Strategic Management

Course Information: https://is.slu.cz/predmet/opf/zima2024/PEMNASMA?lang=en

Consultation: Wednesday and Thursday
(better to have an appointment in advance)

Contact Details: shariq@opf.slu.cz
Room: B205

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Important Information

Requirements on students

(Total sum of points 100)

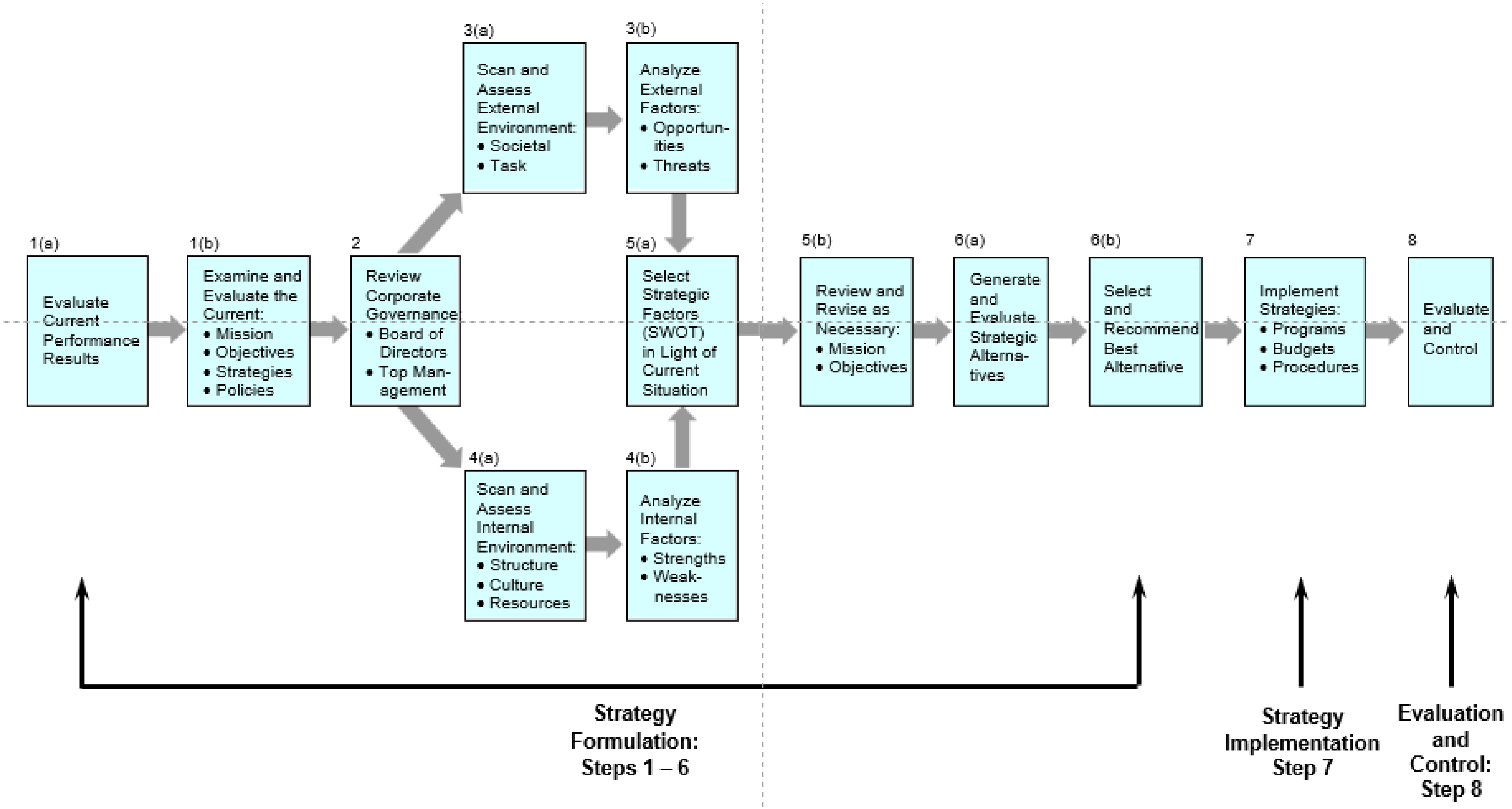
1. Active participation in seminars and case studies solution – 10% of points
2. Seminar paper and defence of the seminar paper (no later than 15. 12. 2025) – 10% of points
3. Continuous test (in the week 27. 10. – 31. 10. 2025) – 20% of points
4. Final written exam – 60% of points

Consultation: Wednesday and Thursday (better to have an appointment in advance)

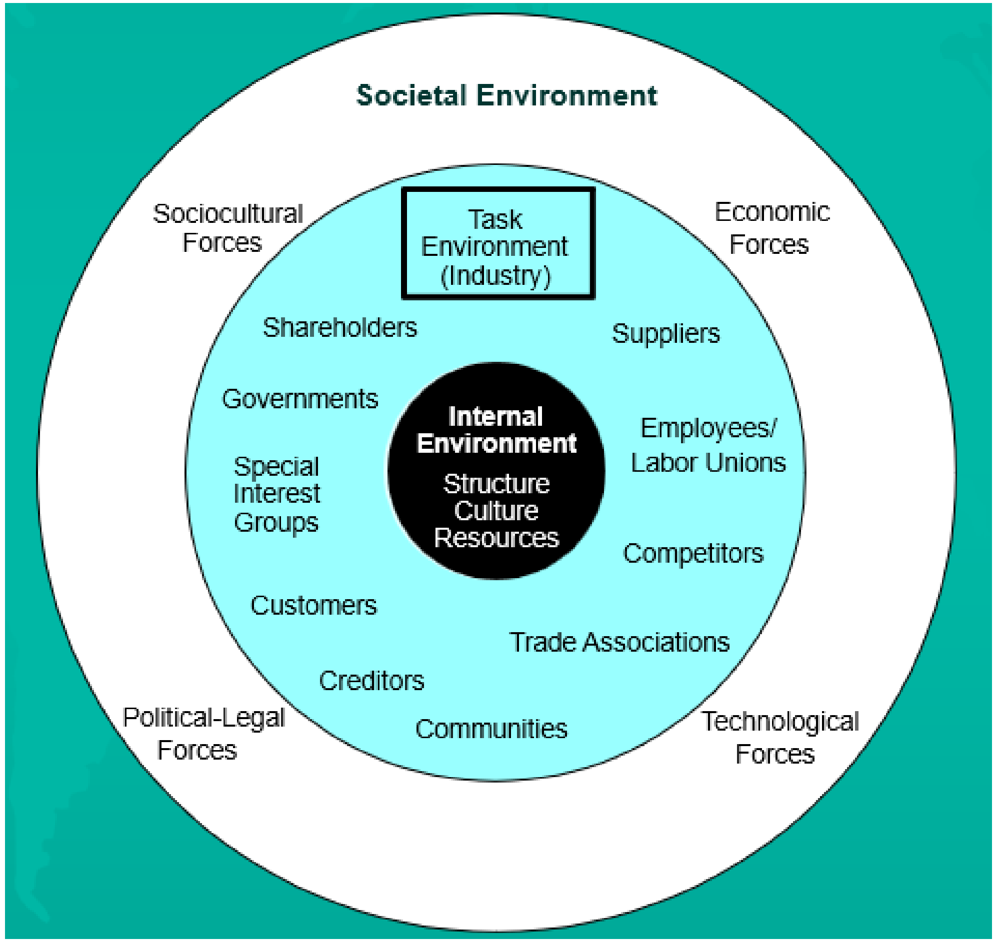
Contact Details: shariq@opf.slu.cz
Room: 205

