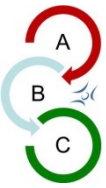


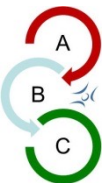
**Engineering Management BMEVITMMB03**

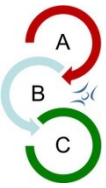
# **STRATEGY AND STRATEGIC MANAGEMENT**

**Gábor Magyar**

**BME Department of Telecommunications and Media Informatics**

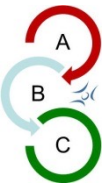






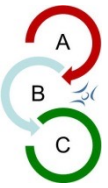
# Basic concept of strategy

- a comprehensive action plan that identifies long-term direction for an organization and guides resource utilization to accomplish organizational goals with sustainable competitive advantage



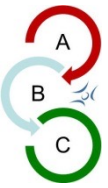
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- a **comprehensive action plan** that identifies long-term direction for an organization and guides resource utilization to accomplish organizational goals with sustainable competitive advantage



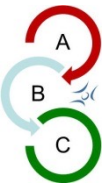
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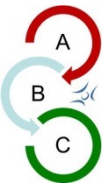
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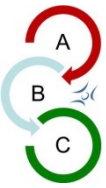
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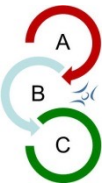
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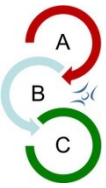
# Strategic management

- the process of formulating and implementing strategies to accomplish long-term goals and sustain competitive advantage
- goal of corporate strategic management is to create above-average returns for investors



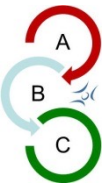
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# Strategic management

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- goal of corporate strategic management is to create **above-average returns** for investors



# WHY IS STRATEGY NEEDED?

- **DIRECTION OF AN ORGANIZATION**

- management in labour division, delegation of decisions
- prescribed command may not be for every case (changes!), therefore:



corporate principles, philosophy to polarise decisions



corporate values: “when do you do well”.

Where are we going to ?

How do we approach matters ?

What are our priorities ?

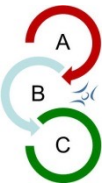
- **CHANGE MANAGEMENT**

- Recognize trends, observe the changes of your environment
- Have to be able to manage the changes
- Exploit the new possibilities (new demand)

*Avoid „boiled frog effect”, you must step, even if the things go well*

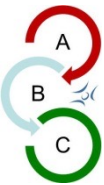
- **LONG-TIME SUCCESSFULNESS (paEI)**

- What and how do we change for the success? (Vision)



# paEI

SUCCESS-FULNESS	Effectiveness	Efficiency
Short-time at present	<b>P</b>  <b>PRODUCTIVE Performance</b>  <b>(fulfil demands, functions)</b>	<b>A</b>  <b>ADMINISTRATIVE Systematization</b>  <b>(organize, regulate)</b>
Long-time in the future	<b>E</b>  <b>ENTERPRENEURIAL Proactivity</b>  <b>(foresight + venture)</b>	<b>I</b>  <b>INTEGRATIVE Cooperation</b>  <b>(team building)</b>



# GENERAL DEFINITION OF STRATEGY

Strategy is a *consistent entirety* of determinations, that

- constitutes a *comprehensive whole*,

which:

- well-established (external, internal analysis),
- robust (steadily valid),
- lucid (for all concerned persons),
- accepted by the key managers (undertaken),
- realizable

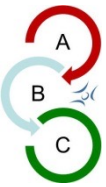
and sets:- longer term organizational *targets*,

- *the way* to reach them,
- *priorities*.

Strategy departs from the wished future status, it does not project present to future, but initiates actions in present !

Any organization, company, enterprise, institution, government, university, bank, association, party etc. can have strategy.

We are dealing with business or competitive strategies, only.



# Business segmentation – Business units

**Product Groups**

**Product group examples:**

IT operation

Media Informatics

Mobil telephony.

e-health

Internet service

Product-commerce

**Market segment**

**Business segment**

**Business unit**

eg. Small customers

**Business scope of the firm**  
(Example in two dimensions)

Residential

Small

Medium

Big

Key

Spec.

**Customer Groups**

business customers

**3-4. DIMENSION (?)**  
(region, technology...)

**Market segment:**

**Business segment:**

**Business unit (BU):**

section of defined customer and product groups

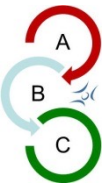
market segments with homogeneous business strategy

stand-alone organization unit, consisting of market units

with same general strategy (typically: profit centre)

(„strategic” adjective can be added: SBU)



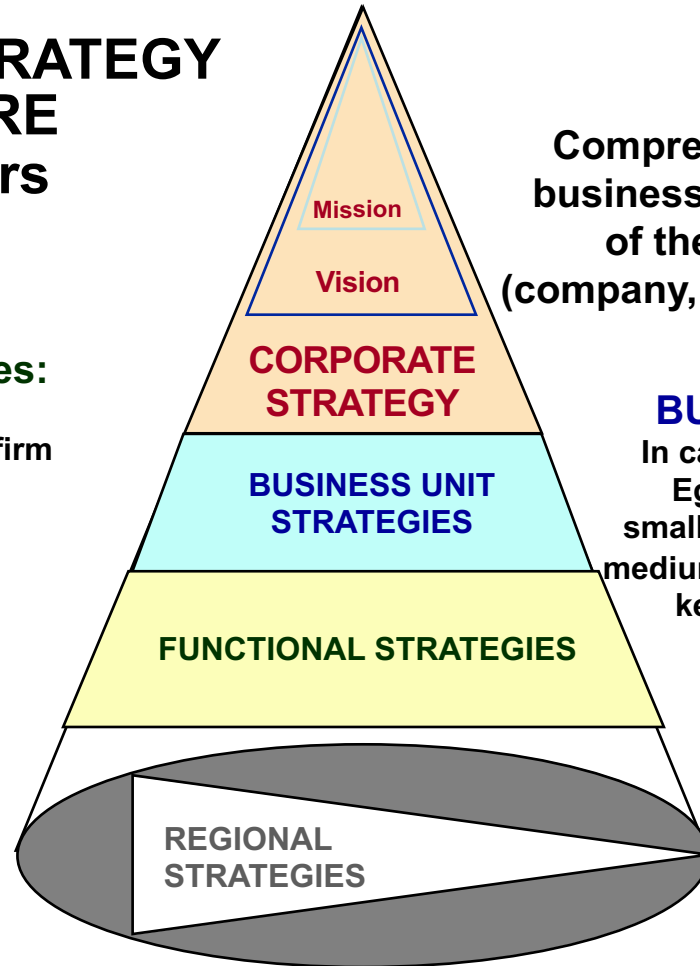


# BUSINESS STRATEGY ARCHITECTURE Parts and layers

## Functional strategies:

Depending on  
the type and size of the firm  
Eg.: financial,  
human,  
marketing,  
technological,  
procurement,  
operation

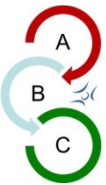
**Regional strategies**  
Country-wide and  
multinational companies



**Comprehensive  
business strategy  
of the firm  
(company, enterprise)**

## BU strategies:

In case of more BU:  
Eg.: residential,  
small bus. customers,  
medium bus. customers  
key customers



# MISSION

The most concise formulation of the corp. strategy.

