

Reasons for Strategic Complexity:

- Globalization
- Change
- Dynamism

Vision → Strategic Analysis (scanning with the 7 questions that mgmt. should ask itself) → Strategic Formulation → finally Strategic Solution

Industry: the participants

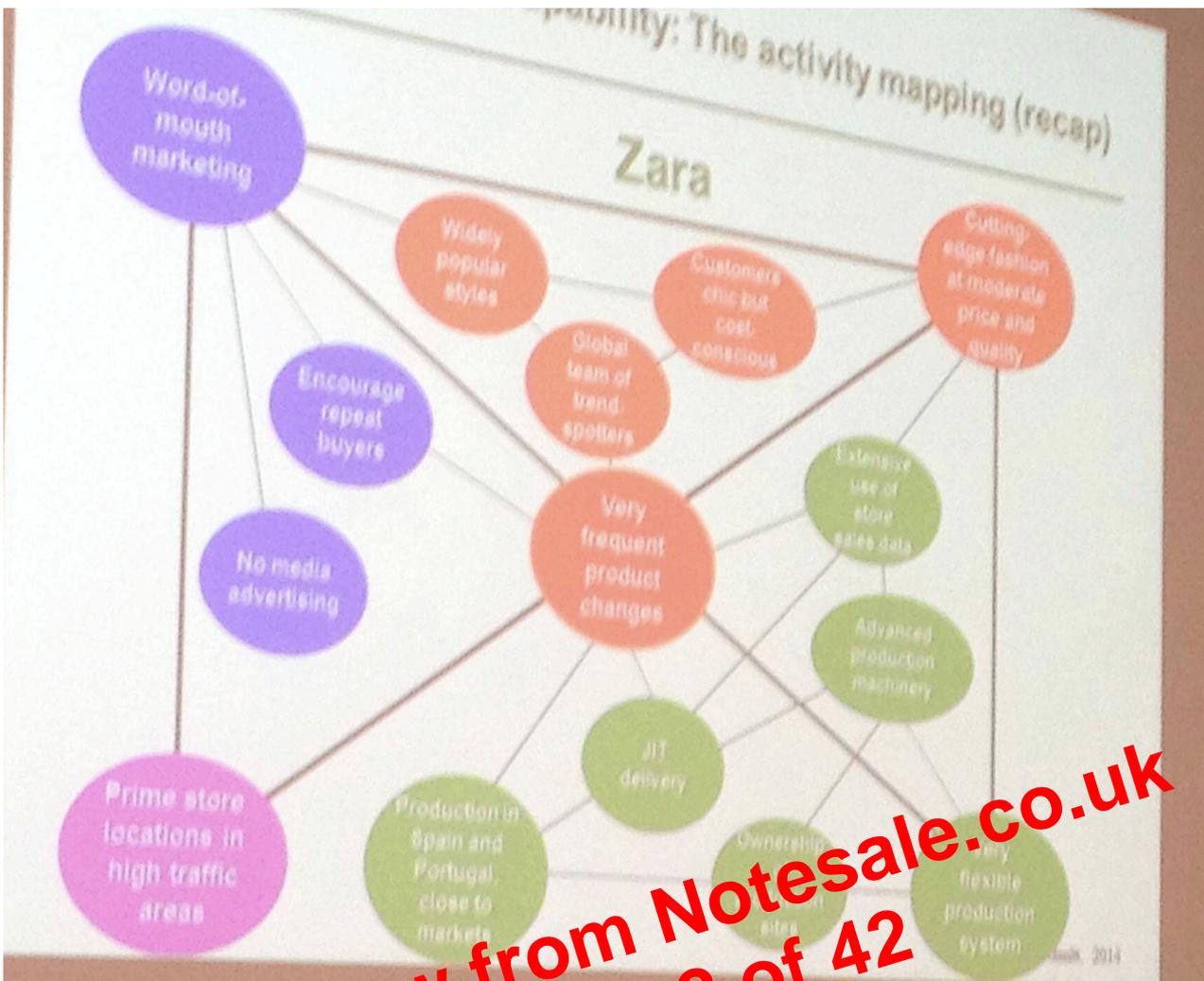
Market: the buyers (market analyzed by Strategic Group Mapping)

Why Apple May Grow Only in Single Digits?

What is their strategy?: premium products at premium price margins

- Not enough new customers for this type of technology
- Case of managing investor expectations
- Low switching costs (Apple software related, creates a “strategic lock-in”)
- They are stagnating in growth
- There are limitations to the current markets
- Plan to diversify, enter new platforms, thus Apple is going into glasses/watches/TV market
 - YET, they have different competitive dynamics
 - It takes away core resources to develop this
 - Here you are taking away managerial attention (not seen as innovative approach if ignore the old product!)

