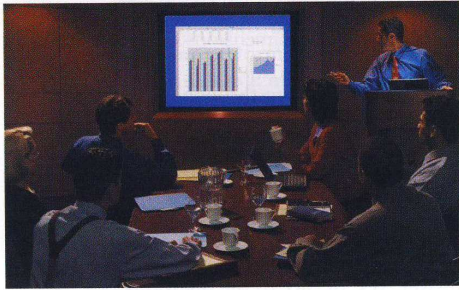


16 Strategic thinking

A Strategy



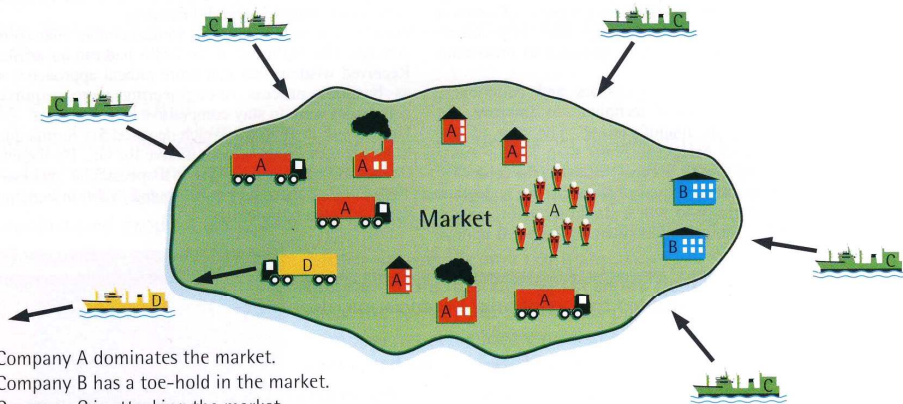
A **strategy** (countable noun) is a plan or series of plans for achieving success. **Strategy** (uncountable noun) is the study of the skills, knowledge, etc. required to make such plans. **Strategic** success in a commercial organization is often measured in terms of **profitability**, the amount of money it makes in relation to the amount invested.

An important part of **planning** is **resource allocation**. This is the way finance, people and assets – equipment, buildings, know-how, etc. – are going to be used to achieve a particular **objective**.

A company's senior executives make **strategic decisions** or **formulate strategy**. Sometimes an organisation will publicly state its main overall objective or **vision** in its **mission statement**.

Companies sometimes form **strategic partnerships**, working together to achieve a specific **strategic goal**. For example, MG Rover entered a partnership with a Chinese car manufacturer to enable it to produce and sell cars in China. A company may also make a **strategic move**, such as acquiring a competitor, designed to increase their market share.

B Companies and markets



Company A dominates the market.
 Company B has a toe-hold in the market.
 Company C is attacking the market.
 Company D is withdrawing from the market.

When a company ...		
a defends		tries to prevent competitors from being successful in it.
b attacks		starts selling in it for the first time.
c establishes a foothold/toehold in	a market, it	occupies a small part of it first in preparation for gaining a larger part.
d invades		starts to be very successful in it.
e dominates		is the biggest competitor in it.
f withdraws from		stops selling in it.

16.1 Look at the questions from shareholders at the annual meeting of Topaz, a car company. Complete the chief executive's answers with appropriate forms of expressions from A opposite.

- 1 Why has the company bought out its rival, Rivera?

This was a to broaden our customer base.
- 2 Some of Topaz's plants have very low productivity. What are you doing about this?

We have taken steps to ensure that our are used more effectively. This is an important part of our strategic process.
- 3 Why are you closing one of the plants?

This is an issue of We don't have infinite financial resources and we want to concentrate investment on the most productive plants.
- 4 Was this the only goal that was considered? Did you also look at the possibility of being a mass producer of vehicles?

We looked at a number of different and decided that the hi-tech option was the best one to follow.

16.2 Match the underlined phrases below to the expressions in B opposite that refer to the same idea.

Coffeeway (CW) is a successful American chain of coffee shops. It wanted to (1) aggressively enter the Chinese coffee shop market, with shops all over China. CW signed an agreement with a partner, Dragon Enterprises (DE). CW and DE decided to (2) start by opening just one coffee shop in Shanghai in order to test the market. This was very successful, so CW and DE decided to open shops all over China. It took CW and DE five years to (3) be the biggest in the market, with a 70 per cent market share among coffee shop chains in China. One of their competitors, California Coffee, tried to (4) protect its market share by cutting prices. But this strategy did not work, and California Coffee later sold its outlets to CW/DE and decided to (5) leave the market.



Over to you

Think about your organization or one you would like to work for. Look at its website and find its mission statement. If it doesn't have one, what would you suggest?

19 Key strategic issues

A Industries and their players

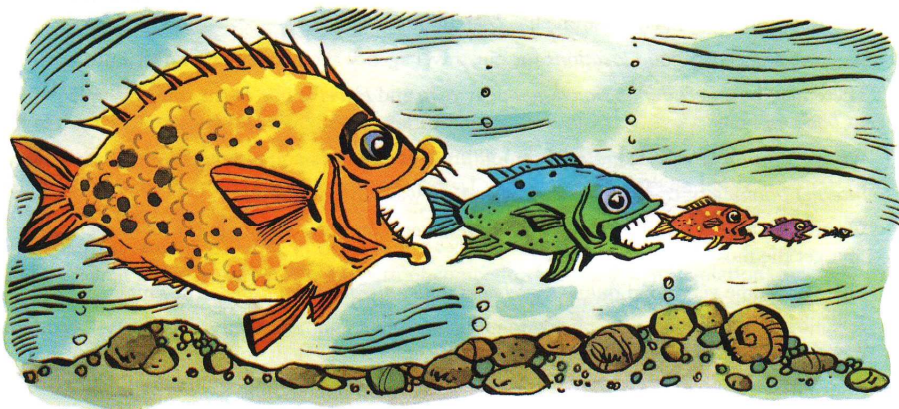
In some industries, like steel or tyres, there are few companies: these industries are **concentrated**. Other industries are **fragmented**: for example there are millions of restaurants worldwide, and even the largest chain, McDonalds, only has a **market share** of less than one per cent in terms of all restaurant meals served worldwide.

