

Capstone Study Guide-Exam 1

Goals

What is the purpose of a mission statement?

-“Framework”

-a description or declaration of why a company is in operation, provides the framework or context within which strategies are formed

What is the difference between the design school and the emergent school?

What is an emergent strategy?

-emergent strategy: strategy in making an unpredictable world, lower level managers, unplanned strategies

-Emergent school: things happen in the market that you cannot predict, need to ensure flexibility, reward people for being adaptive, low authority (ex: Honda)

-Design School: given enough information a manager can figure it out, lots of information/bureaucracy, use information to figure out what will happen next

What is scenario planning?

-No one can predict all ends

-Members of firms gather to discuss strategy and new events in the market

-“covering your backside”

-allow both upper and lower management to deal with today and look at the market

What is the role of leadership in vision and missions?

-what the company is trying to achieve medium or long-term

-leadership: responsibility

-manager carries out the mission

Be able to tell me an “acceptable” ethical statement.

-“An Easter egg”-no answer to this question

-want it to avoid corporate failure-more on the philosophical side

Porter

What are Porter’s forces?

1. Threat of supplies
2. Risk of entry by potential competitors
3. Threat of substitutes
4. Bargaining power of buyers
5. Bargaining power of suppliers

Understand what drives each of these forces.

1. Rivalry among established companies

-industry competitive structure-fragmented vs. consolidated (Monopoly/Oligopoly)

-industry demand

-exit barriers

- investment asset of little or no alternative value or that cannot be sold
- high fixed cost
- emotional attachment to industry
- economic independence
- need to maintain an expensive collection of assets in order to participate effectively in an industry

2. Risk of entry by potential competitors

- barriers to entry: brand loyalty, absolute cost advantage, economies of scale, customer switching costs, government regulations

3. Threat of substitutes

- many
 - threaten and limit the price that companies in one industry can charge for their product, and thus industry profitability
- few or weak substitutes
 - gives the industry a chance to raise the prices and earn additional profits

4. Bargaining power of buyers

- Buyer most powerful when:
 - the industry is comprised of many small competitors and buyers are few
 - buyers purchase in large quantities
 - the supply industry depends on buyers for large percentage of total orders
 - switching costs=low
 - economically feasible for buyers to play on suppliers against one another
 - buyers can threaten to produce the product themselves

5. Bargaining power of suppliers

- suppliers-most powerful when:
 - few substitute products
 - the industry is not an important customer to the supplier
 - switching costs=higher for companies switching to a different supplier
 - suppliers can threaten to compete directly with buyers by entering their industry
 - buyers cannot threaten to enter their industry

What is the “sixth” force?

- Complementors-when the demand of one industry depends on the demand of another industry

Upon what grouping within an industry is Porter best applied to?

- Segment-strategy-it’s a clear method to analyzing business segments and developing entry/exit/investment plans and analyzes competitive advantage

Understand what market condition shapes each of the forces.

What is the outcome of a proper Porter analysis?

- once we split the industry and segment into different variables, groups tend to merge and competition emerges

How important is the macro-economic condition in a Porter analysis?

-NOT INCLUDED IN THE FORCES, but changes in macro environment have a direct effect on porters 5 forces

Industry Evolution

What consumer groups emerge during market development?

- innovators=1%
- entry adaptors=5%
- early majority=24%
- late majority=45%
- laggards=24%

In terms of market share, which is the largest?

- late majority=45%

Early in market development, firms have trouble adapting to the stabilization of market demands.

What is the name for the gap firms must cross when market demands become more uniform.

THE CHASM

What are the techniques firms use to get across this gap?

- correctly identify the needs of the first wave of early majority users
- alter the business model in response
- alter the value chain & distribution channels to reach early majority
- design the product to meet the needs of early majority and so that it can be modified and produced or provided at a low cost
- anticipate the moves of competitors

Technologies gain acceptance at different rates. What are some ways that firms can increase the acceptance of a technology?

- Use new technology to develop new business models-consolidate a fragmented industry
- price, selection, geography
- i.e. Amazon

What is the intent of product proliferation?

- when large companies all have products in each segment
- competition is base on product differentiation
- have products that take up all of market share
- keep entrants from coming in
- protect your existing market

In a limit pricing game, what price should the incumbent set?

- charge price below the profit maximizing quantity and price that is below average cost structure of new entrants but above the average cost structure
- still making a profit but lower than the “new guy”

Why do firms want to avoid price-based competitive strategies?

- because of positioning and getting more buyers
- lower price and will decrease profit margin

Resources/Capabilities

Competitive advantage comes from two basic organizational characteristics what are they?

1. Resources (land)
2. Capabilities (way to display products)

What are the three factors that describe a resources earning potential?

1. Durability-how long
2. Capabilities-how long it will make money
3. Appropriability-how much profit we get to keep, to what extent

Be able to draw the value chain – either form will do

- McKinsey & Porter—talks about cross organization

Resources and capabilities seek to explain what characteristic of firm profitability

- amount of value customers place on competitive product
- price changed
- costs of creating value

What is a resource?

- capital or financial, physical, social or human, technological, and organizational favor endowments-accreditations, experienced factors, alumni, GPA

What is a capability?

- a company's skills at coordinating and using its resources

Understand what I meant by hierarchy of capabilities

- individual work together to form organization, the chart-two completely different skills reach basis for competitive, but if we have a lot of people who are good at what they do-work together, reduce competitive advantage

What are the four basic capabilities?

1. Innovation
2. Responsiveness
3. Quality
4. Efficiency

What are some techniques to develop capabilities?

- link strategy to human resources
- Greenfield development in separate organizational units-i.e. Saturn; starting a new firm, individual subsidiary
- Change management to transform value and behavior

- product sequencing
- knowledge management