

YOUR GUIDE TO

Business Strategy: Basics

Author: Vladi Finotto



Co-funded by the
Erasmus+ Programme
of the European Union





TABLE OF CONTENTS

01 What Do We Talk About When We Talk About Strategy?

02 Different Perspective on Strategy

03 Strategy: Microfoundations

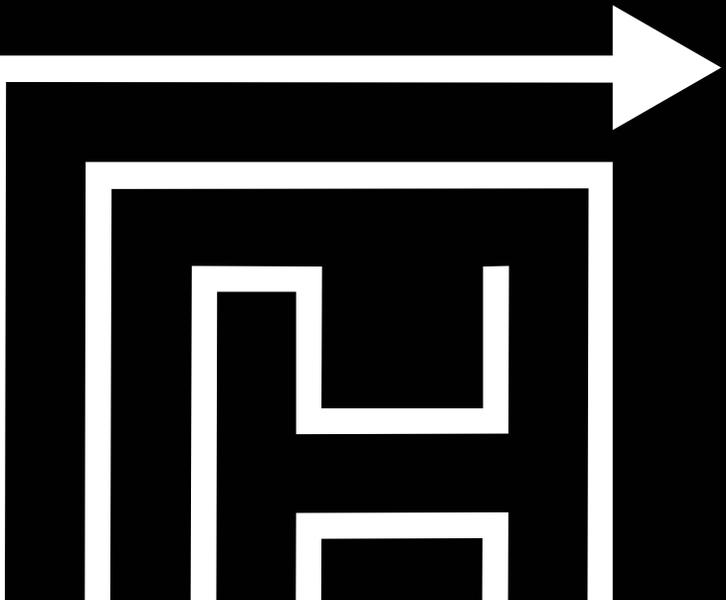
04 Strategy and Maps

This programme has been funded with support from the European Commission. The author is solely responsible for this publication (communication) and the Commission accepts no responsibility for any use that may be made of the information contained therein 2021-1-IT02-KA220-HED-000032050



Co-funded by the
Erasmus+ Programme
of the European Union

01



**What do we talk
about when we talk
about strategy?**

FAMOUS QUOTES

Anonymous: “speed, quality, price: pick two”

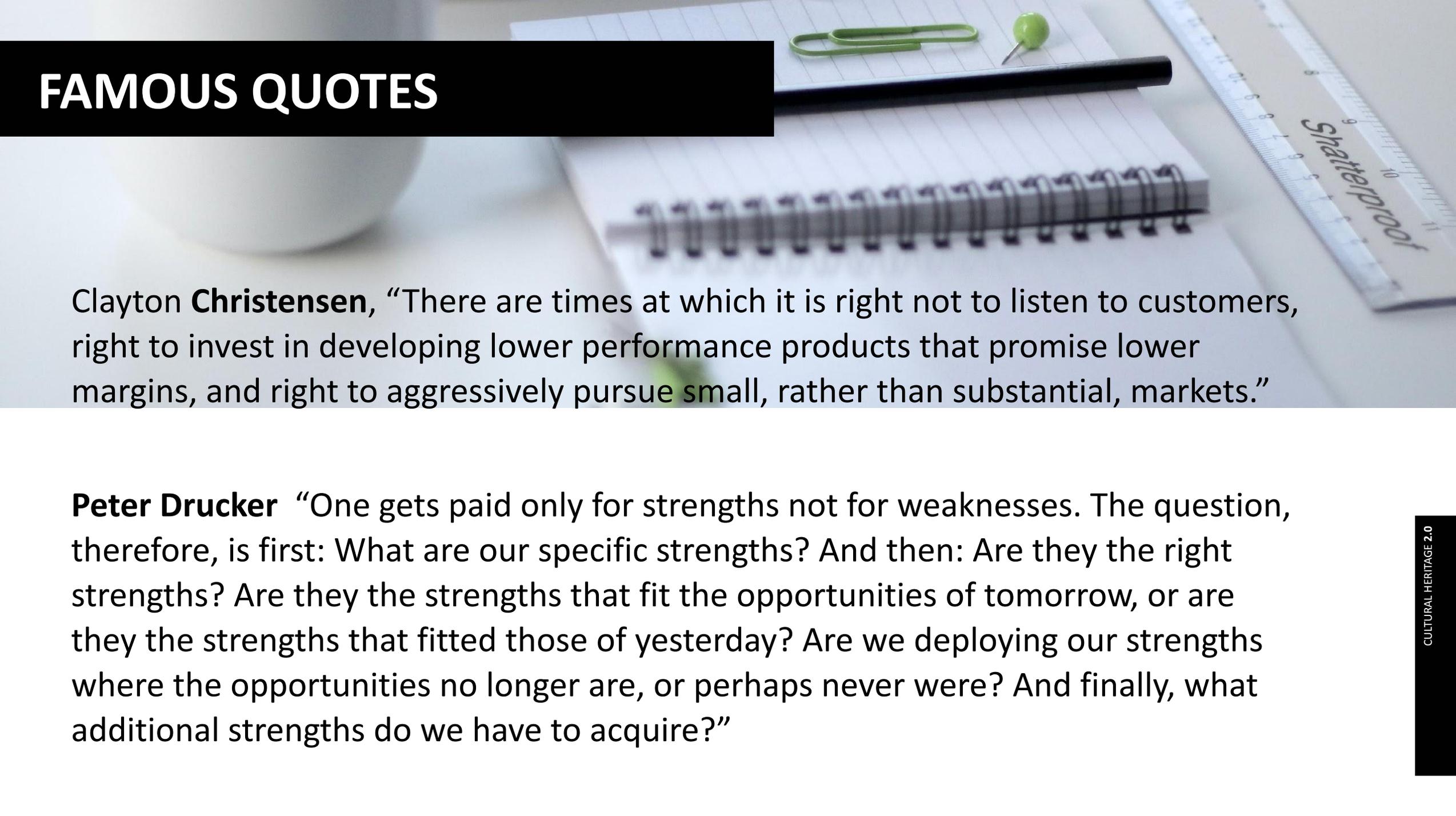
Jeff Bezos (Amazon’s founder): “There are two ways to extend a business. Take inventory of what you’re good at and extend out from your skills. Or determine what your customers need and work backward, even if it requires learning new skills.”

