

Strategic Management

International Digital Business Winter Term 2023/24

Module 1: Introduction and Overview



AGENDA

#	Date	Time	Topic	Room
1	2023-09-25	8-10	Strategic Management in the 21st century	C425
2	2023-09-25	10-12	Financial Performance Analysis for Strategy	C304
3	2023-09-25	14-16	Strategic Analysis with Classical Strategy Tools	C425
4	2023-09-25	16-18	Sources of Competitive Advantage	C304
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Strategic Management in the Digital Age

Objectives:

- To provide a foundational understanding of what strategic management entails.
- To trace the evolution of strategic management.
- To highlight how the digital age has influenced strategic decision-making.



Digital Transformation: Future Scenarios 2030 | Deloitte



Student Interaction

Personal Strategic Management

- Build a poster with the first names on it!
- Please introduce everyone in the group.
- Discuss and briefly define your 5-year plans
- What are your strengths that you want to build on?

In total, we have about 3-5 minutes per group presentation.

What is Strategic Management?

Definition:

Strategic management is the comprehensive process by which organisations analyse and adapt to their internal and external environments, leveraging their strengths and addressing weaknesses to position themselves advantageously. This is achieved by crafting, implementing, and evaluating cross-functional decisions that enable an organisation to achieve its objectives, ensuring survival and fostering sustainable growth in a dynamic and competitive landscape.



Alternate Definitions?

"Strategic management is an integrative management field that combines analysis, formulation, and implementation in the quest for competitive advantage." (Hitt,, Ireland & Hoskisson, 2014)

"Strategic management is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives." (David, 2011)

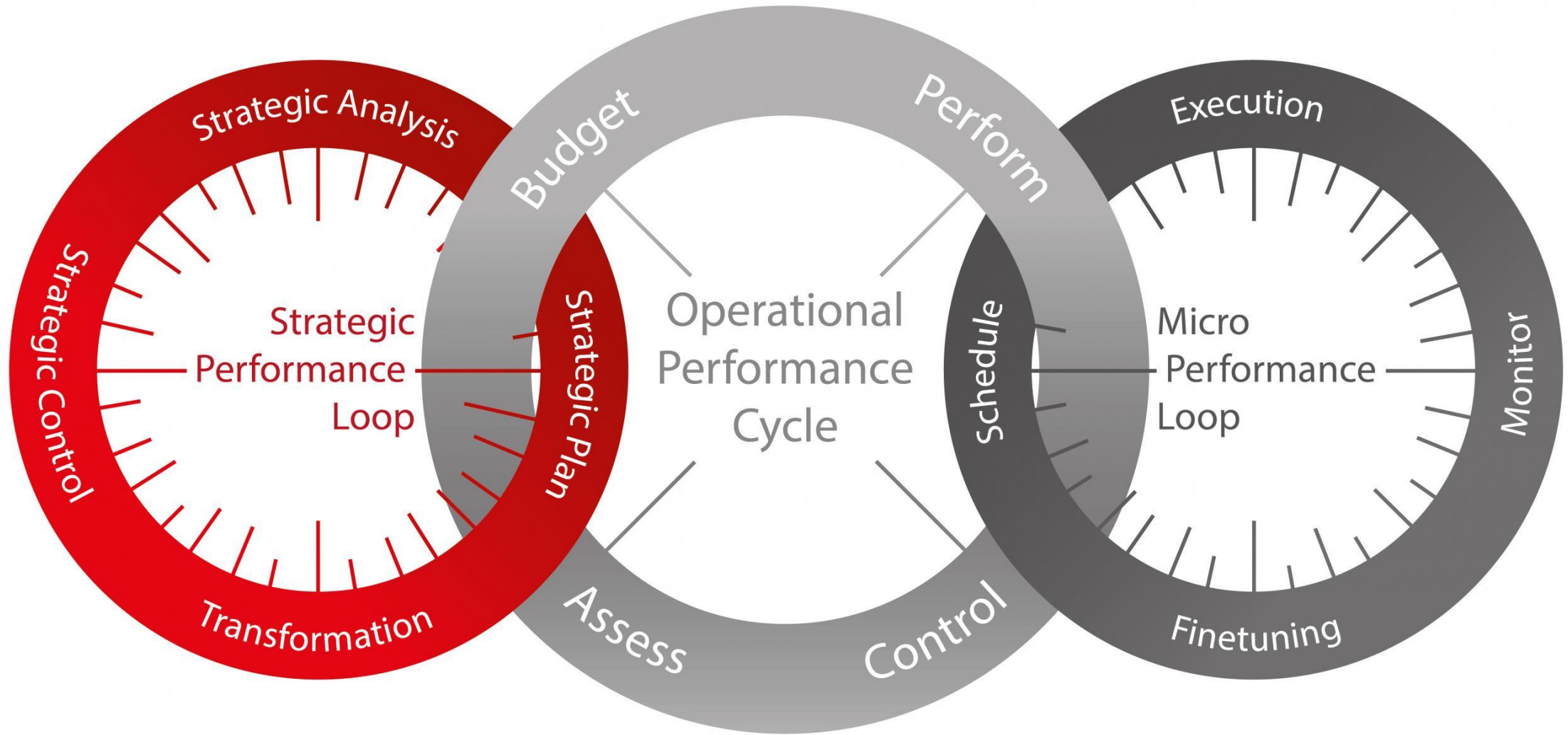
"Strategic management is the process of assessing the corporation and its environment in order to meet the firm's long-term objectives of adapting and adjusting to its environment through manipulation of opportunities and reduction of threats." (Thompson & Strickland, 2003)

"Strategy is the pattern that integrates an organization's goals, policies, and action sequences into a cohesive whole." (Mintzberg, Ahlstrand & Lampel, 1998)

"Strategy is creating fit among a company's activities. The success of a strategy depends on doing many things well - not just a few. (Porter, 1996)

Further reading: Porter, M. E. (1996). What is Strategy? *Harvard Business Review*, 74(6), 61-78.

The Performance Management Cascade



Strategic Management @Tesla



The Impact of Digitalisation on Strategic Management

1. Altered Competitive Landscapes:

- *New Competitors*: Digital platforms can enable smaller players or newcomers to disrupt established industries, challenging traditional powerhouses.
- *Value Chain Disruption*: Digitalization can lead to the disintermediation or reintermediation of the value chain, changing the way businesses deliver value to their customers.

2. New Business Models:

- *Platform-based Models*: Companies like Airbnb, Uber, and Alibaba represent digitally-enabled platform-based business models, which challenge traditional business structures.
- *Subscription Models*: Many businesses, from software to entertainment, have moved to subscription models, offering continuous value and establishing ongoing customer relationships.

3. Enhanced Customer Centricity:

- *Personalization*: With digital technologies, companies can personalise offerings to individual customers' preferences and behaviour, shifting strategies from mass market to more niche or segmented offerings.
- *Improved Customer Experiences*: Digital touchpoints, from mobile apps to virtual reality, are being employed to enrich the customer journey.



The Impact of Digitalisation on Strategic Management

4. Operational Efficiency:

- *Automation and AI:* Digital technologies have led to the automation of numerous processes, and with AI, even complex decision-making tasks can be automated, changing operational strategies.
- *Supply Chain and Logistics:* Digital technologies offer better forecasting, inventory management, and real-time tracking, leading to leaner and more efficient operations.

3. Speed and Agility of Decision Making:

- *Data Abundance:* Digitalization offers a plethora of data, which, when analysed, can provide essential insights for decision-making. This data-driven decision-making enhances the accuracy and effectiveness of strategic initiatives.
- *Real-time Monitoring:* Technologies such as Internet of Things (IoT) and real-time analytics enable managers to make quick decisions by monitoring operations, customer interactions, and market conditions in real time.

6. Risk Management and Security:

- *Cybersecurity Concerns:* As businesses digitalize, cybersecurity becomes a strategic concern, requiring robust strategies to protect data and operations.
- *Regulatory and Compliance Changes:* As digital technologies permeate industries, new regulatory challenges arise, needing strategic responses.



The Impact of Digitalisation on Strategic Management

7. Innovation and R&D:

- *Rapid Prototyping*: Technologies like 3D printing allow for faster prototyping, changing the pace and approach to innovation.
- *Open Innovation*: Digital platforms enable collaboration with external partners, customers, or even the public, driving open innovation strategies.

8. Globalization and Localization:

- *Global Reach*: Digital platforms allow even small businesses to reach global markets, changing international strategies.
- *Localization Tools*: Digital tools can automate localization, from language translation to market-specific customization, allowing for global strategies with local touches.

9. Talent Management:

- *Remote Work and Collaboration*: Digital tools have enabled remote work, changing talent acquisition, retention, and management strategies.
- *Continuous Learning*: With the rapid pace of digital evolution, strategies around continuous learning and upskilling become crucial.



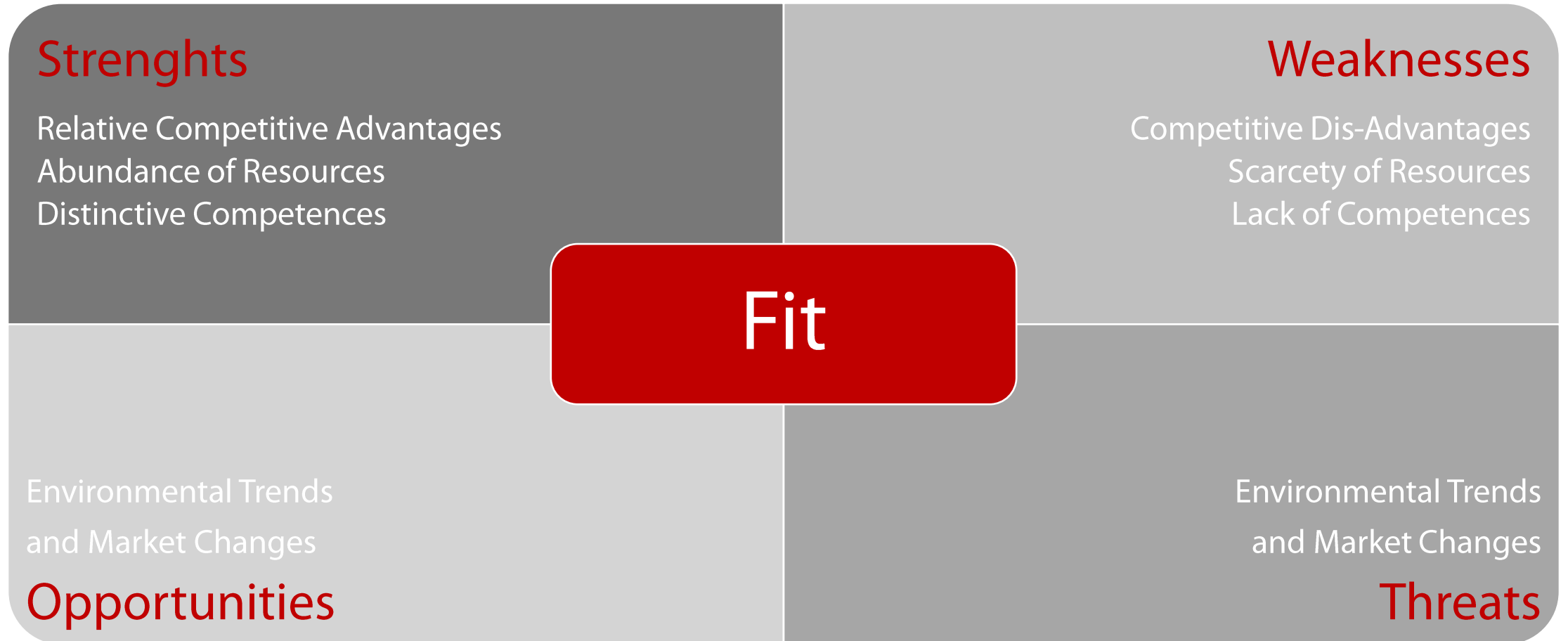
Glimpses on the competitive environment



VUCA

Darwininist Business Fit Perspective

Kenneth R. Andrews (1916-2005)



Which **strategic objectives**, **product-market strategy** and integrated **strategic approach** are the best (=achieve the best fit) for the competitive situation?

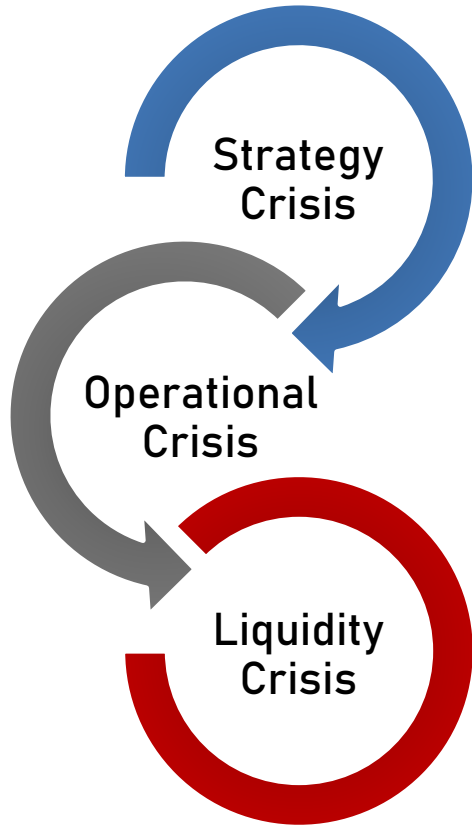
Failures in Strategic Management

The risk of bad strategic management:

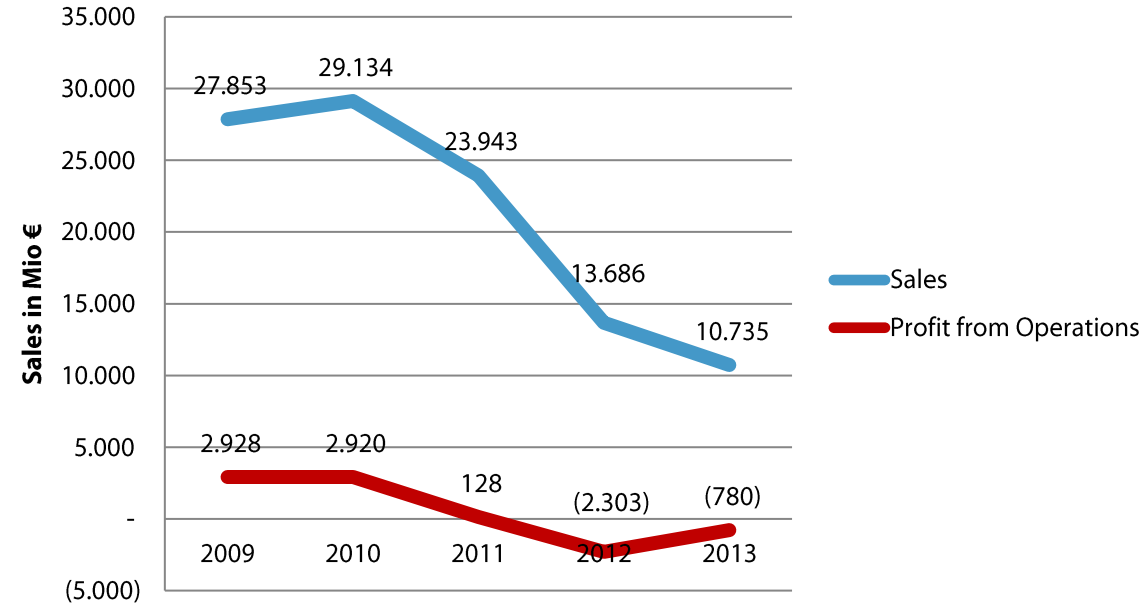
In the face of rapid digitalisation, the importance of strategic management is magnified. The lack of proactive and adaptive strategies can lead companies towards a path of **serfdom**, where they are perpetually subordinated and reliant on dominant forces. Failing to evolve strategically in this digital era can push businesses towards **extinction**, as they become irrelevant and outperformed in the marketplace.



The Performance Crisis Cascade



Nokia Services & Devices



Grading

Grading will be based on one individual paper assignment (total 60%) to be handed in by 2023-09-30 and a group presentation (40%) on the strategic analysis of an international company including strategic recommendations.



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Foundations of Strategy



Objectives:

- To provide an enhanced understanding of what strategic management entails and more facets and discussions.
- Introduce to the EKIPA challenge

Student Interaction

SWOT-Analysis

The Café Geschmacklos

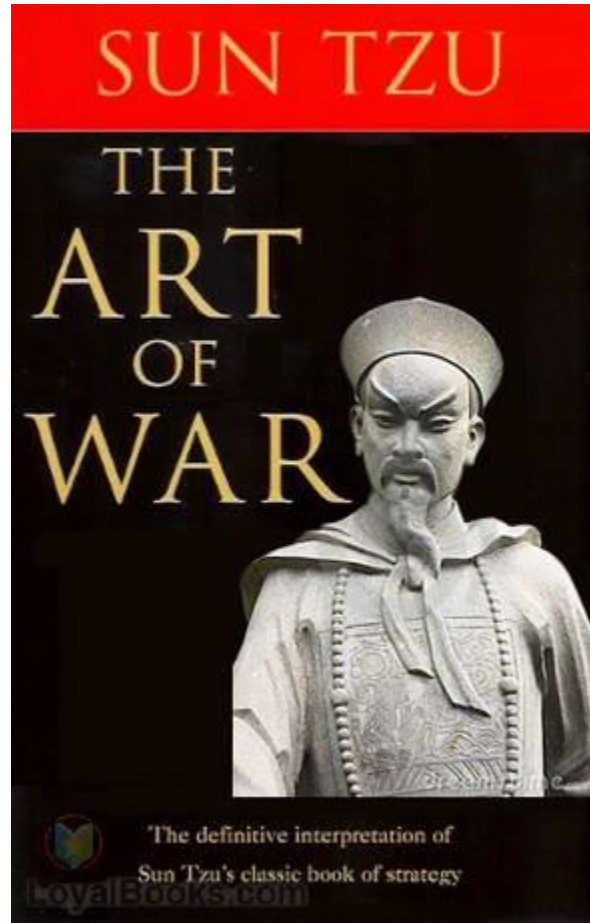




Honeywell

A Look at Honeywell Today

Sun Tzu (c. 554 BC - c. 496 BC)



All men can see these tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved.

Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win.

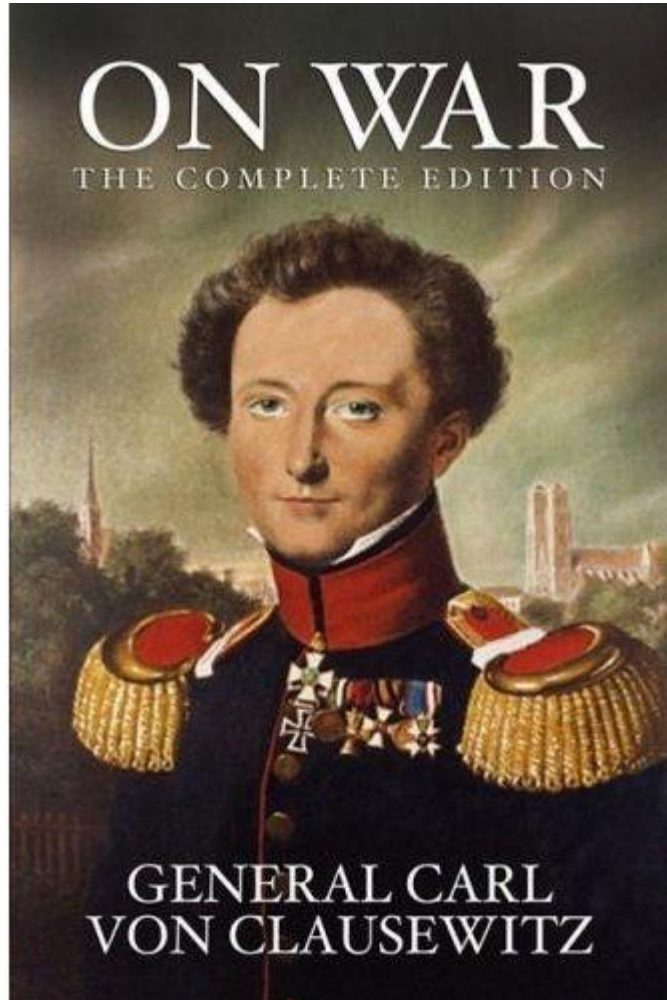
If you know your enemies and yourself, you will not be imperiled in a hundred battles; if you do not know your enemies but do know yourself, you will win one and lose one; if you do not know your enemies nor yourself, you will be imperiled in every single battle.

The supreme art of war is to subdue the enemy without fighting.

All war is based on deception.

Opportunities multiply as they are seized.

Carl von Clausewitz (1780 –1831)



The conduct of war is the planning and conduct of combat ...combat consists of a greater or lesser number of individual acts ...which we call

engagements. This gives rise to an entirely different activity, namely,

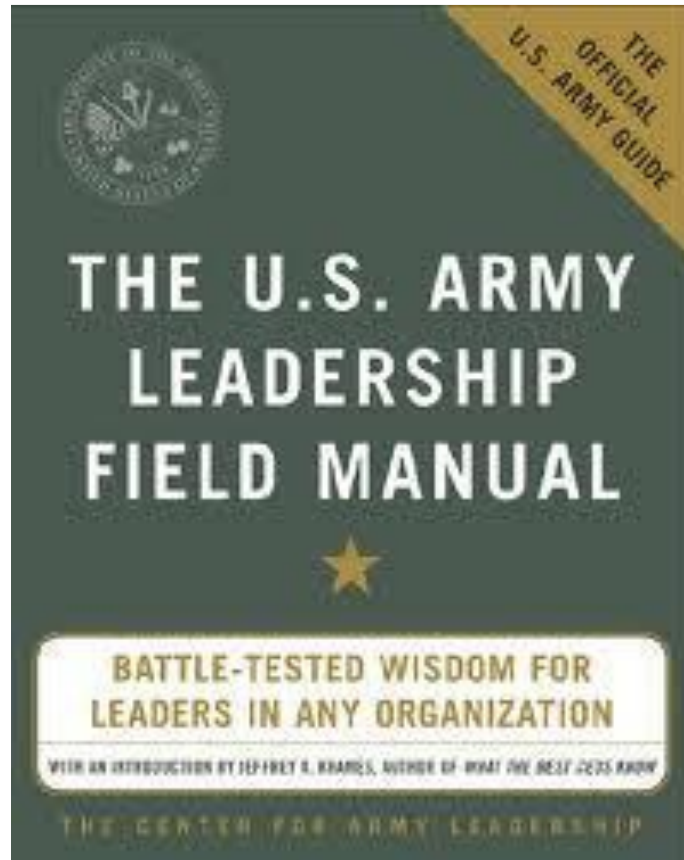
individual planning and conducting these engagements and **joining them together** to achieve the objective of war. The first we called **tactics**, the second, **strategy**.

Where absolute superiority is not attainable, you must produce a relative one at the decisive point by making skillful use of what you have.

Countless minor events –the sort of things that can never be taken into account on paper – conspire to decrease efficiency, and one always falls far short of the goal. These difficulties happen over and over again, and cause a sort of **friction** that only those who have experienced war can accurately understand.

Boldness governed by superior intellect is the mark of a hero.

US Army Field Manual: Features of good strategy



Direct your operation towards clearly defined, attainable **objectives**

- Seize, retain, exploit the **initiative**
- **Concentrate combat power at decisive place and time**
- Place enemy in disadvantageous position through **flexible** application of combat power
- Strike enemy at a time, at a place, or in a manner for which he is unprepared (**surprise**)
- Prepare **clear, uncomplicated plans** and clear, concise orders to ensure thorough understanding

Levels of strategy in an organisation

Corporate Strategy

- Which businesses should we be in?
- How should we create value for the corporation as a whole?

Business Strategy

- How should we compete in a particular market?
- How can we create a competitive advantage?

Functional Strategy

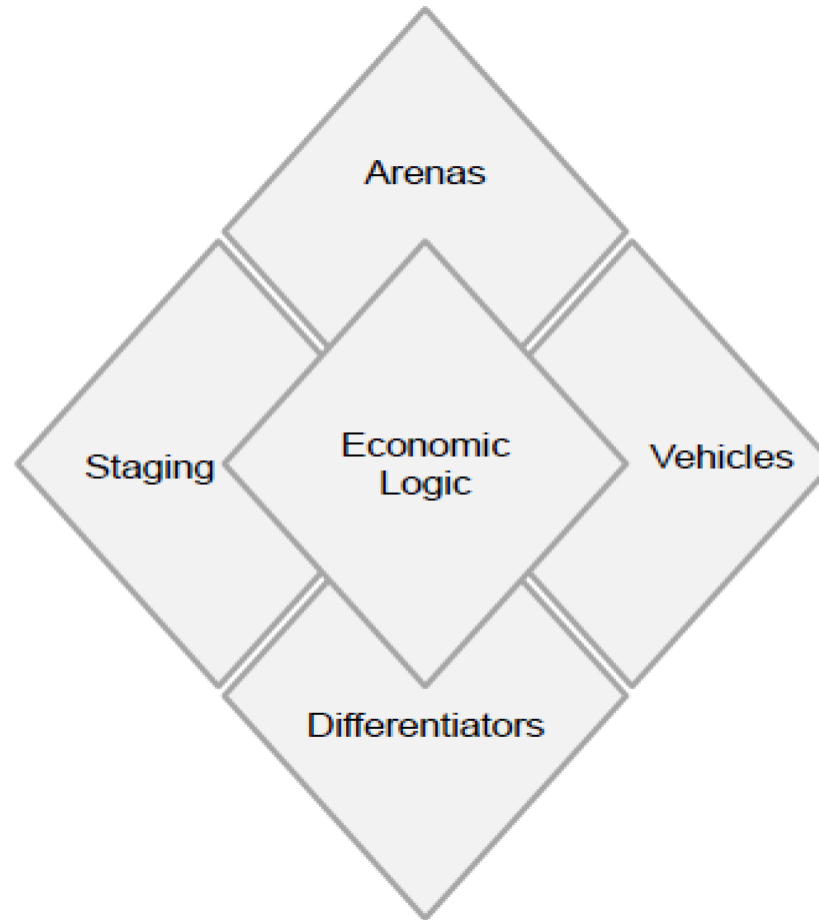
- How do we compete at the level of functions / strategic activities?

Strategy Poetry

- "Our strategy is to be the low cost provider"
- "We're pursuing a global strategy"
- "The company's strategy is to integrate a set of regional acquisitions"
- "Our strategy is to provide unrivaled customer service"
- "Our strategic intent is to always be first mover"
- "Our strategy is to move from defense to industrial applications"



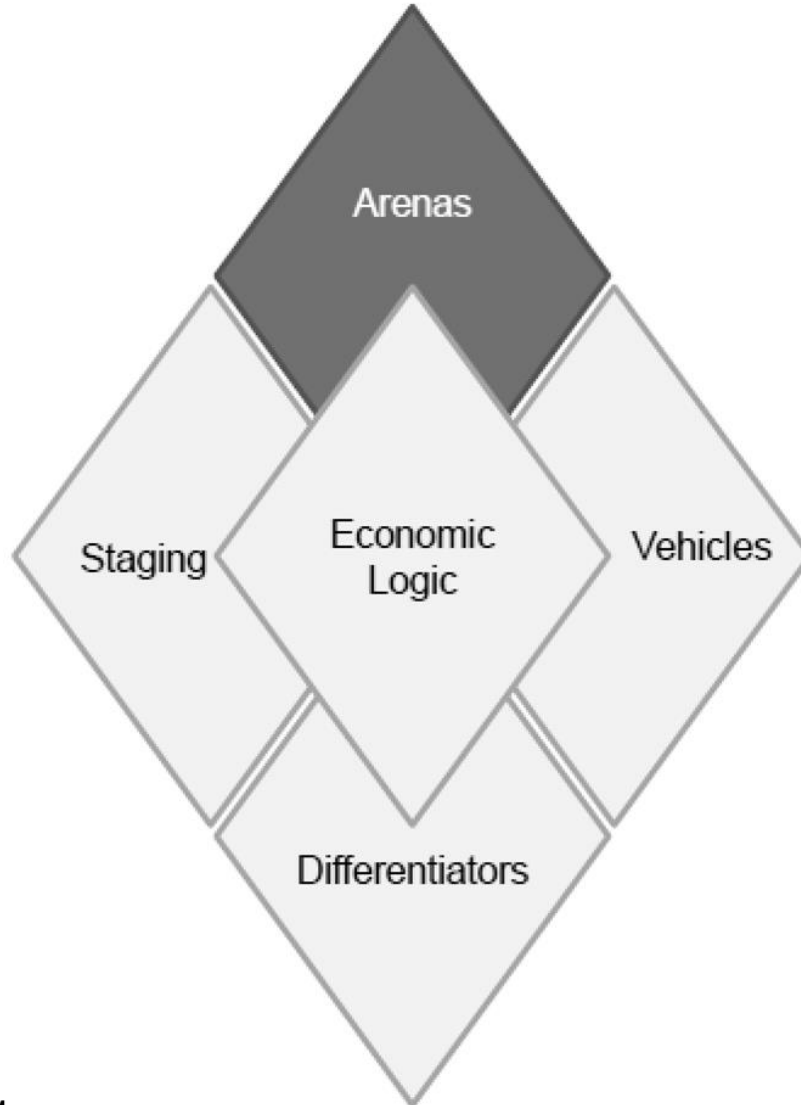
The Strategy Diamond



Hambrick, D. C., & Fredrickson, J. W. (2005). Are you sure you have a strategy?.
Academy of Management Perspectives, 19(4), 51-62.



Five Major Elements of Strategy



1. Where is the company active? Where does it intend to go? With how much emphasis?

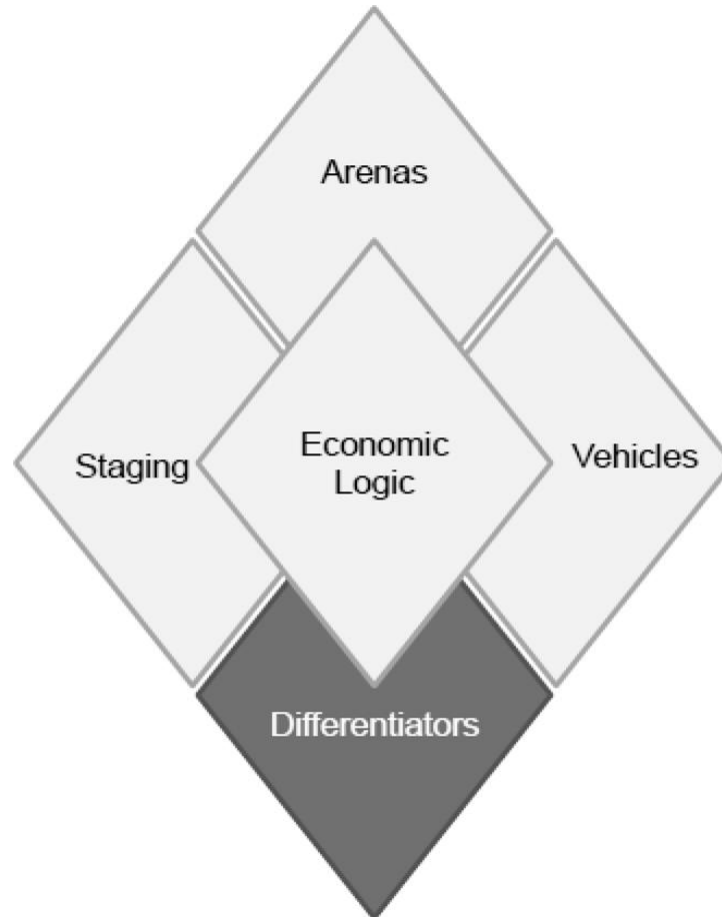
- Product categories?
- Market segments?
- Geographic areas?
- Core technologies?
- Which value creation stages in-house?

Recommendations

- Be as specific as possible
- Provide strategic segmentation of the total market and show 'relevant' or 'accessed' market segments
- Value creation strategies includes analysis of total value chain or business system and internal/outsourcing decisions



Five Major Elements of Strategy



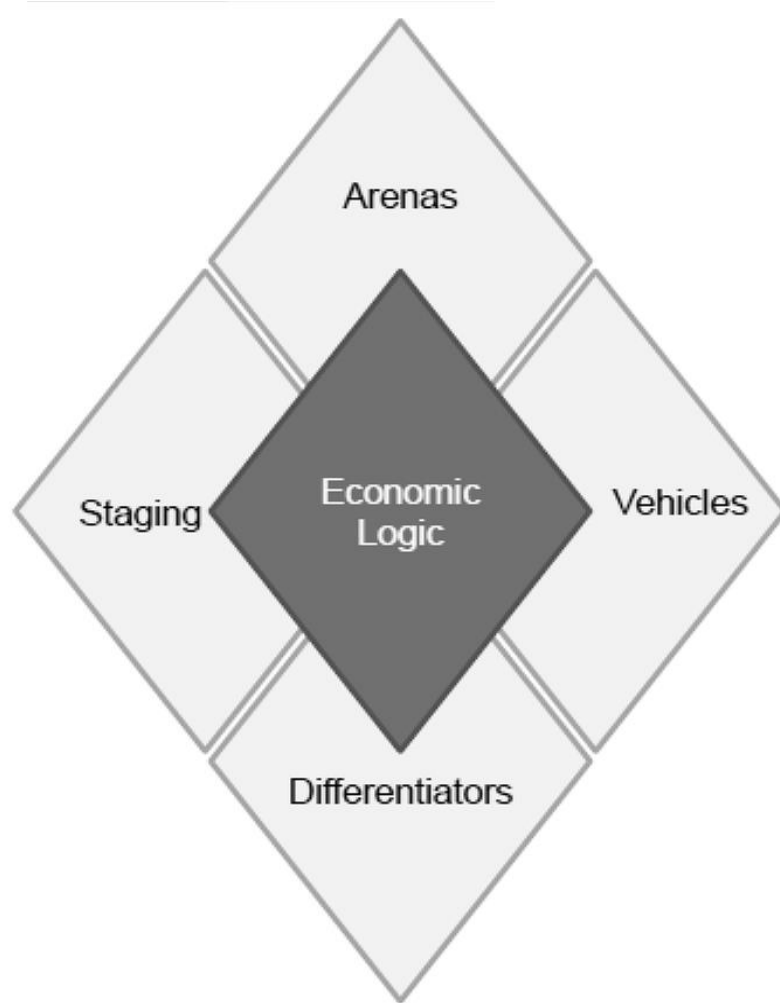
2. How does the company/intend to win in the market place?

[Customer value proposition]

- Superior product offering
- Image?
- Customization?
- Price?
- Styling?
- Product reliability?
- Customer support
- Bundling?
- Other?



Five Major Elements of Strategy



3. How does the company (try to) obtain returns above its cost of capital?

Pricing leverage

- Premium prices
- from price-insensitive buyers
- for product features they deem very appealing
- and which competitors can't readily match

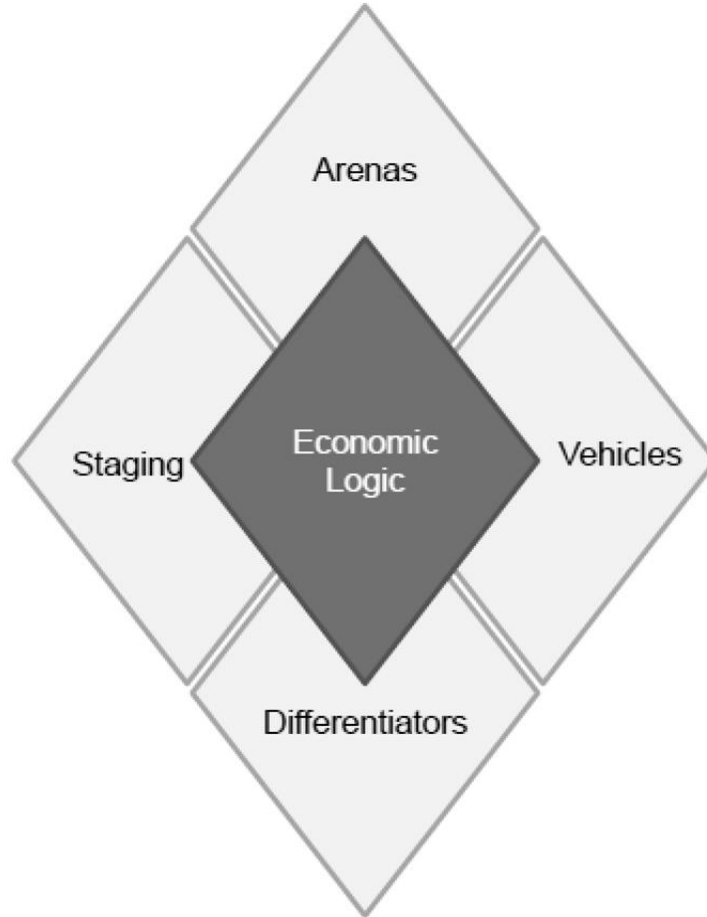
Cost leverage

- Through scale
- Through scope
- Through replication and experience
- Through advantageous endowments

Asset leverage

- Extraordinary asset turns
- Extraordinary asset longevity
- Brand leverage

Five Major Elements of Strategy



3. How does the company (try to) obtain returns above its cost of capital?

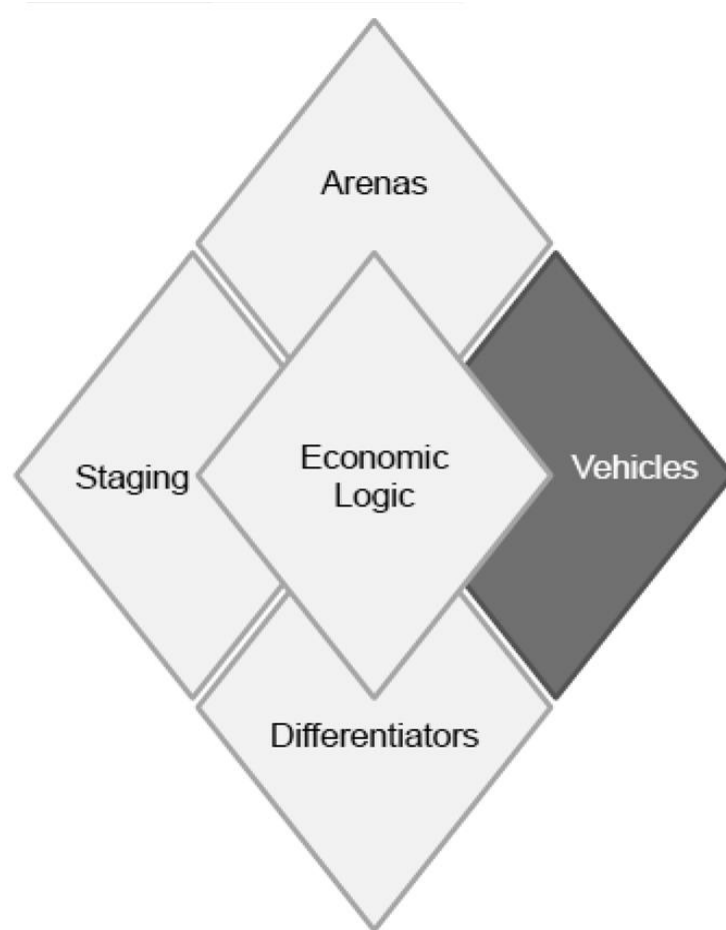
Innovation leadership enabling premium priced products (creaming) or entry barriers through lower pricing & going down the learning curve

Fast follower adopting innovations in an early stage and rapid introduction.

Late follower competing on cost mainly.



Five Major Elements of Strategy

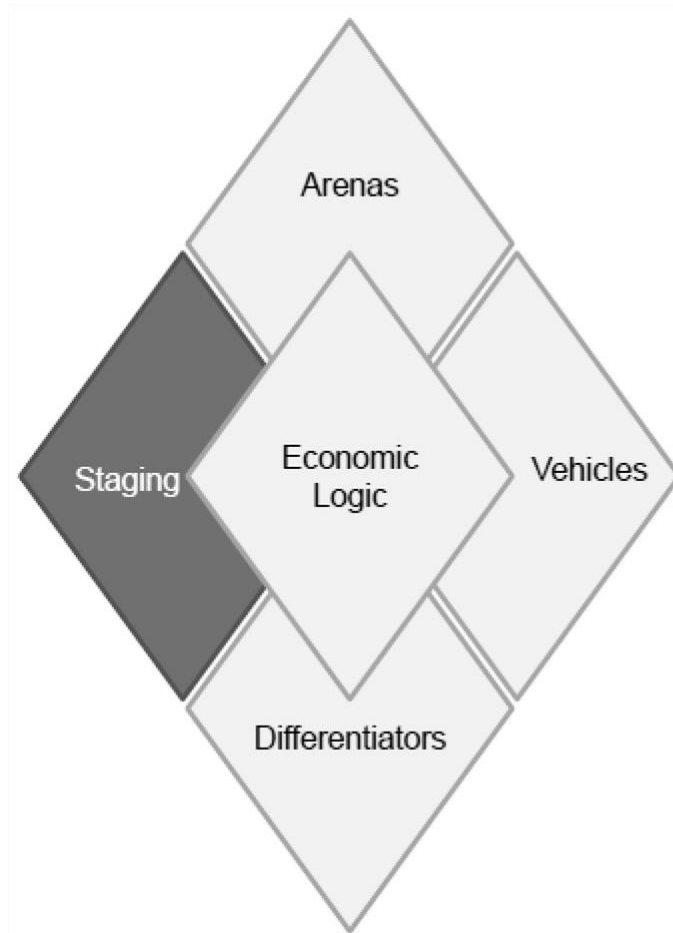


4. How did / will it get there?

- Internal development? Outsourcing?
- Joint ventures?
- Licensing/franchising?
- Acquisitions?



Five Major Elements of Strategy




5. What will be the speed and sequence of moves?

- Speed of expansion?
- Sequence of initiatives?



Testing the Strategy

- 
1. Does the strategy fit with what is going on in the environment?
 2. Does the strategy exploit the key resources?
 3. Will the envisioned differentiators (value proposition) be sustainable?
 4. Are the elements of the strategy internally consistent?
 5. Does the organisation have sufficient/adequate resources to pursue the strategy?
 6. Is the strategy implementable?

The Strategy Diamond

Strategic Analysis

- Environmental analysis / key success factors of the industry/market
- Customer/ market place analysis
- Environmental forecast / scenarios
- Competitor analysis
- Assessment of internal strengths/weaknesses, resources (along the value chain)

Mission
(Fundamental purpose & values)

Objectives
(Specific targets)

Strategy

The central integrated concept of how the firm achieves its objectives

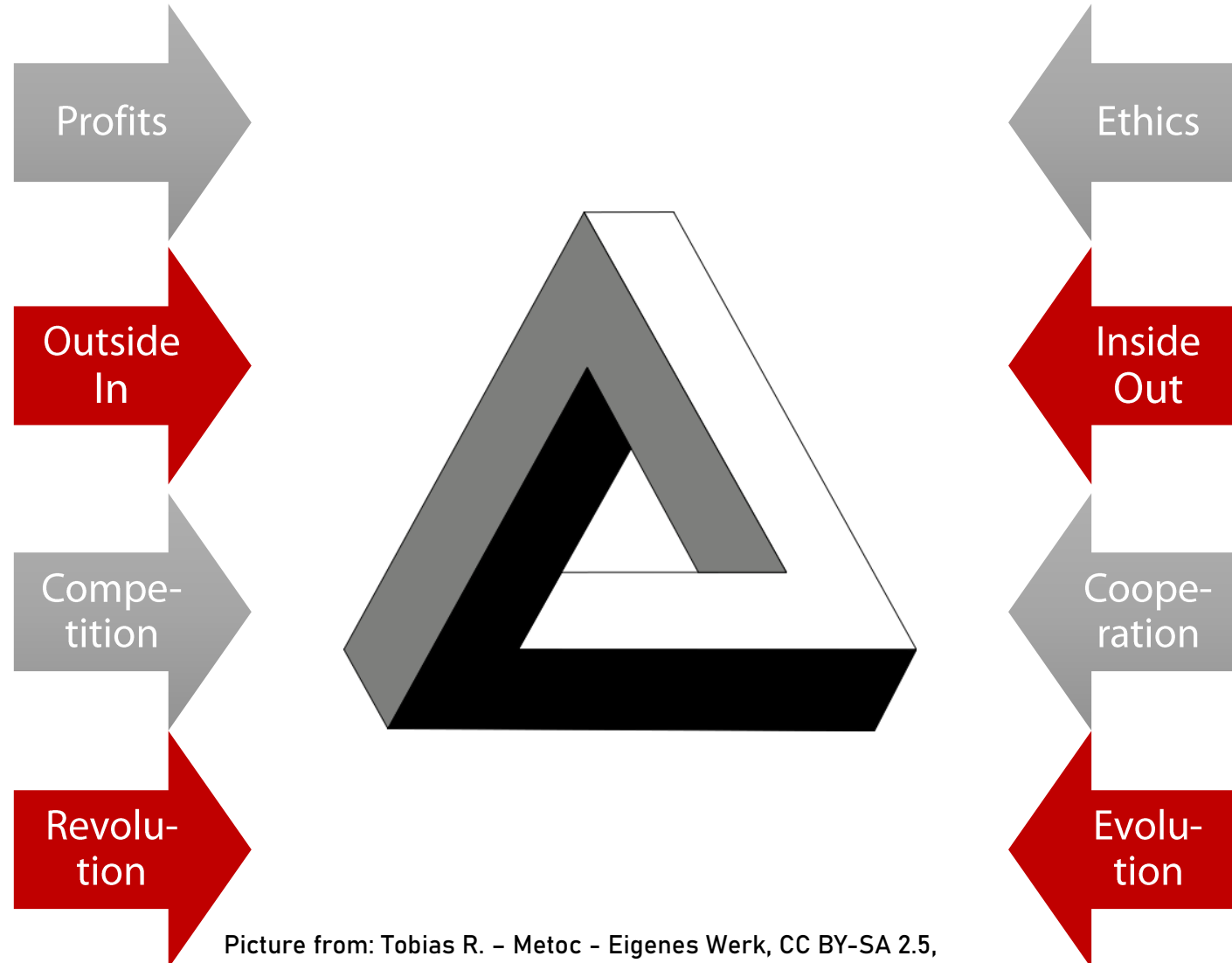
Supporting organizational arrangements

Structure – Rewards – Processes – People – symbols – activities – functional policies and profiles

Strategic Management Roundup



Paradoxes and Dilemmas in Strategic Management



Picture from: Tobias R. – Metoc – Eigenes Werk, CC BY-SA 2.5,
<https://commons.wikimedia.org/w/index.php?curid=2520370>



From Student to Strategist?

Strategic thinking refers to the ability to envision, develop, and implement plans that reflect an organisation's objectives and align with its external environment. It encompasses both the formulation of strategy (designing a plan) and its implementation (bringing the plan to life).

- Continuous Learning: Business landscapes change. Stay updated with industry trends, emerging technologies, and shifts in consumer behaviour.
- Cross-disciplinary Knowledge: Understanding various business functions can provide a holistic view, enriching strategic decisions.
- Networking: Engaging with industry professionals, attending conferences, and participating in workshops can offer insights into real-world strategic challenges.
- Practice: Like any skill, strategic thinking improves with practice. Case studies, business simulations, and real-world projects can be invaluable.
- Feedback and Reflection: Regularly seeking feedback and reflecting on decisions can help in refining the strategic mindset.



