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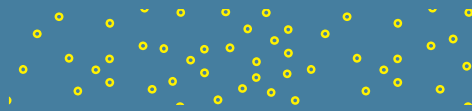
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Crafting & Executing  
**STRATEGY**

THE QUEST FOR COMPETITIVE ADVANTAGE

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**Concepts and Cases**



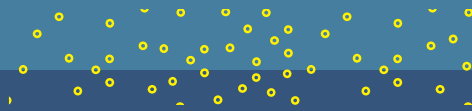
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 **CRAFTING AND  
EXECUTING STRATEGY**

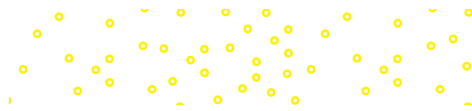
The Quest for Competitive Advantage

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**Concepts and Cases**







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# CRAFTING AND EXECUTING STRATEGY

The Quest for Competitive Advantage

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**Concepts and Cases** | 23RD EDITION

**Arthur A. Thompson**

*The University of Alabama*

**Margaret A. Peteraf**

*Dartmouth College*

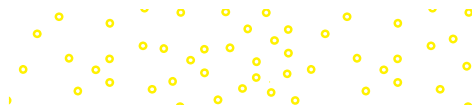
**John E. Gamble**

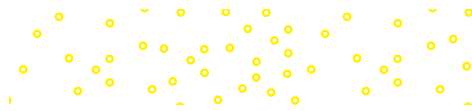
*Texas A&M University–Corpus Christi*

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*The University of Alabama*

**Mc  
Graw  
Hill**





## CRAFTING & EXECUTING STRATEGY: CONCEPTS AND CASES

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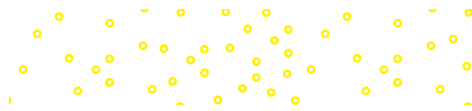
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- To our families and especially our spouses:
- Hasseline, Paul, Heather, and Kitty.



# About the Authors



Courtesy of Arthur A. Thompson, Jr.

**Arthur A. Thompson, Jr.**, earned his BS and PhD degrees in economics from The University of Tennessee, spent three years on the economics faculty at Virginia Tech, and served on the faculty of The University of Alabama's College of Commerce and Business Administration for 24 years. In 1974 and again in 1982, Dr. Thompson spent semester-long sabbaticals as a visiting scholar at the Harvard Business School.

His areas of specialization are business strategy, competition and market analysis, and the economics of business enterprises. In addition to publishing over 30 articles in some 25 different professional and trade publications, he has authored or co-authored five textbooks and six computer-based simulation exercises. His textbooks and strategy simulations have been used at well over 1,000 college and university campuses worldwide.

Dr. Thompson and his wife of 58 years have two daughters, two grandchildren, and a Yorkshire Terrier.



Courtesy of Margaret A. Peteraf

**Margaret A. Peteraf** is the Leon E. Williams Professor of Management Emerita at the Tuck School of Business at Dartmouth College. She is an internationally recognized scholar of strategic management, with a long list of publications in top management journals. She has earned myriad honors and prizes for her contributions, including the 1999 Strategic Management Society Best Paper Award recognizing the deep influence of her work on the field of Strategic Management. Professor Peteraf is a fellow of the Strategic Management Society and the Academy of Management. She served previously as a member of the Board of Governors of both the Society and the Academy of Management and as Chair of the Business Policy and Strategy Division of the Academy. She has also served in various editorial roles and on numerous editorial boards, including the *Strategic Management Journal*, the *Academy of Management Review*, and *Organization Science*. She has taught in Executive Education programs in various programs around the world and has won teaching awards at the MBA and Executive level.

Professor Peteraf earned her PhD, MA, and MPhil at Yale University and held previous faculty appointments at Northwestern University's Kellogg Graduate School of Management and at the University of Minnesota's Carlson School of Management.

**John E. Gamble** is a Professor of Management and Dean of the College of Business at Texas A&M University-Corpus Christi. His teaching and research for 25 years has focused on strategic management at the undergraduate and graduate levels. He has conducted courses in strategic management in Germany since 2001, which have been sponsored by the University of Applied Sciences in Worms.

Dr. Gamble's research has been published in various scholarly journals and he is the author or co-author of more than 75 case studies published in an assortment of strategic management and strategic marketing texts. He has done consulting on industry and market analysis for clients in a diverse mix of industries.

Professor Gamble received his PhD, MA, and BS degrees from The University of Alabama and was a faculty member in the Mitchell College of Business at the University of South Alabama before his appointment to the faculty at Texas A&M University-Corpus Christi.



Courtesy of Richard's Photography, LLC.

**Dr. A. J. (Lonnie) Strickland** is the Thomas R. Miller Professor of Strategic Management at the Culverhouse School of Business at The University of Alabama. He is a native of north Georgia, and attended the University of Georgia, where he received a BS degree in math and physics; Georgia Institute of Technology, where he received an MS in industrial management; and Georgia State University, where he received his PhD in business administration.

Lonnie's experience in consulting and executive development is in the strategic management arena, with a concentration in industry and competitive analysis. He has developed strategic planning systems for numerous firms all over the world. He served as Director of Marketing and Strategy at BellSouth, has taken two companies to the New York Stock Exchange, is one of the founders and directors of American Equity Investment Life Holding (AEL), and serves on numerous boards of directors. He is a very popular speaker in the area of strategic management.

Lonnie and his wife, Kitty, have been married for over 49 years. They have two children and two grandchildren. Each summer, Lonnie and his wife live on their private game reserve in South Africa where they enjoy taking their friends on safaris.



Courtesy of Dr. A. J. (Lonnie) Strickland





# Preface


**B**y offering the most engaging, clearly articulated, and conceptually sound text on strategic management, *Crafting and Executing Strategy* has been able to maintain its position as the leading textbook in strategic management for over 35 years. With this latest edition, we build on this strong foundation, maintaining the attributes of the book that have long made it the most teachable text on the market, while updating the content, sharpening its presentation, and providing enlightening new illustrations and examples.

The distinguishing mark of the 23rd edition is its enriched and enlivened presentation of the material in each of the 12 chapters, providing an as up-to-date and engrossing discussion of the core concepts and analytical tools as you will find anywhere. As with each of our new editions, there is an accompanying lineup of exciting new cases that bring the content to life and are sure to provoke interesting classroom discussions, deepening students' understanding of the material in the process.

While this 23rd edition retains the 12-chapter structure of the prior edition, every chapter—indeed every paragraph and every line—has been reexamined, refined, and refreshed. New content has been added to keep the material in line with the latest developments in the theory and practice of strategic management. In other areas, coverage has been trimmed to keep the book at a more manageable size. Scores of new examples have been added, along with many new Illustration Capsules, to enrich understanding of the content and to provide students with a ringside view of strategy in action. The result is a text that cuts straight to the chase in terms of what students really need to know and gives instructors a leg up on teaching that material effectively. It remains, as always, solidly mainstream and balanced, mirroring *both* the penetrating insight of academic thought and the pragmatism of real-world strategic management.

A standout feature of this text has always been the tight linkage between the content of the chapters and the cases. The lineup of cases that accompany the 23rd edition is outstanding in this respect—a truly appealing mix of strategically relevant and thoughtfully crafted cases, certain to engage students and sharpen their skills in applying the concepts and tools of strategic analysis. Many involve high-profile companies that the students will immediately recognize and relate to; all are framed around key strategic issues and serve to add depth and context to the topical content of the chapters. We are confident you will be impressed with how well these cases work in the classroom and the amount of student interest they will spark.

For some years now, growing numbers of strategy instructors at business schools worldwide have been transitioning from a purely text-case course structure to a more robust and energizing text-case-simulation course structure. Incorporating a competition-based strategy simulation has the strong appeal of providing class members with *an immediate and engaging opportunity to apply the concepts and analytical tools covered in the chapters and to become personally involved in crafting and executing a strategy for a virtual company that they have been assigned to manage and that*



*competes head-to-head with companies run by other class members.* Two widely used and pedagogically effective online strategy simulations, *The Business Strategy Game* and *GLO-BUS*, are optional companions for this text. Both simulations were created by Arthur Thompson, one of the text authors, and, like the cases, are closely linked to the content of each chapter in the text. The Exercises for Simulation Participants, found at the end of each chapter and integrated into the Connect package for the text, provide clear guidance to class members in applying the concepts and analytical tools covered in the chapters to the issues and decisions that they have to wrestle with in managing their simulation company.

To assist instructors in assessing student achievement of program learning objectives, in line with AACSB requirements, the 23rd edition includes a set of Assurance of Learning Exercises at the end of each chapter that link to the specific learning objectives appearing at the beginning of each chapter and highlighted throughout the text. An important instructional feature of the 23rd edition is its more closely *integrated* linkage of selected chapter-end Assurance of Learning Exercises and cases to Connect™. Your students will be able to use Connect™ to (1) complete chapter-specific activities, including selected Assurance of Learning Exercises appearing at the end of each of the 12 chapters as well as video and comprehension cases, (2) complete chapter-end quizzes, (3) complete suggested assignment questions for 14 of the 27 cases in this edition and (4) complete assignment questions for simulation users. All Connect exercises are automatically graded (with the exception of select Exercises for Simulation Participants), thereby enabling you to easily assess the learning that has occurred.

