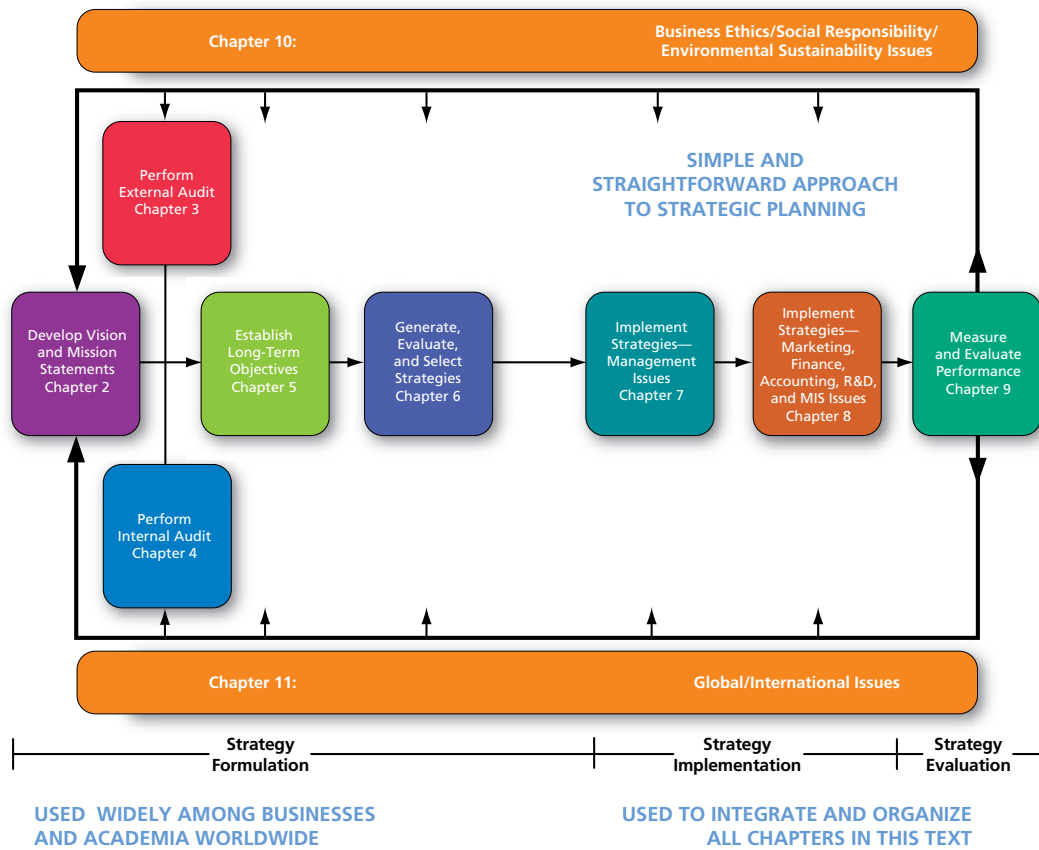




STRATEGIC CONCEPTS
AND CASES
15TH EDITION
MANAGEMENT
A Competitive Advantage Approach

FRED R. DAVID | FOREST R. DAVID

Comprehensive Model of the Strategic-Management Process



STRATEGIC MANAGEMENT

Concepts and Cases

A COMPETITIVE ADVANTAGE APPROACH

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FIFTEENTH
EDITION

STRATEGIC MANAGEMENT

Concepts and Cases

A COMPETITIVE ADVANTAGE APPROACH

Fred R. David

Francis Marion University
Florence, South Carolina

Forest R. David

Strategic Planning Consultant

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Welcome Forest, and Thank You:

- For joining me as a coauthor on this 15th edition
- For preparing the *Case Instructor's Manual* for this textbook and five previous editions
- For writing 29 new, excellent cases included in this edition, and many cases in prior editions
- For publishing many strategic management papers and articles with me and other authors
- For your wise strategic-management counsel over many years as this textbook has evolved
- For assisting students for many years through the Strategy Club (www.strategyclub.com) that now also offers your free Excel Student Template
- For developing an outstanding Case MyLab testing feature for this edition
- For preparing the *Chapter Instructor's Manual* for this edition

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Preface

Why Adopt This Text?

This textbook is trusted around the world to provide managers the latest skills and concepts needed to effectively formulate and efficiently implement a strategic plan—a game plan, if you will—that can lead to sustainable competitive advantage for any type of business. The Association to Advance Collegiate Schools of Business (AACSB) increasingly advocates a more skills-oriented, practical approach in business books, which the David text provides, rather than a theory-based approach. This textbook meets all AACSB-International guidelines for the strategic-management course at both the graduate and undergraduate levels, and previous editions have been used at more than 500 colleges and universities around the world. We believe you will find this edition to be the best textbook available for communicating both the excitement and value of strategic management. Concise and exceptionally well organized, this text is now published in English, Chinese, Spanish, Thai, German, Japanese, Farsi, Indonesian, Indian, and Arabic. A version in Russian is being negotiated. Not only universities, but also hundreds of companies, organizations, and governmental bodies use this text as a management guide.

In contrast to many other strategic-management textbooks, the David book provides:

1. An effective process for developing a clear strategic plan, rather than simply presenting seminal theories in strategy, and
2. An effective model or flow for actually doing strategic planning.

Eric N. Sims, a professor who in 2013 adopted the David book for his classes at Sonoma State University in California, says:

“I have read many strategy books. I am going to use the David book. What I like—to steal a line from Alabama coach Nick Saban—is your book teaches ‘a process.’ I believe at the end of your book, you can actually help a company do strategic planning. In contrast, the other books teach a number of near and far concepts related to strategy.”

A recent reviewer of this textbook says:

“One thing I admire most about the David text is that it follows the fundamental sequence of strategy formulation, implementation, and evaluation. There is a basic flow from vision/mission to internal/external environmental scanning, to strategy development, selection, implementation, and evaluation. This has been, and continues to be, a hallmark of the David text. Many other strategy texts are more disjointed in their presentation, and thus confusing to the student, especially at the undergraduate level.”

New Chapter Features

1. The fifteenth edition is 40 percent new and improved from the prior edition.
2. Chapter 11, Global and International Issues, is expanded 30 percent with new coverage of cultural and conceptual strategic-management differences across countries. Doing business globally has become a necessity in most industries. Nearly all strategic decisions today are affected by global issues and concerns.
3. Chapter 10, Business Ethics, Social Responsibility, and Environmental Sustainability, is expanded 30 percent, providing extensive new coverage of ethics, workplace romance, and sustainability. This text emphasizes that “good ethics is good business.” Unique to strategic-management texts, the sustainability discussion is strengthened in this edition to promote and encourage firms to conduct operations in an environmentally sound manner. Respect for the natural environment has become an important concern for consumers, companies, society, and AACSB-International.

4. A brand new Cohesion Case on PepsiCo, Inc. (2013) is provided. PepsiCo is one of the most successful, well-known, and best-managed global companies in the world. Students apply strategy concepts to PepsiCo at the end of each chapter through brand new Assurance of Learning Exercises.
5. Fifty percent new or improved Assurance of Learning Exercises appear at the end of all chapters to apply chapter concepts. The exercises prepare students for strategic-management case analysis.
6. A new boxed insert at the beginning of each chapter showcases a company doing strategic management exceptionally well.
7. There are all new examples in all the chapters.
8. There is new narrative on strategic-management theory and concepts in every chapter.
9. On average, 10 new review questions are provided at the end of each chapter.
10. Twenty-two brand new color photographs bring this new edition to life and illustrate “the practice of strategic management.”
11. All current readings at the end of all chapters are new, as new research and theories of seminal thinkers are included. However, practical aspects of strategic management are center stage and the trademark of this text.
12. For the first time ever, the Excel Student Template is provided free at www.strategyclub.com to all students who use this textbook. Widely used for more than a decade by both students and businesses, and improved dramatically just for this edition, the free Excel Student Template enables students to more easily apply strategic-management concepts while engaging in assurance of learning exercises or case analysis. Using the Template, students can devote more time to applying strategy concepts and less time to the mechanics of formatting strategy matrices, tables, and PowerPoints.
13. Every sentence and paragraph has been scrutinized, modified, clarified, deleted, streamlined, updated, and improved to enhance the content and caliber of presentation.