Theodore Levitt (academic): “Sustained success is largely a matter of focusing regularly on the right things and making a lot of uncelebrated little improvements every day.”

Bill Hewlett: “Show competitors what you are doing. They will learn soon enough anyway. Just don’t tell them what you are thinking.”

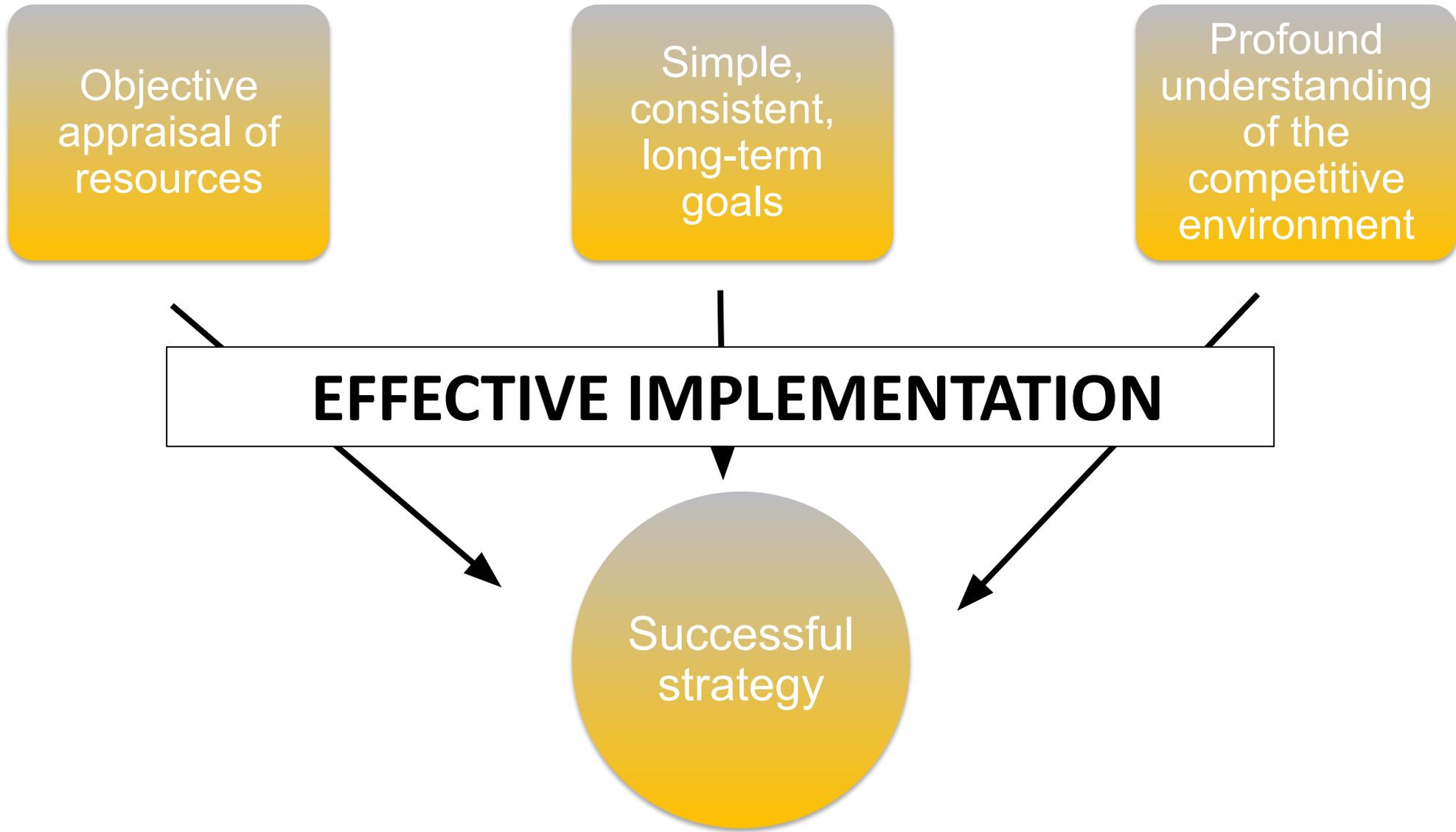
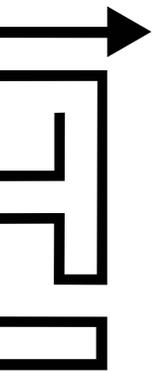


FAMOUS QUOTES

A close-up, slightly blurred photograph of a desk setup. In the foreground, a spiral-bound notebook is open, with a black pen resting on its pages. To the right of the pen is a green paperclip and a green pushpin. Further right, a white ruler with the word 'Shatterproof' printed on it is visible. The background is a plain, light-colored surface.

Clayton **Christensen**, “There are times at which it is right not to listen to customers, right to invest in developing lower performance products that promise lower margins, and right to aggressively pursue small, rather than substantial, markets.”

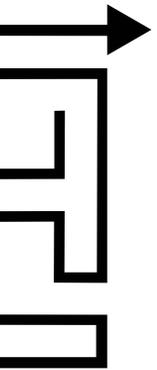
Peter Drucker “One gets paid only for strengths not for weaknesses. The question, therefore, is first: What are our specific strengths? And then: Are they the right strengths? Are they the strengths that fit the opportunities of tomorrow, or are they the strengths that fitted those of yesterday? Are we deploying our strengths where the opportunities no longer are, or perhaps never were? And finally, what additional strengths do we have to acquire?”