In addition, both of the companion strategy simulations have a built-in Learning Assurance Report that quantifies how well each member of your class performed on nine skills/learning measures *versus tens of thousands of other students worldwide* who completed the simulation in the past 12 months. We believe the chapter-end Assurance of Learning Exercises, the all-new online and automatically graded Connect™ exercises, and the Learning Assurance Report generated at the conclusion of *The Business Strategy Game* and *GLO-BUS* simulations provide you with easy-to-use, empirical measures of student learning in your course. All can be used in conjunction with other instructor-developed or school-developed scoring rubrics and assessment tools to comprehensively evaluate course or program learning outcomes and measure compliance with AACSB accreditation standards.

Taken together, the various components of the 23rd edition package and the supporting set of instructor resources provide you with enormous course design flexibility and a powerful kit of teaching/learning tools. We've done our very best to ensure that the elements constituting the 23rd edition will work well for you in the classroom, help you economize on the time needed to be well prepared for each class, and cause students to conclude that your course is one of the very best they have ever taken—from the standpoint of both enjoyment and learning.

## DIFFERENTIATING FEATURES OF THE 23RD EDITION



Nine standout features strongly differentiate this text and the accompanying instructional package from others in the field:

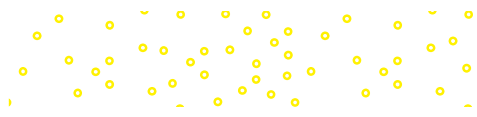
1. *We provide the clearest discussion of business models to be found anywhere.* By introducing this often-misunderstood concept right in the first chapter and defining it precisely, we give students a leg up on grasping this important concept. Follow-on discussions in the next eight chapters drive the concept home. Illustration capsules and cases show how a new business model can enable a company to compete successfully even against well-established rivals. In some cases, a new business model can even be the agent for disrupting an existing industry.
2. *Our integrated coverage of the two most popular perspectives on strategic management—positioning theory and resource-based theory—is unsurpassed by any other leading strategy text.* Principles and concepts from both the positioning perspective and the resource-based perspective are prominently and comprehensively integrated into our coverage of crafting both single-business and multibusiness strategies. By highlighting the relationship between a firm’s resources and capabilities to the activities it conducts along its value chain, we show explicitly how these two perspectives relate to one another. Moreover, in Chapters 3 through 8 it is emphasized repeatedly that a company’s strategy must be matched *not only* to its external market circumstances *but also* to its internal resources and competitive capabilities.
3. *With this new edition, we provide the clearest, easiest to understand presentation of the value-price-cost framework.* In recent years, this framework has become an essential aid to teaching students how companies create economic value in the course of conducting business. We show how this simple framework informs the concept of the business model as well as the all-important concept of competitive advantage. In Chapter 5, we add further clarity by showing in pictorial fashion how the value-price-cost framework relates to the different sources of competitive advantage that underlie the five generic strategies.
4. *Our coverage of cooperative strategies and the role that interorganizational activity can play in the pursuit of competitive advantage is similarly distinguished.* The topics of the value net, ecosystems, strategic alliances, licensing, joint ventures, and other types of collaborative relationships are featured prominently in a number of chapters and are integrated into other material throughout the text. We show how strategies of this nature can contribute to the success of single-business companies as well as multibusiness enterprises, whether with respect to firms operating in domestic markets or those operating in the international realm.
5. *The attention we give to international strategies, in all their dimensions, make this textbook an indispensable aid to understanding strategy formulation and execution in an increasingly connected, global world.* Our treatment of this topic as one of the most critical elements of the *scope* of a company’s activities brings home to students the connection between the topic of international strategy with other topics concerning firm scope, such as multibusiness (or corporate) strategy, outsourcing, insourcing, and vertical integration.
6. *With a standalone chapter devoted to these topics, our coverage of business ethics, corporate social responsibility, and environmental sustainability goes well beyond that offered by any other leading strategy text.* Chapter 9, “Ethics, Corporate Social Responsibility, Environmental Sustainability, and Strategy,” fulfills the important functions of (1) alerting students to the role and importance of ethical and socially

responsible decision making and (2) addressing the accreditation requirement of the AACSB International that business ethics be visibly and thoroughly embedded in the core curriculum. Moreover, discussions of the roles of values and ethics are integrated into portions of other chapters, beginning with the first chapter, to further reinforce why and how considerations relating to ethics, values, social responsibility, and sustainability should figure prominently into the managerial task of crafting and executing company strategies.

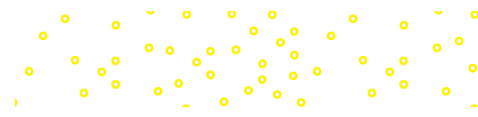
7. *Long known as an important differentiator of this text, the case collection in the 23rd edition is truly unrivaled* from the standpoints of student appeal, teachability, and suitability for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 12. The 27 cases included in this edition are the very latest, the best, and the most on target that we could find. The ample information about the cases in the Instructor's Manual makes it effortless to select a set of cases each term that will capture the interest of students from start to finish.
8. *The text is now optimized for hybrid and online delivery through robust assignment and assessment content integrated into Connect™.* This will enable professors to gauge class members' prowess in accurately completing (a) additional exercises and selected chapter-end exercises, (b) chapter-end quizzes, (c) exercises for simulation participants, and (d) exercises for 14 of the cases in this edition.
9. *Two cutting-edge and widely used strategy simulations—The Business Strategy Game and GLO-BUS—are optional companions to the 23rd edition.* These give you an unmatched capability to employ a text-case-simulation model of course delivery.

## ORGANIZATION, CONTENT, AND FEATURES OF THE 23RD-EDITION TEXT CHAPTERS

- Chapter 1 serves as a brief, general introduction to the topic of strategy, focusing on the central questions of “*What is strategy?*” and “*Why is it important?*” As such, it serves as the perfect accompaniment for your opening-day lecture on what the course is all about and why it matters. Using the example of Apple, Inc., to drive home the concepts in this chapter, we introduce students to what we mean by “competitive advantage” and the key features of business-level strategy. Describing strategy making as a process, we explain why a company's strategy is partly planned and partly reactive and why a strategy tends to co-evolve with its environment over time. As part of this strategy making process, we discuss the importance of ethics in choosing among strategic alternatives. We introduce the concept of a business model and offer a clear definition along with an illustration capsule that provides examples from the real world of business. We explain why a viable business model must provide both an attractive value proposition for the company's customers and a formula for making profits for the company. A key feature of this chapter is a depiction of how the value-price-cost framework can be used to frame this discussion. We show how the mark of a winning strategy is its ability to pass three tests: (1) the *fit test* (for internal and external fit), (2) the *competitive advantage test*, and (3) the *performance test*. And we explain why good company performance depends not only upon a sound strategy but upon solid strategy execution as well.
- Chapter 2 presents a more complete overview of the strategic management process, covering topics ranging from the role of vision, mission, and values to what constitutes good corporate governance. It makes a great assignment for the second day of class and provides a smooth transition into the heart of the course.



It introduces students to such core concepts as strategic versus financial objectives, the balanced scorecard, strategic intent, and business-level versus corporate-level strategies. It explains why *all managers are on a company's strategy-making, strategy-executing team* and why a company's strategic plan is a collection of strategies devised by different managers at different levels in the organizational hierarchy. The chapter concludes with a section on the role of the board of directors in the strategy-making, strategy-executing process and examines the conditions that have led to recent high-profile corporate governance failures. The illustration capsule on Volkswagen's emissions scandal brings this section to life.