New Case Features

1. All 29 cases have a 2013 time setting, offering students up-to-date issues to evaluate;
2. All 29 cases are on student-friendly, well-known companies, thus exciting and effective for applying strategy concepts;
3. Ten of the 29 case companies (such as BMW and L’Oréal) are headquartered outside the USA; the only strategy text with such a global offering;
4. All 29 cases are undisguised, featuring real organizations in real industries using real names (nothing is fictitious in any case);
5. All 29 cases feature an organization and industry undergoing strategic change;
6. All 29 cases provide ample, excellent quantitative information, so students can prepare a defensible strategic plan;
7. All 29 cases are written in a lively, concise writing style that captures the reader’s interest;
8. All 29 cases are “comprehensive,” focusing on multiple business functions, rather than a single problem or issue;
9. All 29 cases include current financial statements for the firm, so students can show the impact of a proposed strategic plan;
10. All 29 cases provide an organizational chart and a vision and mission statement—important strategy concepts;
11. All 29 cases are supported by an excellent teacher’s note, provided to professors in a new *Case Instructor’s Manual*;
12. All 29 cases are available for inclusion in a customized tailored text to meet the special needs of some professors;
13. All 29 cases facilitate coverage of all strategy concepts, but as revealed in the new Concepts by Cases Matrix, some cases especially exemplify some concepts, enabling professors to effectively use various cases with various chapters in the text;
14. All 29 cases have been class-tested to ensure that they are interesting, challenging, and effective for illustrating strategy concepts;
15. All 29 cases appear in no other textbooks, thus offering a truly fresh, new, up-to-date, learning platform;

16. The 29 case companies provide an excellent mix of firms performing really well and some performing very poorly, including 13 service-based and 16 manufacturing-based firms, and a good mix of small cap to large cap firms.
17. All 29 case companies have excellent websites in English that provide detailed financial information, history, sustainability statements, ethics statements, and press releases, so students can easily access current information to apply strategy concepts.
18. For the first time ever with this textbook, all 29 cases are written by the authors, to ensure maximum control and effectiveness in applying strategic-management concepts through case analysis.
19. For the first time ever with any strategic-management text, a Case MyLab testing feature has been carefully developed and designed specifically to apply strategic-management concepts through case analysis. The Case MyLab product assures that the cases apply the concepts, simplifies grading for professors, and achieves AACSB's key assurance of learning objectives—even in purely or partly online class settings. The new Case MyLab testing feature enables professors to use the cases to monitor student learning of strategy concepts, as revealed in the Concepts by Cases Matrix given below.

Time-Tested Features

1. This text meets all AACSB-International guidelines that support a practitioner orientation rather than a theory/research approach. This text offers a skills-oriented process for developing a vision and mission statement; performing an external audit; conducting an internal assessment; and formulating, implementing, and evaluating strategies.
2. The author's writing style is concise, conversational, interesting, logical, lively, and supported by numerous current examples.
3. A simple, integrative strategic-management model appears in all chapters and on the inside front cover. The model is widely used by strategic planning consultants and companies worldwide.
4. An exciting, new Cohesion Case on PepsiCo, Inc. follows Chapter 1 and is revisited at the end of each chapter, allowing students to apply strategic-management concepts and techniques to a real company as chapter material is covered, thus preparing students for case analysis as the course evolves.
5. End-of-chapter Assurance of Learning Exercises apply chapter concepts and techniques in a challenging, meaningful, and enjoyable manner. Seventeen exercises apply text material to the Cohesion Case; 11 exercises apply textual material to a college or university; another 9 exercises send students into the business world to explore important strategy topics.
6. There is excellent pedagogy, including learning objectives opening each chapter and key terms, current readings, discussion questions, and assurance of learning exercises ending each chapter.
7. There is excellent coverage of strategy formulation issues, such as business ethics, global versus domestic operations, vision and mission, matrix analysis, partnering, joint venturing, competitive analysis, value chain analysis, governance, and matrices for assimilating and evaluating information.
8. There is excellent coverage of strategy implementation issues such as corporate culture, organizational structure, outsourcing, marketing concepts, financial analysis, business ethics, whistleblowing, bribery, pay and performance linkages, and workplace romance.
9. A systematic, analytical "process" is presented that includes nine matrices: IFEM, EFEM, CPM, SWOT, BCG, IE, GRAND, SPACE, and QSPM.
10. Both the chapter material and case material is published in four colors.
11. Chapters-only paperback and e-book versions of the text are available.
12. Custom-case publishing is available whereby an instructor can combine chapters from this text with cases from a variety of sources or select any number of the 29 cases provided.
13. For the chapter material, an outstanding ancillary package includes a comprehensive *Instructor's Manual*, Test Bank, TestGen, and Chapter PowerPoints.

Instructor Supplements

At www.pearsonhighered.com/irc, instructors can access a variety of resources that accompany this new edition. Registration is easy, please contact your Pearson Sales Representative who will provide you with the access information you need.

If you ever need assistance, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com/> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available to adopting instructors:

- *Chapter Instructor's Manual*
- *Case Instructor's Manual*
- **Chapter PowerPoints**
- **Test Bank**
- **TestGen**

CourseSmart Textbooks Online

CourseSmart eTextbooks were developed for students looking to save the cost on required or recommended textbooks. Students simply select their eText by title or author and purchase immediate access to the content for the duration of the course using any major credit card. With a CourseSmart eText, students can search for specific keywords or page numbers, take notes online, print reading assignments that incorporate lecture notes, and bookmark important passages for later review. For more information or to purchase a CourseSmart eTextbook, visit www.coursesmart.com.

Sample of Universities Recently Using This Textbook

Abraham Baldwin Agricultural College	Avila University
Adelphi University	Azusa Pacific University
Akron Institute	Baker College—Flint
Albany State University	Baldwin Wallace College
Albertus Magnus College	Barry University
Albright College	Belhaven University—Jackson
Alcorn State University	Bellevue University
Alvernia University	Belmont Abbey College
Ambassador College	Benedictine University
Amberton University	Black Hills State University
American Intercontinental University—Weston	Bloomsburg University
American International College	Briar Cliff University
American International Continental (AIU) University—Houston	Brooklyn College
American International University	Broward College—Central
American University	Broward College—North
Anderson University	Broward College—South
Angelo State University	Bryant & Stratton—Orchard Park
Aquinas College	Buena Vista University—Storm Lake
Arizona State University—Polytechnic Campus	Caldwell College
Art Institute of California	California Polytechnic State University
Averett University	California State University—Sacramento
	California State University—San Bernadino