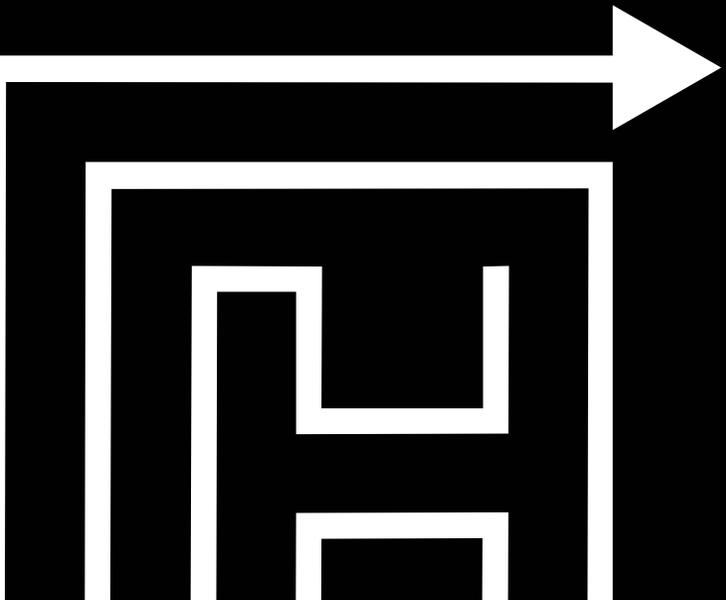
Source: Grant R.M., (2010), Contemporary Strategy Analysis, Blackwell Publishing, Malden:MA

Strategy: a working definition

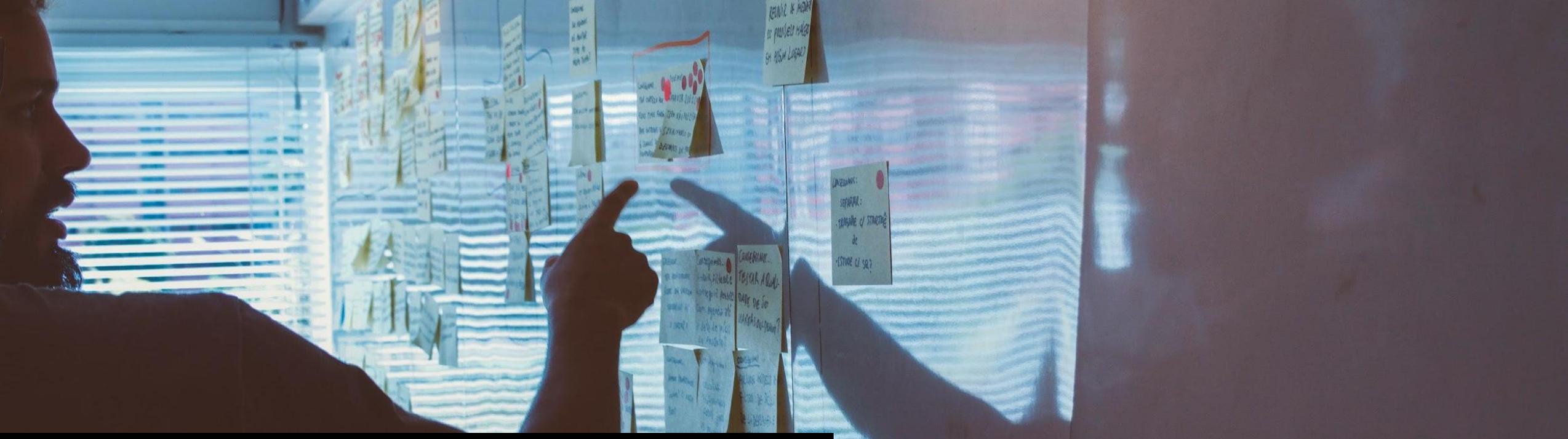
- Organizations (businesses, governments, associations and NGOs) engage in strategizing whenever they project themselves into the future. More specifically, strategy in organizations entails
 - identifying and setting clear, simple, consistent long-term goals,
 - A profound understanding of the competitive environment, as to identify potential competitors and allies
 - An objective appraisal of the resources at hand (those that might be rapidly mobilized, e.g. people and talent, finance, machinery) and of those that might be needed and sought for to achieve the results



02



**Different Perspectives
on Strategy**

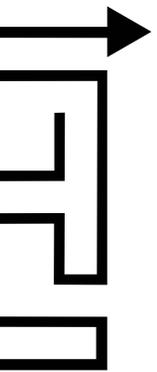


1: Strategy as Positioning

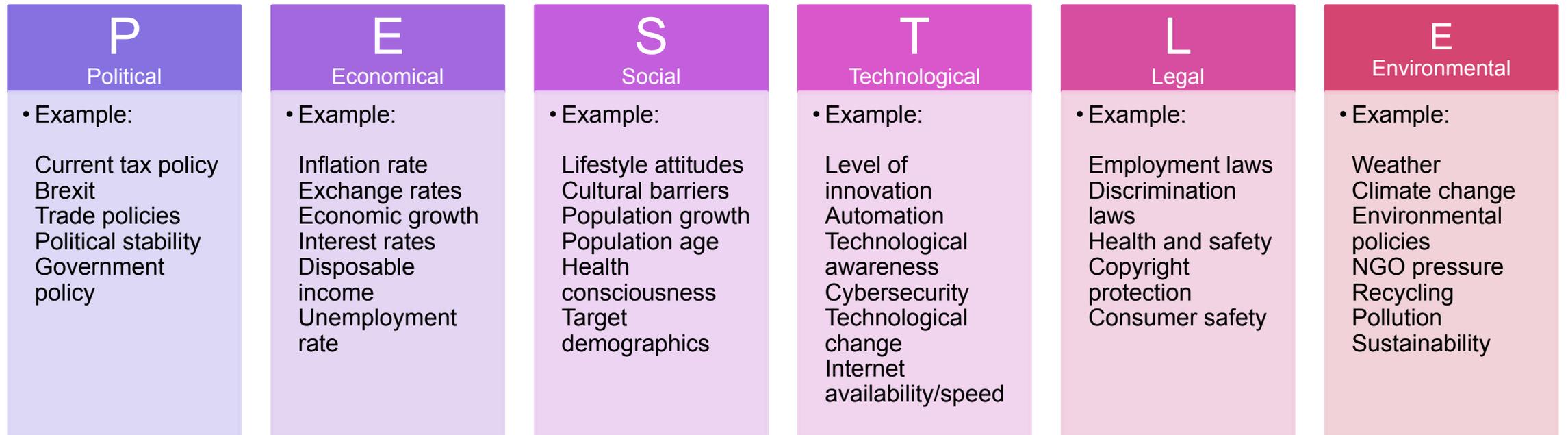
Analysis and Positioning

«Strategy» is often associated to the set of decisions a business makes when it comes to deciding whether to enter or not a specific industry or market and in which position (in a value chain). Depending on the existing competitive pressures within the industry/market, a company might decide to enter, to stay, to exit, to change its position.