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Financial Performance



Objectives:

- Understand the key metrics for company success
- Discover the concept of profitable growth

The Profitable Growth Game

The Goal of Strategic Analysis

=

Understand differences in firm performance/profitability

1 How do we perform compared to others?

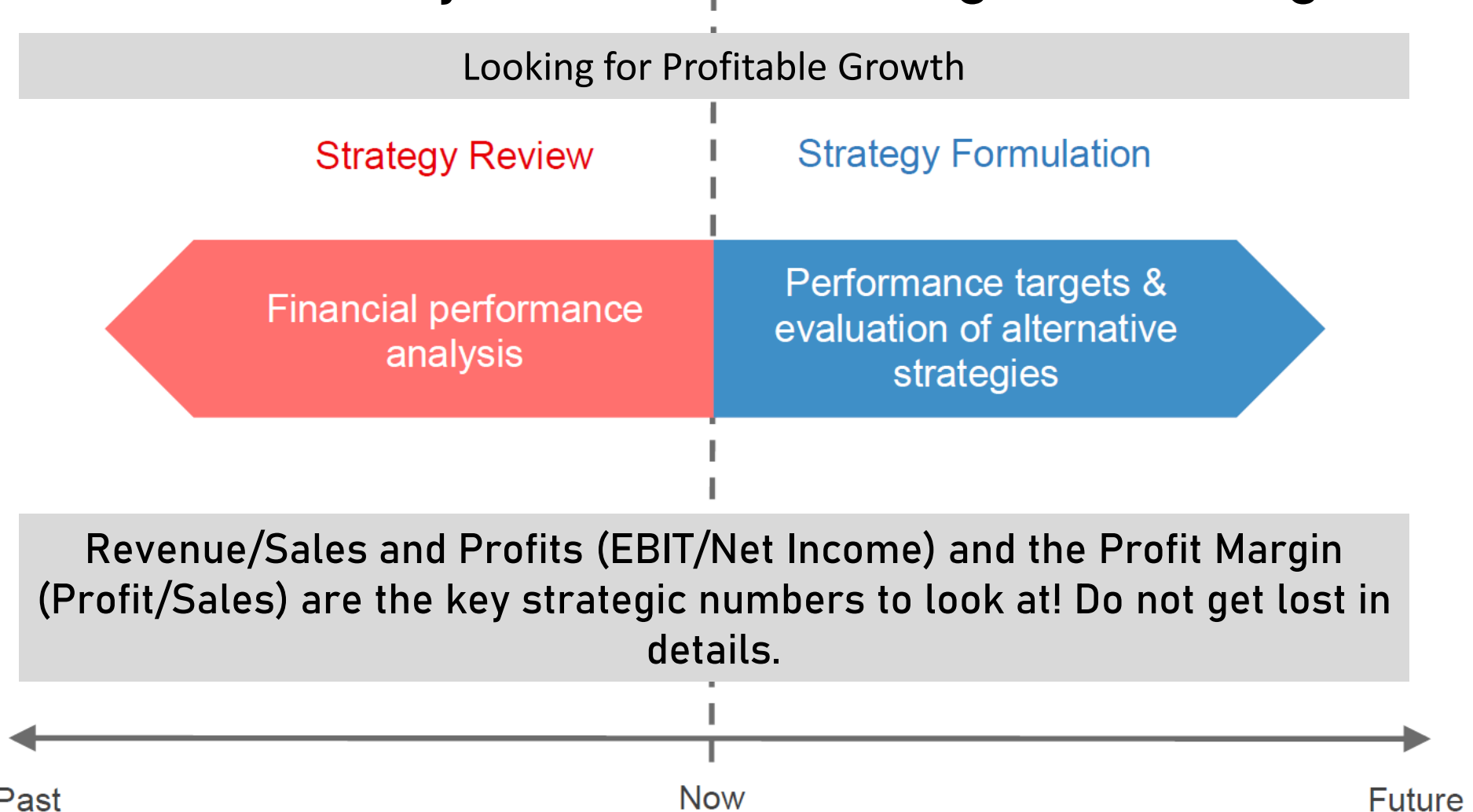


2 How do we want to perform?



3 How do we get there?

How Financial Analysis Feeds Strategic Planning



Performance Management with Ratios

Why are performance targets important?

- Strategy is about resource-allocation -> Reasonable & realistic forecasting
- Monitoring of strategy implementation (attention: strategy-to-performance gap)

What are important characteristics of performance targets?

- Consistent with long-term goals
- Linked to strategy (Performance targets <- -> Strategy)
- In line with common industry ratios
- Relevant to tasks and responsibilities of individual organizational members
- End points must be '*SMART*': specific, measurable, attractive, realistic, time-based

Attention: Risk of short-termism if firm objectives are solely based on financial indicators

- Commonly integrated in Dashboards: integration of strategic, operational and organizational objectives
- Attention: Choose only few relevant performance targets



Performance Analysis with Ratios

BASF Report 2011

Economic data

		2011
Sales	million €	73,497
Income from operations before depreciation and amortization (EBITDA)	million €	11,993
Income from operations (EBIT) before special items	million €	8,447
Income before taxes and minority interests	million €	8,586
Income before taxes and minority interests	million €	8,970
Net income	million €	6,188
Earnings per share	€	6.74
Adjusted earnings per share ¹	€	6.26
Dividend per share	€	2.50
Cash provided by operating activities	million €	7,105
Additions to long-term assets ²	million €	3,646
Depreciation and amortization	million €	3,407
Return on assets	%	16.1
Return on equity after tax	%	27.5
Research and development expenses	million €	1,605



Source: <http://report.basf.com/2011/en/toourshareholders/keydata.html?cat=b>

Performance Analysis with Ratios

Horizontal Analysis

BASF Report 2011

Consolidated statements of income (million €)	2011	2010	Change
Sales	73,497	63,873	15.07%
Cost of sales	(53,986)	(45,310)	19%
Gross profit on sales	19,511	18,563	5%
Selling expenses	(7,323)	(6,700)	9%
General and administrative expenses	(1,315)	(1,138)	16%
Research and development expenses	(1,605)	(1,492)	8%
Other operating income	2,008	1,140	76%
Other operating expenses	(2,690)	(2,612)	3%
Income from operations	8,586	7,761	11%
Other Income, net	984	299	229%
Interest income	189	150	26%
Interest expense	(763)	(773)	-1%
Other financial income	909	866	5%
Other financial expenses	(935)	(930)	1%
Financial result	384	(388)	-199%
Income before taxes and minority interests	8,970	7,373	22%
Income taxes	(2,367)	(2,299)	3%
Income before minority interests	6,603	5,074	30%
Minority interests	(415)	(517)	-20%
Net income	6,188	4,557	36%

Source: <http://report.basf.com/2011/en/financialstatements/statementsofincome.html?cat=b>

Performance Analysis with Ratios

Horizontal Analysis (Sales & NI Correlation)

BASF	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sales	32,216	33,361	37,537	42,745	52,610	57,951	62,304	50,693	63,873	73,497
Trend percentage	100%	104%	117%	133%	163%	180%	193%	157%	198%	228%
CAGR = $[(73,497/32,216)^{0.1}] - 1 = 9\%$										

BASF	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net income	1,504	910	2,004	3,007	3,215	4,065	2,912	1,410	4,557	6,188
Trend percentage	100%	61%	133%	200%	214%	270%	194%	94%	303%	411%
CAGR = $[(6,188/1,504)^{0.1}] - 1 = 15\%$										



$$CAGR = \left[\frac{\text{Ending Value (2011)}}{\text{Beginning Value (2002)}} \right]^{\frac{1}{\text{\# of years}}} - 1$$

Strategic Value of the Sales CAGR

Compound annual growth rate (CAGR) formula

$$\text{CAGR} = \left(\frac{\text{Final value}}{\text{Starting value}} \right)^{\frac{1}{N}} - 1$$

Sales CAGR: Measures the geometric progression ratio that provides a constant rate of return over a time period.

Strategic Importance:

- Growth Assessment:** Reveals how well the company is expanding its customer base, launching new products, or capturing market share.
- Benchmarking:** Allows comparison against competitors or industry standards to assess relative performance.
- Investor Confidence:** Consistent sales growth is often a sign of a strong, well-managed company, attracting investors.
- Future Projections:** Helps in forecasting future revenues, guiding business strategies and investment decisions.

Strategic Value of EBIT CAGR

Compound annual growth rate (CAGR) formula

$$\text{CAGR} = \left(\frac{\text{Final value}}{\text{Starting value}} \right)^{\frac{1}{N}} - 1$$

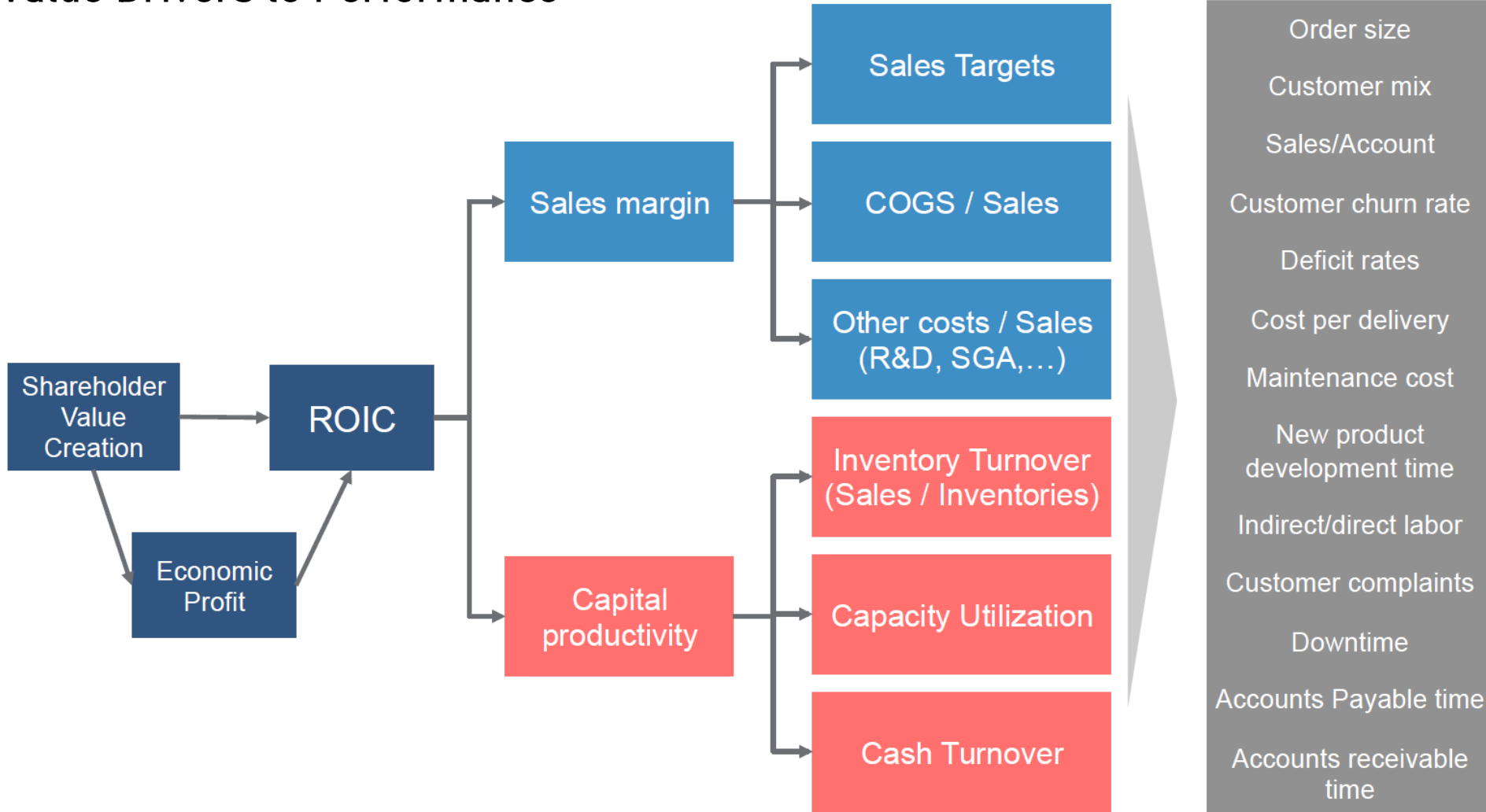
EBIT CAGR: Measures the annual growth rate of earnings before deducting interest and taxes, providing insight into profitability excluding the effects of capital structure and tax environments.

Strategic Importance:

- a. **Profitability Trajectory:** Indicates how well the company is managing its operating costs relative to revenue growth.
- b. **Operational Efficiency:** A rising EBIT CAGR can signify increased efficiency, optimized supply chain, or better cost controls.
- c. **Strategic Decision Making:** Highlights areas that might need a strategic shift or more investment.
- d. **Investor Attraction:** EBIT growth can attract institutional investors who often focus on core business profitability before financing or tax considerations.

Financial Performance Management

Linking Value Drivers to Performance





Strategic KPIs for (Digital) Ventures

Market Potential

TAM = Total Addressable Market

SAM = Serviceable Available Market

SOM = Serviceable Obtainable Market

Customer Acquisition

Klicks

Bounce Rate

CAC (Customer acquisition costs)

Conversion

Conversion Rates

ROAS

Net Promoter Score

Sales

Churn Rate

MRR (Monthly Recurring Revenues)

CLV (Customer Lifetime Value)

DAU (Daily Active Users)

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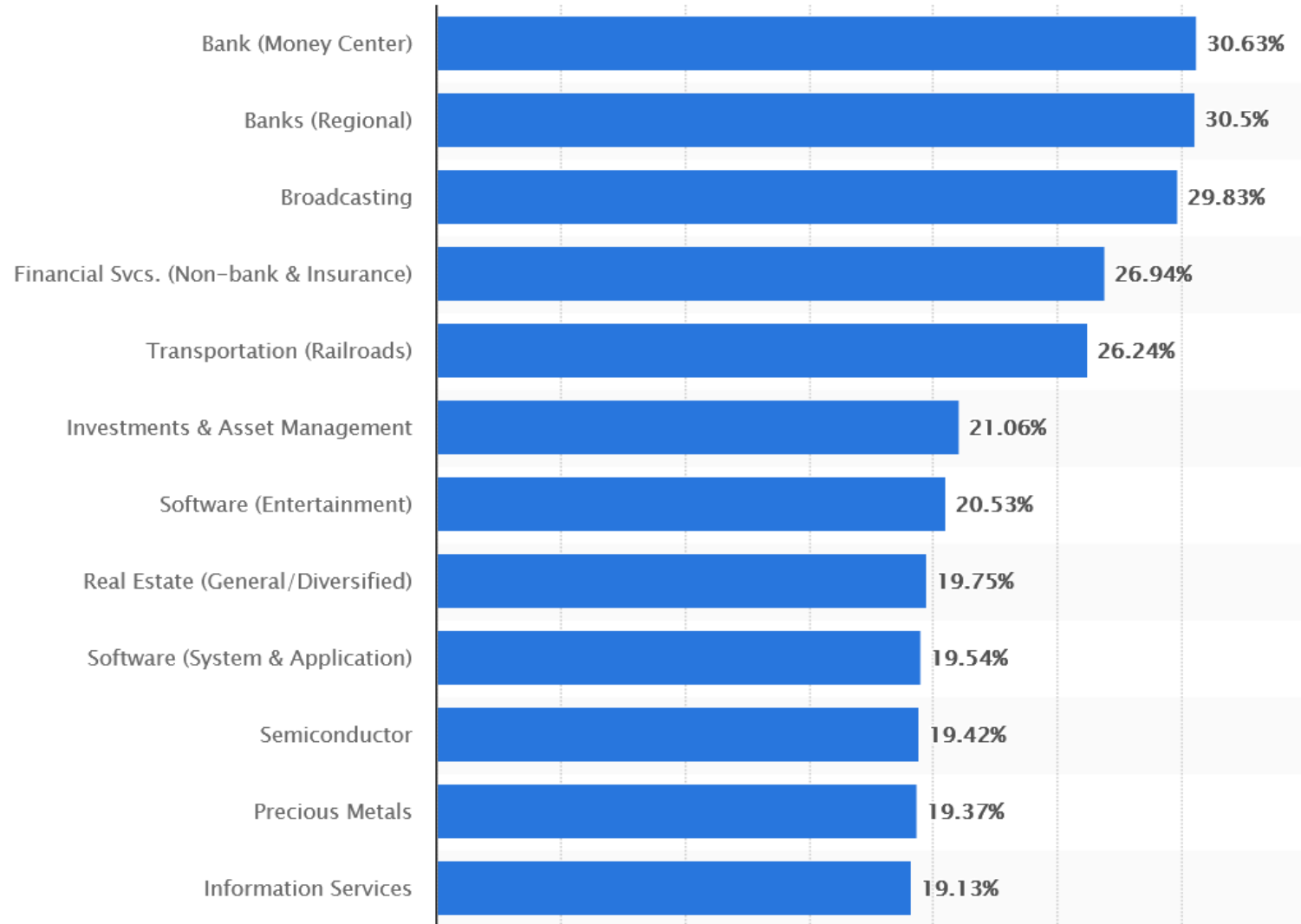
Strategic Analysis Tools



Objectives:

- Learn about the classical concepts of strategic analysis
- Be able to apply various concepts of SA to business situations.

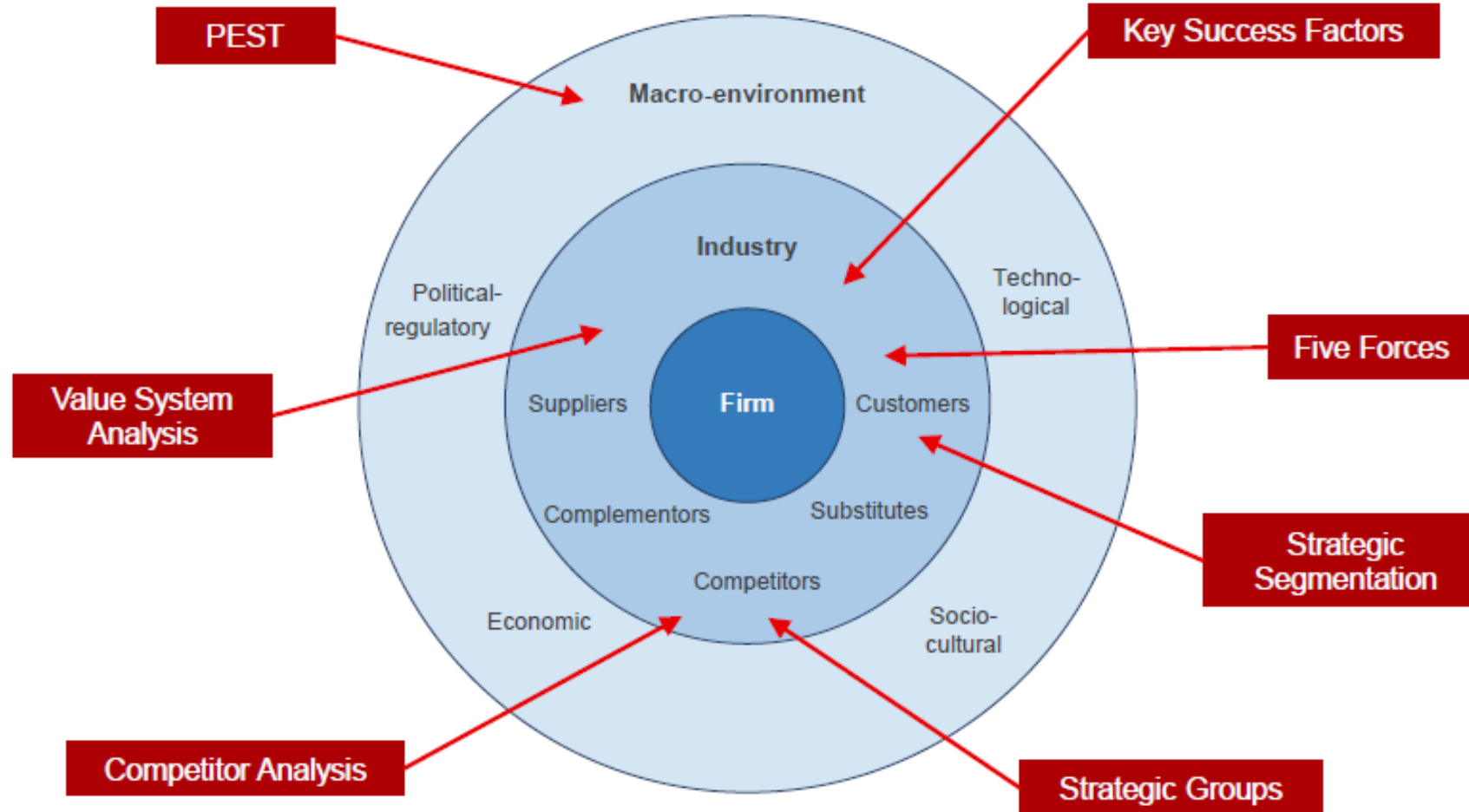
Most Profitable Industries in 2020



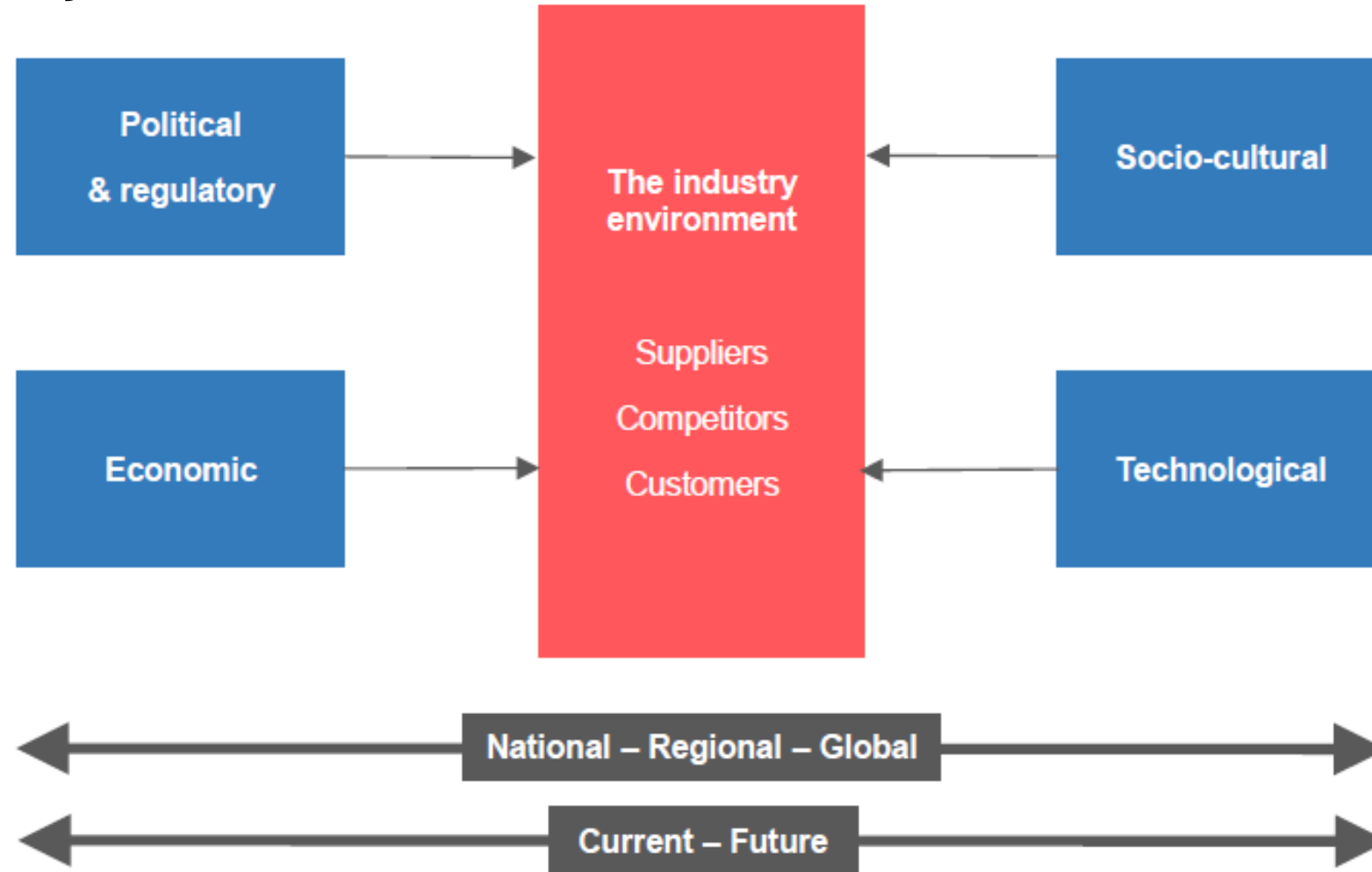
Source: Statista.com



The Company within its Environments



PEST-Analysis

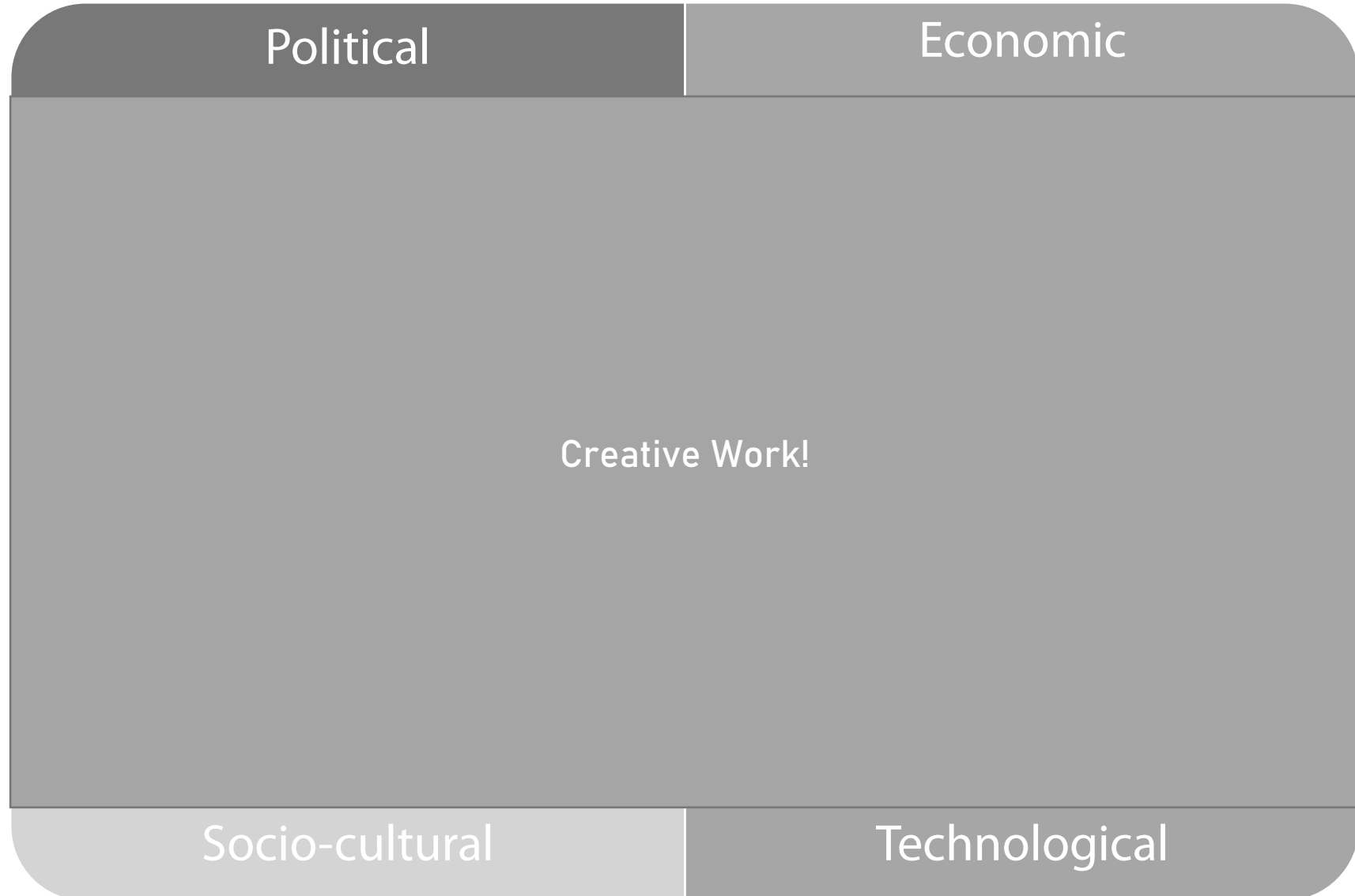


PEST from www.mindtools.com (recommended website)

PEST

**Pause 10
minutes:**

**Create a
PEST for
the smart
phone
market!**



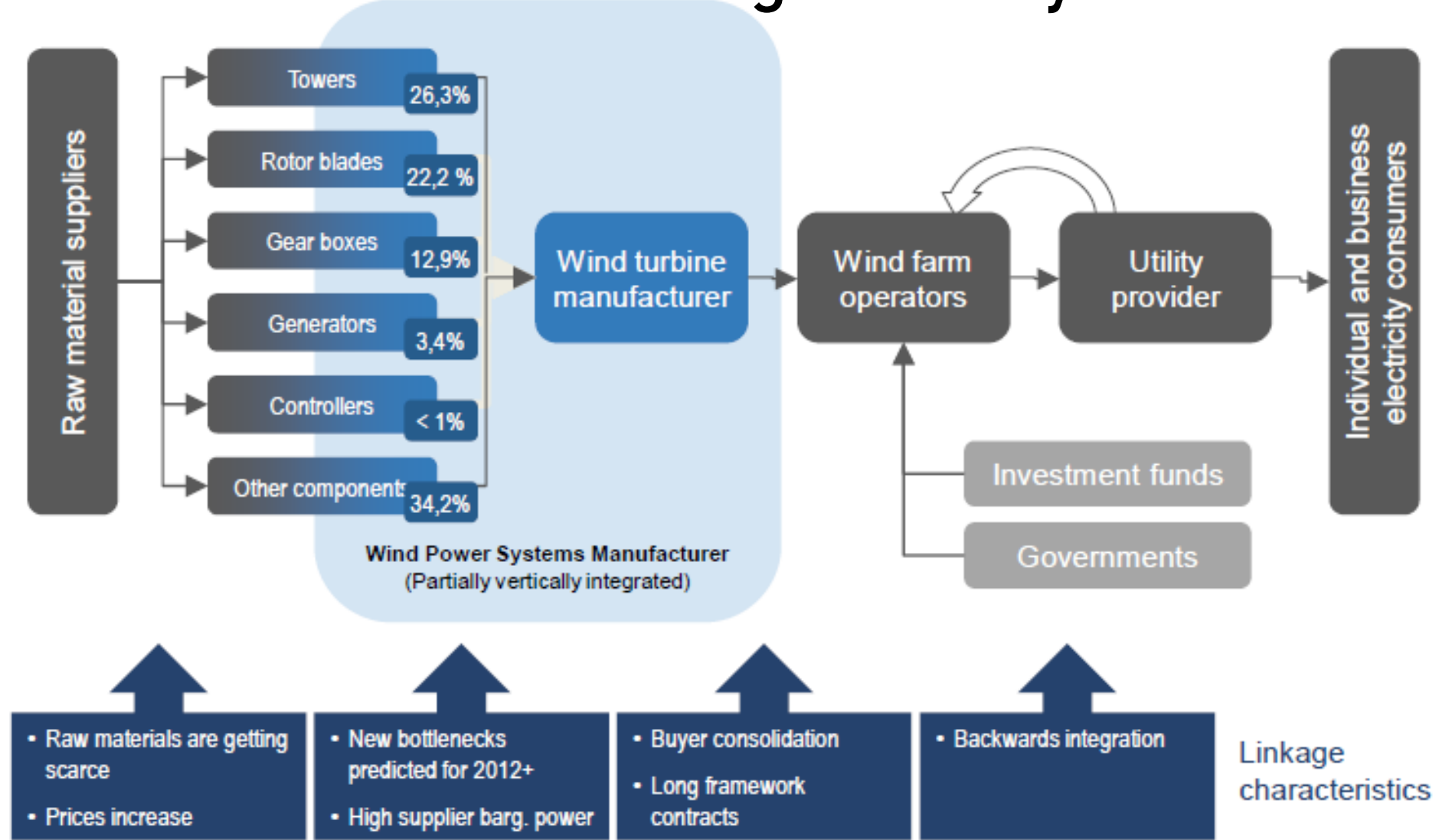
PESTLE

Industry Analysis

- **'Industry'** refers to a group of companies that are related with respect to their primary business activities.
- The most widely used industry classification system is NAIC: North American Industry Classification System
- If we analyse larger companies we have to consider that they are often active in several or even many different industries with their different businesses
- Michael Porter defines an industry as "a group of companies offering products or services that are close substitutes for each other, that is, products or services that satisfy the same basic customer needs"
- Taking a broader view we sometimes also talk of an industry's or a company's **'eco-system'** which does not only include supplier industries and downstream industries (buying industries), but also 'complementors'



The Wind Power Manufacturing Industry

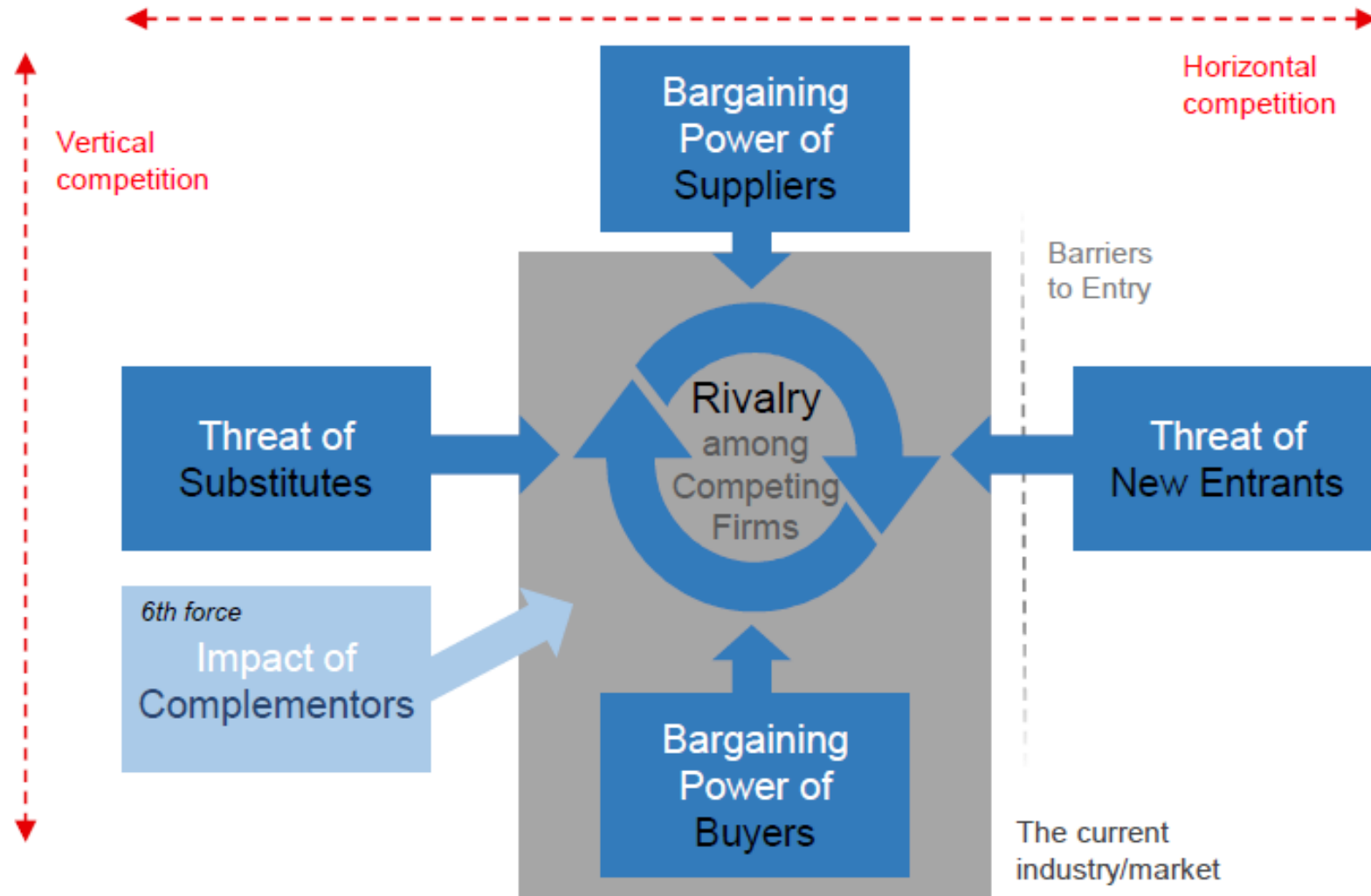


Source: IBCON student project 2011 (El-Sobky, Torkler, Schreiber, Stockklauser)



The Explainer

Porter's 5 Forces Model



Source: adapted from Porter (1980)

Porter's 5 Forces – Barriers of Entry

The threat to industry profitability from (potential) new entrants depends on the 'height' of barriers to entry (BTE). Principal reasons for BTE are:

- Economies of scale, scope and learning -> Absolute cost advantages of incumbents
- High capital requirements [with high risk] => rare!!!
- Product differentiation / strong brands
- Access to channels of distribution
- Buyer switching cost
- Legal and regulatory barriers
- Expected retaliation
- Entry deterring prices (limit pricing)



Porter's 5 Forces – Threat from Rivalry

The extent to which industry profitability is depressed by aggressive price competition depends upon:

- Market growth rate
- Product differentiation / branding / buyer switching cost
- Concentration (number and size distribution of firms)
- Excess capacity and exit barriers
- Cost conditions : e.g. ratio of fixed to variable cost



Porter's 5 Forces

– Threat from Buyers' Bargaining Power

The extent to which buyers capture 'economic value created' and threaten profitability of the industry depends on their price sensitivity and/or their bargaining power.

Buyer's price sensitivity

- Cost of purchase as % of buyer's total cost
- How differentiated is the purchased item/service
- How intense is the competition between buyers
- How important is the item to the quality of the buyer's output

Relative bargaining power

- Size and concentration of buyers relative to sellers
- Buyer's information
- Ability to integrate backward



Porter's 5 Forces

- Threat from Supplier Bargaining Power

The extent to which suppliers capture 'economic value created' and threaten profitability of the industry depends on their bargaining power (*largely symmetric to buyer power*).

- Cost of purchase as % of buyer's total cost
- Differentiation of suppliers products
- Intensity of competition between suppliers
- Buyers ability to integrate backward
- Importance of the quality of suppliers product to buyer's output
- Size and concentration of suppliers relative to buyers
- Buyer's information



Porter's 5 Forces

- Threat from Substitutes

The extent of competitive pressure from producers of substitutes depends upon:

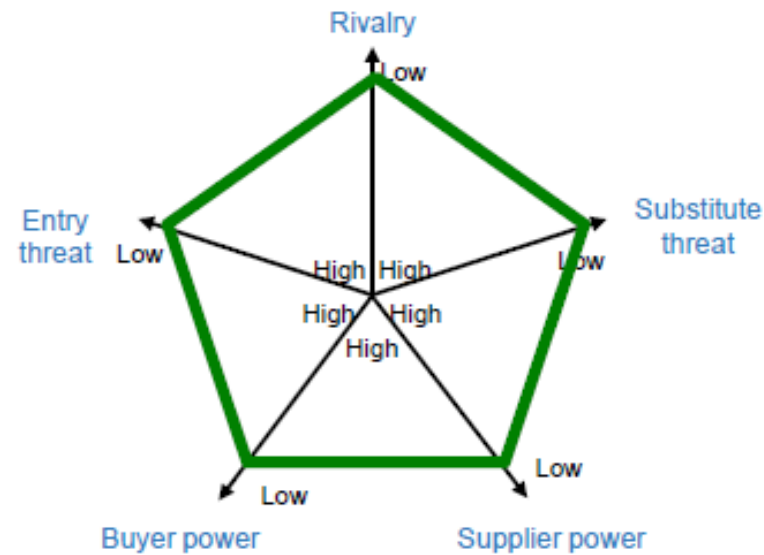
- Existence of relevant substitutes
- Buyer's propensity to substitute
- The price-performance characteristics of substitutes
- Buyer switching costs



Industry Attractiveness

An attractive industry

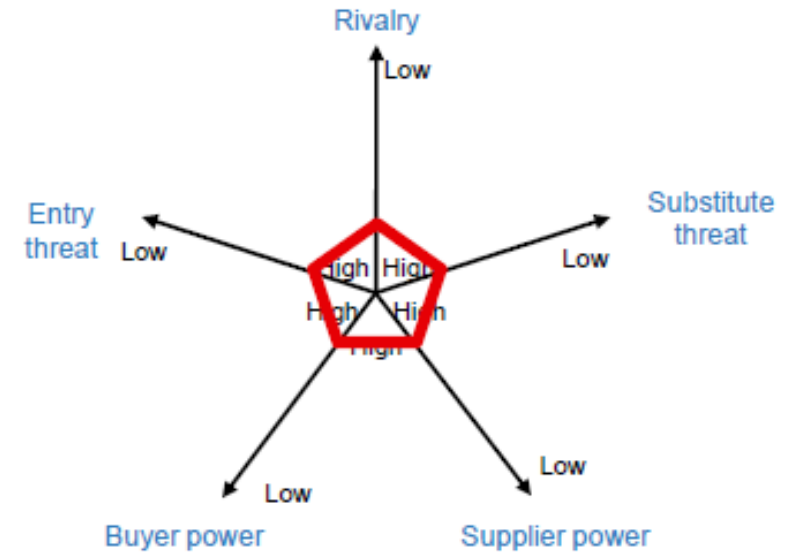
firms create value AND
appropriate it



5-Star-Industry

An unattractive industry

value created appropriated
by others



0-Star-Industry

The Network-Effect

Digital Business Models Create Barriers of Entry through the network effect.

“A network effect (also called network externality or demand-side economies of scale) is the effect described in [economics](#) and [business](#) that an additional user of a [good](#) or [service](#) has on the [value](#) of that product to others. When a network effect is present, the value of a product or service increases according to the number of others using it.” *Carl Shapiro and Hal R. Varian (1999). [Information Rules](#). Harvard Business School Press. [ISBN 0-87584-863-X](#)¹*

The Winner Takes it All!



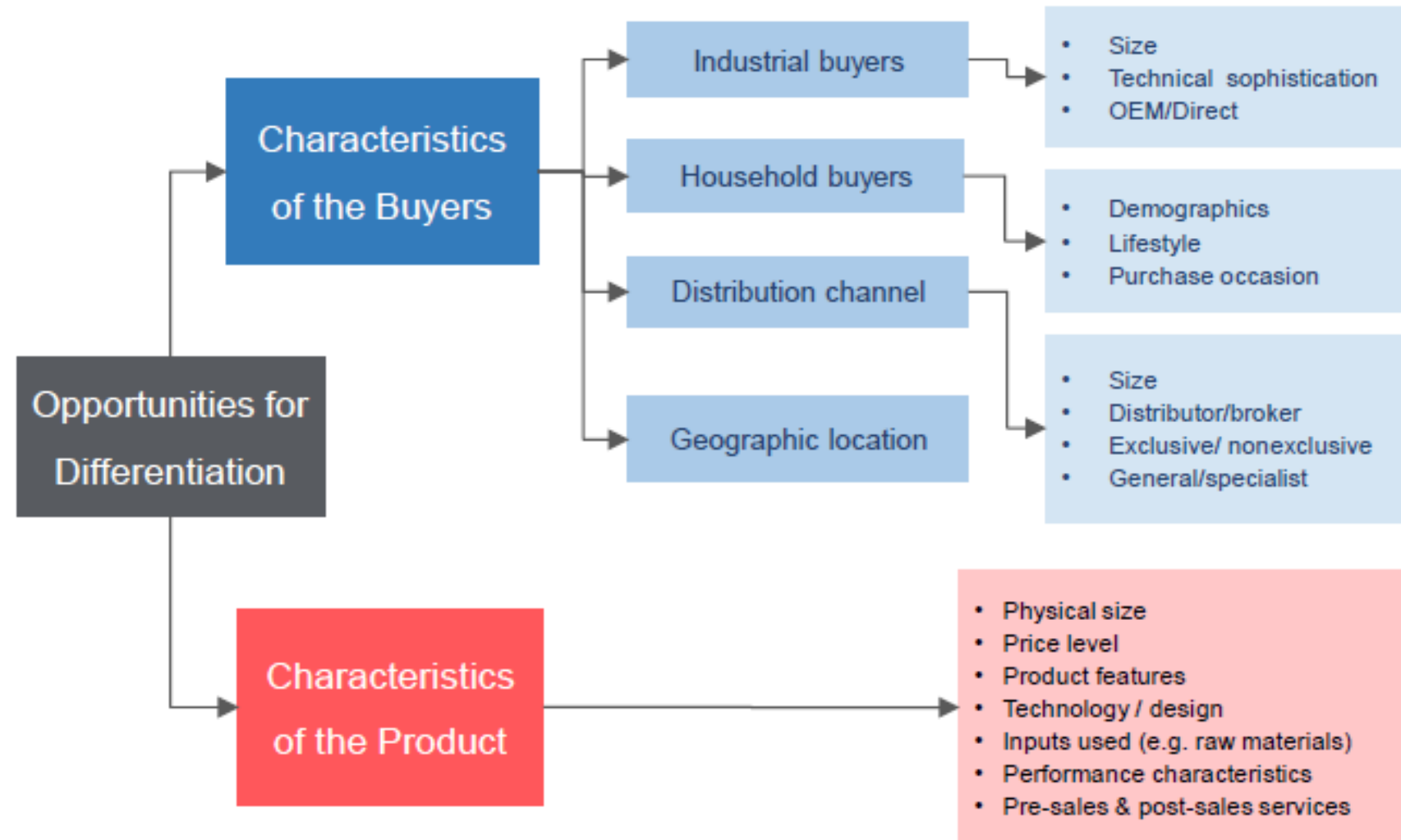
Strategic Segmentation – WHY?

Corporate strategy: segmentation of the whole company into **Strategic Business Areas** for which **Strategic Business Units (SBUs)** are in charge

- **Strategic segments:** Broadly defined groups of buyers sharing one or more characteristics; usually combinations of product groups with buyer groups
- Key success factors usually **different** for different segments
- Questions to be answered:
 - How attractive are individual market segments?
 - Which segments should the company focus on/neglect? (Arena question)
 - Which strategy for which segment?



Bases for Strategic Segmentation



Competitor Analysis

Corporate Level	Business Level	Value Chain	Soft factors
<i>Corporate / parent level background</i>	<i>Strategic goals and principal business strategy</i>	<i>Marketing resources and capabilities</i>	<i>Company/business organisation</i>
<i>Mission of business in overall business portfolio</i>	<i>Current product (portfolio)</i>	<i>Other important resources / capabilities (e.g. IT, production, etc.)</i>	<i>Key managers/ staff – background data</i>
<i>Financial performance & resources at corporate level</i>	<i>Current market shares, reputation and customer base</i>	<i>Profit and cost assessment, performance</i>	<i>Operating style</i>
<i>Corporate strengths and weaknesses</i>	<i>Future product pipeline</i>	<i>Strengths and weaknesses at business level</i>	<i>Mentality, assumptions, behaviour of managers (culture)</i>



Using KPCs and KSFs in competitor comparisons

Example: oral contraceptive market

Based on market research (interviews etc.)

Key Purchase / Decision Criteria		Our company		Competitor A		Competitor B: Generic	
	Weight %	Assess. Score	Weighted Score	Assess. Score	Weighted Score	Assess. Score	Weighted Score
1 Added Benefit	50	8	4,0	6	3,0	4	2,0
2 Reputation / Brand	20	6	1,2	5	1,0	3	0,6
3 Convenience (access)	10	6	0,6	5	0,5	8	0,8
4 Price	10	3	0,3	8	0,8	10	1,0
5 Friends recommend.	10	9	0,9	7	0,7	3	0,3
Score (1-10)	100		7,0		6,0		4,7

Critical Success Factors		Our company		Competitor X		Competitor Y	
	Weight %	Assess. Score	Weighted Score	Assess. Score	Weighted Score	Assess. Score	Weighted Score
1 Product advantage	30	7	2,1	5	1,5	5	1,5
2 Current position	20	9	1,8	5	1,0	3	0,6
3 Branding capability	20	3	0,6	5	1,0	8	1,6
4 Salesforce effect.	20	8	1,6	8	1,6	3	0,6
5 Distribution access	10	4	0,4	7	0,7	9	0,9
Score (1-10)	100		6,5		5,8		5,2

Competition Dynamics

What drives the competitor?

What is the competitor doing and can do?

Future goals
At all levels
of management
and in multiple
dimensions

Assumptions
Held about itself and
the industry?
How realistic are these
assumptions? What
appears to be the
source of these
assumptions?

COMPETITOR'S RESPONSE PROFILE

- Is the competitor satisfied with its current position?
- How expansionist is the competitor likely to be?
- What likely moves or strategy shifts will the competitor make in the short and long term?
 - Where is the competitor most vulnerable?
 - What will provoke the greatest and most effective retaliation by the competitor?

Current strategy
How is the business
currently competing
and what levels of
success are being
achieved?

Capabilities
What strength and
weaknesses does the
competitor possess
and what awareness
of these exists within
the organization?

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Sources of Competitive Advantages



Objectives:

- Understand the concept of competitive advantage
- Be able to apply various concepts of CA to business situations.

Competitive Advantage in Digital Business

- **Zoom:** In the wake of the pandemic, while there were many video conferencing tools available, Zoom stood out because of its user-friendly interface, reliability, and scalability. It quickly became synonymous with video conferencing.
- **Slack:** At its core, Slack is a messaging app for teams. Yet, its integration capabilities, where tools like Google Drive, Trello, and hundreds of others can seamlessly plug in, make it a central hub for work, giving it an edge over simple messaging platforms.
- **Spotify:** In the music streaming wars, Spotify leads due to its personalized playlist algorithms and data-driven understanding of users' listening habits. This provides a tailored user experience, outshining competitors like Apple Music in user engagement.
- **NVIDIA:** Originally known for their graphics processing units (GPUs) designed for gaming, NVIDIA has transformed itself into a dominant player in the world of AI and deep learning.



Competitive Advantage - Definition

A competitive advantage is a unique advantage a company has over its competitors, derived from its strengths, resources, or position, which enables it to generate greater value for its stakeholders or operate more efficiently. This advantage should be sustainable and not easily replicable by competitors.