- The next two chapters introduce students to the two most fundamental perspectives on strategy making: the positioning view, exemplified by Michael Porter's classic "five forces model of competition," and the resource-based view. Chapter 3 provides *what has long been the clearest, most straightforward discussion of the five forces framework to be found in any text on strategic management*. It also offers a set of complementary analytical tools for conducting competitor analysis, identifying strategic groups along with the mobility barriers that limit movement among them, and demonstrates the importance of tailoring strategy to fit the circumstances of a company's industry and competitive environment. The chapter includes a discussion of the value net framework, which is useful for conducting analysis of how cooperative as well as competitive moves by various parties contribute to the creation and capture of value in an industry.
  - Chapter 4 presents the resource-based view of the firm, showing why resource and capability analysis is such a powerful tool for sizing up a company's competitive assets. It offers a simple framework for identifying a company's resources and capabilities and explains how the VRIN framework can be used to determine whether they can provide the company with a sustainable competitive advantage over its competitors. Other topics covered in this chapter include dynamic capabilities, SWOT analysis, value chain analysis, benchmarking, and competitive strength assessments, thus enabling a solid appraisal of a company's cost position and customer value proposition vis-à-vis its rivals. *An important feature of this chapter is a table showing how key financial and operating ratios are calculated and how to interpret them*. Students will find this table handy in doing the number crunching needed to evaluate whether a company's strategy is delivering good financial performance.
  - Chapter 5 sets forth the basic approaches available for competing and winning in the marketplace in terms of the five generic competitive strategies—broad low-cost, broad differentiation, best-cost, focused differentiation, and focused low cost. It demonstrates pictorially the link between generic strategies, the value-price-cost framework, and competitive advantage. The chapter also describes when each of the five approaches works best and what pitfalls to avoid. Additionally, it explains the role of *cost drivers* and *uniqueness drivers* in reducing a company's costs and enhancing its differentiation, respectively.
  - Chapter 6 focuses on *other strategic actions* a company can take to complement its competitive approach and maximize the power of its overall strategy. These include a variety of offensive or defensive competitive moves, and their timing, such as blue-ocean strategies and first-mover advantages and disadvantages. It also includes choices concerning the breadth of a company's activities (or its *scope* of operations along an industry's entire value chain), ranging from horizontal mergers and acquisitions, to vertical integration, outsourcing, and strategic alliances. This material serves to segue into the scope issues covered in the next two chapters on international and diversification strategies.
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- Chapter 7 takes up the topic of how to compete in international markets. It begins with a discussion of why differing market conditions across countries must necessarily influence a company's strategic choices about how to enter and compete in foreign markets. It presents five major strategic options for expanding a company's geographic scope and competing in foreign markets: export strategies, licensing, franchising, establishing a wholly owned subsidiary via acquisition or "greenfield" venture, and alliance strategies. It includes coverage of topics such as Porter's Diamond of National Competitive Advantage, multi-market competition, and the choice between multidomestic, global, and transnational strategies. This chapter explains the impetus for sharing, transferring, or accessing valuable resources and capabilities across national borders in the quest for competitive advantage, connecting the material to that on the resource-based view from Chapter 4. The chapter concludes with a discussion of the unique characteristics of competing in developing-country markets.
- Chapter 8 concerns strategy making in the multibusiness company, introducing the topic of corporate-level strategy with its special focus on diversification. The first portion of this chapter describes when and why diversification makes good strategic sense, the different means of diversifying a company's business lineup, and the pros and cons of related versus unrelated diversification strategies. The second part of the chapter looks at how to evaluate the attractiveness of a diversified company's business lineup, how to decide whether it has a good diversification strategy, and what strategic options are available for improving a diversified company's future performance. The evaluative technique integrates material concerning both industry analysis and the resource-based view, in that it considers the relative attractiveness of the various industries the company has diversified into, the company's competitive strength in each of its lines of business, and the extent to which its different businesses exhibit both *strategic fit* and *resource fit*.
- Although the topic of ethics and values comes up at various points in this textbook, Chapter 9 brings more direct attention to such issues and may be used as a stand-alone assignment in either the early, middle, or late part of a course. It concerns the themes of ethical standards in business, approaches to ensuring consistent ethical standards for companies with international operations, corporate social responsibility, and environmental sustainability. The contents of this chapter are sure to give students some things to ponder, rouse lively discussion, and help to make students more *ethically aware* and conscious of *why all companies should conduct their business in a socially responsible and sustainable manner*.
- The next three chapters (Chapters 10, 11, and 12) comprise a module on strategy execution that is presented in terms of a 10-step action framework. Chapter 10 provides an overview of this framework and then explores the first three of these tasks: (1) *staffing the organization* with people capable of executing the strategy well, (2) *building the organizational capabilities* needed for successful strategy execution, and (3) *creating an organizational structure* supportive of the strategy execution process.
- Chapter 11 discusses five additional managerial actions that advance the cause of good strategy execution: (1) *allocating resources* to enable the strategy execution process, (2) ensuring that *policies and procedures* facilitate rather than impede strategy execution, (3) using *process management tools* and *best practices* to drive continuous improvement in the performance of value chain activities, (4) installing *information and operating systems* that help company personnel carry out their

strategic roles, and (5) using *rewards and incentives* to encourage good strategy execution and the achievement of performance targets.

- Chapter 12 completes the 10-step framework with a consideration of the importance of *creating a healthy corporate culture* and *exercising effective leadership* in promoting good strategy execution. The recurring theme throughout the final three chapters is that executing strategy involves deciding on the specific actions, behaviors, and conditions needed for a smooth strategy-supportive operation and then following through to get things done and deliver results. The goal here is to ensure that students understand that the strategy-executing phase is a *make-things-happen and make-them-happen-right* kind of managerial exercise—one that is critical for achieving operating excellence and reaching the goal of strong company performance.

In this latest edition, we have put our utmost effort into ensuring that the 12 chapters are consistent with the latest and best thinking of academics and practitioners in the field of strategic management and provide the topical coverage required for both undergraduate and MBA-level strategy courses. The ultimate test of the text, of course, is the positive pedagogical impact it has in the classroom. If this edition sets a more effective stage for your lectures and does a better job of helping you persuade students that the discipline of strategy merits their rapt attention, then it will have fulfilled its purpose.

## THE CASE COLLECTION

The 27-case lineup in this edition is flush with interesting companies and valuable lessons for students in the art and science of crafting and executing strategy. There's a good blend of cases from a length perspective—about two-thirds of the cases are under 15 pages yet offer plenty for students to chew on; and the remainder are detail-rich cases that call for more sweeping analysis.

At least 25 of the 27 cases involve companies, products, people, or activities that students will have heard of, know about from personal experience, or can easily identify with. The lineup includes at least 20 cases that will deepen student understanding of the special demands of competing in industry environments where product life cycles are short and competitive maneuvering among rivals is quite active. Twenty-three of the cases involve situations in which company resources and competitive capabilities play as large a role in the strategy-making, strategy executing scheme of things as industry and competitive conditions do. Scattered throughout the lineup are 20 cases concerning non-U.S. companies, globally competitive industries, and/or cross-cultural situations. These cases, in conjunction with the globalized content of the text chapters, provide abundant material for linking the study of strategic management tightly to the ongoing globalization of the world economy. You'll also find 8 cases dealing with the strategic problems of family-owned or relatively small entrepreneurial businesses and 24 cases involving public companies and situations where students can do further research on the Internet.

The "Guide to Case Analysis" follows the last case. It contains sections on what a case is, why cases are a standard part of courses in strategy, preparing a case for class discussion, doing a written case analysis, doing an oral presentation, and using financial ratio analysis to assess a company's financial condition. We suggest having students read this guide before the first class discussion of a case.

A number of cases have accompanying YouTube video segments which are listed in Section 3 of the Instructor's Manual, in a separate Video Library within the Instructor's Resources, and in the Teaching Note for each case.



## THE TWO STRATEGY SIMULATION SUPPLEMENTS: THE BUSINESS STRATEGY GAME AND GLO-BUS

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*The Business Strategy Game* and *GLO-BUS: Developing Winning Competitive Strategies*—two competition-based strategy simulations that are delivered online and that feature automated processing and grading of performance—are being marketed by the publisher as companion supplements for use with the 23rd edition (and other texts in the field).

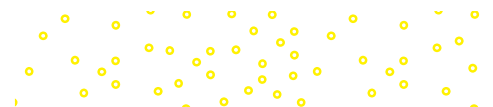
- *The Business Strategy Game* is the world's most popular strategy simulation, having been used by nearly 3,600 different instructors for courses involving close to one million students at 1,300 university campuses in 76 countries. It features global competition in the athletic footwear industry, a product/market setting familiar to students everywhere and one whose managerial challenges are easily grasped. A freshly updated and much-enhanced version of *The Business Strategy Game* was introduced in August 2018.
- *GLO-BUS*, a newer and somewhat simpler strategy simulation first introduced in 2004 and freshly revamped in 2016 to center on competition in two exciting product categories—wearable miniature action cameras and unmanned camera-equipped drones suitable for multiple commercial purposes, has been used by 2,100 different instructors for courses involving nearly 360,000 students at 800+ university campuses in 53 countries.

### How the Strategy Simulations Work

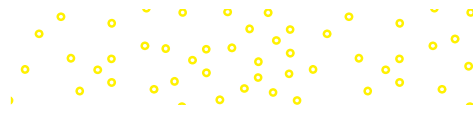
In both *The Business Strategy Game (BSG)* and *GLO-BUS*, class members are divided into teams of one to five persons and assigned to run a company that competes head-to-head against companies run by other class members. In both simulations, companies compete in a global market arena, selling their products in four geographic regions—Europe-Africa, North America, Asia-Pacific, and Latin America. Each management team is called upon to craft a strategy for their company and make decisions relating to production 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 operating 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 are *very tightly linked* to what your class members will be reading about in the text chapters. The circumstances that co-managers face in running their simulation company embrace the very concepts, analytical tools, and strategy options they encounter in the text chapters (this is something you can quickly confirm by skimming through some of the Exercises for Simulation Participants that appear at the end of each chapter).

We suggest that you schedule one or two practice rounds and anywhere from four to 10 regular (scored) decision rounds (more rounds are better than fewer rounds). Each decision round represents a year of company operations and will entail roughly two hours







of time for company co-managers to complete. In traditional 13-week, semester-long courses, there is merit in scheduling one decision round per week. In courses that run five to 10 weeks, it is wise to schedule two decision rounds per week for the last several weeks of the term (sample course schedules are provided for courses of varying length and varying numbers of class meetings).

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 other companies being run by students in your class, and then awards sales and market shares to the competing companies, geographic region by geographic region. The unit sales volumes awarded to each company *are totally governed by*

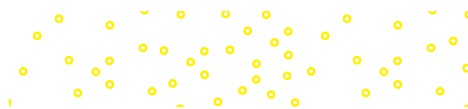
- How its prices compare against the prices of rival brands.
- How its product quality compares against the quality of rival brands.
- How its product line breadth and selection compare.
- How its advertising effort compares.
- And so on, for a total of 11 competitive factors that determine unit sales and market shares.