California University of PA	Florida Agricultural & Mechanical University
Calumet College	Florida Southern College
Capella University	Florida State University
Carlow University	Florida Technical College—Deland
Carson-Newman College	Florida Technical College—Kissimmee
Catawba College	Florida Technical College—Orlando
Catholic University of America	Fort Valley State College
Cedar Crest College	Francis Marion University
Central Connecticut State University	Fresno Pacific University
Central Michigan University	Frostburg State University
Central New Mexico Community College	George Fox University
Central Washington University	Georgetown College
Chatham University	Georgia Southern University
Chestnut Hill College	Georgia Southwestern State University
Chicago State University	Hampton University
Christian Brothers University	Harding University
Claflin University	Harris Stowe State University
Clarion University of Pennsylvania	Herzing College—Madison
Clarkson College	Herzing College—New Orleans
Clatsop Community College	Herzing College—Winter Park
Cleveland State University	Herzing University—Atlanta
College of William & Mary	High Point University
Colorado State University—Pueblo	Highline Community College
Columbia College	Hofstra University
Columbia Southern University—Online	Hood College
Concordia University	Hope International University
Concordia University Wisconsin	Houghton College
Curry College	Huntingdon College
Cuyahoga Community College	Indiana University Bloomington
Daniel Webster College	Indiana Wesleyan CAPS
Davis & Elkins College	Iona College
Delaware State University	Iowa Lakes Community College—Emmetsburg
Delaware Technology & Community College—Dover	Jackson Community College
Delaware Technology & Community College—Wilmington	Jackson State University
DePaul University—Loop Campus	John Brown University
East Stroudsburg University	Johnson & Wales—Charlotte
Eastern Michigan University	Johnson & Wales—Colorado
Eastern Oregon University	Johnson & Wales—Miami
Eastern Washington University	Johnson & Wales—Rhode Island
ECPI College of Technology—Charleston	Johnson C. Smith University
ECPI Computer Institute	Kalamazoo College
Elmhurst College	Kansas State University
Embry-Riddle Aero University—Prescott	Keene State College
Ferrum College	Kellogg Community College

La Salle University
 Lake Michigan College
 Lebanon Valley College
 Lee University
 Lehman College of CUNY
 Liberty University
 Limestone College—Gaffney
 Lincoln Memorial University
 Loyola College Business Center
 Loyola College—Chennai
 Loyola University—Maryland
 Lyndon State College
 Madonna University
 Manhattan College
 Manhattanville College
 Marian University—Indiana
 Marshall University
 Marshall University Graduate College
 Marymount University—Arlington
 Medgar Evers College
 Medical Careers Institute/Newport News
 Mercer University—Atlanta
 Mercer University—Macon
 Miami-Dade College—Homestead
 Miami-Dade College—Kendal
 Miami-Dade College—North
 Miami-Dade College—Wolfson
 Michigan State University
 Mid-America Christian
 Millersville University
 Mississippi University for Women
 Morgan State University
 Morrison College of Reno
 Mount Marty College—South Dakota
 Mount Mercy University
 Mount Wachusett Community College
 Mt. Hood Community College
 Mt. Vernon Nazarene
 MTI Western Business College
 Muhlenberg College
 Murray State University
 New England College
 New Mexico State University
 New York University
 North Carolina Wesleyan College
 North Central College
 North Central State College
 Northwest Arkansas Community College
 Northwestern College
 Northwood University—Cedar Hill
 Notre Dame of Maryland University
 Nyack College
 Oakland University
 Ohio Dominican University
 Oklahoma Christian University
 Oklahoma State University
 Olivet College
 Oral Roberts University
 Pace University—Pleasantville
 Park University
 Penn State University—Abington
 Penn State University—Hazleton
 Pensacola State College
 Philadelphia University
 Point Park University
 Prince George’s Community College
 Queens College of CUNY
 Richard Stockton University
 Rider University
 Roger Williams University
 Saint Edwards University
 Saint Leo University
 Saint Mary’s College
 Saint Mary’s College—Indiana
 Saint Xavier University
 San Antonio College
 Santa Fe College
 Savannah State University
 Shippensburg University
 Siena Heights University
 Southern Nazarene University
 Southern New Hampshire University
 Southern Oregon University
 Southern University—Baton Rouge
 Southern Wesleyan University
 Southwest Baptist University
 Southwest University
 St. Bonaventure University
 St. Francis University
 St. Louis University
 St. Martins University
 Sterling College

Stevenson University	University of North Texas
Strayer University—DC	University of North Texas—Dallas
Texas A&M University—Commerce	University of Pikeville
Texas A&M University—Texarkana	University of Sioux Falls
Texas A&M—San Antonio	University of South Florida
Texas Tech University	University of St. Joseph
The College of St. Rose	University of Tampa
The Masters College	University of Texas—Pan American
Tri-County Technical College	University of The Incarnate Word
Trinity Christian College	University of Toledo
Troy State University	Upper Iowa University
Troy University—Dothan	Valley City State University
Troy University—Main Campus	Virginia Community College System
Troy University—Montgomery	Virginia State University
University Alabama—Birmingham	Virginia Tech
University Maryland—College Park	Wagner College
University of Arkansas—Fayetteville	Wake Forest University
University of Findlay	Washington University
University of Houston—Clearlake	Webber International University
University of Louisiana at Monroe	Webster University
University of Maine at Augusta	West Chester University
University of Maine—Fort Kent	West Liberty University
University of Maryland	West Valley College
University of Massachusetts—Boston Harbor	West Virginia Wesleyan College
University of Massachusetts—Dartmouth	Western Connecticut State University
University of Miami	Western Kentucky University
University of Michigan—Flint	Western Michigan University
University of Minnesota—Crookston	Western Washington University
University of Mobile	William Jewell College
University of Montevallo	Williams Baptist College
University of Nebraska—Omaha	Winona State University
University of Nevada Las Vegas	Winston-Salem State University
University of New Orleans	WSU Vancouver

Sample of Countries Outside the USA Where This Textbook is Very Widely Used

Mexico, China, Japan, Australia, Singapore, Canada, Indonesia, Pakistan, Iran, Kenya, Congo, Hong Kong, India, England, Argentina, Ecuador, Zambia, Guam, Italy, Cyprus, Colombia, Philippines, South Africa, Peru, Turkey, Malaysia, and Egypt

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Acknowledgments

Many persons have contributed time, energy, ideas, and suggestions for improving this text over 15 editions. The strength of this text is largely attributed to the collective wisdom, work, and experiences of strategic-management professors, researchers, students, and practitioners. Names of particular individuals whose published research is referenced in this edition are listed alphabetically in the Name Index. To all individuals involved in making this text so popular and successful, we are indebted and thankful.

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We want to thank you, the reader, for investing the time and effort to read and study this text. It will help you formulate, implement, and evaluate strategies for any organization with which you become associated. We hope you come to share our enthusiasm for the rich subject area of strategic management and for the systematic learning approach taken in this text. We want

to welcome and invite your suggestions, ideas, thoughts, comments, and questions regarding any part of this text or the ancillary materials. Please contact Dr. Fred R. David at the following e-mail freddavid9@gmail.com, or write him at the School of Business, Francis Marion University, Florence, SC 29501. We sincerely appreciate and need your input to continually improve this text in future editions. Your willingness to draw my attention to specific errors or deficiencies in coverage or exposition will especially be appreciated.

Thank you for using this text.

Fred R. David and Forest R. David

About the Authors

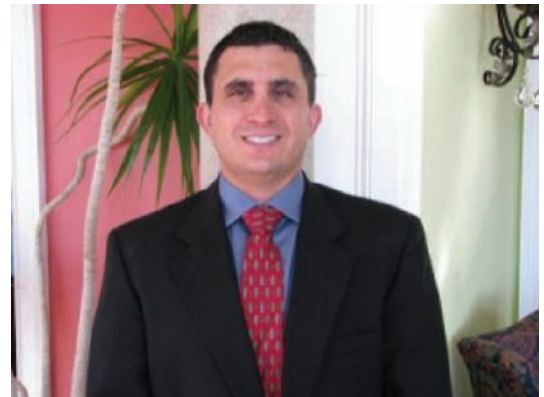
Fred R. and Forest R. David, a father–son team, have published more than 50 journal articles in outlets such as *Academy of Management Review*, *Academy of Management Executive*, *Journal of Applied Psychology*, *Long Range Planning*, *International Journal of Management*, *Journal of Business Strategy*, and *Advanced Management Journal*. Fred and Forest’s February 2011 *Business Horizons* article titled “What are Business Schools Doing for Business Today?” is changing the way many business schools view their curricula.

