Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions Manual

SKU: 9781259732782-SOLUTIONS

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

SECTION 2

Using a Strategy Simulation in Your Course: What's Involved, The Compelling Benefits, and How to Proceed

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Since 2005, impressive numbers of strategy instructors at business schools worldwide have transitioned from a purely text-cases course structure to what we contend is a more robust and energizing text-cases-simulation course structure. Incorporating a competition-based strategy simulation has the strong appeal of providing class members with *an immediate and engaging* ***hands-on*** *opportunity to apply the concepts and analytical tools covered in the chapters and personally assume responsibility for crafting and executing a strategy for a virtual company they have been assigned to manage*.

Two of the world's most widely-used and pedagogically effective online strategy simulations, *The Business Strategy Game* and *GLO-BUS*, are optional companions for this text.

- *The Business Strategy Game* is the world's most popular strategy simulation, having been used by 2,800 different instructors for courses involving some 800,000 students at 1150+ university campuses in 72 countries.
- *GLO-BUS*, a newer and somewhat simpler strategy simulation introduced in 2004, has been used by 1,620+ different instructors for courses involving over 240,000 students at 715+ university campuses in 51 countries.

Arthur A. Thompson, a senior author of this text, is a co-author of both *The Business Strategy Game* and *GLO-BUS* and painstakingly designed both simulations to provide instructors with an appealing and proven means of:

- Getting class members personally engaged in thinking strategically and applying the chapter content,
- Giving students valuable practice in synthesizing a variety of decisions (relating to plant operations, workforce compensation, distribution, pricing and marketing, social responsibility/citizenship, and finance) into an overall strategy and competitive approach that produces good financial and strategic results.

HOW THE STRATEGY SIMULATIONS WORK

In both *The Business Strategy Game (BSG) and GLO-BUS,* 1 to 5 class members are assigned to run a company that competes head-to-head against companies run by other class members.

- In *BSG*, team members run athletic footwear companies that produce and market both branded and private-label footwear in a global market arena with four distinct geographic regions—Europe-Africa, North America, Asia-Pacific, and Latin America.
- In *GLO-BUS*, team members operate companies that design, assemble, and market professional quality action-capture video cameras and unmanned aerial view drones in a global market arena that also consists of four distinct geographic regions—Europe-Africa, North America, Asia-Pacific, and Latin America.

In both simulations, each management team is called upon to craft a strategy for their company and make decisions relating to production capacity, plant operations, workforce compensation, pricing and marketing, social responsibility/citizenship, and finance.

Company co-managers are held accountable for their decision-making. ***Each company's performance is scored on the basis of earnings per share, return on equity investment, stock price, credit rating, and image rating***. Rankings of company performance, along with a wealth of industry and company statistics, are available to company co-managers after each decision round to use in making strategy adjustments and entering decisions for the next competitive round. You can be certain that the market environment, strategic issues, and operating challenges that company co-managers must contend with in running their simulation company are ***very tightly linked*** to the concepts, analytical tools, and strategy options they encounter in the text chapters.

We suggest that you schedule 1 or 2 practice rounds and anywhere from 6 to 10 regular (scored) decision rounds (6 to 10 rounds are better than 3-5 rounds because requiring class members to run their companies for a greater number of decision rounds prompt them to consider the longer-term impact of their decisions and strategies rather than to focus on short-term decision-making and immediate outcomes/financial results. Each decision round

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

represents a year of company operations and will entail roughly two hours of time for company co-managers to complete. ***Decision rounds can be scheduled weekly, bi-weekly, or at whatever intervals instructors wish.*** Sample schedules for courses of varying length and numbers of class meetings are provided.

When the instructor-specified deadline for a decision round arrives, the simulation server automatically accesses the saved decision entries of each company, determines the competitiveness and buyer appeal of each company's product offering relative to the offerings of rival companies, and then allocates sales and market shares, geographic region by geographic region, based on:

- ***how each company's prices compare against the prices of rival brands,***
- ***how each company's product quality compares against the quality of rival brands,***
- ***how each company's product line breadth and selection compares to those of rival companies,***
- ***how each company's advertising effort compares to rivals' advertising, and so on for a total of 11 competitive factors that determine a company's unit sales and market shares in the four geographic regions***.

The competitiveness and overall buyer appeal of each company's product offering *in comparison to the product offerings of rival companies* is all-decisive—this algorithmic feature is what make *BSG* and *GLO-BUS* "competition-based" strategy simulations. Once each company's sales and market shares are awarded based on the competitiveness of its respective overall product offering vis-à-vis rival companies, the various company and industry reports detailing the outcomes of the decision round are then generated. Company co-managers and course instructors can access the results of the decision round 15-20 minutes after the decision deadline.

Rest assured that both simulations were meticulously designed to be instructor-friendly. You'll be pleasantly surprised—and we think quite pleased—at how little time it takes to gear up for and to administer an automated online simulation like *The Business Strategy Game* or *GLO-BUS.*

This remainder of this section provides you with information about the two strategy simulations and offers suggestions for successfully using either *BSG* or *GLO-BUS* in your course. Here is a quick reference guide to the contents of this section:

Page

The Teaching/Learning Benefits of Using a Strategy Simulation in Your Course 16
How Much Time Will It Take for You to Learn About and Conduct a Simulation 18
A Birdseye View of *The Business Strategy Game* 20
A Birdseye View of *GLO-BUS* 25
Special Features and Extras of Both Strategy Simulations 28
Which Simulation Makes the Most Sense for Your Course 32
The 4-Step Course Setup Procedure 35
How Do Class Members Register and Gain Full Access to the Simulation Website? 36
How Much Should a Simulation Exercise Count in the Total Course Grade? 37
How Company Performances Are Scored: A Balanced Scorecard Approach 38
Concluding Comment on How Company Performances are Scored 39
What to Do If You Opt to Use Either of the Companion Simulations. 40

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

THE TEACHING/LEARNING BENEFITS OF USING A STRATEGY SIMULATION IN YOUR COURSE

There are ***three exceptionally important teaching/learning benefits*** associated with using a competition-based simulation in strategy courses taken by seniors and MBA students:

1. ***The three-pronged text-case-simulation course delivery model delivers significantly more teaching-learning power than the traditional text-case delivery model. Having class members run a company in head-to-head competition against companies managed by other class members provides a truly powerful learning experience that engages students in the subject matter of the course and helps achieve course learning objectives.*** This added learning power of a strategy simulation stems from three things:

   - ***Using both case analysis and a competition-based strategy simulation to drive home the lessons that class members are expected to learn is far more pedagogically powerful and lasting than relying solely on case analysis alone.*** Both cases and strategy simulations drill students in thinking strategically and applying what they read in your text, thus helping them connect theory with practice and gradually building better business judgment. What cases do that a simulation cannot is give class members broad exposure to a variety of companies and industry situations and insight into the kinds of strategy-related problems real-world managers face. But what a competition-based strategy simulation does far better than case analysis is thrust class members squarely into ***an active, hands-on managerial role*** where they are totally responsible for assessing market conditions, determining how to respond to the actions of competitors, forging a long-term direction and strategy for their company, and making all kinds of operating decisions. Because company co-managers are held fully accountable for their decisions and their company's performance, ***they are strongly motivated*** to dig deeply into company operations, probe for ways to be more cost-efficient and competitive, and ferret out strategic moves and decisions calculated to boost company performance. ***Such diligent and purposeful actions on the part of company co-managers translate into a productive learning experience with strong retention of the lessons learned and higher achievement of course learning objectives.***

   - The achievement of course learning objectives is further enhanced because of the extremely tight connection between the issues and decisions that company managers face in running their *BSG* or *GLO-BUS* company and the concepts, analytical tools, and strategy options they encounter in the 12 chapters of the 5th edition. Having class members use ***an interactive "learn-by-doing" tool*** to apply and experiment with the chapter content, while at the same time honing their business and decision-making skills, generates solid learning results.

   - Since it doesn't take long for a spirited rivalry to emerge among the management teams of competing companies and for co-managers to become emotionally invested in figuring out what strategic moves to make to out-compete rivals, class members become ***more receptive to reading the text chapters, listening to your lectures, and wrestling with assigned cases***—partly in the hope they will come across ideas and approaches that will help their company outperform rivals and partly because they begin to see the practical relevance of the subject matter and the value of taking the course.

   To provide you with quantitative evidence of the boost in learning power and achievement of course objectives that occurs with using *The Business Strategy Game* or *GLO-BUS*, ***there is a built-in Learning Assurance Report showing how well each class member performs on 9 skills/learning measures versus tens of thousands of students worldwide that have completed the simulation in the past 12 months.***

2. ***The competitive nature of a strategy simulation arouses positive energy and steps up the whole tempo of the course by a notch or two.***

   - The healthy rivalry that emerges among the management teams of competing companies stirs competitive juices and spurs class members to fully exercise their strategic wits, analytical skills, and decision-making prowess—much more so than occurs with case assignments. ***Nothing energizes a class quicker***

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

or better than concerted efforts on the part of class members to gain a high industry ranking and avoid the perilous consequences of getting outcompeted by other members of the class. It is hard to duplicate the excitement and hallway chatter that occurs when the results of the latest decision round become available and co-managers renew their quest for strategic moves and actions that will strengthen company performance. At the same time, class members become ***more receptive to reading the text chapters, listening to your lectures, and wrestling with assigned cases***—partly in the hope they will come across ideas and approaches that will help their company outperform rivals and partly because they begin to see the practical relevance of the subject matter and the value of taking the course.

- ***Participating in a competition-based strategy simulation is an unusually stimulating and enjoyable way for class members to learn***. As soon as your students start to say "Wow! Not only is this fun but I am learning a lot", ***which they will***, you have won the battle of engaging class members in the subject matter and moved the value of taking your course to a much higher plateau in the business school curriculum. This translates into ***a livelier, richer learning experience from a student perspective and better instructor-course evaluations.***

3. ***Incorporating a fully automated online simulation reduces the time instructors spend on course preparation, course administration, and grading.***

- Since the simulation exercise involves a 20 to 30-hour workload for students-teams (roughly 2 hours per decision round times 10-12 rounds, plus optional assignments), simulation adopters often compensate by trimming the number of assigned cases from, say, 10 to 12 to perhaps 4 to 6, which significantly reduces the time instructors spend reading cases, studying teaching notes, and otherwise getting ready to lead class discussion of a case or grade oral team presentations. The cases-for-simulation tradeoff is a sound one because class members will learn as much or more from their experience managing their simulation company and retain it longer, as compared to the learning gleaned from covering 4 to 6 more cases.

- Course preparation time is further cut because you can use several class days to have students meet in the computer lab (or in your classroom if it has wireless Internet access and each company team has access to at least one laptop) to work on upcoming decision rounds or a 3-year strategic plan (in lieu of lecturing on a chapter or covering an additional assigned case). Such lab or in-class sessions provide a splendid opportunity for you to visit with teams, observe the interplay among co-managers, and view the caliber of the learning experience that is going on.

- Use of a simulation gives you leeway to eliminate at least one assignment that entails considerable grading on your part. Grading one less written case or essay exam or other written assignment saves enormous time. With *BSG* and *GLO-BUS*, grading is effortless and takes only minutes. Once you enter percentage grading weights for each simulation activity in your online grade book, an overall numerical grade is automatically calculated for each class member.

- The speed and ease with which you can conduct a fully-automated strategy simulation for your course frees time for other activities. Plus, every task can be performed from an office or home PC that has an Internet connection and an Internet browser.

Special Note: ***Both simulations work especially well for online classes or in distance-learning situations***. This is because ***team members running the same company who are logged-in simultaneously on different computers at different locations have two tremendously valuable functional capabilities:***

1. ***They can click a button to work collaboratively in viewing reports and making decision entries.*** When in "Collaboration Mode," each team member sees the same screen at the same time as all other team members who are logged-in and have joined Collaboration Mode. If one team member chooses to view a particular decision screen, that same screen appears on the monitors for all team members engaged in collaboration. Each team member controls their own color-coded mouse pointer (with their first-name appearing in a color-coded box linked to their mouse pointer) and can make a decision entry or move the mouse to point to particular on-screen items.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

2. ***They can click a second button to talk to one another (using the built-in real time VOIP audio chat feature).*** Chat capability among team members working in Collaboration Mode enables team members to debate and discuss the merits of alternative decision entries and strategies. In effect, they can have an online meeting to conveniently and effectively collaborate in running their simulation company (as opposed to meeting face-to-face and gathering around a single computer).

   Moreover, instructors have capability to use their own computers to join any company's online meeting. They can not only talk online to the managers of a company but also enter Collaboration (highly recommended because all attendees are then viewing the same screen) where they have their own red-colored mouse pointer linked to a red box labeled Instructor. This instructor-friendly feature curtails having to schedule meetings with team members in your office should something arise that requires your participation.

   Even if you are not teaching an online course, you will find that a big majority of class members will opt to take advantage of the built-in collaboration and voice chat features because the members of many company teams will like the convenience of having an online meeting to prepare their decision entries as opposed to having face-to-face meetings and gathering around a single computer either in the computer lab or at some other location of their choosing.

Instructors who have used state-of-the-art simulations in their strategy courses quickly become enthusiastic converts because the added spark to the course and student excitement surfaces rapidly and the resulting teaching/learning benefits are undeniable. Moreover, the word about the effectiveness of using a top-notch strategy simulation seems to be spreading.

HOW MUCH TIME WILL IT TAKE TO LEARN ABOUT AND CONDUCT EITHER ONE OF THE SIMULATIONS FOR YOUR COURSE?

One of the biggest factors probably weighing on your mind if you are contemplating being a first-time user is "how much time will it take me to learn about *The Business Strategy Game* or *GLO-BUS,* conduct the simulation exercise for my course, and assign grades on the simulation exercise?" Here are some honest estimates of what you can expect:

- You should probably spend 30 minutes viewing two orientation videos: (1) the introductory tour of the student portion of the website (which is also readily available to all class members) and (2) the introductory tour of the instructor portion of the website. These are both accessible directly by clicking on the Instructor Essentials menu item on the left side of your Instructor Center screen.

- You should read the first 20 pages of the Instructor's Guide (written expressly for first-time users) to get a solid overview of the simulation and learn how things work in the most time-efficient manner. You should also skim through the *Participant's Guide* to familiarize yourself with what running a company is all about from a student perspective—but this can be deferred until later if you wish.

- To launch either one of the simulations for your course and prepare everything for students to register and gain access to the website and the simulation materials they will be using, ***you must complete the Course Setup procedure*** that entails deciding what size management teams you want (anywhere between 1 and 5 persons), specifying the number of companies you want to create (which is a function of expected class size and how many people you want to co-manage each company), selecting dates/times for each decision round to be completed, indicating which optional assignments you want company co-managers to complete (the quizzes, strategic plans, peer evaluations, and company presentation exercise), and distributing company registration codes and/or registration procedures to class members. Recommendations for handling each of the options are provided in the Course Setup procedure. It will take you 30-40 minutes or so to complete the Course Setup procedure the first time you do it and 10-5 minutes each time thereafter.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

- It will take you 15-20 minutes to familiarize yourself with the Class Presentation PowerPoint slides that can be used to introduce the features and mechanics of the simulation to class members (no more than 20-30-minutes of class time is needed to cover these slides adequately, but it will take a few more minutes of class time to assign class members to the various companies).

- You will find there's little need to spend much class time on introducing class members to all the mechanics and features of the simulation or to field questions from class members about "how things work." Why?

  - Because there is a 17-minute introductory video that provides students with an overview of the simulation and a quick tour of the student side of the website.

  - Because navigation of the student side of the website is straightforward and students can readily figure it out.

  - Because incorporating two practice rounds in your decision round schedule is the very best way to acquaint class members with how the simulation software works and what running their company is all about.

  - Because all class members should be required to read the *Participant's Guide* that covers what company co-managers need to know about the simulation, the industry, and the company they are running to get ready to begin work on the first practice decision round.

  - Because there are brief ***Video Tutorials for every decision screen and there are more video tutorials explaining every page of every report*** provided to all class members (and the instructor) after each decision round—these videos run 2-5 minutes each and, in total, amount to 80+ minutes of video tutorials.

  - Because any time company co-managers are puzzled about something or want to know more about some aspect of company operations than is contained in the video tutorial, they can get the answers by clicking on the Help button and reading the ***Help pages that accompany every decision screen and every page of every report.*** The Help sections provide

    (a) ***detailed explanations*** of the information on each decision entry screen and all relevant cause-effect relationships,

    (b) ***detailed explanations*** of the information on each page of the Industry Reports,

    (c) ***detailed explanations*** of the numbers presented in the Company Reports, and

    (d) analytical guidance and decision-making tips.

  If a few of your students seem to be full of questions, it's because they are coming to you for hand-holding and not taking the time to watch the video tutorials and/or to read and absorb the comprehensive information in the Help sections. (**Note:** You have one-click access to all these same Help pages and all the video tutorials directly from the menu on the left side of your Instructor Center screen.)

- ***Once you complete the Course Setup Procedure, class members are registered, and the decision rounds are underway, everything occurs automatically based on the schedule and deadline times you specified during the Course Setup Procedure. While the simulation is underway, it's your call on how much time to spend in monitoring what is going on—***you can simply be an interested observer or play a more active, hands-on role. Expect to spend no more than 10-20 minutes per decision round if you just want to provide encouragement, review the scoreboard of company performances on your Instructor Center web page, solicit feedback from co-managers about the experience they are having, and deal with special problems—like moving co-managers to another team if there's conflict among team members or adjusting the dates for decision deadlines for whatever reason.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

If you want to follow the competition among the rival companies more closely, you can spend 15-20 minutes after each decision round browsing the industry report (which shows the details of each company's performance and provides assorted financial and operating statistics) and the special Administrator's Report (which provides a quick, convenient summary of select decisions and outcomes for each company that will keep you abreast of "what's happening").

Should you opt to be even more proactive and intimately involved, then after each decision round you can hold a 5 to 10-minute "in-class debriefing" on what's happening in the industry (using information you've gleaned from the industry report and the Administrator's Report). Because there is tight connection between the issues that co-managers face in running their companies and the chapter content in this text (and most every other mainstream strategy text), there is ample opportunity—if you are so inclined—to use the happenings and managerial challenges class members encounter in the simulation as examples for your lectures. You can also opt to issue special news flashes altering certain costs or import tariffs, and you may wish to offer to coach the co-managers of troubled companies on how to achieve better company performance.

- When all the decision rounds are completed, you will have to spend perhaps 30 minutes assigning grades (maybe longer if your class has 40+ students and you elect to peruse each class member's peer evaluations and/or activity log). Your online grade book automatically records and reports performance scores for all companies for all decision rounds and also contains each co-manager's scores for all assignments (quizzes, strategic plans, and peer evaluations). Once you enter weights for each of the assignments, final scores for each class member are automatically calculated. You will have to decide whether to scale the scores or not. If you want to examine data pertaining to each co-manager's use of the simulation website as part of the grade assignment process, there's an activity log that reports the frequency and length of log-ons, how many times decision entries were saved to the server each decision round, and how many times each set of reports was viewed each decision round.

A BIRDS-EYE VIEW OF *THE BUSINESS STRATEGY GAME*

The Business Strategy Game (*BSG*) is modeled to mirror the global athletic footwear industry (where the longtime industry leaders are Nike and Adidas-Reebok). Athletic footwear makes an excellent setting for a simulation because it is a product that students are intimately familiar with and the workings of the industry can easily be grasped by students—conditions which greatly enhance the effectiveness of a simulation from a teaching/learning perspective. The global athletic footwear industry is particularly suitable for a strategy simulation because the product is used worldwide, there's competition among companies from several continents, production is concentrated in low-cost locations, and the real-world marketplace is populated with companies employing a variety of competitive approaches and business strategies.

Using a strategy simulation with a global industry setting is especially desirable because globalization of the marketplace is an ever-widening reality and global strategy issues are a standard part of the strategic management course. Plus, of course, *accreditation standards for business school programs routinely require that the core curriculum include international business topics and the managerial challenges of operating in a globally competitive marketplace.*

Company Operations

Companies begin the simulation producing branded and private-label footwear in two plants, one in North America and one in Asia. Both plants can be operated at overtime to boost annual capacity by 20%. Management has the option to establish production facilities in Latin America and Europe-Africa as the simulation proceeds, either by constructing new plants or buying previously-constructed plants that have been sold by competing companies. At management's direction, a company's design staff can come up with more footwear models, new features, and stylish new designs to keep the company's branded product line fresh and in keeping with the latest fashion. Private-label footwear must be produced to the specifications of chain footwear retailers with private label brands.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Each company markets its brand of athletic footwear to footwear retailers worldwide and to individuals buying online at the company's web site. If a company has more production capacity than is needed to meet the demand for its branded footwear, it can enter into competitive bidding for contracts to produce footwear sold under the private-label brands of large chain retailers. Company co-managers exercise control over production costs based on the styling and quality they opt to manufacture, plant location (wages and incentive compensation vary from region to region), the use of best practices and six sigma programs to reduce the production of defective footwear and to boost worker productivity, and compensation practices.

All newly-produced footwear is shipped in bulk containers to one of four regional distribution centers (North America, Latin America, Asia-Pacific, and Europe-Africa). All incoming orders from internet customers and retailers in a geographic region are filled from footwear inventories in that same regional distribution center. Since internet and retailer orders cannot be filled from inventories in a distribution center in another region (because of prohibitively high shipping and distribution costs), company co-managers have to be careful to match shipments from plants to the expected internet and retailer demand in each geographic region. Costs at the four regional distribution centers are a function of inventory storage costs, packing and shipping fees, import tariffs paid on incoming pairs shipped from foreign plants, and exchange rate impacts.