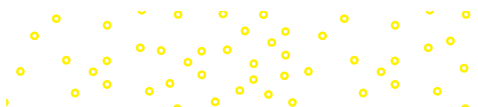
The competitiveness and overall buyer appeal of each company's product offering *in comparison to the product offerings of rival companies* is all-decisive—this algorithmic feature is what makes *BSG* and *GLO-BUS* “competition-based” strategy simulations. Once each company's sales and market shares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

## The Compelling Case for Incorporating Use of a Strategy Simulation

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

- *A three-pronged text-case-simulation course model delivers significantly more teaching-learning power than the traditional text-case model.* Using *both* cases and a strategy simulation to drill students in thinking strategically and applying what they read in the text chapters is a stronger, more effective means of helping them connect theory with practice and develop 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 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 they are held fully accountable for their decisions and their company's performance, *co-managers 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. *Consequently,*



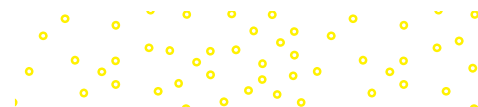


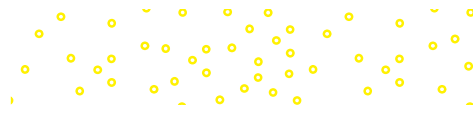
*incorporating both case assignments and a strategy simulation to develop the skills of class members in thinking strategically and applying the concepts and tools of strategic analysis turns out to be more pedagogically powerful than relying solely on case assignments—there’s stronger retention of the lessons learned and better achievement of course learning objectives.*

To provide you with quantitative evidence of the learning 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 nine skills/learning measures versus tens of thousands of students worldwide who have completed the simulation in the past 12 months.

- *The competitive nature of a strategy simulation arouses positive energy and steps up the whole tempo of the course by a notch or two.* Nothing sparks class excitement quicker or better than the concerted efforts on the part of class members at each decision round to achieve a high industry ranking and avoid the perilous consequences of being outcompeted by other class members. Students really enjoy taking on the role of a manager, running their own company, crafting strategies, making all kinds of operating decisions, trying to outcompete rival companies, and getting immediate feedback on the resulting company performance. Lots of back-and-forth chatter occurs when the results of the latest simulation round become available and co-managers renew their quest for strategic moves and actions that will strengthen company performance. Co-managers become *emotionally invested* in running their company and figuring out what strategic moves to make to boost their company’s performance. Interest levels climb. All this stimulates learning and causes students to see the practical relevance of the subject matter and the benefits of taking your course.

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 students 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.*

- *Use of 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 student teams (roughly two hours per decision round times 10 to 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. This 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. Course preparation time is further cut because you can use several class days to have students bring their laptops to class or meet in a computer lab to work on upcoming decision rounds or a three-year strategic plan (in lieu of lecturing on a chapter or covering an additional assigned case). Not only does use of a simulation permit assigning fewer cases, but it also permits you 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 weights for each assignment in your online grade book, a suggested overall grade is calculated for you. You’ll be pleasantly surprised—and quite pleased—at how little time it takes to gear up for and administer *The Business Strategy Game* or *GLO-BUS*.
- 



In sum, incorporating use of a strategy simulation turns out to be *a win-win proposition for both students and instructors*. Moreover, a very convincing argument can be made that a competition-based strategy simulation is *the single most effective teaching/learning tool that instructors can employ to teach the discipline of business and competitive strategy, to make learning more enjoyable, and to promote better achievement of course learning objectives*.

## A Bird's-Eye View of *The Business Strategy Game*

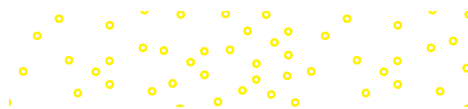
The setting for *The Business Strategy Game (BSG)* is the global athletic footwear industry (there can be little doubt in today's world that a globally competitive strategy simulation is *vastly superior* to a simulation with a domestic-only setting). Global market demand for footwear grows at the rate of seven to nine percent annually for the first five years and five to seven percent annually for the second five years. However, market growth rates vary by geographic region—North America, Latin America, Europe-Africa, and Asia-Pacific.

Companies begin the simulation producing branded and private-label footwear in two plants, one in North America and one in Asia. They have the option to establish production facilities in Latin America and Europe-Africa. Company co-managers exercise control over production costs on the basis of 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 geographic distribution centers. All sales in a geographic region are made from footwear inventories in that region's distribution center. 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. At the start of the simulation, import tariffs average \$4 per pair in North America, \$6 in Europe-Africa, \$8 per pair in Latin America, and \$10 in the Asia-Pacific region. Instructors have the option to alter tariffs as the game progresses.

Companies market their brand of athletic footwear to footwear retailers worldwide and to individuals buying online at the company's website. Each company's sales and market share in the branded footwear segments hinge on its competitiveness on 13 factors: attractive pricing, footwear styling and quality, product line breadth, advertising, use of mail-in rebates, appeal of celebrities endorsing a company's brand, success in convincing footwear retailers to carry its brand, number of weeks it takes to fill retailer orders, effectiveness of a company's online sales effort at its website, and brand reputation. Sales of private-label footwear hinge solely on being the low-price bidder.

All told, company co-managers make as many as 57 types of decisions each period that cut across production operations (up to 11 decisions per plant, with a maximum of four plants), the addition of facility space, equipment, and production improvement options (up to eight decisions per plant), worker compensation and training (up to six decisions per plant), shipping and distribution center operations (five decisions per geographic region), pricing and marketing (up to nine decisions in four geographic regions), bids to sign celebrities (two decision entries per bid), financing of company operations (up to eight decisions), and corporate social responsibility and environmental sustainability (up to eight decisions). Plus, there are 10 entries for each region pertaining to assumptions about the upcoming-year actions and competitive efforts of rival companies that factor directly into the forecasts of a company's unit sales, revenues, and market share in each of the four geographic regions.



Each time company co-managers make a decision entry, an assortment of on-screen calculations instantly shows the projected effects on unit sales, revenues, market shares, unit costs, profit, earnings per share, ROE, and other operating statistics. The on-screen calculations help team members evaluate the relative merits of one decision entry versus another and put together a promising strategy.

Companies can employ any of the five generic competitive strategy options in selling branded footwear—low-cost leadership, differentiation, best-cost provider, focused low cost, and focused differentiation. They can pursue essentially the same strategy worldwide or craft slightly or very different strategies for the Europe-Africa, Asia-Pacific, Latin America, and North America markets. They can strive for competitive advantage based on more advertising, a wider selection of models, more appealing styling/quality, bigger rebates, and so on.

*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.* The challenge for each company's management team is to craft and execute a competitive strategy that produces good performance on five measures: earnings per share, return on equity investment, stock price appreciation, credit rating, and brand image.

All activity for *The Business Strategy Game* takes place at [www.bsg-online.com](http://www.bsg-online.com).

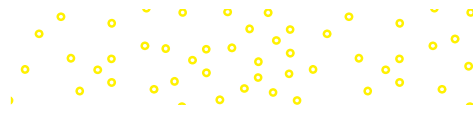
## A Bird's-Eye View of GLO-BUS

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 numerous others) 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 2,000+ range. Global market demand for action cameras grows at the rate of six to eight percent annually for the first five years and four to six percent annually for the second five years. Global market demand for commercial drones grows briskly at rates averaging 18 percent for the first two years, then gradually slows over eight years to a rate of four to six percent.

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 two to three 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.

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 eight



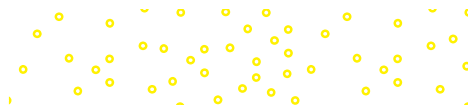
decision entries for each product), pricing and marketing (seven decisions for cameras and five for drones), corporate social responsibility and citizenship (up to six decisions), and the financing of company operations (up to eight decisions). In addition, there are 10 entries for cameras and seven 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). 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.

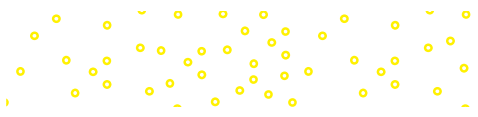
Competition in action cameras revolves around 11 factors that determine each company's unit sales/market share:

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 nine 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.



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4. How each company's annual expenditures to recruit/support third-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.
  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.

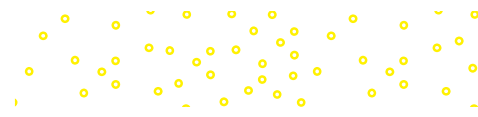
Each company typically seeks to enhance its performance and build competitive advantage via its own custom-tailored competitive strategy based on more attractive pricing, greater advertising, a wider selection of models, more appealing performance/quality, longer warranties, a better image/reputation, and so on. 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*.

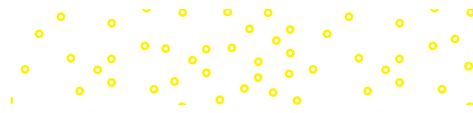
As with *BSG*, all the various generic competitive strategy options—low-cost leadership, differentiation, best-cost provider, focused low-cost, and focused differentiation—are viable choices for pursuing competitive advantage and good company performance. A company can have a strategy aimed at being the clear market leader in either action cameras or drones or both. It can focus its competitive efforts on one or two or three 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.