Learning outcomes

- Strategic Decision-Making Process
- External Environment
  a) Societal Environment
  b) Industrial Environment
- External Factor Analysis Summary (EFAS)
- SWOT & TOWS (Threats & Opportunities)
- Strategic Factor Analysis Summary (Threats & Opportunities)
- Industrial Organization Model of Above-Average Returns


3(a)
Scan and Assess External Environment:
• Societal
• Task
3(b)
Analyze External Factors:
• Opportunities
• Threats
1(a)
Evaluate Current Performance Results
1(b)
Examine and Evaluate the Current:
• Mission
• Objectives
• Strategies
• Policies
2
Review Corporate Governance
• Board of Directors
• Top Management
5(a)
Select Strategic Factors (SWOT) in Light of Current Situation
5(b)
Review and Revise as Necessary:
• Mission
• Objectives
6(a)
Generate and Evaluate Strategic Alternatives
6(b)
Select and Recommend Best Alternative
7
Implement Strategies:
• Programs
• Budgets
• Procedures
8
Evaluate and Control
4(a)
Scan and Assess Internal Environment:
• Structure
• Culture
• Resources
4(b)
Analyze Internal Factors:
• Strengths
• Weaknesses
Strategy Formulation: Steps 1 – 6
Strategy Implementation Step 7
Evaluation and Control: Step 8

Environmental Scanning



External Environment

A) Societal Environment

B) Industrial Environment

A) Societal Environment

Demographic Segment	♦ Population size ♦ Age structure ♦ Ethnic Mix	♦ Geographical Distribution ♦ Income distribution ♦ Immigration
Sociocultural Segment	♦ Women in the workforce ♦ Workforce diversity ♦ Environmental Concerns ♦ Work life quality attitudes	♦ Concerns about the environment ♦ Shifts in 2 career preferences ♦ Shifts in preferences regarding product / service characteristics
Political/Legal Segment	♦ Competition Laws ♦ Labour Laws ♦ Taxation laws	♦ Education philosophies & policy ♦ Government econ. involvement / ownership Philosophies ♦ De-/ Regulation philosophy

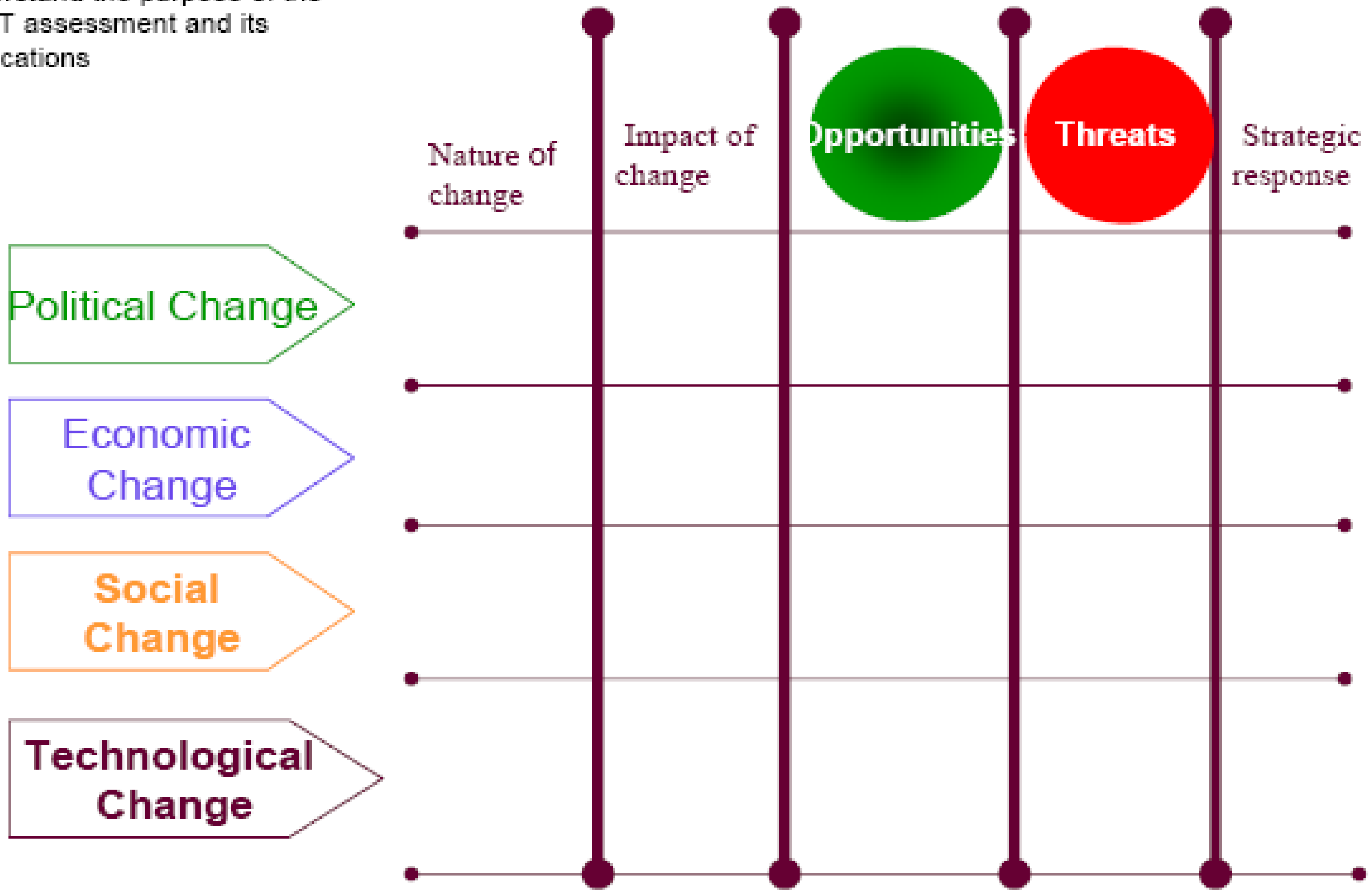
Economic Segment	♦ Inflation & interest rates ♦ Personal savings rate ♦ Business savings rates	♦ Trade deficits or surpluses Budget deficits or surpluses ♦ Gross domestic product
Technological Segment	♦ Product innovations ♦ Process Innovations ♦ Applications of knowledge	♦ Focus of private & government-supported R&D expenditures ♦ New communication technologies
Global Segment	♦ Important political events ♦ Critical global markets	♦ Newly industrialized countries ♦ Different cultural and institutional attributes

