

Introduction and Overview

Class Session #1 – March 17, 2007

Dr. Paul N. Friga



KELLEY SCHOOL OF BUSINESS

INDIANA UNIVERSITY

Introduction and Overview

1	Introductions
2	Course overview and syllabus
3	A few questions and a brief discussion
4	Strategic decision making
5	Methodologies and frameworks
6	Preparation for next class

Let's get to know each other...

My Background

- Small-town boy
- To a small Catholic school
- To a bigger city
- To a small NC hoops town
- Back to the city
- Back to the small NC hoops town
- To tornados, cold and snow



Phone: (812) 855-2769

Office: 650E

Passions

- Strategy
- Consulting
- Family Time (Meredith and Nicholas)



Now, to gather some information from you...

- Fill in the sign-in sheet
- Fill out index cards:
 - Section in top right (1:00 or 2:45)
 - Name in middle on top
 - Gender below that
 - Let me know your key functional area of strength
 - Finance, marketing, operations, strategy, acct., or other)
 - Include your favorite industry (what interests you most)

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We are here to become better strategic thinkers

Objective:

to understand and apply the most powerful and important strategy methodologies available today

Purpose:

to develop a portfolio of analysis tools that will enable students to be more capable strategic problem solvers; to provide students with opportunities to apply those tools in current HBS cases, analysis of the news, and a real-time field study

Deliverables – students should be able to:

quickly perform a situational assessment of a company's environment – internally and externally

systematically sort through strategic alternatives for the company as a whole

develop recommendations for improvement that focus on the four key elements that determine a company's strategy (Paul's 4 Ps):

Positioning

Payments

Priorities

Performance

We have an ambitious but hopefully rewarding plan

Classes 1 – 3

Exposure to the general nature of strategic problem solving and a discussion of 5 commonly used problem-solving tools

- Paul's 4 Ps
- SWOT
- Porter's 5 Forces
- Blindspot Analysis
- Scientific Method

Classes 4 – 8

Introduction and application of 7 additional frameworks:

- STEEP (Macroenvironment)
- RBV (Resource Based View)
- Value Chain Analysis
- GE/McKinsey Business Screen Matrix
- Competitor Analysis
- Balanced Scorecard
- McKinsey 7s

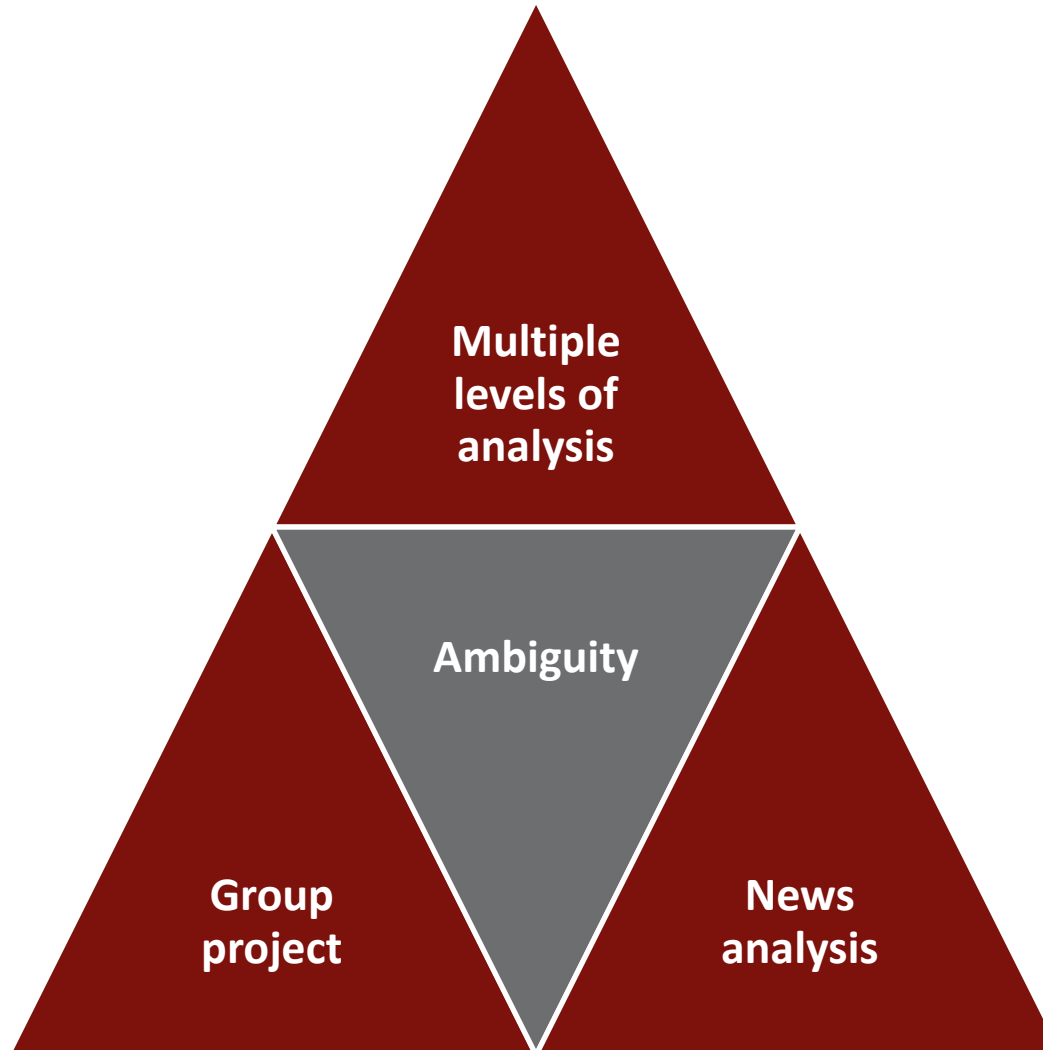
Classes 9 – 11

Field project: analysis of a company's pressing strategic issues utilizing the complete strategy tool kit learned in the course

Classes 12 – 14

Group presentations (and role play as the Board of Directors)

Be prepared for:



You will get out of this class whatever you put in

Some ground rules:

1

Prepare

Read, think, and document

2

Participate

Speak, share, and don't 'surf'

3

Play Hard

But only if we work hard

<http://oncourse.iu.edu>

Let's work together to make it a great experience

Attendance

Attendance is vital to class success – and will affect your contribution scores.

Contribution

Students will be evaluated and given a score for their participation after each class period (0,1,2).

Group Work

In addition to their field studies, groups are encouraged to work together throughout the class (2 exceptions: “Analyze the News” and the individual content quiz).

Feedback

Feedback of the professor is always welcome – relevant feedback may include: case effectiveness, course progress, and instructor style(though all comments are welcome)!

Class Schedule

Session	Level	Methodology/Framework	
1. Mon. – Mar 17	Individual/ Organization	Discussion on course topics, objectives, and introductions; the history of strategy; and basic strategy tools (Porter and SWOT)	Overview Slide Deck
2. Wed. – Mar 19	Individual	Apply Blindspot Analysis	Oncourse Material – read the syllabus and articles carefully F&B (textbook) – Ch. 1 F&B – 2 and 10 Class Exercise: War Stories
3. Mon. – Mar 24	Individual	Apply the Scientific Method and the TEAM FOCUS model (the tool you will use in your group projects)	The McKinsey Mind – Ch. 1-4 – Rasiel & Friga (2001) (I will provide free copies of the chapters) Class Exercise: CSI GROUPS ASSIGNED
4. Wed. – Mar 26	Macro Environment (External)	Apply Macroenvironmental Analysis (STEEP) - POSITIONING	F&B – 17 Case 1: Business Competition in : Beer, PCs, Steel, TV Sets (2002)
5. Mon. – Mar 31	Organization (Internal)	Apply Functional Capability and Resource Analysis (RBV) – PRIORITIES	F&B – 14 Case 2: GE’s Talent Machine (2003) PROJECTS SELECTED

Class Schedule

Session	Level	Methodology/Framework	
6. Wed. – Apr 2	Organization/ Industry (External & Internal)	Apply GE/McKinsey Business Screen Matrix and Competitor Analysis - PRIORITIES	F&B – 5 and 11 Class Exercise: The Kelley School Strategy
7. Mon. – Apr 7	Industry (External & Internal)	Apply the Value Chain Analysis, Competitor Analysis, and RBV POSITIONING & PRIORITIES	F&B – 9 Case 3: Newell – The Rubbermaid – Team Debate
8. Wed. – Apr 9	Organization (Internal)	Apply Strategic Funds Programming, Balanced Scorecard and McKinsey’s 7S – PAYMENTS and PERFORMANCE	F&B – 26 HBR Articles Case 4: Borealis (2002) GROUP FACT PACKS DUE
9. Mon. – Apr 14	All	All	Review of all frameworks
10. Wed. – Apr 16	All	In Class Quiz	INDIVIDUAL CONTENT QUIZ
11. Mon. – Apr 21	All	All	Intensive review of final project storyline with special advisor
12. Wed. – Apr 23	All	Group Presentations (1 and 2)	GROUP SLIDES DUE
13. Mon. – Apr 28	All	Group Presentations (3 and 4)	
14. Wed. – Apr 30	All	Group Presentations (5 and 6)	LEARNING LOG DUE

We will grade on the MBA suggested distributions

Assignment	Point Value
Individual content quiz	20
Individual class contribution (instructor determined)	20
Individual learning log	5
Individual contribution to group project (peer based)	10
Group strategy fact pack	15
Group presentation	15
Group slides	15
Total	100

Letter Grade	Percentage of Class
A	10 – 15%
A-	25 – 35%
B+, B, B-	50 – 65%
C / F	As needed

Some additional administrivia

Readings

Textbook:

- *Strategic and Competitive Analysis – Methods and Techniques for Analyzing Business Competition*
- Craig S. Fleisher and Babette E. Bensoussan
- Prentice Hall, 2002 (USE THIS VERSION - NOT THE LATER VERSION)
- ISBN 0-13-088852-4
- Available at TIS and the IU Bookstore

Coursepack:

- Contains 4 cases
- Available at TIS and the IU Bookstore

Supplemental Readings:

- Additional readings will be made available throughout the semester
- *The Wall Street Journal* – Daily
- *BusinessWeek* – Weekly

Policies

Communication:

- Oncourse will be used throughout the week – please check the site every other day
- To reach Dr. Friga, use email

Other:

- Office hours: Suite 650, by appt.
- Asst. Lisa Castor: 855.9638, lcastor@indiana.edu
- The Honor Code applies – especially to past and shared work

Group Project

Firms

Strategy Fact Pack

Group Presentation

Your group will be analyzing the strategy of one company during this course. You are free to choose any company, although I recommend that you select a Fortune 500 company that is public. This will aid in the data-gathering effort. You are not to choose a company for which you have worked or had significant experience as it may bias your analysis and not allow for independent work.

Group Project

Firms

Strategy Fact Pack

Group Presentation

Each group will be asked to turn in one strategy “fact pack.” The goal of this deliverable is to demonstrate evidence of full understanding of the strategy frameworks. Within the fact pack, you should have slides for each of the frameworks covered in class (including the basic frameworks covered in the first day of class). The most important element of the frameworks will be the “so-what”, which is the key takeaway from the analysis. Last, but not least, each group will be asked to select a critical strategic issue facing the company and frame it properly using the scientific method (including the key questions, issues, hypotheses and work plan).

Group Project

Firms

Strategy Fact Pack

Group Presentation

All groups must turn in presentation slides on the first day of presentations. Each presentation day will include two presentations (15 minutes each) and Q&A (10 minutes each). Assessment criteria will be ***logic and story-line flow, presentation techniques, and Q&A***. Each class session, one group not presenting will role-play the Board of Directors for the company and decide whether or not they “buy” the group’s recommendations. You should also turn in your appendix of supporting analysis done but not formally shown in the primary slide deck. I will be reviewing these slides for depth of analysis, not formal content per se. I know that some of these slides were likely started but not fully completed and that is expected.