Deciding whether to enter/stay/exit depends on the profitability projections a company might make based on the data it has access to. For example, the more a market is growing, the more there will be «room» for different competitors and, in principle, enough consumers to sustain many different alternatives. The more a market is static and mature, the more the pressure exerted by large incumbents, making it difficult to enter.

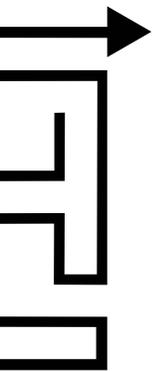


How can we decide? PESTLE Analysis

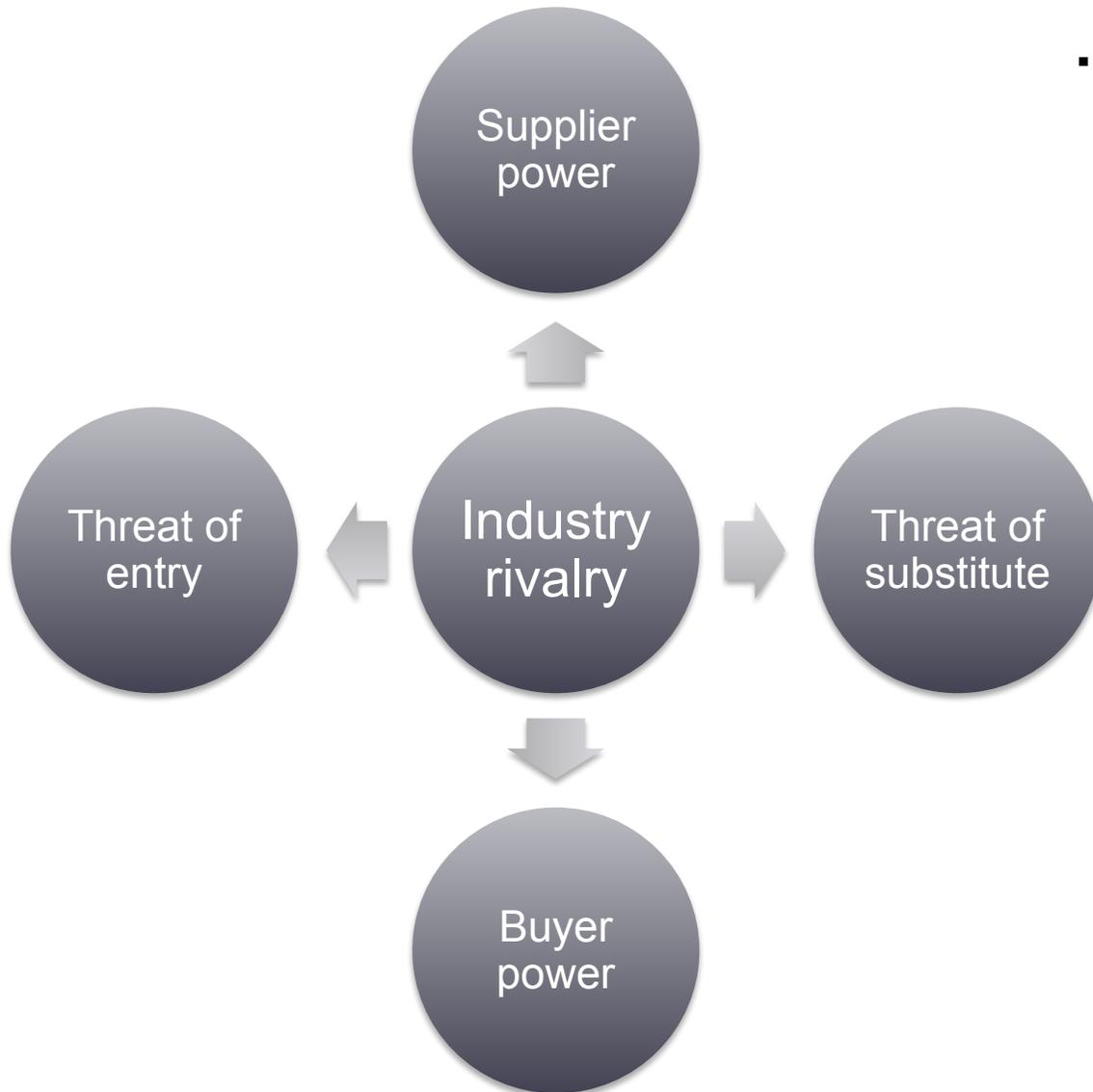


PESTLE

- A framework that orients business' decision makers towards collecting data and making sense of all the forces that might have an influence on the conduct of a given firm in its «enlarged» environment
- For example, mobility platforms such as UBER POP are considered illegal in many European countries (e.g. Italy) and cannot operate, thus limiting the plans for expansion of Uber in these areas. Regulations, in these cases, are the constraints that limit the potential of some companies.
- Another example might be made in the food area: the recent introduction of novel foods (e.g. Insects) is currently met with hostility by consumers in many countries all over the world. In this case, social and cultural factors act as limits to the strategic horizon of a company.