Fred and Forest are coauthors of *Strategic Management: Concepts and Cases* that has been on a two-year revision cycle since 1986 when the first edition was published. This text is among the best-selling strategic-management textbooks in the world. This text has led the field of strategic management for more than two decades in providing an applications, practitioner-approach to the discipline. More than 500 colleges and universities have used this textbook over the years, including Harvard University, Duke University, Carnegie-Mellon University, Johns Hopkins University, the University of Maryland, University of North Carolina, University of Georgia, San Francisco State University, University of South Carolina, Wake Forest University, and countless universities in Japan, China, Australia, Mexico, and the Middle East. For six editions of this book, Forest has been sole author of the *Case Instructor’s Manual*, having developed extensive teachers’ notes (solutions) for all the cases. Forest is author of the Case MyLab ancillary and the free Excel Student Template that accompany this fifteenth edition.

Fred and Forest actively assist businesses globally in doing strategic planning. They have written and published more than 100 strategic management cases. Fred and Forest were recently keynote speakers at the Pearson International Forum in Monterrey, Mexico. With a PhD in Management from the University of South Carolina, Fred is the TranSouth Professor of Strategic Planning at Francis Marion University (FMU) in Florence, South Carolina. Forest has taught strategic-management courses at Mississippi State University, Campbell University, and FMU.



Fred R. David



Forest R. David

The Case Rationale

Case analysis remains the primary learning vehicle used in most strategic-management classes, for five important reasons:

1. Analyzing cases gives students the opportunity to work in teams to evaluate the internal operations and external issues facing various organizations and to craft strategies that can lead these firms to success. Working in teams gives students practical experience solving problems as part of a group. In the business world, important decisions are generally made within groups; strategic-management students learn to deal with overly aggressive group members and also timid, noncontributing group members. This experience is valuable because strategic-management students are near graduation and soon enter the working world full-time.
2. Analyzing cases enables students to improve their oral and written communication skills as well as their analytical and interpersonal skills by proposing and defending particular courses of action for the case companies.
3. Analyzing cases allows students to view a company, its competitors, and its industry concurrently, thus simulating the complex business world. Through case analysis, students learn how to apply concepts, evaluate situations, formulate strategies, and resolve implementation problems.
4. Analyzing cases allows students to apply concepts learned in many business courses. Students gain experience dealing with a wide range of organizational problems that impact all the business functions.
5. Analyzing cases gives students practice in applying concepts, evaluating situations, formulating a “game plan,” and resolving implementation problems in a variety of business and industry settings.

Case MyLab Testing Feature

New to this edition is an enhanced MyLab with new cases that include gradeable outcomes. As revealed in the new Concepts x Cases matrix below, student learning of 29 key strategic-management concepts can easily be tested by using the 29 fifteenth edition cases. This feature assures that the cases are excellent for testing student learning of the key strategic-management concepts, thus serving as a great mechanism for professors to achieve AACSB’s Assurance of Learning Objectives. This new testing feature simplifies grading for professors in both traditional and online class settings.

The Case MyLab testing feature includes 25 multiple choice questions for each case, comprised of 10 *Basic* questions that simply test whether the student read the case before class, and 15 *Applied* questions that test the student’s ability to apply various strategic-management concepts. In addition, there are 2 *Discussion* questions per case. This testing feature enables professors to determine, before class if desired, whether students 1) read the case in *Basic* terms, and/or 2) are able to *Apply* strategy concepts to resolve issues in the case. For example, the MyLab case *Basic* question may be: In what country is BMW headquartered? Whereas, a MyLab case *Applied* question may be: What are three aspects of the organizational chart given in the BMW case that violate strategic-management guidelines? The Answers to these questions can be found in the *Case Instructor’s Manual*.

The New Concepts by Cases Matrix

All 29 cases facilitate coverage of all strategy concepts, but as revealed below by purple cells, some cases especially exemplify some key strategy concepts. The purple cells reveal which concepts are tested with multiple choice questions in the MyLab. The Concepts by Cases matrix enables professors to effectively utilize various cases to assure student learning of various chapter concepts. Note from the purple boxes that two, three, or four cases are used to test each strategic-management concept. This new, innovative ancillary promises to elevate the case learning method to new heights in teaching strategic management.

The Case Synopses

USA-Based Service Companies

1. Domino's Pizza, Inc. (DPZ)

Headquartered in Ann Arbor, Michigan, Domino's is the second-largest pizza chain in the USA behind Pizza Hut. Domino's has over 9,700 delivery-only stores in about 65 countries and all 50 USA states. Among the 5,000 Domino's in the USA, only about 400 are company-owned, while the others are franchised. Domino's offers a gluten free crust in all its USA restaurants, the first national pizza delivery chain to offer such a product. Domino's has about 10,000 full-time employees.

2. Spirit Airlines (SAVE)

Headquartered in Miramar, Florida, Spirit Airlines is a rapidly growing, low-cost airline that serves many locations in the Bahamas, Caribbean, Latin America, as well as about a dozen USA cities. With an average fleet age of 4.4 years old, Spirit has the third youngest Airbus fleet in the Americas after Virgin America and the Mexican airline Volaris. Spirit has on order 108 Airbus A320s, including 45 A320neo (new engine option) aircraft, to be delivered between 2012 and 2021. Spirit has about 2,600 full-time employees.

3. Buffalo Wild Wings (BWLD)

Headquartered in Minneapolis, Minnesota, Buffalo Wild Wings (BWW) is a casual dining restaurant and sports bar that operates about 835 restaurants in 48 states in the USA and Canada. BWW offers chicken wings and legs with many signature sauces and seasonings as well as bottled beer, wine, and liquor. Only about 320 BWW restaurants are company-owned; the remaining are franchised. BWW plans to acquire other restaurant firms (maybe Denny's or Nathan's Famous) and has about 2,700 full-time employees.

4. Rite Aid Corporation (RAD)

Headquartered in Camp Hill, Pennsylvania, Rite Aid is a distant third (behind CVS and Walgreen) in the USA retail drugstore business. Rite Aid operates 4,700 drugstores in 31 states, fills prescriptions (about two-thirds of sales), and sells health and beauty aids, convenience foods, greeting cards, and 3,000 Rite Aid brand products. About 60% of Rite Aid stores are freestanding; about 50% have drive-through pharmacies. With 51,300 employees, Rite Aid has a strategic alliance with GNC to operate GNC stores within Rite Aid stores.

5. Best Buy Company (BBY)

Headquartered in Richfield, Minnesota, Best Buy is a mass retailer of consumer electronics products and services, including installation, maintenance, and technical support of movies, computers, and phones. With over 1,400 stores in the USA and Canada and another 2,600 stores in Europe and China, Best Buy recently sold Napster to online mp3 store Rhapsody. With 167,000 employees well trained and wearing the trademark blue shirts, Best Buy has a problem in that many customers go to Best Buy, get educated, and then leave and purchase online.

6. Publix Super Markets, Inc. (Employee Owned)

Headquartered in Lakeland, Florida, Publix is the largest ESOP (employee stock ownership plan) in the USA; employees own 31% of Publix. More than two-thirds of all Publix's are in Florida, but some are in Alabama, Georgia, South Carolina, and Tennessee. Publix makes some of its own bakery, deli, dairy goods, and fresh prepared foods. Many Publix's include a pharmacy and bank. Publix has about 140,000 employees, 1,086 supermarkets, cooking schools, 8 distribution centers, and 9 manufacturing facilities.