When to introduce an innovation: as soon as maturity about to decline in the product lifecycle → will create an S-curve



Reasons for Growth

1. Economies of scale
2. Economies of scope (physical when you put under one brand different products)
 - a. Manage intangible assets through economies of scope
3. Shareholder interest
4. Diversify risk
5. Bargaining power over supplier
6. Attracting top talents and financial resources
7. Deploying free resources (reusing resource you didn't use)

State of the R&D Process



- 1) Basic research (hard to protect, not interesting for firms; knowledge spillovers; done by universities)
- 2) Applied research
- 3) Product development

→ both can often be protected by patent or copyrights; possibility to stop other from making use of it; for firms: whoever came first wins the patent racing; importance of competitive behavior

Three Types of Innovation

- 1) Process: eg. NIKE Lunar sneakers younger audience
- 2) Product: any form of product innovation like augmented reality; contact lenses detecting the need to getting an insulin shot, etc.
- 3) Business Model: eg. DELL (as an approach to the market; sales process revolutionized) eg. ZARA business model eg. 20 minutes (Swiss newspaper; 1998 ad paid advertising was initiated; targeting the people commuting; gaining leadership;

KEY IDEA: 88% of product innovations fail to meet the ROI; 60% imitated by competition in 4 years

FORD CASE

Decline stages: the process when resources decrease that has the threat of failure and how to counterattack them through **Corporate Turnaround**

1) Blinded:

- a. **Good info;** accounting systems → document the best; average good companies max 4 months gives a status quo

2) Inaction: not addressing the cause!

- a. **Prompt active;**

3) Faulty action:

- a. **Corrective action;** improve the current status quo; improve what we are currently doing

4) Crisis:

- a. **Effective reorganization;** otherwise here suffer because you didn't adapt through corrective action, run out of cash flow, bad liquidity

5) Dissolution: if didn't pass, the company dies

When Corporate Turnaround Occurs

- 1) Expansion stage (high growth, vivid markets)
- 2) Early warning stage (loss of turnover, increasing costs)
- 3) Crisis stage (lacking economies of scale, loss of net profit, lack of liquidity)
- 4) Turnaround Stage (increase of turnover, reduction of costs (retrenchment, downsize), cash generation)

Most mentioned case; tailoring; when to deliver; scientific approach in the use of capabilities

What is the current situation at Ford?

- Loss of customers
- Active inertia
- Lack of adaption
- Reputation issues (ext vs. Int)
- Drop in demand
- Willingness to change
- Rockstar CEO Mr. Fields
- Need for change
- No easy way to make change
- Long tenure
- Fresh ideas
- Family orientation
- Price war relocation

What did they do?

- 1) Communicate constantly w/ organization; motivate w/ truth
- 2) 60 days to figure out the new strategy; Ford announced the #s (asking for additional time is a bad practice; CEO is always responsible; Bill Ford was removed)
- 3) They got a new CEO; there were discrepancies as showed throughout the movie

KEY IDEAS: never communicate too early otherwise destroys trust!; turnover is pressure to cut costs; downward spiral with focus on cutting costs; need to know how to combine retrenchment and recovery

