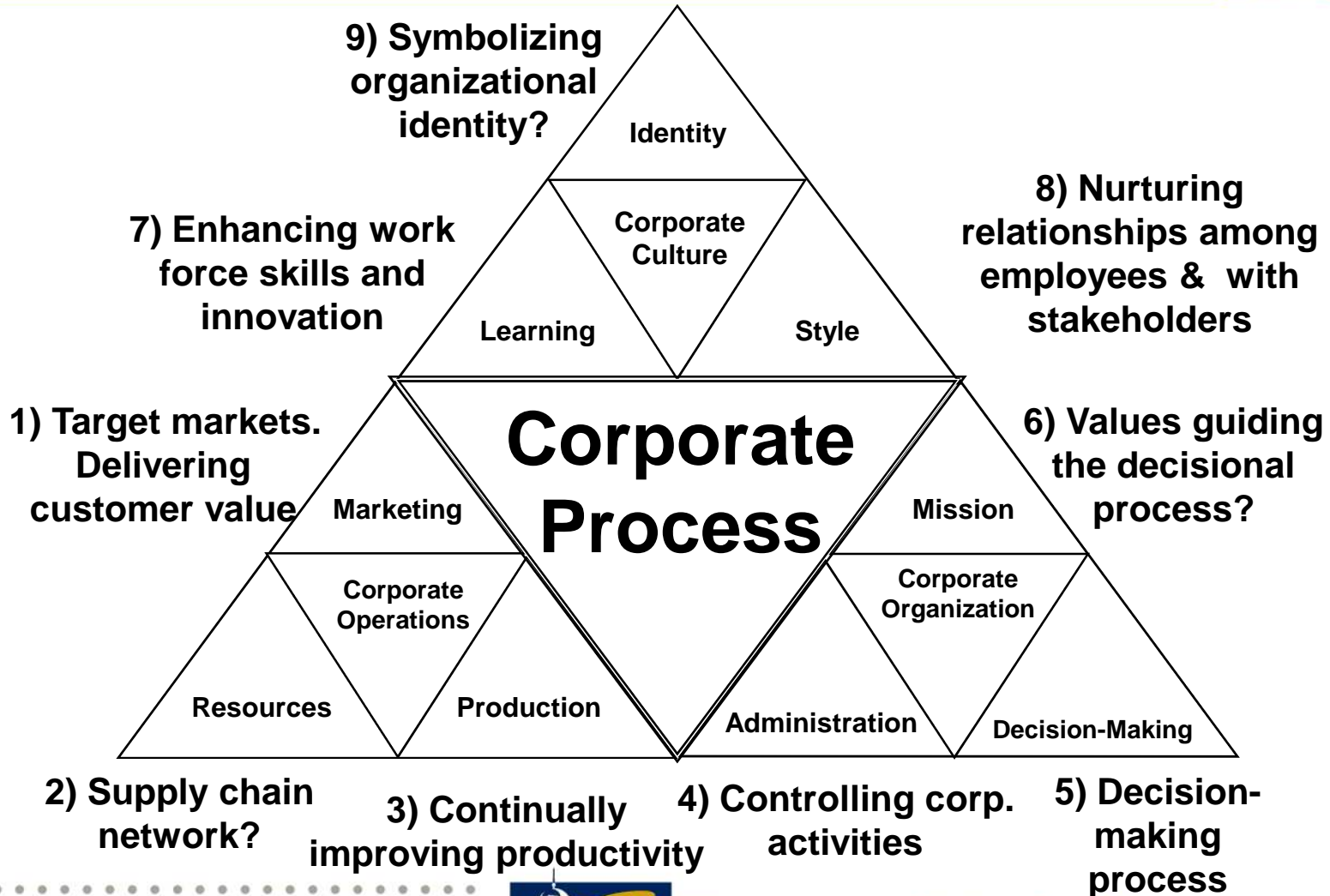


- Looks at three poles:
  - Significating
  - Organizational
  - Foundational
- And their relationships to each other



# Corporate Process Dynamics

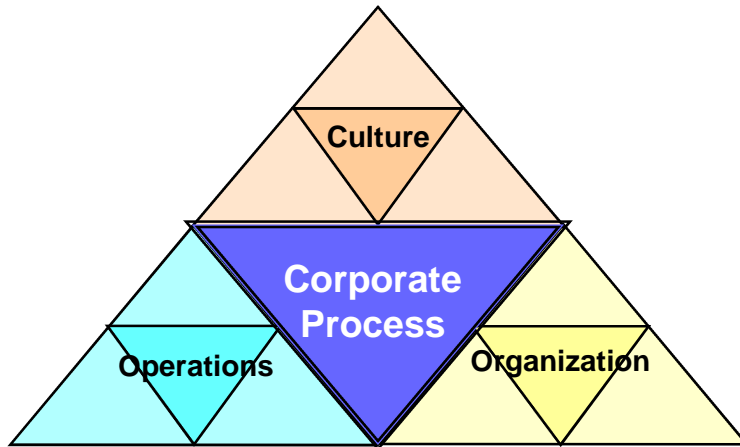
## What is the Firm's Practical Vision?



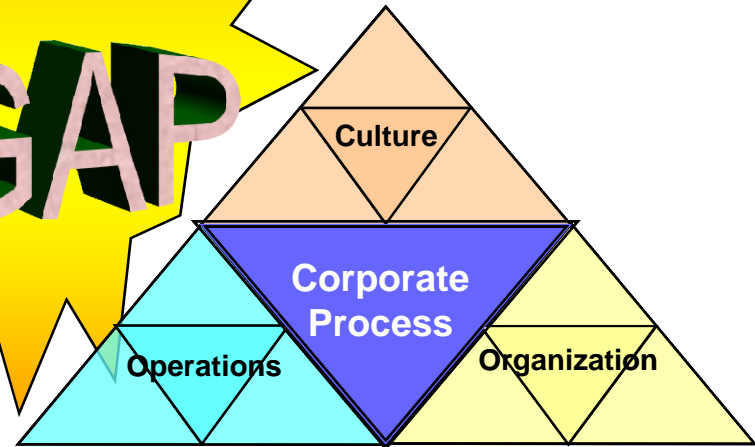
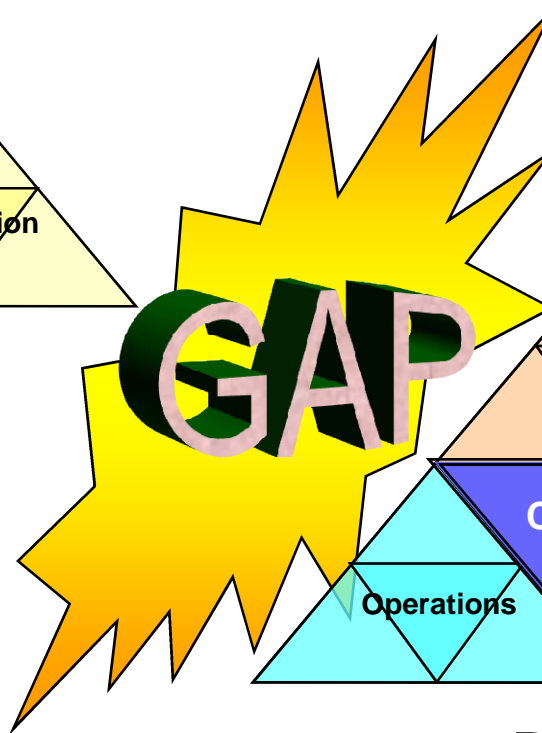
# Organizational Gap Analysis



## Present Situation vs. Future



**Envisioned  
Organizational  
Profile  
5-10 Year  
Practical Vision**



**Present  
Organization Profile**



# 4 Tools for External Assessment



1. PEST (or some acronym)
2. Michael Porter 5 forces
3. Michael Porter diamond
4. Social Process Triangle



# 1. PEST/SEPTE



- Simplest is a check list with an acronym
- PEST or PESTL
  - Political, economic, social, technological, legal
- SEPTE
  - Social, economic, political, technological, environmental
- Leads to identification of macro trends