Economic	Technological	Political-Legal	Sociocultural
GDP trends	Total government spending for R&D	Antitrust regulations	Lifestyle changes
Interest rates	Total industry spending for R&D	Environmental protection laws	Career expectations
Money supply	Focus of technological efforts	Tax laws	Consumer activism
Inflation rates	Patent protection	Special incentives	Rate of family formation
Unemployment levels	New products	Foreign trade regulations	Growth rate of population
Wage/price controls	New developments in technology transfer from lab to marketplace	Attitudes toward foreign companies	Age distribution of population
Devaluation/revaluation	Productivity improvements through automation	Laws on hiring and promotion	Regional shifts in population
Energy availability and cost		Stability of government	Life expectancies
Disposable and discretionary income			Birth rates

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

It is crucial to describe the subject for the PEST analysis clearly so that people, contributing to the analysis, and those interpreting the results from PEST analysis, could understand the purpose of the PEST assessment and its implications

PEST Impact Matrix



© Sunil Mehrotra

PEST example:

	Nature of change	Impact of change	Opportunities	Threats	Strategic response
Political Change	FDA approval process	More conservative		Longer time to market	Shorten Product Development Cycle
Economic Change	US economic downturn	Consumer spending down		Generic drugs more accepted	Evaluate acquisitions
Social Change	Aging Population	Caring for the elderly	New growth opportunities		Identify product/market needs to serve the elderly
Technological Change	New materials for joint replacement	New cost/quality frontier	New products	Potential new competitors	Invest in promising start-ups

© Sunil Mehrotra

PEST Impact example: AMGEN

	Nature of change	Impact of change	Opportunities	Threats	Strategic response
Political Change	Democratic party in power	More government control		Pressure on prices	Operational Efficiency to reduce costs
Economic Change	$100+ crude oil price	Commodity prices increasing		Pressure on costs	Focus on Operational Efficiency
Social Change	Aging Population	Caring for the elderly	New growth opportunities		Identify product/market needs to serve the elderly
Technological Change	Breakthrough in science. Process improvement technologies	New science and new technologies imminent	New start-ups. Disruptive technologies	Potential new competitors	Invest in/acquire promising start-ups

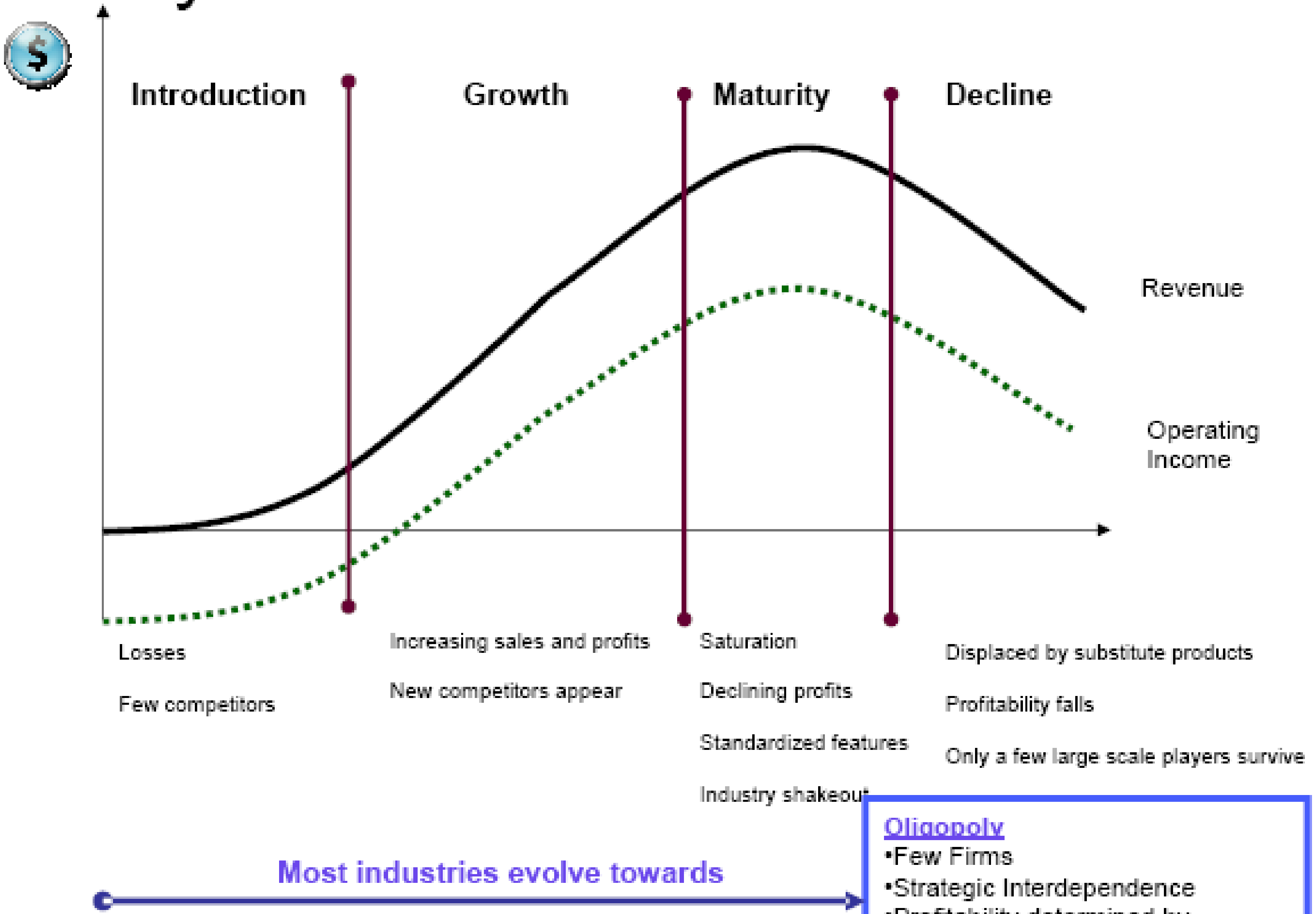
© Sunil Mehrotra

B) Industrial Environment

External Factor Evaluation Matrix
Summarize & evaluate:

Economic	Demographic	Governmental
Social	Environmental	Technological
Cultural	Political	Competitive

Industry Evolution: Traditional View



Oligopoly
- Few Firms
- Strategic Interdependence
- Profitability determined by behavior of incumbents

© Sunil Mehrotra Adapted from: http://faculty.msb.edu/homak/HomaHelpSite/WebHelp/HomaHelp.htm

Spectrum of Competition

Low

Competitive Intensity

High

Perfect Competition
- Many firms
- No product differentiation
- Price based competition

Commodities

Niche Market
- Product Differentiation
- Localized competition

Clothing Stores
Gas Stations

Oligopoly
- Few Firms
- Strategic Interdependence
- Profitability determined by behavior

Automobiles
Commercial Aircrafts

Dominant Firm
- Few large firms
- More small firms
- Pricing leadership
- Protected Niches

Computer OS

Monopoly
Single Firm

Utilities

Industry Profitability

Adapted from: Saloner, Shepard, & Podolny: *Strategic Management*, Wiley and Sons, 2001

© Sunil Mehrotra

Question 1: What are the Industry's Dominant Economic Traits?

- Market size and growth rate
- Scope of competitive rivalry
- Number of competitors and their relative sizes
- Prevalence of backward/forward integration
- Entry/exit barriers
- Nature and pace of technological change
- Product and customer characteristics
- Scale economies and experience curve effects
- Capacity utilization and resource requirements
- Industry profitability

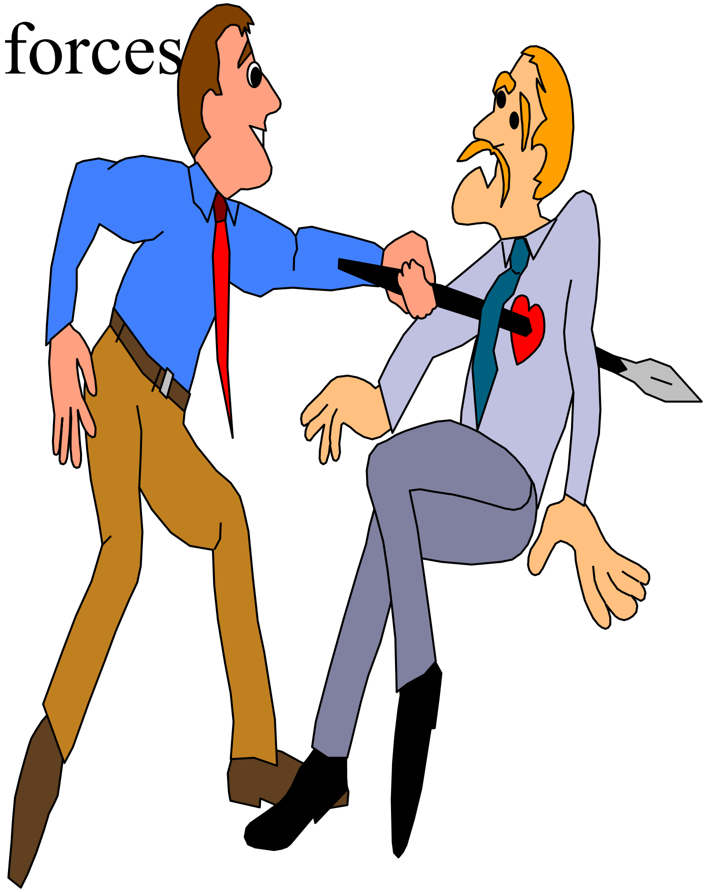
Relevance of Key Economic Features of Industry

Economic Feature	Strategic Importance
Market Size	Small markets don't tend to attract new firms; large markets attract firms looking to acquire rivals with established positions in attractive industries
Market growth rate	Fast growth breeds new entry; slow growth spawns increased rivalry & shake-out of weak rivals
Capacity surpluses/shortages	Surpluses push prices & profit margins down; shortages pull them up
Industry profitability	High-profit industries attract new entrants; depressed conditions lead to exit
Entry/exit barriers	High barriers protect positions and profits of existing firms; low barriers make existing firms vulnerable to entry
Product is big-ticket item for buyers	More buyers will shop for lowest price
Standard products	Buyers have more power because it's easier to switch from seller to seller
Rapid technological change	Raises risk; investments in technology facilities/equipment may become obsolete before they wear out
Capital requirements	Big requirements make investment decisions critical; timing becomes important; creates a barrier to entry and exit
Vertical integration	Raises capital requirements; often creates competitive & cost differences among fully vs. partially vs. non-integrated firms
Economies of scale	Increases volume & market share needed to be cost competitive
Rapid product innovation	Shortens product life cycle; increases risk because of opportunities for leapfrogging

Question 2: What Is Competition Like and How Strong Are the Competitive Forces?

