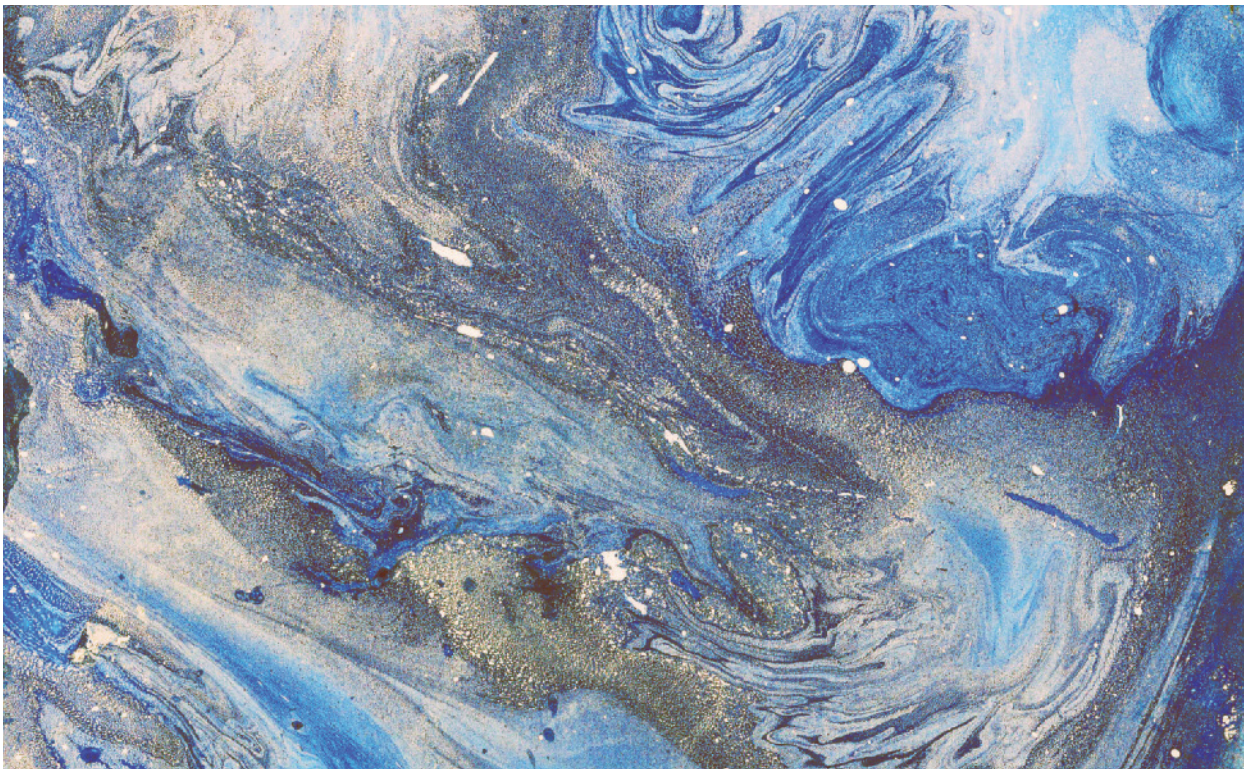


ROBERT M. GRANT

CONTEMPORARY
STRATEGY
ANALYSIS

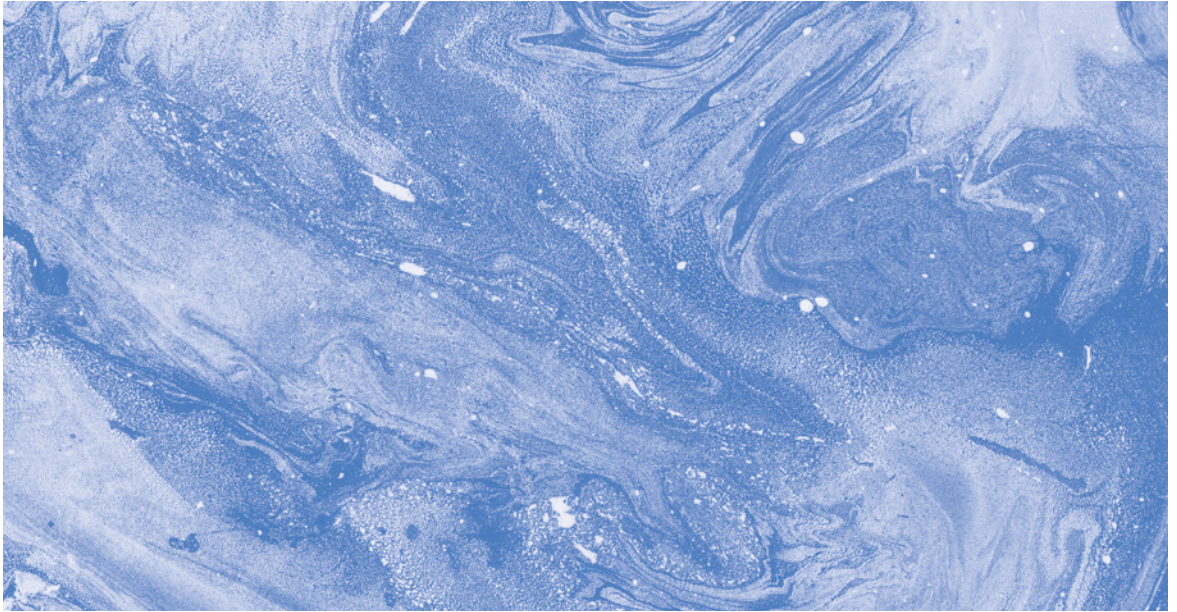


NINTH EDITION

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TEXT AND CASES

NINTH EDITION

ROBERT M. GRANT

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ISBN 9781119120841 (pbk)

ISBN 9781119126515 (ebk)

A catalogue record for this book is available from the British Library.

Set in 10/12pt ITC Garamond Std by Aptara Inc., India

Printed in Great Britain by TJ International, Padstow, Cornwall

To Liam, Ava, Finn, Evie, Max, Lucy, and Bobby

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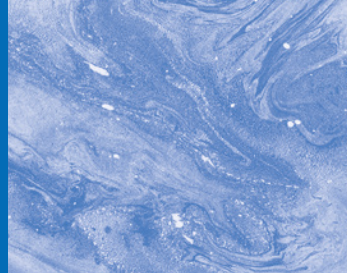
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PREFACE TO NINTH EDITION



Contemporary Strategy Analysis equips managers and students of management with the concepts, frameworks, and techniques needed to make better strategic decisions. My goal is a strategy text that reflects the dynamism and intellectual rigor of this fast-developing field of management and takes account of the strategy issues that companies face today.

Contemporary Strategy Analysis endeavors to be both rigorous and relevant. While embodying the latest thinking in the strategy field, it aims to be accessible to students from different backgrounds and with varying levels of experience. I achieve this accessibility by combining clarity of exposition, concentration on the fundamentals of value creation, and an emphasis on practicality.

This ninth edition maintains the book's focus on the essential tasks of strategy: identifying the sources of superior business performance and formulating and implementing a strategy that exploits these performance drivers. At the same time, the content of the book has been revised to reflect recent developments in the business environment and in strategy research and to take account of feedback from instructors.

Distinctive features of the ninth edition include:

- an explicit guide of how to apply strategy analysis in order to generate strategy recommendations (see “Applying Strategy Analysis” in Chapter 1);
- further development of the role of stakeholder orientation and corporate social responsibility within a value creating view of the firm (see “Beyond Profit: Values and Corporate Social Responsibility” in Chapter 2);
- an increased emphasis on inter-industry linkages including complements, business ecosystems, and platform strategies, especially in digital markets (Chapters 4 and 9);
- a more comprehensive treatment of strategy implementation; while maintaining an integrated approach to strategy formulation and strategy implementation (the chapters on strategic change, technology, mature industries, global strategies, and diversification address both the formulation and implementation of strategy), Chapters 6, 14, and 15 offer a systematic approach to strategy execution;
- greater emphasis on cooperative strategies, especially strategic alliances (Chapter 15).

There is little in *Contemporary Strategy Analysis* that is original: I have plundered mercilessly the ideas, theories, and evidence of fellow scholars. My greatest debts are to my colleagues and students at the business schools where this book has been

developed and tested, notably Georgetown University, Bocconi University, London Business School, City University's Cass Business School, Cal Poly, UCLA's Anderson School, and Mumbai International School of Business. I have also benefitted from feedback and suggestions from professors and students in the many other schools where *Contemporary Strategy Analysis* has been adopted. I look forward to continuing my engagement with users.

I am grateful for the professionalism and enthusiasm of the editorial, production, and sales and marketing teams at John Wiley & Sons, Ltd, especially to Steve Hardman, Juliet Booker, Joshua Poole, Catriona King, Deb Egleton, Joyce Poh, Tim Bettsworth, and Dom Wharram—I couldn't wish for better support.