**The reason of the existence of the firm.**

Why are we all over the world? Our major ambition

**What, to whom, where,**



**Product group Customer group Geographic area**  
*Dimensions of the business scope*

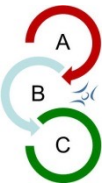
**how does it provide?**



***Competitive advantages***

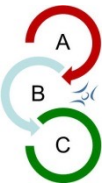
- pillars of lasting successfulness
- special competence
- technology, R&D, quality

The expectation of stakeholders is presented in harmony, in emotional way, it mainly speaks to the employees, but it also is a message to the world. Company, association, university, government and an individual may also have. The *corporate slogan* is not mission, but a personal motto can operate as a mission.



# VISION


- Where do we go to, to where do we wish get?
- Declaration of the wished real future status, the major targets, values and priorities. Various formulations are from the essence to the deep corporate philosophy. Possible parts:
  - (Mission)
  - Business/professional/scientific/development focus, target
  - Comprehensive performance aims: e.g. criteria of success
  - Corporate priorities: eg. strategic business units and positioning
  - Corporate values: e.g. Customer-orientation, teamwork
  - Corporate policies, e.g.:
    - Horizontal strategy: synergies between SBUs
    - Vertical strategy: integration, widening / narrowing
    - Relation to the players of the corp. environment: striving for cooperation, fusion, acquisition
- *Business policy* is a externally communicated, less detailed vision.



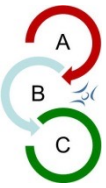
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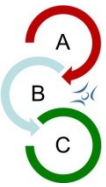
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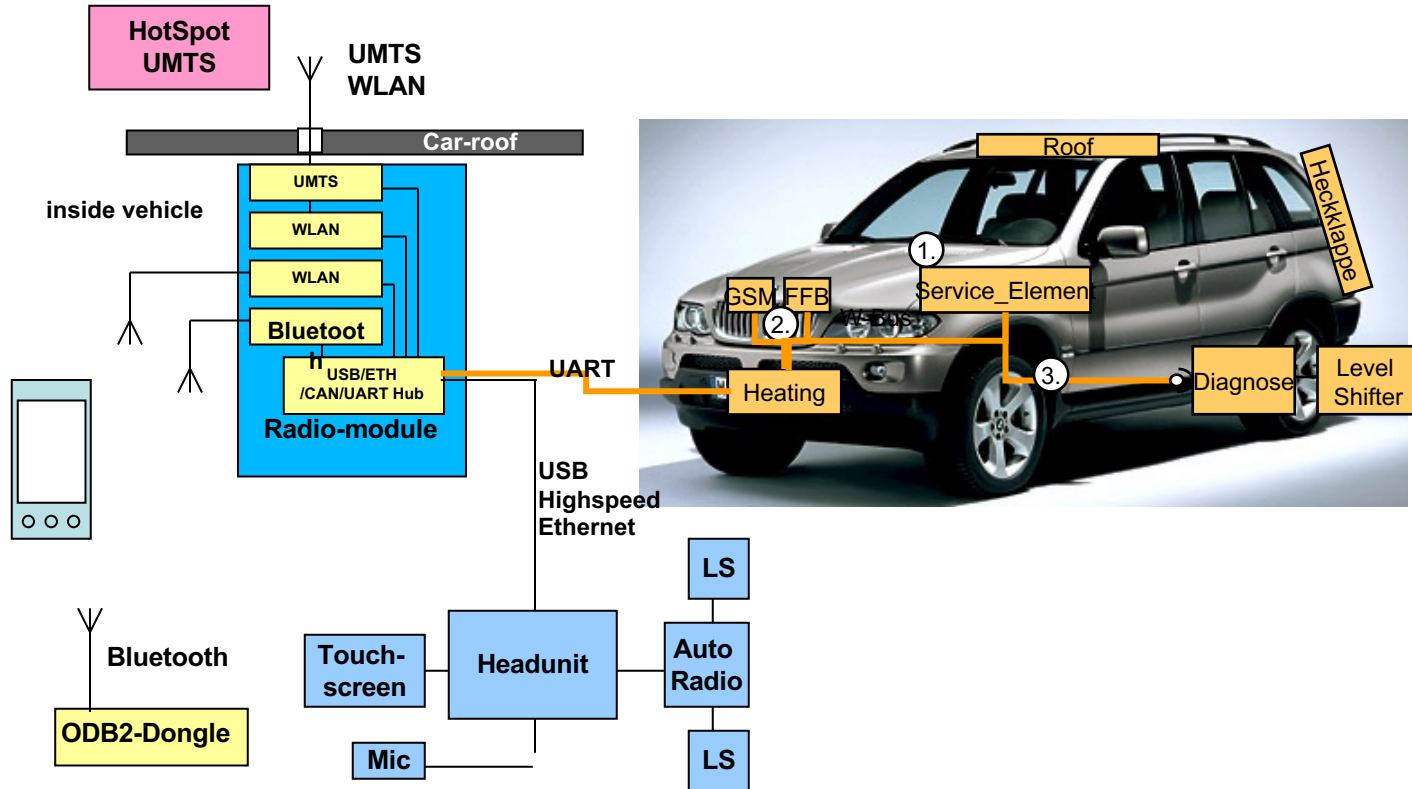