Many countries have import tariffs on footwear produced at plants outside their geographic region; at the start of the simulation, import tariffs average $4 per pair in Europe-Africa, $6 per pair in Latin America, and $8 in the Asia-Pacific region. However, the Free Trade Treaty of the Americas allows tariff-free movement of footwear between all the countries of North America and Latin America. The countries of North America, which strongly support free trade policies worldwide, currently have no import tariffs on footwear made in either Europe-Africa or Asia-Pacific. Instructors have the option to alter tariffs as the game progresses.

In running their footwear companies, the challenge for each management team is to craft and execute a competitive strategy that results in a respected brand image, keeps their company in contention for global market leadership, and produces good financial performance as measured by earnings per share, return on equity investment, stock price appreciation, and credit rating.

All companies begin the exercise with equal sales volume, global market share, revenues, profits, costs, product quality and performance, brand recognition, and so on. Global demand for athletic footwear grows at the rate of 7-9% annually for the first five years and 5-7% annually for the second five years. However, market growth rates vary by geographic region, and growth rates are also affected by the aggressiveness with which companies go after additional sales by making their product offerings more appealing.

The Decisions That Company Managers Have to Make

In *BSG*, company co-managers make up to 53 types of decisions each period, spread across the functional spectrum as follows:

- Production operations (up to 10 decisions for each plant, with a maximum of 4 plants)
- Upgrading plants and expanding/reducing plant capacity (up to 6 decisions per plant)
- Worker compensation and training (3 decisions per plant)
- Shipping and inventory management (up to 8 decisions each plant/geographic area)
- Pricing and marketing (up to 10 decisions in each of 4 geographic regions)
- Bids to sign celebrities (2 decision entries per bid)
- Corporate social responsibility and citizenship (up to 6 decision entries)
- Financing of company operations (up to 8 decision entries)

Experience confirms that having this many decisions is right on the money—enough to keep company co-managers engaged and challenged but not too many to confuse and overwhelm.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

On-Screen Support Calculations

Each time co-managers make a decision entry, an assortment of on-screen calculations instantly shows the projected effects on unit sales, revenues, market shares, total profit, earnings per share, ROE, unit costs, and other operating outcomes. All of these on-screen calculations help co-managers evaluate the relative merits of one decision entry versus another. Company managers can try out as many different decision combinations as they wish in stitching the separate decisions into a cohesive whole that is projected to produce good company performance.

If company co-managers want additional help/assistance in making decision entries, they can watch the ***2-4 minute video tutorials for each decision screen*** and/or consult the ***comprehensive Help sections*** that explain cause-effect relationships, provide tips and suggestions, explain how the numbers in the company and industry reports are calculated, and otherwise inform company co-managers how things work.

The Quest for a Winning Strategy

All companies begin the exercise with equal sales volume, global market share, revenues, profits, costs, product quality and performance, brand recognition, and so on. Global demand for athletic footwear grows at the rate of 7-9% annually for the first five years and 5-7% annually for the second five years. However, market growth rates vary by geographic region, and growth rates are also affected by the aggressiveness with which companies go after additional sales by making their product offerings more appealing.

Each company typically seeks to enhance its performance and build competitive advantage based on some combination of selling its footwear at more attractive prices, offering a bigger selection of footwear styles and models, having more appealing footwear styling and quality, outspending rivals on advertising, offering bigger mail-in rebates, outbidding rivals in signing celebrities to endorse its brand, and so on for each of the various determinants of competitiveness. providing more merchandising and promotional support to retailers, shorter shipping and delivery times, and more aggressive promotion of online purchases at its Web site.

Competition in the market segments for branded footwear is based on 11 factors with varying weights and impacts:

- How each company's wholesale selling price for its branded footwear compares against the corresponding industry-wide average prices being charged in each geographic region.
- How each company's footwear styling and quality compares against that of rival brands.
- How each company's advertising expenditures compare against the industry-wide average advertising expenditures.
- How each company's mail-in rebate offers compare against the rebates offered by rival companies.
- How each company's advertising expenditures compare against the industry-wide average advertising expenditures.
- How the number of models/styles in each company's branded footwear offerings compare against the industry-wide average number of models.
- How the numbers of retailers carrying a company's brand of footwear compares against the average number of retailers carrying various brands.
- How the number and appeal of the celebrities a company has contracted with to endorse its footwear compares against the overall celebrity appeals of endorsers of rival brands.
- How the length of each company's shipping and delivery times on retailers' orders compare against those of rival companies.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

- The comparative amount (relative to rival brands) of merchandising and promotional support that a company offers to its retailers relative to the average amounts offered industry-wide.
- The relative aggressiveness with which a company promotes online purchases at its website.
- The extent to which the buyers of a company's brand of footwear remain loyal to repurchasing that same brand.

Any and all competitive strategy options—low-cost leadership, differentiation, best-cost provider, focused low-cost, and focused differentiation—***are viable choices for pursuing better company performance and competitive advantage in the branded footwear segment***. ***There's no built-in bias favoring any one strategy and no "secret set of strategic moves or decision combinations" that are sure to result in a company becoming the industry leader.*** A company can try to gain an edge over rivals in the branded footwear segment with more advertising or a wider selection of models or more appealing styling/quality or bigger rebates or securing more appealing celebrity endorsements, and so on. It can focus sales efforts on one or two geographic regions or strive to build strong market positions in all four geographic regions. It can pursue essentially the same branded strategy worldwide or craft slightly or very different strategies for each of the four geographic regions. It can put more or less emphasis on selling branded shoes to footwear retailers as opposed to selling to individual consumers at the company's Web site. ***Most any well-conceived, well-executed competitive approach in branded footwear is capable of succeeding, provided it is not overpowered by the opposing strategies of competitors or defeated by the presence of too many copycat strategies that dilute its effectiveness.***

However, vigorous price competition prevails in the private-label segment. For obvious reasons, chain retailers prefer to source their requirements for private-label footwear from companies offering the best (lowest prices). Companies desirous of winning a contract to supply private-label footwear to chain retailers across the world must first agree to produce shoes that meet globally-set buyer specifications for quality and variety of models/styles. Then they must be successful in bidding against rival companies for contracts. Companies offering to supply specified quantities of private-label footwear with lower price bids are awarded contracts over companies that bid higher prices. A low-cost, low-price strategy is thus mandatory in the private-label segment if a company expects to be profitable (but this does not require pursuing the same strategy in the branded segment).

How the Outcomes Are Determined

Instructors specify a deadline (date and time) for company co-managers to complete for each decision round and other related assignments. Instructors have the flexibility to change the deadlines at any time for any reason. Decision rounds can be scheduled once per week, twice per week, daily, or even twice daily, depending on how you want to conduct the exercise. You will be able to peruse sample decision schedules when you are settling on the times and dates for the deadlines.

When the instructor-specified deadline for a decision round arrives, the *BSG* algorithms allocate sales and market shares to the competing companies, region by region. How many branded pairs a company sells in a geographic region is governed by:

- how its branded footwear price compares against the prices of rival brands,
- how its footwear styling and quality compares against those of rival brands,
- how its advertising effort matches up against the advertising efforts of its rivals, and so on for each competitive factor.

For instance, a company's branded footwear price in a region is determined to be more competitive the further it is below the average price in that region charged by all companies and less competitive the further it is above the regional average. A company's styling/quality is determined to be more competitive the further its styling/quality rating is above the average styling/quality rating of all companies competing in the region and less competitive the further its rating is below the industry average in the region. ***The overall competitiveness***

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

of a company's product offering in a region is a function of its combined competitive standing across all competitive factors. For example, a company can offset the adverse impact of an above average price with above-average product performance and quality, and/or above-average advertising. The greater the differences in the overall competitiveness of the branded product offerings of rival companies, the bigger the differences in their resulting sales volumes and market shares. Conversely, the smaller the overall competitive differences in the offerings of rival companies, the smaller the differences in sales volumes and market shares. This algorithmic approach is what makes *BSG* a "competition-based" strategy simulation and why ***the sales and market share outcomes for each decision round are always unique to the particular strategies and decision combinations employed by the competing companies***.

Once branded sales volumes and market shares are awarded based on the strength or weakness of each company's overall competitive effort and the outcomes of the bidding to supply private-label footwear are determined, then each company's performance is calculated and all the various company and industry reports are generated.

The scoring of each company's performance is based on a balanced scorecard that includes brand image, earnings per share (EPS), return on equity investment (ROE), stock price appreciation, and credit rating.

The results of the decision round are available to class members and the instructor about 15-20 minutes after the deadline passes.

> **Special Note:** The cause-effect relationships and underlying algorithms in *The Business Strategy Game* are based on sound business and economic principles and are closely matched to the real-world athletic footwear market. The "real-world" character of the competitive environment and company operations that have been designed into *The Business Strategy Game* allows company co-managers to think rationally and logically as they go about the tasks of diagnosing and responding to the competitive moves of rival companies, making strategy choices and adjustments, and deciding how to manage their athletic footwear company. *The Business Strategy Game* is predicated on the principle that the more *BSG* mirrors real-world market conditions and real-world managerial decision-making, the more pedagogical value it has. Why? Because tight linkages between the functioning of *BSG* and "the real world" provide class members with an ***authentic*** learning experience, a ***bona fide*** means of building their skills in analyzing markets and the actions of competitors, and a ***true-to-life*** way to practice making business-like decisions and applying the knowledge they have gained in business school.

Time Requirements for Company Co-Managers

Data from our servers indicates that ***each company team spends an average of about 2.5 hours working on each decision round***. The first couple of decision rounds take longer not only because co-managers have to explore the menus, familiarize themselves with the information on the screens, and absorb the relevance of the calculations shown whenever new decisions are entered but also because it takes time for them to establish a working relationship with one another and debate what sort of long-term direction and strategy to pursue.

The total workload for each team of students/participants ends up between 20 and 30 hours, given an average of 2.5 hours per decision round, 9 to 12 decision rounds (including practice rounds), and the time needed to complete optional assignments (quizzes, strategic plans, company presentation, and peer evaluations). As discussed earlier, you can offset the hours students spend on the simulation by trimming the number of case assignments, eliminating a written case assignment (which can take students 10-15 hours to prepare), and perhaps allocating one or more regularly-scheduled class periods to having class members meet in a computer lab to work on their decisions or a 3-Year Strategic Plan assignment.

It will consume part of a class period to introduce class members to the simulation and get things under way. Thereafter, the simulation becomes an ***out-of-class group exercise*** where co-managers spend most of their time working as a team on a PC (in a computer lab or at a co-manager's place of residence or in collaboration mode on their own individual PCs).

All activity for *The Business Strategy Game* takes place at www.bsg-online.com.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

A BIRDS-EYE VIEW OF *GLO-BUS*

In *GLO-BUS*, class members run companies that are in a neck-and-neck race for global market leadership in two product categories: (1) wearable video cameras smaller than a teacup that deliver stunning video quality and have powerful photo capture capabilities (comparable to those designed and marketed by global industry leader GoPro) and (2) sophisticated camera-equipped copter drones that incorporate a company designed and assembled action-capture camera and that are sold to commercial enterprises for prices in the $850 to $3,000+ range. Global market demand for action cameras grows at the rate of 6-8% annually for the first five years and 4-6% annually for the second five years. Global market demand for commercial drones grows briskly at rates averaging 20% for the first two years, then gradually slows over 8 years to a rate of 4-6%.

Company Operations

Companies assemble action cameras and drones of varying designs and performance capabilities at a Taiwan facility and ship finished goods directly to buyers in North America, Asia-Pacific, Europe-Africa, and Latin America. Both products are assembled usually within two weeks of being received and are then shipped to buyers no later than 2-3 days after assembly. Companies maintain no finished goods inventories and all parts and components are delivered by suppliers on a just-in-time basis (which eliminates the need to track inventories and simplifies the accounting for plant operations and costs).

Company co-managers determine the quality and performance features of the cameras and drones being assembled. They impact production costs by raising/lowering specifications for parts/components and expenditures for product R&D, adjusting work force compensation, spending more/less on worker training and productivity improvement, lengthening/shortening warranties offered (which affects warranty costs), and how cost-efficiently they manage assembly operations. They have options to manage/control selling and certain other costs as well.

To capitalize on ongoing technological advances and the pipeline of product enhancement capabilities flowing from the company's expenditures for new product R&D, the company typically introduces new and/or improved models each year, changes the specs for important components, adds/modifies performance features, upgrades the internal software, makes other design-related changes, and strives to price and market its brand of cameras and drones in ways that management believes will improve buyer appeal for its camera/drone models and enhance the company's ability to compete more effectively with the offerings of rival companies.

The Decisions That Company Managers Have to Make

Each decision round, company co-managers make some 50 types of decisions relating to the design and performance of the company's two products (21 decisions, 10 for cameras and 11 for drones), assembly operations and workforce compensation (up to 8 decision entries for each product), pricing and marketing (7 decisions for cameras and 5 for drones), corporate social responsibility and citizenship (up to 6 decisions), and the financing of company operations (up to 8 decisions). In addition, there are 9 entries for cameras and 8 entries for drones involving assumptions about the competitive actions of rivals; these entries help company co-managers to make more accurate forecasts of their company's unit sales (so they have a good idea of how many cameras and drones will need to be assembled each year to fill customer orders). Plus, company managers have accounting and cost data to examine, import duties and exchange rate fluctuations to consider, and shareholder expectations to satisfy.

On-Screen Support Calculations

Each time co-managers make a decision entry, an assortment of on-screen calculations instantly shows the projected effects on unit sales, revenues, market shares, total profit, earnings per share, ROE, costs, and other operating outcomes. All of these on-screen calculations help co-managers evaluate the relative merits of one decision entry versus another. Company managers can try out as many different decision combinations as they wish in stitching the separate decision entries into a cohesive whole that is projected to produce good company performance.

Just as with *The Business Strategy Game*, there are video tutorials and comprehensive Help sections.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

The Quest for a Winning Strategy

All companies begin the *GLO-BUS* exercise on the same footing from a global perspective—with equal sales volume, global market share, revenues, profits, costs, product quality and performance, brand recognition, and so on. Competition in action cameras revolves around 11 factors that determine each company's unit sales/market share:

1. How each company's average wholesale price to retailers compares against the all-company average wholesale prices being charged in each geographic region.
2. How each company's camera performance and quality compares against industry-wide camera performance/quality.
3. How the number of week-long sales promotion campaigns a company has in each region compares against the regional average number of weekly promotions.
4. How the size of each company's discounts off the regular wholesale prices during sales promotion campaigns compares against the regional average promotional discount.
5. How each company's annual advertising expenditures compare against regional average advertising expenditures.
6. How the number of models in each company's camera line compares against the industry-wide average number of models.
7. The number of retailers stocking and merchandising a company's brand in each region.
8. Annual expenditures to support the merchandising efforts of retailers stocking a company's brand in each region.
9. The amount by which a company's expenditures for ongoing improvement and updating of its company's website in a region is above/below the all-company regional average expenditure.
10. How the length of each company's camera warranties compare against the warranty periods of rival companies.
11. How well a company's brand image/reputation compares against the brand images/reputations of rival companies.

Competition among rival makers of commercial copter drones is more narrowly focused on just 9 sales-determining factors:

1. How a company's average retail price for drones at the company's website in each region compares against the all-company regional average website price.
2. How each company's drone performance and quality compares against the all-company average drone performance/quality.
3. How the number of models in each company's drone line compares against the industry-wide average number of models.
4. How each company's annual expenditures to recruit/support 3rd-party online electronics retailers in merchandising its brand of drones in each region compares against the regional average.
5. The amount by which a company's price discount to third-party online retailers is above/below the regional average discounted price.
6. How well a company's expenditures for search engine advertising in a region compares against the regional average.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

7. How well a company's expenditures for ongoing improvement and updating of its website in a region compares against the regional average.

8. How the length of each company's drone warranties in a region compares against the regional average warranty period.

9. How well a company's brand image/reputation compares against the brand images/reputations of rival companies.

Each company typically seeks to enhance its performance and build competitive advantage via its own custom-tailored competitive strategy based on more attractive pricing, greater advertising, a wider selection of models, more appealing performance/quality, longer warranties, a better image/reputation, and so on. As with BSG, ***all the various generic competitive strategy options***—low-cost leadership, differentiation, best-cost provider, focused low-cost, and focused differentiation—***are viable choices for pursuing competitive advantage and good company performance***. A company can have a strategy aimed at being the clear market leader in either action cameras or UAV drones or both. It can focus on one or two geographic regions or strive to build strong market positions in all four geographic regions. It can pursue essentially the same strategy worldwide or craft customized strategies for the Europe-Africa, Asia-Pacific, Latin America, and North America markets. Just as with *The Business Strategy Game*, ***most any well-conceived, well-executed competitive approach is capable of succeeding, provided it is not overpowered by the strategies of competitors or defeated by the presence of too many copycat strategies that dilute its effectiveness.***

How the Outcomes Are Determined

When the instructor-specified deadline for a decision round arrives, the *GLO-BUS* algorithms allocate sales and market shares in the action-camera and UAV drone segments to the competing companies, region by region. How many units a company sells in each region is based on the competitiveness and overall buyer appeal of its product offering versus the product offerings of rivals for each competitive factor.

For instance, a company's price in a region is determined to be more competitive the further it is *below* the average price in that region charged by all companies and less competitive the further it is *above* the regional average. A company's product performance and quality is determined to be more competitive the further its performance/quality rating is above the average performance/quality rating of all companies competing in the region and less competitive the further its rating is below the regional average. ***The overall competitiveness of a company's product offering in a region is a function of its combined competitive standing across all competitive factors for that product.*** For example, a company can offset the adverse impact of an above average price with above-average performance and quality, more advertising, longer warranties, and so on.

The greater the differences in the overall competitiveness of the product offerings of rival companies, the bigger the differences in their resulting sales volumes and market shares. Conversely, the smaller the overall competitive differences in the product offerings of rival companies, the smaller the differences in sales volumes and market shares. This algorithmic approach is what makes *GLO-BUS* a "competition-based" strategy simulation and accounts for why ***the sales and market share outcomes for each decision round are always unique to the particular strategies and decision combinations employed by the competing companies***.

Once sales and market shares are awarded, the company and industry reports are then generated and all ***the results become available 15-20 minutes after the decision deadline passes.***

Company performance is judged on five criteria: earnings per share, return on equity investment (ROE), stock price, credit rating and brand image.

All activity for *GLO-BUS* occurs at new.glo-bus.com.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Special Note: The time required of company co-managers to complete each decision round in *GLO-BUS* is typically about 15- to 30-minutes less than for *The Business Strategy Game* because

(a) there are only 8 market segments (versus 12 in BSG),

(b) co-managers have only one plant to operate (versus as many as 4 in BSG), and

(c) newly-assembled cameras and drones are shipped directly to buyers, eliminating the need to manage finished goods inventories and operate distribution centers.

Guidance about which simulation might be best for your course is provided later in this section.

SPECIAL *BSG/GLO-BUS* FEATURES AND NOTEWORTHY EXTRAS

The Internet delivery and user-friendly designs of both *BSG* and *GLO-BUS* make them incredibly easy to administer, even for first-time users. And ***the menus and controls for BSG and GLO-BUS are so similar that you can readily switch between the two simulations or use one in your undergraduate class and the other in an MBA class.*** If you have not yet used either of the two simulations, you may find the following of particular interest:

- ***There is a video tour that introduces students to the simulation, takes them through the website, and helps them to a successful start. There is also a video tour for instructors.***

- ***Instructors who are considering use of either simulation can attend any of the 30 or so author-conducted webinar/demos scheduled throughout each year—the demos run 60 to 75-minutes and allow ample time for Q&A.***

- ***In the course of running their company (making decision entries and viewing reports), class members have one-click access to <u>2-5 minute video tutorials</u> for <u>each</u> decision screen and <u>each</u> page of each report. In addition, they have one-click access to "Help" sections*** containing detailed explanations of (a) the information on each decision entry screen and all relevant cause-effect relationships, (b) the information on each page of the Industry Reports, and (c) the numbers presented in the Company Reports. The Help pages for each decision entry screen also contain tips and suggestions for making wise decision entries. The ***video tutorials and full-blown Help page discussions allow company co-managers to figure things out for themselves***, thereby relieving instructors of having to answer questions about "how things work."

- ***It is quick and easy to set up either simulation for your course.*** Setting up the simulation for your course is done online and takes about 30-minutes the first time you do it and about 15-20 minutes thereafter. There is on-screen guidance for each of step of the straightforward/easy-to-understand Course Setup Procedure; should you encounter any issues or have questions, you can easily call Tech Support for hands-on assistance in completing the Course Setup procedure, getting answers to questions, or resolving any problems you are having.

- ***Sample course outlines for integrating BSG or GLO-BUS into your strategy course can be found in Section 4 of this Instructor's Manual and also online at the simulation Web sites.*** There are sample outlines for semester-long courses, 10-week or quarter-long courses, and 5-week courses; each course outline consists of suggested activities and assignments for each and every class meeting. These provide useful guidance on incorporating use of the simulation and preparing a syllabus in your course.