Robert M. Grant

I

INTRODUCTION

1 The Concept of Strategy

1 The Concept of Strategy

Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.

—SUN TZU, *THE ART OF WAR*

To shoot a great score you need a clever strategy.

—RORY MCILROY, *GOLF MONTHLY*, MAY 19, 2011

Everybody has a plan until they get punched in the mouth.

—MIKE TYSON, FORMER WORLD HEAVYWEIGHT BOXING CHAMPION

OUTLINE

- ◆ **Introduction and Objectives**
- ◆ **The Role of Strategy in Success**
- ◆ **The Basic Framework for Strategy Analysis**
 - Strategic Fit
- ◆ **A Brief History of Business Strategy**
 - Origins and Military Antecedents
 - From Corporate Planning to Strategic Management
- ◆ **Strategy Today**
 - What Is Strategy?
 - Why Do Firms Need Strategy?
 - Where Do We Find Strategy?
- Corporate and Business Strategy
- Describing Strategy
- ◆ **How Is Strategy Made? The Strategy Process**
 - Design versus Emergence
 - The Role of Analysis in Strategy Formulation
 - Applying Strategy Analysis
- ◆ **Strategic Management of Not-For-Profit Organizations**
- ◆ **Summary**
- ◆ **Self-Study Questions**
- ◆ **Notes**

Introduction and Objectives

Strategy is about achieving success. This chapter explains what strategy is and why it is important to success, for both organizations and individuals. We will distinguish strategy from planning. Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization.

The principal task of this chapter will be to introduce the basic framework for strategy analysis that underlies this book. I will introduce the two basic components of strategy analysis: analysis of the external environment of the firm (mainly industry analysis) and analysis of the internal environment (primarily analysis of the firm's resources and capabilities).

By the time you have completed this chapter, you will be able to:

- ◆ Appreciate the contribution that strategy can make to successful performance, both for individuals and for organizations, and recognize the key characteristics of an effective strategy.
- ◆ Comprehend the basic framework of strategy analysis that underlies this book.
- ◆ Recognize how strategic management has evolved over the past 60 years.
- ◆ Identify and describe the strategy of a business enterprise.
- ◆ Understand how strategy is made within organizations.
- ◆ Recognize the distinctive features of strategic management among not-for-profit organizations.

Since the purpose of strategy is to help us to win, we start by looking at the role of strategy in success.

The Role of Strategy in Success

Strategy Capsules 1.1 and 1.2 describe the careers of two individuals, Queen Elizabeth II and Lady Gaga, who have been outstandingly successful in leading their organizations. Although these two remarkable women operate within vastly different arenas, can their success be attributed to any common factors?

For neither of these successful women can success be attributed to overwhelmingly superior resources. For all of Queen Elizabeth's formal status as head of state, she has very little real power and, in most respects, is a servant of the democratically elected British government. Lady Gaga is clearly a creative and capable entertainer, but few would claim that she has outstanding talents as a vocalist, musician, or songwriter.

Nor can their success be attributed either exclusively or primarily to luck. Indeed, Queen Elizabeth has experienced a succession of difficulties and tragedies, while Lady Gaga has experienced setbacks (e.g. the cancelation of her first recording

contract and various health problems). Central to their success has been their ability to respond to events—whether positive or negative—with flexibility and clarity of direction.

My contention is that common to both the 60-year successful reign of Queen Elizabeth II and the short but stellar career of Lady Gaga is the presence of a soundly formulated and effectively implemented strategy. While these strategies did not exist as explicit plans, for both Queen Elizabeth and Lady Gaga we can discern a consistency of direction based clear goals and a keen awareness of how to maneuver into a position of advantage.

Elizabeth Windsor's strategy as queen of the UK and the Commonwealth countries may be seen in the role she has created for herself in relation to her people. As queen she is figurehead for the nation, an embodiment of the stability and continuity of the nation, a symbol of British family and cultural life, and an exemplar of service and professional dedication.

Lady Gaga's remarkable success during 2008-15 reflects a career strategy that uses music as her gateway, upon which she has built a celebrity status by combining the generic tools of star creation—shock value, fashion leadership, and media presence—with a uniquely differentiated image that has captured the imagination and affection of teenagers and young adults throughout the world.