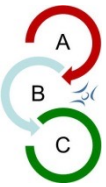
# Vision – of the carbon-free future



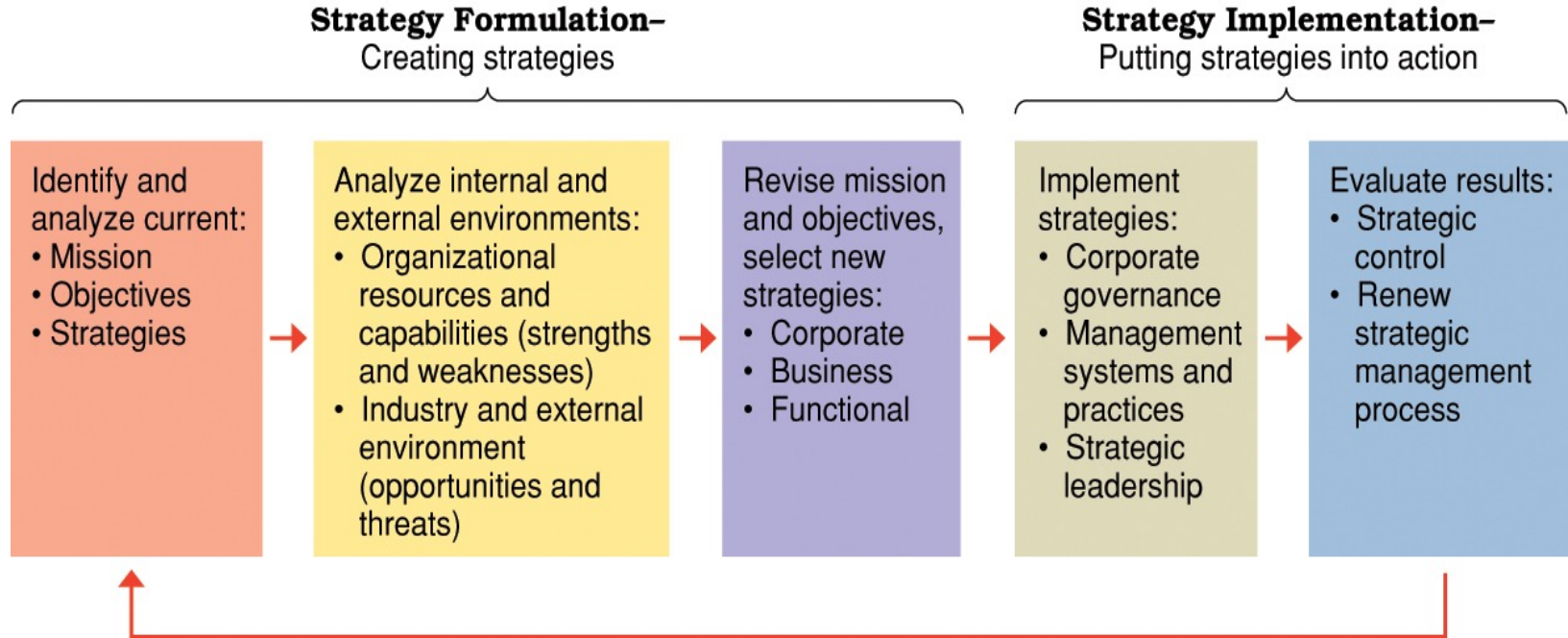


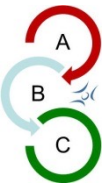
# Vision of a wireless in-vehicle comm-node





# Strategy formulation and implementation



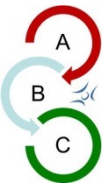


# CORPORATE STRATEGY

Comprehensive business strategy formulated at corporate level.

1. Vision
2. Strategic posture on the way there, the essence of strategy. *What and how must change?*  
*Thrusts, guidelines:*
  - to attain the vision
  - to exploit the business possibilities,
  - to avoid threats,
  - to improve value-creation capability, etc.strategic scenarios, directions, steps, phases, critical things to be done; quantitative and qualitative measures, milestones (corp. level); BU and functional directives, success factors, responsibilities
3. Portfolio management (for implementation): ratios and priorities of the allocation of financial, human etc. resources
4. Organisation management (for implementation): organisational structure, managerial methods, promotion, IPR and innovation handling, etc.

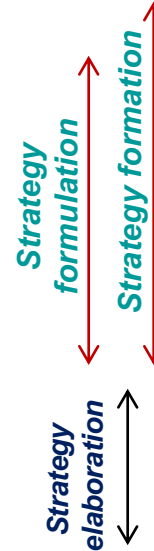




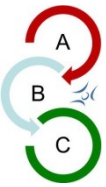
# STRATEGIC PLANNING

## Process and steps of planning

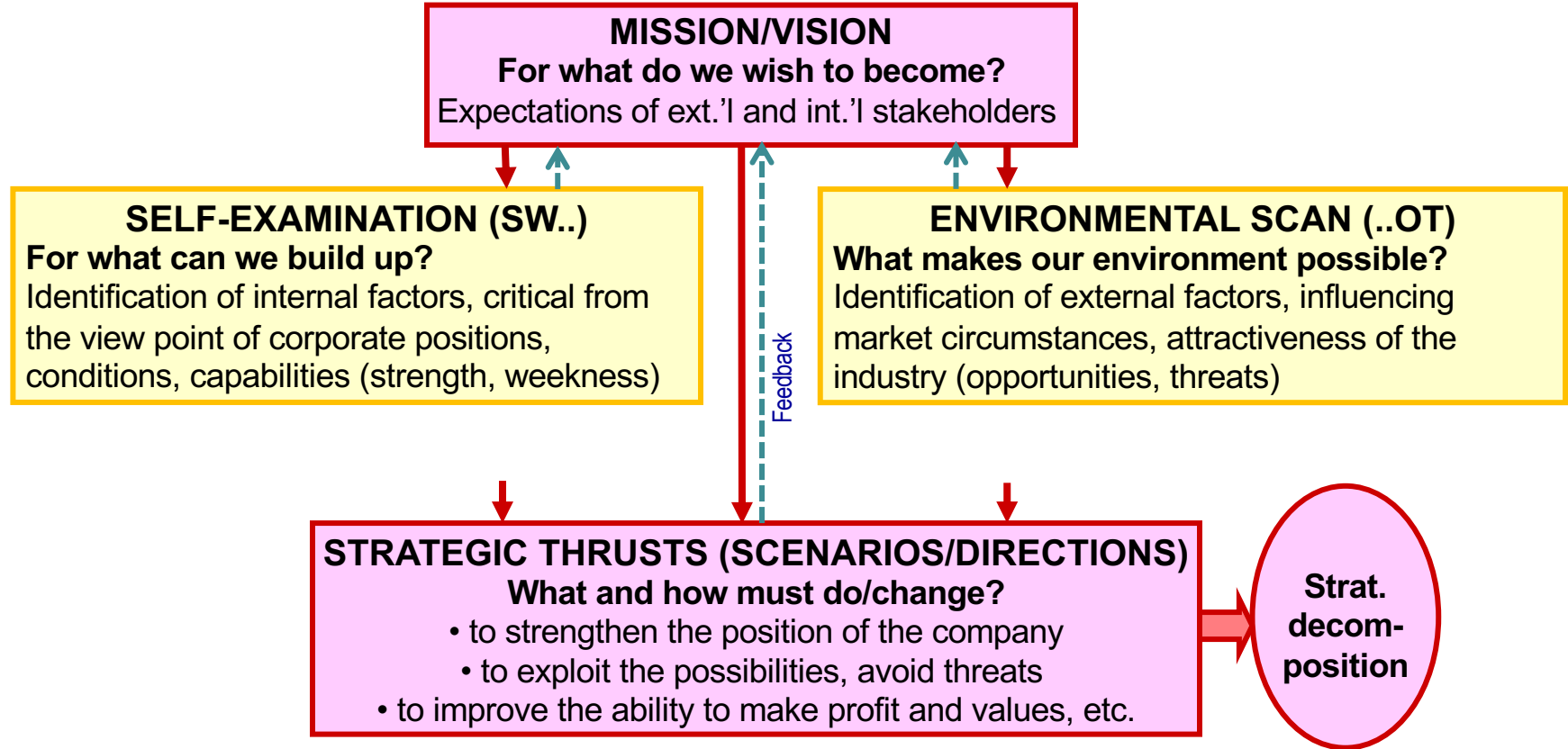
- C 1 Mission, vision, business areas, expectations
  - C 2 *Positioning* (SWOT: strength, weakness, opportunities, threats)
  - C 3 *Strategic posture* (scenarios, directions, milestones)
  - B 4 Mission, vision, action plan for each BU
  - F 5 Target, action plan for each functional unit
  - C 6 Feedback, harmonization
  - C 7 Resource-allocation and organization development:  
priorities and indicators of execution
- 
- BF8 Detailed BU and functional action programs
  - BF9 Financial planning: BU and functional plans
  - C 10 Checking and acceptance of plans