# Tracking Global Trends



- Emerging markets increase their global power [P]
- Global banking seeks recovery through transformation [E]
- Demographic shifts transform the global workforce [S]
- Rapid technology innovation creates a smart, mobile world [T]
- Governments enhance ties with the private sector [L]
- Cleantech becomes a competitive advantage [En]





# Six Global Trends, Interconnected by Three Key Drivers of Change



# The World is Flat: A Brief History of the Twenty-First Century, TL Friedman



- The Ten Forces That Flattened the World:
  - Flattener #1 – 11/9/89 [Berlin Wall; Windows 3.0]
  - Flattener #2 – 8/9/95 [Netscape went public; internet browsing]
  - Flattener #3 – Work Flow Software [apps to apps]
  - Flattener #4 – Open-Sourcing [self organizing collaborative communities, writing software, etc., “intellectual commons”]
  - Flattener #5 – Outsourcing [Y2K, specific function to India]
  - Flattener #6 – Offshoring [entire plant moved]
  - Flattener #7 – Supply-Chaining [collaborating horizontally]



# The World is Flat, con't



- Flattener #8 – Insourcing [deep collaboration, e.g. UPS a dynamic supply chain manager *inside a client* ]
- Flattener #9 – In-forming [searching for knowledge; vast info available to anyone]
- Flattener #10 – The Steroids [digital, mobile, personal, virtual]



## 2. Five Forces Driving Industry Competition \*



- Presents a general framework for analyzing the structure of an industry and its competitors
- Underpinning of this framework is the analysis of the five competitive forces acting on an industry and their strategic implications
- Also referred to as Porter's 5 forces

\*Note: much of this material comes from Michael E. Porter's *Competitive Strategy*, (1980)

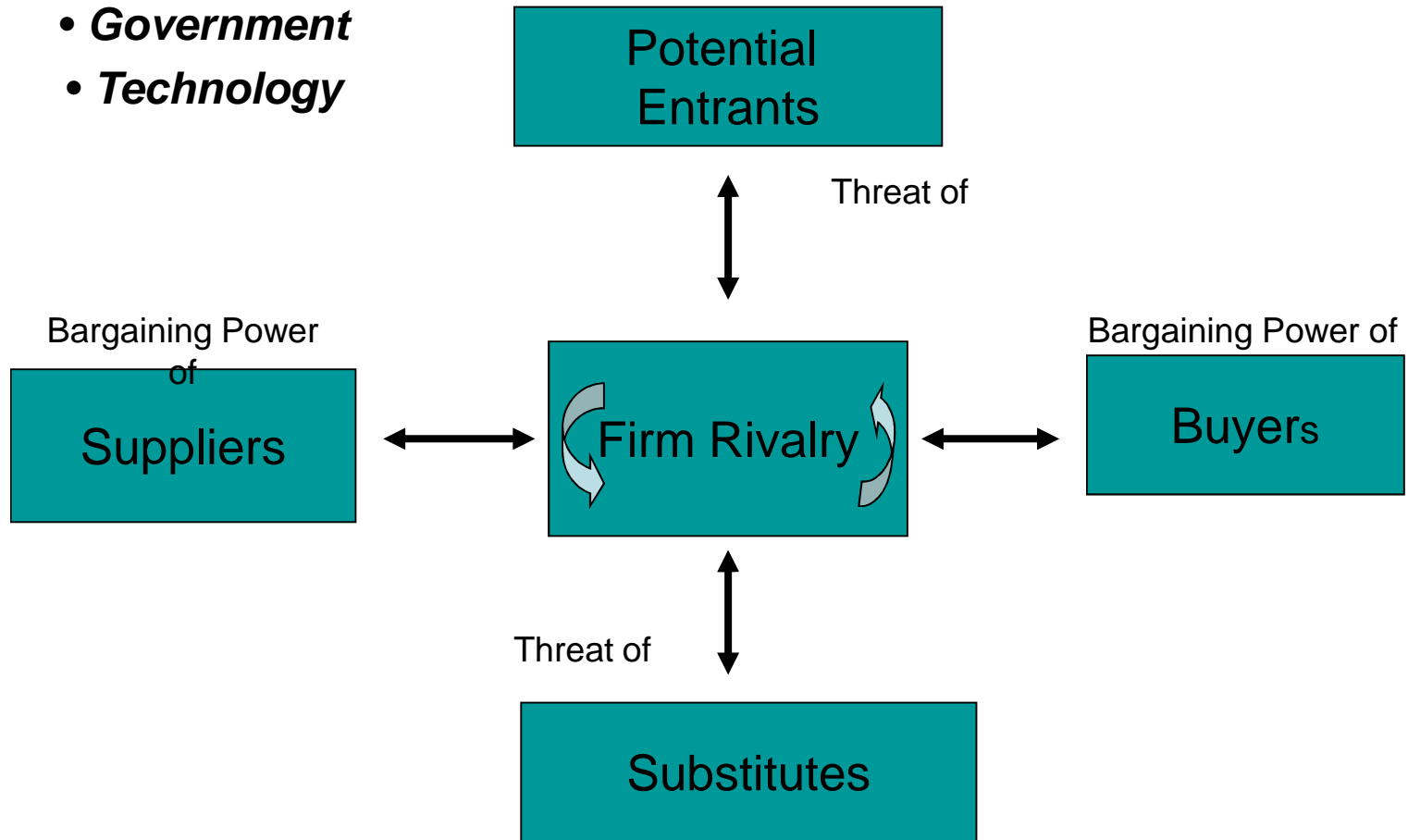


## 2. Five Forces: Michael Porter



*Role of –*

- **Government**
- **Technology**



# Barriers to Entry



- Economies of scale
- Product differentiation
  - Brand identification and customer loyalties
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages independent of scale
  - Proprietary product technology; favorable access to raw materials; favorable locations; government subsidies; learning or experience curve
- Government policy



# Intensity of Rivalry



- Numerous or equally balanced competitors
- Slow industry growth
- High fixed or storage costs
- Lack of differentiation or switching costs
- Capacity augmented in large increments
- Diverse competitors
- High strategic stakes
- High exit barriers



# Pressure from Substitute Products



- Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge
- Substitute products perform the same function as the product of the industry
- Substitute products that deserve the most attention are those that are produced by industries earning high profits





# Bargaining Power of Buyers



- Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other
- A buyer group is powerful if
  - It is concentrated or purchases large volumes relative to seller sales
  - The products it purchases from the industry represent a significant fraction of the buyer's costs or purchases
  - The products it purchases from the industry are standard or undifferentiated
  - It faces few switching costs
  - It earns low profits
  - Buyers pose a credible threat of backward integration
  - The buyer has full information



# Bargaining Power of Suppliers



- Suppliers exert power by threatening to raise prices or reduce quality
- Conditions making suppliers powerful mirror buyers
  - Supplier group is dominated by a few companies
  - No/few substitutes
  - The industry is not an important customer of the supplier group
  - Suppliers' product is an important input to the buyer's business
  - Suppliers' products are differentiated or it has high switching costs
  - Supplier group poses a credible threat of forward integration
- Labor is a supplier



# Government



- A buyer and supplier
- Can affect the position of an industry with substitutes through regulations, subsidies, other means
- More illuminating to consider how government affects competition through the five competitive forces than to consider it as a force in and of itself



# So what?



- Knowing about your industry is one of the keys to crafting good strategy
- An effective competitive strategy takes offensive or defensive action in order to create a defensible position against the five competitive forces
  - Positioning
  - Influencing the balance of forces
  - Exploiting change



### 3. Porter's 'Diamond'



- How does Porter's 'Diamond' methodology differ from his 'Five Forces' methodology?
- In what respects (if at all) does Porter's 'Diamond' methodology provide insight into a 'global' or 'globalizing' industry?