What do these two examples tell us about the characteristics of a strategy that are conducive to success? In both stories, four common factors stand out (Figure 1.1):

- *Goals that are consistent and long term:* Both Queen Elizabeth and Lady Gaga display a focused commitment to career goals that they have pursued steadfastly.
- *Profound understanding of the competitive environment:* The ways in which both Elizabeth II and Gaga define their roles and pursue their careers reveal a deep and insightful appreciation of the external environments in which they operate. Queen Elizabeth has been alert both to the changing political environment in which the monarchy is situated and to the mood and needs of the British people. Lady Gaga's business model and strategic positioning show a keen awareness of the changing economics of the music business, the marketing potential of social networking, and the needs of Generation Y.
- *Objective appraisal of resources:* Both Queen Elizabeth and Lady Gaga have been adept at recognizing and deploying the resources at their disposal. Both, too, have been aware of the limits of those resources and drawn upon the resources of others—Queen Elizabeth through her family, the royal household, and a network of loyal supporters; Lady Gaga upon the variety of talents in her Haus of Gaga.
- *Effective implementation:* Without effective implementation, the best-laid strategies are of little use. Critical to the success of Queen Elizabeth and Lady Gaga has been their effectiveness as leaders and the creation of loyal, supportive organizations to provide decision support and operational implementation.

These observations about the role of strategy in success can be made in relation to most fields of human endeavor. Whether we look at warfare, chess, politics, sport, or business, the success of individuals and organizations is seldom the outcome

STRATEGY CAPSULE 1.1

Queen Elizabeth II and the House of Windsor

By late 2015, Elizabeth Windsor had been queen for 63 years—longer than any of her predecessors.

At her birth on April 21, 1926, hereditary monarchies were common throughout the world. Apart from the British Empire, 45 countries had this form of government. By 2015, the forces of democracy, modernity, and reform had reduced these to 26—mostly small autocracies such as Bahrain, Qatar, Oman, Kuwait, Bhutan, and Lesotho. Monarchies had also survived in Denmark, Sweden, Norway, the Netherlands, and Belgium, but these royal families had lost most of their wealth and privileges.

By contrast, the British royal family retains considerable wealth—the Queen’s personal net worth was estimated by *Forbes* magazine at \$500 million—not including the \$10 billion worth of palaces and other real estate owned by the nation but used by her and her family. Queen Elizabeth’s formal status is head of state of the UK and 15 other Commonwealth countries (including Canada and Australia), head of the Church of England, and head of the British armed forces. Yet none of these positions confers any decision making power—her influence comes from the informal role she has established for herself. According to her website, she “has a less formal role as

Head of Nation” where she “acts as a focus for national identity, unity and pride; gives a sense of stability and continuity; officially recognises success and excellence; and supports the ideal of voluntary service” (www.royal.gov.uk).

How has Queen Elizabeth been able to retain not just the formal position of the monarchy but also its status, influence, and wealth despite the challenges of the past 60 years? These challenges include the social and political changes which have swept away most of the privileges conferred by hereditary status (including the exclusion of most hereditary lords from the House of Lords, Britain’s upper chamber of Parliament) and the internal challenges presented by such a famously dysfunctional family—including the failed marriages of most of her family members and the controversy that surrounded the life and death of her daughter-in-law, Diana, Princess of Wales.

At the heart of Elizabeth’s sustaining of the British monarchy has been her single-minded devotion to what she regards as her duties to the monarchy and to the nation. Throughout her 60-year reign she has cultivated the role of leader of her nation—a role that she has not compromised by pursuit of personal or family interests. In pursuing this role she has recognized

of a purely random process. Nor is superiority in initial endowments of skills and resources typically the determining factor. Strategies that build on these four elements almost always play an influential role.

Look at the “high achievers” in any competitive area. Whether we review the world’s political leaders, the CEOs of the Fortune 500, or our own circles of friends and acquaintances, those who have achieved outstanding success in their careers are seldom those who possessed the greatest innate abilities. Success has gone to those who managed their careers most effectively, typically by combining these four strategic factors. They are goal focused; their career goals have taken primacy over the multitude of life’s other goals—friendship, love, leisure, knowledge, spiritual fulfillment—which the majority of us spend most of our lives juggling

the need for political neutrality—even when she has personally disagreed with her prime ministers (notably with Margaret Thatcher’s “socially divisive” policies and Tony Blair’s commitment of British troops to Iraq and Afghanistan).

Through her outreach activities she has played a major role in promoting British influence, British culture, and British values within the wider world. She has made multiple visits to each of the 54 Commonwealth nations, including 26 to Canada and 16 to Australia.