7. JPMorgan Chase & Co. (JPM)

Headquartered in New York City, JPMorgan Chase is the USA's largest bank holding company with more than \$2 trillion in assets, 5,500 branches in thirty states, and 260,000 employees. JPM is also among the nation's top mortgage lenders and credit card issuers (it holds some \$132 billion in credit card loans). Founded in 1823 and now active in over 60 countries, JPM owns private equity firm One Equity Partners.

8. Walt Disney Company (DIS)

Headquartered in Burbank, California, Disney competes in the family entertainment and media broadcasting industry. Serving customers for nearly 100 years, Disney is a diversified conglomerate, owning ABC, ESPN, theme parks, cruise boats, cable networks, and more. As a member of the DOW 30, Disney owns 8 television stations and 35 radio stations, as well as Walt Disney Studios that produces films through Walt Disney Pictures, Disney Animation, and Pixar.

9. Lowe's Companies, Inc. (LOW)

Headquartered in Mooresville, North Carolina, Lowe's is a nationwide chain of home improvement superstores that plans to expand internationally. Lowe's has more than 1,745 stores in 50 states and more than 30 locations in Canada and Mexico, second only to Home Depot. With over 160,000 employees that focus on home maintenance, repair, remodeling and decorating, Lowe's is the second largest U.S. home appliance retailer after Sears.

10. United Parcel Service, Inc. (UPS)

Headquartered in Atlanta, Georgia, UPS is the world's largest package delivery company transporting more than 15 million packages and documents per business day in the USA and 220 countries and territories. UPS operates a fleet of about 100,000 "brown" trucks, vans, tractors, and motorcycles as well as 525 aircraft. UPS also offers logistics and freight forwarding, and less-than-truckload (LTL) and truckload (TL) freight transportation through UPS Freight. With 222,000 employees, UPS is acquiring TNT Express for \$6.8 billion.

11. United States Postal Service (nonprofit)

The United States Postal Service (USPS) is an independent agency of the United States government responsible for delivering mail. With over 574,000 workers and 218,000 vehicles, the USPS operates the largest vehicle fleet in the world. The USPS is legally obligated to serve all Americans, regardless of geography, at uniform price and quality. The USPS competes with UPS and FedEx, but is closing 252 of its 461 mail processing centers, eliminating 28,000 jobs, ending overnight delivery of first-class mail, and closing 3,700 local post offices.

USA-Based Manufacturing Companies**12. Crocs, Inc. (CROX)**

Headquartered in Niwot, Colorado, Crocs is a footwear company that offers colorful slip-on, casual and athletic shoes made of closed-cell resin (Croslite); Jibbitz are Crocs' decorative add-on charms. Crocs designs, develops, manufactures, markets, and distributes boots, sandals, sneakers, mules, and flats in more than 90 countries. With manufacturing facilities in Mexico, Italy, and China and distribution centers worldwide, Crocs has 4,150 employees. Crocs, Inc. owns 180 retail stores, 92 outlet stores, 42 Web stores, and 158 kiosks in malls worldwide.

13. Snyder's-Lance, Inc. (LNCE)

Headquartered in Charlotte, North Carolina, Snyder's-Lance manufactures and markets snack foods such as Toastchee, Nipchee, and Captain's Wafers. Snyder's-Lance products include pretzels, cookies, crackers, nuts, potato chips, cakes, and candy sold under the Lance, Cape Cod, Tom's, Archway, and Snyder's brands at food retailers, mass merchants, and convenience and club stores in the USA. Snyder's-Lance primarily does business in the USA and has 6,100 employees.

14. Netgear (NTGR)

Headquartered in San Jose, California, Netgear designs and produces Internet networking equipment, such as adapters, hubs, routers, Ethernet switches, wireless controllers, media servers, and interfaces. NETGEAR sells products through distributors such as Ingram Micro and Tech Data, retailers such as Best Buy and RadioShack, as well as through 29,000 retail locations around the globe and 36,000 value-added resellers. With offices in 25 countries and 810 employees, Netgear generates about half of its revenue from outside the USA.

15. **Polaris Industries, Inc. (PII)**
Headquartered in Medina, Minnesota, Polaris designs, manufactures, and markets off-road, all-terrain vehicles (ATVs), recreational and utility RANGER-brand vehicles, snowmobiles, and even the Victory brand motorcycle. Polaris also produces and sells replacement parts and accessories such as covers, tow hitches, cargo racks, saddlebags, helmets, and also recreational apparel such as jackets, bibs, pants, and hats. With 3,900 employees and 30% of its revenue derived from outside the USA, Polaris partners with Fuji Heavy Industries to build engines.
16. **Under Armour, Inc. (UA)**
Headquartered in Baltimore, Maryland, Under Armour (UA) is a producer and marketer of compression, fitted, and loose sports apparel, including athletic footwear; UA is the official footwear supplier of Major League Baseball. UA dresses athletes from head (COLDGEAR) to toe (Team Sock) with products that are made from the company's patented moisture wicking and heat-dispersing fabrics that keeps athletes dry during workouts. With 1,800 employees, UA sells its products online, by catalog, in company-owned and sporting goods stores, worldwide.
17. **Avon Products (AVP)**
Headquartered in New York City, Avon Products is the world's largest direct seller firm, and by far the largest direct seller of cosmetics and beauty-related items. Avon is the fifth-largest cosmetics and fragrance firm in the world. The company receives sales from catalogs and online, but the vast majority of its sales come from about six million independent sales representatives in 110 countries. Since 1892, Avon has empowered women to be their own boss and become leaders in communities and business. Avon is struggling to recover from poor management and global bribery investigations.
18. **Exxon Mobil Corporation (XOM)**
Headquartered in Irving, Texas, Exxon Mobil is the world's largest oil company and engages in oil and gas exploration, production, supply, transportation, and marketing worldwide. With 24.9 billion barrels of proven oil reserves, Exxon's 36 refineries in 20 countries have a capacity of more than 6.2 million barrels per day. Exxon supplies refined products to more than 25,000 gas stations in 100 countries. With operations on all continents except Antarctica, Exxon has 82,000 employees and operates over 30,000 oil wells around the world.
19. **Microsoft Corporation (MSFT)**
Headquartered in Redmond, Washington, Microsoft is the world's largest software firm with its core product being the Windows PC operating system and Office business productivity application suite sold in part through PC makers. Selling online and through resellers, Microsoft also designs and manufactures video game consoles (Xbox 360), enterprise applications (Microsoft Dynamics), server and storage software, and digital music players (Zune). With 90,000 employees, Microsoft also engages in online advertising and consulting services.

Outside USA-Based

- | Service Firms | Country HQ |
|---|-------------------|
| 20. The Emirates Group | UAE |
| Headquartered in Dubai in the United Arab Emirates, The Emirates Group is the parent of Emirates, the largest airline in the Middle East, operating over 2,500 flights per week from its hub at Dubai International Airport. Emirates flies to 120 cities in 70 countries and operates four of the world's 10 longest non-stop commercial flights. With 50,000 employees and 50 subsidiaries, The Emirates Group is wholly owned by the government of Dubai and controlled by the Investment Corp. of Dubai. Emirates is very profitable and growing over 20% annually. | |
| 21. Royal Bank of Canada | Canada |
| Headquartered in Toronto, Canada, Royal Bank of Canada (RBC) is Canada's largest bank. RBC provides a full range of services from commercial banking and wealth management | |

to insurance and capital markets services. With more than 1,000 locations in Canada and operations in more than 50 countries, RBC sold its RBC Bank unit in the Southeast USA to PNC Financial in 2012, but still owns investment bank RBC Dominion Securities and RBC Wealth Management in the USA. Founded in 1864, RBC has about 68,000 full-time employees.