The challenge for each company's management team is to craft and execute a competitive strategy that produces good performance on five measures: earnings per share, return on equity investment, stock price appreciation, credit rating, and brand image.

All activity for *GLO-BUS* occurs at [www.glo-bus.com](http://www.glo-bus.com).

**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

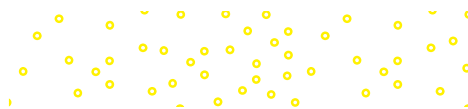
- (a) there are only 8 market segments (versus 12 in *BSG*),
  - (b) co-managers have only one assembly site to operate (versus potentially as many as four plants in *BSG*, one in each geographic region), and
  - (c) newly assembled cameras and drones are shipped directly to buyers, eliminating the need to manage finished goods inventories and operate distribution centers.
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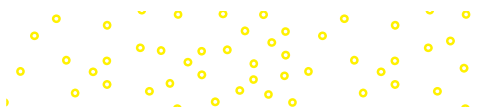


## Administration and Operating Features of the Two Simulations

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 are so similar that you can readily switch between the two simulations or use one in your undergraduate class and the other in a graduate class. If you have not yet used either of the two simulations, you may find the following of particular interest:

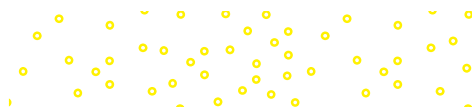
- Setting up the simulation for your course is done online and takes about 10 to 15 minutes. Once setup is completed, no other administrative actions are required beyond those of moving participants to a different team (should the need arise) and monitoring the progress of the simulation (to whatever extent desired).
- Participant's Guides are delivered electronically to class members at the website—students can read the guide on their monitors or print out a copy, as they prefer.
- There are two to four minute Video Tutorials scattered throughout the software (including each decision screen and each page of each report) that provide on-demand guidance to class members who may be uncertain about how to proceed.
- Complementing the Video Tutorials are detailed and clearly written Help sections explaining “all there is to know” about (a) each decision entry and the relevant cause-effect relationships, (b) the information on each page of the Industry Reports, and (c) the numbers presented in the Company Reports. *The Video Tutorials and the Help screens allow company co-managers to figure things out for themselves, thereby curbing the need for students to ask the instructor “how things work.”*
- Team members running the same company who are logged in simultaneously on different computers at different locations can click a button to enter Collaboration Mode, enabling them to work collaboratively from the same screen in viewing reports and making decision entries, and click a second button to enter Audio Mode, letting them talk to one another and hold an online meeting.
  - 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 in Collaboration Mode.
  - 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.
  - 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.
  - Use of Audio Mode capability requires that each team member work from a computer with a built-in microphone (if they want to be heard by their team members) and speakers (so they may hear their teammates) or else have a headset with a microphone that they can plug into their desktop or laptop. 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 our new voice chat feature.



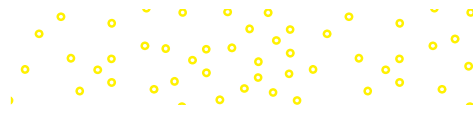
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- Real-time VoIP audio chat capability among team members who have entered both the Audio Mode and the Collaboration Mode is a tremendous boost in functionality that enables team members to go online simultaneously on computers at different locations and conveniently and effectively collaborate in running their simulation company.
  - In addition, instructors have the capability to join the online session of any company and speak with team members, thus circumventing the need for team members to arrange for and attend a meeting in the instructor's office. Using the standard menu for administering a particular industry, instructors can connect with the company desirous of assistance. Instructors who wish not only to talk but also to 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.

Without a doubt, the Collaboration and Voice-Chat capabilities are hugely valuable for students enrolled in online and distance-learning courses where meeting face-to-face is impractical or time-consuming. Likewise, the instructors of online and distance-learning courses will appreciate having the capability to join the online meetings of particular company teams when their advice or assistance is requested.

- Both simulations work equally well for online courses and in-person classes.
- Participants and instructors are notified via e-mail when the results are ready (usually about 15 to 20 minutes after the decision round deadline specified by the instructor/game administrator).
- Following each decision round, participants are provided with a complete set of reports—a six-page Industry Report, a Competitive Intelligence report for each geographic region that includes strategic group maps and a set of Company Reports (income statement, balance sheet, cash flow statement, and assorted production, marketing, and cost statistics).
- Two “open-book” multiple-choice tests of 20 questions are built into each simulation. The quizzes, which you can require or not as you see fit, are taken online and automatically graded, with scores reported instantaneously to participants and automatically recorded in the instructor's electronic grade book. Students are automatically provided with three sample questions for each test.
- Both simulations contain a three-year strategic plan option that you can assign. Scores on the plan are automatically recorded in the instructor's online grade book.
- At the end of the simulation, you can have students complete online peer evaluations (again, the scores are automatically recorded in your online grade book).
- Both simulations have a Company Presentation feature that enables each team of company co-managers to easily prepare PowerPoint slides for use in describing their strategy and summarizing their company's performance in a presentation to either the class, the instructor, or an “outside” board of directors.
- *A Learning Assurance Report provides you with hard data concerning how well your students performed vis-à-vis students playing the simulation worldwide over the past 12 months.* The report is based on nine measures of student proficiency, business know-how, and decision-making skill and can also be used in evaluating the extent to which your school's academic curriculum produces the desired degree of student learning insofar as accreditation standards are concerned.







For more details on either simulation, please consult Section 2 of the Instructor's Manual accompanying this text or register as an instructor at the simulation websites ([www.bsg-online.com](http://www.bsg-online.com) and [www.glo-bus.com](http://www.glo-bus.com)) to access even more comprehensive information. You should also consider signing up for one of the webinars that the simulation authors conduct several times each month (sometimes several times weekly) to demonstrate how the software works, walk you through the various features and menu options, and answer any questions. You have an open invitation to call the senior author of this text at (205) 722-9145 to arrange a personal demonstration or talk about how one of the simulations might work in one of your courses. We think you'll be quite impressed with the cutting-edge capabilities that have been programmed into *The Business Strategy Game* and *GLO-BUS*, the simplicity with which both simulations can be administered, and their exceptionally tight connection to the text chapters, core concepts, and standard analytical tools.

## RESOURCES AND SUPPORT MATERIALS FOR THE 23RD EDITION



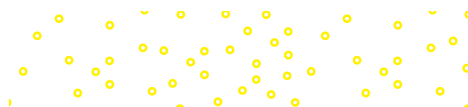
### For Students

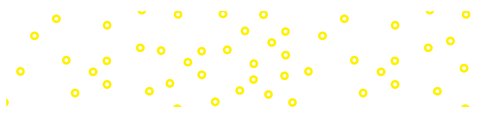
**Key Points Summaries** At the end of each chapter is a synopsis of the core concepts, analytical tools, and other key points discussed in the chapter. These chapter-end synopses, along with the core concept definitions and margin notes scattered throughout each chapter, help students focus on basic strategy principles, digest the messages of each chapter, and prepare for tests.

**Two Sets of Chapter-End Exercises** Each chapter concludes with two sets of exercises. The *Assurance of Learning Exercises* are useful for helping students prepare for class discussion and to gauge their understanding of the material. The *Exercises for Simulation Participants* are designed expressly for use in class which incorporate the use of a simulation. These exercises explicitly connect the chapter content to the simulation company the students are running. Even if they are not assigned by the instructor, they can provide helpful practice for students as a study aid.

**Connect™** The 23rd edition takes full advantage of Connect™, a personalized teaching and learning tool. The Connect™ package for this edition includes several robust and valuable features that simplify the task of assigning and grading three types of exercises for students:

- Autograded chapter quizzes that students can take to measure their grasp of the material presented in each of the 12 chapters.
- A variety of interactive exercises for each of the 12 chapters that drill students in the use and application of the concepts and tools of strategic analysis, including selected Assurance of Learning Exercises and newly integrated Exercises for Simulation Participants.
- Case Exercises for 14 of the 27 cases in this edition that require students to work through answers to a select number of the assignment questions for the case. These exercises have multiple components and are tailored to match the circumstances presented in each case, calling upon students to do whatever strategic thinking and





strategic analysis are called for to arrive at pragmatic, analysis-based action recommendations for improving company performance.

All Connect™ exercises are automatically graded (with the exception of a few select Exercises for Simulation Participants that entail answers in the form of short essays), thereby simplifying the task of evaluating each class member's performance and monitoring the learning outcomes. The progress-tracking function built into Connect™ enables you to

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB International.

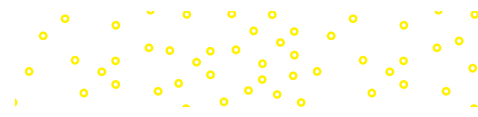
**SmartBook 2.0®** SmartBook 2.0 is the first and only adaptive reading experience designed to change the way students read and learn. It creates a personalized reading experience by highlighting the most impactful concepts a student needs to learn at that moment in time. As a student engages with SmartBook, the reading experience continuously adapts by highlighting content based on what the student knows and doesn't know. This ensures that the focus is on the content he or she needs to learn, while simultaneously promoting long-term retention of material. Use SmartBook's real-time reports to quickly identify the concepts that require more attention from individual students—or the entire class. The end result? Students are more engaged with course content, can better prioritize their time, and come to class ready to participate.