Maintaining her popularity with the British people has required adaptation to the wrenching changes of her era. Recognizing the growing unacceptability of hereditary privilege and the traditional British class system, she has repositioned the royal family from being the leader of the ruling class to an embodiment of the nation as a whole. To make her and her family more inclusive and less socially stereotyped she cultivated involvement with popular culture, with ordinary people engaged in social service and charitable work, and, most recently, endorsing the marriage of her grandson William to Kate Middleton—the first member of the royal family to marry outside the ranks of the aristocracy.

Elizabeth has been adept at exploiting new media. Television has provided an especially powerful medium for communicating both with her subjects and with a wider global audience. Her web page appeared in 1997, in 2009 she joined Twitter, and in 2010 Facebook. Throughout her reign, her press and public

relations strategy has been carefully managed by a group of top professionals who report to her private secretary.

While respecting tradition and protocol, she adapts in the face of pressing circumstances. The death of her daughter-in-law, Diana, created difficult tensions between her responsibilities as a grandmother and her need to show leadership to a grieving nation. In responding to this time of crisis she departed from several established traditions: including bowing to the coffin of her ex-daughter-in-law as it passed the palace.

Elizabeth has made effective use of the resources available to her. First and foremost of these has been the underlying desire of the British people for continuity and their inherent distrust of their political leaders. By positioning herself above the political fray and emphasizing her lineage—including the prominent public roles of her mother and her children and grandchildren—she reinforces the legitimacy of herself, her family, and the institution they represent. She has also exploited her powers of patronage, using her formal position to cultivate informal relationships with both political and cultural leaders.

The success of Elizabeth’s 63-year reign is indicated by the popular support for her personally and for the institution of the monarchy. Outside of Northern Ireland, the UK lacks any significant republican movement; republicanism is also weak in Canada and Australia.

and reconciling. They know the environments within which they play and tend to be fast learners in terms of recognizing the paths to advancement. They know themselves well in terms of both strengths and weaknesses. Finally, they implement their career strategies with commitment, consistency, and determination. As the late Peter Drucker observed: “we must learn how to be the CEO of our own careers.”¹

There is a downside, however. Focusing on a single goal may lead to outstanding success but may be matched by dismal failure in other areas of life. Many people who have reached the pinnacles of their careers have led lives scarred by poor relationships with friends and families and stunted personal development. These include Howard Hughes and Jean Paul Getty in business, Richard Nixon and

STRATEGY CAPSULE 1.2

Lady Gaga and the Haus of Gaga

Stefani Joanne Angelina Germanotta, better known as Lady Gaga, is one of the most successful popular entertainers to emerge in the 21st century. Since releasing her first album, *The Fame*, in 2008 she has certified album sales of 27 million, swept leading music awards including Grammy, MTV, and Billboards, topped *Forbes Celebrity 100* list, and generated \$382 million in ticket sales for her 2012 “Born this Way” tour. Her 79 concerts during her 2014 “Artrave: The Artpop Ball” tour generated \$271 million.

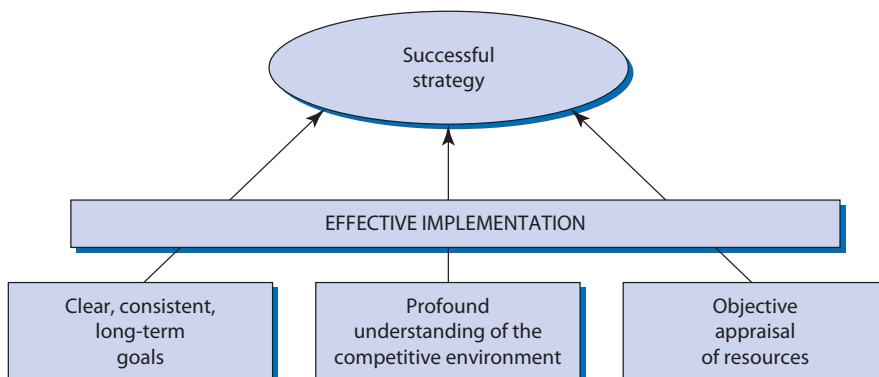
Since dropping out of NYU’s Tisch School of the Arts in 2005, Germanotta has shown total commitment to advancing her musical career, first as a songwriter, and then developing her Lady Gaga persona. Her debut album, *The Fame*, and its follow up, *The Fame Monster*, yielded a succession of number-one hits during 2009 and 2010.

