

Aron, K. Jam

Indian Institute of Management, Lucknow



Tata McGraw-Hill Publishing Company Limited

NEW DELHI

McGraw-Hill Offices

New York St Louis San Francisco Auckland Bogota Caracas
Inpur Lisbon London Madrid Mexico City Milan Montreal
San Juan Santiago Singapore Sydney Tokyo Toronto

Fig. 1. Sept. And Control of the control of the first of the approach of the control of the c

Information contained in this work has been obtained by Tata McGraw-Hill, from sources believed to be reliable. However, neither Tata McGraw-Hill nor its authors guarantee the accuracy or completeness of any information published herein, and neither Tata McGraw-Hill nor its authors shall be responsible for any errors, omissions, or damages arising out of use of this information. This work is published with the understanding that Tata McGraw-Hill and its authors are supplying information but are not attempting to render engineering or other professional services. If such services are required, the assistance of an appropriate professional should be sought.



Tata McGraw-Hill

Srinivas Institute of Anglogy
Acc. 28.6.6

Crafting and Executing Strategy, The Quest for Competitive Advantage: Concepts and Cases, Fourteenth Edition

Sales territories: India, Pakistan, Nepal, Bangladesh, Sri Lanka and Bhutan.

Fifth reprint 2008
RQZXCRYXRBALX

Indian Adaptation done by arrangement with the McGraw-Hill Companies, Inc., New York. Copyright © 2006, by The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise or stored in a database or retrieval system without the prior written permission of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

ISBN-13: 978-0-07-060089-8 ISBN-10: 0-07-060089-9

Published by the Tata McGraw-Hill Publishing Company Limited, 7 West Patel Nagar, New Delhi 110 008, typeset in Times at Script Makers, 19, A1-B, DDA Market, Pashchim Vihar, New Delhi 110 063, and printed at Sirohi Brothers (P) Ltd, E-121, Sector 7, Noida

table of contents

The Preface

part of e Concepts and Techniques for Crafting and Executing Strategy 1

Section A: Introduction and Overview

1. What Is Strategy and Why Is It Important? 2

What Is Strategy? 3

The Relationship between a Company's Strategy and Its

Business Model 11

What Makes a Strategy a Winner? 11

Why Are Crafting and Executing Strategy Important? 13

illustration capsules

- 1.1. The Chief Elements of Southwest Airlines' Strategy 5
- 1.2. Microsoft and Red Hat Linux: Two Contrasting Business Models 12

2. The Managerial Process of Crafting and Executing

Strategy 16

What Does the Process of Crafting and Executing Strategy Entail? 17

Developing a Strategic Vision: Phase 1 of the Strategy-Making,

Strategy-Executing Process 17

Setting Objectives: Phase 2 of the Strategy-Making, Strategy-Executing

Process 26

Crafting a Strategy: Phase 3 of the Strategy-Making, Strategy-Executing Process 32

Implementing and Executing the Strategy: Phase 4 of the Strategy-Making,

Strategy-Executing Process 38

Initiating Corrective Adjustments: Phase 5 of the Strategy-Making,

Strategy-Executing Process 39

Corporate Governance: The Role of the Board of Directors in the Strategy-Making, Strategy-

Executing Process 40

illustration capsules

- 2.1. Exelon's Strategic Vision 22
- 2.2. Examples of Strategic Visions—How Well Do They Measure Up? 23

Table of Contents

- 2.3. Intel's Two Strategic Inflection Points 26
- 2.4. Examples of Company Objectives 28
- 2.5. Organizations That Use a Balanced Scorecard Approach to Objective Setting 30

Section B: Core Concepts and Analytical Tools

3. Analyzing a Company's External Environment 44

The Strategically Relevant Components of a Company's External Environment 45

Thinking Strategically about a Company's Industry and Competitive Environment 46

Question 1: What Are the Industry's Dominant Economic Features? 48

Question 2: What Kinds of Competitive Forces Are Industry Members Facing? 50

Question 3: What Factors Are Driving Industry Change and What Impacts Will They Have? 68

Question 4: What Market Positions Do Rivals Occupy-

Who Is Strongly Positioned and Who Is Not? 75

Question 5: What Strategic Moves Are Rivals Likely to Make Next? 77

Question 6: What Are the Key Factors for Future Competitive Success? 80

Question 7: Does the Outlook for the Industry Present an Attractive Opportunity? 82

illustration capsules

3.1. Comparative Market Positions of Selected Retail Chains:
A Strategic Group Map Application 76

4. Analyzing a Company's Resources and Competitive Position 86

Question 1: How Well Is the Company's Present Strategy Working? 87

Question 2: What Are the Company's Resource Strengths and Weaknesses and Its External Opportunities and Threats? 89

