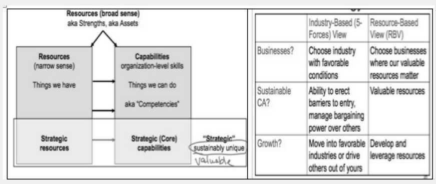
What is strategy - Diamond

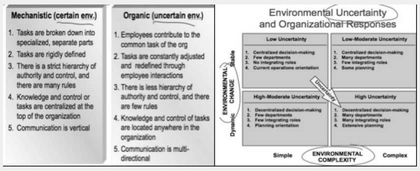
A firm's profitability is a function of industry and segment-level forces, as well as firm-level choices.SWOT (S,W are internal, O, T are external)
Strategy: (1) an integrated set of choices that uniquely positions the firm in its industry so as to create sustainable advantage and superior value relative to competition. (2) Operational excellence is not Strategy. Types of positioning - Variety (subset of industry e.g. jiffy lube), need, and access (rural vs. urban) based. Strategy framework has five elements [strategy element are congruent/fit well], arenas (where, international, local, service, manufacturing) , vehicles (how, e.g. greenfield, JV, mergers) , differentiators (how will we win, cost or premium), staging (speed and sequence of moves, which move to make first and then), economic logic (how to obtain returns, premium or cost?).

Resource based strategy



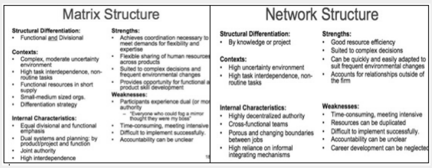
Resources are tangible (real estate, PPE), intangible (IP, culture, brand), and human resources. Capabilities are the ability to do something productive with the resources. Sustained CE- established value creating strategy - not simultaneously implemented by others and unable to duplicate the benefits. RBV - valuable (bottomline contri?), rare (do others have?), inimitable (can others copy?), non-substitutable (do same with smth else?) resource create SCE

Organizational structure & Design



The more sectors that strongly impact the firm, the higher the environmental complexity. Environmental uncertainty can be assessed by environmental complexity and change (# of sectors that impact firm). Three goals of structure are, efficiency (minimize cost, time, effort), coordination (ease info flow, coordinate diverse tasks), and adaptability/flexibility (scan env. and change)

ORGIII & Diversification II

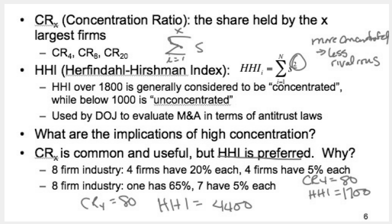


Porter 3 test for diversification: cost of entry (should not capitalize all future profits), attractiveness (new diversified industry should be attractive), better off tests (either new unit must gain CA after linking or vice versa). CA from diversification - economies of scope (use a resource across multiple activities uses less of resources than if used independently), parenting advantage, economies from internalizing txs, internal labor market, internal capital market.

Diversification - M&A

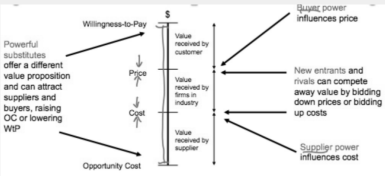
How do you grow: M&A or organic. Modes of combining culture: separation (conglomerates), domination (acquisition), blending (merger). Alternatives to M&A - long term cooperative relat, embed , big enough, small enough (niche). Modes of collaboration (strategic alliance, JV, licensing, outsourcing, collective Research org). Potential partners - resource fit, strategic fit

Porter's Five Forces



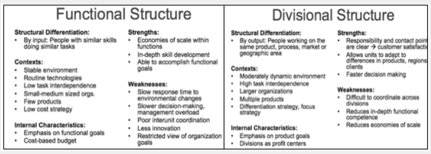
Threat of entry (bid price down or cost up)bargaining power of buyers (influence price), bargaining power of suppliers (influence cost), threat of substitutes (raise OC or lower WTP), and all of this work on intensity of rivalry (bid price down or cost up). Rivalry is destructive if its based solely on price. Competitive analysis of industry focuses on relative bargaining power. Substitute about size of pie, others about division of pie