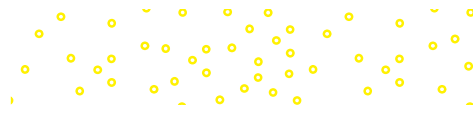
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**Instructor's Manual** The accompanying IM contains:

- A section on suggestions for organizing and structuring your course.
  - Sample syllabi and course outlines.
- 



- A set of lecture notes on each chapter.
- Answers to the chapter-end Assurance of Learning Exercises.
- A test bank for all 12 chapters.
- A comprehensive case teaching note for each of the 27 cases. These teaching notes are filled with suggestions for using the case effectively, have very thorough, analysis-based answers to the suggested assignment questions for the case, and contain an epilogue detailing any important developments since the case was written.

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Test Builder is a cloud-based tool that enables instructors to format tests that can be printed or administered within an LMS. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download. Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.

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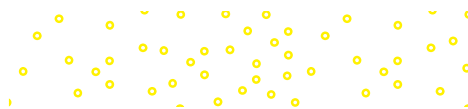
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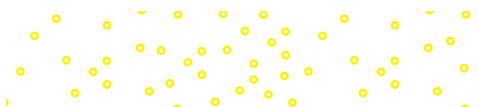
**The Business Strategy Game and GLO-BUS Online Simulations** Using one of the two companion simulations is a powerful and constructive way of emotionally connecting students to the subject matter of the course. We know of no more effective way to arouse the competitive energy of students and prepare them for the challenges of real-world business decision making than to have them match strategic wits with classmates in running a company in head-to-head competition for global market leadership.

## ACKNOWLEDGMENTS



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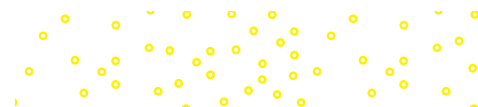


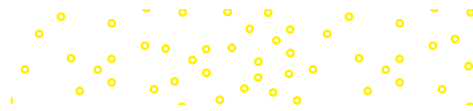
carefully researched cases in contributing to a substantive study of strategic management issues and practices.

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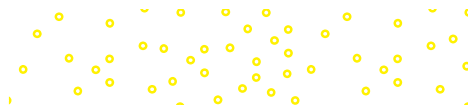
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**John E. Gamble**

**A. J. Strickland**



# The Business Strategy Game or GLO-BUS Simulation Exercises

**Decision Entires - Year 11**

**Wholesale Marketing of Branded Footwear**

	North America	Europe-Africa	Asia Pacific	Latin America
SG Rating	5.8	4.8	5.8	4.8
Brand Availability	200	200	200	200
Celebrity Appeal	0	0	0	0
Wholesale Price to Retailer (\$ per unit)	48.00	48.00	41.00	42.00
Advertising Budget (units)	7000	7000	7000	7000
Mail to Retailer Offer (\$ per unit)	3	3	2	2
Retail Outlets Utilized (per outlet)	3000	3000	3000	3000
Retailer Support (\$ per outlet outlet)	400	400	400	400
Delivery to Retailers (M, B, S, or W)	3	3	3	3

**Projected Year 11 Performance**

Item	Value
Earnings Per Share	\$2.17
Return On Equity	12.2%
Credit Rating	BB+
Image Rating	65

**Alerts & Chat Center**

**Decision Entires - Year 6**

**Marketing Decisions**

	North America	Europe-Africa	Asia Pacific	Latin America
Retail Dealers - Multi-Store-Chains	18	16	6	6
Online Retailers	30	30	12	12
Local Camera Shops	500	500	500	500
Quarterly Technical Support (\$/unit)	\$ 120	\$ 60	\$ 100	\$ 100
Projected Annual Tech Support Expenditure	\$ 2.03 (per unit sold)	\$ 1.00 (per unit sold)	\$ 2.50 (per unit sold)	\$ 2.41 (per unit sold)
Quarterly Advertising (\$/unit)	\$ 400	\$ 160	\$ 160	\$ 650

**Projected Year 6 Performance**

Item	Value
SG Rating	6.0
Return On Equity	16.6%
Credit Rating	BB
Image Rating	61

**Alerts & Chat Center**

## The Business Strategy Game or GLO-BUS Simulation Exercises

Either one of these text supplements involves teams of students managing companies in a head-to-head contest for global market leadership. Company co-managers have to make decisions relating to product quality, production, workforce compensation and training, pricing and marketing, and financing of company operations. The challenge is to craft and execute a strategy that is powerful enough to deliver good financial performance despite the competitive efforts of rival companies. Each company competes in North America, Latin America, Europe-Africa, and Asia-Pacific. *Fanatic Studio/Getty Images*



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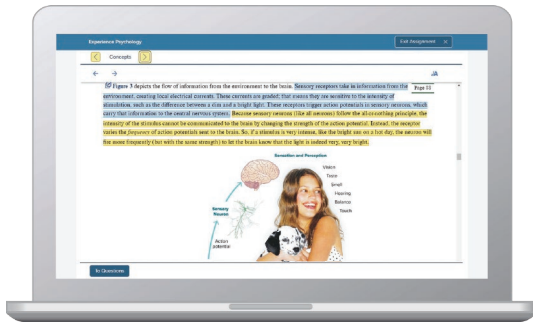
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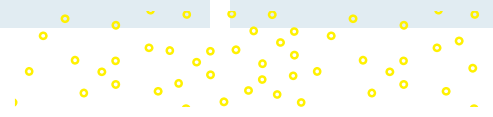
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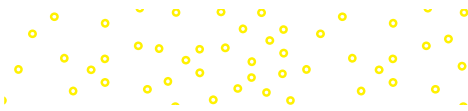
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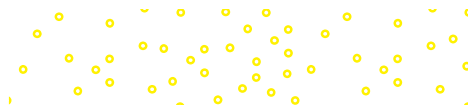
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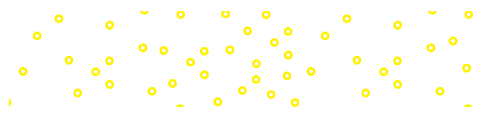
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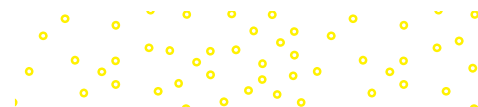
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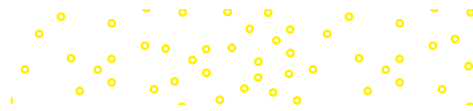
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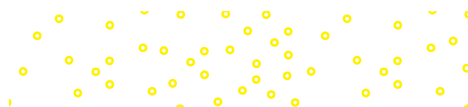
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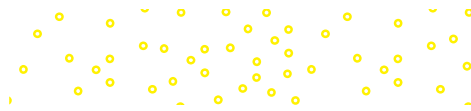
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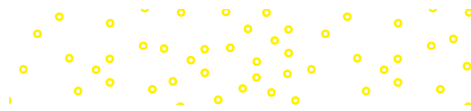
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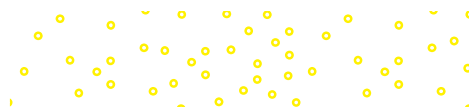
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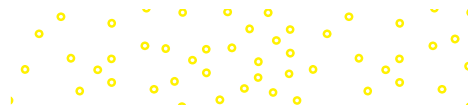
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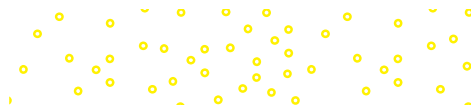
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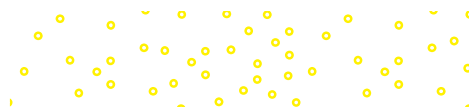
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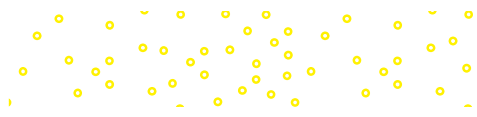
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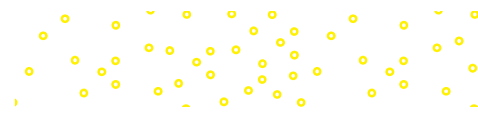
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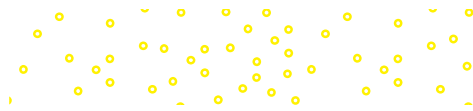
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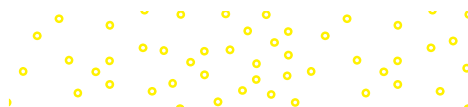
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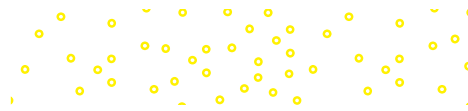
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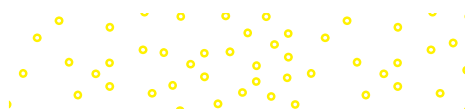
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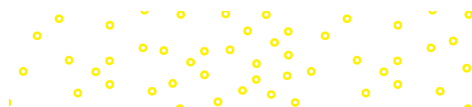
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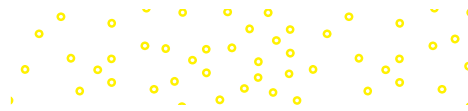
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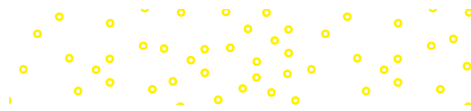
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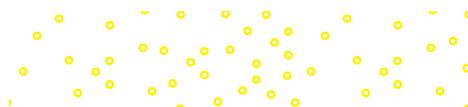
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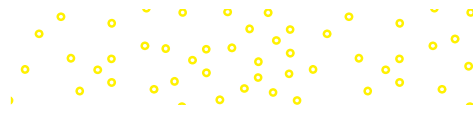
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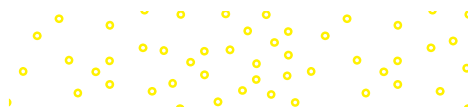
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# PART 1