In essence, competitive advantage provides a firm an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable and difficult to replicate the advantage, the harder it becomes for competitors to neutralize it.



Factors that can contribute to competitive advantage:

- **Unique Resources:** Patents, trademarks, proprietary knowledge.
- **Operational Efficiency:** Superior processes or methodologies that increase productivity.
- **Product Differentiation:** Offering a unique product or service that stands out in the market.
- **Customer Loyalty:** Strong brand recognition and trust among customers.
- **Cost Leadership:** Ability to produce goods or services at a lower cost than competitors.
- **Location:** Geographical proximity to customers or resources.
- **Access to distribution channels:** Controlling the main routes through which products reach consumers.



Competitive Advantage?

- **Company A** has an exclusive contract to access a rare mineral used to produce a popular tech device.
- **Company B's** CEO is a celebrity with millions of followers on social media but lacks industry expertise.
- **Company C** produces its products in a country where labour costs are extremely low, allowing them to sell products at a significantly reduced price.
- **Company D** recently released an innovative product, but its design and functions are easily replicable, and there's no patent protection.
- **Company E** has an advanced data analytics system that provides insights into customer behaviour, allowing them to tailor marketing strategies effectively.
- **Company F** has been in the industry for over a century, and its brand is well-recognized. However, in recent years, they've failed to innovate, and younger brands are catching up in terms of technology.



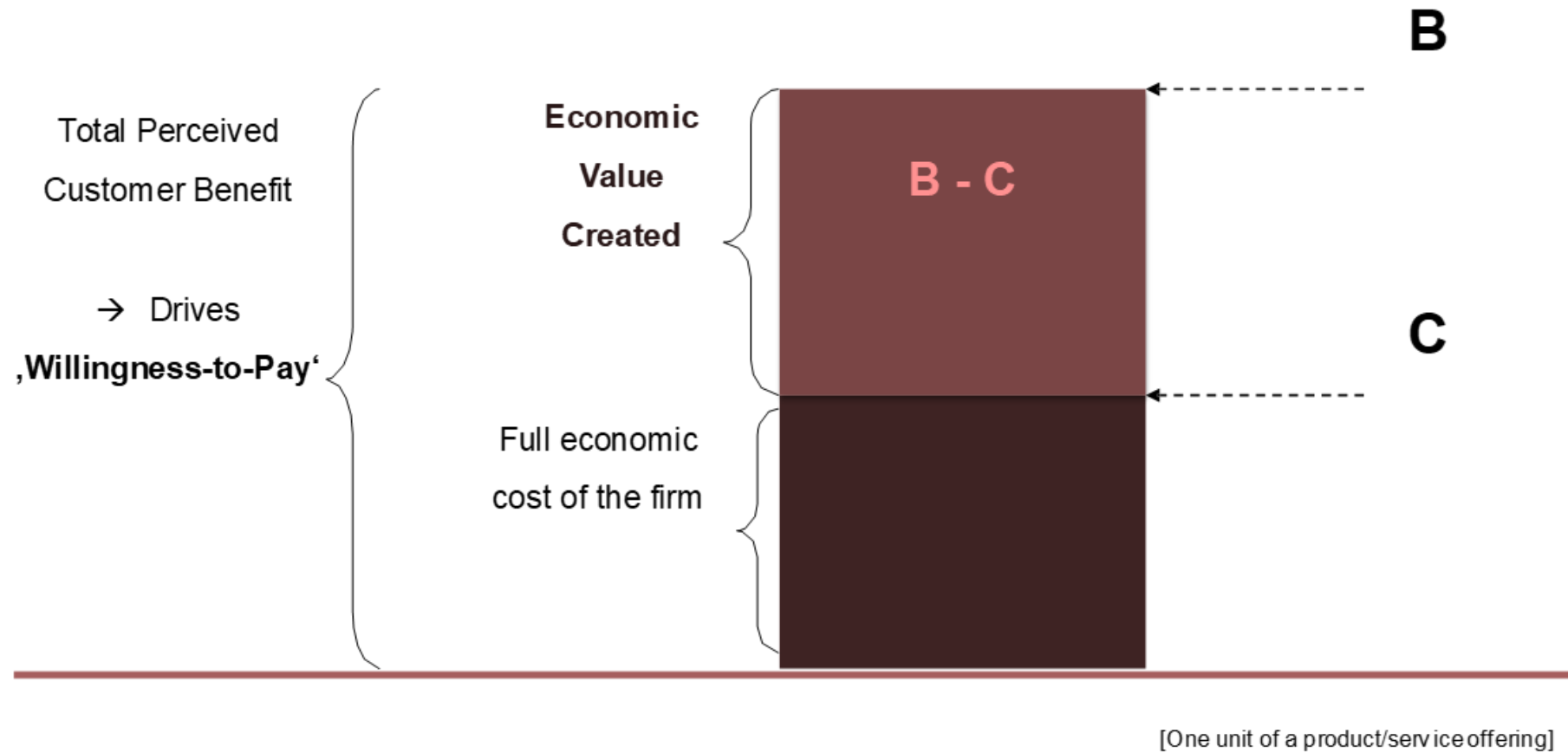
OVERALL COST	OVERALL DIFFERENTIATION
COST FOCUS	DIFFERENTIATION FOCUS

DO SOMETHING DIFFERENT!

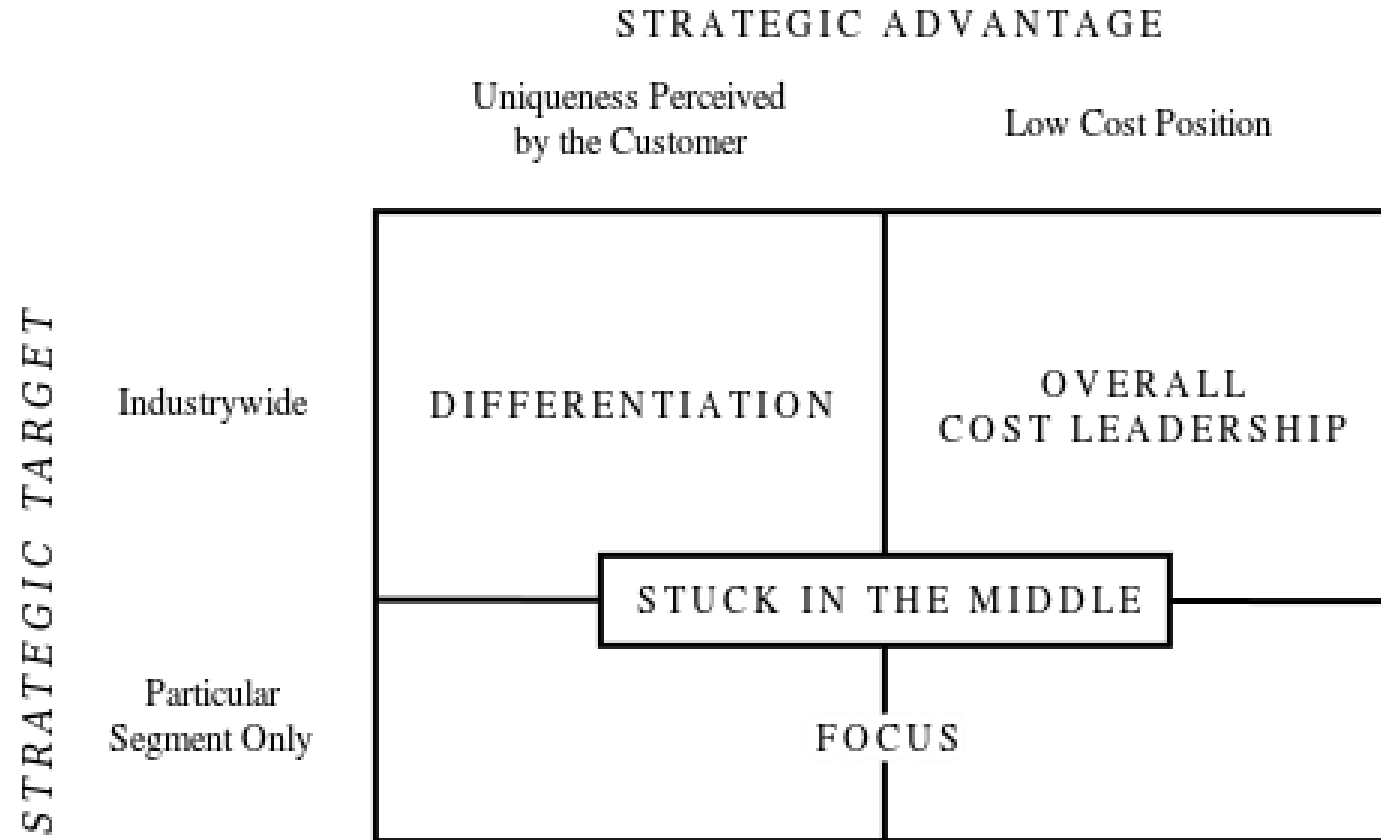
<https://youtu.be/V14kuqYEsxE>



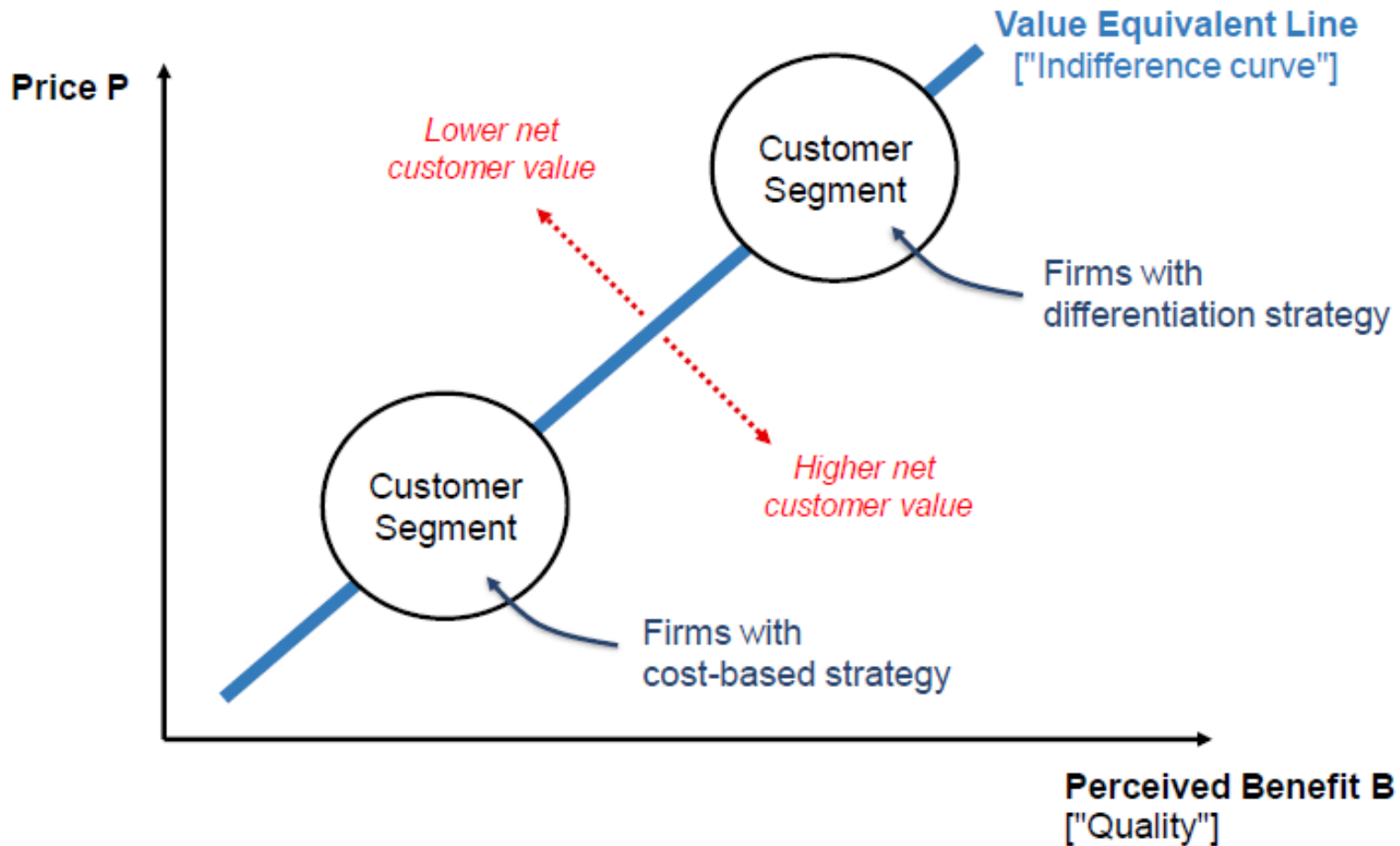
Creation of Economic Value



Porters Generic Advantages



A simplified value map (net customer value)



The Stuck in the Middle Debate

Can a firm successfully pursue both cost advantage and differentiation advantage?
Are both strategies ,compatible'?

*„The firm stuck in the middle is almost guaranteed low profitability.
It either loses the high volume customers who demand low prices or must bid away its profits
to get this business away from low cost firms.
Yet it also loses high-margin businesses - the cream -
to the firms who are focused on high margin targets
or have achieved differentiation overall.
The firm stuck in the middle also probably suffers from a blurred corporate culture
and a conflicting set of organizational arrangements and motivation system.“*

- Porter, Competitive Strategy, 1980, p. 41-42

Do you agree?

PROCESS

PRODUCT

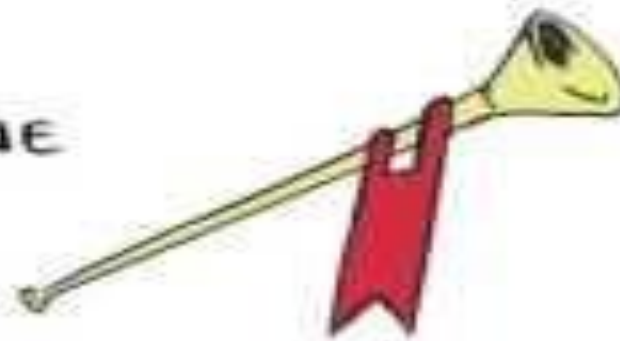
CUSTOMER

PRODUCT LEADERSHIP REQUIRES THE ORGANIZATIONAL FLEXIBILITY
TO ADAPT QUICKLY TO NEW PRODUCT INITIATIVES



THE ULTIMATE
DRIVING MACHINE

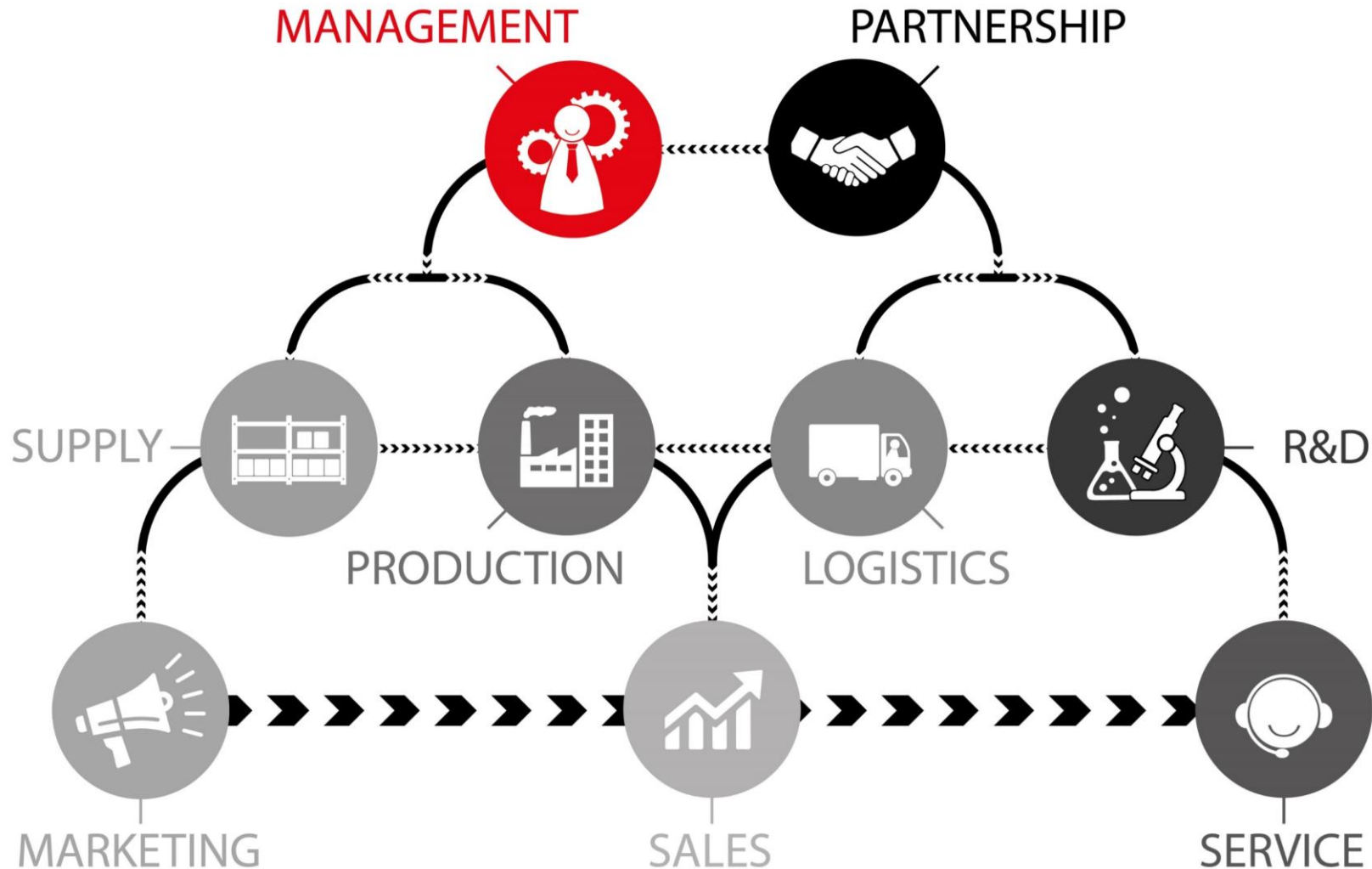
https://youtu.be/QPu4v_Ae0Vc



COST
SERVICE

ACCELERATION
HANDLING
RESPONSIVENESS
FUEL EFFICIENCY

Choose your Value Processes



The discipline of market leaders

Alternative Sources for Competitive Advantages



Wiersema, F. D., & Treacy, M. (1995). *The Discipline of Market Leaders-Choose Your Customers, Narrow Your Focus, Dominate Your Market.*

The Dialectics of Competitive Advantage

No recipe for success, sorry!

- Economies of Scale
- Economies of Scope
- Vertical
- Integration / Non-Integration
- Process-based Core Competencies



Every competitive advantage is connected to a transitory set of conditions

Source: Christensen, C. M. (2001). Competitive advantage. *mit sloan management review*, 42(2), 105-109.

Digitalisation and Competitive Advantage

1. Treacy and Wiersema's Value Disciplines:

•Operational Excellence:

- Pre-Digital Era: This was about streamlining processes and minimizing costs. Think of traditional manufacturing techniques and economies of scale.
- Digital Era: It's about smart operations. IoT, AI, and Big Data are used for predictive maintenance, real-time inventory management, and demand forecasting. Automated workflows, cloud computing, and blockchain for supply chain transparency redefine efficiency.

•Product Leadership:

- Pre-Digital Era: Product innovation was about better design, functionality, and physical features.
- Digital Era: It's about integrated experiences and adaptability. Products are now platforms (e.g., smartphones, smartwatches). Digital capabilities mean products evolve post-purchase through software updates. Additionally, data analytics drives personalized product recommendations, enhancing product leadership.

•Customer Intimacy:

- Pre-Digital Era: This was about personalized human interactions and building relationships.
- Digital Era: While human touch remains important, digital tools like CRMs, chatbots, AI-driven customer insights, and data analytics tools offer hyper-personalization. Companies can predict customer needs before they arise and offer tailored solutions or products instantaneously.



Digitalisation and Competitive Advantage

2. Porter's Generic Strategies:

Cost Leadership:

- Pre-Digital Era: Focused on economies of scale and efficient production.
- Digital Era: Digital technologies reduce operational costs. For instance, cloud storage reduces the need for physical servers, and AI-driven analytics can pinpoint wastage in real-time.

Differentiation:

- Pre-Digital Era: Companies relied on unique product designs or brand prestige.
- Digital Era: Differentiation now also arises from digital experiences, user interfaces, and ecosystem integration. For example, the ease of use of Apple's iOS or the integration in the Apple ecosystem makes their products stand out.

Focus:

- Pre-Digital Era: Companies served niche markets with specialized products.
- Digital Era: Digital tools allow for even more precise market segmentation. Companies can serve micro-niches profitably due to the global reach and precision targeting offered by digital platforms.



Digitalisation and Competitive Advantage

3. Resource-based View (RBV):

- Pre-Digital Era: Valuable company assets were physical, like factories, patents, and capital.
- Digital Era: Intangible assets like algorithms, user data, and digital platforms (e.g., Amazon's e-commerce platform or Google's search algorithm) are now crucial sources of competitive advantage.

In essence, while the foundational principles behind these competitive advantage frameworks remain relevant, digitalisation has added layers of complexity and opportunities. It has enhanced the potential of firms to gain a competitive edge but has also made the business environment more dynamic and volatile. Companies must be agile, constantly learning, and ready to pivot in the face of digital disruptions.



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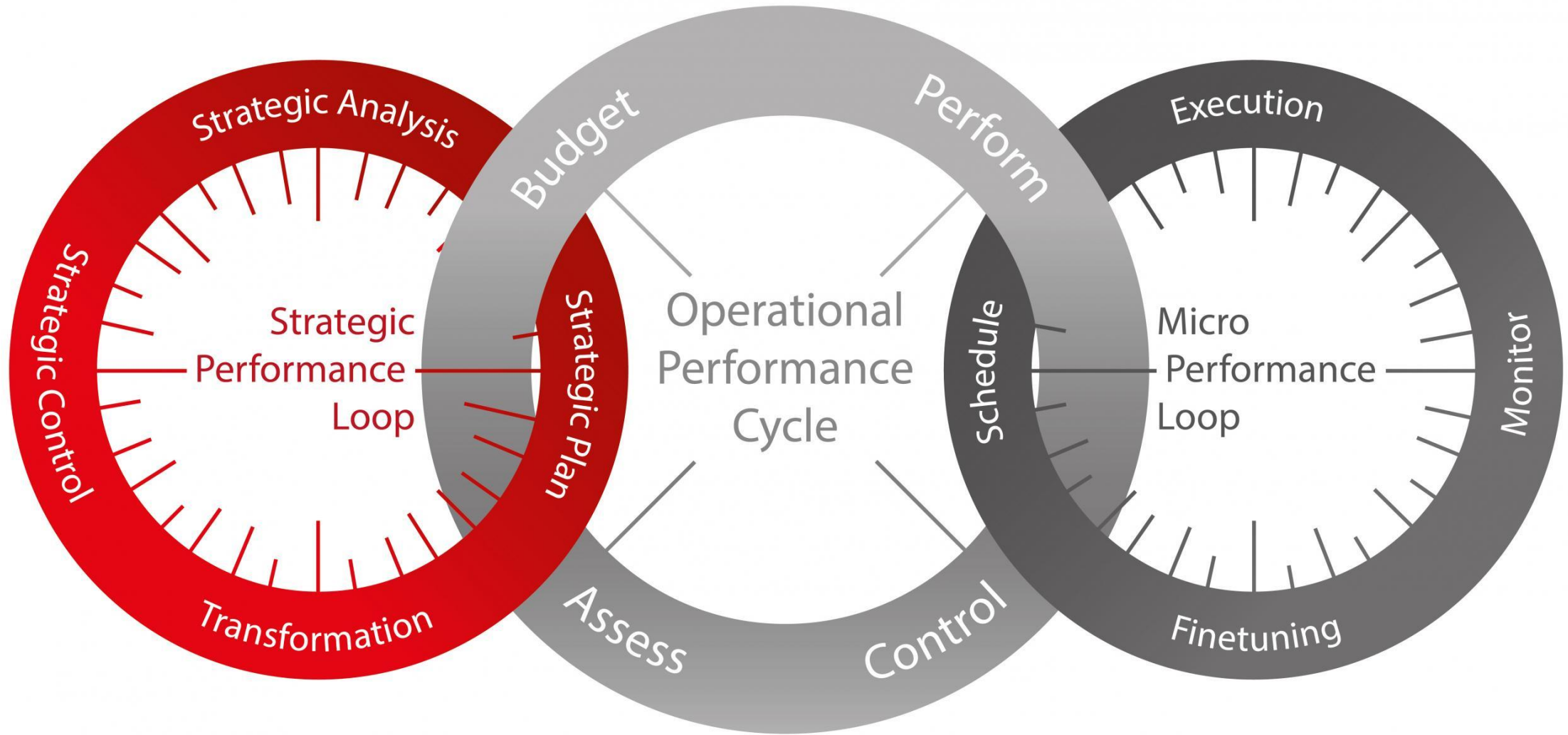
Business Model Check



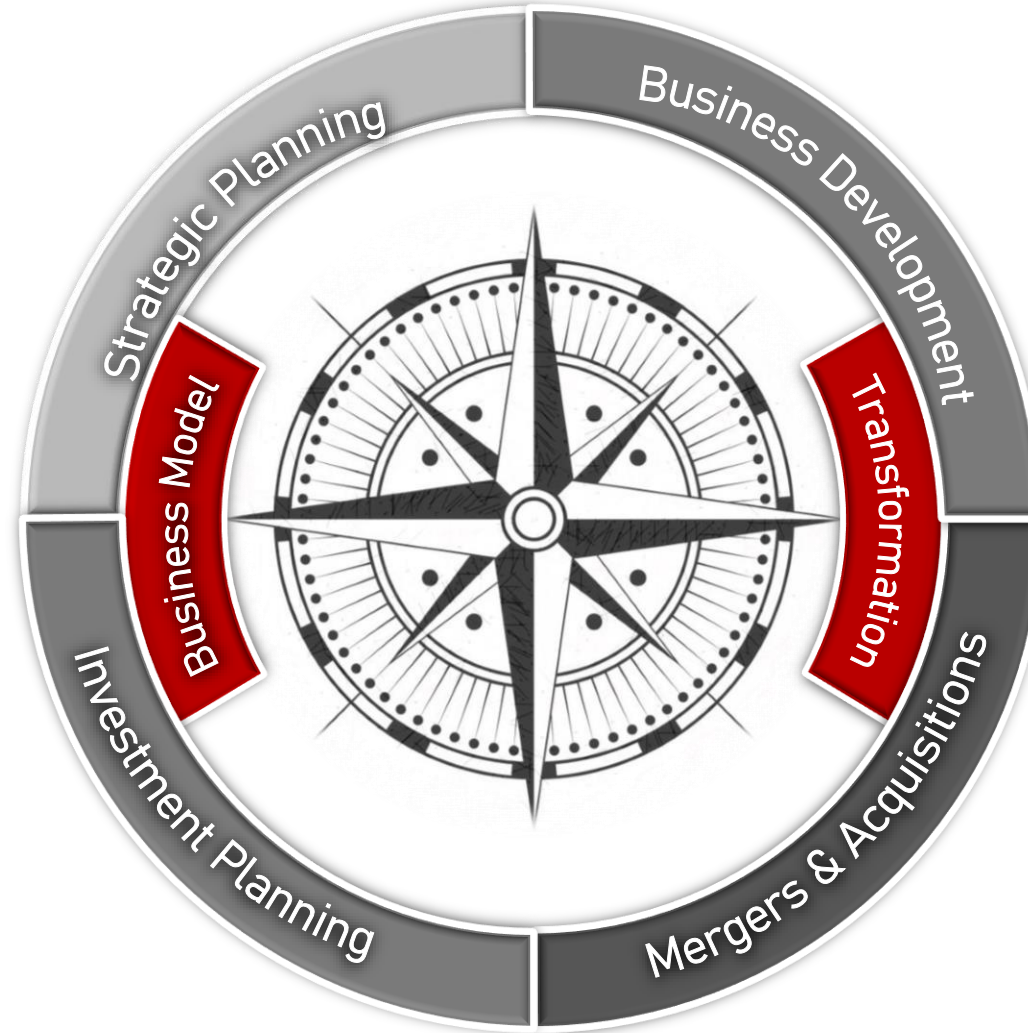
Objectives:

- Understand the concept of strategic planning

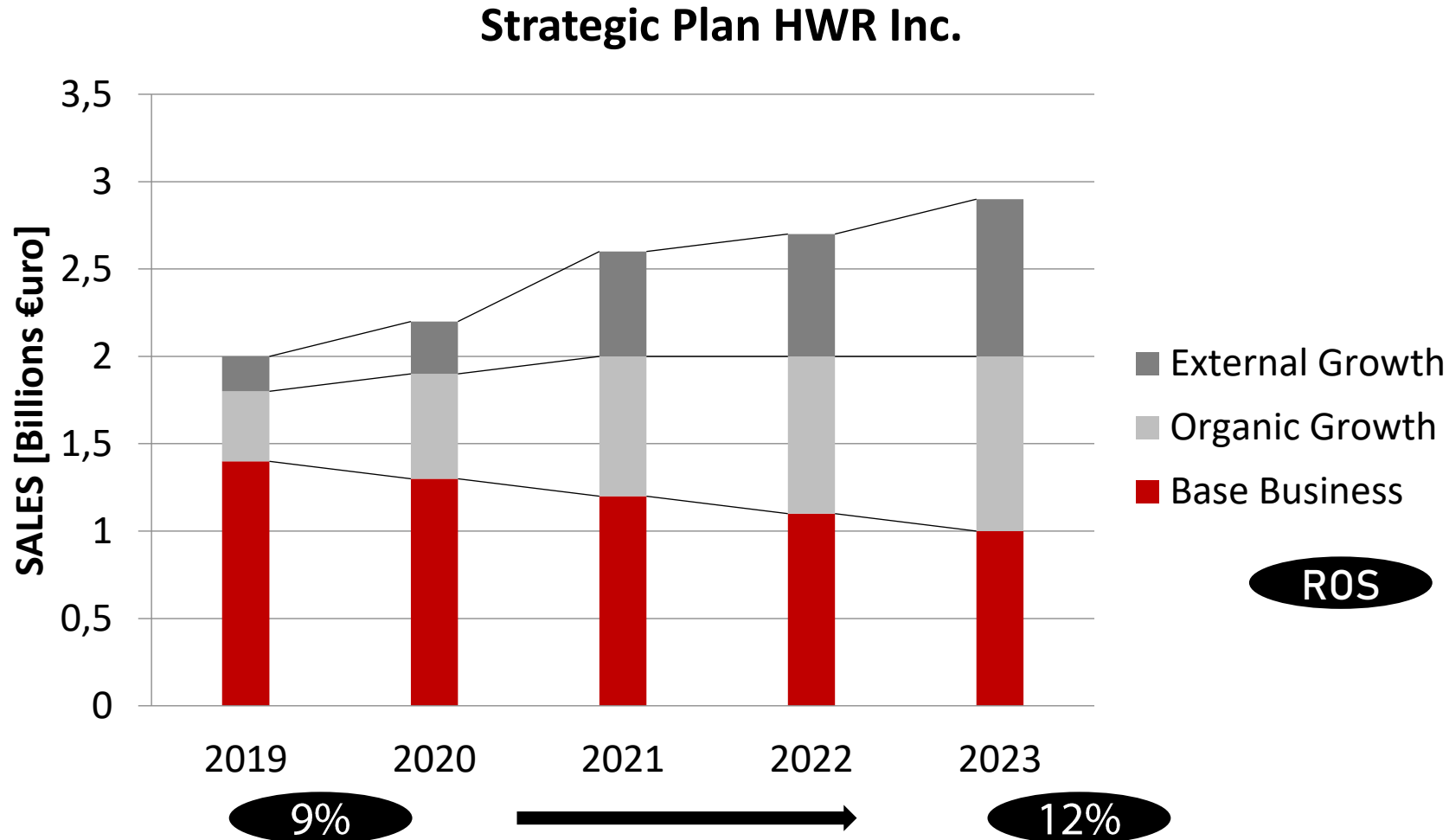
The Performance Management Chain



Strategic Planning Process

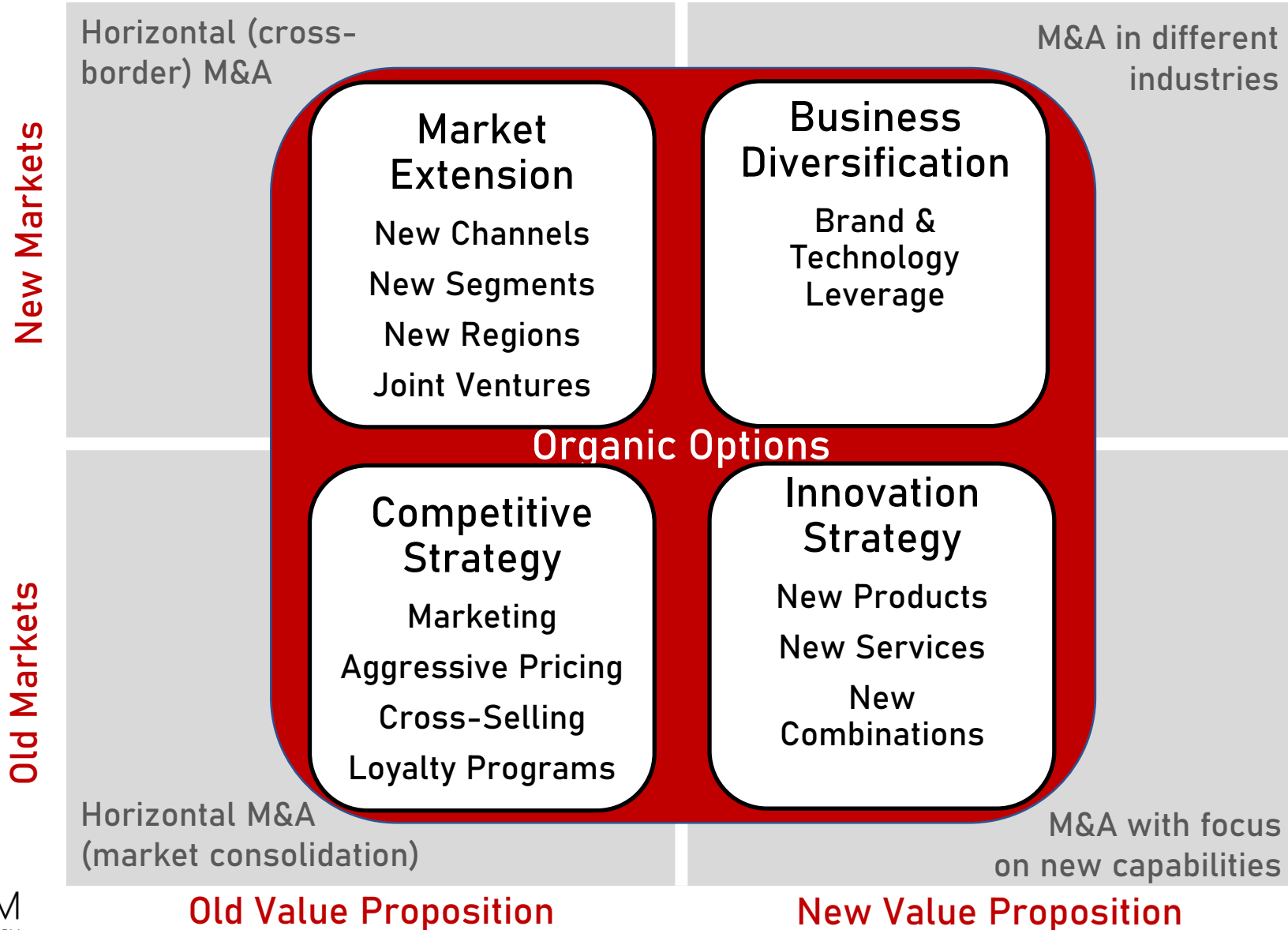


How to Build and Challenge a Strategic Plan?



Strategic Business Model Check

Growth Strategies



ANSOFF-Matrix

Strategic Business Model Check

Organic Growth Strategies



This Year (Market Focus)

- (Re-) Launch a new product variant
- Expand markets steadily geographically | Serve microsegments
- Use a new niche or specialized sales channels



Next Year (Product Focus)

- Incrementally innovate from existing products
- Launch a new product
- Expand your brand into a new area



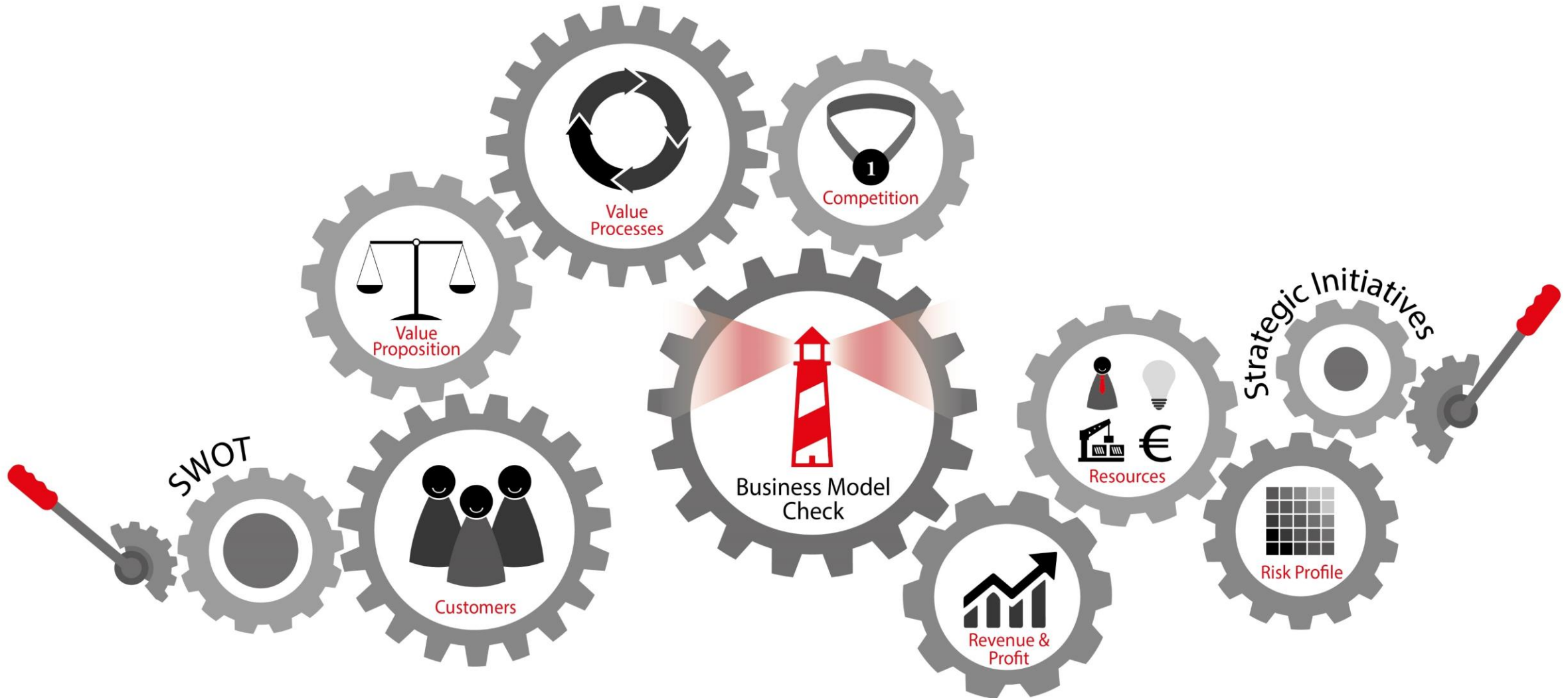
In Three Years (Business Model Focus)

- Radically innovated products
- Additive business models /eco systems
- Disrupt existing business

Strategic Planning as a Process

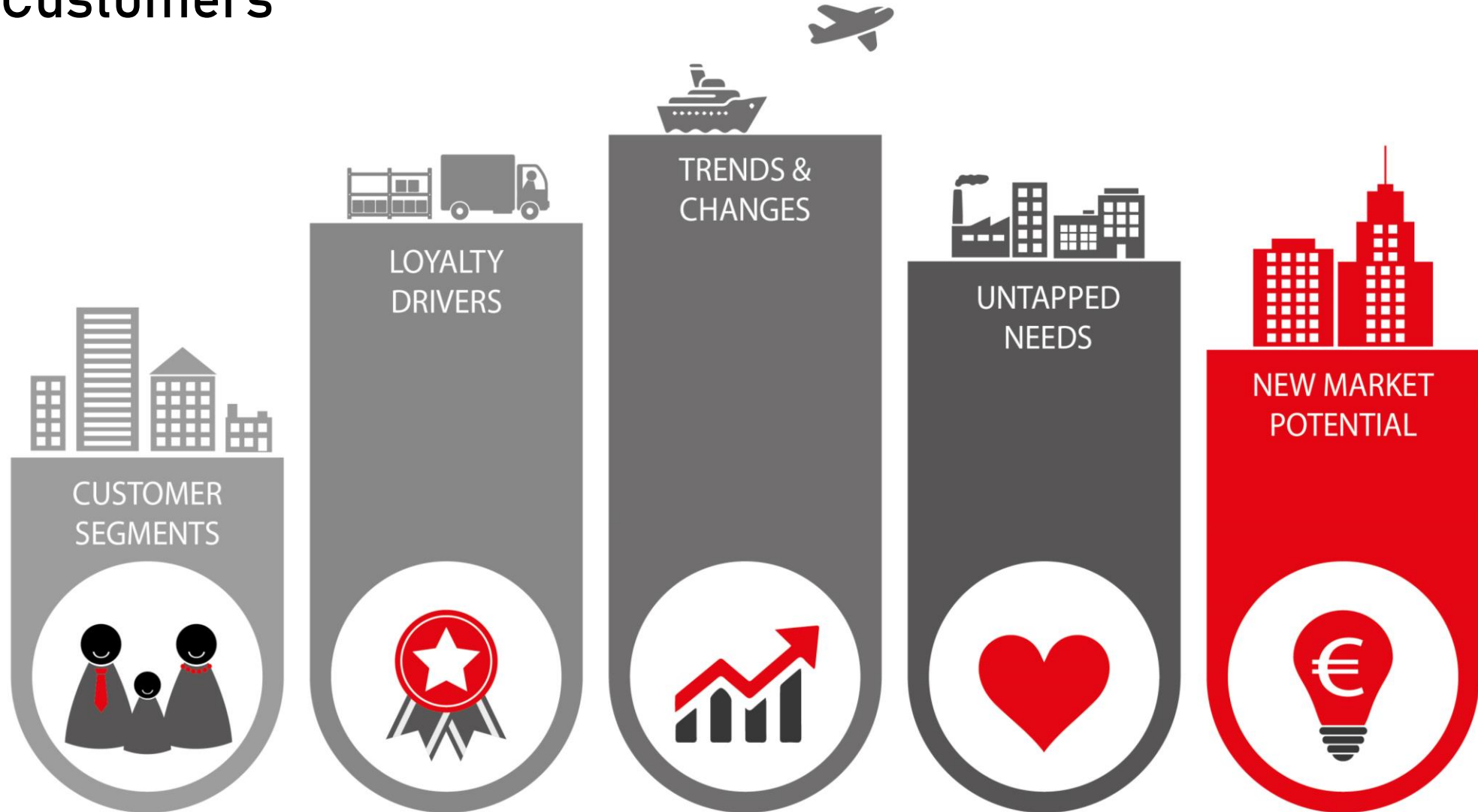


Strategic Business Model Check



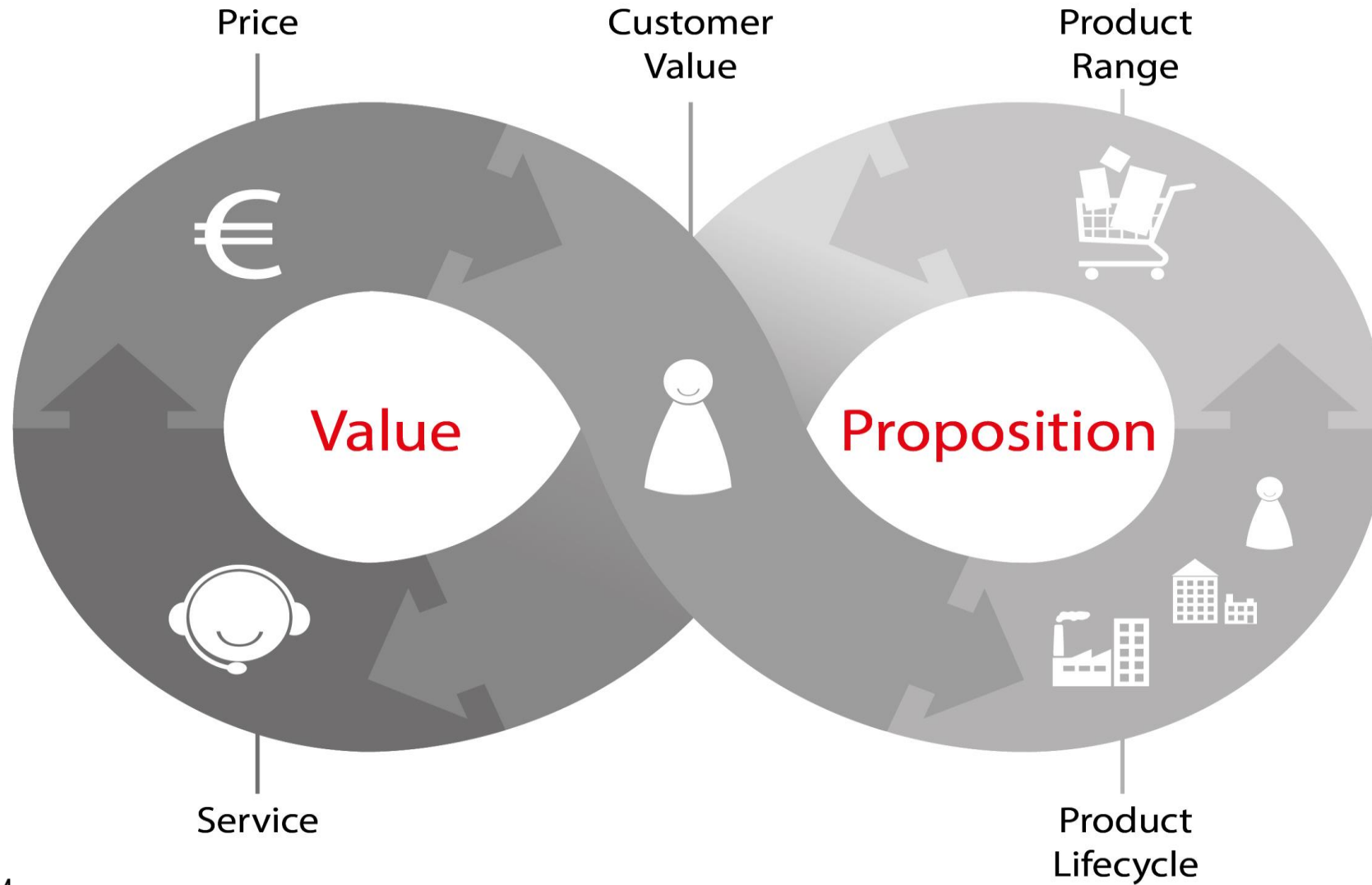
Strategic Business Model Check

Customers



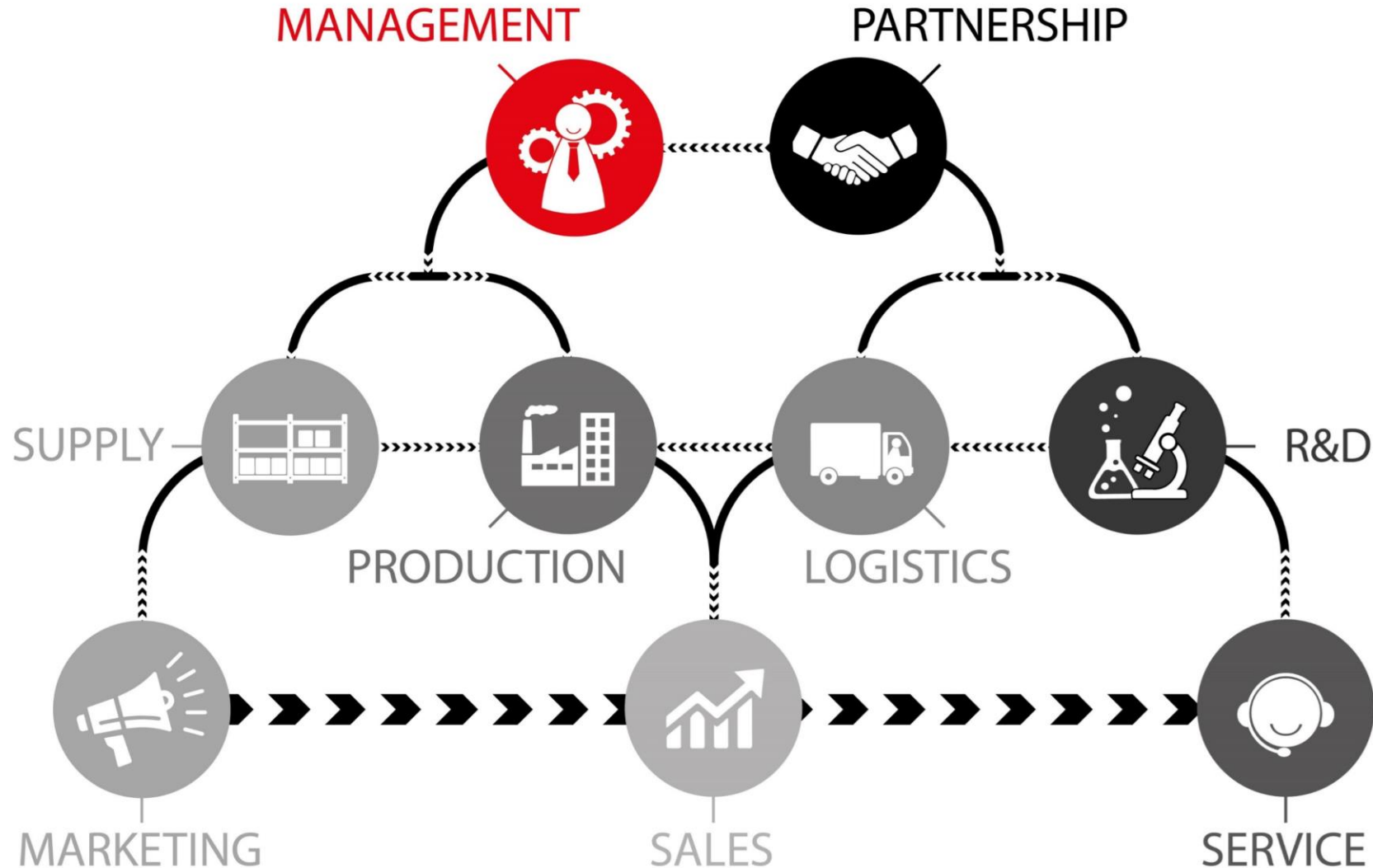
Strategic Business Model Check

Value Proposition

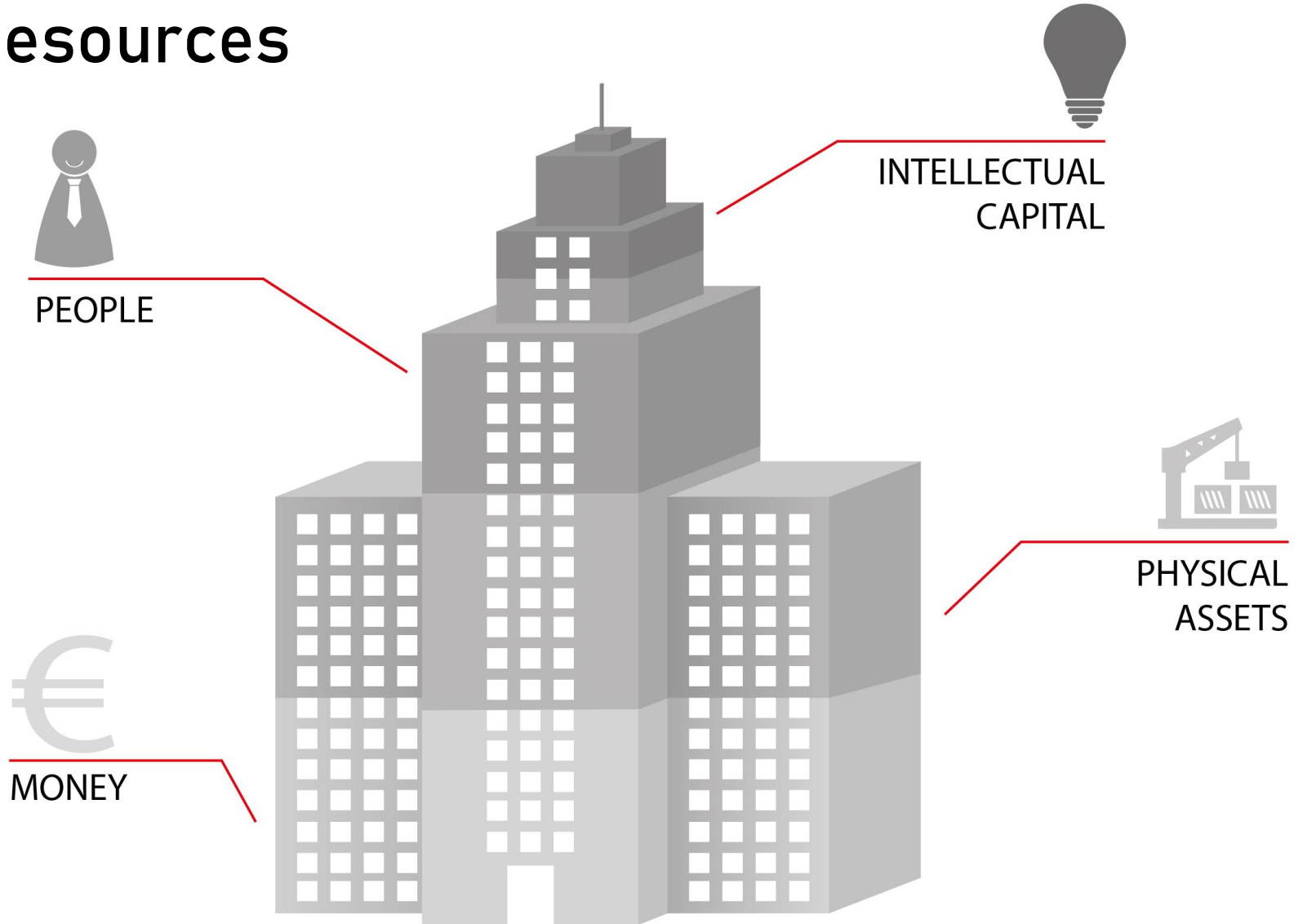


Strategic Business Model Check

Value Processes



Strategic Business Model Check Resources



Strategic Business Model Check

Competition

8 Competition Avoidance Strategies

- Create superior products
- Make use of patents
- Create closed eco systems
- Buy competitors
- Monopolize outstanding employees
- Influence regulations
- Create a competitive cost base
- Follow a niche strategy