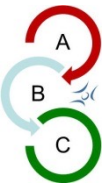


**C** = Corporate level  
**B** = Business unit level  
**F** = Functional level



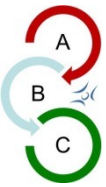
# ESSENCE OF STRATEGY FORMATION (C2-C3)





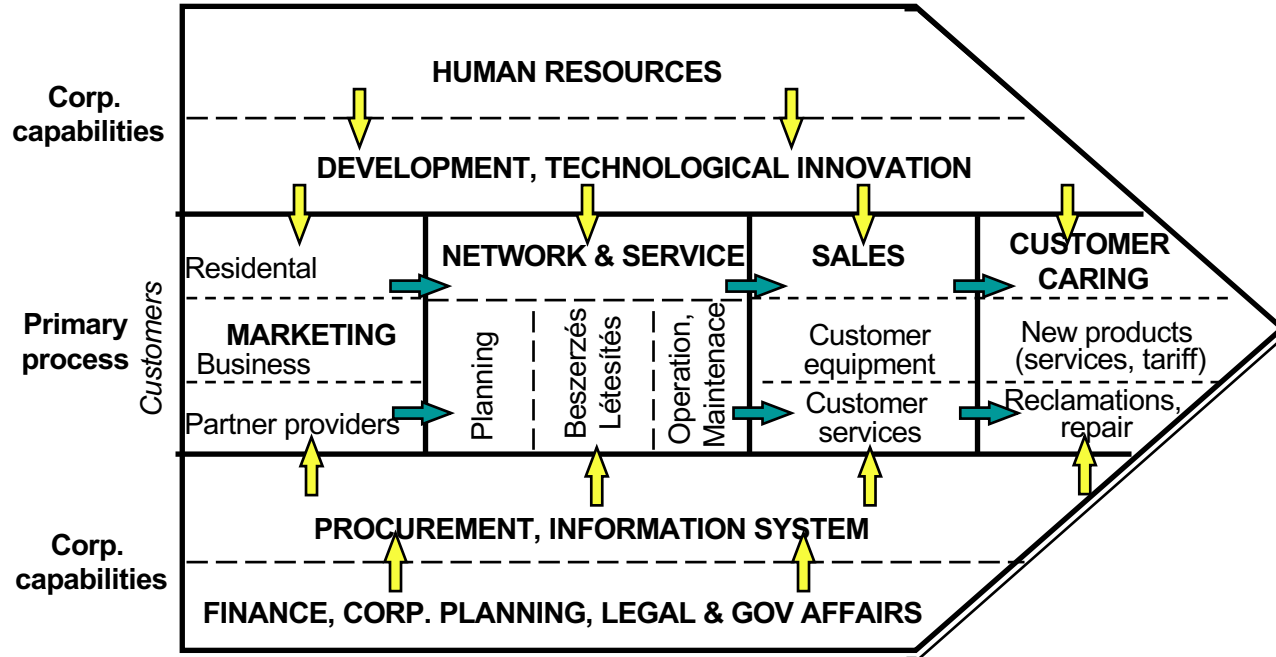
# POSITION REVIEW – POSITIONING

- Self-examination (SWot)
  - Internal scrutiny, value-chain analysis  
identification of organizational strength and weakness of the strategically examined business unit, product or technology  
(What are the critical factors? For what can we build up?)
- Environmental scan (swOT)
  - Competition analysis  
identification of the competitive opportunities and threats presented by the broader environment of the strategically examined business unit, product or technology  
(What about the demands and competitors?)
- Portfolio analysis
  - summary and evaluation of the position reviews made for business units, products or technologies

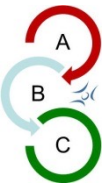


# Value-chain analysis

Decomposition and evaluation of the examined BU activity



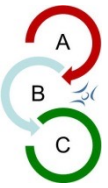
It is analysed that what each activity component adds or can add to maintain or obtain competitive advantage (increase income, decrease cost...) Aim: identification of business competitive position (SW), critical tractable success factors



# How are strategies formulated?

Opportunities for achieving sustainable competitive advantage:

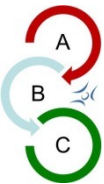
- Cost and quality
- Knowledge and speed
- Barriers to entry
- Financial resources



# How are strategies formulated?

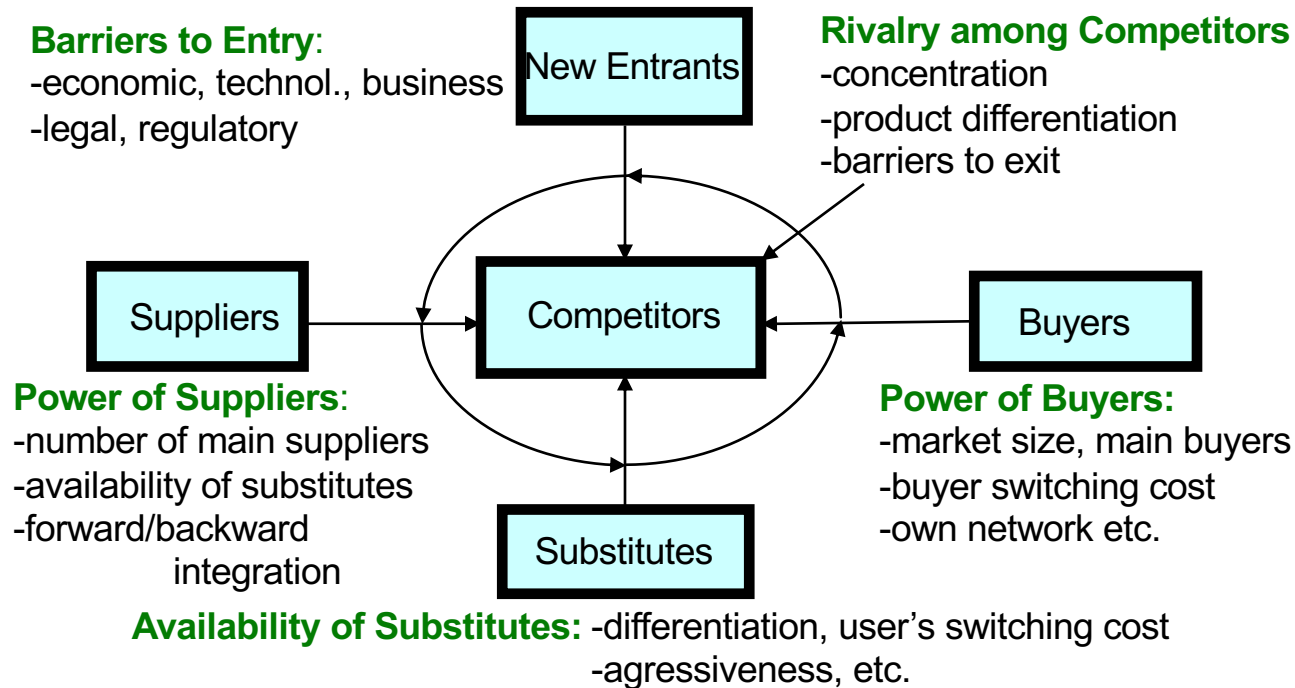
## Porter's generic strategies model

- Business-level strategic decisions are driven by:
  - Market scope
  - Source of competitive advantage
- Market scope and source of competitive advantage combine to generate four generic strategies