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Concepts and Techniques  
for Crafting and  
Executing Strategy

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## chapter 1

# What Is Strategy and Why Is It Important?

### Learning Objectives

*After reading this chapter, you should be able to:*

- LO 1-1** Understand what is meant by a company's *strategy* and why it needs to differ from competitors' strategies.
- LO 1-2** Grasp the concept of a *sustainable competitive advantage*.
- LO 1-3** Identify the five most basic strategic approaches for setting a company apart from its rivals.
- LO 1-4** Understand why a company's strategy tends to evolve.
- LO 1-5** Identify what constitutes a viable business model.
- LO 1-6** Identify the three tests of a winning strategy.



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Strategy is about setting yourself apart from the competition.

Michael Porter—*Professor and consultant*

Strategy means making clear-cut choices about how to compete.

Jack Welch—*Former CEO of General Electric*

I believe that people make their own luck by great preparation and good strategy.

Jack Canfield—*Corporate trainer and entrepreneur*

According to *The Economist*, a leading publication on business, economics, and international affairs, “In business, strategy is king. Leadership and hard work are all very well and luck is mighty useful, but it is strategy that makes or breaks a firm.”<sup>1</sup> Luck and circumstance can explain why some companies are blessed with initial, short-lived success. But only a well-crafted, well-executed, constantly evolving strategy can explain why an elite set of companies somehow manage to rise to the top and stay there, year after year, pleasing their customers, shareholders, and other stakeholders alike in the process. Companies such as Apple, Disney, Starbucks, Alphabet (parent company of Google), Berkshire Hathaway, General Electric, and Amazon come to mind—but long-lived success is not just the province of U.S. companies. Diverse kinds of companies, both large and small, from many different countries have been able to sustain strong performance records, including Denmark’s Lego Group, the United Kingdom’s

HSBC (in banking), Dubai’s Emirates Airlines, Switzerland’s Rolex China Mobile (in telecommunications), and India’s Tata Steel.

In this opening chapter, we define the concept of strategy and describe its many facets. We introduce you to the concept of competitive advantage and explore the tight linkage between a company’s strategy and its quest for competitive advantage. We will also explain why company strategies are partly proactive and partly reactive, why they evolve over time, and the relationship between a company’s strategy and its business model. We conclude the chapter with a discussion of what sets a winning strategy apart from others and why that strategy should also pass the test of moral scrutiny. By the end of this chapter, you will have a clear idea of why the tasks of crafting and executing strategy are core management functions and why excellent execution of an excellent strategy is the most reliable recipe for turning a company into a standout performer over the long term.



## WHAT DO WE MEAN BY STRATEGY?

### CORE CONCEPT

A company's **strategy** is the set of coordinated actions that its managers take in order to outperform the company's competitors and achieve superior profitability.

A company's **strategy** is the set of coordinated actions that its managers take in order to outperform the company's competitors and achieve superior profitability. The objective of a well-crafted strategy is not merely temporary competitive success and profits in the short run, but rather the sort of lasting success that can support growth and secure the company's future over the long term. Achieving this entails making a managerial commitment to a coherent array of well-considered choices about how to compete.<sup>2</sup> These include

- *How* to position the company in the marketplace.
- *How* to attract customers.
- *How* to compete against rivals.
- *How* to achieve the company's performance targets.
- *How* to capitalize on opportunities to grow the business.
- *How* to respond to changing economic and market conditions.

In most industries, companies have considerable freedom in choosing the *hows* of strategy.<sup>3</sup> Some companies strive to achieve lower costs than rivals, while others aim for product superiority or more personalized customer service dimensions that rivals cannot match. Some companies opt for wide product lines, while others concentrate their energies on a narrow product lineup. Some deliberately confine their operations to local or regional markets; others opt to compete nationally, internationally (several countries), or globally (all or most of the major country markets worldwide). Choices of how best to compete against rivals have to be made in light of the firm's resources and capabilities and in light of the competitive approaches rival companies are employing.

### LO 1-1

Understand what is meant by a company's *strategy* and why it needs to differ from competitors' strategies.

## Strategy Is about Competing Differently

Mimicking the strategies of successful industry rivals—with either copycat product offerings or maneuvers to stake out the same market position—rarely works. Rather, every company's strategy needs to have some distinctive element that draws in customers and provides a competitive edge. Strategy, at its essence, is about competing differently—doing what rival firms *don't* do or what rival firms *can't* do.<sup>4</sup> This does not mean that the key elements of a company's strategy have to be 100 percent different, but rather that they must differ in at least *some important respects*. A strategy stands a better chance of succeeding when it is predicated on actions, business approaches, and competitive moves aimed at (1) appealing to buyers in ways that *set a company apart from its rivals* and (2) staking out a market position that is not crowded with strong competitors.

Strategy is about competing differently from rivals—doing what competitors don't do or, even better, doing what they can't do!

A company's strategy provides direction and guidance, in terms of not only what the company *should* do but also what it *should not* do. Knowing what not to do can be as important as knowing what to do, strategically. At best, making the wrong strategic moves will prove a distraction and a waste of company resources. At worst, it can bring about unintended long-term consequences that put the company's very survival at risk.

Figure 1.1 illustrates the broad types of actions and approaches that often characterize a company's strategy in a particular business or industry. For a more concrete example, see Illustration Capsule 1.1 describing the elements of Apple, Inc.'s successful strategy.

**FIGURE 1.1** Identifying a Company's Strategy—What to Look For

## Strategy and the Quest for Competitive Advantage

The heart and soul of any strategy are the actions in the marketplace that managers take to gain a competitive advantage over rivals. A company has a **competitive advantage** whenever it has some type of edge over rivals in attracting buyers and coping with competitive forces. A competitive advantage is essential for realizing greater marketplace success and higher profitability over the long term.

### • LO 1-2

Grasp the concept of a *sustainable competitive advantage*.

There are many routes to competitive advantage, but they all involve one of two basic mechanisms. Either they provide the customer with a product or service that the customer values more highly than others (higher perceived value), or they produce their product or service more efficiently (lower costs). Delivering superior value or delivering value more efficiently—whatever form it takes—nearly always requires performing value chain activities differently than rivals and building capabilities that are not readily matched. In Illustration Capsule 1.1, it is evident that Apple, Inc. has gained a competitive advantage over its rivals in the technological device industry through its efforts to create “must-have,” exciting new products, that are beautifully designed, technologically advanced, easy to use, and sold in appealing stores that offer a fun experience, knowledgeable staff, and excellent service. By differentiating itself in this manner from its competitors Apple has been able to charge prices for its products that are well above those of its rivals and far exceed the low cost of its inputs. Its expansion policies have allowed the company to make it easy for customers to find an Apple store in almost any high-quality mall or urban shopping district, further enhancing the brand and cementing customer loyalty. A creative *distinctive* strategy such as that used by Apple is a company’s most reliable ticket for developing a competitive advantage over its rivals. If a strategy is not distinctive, then there can be no competitive advantage, since no firm would be meeting customer needs better or operating more efficiently than any other.

### CORE CONCEPT

A company achieves a **competitive advantage** when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm. The advantage is **sustainable** if it persists despite the best efforts of competitors to match or surpass this advantage.

If a company’s competitive edge holds promise for being *sustainable* (as opposed to just temporary), then so much the better for both the strategy and the company’s future profitability. What makes a competitive advantage **sustainable** (or durable), as opposed to temporary, are elements of the strategy that give buyers lasting reasons to prefer a company’s products or services over those of competitors—*reasons that competitors are unable to nullify, duplicate, or overcome despite their best efforts*. In the case of Apple, the company’s unparalleled name recognition, its reputation for technically superior, beautifully designed, “must-have” products, and the accessibility of the appealing, consumer-friendly stores with knowledgeable staff, make it difficult for competitors to weaken or overcome Apple’s competitive advantage. Not only has Apple’s strategy provided the company with a sustainable competitive advantage, but it has made Apple, Inc. one of the most admired companies on the planet.

Five of the most frequently used and dependable strategic approaches to setting a company apart from rivals, building strong customer loyalty, and gaining a competitive advantage are

#### • LO 1-3

Identify the five most basic strategic approaches for setting a company apart from rivals.