Lesson 7

How you perceive and act: **Incremental Recovery** or **Discontinuous Recovery**

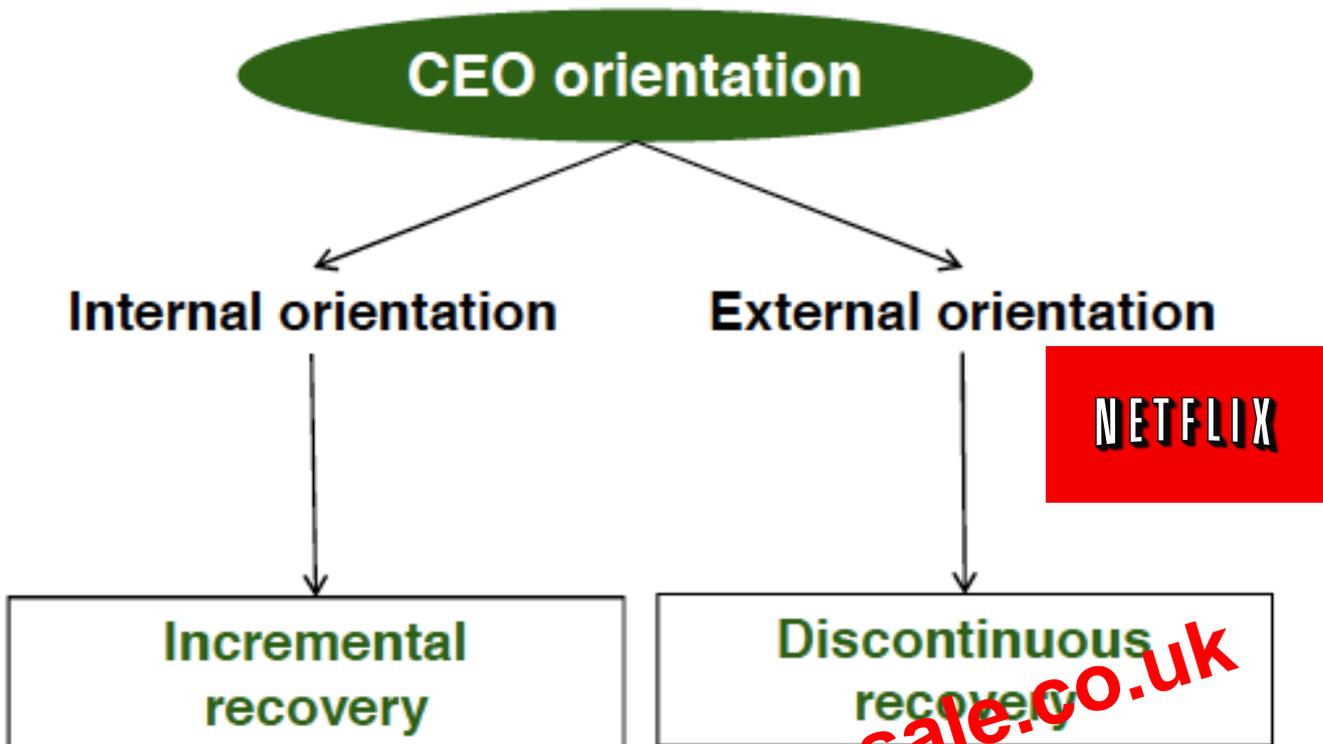
Bounded rationality: you are limited; the way you perceive info is limited; biases how managers respond during decline

KEY IDEAS: Management Perception or Management Interpretation= Strategic Behavior During Decline