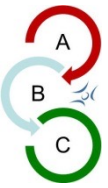


# Competitive Analysis

## M. E. Porter's Five-Force Industry Model



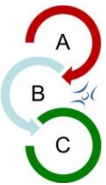
*ICT examples: high capital requirements, frequency permission, VoIP, basic service cancellation*



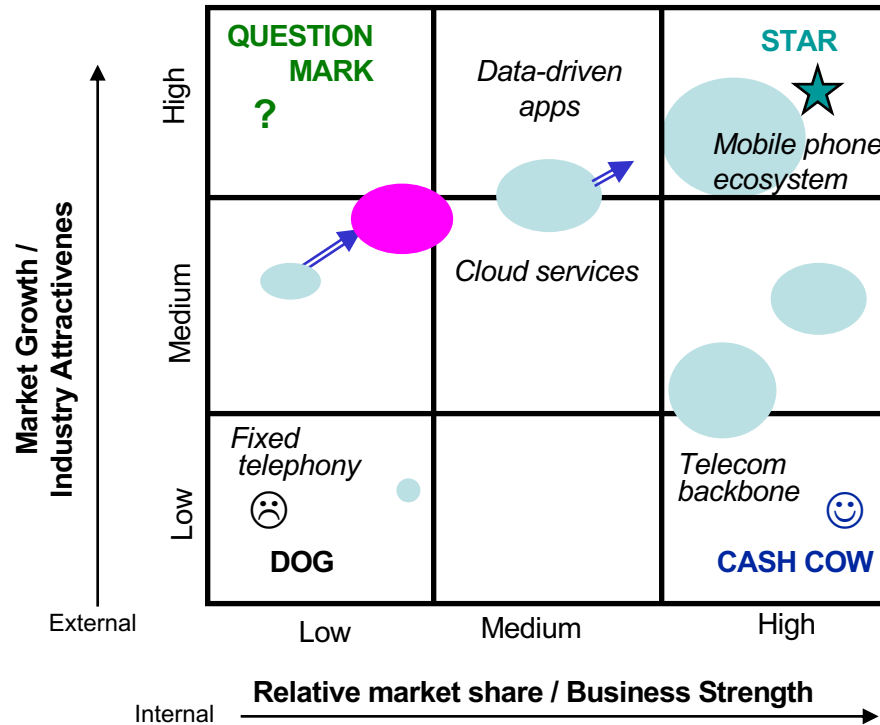
# How are strategies formulated?

- BCG (Boston Consulting Group) matrix
  - Ties strategy formulation to analysis of business opportunities according to ...
    - Industry or market growth rate
      - Low versus high
    - Market share
      - Low versus high





# Portfolio matrices

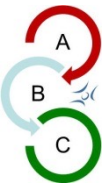


The most popular:  
**BCG matrix**  
(Boston Consulting Group)

A BU, product or technology, etc. is presented by circles.

Present and future status, or the direction of change can be also sketched.

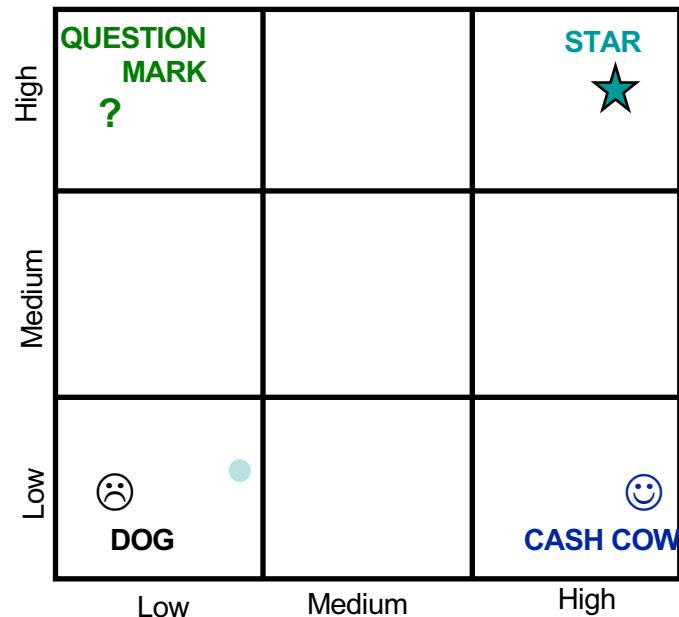
Cycle size represents the business significance.

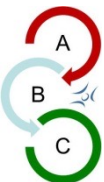


# BCG matrix

business conditions and related strategies

- **Stars**
  - High share/high growth businesses.
  - Preferred strategy — growth.
- **Cash cows**
  - High share/low growth businesses.
  - Preferred strategy — stability or modest growth
- **Question marks**
  - Low share/high growth businesses.
  - Preferred strategy — growth for promising question marks and restructuring or divestiture for others.
- **Dogs**
  - Low share/low growth businesses.
  - Preferred strategy — retrenchment by divestiture.





# ERP II Vendors Are Deepening PLM Functionality Within Broad Enterprise Business Suites

## Oracle

Strengths	Challenges
<ul style="list-style-type: none"> <li>■ Strong brand recognition</li> <li>■ New software architecture</li> <li>■ Resources</li> <li>■ Global presence</li> </ul>	<ul style="list-style-type: none"> <li>■ Immature software</li> <li>■ Few reference customers</li> <li>■ Low engineering visibility</li> <li>■ Scarce PLM field resources</li> </ul>
Threats	Opportunities
<ul style="list-style-type: none"> <li>■ Early PLM entrants capture the market before Oracle builds momentum</li> </ul>	<ul style="list-style-type: none"> <li>■ Leverage current manufacturing customers</li> <li>■ Leverage software scope</li> <li>■ Leverage the wide use of Oracle</li> </ul>