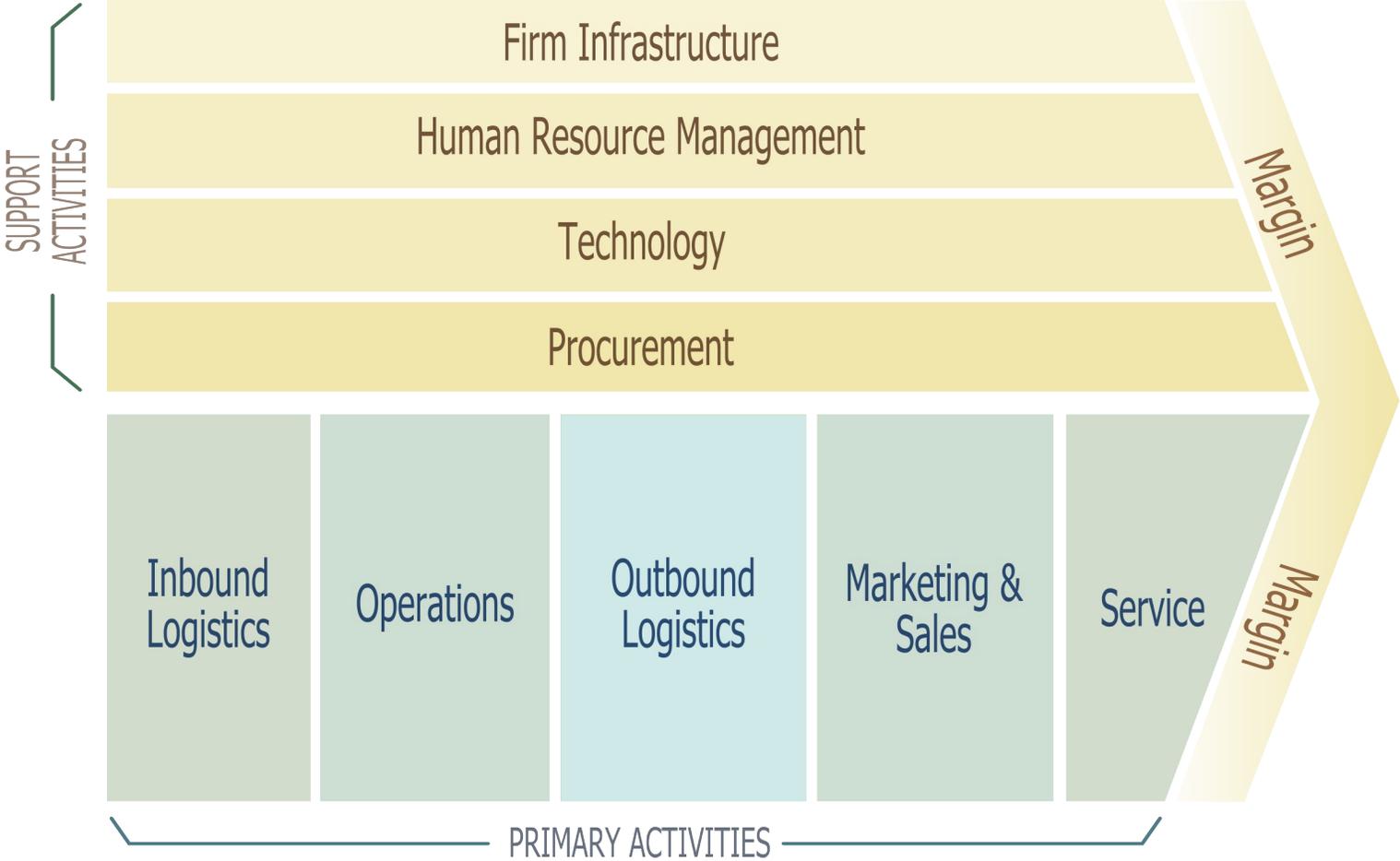


Five Forces (M. Porter, 1980)



- According to Michael Porter, a professor at Harvard Business School and one of the most authoritative sources on strategy, a company might decide its position in a market/industry based on the intensity of 5 categories of forces:
Current competition;
 - Supplier power (few large suppliers might dictate the «rules of the game» to their clients);
 - Buyer power (as above)
 - Entry: outsiders might consider to enter a market if the margins and profits that incumbents are making are high;
 - Threats of substitutes: different technologies might respond to similar needs (e.g.: cars and kick scooters)

Value Chain Analysis



Dinesh Pratap Singh, CC BY-SA 3.0 via Wikimedia Commons



Value Chain

The Value chain is an analytic framework that allows a company to figure out and formalize the flow of activities and the interdependencies among them that are conducive to develop and sell a given product or service.

It can be used to figure out which activities might be performed within a company («make») since it possesses the adequate competences and resources, and which ones might be sourced from the market, since outside actors possess better resources and competences and might thus have a competitive advantage.