# Porter's Diamond Competitive Advantage



- Explains Why a Nation Achieves International Success in a Particular Industry
- “National Diamond”: Four Broad Attributes of a Nation Shape its Industry Environment
- Attributes Form an Interdependent Evolving, Dynamic System -- Both Virtuous & Vicious
- Influenced by Chance and Government Policy



# Porter's Diamond Four Factors



# Porter's Diamond

## “Firm Strategy, Structure & Rivalry”



- Firm Ownership, Size and Structure
- Management Practices and Approaches
- Attitudes of Capital Markets & Debt Holders
- Time Horizon - Short Term/Long Term
- Individual Motivation & Risk Tolerance
- Domestic Rivalry
- Influence of National Prestige/Priorities





# Porter's Diamond “Related & Supporting Industries”



- Presence of Internationally Competitive Home-Based Supplier Industries
- Presence of Related Competitive Industries
- Proximity of Firms Shortens Communication Lines and Encourages Shared Activities
- Rigorously Demanding Buyers



# Porter's Diamond "Demand Conditions"



- Size & Growth of Home Demand
- Segment Structure of Demand
- Sophistication and Demands of Buyers
- Anticipatory Buyer Needs
- Early Saturation of Home Market
- Internationalization of Home Demand



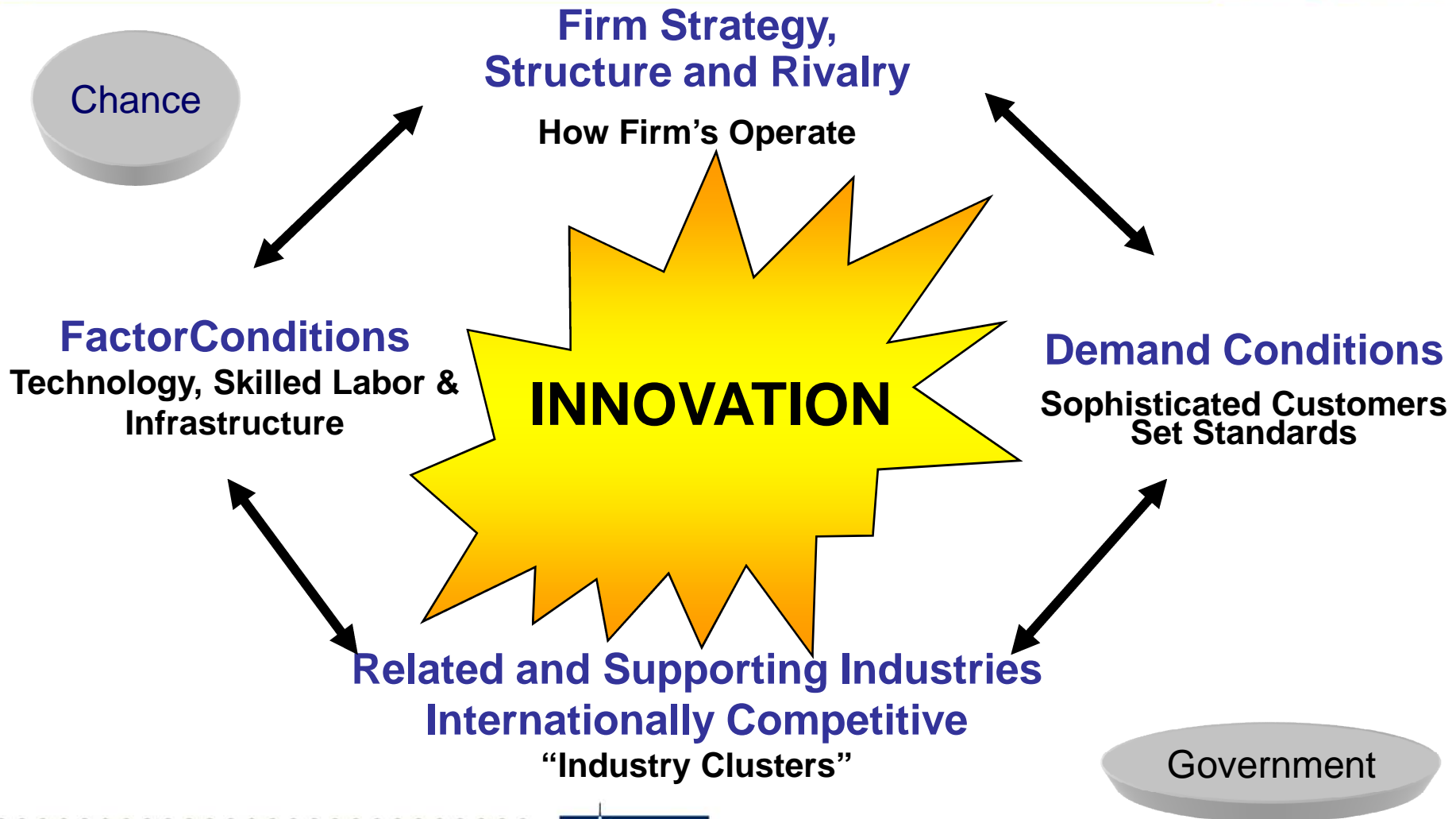
# Porter's Diamond "Factor Conditions"



- Human Resources - quantity, skills and cost of personnel
- Physical Resources - natural resources, size and geographic location
- Knowledge Resources - stock of scientific, technical and market knowledge which bears on goods and services
- Capital Conditions - amount and cost of capital available
- Infrastructure - e.g., electric, telecom grid, higher ed