Manufacturing Firms

22. Embraer S.A. Brazil
 Headquartered in Sao Paulo, Brazil, Embraer is one of the world's top four aircraft manufacturers, making commercial jets (55%) that seat between 30–120 passengers, 7 models of executive jets (20%), and military aircraft (12%). About 40% of its Embraer sales are in North and South America. With 17,200 employees, Embraer is Brazil's largest exporter of industrial products. Embraer's CEO, Frederico Curado, received the 2012 Tony Jannus Award, given annually for distinguished contributions to commercial aviation.
23. Bayerische Motoren Werke (BMW) AG Germany
 Headquartered in Munich, Bavaria, Germany, BMW is a large automobile, motorcycle and engine manufacturing company founded in 1917. BMW is the parent company of Rolls-Royce Motor Cars. With about 100,000 employees, BMW produces motorcycles under the Motorrad and Husqvarna brands and is the sponsor of the 2012 Olympics in London. Financial services bolster BMW's bottom line, including purchase financing and leasing, asset management, dealer financing, and corporate fleets. About 3,000 dealers worldwide sell BMWs.
24. Campari Group S.p.A Italy
 Headquartered in Milan, Italy, Gruppo Campari is the sixth largest producer of alcoholic and non-alcoholic beverages worldwide. Campari owns a portfolio of over 40 brands, including Wild Turkey bourbon. Campari markets and distributes drinks in more than 190 countries. With 2,270 employees, Campari is structured into three segments: spirits, wines, and soft drinks. The Garavoglia family owns 51% of Campari, which is expanding through acquisitions (it owns U.S. vodka maker Skyy Spirits) and by entering growing markets in Asia and South America.
25. L'Oréal Group France
 Headquartered outside of Paris in Clichy, Hauts-de-Seine, France, L'Oréal is the world's largest cosmetics and beauty company. Specializing in hair color, skin care, sun protection, make-up, perfumes, and hair care, L'Oréal is the leading nanotechnology patent-holder in the USA. L'Oréal recently opened a huge new factory in Indonesia. L'Oréal is a listed company with 66,000 employees, but the founder's daughter Liliane Bettencourt and the Swiss food company Nestle each control over a quarter of the shares and voting rights.
26. Nikon Corporation Japan
 Headquartered in Tokyo, Japan, Nikon develops, produces, and markets cameras, binoculars, microscopes, measurement instruments, imaging lenses, photographic enlargers, and other imaging products such as Nikonos underwater film cameras. Nikon competes with Canon, Casio, Kodak, Sony, Pentax, Panasonic, Fujifilm, and Olympus. With 24,000 employees and founded in 1917, Nikon is part of the huge Mitsubishi *keiretsu*, a group of businesses linked by cross-ownership.
27. Grupo Modelo, S.A.B. de C.V. Mexico
 Headquartered in Mexico, Mexico, Grupo Modelo is among the largest beer producing, distributing, and marketing firms in the world. Some of Modelo's 13 beer brands include Corona Extra, the number one Mexican beer sold in the world, Barrilito, Victoria, Estrella, Medelo, and Paciffico. With 37,300 employees, Modelo also produces bottled water and operates 960 convenience stores under the Extra name. With more than a 60% share of the Mexican beer market and operating 8 breweries, Modelo was recently acquired by Anheuser-Busch InBev.

28. Pearson plc England
Headquartered in London, England, Pearson is the largest education company and the largest book publisher in the world. Pearson publishes market-leading books and newspapers in education (Prentice Hall, Longman & FT Press), consumer markets (Penguin, Dorling Kindersley, and Ladybird), and business information (*Financial Times*). With about 40,000 employees, Pearson has two operating divisions: 1) Pearson Education, and 2) The Financial Times Group. Pearson's major competitor is McGraw-Hill.
29. Lenovo Group Limited China
Headquartered in Beijing, China, Lenovo designs, produces, and markets personal computers, workstations, servers, electronic storage, IT management software, and other related products and services. The world's second-largest PC vendor (behind HP), Lenovo markets the ThinkPad line of notebook computers and ThinkCentre line of desktops. With 26,300 employees, Lenovo sells directly to consumers and businesses, as well as through online sales, company-owned stores, chain retailers, and major technology distributors and vendors.

STRATEGIC MANAGEMENT

Concepts and Cases

A COMPETITIVE ADVANTAGE APPROACH



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The Nature of Strategic Management

CHAPTER OBJECTIVES

After studying this chapter, you should be able to do the following:

1. Discuss the nature and role of a chief strategy officer (CSO).
2. Describe the strategic-management process.
3. Explain the need for integrating analysis and intuition in strategic management.
4. Define and give examples of key terms in strategic management.
5. Discuss the nature of strategy formulation, implementation, and evaluation activities.
6. Describe the benefits of good strategic management.
7. Discuss the relevance of Sun Tzu's *The Art of War* to strategic management.
8. Discuss how a firm may achieve sustained competitive advantage.

ASSURANCE OF LEARNING EXERCISES

The following exercises are found at the end of this chapter.

- EXERCISE 1A** Compare Business Strategy with Military Strategy
- EXERCISE 1B** Gather Strategy Information for PepsiCo
- EXERCISE 1C** Update the PepsiCo Cohesion Case
- EXERCISE 1D** Strategic Planning for Your University
- EXERCISE 1E** Strategic Planning at a Local Company
- EXERCISE 1F** Get Familiar With the Strategy Club Website
- EXERCISE 1G** Get Familiar With the Case MyLab

When CEOs from the big three U.S. automakers—Ford, General Motors (GM), and Chrysler—showed up a few years ago without a clear strategic plan to ask congressional leaders for bailout monies, they were sent home with instructions to develop a clear strategic plan for the future. Austan Goolsbee, one of President Barack Obama’s top economic advisers, said, “Asking for a bailout without a convincing business plan was crazy.” Goolsbee also said, “If the three auto CEOs need a bridge, it’s got to be a bridge to somewhere, not a bridge to nowhere.”¹ This textbook gives the instructions on how to develop a clear strategic plan—a bridge to somewhere rather than nowhere.

This chapter provides an overview of strategic management. It introduces a practical, integrative model of the strategic-management process; it defines basic activities and terms in strategic management.

This chapter also introduces the notion of boxed inserts. A boxed insert at the beginning of each chapter reveals how some firms are doing really well competing in a growing economy. The firms showcased are utilizing excellent strategic management to prosper as their rivals weaken. Each boxed insert examines the strategies of firms doing great amid rising consumer demand and intense price competition. The first company featured for excellent performance is the popular hamburger place, Five Guys Enterprises. Note that there are more than 1,000 Five Guys grills in the United States and Canada.

PepsiCo is featured as the new Cohesion Case because it is a well-known global firm undergoing strategic change and is well managed. By working through the PepsiCo–related Assurance of Learning Exercises at the end of each chapter, you will be well prepared to develop an effective strategic plan for any company assigned to you this semester. The end-of-chapter exercises apply chapter tools and concepts.

EXCELLENT STRATEGIC MANAGEMENT SHOWCASED

Five Guys Enterprises

Have you ever eaten at a Five Guys grill? Headquartered in Lorton, Virginia, Five Guys Enterprises has grown every year for 25 years and still is growing, thanks to excellent strategic management (and great hamburgers served with all the peanuts you can eat). Five Guys Burgers and Fries is a quick-service restaurant company that offers a simple menu of burgers, fries, and hot dogs. With more than 1,000 stores in the United States and Canada, Five Guys prides itself on using only top-notch ingredients, the best ground beef, rolls, and fries, and uses only peanut oil; in keeping with the peanut theme, its restaurants serve peanuts in bulk. Founded in 1986 by Jerry Murrell, his wife, and their five sons (Jim, Matt, Chad, Ben, and Tyler), Five Guys grill succeeds every day in taking business from all the larger fast food hamburger chains.