- ***There's also a 3-page, author-prepared document titled "Tips for Successfully Using the Simulation" written especially for first-time users***. Plus there is a 37-page Instructor's Manual that provides comprehensive explanations and guidance.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

- ***An online Instructor Center serves as your hub for conducting all administrative activities and monitoring the results of the company decisions***. The Instructor Center is the screen you are sent to when you enter your user name and password to log-in. ***Every function and feature that you need for using the simulation in your course is on the Instructor Center page or accessible from it. Online grade books provide you with scores indicating each company's and each participant's performance on each phase of the simulation***. Once you enter percentage weights to put on each performance measure, overall scores are automatically calculated (which you can scale or not as you see fit). No other administrative actions on your part are required beyond that of moving participants to a different team (should the need arise), keeping tabs on the outcomes of the decision rounds and how well the companies are doing (to whatever extent desired), and using the automatically calculated numerical averages in the online grade book to determine the overall grades to assign class members on the entire simulation exercise.

- Both participants and instructors conduct all activities online (at www.bsg-online.com for *The Business Strategy Game* and at new.glo-bus.com for *GLO-BUS*). ***All materials are delivered digitally to class members and instructors.***

  - ***Students gain full access to everything needed during the course of the simulation, including the Participant's Guide, immediately upon registering***—students can read the Participant's Guide and other accompanying content on their monitors or make print outs, as they prefer.

  - ***Likewise, instructors gain full access to all menus and materials on the website immediately upon creating an Instructor Account at the website home-page.***

- ***Both simulations offer integrated text chat, audio chat, and collaboration features for team members (students) who are logged-on simultaneously to facilitate collaboration among company co-managers.***

  - Use of the built-in audio-chat capability requires that each team member work from a computer with a built-in microphone (if they want to be heard by the rest of the team) and speakers (so that they may hear their teammates) or else have a headset with a microphone. A headset is recommended for best results, but most laptops now are equipped with a built-in microphone and speakers that will support use of the voice-chat capability.

  - When in "Collaboration Mode," each team member sees the same screen at the same time as all other team members who are logged-in and have joined Collaboration Mode. If one team member chooses to view a particular decision screen, that same screen appears on the monitors for all team members engaged in collaboration.

  - Each team member controls a color-coded mouse pointer (with their first-name appearing in a color-coded box linked to their mouse pointer) and can make a decision entry or move the mouse to point to particular on-screen items.

  - A decision entry change made by one team member is seen by all, in real time, and all team members can immediately view the on-screen calculations that result from the new decision entry.

  - If one team member wishes to view a report page and clicks on the menu link to the desired report, that same report page will immediately appear for the other team members engaged in collaboration.

- ***Instructors have built-in capability to join the online meetings of any company directly from their own computers.*** Instructors who wish not only to talk but also enter Collaboration (highly recommended because all attendees are then viewing the same screen) have a red-colored mouse pointer linked to a red box labeled Instructor. The ability of instructors and company co-managers to have an online meeting at a mutually agreeable time is often more convenient than scheduling face-to-face meetings during an instructor's office hours.

- ***The audio and collaborationfeatures make the simulations highly suitable for use in distance-learning or online courses*** (and are currently being used in many such courses).

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

- ***The deadlines for each decision round and other related assignments are set and totally controlled by the instructor (and can be changed at any time for any reason).*** Decision rounds can be scheduled once per week, twice per week, daily, or even twice daily, depending on how you want to conduct the exercise.

- ***The management teams for each company can range from 1 to 5 co-managers, and the number of companies competing head-to-head in a single market group or "industry" can range from 4 to 12***. If you have a large class and need more than 12 companies, the Course Setup procedure makes it simple to create two or more industries for your class. In a small class, there can be no fewer than 4 company teams—two-person teams will work just fine. (For classes with fewer than 8 students, please call us at 205-722-9149 or e-mail techsupport@glo-bus.com to discuss how best to proceed.)

- ***The decision entries that co-managers make are saved directly to the GLO-BUS server when a student-user clicks the Save button.*** When a decision round deadline passes, the decision entries of all companies are then "processed" automatically. ***Complete results are available to company co-managers and the instructor 15-20 minutes after the decision deadline.***

  - ***Participants and instructors are immediately notified via e-mail as soon as the decision outcomes are ready.*** Company co-managers learn the details of "what happened" in a 7-page Industry Report, a 1-page Competitive Intelligence report for each geographic region *that includes strategic group maps and bulleted lists of competitive strengths and weaknesses*, and a 4-page set of Company Reports (consisting of assorted sales, cost, and operating statistics and a set of financial statements (income statement, balance sheet, cash flow statement).

- ***A "scoreboard of company performance" incorporates two performance measures***: (1) how well each company meets "investor expectations" on earnings per share, return on shareholders' equity (ROE), stock price appreciation, credit rating, and image rating and (2) how well each company stacks up against the "best-in-industry performer" on each of these same 5 measures.

- You have ***the option to assign two "open-book" multiple choice tests of 20 questions***. Quiz 1 covers the contents of the *Participant's Guide*. Quiz 2 measures understanding of key aspects of company operations and student command of ways to improve company performance. The self-scoring quizzes are taken online by each student individually, with scores reported instantaneously to participants and recorded in your online grade book. Requiring completion of both quizzes is very highly recommended.

- There is ***a built-in 3-year strategic plan feature*** that entails having each company's management team (1) articulate a strategic vision for their company (in a few sentences), (2) set performance targets for EPS, ROE, stock price appreciation, credit rating, and image rating for each of the next three years, (3) state the competitive strategy the company will pursue, (4) cite data showing that the chosen strategy either is currently on track or requires further managerial actions, and (5) develop a projected income statement for the each of the next three years based upon expected unit sales, revenues, costs, and profits. ***Each company's strategic plan is automatically graded on a scale of 1 to 100***, with points being earned for meeting or beating the performance targets that were established. The scores are recorded in your online grade book. ***Assigning completion of 3-year strategic plans is entirely optional—you can have company managers complete no plan, 1 plan, or 2 plans***.

- ***At the conclusion of the simulation, you can choose to have each company management team prepare a slide presentation reviewing their company's performance and strategy***. A Company Presentation link in each co-manager's Corporate Lobby provides explicit slide-by slide suggestions of what to cover in the presentation. Company co-managers may easily download and insert any of the graphs/charts appearing in the reports.

- There is ***a comprehensive 12-question peer evaluation form*** that co-managers can complete midway through the exercise and/or at the end of the exercise to help you gauge the caliber of effort each co-manager has put into the exercise. ***Peer evaluations are automatically scored on a scale of 1 to 100***, and the scores are recorded in your online grade book.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

- ***There is an Activity Log that provides an informative summary of each co-manager's use of various parts of the website***—the frequency and length of log-ons, how many times decision entries were saved to the server each decision round, and how many times each set of reports was viewed each decision round. The combined information from the peer evaluations and the Activity Log provide good evidence about whether a co-manager was a strong or weak contributor.

- ***An end-of-simulation Learning Assurance Report (LAR) provides you with solid empirical data concerning how well your students performed versus students playing the simulation at all schools/ campuses worldwide over the past 12 months.*** The report measures 9 areas of student proficiency, business know-how, and decision-making skill, and provides potent benchmark evidence valid for gauging the extent to which your school's academic curriculum is delivering the desired degree of student learning as concerns accreditation standards. The LAR is useful in two very important respects.

  - It provides you with a clear overview of how well your students rank relative to students at other schools worldwide who have gone through this same competition-based simulation exercise over the past 12 months.

  - Because the report provides highly credible evidence regarding the caliber of business proficiency and decision-making prowess of your students, it can be used to help assess whether your school's academic curriculum in business is providing students with the desired degree of business understanding and decision-making acumen.

  Professors, department chairs, and deans at many business schools worldwide are engaged in developing ongoing evidence of whether their academic programs meet the Assurance of Learning Standards now being applied by the Association to Advance Collegiate Schools of Business (AACSB); a prime goal of this Learning Assurance Report is to contribute significantly to this effort.

- There is ***a weekly ranking of the best-performing companies worldwide*** posted on the homepage—all co-managers and instructors whose companies appear in the rankings are automatically notified by e-mail. You can browse through the latest rankings by clicking on the Global Top Performers icon left-center of the homepage.

- ***At the conclusion of the simulation, the co-managers of the overall best-performing company in your class are automatically e-mailed an "Industry Champion" certificate suitable for framing.*** This certificate serves to document an award or achievement that each co-manager of a champion company can put on their résumé.

- ***The co-managers of each industry-winning company playing the two simulations across the world are invited to participate in the "Best Strategy Invitational."*** The BSIs for *GLO-BUS* and *The Business Strategy Game* are held three times each year—in late April/early May, in August, and in late November/ early December. Those teams that accept the invitation to participate are divided into industries of 11-12 companies and compete for a period of 10 decision rounds for "Global Industry Championships." All participants who complete the competition receive frame-able certificates and the industry winners get a "Grand Champion" certificate. Receipt of these certificates also merits a line on a student's résumé.

Comprehensive support, question-answering, and problem-solving is provided to all adopters of the two simulations by co-authors Greg Stappenbeck, Art Thompson, and other members of the simulation author team— just use the tech support link in the Instructor Center to send an e-mail, call us at 205-722-9149, or send an e-mail to athompso@cba.ua.edu. We will be glad to provide you with a personal tour of either or both of the Web sites (while you are on your PC) and walk you through the many features that are built into the simulations. If there are multiple instructors at your school who teach the course, we will be happy to set up a special webinar for you and your colleagues, give you a guided tour of the Web site, and answer whatever questions you may have.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Alternatively, you can go to www.bsg-online.com and/or new.glo-bus.com, register as an Instructor, and gain full access to the websites and all of the materials you will need to conduct the simulation. Once you register (there's no obligation), you'll be able to access the videos tours of the website, the *Instructor's Guide* and the *Participant's Guide* for the simulations, explore the Instructor Center menus on your own, and complete the Course Setup procedure (which is necessary in order to get everything ready for students to register, should you decide to use the simulation in an upcoming course).

We are more than happy to give personal assistance to new and ongoing users any time questions or problems arise.

For those who are worried about "bugs" or flaws, we would say we are several years past the stage where software "glitches" and system malfunctions are still being ironed out. The Web site and related software have long since been thoroughly "de-bugged." There is a staff that monitors and maintains the functioning of the two Web sites 24/7/365—if a user can get connection to the Internet, then the chances of the system being "down" are virtually nil.

Adopters of the 21st edition of Crafting and Executing Strategy who also want to incorporate use of one of the two simulation supplements can either have students register at the simulation website via a credit card or you can instruct your bookstores to order the "book-simulation package"—the publisher has a special ISBN number for new copies of the 21st Edition that contain a special card shrink-wrapped with each copy; printed on the enclosed card is a pre-paid access code that student can use to register for either simulation and gain full access to the student portion of the Web site. Please consult with your McGraw-Hill sales representative for details about the bundled book-simulation package. However, be aware that ***bookstore markups on the book-simulation package often result in a $10-$15 higher student cost for the simulation than will registering via credit card at the website***.

WHICH SIMULATION MAKES THE MOST SENSE FOR YOUR COURSE?

Both *The Business Strategy Game* and *GLO-BUS* are suitable for either senior-level or MBA-level courses. Whether to use *The Business Strategy Game* or go with *GLO-BUS* is really a matter of preference, how much time you are comfortable with having class members spend working on the simulation exercise, and the degree to which the faculty believe that there should be a clear distinction between the content and rigor of a senior-level course in strategy and the MBA-level course in strategy.

The time that class members will spend on *GLO-BUS* typically works out to be a bit less than for *The Business Strategy Game*. With *GLO-BUS*, you can expect that class members will spend an average of 1½-2 hours per decision. With BSG, it will take company co-managers about 2-2¼ hours per decision. Company co-managers can speed through their *GLO-BUS* decision-making a bit quicker than in *BSG* because all production/assembly of cameras and camera-equipped drones takes place at a single location (Taiwan) and there are no finished goods inventories (newly-assembled products are built-to-order and shipped directly to buyers).

The Business Strategy Game is a bit more robust because:

- Company co-managers have the option to build and operate up to four plants (one in each geographic region of the world). In *GLO-BUS*, companies only have one plant to manage.
- Each company management team must operate four distribution centers (1 in each geographic region) and manage the finished goods inventories in these centers. In *GLO-BUS*, there are no finished goods inventories and distribution centers to operate—all units produced are immediately shipped to buyers.
- Companies compete in 12 market segments (versus 8 in *GLO-BUS*).

Both simulations have 2 built-in quizzes, strategic plan assignments, company presentation capabilities, and peer evaluations (each of which can be required or skipped as you see fit). See Table 1 for comparisons of the two simulations.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

TABLE 1 A Comparison of *Glo-Bus* versus *The Business Strategy Game*

	GLO-BUS	*The Business Strategy Game*
Industry setting	Companies that design, assemble, and market action cameras and camera-equipped drones	Athletic footwear industry
Market scope	**Worldwide.** Production occurs at a single plant and sales are made to retailers in 4 major geographic regions • North America • Latin America • Europe-Africa • Asia Pacific	**Worldwide.** Both production and sales activities can be pursued in any or all of 4 major geographic segments • North America • Latin America • Europe-Africa • Asia Pacific
Number of market segments	**8** • sales of action cameras to retailers in each of the four major geographic regions • sales of unmanned aerial view drones to buyers in each of the four major geographic regions	**12** • 4 segments for branded footwear sales to retailers in each geographic region • 4 segments for online sales of footwear direct to consumers in each geographic region • 4 segments for private-label footwear sales to chain retailers in each region
Number of decision variables	• Design and performance of and drones (up to 10 decision entries for cameras and 11 entries for drones) • Assembly operations and workforce compensation (up to 8 decision entries for each product) • Camera pricing and marketing (up to 7 decision entries in each of the 4 geographic regions) • Drone pricing and marketing (up to 6 decision entries in each of the 4 geographic regions) • Financing of company operations (up to 8 decision entries) • Social responsibility and citizenship (as many as 6 decision entries)	• Production (up to 13 decision entries for each plant, with a maximum of 4 plants) • HR/compensation (up to 3 decisions each plant) • Shipping (up to 8 decisions each plant) • Pricing and marketing (up to 10 decision entries in each of the 4 regions) • Internet marketing (up to 3 decision entries in each of the 4 regions) • Financing of company operations (up to 8 decision entries) • Social responsibility and citizenship (as many as 6 decision entries)
Competitive variables used to determine market share	• Price • Number of camera/drone models • Performance/quality rating • Number of weekly sales promotions • Promotional discounts • Advertising • Size of retailer network • Warranty period • Retailer support • Brand image/reputation All sales and market share differences are the direct result of differing competitive efforts among rival companies	• Price • Number of models/styles • Styling/quality rating • Advertising • Size of retail dealer network • Celebrity endorsements • Delivery time • Retailer support • Mail-in rebates • Shipping charges (Internet sales only) All sales and market share differences are the direct result of differing competitive efforts among rival companies
Time frame of decisions	One year	One year

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

	GLO-BUS	*The Business Strategy Game*
Measures on which company performance is judged (all company scores are automatically recorded in instructor's online grade book for each decision period)	• Earnings per share • Return on shareholders' equity • Stock price • Credit rating • Image rating	• Earnings per share • Return on shareholders' equity • Stock price • Credit rating • Image rating
Scoring standards	Choice of • Investor Expectations (benchmarked against industry growth) • Best-in-Industry • A combination of both, with instructors determining the weights for each (50-50 is recommended)	Choice of • Investor Expectations (benchmarked against industry growth) • Best-in-Industry • A combination of both, with instructors determining the weights for each (50-50 is recommended)
Degree of complexity	Moderate Less complex than BSG because all production is in a single plant and there are no finished goods inventories (newly-assembled products are built-to-order and shipped directly to buyers)	More robust/"complex" than GLO-BUS because • Companies can operate up to four plants (one in each geographic area) and plant operations are a bit more involved • Shipments are made to company distribution centers and there are finished goods inventories to manage • There are 12 market segments instead of 8 • Players have to develop make a sales forecast based on their competitive strategy and the expected competitive efforts of rivals
Time required to make a complete decision	About 1.75 to 2.0 hours per decision (once players gain familiarity with software and reports)	2.0 to 2.5 hours per decision (once players gain familiarity with software and reports)
Industry reports (automatically provided to all participants at website within 15 minutes following each decision deadline)	A 6-page report that includes • Complete scoreboard of company performances on all five performance measures (3 pages) • Selected industry statistics • Financial statistics for each company • Benchmarking statistics A 1-page competitive intelligence report for each geographic region that shows • Each company's publicly visible competitive effort (prices, advertising, warranties, etc.) • Strategic group maps of the positioning of competitors in both the camera and drone segments	A 7-page report that includes • Complete scoreboard of company performances on all five performance measures (3 pages) • Selected industry statistics • Financial statistics for each company • Benchmarking statistics • Status of celebrity endorsements A 1-page competitive intelligence report for each geographic region that shows • Each company's publicly visible competitive effort (prices, models, advertising, rebates, etc.) • Strategic group maps of the positioning of competitors in the branded footwear segment • A list of the company's competitive strengths and weaknesses in that region
Company reports (automatically provided to all participants at website within 15 minutes following each decision deadline)	A 6-page report that includes • Performance highlights • An income statement • A balance sheet • A cash flow statement • Assembly operations • Market segment statistics—Cameras • Market segment statistics—Drones	A 5-page report that includes • An income statement • A balance sheet • A cash flow statement • Plant operations statistics • Distribution and warehousing statistics • Branded and private-label sales statistics • Detailed marketing and administrative costs
Participant's manual (delivered online)	36 pages	36 pages

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Usage data confirms that you can have a successful experience with either simulation in both senior and MBA courses. Students are turned on by managing a company that sells action cameras and drones, and they are equally excited about competing in global athletic footwear—a product category they are personally familiar with and can easily understand. We have adopters who are using *GLO-BUS* on an ongoing basis for undergraduate courses and for graduate courses. Likewise, we have adopters who are using *BSG* on an ongoing basis for undergraduate courses and for graduate courses. Here are our thoughts about which simulation to use:

- If you want the simulation to count no more than 20% of the course grade and to keep the simulation workload down to a "minimum", then *GLO-BUS* is perhaps the better choice.
- *GLO-BUS* is definitely the better choice for courses below the senior-level.
- If you want the simulation to be a truly major part of the course (and count 25-30% of the course grade), then our recommendation would be to use *The Business Strategy Game*. But *GLO-BUS* would definitely be a solid choice.
- We see little reason for you to be concerned that the slightly longer decision times for *BSG* mean that it is "too much" for or "above the heads" of senior-level undergraduates. During the past 5 years, *BSG* has been used for undergraduate courses at well over 700 campuses worldwide. You can peruse the schools of the best-performing companies worldwide by clicking on the Global Top Performers icons in the bottom left side of the homepages for the two simulations (www.bsg-online.com and new.glo-bus.com)—these listings will let you confirm for yourself that the best-performing companies involve a wide diversity of schools/campuses.
- *The Business Strategy Game* is definitely the better choice for an MBA-level class. (Our data indicates that *BSG* is used for graduate-level courses far more frequently than is *GLO-BUS.*)
- If many of your school's undergraduate students also go on to be part of your school's MBA program (thus making it desirable to provide them with a differentiated strategy simulation experience in the undergraduate versus the graduate courses), then we definitely recommend using *GLO-BUS* for the undergraduate strategy class and *BSG* for the MBA strategy class. This is especially true if it is school policy is to maintain a clear-cut distinction between the content and rigor of the senior-level course and the MBA-level course.
- Since the instructor-related aspects of conducting the two simulations are virtually identical (in the sense that the course setup procedures, menus, and administrative tasks are virtually mirror images of one another), you will have no problem in using both simulations at the same time if you teach both the undergraduate course and MBA course in the same term. We made a point of designing the Instructor Centers for *BSG* and *GLO-BUS* to be as much alike as possible—moreover, the quiz features, the scoring of company performance, the strategic plan feature and scoring, the company presentation feature, and the peer evaluation form are also very close to identical.
- Either simulation can be used for executive courses; participants will definitely be able to make a complete decision in half a day—one in the morning and one in the afternoon. But if the time available for decisions is constrained to less than half a day (say, 2½ hours or maybe less), then we recommend use of *GLO-BUS.*

THE 4-STEP COURSE SETUP PROCEDURE

Setting up either of the two simulations for your course entails:

1. Specifying a Course/Section ID and indicating the whether the participants will be primarily undergraduates, graduate students, corporate trainees, or "other."
2. Specifying the number of companies you want to create for your class members to run—a minimum of 4 companies and a maximum of 12 companies can compete head-to-head in a single group or "industry." You can assign 1 to 5 class members to run each company (assigning 3-4 persons to manage each company is recommended). If you need more than one industry for your course (because you want to divide the class into more than 12 company teams), you have the option to do so.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

3. Using the built-in calendar to specify deadlines for the practice and regular (scored) decision rounds—you can have either 1 or 2 practice rounds and anywhere from 4 to 10 decision rounds that are scored and used in calculating individual grades for the simulation exercise. You will also need to indicate whether you want to have students (a) complete either or both of the two optional quizzes, (b) do one or two 3-year strategic plans for their company, (c) prepare a PowerPoint presentation about their company's performance and operations at the conclusion of the simulation exercise, and (d) complete Peer Evaluations of their co-managers. ***You always have the option to come back to this screen for scheduling decision rounds and other assignments later and make changes in the assignments and/or the deadline dates.*** Our recommendations for handling these optional assignments are presented inside the Course Setup procedure

4. Generating and printing the company registration codes that you will need to give each class member to use in registering for the simulation. ***You must give each class member on each team/company the appropriate company registration code prior to having them register because this code is used to (1) enroll the student in your class, (2) designate the student as a co-manager of the assigned company, (3) restrict a co-manager's access to only the industry and company you assigned them, and (4) enter the student's name in your online grade book.*** When students register, they will be asked to enter the company registration code you provide them—***class members cannot register without the registration code for their particular industry and company***.

That's all there is to it. You'll find that you can complete the Course Setup routine in no more than 30 minutes the first time you use the simulation. Once you have used been through the Course Setup routine and become comfortable with how you want to administer the exercise, it should take no more than 15 minutes in succeeding terms to have everything ready to go.

You'll need to remember to take a printout of the company registration codes to class and make sure each student is given the appropriate code for their assigned company. A good procedure is to give each class member a copy of the printout of the company registration codes and have them circle the code for the company they have been assigned to manage. Each different company goes by a letter of the alphabet (A, B, C, etc.). Each co-manager of Company A will need the registration code ending in the letter A to complete the registration process; each co-manager of Company B will need the code ending in B, and so on. If you have 6 companies, then the corresponding company letters appearing at the each of each code number will be A, B, C, D, E, and F. ***Once co-managers register, they can create a name for their company that begins with their corresponding company letter.***

HOW DO CLASS MEMBERS REGISTER AND GAIN FULL ACCESS TO THE SIMULATION WEB SITE?

When class members complete the registration process at either www.bsg-online.com or new.glo-bus.com, they gain instant access to the Web site, ability to view/print the *Participant's Guide*, and full navigation privileges to everything needed to run their company and complete the various optional assignments***. For co-managers to register, you will first have to provide them with their Company Registration Code in the manner just discussed in the prior section.*** Registration is accomplished in one of three ways:

1. ***Credit Card Registration***—When a student creates a user account, the registration fee plus applicable sales taxes can be paid online by credit card (Visa, MasterCard, or American Express) during the registration process. (Credit card payment is currently used by about 75% of all registrants.) ***Rest assured that the website for credit card payment is fully secured; credit card registrants will receive a receipt confirming their payment.***

2. ***Prepaid Access***—If you adopt a McGraw-Hill text or create a custom McGraw-Hill text for your course, you have the option of "packaging" prepaid use of *The Business Strategy Game* or *GLO-BUS* with your text. A bundled text-simulation package is ordered through your local book store using a special ISBN code provided by McGraw-Hill. When your book store places an order for the text-simulation bundle, McGraw-Hill will

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

shrink-wrap a Prepaid Access Code card for the simulation with the new or custom text and ship it to your book store where class members purchase the text-simulation package in the normal manner. Class members then register online using the Prepaid Access Code printed on the card. However, you should be aware that aggressive bookstore markups often result in class members paying the book store as much as $10-$15 more for the simulation in a combination text-simulation package than they would pay via credit card at the website. About 20 percent of all registrants use a prepaid access code. To obtain the special ISBN for the text-simulation package and place a bookstore order, please contact your local McGraw-Hill account representative for details, call our instructor support number (205-722-9149), or send an e-mail to tech support.

3. ***Direct-Billing***—If your college/university includes the cost of text books and other course materials in the tuition fee for the course (and a McGraw-Hill text-simulation package has not been ordered for your course), then you or an appropriate school official can obtain Prepaid Access Codes for student registration (one for each class member) and your department/college/university can be direct-billed, with payment by credit card, check, or wire transfer as preferred. For your convenience, we can supply you or your school with the desired number of Prepaid Access Codes within minutes of receiving a request. For more information on this direct-billing option, please call simulation co-author Greg Stappenbeck at (205) 722-9149 or send him e-mail at greg@glo-bus.com.

If some of your students do not have a credit card or a Prepaid Access Code, the easiest way for them to register is to arrange to use a friend's or co-manager's credit card and reimburse them directly with cash or a check.

The Corporate Lobby Web Page for Company Co-Managers. Upon completing the registration process, company co-managers are immediately transferred to their company's "Corporate Lobby" page. Each time they log-on at the simulation home page (by entering their email address and password), they are also sent directly to their Corporate Lobby page. The Corporate Lobby is the gateway or hub that co-managers use to ***access all needed information and work on all assigned tasks.***

HOW MUCH SHOULD THE SIMULATION EXERCISE COUNT IN THE TOTAL COURSE GRADE?

Whether class members take the simulation exercise seriously hinges in large part on whether you make their performance count enough in the overall course grade to get their attention. As a general rule, we recommend having performance on the simulation count *at least* 20% of the overall course grade and probably no more than 40% of the total grade. If it counts less than 20%, then class member effort is weakened to an undesirable extent (because their performance on the simulation has a "small" impact on their grade in the course) and some of the learning potential slips through the cracks. If it counts more than 40%, then the simulation exercise may take something away from the emphasis you want to give to other aspects of the course.

However, growing numbers of users are making an online strategy simulation the *dominant centerpiece* of their courses (particularly in online and distance learning courses where case analysis is difficult to use effectively). When the simulation functions as the primary part of the course (aside from the content of the chapters in the textbook you have adopted), then counting the simulation as 50-60% (or more) of the final grade is reasonable, given that you can use the quizzes, one or two 3-year strategic plan assignments, and perhaps an end-of-simulation presentation to an invited panel of 3 or 4 persons (who act as a company board of directors) as a substitute for assigning students a larger number of cases to analyze.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

HOW COMPANY PERFORMANCES ARE SCORED—A BALANCED SCORECARD APPROACH

Each company's performance is tracked annually against 5 performance measures which, taken together, constitute a "balanced scorecard" set of performance measures (the balanced scorecard concept is discussed in Chapter 2 of this text). Given the nature of growing market demand, board members and shareholders/investors expect the company's new management team to meet or beat the following performance standards:

- *Grow earnings per share to at least X annually.* (The annual EPS targets are different for *BSG* versus *GLO-BUS.*)
- *Maintain a return on equity investment (ROE) of X% or more annually*. (The annual ROE targets are different for *BSG* versus *GLO-BUS.*)
- *Maintain a B+ or higher credit rating*. All companies start the simulation with a B+ credit rating.
- *Achieve an "image rating" of 70 or higher*. All companies start the simulation with an image rating of 70. A company's image rating is a function of (1) the quality of its product offerings, (2) its market shares in each of the 4 geographic regions of the world market, and (3) the degree to which it conducts its operations in a socially responsible manner and strives to be a good corporate citizen.
- ***Achieve stock price gains averaging about X dollars annually*** (the annual stock price targets are different for the two simulations). The expected stock price gains are definitely within reach if the company meets or beats the annual EPS targets and pays a rising dividend to shareholders. *Each company's stock price is a function of EPS growth, ROE, credit rating, dividend per share growth, and management's ability to consistently deliver good results (as measured by the percentage of these 5 performance targets that each company achieves over the course of the simulation exercise).*

The default weight placed on each of the five performance targets is 20%. The five 20% weights translate into 20 points out of 100 for each of the 5 performance measures, with the sum of the points adding to a total of 100 points. There is an option on your Administrative Menu for each "industry" that allows you to alter these weights however you see fit. **The scoring weights are reported to students on their scoreboard of company performance; hence, they always know what the weights are.**

Using the assigned weights (or corresponding number of points out of 100), each company's performance on the 5 measures is tracked annually and company performance scores are calculated from two different angles: the *"investor expectations" standard* and the *"best-in-industry" standard*.

1. **The Investor Expectations Standard.** The investor expectations standard involves calculating an *annual* "Investor Expectation Score" based on each company's success in meeting or beating the five expected performance targets each year. There is also a Game-to-Date or "all-years" Investor Expectation Score that shows each company's success in achieving or exceeding the expected performance targets over *all years* of the exercise completed so far. Meeting each expected performance target is worth some number of points based on the scoring weight selected by the instructor (the default scoring weights are 20% or 20 points for each of the five performance measures). For example, if the scoring weight for EPS is 20% or 20 points, meeting the EPS target earns a score of 20 on the EPS performance measure. Beating a target results in a bonus award of 0.5% for each 1% the annual target is exceeded (up to a maximum bonus of 20%). Thus, if achieving the EPS target is worth 20 points, a company can earn a score of 24 points by beating the annual EPS target by 40% or more. Failure to achieve a target results in a score equal to a percentage of that target's point total (based on its weight out of 100 points). For instance, if your company earns $1.33 per share of common stock at a time when the EPS target is $2.67 and achieving the $2.67 EPS target is worth 20 points, then your company's score on the EPS target would be 10 points (50% of the 20 points awarded for meeting the EPS target). Exactly meeting each of the 5 performance targets results in an Investor Expectation Score of 100. With potential point bonuses of up to 20% for exceeding each performance target, it is possible to earn an Investor Expectation Score of 120.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

2. **The Best-in-Industry Standard.** The best-in-industry scoring standard is based on how each company's performance compares to the industry's best performer on earnings per share, return on equity (ROE), stock price, and image rating and to the ultimate credit rating of A+. After each decision round, each company's performance on EPS, ROE, Stock Price, and Image Rating is arrayed from highest to lowest. The best-in-industry performer on each of these 4 measures earns a perfect score (the full number of points for that measure as determined by the instructor-chosen weights)—provided the industry leader's performance on that measure equals or exceeds the performance target established by company Boards of Directors). Each remaining company earns a fraction of the points earned by the best-in-industry performer that is equal to its performance (on EPS, ROE, stock price, and image rating) divided by the performance of the industry-leading company (on EPS, ROE, stock price, and image rating). For instance, if ROE is given a weight of 20 points, an industry-leading ROE performance of 25% gets a score of 20 points and a company with an ROE of 20% (which is 80% as good as the leader's 25%) gets a score of 16 points (80% of 20 points). Likewise, if EPS is given a weight of 20 points, an industry-leading EPS performance of $5.00 gets a score of 20 points and a company with an EPS of $2.00 (which is 40% as good as the leader's $5.00) gets a score of 8 points (40% of 20 points). The procedure for assigning best-in-industry scores for credit rating is a bit different. Each credit rating from A+ to C− carries a certain number of points that scales down from the maximum number of points for an A+ credit rating to 1 point for a C− rating. Each company's combined point total on the five performance measures is its score on the best-in-industry standard. Each company receives an annual best-in-industry score and a best-in-industry score for all years completed. In order to receive a score of 100, a company must (1) be the best-in-industry performer on EPS, ROE, stock price, and image rating, (2) achieve the targets for EPS, ROE, stock price and image rating set by the company's Board of Directors, and (3) have an A+ credit rating.

After each decision round, you and all class members will be able to review every company's performance scores on both the investor expectations standard and the best-in-industry standard for each year completed, along with an overall "game-to-date" (G-T-D) score for each standard. Each company will also receive annual and game-to-date Overall Scores that are determined by combining the Investor Expectation Score and the Best-in-Industry Score into a single score using whatever weighting you chose (50-50 is recommended). After each decision round, all company co-managers can view or print a complete Company Scoreboard showing each company's performance on every aspect of the scoring, including all the scoring weights. The Help sections for each page of the 3-page Company Scoreboard provide detailed, easy-to-understand explanations of the scoring so company co-managers should encounter no "mystery" factor about how the scoring works or where each company stands in the industry performance rankings.

CONCLUDING COMMENT ON HOW COMPANY PERFORMANCES ARE SCORED

Company co-managers are provided an array of information that makes it easy for them to track the performance of their company and all other companies over time. Both students and instructors always have plenty of information to gauge exactly how well every company in the industry is performing. It is always clear which companies are in the ranks of the industry leaders and which companies are being out-competed and outperformed.

One very important point about the scoring methodology warrants emphasis: ***it is a company's overall score that matters*** (how close a company's score is to 100-120 in the case of the Investor Expectations Standard and how close it is to 100 in the case of the Best-in-Industry Standard), not whether a company is in first or third or fifth or tenth place. ***Some company must necessarily be in last place, but what is truly telling is whether it is in last place with a score of 85 (which clearly signals a strong performance and a deservedly good grade) or in last place with a score of 17 (which clearly signals an abysmal performance and possibly a very disappointing grade).*** The scoring method for the two simulations has the considerable advantage of ***not*** "requiring" that some companies always receive low scores. Scores are based entirely on (1) whether companies achieve the benchmark performances that investors expect for EPS, ROE, credit rating, stock price appreciation, and image and (2) whether the race to be the market leader is very close from the first place company to the last place company or whether there is quite a wide disparity in the caliber of performances (with the bottom-performing companies turning in truly bad results).

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

As a general rule, we think that companies with an overall performance score of 90 or above should get an A. Companies with an overall performance score of 80-89 should get a B (or better if there are no companies with scores of 90 or more). Companies with an overall performance score of 70-79 above should typically get a C (or maybe better, depending on how many teams have higher scores). You may find it desirable to scale the scores if competition turns out to be so fierce or cutthroat that most all companies in the industry fail to earn good profits and meet investors' performance expectations. If one or more companies have truly low performance scores relative to the other companies, we leave it up to you to decide what sort of scale to apply and thus how much to raise their grade. You'll find that there's plenty of information provided to you in your online grade book to decide what grades to assign. In most of our classes, we end up scaling the performance scores of companies with scores below 70, but there is usually at least one company (and often more) that end up with a score above 90 and thus clearly merit a grade of A (thus there is little need for scaling the final company scores on the upper end of the spectrum).

WHAT TO DO IF YOU OPT TO USE EITHER OF THE COMPANION SIMULATIONS

The preceding discussion is intended to give you some detailed information about the two companion simulations, how they work, and what value they add to a first course in strategy for seniors and MBA students.

If you are persuaded that using either *BSG* or *GLO-BUS* in your course would make a positive contribution, then (if you have not already done so), you should go to www.bsg-online.com or new.glo-bus.com (or both) and create an instructor account. This account gives you full access to the all the materials and information needed to run the simulations in your class. Once you have created an account, we recommend that you do three things:

1. Click on the Instructor Essentials menu item on the left side of your Instructor Center screen and watch the video tour of the Instructor site and the video tour of the student site.
2. ***Click on the Instructor Essentials menu item on the left side of your Instructor Center screen and read/skim the first 23 pages of the Instructor's Guide.***
3. ***Sign up for one of our upcoming webinars for faculty*** that involve author-conducted tours of the web site, explanations of how things work, and Q&A. These tours, which involve about an hour, are conducted by one (sometimes two) of the simulation co-authors.
    - If you are located in the U.S. or Canada, you can view the schedule of future web conferences and sign up by going to the homepage for either simulation and clicking on the "Signup for Webinar/Demo" link in the white box for Instructors—this will take you directly to the schedule of upcoming webinars., and then clicking on the button on the right side of the screen labeled "Signup for Webinar/Demo." If attending one of these web conferences proves problematic or inconvenient for you, then by all means please call Art Thompson or Greg Stappenbeck at 205-722-9149 or e-mail us at athompso@cba.ua.edu or greg@glo-bus.com and we will arrange a personal web conference at a time that works best for you.
    - If you are located outside the U.S. or Canada, then we can schedule a special web conference using VOIP technology (which eliminates the need for expensive long distance telephone charges)—this online conferencing approach enables us to conduct essentially the very same kind of webinar and provide you with a personalized tour of the web site, explain how things work, and answer any questions or address any concerns you might have. Just send an e-mail to greg@glo-bus.com if you would like to set up a VOIP-enabled web conference.

Moreover, you can rest assured that the simulation co-authors will be only a phone call or e-mail away throughout the term, as you conduct the simulation. Do not hesitate to contact us at any time. Greg Stappenbeck, who is a co-creator of both simulations, is also the lead tech support person. The simplest way to reach us is to click on the Technical Support link in the Instructor Support box on the bottom left of the Instructor Center page. It provides a telephone number and an e-mail message system. We reply to all e-mails as quickly as we possibly can—usually within a few hours. Alternatively, call us at 205-722-9149 or send an e-mail to greg@bsg-online.com or athompso@cba.ua.edu.

We will be most happy to answer whatever questions you have, provide advice and guidance, and otherwise be responsive to whatever issues and concerns you may have.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Ricoh Canada, Inc.

Overview

Ricoh Canada Inc., headquartered in Toronto, Canada, was a fully owned subsidiary of Japanese technology giant Ricoh Company, Ltd. The case's core problem stems from the fact that the perpetual success of a business model based on selling and maintaining digital print solutions was coming to an end. Ricoh Canada Inc. was at the front lines of a company trying to change its appearance. For so long, Ricoh had been known as *the printer guys*; however, within three years, the market that Ricoh Canada Inc. had so long relied upon was going to contract. With strong cash flow from its legacy business, Ricoh Canada Inc. had to decide where to invest to ensure returns for the future; services such as IT support and document management seemed to be the obvious answer, but the question of how Ricoh Canada Inc. should grow in these new markets was not so obvious.

Glenn Laverty, President and CEO of Ricoh Canada Inc., was well aware of the changing market dynamics and had made it his team's objective to create a services strategy, although he was a bit disappointed that they were being reactive to the market. He said it best with this quote:

> *"The market is shifting towards services and we must not be left behind. We know that figuring this out raises more questions than answers. But the important question is still 'How can we grow in the area of services?' We must examine our strengths and come up with a sustainable growth strategy, one that we can put in place that will move us forward over the next three years."*

Suggestions for Using the Case

This case is designed for use in the international component of your business strategy module and best assigned after your lecture on Chapter 7. The prevailing theme in this case is how to grow a corporation when its main revenue driving market is stagnant and soon contracting. For RCI, this seems to involve using legacy cash flow to invest in new business, but the questions of how much, into what areas, and how to manage the change require analysis and recommendation. The case is open-ended and allows students to operate from the same position as Glenn Laverty, the head of RCI, to fully simulate real-world decision making. This case is a modern take on the issue of technological advancement and its necessity in today's business environment. Technological innovation continues to increase exponentially, and destroys many business models in the process. Discussions of process innovation and entrepreneurial action are possible. Since the time frame of the case is early 2016, it is still unclear how RCI's chosen strategies will play out over the long term, but the thought process used to make decisions can provide tremendous

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Videos for Use with the Ricoh Canada case. There are two YouTube videos that can be shown on the day you cover the Ricoh Canada case in class (or that you can have students watch on their own):

- A 3:37-minute 2015 video entitled "Ricoh Americas Corporation Interview" that can be accessed at https://www.youtube.com/watch?v=jlTCCHzGgQ8.
- A 4:05-minute video from 2012 entitled "Ricoh-Business Transformation" that can be accessed at https://www.youtube.com/watch?v=tMQAdk6AHu8.

The assignment questions and teaching outline presented below reflect our thinking and suggestions about how to conduct the class discussion and what aspects to emphasize.

It is really very difficult to have an insightful and constructive class discussion of an assigned case unless students have not only read the case but also conscientiously worked their way through a set of well-conceived assignment or study questions before they come to class. In our classes, we expect students to bring their notes to assigned study questions to use/refer to in responding to the questions that we pose. Moreover, students often find having a set of assignment or study questions useful in helping prepare oral team presentations and written case assignments—in addition to whatever directive questions you supply for these assignments.

To facilitate assigning study questions and making them available to students, there is file of suggested study questions for the Ricoh Canada case that is posted in the Instructor Resource Center of the Connect Library; these study questions correspond to the assignment questions that appear in the next section of this TN. (As a point of information, there is a set of study questions posted in the student section of the OLC for each of the 31 cases included in the 21st edition.)

Utilizing the Guide to Case Analysis. If this is your first assigned case, you may find it beneficial to have class members read the Guide to Case Analysis that appears at the end of Case 31 and is posted in the Instructor Resource Center of the Connect Library. The content of this Guide should be particularly helpful to students if your course is their first experience with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

Suggested Assignment Question for an Oral Team Presentation or Written Case Analysis. We heartily recommend use of the Ricoh Canada case for a written assignment and oral team presentation. Our recommended assignment question is:

> Ricoh Canada management has become impressed with your business acumen during your internship with the company and has involved you in a strategic level project. The company's managers have tasked you with assessing the printer/copier hardware and IT services segments of the IT industry and making strategic recommendations to improve the company's competitiveness in the IT services market. Your report should be between 5-6 pages in length and include whatever tables, charts, and exhibits you believe appropriate.

Assignment Questions

1. What are the macroeconomic conditions affecting the IT industry?
2. Does the global nature of the industry economic characteristics present unique challenges? Should Ricoh Company, Ltd. hedge the Canadian dollar against the Japanese yen and American dollar?
3. What is competition like in the printer/copier hardware industry? What is the competitive strength of buyers and suppliers? How strong are the threats of substitute products and new entrants to the industry? How strong is rivalry among competing firms? Explain.
4. How does competition in the IT services industry differ from the printer/copier industry? Prepare and compare Five Forces Models of Competition for the two IT industry segments.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

5. What was Ricoh Canada Inc.'s strategy in the past and why is it no longer sustainable?
6. What is Ricoh Canada Inc.'s situation? Prepare a SWOT analysis to analyze its internal strengths and weaknesses and its external opportunities and threats? How attractive are its specific market opportunities?
7. What recommendations would you make to Ricoh Canada Inc. to more effectively compete in the services market?

Teaching Outline and Analysis

1. What are the macroeconomic conditions affecting the IT services industry?

PESTEL

Political	• New Liberal federal government policies: — Commitment to fiscal stimulus, and middle class tax cut. — Investigating the tax rules surrounding small businesses. — Streamlining and expanding the immigration system in Canada. • ITAC (Information Technology Association of Canada) actively promoting and supporting the expansion of the IT services industry in Canada.
Economic	• Weak economy with low GDP growth of flat to 1% for 2016. • Low oil prices ($20-$30) causing turmoil in business investment in western Canada (oil sector represents about 1/3 of private sector investment in Canada). • Weak Canadian dollar (.65-.75/USD) makes the cost of importing more expensive. • Printer/copier market is expected to contract 3% annually by 2019. • Canadian IT services market worth US $24B, hardware/break and fix market worth US $4.5-5B.
Social	• Increasing concerns about privacy because of government surveillance programs. • Consumers are looking for consolidation of suppliers and a compatible network. • Consumers are more selective about what they purchase and are better informed (57% well informed).
Technological	• Drive towards cloud technology, mobile device networks and remote applications. • More flexible core technology platforms that allow for the integration of third party applications • Trend towards digital workplaces that are connected by services over the internet instead of physical documents.
Environmental	• Provincial green policies, such as the following from the Government of Ontario: 27% reduction in 2006 baseline greenhouse gas emissions by 2020 for Ontario, reduction in per capita printing by 50%. • Provincial environmental levies on products for equipment recycling. • Federal government taking a stronger stance on climate change than the previous Conservative government
Legal	• PIPEDA (Personal Information Protection and Electronic Documents Act) very strict on the use of personal information by organizations engaged in private sector commercial activity. • Various import laws, such as restricted material and sourcing partners, must be actively managed by all global manufacturers. • Anti-Spam Legislation (CASL) is changing the way corporations interact with their customers by changing the rules for email and text messages as well as automatic program installation.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

2. Does the global nature of the industry economic characteristics present unique challenges? Should Ricoh Company, Ltd. hedge the Canadian dollar against the Japanese yen and American dollar?

This question is purely a teaching point to get students to think about Ricoh Company, Ltd. on a macro scale. RCI's investment capital came from income generated by its legacy business. The current CFO, Richard Perri, said, "The issue RCI presently faces from a financial perspective is how to allocate these funds to generate the best returns." Laverty and Perri wondered how realistic it was for RCI to invest in services growth given RCI's current financial position. Laverty said, "We have to make sure we have the internal resources to make a dent in the services market. A lot of these things take scale, and at the very least we need to know how much growth to plan for." See Exhibit 8 for a summary of revenue, expenses, and total gross profit for 2015, and Exhibit 9 for the 2015 balance sheet. RCI's revenue was affected by exchange ratefluctuations because the products it sold were manufacturedin Japan and inventoried in the United States on their way to Canada. CFO Richard Perri told Laverty, "We need to consider hedging these currencies to provide stability in business planning. The greenback, in particular, has been the subject of much speculation given proposed interest rate increases." Students should mentions the concepts discussed in Chapter 7 such as Fluctuating exchange rates pose significant economic risks to a firm's competitiveness in foreign markets.

Exporters are disadvantaged when the currency of the country where goods are being manufactured grows stronger relative to the currency of the importing country.

3. What is competition like in the printer/copier hardware industry? What is the competitive strength of buyers and suppliers? How strong are the threats of substitute products and new entrants to the industry? How strong is rivalry among competing firms? Explain.

Five Forces Model of Competition—Printer/Copier Hardware and Break/Fix Market

Threat of Entry: Low	• Relationships are well established, with a large proportion of revenue being repeat customers. • Brand equity is extremely important with all large competitors having a strong tradition in the industry. • The upfront capital costs to create an efficient supply chain are large. • Established companies have extremely efficient manufacturing and large R&D budgets. • Industry wide profitability is decreasing.
Threat of Substitutes: Moderate	• There is no direct substitute for printing and copying machines, or the subsequent maintenance activities. However, companies are moving towards a paperless office that utilizes cloud technology and digital documents. • By 2019, the printer/copier market was estimated to shrink by 3 percent annually, and this downward trend would accelerate after that point.
Supplier Bargaining Power: Low	• The commodity nature of the products used in manufacturing gives manufacturers' ample options and almost no switching costs. • Manufacturing that is subcontracted may have higher switching costs due to the specialized components used in high-end printers. • Component suppliers are unable to leapfrog over large printer/copier companies because of the high degree of skill required to manufacture these products.
Buyer Bargaining Power: High	• Buyers generally face low switching costs because there is not a significant technology gap between companies, however maintenance services can increase switching costs because they are often bundled with hardware at better prices. • There is a large buyer market, but it is shrinking and consumer tastes are shifting towards price sensitivity. • Consumer studies of the services market indicated that consumers considered a long list of factors when assessing a provider. These included cost-effectiveness; environmental sustainability; information security and compliance; business process streamlining; change management; worker productivity; information optimization; and strategic infrastructure. • With the shift to a paperless office companies are now buying a printer/copier that serves its basic function versus ones that are feature rich.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Competitive Rivalry: High	• Market is shrinking by 2016, and it is unclear how much more it will contract after that point. • Increasingly difficult for competitors to gain a competitive advantage through innovation and the market does not value innovation as much as it did in the past. • High concentration of competitors with no clear industry leader. • Differentiation between products is apparent but relatively subtle. • Companies are increasingly trying to create long term relationships to protect cash flows. • Competitors could be broken down into two groups: Tier 1 and Tier 2. — Tier 1—Canon, Xerox, and HP — Tier 2—Konica Minolta and Others

4. How does competition in the IT services industry differ from the printer/copier industry? Prepare and compare Five Forces Models of Competition for the two IT industry segments.

Analysis of the IT and services market should yield results similar to the following when running market models:

Porter's 5 Forces—IT and Services Market

Threat of Entry: Medium	• Large up-front investments are necessary to have the technology to be able to compete in this market. • Companies are less likely to repeatedly switch between IT and services vendors because switching costs can be very high due to incompatibility between systems. • There are complicated intellectual property rules, relatively small life cycles for products, and the market requires specialist knowledge. • Market size and growth is massive (Canadian market alone is about $24B and some segments have growth rates up to 40%).
Threat of Substitutes: Low	• The only real substitute to using some form of this technology is to maintain storage and transportation of all documents as hard copies.
Supplier Bargaining Power: Medium	• The supply of computing equipment in today's world is very close to commodity in nature, with so many competing suppliers switching costs for components are quite low and the market is highly efficient. • Attaining knowledgeable workers to design and set up equipment and software is much more difficult because of the number of firms competing for their services. -• To create a workforce that is innovative in this industry corporations have been providing substantial benefit packages and on-the-job perks, leading to companies like Google, Amazon and Microsoft obtaining top tier talent.
Buyer Bargaining Power: Medium	• Buyers have a plethora of firms to select for their IT and services systems, however once a firm is selected switching costs can be very high if they want to switch systems. • The switching costs grow over time, and generally the larger the firm the larger the switching costs (In RCI's case this would mean that major and strategic accounts will generally have higher switching costs than geographic and key named accounts). • Consumers do have the option of creating all their IT tools in-house, but this can prove very costly and just doesn't make sense for most firms. • The ability to collude and drive down prices is very difficult given the number of businesses buying IT and services, and the necessity they are in today's business world.
Competitive Rivalry: High	• Several established competitors have already made a name for themselves in this industry (Google, IBM, Amazon), and many others are trying to move towards it (HP, Xerox, Canon). • It is highly difficult for any company in this industry to maintain a long-term competitive advantage because of the pace of technological change and widespread use of reverse engineering. • Based on consumer studies, the number 1 thing that buyers are looking for is cost effectiveness, which threatens long-term profitability.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

The IT and services industry is highly competitive, but several profitable niche areas exist because of the number of idiosyncratic products that customers are continually demanding. These segments represent 'Blue Ocean' areas in the sense that a company entering these areas could gain traction swiftly because of the lack of established competition. However, the technology industry also frequently experiences convergence, where previously unrelated technologies and markets come together, so competitive dynamics are always shifting. Ricoh is currently operating in a strategic group that contains Xerox and Canon, where it is continually competing for notable market segments such as GEM (Government, Education, Medical). However, to effectively enter the IT and services market Ricoh will have to assess different segments and their relative strategic groups. Furthermore, despite the abundance of high-profile competitors and variety of offerings, the market is also attractive due to its growth rates (i.e., areas such as cloud computing and IT consulting). A new company would find it very difficult to compete in an established segment within the industry but, with an innovative product offering, it could be successful. Although, any competitive advantage through innovation needs to be continually maintained through significant research and development, or competitors will reverse engineer products. Given this rapid process of innovation this industry is able to continuously oscillate between the growth and maturity stage despite certain offerings reaching decline. The trend within the IT and services industry is for large competitors to buy up small firms that possess what they deem to be innovative technology and to try to commercialize it.

5. What was Ricoh's strategy in the past and why is it no longer sustainable?

Ricoh Canada Inc. relied on what was called the lease and service model. The essence of this business model was that equipment was leased on a term period, and maintenance services were provided during that time. The model had provided long-run success since RCI's inception because it enabled them to maintain cash flow between hardware cycles with maintenance services and then up-sell clients to new technology at the end of lease periods. Unfortunately, market dynamics have changed over time and the printer/copier industry is now facing the decline stage of its industry life cycle. To break this trend radical innovation would have to take place, such as widespread commercial use of 3D printers, but this is still decades away. When examining RCI's current situation through business strategy models in a classroom setting, results similar to the following should be produced:

Value Proposition	• Maintain high quality products and services that exceed customer expectations and never compromise integrity.
Goals	**Hard** • Maintain strong cash flows from legacy business. • Increase revenue through investment in diversified products. • Reduce management turnover. **Soft** • Change customer perceptions of the Ricoh brand from a printer company to a diversified global technology company. • Create a motivated and highly flexible internal sales force. • Maintain industry leading customer service throughout strategic transitions.
Product Market Focus	• High quality printers and copiers designed for some business but mostly corporate use. • Maintenance of Ricoh equipment in the field. • RCI's services could be broken into three segments: Technical Services (traditional break and fix), Professional Services, and Managed Services. Technical Services was the largest in terms of revenue, producing $193 million, or 39 percent of revenue in 2015, but the growth potential was limited (see Exhibit 5). RCI's total revenue from Professional Services and Managed Services was $52 million in 2015.
Core Activities	• Customer service. • Strategy planning and market analysis. • Marketing and B2B selling. • Sales recruitment and incentive planning.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

6. What is Ricoh Canada Inc.'s situation? Prepare a SWOT analysis to analyze its internal strengths and weaknesses and its external opportunities and threats? How attractive are its specific market opportunities?

SWOT

Strengths	• Strong NPS scores. • Management turnover allows for unbiased decisions regarding future strategy and legacy business. • Entrenched policies of kaizen. • Large internal B2B sales force that can be immediately leveraged for new product lines. • Strong cash flows and efficient manufacturing that is done in Japan. • Strong ERP system that tracks key performance indicators. • Strong brand awareness both in the Canadian market and worldwide.
Weaknesses	• Viewed by the market as the printer guys. -• Heavily invested in legacy business, and only beginning to diversify (Currently very little exposure in IT and services market). • Failed to anticipate changing market dynamics. • Limited control over manufactured products. • Utilizes independent dealer network that is resistant to change. • Recent acquisition of IKON not being fully utilized due to HR inefficiency.
Opportunities	• Rapidly expanding IT and services market. • No presence in the B2C printer/copier market. • Further cost-cutting initiatives. • Reputation for providing quality products can be leveraged. • Potential growth through acquisitions, partnerships and alliances.
Threats	• Demand for high-end printers/copiers is slowly contracting, and future success is highly dependent on technological trends. • Legacy business is a highly competitive market, with several entrenched competitors (Most notably Canon and Xerox). • IT and services market has several well established competitors with greater resources than RCI (Such as IBM, Dell, and Google). • Several of Ricoh's long time competitors have already begun to invest heavily in IT and services. • Weak Canadian dollar hurts import of printers/copiers. RCI was facing saturation in the market segment that was its primary source of revenue—delivery and maintenance of printing/copying devices to customers. Canon and Xerox were both strong competitors in this segment, and Laverty was concerned: "We will see an increasingly rapid shrinkage in our traditional market during the next five years." Areas of opportunity included document management systems and IT services. RCI defined services as a combination of onsite and offsite resources that supported business operations infrastructure. These resources included cloud computing, remote monitoring, and other innovations. RCI could have used this technology to make customer information more secure, mobile, and personal.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Opportunity Analysis — Market Growth and Sizes

Segment	Growth Rate	Market Size (000,000)	Margin
Break and Fix	2.00%	839.13	36.00%
MDS	3.00%	400.00	21.00%
LDS	2.00%	16.67	60.00%
RDM	-5.00%	500.00	20.00%
RMS	1.00%	100.00	13.00%
IT	5.00%	900,000.00*	46.00%
SaaS	17.90%	14,500.00*	56.00%
BaaS	40.00%	5,600.00*	56.00%
IT Consulting	18.00%	Exact Size Unknown	46.00%

*Global market size

Source: Internal company documents.

7. What recommendations would you make to Ricoh Canada Inc. to more effectively compete in the services market?

The transition to the IT and services market will be much easier for RCI than a brand new company because of its history in the imaging machine industry and administrative heritage. RCI maintains several high-profile relationships that it has developed from years of working in a business-to-business sales environment that it can leverage to gain an immediate foothold into the services market. RCI should develop solutions that are tailored to highly specialized markets such as healthcare or law because of strong margins (60 percent for LDS services) and spending growth rates (six percent and four percent, respectively). Healthcare and law firms are beginning to face the same changing market dynamics as RCI. These industries are making the transition from a historically hard-copy documents heavy work flow to a paperless office, and are already relatively late adopters. Certain segments of the market, such as servers, would be a very difficult area for RCI to compete in because of the large market share and brand equity of companies such as Dell and IBM. In fact, Glenn says, "We are trying to integrate services that are a natural progression of our legacy business; we are not out there trying to uproot something like IBM's server business. If anything, we would want to partner with them to provide a platform for our software."

RCI's budget for 2016 can be seen below. Ricoh's management team at the time believed that overall revenue growth of 9.82 percent and operating profit growth of 3.23 percent was possible. The highest growth area was believed to be IT/Professional Services, with a growth rate of 55.14 percent. Ricoh Canada's three-year plan was to achieve revenue of $750M, with 32 percent coming from services ($240M), 28 percent from break/fix ($210M), and 40 percent from hardware ($300M).

RCI's Two-year implementation timeline was:

2016	2017
Machines in field penetration ($12M)	Acquisition
Consulting ($5M)	Remote monitoring and on site managed services
Healthcare ($5-10M)	Software as a Service (SaaS) ($5M)
I-invoicing ($5M)	Big data/storage ($10M)
	Infrastructure as a Service (IaaS) ($8M)

Source: Internal company documents.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Epilogue

RCI's 2016 financial forecasts were as follows:

Income Statement	2016 Plan	Year over Year Growth
Revenue		
Sales (Hardware)	223,128	15.74%
Key (incl. DDLP)	98,938	7.89%
Major Accounts	82,991	21.44%
Strategic Accounts	16,830	15.66%
Dealer Sales	24,370	33.90%
Rental & Other	9,727	-3.30%
Affiliate	1,420	-49.72%
Parts, Supplies, & Paper	45,375	-0.77%
Service	202,385	5.11%
Services	19,240	55.14%
IT Services	4,648	214.69%
Cloud	1,378	—
Professional Services	13,214	20.95%
Managed Services	44,551	9.55%
Total Revenue	**545,826**	**9.82%**
Gross Profit		
Total Gross Profit	**169,778**	**6.47%**
Expenses		
Sales	59,598	6.25%
Services (IT/PS)	4,438	21.69%
Managed Services	3,654	10.63%
Dealer	3,054	9.86%
Marketing	10,836	17.45%
Operations	29,946	-1.32%
G&A	26,558	14.07%
Amortization	2,739	0.00%
Total Expenses	**140,824**	**7.16%**
Operating Profit	**28,954**	**3.23%**

Relative Measures	2015	2016 Plan
Gross Profit %	***32.10%***	***31.10%***
Expenses %	***26.40%***	***25.80%***
Operating Profit %	***5.60%***	***5.30%***
Sales GP%	29.10%	26.70%
Key (incl. DDLP) GP%	36.10%	33.60%
Major Accounts GP%	26.80%	25.00%
Strategic Accounts GP%	8.10%	5.30%
Dealer Sales GP%	19.20%	19.00%

Source: Internal company documents

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

CHAPTER 2

Charting a Company's Direction: Its Vision and Mission, Objectives, and Strategy

Chapter Summary

Chapter Two presents an overview of the managerial tasks associated with developing and executing company strategies. Special attention is given to the importance of a clear vision for the company and the strategic and financial objectives that will guide the way. The importance of setting objectives at all levels of the organization is explored along with the role of operating excellence in the successful execution of strategy. The chapter wraps us with an exploration of the role of the company's board of directors in overseeing the strategic management process.

Lecture Outline

I. Introduction—Crafting and executing a strategy are the heart and soul of managing a business enterprise.

II. What Does the Process of Crafting and Executing Strategy Entail?

connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Crafting and executing a company's strategy consists of five interrelated stages:
   a. Developing a strategic vision of the company's long term direction, a mission that describes the company's purpose, and a set of values to guide the pursuit of the vision and mission.
   b. Setting objectives and using them as yardsticks for measuring the company's performance and progress.
   c. Crafting a strategy to achieve the objectives and move the company along the strategic course that management has charted.
   d. Executing the chosen strategy efficiently and effectively.
   e. Monitoring developments, evaluating performance, and initiating corrective adjustments in the company's vision and mission, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new opportunities.
2. **Figure 2.1, The Strategy-Making, Strategy-Executing Process** illustrates this process.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

III. Stage 1: Developing a Strategic Vision, A Mission Statement, and a Set of Core Values

connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Developing a Strategic Vision

   a. Top management's views and conclusions about the company's long-term direction and what product–market–customer mix seems optimal for the road ahead constitute a **strategic vision** for the company.

   b. A number of factors need to be considered in deciding what words to use when creating the vision which will tell the company 'where we are going.' **Table 2.1, Wording a Vision Statement**—the Dos and Don'ts, explores some of these critical word choices.

CORE CONCEPT

A strategic vision describes "where we are going"—the course and direction management has charted and the company's future product customer-market-technology focus.

ILLUSTRATION CAPSULE 2.1

Examples of Strategic Visions—How Well Do They Measure Up?

Discussion Question 1: What appears to be missing from the Whole Foods vision statement presented in Capsule 2.1?

Answer: (1) Brevity—the statement is very long which makes it difficult to keep the attention of the audience. (2) Memorable—the statement cannot be easily reduced to a few choice lines or a one-phrase slogan.

Discussion Question 2: What is effective in the Nike vision statement presented in Capsule 2.1?

Answer: The statement is short, making it focused and memorable. The vision described is feasible and flexible.

2. Communicating the Strategic Vision

   a. A strategic vision has little value to the organization unless it's effectively communicated down the line to lower-level managers and employees.

   b. An effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to engage in actions that move the company forward in the intended direction.

   c. A Expressing the Essence of the Vision in a Slogan The task of effectively conveying the vision to company personnel is assisted when management can capture the vision of where to head in a catchy or easily remembered slogan.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

d. The Vision Statement Matters: A well thought-out, forcefully communicated strategic vision pays off in several respects: (1) It crystallizes senior executives' own views about the firm's long-term direction; (2) it reduces the risk of rudderless decision making; (3) it is a tool for winning the support of organization members to help make the vision a reality; (4) it provides a beacon for lower-level managers in setting departmental objectives and crafting departmental strategies that are in sync with the company's overall strategy; and (5) it helps an organization prepare for the future. When management is able to demonstrate significant progress in achieving these five benefits, it can count its efforts to create an effective vision for the company as successful.

3. Developing a Company Mission Statement

a. The distinction between a strategic vision and a mission statement is fairly clear-cut: A **strategic vision** portrays a company's aspirations for its *future* ("where we are going"), whereas a company's **mission** describes its *purpose* and its *present* business ("who we are, what we do, and why we are here").

b. A company mission statement should ideally (1) identifies the company's products/services, (2) specifies the buyer needs that it seeks to satisfy and the customer groups or markets it serves, and (3) gives the company its own identity.

4. Linking the Vision/Mission with Company Values

a. By **values or core values**, we mean the beliefs, traits, and ways of doing things that management has determined should guide the pursuit of its vision and mission.

> **CORE CONCEPT**
>
> A company's values are the beliefs, traits, and behavioral norms that company personnel are expected to display in conducting the company's business and pursuing its strategic vision and mission.

b. Most companies have articulated four to eight core values that company personnel are expected to display and that are supposed to be mirrored in how the company conducts its business.

ILLUSTRATION CAPSULE 2.2

Patagonia, Inc.: A Values-Driven Company

Discussion Question: **Patagonia states in its mission statement that it builds the best products, causes no unnecessary harm, and uses business to inspire and implement solutions to the environmental crisis. How are these core values expressed in the operations of the firm?**

Answer: Patagonia operationalizes its values in key areas of the operation:

- Routinely, the company opts for more expensive materials and labor to maintain internal consistency with the mission.
- Patagonia holds its manufacturers accountable through a variety of auditing partnerships and alliances.
- The company uses sustainable and recyclable materials which are ethically procured.
- The company has established foundations to support ecological causes, even giving 1 percent of profits to conservation causes.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

IV. Stage 2: Setting Objectives

connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The managerial purpose of setting **objectives** is to convert the strategic vision into specific performance targets. Objectives reflect management's aspirations for company performance in light of the industry's prevailing economic and competitive conditions and the company's internal capabilities.

> **CORE CONCEPT**
>
> **Objectives** are an organization's performance targets—the specific results management wants to achieve.

> **CORE CONCEPT**
>
> **Stretch objectives** set performance targets high enough to *stretch* an organization to perform at its full potential and deliver the best possible results.

2. Well-stated objectives are specific, quantifiable or measurable and contain a deadline for achievement.

3. Concrete, measurable objectives are managerially valuable for three reasons: (1) They focus efforts and align actions throughout the organization, (2) they serve as *yardsticks* for tracking a company's performance and progress, and (3) they motivate employees to expend greater effort and perform at a high level.

> **CORE CONCEPT**
>
> A company exhibits **strategic intent** when it relentlessly pursues an ambitious strategic objective, concentrating the full force of its resources and competitive actions on achieving that objective.

4. The Imperative of Setting Stretch Objectives - The experiences of countless companies and managers teach that one of the best ways to promote outstanding company performance is for managers to deliberately set performance targets high enough to stretch an organization to perform at its full potential and deliver the best possible results.

5. What Kinds of Objectives to Set

   a. Two very distinctive types of performance yardsticks are required:

      - Those relating to financial performance
      - Those relating to strategic performance

   b. A company's set of financial and strategic objectives should include both near-term and longer-term performance targets.

   c. When trade-offs have to be made between achieving long-term objectives and achieving short-term objectives, long-term objectives should generally take precedence.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

d. **Table 2.2 - Common Financial and Strategic Objectives** provides several examples of both type of objectives.

> **CORE CONCEPT**
>
> **Financial objectives** relate to the financial performance targets management has established for the organization to achieve.
> **Strategic objectives** relate to target outcomes that indicate a company is strengthening its market standing, competitive vitality, and future business prospects.

5. The Need for a Balanced Approach to Objective Setting - Of equal or greater importance than financial performance is a company's strategic performance—outcomes that indicate whether a company's market position and competitiveness are deteriorating, holding steady, or improving.

> **CORE CONCEPT**
>
> The **Balanced Scorecard** is a widely used method for combining the use of both strategic and financial objectives, tracking their achievement, and giving management a more complete and balanced view of how well an organization is performing.

ILLUSTRATION CAPSULE 2.3

Examples of Company Objectives

Discussion Question 1: What is the prominent purpose of an organization's stated objectives?

Answer: Objectives identify an organization's performance targets. They serve to function as measures for tracking the organization's performance and progress toward achievement of desired goals.

Discussion Question 2: What are some specific examples that are included in the Capsule:

Answer: Each of these companies has clearly stated what the company intends to do in specific terms:
UPS—Increase percentage of business to consumer package deliveries... Increase intra-regional export shipments from...
Alcoa—Increase revenues from higher margin aero/defense and transportation aluminum products from... Increase automotive sheet shipments from ...
Yum Brands—Add 1,000 new Taco Bell uniuts in the U.S. by 2020 Increase Taco Bell revenues from... Expand the number of Pizza Hut locations in China by...

connect ACTIVITY

Consider adding a File Attachment assignment requiring the student to develop a response to this Illustration Capsule. You can post instructions for the student within the assignment and collect their attachments for grading.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

6. **Setting Objectives at Every Organizational Levels**

   a. Objective setting should not stop with top management's establishing of companywide performance targets.

   b. Each area of the organization does its part and contributes directly to the desired companywide outcomes and results.

   c. This means setting performance targets for each organization unit that support, rather than conflict with or negate, the achievement of companywide strategic and financial objectives.

V. Stage 3: Crafting a Strategy

connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Strategy is the result of piecing together critical 'how' statements such as how to attract and please customers, how to compete against key rivals, how to position the company in the marketplace, and many more. Speed and entrepreneurship are key elements in growing in fast paced markets. Therefore, strategy formulation should involve Managers at all organizational levels and relies on innovative thinking.

2. In most companies, crafting strategy is a *collaborative team effort* that includes managers in various positions and at various organizational levels. Crafting strategy is rarely something only high-level executives do.

CORE CONCEPT

Corporate strategy establishes an overall game plan for managing a *set of businesses* in a diversified, multi-business company.

Business strategy is primarily concerned with strengthening the company's market position and building competitive advantage in a single business company or a single business unit of a diversified multi-business corporation.

3. The larger and more diverse the operations of an enterprise, the more points of strategic initiative it will have and the more managers at different organizational levels will have a relevant strategy-making role. Figure 2.2, A Company's Strategy Making Hierarchy illustrates this concept.

4. A Company's Strategy Making Hierarchy - In these diversified, multi-business companies where the strategies of several different businesses have to be managed, the strategy-making task involves four distinct types or levels of strategy, each of which involves different facets of the company's overall strategy:

   a. Corporate strategy establishes an overall game plan for managing a set of businesses in a diversified, multi-business company.

   b. Business strategy is primarily concerned with strengthening the company's market position and building competitive advantage in a single business company or a single business unit of a diversified multi-business corporation.

   c. Functional-area strategies concern the actions related to particular functions or processes within a business.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

d. Operating strategies concern the relatively narrow strategic initiatives and approaches for managing key operating units.

5. In single-business enterprises, the corporate and business levels of strategy making merge into one level—business strategy. Thus, a single-business enterprise has only three levels of strategy:

   a. Business strategy for the company as a whole.

   b. Functional-area strategies for each main area within the business.

   c. Operating strategies undertaken by lower echelon managers to flesh out strategically significant aspects for the company's business and functional-area strategies.

6. Uniting the Strategy-Making Hierarchy

   a. Ideally, the pieces and layers of a company's strategy should fit together like a jigsaw puzzle. Anything less than a unified collection of strategies weakens company performance.

   b. Achieving unity in strategy making is partly a function of communicating the company's basic strategy theme effectively across the whole organization and establishing clear strategic principles and guidelines for lower-level strategy making.

7. A Strategic Vision + Objectives + Strategy = A Strategic Plan

   a. Developing a strategic vision, setting objectives, and crafting a strategy are basic direction-setting tasks. Together, they constitute a strategic plan for coping with industry and competitive conditions, the expected actions of the industry's key players, and the challenges and issues that stand as obstacles to the company's success.

> **CORE CONCEPT**
>
> A **strategic plan** lays out the company's future direction, performance targets, and strategy.

   b. In companies committed to regular strategy reviews and the development of explicit strategic plans, the **strategic plan** may take the form of a written document that is circulated to managers and perhaps, to selected employees.

   c. In small, privately owned companies, it is rare for strategic plans to exist in written form.

VI. Stage 4: Executing the Strategy

connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Managing the implementation of a strategy is easily the most demanding and time consuming part of the strategy management process.

2. Converting strategic plans into actions and results tests a manager's ability to direct organizational action, motivate people, build and strengthen competitive capabilities, create and nurture a strategy-supportive work climate, and meet or beat performance targets.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

3. In most situations, managing the strategy execution process includes the following principal aspects:
   - Creating a strategy-supporting structure.
   - Staffing the organization to obtain needed skills and expertise.
   - Developing and strengthening strategy-supporting resources and capabilities.
   - Allocating ample resources to the activities critical to strategic success.
   - Ensuring that policies and procedures facilitate effective strategy execution.
   - Organizing the work effort along the lines of best practice.
   - Installing information and operating systems that enable company personnel to perform essential activities.
   - Motivating people and tying rewards directly to the achievement of performance objectives.
   - Creating a company culture and work climate conducive to successful strategy execution.
   - Exerting the internal leadership needed to propel implementation forward.
4. Good strategy execution requires diligent pursuit of operating excellence and it is a job for a company's whole management team.

VII. Stage 5: Evaluating Performance and Initiating Corrective Adjustments

connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The fifth phase of the strategy-management process, monitoring new external developments, evaluating the company's progress, and making corrective adjustments, is the trigger point for deciding whether to continue or change the company's vision and mission, objectives, strategy, and/or strategy execution methods.
2. As long as the company's strategy continues to pass the three tests of a winning strategy, simply fine-tuning the strategic plan and continuing with efforts to improve strategy execution are sufficient.

VIII. Corporate Governance: The Role of the Board of Directors in the Strategy-Making, Strategy-Executing Process

connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Although senior managers have lead responsibility for crafting and executing a company's strategy, it is the duty of the board of directors to exercise strong oversight and see that the five tasks of strategic management are done in a manner that benefits shareholders, in the case of investor-owned enterprises, or stakeholders, in the case of not-for-profit organizations.
2. A company's board of directors has four important obligations to fulfill:
   a. Oversee the company's financial accounting and financial reporting practices.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

b. Critically appraise the company's direction, strategy, and business approaches.

c. Evaluate the caliber of senior executives' strategic leadership skills.

d. Institute a compensation plan for top executives that rewards them for actions and results that serve shareholder interests.

ILLUSTRATION CAPSULE 2.4

Corporate Governance Failures at Volkswagen

Discussion Question 1: In what way did the Board of Directors at Volkswagen contribute to the Emission Test scandal in 2015?

Answer: The primary cause is the absence of a strong group of independent directors. Based upon German Corporate law, governance is provided by a Management Board and a Supervisory Board, with employees making up 50% of the Supervisory Board. This should have allowed for at least 50% of the Supervisory Board to be fully independent. While staying within the 'letter of the law,' they sidestepped the 'spirit of the law' by cycling recent former senior executives through the Supervisory Board Chairmanship position and other board positions. This had the effect of removing truly independent oversight.

A secondary cause is that 50 % of voting shares are controlled by the Porsche family. Family members, acting as Chairman of the Board, will regularly remove an independent CEO and replaced them with unqualified family members. This has the effect of removing qualified and independent senior management oversight.

3. Every corporation should have a strong independent board of directors that:

   a. Is well informed about the company's performance.

   b. Guides and judges the CEO and other top executives.

   c. Has the courage to curb management actions the board believes are inappropriate or unduly risky.

   d. Certifies to shareholders that the CEO is doing what the board expects.

   e. Provides insight and advice to management.

   f. Is intensely involved in debating the pros and cons of key decisions and actions.

connect ACTIVITY

Use the Question Bank to build a quiz for the chapter to measure and reinforce learning. Consider using the questions you select to build a comprehensive mid-term and final exam for the course. The assignment can be graded and posted automatically.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

ASSURANCE OF LEARNING EXERCISES

1. Using the information in Table 2.1, critique the adequacy and merit of the following vision statements, listing effective elements and shortcomings. Rank the vision statements from best to worst once you complete your evaluation.

connect ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

Response:

The student should produce a table similar to the following:

Company Name	Effective Elements	Shortcomings
American Express	• Easy to Communicate • Feasible • Easy to communicate	• Vague • Not distinctive
Hilton Hotels Corporation	• Directional • Focused • Feasible • Desirable	• Not forward-looking • Not distinctive
BASF	• Directional • Focused • Desirable	• Not forward looking

The student should rank vision statements from best to worst as: Hilton Hotels Corporation, BASF, and American Express.

2. Go to the company investor relations websites for Starbucks (investor.starbucks.com), Pfizer (www.pfizer.com/investors), and Salesforce (investor.salesforce.com) to find examples of strategic and financial objectives. List four objectives for each company, and indicate which of these are strategic and which are financial

Response:

The student should identify objectives similar to the following:

Starbucks, From their 2015 Annual Report

- Revenue growth of 10 for Fiscal 2016 (financial)
- Addition of approximately 1800 new stores in 2016 with nearly half in the developing China/Asia Pacific segment (strategic)
- Improved operating profits increasing earnings per share by $0.06 per share for 2016 (financial)

Starbucks, From their 2015 Annual Letter to Shareholders

- Continue to focus on Corporate Social Responsibility and Sustainability, adding an 8th farmer support center in Mexico in 2016 (strategic)
- Full year revenue growth of 10% on a 52 week basis (financial)

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

Salesforce, From their 2015 Annual Report:

- Offer multiple versions of business solutions at different price points to target wider range of customers (Strategic)
- Focus expansion into high growth markets including marketing, communities, business intelligence, and cloud platforms (Strategic)
- Salesforce, From their Fiscal 2016 First Quarter Results:
- Increase revenue to $6.55 Billion for Fiscal 2016 (Financial)
- Increase EPS to $0.17 to $0.18 for Fiscal 2016 (Financial)

Pfizer, From their 2015 Annual Review: Improving the performance of the innovative core by transforming R&D focusing on Oncology, Inflammation & Immunology, Cardiovascular & Metabolic Disease, Neuroscience & Pain, Rare Disease, Vaccines, and Biosimilars (strategic)

Pfizer, From their 1st Quarter 2016 Results: Growth in projected revenue for 2016, up from $49B - $51B to $51B - $53B (financial)

3. American Airlines' Chapter 11 reorganization plan filed in 2012 involved the company reducing operating expenses by $2 billion, while increasing revenues by $1 billion. The company's strategy to increase revenues included expanding the number of international flights and destinations and increasing daily departures for its five largest markets by 20 percent. The company also intended to upgrade its fleet by spending $2 billion to purchase new aircraft and refurbish the first-class cabins for planes not replaced. A final component of the restructuring plan included a merger with US Airways to create a global airline with more than 56,700 daily flights to 336 destinations in 56 countries. The merger was expected to produce cost savings from synergies of more than $1 billion and result in a stronger airline capable of paying creditors and rewarding employees and shareholders. Explain why the strategic initiatives at various organizational levels and functions require tight coordination to achieve the results desired by American Airlines.

Response:

The student should identify that company objectives need to be broken down into performance targets for each of the organization's separate businesses, product lines, functional departments, and individual work units, employees within various functional departments, and individual work units. This is because the larger and more diverse the operations of an enterprise, the more points of strategic initiative it will have and the more managers at different organizational levels will have a relevant strategy-making role. This is illustrated in figure 2.2, A Company's Strategy Making Hierarchy.

A careful examination of the narrative on American Airlines Chapter 11 reorganization strategy provides such an example:

Corporate Objectives—Increase revenue by $1 billion while reducing expenses by $2 billion

Operational Objective—Expand international flights, destinations, and daily departures in the five largest markets

Operational Objective—Upgrade fleet with $2 billion in refurbishment and new aircraft purchases.

Operational Objective—Complete merger with US Airways to create a global airline with 56,700 daily flights to 336 destinations in 56 countries while saving $1 billion in costs.

The student should point out that the overall corporate objectives for revenue and cost control (thereby profit) cannot be fully realized if the operational objectives are not achieved. Further, the operational objectives are interrelated in that they rely on each other for success.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

4. Go to the investor relations website for Walmart (http://investors.walmartstores.com) and review past presentations it has made during various investor conferences by clicking on the Events option in the navigation bar. Prepare a one- to two-page report that outlines what Walmart has said to investors about its approach to strategy execution. Specifically what has management discussed concerning staffing, resource allocation, policies and procedures, information and operating systems, continuous improvement, rewards and incentives, corporate culture, and internal leadership at the company?

Response:

The student should be able to identify core strategic elements focused on low cost and value:

- Walmart Discount Stores: Wide, clean, brightly-lit aisles and shelves stocked with a variety of quality, value-priced general merchandise
- Walmart Superstores: Convenient, one-stop family shopping featuring our famous Every Day Low Prices
- Walmart Neighborhood Markets: quick and convenient shopping experience for customers who need groceries, pharmaceuticals, and general merchandise all at our famous Every Day Low Prices.
- Walmart Express Stores: offer low prices every day in a smaller format store that provides convenient access for fill-in and stock-up shopping trips in rural and urban areas.
- Marketside: Small community pilot grocery stores specializing in fresh, delicious meals at great prices.
- Walmart.com: The convenience, great merchandise selection, friendly service and Every Day Low Prices of your neighborhood Walmart to the Internet.

The student should be able to identify core cultural elements that impact all aspects of life as a Walmart employee (Source: http://walmartstores.com/AboutUs/295.aspx)

- Open Door: Our management believes open communication is critical to understanding and meeting our associates' and our customers' needs. Associates can trust and rely on the open door; it's one of the most important parts of our culture.
- Sundown Rule: Observing the Sundown Rule means we do our best to answer requests by the close of business on the day we receive them. Whether it's a request from a store across the country or a call from down the hall, we do our very best to give each other and our customers same-day service. We do this by combining our efforts and depending upon each other to get things done.
- Grass Roots Process: Sam's philosophy lives on today in Walmart's Grass Roots Process, our formal way of capturing associates' ideas, suggestions and concerns.
- 3 Basic Beliefs & Values: Our unique culture has helped make Walmart one of the world's most admired companies. Since Sam Walton opened Walmart in 1962, our culture has rested on three basic beliefs. We live out these beliefs each day in our interactions with our customers and each other.
- 10-Foot Rule: The 10-foot Rule is one of our secrets to customer service. During his many store visits, Sam Walton encouraged associates (employees) to take this pledge with him: "I promise that whenever I come within 10 feet of a customer, I will look him in the eye, greet him, and ask if I can help him."
- Servant Leadership: Sam Walton believed that effective leaders do not lead from behind their desks. "It's more important than ever that we develop leaders who are servants, who listen to their partners—their associates—in a way that creates wonderful morale to help the whole team accomplish an overall goal," Sam said.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions

- Teamwork: Sam Walton, our founder, believed in the power of teamwork. As our stores grow and the pace of modern life quickens, that philosophy of teamwork has only become more important over the years.
- Walmart Cheer: Don't be surprised if you hear our associates shouting this enthusiastically at your local Walmart store. It's our cheer, and while it might not sound serious, we take it seriously. It's one way we show pride in our company.

5. Based on the information provided in Illustration Capsule 2.4, describe the ways in which Volkswagen did not fulfill the requirements of effective corporate governance. In what ways did the board of directors sidestep its obligations to protect shareholder interests? How could Volkswagen better select its board of directors to avoid mistakes such as the emissions scandal in 2015?

connect ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

Response:

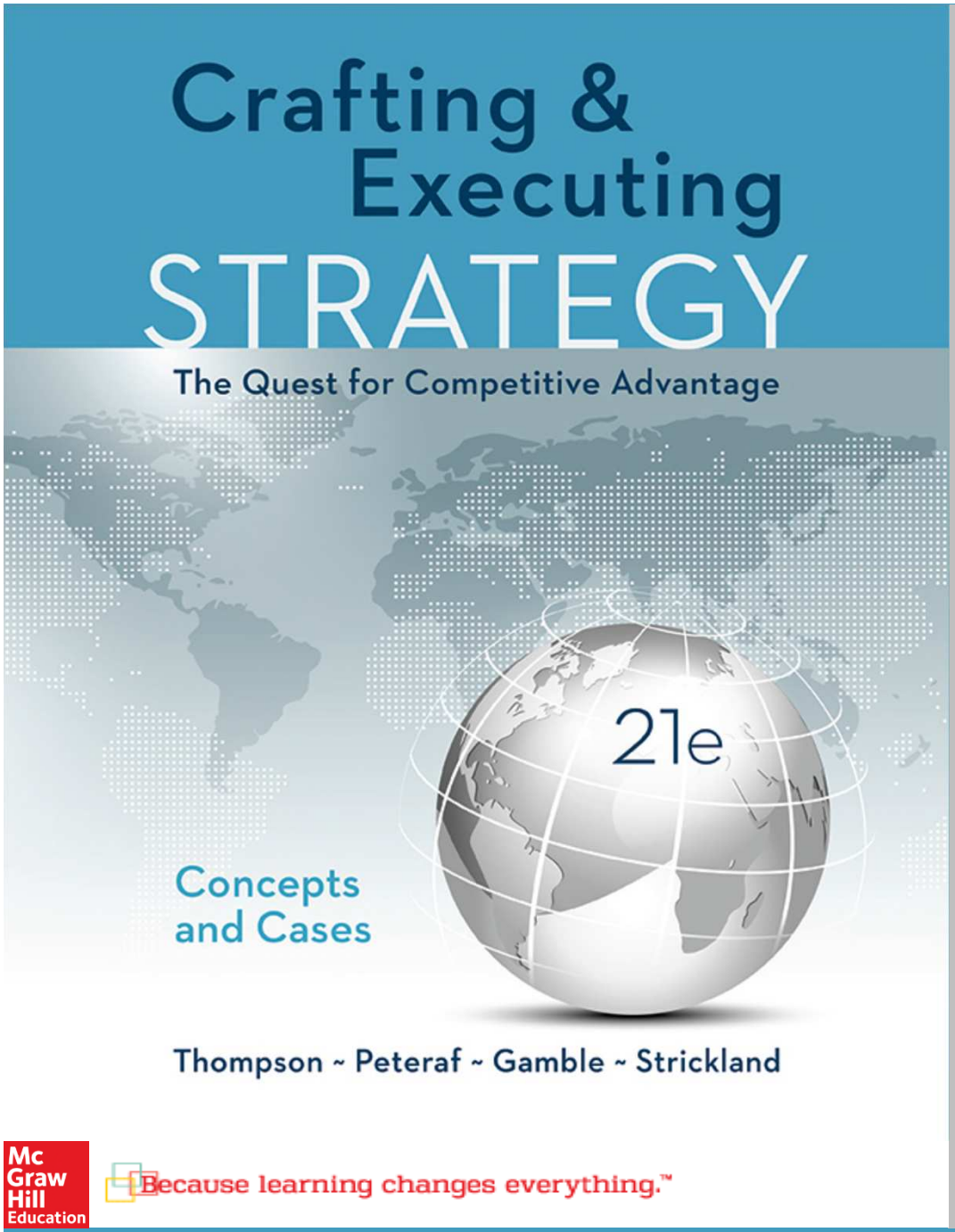
The student should be able to identify the characteristics of an effective independant Board of Directors:

- Is well informed about the company's performance.
- Guides and judges the CEO and other top executives.
- Has the courage to curb management actions the board believes are inappropriate or unduly risky.
- Certifies to shareholders that the CEO is doing what the board expects.
- Provides insight and advice to management.
- Is intensely involved in debating the pros and cons of key decisions and actions.

The student should then be able to provide a detailed discussion of the failures of the Board of Directors. Leading failures resulting in the Emmissions Scandal include:

- The primary cause is the absence of a strong group of independent directors. Based upon German Corporate law, governance is provided by a Management Board and a Supervisory Board, with employees making up 50% of the Supervisory Board. This should have allowed for at least 50% of the Supervisory Board to be fully independent. While staying within the 'letter of the law,' they sidestepped the 'spirit of the law' by cycling recent former senior executives through the Supervisory Board Chairmanship position and other board positions. This had the effect of removing truly independent oversight.
- A secondary cause is that 50% of voting shares are controlled by the Porsche family. Family members, acting as Chairman of the Board, will regularly remove an independent CEO and replaced them with unqualified family members. This has the effect of removing qualified and independent senior management oversight.

Crafting and Executing Strategy Concepts and Cases The Quest for Competitive Advantage 21st edition Thompson Solutions



CHAPTER 2

Charting a Company's Direction: Its Vision, Mission, Objectives, and Strategy

Copyright © McGraw-Hill Education. Permission required for reproduction or display.

LEARNING OBJECTIVES

THIS CHAPTER WILL HELP YOU UNDERSTAND:

1. Why it is critical for company managers to have a clear strategic vision of where a company needs to head and why
2. The importance of setting both strategic and financial objectives
3. Why the strategic initiatives taken at various organizational levels must be tightly coordinated to achieve companywide performance targets
4. What a company must do to achieve operating excellence and to execute its strategy proficiently
5. The role and responsibility of a company's board of directors in overseeing the strategic management process

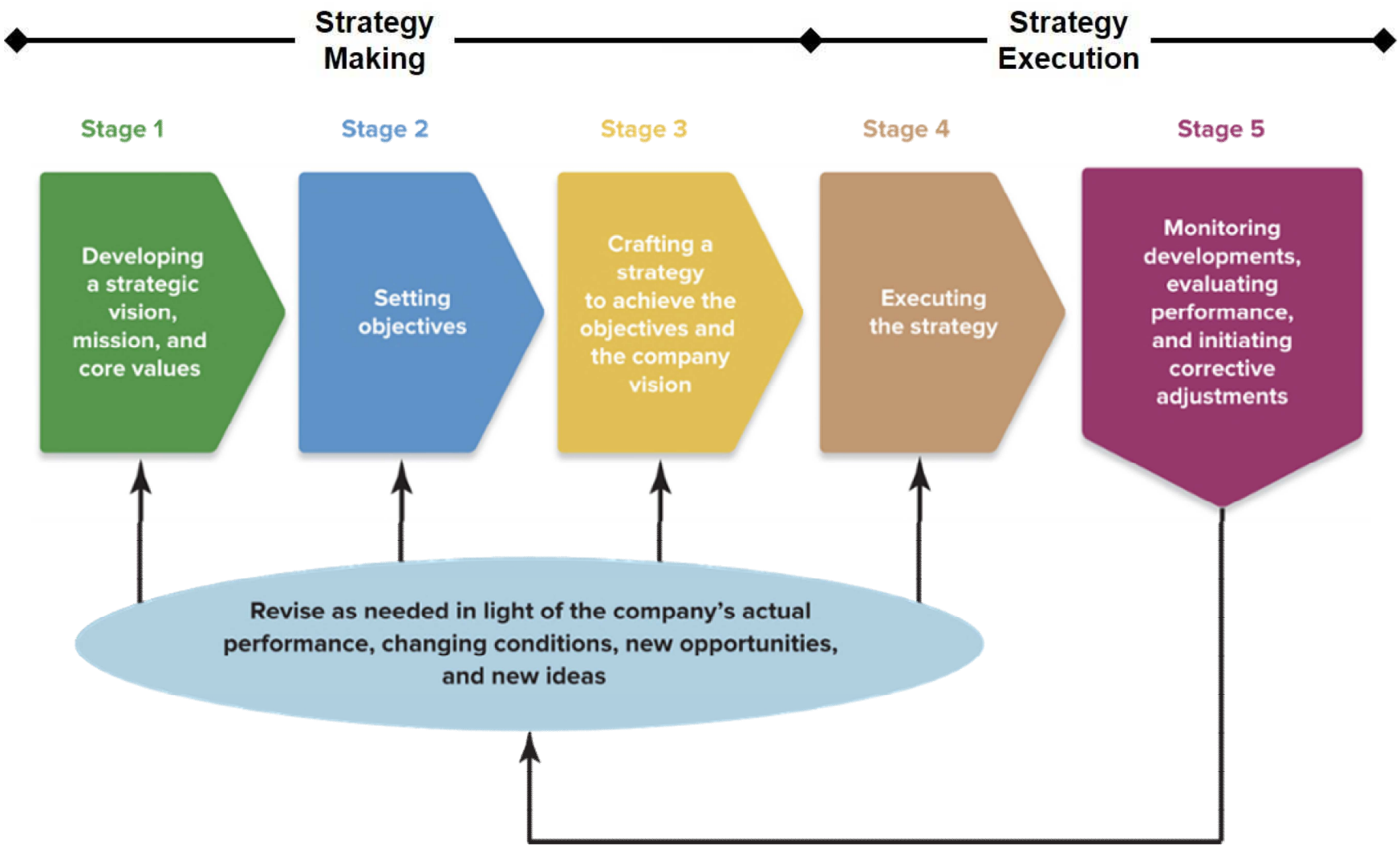
© McGraw-Hill Education.

WHAT DOES THE STRATEGY-MAKING, STRATEGY-EXECUTING PROCESS ENTAIL?

1. Developing a strategic vision, a mission statement, and a set of core values
2. Setting objectives for measuring the firm's performance and tracking its progress
3. Crafting a strategy to move the firm along its strategic course and achieve its objectives
4. Executing the chosen strategy efficiently and effectively
5. Monitoring developments, evaluating performance, and initiating corrective adjustments

© McGraw-Hill Education.

FIGURE 2.1 The Strategy-Making, Strategy-Executing Process



Jump to Appendix 1 long image description

© McGraw-Hill Education.

STRATEGIC MANAGEMENT PRINCIPLE (1 of 7)

A company's **strategic plan** lays out its future direction, performance targets, and strategy.

© McGraw-Hill Education.

STAGE 1: DEVELOPING A STRATEGIC VISION, A MISSION STATEMENT, AND A SET OF CORE VALUES

Developing a strategic vision

- Delineates management's aspirations for the firm to its stakeholders
- Provides direction: "where we are going"
- Sets out the compelling rationale (strategic soundness) for the firm's direction
- Uses *distinctive* and *specific* language to set the firm apart from its rivals

© McGraw-Hill Education.

CORE CONCEPT (1 of 8)

A **strategic vision** describes management's aspirations for the company's future and the course and direction charted to achieve them.

© McGraw-Hill Education.

TABLE 2.1 Wording a Vision Statement—the Dos and Don’ts (1 of 2)

The Dos	The Don’ts
Be graphic. Paint a clear picture of where the company is headed and the market position(s) the company is striving to stake out.	**Don’t be vague or incomplete.** Never skimp on specifics about where the company is headed or how the company intends to prepare for the future.
Be forward-looking and directional. Describe the strategic course that will help the company prepare for the future.	**Don’t dwell on the present.** A vision is not about what a company once did or does now; it’s about “where we are going.”
Keep it focused. Focus on providing managers with guidance in making decisions and allocating resources.	**Don’t use overly broad language.** All-inclusive language that gives the company license to pursue any opportunity must be avoided.
Have some wiggle room. Language that allows some flexibility allows the directional course to be adjusted as market, customer, technology circumstances change.	**Don’t state the vision in bland or uninspiring terms**. The best vision statements have the power to motivate company personnel and inspire shareholder confidence about the company’s future.

© McGraw-Hill Education.

TABLE 2.1 Wording a Vision Statement—the Dos and Don’ts (2 of 2)

The Dos	The Don’ts
Be sure the journey is feasible. The path and direction should be within the realm of what the company can accomplish; over time, a company should be able to demonstrate measurable progress in achieving the vision.	**Don’t be generic**. A vision statement that could apply to companies in any of several industries (or to any of several companies in the same industry) is not specific enough to provide any guidance.
Indicate why the directional path makes good business sense. The directional path should be in the long-term interests of stakeholders, especially shareowners, employees, and suppliers.	**Don’t rely on superlatives.** Visions that claim the company’s strategic course is one of being the “best” or “most successful” usually lack specifics about the path the company is taking to get there.
Make it memorable. To give the organization a sense of direction and purpose, the vision needs to be easily communicated. Ideally, it should be reducible to a few choice lines or a memorable “slogan.”	**Don’t run on and on.** A vision statement that is not short and to the point will tend to lose its audience.

© McGraw-Hill Education.

Examples of Strategic Visions—How Well Do They Measure Up?
(1 of 2)

Vision Statement	Effective Elements	Shortcomings
Whole Foods Whole Foods Market is a dynamic leader in the quality food business. We are a mission-driven company that aims to set the standards of excellence for food retailers. We are building a business in which high standards permeate all aspects of our company. Quality is a state of mind at Whole Foods Market. Our motto—Whole Foods, Whole People, Whole Planet—emphasizes that our vision reaches far beyond just being a food retailer. Our success in fulfilling our vision is measured by customer satisfaction, team member happiness and excellence, return on capital investment, improvement in the state of the environment and local and larger community support. Our ability to instill a clear sense of interdependence among our various stakeholders (the people who are interested and benefit from the success of our company) is contingent upon our efforts to communicate more often, more openly, and more compassionately. Better communication equals better understanding and more trust.	• Forward-looking • Graphic • Focused • Makes good business sense	• Too long • Not memorable

© McGraw-Hill Education.

Examples of Strategic Visions—How Well Do They Measure Up?
(2 of 2)

Vision Statement	Effective Elements	Shortcomings
Keurig Become the world's leading personal beverage systems company.	• Focused • Flexible • Makes good business sense	• Not graphic • Lacks specifics • Not forward-looking
Nike NIKE, Inc. fosters a culture of invention. We create products, services and experiences for today's athlete* while solving problems for the next generation. *If you have a body, you are an athlete.	• Forward-looking • Flexible	• Vague and lacks detail • Not focused • Generic • Not necessarily feasible

© McGraw-Hill Education.

Strategic Vision Examples—How Well Do They Measure Up?

- For which of these businesses is it the most difficult to create a vision statement?
- How does the scope of a business affect the language of its vision statement?
- How would you reword the Whole Foods mission statement to reduce it to less than 100 words? (Currently = 154 words)

© McGraw-Hill Education.

COMMUNICATING THE STRATEGIC VISION

Why communicate the vision?

- Fosters employee commitment to the firm's chosen strategic direction
- Ensures understanding of its importance
- Motivates, informs, and inspires internal and external stakeholders
- Demonstrates top management support for the firm's future strategic direction and competitive efforts

© McGraw-Hill Education.

STRATEGIC MANAGEMENT PRINCIPLE (2 of 7)

An effectively communicated vision is a valuable management tool for enlisting the commitment of company personnel to engage in actions that move the company forward in the intended direction.

© McGraw-Hill Education.

PUTTING THE STRATEGIC VISION IN PLACE

- Put the vision in writing and distribute it.
- Hold meetings to personally explain the vision and its rationale.
- Create a memorable slogan or phrase that effectively expresses the essence of the vision.
- Emphasize the positive payoffs for making the vision happen.

© McGraw-Hill Education.

WHY A SOUND, WELL-COMMUNICATED STRATEGIC VISION MATTERS

- It crystallizes senior executives' own views about the firm's long-term direction.
- It reduces the risk of rudderless decision making.
- It is a tool for winning the support of organization members to help make the vision a reality.
- It provides a beacon for lower-level managers in setting departmental objectives and crafting departmental strategies that are in sync with the firm's overall strategy.
- It helps an organization prepare for the future.

© McGraw-Hill Education.

DEVELOPING A COMPANY MISSION STATEMENT

- The mission statement:
  - Uses specific language to give the firm its own unique identity
  - Describes the firm's current business and purpose—"who we are, what we do, and why we are here"
  - Should focus on describing the firm's business, not on "making a profit"—earning a profit is an objective not a mission

© McGraw-Hill Education.

STRATEGIC MANAGEMENT PRINCIPLE (3 of 7)

The distinction between a strategic vision and a mission statement is fairly clear-cut.

- **A strategic vision** portrays a firm's aspirations for its *future* ("where we are going").
- A firm's **mission** describes the scope and purpose of its *present* business ("who we are, what we do, and why we are here").

© McGraw-Hill Education.

THE IDEAL MISSION STATEMENT

- Identifies the firm's product or services
- Specifies the buyer needs it seeks to satisfy
- Identifies the customer groups or markets it is endeavoring to serve
- Specifies its approach to pleasing customers
- Sets the firm apart from its rivals
- Clarifies the firm's business to stakeholders

© McGraw-Hill Education.

LINKING THE VISION AND MISSION WITH CORE VALUES

- Core values
  - Are the beliefs, traits, and behavioral norms that employees are expected to display in conducting the firm's business and in pursuing its strategic vision and mission
  - Become an integral part of the firm's culture and what makes it tick when strongly espoused and supported by top management
  - Match the firm's vision, mission, and strategy, contributing to the firm's business success

© McGraw-Hill Education.

CORE CONCEPT (2 of 8)

A firm's **core values** are the beliefs, traits, and behavioral norms that the firm's personnel are expected to display in conducting the firm's business and pursuing its strategic vision and mission.

© McGraw-Hill Education.

Patagonia, Inc.: A Values-Driven Company (1 of 2)

- Patagonia's mission statement
  - Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis
- Patagonia's core values
  - **Quality:** Pursuit of ever-greater quality in everything we do
  - **Integrity**: Relationships built on integrity and respect
  - **Environmentalism**: Serve as a catalyst for personal and corporate action
  - **Not Bound by Convention**: Our success—and much of the fun—lies in developing innovative ways to do things

© McGraw-Hill Education.

Patagonia, Inc.: A Values-Driven Company (2 of 2)

- Examining Patagonia's core values
  - How do Patagonia's core values reflect the value it places on its human capital?
  - What effects do Patagonia's core values have on its hiring practices?
  - How does Patagonia's relentless attention to the management of its supply chain support its core values?
  - Why has Patagonia been successful in holding its contract manufacturers accountable when other firms have not?

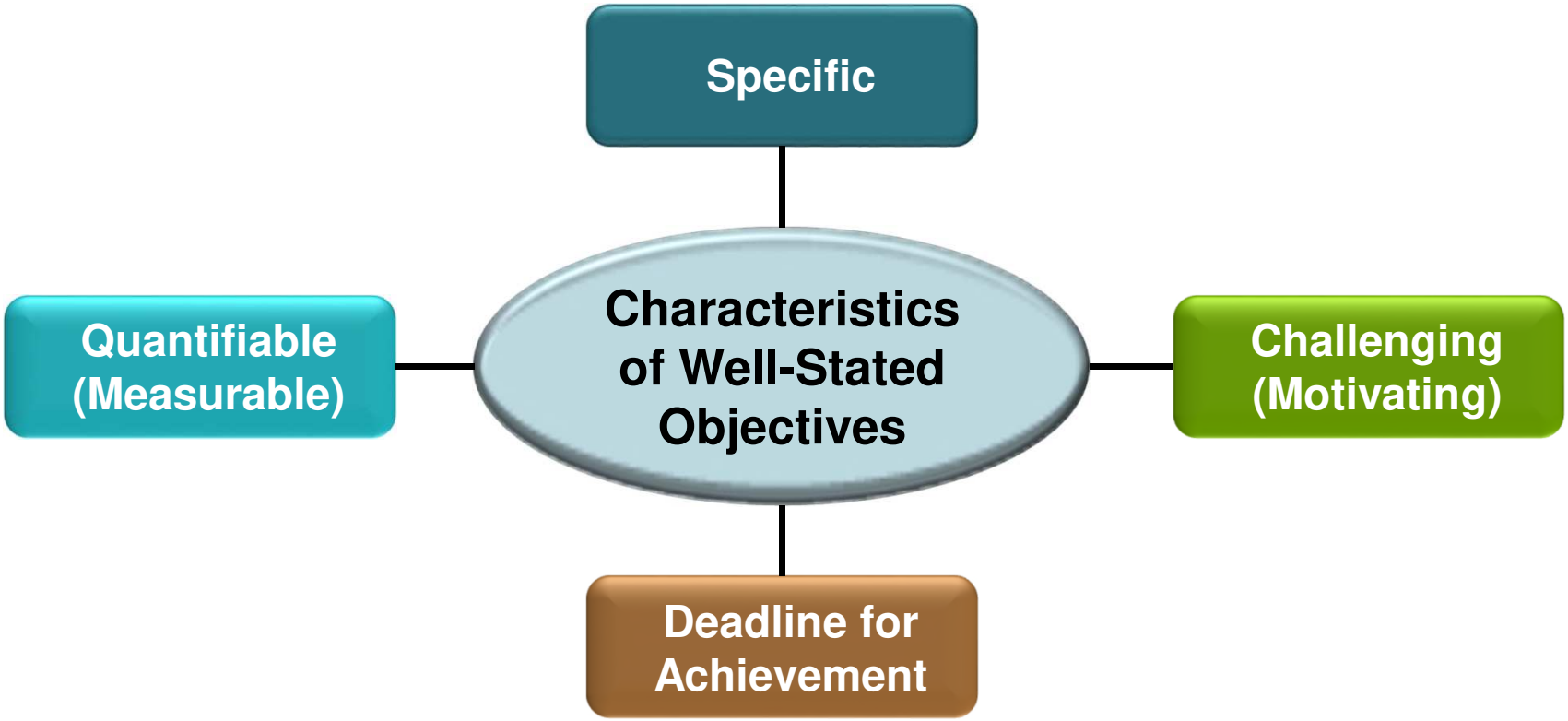
© McGraw-Hill Education.

STAGE 2: SETTING OBJECTIVES

- The purposes of setting objectives
  - To convert the vision and mission into specific, measurable, challenging and timely performance targets
  - To focus efforts and align actions throughout the organization
  - To serve as yardsticks for tracking a firm's performance and progress
  - To provide motivation and inspire employees to greater levels of effort

© McGraw-Hill Education.

CONVERTING THE VISION AND MISSION INTO SPECIFIC PERFORMANCE TARGETS



Jump to Appendix 2 long image description

© McGraw-Hill Education.

CORE CONCEPTS (3 of 8)

Objectives are an organization's performance targets—the specific results management wants to achieve.

Stretch objectives set performance targets high enough to *stretch* an organization to reach its full potential and deliver the best possible results.

© McGraw-Hill Education.

CORE CONCEPT (4 of 8)

A company exhibits **strategic intent** when it relentlessly pursues an ambitious strategic objective, concentrating the full force of its resources and competitive actions on achieving that objective.

© McGraw-Hill Education.

CHARACTERISTICS OF STRATEGIC INTENT

- Indicates firm's intent to making *quantum gains* in competing against key rivals and to establishing itself as a winner in the marketplace, often against long odds.
- Involves establishing a *grandiose performance target* out of proportion to immediate capabilities and market position, but then devoting the firm's full resources and energies to achieving the target over time.
- Entails *sustained, aggressive actions* to take market share away from rivals and achieve a much stronger market position.

© McGraw-Hill Education.

THE IMPERATIVE OF SETTING STRETCH OBJECTIVES

- Setting stretch objectives promotes better overall performance because stretch targets:
  - Push a firm to be more inventive.
  - Increase the urgency for improving financial performance and competitive position.
  - Cause the firm to be more intentional and focused in its actions.
  - Act to prevent internal inertia and contentment with modest to average gains in performance.

© McGraw-Hill Education.

THE NEED FOR SHORT-TERM AND LONG-TERM OBJECTIVES

- Short-Term Objectives:
  - Focus attention on quarterly and annual performance improvements to satisfy near-term shareholder expectations.
- Long-Term Objectives:
  - Force consideration of what to do now to achieve optimal long-term performance.
  - Stand as a barrier to an undue focus on short-term results.

© McGraw-Hill Education.

CORE CONCEPTS (5 of 8)

Financial objectives relate to the financial performance targets management has established for the organization to achieve.

Strategic objectives relate to target outcomes that indicate a company is strengthening its market standing, competitive position, and future business prospects.

© McGraw-Hill Education.

WHAT KINDS OF OBJECTIVES TO SET

- Financial Objectives
  - Communicate top management's goals for financial performance.
  - Are focused internally on the firm's operations and activities.
- Strategic Objectives
  - Are the firm's goals related to marketing standing and competitive position.
  - Are focused externally on competition vis-à-vis the firm's rivals.

© McGraw-Hill Education.

SETTING FINANCIAL OBJECTIVES

- An *x* percent increase in annual revenues
- Annual increases in after-tax profits *of x* percent
- Annual increases in earnings per share of *x* percent
- Annual dividend increases of *x* percent
- Profit margins of *x* percent
- An *x* percent return on capital employed (ROCE) or return on shareholders' equity investment (ROE)
- Increased shareholder value—in the form of an upward-trending stock price
- Bond and credit ratings of *x*
- Internal cash flows of *x* dollars to fund new capital investment

© McGraw-Hill Education.

SETTING STRATEGIC OBJECTIVES

- Winning an *x* percent market share
- Achieving lower overall costs than rivals
- Overtaking key competitors on product performance or quality or customer service
- Deriving *x* percent of revenues from the sale of new products introduced within the past five years
- Having broader or deeper technological capabilities than rivals
- Having a wider product line than rivals
- Having a better-known or more powerful brand name than rivals
- Having stronger national or global sales and distribution capabilities than rivals
- Consistently getting new or improved products to market ahead of rivals

© McGraw-Hill Education.

CORE CONCEPT (6 of 8)

The **Balanced Scorecard** is a widely used method for combining the use of both strategic and financial objectives, tracking their achievement, and giving management a more complete and balanced view of how well an organization is performing.

© McGraw-Hill Education.

THE NEED FOR A BALANCED APPROACH TO OBJECTIVE SETTING

- A balanced scorecard measures a firm's optimal performance by:
  - Placing a balanced emphasis on achieving both financial and strategic objectives.
  - Tracking both measures of financial performance and measures of whether a firm is strengthening its competitiveness and market position.

© McGraw-Hill Education.

GOOD STRATEGIC PERFORMANCE IS THE KEY TO BETTER FINANCIAL PERFORMANCE

- Good financial performance is not enough:
  - Current financial results are lagging indicators of past decisions and actions which does not translate into a stronger competitive capability for delivering better financial results in the future.
  - Setting and achieving stretch strategic objectives signals a firm's growth in both competitiveness and strength in the marketplace.
  - Good strategic performance is a leading indicator of a firm's increasing capability to deliver improved future financial performance.

© McGraw-Hill Education.

SETTING OBJECTIVES FOR EVERY ORGANIZATIONAL LEVEL

- Breaks down performance targets for each of the organization's separate units.
- Fosters setting performance targets that support achievement of firm-wide strategic and financial objectives.
- Extends the top-down objective-setting process to all organizational levels.

© McGraw-Hill Education.

EXAMPLES OF COMPANY OBJECTIVES

- United Parcel Service, Alcoa, Yum! Brands
  - Which company included the most specific strategic objectives in its listing of objectives?
  - Which company has the shortest-term focus based on its objectives? Which has the longest-term focus?
  - Which company's listing of objectives appears to best fit the balanced scorecard concept?

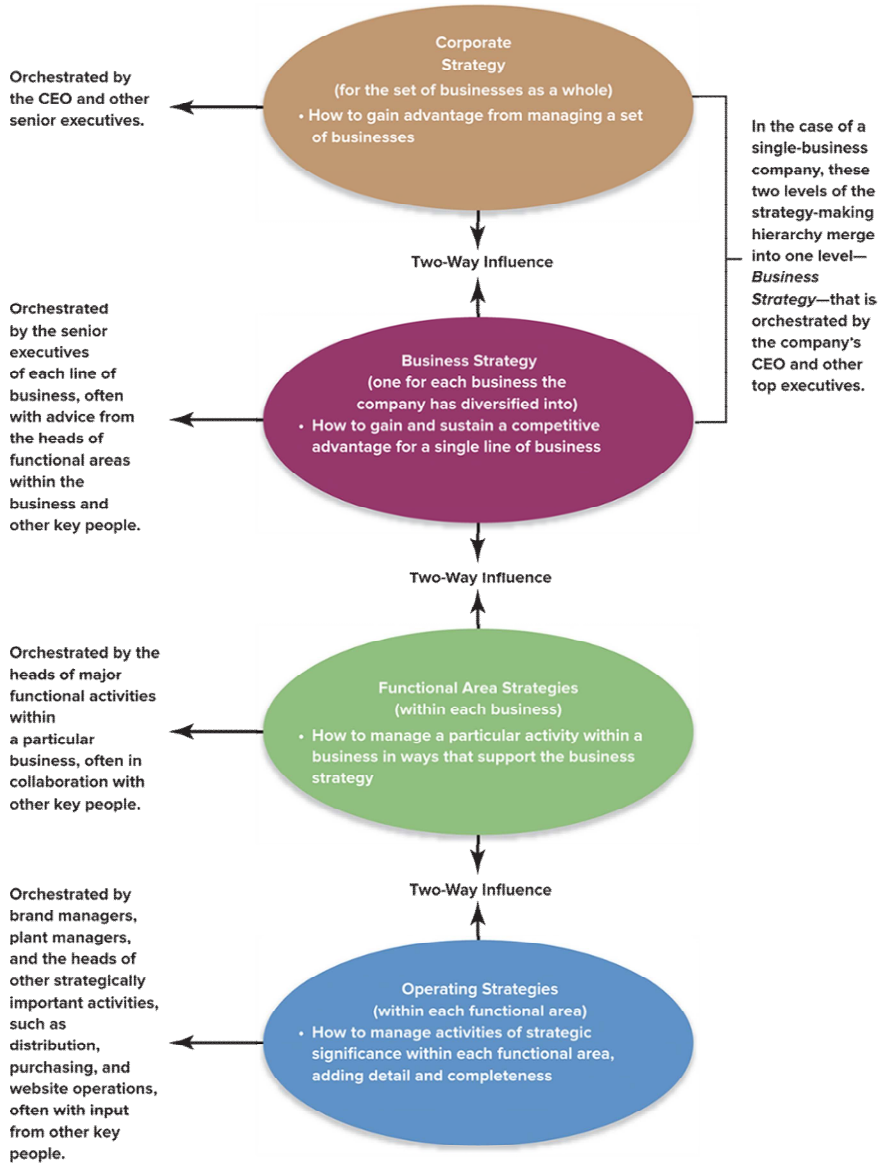
© McGraw-Hill Education.

STAGE 3: CRAFTING A STRATEGY

- Strategy making:
  - Addresses a series of strategic how's.
  - Requires choosing among strategic alternatives.
  - Promotes actions to do things differently from competitors rather than running with the herd.
  - Is a collaborative team effort that involves managers in various positions at all organizational levels.

© McGraw-Hill Education.

FIGURE 2.2 A Company's Strategy-Making Hierarchy



Jump to Appendix 3 long image description

© McGraw-Hill Education.

STRATEGY MAKING INVOLVES MANAGERS AT ALL ORGANIZATIONAL LEVELS

- Chief executive officer (CEO)
  - Has ultimate responsibility for leading the strategy-making process as strategic visionary and chief architect of strategy
- Senior executives
  - Fashion the major strategy components involving their areas of responsibility
- Managers of subsidiaries, divisions, geographic regions, plants, and other operating units (and key employees with specialized expertise)
  - Utilize on-the-scene familiarity with their business units to orchestrate their specific pieces of the strategy

© McGraw-Hill Education.

STRATEGIC MANAGEMENT PRINCIPLE (4 of 7)

In most firms, crafting and executing strategy is a **collaborative team** effort in which every manager has a role for the area he or she heads; it is rarely something that only high-level managers do.

© McGraw-Hill Education.

WHY IS STRATEGY-MAKING OFTEN A COLLABORATIVE PROCESS?

- The many complex strategic issues involved and multiple areas of expertise required can make the strategy-making task too large for one person or a small executive group.
- When operations involve different products, industries and geographic areas, strategy-making authority must be delegated to functional and operating unit managers such that *all managers have a strategy-making role—ranging from major to minor—for the area they head!*

© McGraw-Hill Education.

A FIRM'S STRATEGY-MAKING HIERARCHY (1 of 2)

- Corporate strategy
  - Multi-business strategy—how to gain synergies from managing a portfolio of businesses together rather than as separate businesses
- Business strategy
  - How to strengthen market position and gain competitive advantage
  - Actions to build competitive capabilities of single businesses
  - Monitoring and aligning lower-level strategies

© McGraw-Hill Education.

A FIRM'S STRATEGY-MAKING HIERARCHY (2 of 2)

- Functional area strategies
  - Add relevant detail to the ***"hows"*** of business strategy
  - Provide a game plan for managing a particular activity in ways that support the business strategy
- Operational strategies
  - Add detail and completeness to business and functional strategies
  - Provide a game plan for managing specific operating activities with strategic significance

NOTE: These four strategies all impact each other.

© McGraw-Hill Education.

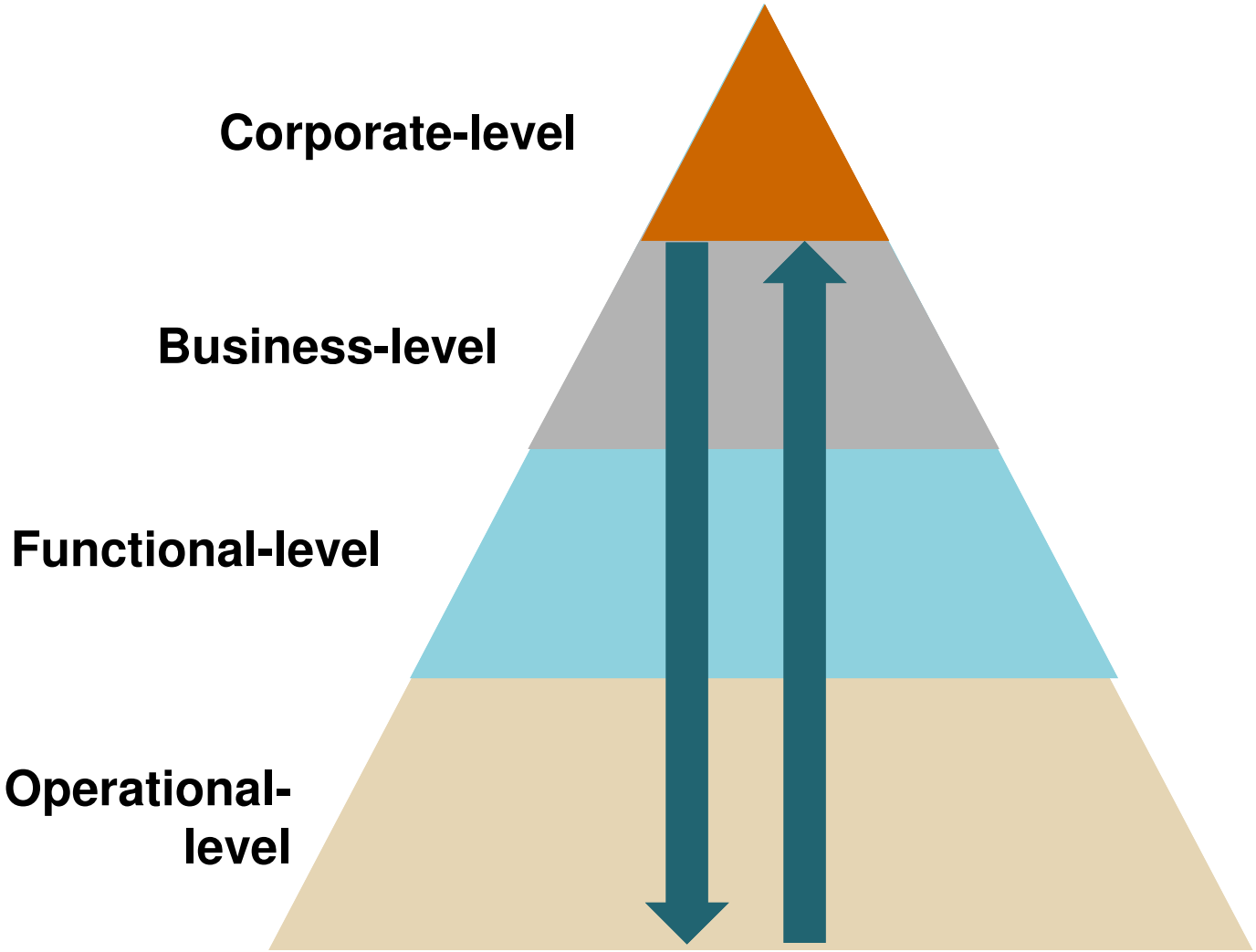
CORE CONCEPTS (7 of 8)

Corporate strategy is strategy at the *multi-business level*, concerning how to improve company performance or gain competitive advantage by managing a set of businesses simultaneously.

Business strategy is strategy at the *single-business level*, concerning how to improve the performance or gain a competitive advantage in a particular line of business.

© McGraw-Hill Education.

UNITING THE STRATEGY-MAKING HIERARCHY



Jump to Appendix 4 long image description

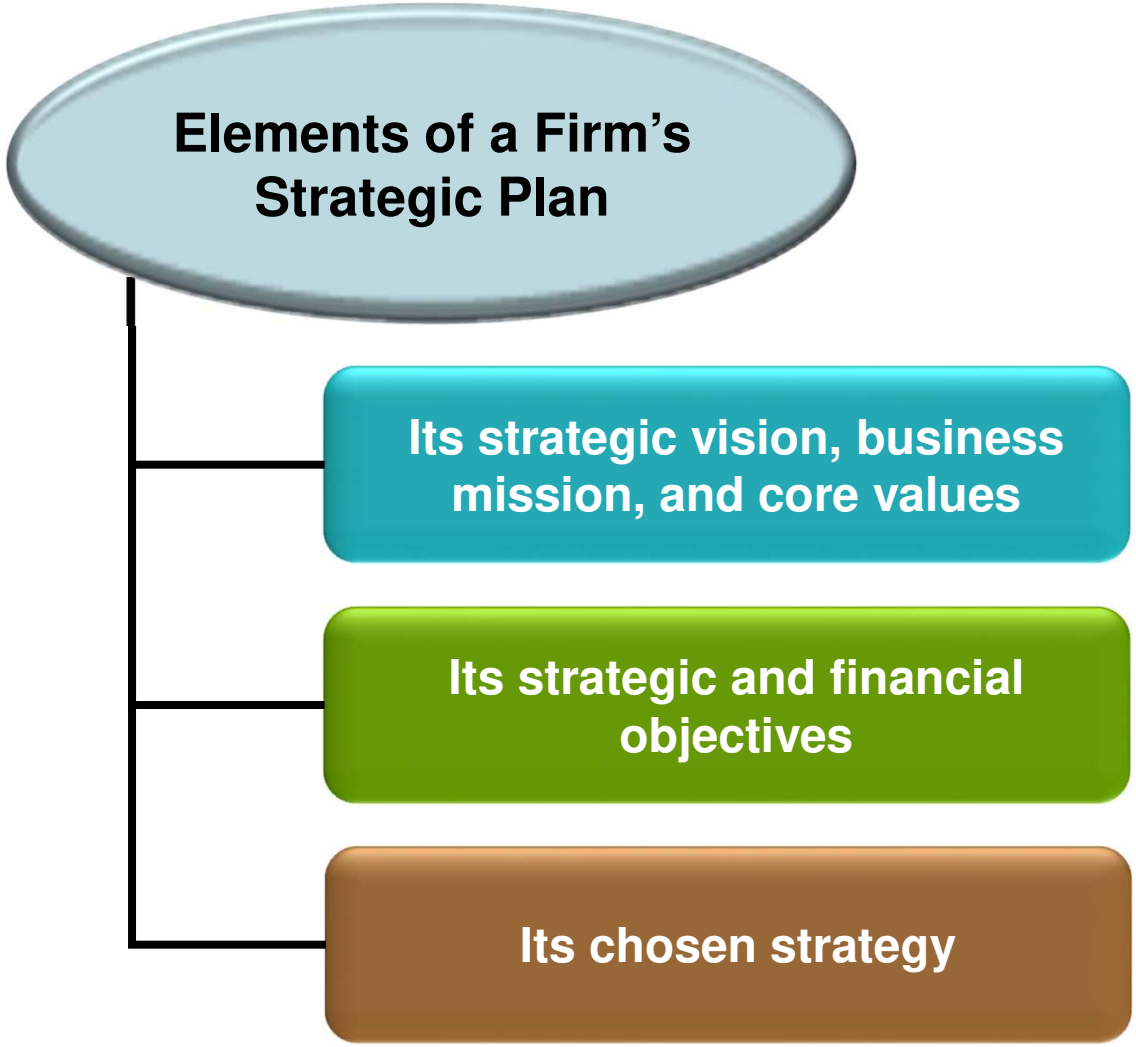
© McGraw-Hill Education.

STRATEGIC MANAGEMENT PRINCIPLE (5 of 7)

- A firm's strategy is at full power only when many pieces of the strategy are united.
  - Anything less than a unified collection of strategies weakens the overall strategy and is likely to impair company performance.

© McGraw-Hill Education.

A STRATEGIC VISION + MISSION + OBJECTIVES + STRATEGY = A STRATEGIC PLAN



Jump to Appendix 5 long image description

© McGraw-Hill Education.

CORE CONCEPT (8 of 8)

A company's **strategic plan** lays out its future direction, business model, performance targets, and competitive strategy.

© McGraw-Hill Education.

STAGE 4: EXECUTING THE STRATEGY

- Converting strategic plans into actions requires:
  - Directing organizational action
  - Motivating people
  - Building and strengthening the firm's competencies and competitive capabilities
  - Creating and nurturing a strategy-supportive work climate
  - Meeting or beating performance targets

© McGraw-Hill Education.

MANAGING THE STRATEGY EXECUTION PROCESS (1 of 2)

- Creating a strategy-supporting structure
- Staffing the firm with the needed skills and expertise
- Developing and strengthening strategy-supporting resources and capabilities
- Allocating ample resources to the activities critical to strategic success
- Ensuring that policies and procedures facilitate effective strategy execution
- Organizing work effort to achieve best practices

© McGraw-Hill Education.

MANAGING THE STRATEGY EXECUTION PROCESS (2 of 2)

- Installing information and operating systems that enable company personnel to perform essential activities
- Motivating people and tying rewards and incentives directly to the achievement of performance objectives
- Creating a company culture conducive to successful strategy execution
- Exerting the internal leadership needed to propel implementation forward

© McGraw-Hill Education.

STAGE 5: EVALUATING PERFORMANCE AND INITIATING CORRECTIVE ADJUSTMENTS

- Evaluating performance
  - Deciding whether the enterprise is passing the three tests of a winning strategy—good fit, competitive advantage, strong performance.
- Initiating corrective adjustment
  - Deciding whether to continue or change the firm's vision and mission, objectives, strategy, and strategy execution methods
  - Applying lessons based on organizational learning

© McGraw-Hill Education.

STRATEGIC MANAGEMENT PRINCIPLE (6 of 7)

A company's vision, mission, objectives, strategy, and approach to strategy execution are never final; reviewing whether and when to make revisions is an ongoing process.

© McGraw-Hill Education.

THE ROLE OF THE BOARD OF DIRECTORS IN CORPORATE GOVERNANCE

- Obligations of the board of directors:
  - Oversee the firm's financial accounting and reporting practices compliance with GAAP principles
  - Critically appraise the firm's direction, strategy, and business approaches
  - Evaluate the caliber of senior executives' strategic leadership skills
  - Institute a compensation plan that rewards top executives for actions and results that serve stakeholder interests—especially shareholders.

© McGraw-Hill Education.

ACHIEVING EFFECTIVE CORPORATE GOVERNANCE

- A strong, independent board of directors:
  - Is well informed about the firm's performance
  - Guides and judges the CEO and other executives
  - Can curb management actions the board believes are inappropriate or unduly risky
  - Can certify to shareholders that the CEO is doing what the board expects
  - Provides insight and advice to top management
  - Is intensely involved in debating the pros and cons of key strategic decisions and actions

© McGraw-Hill Education.

STRATEGIC MANAGEMENT PRINCIPLE (7 of 7)

Effective corporate governance requires the board of directors to oversee the company's strategic direction, evaluate its senior executives, handle executive compensation, and oversee financial reporting practices.

© McGraw-Hill Education.

CORPORATE GOVERNANCE FAILURE AT VOLKSWAGEN

- Why does the VW advisory board refuse to accept responsibility for the continuing series of management scandals that have plagued the firm for the past two decades?
- How has the government-mandated two-tier governance structure promoted misconduct in the organization?
- What must be changed at VW to restore stakeholder confidence in the firm?

© McGraw-Hill Education.

Appendix 1 Figure 2.1 The Strategy-Making, Strategy-Executing Process

- The five stages of the process are:
  1. Developing a strategic vision, mission, and core values
  2. Setting objectives
  3. Crafting a strategy to achieve the objectives and the firm's vision
  4. Executing the strategy
  5. Monitoring developments, evaluating performance, and initiating corrective adjustments
- Stages 1, 2 and 3 are considered strategy making.
- Stages 4 and 5 are where strategy execution occurs.
- Additionally, stages 1 through 4 must be revised as needed in light of the firm's actual performance, changing conditions, new opportunities, and new ideas.

© McGraw-Hill Education.

Return to slide

Appendix 2: Converting the Vision and Mission into Specific Performance Targets

- Characteristics of well-stated objectives:
  - Quantifiable (measurable)
  - Specific (what must be done)
  - Challenging (motivating)
  - Deadline for achievement

Return to slide

© McGraw-Hill Education.

Appendix 3: Figure 2.2
A Company's Strategy-Making Hierarchy

Each level has influence with the level above and below it.

- Corporate strategy (for the business as a whole)
  - Corporate strategy is orchestrated by the CEO and other senior executives.
- Business strategy (one for each business the company has diversified into)
  - Business strategy is orchestrated by the senior executives of each line of business, often with advice from the heads of functional areas within the business and other key people.
- Functional area strategies (within each business)
  - Functional area strategies are orchestrated by the heads of the major functional activities within a particular business, often in collaboration with other key people.
- Operating strategies (within each functional area)
  - Operating strategies are orchestrated by brand managers, plant managers, and the heads of other strategically important activities, such as distribution, purchasing, and website operations, often with input from other key people.

In the case of a single-business company, corporate and business merge into one level.

Return to slide

© McGraw-Hill Education.

Appendix 4: Uniting the Strategy-Making Hierarchy

- A pyramid is shown with operational level at the bottom, progressing upward to functional level, business level, and at the top, corporate level.
- In the center of the pyramid are two arrows, one pointing up and the other pointing down indicating the participation of managers at all levels in the organization in the strategy-making process.

Return to slide

© McGraw-Hill Education.

Appendix 5: A Strategic Vision + Mission + Objectives + Strategy = A Strategic Plan

- The elements of a firm's strategic plan are:
  - Its strategic vision, business mission, and core values
  - Its strategic and financial objectives
  - Its chosen strategy

© McGraw-Hill Education.

Return to slide