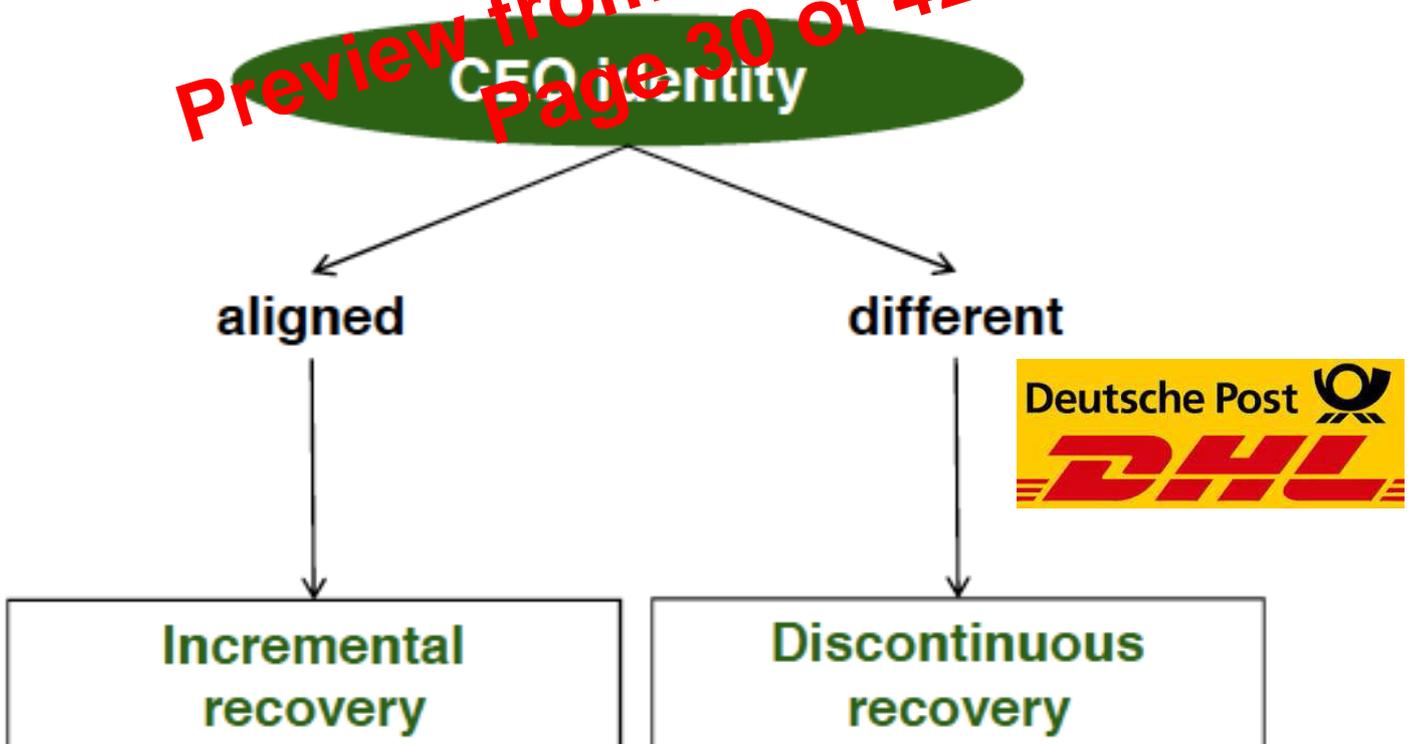
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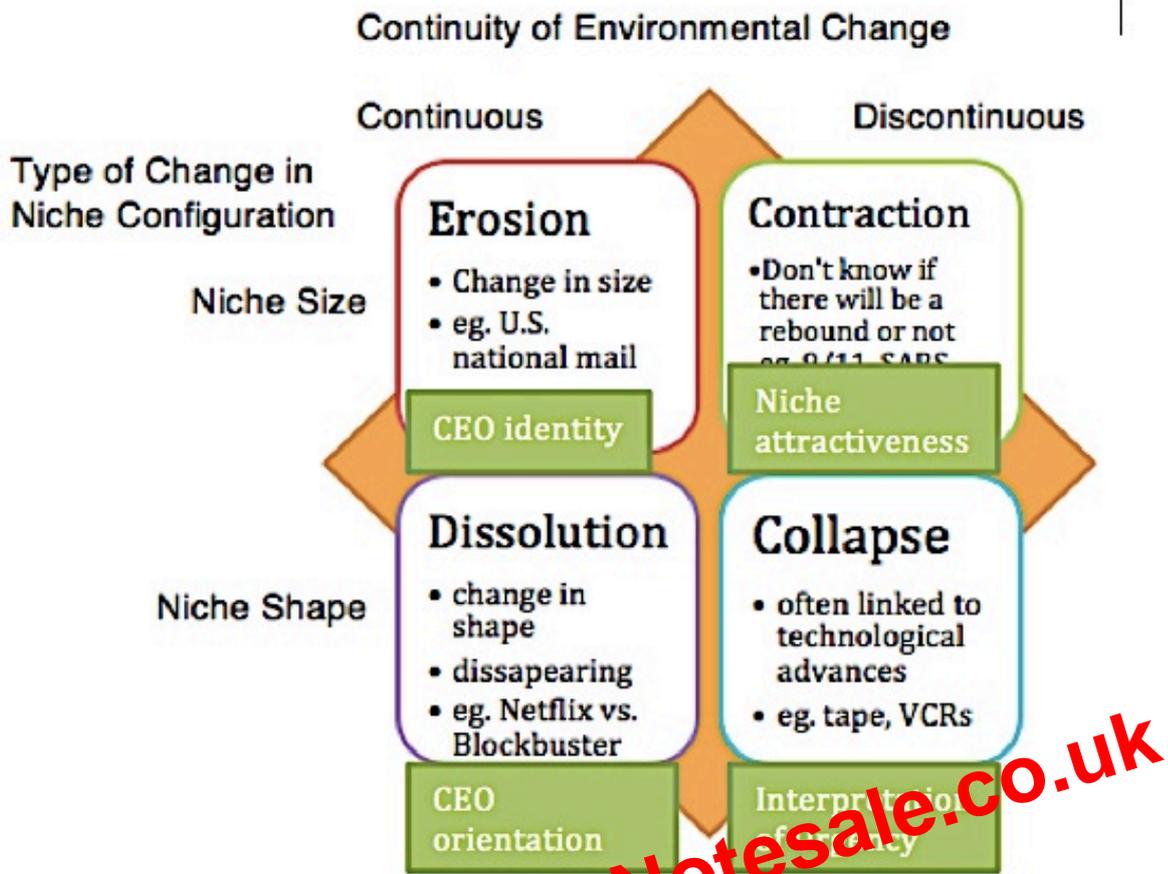
Managerial Challenges During Decline

Situation 1: Dissolution, Case Blockbuster vs. Netflix



Situation 2: Erosion, Case DHL vs. U.S. Postal Service





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- Managerial Bias**
- CEO interpretation
 - CEO identity
 - Urgency preception
 - Niche attractiveness

- Potential measures**
- awareness of individual bias
 - senior team composition
 - strong board of directors
 - stakeholder movement