# Porter's Diamond Four Factors



# Porter's Diamond Influences on Factor Conditions



# Porter's Diamond Influences on Demand Conditions



*Chance*

**Firm Strategy,  
Structure and Rivalry**  
How Firm's Operate

**Factor Conditions**  
Technology, Skilled Labor  
& Infrastructure

**Demand Conditions**  
Sophisticated Customers  
Set Standards

**Related and Supporting Industries**  
**Internationally Competitive**  
"Industry Clusters"

*Government*



# Porter's Diamond

## Influences on Firm Strategy, Structure & Rivalry



# Porter's Diamond

Influences on Related and Supporting Industries



*Chance*

**Firm Strategy,  
Structure and Rivalry**

How Firm's Operate

**FactorConditions**

Technology, Skilled Labor  
& Infrastructure

**Demand Conditions**

Sophisticated Customers  
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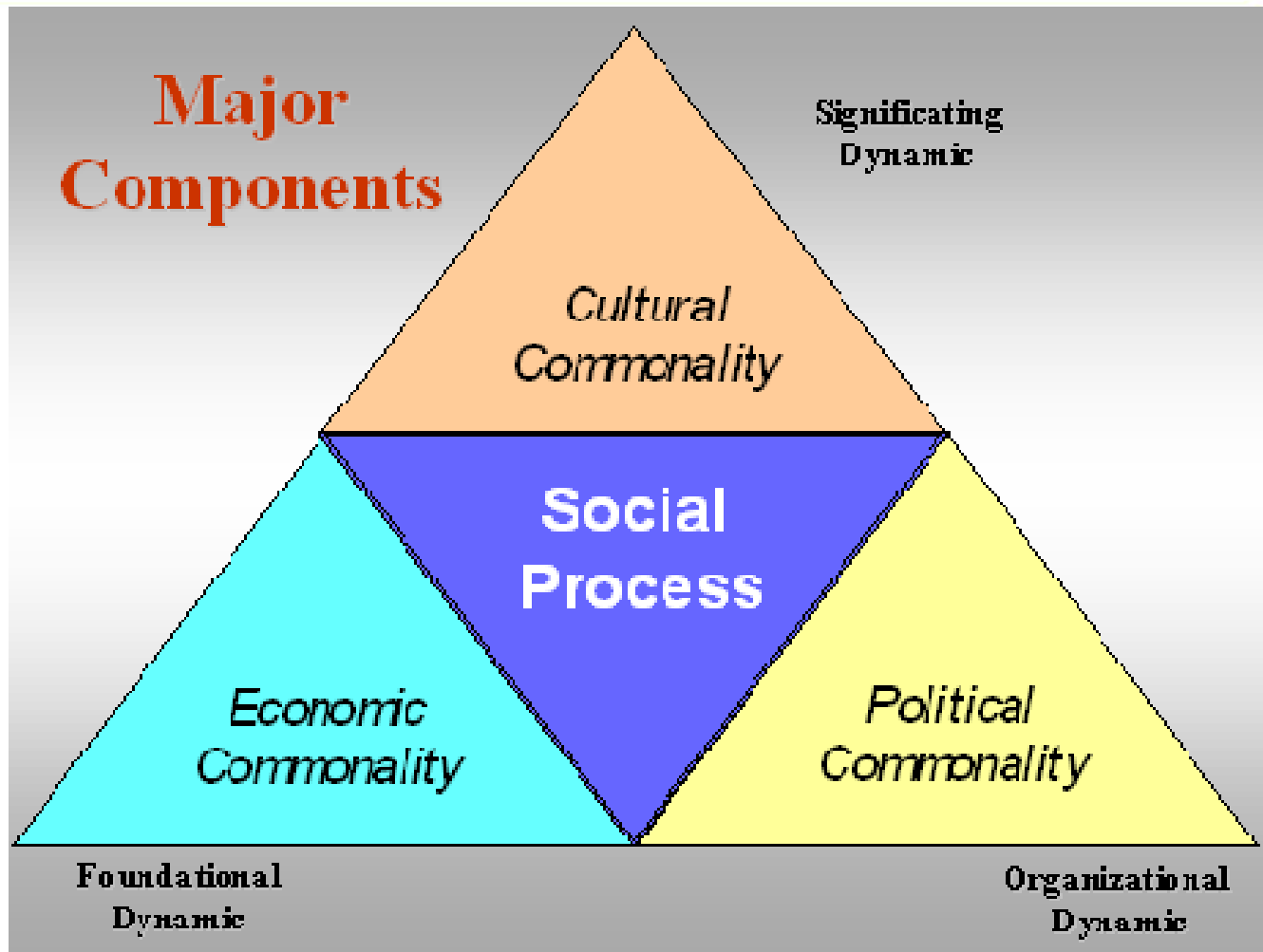
**Related and Supporting Industries**  
**Internationally Competitive**  
"Industry Clusters"