Gaga’s music is a catchy mix of pop and dance, well suited to dance clubs and radio airplay. It features good melodies, Gaga’s capable singing voice, and her reflections on society and life, but it is hardly exceptional or innovative: music critic Simon Reynolds described it as: “ruthlessly catchy, naughties pop glazed with Auto-Tune and undergirded with R&B-ish beats.”

However, music is only one element in the Lady Gaga phenomenon—her achievement is not so much as a singer or songwriter as in establishing a persona which transcends pop music. Like David Bowie and Madonna before her, Lady Gaga is famous for being Lady Gaga. To do this requires a multi-media, multi-faceted offering that comprises an integrated array of components including music, visual appearance, newsworthy events, a distinctive attitude and personality, and a set of values with which fans can identify.

Key among these is visual impact and theatricality. Her hit records were heavily promoted by the visually stunning music videos that accompanied them. *Paparazzi* and *Bad Romance* each won best video awards at the 2009 and 2010 Grammys; the latter is the second-most-downloaded YouTube video of all time. Most striking of all has been Lady Gaga’s dress and overall appearance, which have set new standards in eccentricity, innovation, and impact. Individual outfits—her plastic bubble dress, meat dress, and “decapitated-corpse dress”—together with weird hairdos, extravagant hats, and extreme footwear (she met President Obama in 16-inch heels)—are as well-known

FIGURE 1.1 Common elements in successful strategies



as her hit songs. The range of visual images she projects is so varied that her every appearance creates a buzz of anticipation as to her latest incarnation.

More than any other star, Lady Gaga has developed a business model that recognizes the realities of the post-digital world of entertainment. Like Web 2.0 pioneers such as Facebook and Twitter, Gaga has followed the model: first build market presence, and then think about monetizing that presence. Her record releases are accompanied, sometimes preceded, by music videos on YouTube. With 45 million Facebook fans, 15.8 million Twitter followers, and 1.9 billion YouTube views (as of November 16, 2011), Famecount crowned her “most popular living musician online.” Her networking with fans includes Gagaville, an interactive game developed by Zynga, and The Backplane, a music-based social network.

Her emphasis on visual imagery reflects the ways in which her fame is converted into revenues. While music royalties are important, concerts are her primary revenue source. Other revenue sources—endorsements, product placement in videos and concerts, merchandizing deals, and media appearances—also link closely with her visual presence.

A distinctive feature of Gaga’s market presence is her relationship with her fans. The devotion of her fans—her “Little Monsters”—is based less on their desire to emulate her look as upon empathy with her values and attitudes. They recognize Gaga’s images

more as social statements of non-conformity than as fashion statements. In communicating her experiences of alienation and bullying at school and her values of individuality, sexual freedom, and acceptance of differences—reinforced through her involvement in charities and gay rights events—she has built a global fan base that is unusual in its loyalty and commitment. The sense of belonging is reinforced by gestures and symbols such as the “Monster Claw” greeting and the “Manifesto of Little Monsters.” As “Mother Monster,” Gaga is spokesperson and guru for this community.

Lady Gaga’s most outstanding talents are her showmanship and theatricality. Modeled on Andy Warhol’s “Factory,” The Haus of Gaga is her creative workshop and augments her own capabilities. It includes manager Troy Carter, choreographer and creative director Laurieann Gibson, fashion director Nicola Formichetti, hair stylist Frederic Aspiras, stylist and designer Anna Trevelyan, fashion photographer Nick Night, makeup artist Tara Savelo, marketing director Bobby Campbell, and others involved in designing and producing songs, videos, concert sets, photo shoots, and the whole range of Gaga’s public appearances.

Sources: M. Sala, “The Strategy of Lady Gaga,” BSc thesis Bocconi University, Milan, June 2011; <http://www.statisticbrain.com/lady-gaga-career-statistics>, accessed July 20, 2015; http://en.wikipedia.org/wiki/Lady_Gaga, accessed July 20, 2015.

Joseph Stalin in politics, Elvis Presley and Marilyn Monroe in entertainment, Mike Tyson and O. J. Simpson in sport, and Bobby Fischer in chess. Fulfillment in our personal lives is likely to require broad-based lifetime strategies.²

These same ingredients of successful strategies—clear goals, understanding the competitive environment, resource appraisal, and effective implementation—form the key components of our analysis of business strategy.

The Basic Framework for Strategy Analysis

Figure 1.2 shows the basic framework for strategy analysis that we shall use throughout the book. The four elements of a successful strategy shown in Figure 1.1 are recast into two groups—the firm and the industry environment—with strategy