Course Requirements

Analyze the News

Individual Quiz

Individual Learning Log

One of the primary objectives of this course is to see how strategy is done around us (often not done well). I ask that each of you read the newspapers and periodicals on a regular basis (especially the WSJ and Business Week). To reward you for this, ***I will randomly select 4 students each day to share a recent story they read related to a company's strategy. You will only need to highlight the company, source, and key issue. You will also share how the course material can help make sense of the issue and offer any "so whats" related to the company's strategy or the process. If I call on you and you are ready with an article, you will receive the maximum contribution score for that day (2) and receive two "that-a-boy"s from me.***

Course Requirements

Analyze the News

Individual Quiz

Individual Learning Log

There will be no final exam in the course, but there will be an individual assessment of the key concepts for the course. It will be fill in the blank and focused on the core concepts described in the textbook, readings and class slides. If you attend all classes, read all assigned readings and review your respective notes, the quiz will be quite simple. The quiz will be closed book as the goal will be to have the concepts stored in at least your short-term memory

Course Requirements

Analyze the News

Individual Quiz

Individual Learning Log

- **Purpose** – the learning log serves three primary purposes. First, it forces you to reflect on the material and the insights to you individually. Second, it provides me an opportunity to assess how well the learning objectives are accomplished. And finally, it provides me with feedback for improving the course, both now and in the future.
- **Format** – At the end of the course, you will be asked to turn in a one-two page learning log (12 font minimum). Please submit your logs to me electronically via Oncourse before midnight of the day of the assigned session date. Remember to only use 2 pages (12 point font minimum), this will force you to only share the most important insights and minimize the volume. Do not try to summarize all the material presented but rather describe the “so whats” and how you may use the material moving forward.
- **Assessment** – the criteria will be: (i) understanding of the primary points presented and (ii) thoughtful reflection and application.

Session 1:

Key Questions:

How am I going to spend my next 8 weeks, and what will I learn?

Discussion Questions:

- What is business strategy?
- How well is it done in today's firms?
- How do strategy methodologies and frameworks help decision making?
- What are some common frameworks in use today (and likely covered in MBA program)?

Session 2:

Key Question:

How are smart people limited in their decision-making processes?

Discussion Questions:

- What are our limitations as humans?
- Have you ever fallen prey to or witnessed blind spots (think of specific examples)?
- What can we do to improve strategic planning and decision-making processes?

Session 3:

Key Question:

How can the scientific method improve my strategic problem solving?

Discussion Questions:

- What is the scientific method (a la *The McKinsey Mind*)?
- What is “hypothesis-driven analysis”?
- How do I determine business priorities?
- What are my primary sources of data?
- Do you think most businesses follow systematic decision-making processes?
- What are the trade-offs faced in daily decision-making?

Session 4:

Key Question:

What is the macro-environment and why is it important?

Discussion Questions:

- Describe the depth and breadth of the environmental horizon in this case (in particular describe the geographic diversity, topical areas and forecasting horizon).
- What are the 2-3 key events and trends affecting each industry?
- What are their interrelationships, and are there any conflicts of these trends?
- How might these trends affect the market leader and/or a key player (pick one) in each industry (scenarios and strategic planning implications in terms of positioning)?
- Which industry is the most attractive and why?

Session 5:

Key Question:

How do I analyze strategy from a “resource-based view”?

Discussion Question:

- Use the framework to answer the key question related to GE’s competitive advantages.

Session 6:

Key Question:

What is Kelley's strategy?

Discussion Questions:

- How would you profile the industry's competitors?
- What are the strategic business groups of Kelley?
- How would you evaluate them using the GE/McKinsey Business Screen Matrix?

Session 7:

Key Question:

What issues surround executing a strategy through acquisitions?

Discussion Questions:

- How do strategic frameworks help us understand the competitive environment?
- How do the frameworks help assess whether an acquisition makes sense?
- In your teams, prepare an argument for and against the acquisition of Rubbermaid and be ready to debate either side in class.

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What are we talking about?

Let's take a pop quiz – ungraded so don't get nervous

1. Write your definition of "strategy" on the back of the index card.
2. Identify an example from today's WSJ of a key strategy issue and provide an insight related to it.

A few questions to kick things off...

What is strategy (or strategic planning), and how has it changed over time?

What factors are affecting strategies today?

What is the quality of strategic decision-making in firms today? – Survey

What hinders good strategy development?

How can we improve strategic capabilities?

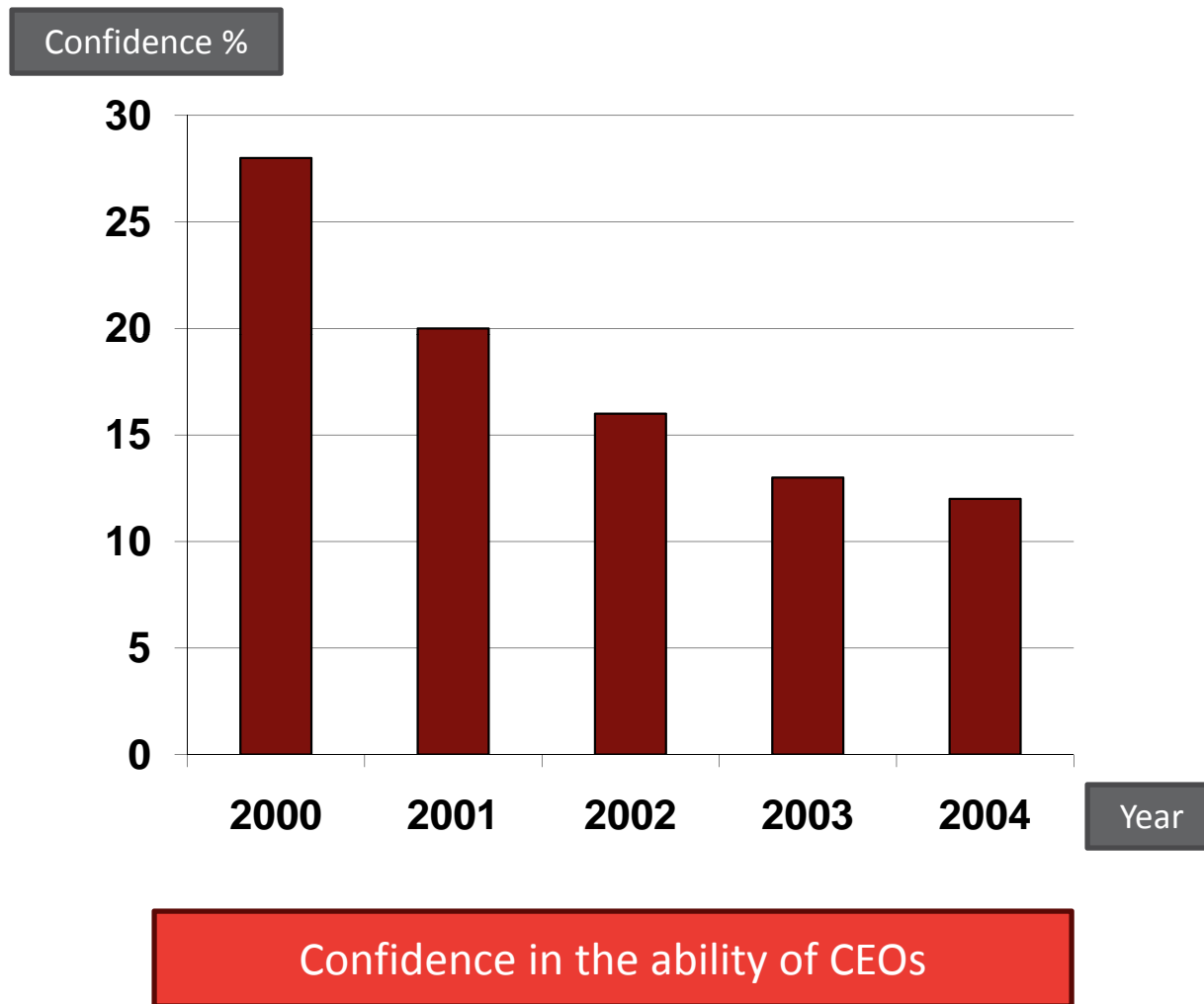
Survival is not guaranteed for even the most successful companies.

Of the 100 largest companies at the start of the 20th century, only 16 are still identifiable today!

In a recent year, 44,367 businesses filed for bankruptcy, and many more failed.

Competitive success is transient – unless care is taken to preserve competitive position.

The public is consistently losing confidence in CEOs.



Four key barriers to analysis hinder a project's success.

Underdone or overdone

Too much information – lack of focus

Missing factual support

Hinder

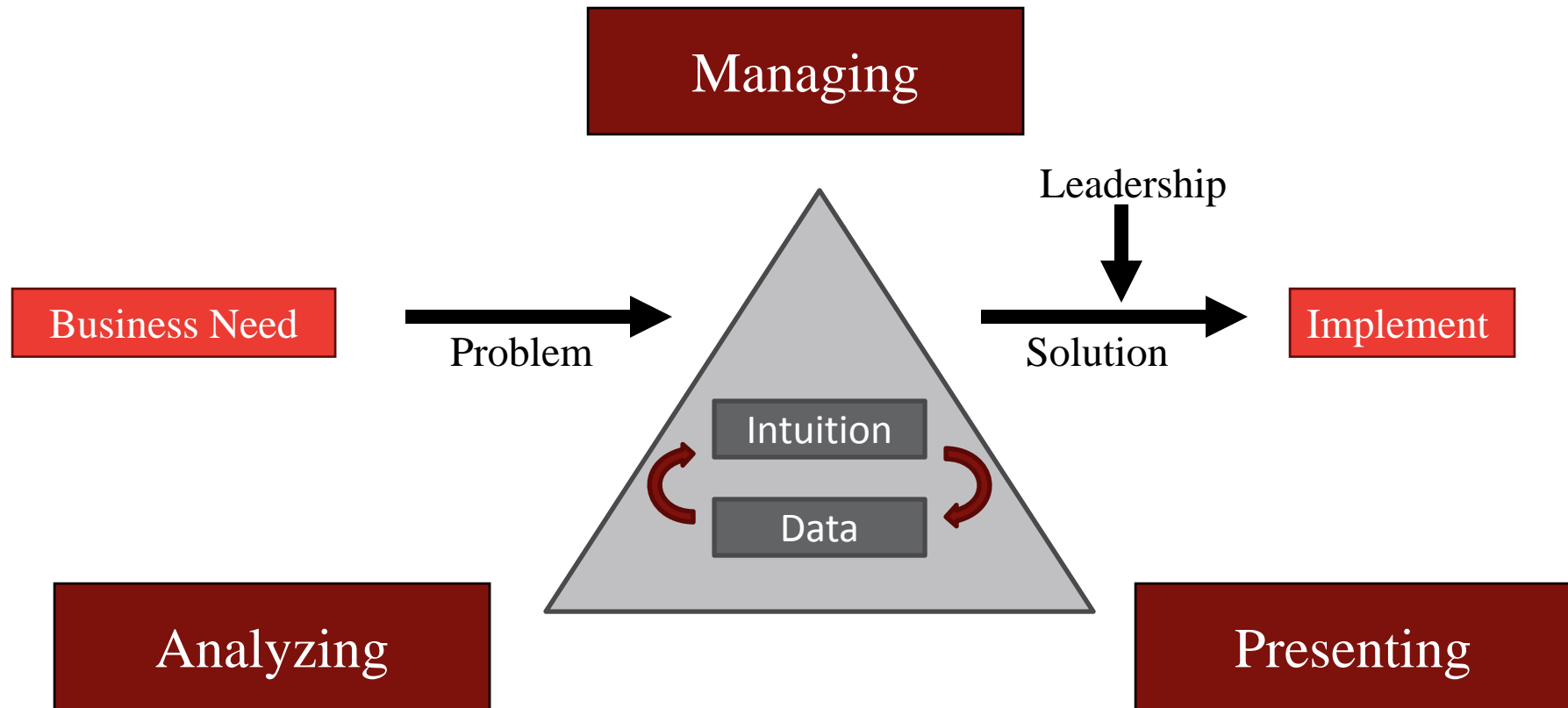


- Escalating commitment
- Illusion of control / overconfidence
- Prior hypothesis bias
- Representativeness