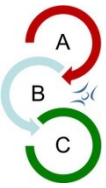
## SAP

Strengths	Challenges
<ul style="list-style-type: none"> <li>■ Strong brand recognition</li> <li>■ Business viability</li> <li>■ Discrete and process manufacturing base</li> </ul>	<ul style="list-style-type: none"> <li>■ Cost/time of implementation</li> <li>■ Resistance of engineering</li> <li>■ IPPe immaturity in production</li> <li>■ Software packaging</li> </ul>
Threats	Opportunities
<ul style="list-style-type: none"> <li>■ Agile vendors grab business</li> <li>■ Miss the SMB market</li> </ul>	<ul style="list-style-type: none"> <li>■ Leverage the large customer base</li> <li>■ Leverage the software scope</li> </ul>

Challenges = Weakness

PLM Product Life Management  
SMB Small-Medium Business

**Gartner**

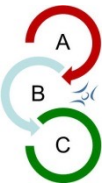


# STRATEGIC POSTURE

Declaration of strategic attitude

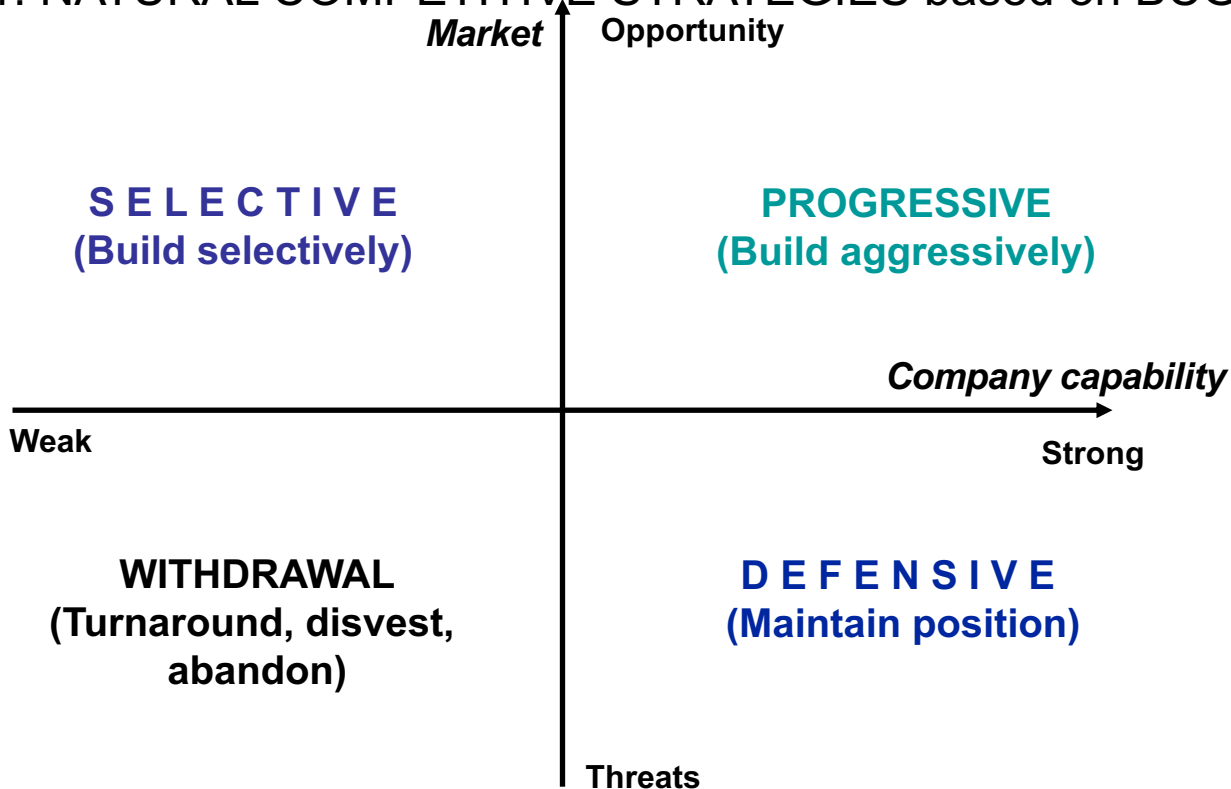
Based on SWOT, portfolio and other position analysis of the BU, product or technology:

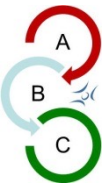
- Determination of natural strategies, competitive advantages
  - Identification of strategic factors / key areas and strategic instruments / resources
  - Exploration of interrelations among the key areas, the instruments and products / technologies
- Exploration of breakthrough opportunities, alignment of thrusts
  - Risk analysis, consequence of delay or absence of the thrusts
  - Formulation of priorities, scenarios, alternatives
- Arrangement of strategic focuses and instruments, formulation of programs and actions



# CLASSIFICATION OF COMPETITIVE STRATEGIES

## 1. NATURAL COMPETITIVE STRATEGIES based on BCG matrix



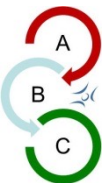


# CLASSIFICATION OF COMPETITIVE STRATEGIES

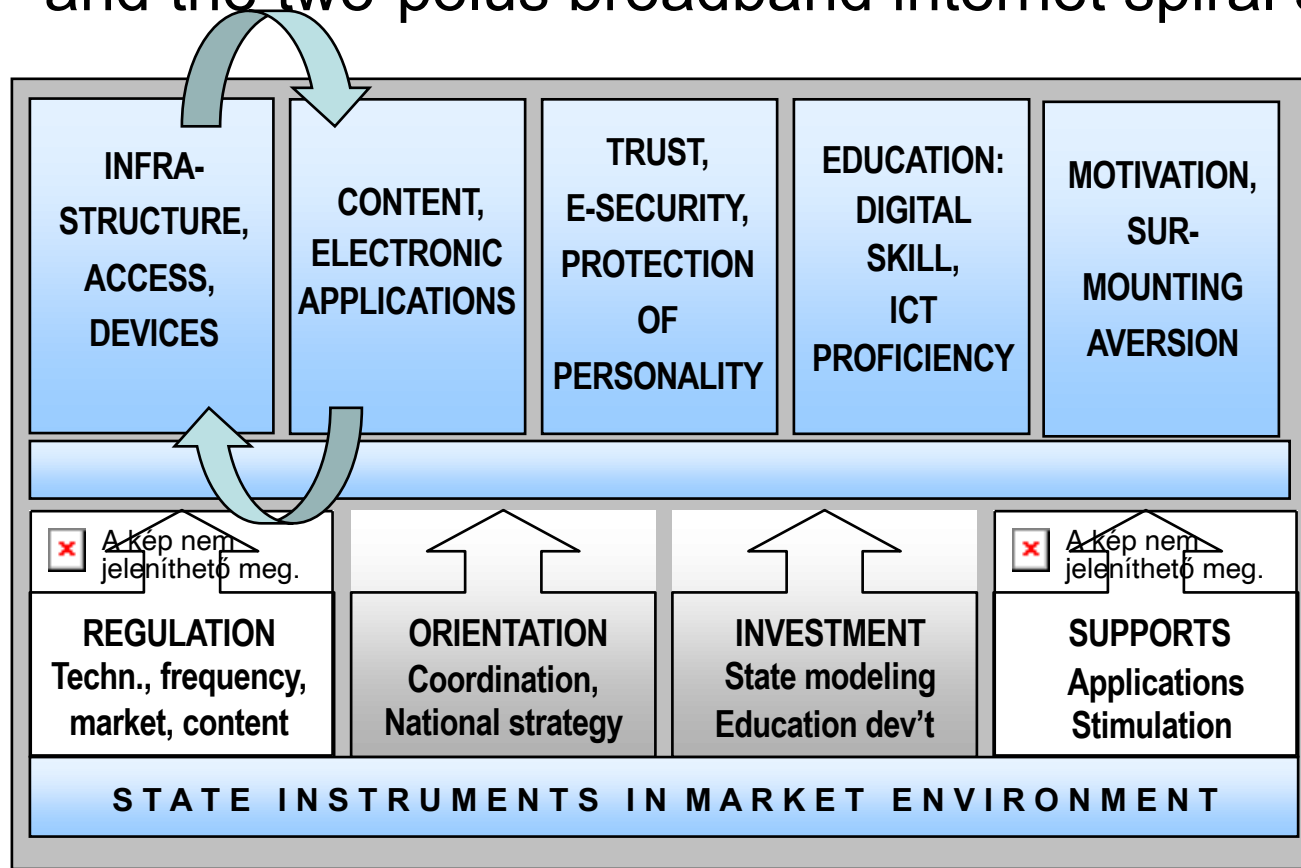
## 2. GENERIC BUSINESS STRATEGIES, according to the type of the competitive advantage