Question 3: Are the Company's Prices and Costs Competitive? 98

Question 4: Is the Company Competitively Stronger or Weaker Than Key Rivals? 108

Question 5: What Strategic Issues and Problems Merit Front-Burner

Managerial Attention? 111

illustration capsules

- 4.1. Value Chain Costs for Companies in the Business of Recording and Distributing Music CDs 103
- 4.2. Benchmarking and Ethical Conduct 105

Section C: Crafting a Strategy

5. The Five Generic Competitive Strategies: Which One to Employ? 114 The Five Generic Competitive Strategies 115

	Table of Contents	XIX
	Low-Cost Provider Strategies 117 Differentiation Strategies 126 Best-Cost Provider Strategies 130 Focused (or Market Niche) Strategies 132 The Contrasting Features of the Five Generic Competitive Strategies: A Summary 135	
	 illustration capsules 5.1. Nucor Corporation's Low-Cost Provider Strategy 118 5.2. Utz Quality Foods' Use of Internet Technology to Reengineer Value Chain Activities 5.3. Toyota's Best-Cost Producer Strategy for Its Lexus Line 131 5.4. Motel 6's Focused Low-Cost Strategy 133 5.5. Progressive Insurance's Focused Differentiation Strategy in Auto Insurance? 134 	123
6.	Beyond Competitive Strategy: Other Important Strategy Choices 14 Strategic Alliances and Collaborative Partnerships 141 Merger and Acquisition Strategies 146 Vertical Integration Strategies: Operating across More Stages of the Industry Value Chain Outsourcing Strategies: Narrowing the Boundaries of the Business 153 Using Offensive Strategies to Secure Competitive Advantage 155 Using Defensive Strategies to Protect the Company's Position 160 Strategies for Using the Internet as a Distribution Channel 161 Choosing Appropriate Functional-Area Strategies 166 First-Mover Advantages and Disadvantages 167	150\
	 illustration capsules 6.1. How Clear Channel Has Used Mergers and Acquisitions to Become a Global Market Leader 149 6.2. Office Depot's Brick-and-Click Strategy 164 6.3. The Battle in Consumer Broadband: First-Movers versus Late-Movers 169 	
7.	Why Companies Expand into Foreign Markets 174 Cross-Country Differences in Cultural, Demographic, and Market Conditions 175 The Concepts of Multicountry Competition and Global Competition 178 Strategy Options for Entering and Competing in Foreign Markets 180 The Quest for Competitive Advantage in Foreign Markets 185 Profit Sanctuaries, Cross-Market Subsidization, and Global Strategic Offensives 189 Strategic Alliances and Joint Ventures with Foreign Partners 191 Competing in Emerging Foreign Markets 195	

7.1.	Coca-Cola, McDonald's, and Nestlé: Users of Multicountry Strategies 184		
7.2.	Cross-Border Strategic Alliances	194	

8. Tailoring Strategy to Fit Specific Industry and Company Situations 202

Strategies for Competing in Emerging Industries 203

Strategies for Competing in Turbulent, High-Velocity Markets 206

Strategies for Competing in Maturing Industries 210

Strategies for Firms in Stagnant or Declining Industries 213

Strategies for Competing in Fragmented Industries 214

Strategies for Sustaining Rapid Company Growth 217

Strategies for Industry Leaders 219

Strategies for Runner-Up Firms 221

Strategies for Weak and Crisis-Ridden Businesses 224

10 Commandments for Crafting Successful Business Strategies 229

Matching Strategy to Any Industry and Company Situation 230

illustration capsules

illustration capsules

- 8.1. Yamaha's Strategy in the Stagnant Piano Industry 215
- 8.2. How Microsoft Uses Its Muscle to Maintain Market Leadership 221
- 8.3. Lucent Technologies' Turnaround Strategy: Slow to Produce Results 227

9. Diversification: Strategies for Managing a Group of Businesses 234

When to Diversify 236

Strategies for Entering New Businesses 239

Choosing the Diversification Path: Related versus Unrelated Businesses 241

The Case for Diversifying into Related Businesses 241

The Case for Diversifying into Unrelated Businesses 248

Combination Related-Unrelated Diversification Strategies 253

Evaluating the Strategy of a Diversified Company 254

After a Company Diversifies: The Four Main Strategy Alternatives 269

illustration capsules

- 9.1. Five Companies That Have Diversified into Related Businesses 246
- 9.2. Five Companies That Have Diversified into Unrelated Businesses 250
- 9.3. Managing Diversification at Johnson & Johnson 271
- 9.4. The Global Scope of Four Prominent Diversified Multinational Corporations 276

Table of Contents xxi

10. Strategy, Ethics, and Social Responsibility 282

Strategy and Ethics 283

Strategy and Social Responsibility 301

illustration capsules

- 10.1. When Cultures Clash on Ethical Standards: Some Examples 291
- 10.2. Strategies to Gain New Business at Wall Street Investment Banking Firms: Ethical or Unethical? 300