Strategic Business Model Check

Development of Strategic Issues

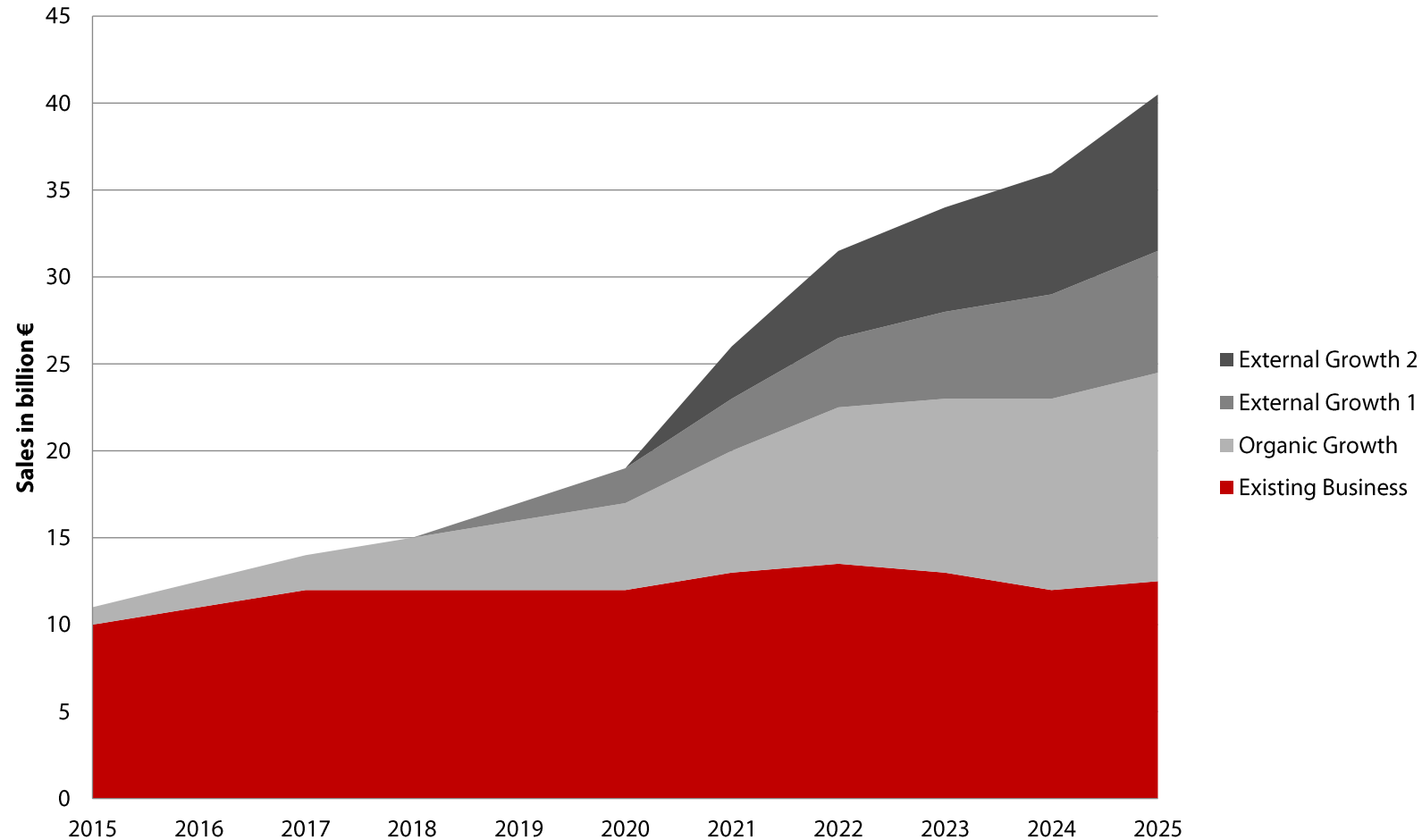
Initiative	Sales +	Profit +	Investment	Synergies	Risks
Start JV in France	15 M€	2 M€	7 M€	😊	Medium
Acquire Competitor Z	70 M€	9 M€	40 M€	😊	Medium
Implement SAP	0	3 M€	20 M€	😊	High
Outsource Production	0	5 M€	2 M€	😞	High
Develop Product K	20 M€	7 M€	8 M€	😊	Medium



Strategic Business Model Check

Revenue & Profit Potential

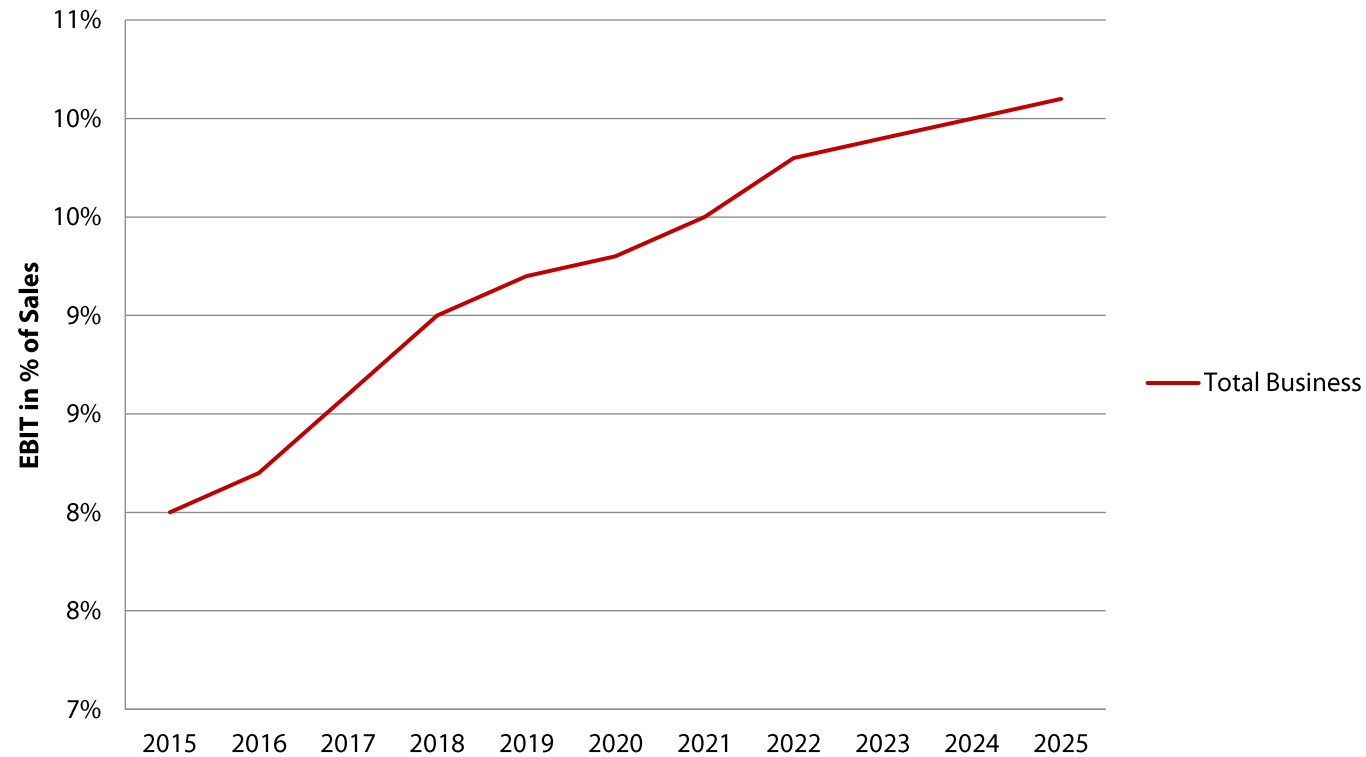
Strategic Plan 2025



Strategic Business Model Check

Revenue & Profit Potential

Strategic Plan 2025

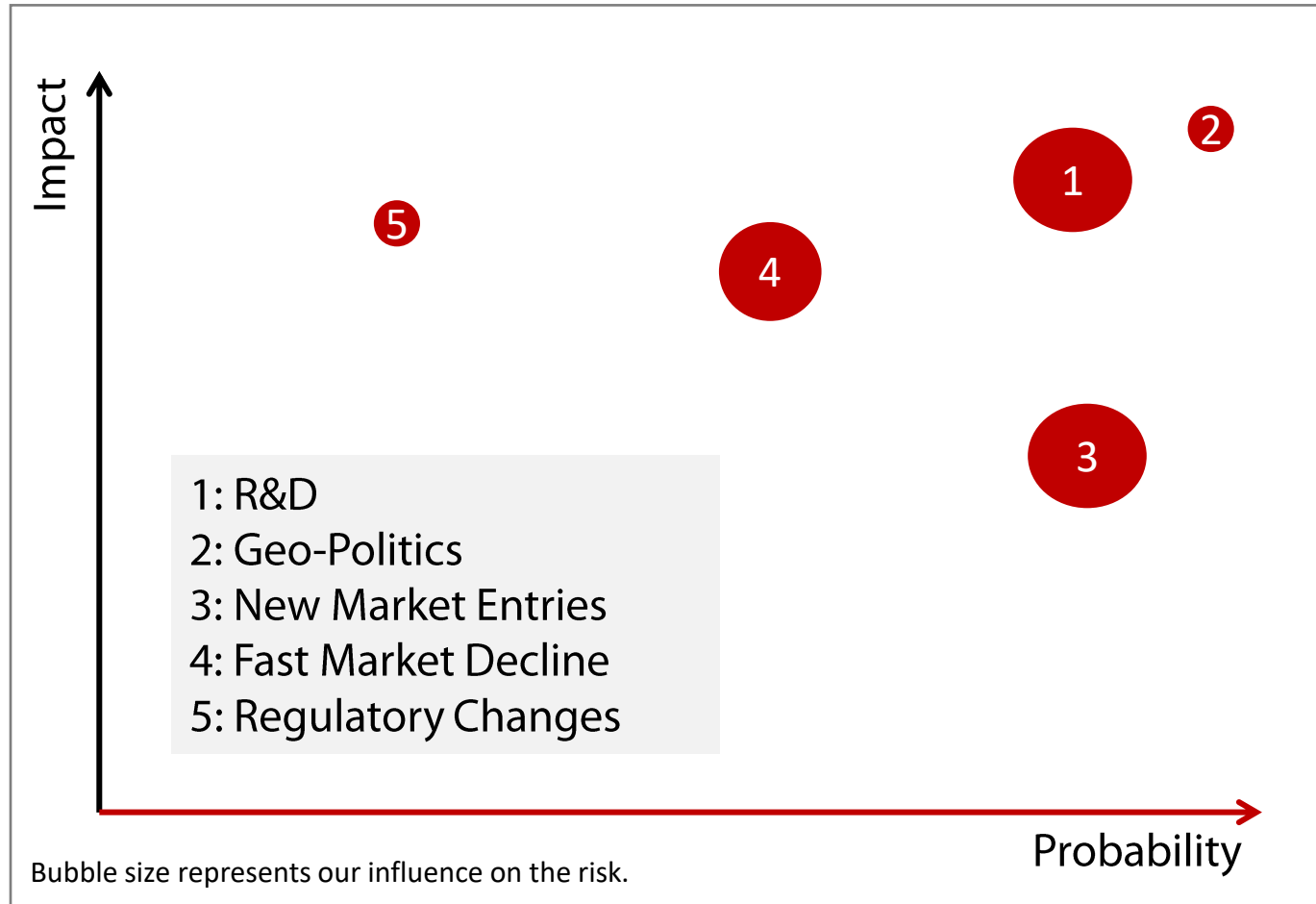




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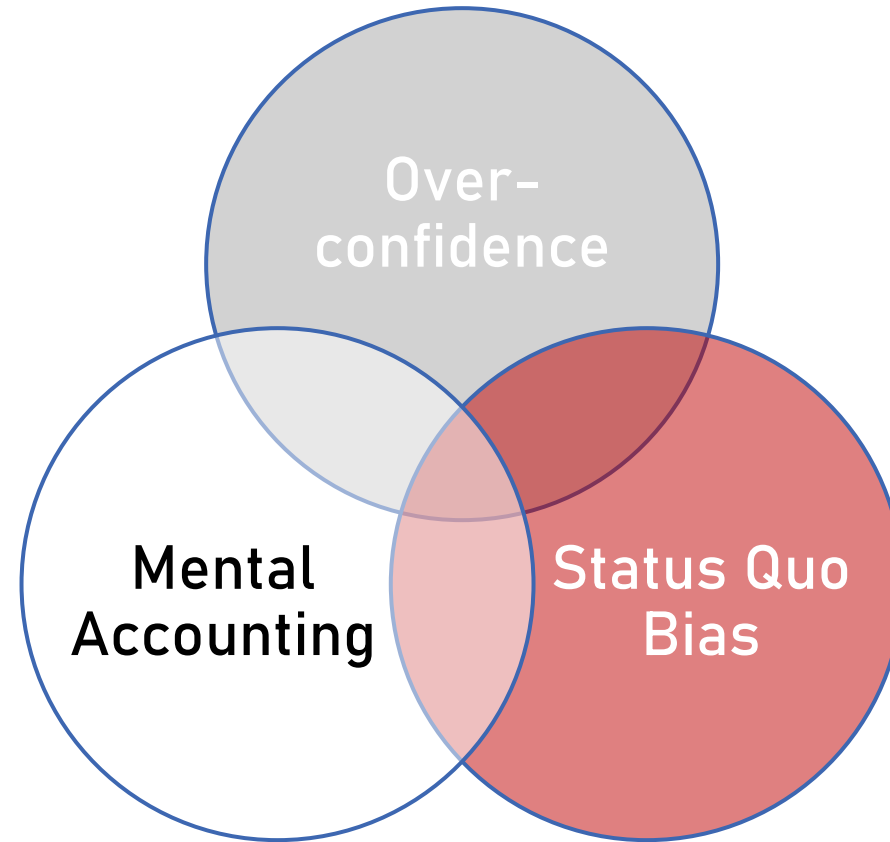


Risk Management Cognitive Biases



Systematic Flaws in Strategy

Cognitive Biases



Success Factors for Strategic Planning

Communicate the purpose!

Gather and analyze all relevant data!

Involve your stakeholders early on!

Allow an evolutionary as well as a revolutionary mode

Destroy your own Business Model!

Use game mechanics to infuse fun to the strategy process!





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Foresight, Sci-Fi Labs, et al.



Objectives:

- Understand the concept of imagining and shaping various futures and deploy action plans for these scenarios today.
- What if we could create the future we can imagine?

What is Foresight?

"Foresight is the systematic, participatory, and multidisciplinary process of gathering, interpreting, and acting on insights about potential future events and developments to influence and shape the future in a desired direction. It involves anticipating emerging trends, challenges, and opportunities, enabling decision-makers to make informed choices in the present."

This definition encompasses the proactive and participative nature of foresight, highlighting its role in not just predicting the future, but actively shaping it.



Sustainability of Competitive Advantages



Digital Transformation: Future Scenarios 2030 | Deloitte





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Digital Platforms & the Metaverse



Objectives:

- (1) Understand platforms and their strategic importance
- (2) Understand the Concept of the Metaverse
- (3) Understand business models arising from a Metaverse
- (4) Understand strategic challenges of the Metaverse
- (5) Critically reflect on opportunities and risks of the Metaverse

Digital Platforms:

Definition & Strategic Importance

Definition:

Digital Platforms: Online environments that enable a diverse group of participants (producers and consumers) to interact, share, and transact, often by integrating different technologies and facilitating the creation of value.

Strategic Importance:

- Network Effects:** As more users join the platform, its value to each participant increases, often exponentially.
- Data Monetization:** Platforms gather vast amounts of data, enabling targeted marketing, product improvements, and new revenue streams.
- Ecosystem Creation:** Platforms foster a community of developers, businesses, and consumers, creating a self-sustaining growth loop.
- Barrier to Entry:** Successful platforms can become dominant, making it challenging for newcomers to compete.



Digital Platforms: Examples

- E-commerce: Amazon (connects sellers with buyers and provides added services like Prime, AWS, etc.)
- Social Media: Facebook (brings together users, advertisers, and third-party app developers)
- Ride-sharing: Uber (links drivers with riders, expanding into related services like Uber Eats)
- Payment Systems: PayPal (connects merchants with consumers, facilitating online transactions)
- Cloud Services: Microsoft Azure (offers a suite of tools and services for businesses, developers, and individual users)



Multi-Sided Platforms: Strategy & Significance

Definition:

Multi-Sided Platform (MSP): A business model that connects multiple customer or participant groups and facilitates interactions between them, creating value for all parties involved. These platforms often benefit from indirect network effects, where the value of the platform increases as more participants from one group join, enhancing the experience for the other group(s).

Strategic Importance:

- Scale & Growth:** MSPs can scale rapidly due to network effects. The more users on one side, the more valuable the platform becomes for users on the other side.
- Monetization Flexibility:** MSPs can often monetize in diverse ways, charging one side while subsidizing the other or using advertising, transactions fees, or freemium models.
- Data Collection & Insights:** Interactions on the platform produce vast amounts of data, providing insights into customer behavior and preferences.
- Competitive Moat:** Once established, MSPs can be difficult to dislodge due to their built-in network effects and the ecosystems they cultivate.

Multi-Sided Platforms: Examples and Strategy Points

Online Marketplaces: eBay (connects buyers and sellers), Etsy (links craftsmen with buyers).

Social Media: LinkedIn (brings together professionals, recruiters, and advertisers).

Gaming: Xbox Live or PlayStation Network (connects gamers, game developers, and advertisers).

Financial Services: Credit card companies like Visa (links consumers, merchants, and banks).

Key Strategy Points for MSPs:

- Achieving Critical Mass: Essential for network effects to kick in. Often involves subsidizing one side (e.g., giving away game consoles cheaply to sell more games).
- Ensuring Trust: Platforms must ensure safety, quality, and reliability to keep all sides engaged.
- Managing Interests: Balancing the needs and desires of all sides to prevent disengagement or revolt.





The METAVERSE

Platforms and Business Models

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Metaverse

Between Science Fiction and Reality



<https://youtu.be/7DEVfUk2zCk>

What is the Metaverse?

Metaverse is a term to describe the vision of a (single) virtual space in which users can interact with each other, virtual objects and NPCs in a fully immersive and realistic way. It would enable real-time collaborative gaming, socialising, entertainment, work, education and commerce.

Currently, various but closed and mutually incompatible spaces are available for this endeavour. However, the world still needs to see the single (and open) platform which would form the metaverse. On top of this, the immersion has yet to come close to a realistic experience.



Incomplete History of the Metaverse I/II

1989	Tim Berners- Lee builds the World Wide Web
1992	Neal Stephenson publishes the Sci-Fi novel „Snow Crash“: a Metaverse for the Rich
1993	Moni Naor and Cynthia Dwork invent technologies which become the basis of Bitcoin
2003	Linden Lab publishes Second Life, a 3D virtual space for users to interact in with avatars
2004	Word of Warcraft was released by Blizzard Entertainment
2009	Satoshi Nakamoto (pseudonym) mints the first Bitcoin based on Blockchain Technology
2011	Ernest Clive publishes the SciFi novel „Ready Player One“
2012	Palmer Luckey presents the Oculus as the first low-cost 3D hardware



Incomplete History of the Metaverse I/II

2014	Kevin McCoy and Anil Dash create the first non-fungible token (NFT)
2015	Ethereum is launched allowing for decentralised apps on a blockchain
2016	The DAO (decentralized autonomous organisation) launches on top of the Ethereum BC
2016	Pokemon Go is launched as the first popular augmented-reality game
2018	Play-to-earn game Axie infinity is launched based on the Ethereum BC
2019	Fortnite has more than 250 million active users
2021	Facebook changes its name to META
2021	Microsoft introduces Mesh to synchronise online collaboration
2022	Siemens and Nvidia collaborate to build the industrial metaverse



Closed Centralised Marketplaces

Most virtual marketplaces are fully controlled by game publishers. The publisher manages the assets (skins, weapons, artefacts) and services available, prices, inflation and so on.

Network- effect and monopoly power are the driving forces.

The same is true for social media (Facebook, Insta, et al) and massive digital market places like Amazon or Alibaba.



Closed Centralised Marketplaces

Publishers & Developers & Social Media et al



37GAMES



Tencent 腾讯



SONY



Microsoft

PLAYABLE WORLDS



Alphabet



amazon

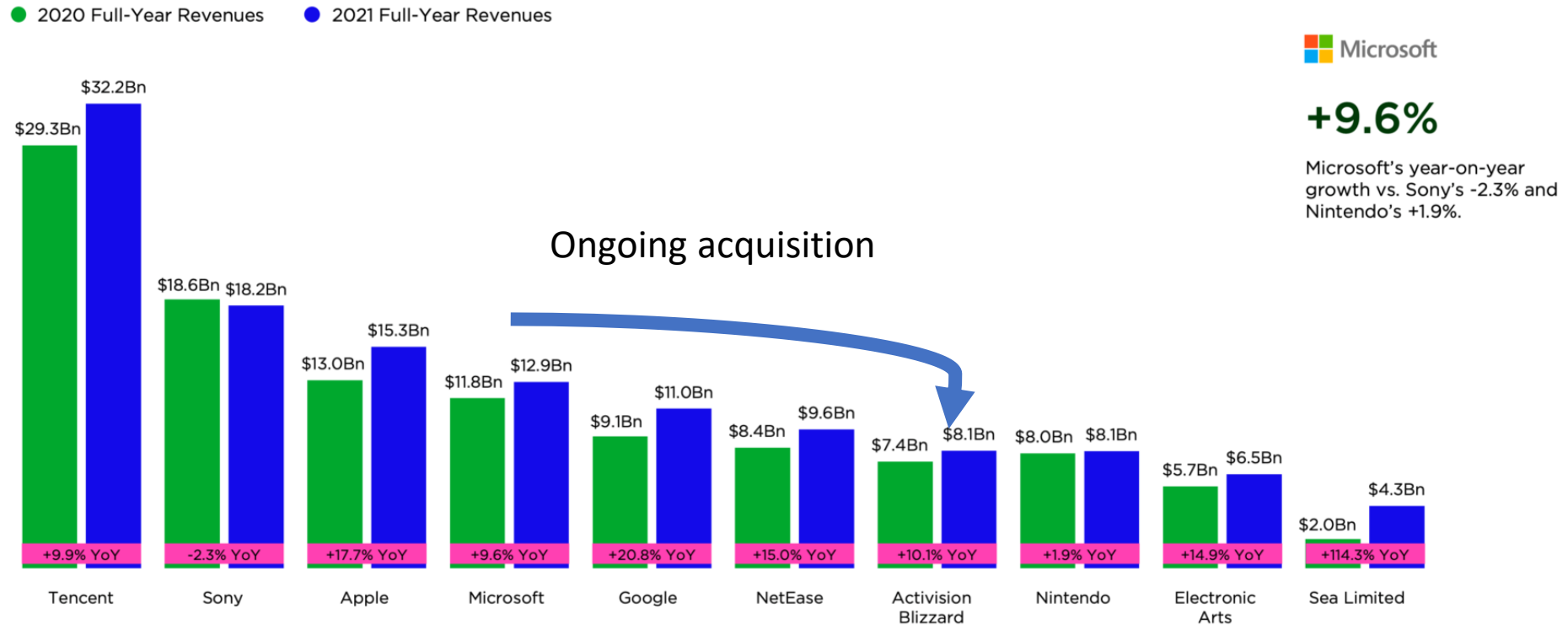


WeChat

Closed Centralised Marketplaces

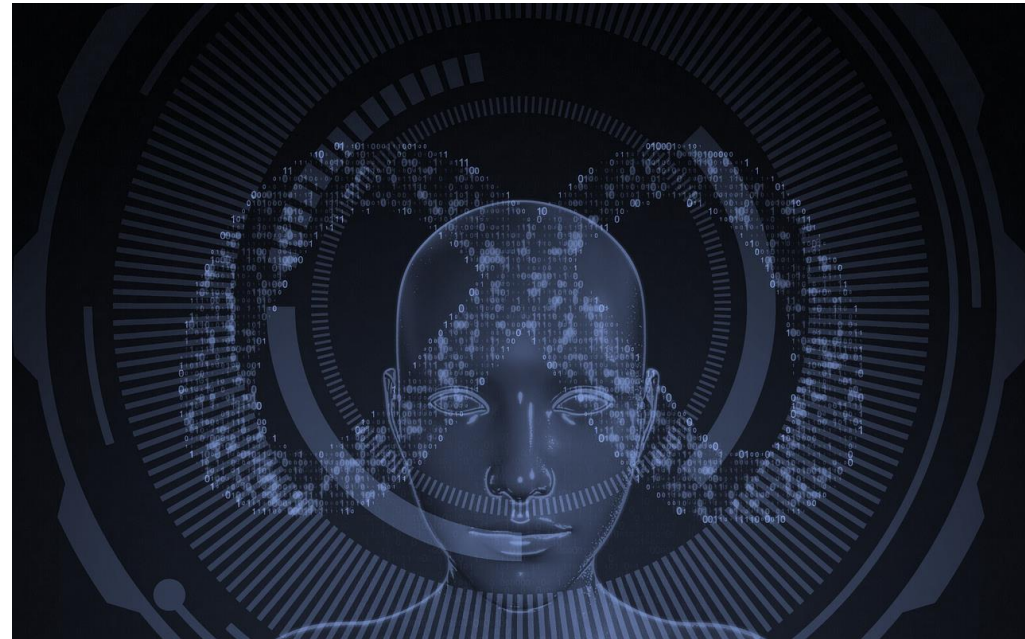
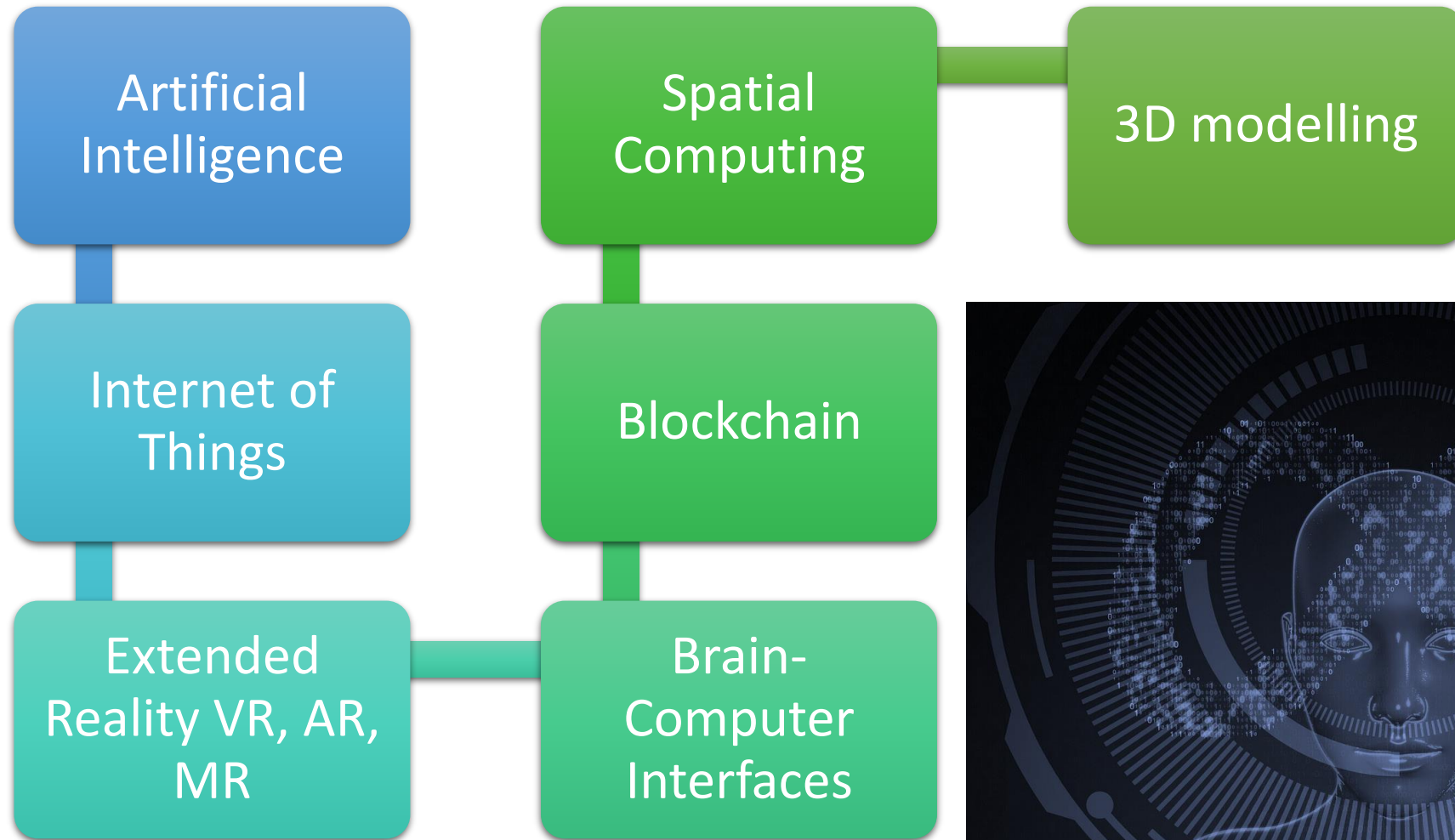
Top 10 Public Companies by Game Revenues

Comparing 2020 and 2021



Source: © Newzoo | Global Games Market Report April 2022 newzoo.com/globalgamesreport

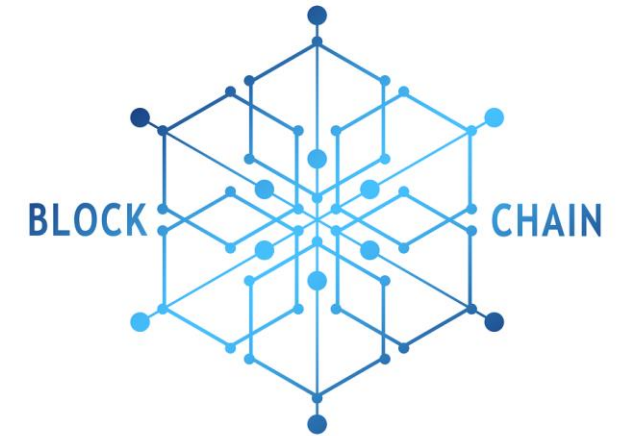
The Metaverse Technologies



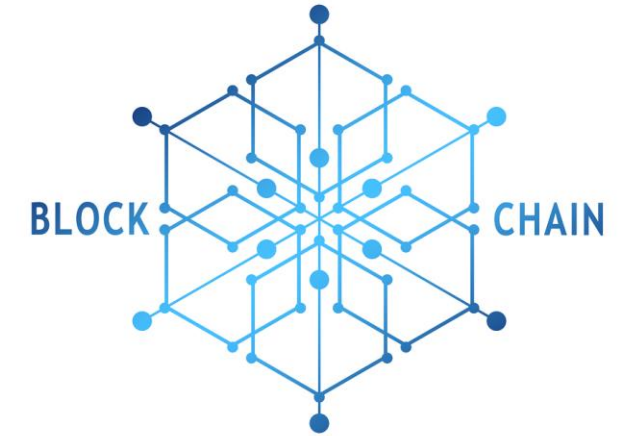
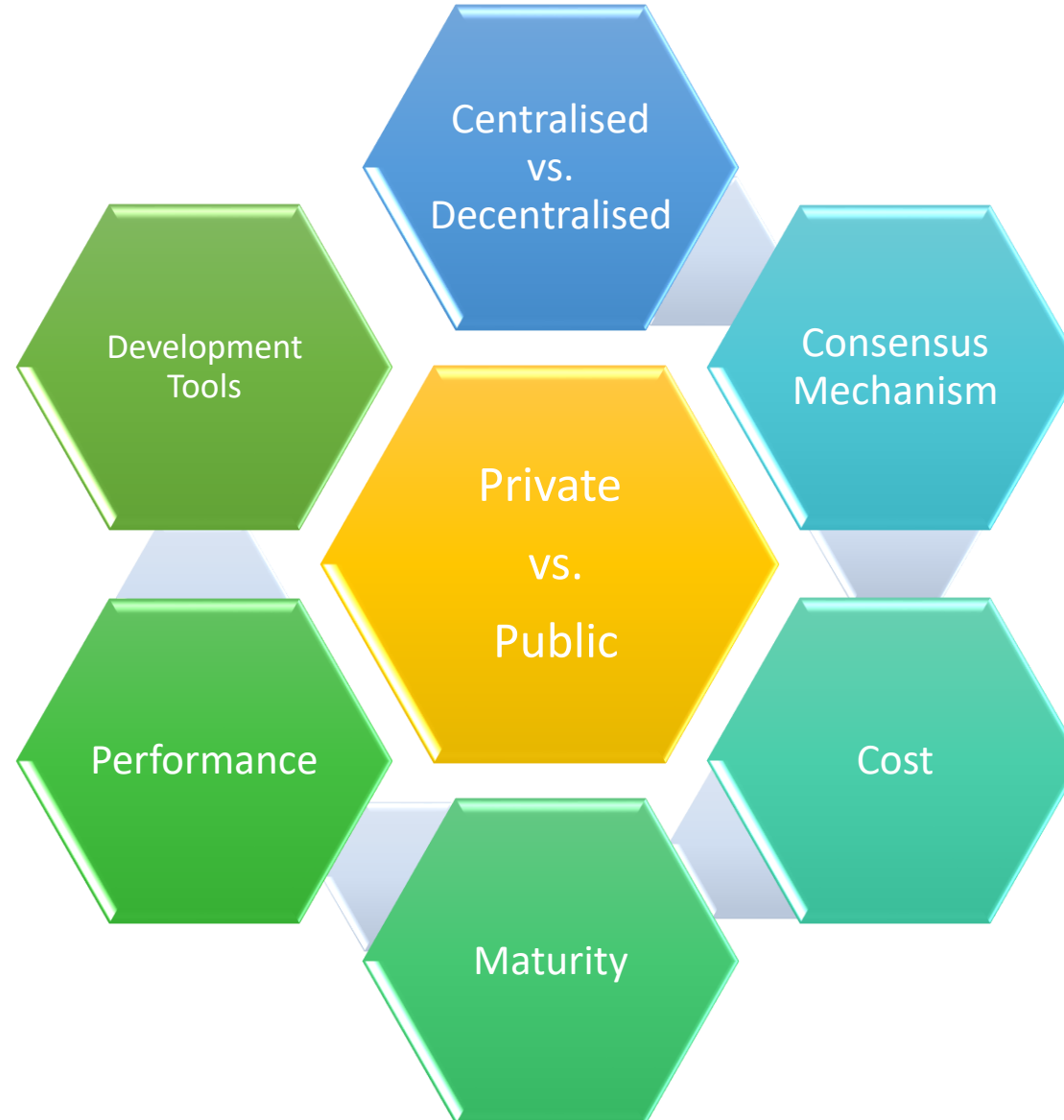
<https://www.techtarget.com/searchcio/tip/7-top-technologies-for-metaverse-development>

The Blockchain Platforms

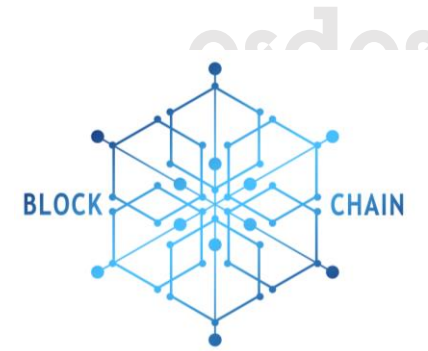
“Blockchain platforms are emerging platforms and, at this point, nearly indistinguishable in some cases from core blockchain technology. They are being used for generalized distributed value exchange, consisting of an expanding list of cryptographically signed, irrevocable transactional records shared by all participants in a network. Each record contains a time stamp and reference links to previous transactions. It is a decentralized state transition machine that manages the life cycle of digitalized assets and immutably records operations in a distributed ledger. A digitalized asset can be any object with explicit or implicit value (such as digital currencies, securities, precious metals, commodities, materials, identity, credentials, patient health records).”



The Blockchain Platforms



The Blockchain Platforms



Ethereum since 2013, decentralized BC, slow and high transaction costs, Ether, Python, Go, C++



Hyperledger
Fabric is a set of tools that helps create blockchain applications. Championed by the Linux Foundation



IBM
Blockchain very popular with enterprises



R3
Corda "both a blockchain and not a blockchain.", real-time transactions



Solana SOL, Solana Foundation Switzerland

Crypto-Currencies

From 2023-01-13

Name	Price	Market Cap
Bitcoin (BTC)	\$19,143	\$369 billion
Ethereum (ETH)	\$1,414	\$173 billion
Tether (USDT)	\$1.00	\$66 billion
BNB (BNB)	\$286.53	\$46 billion
...
Solana (SOL)	\$16.60	\$6 billion

<https://www.gartner.com/reviews/market/blockchain-platforms>



From Facebook to Meta

“Our goal is not to build a platform; it's to be cross all of them.” Mark Zuckerberg



Microsoft Mesh Platform

Towards a metaverse for business



<https://youtu.be/Jd2GK0qDtRg>



Decentraland

Beyond its peak



Decentraland is a virtual-reality platform and metaverse powered by the Ethereum blockchain – and one of the most well-known names in the space, “utopia of free trade”

Walmart

Retail 3.0?



Walmart is teaming up with Roblox to offer metaverse experiences: Walmart land and Walmart's Universe of Play.

NFT World

Keep on building worlds



In May of 2022, NFT worlds, a decentralised project had more than 50,000 monthly active users. Transactions are tied to in-game cryptocurrency WRLD.

Crypto Winter

How long will it last?



<https://youtu.be/vWT3Cfcgfp0>

NFT

Non fungible tokens explained



NFT

Arrivederci?



<https://youtu.be/I3JF74EA7VI>

Why you still need a metaverse strategy

- Metaverse ist a playground for capturing younger consumers (Gen Z) worldwide, especially in Asia.
- In 2023 Gen Z will have a purchasing power of 33 trillion \$.
- Brand building for a lifetime value for Gen Z is still worthwhile.
- The technologies of Web 3.0 and the Metaverse project will dominate following next decades and transform all industries to the next level of digitalisation.

Personally, I believe more in AR than VR and see an escapist metaverse as not in line with human needs and gifts.

Further sources

<https://atelier.net/virtual-economy/>

<https://www.techtarget.com/whatis/feature/The-metaverse-explained-Everything-you-need-to-know>

How to meet Web 3.0 and Metaverse people

33 Events • WEB3 Match Making • WEB3 Educational Platform • WEB3 Community • WEB3 Events • WEB3 Match Making • WEB3 Educa

DAO

Berlin web3 events: 9 Jan - 19 Jan

9 Jan - 19 Jan

Date	Title	Event Type
Jan 13, 2023	The Futurists' Corner Berlin - LongBio, Crypto-Finance & Startup Cities	Educational Networking
Jan 17, 2023	YOONAVERSE CHAPTER II	Conference
Jan 19, 2023	Crypto Invest Berlin - How to evaluate a crypto project	Educational Networking
Jan 25, 2023	CGC X H.E.R DAO: How to make your 2023 in web3 count	Educational Networking
Jan 26, 2023	Music NFTs Web3 Show and Tell	NFT

< >

Subscribe

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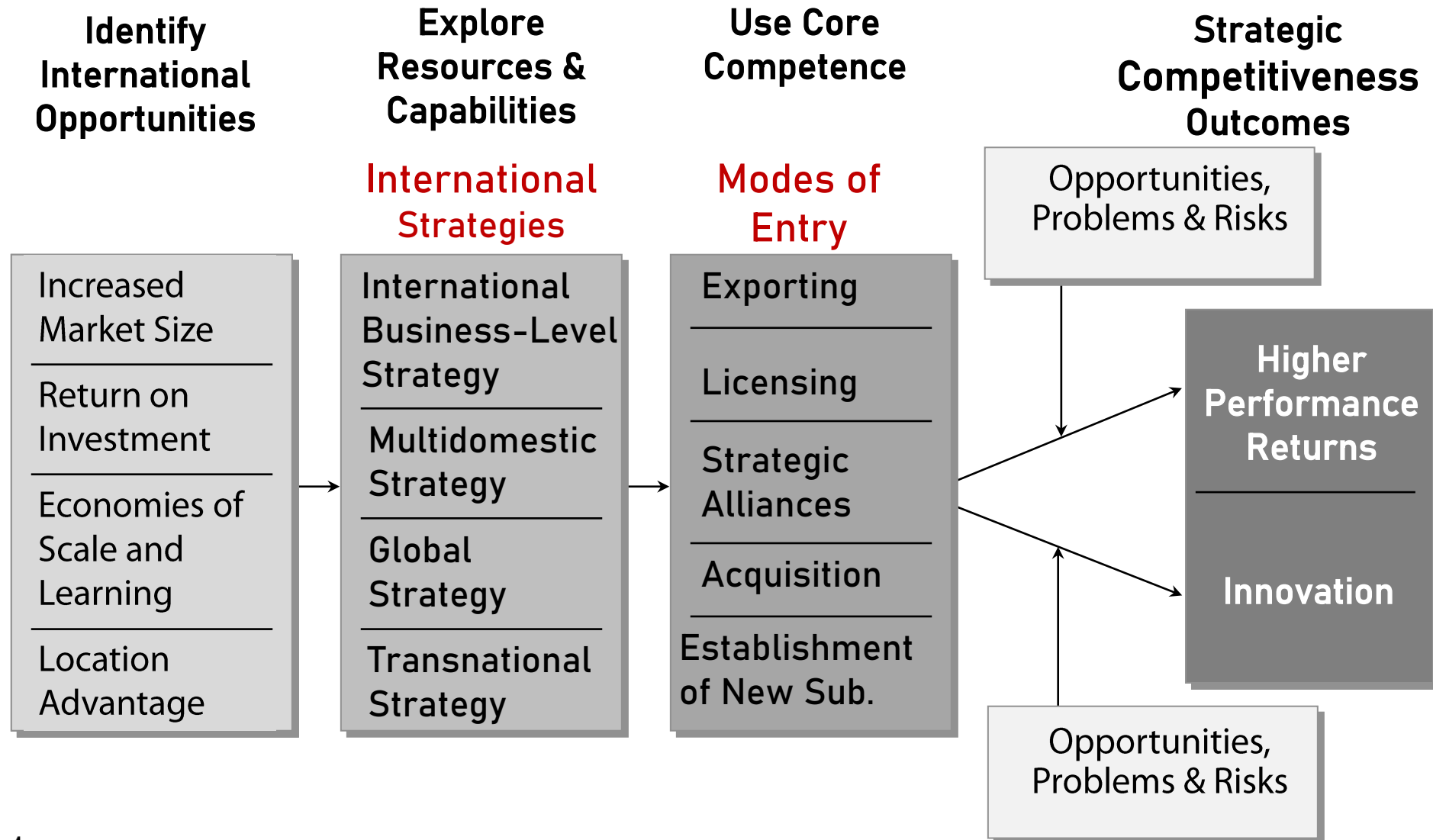
International Business Strategy



Objectives:

1. Explain motives for firms to pursue international diversification.
2. Explore factors that lead to a basis for international business-level strategies.
3. Define international corporate-level strategies: multidomestic, global, and transnational.
4. Discuss the trends affecting international strategy, especially liability of foreignness and regionalization.
5. Name & describe alternative modes for entering international markets.
6. Explain the effects of international diversification on firm return and innovation.
7. Describe major risks of international diversification.
8. Explain the limits of international expansion.