Five Guys’ strategy has always been to use only the best ingredients, do no advertising or marketing except by word-of-mouth, “treat people right,” provide great employee pay and benefits, and offer outstanding customer service. All 30,000-plus Five Guys employees have access to the company’s Secret Shopper Bonus program in which employees anonymously go check on operations at other stores. All employees receive additional store-level bonuses to ensure that every store provides great burgers with great service. Five Guys employees all have a sense of ownership in their store because their compensation package is tied to how well their store performs. Five Guys employees are determined to “make your day” every time you visit their restaurant. Five Guys burgers are a bit pricey, but customers keep coming

back daily to eat the freshly prepared product in an upscale décor with exceptional service.

Another Five Guys strategy is franchising (discussed in Chapter 5). About 800 Five Guys grills are owned by franchisees. All of the territory in both the USA and Canada has been sold to franchisees, and Five Guys plans to open its first restaurant in Great Britain in 2013, with plans to open four in the UK in 2013. Murrell says in starting a business, do not rely on banks, but rather rely on venture capitalists that include friends and family. With more than \$1 billion in revenue in 2013, Murrell, now 62, gives this advice to all current and future businesspersons: “Treat your employees and customers right. Find something you love to do and just do it. Make sure your heart is in it. You can’t be everything to everybody. You’ve got to be what you are. That’s all you can do.” Do a Google search for “Jerry Murrell Video” to watch a 2-minute excellent video of Murrell sharing lessons he learned in building Five Guys.

Source: Based on Lottie Joiner, “Five Guys Family Keeps It Simple,” *USA Today* (July 30, 2012): 3B.



What Is Strategic Management?

Once there were two company presidents who competed in the same industry. These two presidents decided to go on a camping trip to discuss a possible merger. They hiked deep into the woods. Suddenly, they came upon a grizzly bear that rose up on its hind legs and snarled. Instantly, the first president took off his knapsack and got out a pair of jogging shoes. The second president said, “Hey, you can’t outrun that bear.” The first president responded, “Maybe I can’t outrun that bear, but I surely can outrun you!” This story captures the notion of strategic management, which is to achieve and maintain competitive advantage.

Defining Strategic Management

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating management, marketing, finance and accounting, production and operations, research and development, and information systems to achieve organizational success. The term *strategic management* in this text is used synonymously with the term **strategic planning**. The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term *strategic management* is used to refer to strategy formulation, implementation, and evaluation and *strategic planning* referring only to strategy formulation. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; **long-range planning**, in contrast, tries to optimize for tomorrow the trends of today.

The term *strategic planning* originated in the 1950s and was popular between the mid-1960s and the mid-1970s. During these years, strategic planning was widely believed to be the answer for all problems. At the time, much of corporate America was “obsessed” with strategic planning. Following that boom, however, strategic planning was cast aside during the 1980s as various planning models did not yield higher returns. The 1990s, however, brought the revival of strategic planning, and the process is widely practiced today in the business world. Many companies today have a *chief strategy officer (CSO)*.

A strategic plan is, in essence, a company’s game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Profit margins among firms in most industries are so slim that there is little room for error in the overall strategic plan. A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations in lieu of other, “less desirable” courses of action.

The term *strategic management* is used at many colleges and universities as the title for the capstone course in business administration. This course integrates material from all business courses, and, in addition, introduces new strategic-management concepts and techniques being widely used by firms in strategic planning.

Stages of Strategic Management

The **strategic-management process** consists of three stages: strategy formulation, strategy implementation, and strategy evaluation. **Strategy formulation** includes developing a vision and mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover.

Because no organization has unlimited resources, strategists must decide which alternative strategies will benefit the firm most. Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages. For better or worse, strategic decisions have major multifunctional consequences and enduring effects on an organization. Top managers have the best perspective to understand fully the ramifications of strategy-formulation decisions; they have the authority to commit the resources necessary for implementation.

Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and using information systems, and linking employee compensation to organizational performance.

Strategy implementation often is called the “action stage” of strategic management. Implementing strategy means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges on managers’ ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose.

Interpersonal skills are especially critical for successful strategy implementation. Strategy-implementation activities affect all employees and managers in an organization. Every division and department must decide on answers to questions such as “What must we do to implement our part of the organization’s strategy?” and “How best can we get the job done?” The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives.

Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors are constantly changing. Three fundamental strategy-evaluation activities are (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent organizations experience demise.

Formulation, implementation, and evaluation of strategy activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional. By fostering communication and interaction among managers and employees across hierarchical levels, strategic management helps a firm function as a competitive team. Most small businesses and some large businesses do not have divisions or strategic business units; they have only the corporate and functional levels. Nevertheless, managers and employees at these two levels should be actively involved in strategic-management activities.

Peter Drucker says the prime task of strategic management is thinking through the overall mission of a business:

that is, of asking the question, “What is our business?” This leads to the setting of objectives, the development of strategies, and the making of today’s decisions for tomorrow’s results. This clearly must be done by a part of the organization that can see the entire business; that can balance objectives and the needs of today against the needs of tomorrow; and that can allocate resources of men and money to key results.²

Integrating Intuition and Analysis

Edward Deming once said, “*In God we trust. All others bring data.*” The strategic-management process can be described as an objective, logical, systematic approach for making major decisions in an organization. It attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Yet strategic management is not a pure science that lends itself to a nice, neat, one-two-three approach.

Based on past experiences, judgment, and feelings, most people recognize that **intuition** is essential to making good strategic decisions. Intuition is particularly useful for making decisions in situations of great uncertainty or little precedent. It is also helpful when highly interrelated variables exist or when it is necessary to choose from several plausible alternatives. Some managers and owners of businesses profess to have extraordinary abilities for using intuition alone in devising brilliant strategies. For example, Will Durant, who organized GM, was described by Alfred Sloan as “a man who would proceed on a course of action guided solely, as far as I could tell, by some intuitive flash of brilliance. He never felt obliged to make an engineering hunt for the facts. Yet at times, he was astoundingly correct in his judgment.”³ Albert Einstein acknowledged the importance of intuition when he said, “I believe in intuition

and inspiration. At times I feel certain that I am right while not knowing the reason. Imagination is more important than knowledge, because knowledge is limited, whereas imagination embraces the entire world.”⁴

Although some organizations today may survive and prosper because they have intuitive geniuses managing them, most are not so fortunate. Most organizations can benefit from strategic management, which is based on integrating intuition and analysis in decision making. Choosing an intuitive or analytic approach to decision making is not an either-or proposition. Managers at all levels in an organization inject their intuition and judgment into strategic-management analyses. Analytical thinking and intuitive thinking complement each other.

Operating from the I’ve-already-made-up-my-mind-don’t-bother-me-with-the-facts mode is not management by intuition; it is management by ignorance.⁵ Drucker says, “*I believe in intuition only if you discipline it. ‘Hunch’ artists, who make a diagnosis but don’t check it out with the facts, are the ones in medicine who kill people, and in management kill businesses.*”⁶ As Henderson notes:

The accelerating rate of change today is producing a business world in which customary managerial habits in organizations are increasingly inadequate. Experience alone was an adequate guide when changes could be made in small increments. But intuitive and experience-based management philosophies are grossly inadequate when decisions are strategic and have major, irreversible consequences.⁷

In a sense, the strategic-management process is an attempt to duplicate what goes on in the mind of a brilliant, intuitive person who knows the business and assimilates and integrates that knowledge using analysis to formulate effective strategies.

Adapting to Change

The strategic-management process is based on the belief that organizations should continually monitor internal and external events and trends so that timely changes can be made as needed. The rate and magnitude of changes that affect organizations are increasing dramatically, as evidenced by how the global economic recession caught so many firms by surprise. Firms, like organisms, must be “adept at adapting” or they will not survive.