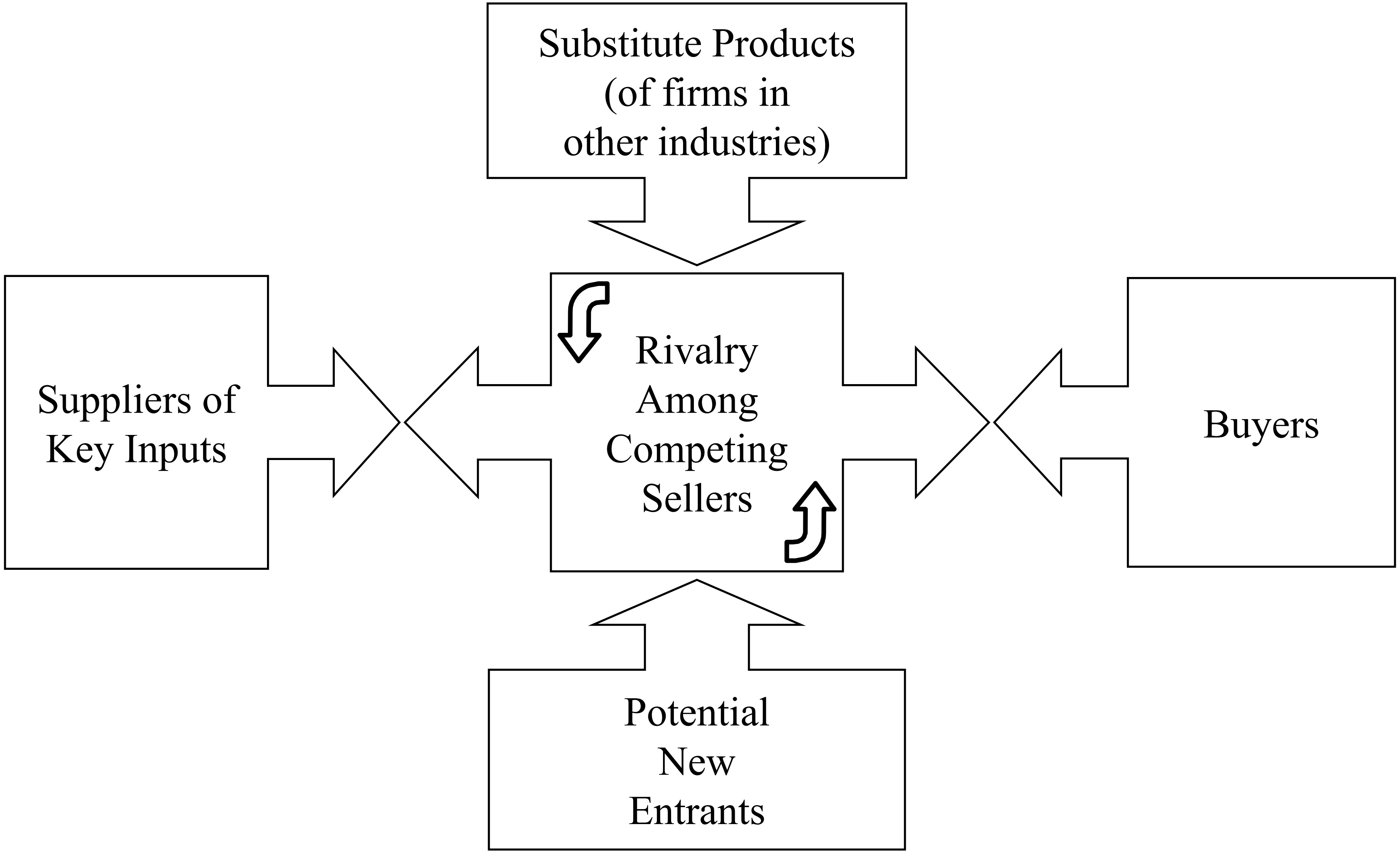
Objective

- To identify
  - Main sources of competitive forces
  - Strength of these forces
- Key analytical tool
  - Five Forces Model of Competition



Five Forces Model of Competition

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA



Porter’s 5 Forces Framework

Concentration of buyers
Incumbents are fragmented
Product is undifferentiated
Switching to another supplier is simple
Product is not strategic to the customer
Customers can produce the product themselves
Customer knows the production costs
Customers can integrate back-words

Economies of scale
High initial investments and fixed costs
Learning economies
Depreciated assets
Brand loyalty
Protected intellectual property
Scarcity of qualified resources
Access to raw material controlled by existing players
Distribution channels controlled by existing players
Existing players have close customer relations

Better prices
Better performance
Similar functionality

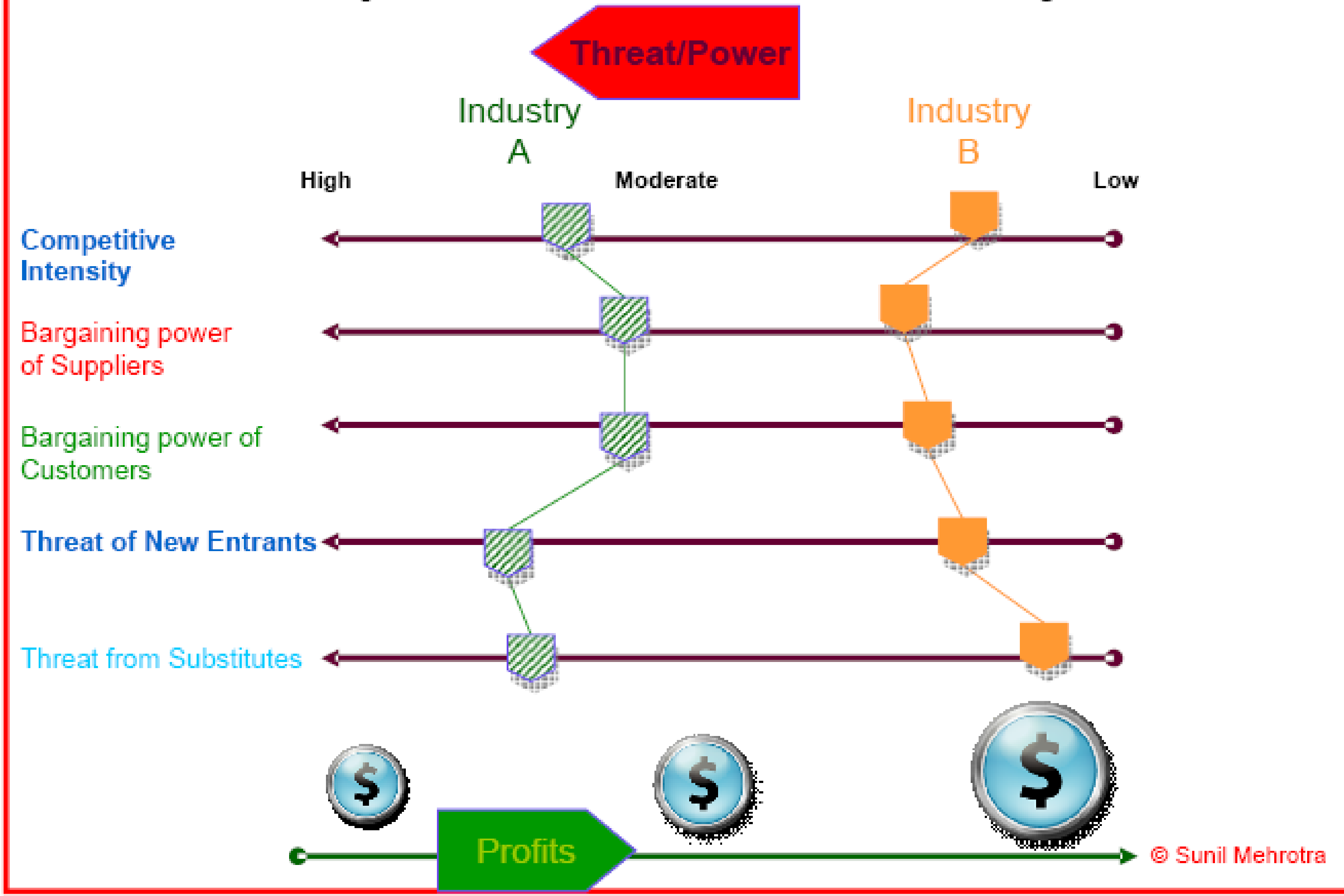
Few large suppliers
No substitutes
Customers are fragmented
Switching costs to another supplier are high
Supplier integrating forward
- Economies of scale
- Downstream more profitable
- Low barriers to entry downstream

