Introduction to Business Administration Lesson 7

7. Strategic Management

Management is all about achieving goals and objectives by using an organization's resources effectively and efficiently in a changing environment.

7.1 Management in a Global Environment

Efficiency – making the best use of available resources. In other words, using or wasting as few resources as possible to get a job done.

Effectiveness – achieving goals as fully as possible. (Quality)

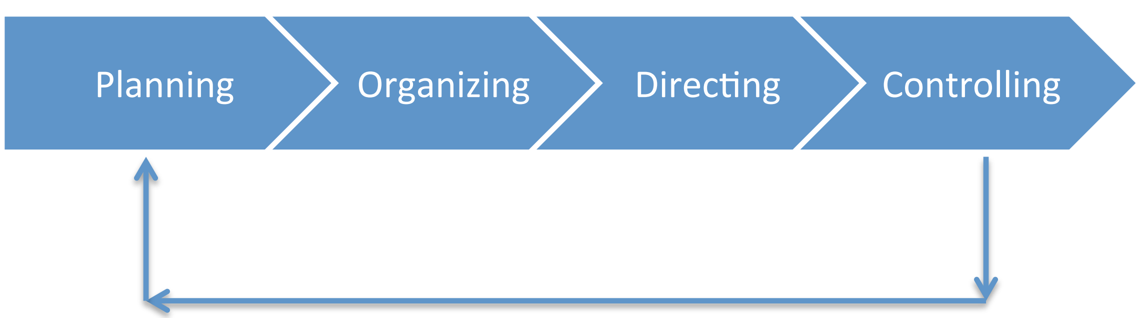
Managerial Success =

1. Low Resource use = High Efficiency
2. High Goal Achievement = High Effectiveness

7.2 Importance of Strategic Management

In order to get the best results, you must follow the process.
If you skip or forget some steps you will find yourself in a situation you did not want to be in originally.

7.2.1 The Strategic Management Process



Organizing - Organizational Structures of a business department wise.

Directing – telling people what they should be doing.

The planning process consists of:

1. Environmental scanning - taking your time to look at the environment around you so you can understand, basically, what you're up against.

    - Political factors - Governmental stability
    - Legal factors - Product safety
    - Economical factors - Inflation rate
    - Sociocultural factors - Income levels

2. Strategy formulation - takes all the pieces of information it found during its environmental scan and begins to assemble a strategy. It is 'what we will do.' For example "I want our business to move to Miami."

3. Strategy implementation - This is the portion where we implement the steps we created when we did strategy formulation. It is the step after 'what will we do' In strategy it is all about 'who will do it, with what, and by when'

4. Strategy evaluation – Control section of the process

7.2.2 Types of Strategies

Strategy – Actions chosen that direct an organization to a future goal

Strategy is about identifying and making clear choices on how to compete.

Strategy asks the following questions:

- How are we going to be unique?
- How are we going to use this unique position to create a competitive advantage?
- How are we going to sustain this competitive advantage over time?

There are three main types of plans

1. Strategic – longer term
2. Tactical – Specific activities/resources needed to implement strategic plans
3. Operational – very detailed action steps taken to implement tactical plans and strategic plans

7.3 Identifying Competitive Advantages

Competitive advantage – provides a company an advantage over its competitors

Two main types of competitive advantage:

- Comparative advantage
- Differential advantage

Comparative advantage – also known as cost advantage, it is when a firm has the ability to produce a good or service at a lower cost than its competitors.

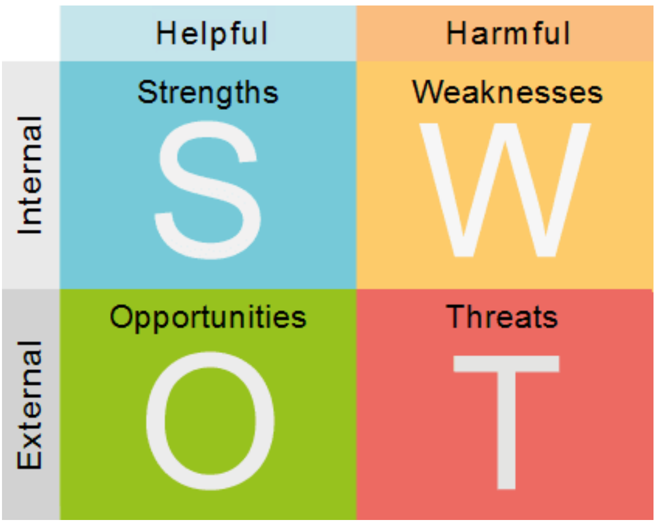
Differential advantage – created when a firm's products or services differ from its competitors and is seen as providing new or greater value than competitors products by customers.

7.3.1 SWOT Analysis

One way to identify a competitive advantage is by using a SWOT Analysis.
A SWOT analysis examines internal and external forces that affect the company.

Broken into four sections

- Strengths
- Weaknesses
- Opportunities
- Threats



SWOT Benefits:

- Simple to do and practical to use;
- Clear to understand;
- Focuses on the key internal and external factors affecting the company;
- Helps to identify future goals;
- Initiates further analysis.

SWOT Limitations:

- No prioritization of factors;
- Factors are described too broadly;
- Factors are often opinions not facts;

You can fix the limitations by correcting them yourselves!

Strengths	Weaknesses	
• Second most valuable brand in the world valued at $76 billion • Diversified income (5 different brands earning more than $4 billion each) • Strong patents portfolio (15,000 patents) • Investments in R&D reaching 4 billion a year. • Competent in mergers & acquisitions • Have an access to cheap cash reserves • Effective corporate social responsibility (CSR) projects • Localized products • Highly skilled workforce • Economies of scale or economies of scope	1. Investments in R&D are below the industry average 2. Very low or zero profit margins 3. Poor customer services 4. High employee turnover 5. High cost structure 6. Weak brand portfolio 7. Rigid (bureaucratic) organizational culture impeding fast introduction of new products 8. High debt level ($3 billion) 9. Brand dilution (the firm has too many brands) 10. Poor presence in the world's largest markets	Internal
Opportunities	**Threats**	
1. Market growth for the main firm's product 2. Growing demand for renewable energy 3. New technology, that would drive production costs by 20% is in development 4. Our country accession to EU 5. Changing customer habits 6. Disposable income level will increase 7. Government's incentives	1. Corporate tax may increase from 20% to 22% in 2013 2. Rising pay levels 3. Rising raw material prices 4. Intense competition 5. Market is expected to grow by only 1% next year indicating market saturation 6. Increasing fuel prices 7. Aging population 8. Stricter laws regulating	External