2. Internal analysis: competences and resources

The link between resources and strategy

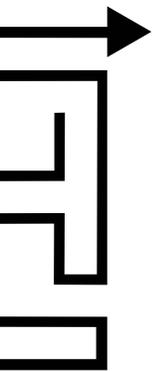


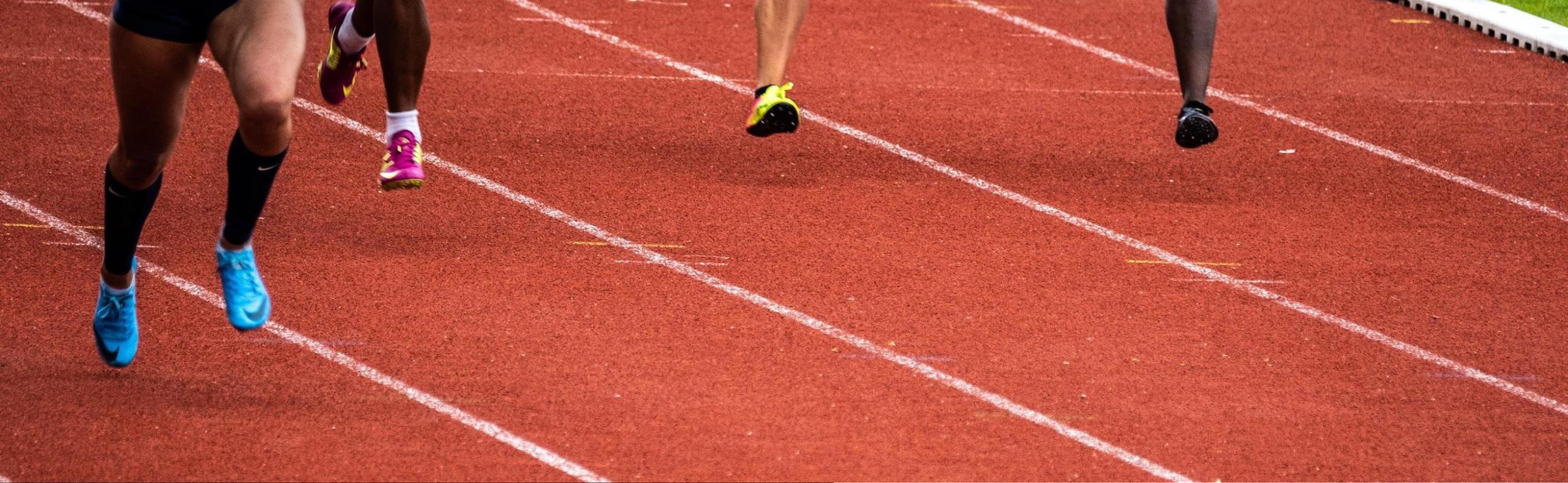
Resources		
Tangible	Intangible	Human
<ul style="list-style-type: none"> • Financial • Physical 	<ul style="list-style-type: none"> • Technology • Reputation • Culture 	<ul style="list-style-type: none"> • Skills/Know How • Capacity for communication and collaboration • Motivation

Source: Grant R.M., (2010), Contemporary Strategy Analysis, Blackwell Publishing, Malden:MA

Resource Assessment

- Setting a goal is not sufficient: resources need to be present or they need to be sought for to extend the company in the direction devised by leaders
- Capabilities, competences and resources are fundamental to execute the strategy and gain a competitive advantage (that is to achieve superior performance vis-à-vis competitors on one or more characteristics of an offering)
- Resources might be tangible (e.g. plants, computers), intangibles (e.g. Patents) or human (talent).
- Every organization then possesses specific cultures and «recipes» that are fundamental in deploying the resources it possesses towards the end that were decided





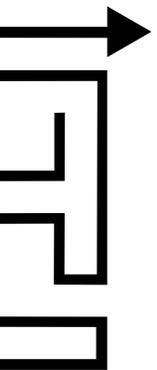
3. Competitive Advantage

What is it?

A competitive advantage is an attribute that allows a company to perform better than its competitors. As a result, the firm in question will be able to capture a share of value that is superior to that of both its competitors and its suppliers/partners

The determinants of a competitive advantage might be

1. Privileged access to natural resources;
2. Highly skilled human capital and talent;
3. Geographic localization
4. Barriers to entry (e.g. economies of scale, marketing budgets);
5. Innovative technologies;
6. Unique value propositions (that is, offerings that combine tangible and intangible elements that are new to the market).



03



Strategy: Microfoundations

A person in a dark suit is pointing with a red pen at a corkboard. The corkboard is covered with numerous colorful sticky notes (yellow, blue, pink, white) and yellow string that forms a flowchart or organizational structure. The sticky notes contain handwritten text, such as 'RUNNING EVENTS', 'ATTENDANCE DEPENDED ON TIME & VALUE', 'TICKETING IS AN ISSUE', and 'I WOULD HAVE MADE IT PRACTICAL IF IT WAS FOR EVERYONE'.

The micro-foundations of strategy

- Strategy is about choices, decisions, that share three common characteristics:
 - They are important –they have actual impact
 - They involve a significant commitment of resources
 - They are not easily reversible

Roles of strategy: coordination

- It is a communication device, embodied in a powerful statement that communicate the identity, the goals of the organization
- Moreover, the very process of strategy-making allows the negotiation of different positions and the construction of a political consensus within the organization, thus allowing those statements to be “bought” by the members of the organization



Jonathan IVE

- «Why do we assume that simple is good? Because with physical products, we have to feel we can dominate them. As you bring order to complexity, you find a way to make the product defer to you. Simplicity isn't just a visual style. [...] It involves digging through the depth of the complexity. [...] The better way is to go deeper with the simplicity, to understand everything about it and how it's manufactured. You have to deeply understand the essence of a product in order to be able to get rid of the parts that are not essential»

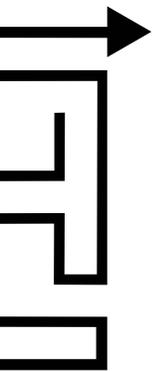
Steve JOBS

- «It's in Apple's DNA that technology alone is not enough — it's technology married with liberal arts, married with the humanities, that yields us the result that makes our heart sing and nowhere is that more true than in these post-PC devices»

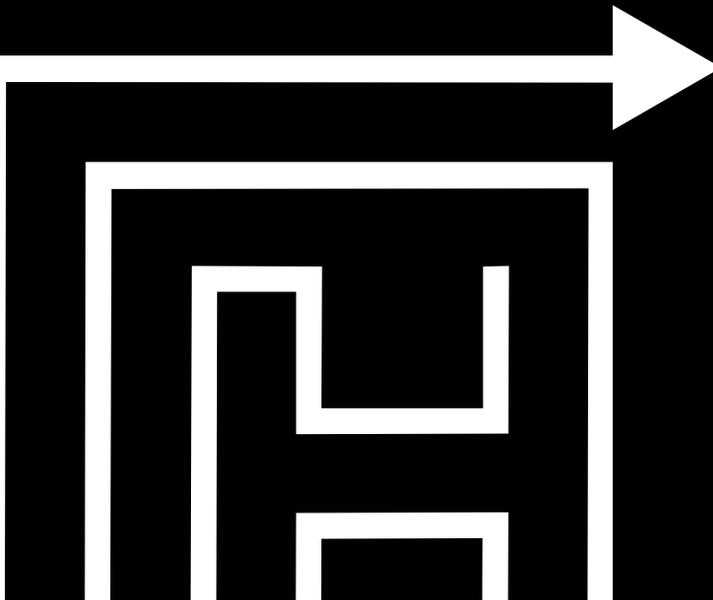
Source: Isaacson, W. (2011) Steve Jobs, Simon and Schuster