International Strategy Opportunities & Outcomes



Benefits of International Strategies



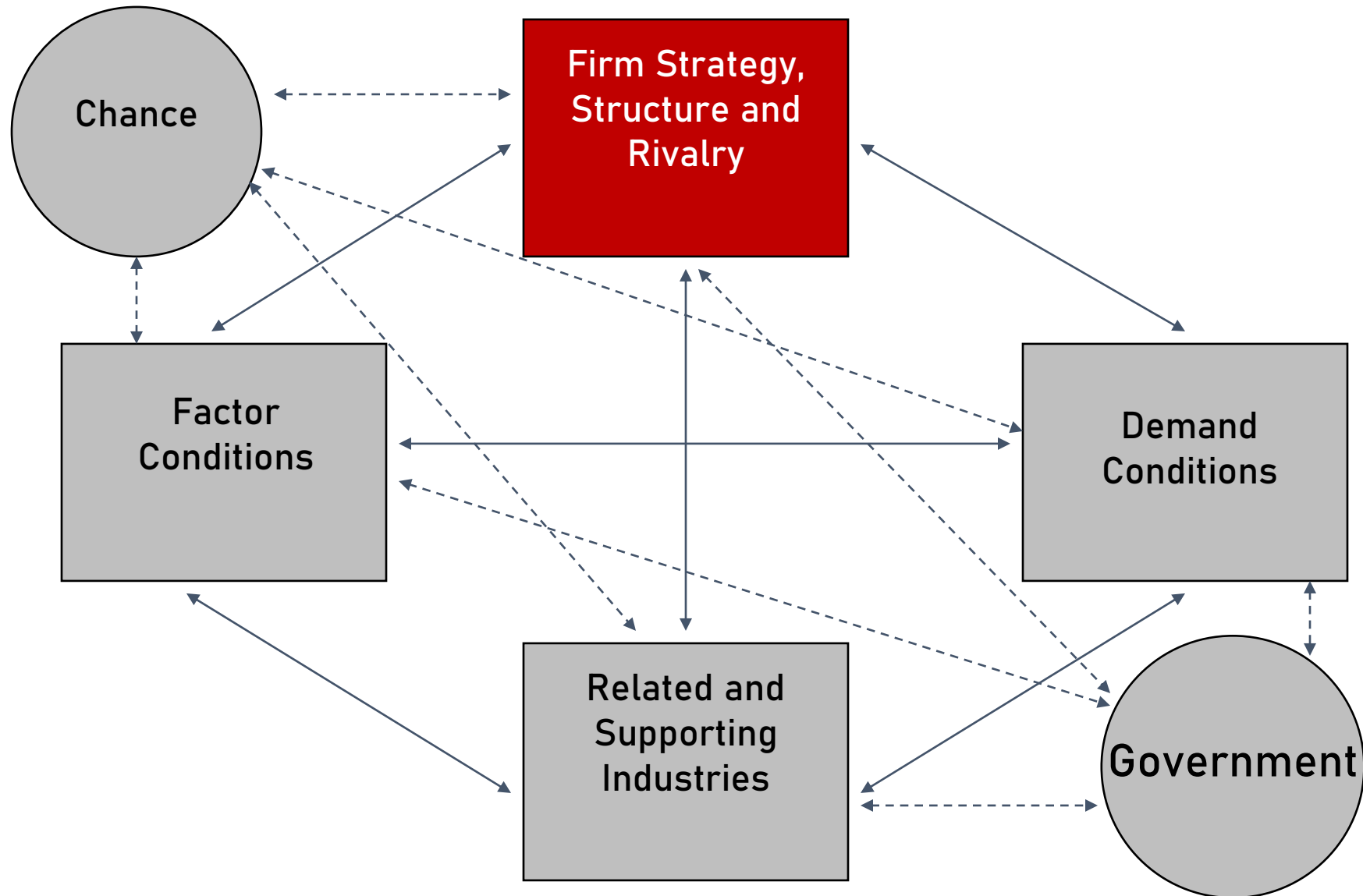
Increased market size.

Greater returns on major capital investments or new products or processes.

Greater economies of scale, scope or learning.

A competitive advantage through location.

The Porter Diamond of National Advantage

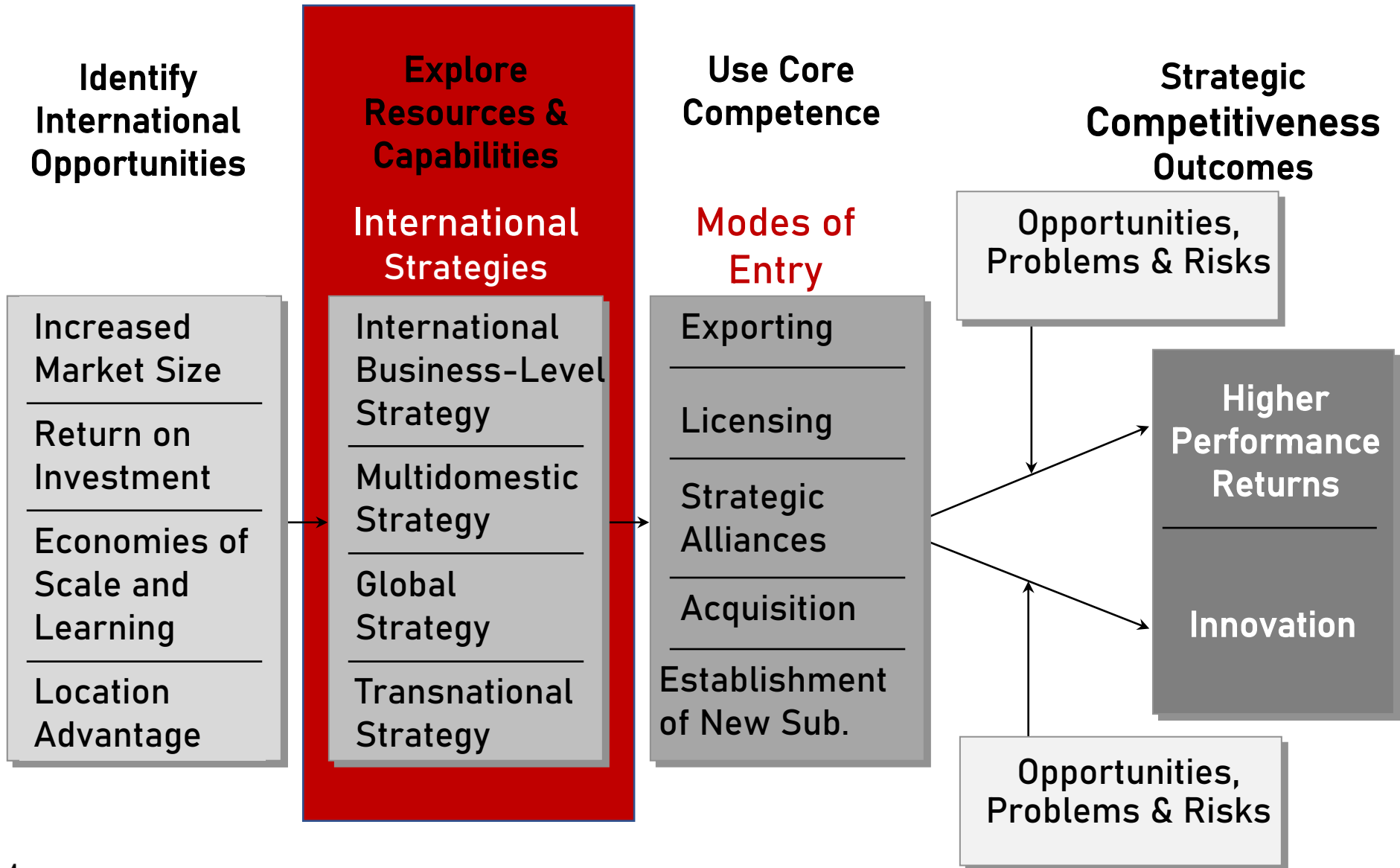


The Competitive Advantage of Nations

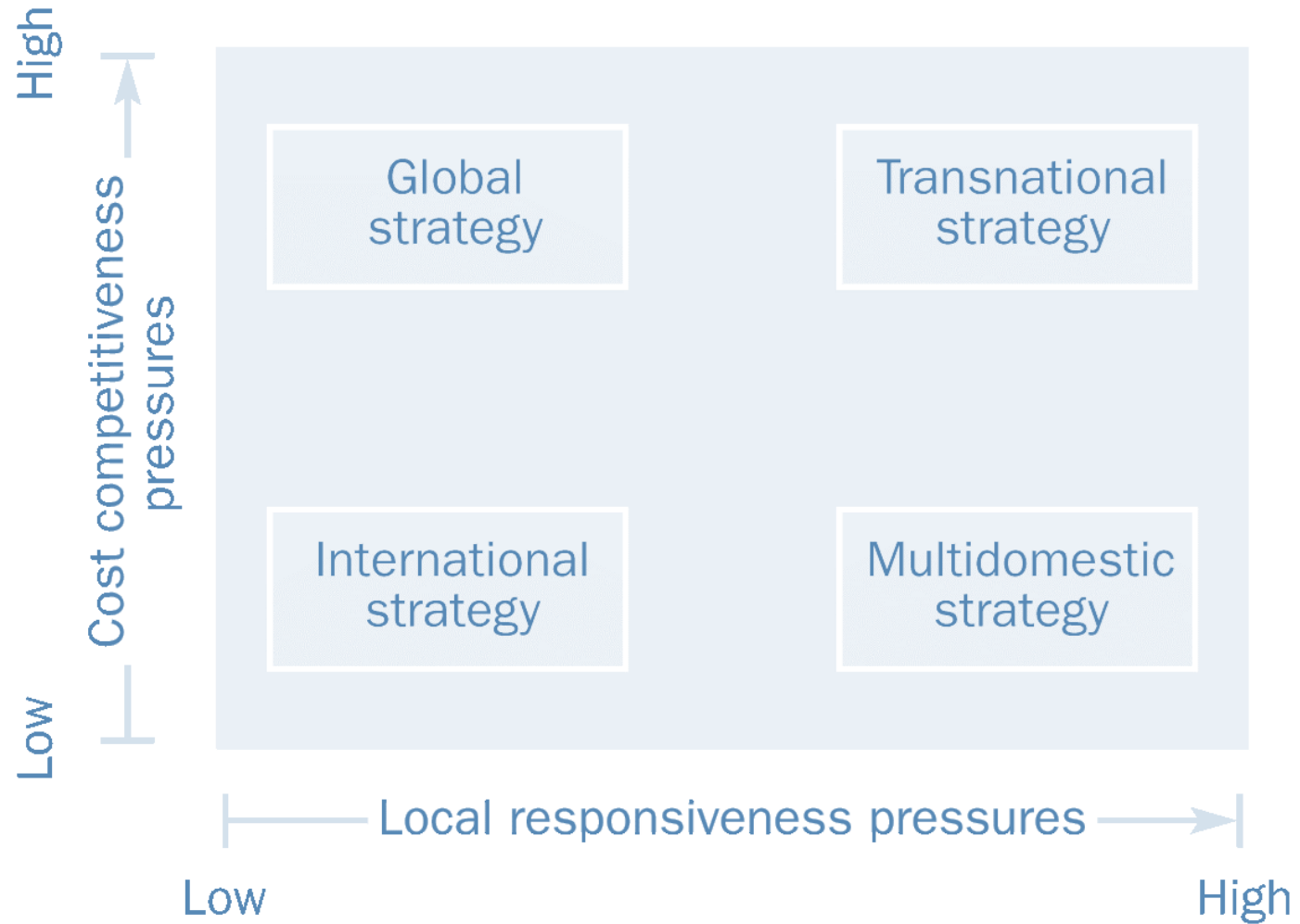
- The home nation plays a major role in the achieving and sustaining competitive advantage among companies
- The home nation acts a catalyst in creating the right business competitive environment
- “Perceive a new basis for competing or find a better means of competing in old ways” *Michael Porter*



International Strategy Opportunities & Outcomes



Four International Strategies

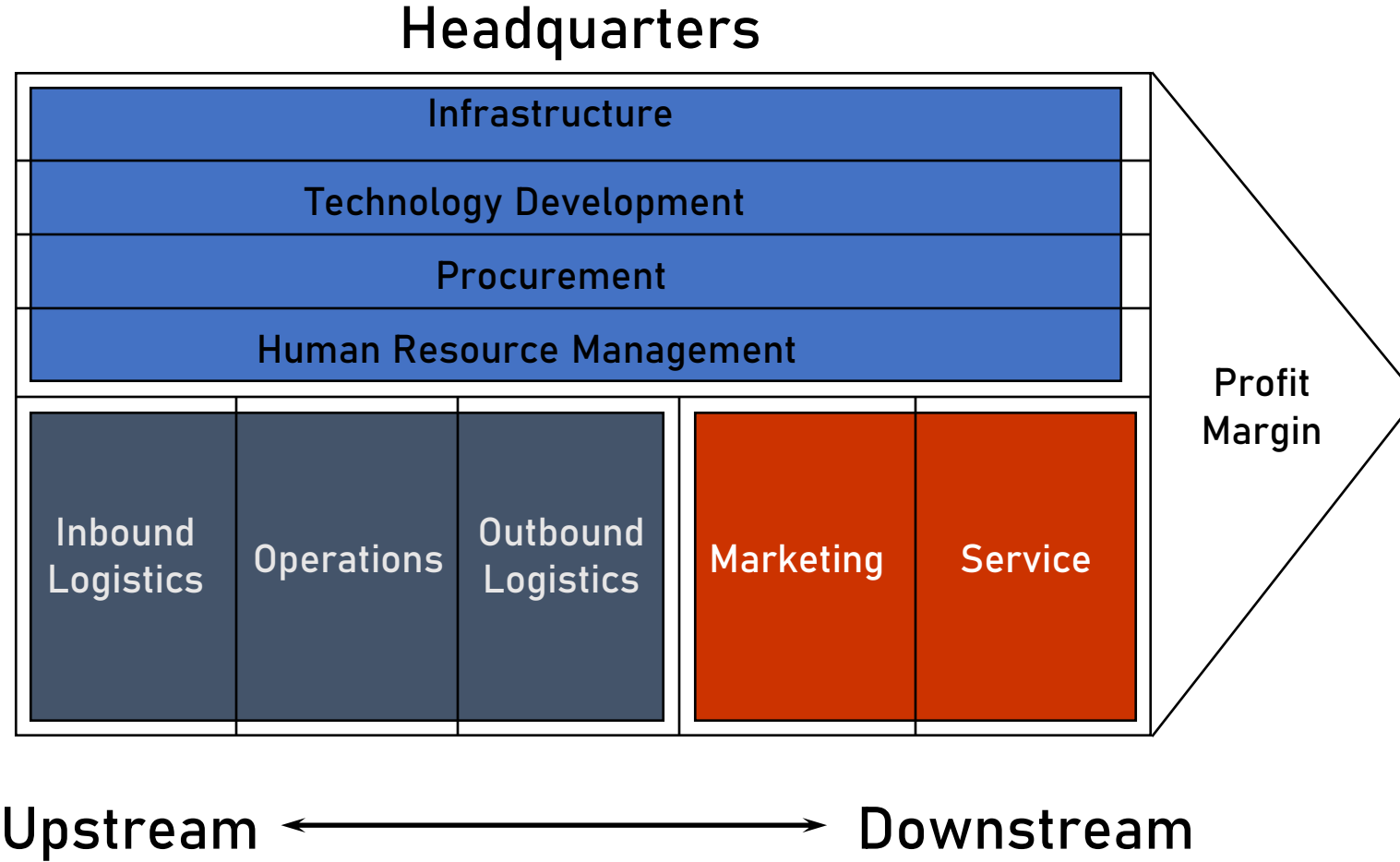


International Corporate-Level Strategy

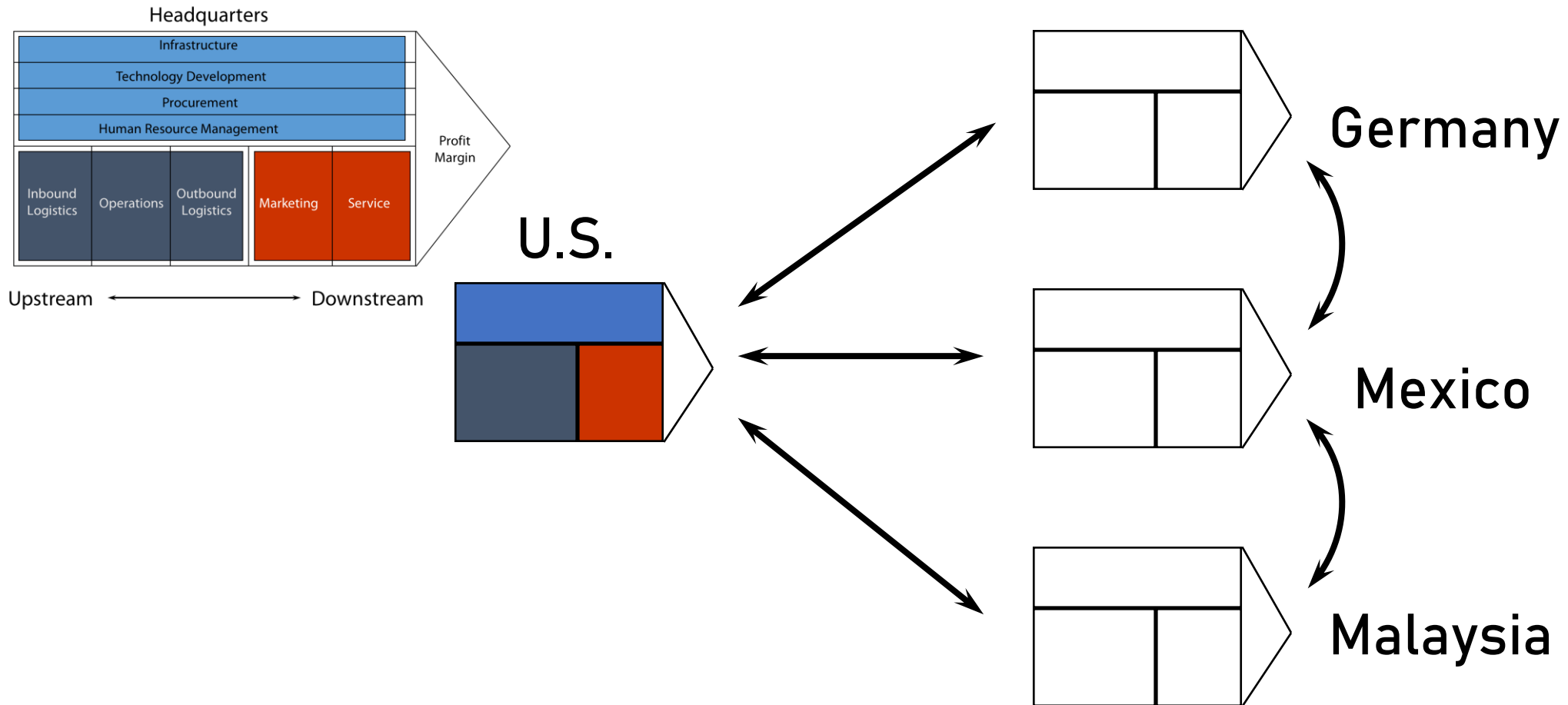
- Strategy depends on the relative strength of 'cost pressures' and 'local responsiveness pressures'
- **Global Strategy** – high cost pressures, low local responsiveness pressures. Geographically centralised value chain for standardised products
- **Transnational Strategy** – high cost pressures, high local responsiveness pressures. Geographically dispersed *stages* of a unified value chain
- **Multidomestic Strategy** – low cost pressures, high local responsiveness pressures. Geographically dispersed core competencies with extensive local adjustments
- **International Strategy** – low cost pressures, low local responsiveness pressures. Centralised core competencies with minimum local adjustments



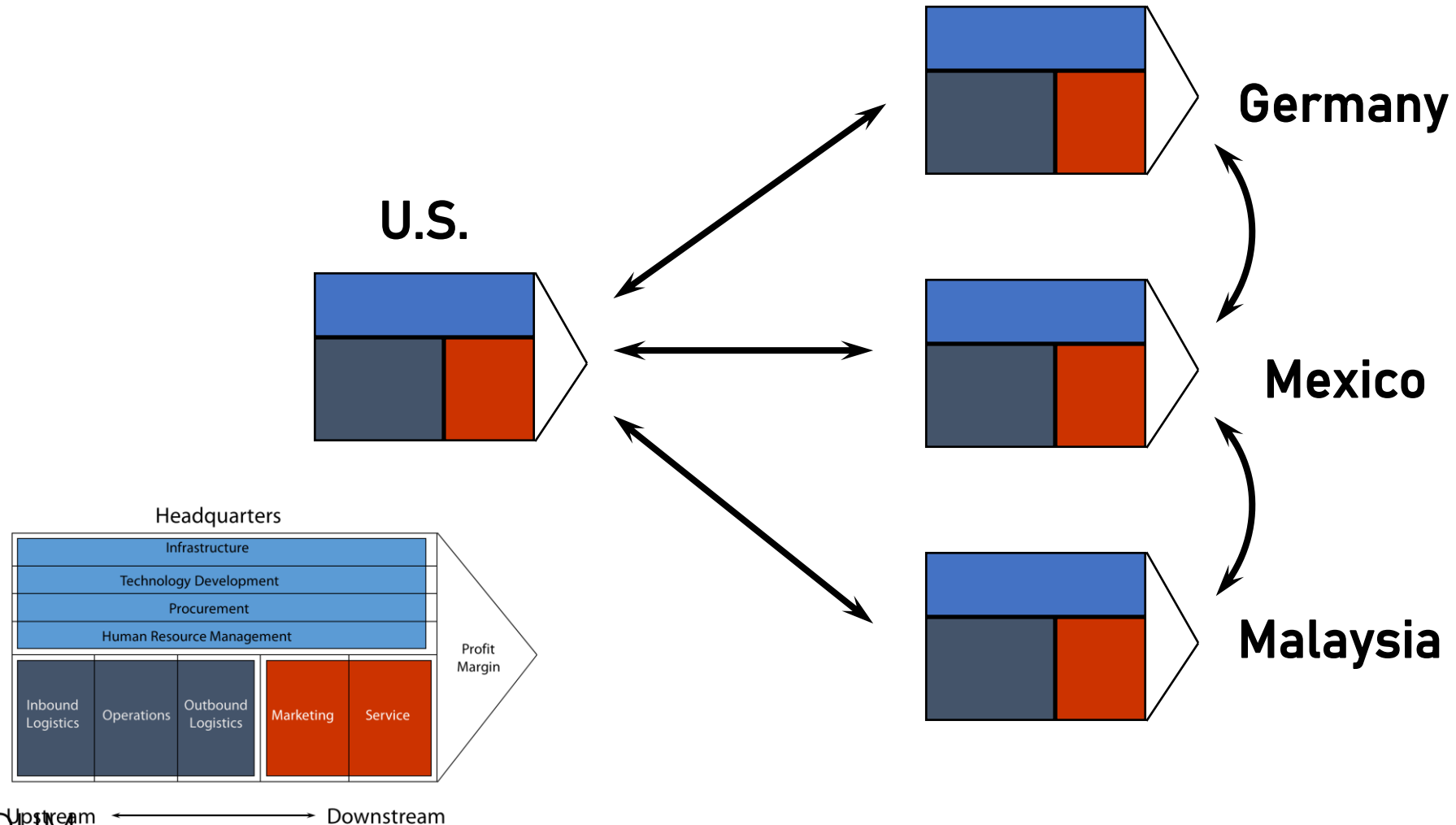
Porter's Value Chain



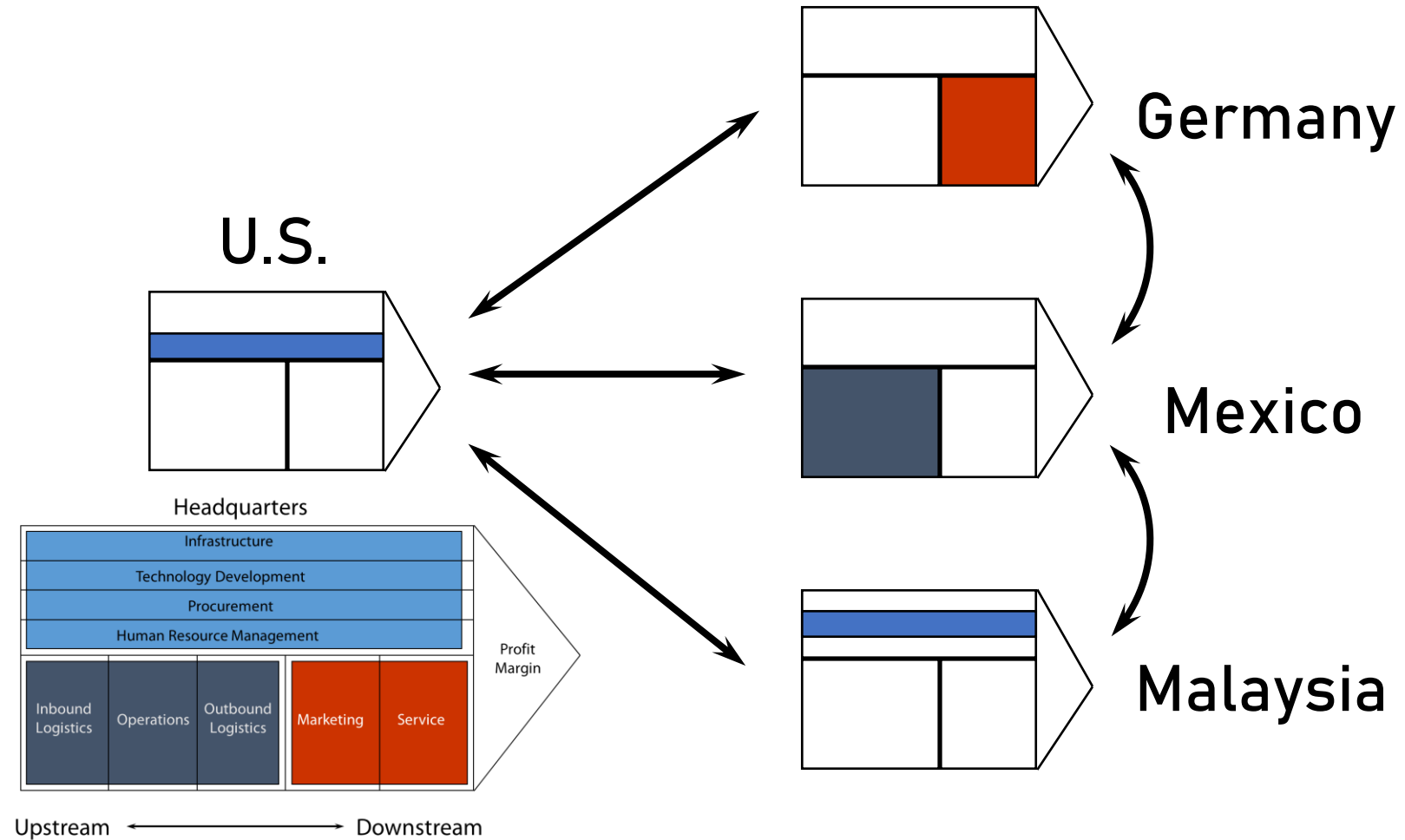
Export Strategy (same as Export entry mode)



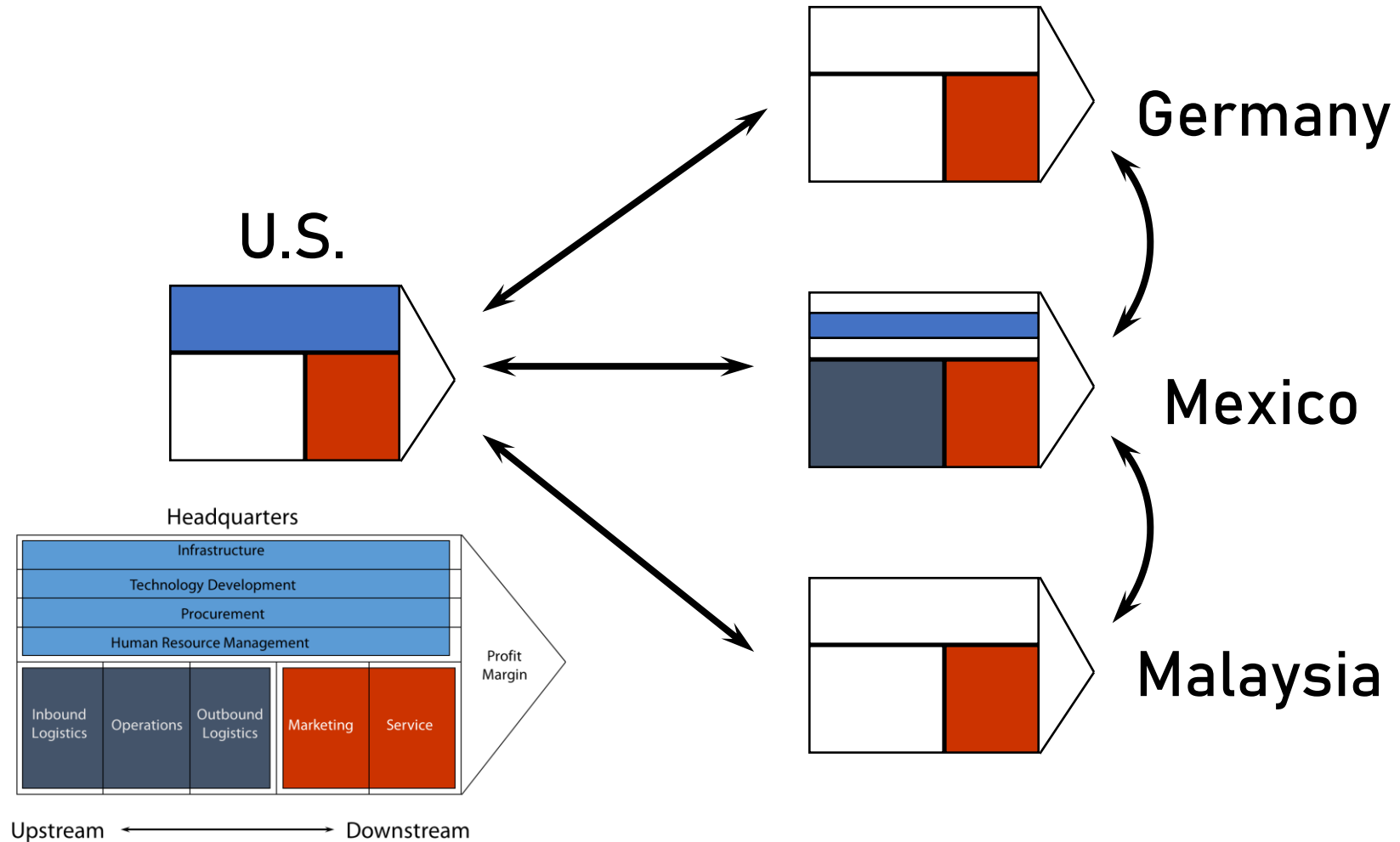
Multidomestic Strategy



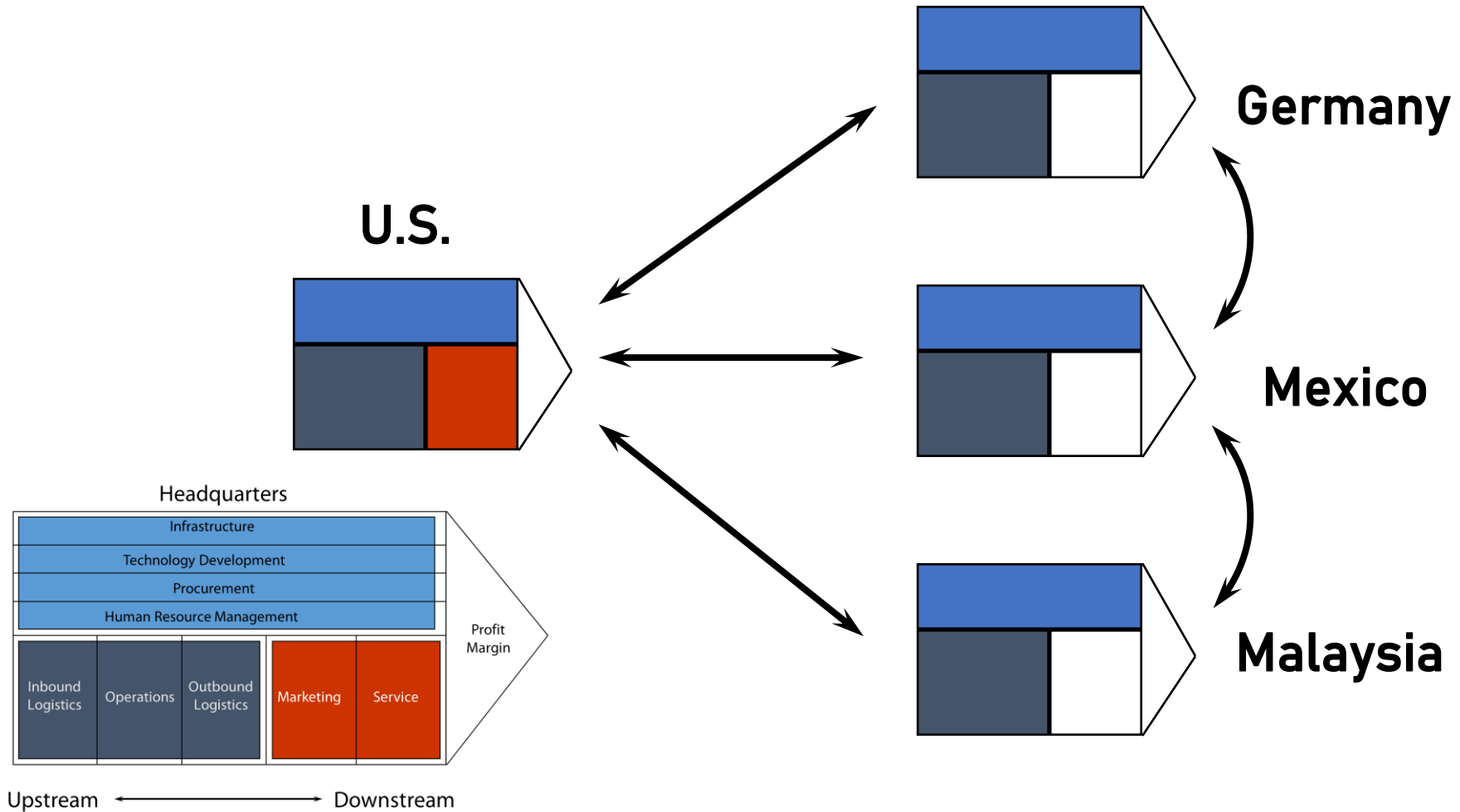
Global Strategy (Textbook Variety)



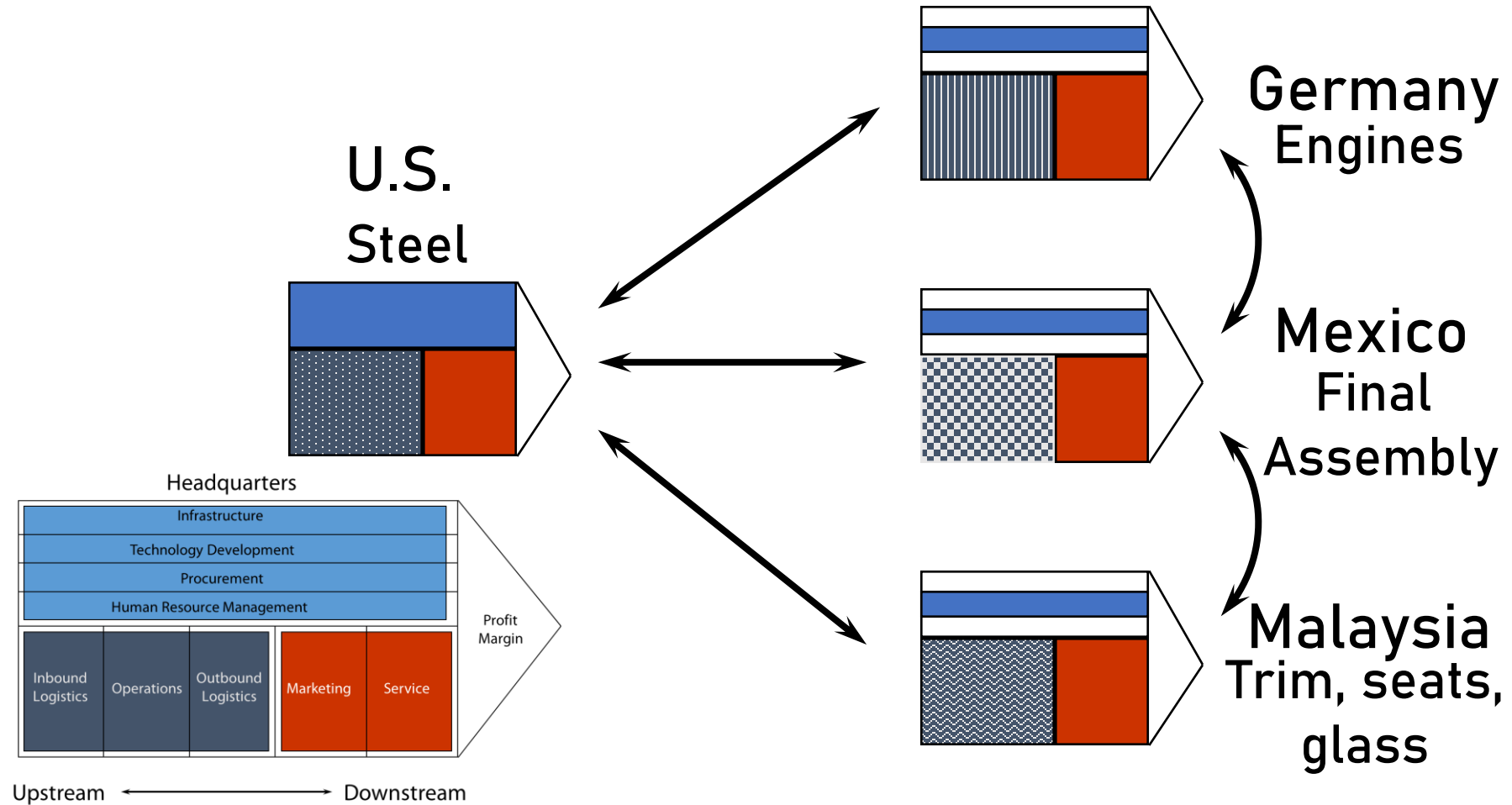
Transnational Strategy (v.1)



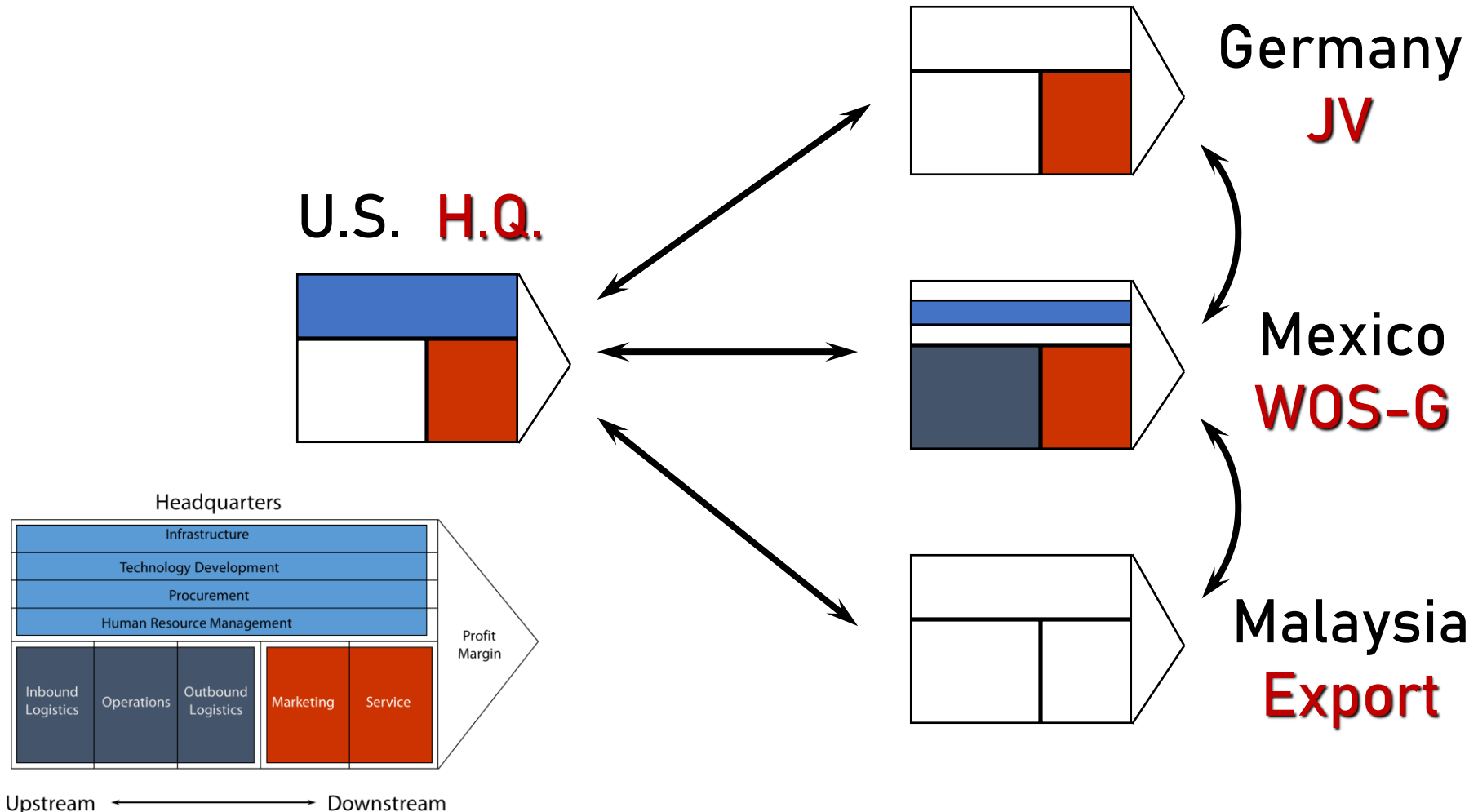
Transnational Strategy (v.2)



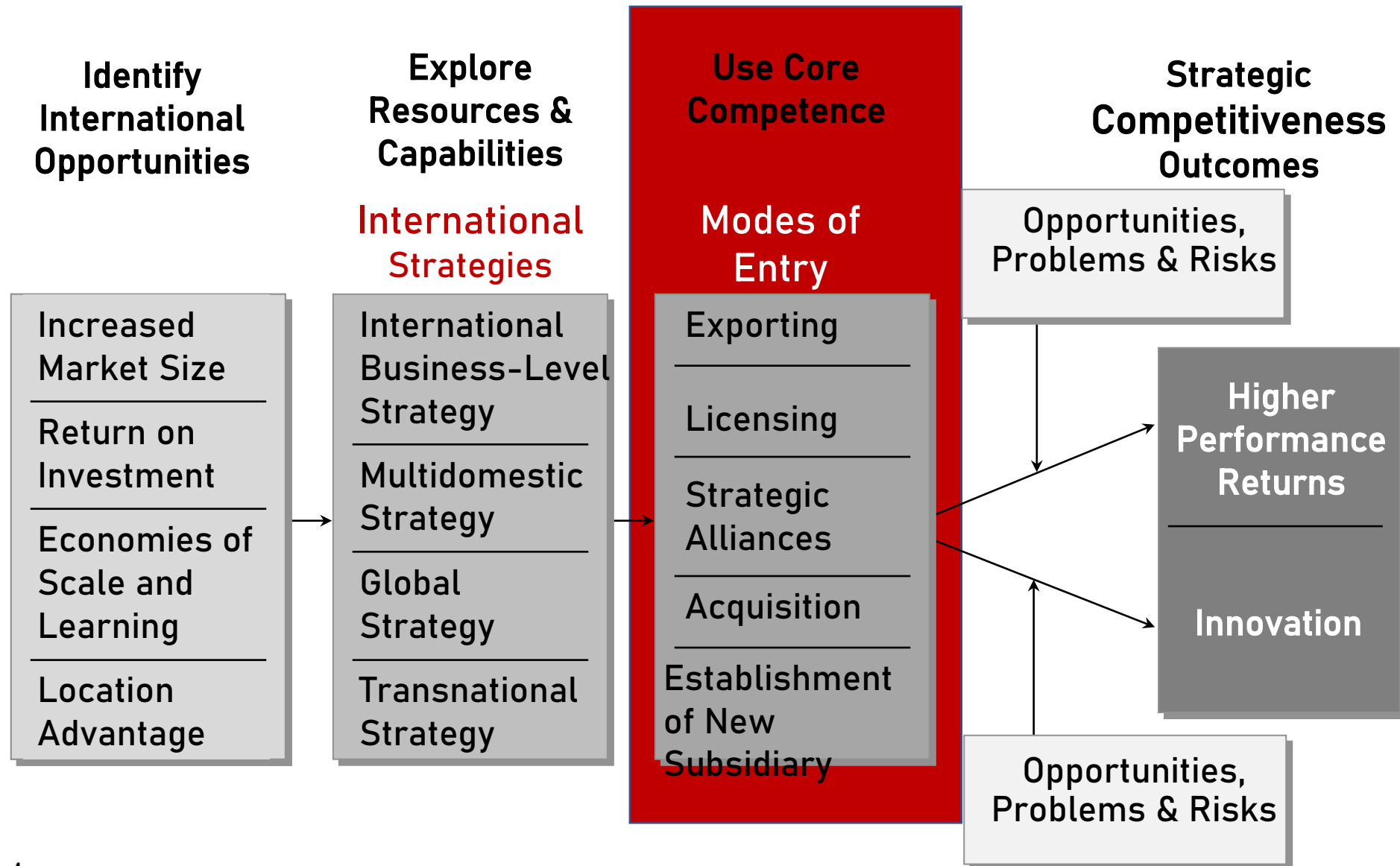
Transnational Strategy (v.3)



Intl. Strategy and Entry Mode



International Strategy Opportunities & Outcomes



Modes of Entry

Exporting

Common way to enter new international markets.

- No need to establish operations in other nations.
- Establish distribution channels through contractual relationships.
- May have high transportation costs.
- May encounter high import tariffs.
- May have less control on marketing and distribution.
- Difficult to customize product.



Modes of Entry

Licensing

Firm authorizes another firm to manufacture & sell its products

- Licensing firm is paid a royalty on each unit produced and sold.
- Licensee takes risks in manufacturing investments.
- Least risky way to enter a foreign market.
- Licensing firm loses control over product quality & distribution.
- Relatively low profit potential.



Modes of Entry

Strategic Alliances

Enable firms to share risks and resources to expand into international ventures.

- Most joint ventures (JVs) involve a foreign corp. with a new product or technology & a host company with access to distribution or knowledge of local customs, norms or politics.
- May experience difficulties in merging disparate cultures.
- May not understand the strategic intent of partners or experience divergent goals.



Modes of Entry

Cross-Border M&A

Enable firms to make most rapid international expansion.

- Can be very costly.
- Legal and regulatory requirements may present barriers to foreign ownership.
- Usually require complex and costly negotiations.
- Potentially disparate corporate culture.