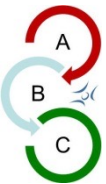
<i>Generic business strategies</i>	<b>Cost-minimizing</b>	<b>Differentiation</b>	<b>Focused differentiation</b>	<b>Focused cost-minimizer</b>
<b>Scope:</b>	<i>wide</i>	<i>wide</i>	narrow	narrow
<b>Differentiation:</b>	low	<b>strong</b>	<b>strong</b>	low
<b>Orientation:</b>	Mass <b>price competition</b>	Cust' groups <b>variety</b>	Cust' demand <b>quality</b>	Market gap <b>innovation</b>
<b>Investment:</b>	homogeneous	differential	special	slight
<b>Skill:</b>	narrow	wide	deep	special
<b>Sensitivity to volumen</b>	high	medium	low	very high
<b>Critical:</b>	Low quality	Complexity	R&D sensitive	Market knowledge

Generic business strategy classes are defined, based on the planned or existing scope and differentiation of the firm. Scope and differentiation can be according to customer groups, product functions or technologies. In our profession the classification by customer groups is preferred.



# Strategic key-areas and instruments and the two-polus broadband internet spiral strategy





# STRATEGY IMPLEMENTATION

**Key to change - management:**

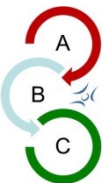
Harmony of strategy, processes, organization, resource-allocation and culture

The change is durable, if it touches corporate culture and internal value system, too.

- *Meeting demands of customers*  
(It is an opportunity for us...)
- *Profitability*  
(Invest, only if...)
- *Team work*  
(Integrate our knowledge, learn and change)







# BSC – BALANCED SCORECARD

## 1. Exposition of strategic factors and their interrelation (Strategic map)

### Stakeholders aspect (E)

How do stakeholders evaluate the business position of the firm ?

Income increase

Major strategic/  
business goals

Efficiency increase

Market result

Product characteristics, cost,  
price...

Customer  
relations

Brand, image

Innovation  
process

Production  
process

After-sale  
services

Competences  
of employees

Infrastructure  
buildings, office,  
devices...

Organizational culture,  
R&D&I, information..

### Customer aspect (P)

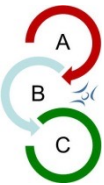
How do the customers the market performance of the firm?

### Value-chain aspect (A)

How do internal processes and org. structure support the value creation ?

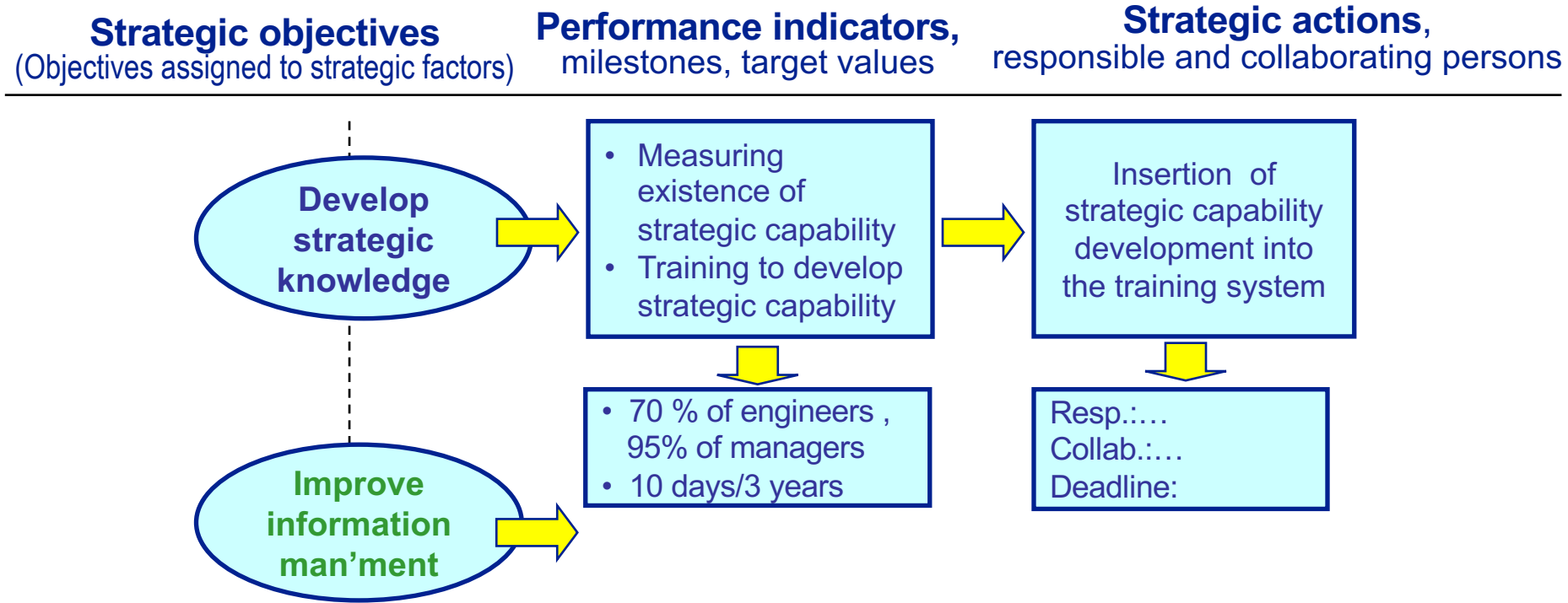
### Development aspect (I)

How do they ensure preparedness to future goals?