Many small players
High cost to exit
Undifferentiated products
Compete on price
Low brand loyalty
Low switching costs
Slow/no growth market

www.themanager.org

© Sunil Mehrotra

Impact on Profitability



SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Strategies for minimizing the power of competitive forces

Reducing the threat of New Entrants
Increasing minimum efficient scales of operations
Creating brand image/loyalty
Protection of intellectual property
Alliances with linked products/services
Tie up with suppliers
Tie up with distributors
Retaliation tactics
Cut out intermediaries

Reducing the Bargaining Power of Customers
Partnering
Increase loyalty
Increase incentives and value added
Increase switching costs
Cut out intermediaries

Reducing threat of substitutes
Increase switching costs
Form alliances
Enter substitute market
Accentuate differences

Reducing the Bargaining Power of Suppliers
Partnering
Supply Chain Management
Increase mutual dependency
Build knowledge of supplier costs/methods
Take-over supplier

Reducing competitive rivalry within
Differentiate your product
Avoid price competition
Reduce industry over capacity
Focus on different customer segments

Adapted from: www.themanager.org

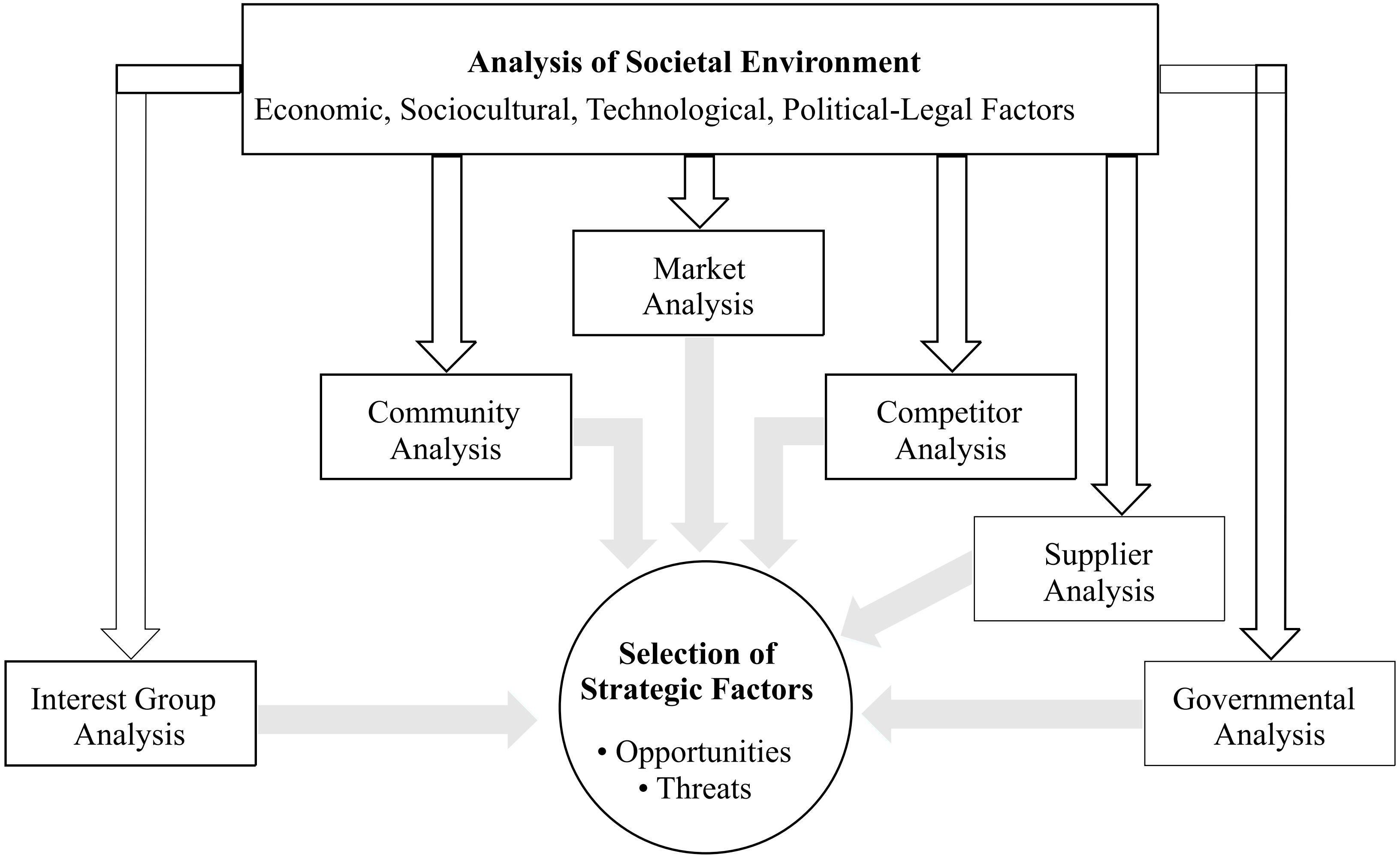
Porter's 5 Forces and Generic Strategies