1. *A low-cost provider strategy*—achieving a cost-based advantage over rivals. Walmart and Southwest Airlines have earned strong market positions because of the low-cost advantages they have achieved over their rivals. Low-cost provider strategies can produce a durable competitive edge when rivals find it hard to match the low-cost leader’s approach to driving costs out of the business.
2. *A broad differentiation strategy*—seeking to differentiate the company’s product or service from that of rivals in ways that will appeal to a broad spectrum of buyers. Successful adopters of differentiation strategies include Apple (innovative products), Johnson & Johnson in baby products (product reliability), Rolex (luxury and prestige), and BMW (engineering design and performance). One way to sustain this type of competitive advantage is to be sufficiently innovative to thwart the efforts of clever rivals to copy or closely imitate the product offering.

● **ILLUSTRATION**  
● **CAPSULE 1.1**

## Apple Inc.: Exemplifying a Successful Strategy

Apple Inc. is one of the most profitable companies in the world, with revenues of more than \$265 billion. For more than 10 consecutive years, it has ranked number one on Fortune's list of the "World's Most Admired Companies." Given the worldwide popularity of its products and services, along with its reputation for superior technological innovation and design capabilities, this is not surprising. The key elements of Apple's successful strategy include:

- *Designing and developing its own operating systems, hardware, application software, and services.* This allows Apple to bring the best user experience to its customers through products and solutions with innovative design, superior ease-of-use, and seamless integration across platforms. The ability to use services like iCloud across devices incentivizes users to join Apple's technological ecosystem and has been critical to fostering brand loyalty.
- *Continuously investing in research and development (R&D) and frequently introducing products.* Apple has invested heavily in R&D, spending upwards of \$11 billion a year, to ensure a continual and timely injection of competitive products, services, and technologies into the marketplace. Its successful products and services include the Mac, iPod, iPhone, iPad, Apple Watch, Apple TV, and Apple Music. It is currently investing in an Apple electric car and Apple solar energy.
- *Strategically locating its stores and staffing them with knowledgeable personnel.* By operating its own Apple stores and positioning them in high-traffic locations, Apple is better equipped to provide its customers with the optimal buying experience. The stores' employees are well versed in the value of the hardware and software integration and demonstrate the unique solutions available on its products. This high-quality sale and after-sale supports allows Apple to continuously attract new and retain existing customers.
- *Expanding Apple's reach domestically and internationally.* Apple operates more than 500 retail stores across



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24 countries. During fiscal year 2019, 60 percent of Apple's revenue came from international sales.

- *Maintaining a quality brand image, supported by premium pricing.* Although the computer industry is incredibly price competitive, Apple has managed to sustain a competitive edge by focusing on its inimitable value proposition and deliberately keeping a price premium—thus creating an aura of prestige around its products.
- *Committing to corporate social responsibility and sustainability through supplier relations.* Apple's strict Code of Conduct requires its suppliers to comply with several standards regarding safe working conditions, fair treatment of workers, and environmentally safe manufacturing.
- *Cultivating a diverse workforce rooted in transparency.* Apple believes that diverse teams make innovation possible and is dedicated to incorporating a broad range of perspectives in its workforce. Every year, Apple publishes data showing the representation of women and different race and ethnicity groups across functions.

Note: Developed with Shawnda Lee Duvigneaud

Sources: Apple 10-K, Company website.

3. *A focused low-cost strategy*—concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by having lower costs and thus being able to serve niche members at a lower price. Private-label manufacturers of food, health and beauty products, and nutritional supplements use their low-cost advantage to offer supermarket buyers lower prices than those demanded by producers of branded



products. IKEA's emphasis on modular furniture, ready for assembly, makes it a focused low-cost player in the furniture market.

4. *A focused differentiation strategy*—concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by offering buyers customized attributes that meet their specialized needs and tastes better than rivals' products. Lululemon, for example, specializes in high-quality yoga clothing and the like, attracting a devoted set of buyers in the process. Tesla, Inc., with its electric cars, LinkedIn specializing in the business and employment aspects of social networking, and Goya Foods in Hispanic specialty food products provide some other examples of this strategy.
5. *A best-cost provider strategy*—giving customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations. This approach is a hybrid strategy that blends elements of low-cost provider and differentiation strategies; the aim is to have lower costs than rivals while simultaneously offering better differentiating attributes. Target is an example of a company that is known for its hip product design (a reputation it built by featuring limited edition lines by designers such as Rodarte, Victoria Beckham, and Jason Wu), as well as a more appealing shopping ambience for discount store shoppers. Its dual focus on low costs as well as differentiation shows how a best-cost provider strategy can offer customers great value for the money.

Winning a *sustainable* competitive edge over rivals with any of the preceding five strategies generally hinges as much on building competitively valuable expertise and capabilities that rivals cannot readily match as it does on having a distinctive product offering. Clever rivals can nearly always copy the attributes of a popular product or service, but for rivals to match the experience, know-how, and specialized capabilities that a company has developed and perfected over a long period of time is substantially harder to do and takes much longer. The success of the Swatch in watches, for example, was driven by impressive design, marketing, and engineering capabilities, while Apple has demonstrated outstanding product innovation capabilities in digital music players, smartphones, and e-readers. Hyundai has become the world's fastest-growing automaker as a result of its advanced manufacturing processes and unparalleled quality control systems. Capabilities such as these have been hard for competitors to imitate or best.

#### • LO 1-4

Understand why a company's strategy tends to evolve.

## Why a Company's Strategy Evolves over Time

The appeal of a strategy that yields a sustainable competitive advantage is that it offers the potential for a more enduring edge than a temporary advantage over rivals. But sustainability is a relative term, with some advantages lasting longer than others. And regardless of how sustainable a competitive advantage may appear to be at a given point in time, conditions change. Even a substantial competitive advantage over rivals may crumble in the face of drastic shifts in market conditions or disruptive innovations. Therefore, managers of every company must be willing and ready to modify the strategy in response to changing market conditions, advancing technology, unexpected moves by competitors, shifting buyer needs, emerging market opportunities, and new ideas for improving the strategy. Most of the time, a company's strategy evolves incrementally as management fine-tunes various pieces of the strategy and adjusts the strategy in response to unfolding events.<sup>5</sup> However, on occasion, major strategy shifts are called

for, such as when the strategy is clearly failing or when industry conditions change in dramatic ways. Industry environments characterized by high-velocity change require companies to repeatedly adapt their strategies.<sup>6</sup> For example, companies in industries with rapid-fire advances in technology like 3-D printing, shale fracking, and genetic engineering often find it essential to adjust key elements of their strategies several times a year. When the technological change is drastic enough to “disrupt” the entire industry, displacing market leaders and altering market boundaries, companies may find it necessary to “reinvent” entirely their approach to providing value to their customers.

Regardless of whether a company’s strategy changes gradually or swiftly, the important point is that the task of crafting strategy is not a one-time event but always a work in progress. Adapting to new conditions and constantly evaluating what is working well enough to continue and what needs to be improved are normal parts of the strategy-making process, resulting in an *evolving strategy*.<sup>7</sup>

## A Company’s Strategy Is Partly Proactive and Partly Reactive

The evolving nature of a company’s strategy means that the typical company strategy is a blend of (1) *proactive*, planned initiatives to improve the company’s financial performance and secure a competitive edge and (2) *reactive* responses to unanticipated developments and fresh market conditions. The biggest portion of a company’s current strategy flows from previously initiated actions that have proven themselves in the marketplace and newly launched initiatives aimed at edging out rivals and boosting financial performance. This part of management’s action plan for running the company is its **deliberate strategy**, consisting of proactive strategy elements that are both planned and realized as planned (while other planned strategy elements may not work out and are abandoned in consequence)—see Figure 1.2.<sup>8</sup>

But managers must always be willing to supplement or modify the proactive strategy elements with as-needed reactions to unanticipated conditions. Inevitably, there will be occasions when market and competitive conditions take an unexpected turn that calls for some kind of strategic reaction. Hence, *a portion of a company’s strategy is always developed on the fly*, coming as a response to fresh strategic maneuvers on the part of rival firms, unexpected shifts in customer requirements, fast-changing technological developments, newly appearing market opportunities, a changing political or economic climate, or other unanticipated happenings in the surrounding environment. These adaptive strategy adjustments make up the firm’s **emergent strategy**. A company’s strategy *in toto* (its **realized strategy**) thus tends to be a *combination* of proactive and reactive elements, with certain strategy elements being *abandoned* because they have become obsolete or ineffective. A company’s realized strategy can be observed in the pattern of its actions over time, which is a far better indicator than any of its strategic plans on paper or any public pronouncements about its strategy.

## Strategy and Ethics: Passing the Test of Moral Scrutiny

In choosing among strategic alternatives, company managers are well advised to embrace actions that can pass the test of moral scrutiny. Just keeping a company’s strategic actions within the bounds of what is legal does not mean the strategy is

Changing circumstances and ongoing management efforts to improve the strategy cause a company’s strategy to evolve over time—a condition that makes the task of crafting strategy a *work in progress*, not a one-time event.

A company’s strategy is shaped partly by management analysis and choice and partly by the necessity of adapting and learning by doing.

### CORE CONCEPT

A company’s **deliberate strategy** consists of *proactive* strategy elements that are planned; its **emergent strategy** consists of *reactive* strategy elements that emerge as changing conditions warrant.

A strategy cannot be considered ethical just because it involves actions that are legal. To meet the standard of being ethical, a strategy must entail actions and behavior that can pass moral scrutiny in the sense of *not being* deceitful, unfair or harmful to others, disreputable, or unreasonably damaging to the environment.