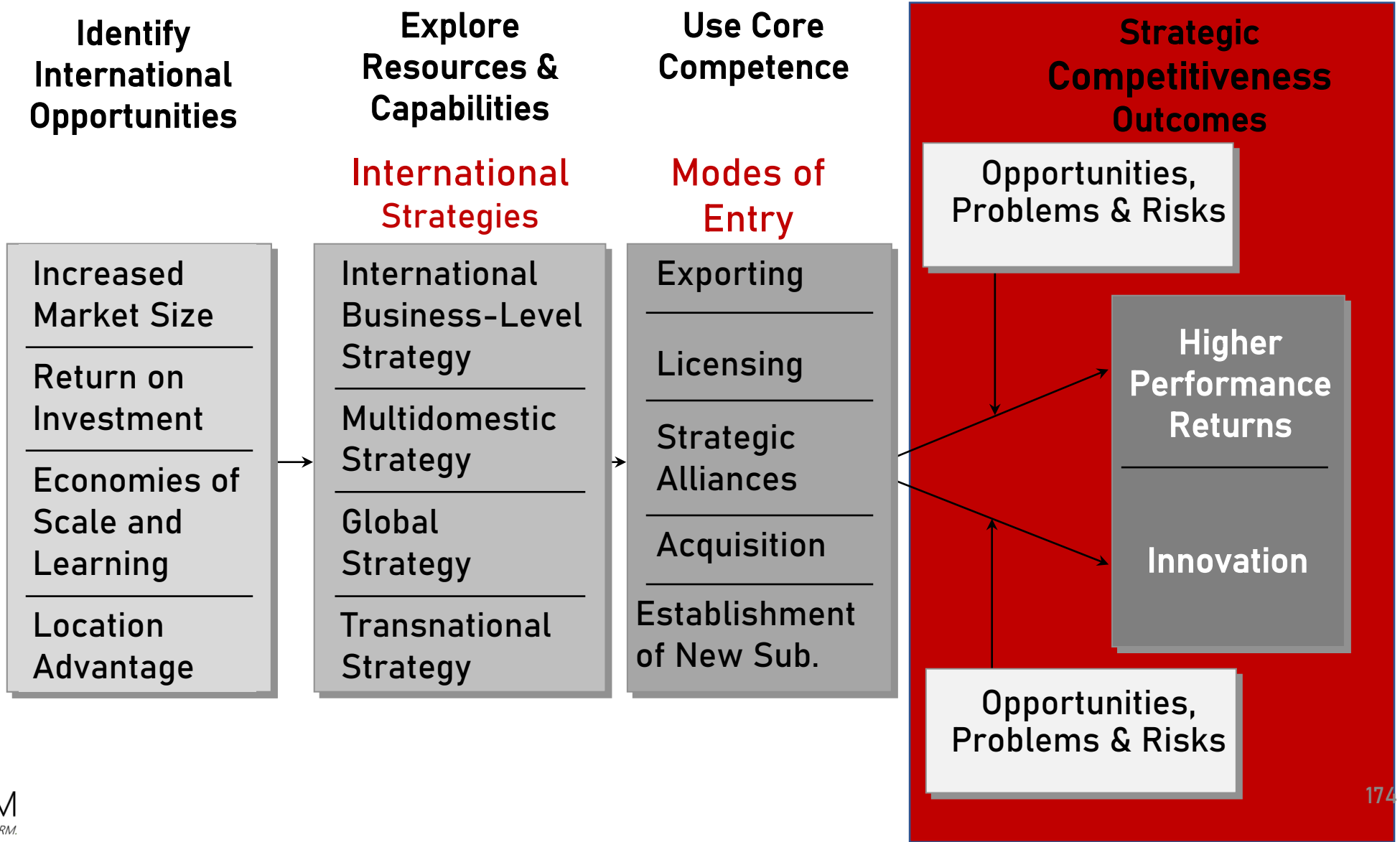
Modes of Entry

New Wholly-Owned Subsidiary - Greenfield Venture

- Most costly & complex of entry alternatives.
- Achieves greatest degree of control.
- Potentially most profitable, if successful.
- Maintain control over technology, marketing and distribution.
- May need to acquire expertise & knowledge that is relevant to host country.



International Strategy Opportunities & Outcomes



Born Global

Born global is a type of company that from the beginning of its activities pursues a vision of becoming global and globalizes rapidly without any preceding long term domestic or internationalisation period. Two types of born global can be distinguished: export/import start up and global start up, whereby the latter, contrary to the former, involves many activities coordinated across many countries. Usually born global companies are small companies, technology oriented companies that operates in international markets from the earliest days of their establishment.



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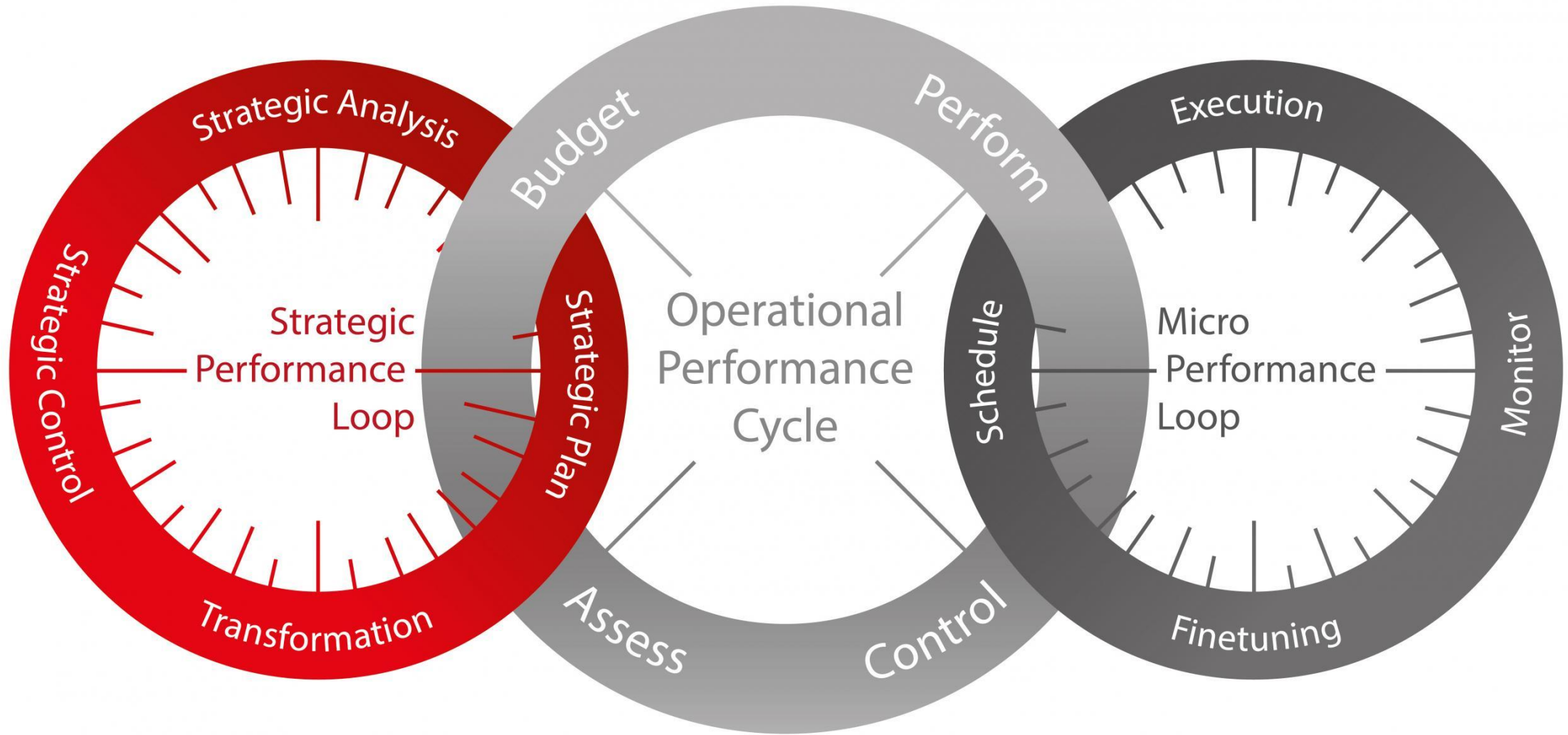
Cross-border M&A



Objectives:

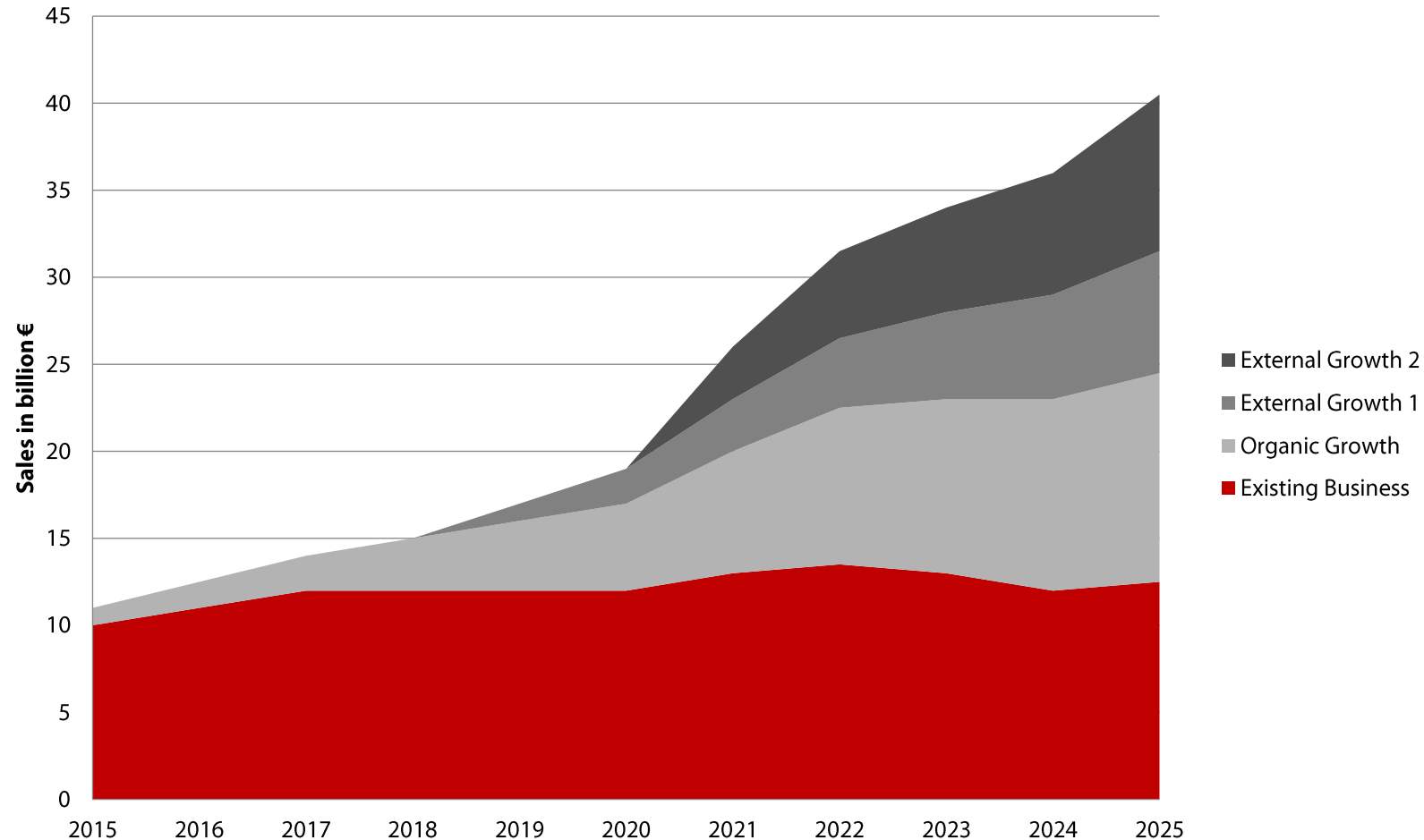
1. M&A as part of the Performance Management Cascade
2. M&A market and definitions
3. M&A motives
4. M&A process
5. M&A valuations and synergy
6. M&A integration
7. M&A success factors

The Performance Management Cascade

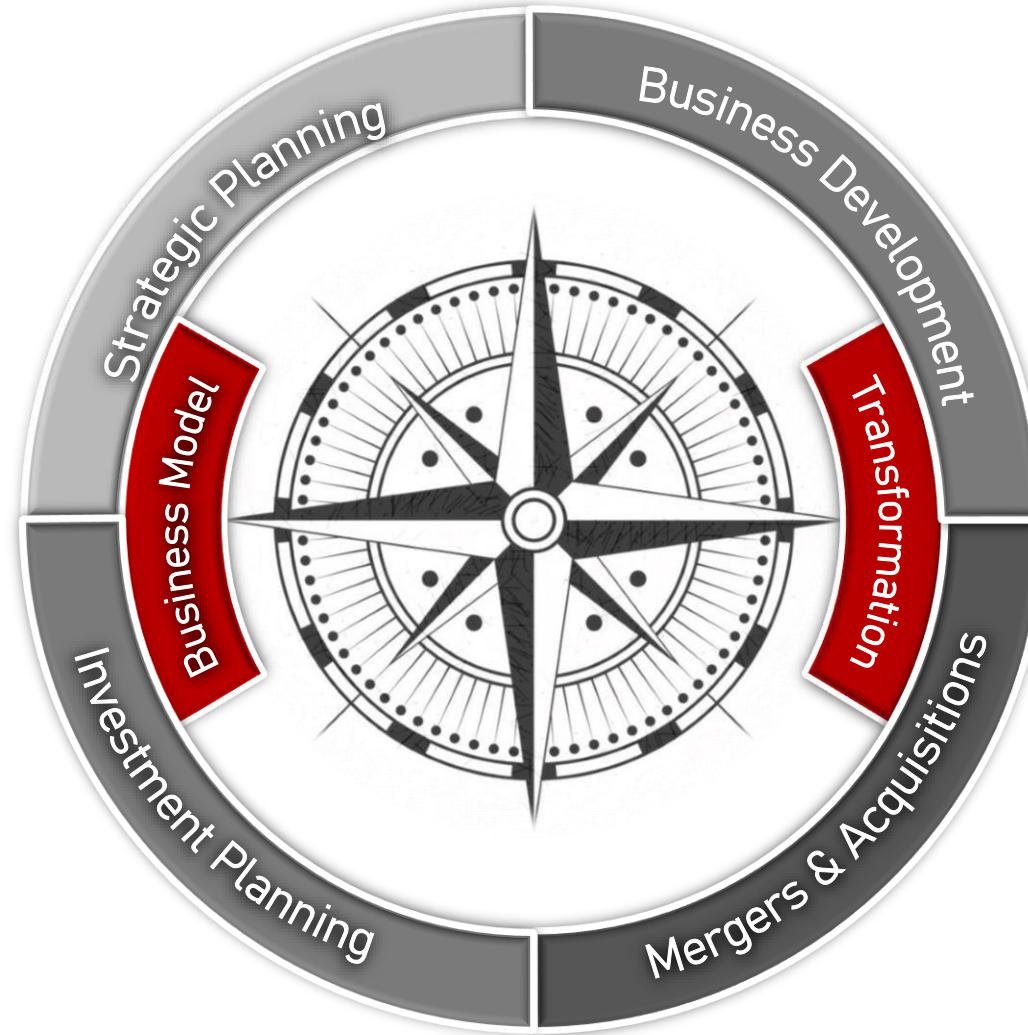


Strategic Business Model Check Revenue & Profit Potential

Strategic Plan 2025

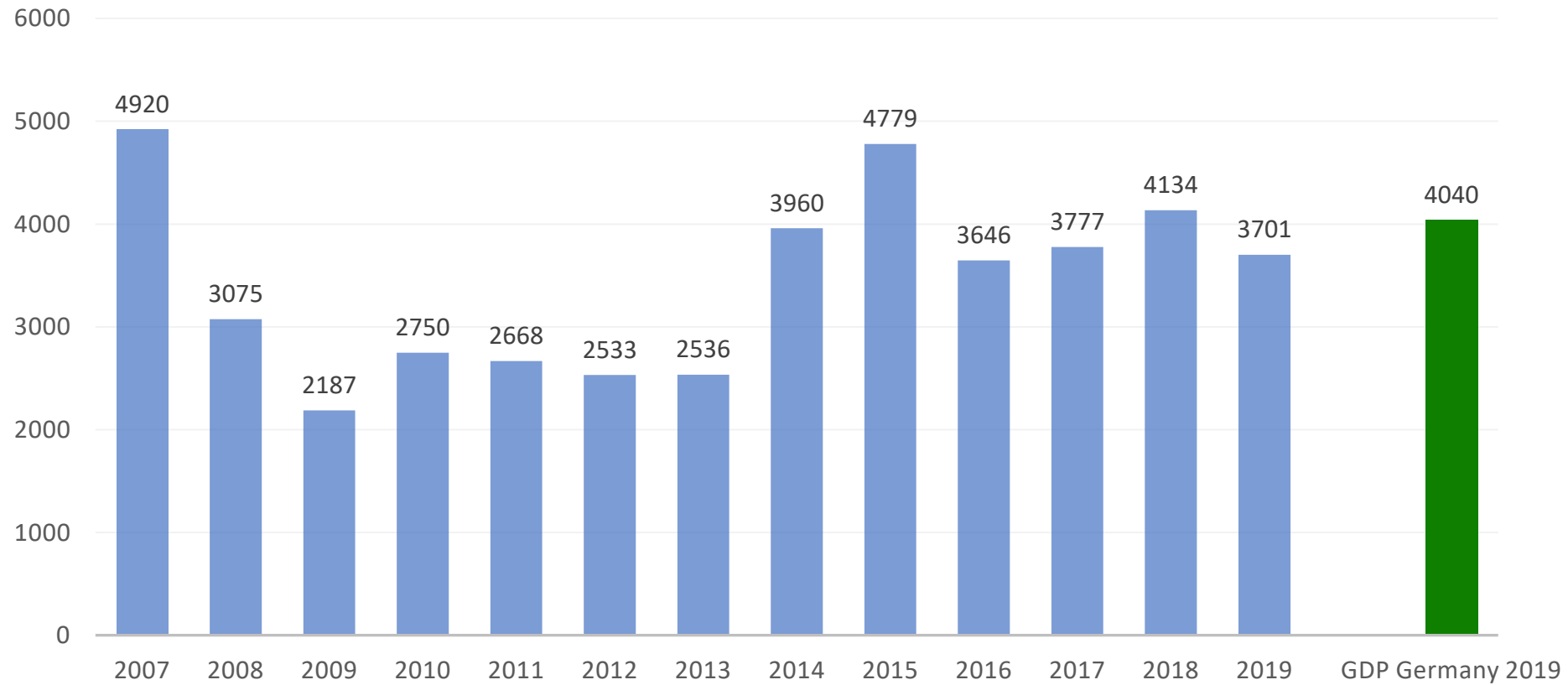


Strategic Planning Process



Global M&A market

Worldwide M&A transaction volume in US\$ bn



Source: <http://www.mergermarket.com>

Global M&A Market

Biggest M&A deals in 2021

1. US\$30 billion acquisition of KCS by Canadian National Railway
2. US\$26 billion acquisition of Shaw Communication by Rogers Communication
3. US\$22 billion acquisition of Deutsche Wohnen by Vonovia
4. US\$20 billion acquisition of Nuance Corporation by Microsoft
5. US\$17.4 billion acquisition of PPD by Thermo Fisher Scientific Inc.
6. US\$8 billion acquisition of William Grace by Humana
7. US\$8 billion acquisition of MGM Studios by Amazon

Source: <http://www.mergermarket.com>

Global Transaction Industry

Specialist Service Providers	Institutional investors and lenders	Regulators
<ul style="list-style-type: none"> • Investment banks • Lawyers • Accountants • Proxy solicitors • PR firms 	<ul style="list-style-type: none"> • Insurance, Pension Funds • Commercial banks • Hedge funds, Private Equity, Venture capital funds • Sovereign Wealth Funds 	<ul style="list-style-type: none"> • Antitrust authorities • Special agencies (cross-border) • Environmental agencies • Employee benefits • Industry-specific

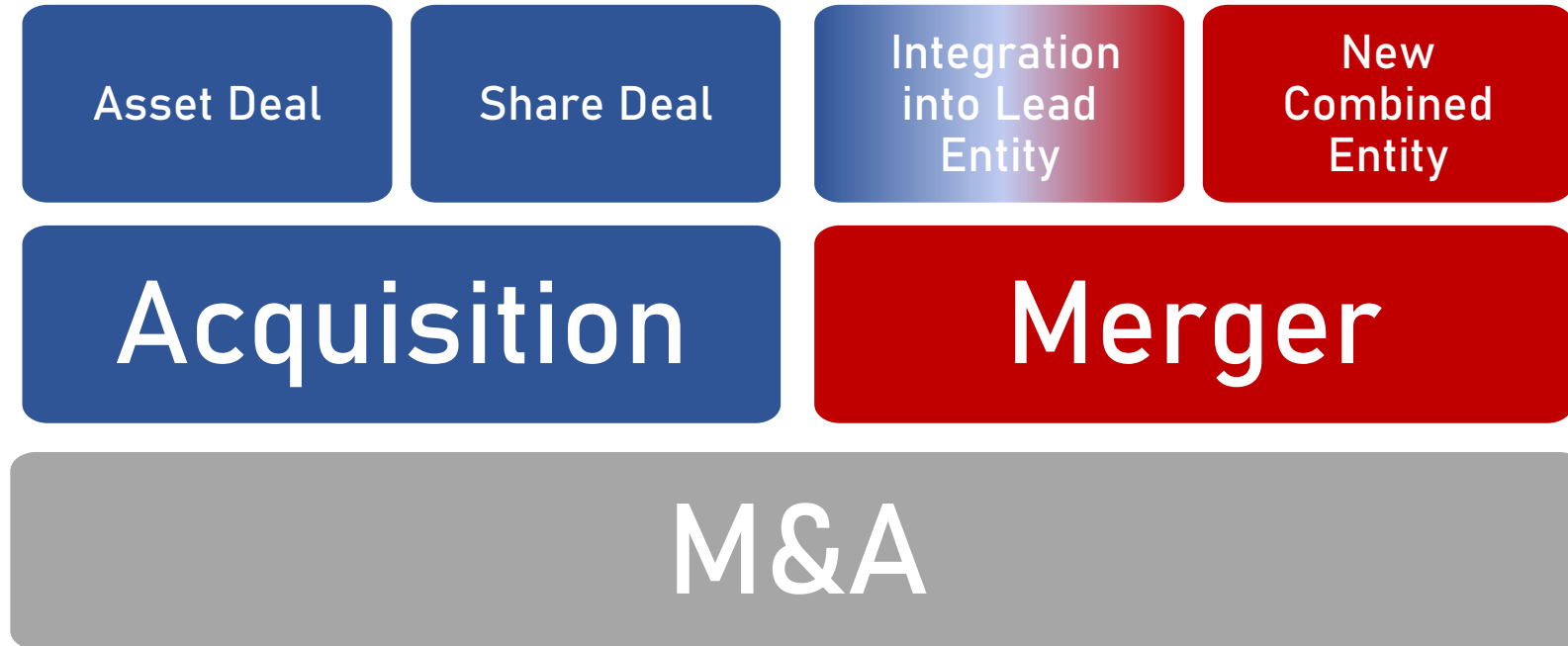


M&A Examples from the TMT Sector

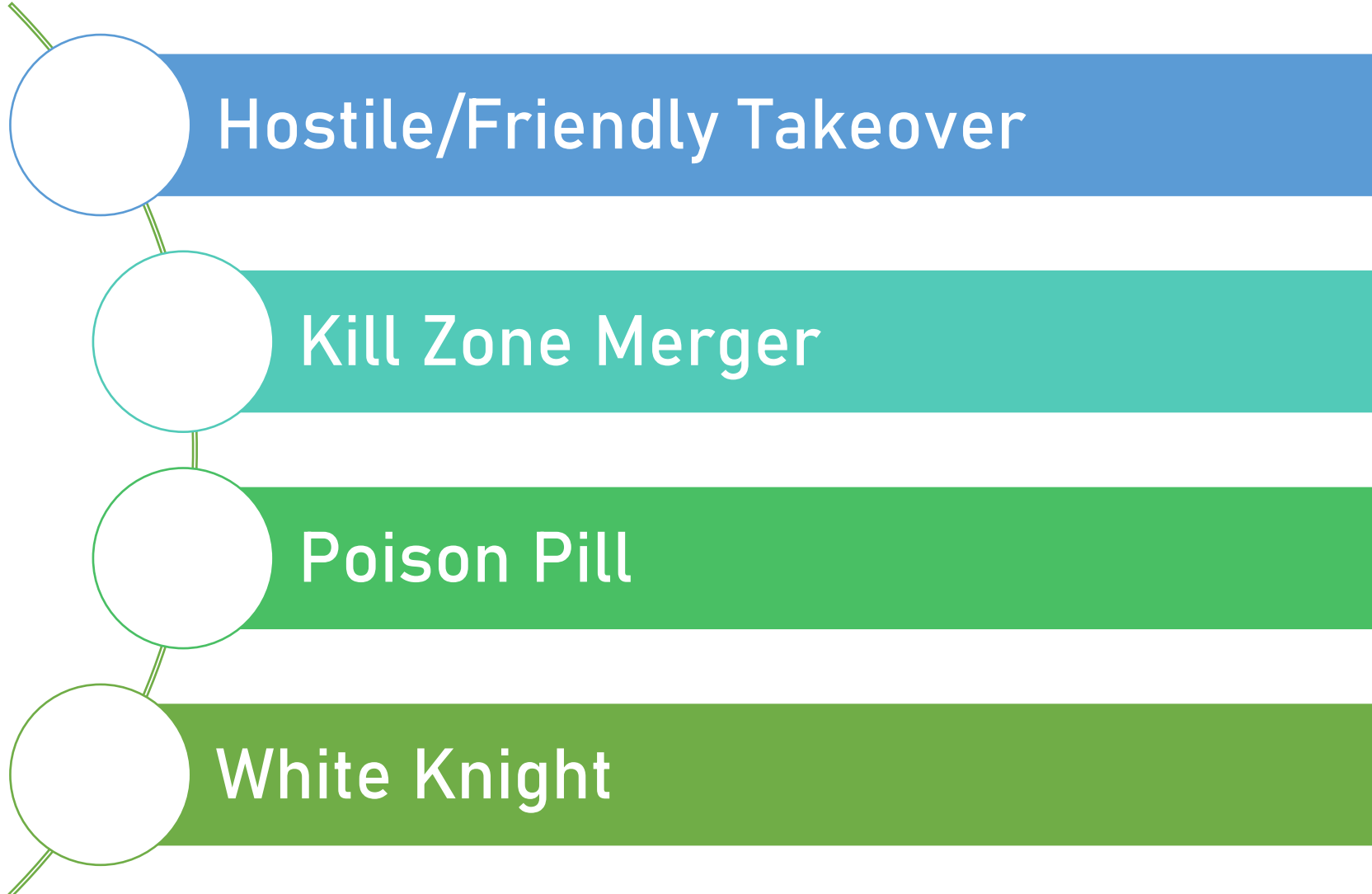
Year	Acquiring Company	Acquisition Target
2011	Google	Motorola Mobility
2011	Microsoft Corporation	Skype
2012	Deutsche Telekom	MetroPCS
2013	Microsoft Corporation	Nokia Handset & Services
2014	Facebook	WhatsApp



M&A definitions



M&A Poetry



M&A Motives

STRATEGIC MOTIVES			OTHER MOTIVES	
HORIZONTAL INTEGRATION	VERTICAL INTEGRATION	CONGLOMERATE INTEGRATION	FINANCIAL MOTIVES	PSYCHOLOGICAL MOTIVES
Merging of similar functions or organizations	Combining operations in supply chain	Adding different types of business	Undervaluation of the company "Lucky Buy"	Hubris (cognitive biases)
Economies of scale and scope Increasing market power	Economies of integration Assurance of supply and demand	Economies of scope Diversification	Financial resources optimization Taxes	Market mania Empire building
IMPROVE AND GROW THE BUSINESS			PERFORMANCE	IRRATIONAL

M&A Process & Execution

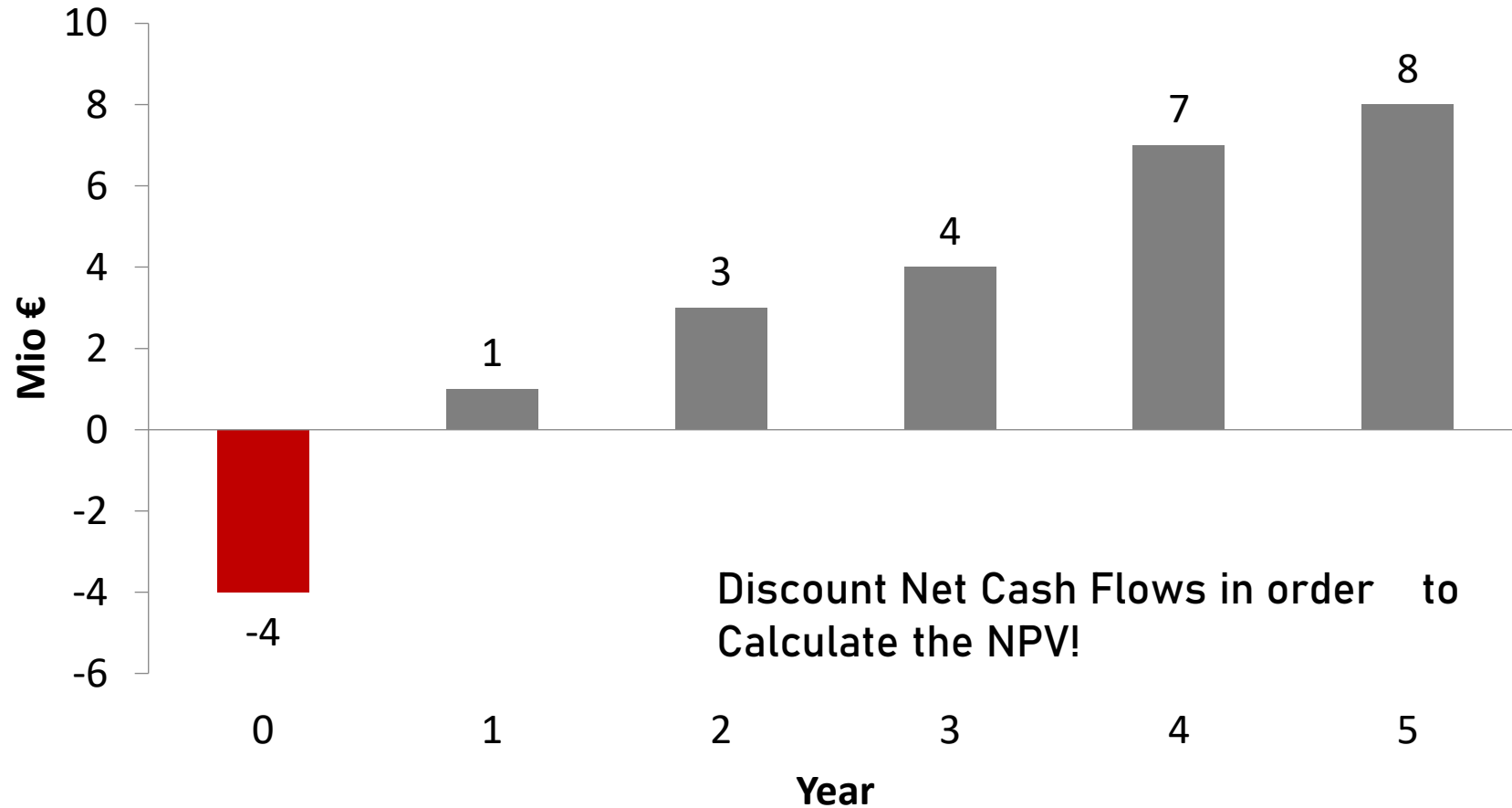


Due Dilligence



Cash Flow Analysis

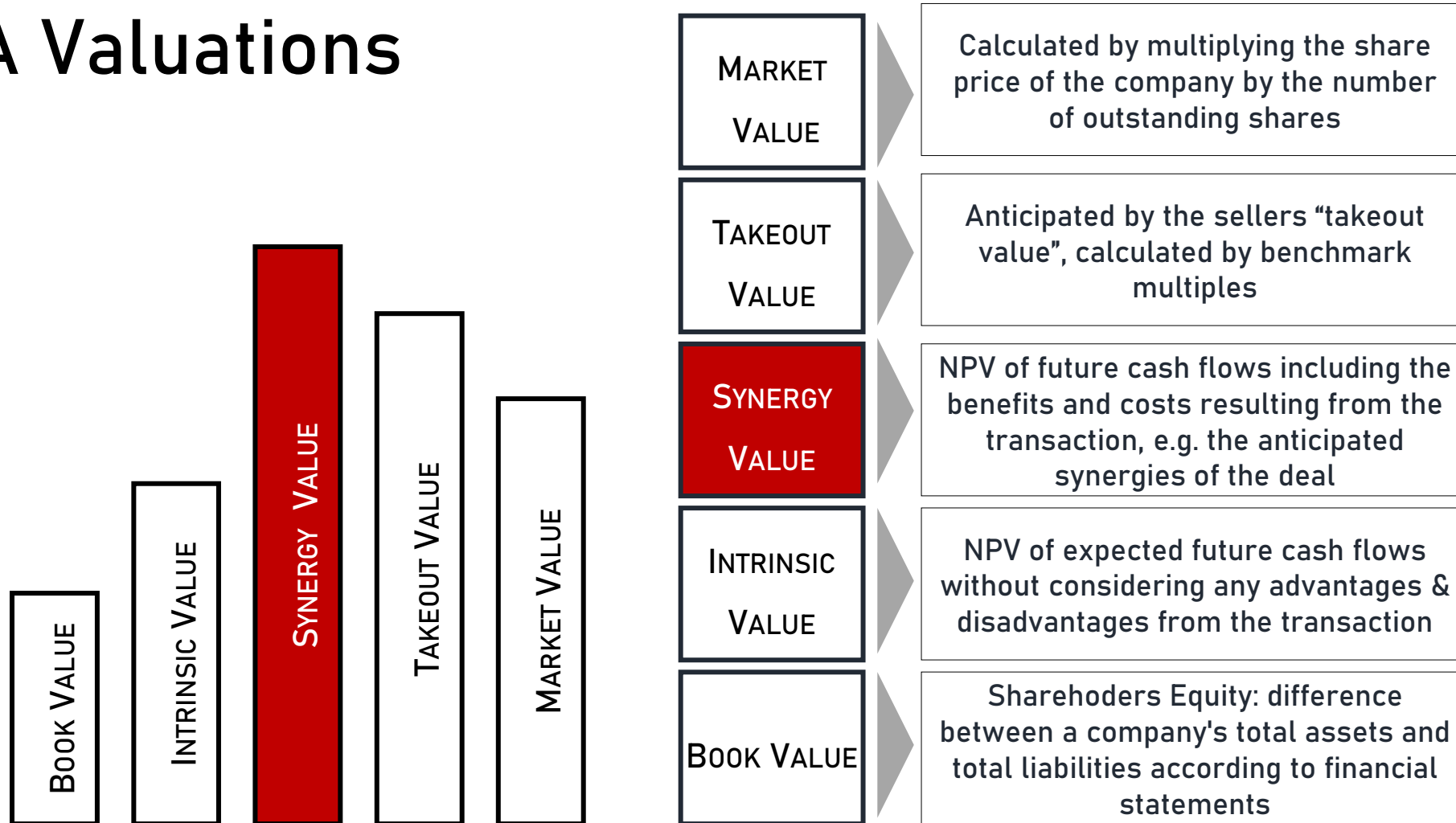
Net Cash Flow Project Z *base case*



Investments under Risks

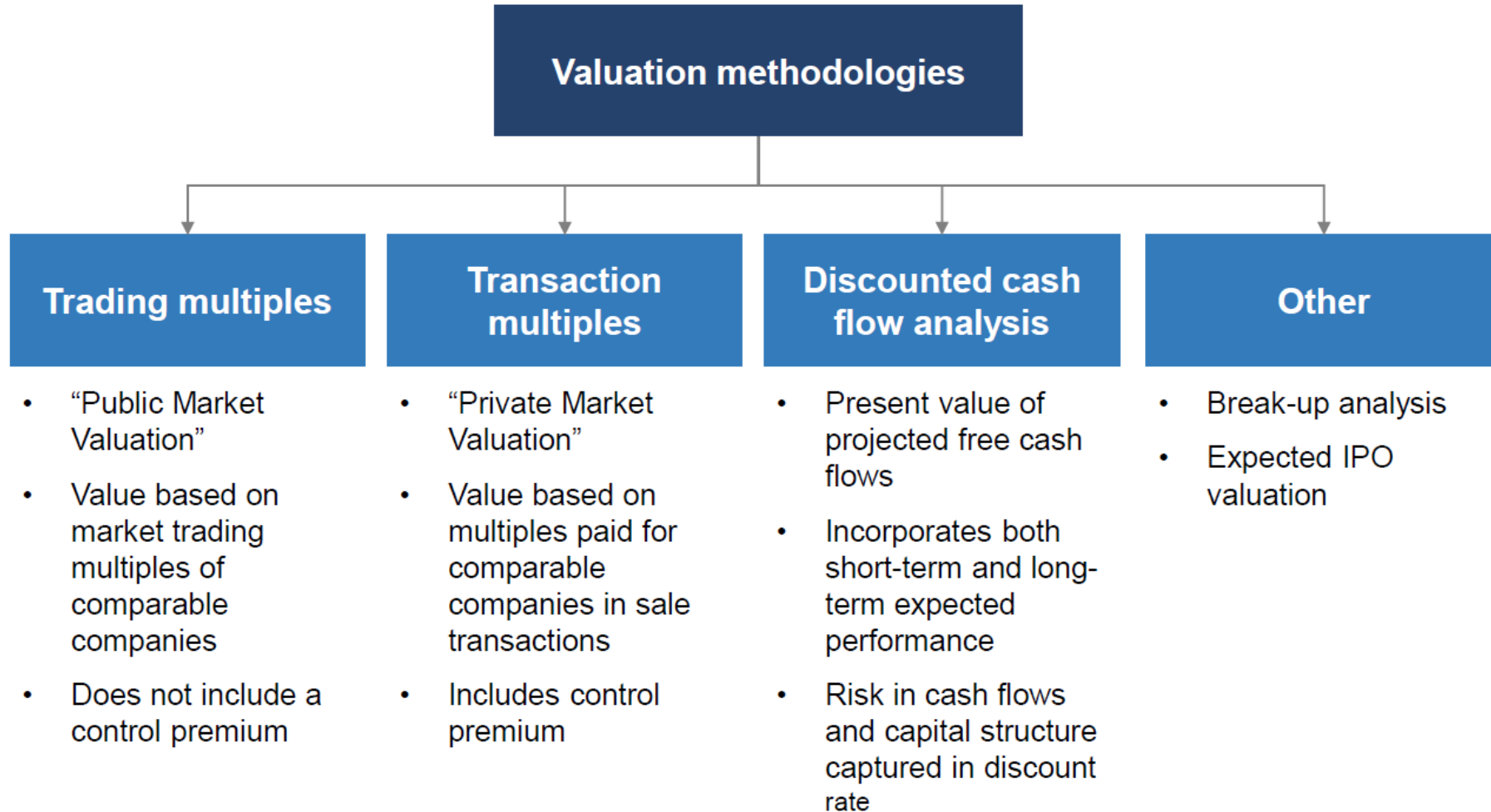


M&A Valuations



Adapted from: Eccles et al. 1999, p. 40 Eccles, R. G., Lanes K. L., Wilson T. C. (1999). Are you paying too much for that acquisition? Boston: Harvard Business Press.

M&A Valuations

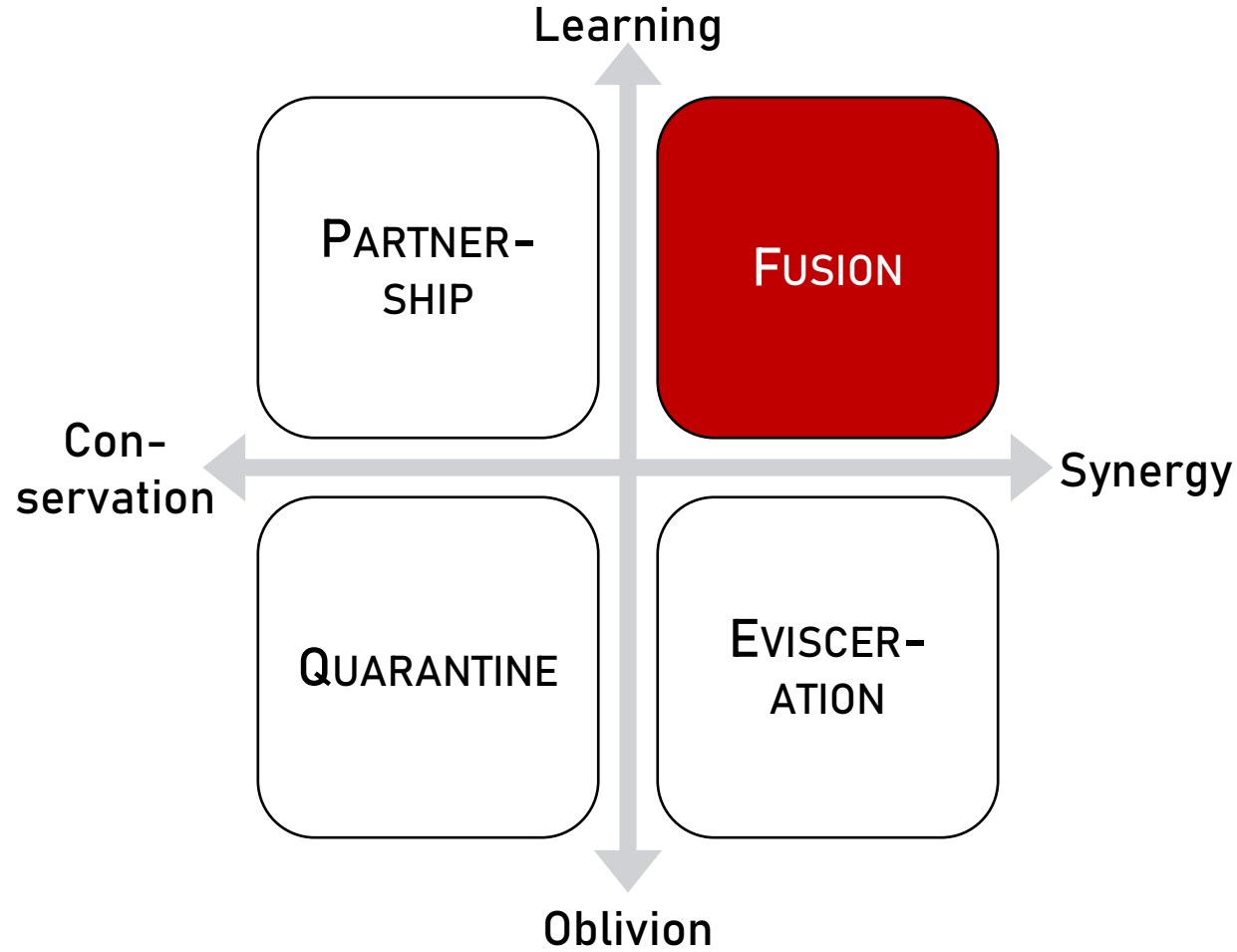


M&A Synergies

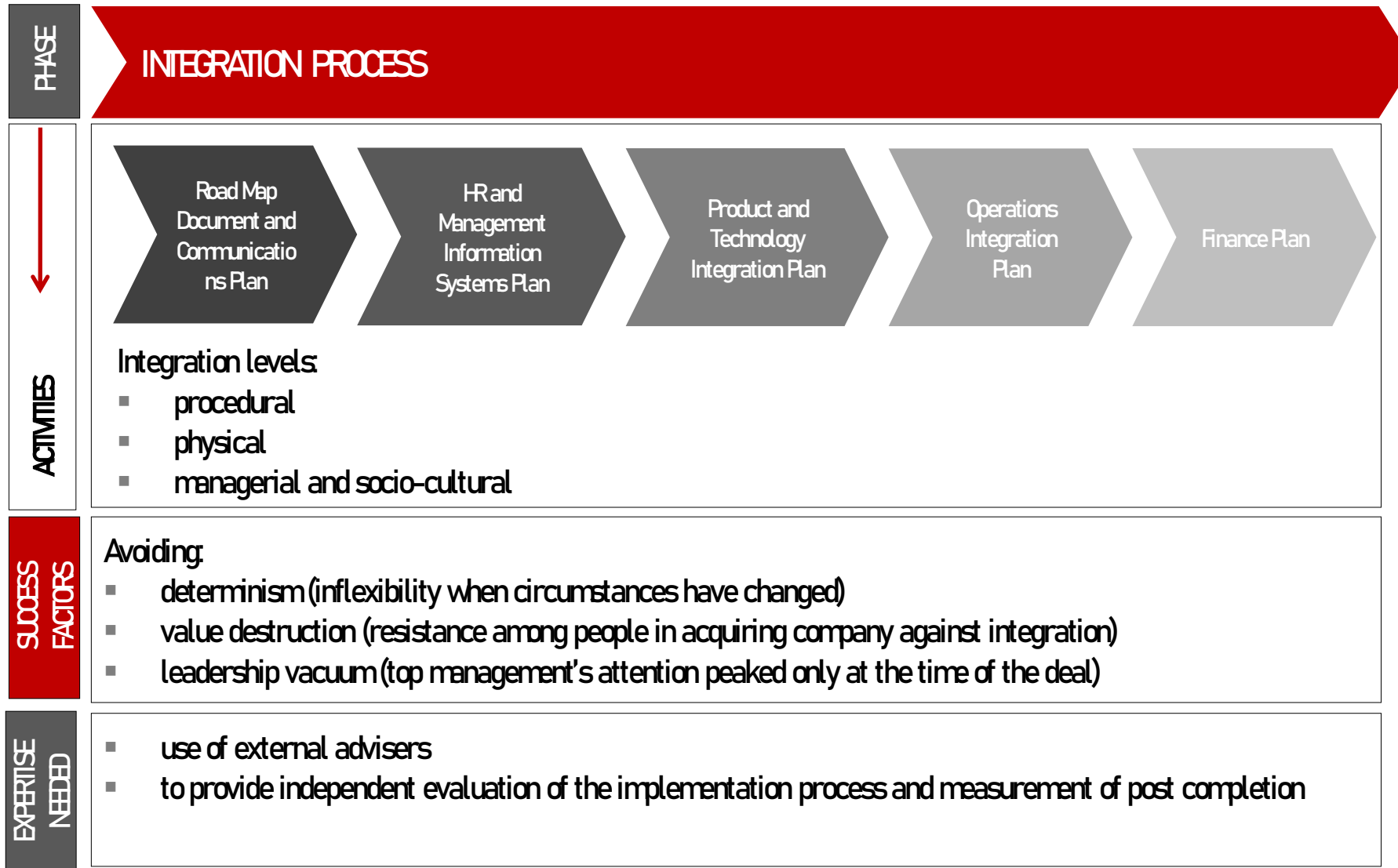
Synergy	Explanation
Sales Growth	Additional growth rate due to cross selling potential.
Price Quality	Higher prices due to increased market power.
Material Cost	Cost reduction on material prices due to economies of scale.
Tax Synergies	Tax shield from loss-carry forwards and additional interest payments
Restructuring	Annual cost reduction by reduction of employees.