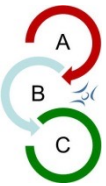
# BSC – BALANCED SCORECARD

## 2. Strategic objectives, indicators, actions related to strategic factors



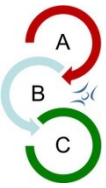
## 3. Monitoring and controlling of strategy execution

Measuring the progress and managing the deviation

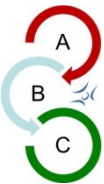


# SUMMARY OF STRATEGIC METHODS

<i>CHARATERISTIC METHODS</i>	<i>ITS FUNCTION</i>
<b>1. Business segmentation</b> Determination of Strategic BUs	<i>Division of firm's activity</i>
<b>2. SWOT analysis</b> → Internal: corporate screening <ul style="list-style-type: none"> <li>• value-chain analysis</li> <li>• capability, market share</li> </ul> → External: competitive analysis (Porter) STEP/HEAT analysis	<i>Analysis and determination of strategic focuses by BUs</i>
<b>3. Portfolio analysis</b> Portfolio matrix of business activity (e.g. BCG matrix)	<i>Integrate, determination of business strategies</i>
<b>4. Balanced scorecard (BSC)</b> Strategic factors, strategic map; balanced indicators; monitoring of implementation	<i>Execution of strategy, controlling</i>



# How to form the strategy of a startup ?



# Strategy making for a Startup Small Enterprise

Imagine, you form a strategy to start a small enterprise for your own.

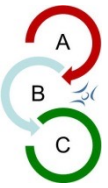
## What would be your main product?

- Tangible product or a service as a product?
- Or a combination of tangible product and services?

## Who will be your customers or consumers?

- Private persons? Business users? Governmental users?
- What is their feasibility? Where are they located?
- B2C, B2B, B2G?

***You must know something about the product and the market, at least as a customer. If you do not use it, no chance to sell it.***



# Long term competitive advantage

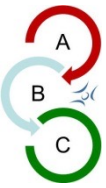
**What can be your long term competitive advantage serving a basis for your enterprise?**

- Find the reason of surviving the competition and crisis!
- New product, new service, personalization, cheap raw materials, niche on the market, etc. ?

**Business model** can be based on

- Advantages in the **value chain**: cheap or inputs or effective value making process
- How to **cover the market**: top down, bottom up in time
- Wide **range of products** or focused to a certain user group
- **Innovation**: new solutions and combinations
- Catch and **grab the customer** with free or cheap entering and then sell profit maker products

*„The firm will be successful if its resources are unique and non copiable” (Hammel and Prahalad 1990)*



# Analysing starting points

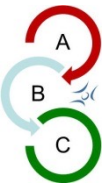
## **What is your competitive advantage you already have?**

- Good position,
- knowledge,
- experience,
- human connections,
- innovation...

## **What do you need inevitably to start?**

- family support,
- bank loan,
- real estate,
- skills,
- certificate...

***Common mistake: to calculate only finances***

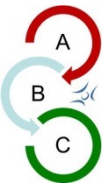


# Generic strategy

- To many customers cheap products : “*Cost benefit*”
- Rather many customers products at better quality “*Differentiation*”
- Few customers cheap or rational-priced products “*Focusing with cost benefit*”
- Special products for wealthy customers, creating image “*Focusing with differentiation*”

***Common mistake: stuck in the middle***

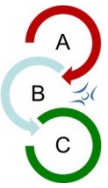




# SWOT analysis

- **S**trengths inside related to customers' expectations
  - Are we good enough to our customers, who they are and what do they want us to do?
- **O**pportunities outside related to competitors' position
  - Do we see something what they do not see?
- **W**eaknesses inside related to customers' expectations
  - What can we do more to our customers, who they are and what do they need from us?
- **T**hreats outside related to competitors' position
  - What kind of risks are on or under the surface

*Common mistake: we are bettering, environment does not change*



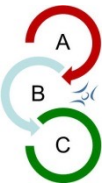
# Why to build a BSC for a startup?

Starting a business and finding investments is easier when you have a well-defined customer value proposition.

Founders need to be sure about their business model.

BSC is useful to

- gain a clear understanding of the strategy
- sell the idea to the investors
- prepare strategy map about how customer value is created
- explain the details of the strategy in numbers



# Plan the strating steps

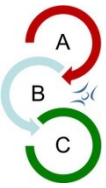
What would be your milestones?

- Register as an enterprise
- Buy a location,
- Internet presence
- Sell the first product
- Close the first business year

What are your planned first actions?

- Talk with the family
- Clean the garage, to prepare a small store
- Convince friends to participate

*„The longest way also starts with the first step“*



# Risk assessment

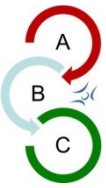
- What are the risks on short and on long term?
  - My family or my bank might not support my ambitions
  - In long term, my competitors will copy my products at lower price...

*Everybody has a limit of pain in money. It is related to the personal income or assets of the family*

When do you stop or fed up making this business?

- Having a strong disease...
- Losing more than ....amount of money

*Everybody has an inherited model of risk taking or avoiding. It comes from the business culture of our place where we were grown up. It also comes from the history of our family*



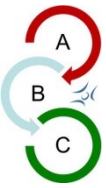
# Success factors

What do you consider as a success?

- Achieve the first official contract
- Making profit from this business
- I can buy a the real estate for the busine

Success factors should be determined in advance, because nobody would say: „Well done!”

*The business environment is not an empty place. If we are successful, others can not make their business there.*



# Matching to life plan

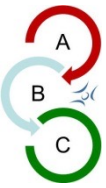
What is the probability you realize your plan?

- I do not know yet,  
20% / 50% / 70%

*I have my own mission coming to this world*

Considerations:

- I consider myself as a risk taker or a risk avoider person?
- I have a vision about myself as an entrepreneur or somebody else?
- How much energy I have to make it properly?
- What is the achievable benefit in money and knowledge?
- What is the risk regarded to my personal relations to my family or to my friends?...



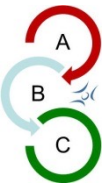
# Indicators of success

## Standard indicators:

- **Debt/Equity:** external or internal financing?
- **Earning/Capital:** I work for my money or my money works for me?
- **Profit:** is it over the capital cost (dividend or interest) ?
- **Internal rate of return:** is it better than the bank deposit?
- **Market share** of the existing market: what do we see?

## Strategy based indicators:

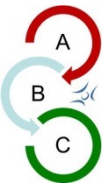
- Social usefulness (in case of nonprofit organisation)
- Coverage of all necessary cost
- Market share of the potential market
- Happy customers
- Effective cost spending
- Happy staff

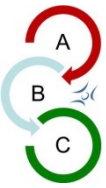


# Summary

- Based on the strategic theory, we have tried to plan a new enterprise
- First is to determine product and user groups
- Second is to build up the business model
- Next is to examine starting points
- Generic strategy type should be selected
- Risk are to be estimated
- Success factors should be determined
- All plans are expected to match with your life plans







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