Personal Notes



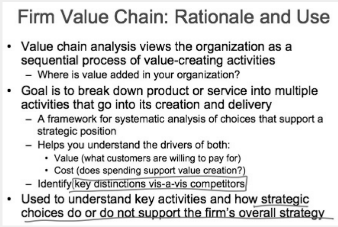
Five forces framing is about the industry, not the firm. Buyers and suppliers can go multiple levels deep. The stronger the five forces, the less attractive the industr. Industry concentration (HHI and CRx) quantify intensity of rivalry.
The stronger the forces, the less attractive the industry. Cash is never a strategic resource. “core competencies” can become “core rigidities”

Org II



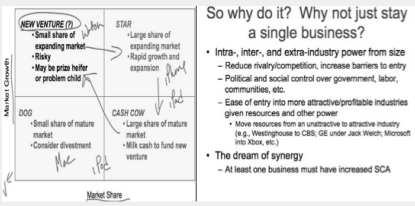
Mechanistic org design = cost leadership best. Structure Determines division of labor and accountability for results. Structural design dimensions are structural differentiation [how activities are divided: DOL, partitioning of tasks] and integration (how activities are coordinated). Structural differentiation - vertical, horizontal, and complexity. Integration : centralization, span of control, formalization, standardization, liasion roles, and cross functional units

Vertical Integration II

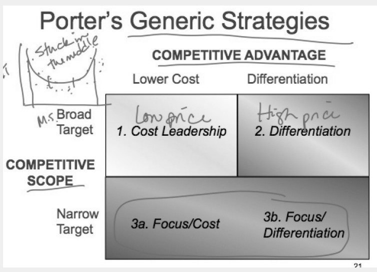


Corporate-level strategy- scope of firms activities: (1) Vertical scope (integration): value adding activities should the firm encompass? e.g. Nike vs. Disney. (2) Product scope (diversification): How specialized should the firm be? GE vs. Gap. (3) Geographic scope: optimal geo spread of activities? Peet’s vs. McDonalds
Business-level strategy : How to compete in particular markets, SBUs. Operational strategies : How subunits and functions of SBU contribute to business level strategies.

misc

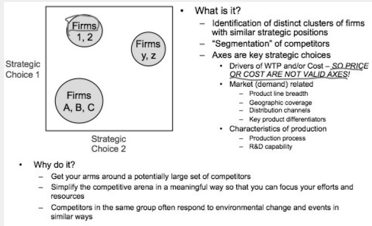


Generic Strategies



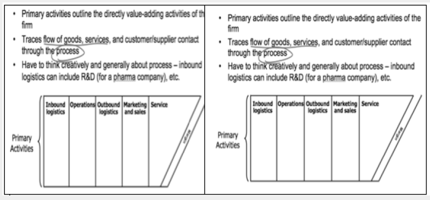
Sustained competitive advantage can be created using generic strategies.
BMW - differentiator, Walmart - cost leader, AE - focus.
Competitive advantage can be secured by only one cost leader but multiple differentiators.
Stuck in the middle - engages in each of generic strategy but fails to achieve any one of them.

Other Notes



Positioning within industry
[1] Pick a strategic position : Generic strategy: cost, differentiation, focus
[2] Pick Key dimensions of competition: Drivers of cost or WTP
[3[Make tradeoffs Don’t get caught in the middle doing two things badly
[4] Hold that position :Growth, aspirations, wandering management

Value Chain Analysis



A VC analysis is used to analyze the choices of activities of the firm and assess the extent to which they fit together and with the strategy. Two type of activities in VC analysis: primary (contribute to physical creation of product/service, sale transfer and its service after sale), and support (add value by themselves or add value through relationship with other support and primary services).

Vertical Integration

Vertical Integration is ownership of multiple stages of an industry/product value chain. If transaction cost > admin cost => VI, or if greater control of env. is needed VI (flexibility as well). Backward - take ownership of own input or component. Forward - take ownership of activities previously undertaken by customers. VI likelihood is higher where transaction specific investment required.
V Integrate to increase efficiency when: (1) High uncertainty in demand/supply
(2) Small-numbers bargaining (related to asset specificity) (3) Bounded rationality leading to information asymmetry.
In-house - low powered incentive, outsource - high-powered
But VI compounds the risk (due to inhouse production). Type of Vertical relationship (franchise, vendors, long term contract)