Roles of strategy: target

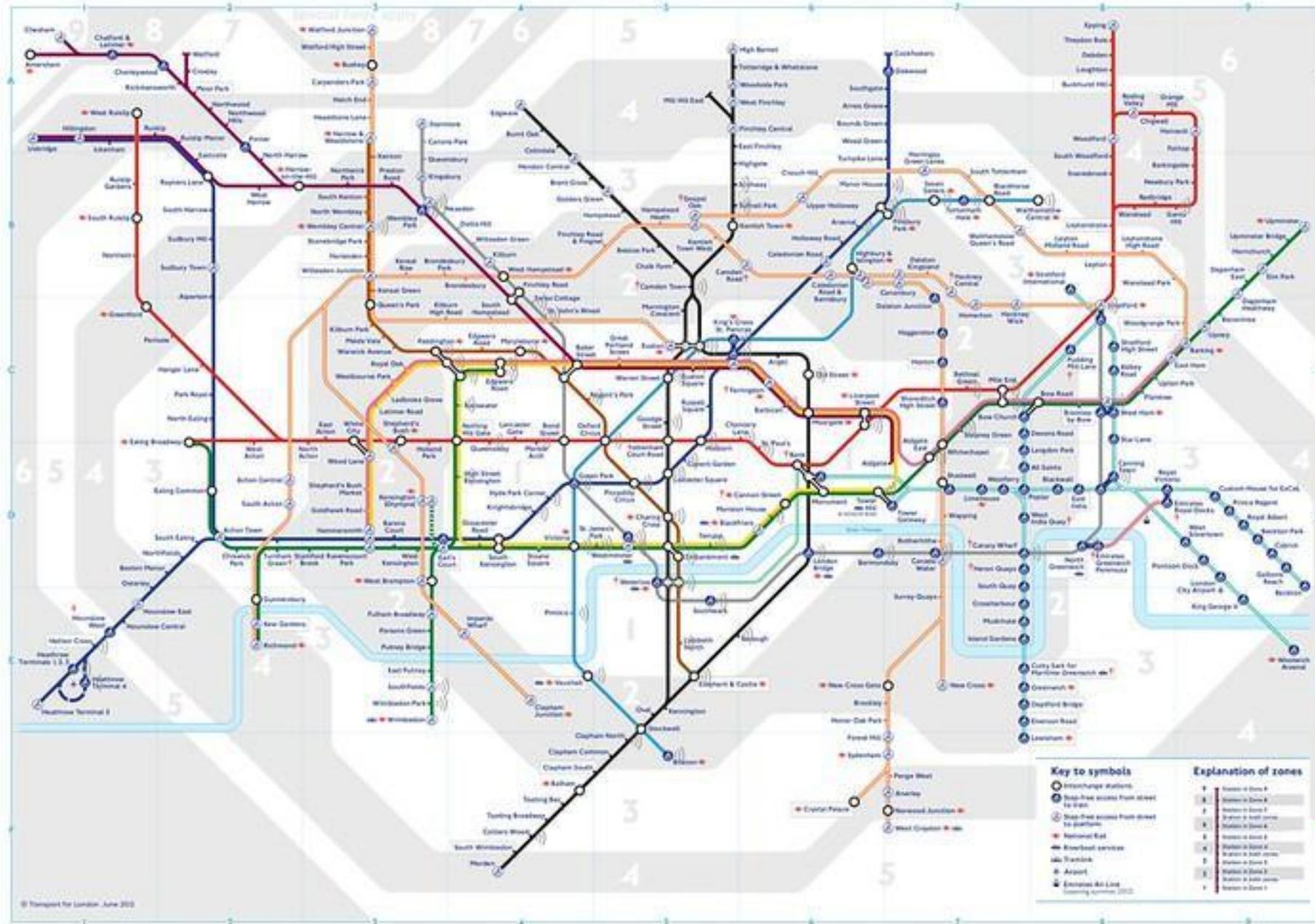
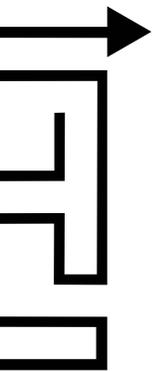
- Strategy is forward looking, it is concerned with –and tries to figure out– what the firm will be in the future
- Strategic intent: the articulation of a desired leadership position. «SI creates an extreme misfit between resources and ambitions. Top management then challenges the organization to close the gap by building new competitive advantages» (Hamel, Prahalad).
- Stretch and resource leverage