Section D: Executing the Strategy

11. Building Resource Strengths and Organizational Capabilities 316

A Framework for Executing Strategy 318

The Principal Managerial Components of the Strategy Execution Process 319

Building a Capable Organization 321

Staffing the Organization 322

Building Core Competencies and Competitive Capabilities 324

Matching Organization Structure to Strategy 328

Organizational Structures of the Future 340

illustration capsules

- 11.1. How General Electric Develops a Talented and Deep Management Team 323
- 11.2. Cross-Unit Coordination on Technology at 3M Corporation 339

12. Managing Internal Operations: Actions That Promote Better Strategy Execution 344

Marshaling Resources Behind the Drive for Good Strategy Execution 345

Instituting Policies and Procedures That Facilitate Strategy Execution 346

Adopting Best Practices and Striving for Continuous Improvement 349

Installing Information and Operating Systems 356

Tying Rewards and Incentives to Strategy Execution 359

illustration capsules

- 12.1. Graniterock's "Short Pay" Policy: An Innovative Way to Promote Strategy Execution 348
- 12.2. Whirlpool's Use of Six Sigma to Promote Operating Excellence 353
- 12.3. Companies with Effective Motivation and Reward Techniques 361
- 12.4. Nucor and Bank One: Two Companies That Tie Incentives Directly to Strategy Execution 363

13. Corporate Culture and Leadership: Keys to Good

Strategy Execution

Building a Corporate Culture That Promotes Good Strategy

Execution 369

Leading the Strategy Execution Process 391

illustration capsules

- 13.1. The Culture at Alberto-Culver 370
- 13.2. The Culture-Change Effort at Alberto-Culver's North American Division 384
- 13.3. Lockheed Martin's Corrective Actions after Violating U.S. Antibribery Laws 396

part two Cases in Crafting and Executing Strategy C-1

Section A: Crafting Strategy in Single-Business Companies

- 1. Starbucks in 2004: Driving for Global Dominance C-2 Arthur A. Thompson, The University of Alabama Amit J. Shah, Frostburg State University Thomas F. Hawk, Frostburg State University
- 2. Dell Computer in 2003: Driving for Industry Leadership C-33 Arthur A. Thompson, The University of Alabama John E. Gamble, University of South Alabama
- 3. McDonald's: Polishing the Golden Arches C-64 Lou Marino, The University of Alabama Katy Beth Jackson, The University of Alabama
- 4. eBay: In a League by Itself C-86 Louis Marino, The University of Alabama Patrick Kreisler, The University of Alabama
 - 5. Bayer AG: Children's ASPIRIN C-112 Lauranne Buchanan, Thunderbird—The American Graduate School of International Management Christopher K. Merker, Thunderbird—The American Graduate School of International Management
- 6. Harley-Davidson C-128 John E. Gamble, University of South Alabama Roger Schäfer, University of South Alabama
 - 7. Hero Honda Motors (India) Ltd.: Is It Honda That Made It a Hero? C-148 Kannan Ramaswamy, Thunderbird—The American Graduate School of International Management Rahul Sankhe, Thunderbird—The American Graduate School of International Management

Section B: Crafting Strategy in Diversified Companies

8. Unilever's Path to Growth Strategy: Is It Working? C-163
Arthur A. Thompson, The University of Alabama

Section C: Implementing and Executing Strategy

- 9. Robin Hood C-193

 Joseph Lampel, New York University
- 10. Procter & Gamble: Organization 2005 and Beyond C-195
 Ravi Madapati, ICFAI Knowledge Center
- 11. Wal-Mart Stores, Inc.: A New Set of Challenges C-207
 Arthur A. Thompson, The University of Alabama
- 12. Southwest Airlines: Culture, Values, and Operating Practices C-233

 Arthur A. Thompson, The University of Alabama

 John E. Gamble, The University of South Alabama

Section D: Strategy, Ethics, and Social Responsibility

13. Andy Decker and the Ethics of Downloading Music from the Internet C-262

Janet Rovenpor, Manhattan College

part thee Additional Cases C-277

- 1. A Briefcase C-278
- 2. Arvind Mills ...in the New Millennium C-281
- 3. Nirma C-291
- 4. Titan Watches—Redifining time C-304
- 5. Gujarat Ambuja Cement Ltd.—Innovating to leadership position C-317
- 6. Bharat Aluminium Company Limited C-330

 A Case Study on First Big-Ticket Successful PSU Disinvestment
- 7. The BPO-ITES Industry C-340
 Challenges for Sustaining India's Global Leadership
- 8. Global Trust Bank C-352

 A Tale of Greed, Systematic Failures and Misplaced Ambitions
- 9. Giant Bicycles C-371

 How a Small Company in a Small Country Goes Global

xxiv

Table of Contents

- 10. The Dabbawalas—Feeding Mumbai C-378
- 11. Managing Radical Change at ICICI Bank: Revelations of CEO C-382
- 12. Milking the Holy Cows! C-387
- 13. Boeing....Flying High on Values C-392

indexes

Name I-1-I-5

Subject I-7-I-23

endnotes

EN1-EN8