	Cost Leadership	Differentiation	Focus
Competitive Intensity	Better able to compete on price	Brand loyalty to keep customers from switching	Rivals cannot meet focused customer needs
Bargaining power of Suppliers	Better insulated from suppliers	Better able to pass on supplier price increases to customers	Better able to pass on supplier price increases to customers
Bargaining power of Customers	Better positioned to offer lower prices	Fewer alternatives available to switch to	Fewer alternatives available to switch to
Threat of New Entrants	Ability to deter new entrants by offering lower prices	Customer loyalty can deter new entrants	Specialization develops unique competencies difficult for new entrants to match
Threat from Substitutes	Can use lower prices to defend against substitutes	Customers less willing to accept substitutes	Customers less willing to switch to substitutes
Examples:	WAL★MART Save money. Live better.	A Greener Apple	

www.studymarketing.org

Scanning the External Environment

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA



External Factor Analysis Summary (EFAS)

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

External Strategic Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Opportunities				
Threats				
Total Weighted Score	**1.00**			

Notes: **1.** List opportunities and threats (5–10 each) in column 1. **2.** Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. The total weights must sum to 1.00. **3.** Rate each factor from 5 (Outstanding) to 1 (Poor) in Column 3 based on the company's response to that factor. **4.** Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4. **5.** Use Column 5 (comments) for rationale used for each factor. **6.** Add the weighted scores to obtain the total weighted score for the company in Column 4. This tells how well the company is responding to the strategic factors in its external environment.

Source: T. L. Wheelen and J. D. Hunger, "External Strategic Factors Analysis Summary (EFAS)." Copyright © 1991 by Wheelen and Hunger Associates. Reprinted by permission.

UST—Key External Factors ***Opportunities***	Weight	Rating	Weighted score
Global markets untapped	.15	1	.15
Increased demand	.05	3	.15
Astronomical Internet growth	.05	1	.05
Pinkerton leader in discount market	.15	4	.60
More social pressure to quit smoking	.10	3	.30
Threats			
Legislation against the tobacco industry	.10	2	.20
Production limits on tobacco	.05	3	.15
Smokeless market SE region U.S.	.05	2	.10
Bad media exposure from FDA	.10	2	.20
Clinton Administration	.20	1	.20
TOTAL	1.00		2.10

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

SWOT Analysis

Internal Environment

- Strengths
- Weaknesses

External Environment

- Opportunities
- Threats

TOWS Matrix

INTERNAL FACTORS (IFAS) / EXTERNAL FACTORS (EFAS)	**Strengths (S)** List 5 – 10 internal strengths here	**Weaknesses (W)** List 5 – 10 internal weaknesses here
Opportunities (O) List 5 – 10 external opportunities here	**SO Strategies** Generate strategies here that use strengths to take advantage of opportunities	**WO Strategies** Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) List 5 – 10 external threats here	**ST Strategies** Generate strategies here that use strengths to avoid threats	**WT Strategies** Generate strategies here that minimize weaknesses and avoid threats

Source: Adapted from *Long-Range Planning*, April 1982, H. Weihrich, “The TOWS Matrix—A Tool for Situational Analysis” p. 60.
Copyright 1982, with kind permission from H. Weihrich and Elsevier Science Ltd. The Boulevard, Langford Lane, Kidlington OX5 1GB, UK.

TOWS Matrix: Maytag as Example

INTERNAL FACTORS (IFAS) / EXTERNAL FACTORS (EFAS)	**Strengths (S)** S1 Quality Maytag Culture S2 Experience top management S3 Vertical integration S4 Employee relations S5 Hoover's international orientation	**Weaknesses (W)** W1 Process-oriented W2 Distribution channels W3 Financial position W4 Global positioning W5 Manufacturing facilities
Opportunities (O) O1 Economic integration of European community O2 Demographics favor quality O3 Economic development, Asia O4 Opening Eastern Europe O5 Trend toward super stores	**SO Strategies** • Use worldwide Hoover distribution channels for Hoover and Maytag • Find joint venture partners in Eastern Europe & Asia	**WO Strategies** • Expand Hoover's presence in continental Europe by improving quality & reducing costs • Emphasize superstore channel for non-Maytag brands
Threats (T) T1 Increasing government regulation T2 Strong US competition T3 Whirlpool & Electrolux positioned for global economy T4 New product advances T5 Japanese companies	**ST Strategies** • Acquire Raytheon's appliance business • Merge with major Japanese home appliance company • Sell off non-Maytag brands; defend Maytag's US niche.	**WT Strategies** • Sell off Dixie-Narco division to reduce debt • Emphasize cost reduction to reduce break-even point • Sell out to Raytheon or a Japanese firm.

Source: Adapted from *Long-Range Planning*, April 1982, H. Weihrich, "The TOWS Matrix—A Tool for Situational Analysis" p. 60. Copyright 1982, with kind permission from H. Weihrich and Elsevier Science Ltd. The Boulevard, Langford Lane, Kidlington OX5 1GB, UK.

Strategic Factor Analysis Summary (SFAS)

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

1 Key Strategic Factors (Select the most important opportunities/threats from EFAS, Table 3.4 and the most important strengths and weaknesses from IFAS, Table 4.2)	2 Weight	3 Rating	4 Weighted Score	5 Duration			6 Comments
				SHORT	INTERMEDIATE	LONG	
Total Score							

Notes: **1.** List each of your key strategic features developed in your IFAS and EFAS tables in Column 1. **2.** Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. The total weights must sum to 1.00. **3.** Rate each factor from 5 (Outstanding) to 1 (Poor) in Column 3 based on the company's response to that factor. **4.** Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4. **5.** For duration in Column 5, check appropriate column (short term—less than 1 year; intermediate—1 to 3 years; long term—over 3 years.) **6.** Use Column 6 (comments) for rationale used for each factor.

Source: T. L. Wheelen and J. D. Hunger, "Strategic Factors Analysis Summary (SFAS)." Copyright © 1997 by Wheelen and Hunger Associates. Reprinted by permission.