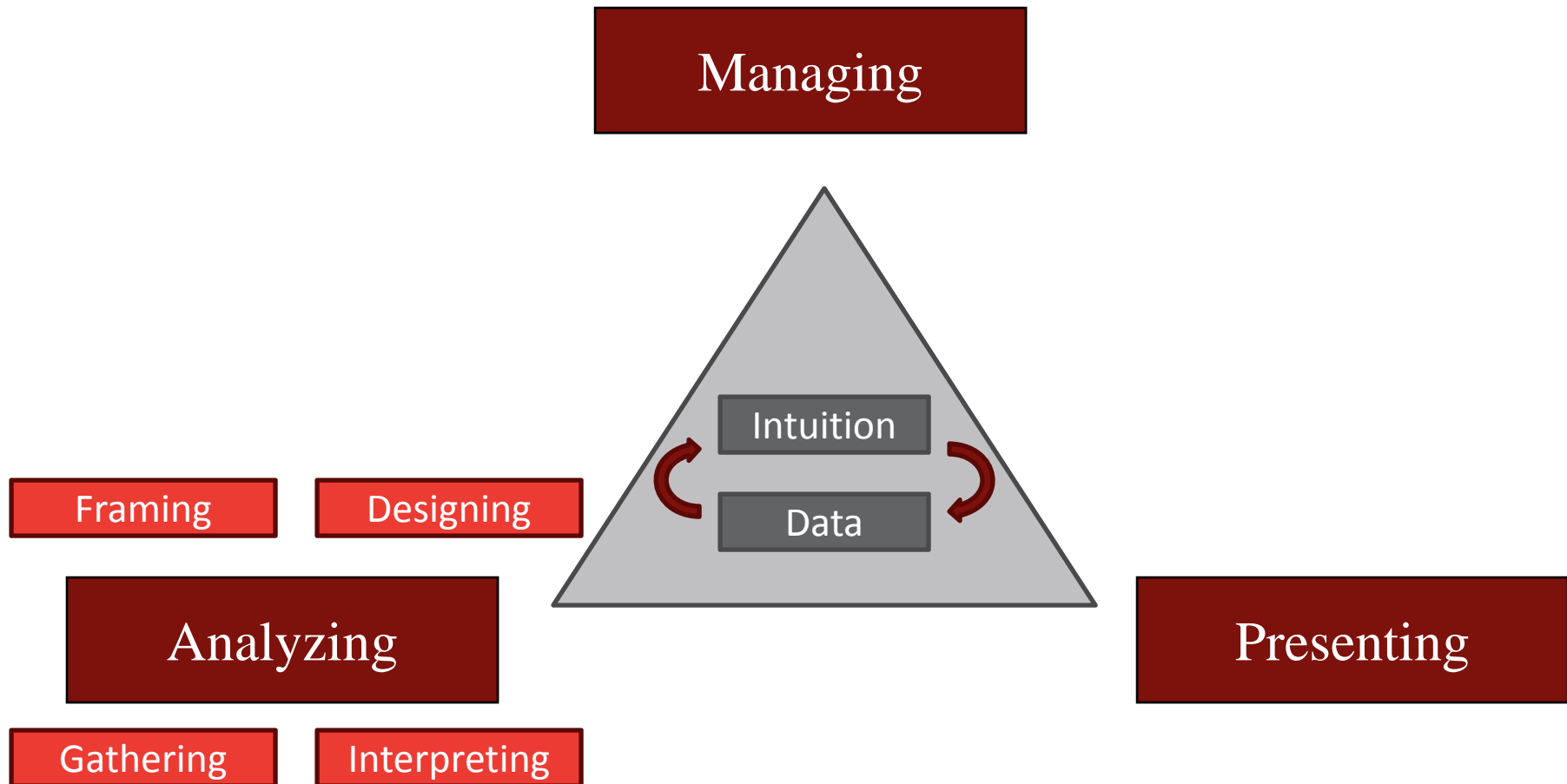
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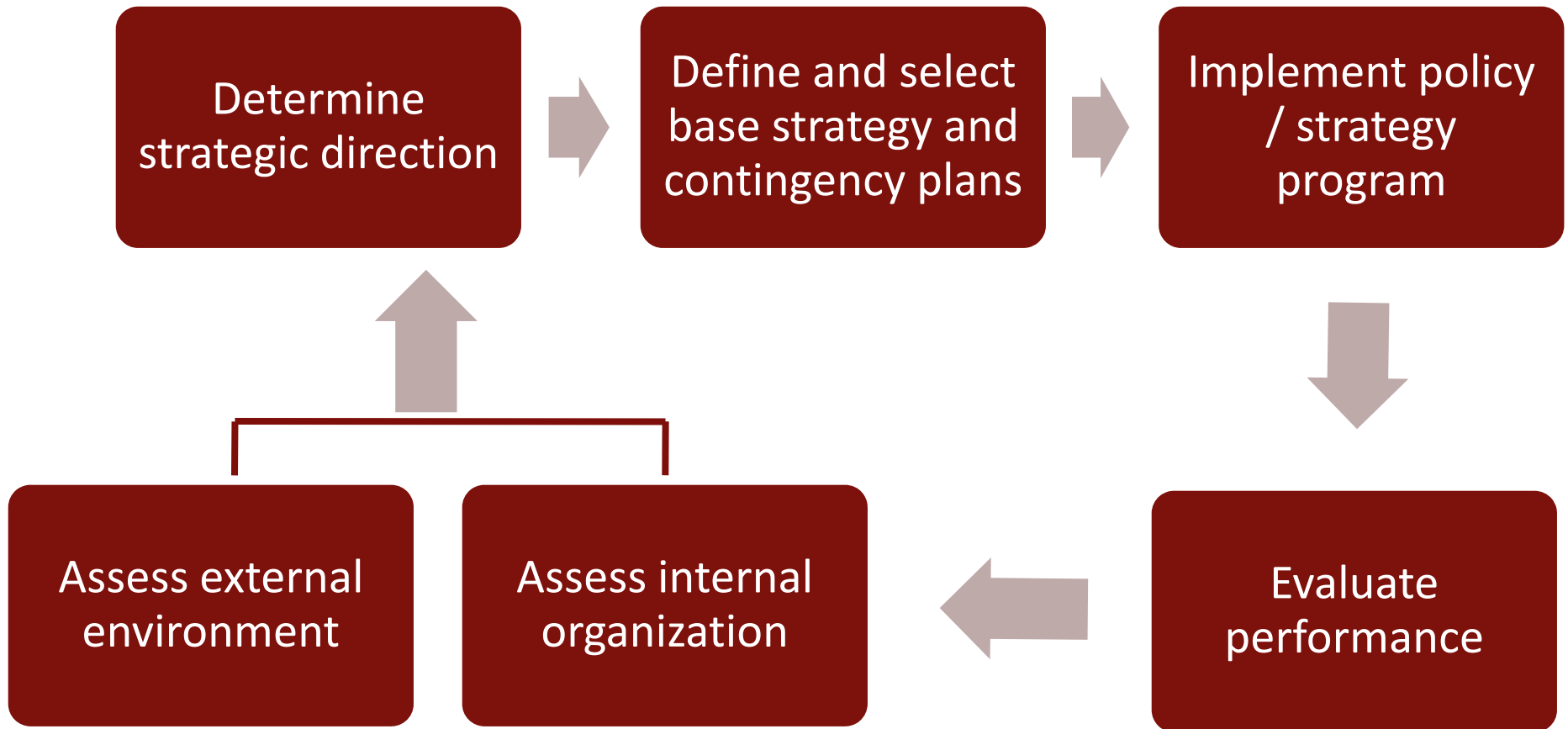
The problem-solving process



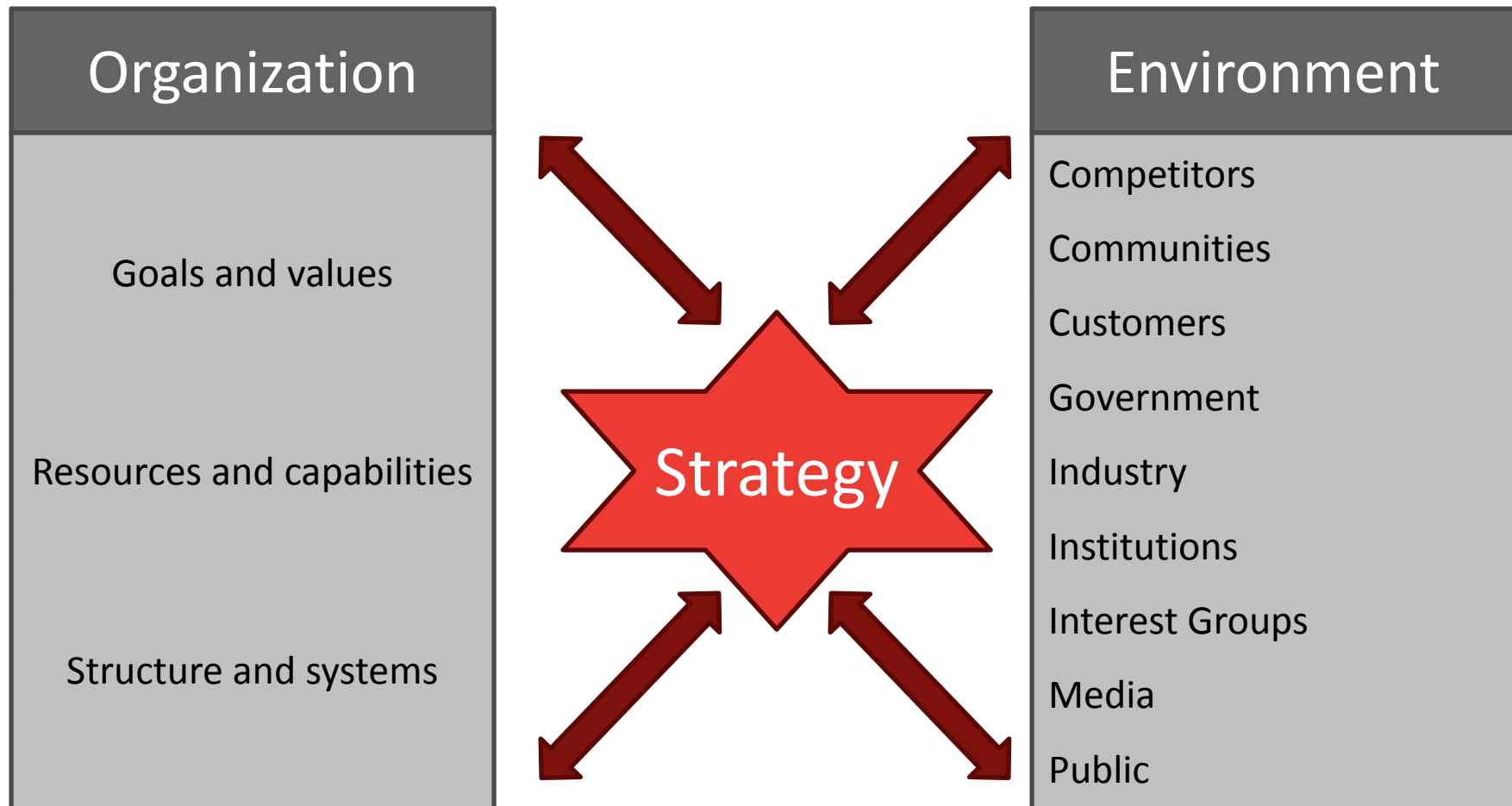
The problem-solving process



A generic strategic-planning process



Generic Strategic Management Framework



Context is an important element of strategic analysis

Context determines the types of:



Analysis necessary



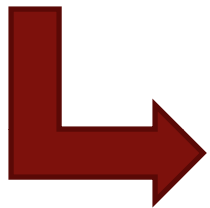
Data needed



Data collected

A generic approach to analysis

Analytical framework – what is the decision?