*Government*

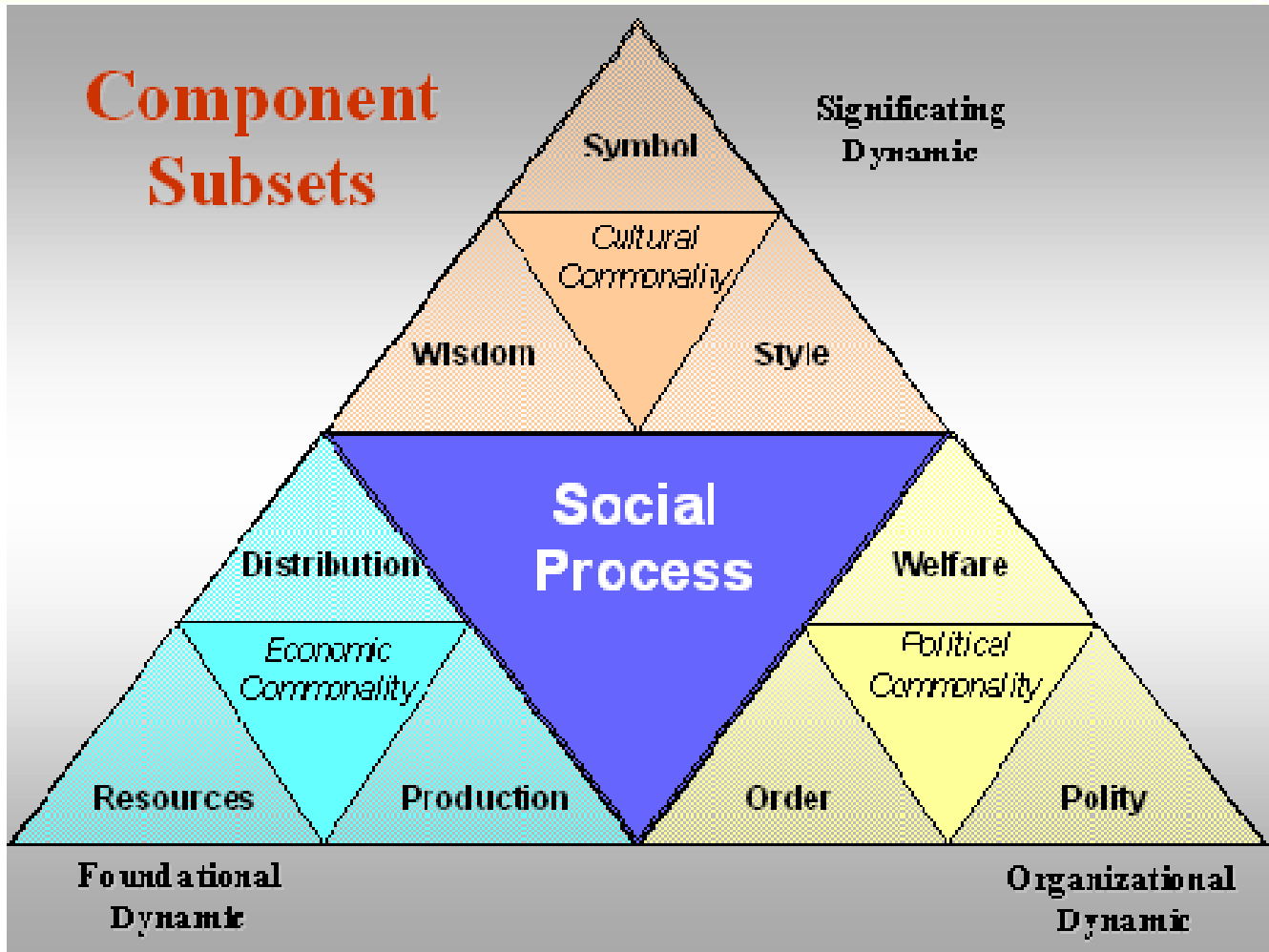




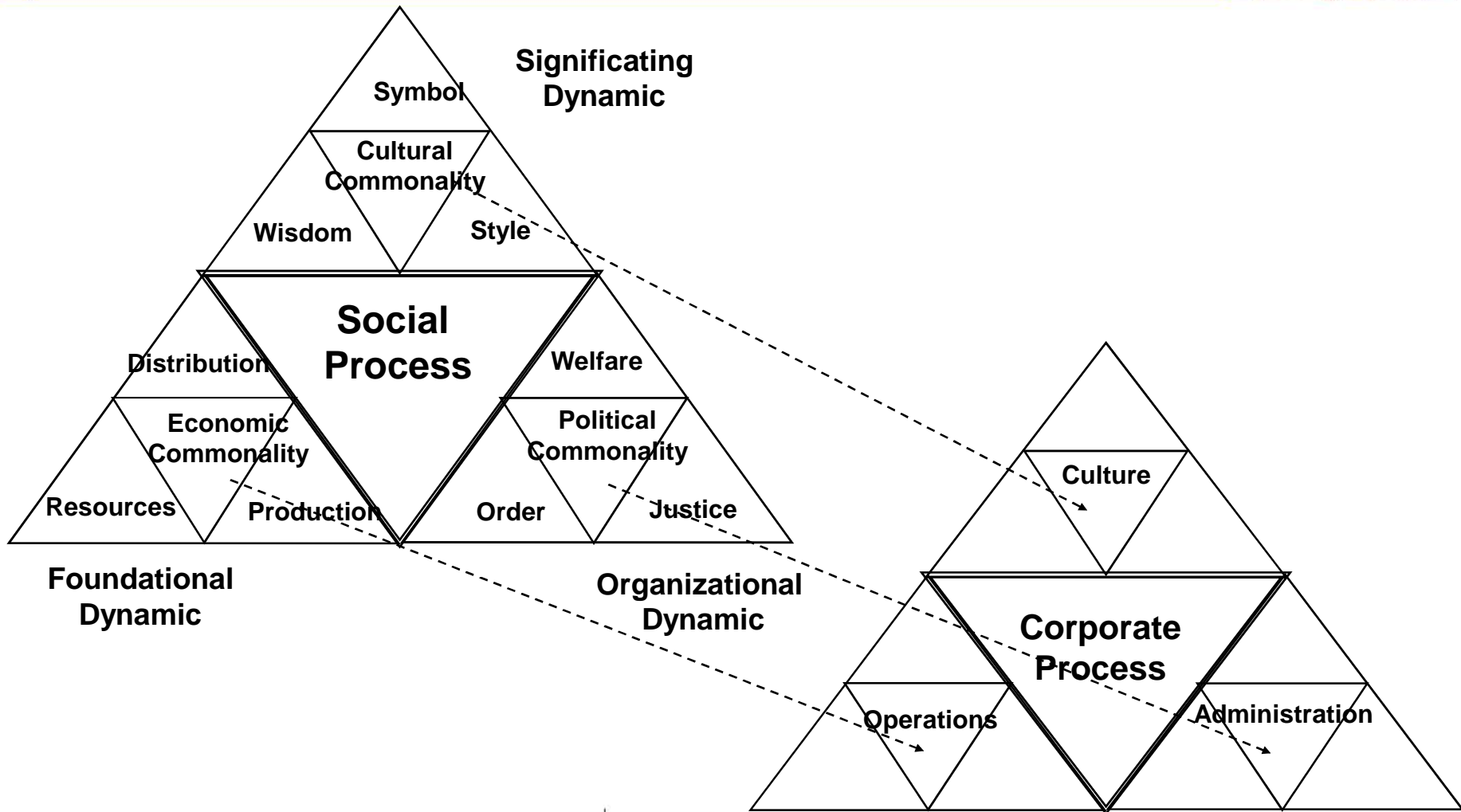
# 4. Social Process Analysis



# Social Process Subsets



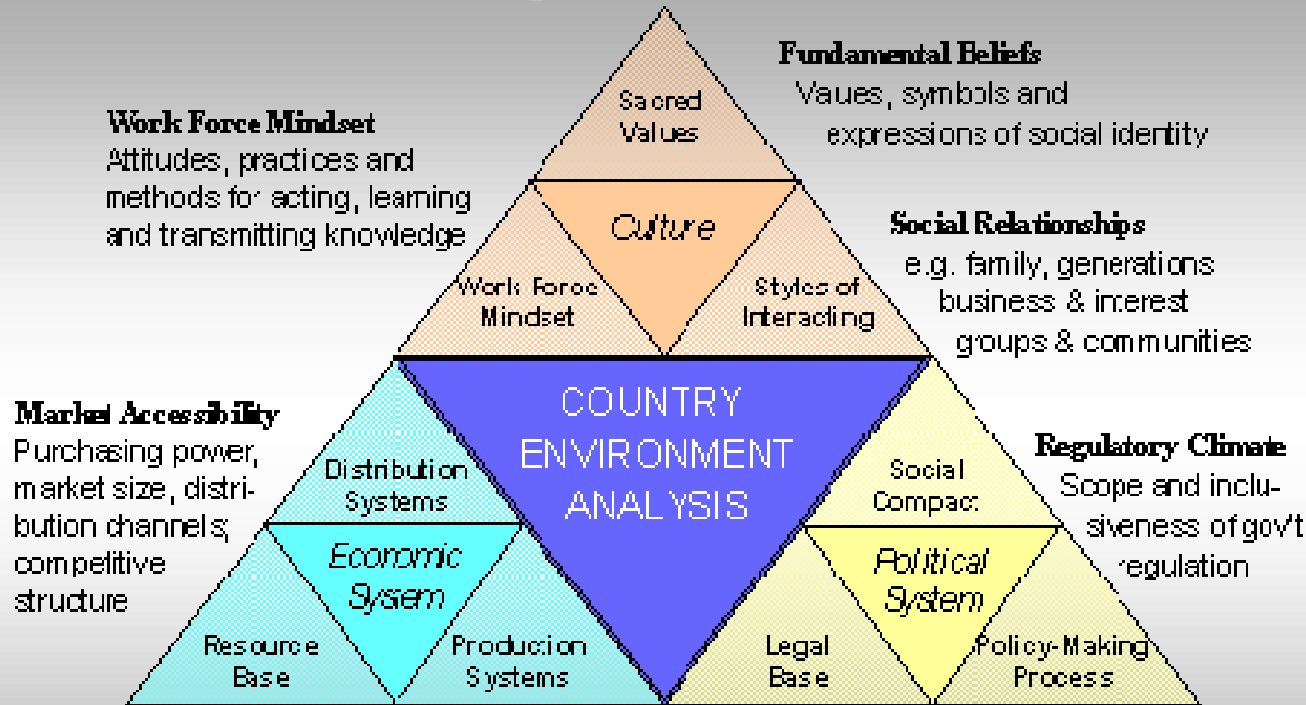
# Corporations as Mirror Images of Society – with Parallel Dynamics



# Country Profile Indicators



## Country Profile Indicators



### Quality of Inputs

Physical & Technological infrastructure; factor quality and costs,

### Productivity

Mngt systems, labor organization, capital assets

### Predictability

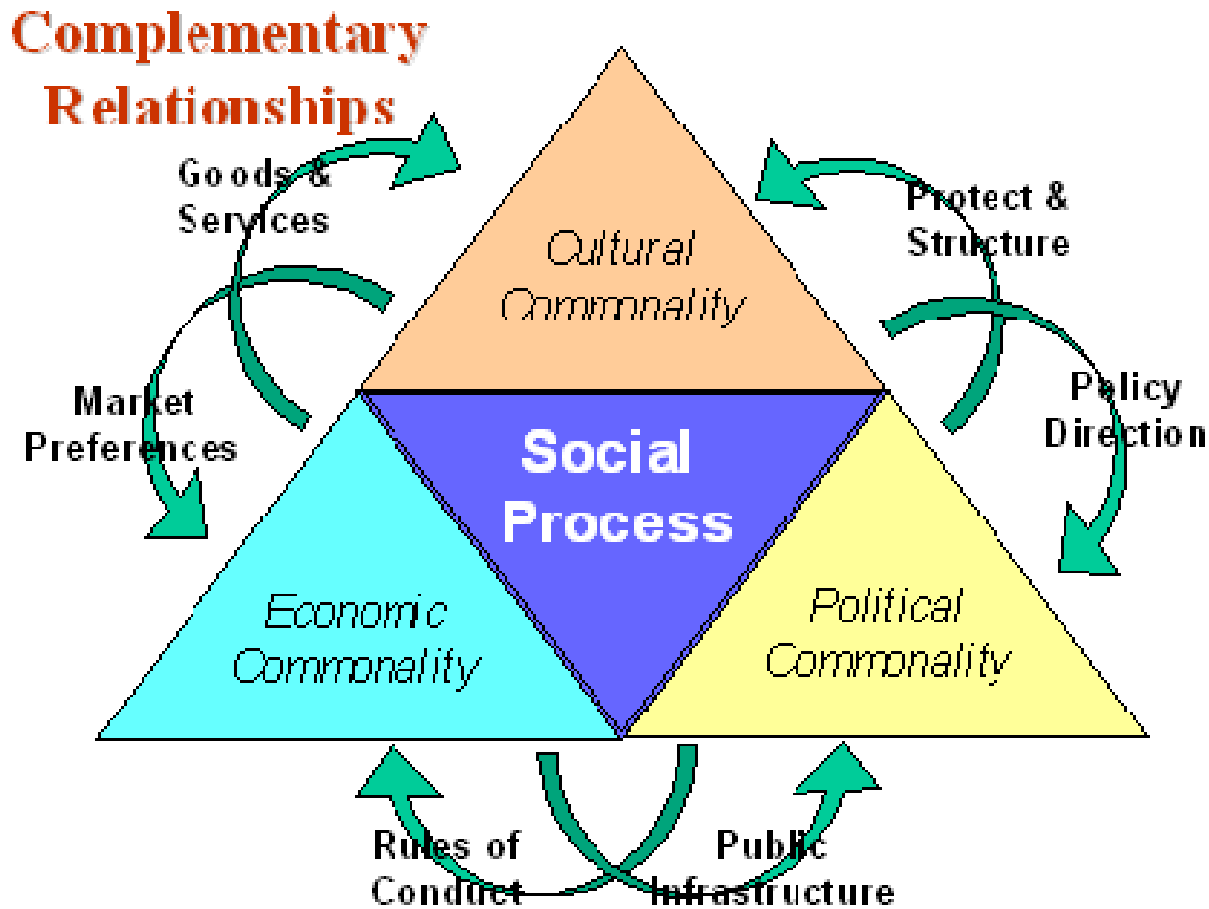
Rule vs. discretion; Effective dispute resolution