Integration Strategies



M&A Integration



KPIs for M&A Management

		Objectives	Ratios
Overall company strategy	Financial perspective	<ul style="list-style-type: none"> Enterprise value Tax savings Financial synergies Ensure finance 	<ul style="list-style-type: none"> EVA; Market Capitalization Tax shield Reduction of working capital (delta) Number of independent sources of funds
	HR perspective	<ul style="list-style-type: none"> Competence of team Hold key people Downsizing potential 	<ul style="list-style-type: none"> Numbers of training to total employees Ratio of strategic professionals to total number of M&A team Percent of key employees/employees who cancel /had to lose their job due to the M&A
	Operations perspective	<ul style="list-style-type: none"> Market power Measuring effectiveness of M&A process/team 	<ul style="list-style-type: none"> Delta market share Costs for transaction to the transaction price Measurement deviations between the expected synergy value and realized value
	Partner compatibility	<ul style="list-style-type: none"> Goals compatibility; Payback period; Right partner 	<ul style="list-style-type: none"> Number of goals that are compatible with the target company to the whole number of goals The number of the possible target companies Offered price / average FCF per year

ADVANTAGES AND LIMITATIONS OF M&A

ADVANTAGES

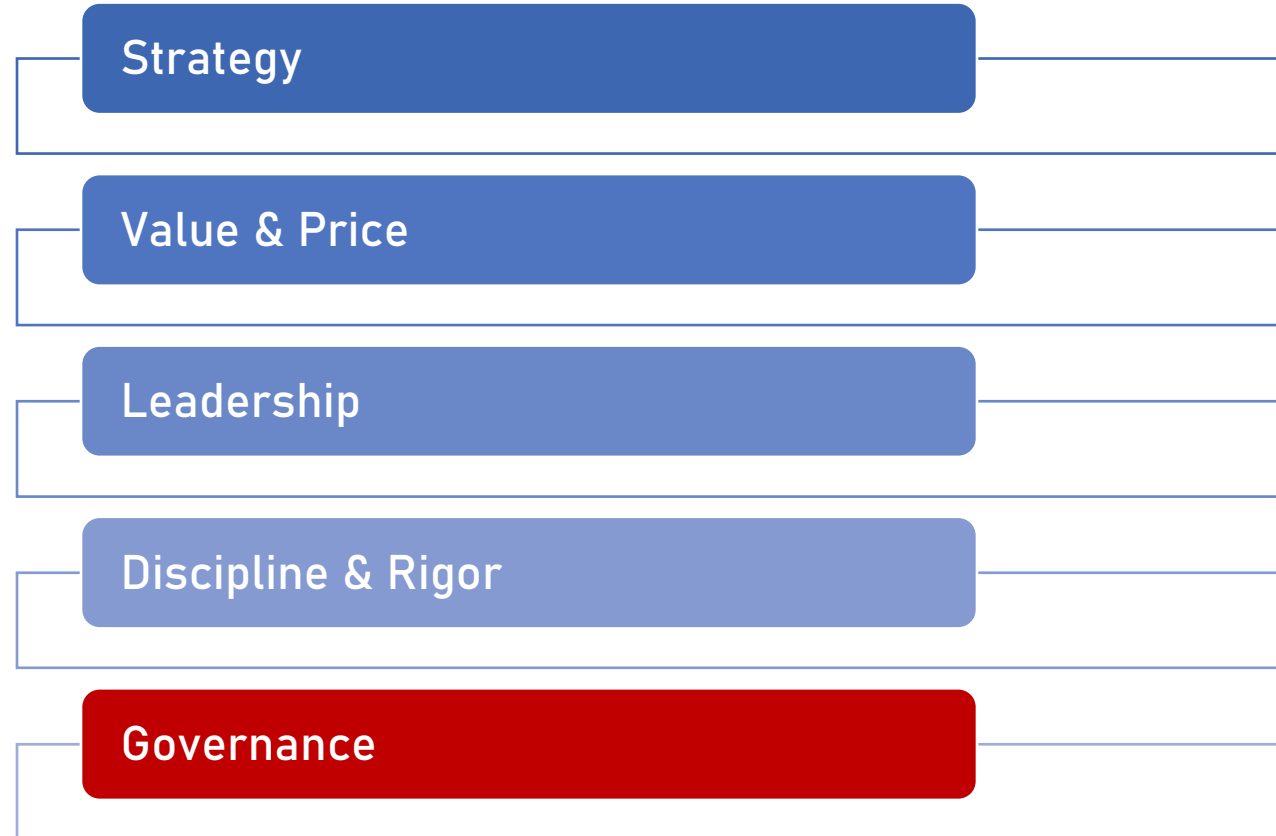
- Increases corporate power and improves market share and product lines (creating of oligopoly);
- Achievement of **synergistic effect**, which means that the results of the combination are greater than the sum of the parts;
- The mean to raise financing;
- Maximization of shareholders' return by improving the stock market price, resulting in a higher P/E ratio;
- Tax benefits

LIMITATIONS

- High risk of failure;
- **Reverse synergies** which reduce the net value of the combined entity (e.g., costs of servicing acquisition debt, defections of key acquired company staff);
- High costs of the process;
- Adverse financial effects because the anticipated benefits did not materialize; for example, expected cost reductions were not forthcoming
- Employee retention



Success Factors in M&A Management



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International Business Strategy

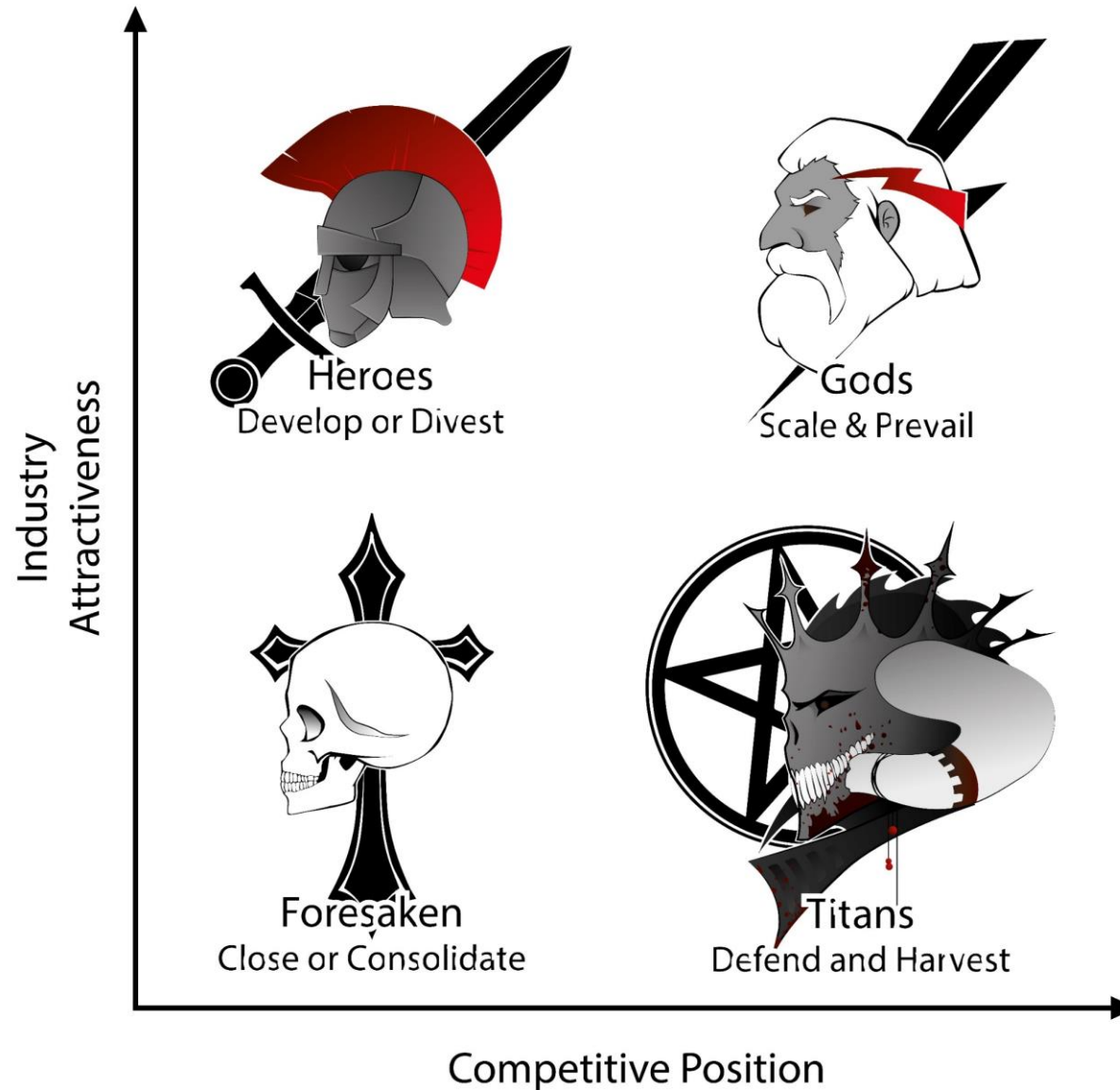


Objectives:

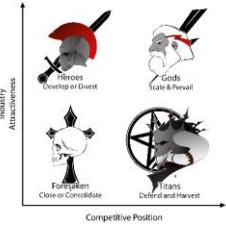
1. Understand the concept of strategic portfolio
2. Understand and apply the concepts and tools of risk management

The Business Model Hero Story

From SBUs to Business Models



The Dimensions



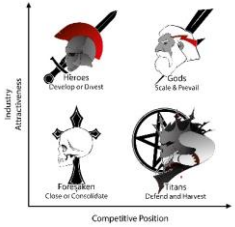
Industry Attractiveness

- Five-Forces Weak
- Growth Perspective
- Profit Pool
- Strategic Industries with Technology Leverage

Competitive Position

- Differentiation
- Cost Leadership
- Global Footprint
- Technology Leadership
- Market Share

The Quadrants: Heroes – Develop or Divest



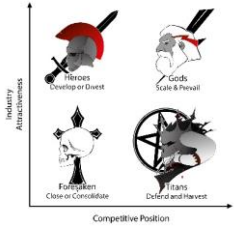
- We are badly positioned in an attractive market with a profitable growth perspective but have entrepreneurial drive
- We might have to heavily invest in R&D and capital assets to develop a sustainable market position
- Can we build a profitable ecosystem in the market or should we leave to markets to others who are already better positioned (and have more money)?

Motto: Fight or Die!

Threat: Gods and Titans



The Quadrants: Gods – Scale & Prevail



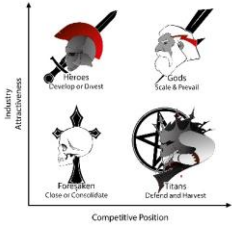
- We have created/create a monopolistic situation in an attractive market with a profitable growth perspective (Facebook, Amazon, Google)
- We further scale the business to get critical weight for world dominance and fend off potential threats with our sheer size
- With the cash flow from our godlike business model we can invest in Hero business models and develop them into new Gods

Motto: Conquer and create new worlds!

Threat: Regulators



The Quadrants: Titans – Defend and Harvest



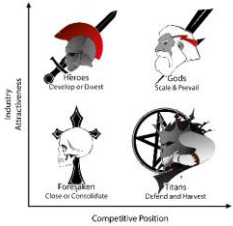
- We are in a quasi-monopolistic situation, albeit in a dying market.
- We should defend our market by actively weeding out competitors and creating eco-systems
- Depending on the “shrinking rate” of the market, we have time and money to invest into new markets
- With the cash flow from our dying but profitable business model we can invest in Hero business models and develop them into new Gods

Motto: Reinvent yourself and leverage your force

Threat: Regulators and Gods



The Quadrants: Forsaken – Close or Consolidate



- We are in a weak market position in a dying market. This is the death zone.
- Depending on our financial situation we should either close (sell, if we can) or buy the other dying competitors in order to create a titan.
- Stopping the bleeding is essential to not endanger other business models.

Motto: It ain't over till it's over!

Threat: Titans, Heroes

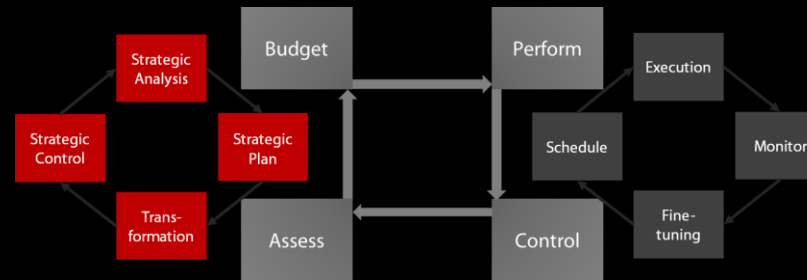


Risk Management

Definition

“Risk management is a systematic process of identifying, assessing, monitoring and consciously dealing with uncertain events and situations which might harm an organization and have the potential to prevent it from achieving its objectives.”

The dark side of performance management

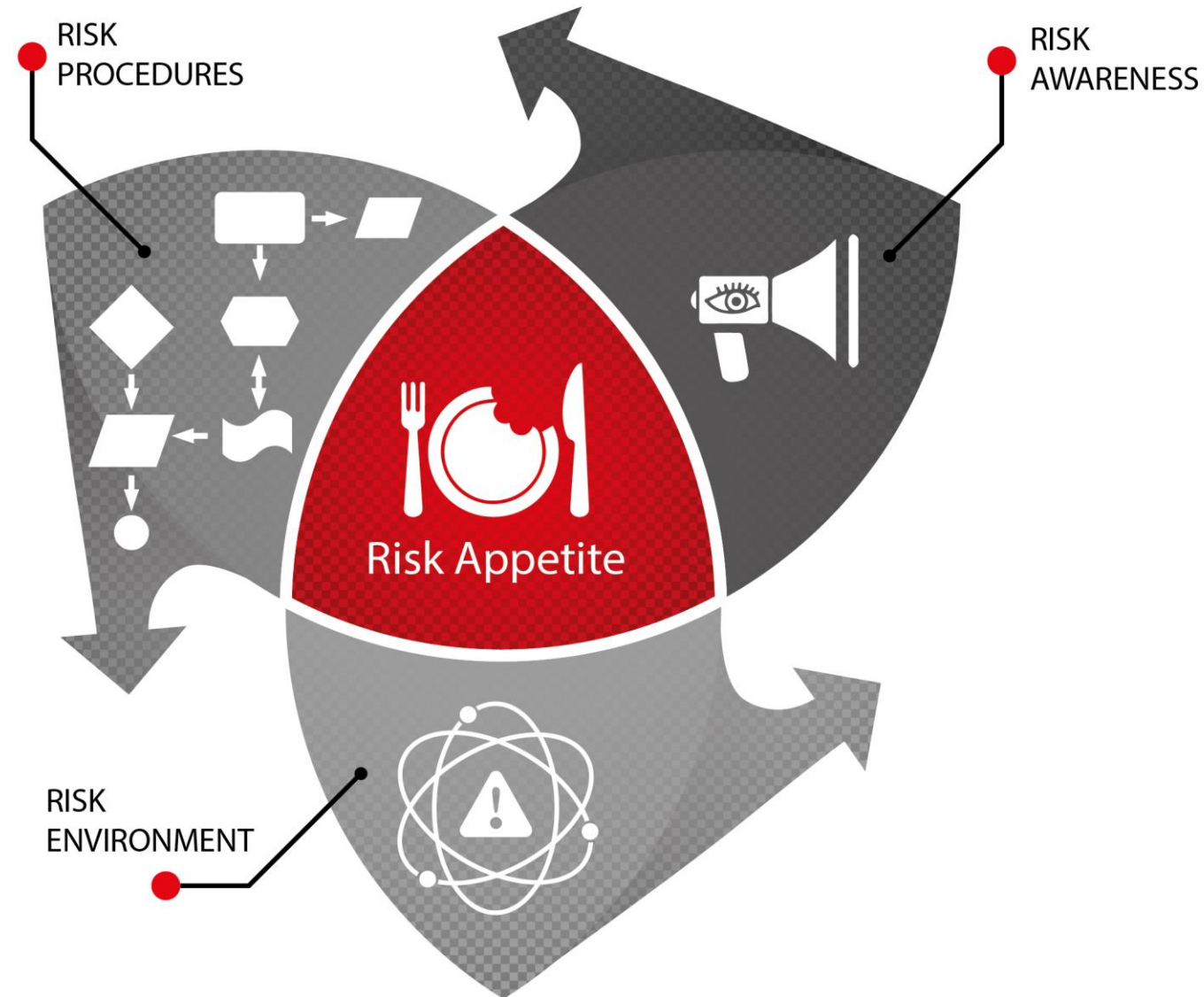


in a world of uncertainty

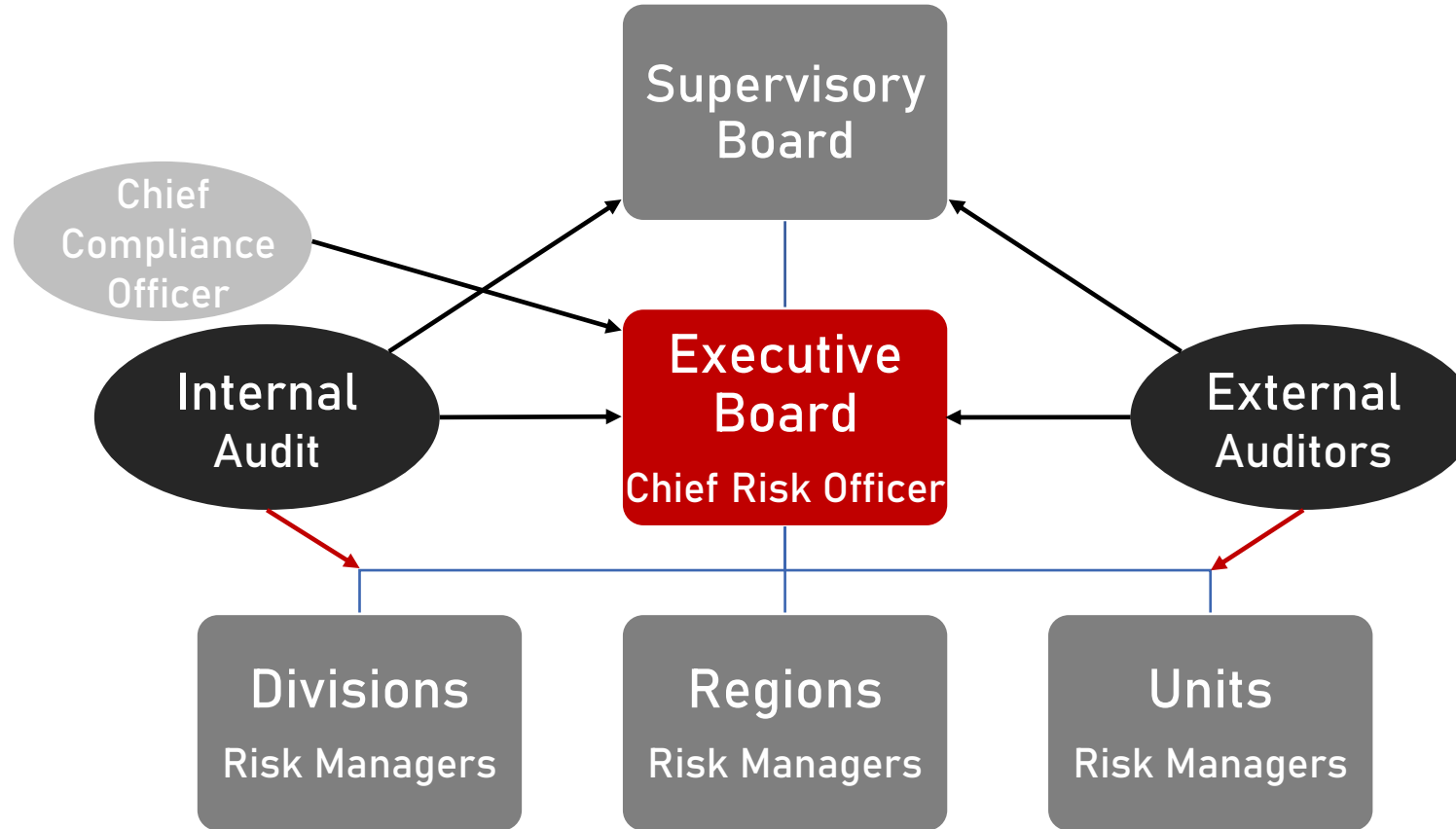
Risk Management Framework



Elements and Dynamics of a Risk Culture



Corporate Risk Structures

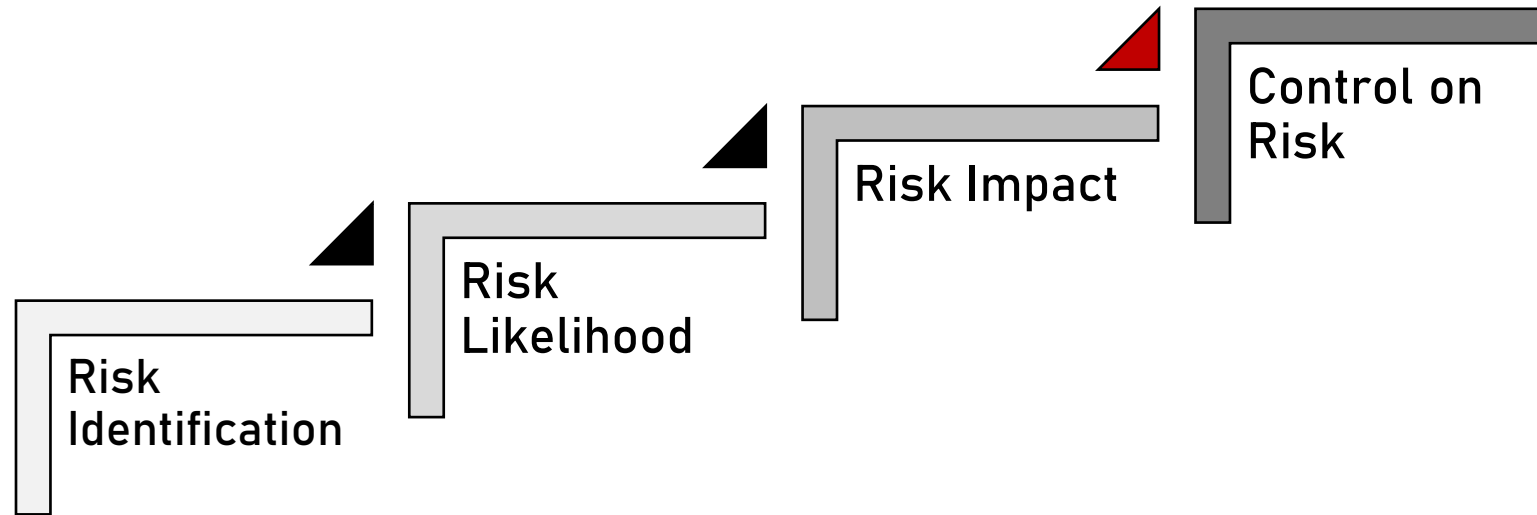


Effectiveness of Risk Culture

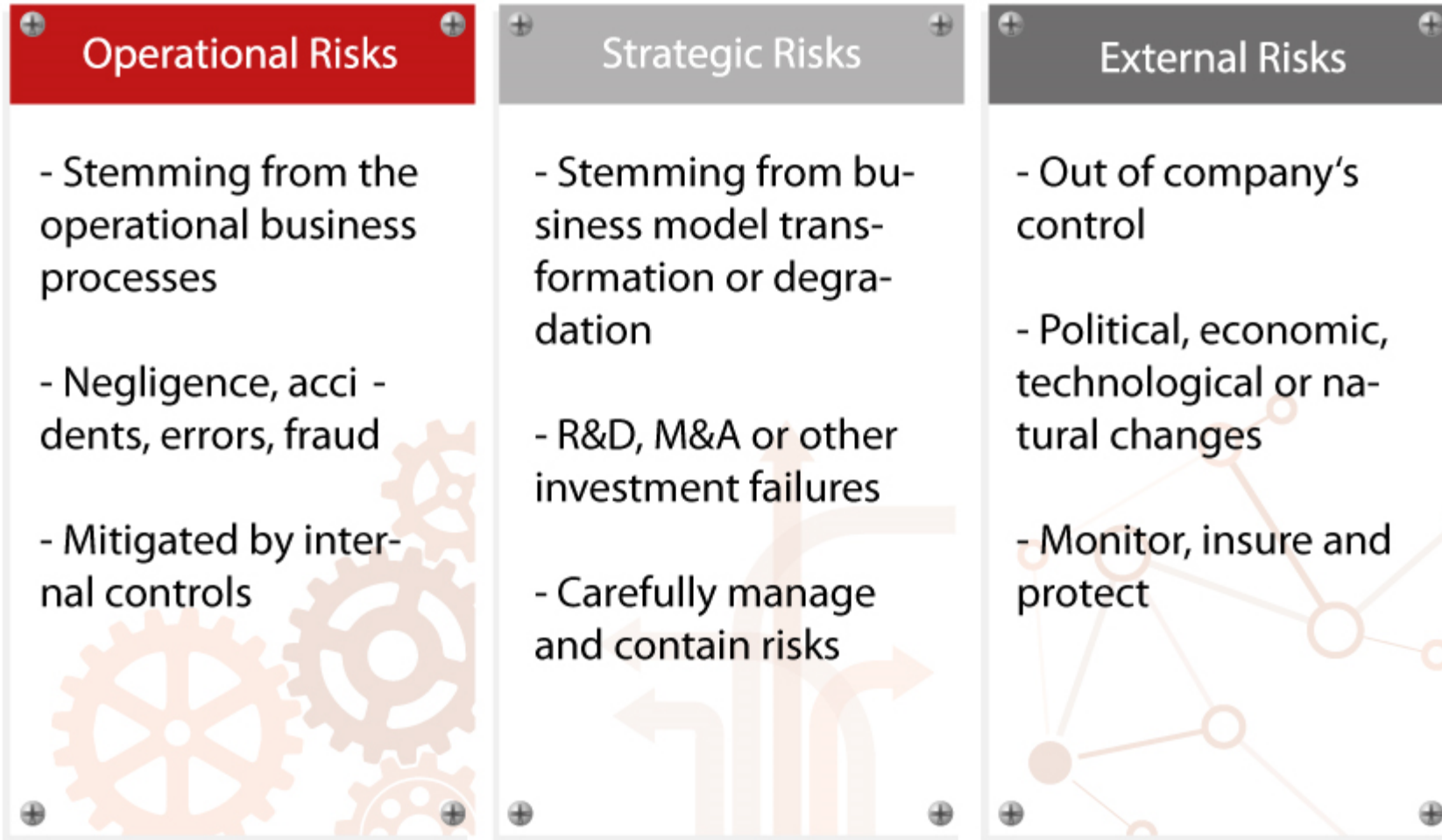
- Is risk a topic that is shunned and never talked about?
- Does the company have a Chief Risk Officer or a designated risk manager with direct access to top management?
- Does the company have written risk procedures?
- Does the company engage in business which might put the existence of the company at risk?
- Are employees who talk about risks marginalized?



Dimensions of Risk Assessment



50 Shades of Risks Framework



Risk Identification

50 Shades of Risks

External Risks



Risk
Identification

Likelihood Assessment

Risk Likelihood	Explanation	Example
Low	The event happens rarely (in less than 0.1 % of the cases) and depends on various circumstances.	Unpredicted natural disaster destroys production.
Moderate	The event may occur from time to time (between 0.1% and 1% of the cases) depending on repeating circumstances.	Sudden death of a key employee.
High	The event is likely to occur on a regular basis (between 1% and 10% of the cases).	Accounts receivables are not collectible.
Very high	The event has a very high probability (>10% of the cases) to occur up to a point of almost certainty.	Misappropriation of company assets by employees.

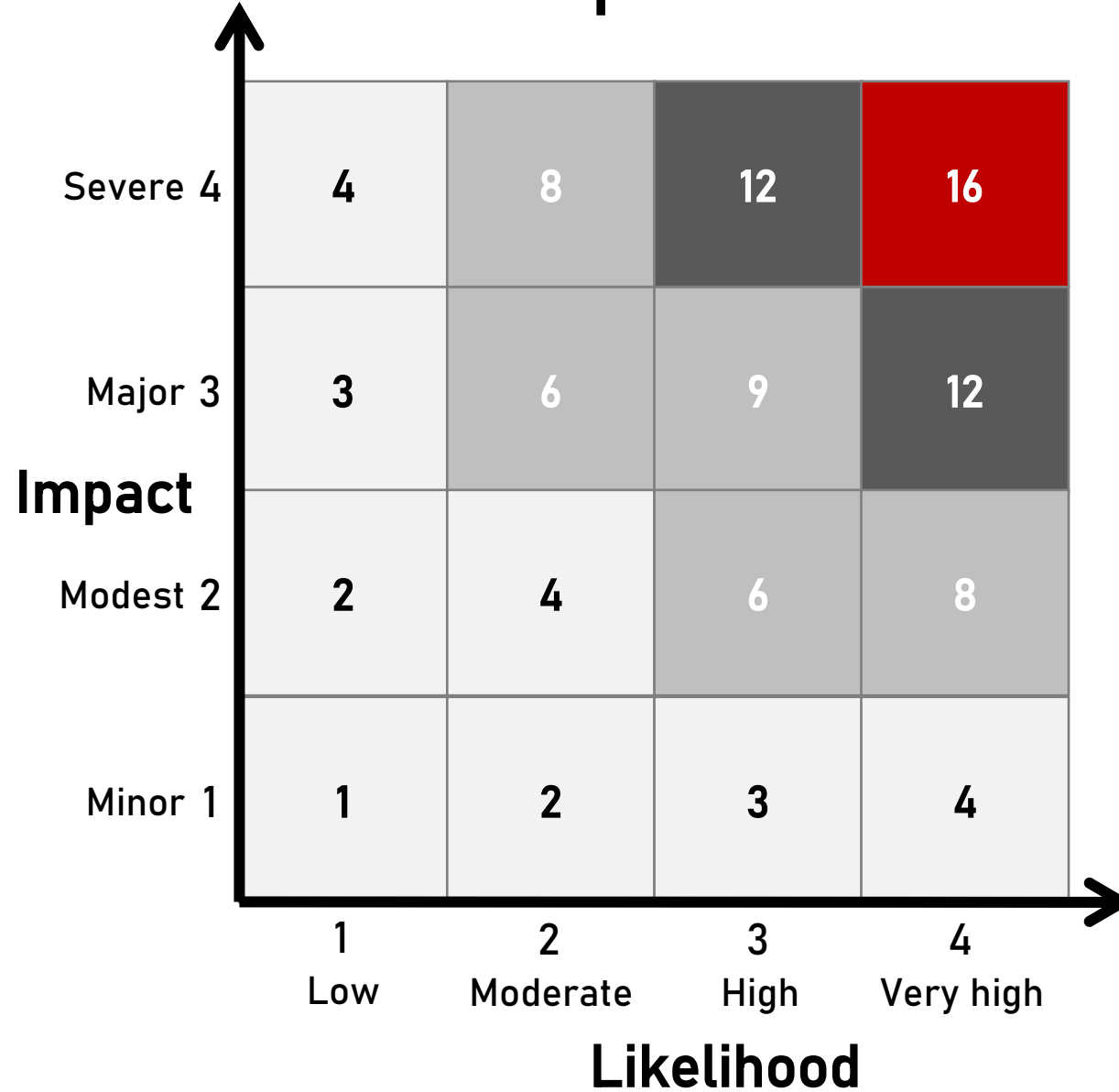


Impact Assessment

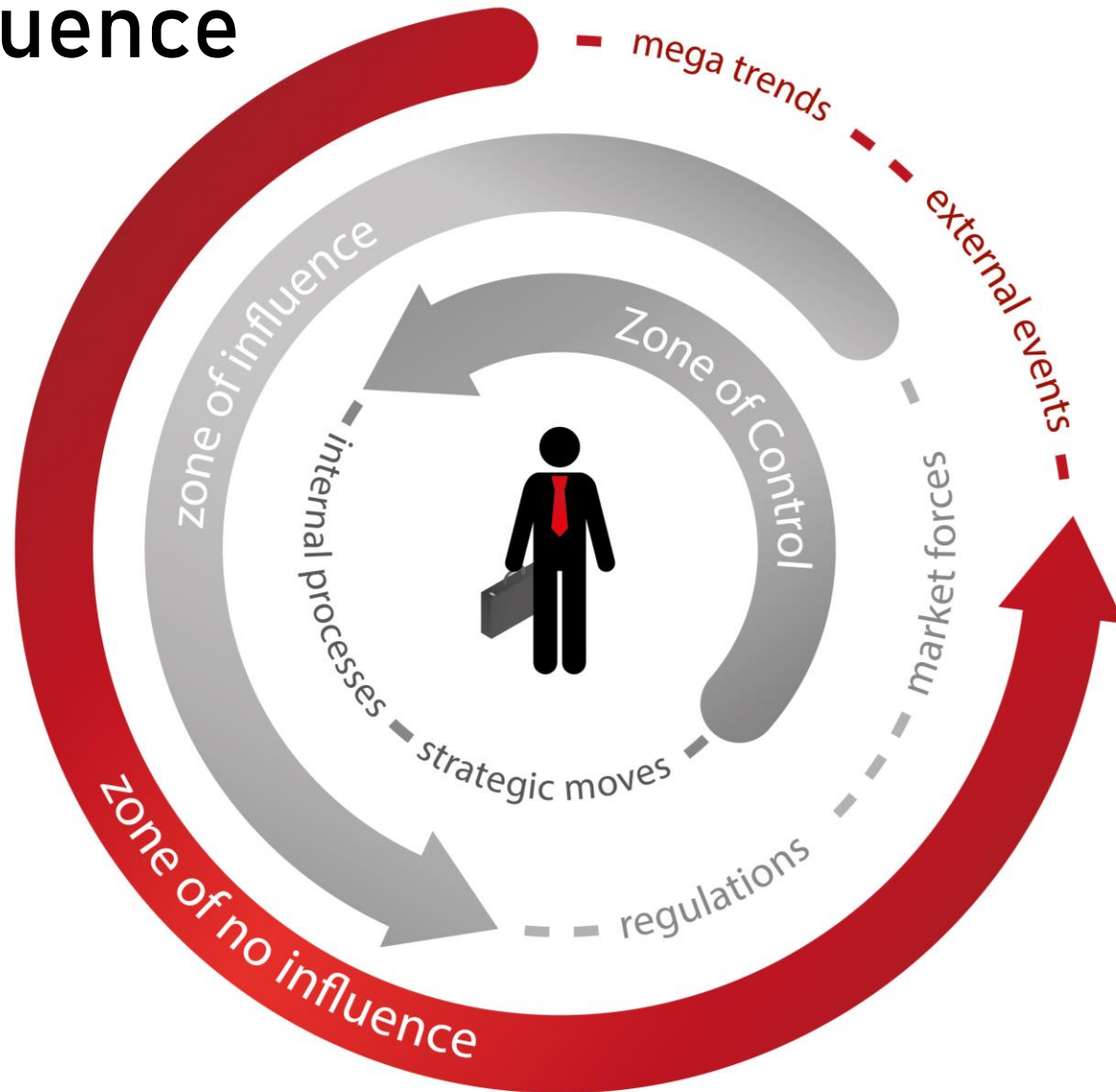
Risk Impact	Explanation	Example
Minor	<ul style="list-style-type: none"> The event has a negative financial impact of in less than 1 % of equity. The event has local impact on the company's reputation 	Accident in the production with few casualties.
Modest	<ul style="list-style-type: none"> The event has a negative financial impact of 1 to 5 % of equity. The event has regional impact on the company's reputation 	An accident leads to the leakage of toxic matters into the river.
Severe	<ul style="list-style-type: none"> The event has a negative financial impact of 5 to 20 % of equity. The event has national impact on the company's reputation 	National recall of product.
Disastrous	<ul style="list-style-type: none"> The event has a negative financial impact of more than 20 % of equity. The event has international impact on the company's reputation 	Big oil spill with international media coverage.



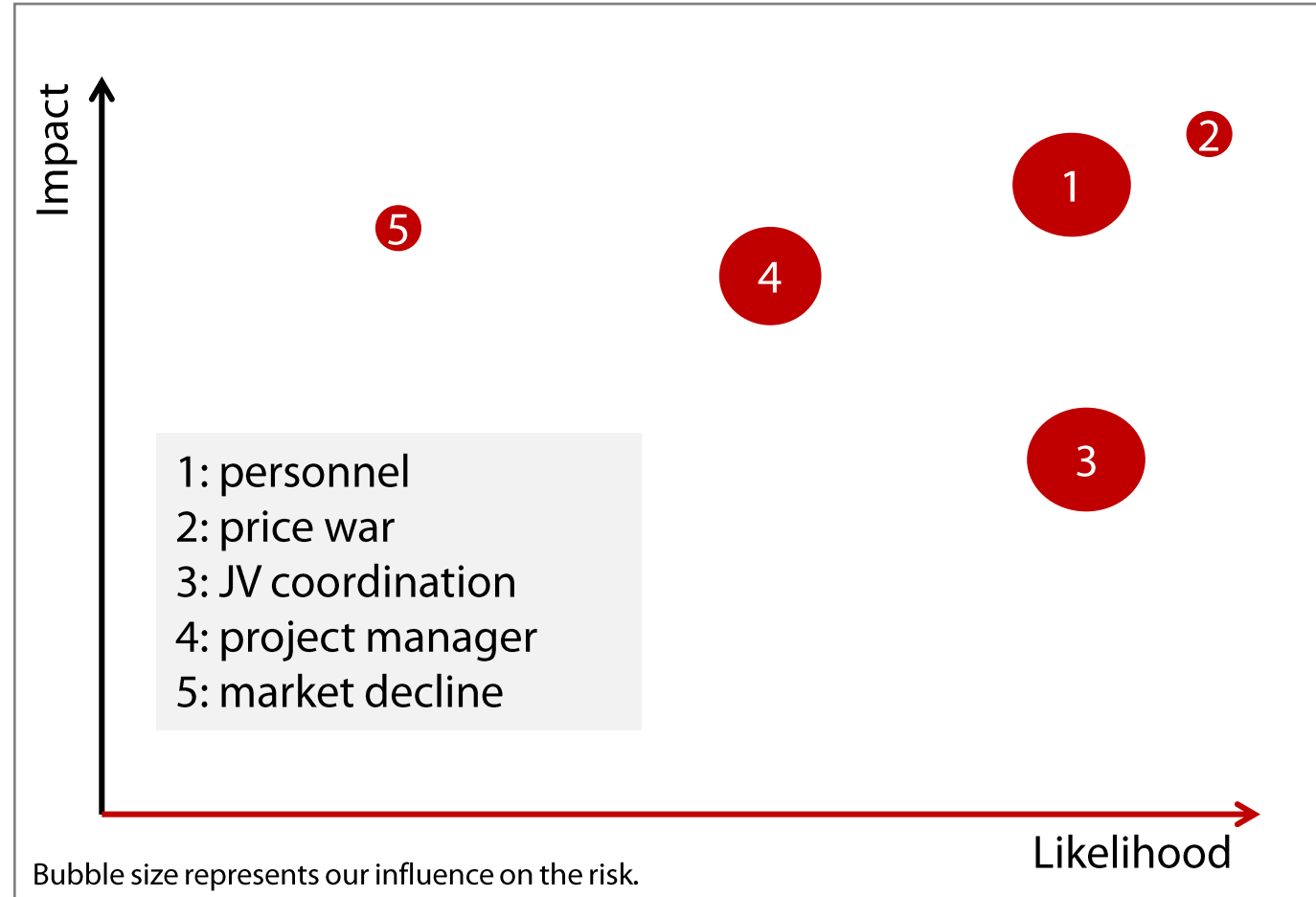
Likelihood x Impact Matrix



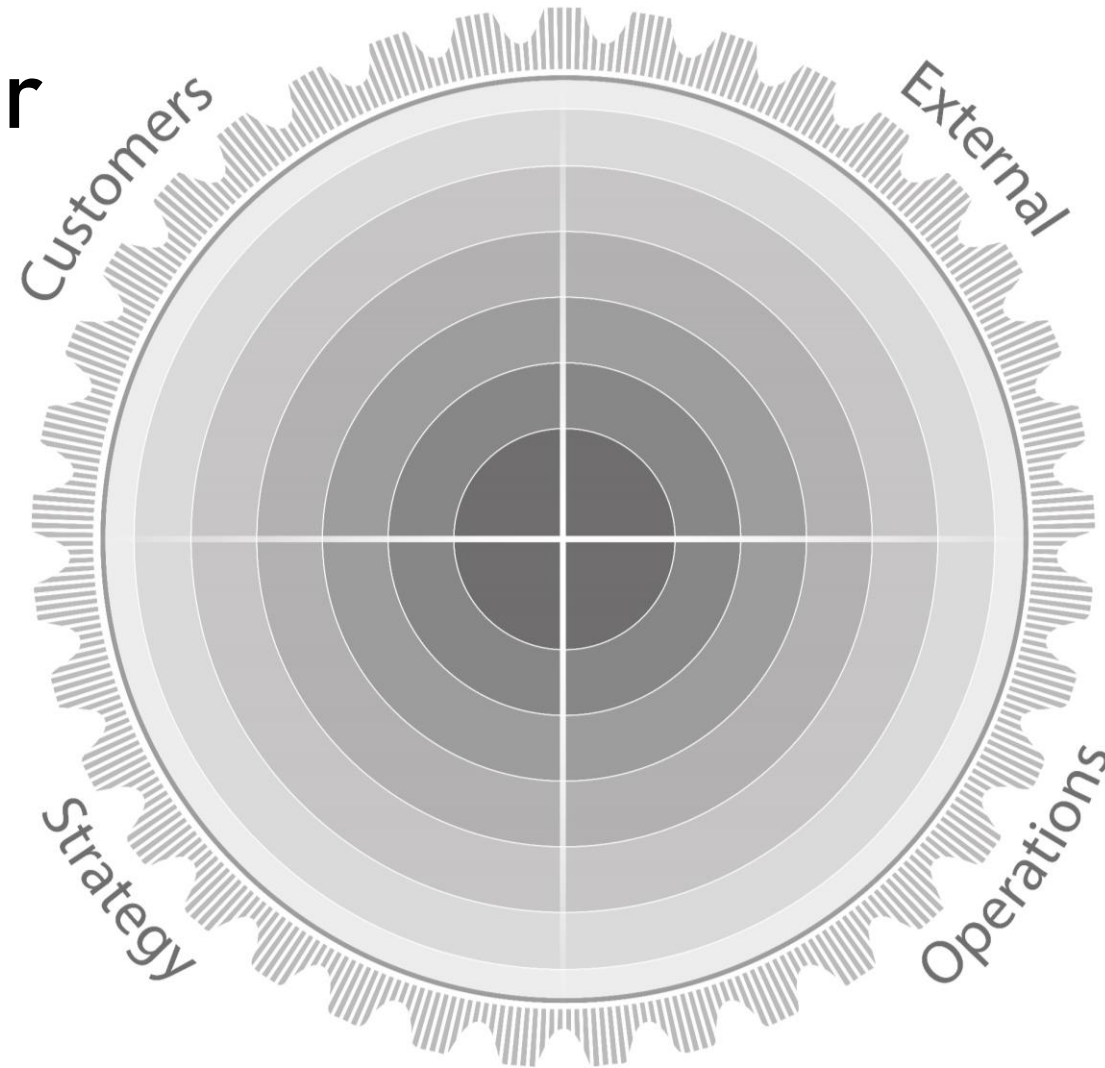
Zones of Influence



Risk Mapping with Influence Dimension



Risk Radar



Predicted risk
level:
Key to symbols

- ▲ More
- Same
- ▼ Less

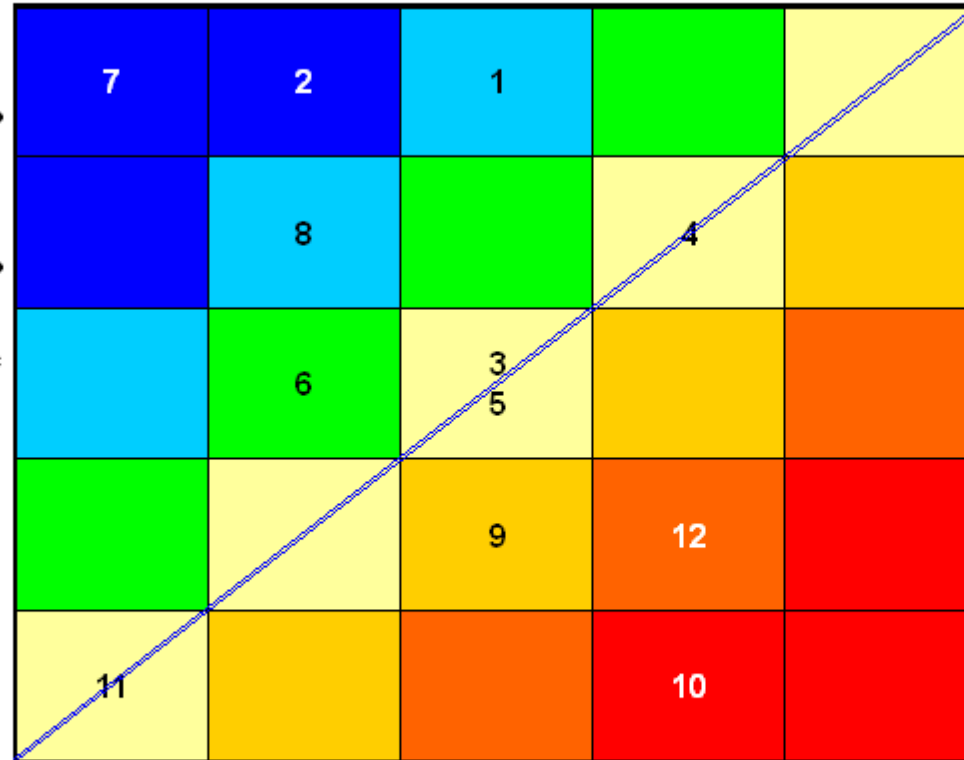
*the closer to the core, the higher the likelihood of the risk turning into a real event with a negative impact for the company

Risk & Opportunity Maps

High Risk-Opportunity Measurement Scale

Opportunity of Gain/Rewards Relative to Cost Expected from Decision Choice

- 5 - Both High Economic and Intangible Rewards to cost
- 4 - Average-to-high Economic and/or Intangible Rewards to cost
- 3 - Average Economic and Intangible Rewards relative to cost
- 2 - Low-to-Average Economic and/or Intangible Rewards relative to cost
- 1 - Low High Economic and Intangible Rewards relative to cost



- 1 - Low Probability & Consequences
- 2 - Low-to-Average Probability and/or Consequences
- 3 - Average Probability & Consequence
- 4 - Average-to-High Probability and or Consequences
- 5 - Both High Probability & High Consequences

Risks Inherent in Implementing the Decision Choice

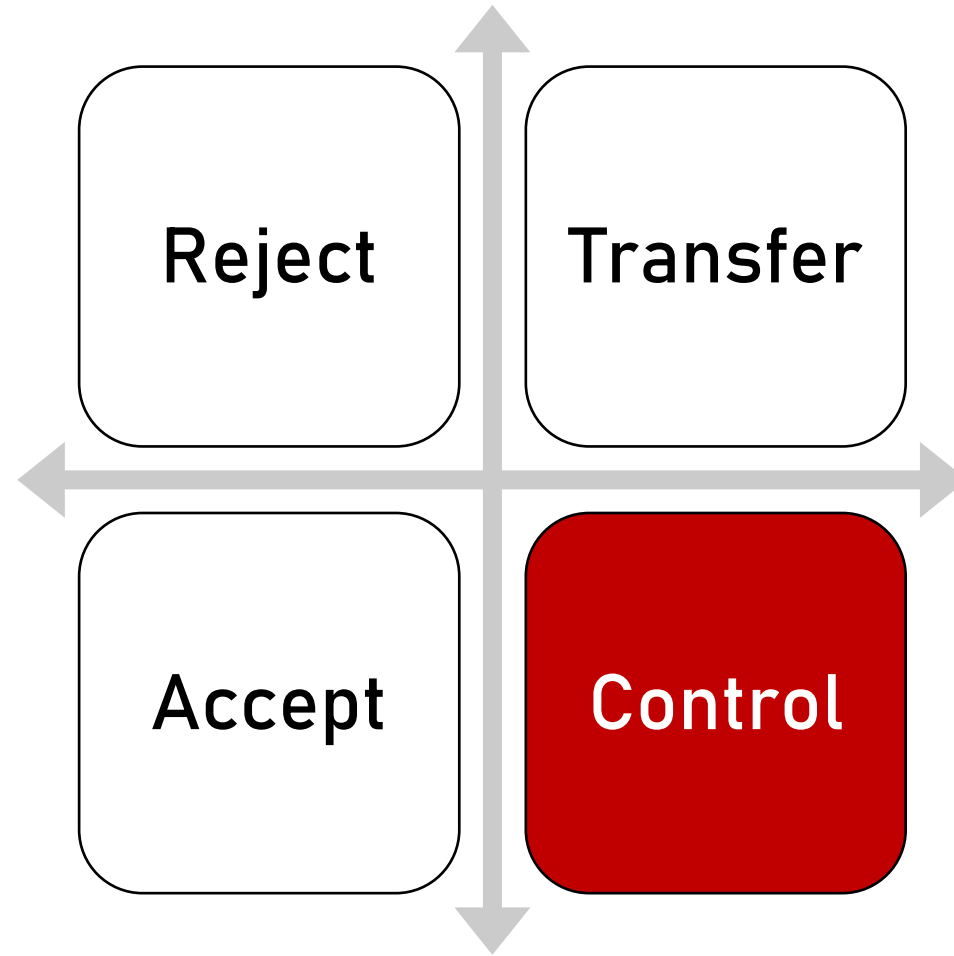
Decision Choices

Opportunity

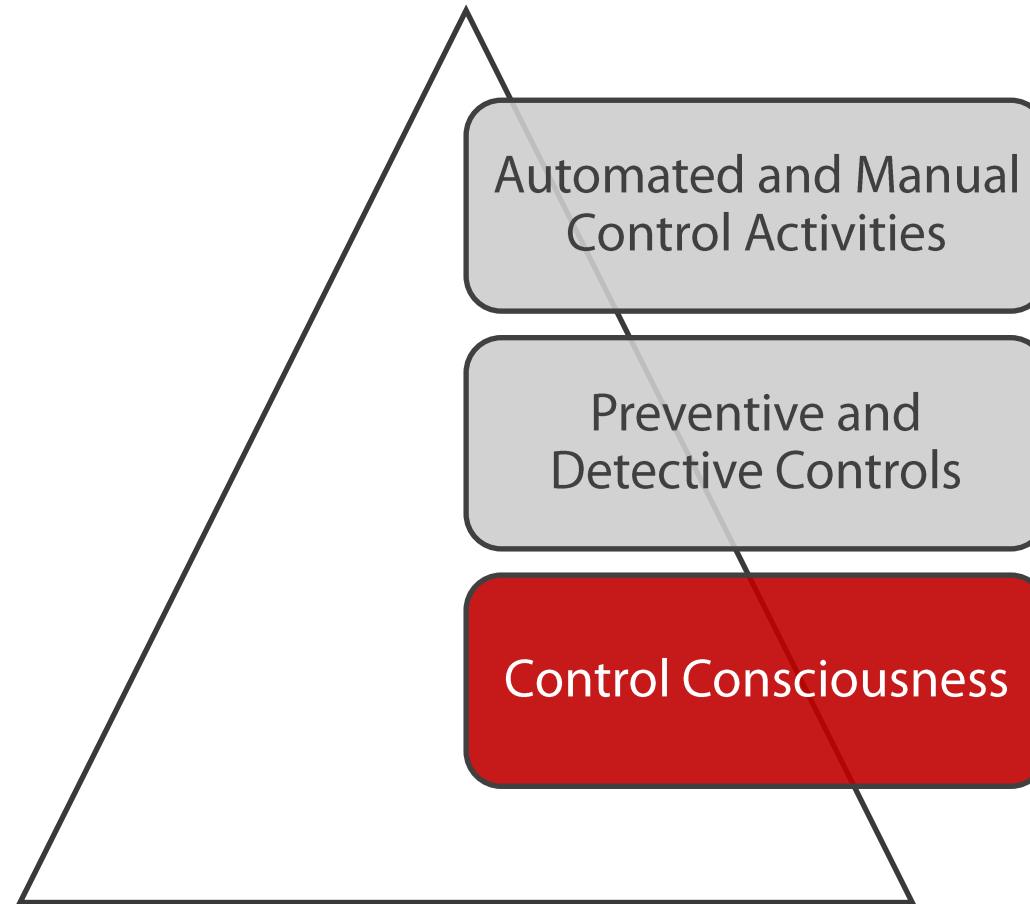
Risk

- | | | |
|---|--------------|--------------|
| 1. Prepare for 2nd Career in Financial | High - 3 | Moderate - 4 |
| 2. Volunteer for Public Service Charity | High - 5 | High - 2 |
| 3. Accept Part Time Job Offer | Moderate - 3 | High - 3 |
| 4. Face Lift to Enhance Personal Appeal | High - 4 | High - 4 |
| 5. Vacation in Third World Country | Moderate - 3 | Moderate - 3 |
| 6. Vacation at Local Resort | Moderate - 3 | Low - 2 |
| 7. Reading a Self-Help Book | High - 5 | Low - 1 |
| 8. Take a Class on Website Design | Moderate - 4 | Moderate - 2 |
| 9. Purchase a New Hybrid SUV | Moderate - 2 | Low - 3 |
| 10. Go river rafting in level 3 current | Low - 1 | High - 4 |
| 11. Dine at an Expensive Restaurant | Low - 1 | Low - 1 |
| 12. Install Solar Energy System on House Roof | Moderate - 2 | Moderate - 4 |

Risk Handling Choices



Internal Controls



Internal Controls Examples

- The creditworthiness of customers and their responding credit limit is defined by accounting/finance and cannot be changed by sales managers. (automated-preventive)
- Effective planning/budgeting processes create transparencies about efficiencies and provide a basis for control. (manual-preventive)
- Purchasing limits for different employees and written approvals by their supervisors prevent inefficient and illegitimate purchases. (automated/manual-preventive)
- Comparison of reported results with plans and budgets. (manual-detective)
- Reconciliation of cycle inventory counts with perpetual records. (manual-detective)



Monthly Risk List

Business Unit Level

Risk	Impact	Likelihood	Risk Score	Trend
Machine Tool XYZ 2 breaks down	Severe	High	9	↓
Greenpeace Action	Severe	High	9	→
Warranty Case at Project B2B	Modest	Very High	8	↓
Credit Rating Downgrade	Modest	Moderate	4	→
Insolvency of Customer B	Minor	High	3	↑



Risk Responsibility Card

Risk Owner Harry Harrow

Risk	KRI	Status	Risk Measures	Responsible
Interruption of Deliveries	Incoming defects [%]	0.1%	Inbound Quality Control	Mr. Hack
	Incorrect Shipments	1.5%	Supplier Audits	Ms. Snappy
	Due Payments paid	98%	Payables Report	Ms. Wang
	Purchasing lead time	35 days	Weekly purchasing meetings	Mr. Kleiber



Risk Governance

“Risk governance a part of corporate governance is a comprehensive approach for decision making processes associated with strategic, operational and environmental risks in line with stakeholders’ expectations.” *Schönbohm 2015*



Psychological Shades of Risk Management

Cognitive and political biases

- Risk management fails consistently in turning uncertainty into certainty.
- Risk management is opposed to the optimistic “animal spirit” which drives business.
- The cognitive biases (e.g. overconfidence, mental accounting, status quo bias) apply.
- Risk management should not be reduced to “brake-mode” – It is part of the steering wheel.