Collection – what are the facts?



Analysis – what do the facts mean?



Implications – what does it mean for the decision?

The strategic-management process

Three key factors determine a team's eventual success or failure:

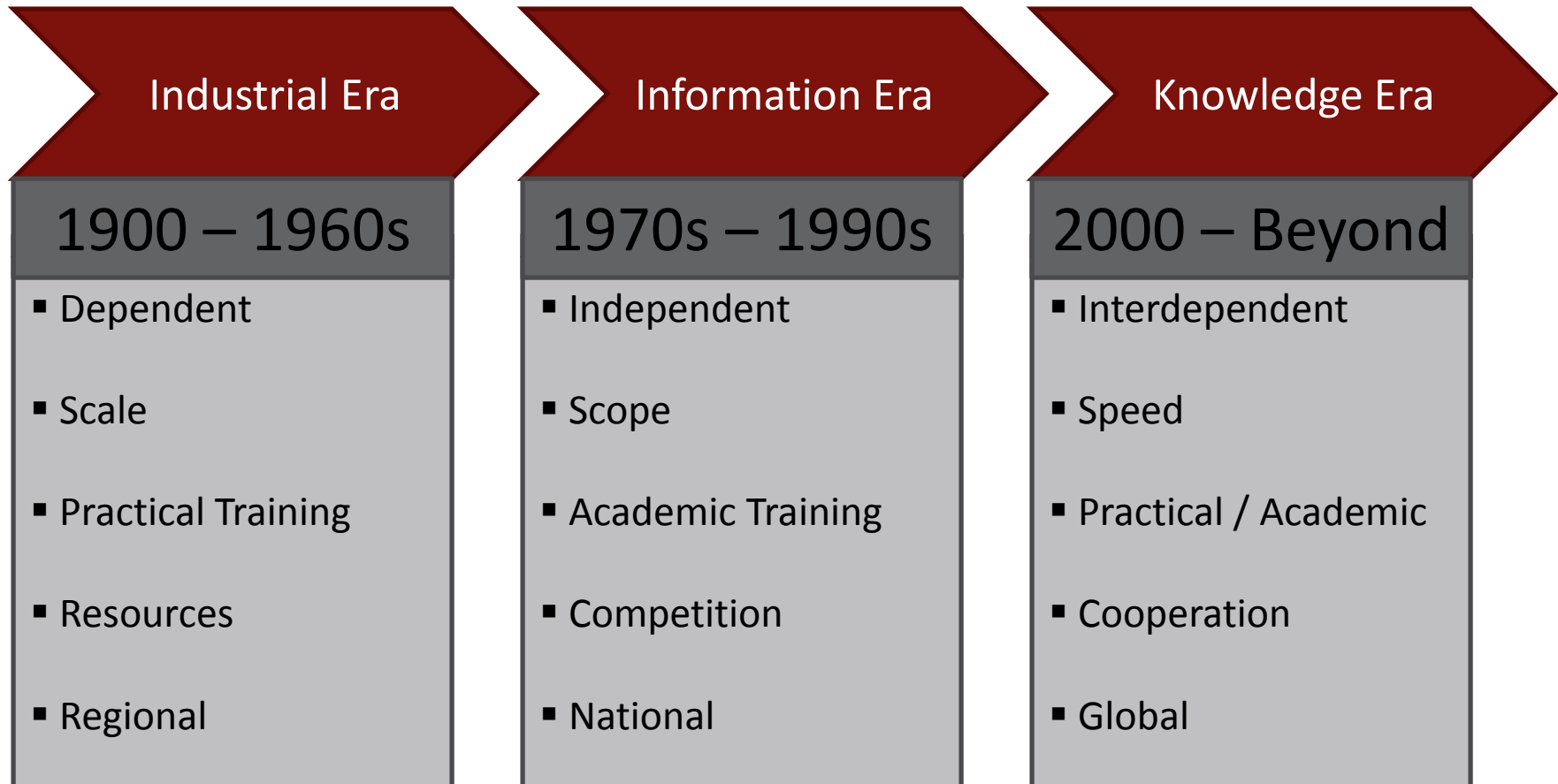
Commitments

Decisions

Actions

- Strategic competitiveness
- Sustained competitive advantage
- Above-average returns

Strategic management has changed over time.



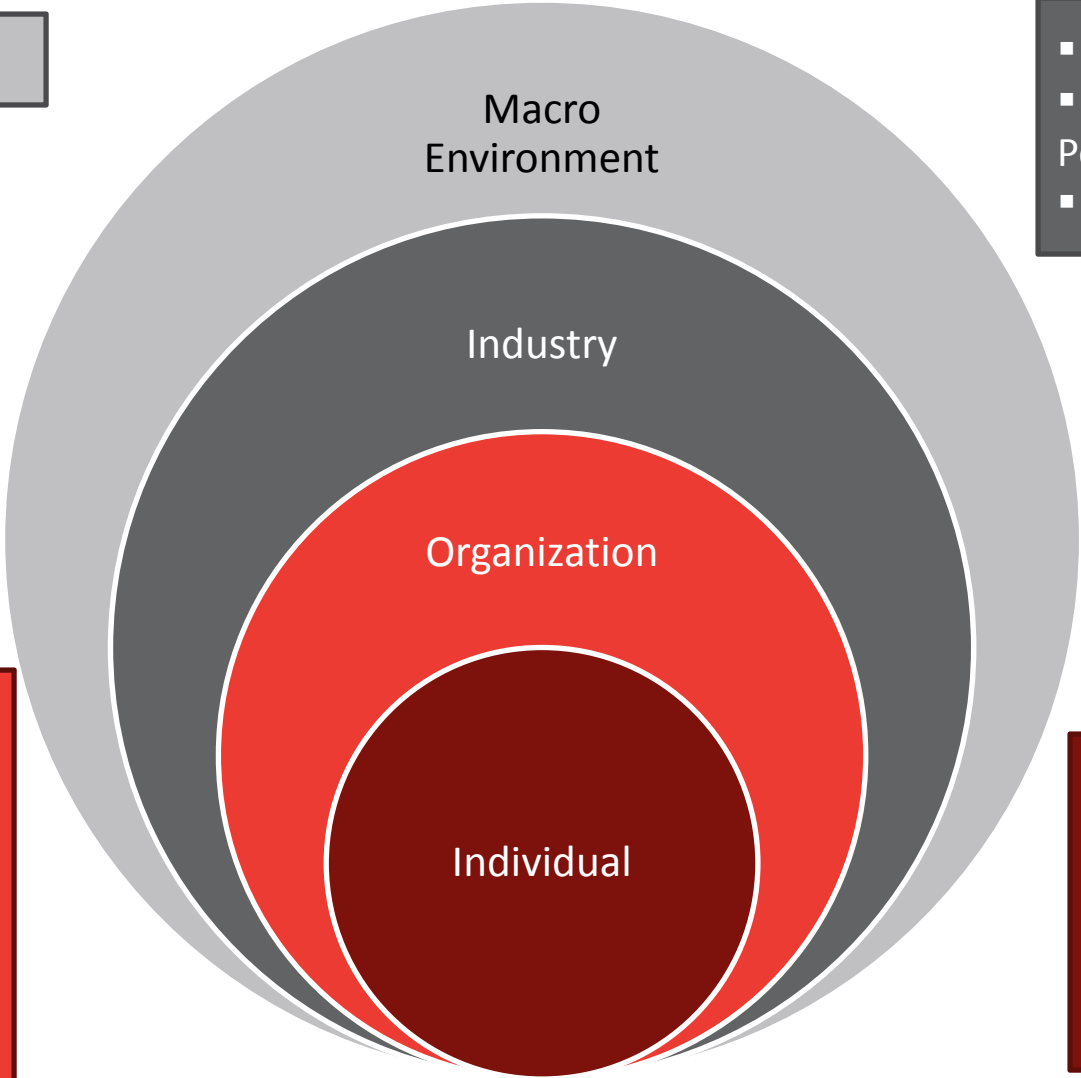
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We will cover 12 key strategy frameworks

- STEEP

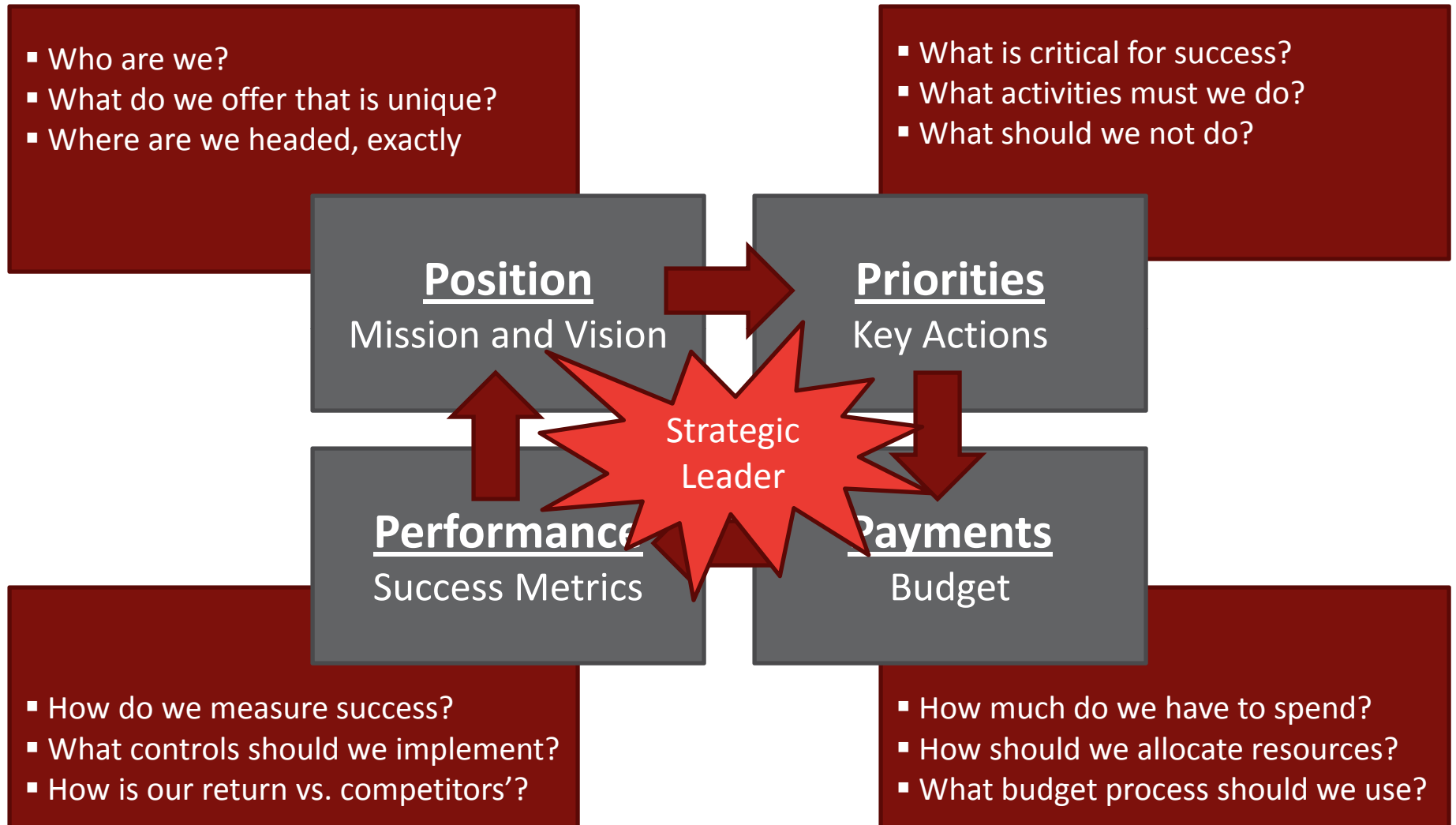
- Porter's 5 Forces
- Value Chain / Profit Pool
- Competitor Analysis



- SWOT
- RBV Core Competencies
- Balanced Scorecard
- GE / McKinsey Business Screen
- McKinsey 7S

- Scientific Method / FOCUS
- Blind Spots
- Management Profiling
- Paul's 4 Ps

Paul's 4 Ps of Strategy



Mission and vision – know these!

Mission Statement

Statement(s) which specifies a firm's purpose or "reason for being" and the primary objective toward which the firm's programs & plans should be aimed. Statement(s) specifying the firm's key constituents and how the firm will serve them. It must be clear and understood.

Vision Statement

Statement(s) describing what the firm strives to be at some future time. It should be specific and motivating.



How about some well-known examples?

Southwest Airlines

MISSION: Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.

To Our Employees: We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.

VISION: To be the most profitable airline in the United States (and largest?)

How about some well-known examples?

Starbucks

MISSION: To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow. The following six guiding principles will help us measure the appropriateness of our decisions:

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.

VISION: To be the world's largest provider of high-quality coffee (specific number of stores changes by planning cycle).

How about some lesser-known examples?

McKinsey

MISSION:

- Help clients make distinctive, lasting, substantial improvements in performance
- Build a great firm that attracts, develops, excites, and retains exceptional people

VALUES:

SERVING CLIENTS:

Adhere to professional standards, Follow the top management approach, Assist the client in implementation and capability building, and Perform consulting in a cost effective manner;

BUILDING THE FIRM:

Operate as One Firm, Maintain a meritocracy, Show a genuine concern for our people, Foster an open and nonhierarchical working atmosphere, and Manage the Firm's resources responsibly;

BEING A MEMBER OF THE PROFESSIONAL STAFF:

Demonstrate commitment to client service, Strive continuously for superior quality, Advance the state of the art of management, Contribute a spirit of partnership through teamwork and collaboration, Profit from the freedom and assume the responsibility associated with self-governance, and Uphold the obligation to dissent

How about some lesser-known examples?

4 Seasons

MISSION:

- Only offer experiences of exceptional quality in hospitality industry and satisfy discriminating customers.
- Our objective is to be recognized as the company that manages the finest hotels, resorts and residence clubs wherever we locate.

VALUES:

What We Believe:

Our greatest asset, and the key to our success, is our people.

We believe that each of us needs a sense of dignity, pride and satisfaction in what we do. Because satisfying our guests depends on the united efforts of many, we are most effective when we work together cooperatively, respecting each other's contribution and importance.

How We Behave:

We demonstrate our beliefs most meaningfully in the way we treat each other and by the example we set for one another. In all our interactions with our guests, customers, business associates and colleagues, we seek to deal with others as we would have them deal with us.

How We Succeed:

We succeed when every decision is based on a clear understanding of and belief in what we do and when we couple this conviction with sound financial planning. We expect to achieve a fair and reasonable profit to ensure the prosperity of the company, and to offer long-term benefits to our hotel owners, our shareholders, our customers and our employees.

Goals and objectives

Goals

General statement(s) of what the firm wishes to accomplish in key results areas.

Objectives

Definitive statements of the criteria for goal accomplishment; the quantified end results of planned activity which specify what is to be accomplished and by when.



For example, in the news today...

WSJ – required reading

Top 10 take-aways from J501

1

Strategic Management is a process that can be improved

Most firms don't do strategy well

2

3

We, as humans, are greatly limited in strategic decision making

Strategy is about positioning, priorities, payments, and performance

4

5

The best strategy always considers internal and external factors

Ambiguity and complexity can be opportunities for differentiation

6

7

Methodologies and frameworks help us make sense of ambiguity

Methodologies provide valuable issues of consideration in developing strategy (even if they are not always MECE).

8

9

When presenting analysis – always use data to support your points and tell a story based upon the “so whats” or insights

There is no one right answer – but there are better and worse ways of arriving at that answer (i.e., better paths on your journey)

10



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For our next class

Readings

- Read Chapters 1,2 in Fleisher & Bensoussan (F&B) and overview slide deck
- Read Chapter 10 in F&B
- Review appendix slides and read up if not familiar in F&B
- Set up daily reading of WSJ and NYT (free online) & Business Week (weekly)
- Read articles posted via Oncourse (HBR)

Questions

- Key Question:
 - *How are smart people limited in their decision-making processes?*
- Discussion Questions:
 - What are our limitations as humans?
 - Have you ever fallen prey to or witnessed blind spots? Think of specific examples.
 - What can we do to improve strategic planning and decision-making processes?

Appendix to Day 1

- I am including these slides for you as a reference
- These are primarily from Idie Kesner and the MBA core strategy courses
- You should at least be somewhat familiar with these concepts (we cover the BSC later in this course) – they are also covered in your text if you would like to review them

Strategic Concepts

- Strategic planning vs. strategic thinking
- Sustainable competitive advantage & hypercompetition
- Environmental analysis
 - Five Forces
 - Supplier power
 - Buyer power
 - Entry barriers & exit barriers
 - Substitutes
 - Intensity of Rivalry
 - 6 Factor Analysis
- Corporate strategy (vs. business strategy vs. functional strategy)
- Strategy formulation & strategy implementation
- Mission, vision & values statements (core ideology)
- Goals/objectives & balanced scorecard
- Internal analysis
 - SWOT
 - Value Dynamics
 - 7S
- Core competencies & core capabilities
- Business Strategy
 - Low cost leader (U curve & experience curve)
 - Differentiator (U curve)
 - Focus/niche
 - Mass Customization
- Geographic expansion
- Value chain
 - Firm-level
 - Industry-level & profit pooling/mapping
- Vertical integration
 - Backward & forward
 - Make or buy decisions
- First-mover advantage
- S curves

EXAMPLE OF IDEOLOGY

The logo for Johnson & Johnson, featuring the company name in a red, cursive script font.

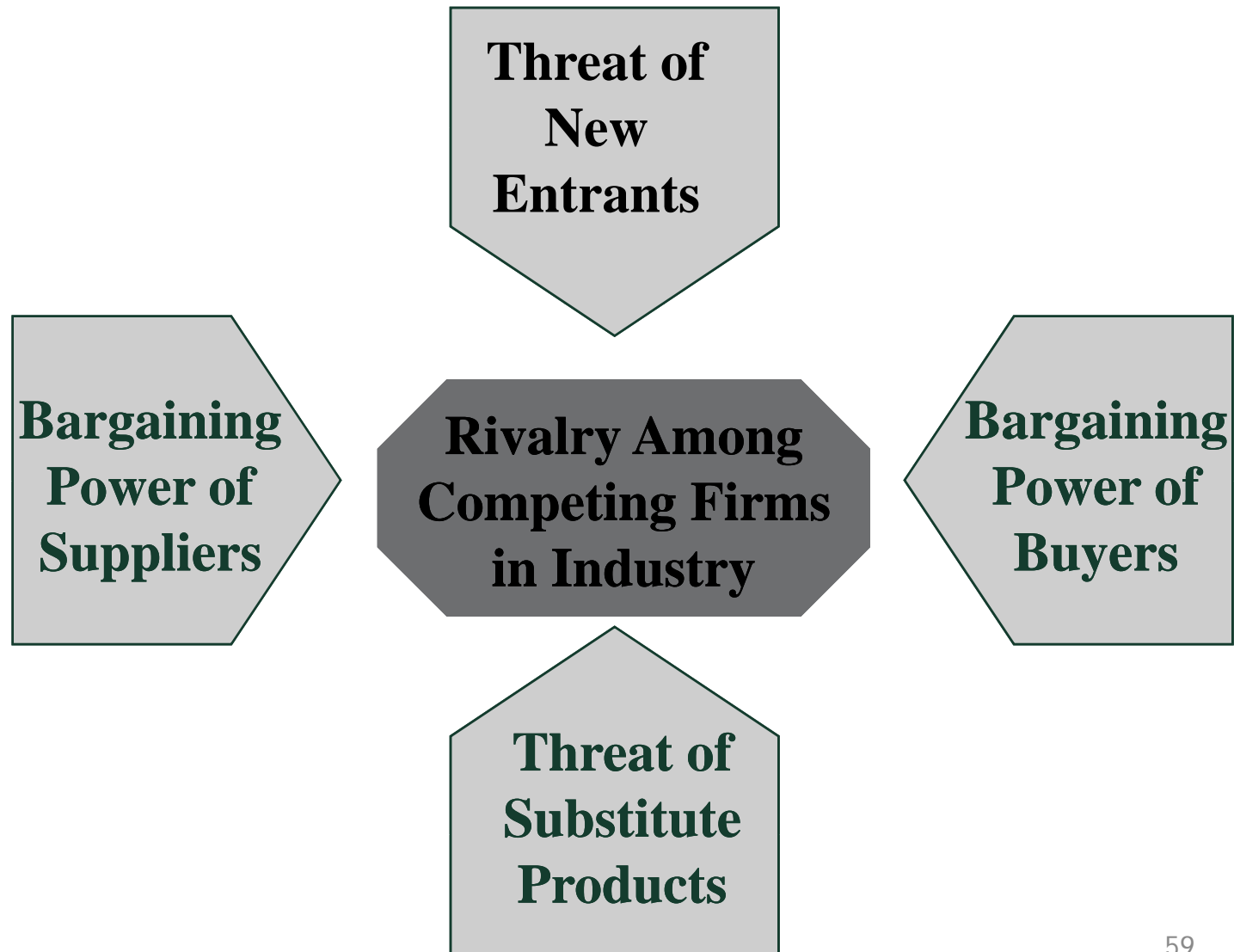
We believe our first responsibility is to the **[customers]** doctors, nurses, and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our **suppliers and distributors** must have an opportunity to make a fair profit.

We are responsible to our **employees**, the men and women who work with us throughout the world. Everyone must be considered as a individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

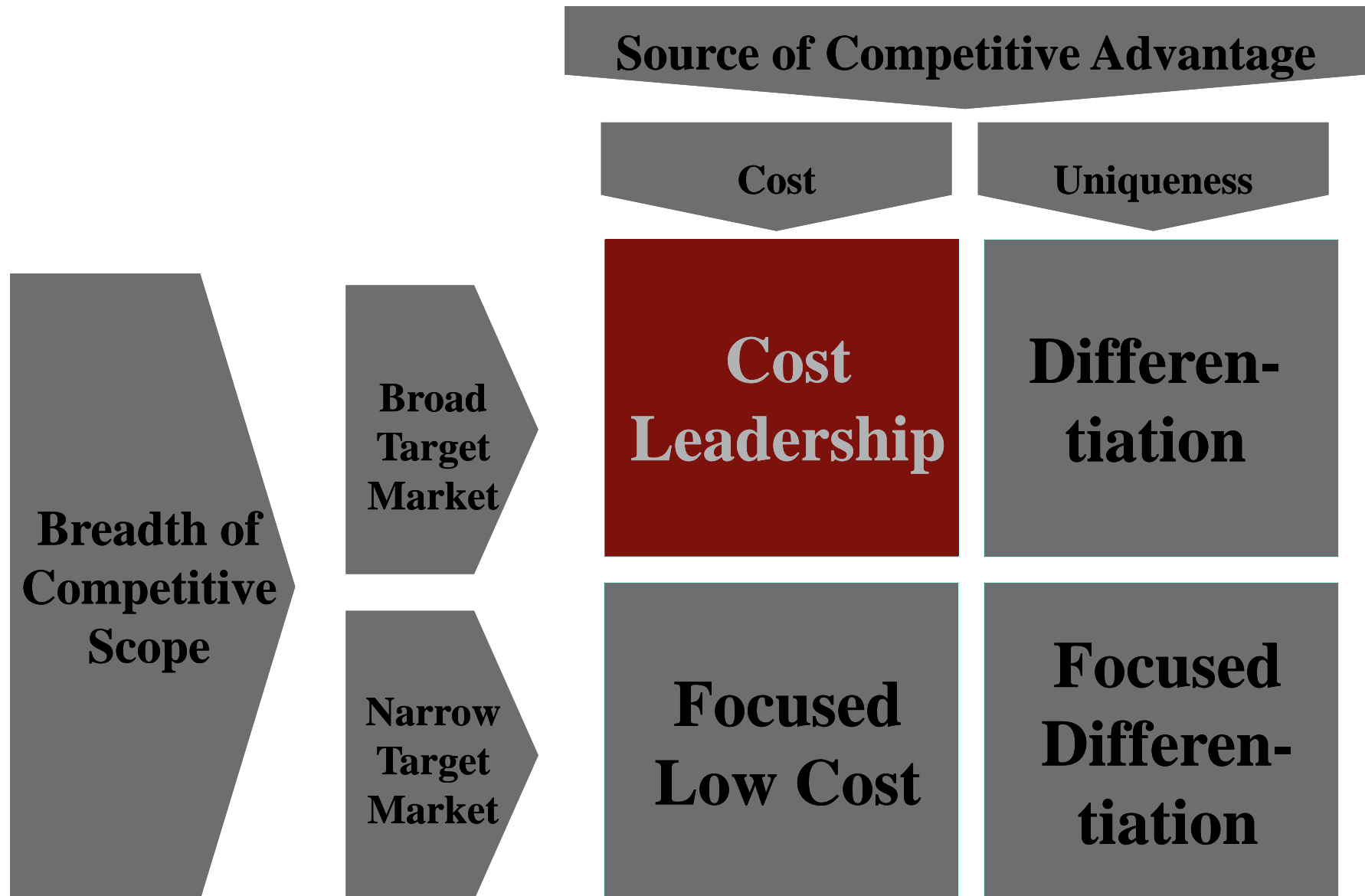
We are responsible to the **communities** in which we live and work and to the world community as well. We must be good citizens – support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our **stockholders**. Business must make a sound profit. WE must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

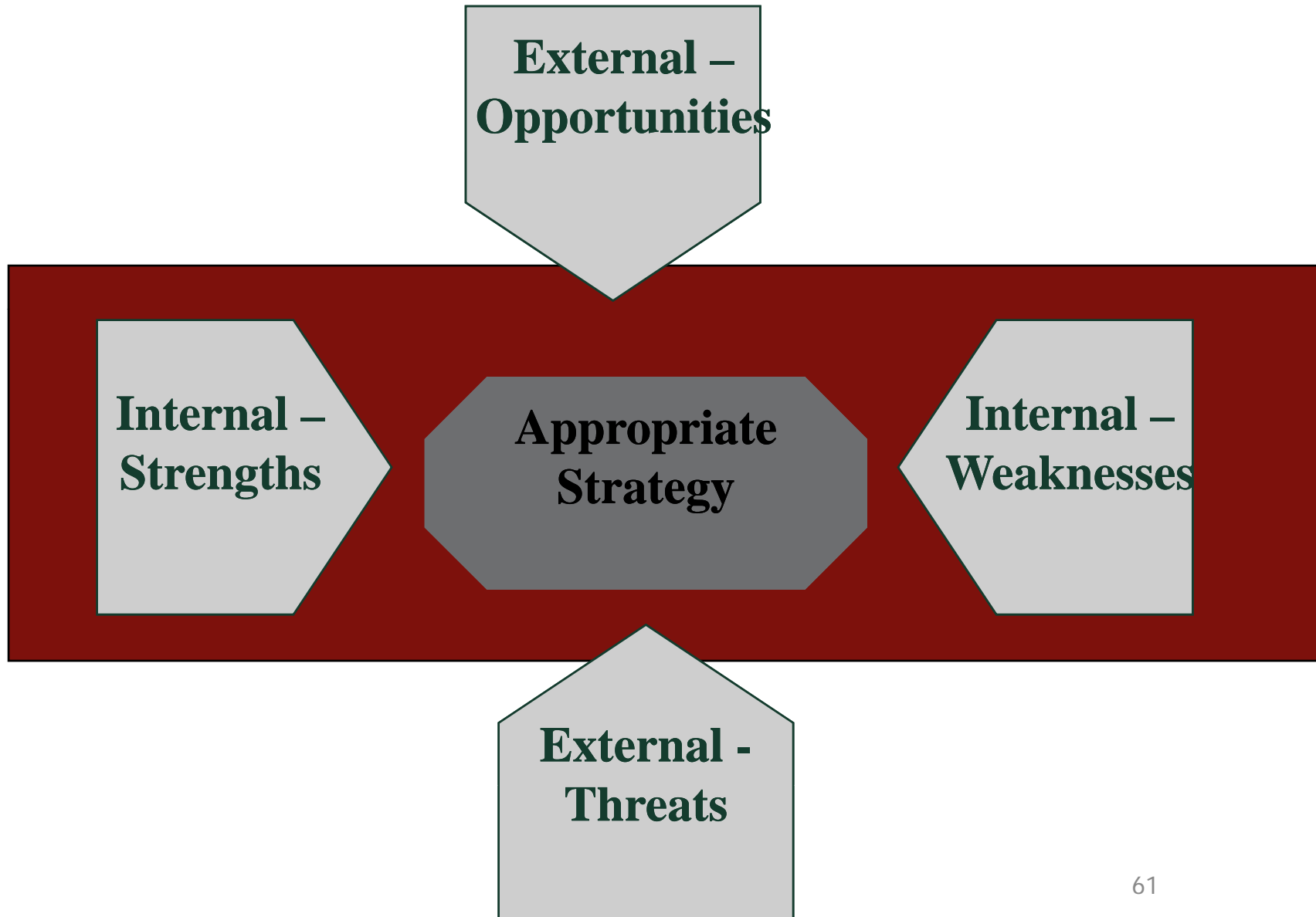
Porter's 5 Forces Model of Competition



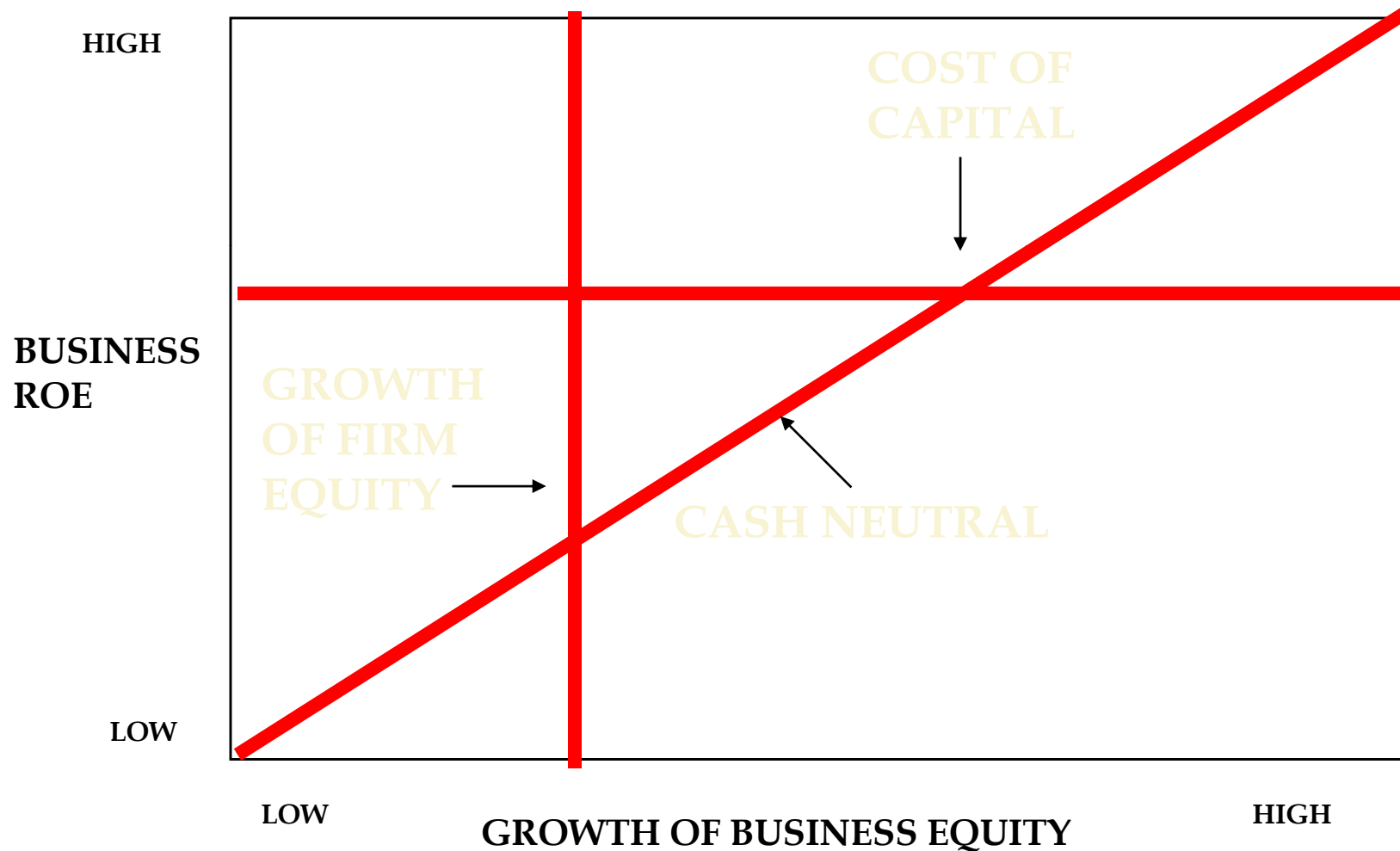
Generic Business-Level Strategies



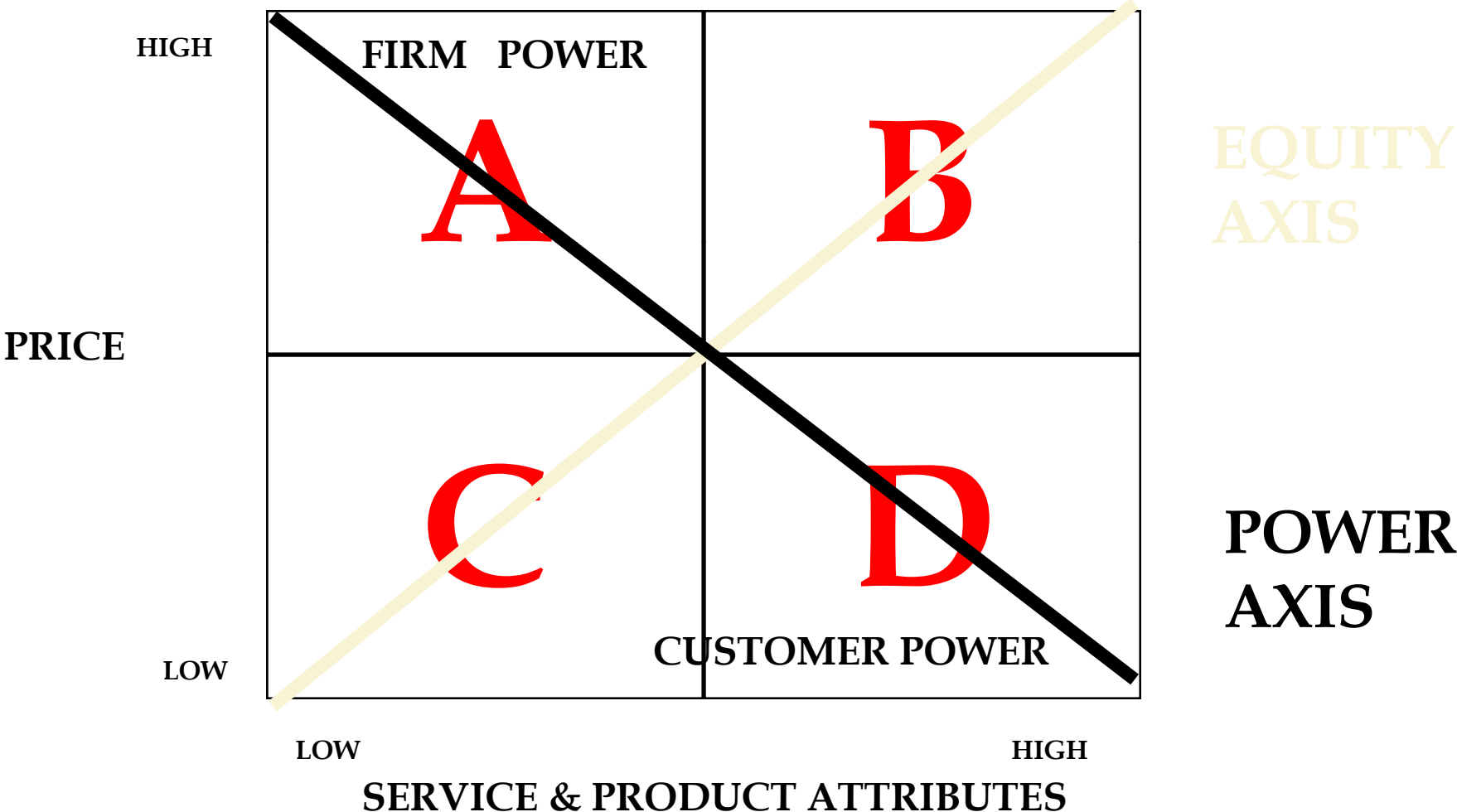
SWOT Analysis



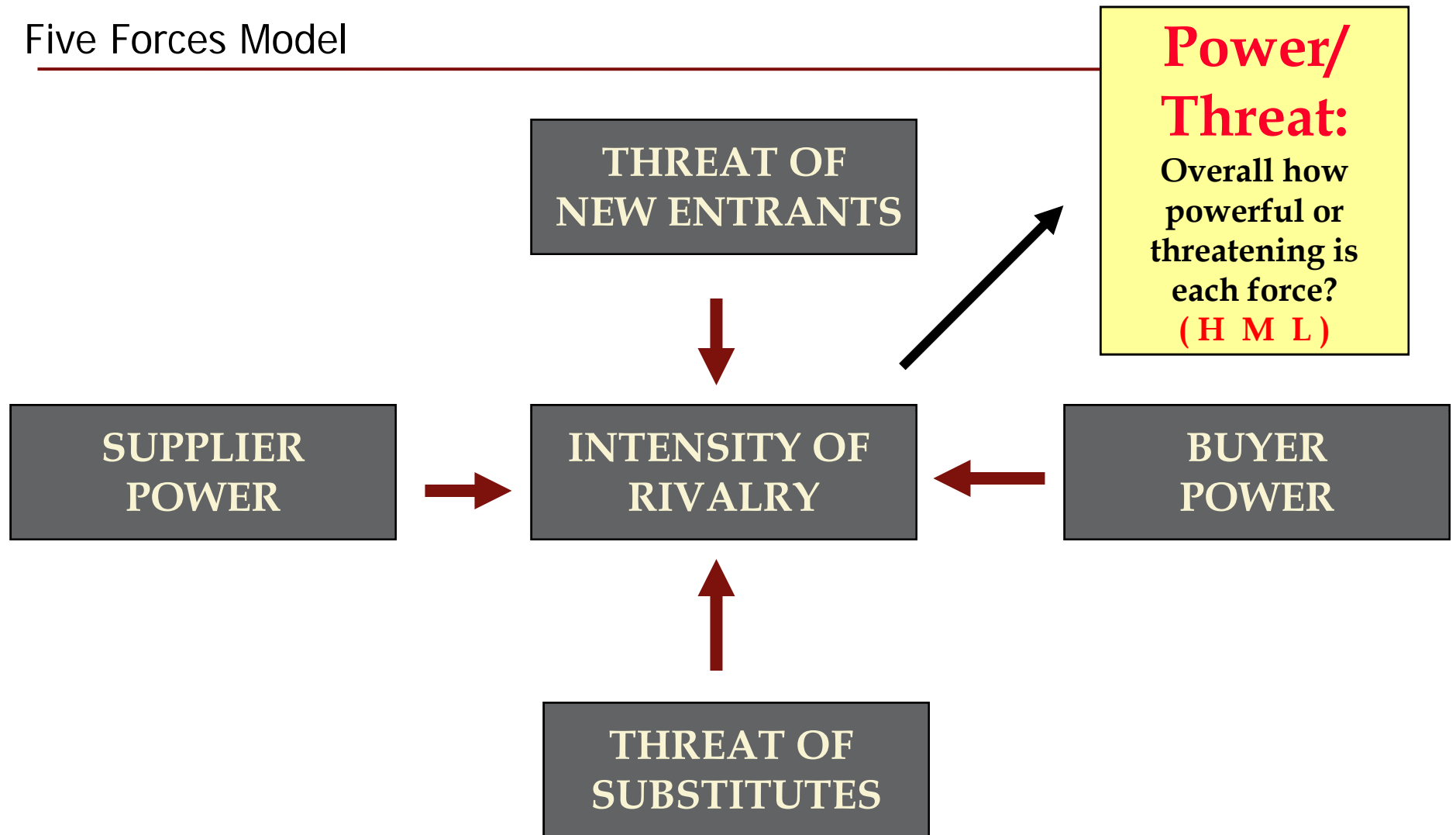
Marakon Associates Analysis: Cost of Capital



Price-Service Matrix

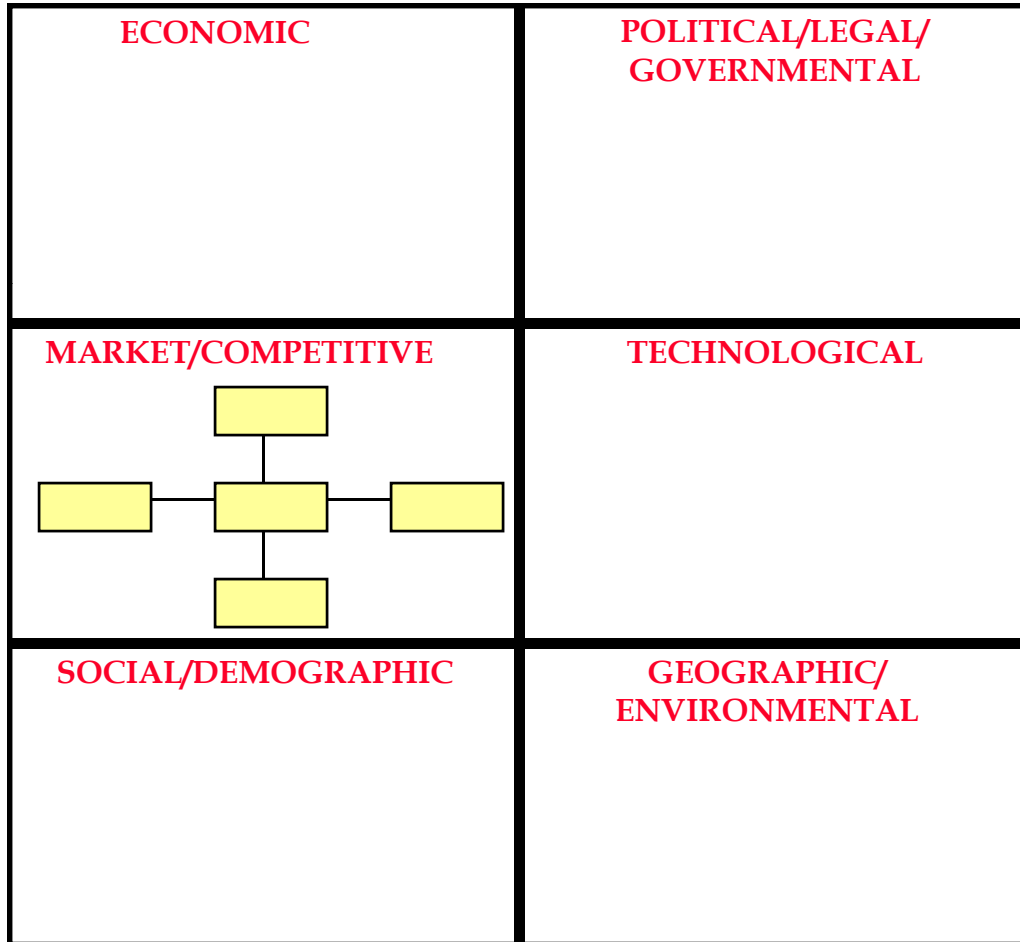


Five Forces Model

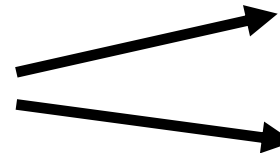


SOURCE: *Competitive Strategy*, by M.E. Porter, 1980; *Competitive Advantage*, by M.E. Porter, 1985.

SIX FACTOR ANALYSIS

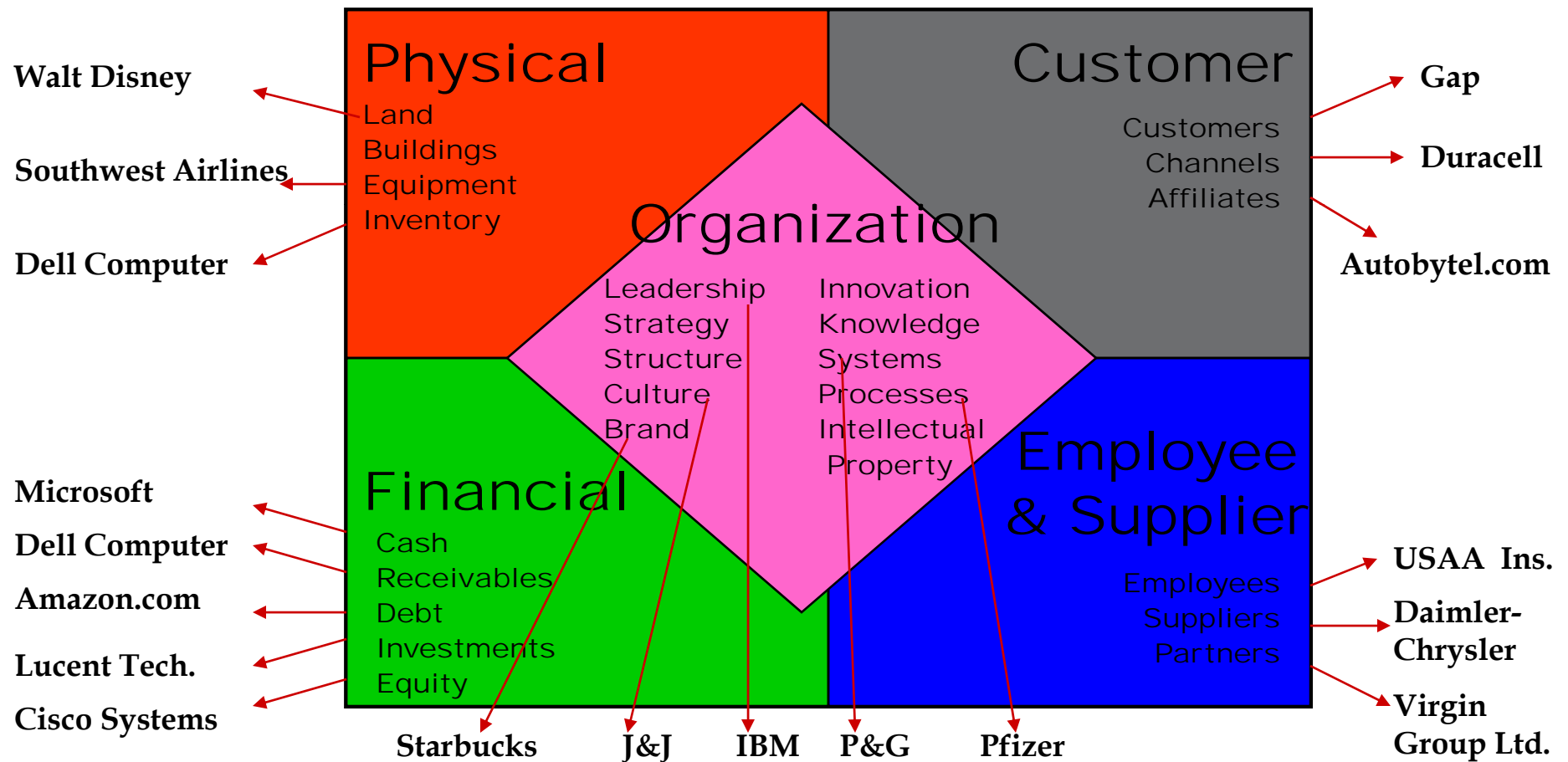


IMPORTANCE:
Overall, how important is each factor?
(H M L)



IMPACT:
Overall, does each factor have a positive, negative or neutral impact?
(+ - 0)

Value Dynamics Framework



SOURCE: *CRACKING THE VALUE CODE*, BY: RICHARD E.S. BOULTON, BARRY D. LIBERT & STEVE M. SAMEK, HARPER BUSINESS PUBLISHING, 2000.

Internal Analysis

STRENGTHS	WEAKNESSES
DIVISION/SBU #1	DIVISION/SBU #1
DIVISION/SBU #2	DIVISION/SBU #2
DIVISION/SBU #3	DIVISION/SBU #3
DIVISION/SBU #4	DIVISION/SBU #4
DIVISION/SBU #5	DIVISION/SBU #5

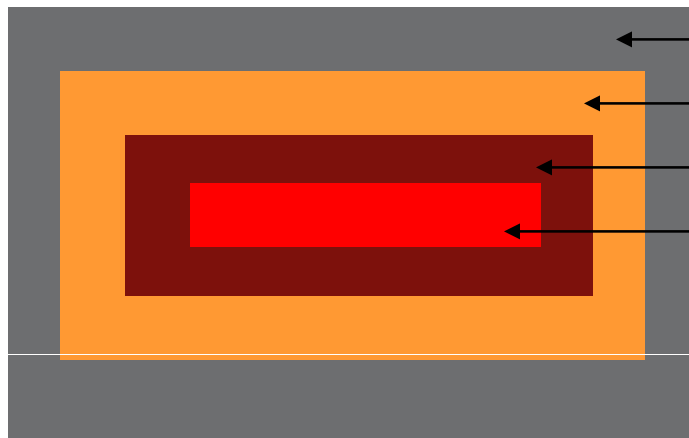


IMPORTANCE:
Overall, how
important is each
factor?
(H M L)

Core Competencies and Core Capabilities

Competencies tend to be skills rooted in areas of production & technology.

Capabilities are skills rooted in processes and business routines; complex phenomena that involve the interactions of individuals and structures.



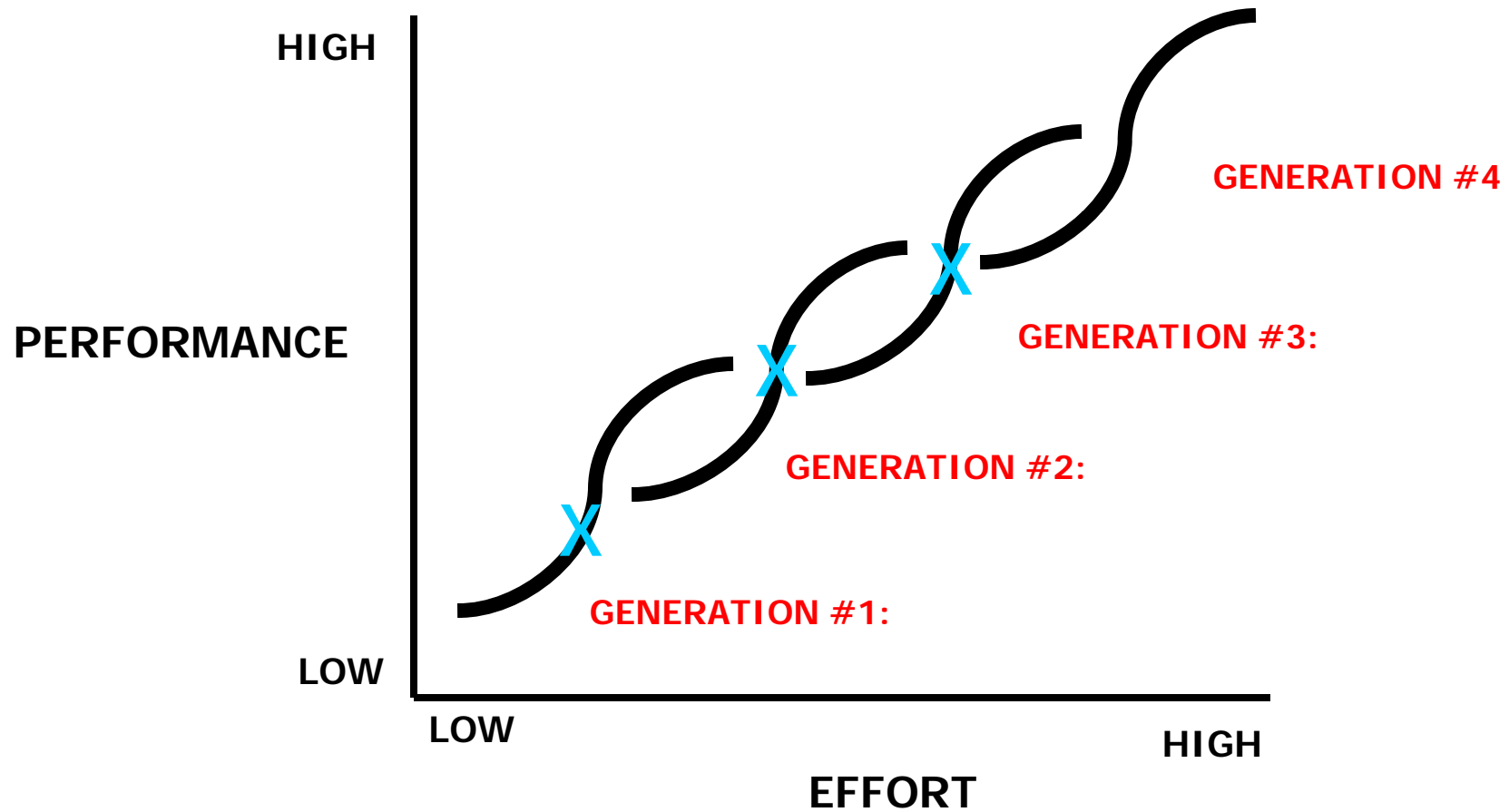
Company strengths

Competitive advantages

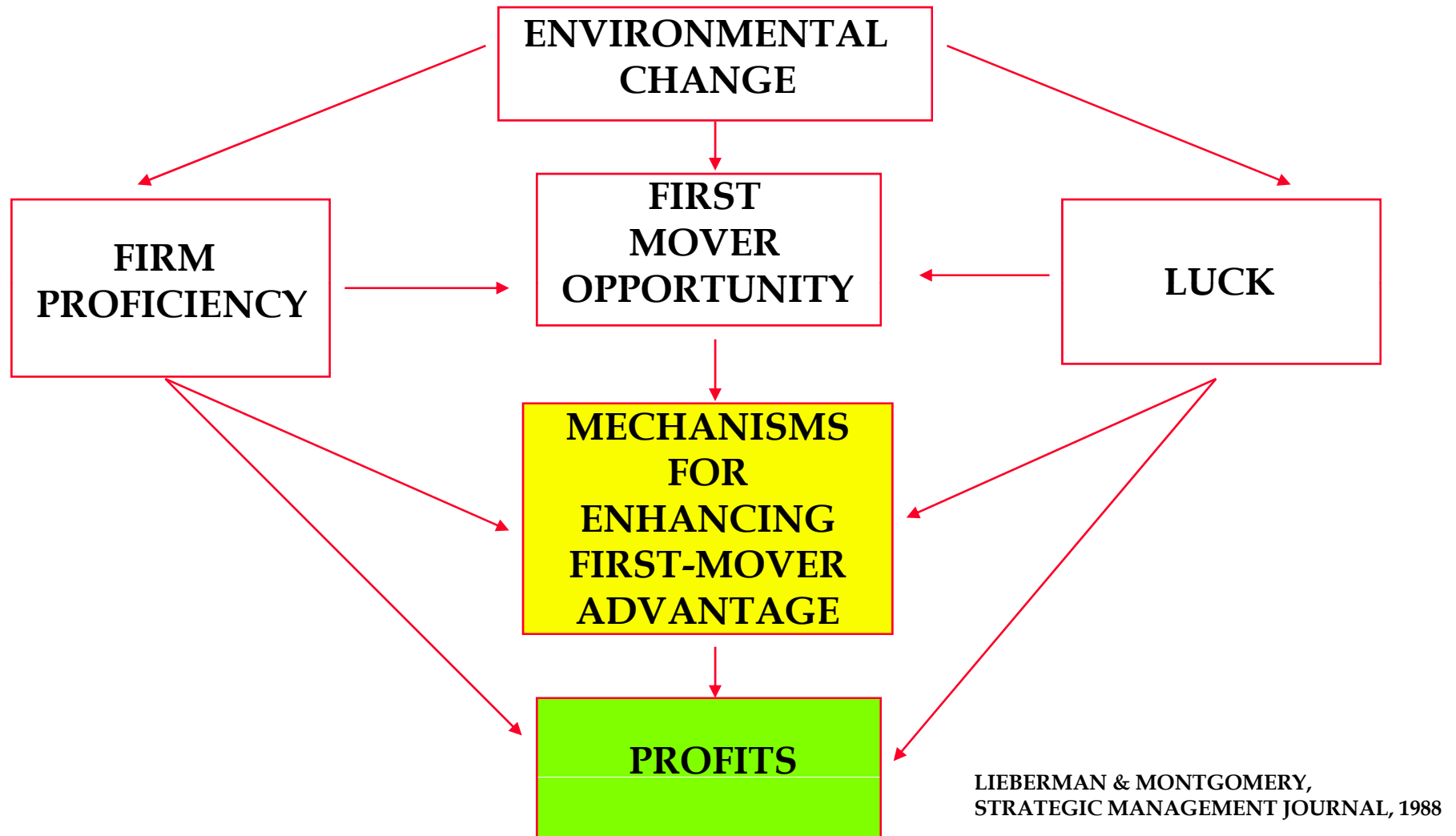
Sustainable competitive advantages

Core competencies & core capabilities

"S" Curves: Life cycles of technology



First-mover Advantages



Experience Curve

