

MSc Marketing Management

Pre-course Fall 2007

Corporate Management

**Session 1.
Objectives and basic concepts**

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• Introductions

• Syllabus and slides will follow (IT platform is changing)

• Class procedures/expectations

• Remember to check classroom for next session on the entrance board or on the site

• Office hours

What is a business?

How does it work?

- Economics
- Accounting
- Finance
- Management
- Human Resources
- Production and Operations
- Marketing and Sales
- Innovation (process, cross-functional)

Try to think as an entrepreneur/investor!

What is Business?

All profit-seeking activities and enterprises that provide goods and services necessary to an economic system.

1. Provides the means through which standards of living improve
2. An exchange between a buyer, who recognizes the need for a good or services, and a seller, who receives money for the good or service
3. Provides profits or rewards for businesspeople, who take risks in blending people, technology and information to create and market want-satisfying goods and services
4. Businesspeople also recognize social and ethical responsibilities to employees, customers, suppliers, competitors, government and the general public

Not-for-Profit Organizations

Business establishments which primary objectives are other than returning profits to owners, such as public service

1. Private sector, such as museums, libraries, business associations, charitable and religious organizations, and most college and universities
2. Government agencies, political parties and labor unions
3. Revenues come from a wide array of sources, including:
 - a. individual donations
 - b. memberships
 - c. government grants
 - d. sales (profit centers within the non-profit) (ex. gift-shops)
 - e. special fund-raising events, which also increase public awareness of the not-for-profit
4. Require work in all the business functions, such as marketing and human resources, as do for-profit organizations, and face many of the same business challenges, including determining methods to increase revenues and to reduce costs

The Private Enterprise System

Economic system that rewards businesses for their ability to perceive and serve the needs and demands of customers.

1. Minimizes government interference in economic activity
2. Also called capitalism, and was first identified by Adam Smith in his 1776 book, *The Wealth of Nations*, in which he described the invisible hand of competition
3. Competitive differentiation, is the unique combination of organizational abilities and approaches that set a company apart from competitors in the minds of consumers

Capitalism

Factors of Production

Four basic inputs for effective operation.

How do we remunerate them?

Factor of Production	Corresponding Factor Payment
Natural resources	Rent
Capital	Interest
Human resources	Wages
Entrepreneurship	Profit

Factors of Production

Four basic inputs required for effective operation.

1. **Natural Resources** – all product inputs that are useful in their natural state, such as:

- a. agricultural land
- b. building sites
- c. forests
- d. mineral deposits

2. **Capital**, includes:

- c. information
- d. physical facilities
- e. money

3. **Human Resources** – anyone who works, encompassing both physical labor and intellectual contributions.

4. **Entrepreneurship** – the willingness to take risks to create and operate a business.

Natural Resources

All product inputs that are useful in their natural state, such as:

agricultural land

building sites

forests

mineral deposits

water

air (pollution)?

Capital

technology – machinery and equipment as production lines,
telecommunications and basic inventions.

tools

information

physical facilities

money

Human Resources

Anyone who works, encompassing both physical labor and intellectual contributions

Entrepreneurship

Entrepreneur = risk taker in the private enterprise system.

Results in economic growth in the U.S. economy (2006)

- one in seven current organizations began operating within the year
- more than one in every five new jobs has been created by new small businesses
- nearly 12 million U.S. employees currently work for businesses with fewer than ten employees

Entrepreneurs do it for profits and that's good for the economy and society.

Strategic Management

Definition:

Set of managerial decisions and actions that determines the long-run performance of a firm.

It includes: environmental scanning, strategy formulation, strategy implementation, evaluation and control.

Business Policy

Definition:

General management orientation that looks inward for properly integrating the firm's functional activities.

The term Strategic Management has replaced the term Business Policy as a preferred name of the field

Defining Strategy

A firm's strategy is defined as follows

Definition of Strategy

A strategy is a theory about how to gain competitive advantages. A good strategy is a strategy that actually generates such advantages.

Example of Strategy

Fast Food With
Counter Service

Advantage – Fast

Disadvantage –
Tiresome Food

**Miglia
bread&butter**

- New theory....
- Fast casual



Good Food With
Counter Service

Advantage – Fast

Advantage – Good
Food

Casual Dining With
Table Service

Advantage – Good food

Disadvantage – Slow

Miglia bread&butter

Performance Measure Industry	Miglia b&b	Average for Restaurant
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Gross Profit Margin	55.03%	24.51%
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Net Profit Margin	8.36%	7.98%
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Net Profit Margins of Other Restaurants

Wendy's	1.33%
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McDonald's	12.27%
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Outback Steakhouse	4.60%
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Darden	5.51%
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Central Questions that Strategic Managers Must Address

Do we have a coherent theory for obtaining a competitive advantage?

What is happening in our industry?



What is our competition going to do?

Do we have “unique” capabilities that makes it hard for our competitors to copy us?

Strategy is Like a Game of Chess



Strategy is somewhat like a game of chess, and is all about positioning your own pieces to gain advantage.

What is Competitive Advantage?

Competitive Advantage

- Every firm should have one or more unique forms of competitive advantage
 - A firm's competitive advantage comes from its ability to perform activities more distinctively or more effectively than its rivals
 - A competitive advantage gives a firm an edge over its rivals

Nature of Competitive Advantage?

How to Create a Competitive (or Unfair) Advantage

- There must be something different about a firm's offerings vis-à-vis competition's offerings.
- If all firm's strategies were the same, no firm would have a competitive advantage.
- Competitive advantage is the result of doing something different an/or better than competitors.

Let's try to find some examples together...

Nature of Competitive Advantage?

If you have the same strategy as your competitors...



Your strategy is a wash

If the strategy is different but is easily copied...



It provides only a temporary advantage

If the strategy is different but is hard to copy



It is strong and sustainable

Four Phases of Strategic Management

Basic financial planning (1yr)

Forecast-based planning (3-5 yrs)

Externally-oriented planning (strategic) (Top mgmt; 3-5 yrs)

Strategic management (people at all levels involved)

Highly Rated Benefits of “Strategic Management” (Int’l survey):

- **Clearer sense of strategic vision for the firm**
- **Sharper focus on what is strategically important**
- **Improved understanding of a rapidly changing environment**

• Companies that are engaged in Strategic Management outperform those that are not.

• Goal: to achieve an “appropriate fit” between environment and internal strategy, structure, resources and processes.

Strategic Management

Not always a formal process:

Where is the organization now? (Not where do we hope it is!)

If no changes are made, where will the organization be in 1 year, 2 years, 5 years, 10 years?

What specific actions should management undertake? What are the risks and payoffs involved?

Learning Organizations

Real world: complex and dynamic environment

Strategic flexibility is required:
sequential short term plans

Definition:

An organization skilled at creating, acquiring, and transferring knowledge and at modifying its behavior to reflect new knowledge and insights. (ex: Hewlett-Packard)

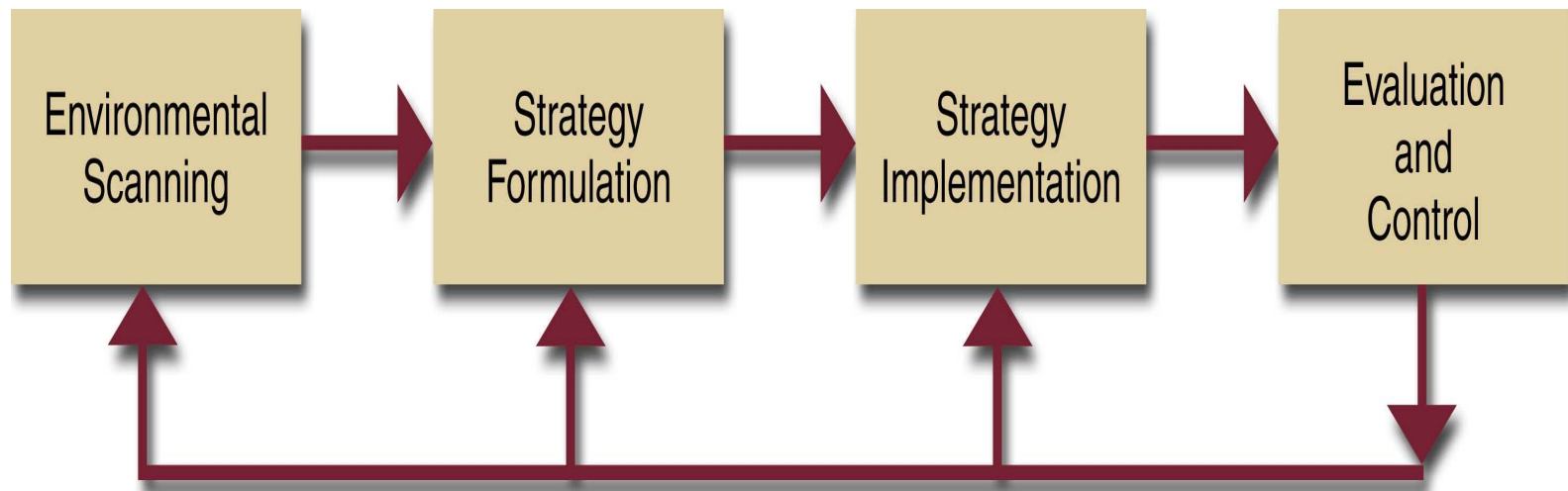
Learning Organizations (company learns from own experience)

Four Main Activities:

- Solving problems systematically
- Experimenting with new approaches
- Learning from their own experiences and that of others
- Transferring knowledge quickly and efficiently throughout the organization

Basic Model of Strategic Management

Four Basic Elements

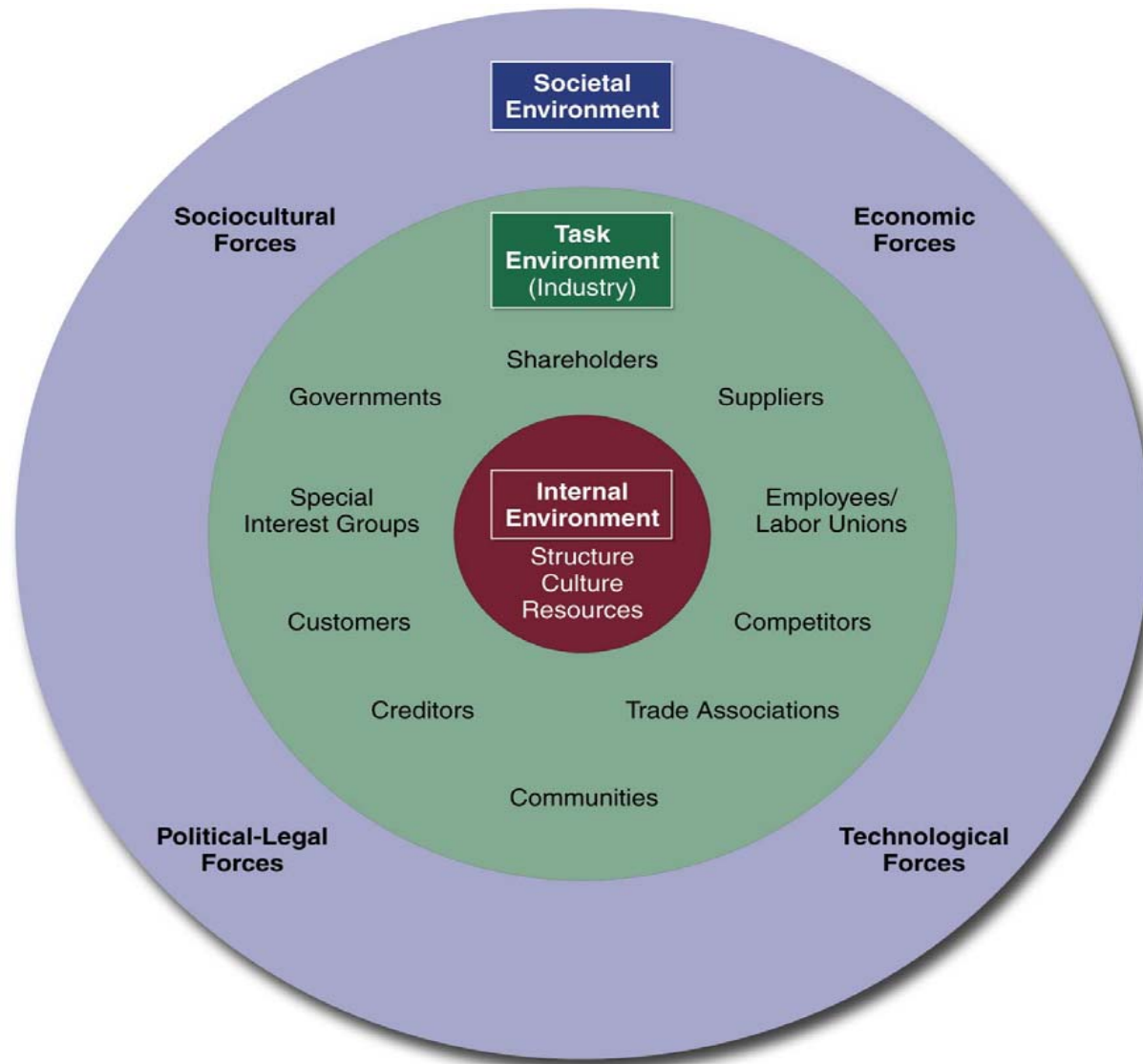


(1) Environmental Scanning

Defined:

The monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the firm.

Environmental Scanning



Environmental Scanning

Identify strategic factors

- **SWOT Analysis**
 - **Strengths, Weaknesses**
 - **Opportunities, Threats**

- **Internal Environment**
 - **Strengths & Weaknesses**
 - **Within the organization but not subject to short-run control of management**

- **External Environment**
 - **Opportunities & Threats**
 - **External to the organization but not subject to short-run control of management**

(2) Strategy Formulation

Definition:

Development of long-range plans for the effective management of environmental opportunities and threats in light of corporate strengths and weaknesses.

Strategy Formulation

Four elements:

(a) Mission

(b) Objectives

(c) Strategy

(d) Policies

Strategy Formulation

(a) Mission Statement

- Purpose or reason for the organization's existence
- Promotes shared expectations among employees
- Communicates public image important to stakeholders
- Who we are, what we do, what we'd like to become

Strategy Formulation

Maytag Corporation Mission Statement

To improve the quality of home life by designing, building, marketing, and servicing the best appliances in the world.

Newport News Shipbuilding:

We shall build goods ships here –at a profit if we can-at a lost if we must- but always good ships (1886).

(b) Objectives

- ***The end results of planned activity***
 - **What is to be accomplished**
 - **Time in which to accomplish it**
 - **Quantified when possible**

Strategy Formulation

Goals ≠ Objectives

A goal is an open-ended statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for completion.

3M Example Tying of Firm's Objectives to its Mission

Mission Statement

Satisfying our customers with superior quality and value

Providing investors with an attractive return through sustained, high-quality growth

Respecting our social and physical environment

Being a company that employees are proud to be part of

Objectives

- Growth in earnings per share averaging 10% or better per year
- A return on employed capital of 27% or better
- At least 30% sales from products that are no more than four years old

Goals & Objectives

Corporate goals and objectives include:

- Profitability (net profits)
- Growth (increase in total assets, etc.)
- Utilization of resources (ROE or ROI)
- Market leadership (market share)

(c) Strategy

Definition:

A strategy of a corporation forms a comprehensive master plan stating how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage.

3 Types of Strategy

- (i) Corporate strategy
- (ii) Business strategy
- (iii) Functional strategy

Strategies

Corporate Strategy

(company's overall direction)

- **Stability**
- **Growth**
- **Retrenchment**

Example: Unicredit. Growth through other firms acquisitions

Strategies

(ii) Business Strategy

(occurs at the business unit or product level)

- **Competitive strategies**

(through product differentiation)

- **Cooperative strategies**

(with other strategic alliance partners)

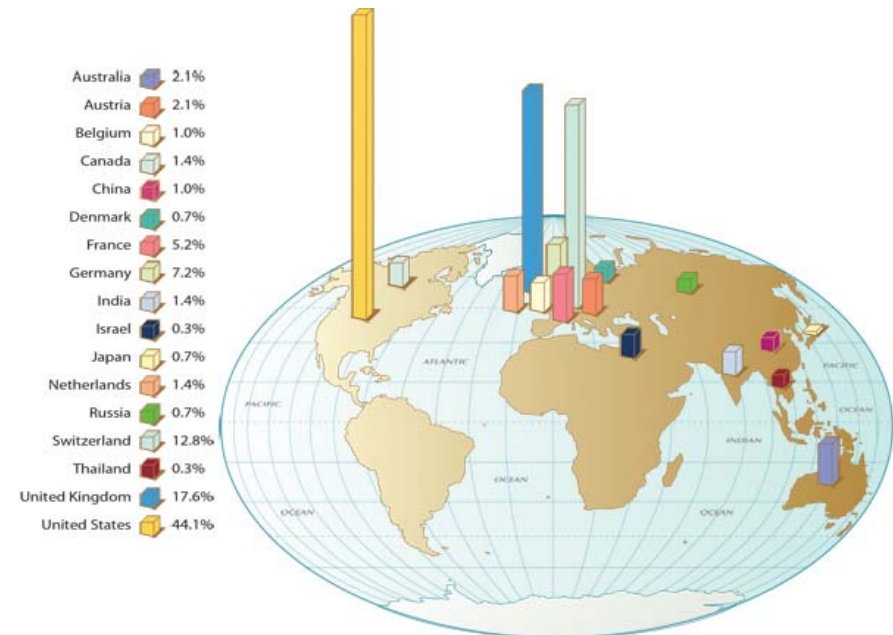
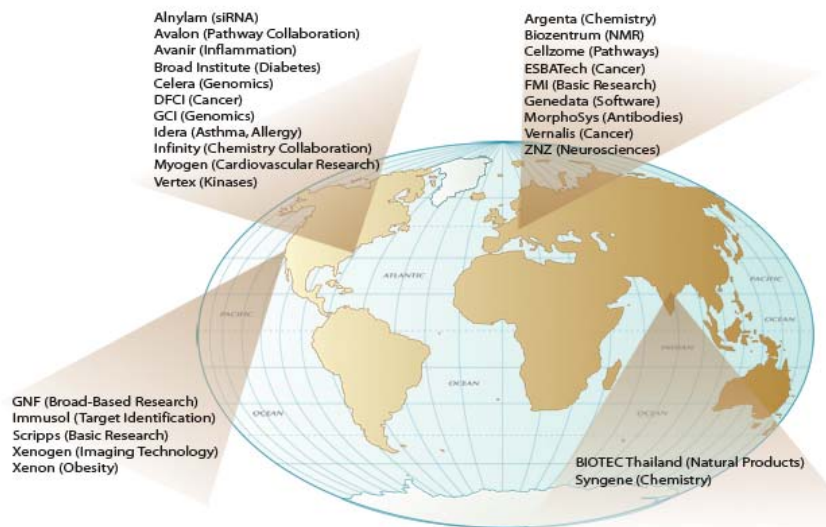
Example: Novartis, ag-biotech business unit. R&D collaboration with biotech firm for development of Bt Corn technology

Strategies

Novartis

Strategic Alliances Unit manages more than 400 collaborations in over 20 countries:

- over 120 collaborations with major biotech companies
- over 280 collaborations with academic centers



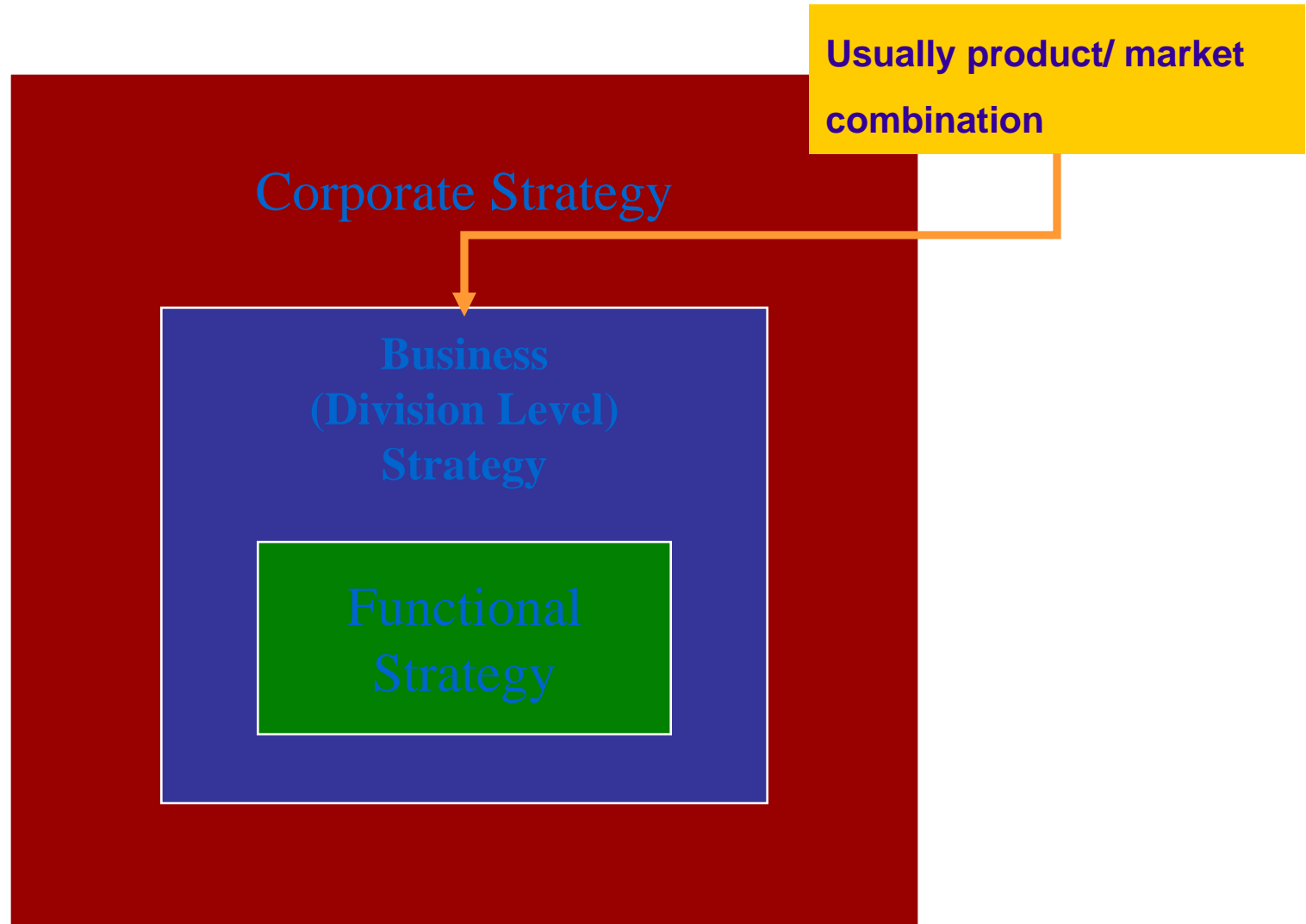
Strategies

(iii) Functional Strategy

- Technological leadership
- Technological followership

Example: Fastweb “*first-mover*” strategy and Telecom “*wait and see*” strategy in connection type/cables (Optic fiber vs. Adsl – old phone cable)

Hierarchy of Strategy



(d) Policies

Definition:

Broad guidelines for decision making that link the formulation of strategy with its implementation.

Intel: cannibalize your product line with better products before a competitor does it to you. Think to CPU evolutionary dynamic: from Pentium to Core DUO

Strategy formulation: mission, objectives, strategies, policies

Evolution of Intel Microprocessors: 1971 to 2007

Family	Trade Name (Code Name for Future Chips)	Clock Frequency in Megahertz**	Millions of Instructions per Second	Date of Introduction	Number of Transistors	Design Rule (Pixel Size)	Address Bus Bits
80986	Projected Roadmap	24,000.0 MHz	+125,000. MIPS	2007	1 billion	0.045 micron	64 bit
80886	(Northwood)	3,000.0 MHz	TBA	2003	TBA	0.13 micron	64 bit
80886	(Madison)	TBA	TBA	2003	TBA	0.13 micron	64 bit
80886	(Deerfield)***	TBA	TBA	2002Q2	TBA	0.13 micron	64 bit
80886	(McKinley)	1,000.0 MHz	TBA	2002Q1	TBA	0.18 micron	64 bit
80786	Itanium (Merced)	800.0 MHz	+2,500.00 MIPS	May 29, 2001	30 / 300 M	0.18 micron	64 bit
80686	Pentium 4	1,500.0 MHz	*1,500.00 MIPS	November 20, 2000	42 million	0.18 micron	32 bit
80686	Pentium III	1,000.0 MHz	*1,000.00 MIPS	March 1, 2000	28.1 million	0.18 micron	32 bit
80686	P III Xeon	733.0 MHz	*733.00 MIPS	October 25, 1999	28.1 million	0.18 micron	32 bit
80686	Mobile P II	400.0 MHz	*400.00 MIPS	June 14, 1999	27.4 million	0.18 micron	32 bit
80686	P III Xeon	550.0 MHz	*550.00 MIPS	March 17, 1999	9.5 million	0.25 micron	32 bit
80686	Pentium III	500.0 MHz	*500.00 MIPS	February 26, 1999	9.5 million	0.25 micron	32 bit
80686	P II Xeon	400.0 MHz	*400.00 MIPS	June 29, 1998	7.5 million	0.25 micron	32 bit
80686	Pentium II	333.0 MHz	*333.00 MIPS	January 26, 1998	7.5 million	0.25 micron	32 bit
80686	Pentium II	300.0 MHz	*300.00 MIPS	May 7, 1997	7.5 million	0.35 micron	32 bit
80586	Pentium Pro	200.0 MHz	*200.00 MIPS	November 1, 1995	5.5 million	0.35 micron	32 bit
90586	Pentium	133.0 MHz	*133.00 MIPS	June 1995	3.3 million	0.35 micron	32 bit
80586	Pentium	90.0 MHz	*90.00 MIPS	March 7, 1994	3.2 million	0.60 micron	32 bit
80586	Pentium	60.0 MHz	*60.00 MIPS	March 22, 1993	3.1 million	0.80 micron	32 bit
80486	80486 DX2	50.0 MHz	*50.00 MIPS	March 3, 1992	1.2 million	0.80 micron	32 bit
80486	486 DX	25.0 MHz	20.00 MIPS	April 10, 1989	1.2 million	1.00 micron	32 bit
80386	386 DX	16.0 MHz	5.00 MIPS	October 17, 1985	275,000	1.50 micron	16 bit
80286	80286	6.0 MHz	0.90 MIPS	February 1982	134,000	1.50 micron	16 bit
8086	8086	5.0 MHz	0.33 MIPS	June 8, 1978	29,000	3.00 micron	16 bit
8080	8080	2.0 MHz	0.64 MIPS	April 1974	6,000	6.00 micron	8 bit
8008	8008	.2 MHz	0.06 MIPS	April 1972	3,500	10.00 micron	8 bit
4004	4004	.1 MHz	0.06 MIPS	November 15, 1971	2,300	10.00 micron	4 bit

* Approximately one instruction per processor clock cycle. ∞ + Starting with Itanium, the chips have multiple floating point processors per chip

** 1 KHz (Kilohertz) = 1 thousand cycles per second; 1 Megahertz = 1 thousand Kilohertz; 100 KHz = .1 MHz;

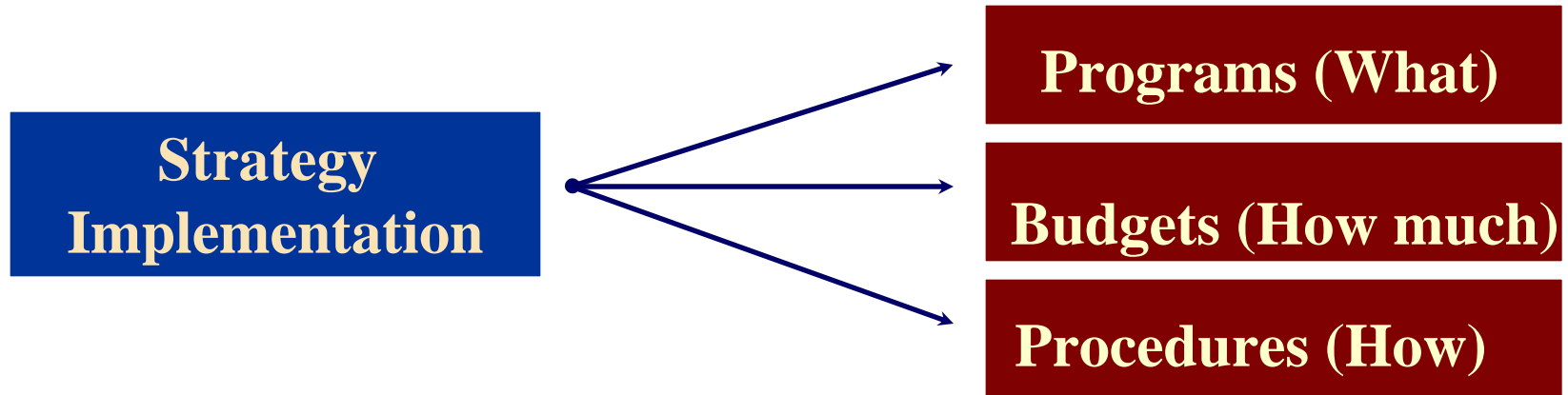
1 GHz (Gigahertz) = 1 billion cycles per second; 1 Gigahertz = 1 thousand Megahertz

TBA To be announced; Pentium 4 was formerly code named Willamette *** Deerfield is a low cost version of Madison.

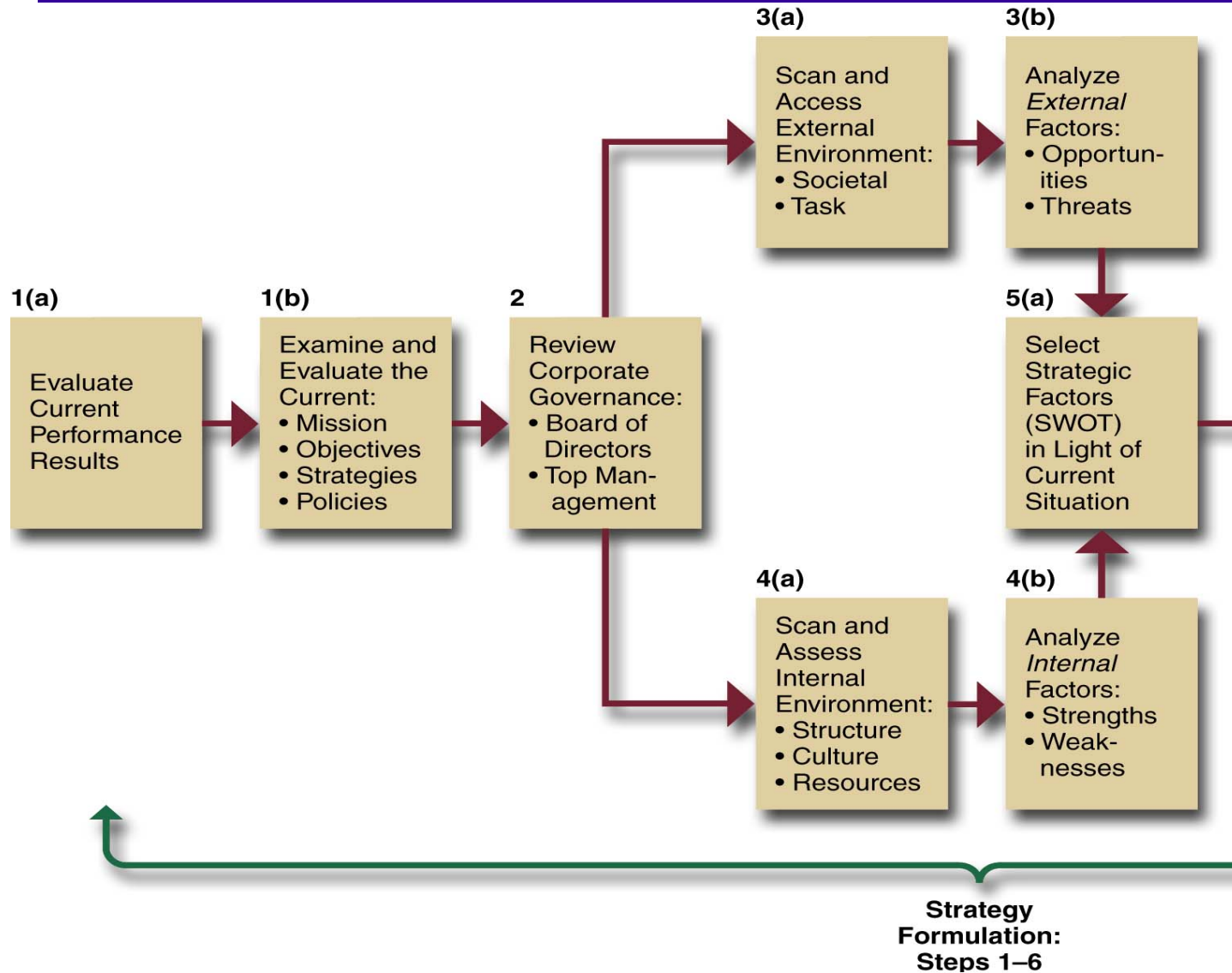
<http://www.intel.com/processors/intel/future.htm> (one source of data for future microprocessors)

<http://www.intel.com/processors/quickref.htm> (source of data for released microprocessors)

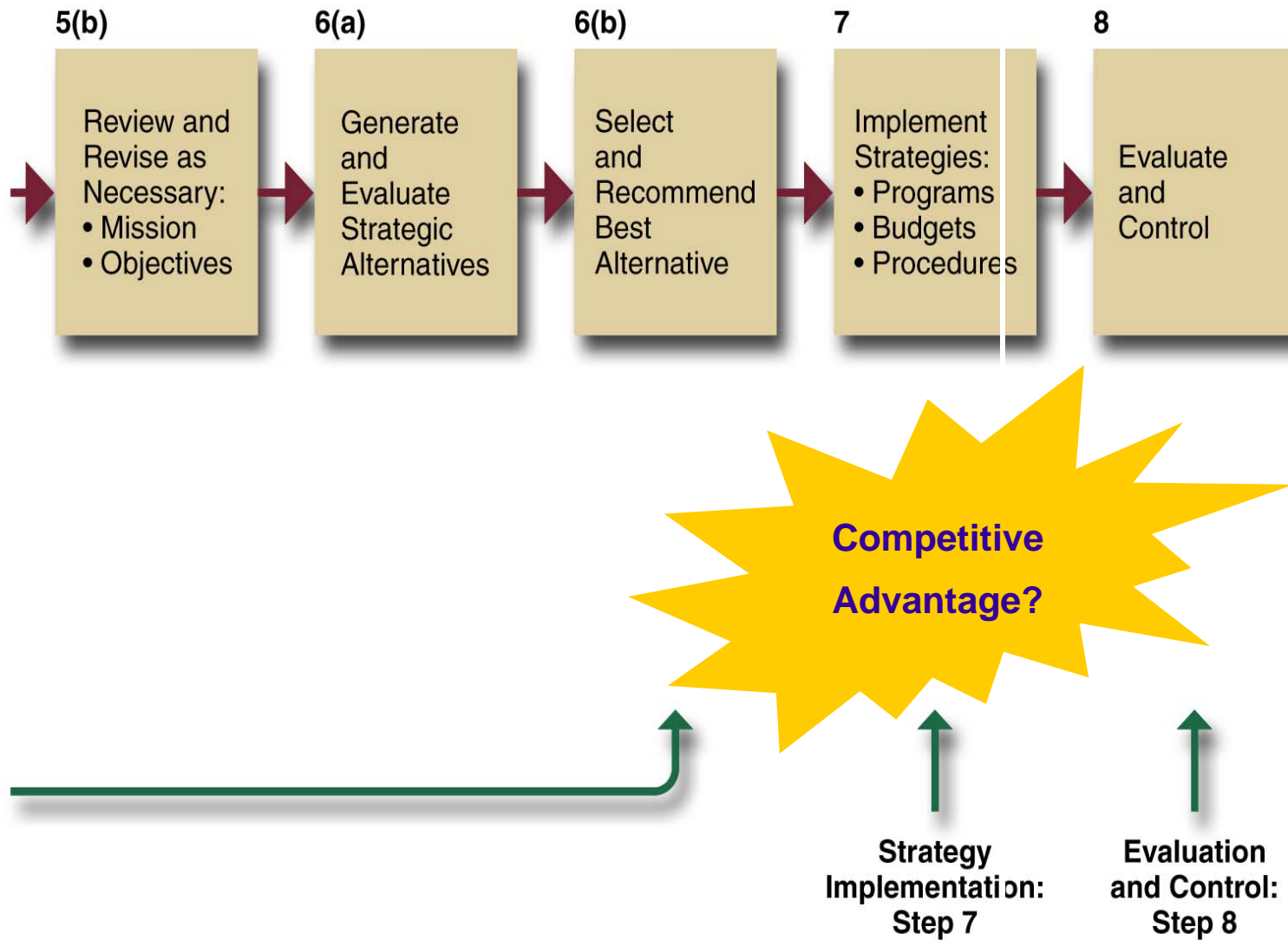
(3) Strategy Implementation (strategies and policies are put into action)



Strategic Decision Making



Strategic Decision Making



Strategic Management Model