04



Strategy and Maps

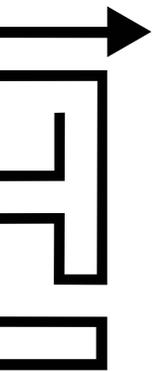
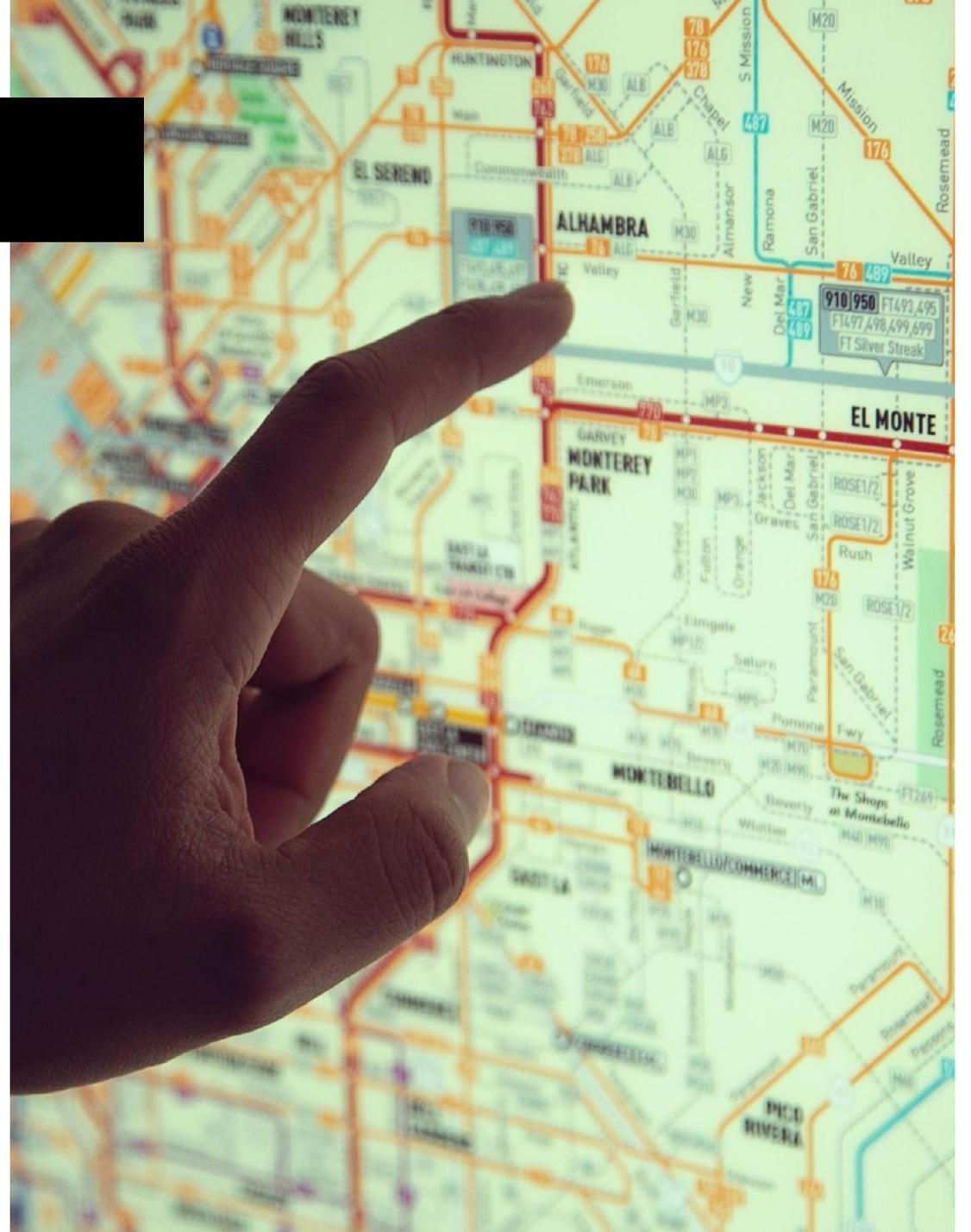


<https://www.flickr.com/photos/lablasco/8194327002>

<https://creativecommons.org/licenses/by-sa/2.0/>

Strategy and Maps

- Making maps for the future is important, even if they might be falsified by experience
- The map of London Metro simplifies dramatically the complexity of the world
- The world disappears: no trees, no squares, distances are standardized
- Why is it useful? It allows people to take effective decisions in simple ways
- Moreover, why was it accepted? It is aesthetically “clean”, neat, reassuring



Maps, again (M. Holub, 1977)

"The young lieutenant of a small Hungarian detachment in the Alps sent a reconnaissance unit out onto the icy wasteland.

It began to snow immediately, snowed for two days and the unit did not return.

The lieutenant suffered:

he had dispatched his own people to death.

But the third day the unit came back.

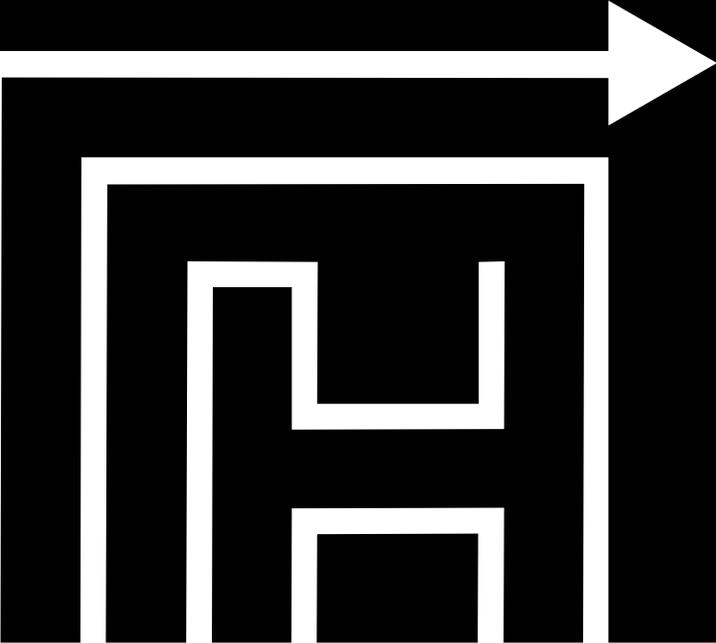
Where had they been? How had they made their way?

Yes, they said, we considered ourselves lost and waited for the end. And then one of us found a map in his pocket. That calmed us down. We pitched camp, lasted out the snowstorm and then with the map we discovered our bearings.

And here we are.

The lieutenant borrowed this remarkable map and had a good look at it. It was not a map of the Alps but of the Pyrenees"

(Miroslav Holub, 1977, brief thoughts on maps, The Times Literary Supplement (TLS), Feb 4, '77)



www.culturalheritage.eu

Follow our journey