Strategic Factor Analysis Summary (SFAS): Maytag as Example

Key Strategic Factors (Select the most important opportunities/threats from EFAS, Table 3.4 and the most important strengths and weaknesses from IFAS, Table 4.2)	**Weight**	**Rating**	**Weighted Score**	**Duration** SHORT	 INTERMEDIATE	 LONG	**Comments**
S1 Quality Maytag culture (S)	.10	5	.50			X	Quality key to success
S3 Hoover's international orientation (S)	.10	3	.30		X		Name recognition
W3 Financial position (W)	.10	2	.20		X		High debt
W4 Global positioning (W)	.15	2	.30				Only in N.A., U.K., and Australia
O1 Economic integration of European Community (O)	.10	4	.40			X	Acquisition of Hoover
O2 Demographics favor quality (O)	.10	5	.50		X	X	Maytag quality
O5 Trend to super stores (O + T)	.10	2	.20	X			Weak in this channel
T3 Whirlpool and Electrolux (T)	.15	3	.45	X			Dominate industry
T5 Japanese appliance companies (T)	.10	2	.20			X	Asian presence
Total Score	**1.00**		**3.05**				

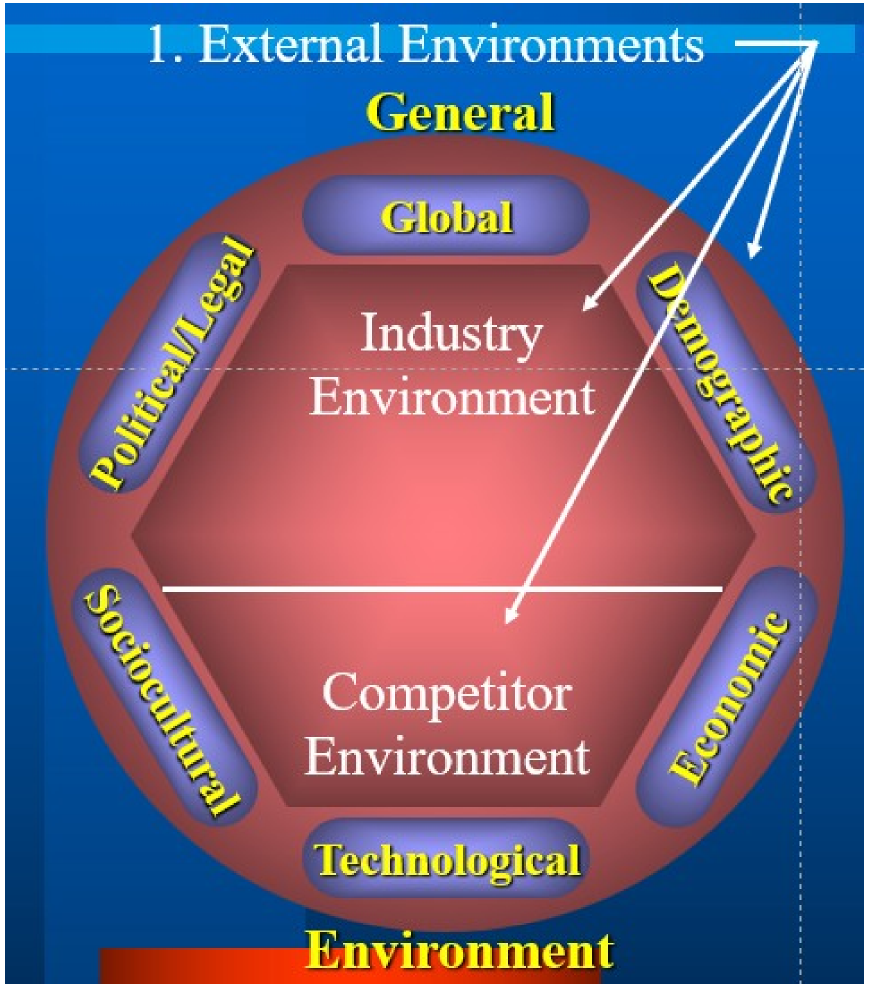
Notes: **1.** List each of your key strategic features developed in your IFAS and EFAS tables in Column 1. **2.** Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. The total weights must sum to 1.00. **3.** Rate each factor from 5 (Outstanding) to 1 (Poor) in Column 3 based on the company's response to that factor. **4.** Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4. **5.** For duration in Column 5, check appropriate column (short term—less than 1 year; intermediate—1 to 3 years; long term—over 3 years.) **6.** Use Column 6 (comments) for rationale used for each factor.

Source: T. L. Wheelen and J. D. Hunger, "Strategic Factors Analysis Summary (SFAS)." Copyright © 1997 by Wheelen and Hunger Associates. Reprinted by permission.

Industrial Organization Model of Above-Average Returns

Industrial Organization Model of Above-Average Returns

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA



1. Strategy dictated by the external environments of the firm (what opportunities exist in these environments?)

2. Firm develops internal skills required by external environment (what can the firm do about the opportunities?)

Four Assumptions of the I/O Model

1. The external environment is assumed to possess pressures and constraints that determine the strategies that would result in above-average returns
2. Most firms competing within a particular or within a certain segment of it are assumed to control similar strategically relevant resources and to pursue similar strategies in light of those resources

Four Assumptions of the I/O Model

3. Resources used to implement strategies are highly mobile across firms
4. Organizational decision makers are assumed to be rational and committed to acting in the firm's best interests, as shown by their profit-maximizing behaviors

I/O Model of Above-Average Returns

Industrial Organization Model

The External Environment

1. Study the external environment, especially the industry environment
   - economies of scale
   - barriers to market entry
   - diversification
   - product differentiation
   - degree of concentration of firms in the industry

I/O Model of Above-Average Returns

Industrial Organization Model

The External Environment

An Attractive Industry

2. Locate an attractive industry with a high potential for above-average returns

Attractive industry: one whose structural characteristics suggest above-average returns

I/O Model of Above-Average Returns

Industrial Organization Model
The External Environment
An Attractive Industry
Strategy Formulation

3. Identify the strategy called for by the attractive industry to earn above-average returns

Strategy formulation: selection of a strategy linked with above-average returns in a particular industry

I/O Model of Above-Average Returns

Industrial Organization Model

The External Environment

An Attractive Industry

Strategy Formulation

Assets and Skills

4. Develop or acquire assets and skills needed to implement the strategy

Assets and skills: those assets and skills required to implement a chosen strategy

I/O Model of Above-Average Returns

Industrial Organization Model

- The External Environment
- An Attractive Industry
- Strategy Formulation
- Assets and Skills
- Strategy Implementation

5. Use the firm's strengths (its developed or acquired assets and skills) to implement the strategy

Strategy implementation: select strategic actions linked with effective implementation of the chosen strategy

I/O Model of Above-Average Returns

Industrial Organization Model

- The External Environment
- An Attractive Industry
- Strategy Formulation
- Assets and Skills
- Strategy Implementation
- Superior Returns

Superior returns: earning of above-average returns

THANK

SILESIAN
UNIVERSITY
SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA