

GLOBAL
EDITION



Strategic Management and Business Policy

Globalization, Innovation, and Sustainability

FOURTEENTH EDITION



Thomas L. Wheelen • J. David Hunger
Alan N. Hoffman • Charles E. Bamford

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Strategic
Management
and Business
Policy

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Strategic Management and Business Policy

GLOBALIZATION, INNOVATION,
AND SUSTAINABILITY

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SECTION A Corporate Governance: Executive Leadership

CASE 1 The Recalcitrant Director at Byte Products, Inc.: Corporate Legality versus Corporate Responsibility 399

(Contributors: Dan R. Dalton, Richard A. Cosier, and Cathy A. Enz)

A plant location decision forces a confrontation between the board of directors and the CEO regarding an issue in social responsibility and ethics.

CASE 2 The Wallace Group 405

(Contributor: Laurence J. Stybel)

Managers question the company's strategic direction and how it is being managed by its founder and CEO. Company growth has resulted not only in disorganization and confusion among employees, but in poor overall performance. How should the board deal with the company's founder?

SECTION B Business Ethics

CASE 3 Everyone Does It 415

(Contributors: Steven M. Cox and Shawana P. Johnson)

When Jim Willis, Marketing VP, learns that the launch date for the company's new satellite will be late by at least a year, he is told by the company's president to continue using the earlier published date for the launch. When Jim protests that the use of an incorrect date to market contracts is unethical, he is told that spacecraft are never launched on time and that it is common industry practice to list unrealistic launch dates. If a realistic date was used, no one would contract with the company.

CASE 4 The Audit 419

(Contributors: Gamewell D. Gantt, George A. Johnson, and John A. Kilpatrick)

A questionable accounting practice by the company being audited puts a new CPA in a difficult position. Although the practice is clearly wrong, she is being pressured by her manager to ignore it because it is common in the industry.

SECTION C Corporate Social Responsibility

CASE 5 Early Warning or False Sense of Security? Concussion Risk and the Case of the Impact-Sensing Football Chinstrap 421

(Contributors: Clifton D. Petty, and Michael R. Shirley)

new

In 2009, Battle Sports Science, headquartered in Omaha, Nebraska, was built with a focus on "enhancing safety for athletes." Specifically, the company wanted to protect young athletes who might have suffered a concussion. Battle Sports Science attempted to gain market attention for its US\$149.99 impact indicator (chin strap) through endorsements, and had enlisted a number of NFL players. The company hoped to sell the device to sports programs (schools) as well as to individual players.

SECTION D International Issues in Strategic Management

CASE 6 A123 Systems: A New Lithium-Ion Battery System for Electric and Hybrid Cars 425

(Contributor: Alan N. Hoffman)

new

In 2007, A123 was developing its hybrid electric vehicle business. A123 entered into a partnership with Cobasys to introduce lithium-ion batteries into the automotive market. A123 also entered into an agreement with GM to use their batteries in the Saturn Vue Plug-in Hybrid development program and to co-develop a lithium-ion battery for the Chevrolet Volt. A123 faced cash flow shortages after its 2009 IPO and its ultimate survival was threatened by its diminishing funds for continued operations.

CASE 7 Guajilote Cooperativo Forestal, Honduras 441

(Contributors: Nathan Nebbe and J. David Hunger)

This forestry cooperative has the right to harvest, transport, and sell fallen mahogany trees in La Muralla National Park of Honduras. Although the cooperative has been successful thus far, it is facing some serious issues: low prices for its product, illegal logging, deforestation by poor farmers, and possible world trade restrictions on the sale of mahogany.

SECTION E General Issues in Strategic Management

INDUSTRY ONE: INTERNET COMPANIES

CASE 8 Google Inc. (2010): The Future of the Internet Search Engine 447

(Contributor: Patricia A. Ryan)

Google, an online company that provides a reliable Internet search engine, was founded in 1998 and soon replaced Yahoo as the market leader in Internet search engines. By 2010, Google was one of the strongest brands in the world. Nevertheless, its growth by acquisition strategy was showing signs of weakness. Its 2006 acquisition of YouTube had thus far not generated significant revenue growth. Groupon, a shopping Web site, rebuffed Google's acquisition attempt in 2010. Is it time for a strategic change?

CASE 9 Amazon.com, Inc.: Retailing Giant to High-Tech Player? 461

(Contributor: Alan N. Hoffman)

new

In 2012, more than half of all Amazon sales came from computers, mobile devices including the Kindle, Kindle Fire, and Kindle Touch, and other electronics, as well as general merchandise from home and garden supplies to groceries, apparel, jewelry, health and beauty products, sports and outdoor equipment, tools, and auto and industrial supplies. Amazon was at a crossroads with regard to its push into technology versus its general merchandise. Amazon also faced other challenges, including those from state governments that wanted it to collect sales taxes so it would not adversely compete against local businesses.

CASE 10 Blue Nile, Inc.: “Stuck in the Middle” of the Diamond Engagement Ring Market 473

(Contributor: Alan N. Hoffman)

new

Blue Nile Inc. has developed into the largest online retailer of diamond engagement rings. Unlike traditional jewelry retailers, Blue Nile operates completely store-front-free, without in-person consultation services. The business conducts all sales online or by phone, and sales include both engagement (70%) and non-engagement (30%) categories. Blue Nile's vision is to educate its customer base so customers can make an informed, confident decision no matter what event they are celebrating. It wants to make the entire diamond-buying process easy and hassle-free.

INDUSTRY TWO: ENTERTAINMENT AND LEISURE

CASE 11 Groupon Inc.: Daily Deal or Lasting Success? 489

(Contributors: Nick Falcone, Eric Halbruner, Ellie A. Fogarty, and Joyce Vincelette)

new

Groupon began as a local Chicago discount service and became a global phenomenon seemingly overnight. It was a great idea. The company was the first of its kind and changed the way consumers spend, shop, and think about discounts. But how could Groupon, based on such innovation and having experienced such exceptional growth, be in such a precarious position? A wave of competition had swelled, including the likes of technology giants and both general and niche daily deals services, all replicating Groupon's business model. How could Groupon compete against large companies and their expansive resources?

CASE 12 Netflix Inc.: The 2011 Rebranding/Price Increase Debacle 509

(Contributor: Alan N. Hoffman)

new

On September 18, 2011, Netflix CEO and co-founder Reed Hastings announced on the Netflix blog that the company was splitting its DVD delivery service from its online streaming service, rebranding its DVD delivery service Qwikster, as a way to differentiate it from its online streaming service, and creating a new Web site for it. Three weeks later, in response to customer outrage and confusion, Hastings rescinded the decision to rebrand the DVD delivery service Qwikster and reintegrated it into Netflix. Nevertheless, only five weeks after the initial split, Netflix acknowledged that it had lost 800,000 U.S. subscribers and expected to lose many more, thanks both to the Qwikster debacle and the price hike the company had decided was necessary to cover increasing content costs.

CASE 13 Carnival Corporation & plc (2010) 521

(Contributors: Michael J. Keeffe, John K. Ross III, Sherry K. Ross, Bill J. Middlebrook, and Thomas L. Wheelen)

With its "fun ship," Carnival Cruises changed the way people think of ocean cruises. The cruise became more important than the destination. Through acquisition, Carnival expanded its product line to encompass an entire range of industry offerings. How can Carnival continue to grow in the industry it now dominates?

CASE 14 Zynga, Inc. (2011): Whose Turn Is It? 541

(Contributors: Zachary Burkhalter, Daniel Zuller, Concetta Bagnato, Joyce Vincelette, and Ellie A. Fogarty)

new

Zynga built its company around social gaming. This new type of gaming transformed the gaming industry on multiple levels and across various platforms. Zynga originally built its games using the Facebook platform and then capitalized on the company's unique method of social networking to capture audiences around the world. However, this strong reliance on Facebook and changes in consumer gaming practices caused some concern among outside investors as to the future of Zynga.

INDUSTRY THREE: FOOD AND BEVERAGE

CASE 15 The Boston Beer Company: Brewers of Samuel Adams Boston Lager (Mini Case) 561

(Contributor: Alan N. Hoffman)

The Boston Beer Company, founded in 1984 by Jim Koch, is viewed as pioneer in the American craft beer revolution. Brewing over one million barrels of 25 different styles of beer, Boston Beer is the sixth-largest brewer in the United States. Even though overall domestic beer sales declined 1.2% in 2010, sales of craft beer have increased 20% since 2002, with Boston Beer's increasing 22% from 2007 to 2009. How can the company continue its rapid growth in a mature industry?

CASE 16 Panera Bread Company (2010): Still Rising Fortunes? 565

(Contributors: Joyce P. Vincelette and Ellie A. Fogarty)

Panera Bread is a successful bakery-café known for its quality soups and sandwiches. Even though Panera's revenues and net earnings have been rising rapidly, new unit expansion throughout North America has fueled this growth. Will revenue growth stop once expansion slows? The retirement of CEO Ronald Shaich, the master baker who created the "starter" for the company's phenomenal growth, is an opportunity to rethink Panera's growth strategy.

CASE 17 Whole Foods Market (2010): How to Grow in an Increasingly Competitive Market? (Mini Case) 589

(Contributors: Patricia Harasta and Alan N. Hoffman)

Whole Foods Market is the world's leading retailer of natural and organic foods. The company differentiates itself from competitors by focusing on innovation, quality, and service excellence, allowing it to charge premium prices. Although the company dominates the natural/organic foods category in North America, it is facing increasing competition from larger food retailers like Wal-Mart, who are adding natural/organic foods to their offerings.

CASE 18 Burger King (Mini Case) 595

(Contributor: J. David Hunger)

Founded in Florida in 1953, Burger King has always trailed behind McDonald's as the second-largest fast-food hamburger chain in the world. Although its total revenues dropped only slightly from 2009, its 2010 profits dropped significantly, due to high expenses. Burger King's purchase by an investment group in 2010 was an opportunity to rethink the firm's strategy.

CASE 19 Church & Dwight: Time to Rethink the Portfolio? 599

(Contributor: Roy A. Cook)

Church & Dwight, the maker of ARM & HAMMER Baking Soda, has used brand extension to successfully market multiple consumer products based on sodium bicarbonate. Searching for a new growth strategy, the firm turned to acquisitions. Can management successfully achieve a balancing act based on finding growth through expanded uses of sodium bicarbonate while assimilating a divergent group of consumer products into an expanding international footprint?

INDUSTRY FOUR: APPAREL**CASE 20** Under Armour 609

(Contributors: Ram Subramanian and Pradeep Gopalakrishna)

Under Armour's footwear sales declined by 4.5% during the second quarter of 2009 and showed a 16.6% decline in the first six months of 2010 compared to 2009. This was in contrast to its performance apparel, the company's core category, which saw a 32.2% uptick over 2009. Under Armour had tremendous growth opportunities in the apparel category in China. However, CEO Kevin Plank wanted Under Armour to be a leading player in the field of athletic footwear.

new

CASE 21 TOMS Shoes (Mini Case) 621

(Contributor: J. David Hunger)

Founded in 2006 by Blake Mycoskie, TOMS Shoes is an American footwear company based in Santa Monica, California. Although TOMS Shoes is a for-profit business, its mission is more like that of a not-for-profit organization. The firm's reason for existence is to donate to children in need one new pair of shoes for every pair of shoes sold. By 2010, the company had sold over one million pairs of shoes. How should the company plan its future growth?

CASE 22 Best Buy Co. Inc. (2009): A Sustainable Customer-Centricity Model? 625*(Contributor: Alan N. Hoffman)*

Best Buy, the largest consumer electronics retailer in the United States, operates 4000 stores in North America, China, and Turkey. It distinguishes itself from competitors by deploying a differentiation strategy based on superior service rather than low price. The recent recession has stressed its finances and the quality of its customer service. How can Best Buy continue to have innovative products, top-notch employees, and superior customer service while facing increased competition, operational costs, and financial stress?

INDUSTRY FIVE: SPECIALTY RETAILING**CASE 23** Rosetta Stone Inc.: Changing the Way People Learn Languages 639*(Contributors: Christine B. Buenafe and Joyce P. Vincelette)*

Rosetta Stone's mission was to change the way people learn languages. The company blended language learning with technology at a time when globalization connected more and more individuals and institutions to each other. How should the company move forward? Would it be appropriate for Rosetta Stone to offer products like audio books or services in order to increase market share? Which international markets could provide the company with a successful future?

CASE 24 Dollar General Corporation: 2011 Growth Expansion Plans (Mini Case) 655*(Contributor: Kathryn E. Wheelen)*

With annual revenues of US\$12.7 billion and 9200 stores in 35 states, Dollar General is the largest of the discount "dollar stores" in the United States. Although far smaller than its "big brothers" Wal-Mart and Target, Dollar General has done very well during the recent economic recession. In 2011, it planned to open 625 new stores in three new states. Given that the company has a substantial long-term debt, is this the right time to expand its operations?

CASE 25 iRobot: Finding the Right Market Mix? 661*(Contributor: Alan N. Hoffman)*

Founded in 1990, iRobot was one of the first companies to introduce robotic technology into the consumer market. Employing over 500 robotic professionals, the firm planned to lead the robotics industry. Unfortunately, its largest revenue source, home care robots, is a luxury good and vulnerable to recessions. Many of iRobot's patents are due to expire by 2019. The firm is highly dependent upon suppliers to make its consumer products and the U.S. government for its military sales. What is the best strategy for its future success?

SECTION F**INDUSTRY SIX: TRANSPORTATION****CASE 26** Tesla Motors, Inc.: The First U.S. Car Company IPO Since 1956 671*(Contributor: Alan N. Hoffman)***new**

Tesla Motors was founded in 2004 to produce electric automobiles. Its first car, the Tesla Roadster, sold for US\$101,000. It could accelerate from 0 to 60 mph in 3.9 seconds, and cruise for 236 miles on a single charge. In contrast to existing automakers, Tesla sold and serviced its cars through the Internet and its own Tesla stores. With the goal of building a full line of electric vehicles, Tesla Motors faces increasing competition from established automakers. How can Tesla Motors succeed in an industry dominated by giant global competitors?

CASE 27 Delta Air Lines (2012): Navigating an Uncertain Environment 687*(Contributors: Alan N. Hoffman and J. David Hunger)***new**

Delta used mergers and acquisitions (M&A) successfully to solidify its strong position as a leader in the airline industry. It has gone through five M&As since 1953, including the most recent acquisition of Northwest Airlines (Northwest), which turned Delta into an airline with major operations in every region of the world. The Northwest merger took a toll on Delta's financial position, however, by contributing to its high long-term debt.

In 2012, top management began cautiously exploring opportunities for entering new markets, routes, and partnerships in order to boost market share. Management was also searching for ways to reduce costs and expenses in an industry that was rapidly consolidating into fewer major national and international players. Delta is considering purchasing from Conoco.

CASE 28 TomTom: New Competition Everywhere! 707

(Contributor: Alan N. Hoffman)

TomTom, an Amsterdam-based company that provides navigation services and devices, led the navigation systems market in Europe and is second in popularity in the United States. However, the company is facing increasing competition from other platforms using GPS technology, like cell phones and Smartphones with built-in navigation functions. As its primary markets in the United States and Europe mature, how can the company ensure its future growth and success?

SECTION G

INDUSTRY SEVEN: MANUFACTURING

CASE 29 General Electric, GE Capital, and the Financial Crisis of 2008: The Best of the Worst in the Financial Sector? 721

(Contributor: Alan N. Hoffman)

The financial services industry was, by definition, volatile, and GE Capital was particularly hard hit by the economic recession of 2008. With the credit markets illiquid and financial markets falling, GE Capital found it was overexposed to commercial real estate and foreign residential mortgages. At this point, GE's parent corporation stepped in, began reorganizing GE Capital, and significantly downsized the unit. GE Capital hoped to see continued sustainable earnings growth with growing margins and lower portfolio risk, and to return money to investors and resume paying dividends to its parent company

new

CASE 30 AB Electrolux: Challenging Times in the Appliance Industry 737

(Contributor: Alan N. Hoffman)

AB Electrolux is currently the world's second-largest appliance maker, behind Whirlpool. Electrolux has over 50,000 employees in more than 50 countries around the world. Its headquarters are in Stockholm, Sweden.

As the social and demographic trends continue to evolve, so do the opportunities afforded to Electrolux. The most significant demographic shift globally is the growing middle class in Asia, which includes families with incomes between US\$6,000 and US\$30,000. It is estimated that by 2020 there will be one billion more people in the global middle class than there were in 2010. Correlated with rising incomes worldwide, homeownership has also increased at a substantial rate, giving rise to increased demand for consumer durables such as refrigerators, washing machines, and dishwashers.

new

INDUSTRY EIGHT: INFORMATION TECHNOLOGY

CASE 31 Apple Inc.: Performance in a Zero-Sum World Economy 749

(Contributors: Moustafa H. Abdelsamad, Hitesh (John) Adhia, David B. Croll, Bernard A. Morin, Lawrence C. Pettit Jr., Kathryn E. Wheelen, Richard D. Wheelen, Thomas L. Wheelen II, and Thomas L. Wheelen)

By the 1990s, Apple, the first company to mass-market a personal computer, had become a minor player in an industry dominated by Microsoft. After being expelled from the company in 1985, founder Steve Jobs returned as CEO in 1997 to reenergize the firm. The introduction of the iPod in 2001, followed by the iPad, catapulted Apple back into the spotlight. However, in 2011 Jobs was forced to take his third medical leave, leading to questions regarding his ability to lead Apple. How can Apple continue its success? How dependent is the company on Steve Jobs?

CASE 32 Dell Inc.: Changing the Business Model (Mini Case) 771

(Contributor: J. David Hunger)

Dell, once the largest PC vendor in the world, is now battling with Acer for second place in the global PC market. Its chief advantages—direct marketing and power over suppliers—no longer provides a competitive advantage. The industry’s focus has shifted from desktop PCs to mobile computing, software, and technology services, areas of relative weakness for Dell. Is it time for Dell to change its strategy?

CASE 33 Logitech (Mini Case) 777

(Contributor: Alan N. Hoffman)

Logitech, the world’s leading provider of computer peripherals, was on the forefront of mouse, keyboard, and videoconferencing technology. By 2010, however, Logitech’s products were threatened by new technologies, such as touchpads, that could replace both the mouse and keyboard. As the peripherals market begins to disintegrate, Logitech is considering a change in strategy.

CASE 34 Daktronics (A): The U.S. Digital Signage Industry 2010 783

(Contributors: Joseph Kavanaugh, Joshua Warne, and Carol J. Cumber)

The billboard, sign, and outdoor advertising industry in the United States is almost as old as the Colonies. Lighted billboards, roadside signs, neon lights, and other forms of display are part of our everyday environment. The newest segment of the industry, digital signage, is driven by 21st-century technologies in computers, peripherals, graphics, and new sources of light—liquid crystal display (LCD), light-emitting diodes (LED), and others. Less than 20 years old, the digital segment (sales of US\$2.14 billion) was estimated to be 17.8% of the outdoor signage industry in 2008. This note reviews the digital signage industry and explores the forces that are driving this emerging segment of the advertising, messaging, and sign industry.

new

GLOSSARY 803

NAME INDEX 815

SUBJECT INDEX 820

Dedicated to

SPECIAL DEDICATION TO TOM WHEELEN

Tom originated this book in the late 1970s and with his friend David Hunger brought the first edition to fruition in 1982. What a ride it has been! After battling bone cancer, Tom died in Saint Petersburg, Florida, on December 24, 2011. It was Tom's idea from the very beginning to include the latest research and useful material written in such a way that the typical student could read and understand the book without outside assistance. That has been a key reason for the success of the book through its many editions. Tom's last months were spent working with the two new co-authors to map out the direction for the 14th edition. We thank you, Tom, and bid you a fond farewell! This 14th edition is for you.

*J. David Hunger
Alan N. Hoffman
Charles E. Bamford*

This is a special dedication to Thomas L. Wheelen, co-author, father, and best friend, May 30, 1935 – December 24, 2011. This is the 14th edition of SMBP the creation you and Mr. Hunger started due to your friendship at the McIntire School of Commerce at UVA with that adjoining door! It is not very often that two co-authors become the best of friends, but you both did. That was a very special gift that Tom treasured until the end. We are so glad you were able to meet as the dynamic foursome to discuss the 14th edition of SMBP! The new addition of co-authors Alan Hoffman and Chuck Bamford gave you and Mr. Hunger the ability to relax and smell the roses. We have come full circle with you being back at UVA! You were an amazing friend, visionary, teacher, and leader! Thank you for pushing us to be who we are today! You were very blessed to have two children as your best friends! You will never know how much you are missed!

Dad – chailleann againn go mbainfidh tú agus grá agat. Tá do Spiorad na hÉireann le linn i gcónaí!

GNPD KEW and RDW

Betty, Kari and Jeff, Maddie and Megan, Suzi and Nick, Summer and Kacey, Lori, Merry, Dylan, and newborn Edan. Also to Wolfie (arf!).

David Hunger

*To Will Hoffman, the greatest son in the world. . . . and to our saint Wendy Appel.
In memory of my good friend, Tom Wheelen, via con dios. Thank you, Tom and David.*

Alan Hoffman

To Yvonne, for your support, advice, encouragement, love, and confidence. To David and Tom, for your confidence, council, and mental energy in the revision of this remarkable text.

Chuck Bamford

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Preface

Welcome to the 14th edition of *Strategic Management and Business Policy*! All of the chapters have been updated, and most of the cases are new and different. We have added several brand-new cases (**Early Warning: Concussion Risk** and the **Case of the Impact Sensing Chinstrap, A123, Amazon, Blue Nile, Groupon, Netflix, Zynga, Under Armour, General Electric, AB Electrolux, Tesla Motors, Delta Airlines, and The U.S. Digital Signage Industry Note**) for a **total of 13 new cases!** Many of the cases are exclusive to this edition! Although we still make a distinction between full-length and mini cases, we have interwoven them throughout the book to better identify them with their industries.

This edition revamps the theme that runs throughout all 12 chapters. We utilize a three-legged approach consisting of *globalization, innovation, and sustainability*. These three strategic issues comprise the cornerstone that all organizations must build upon to push their businesses forward. Each chapter incorporates specific vignettes about these three themes. We continue to be the most comprehensive and practical strategy book on the market, with chapters ranging from corporate governance and social responsibility to competitive strategy, functional strategy, and strategic alliances.

FEATURES NEW TO THIS 14TH EDITION

For the first time in 30 years, the 14th edition has added two new authors to the text. Alan Hoffman, a major contributor to the 13th edition, is a former textbook author and world-renowned author of strategy business cases, and Chuck Bamford, who was a student of Tom Wheelen and David Hunger back in 1980 at the University of Virginia (McIntire School of Commerce), has authored four other textbooks. They join J. David Hunger and bring a fresh perspective to this extraordinarily well-researched and practically crafted text. In that vein, this edition of the text has:

- Vignettes on Sustainability (which is widely defined as Business Sustainability), Globalization (which we view as an expectation of business), and Innovation (which is the single most important element in achieving competitive advantage) appear in every chapter of the text.
- Every example, chapter opening, and story has been updated. This includes chapter opening vignettes examining companies such as: Five Guys, RIM (BlackBerry), HP's Board of Directors, Tata Motors, Costco, and Pfizer among many others.
- Resource-based analysis (Chapter 5) has been added to the toolbox of students' understanding of competitive advantage.
- Extensive additions have been made to the text on strategy research.
- Current consulting practices have been added to the topics of strategy formulation and strategy implementation.
- Thirteen new full-length cases have been added:

Twelve new comprehensive cases and one new Industry Note have been added to support the 13 popular full-length cases and 8 mini-cases carried forward from past editions. Thirteen of the cases in the 14th edition are brand new and one case is an updated favorite from

past editions. Of the 34 cases appearing in this book, 20 are exclusive and do not appear in other books.

- One of the new cases deals with corporate social responsibility issues (**Early Warning: Concussion Risk and the Case of the Impact Sensing Chinstrap**).
- Two of the new cases deal with international issues (**A123, AB Electrolux**).
- Two of the new cases involve Internet companies (**Amazon, Blue Nile**).
- Three of the new cases deal with Entertainment and Leisure (**Groupon, Netflix, and Zynga**).
- One new case deals with sports and apparel clothing (**Under Armour**).
- One new Industry Note concerns digital signage. (**Daktronics**).
- One new case concerns the financial crisis of 2008 (**GE Capital**).
- Two new cases deal with transportation (**Delta Airlines, Tesla Motors**).

HOW THIS BOOK IS DIFFERENT FROM OTHER STRATEGY TEXTBOOKS

This book contains a **Strategic Management Model** that runs through the first 11 chapters and is made operational through the **Strategic Audit**, a complete case analysis methodology. The Strategic Audit provides a professional framework for case analysis in terms of external and internal factors and takes the student through the generation of strategic alternatives and implementation programs.

To help the student synthesize the many factors in a complex strategy case, we developed three useful techniques:

- **The External Factor Analysis (EFAS) Table in Chapter 4**
This reduces the external opportunities and threats to the 8 to 10 most important external factors facing management.
- **The Internal Factor Analysis (IFAS) Table in Chapter 5**
This reduces the internal strengths and weaknesses to the 8 to 10 most important internal factors facing management.
- **The Strategic Factor Analysis Summary (SFAS) Matrix in Chapter 6**
This condenses the 16 to 20 factors generated in the EFAS and IFAS tables into the 8 to 10 most important (strategic) factors facing the company. These strategic factors become the basis for generating alternatives and act as a recommendation for the company's future direction.

Suggestions for case analysis are provided in **Appendix 12.B (end of Chapter 12)** and contain step-by-step procedures on how to use a strategic audit in analyzing a case. This appendix includes an example of a student-written strategic audit. Thousands of students around the world have applied this methodology to case analysis with great success. *The Case Instructor's Manual* contains examples of student-written strategic audits for each of the full-length comprehensive strategy cases.

FEATURES

This edition contains many of the same features and content that helped make previous editions successful. Some of the features include the following:

CHAPTER 1
basic concepts of Strategic Management

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Learning Objectives
After reading this chapter, you should be able to:

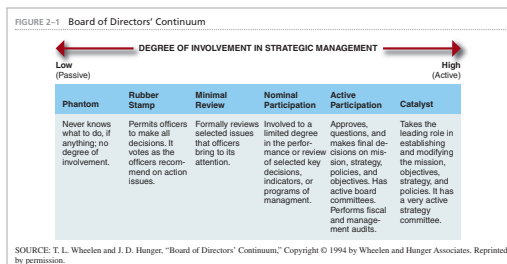
- Understand the benefits of strategic management
- Explain how globalization and environmental sustainability influence strategic management
- Understand the basic model of strategic management and its components
- Identify some common triggering events that act as stimuli for strategic change
- Understand strategic decision-making modes
- Use the strategic audit as a method of analyzing corporate functions and activities

- A **strategic management model** runs throughout the first 11 chapters as a unifying concept. (Explained in *Chapter 1*)

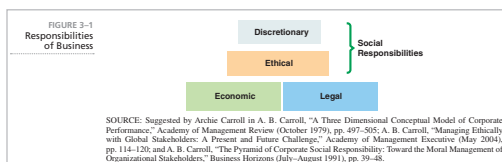
PART 1

Introduction to Strategic Management and Business Policy

- The **strategic audit**, a way to operationalize the strategic decision-making process, serves as a checklist in case analysis. (*Chapter 1*)



- **Corporate governance** is examined in terms of the roles, responsibilities, and interactions of top management and the board of directors and includes the impact of the Sarbanes–Oxley Act. (*Chapter 2*)



- **Social responsibility and managerial ethics** are examined in detail in terms of how they affect strategic decision making. They include the process of stakeholder analysis and the concept of social capital. (*Chapter 3*)

- Equal emphasis is placed on **environmental scanning** of the societal environment as well as on the task environment. Topics include forecasting and Miles and Snow's typology in addition to competitive intelligence techniques and Porter's industry analysis. (**Chapter 4**)
- **Core and distinctive competencies** are examined within the framework of the resource-based view of the firm. (**Chapter 5**)
- **Organizational analysis** includes material on business models, supply chain management, and corporate reputation. (**Chapter 5**)
- Internal and external strategic factors are emphasized through the use of specially designed **EFAS, IFAS, and SFAS tables**. (**Chapters 4, 5, and 6**)
- **Functional strategies** are examined in light of **outsourcing**. (**Chapter 8**)

approximately 75,000 Nancies a year. Although Tata Motors had intended to initially sell the people's car in India and then offer it in other developing markets, management has really researched and the Nano looks to be based in India for a long time to come.

SOURCE: S. Phyllis, "Charmen Tata Seem to Salvage World's Cheapest Nano Car," *BusinessWeek* (April 21, 2010), www.businessweek.com/content/2010/04/21/20100421tata-nano-people-car?hpid=hp_hp-top-table-main-nano-car&hpid=hp_hp-top-table-main-nano-car#p=1. & href="http://www.bbc.com/news/business-10950280">www.bbc.com/news/business-10950280

A Resource-Based Approach to Organizational Analysis

Scanning and analyzing the external environment for opportunities and threats is necessary for the firm to be able to understand its competitive environment and its place in that environment. However, it is not enough to provide an organization with a complete strategic analysis. Once this external examination has been completed, the attention must turn to look within the organization itself to identify internal resources—critical strengths and weaknesses that are likely to determine whether a firm will be able to take advantage of opportunities while avoiding threats. This internal scanning, often referred to as **organizational analysis**, is concerned with identifying, developing, and taking advantage of an organization's resources and competencies.

CORE AND DISTINCTIVE COMPETENCIES

Resources are an organization's assets and are the basic building blocks of the organization. They include tangible assets (such as its plant, equipment, finances, and location), human assets (the number of employees, their skills, and motivation), and intangible assets (such as its technology [patents and copyrights], culture, and reputation). **Capabilities** refer to a corporation's ability to exploit its resources. They consist of business processes and routines that manage the interaction among resources to turn inputs into outputs. For example, a company's marketing capability can be based on the interaction among its marketing specialists, distribution channels, and subgroups. A capability is functionally based and is evident in particular functions. Thus, there are marketing capabilities, manufacturing capabilities, and human resource management capabilities. When these capabilities are closely being changed and reconfigured to make them more adaptive to an uncertain environment, they are called **dynamic capabilities**. A **competency** is a cross-functional integration and coordination of capabilities. For example, a competency in new product development in one division of a corporation may be the consequence of integrating information systems capabilities, marketing capabilities, R&D capabilities, and production capabilities within the division. A **core competency** is a collection of competencies that cross divisional boundaries, is widespread within the corporation, and is something that the corporation can do exceedingly well. Thus, new product development is a core competency if it goes beyond one division. For example, a core competency of Amazon Products is its expertise in low-cost selling. FedEx has a core competency in its application of information technology to all its operations. A company must consistently invest in a core competency to risk not becoming a **core creator or destroyer**—that is, a strength that over time matures and may become a weakness. Although it is typically an asset in the accounting sense, a core competency is a very valuable resource—it does not "wear out" with use. In general, the

CHAPTER 9
strategy implementation: organizing for Action

Learning Objectives
After reading this chapter, you should be able to:

- Develop programs, budgets, and procedures to implement strategic change
- Understand the importance of achieving synergy during strategy implementation
- List the stages of corporate development and the structure that characterizes each stage
- Identify the blocks to changing from one stage to another
- Construct matrix and network structures to support flexible and nimble organizational strategies
- Decide when and if programs such as reengineering, Six Sigma, and job redesign are appropriate methods of strategy implementation
- Understand the centralization versus decentralization issue in multinational corporations

For nearly five decades, Wal-Mart's "everyday low prices" and low-cost position had enabled it to rapidly grow to dominate North America's retailing landscape. By 2012, however, its U.S. division generated only 2.2% growth in its same-store sales even as the recession was fading. Target, Macy's, Kmart, Costco, GAP, Kroger, and even The Home Depot were all growing faster than Wal-Mart. At about the same time, Microsoft, whose software had grown to dominate personal computers worldwide, saw its revenue growth over the five-year period from 2007 to 2012 slide to just 6%. The company's stock price had been virtually flat since 2002, an indication that investors no longer perceived Microsoft as a growth company. What had happened to these two successful companies? Was this an isolated phenomenon? What could be done, if anything, to reinvestigate these giants? A research study by Matthew Olson, Derek van Brugg, and Seth Verry attempts to provide an answer. After analyzing the operations of 500 successful companies over a 30-year period,

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- Two chapters deal with issues in **strategy implementation**, such as organizational and job design, as well as strategy-manager fit, action planning, corporate culture, and international strategic alliances. (**Chapters 9 and 10**)
- A separate chapter on **evaluation and control** explains the importance of measurement and incentives to organizational performance. (**Chapter 11**)

CHAPTER 10
strategy implementation: Staffing and Directing

Learning Objectives
After reading this chapter, you should be able to:

- Understand the link between strategy and staffing decisions
- Match the appropriate manager to the strategy
- Understand how to implement an effective downsizing program
- Discuss important issues in effectively staffing and directing international expansion
- Assess and manage the corporate culture's fit with a new strategy
- Formulate effective action plans when MBO and TQM are determined to be appropriate methods of strategy implementation

Costco: Leading from the Front
Costco was founded in 1983 upon several simple foundations, such as marking everything up by no more than 15% (even), paying and treating employees well, and providing a more upscale experience in the warehouse retail world. Today, the company is the largest by sales in the industry despite having fewer store locations than its rival Sam's Club. In 2011, the company racked up sales of US\$33 billion and had more than 60 million members who pay for the privilege of shopping there.

One of the most stunning elements of the Costco success story is the way it has handled the staffing and leading elements of the business. Employees at the company make an average salary of US\$32,800/year and 88% of employees receive health care benefits even though half are part-time employees. During the recession that hit the globe from 2008-2011, the company had no layoffs. This has meant that the company enjoys some of the lowest turnover in an industry plagued by turnover. Employees at Costco know what they are doing and actively help customers.

Interestingly, the staffing model morphs into leading with the approach that the company takes to executive compensation. The former CEO and co-founder of Costco had a salary of only US\$325,000/year and his total compensation package was US\$2.2 million when the average for fortune 500 CEOs in 2012 was US\$8.6 million. The senior management team is similarly compensated, leading to an "all in for the good of the company" approach to the business.

In addition to leading with salary, the CEO made it a part of his yearly effort to visit all 500 stores in nine countries. This visible leading-from-the-front approach sought employees off guard when he would repeatedly jump in and work at the stores: cleaning, stocking, going out food, and working the food court. In fact, the company has held tightly to the idea that a hot dog and soda should cost a patron no more than US\$1.50. That was the price in 1983 when they opened their first holding stand in a store, and it is the price today. Costco sells more than 60 million hot dogs a year.

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- **Suggestions for in-depth case analysis** provide a complete listing of financial ratios, recommendations for oral and written analysis, and ideas for further research. (**Chapter 12**)

- The **strategic audit worksheet** is based on the time-tested strategic audit and is designed to help students organize and structure daily case preparation in a brief period of time. The worksheet works exceedingly well for checking the level of daily student case preparation—especially for open class discussions of cases. (*Chapter 12*)

Strategic Audit Heading	Analysis		Comments
	(+) Factors	(-) Factors	
I. Current Situation			
A. Past Corporate Performance Indices			
B. Strategic Position:			
Current Mission			
Current Objectives			
Current Strategies			
Current Policies			
SWOT Analysis Begins:			
II. Corporate Governance			
A. Board of Directors			
B. Top Management			
III. External Environment (EFAS): Opportunities and Threats (SWOT)			
A. Natural Environment			
B. Societal Environment			
C. Task Environment (Industry Analysis)			
IV. Internal Environment (IFAS): Strengths and Weaknesses (SWOT)			
A. Corporate Structure			
B. Corporate Culture			
C. Corporate Resources			
1. Marketing			
2. Finance			
3. Research and Development			
4. Operations and Logistics			
5. Human Resources			
6. Information Technology			
V. Analysis of Strategic Factors (SFAS)			
A. Key Internal and External Strategic Factors (SWOT)			
B. Review of Mission and Objectives			
SWOT Analysis Ends, Recommendation Begins:			
VI. Alternatives and Recommendations			
A. Strategic Alternatives—pros and cons			
B. Recommended Strategy			
VII. Implementation			
VIII. Evaluation and Control			

NOTE: See the complete Strategic Audit on pages 34-41. It lists the pages in the book that discuss each of the eight headings.
SOURCE: T. L. Whetten and J. D. Hoopes, "Strategic Audit Worksheet," Copyright © 1985, 1996, 1997, 1998, 1999, 2005, and 2009 by T. L. Whetten. Copyright © 1999, 2005, and 2009 by Whetten and Hoopes Associates. Revised 1991, 1994, and 1997. Reprinted by permission. Additional copies available for classroom use in Part D of the Case Instructor's Manual and on the Practice Hall Web site www.pearsoned.com/cwhetten.

End of Chapter SUMMARY

Every day, about 17 truckloads of used diesel engines and other parts are dumped at a receiving facility at Caterpillar's remanufacturing plant in Corinth, Mississippi. The filthy iron engines are then broken down by two workers, who manually hammer and drill for half a day until they have taken every bolt off the engine and put each component into its own bin. The engines are then cleaned and remade at half the cost of a new engine and sold for a tidy profit. This system works at Caterpillar because, as a general rule, 70% of the cost to build something new is in the materials and 30% is in the labor. Remanufacturing simply starts the manufacturing process over again with materials that are essentially free and which already contain most of the energy costs needed to make them. The would-be discards become fodder for the next product, eliminating waste, and cutting costs. Caterpillar's management was so impressed by the remanufacturing operation that they made the business a separate division in 2005. The unit earned more than US\$1 billion in sales in 2005 and in 2012 employed more than 8500 workers in 16 countries.

Caterpillar's remanufacturing unit was successful not only because of its capability of wringing productivity out of materials and labor, but also because it designed its products for reuse. Before they are built new, remanufactured products must be designed for disassembly. In order to achieve this, Caterpillar asks its designers to check a "Reman" box on Caterpillar's product development checklist. The company also needs to know where its products are being used in order to take them back—known as the art of *reverse logistics*. This is achieved by Caterpillar's excellent relationship with its dealers throughout the world, as well as through financial incentives. For example, when a customer orders a crankshaft, that customer is offered a remanufactured one for half the cost of a new one—assuming the customer turns in the old

- An **experiential exercise** focusing on the material covered in each chapter helps the reader apply strategic concepts to an actual situation.

- A list of **key terms** and the pages in which they are discussed let the reader keep track of important concepts as they are introduced in each chapter.

End of Chapter SUMMARY

Strategy implementation is where "the rubber hits the road." Environmental scanning and strategy formulation are crucial to strategic management but are only the beginning of the process. The failure to carry a strategic plan into the day-day operations of the workplace is a major reason why strategic planning often fails to achieve its objectives. It is discouraging to note that in one study nearly 70% of the strategic plans were never successfully implemented.⁸⁴

For a strategy to be successfully implemented, it must be made action-oriented. This is done through a series of programs that are funded through specific budgets and contain new detailed procedures. This is what Sergio Marchionne did when he implemented a turnaround strategy as the new Fiat Group CEO in 2004. He attacked the lethargic, bureaucratic system by flattening Fiat's structure and giving younger managers a larger amount of authority and responsibility. He and other managers worked to reduce the number of auto platforms from 19 to six by 2012. The time from the completion of the design process to new car production was cut from 26 to 18 months. By 2008, the Fiat auto unit was again profitable. Marchionne reintroduced Fiat to the United States market in 2012 after a 27-year absence.⁸⁵

This chapter explains how jobs and organizational units can be designed to support a change in strategy. We will continue with staffing and directing issues in strategy implementation in the next chapter.

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KEY TERMS

budget (p. 251)	network structure (p. 262)	stages of corporate development (p. 255)
cellular/modular organization (p. 263)	organizational life cycle (p. 258)	stages of international development (p. 267)
geographic-area structure (p. 269)	procedure (p. 252)	strategy implementation (p. 246)
job design (p. 265)	product-group structure (p. 269)	structure follows strategy (p. 253)
matrix of change (p. xx)	program (p. 248)	synergy (p. 252)
matrix structure (p. 260)	reengineering (p. 263)	virtual organization (p. 262)
multinational corporation (MNC) (p. 266)	Six Sigma (p. 264)	

- **Learning objectives** begin each chapter.
- **Timely, well-researched, and class-tested cases** deal with interesting companies and industries. Many of the cases are about well-known, publicly held corporations—ideal subjects for further research by students wishing to “update” the cases.

Both the text and the cases have been class-tested in strategy courses and revised based on feedback from students and instructors. The first 11 chapters are organized around a strategic management model that begins each chapter and provides a structure for both content and case analysis. We emphasize those concepts that have proven to be most useful in understanding strategic decision making and in conducting case analysis. Our goal was to make the text as comprehensive as possible without getting bogged down in any one area. Extensive endnote references are provided for those who wish to learn more about any particular topic. All cases are about actual organizations. The firms range in size from large, established multinationals to small, entrepreneurial ventures, and cover a broad variety of issues. As an aid to case analysis, we propose the strategic audit as an analytical technique.

SUPPLEMENTS

Instructor Resource Center

At www.pearsonglobaleditions.com/Wheelen, instructors can access teaching resources available with this text in a downloadable, digital format. Registration is simple and gives you immediate access to new titles and editions. Please contact your Pearson sales representative for your access code. As a registered faculty member, you can download resource files and receive immediate access and instructions for installing course management content on your campus server. In case you ever need assistance, our dedicated technical support team is ready to assist instructors with questions about the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers. The Instructor Resource Center provides the following electronic resources.

Instructor’s Manuals

Two comprehensive Instructor’s Manuals have been carefully constructed to accompany this book. The first one accompanies the concepts chapters; the second one accompanies the cases.

Concepts Instructor’s Manual

To aid in discussing the 12 strategy chapters, the *Concepts Instructor’s Manual* includes:

- **Suggestions for Teaching Strategic Management:** These include various teaching methods and suggested course syllabi.
- **Chapter Notes:** These include summaries of each chapter, suggested answers to discussion questions, and suggestions for using end-of-chapter cases/exercises and part-ending cases, plus additional discussion questions (with answers) and lecture modules.

Case Instructor’s Manual

To aid in case method teaching, the *Case Instructor’s Manual* includes detailed suggestions for its use, teaching objectives, and examples of student analyses for each of the full-length comprehensive cases. This is the most comprehensive instructor’s manual available in strategic management. A standardized format is provided for each case:

1. Case Abstract
2. Case Issues and Subjects
3. Steps Covered in the Strategic Decision-Making Process

4. Case Objectives
5. Suggested Classroom Approaches
6. Discussion Questions
7. Case Author's Teaching Note (if available)
8. Student-Written Strategic Audit (if appropriate)
9. EFAS, IFAS, and SFAS Exhibits
10. Financial Analysis—ratios and common-size income statements (if appropriate)

PowerPoint Slides

PowerPoint slides, provided in a comprehensive package of text outlines and figures corresponding to the text, are designed to aid the educator and supplement in-class lectures.

Test Item File

The Test Item File contains over 1200 questions, including multiple-choice, true/false, and essay questions. Each question is followed by the correct answer, AACSB category, and difficulty rating.

TestGen

TestGen software is preloaded with all of the *Test Item File* questions. It allows instructors to manually or randomly view test questions, and to add, delete, or modify test-bank questions as needed to create multiple tests.

VIDEO LIBRARY

Videos illustrating the most important subject topics are available at:

- MyLab – available for instructors and students, provides round the clock instant access to videos and corresponding assessment and simulations for Pearson textbooks.

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