### Stability

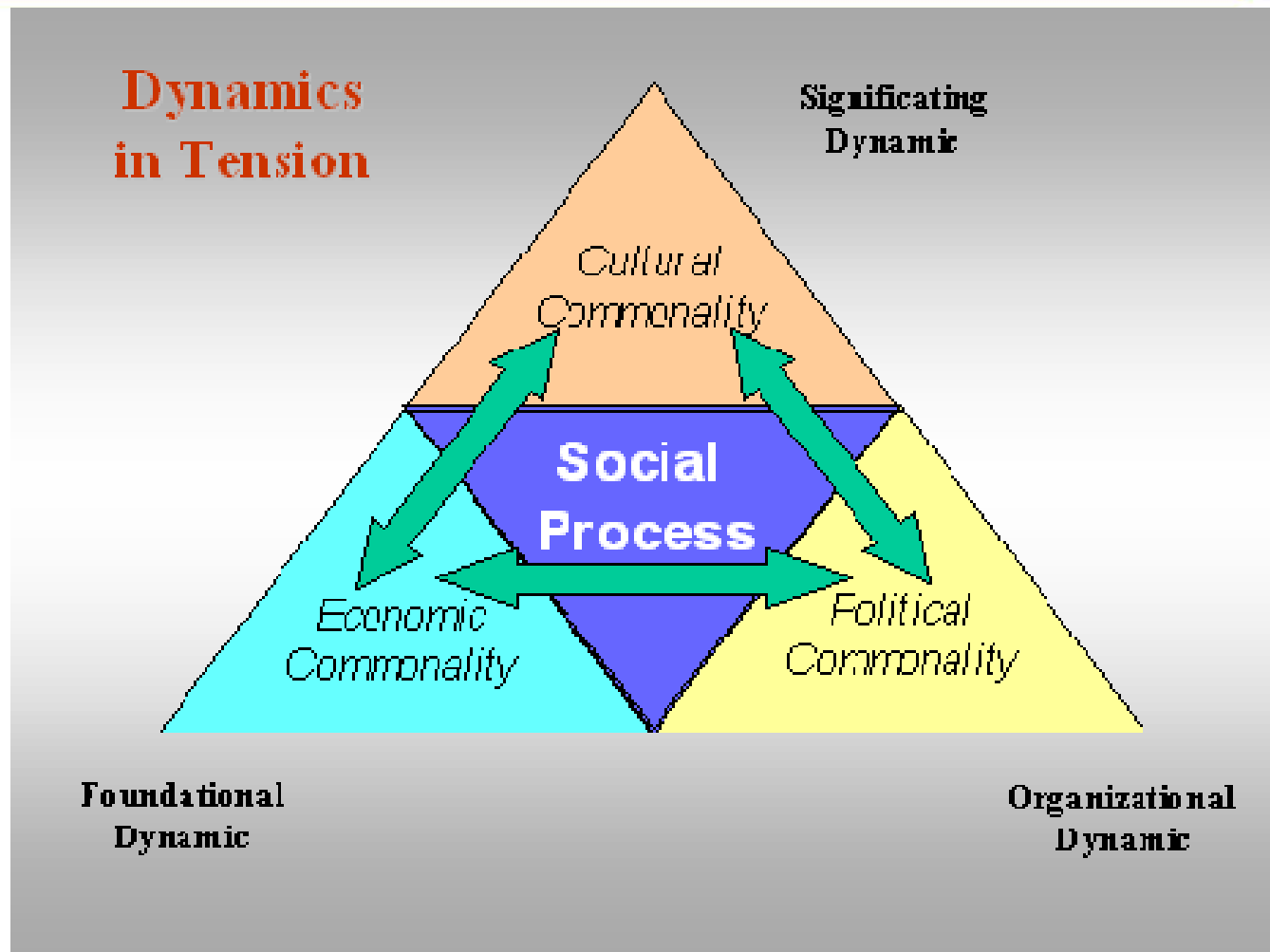
How transparent and broadly based are decisions?



# Dynamic



# Tensions

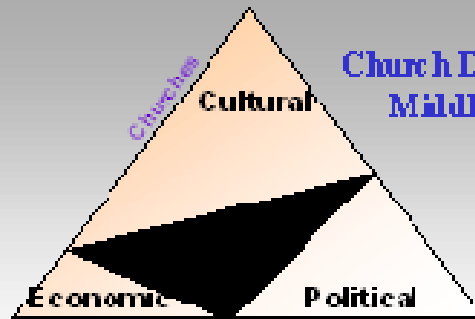


# Historical

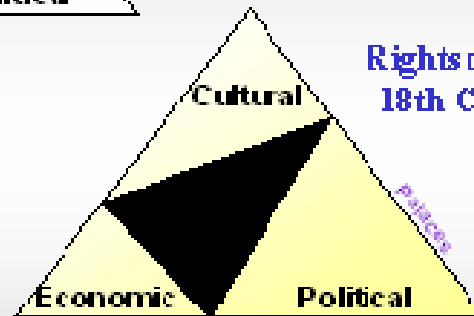


## Historical Perspective

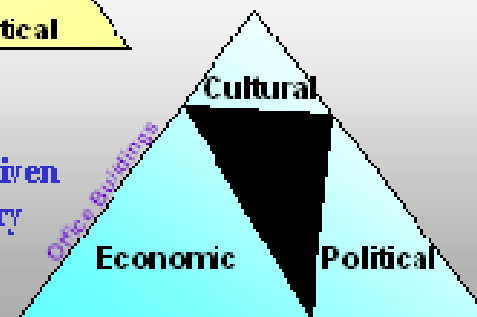
*Shifting Imbalances*



Church Dominated  
Middle Ages



Rights of Man  
18th Century



Economic Driven  
20th Century

Dynamics are:

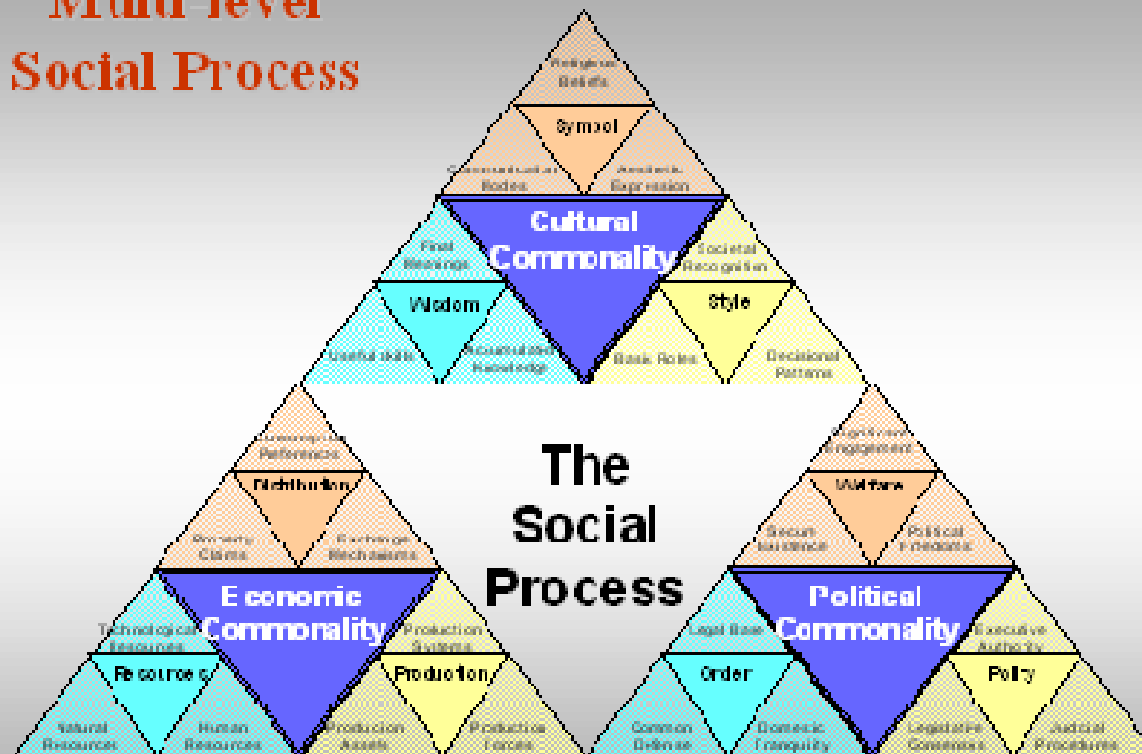
- Dominant
- Allied
- Collapsed



# Multi-level

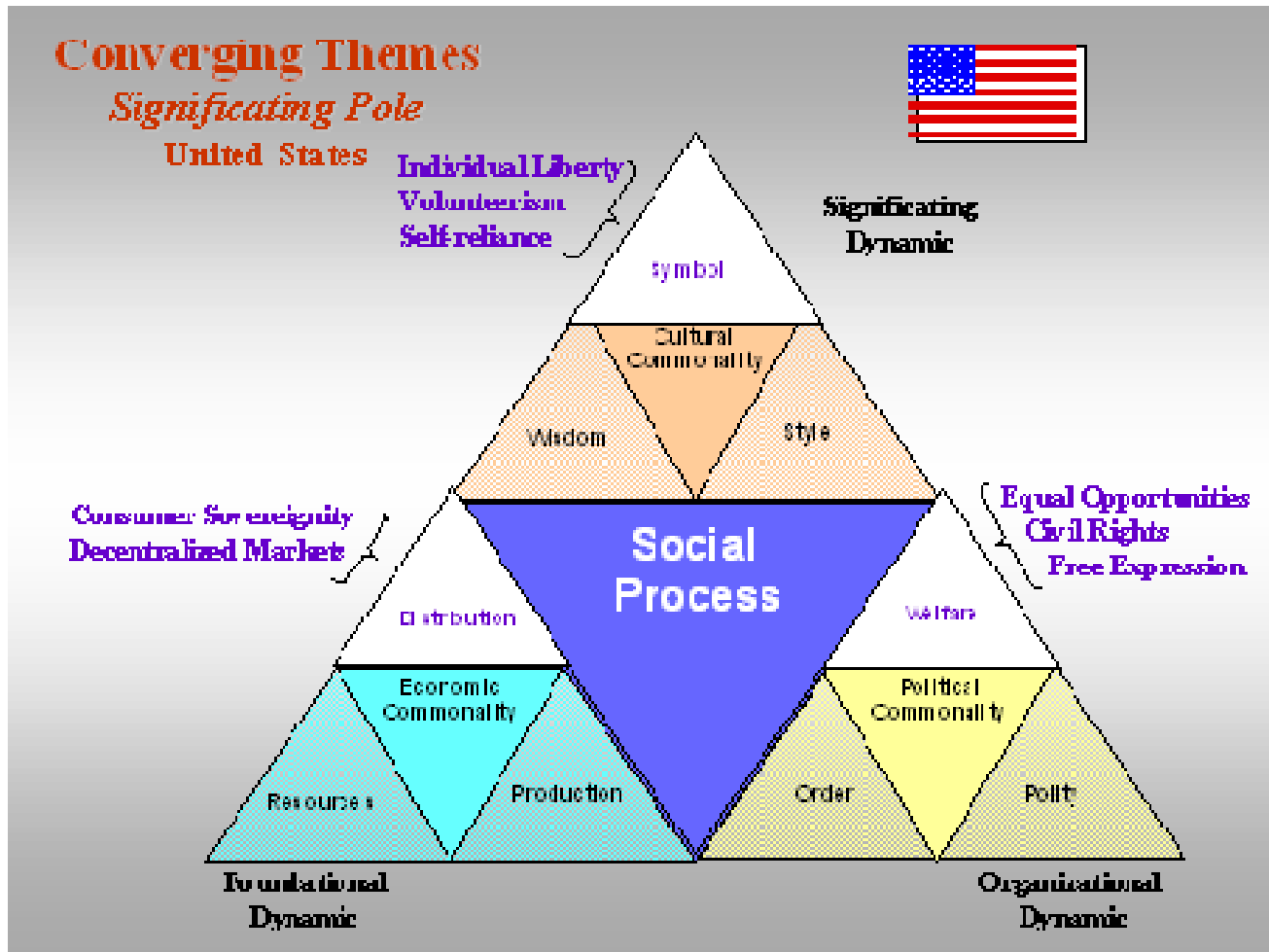


## Multi level Social Process

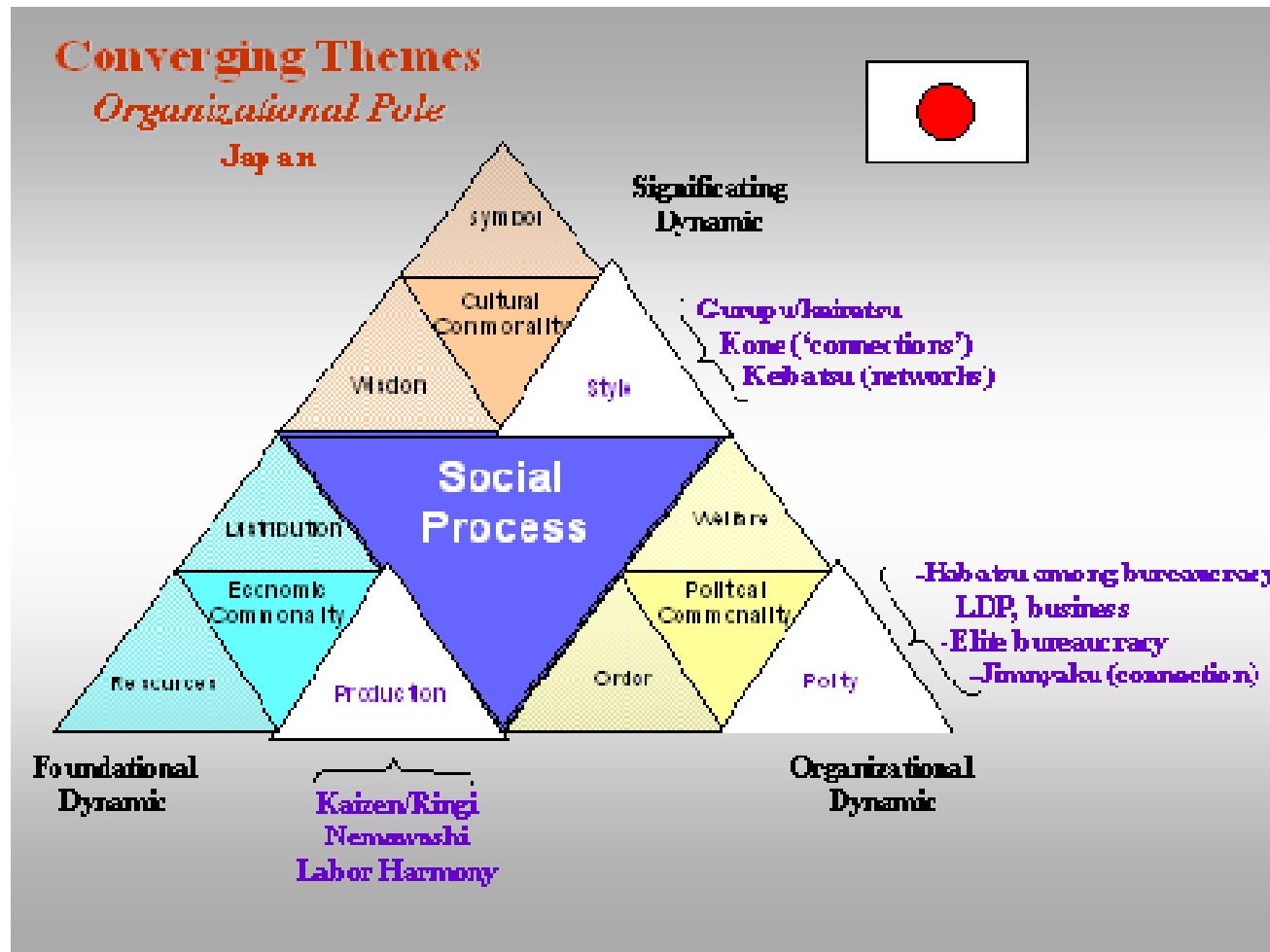




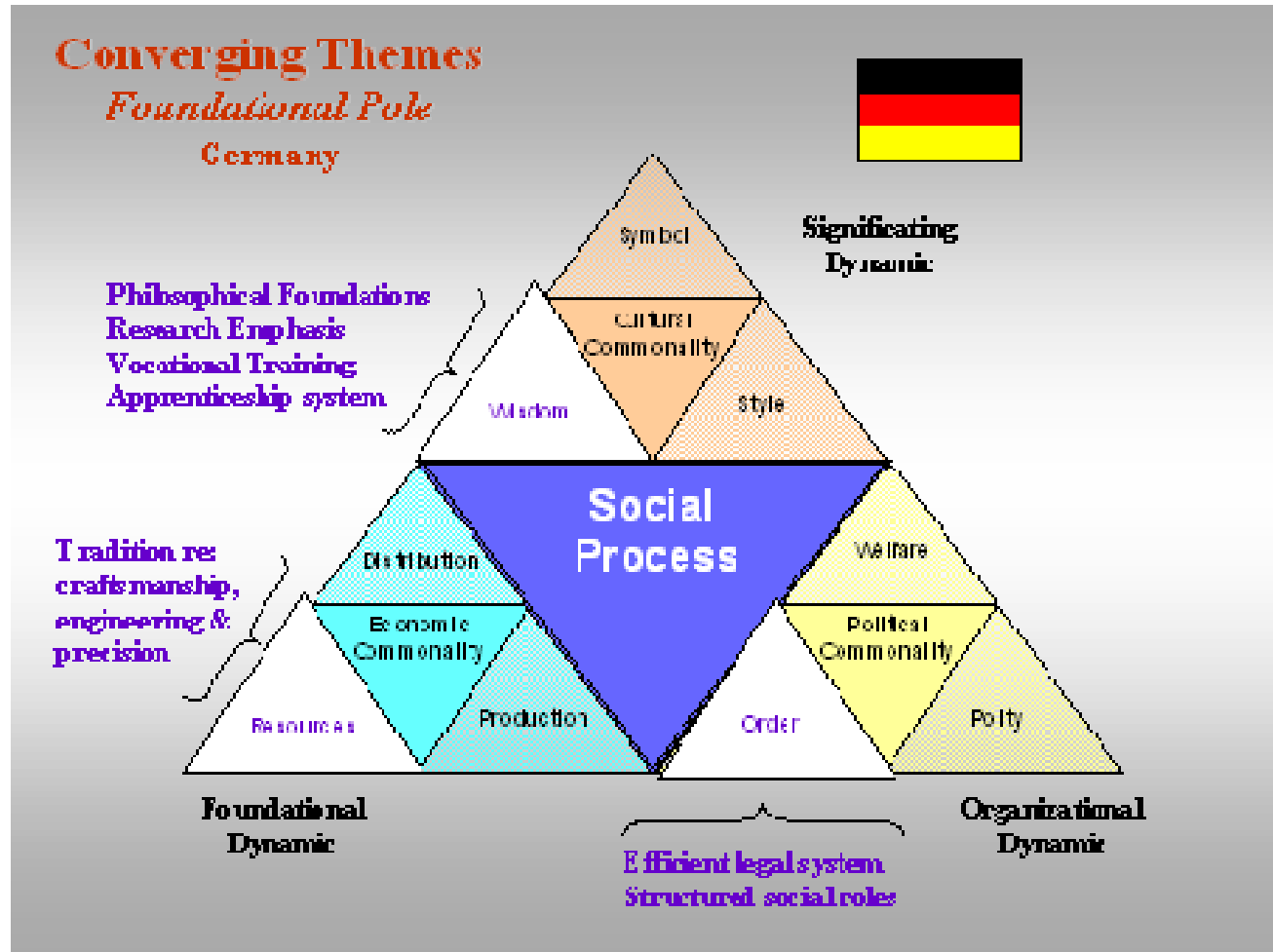
# USA



# Japan



# Germany



# Comparative



## Comparing Economic Systems and Mindsets

Dominant Traits	TRADITIONAL (Cultural)	COMMAND (Political)	MARKET (Economic)
Static ←			→ Dynamic
<b>ECONOMIC COMMONALITY</b>			
Distribution	Past Practices	Planning Procedures	Market Mechanisms
— Prop. Claims	— Custom/Status	— Bureaucratic Elite	— Market Price
— Exchange Mech.	— Ration	— Favours/Suspicion/Force	— Monetized Market
— Consum. Pref.	— Patrimony	— National Interests	— Consumer Demand
<b>POLITICAL COMMONALITY</b>			
Order			
— Legal Base	— Custom/tribal	— Adm. Fiat	— Private property
<b>CULTURAL COMMONALITY</b>			
Wisdom	Status	Ideology	Wealth
— Useful Skills	— Craftsmanship	— Planning	— Efficiency
— Tech. Knowledge	— Universal truth	— Orthodoxy	— Relative
— Final Meanings	— Perpetuate past	— Party line	— What works
Style	Faith	Power	Money
— Basic Roles	— Ext. family	— State groups	— Nuclear family
— Societal Recog.	— Royalty	— The party	— Interest groups
Symbol	Monarch	Manifesto	Central Bank



# Focus of Presentation



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  - External audit
- And some useful tools to help conduct those audits



# 3 Tools for Internal Assessment



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# Conclusion



- Thank you!
- Any questions?