One company trying hard to adapt is the Washington Post Company, best known as publisher of the *Washington Post* newspaper that has a circulation of 525,000 in the Washington, DC area. But the newspaper industry is in decline globally, so the Washington Post Company recently diversified by acquiring Celtic Healthcare, a provider of hospice and home health care facilities in Pennsylvania and Maryland. Treating patients at home instead of paying for hospital stays is a much faster growing industry than selling newspapers. The Washington Post Company also owns Kaplan, a well-known source of test preparation materials, and six TV stations.

To survive, all organizations must astutely identify and adapt to change. The strategic-management process is aimed at allowing organizations to adapt effectively to change over the long run. As Waterman has noted:

In today’s business environment, more than in any preceding era, the only constant is change. Successful organizations effectively manage change, continuously adapting their bureaucracies, strategies, systems, products, and cultures to survive the shocks and prosper from the forces that decimate the competition.⁸

On a political map, the boundaries between countries may be clear, but on a competitive map showing the real flow of financial and industrial activity, the boundaries have largely disappeared. The speedy flow of information has eaten away at national boundaries so that people worldwide readily see for themselves how other people live and work. We have become a borderless world with global citizens, global competitors, global customers, global suppliers, and global distributors! U.S. firms are challenged by large rival companies in many industries. For example, Samsung recently surpassed Apple and Lenovo surpassed HP and Dell in revenues.

The need to adapt to change leads organizations to key strategic-management questions, such as “What kind of business should we become?” “Are we in the right field(s)?” “Should we reshape our business?” “What new competitors are entering our industry?” “What strategies

should we pursue?” “How are our customers changing?” “Are new technologies being developed that could put us out of business?”

The Internet promotes endless comparison shopping, which thus enables consumers worldwide to band together to demand discounts. The Internet has transferred power from businesses to individuals. Buyers used to face big obstacles when attempting to get the best price and service, such as limited time and data to compare, but now consumers can quickly scan hundreds of vendor offerings. Both the number of people shopping online and the average amount they spend is increasing dramatically. Digital communication has become the name of the game in marketing. Consumers today are flocking to blogs, sending tweets, watching and posting videos on YouTube, and spending hours on Tumbler, Facebook, Reddit, Instagram, and LinkedIn, instead of watching television, listening to the radio, or reading newspapers, and magazines. Facebook and Myspace recently unveiled features that further marry these social sites to the wider Internet. Users on these social sites now can log on to many business shopping sites from their social site, so their friends can see what items they have purchased on various shopping sites. Both of these social sites want their members to use their identities to manage *all* their online identities. Most traditional retailers have learned that their online sales can boost in-store sales if they use their websites to promote in-store promotions.

Key Terms in Strategic Management

Before we further discuss strategic management, we should define nine key terms: competitive advantage, strategists, vision and mission statements, external opportunities and threats, internal strengths and weaknesses, long-term objectives, strategies, annual objectives, and policies.

Competitive Advantage

Strategic management is all about gaining and maintaining **competitive advantage**. This term can be defined as “anything that a firm does especially well compared to rival firms.” When a firm can do something that rival firms cannot do or owns something that rival firms desire, that can represent a competitive advantage. For example, having ample cash on the firm’s balance sheet can provide a major competitive advantage. Some cash-rich firms are buying distressed rivals. Examples of cash-rich (cash as a percentage of total assets) companies today include Priceline.com (63%), Altera (80%), Franklin Resources (51%), Gilead Sciences (57%), and Lorillard (54%). Microsoft, Apple, and Samsung are cash rich, as is the Cohesion Case company, PepsiCo.

Having less fixed assets than rival firms also can provide major competitive advantages. For example, Apple has no manufacturing facilities of its own, and rival Sony has 57 electronics factories. Apple relies exclusively on contract manufacturers for production of all of its products, whereas Sony owns its own plants. Less fixed assets has enabled Apple to remain financially lean with virtually no long-term debt. Sony, in contrast, has built up massive debt on its balance sheet.

CEO Paco Underhill of Envirosell says, “*Where it used to be a polite war, it’s now a 21st-century bar fight, where everybody is competing with everyone else for the customers’ money.*” Shoppers are “trading down,” so Nordstrom is taking customers from Neiman Marcus and Saks Fifth Avenue, TJ Maxx and Marshalls are taking customers from most other stores in the mall, and Family Dollar is taking revenues from Walmart.⁹ Getting and keeping competitive advantage is essential for long-term success in an organization. In mass retailing, big-box companies such as Walmart, Best Buy, and Sears are losing competitive advantage to smaller stores, so there is a dramatic shift in mass retailing to becoming smaller. As customers shift more to online purchases, less brick and mortar is definitely better for sustaining competitive advantage in retailing. Walmart Express stores of less than 40,000 square feet each, rather than 185,000-square-foot Supercenters, and Office Depot’s new 5,000-square-foot stores are examples of smaller is better.

Normally, a firm can sustain a competitive advantage for only a certain period because of rival firms imitating and undermining that advantage. Thus, it is not adequate to simply obtain competitive advantage. A firm must strive to achieve **sustained competitive advantage** by (1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and by (2) effectively formulating, implementing, and evaluating strategies that capitalize on those factors.

An increasing number of companies are gaining a competitive advantage by using the Internet for direct selling and for communication with suppliers, customers, creditors, partners, shareholders, clients, and competitors who may be dispersed globally. E-commerce allows firms to sell products, advertise, purchase supplies, bypass intermediaries, track inventory, eliminate paperwork, and share information. In total, e-commerce is minimizing the expense and cumbersomeness of time, distance, and space in doing business, thus yielding better customer service, greater efficiency, improved products, and higher profitability.

Strategists

Strategists are the individuals most responsible for the success or failure of an organization. Strategists have various job titles, such as chief executive officer, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur. Jay Conger, professor of organizational behavior at the London Business School and author of *Building Leaders*, says, “All strategists have to be chief learning officers. We are in an extended period of change. If our leaders aren’t highly adaptive and great models during this period, then our companies won’t adapt either, because ultimately leadership is about being a role model.”

Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist). In the last few years, the position of CSO has emerged as a new addition to the top management ranks of many organizations, including Sun Microsystems, Network Associates, Clarus, Lante, Marimba, Sapient, Commerce One, BBDO, Cadbury Schweppes, General Motors, Ellie Mae, Cendant, Charles Schwab, Tyco, Campbell Soup, Morgan Stanley, and Reed-Elsevier. This corporate officer title represents recognition of the growing importance of strategic planning in business. Franz Koch, the CSO of German sportswear company Puma AG, was recently promoted to CEO of Puma. When asked about his plans for the company, Koch said on a conference call “I plan to just focus on the long-term strategic plan.”

Strategists differ as much as organizations themselves, and these differences must be considered in the formulation, implementation, and evaluation of strategies. Some strategists will not consider some types of strategies because of their personal philosophies. Strategists differ in their attitudes, values, ethics, willingness to take risks, concern for social responsibility, concern for profitability, concern for short-run versus long-run aims, and management style. The founder of Hershey Foods, Milton Hershey, built the company to manage an orphanage. From corporate profits, Hershey Foods today cares for about 900 boys and 1,000 girls in its boarding school for pre-K through 12 grade.

Several CSOs who spoke at the CSO Summit in May 2013 in San Francisco were:

- Roland Pan at Skype
- Mark Achler at Redbox
- Jon Berlin at Wells Fargo
- Drew Aldrich at Trans-Lux
- Ann Neir at Cisco Systems
- Jennifer Scott at Virgin Media
- Gina Copeland at Mitsubishi Electric
- Raj Ratnaker at Tyco Electronics
- Tim Johnson at Hopelink
- Nhat Ngo at Omnicell
- Daniel Gastel at UBS
- Clarence So at Salesforce
- Barry Margerum at Plantronics