AGENDA

#	Date	Time	Topic	Room
1	2023-09-25	8-10	Strategic Management in the 21st century	C425
2	2023-09-25	10-12	Financial Performance Analysis for Strategy	C304
3	2023-09-25	14-16	Strategic Analysis with Classical Strategy Tools	C425
4	2023-09-25	16-18	Sources of Competitive Advantage	C304
5	2023-09-26	10-12	Strategic Performance Management / Business Model Check	C304
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Strategy Execution

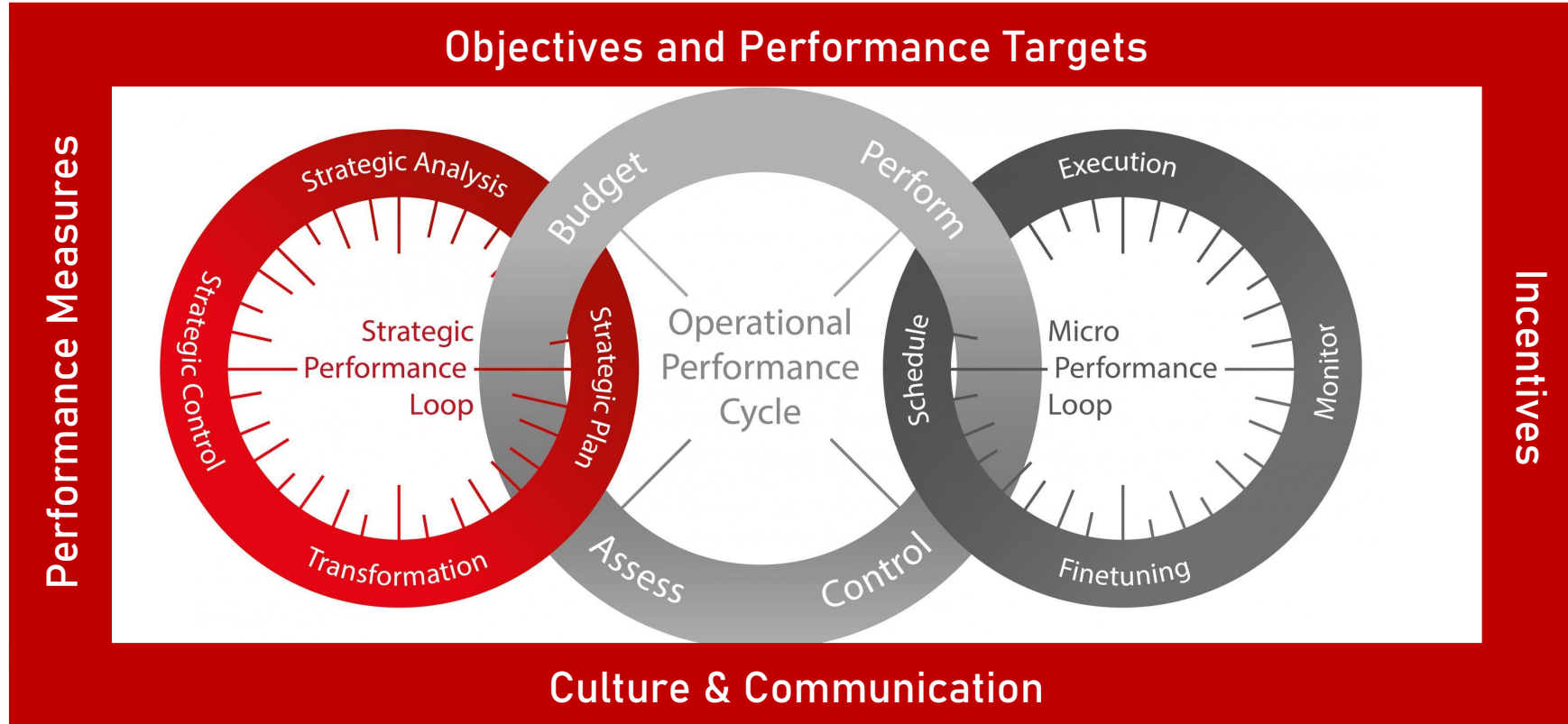


Objectives:

1. Understand the concept of strategy execution
2. Understand the notion of strategic performance management systems
3. Understand the Balanced Scorecard

Performance Management Systems

Linking the Loops



Strategy Implementation Process

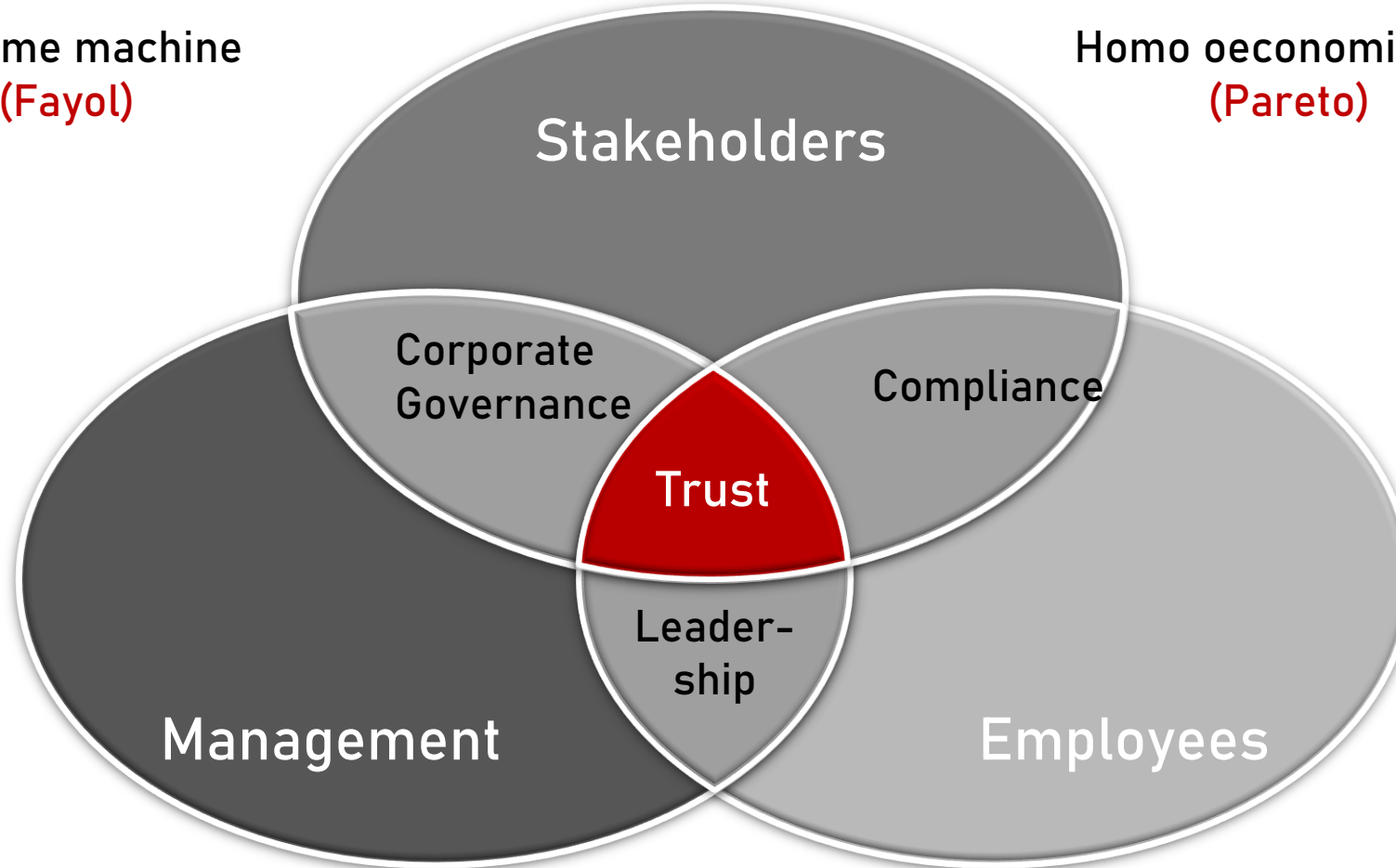


Organizational Control

Layers of Rationality

L'homme machine
(Fayol)

Homo oeconomicus
(Pareto)

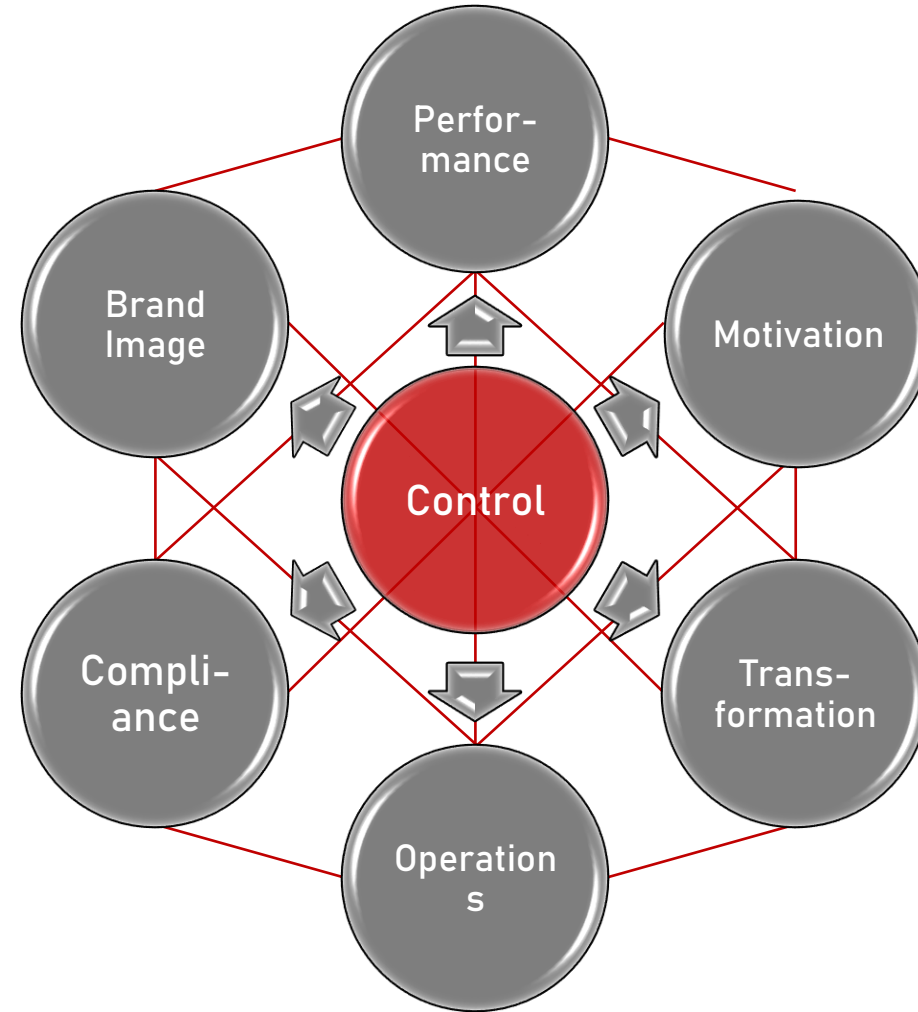


Scientific Management
(Taylor)



Management Control

Management Challenges and Dilemmas

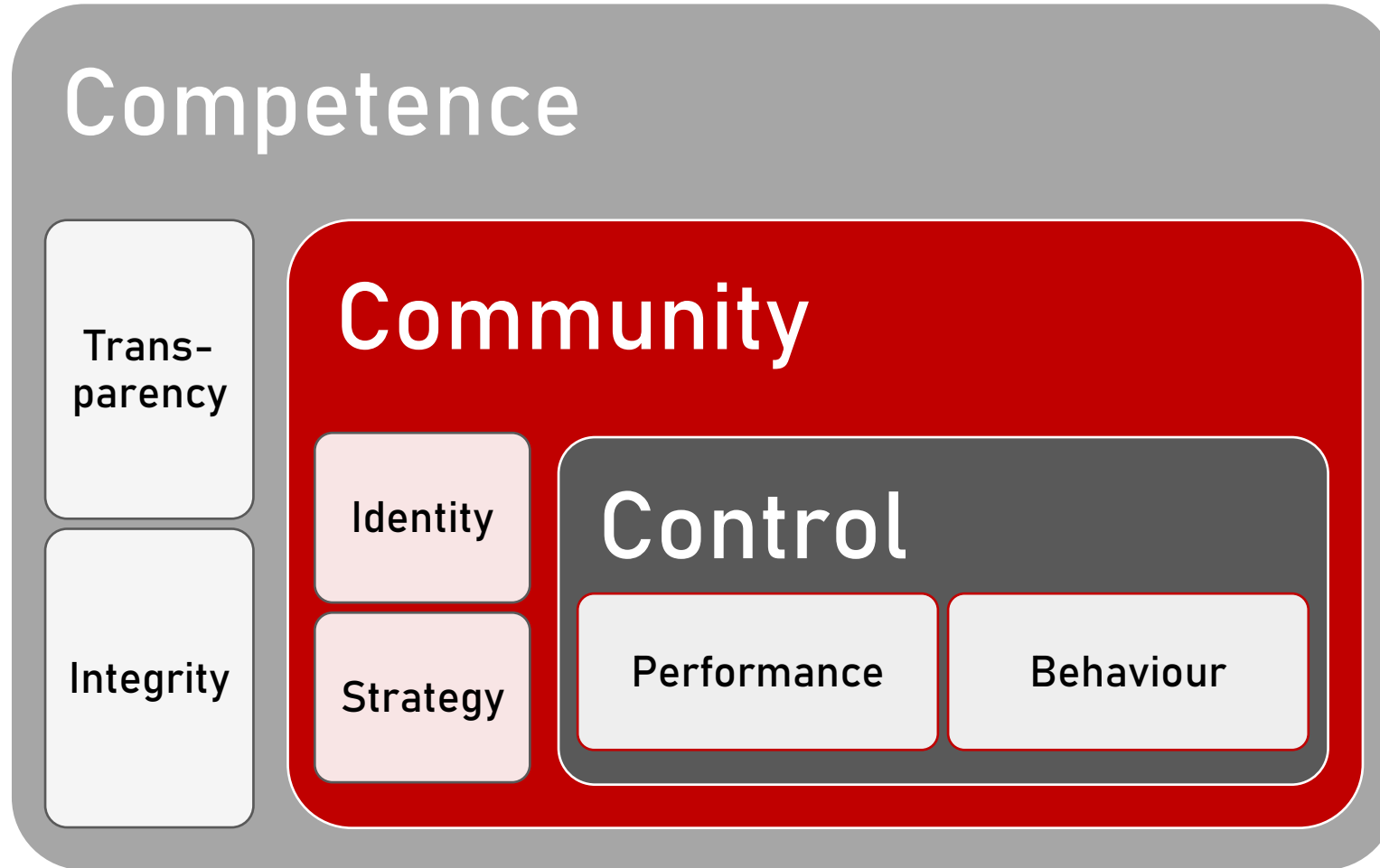


Performance Perspectives



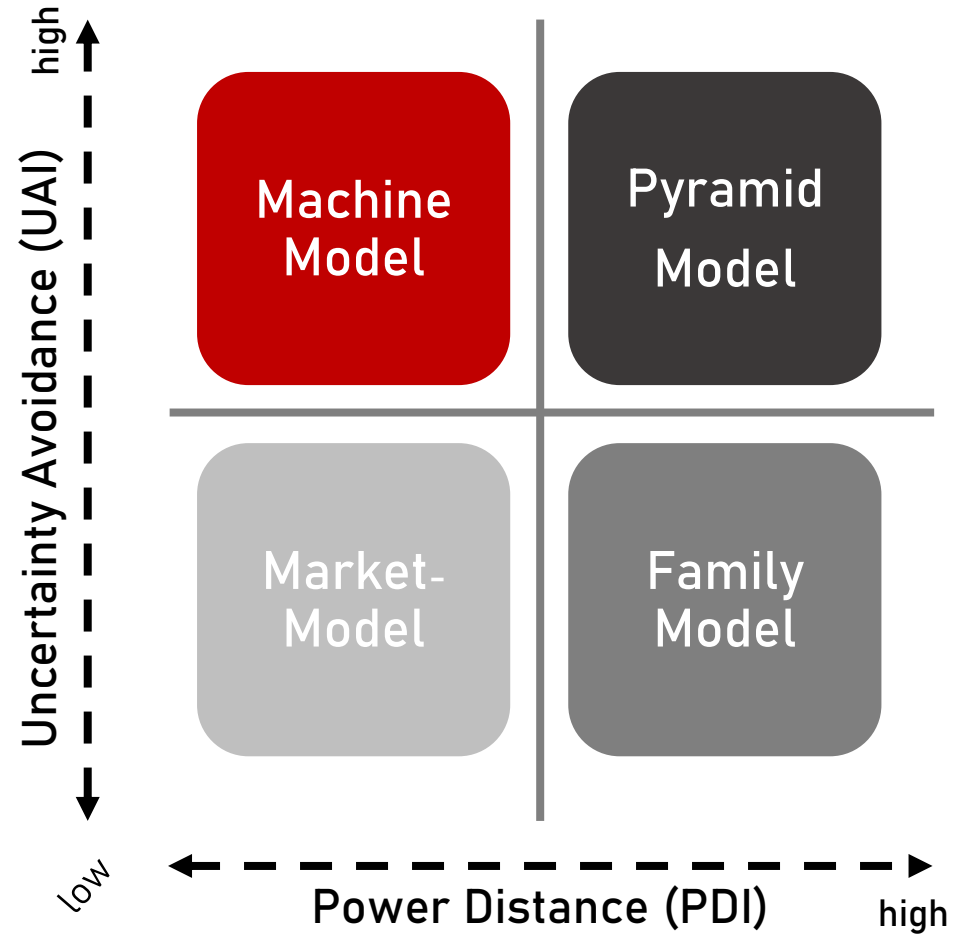
Management Control

The 3 Cs of Trust in Managers



Cultural Dimensions of Control

Based on Hofstede



Management Control

Loss of Control

Managers are confronted with hard pressures to achieve tangible results for shareholders and other stakeholders but are equally dependent on other people to achieve the promised results.

Many managers often experience a partial or full loss of control on the behaviour of their employees and are (desperately) looking for ways to elicit and control desired behaviour of employees.

The social dilemma is that they have to build a credible **“rationality façade”** which implies their being in control without being able to fully achieve this.

Management Control Systems try to help managers with this task.



Management Control

The Human Touch

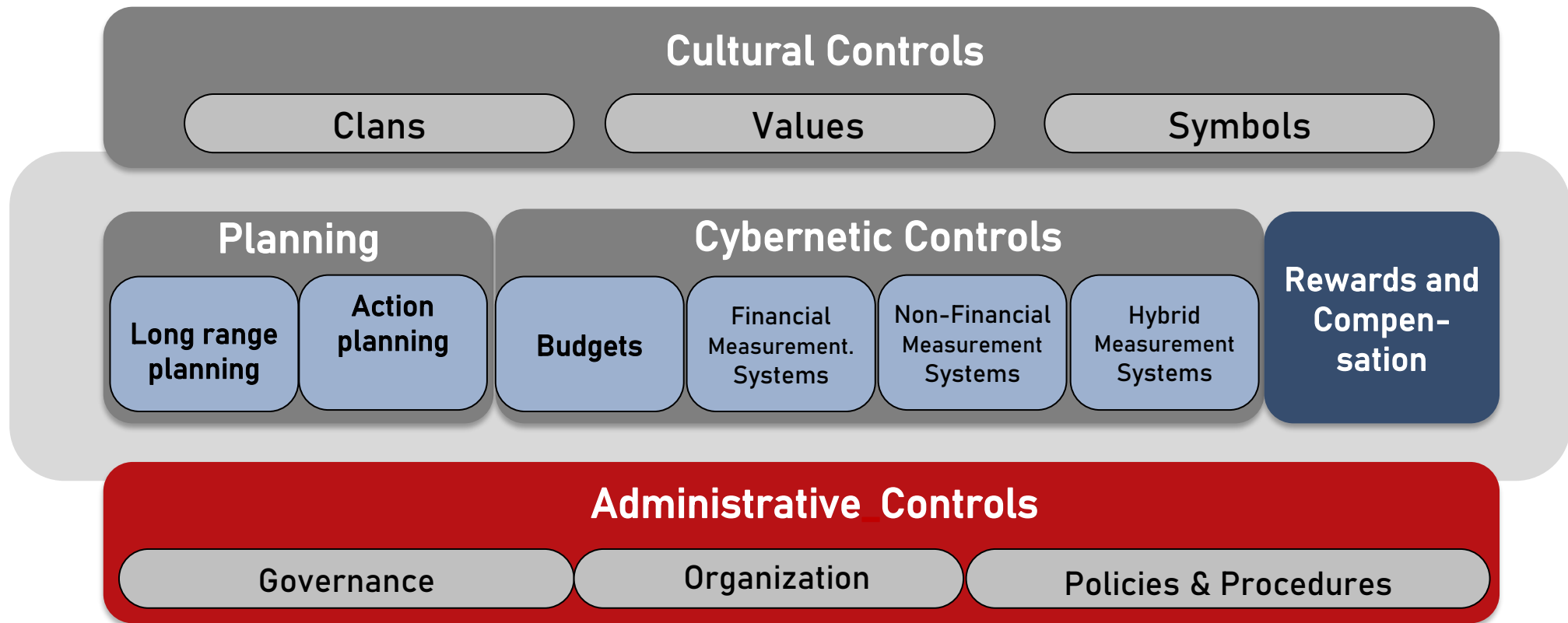
The Hawthorne or Illumination studies by Elton Mayo showed in the 1920s that performance and cheerfulness of the employees depend on psychological factors.

Employees want respect as human beings: Listening to their problems and giving them the feeling of being taken seriously as individuals boosts performance in a sustainable way.

Implementing Management Control Systems offers the opportunity for fruitful and motivating interaction with the workforce on all levels.



Management Control System as a Package



Source: Malmi/Brown (2008): p. 291

50 Shades of Control

Shackles of Power – MCS as a Package

Strategic Control

- Hierarchy
- Vision/mission
- Capital Budgeting
- Recruiting
- Architecture
- Supervisory Board/ Board of Directors
- Risk Management

Operational Control

- Supervision
- Budgets, Forecasts
- Cost Accounting
- Variance Analysis
- Incentives /Bonus Payments
- Management by Objectives
- Risk Management

Micro Control

- Rules & Regulations
- Job Description
- Quality Management
- IT-Systems
- Business Process Management
- Peer Control
- Gamification



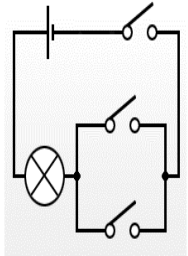
Layers of Control

Types of Controls



Diagnostic Controls

Measure and monitor outcomes



Cybernetic Controls

Plan, measure, control and self-regulate (e.g. budgeting)



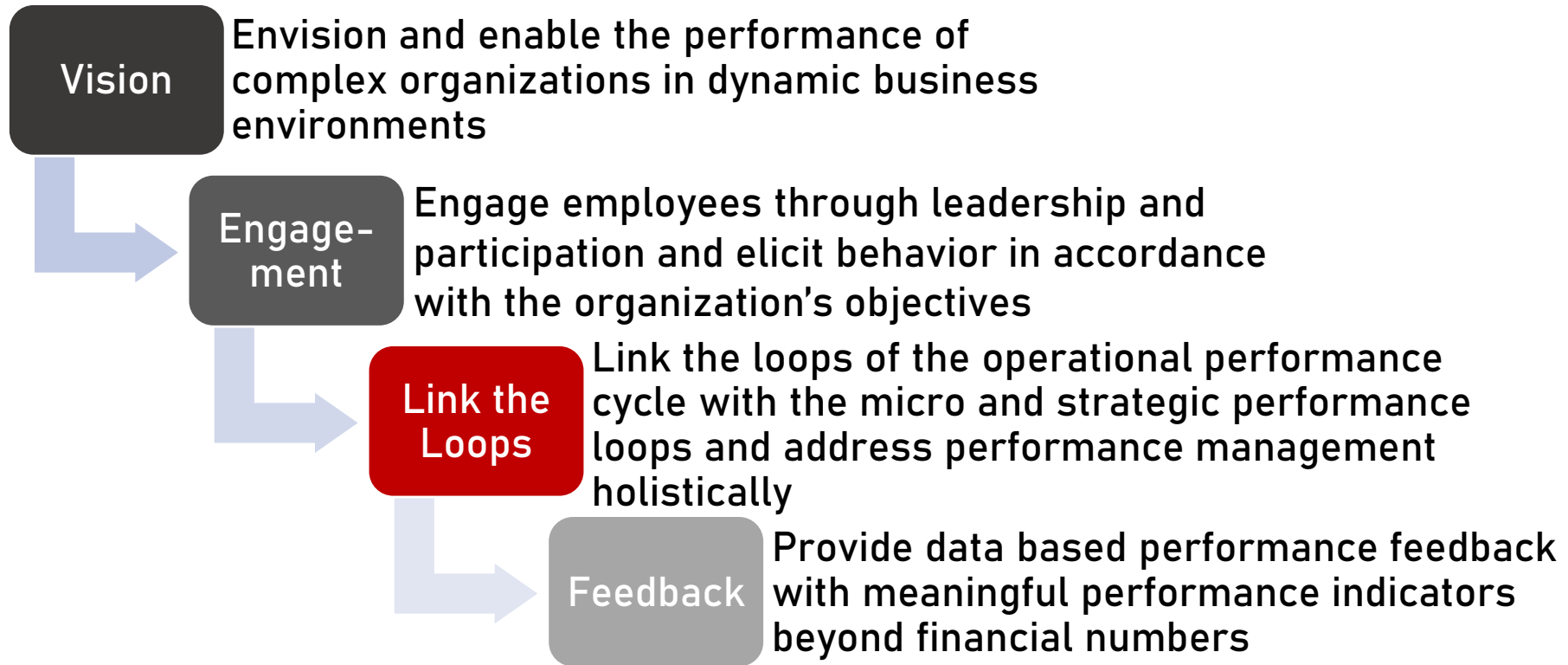
Interactive Controls

Cybernetic controls with a stress on the human interaction process

Performance Management Systems

Schönbohm (2015)

Performance Management Systems are a comprehensive set of interrelated processes and tools which:



Performance Management Systems

Asking Questions

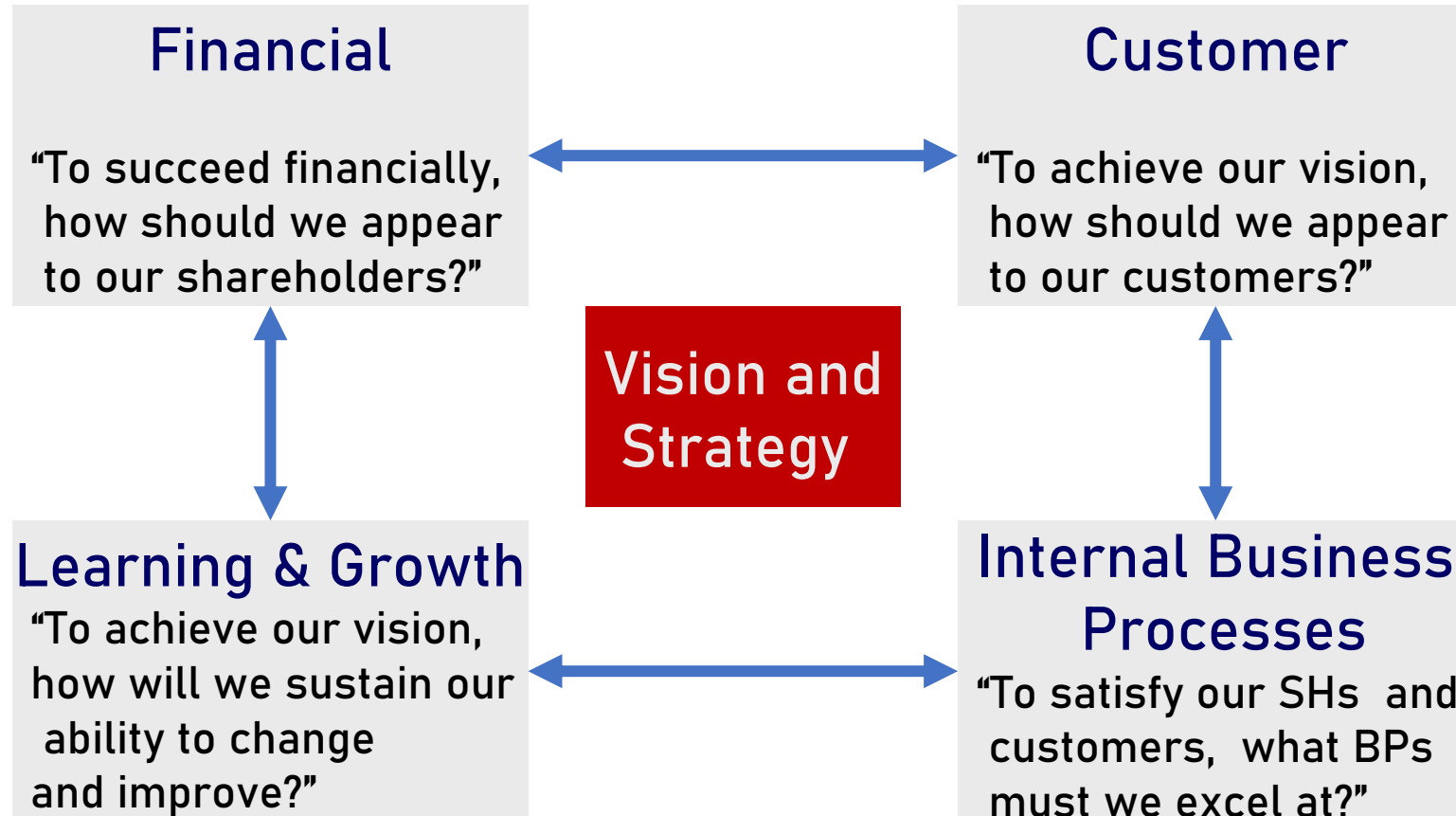
A good Performance Management System should give qualified answers to at least the following seven questions

1. Does the company have a ***Vision and a Mission*** and how are they incorporated throughout the Performance Management System and communicated to managers, employees and stakeholders?
2. Does the PMS reflect the ***Company Structure***? *Is there a cascading and consolidation procedure for the planning and reporting established?*
3. Does the PMS reflect the company's ***Plans and Strategies***, and does it so by pinpointing to the **Key Success Factors** and **Action Levers**?
4. Does the PMS highlight ***logical*** links between the PMS performance dimensions and how they are used?
5. How does the PMS measure **Key Performance**? How objective are the **Key Performance Indicators**?
6. How is the **target for each KPI set**? Is there open interaction between different levels of the hierarchy? Are the targets realistic, are they conflicting? Are they under control of the relevant individuals and which ones are relevant for individual or organizational performance evaluations?
7. How are employees **motivated** to achieve the set performance targets? How is the PMS a catalyst for interaction and meaningful communication and can thus increase the motivation of the employees?

The Balanced Scorecard as one example of MSC

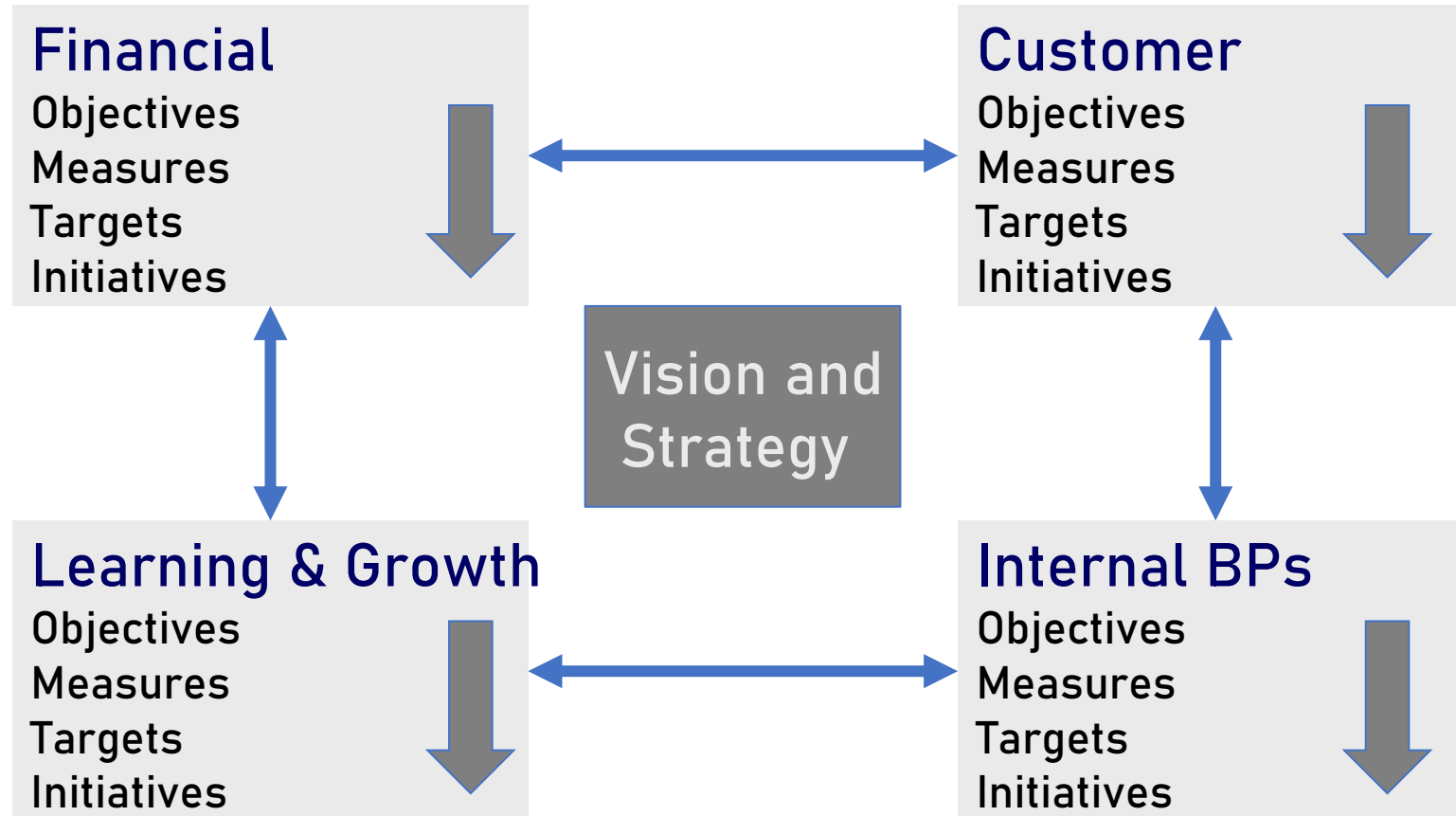
Four perspectives:
“cockpit”

GD: “Why Balanced?”



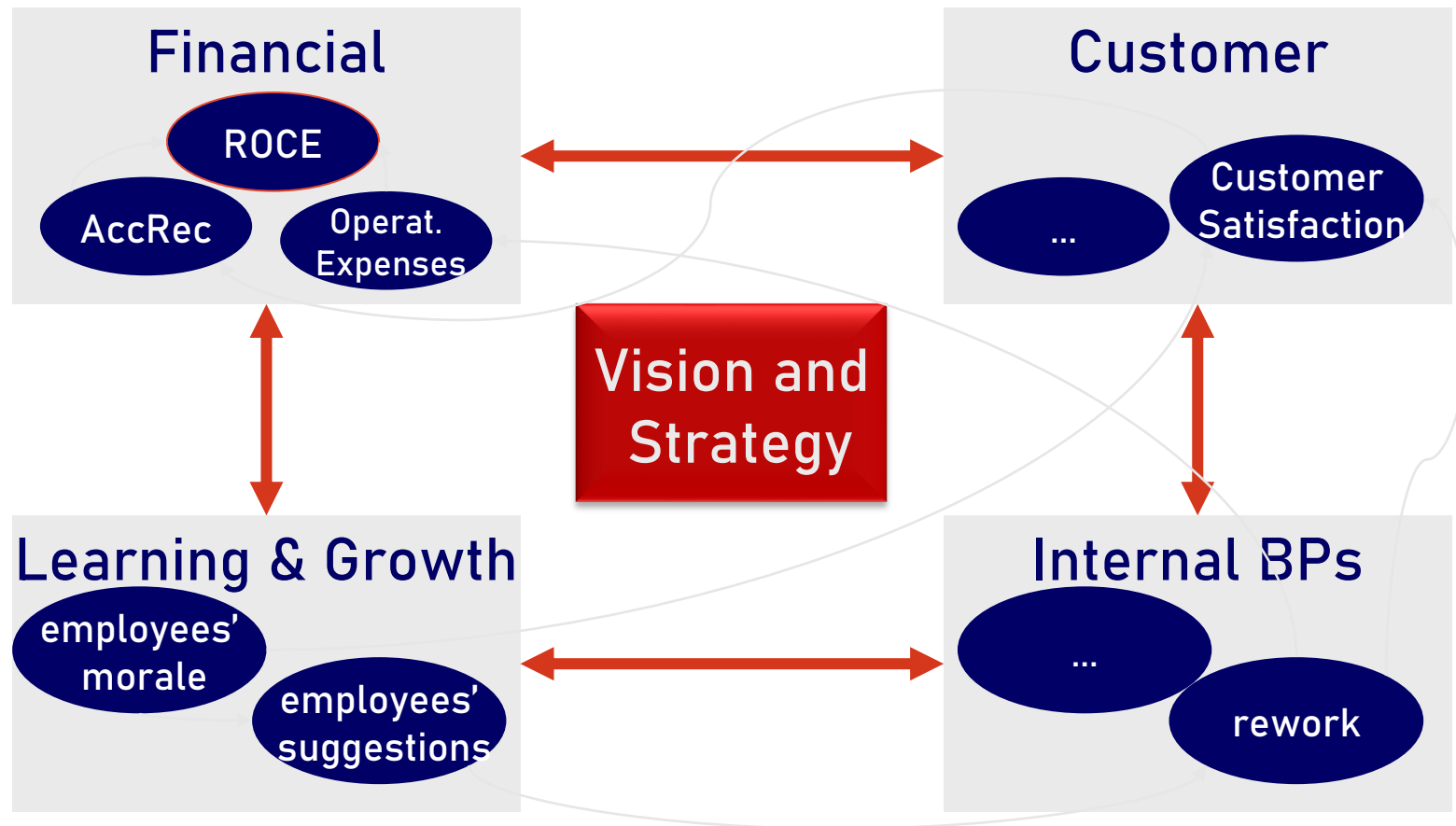
The Balanced Scorecard as one example of MSC

Four perspectives: **Measurement System**



The Balanced Scorecard as one example of MSC

Four perspectives: Linking The Loops



Linking the Loops with Strategy Maps

the *only* short haul, low-fare, high frequency, point-to-point carrier in America.

Strategy Map	Measures	Targets	Initiatives
Financial Increase Profitability Lower Costs Increase Sales	■ Market Value ■ Seat Revenue ■ Plane Lease Cost	■ 25 % per year ■ 20 % per year ■ 5 % per year	■ Optimize Routes ■ Standardize planes
Customer On-time flights More customers Lowest Prices	■ FAA On Time Arrival Rating ■ Customer Ranking ■ # of customers	■ 1st in industry ■ 98 % satisfaction ■ 20 %	■ Quality Management ■ Customer Loyalty Program
Internal Improve Turnaround Time	■ On Ground time ■ On-Time departure	■ <25 Minutes ■ 93%	■ Cycle Time Optimization Program
Learning Align Ground Crew	■ % Ground crew stockholders ■ % Ground crew trained	■ Yr 1 70% ■ Yr 2 90% ■ Yr 3 100%	■ Stock ownership plan ■ Ground crew training

Performance Management Systems

Financial KPIs

Financial KPIs	
Sales	Return on Sales
Sales CAGR	Return on Capital Employed
Gross Profit Margin	Economic Value Added
EBIT	Total Shareholder Return
EBITDA	Return on Equity
Return on Assets	Price/Earnings Ratio
Cash Conversion Cycle	Operating Expense Ratio



Performance Management Systems

Customer KPIs

Customer KPIs	
Net Promoter Score	Customer Complaints
Customer Satisfaction Index	Market Growth Rate
Customer Profitability	Cost per Lead
Customer Retention Rate	Page Views
Market Share	Conversion Rate
Average Age	Bounce Rate
Average Bill	App Downloads



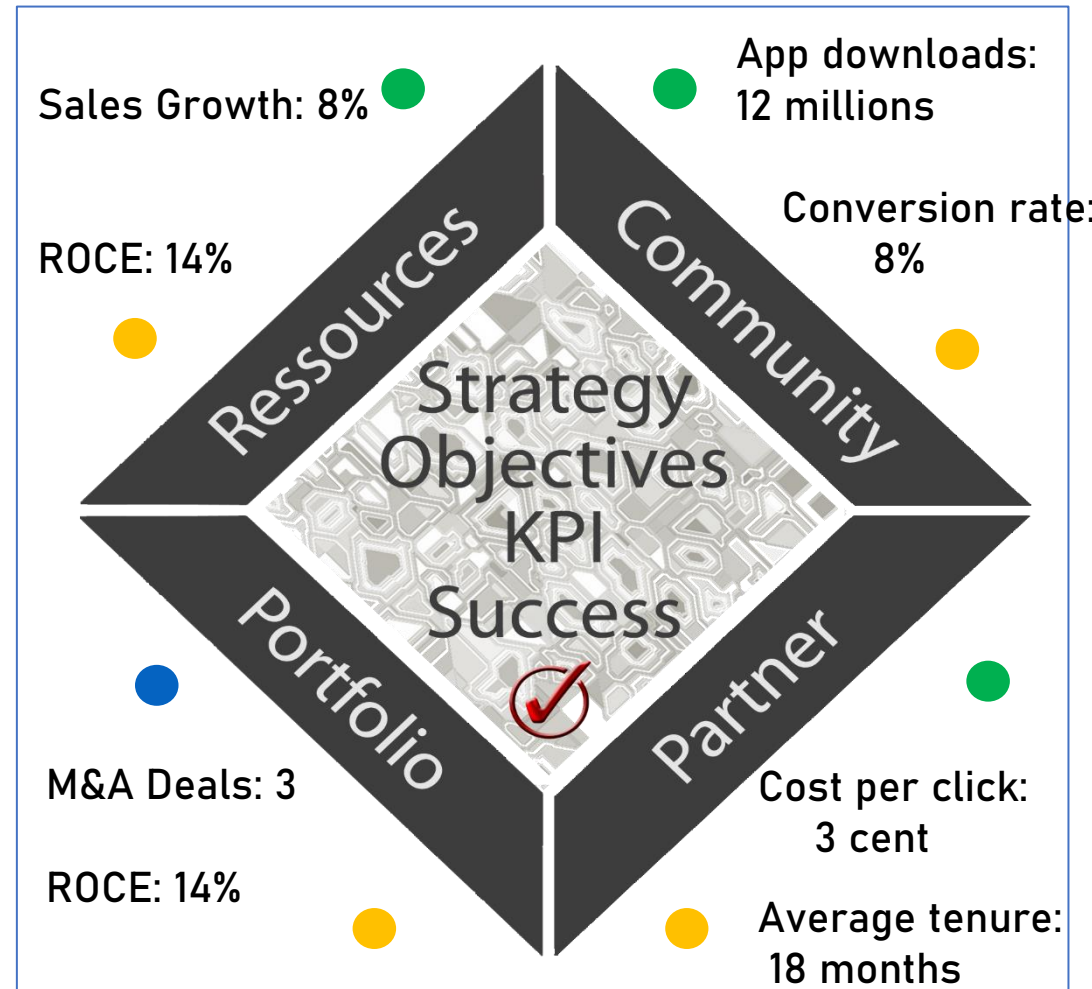
Performance Management Systems

Operations KPIs

Operations KPIs	
Order Fulfilment Cycle Time	Average Sickness Days per Employee
Defect Rate	Sales per Employee
Rework Level	Average Employee Tenure
Inventory Turnover	Salary Competitiveness Ratio
Time to Market	Process Downtime Level
Capacity Utilization Rate	CMMI Level
Employee Satisfaction Index	Innovation Rate



Performance Management Systems Dashboard



Management Control Systems

Beyond the rationality facade

- Neither employees nor companies are mechanical machines which can be firmly controlled within an uncertain dynamic business environment.
- There is huge pressure on management to sustain a facade of rationality and hypocrisy
- Performance Management Systems go beyond control by envisioning and enabling performance together with the employees.
- Performance Management Systems have to be adapted regularly in line with the current business fashion in order to maintain its power of reality construction and motivation.



Strategic Management