Some industries have **low entry barriers** – anyone with a small amount of capital can open a restaurant.

If an industry has low entry barriers and is **attractive** because of its high potential **profitability**, there will always be new **entrants**. This was the case for Internet service providers at the turn of the century with a lot of companies offering this service.

Other industries, like steel, require massive investment in equipment, know-how, etc. – these are **high entry barriers** and new entrants to the industry are rare.

B Mergers and acquisitions (M&A)



Some companies are very **acquisitive**, buying competitors in their industry or companies in other industries in a series of **acquisitions** or **takeovers**, which it may refer to as **strategic acquisitions**. Or a company may merge or combine as an equal with another company of similar size.

A company may also buy its suppliers and customer companies in a process of **vertical integration**.

The result of this may be an **unwieldy conglomerate**, a holding company with a large number of **subsidiaries**, which may not be easy to manage profitably as a group.

C Make or buy?

Recent strategic thinking holds that conglomerates are not good. Many conglomerates have **disposed of** or **divested** their **non-core businesses**, selling them off in order to **concentrate on** their **core business**. This is related to the **make or buy decision**, where companies decide whether to produce particular components or perform particular functions **in-house** or to buy them in from an outside supplier. (See Unit 4)

Note: The nouns relating to 'dispose' and 'divest' are 'disposal' and 'divestment'. They can be both countable and uncountable nouns. (Compare "divestment" with "investment".)

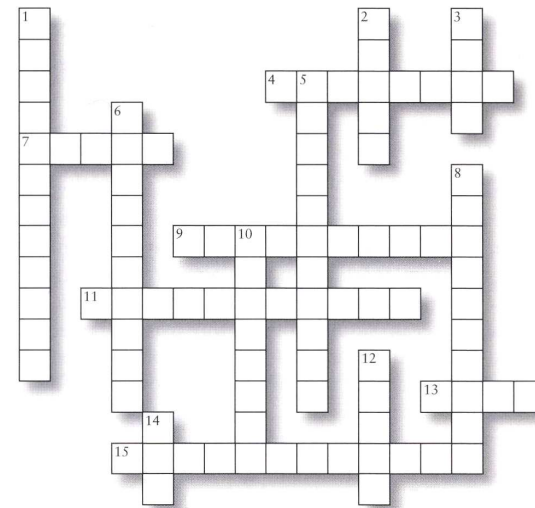
19.1 Complete the crossword with appropriate forms of expressions from A, B and C opposite.

Across

- 7 and 4 Things that make it difficult to get into an industry. (5,8)
- 9 When a company sells a business activity. (10)
- 11 See 10 down.
- 13 If an industry is difficult to get into, entry barriers are (4)
- 15 A large group of different businesses. (12)

Down

- 1 A large industry with not many companies is (12)
- 2 When two companies join as equal partners, they (5)
- 3 A company's most important business activity: its business. (4)
- 5 A company that buys a lot of other companies is (11)
- 6 A large industry with lots of small competitors is (10)
- 8 A profitable industry that companies want to get into is (10)
- 10 and 11 across When a company buys its suppliers or customers (8, 11)
- 12 In a fragmented industry, each competitor only has a small market (5)
- 14 If an industry is easy to get into, entry barriers are (3)



19.2 An executive in a consumer goods company is talking. Complete what she says with expressions from A and B opposite. (There are two possibilities for one of the gaps.)

'We make a wide range of consumer goods. Over the years we have made a number of (1), buying companies that fit in with our long-term plan of being the number one consumer goods company in Europe. These (2) mean that we now own a large number of (3), each with its own brands. We have become an (4), and all this is very difficult to manage. So we are now reducing the number of brands from 300 to 100, and getting each unit of the company to concentrate on our long-term goal, which is increased (5) and therefore better results for our shareholders. And our increased power will certainly dissuade new (6) from coming into the industry, so our position will be further strengthened.'

Over to you



Think of a recent merger or takeover. What benefits were claimed for it at the time? Have they materialized?

20 Innovation

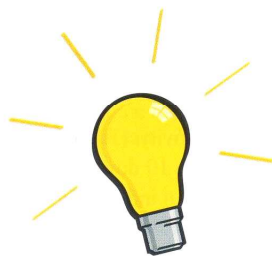
A Innovation and the development process

Enrique Sanchez is head of new product development at a large consumer products company:

'We want to **foster creativity** and **innovation** – the development of new ideas. Ours is a large company, but we want to avoid becoming **bureaucratic**, with slow decision making. (See Unit 1)

We encourage **corporate venturing** and **intrapreneurship**, where employees develop **entrepreneurial** activities within the organization, working on their own projects outside the usual frameworks; we allow them to spend 15 per cent of their time on this. We set up **skunk works**, away from the main company sites and outside the usual structures, to work on innovations. This is the way we do our **new product development**. The most famous example of this was IBM, when it developed its PC away from the company's main **research and development** sites.

We firmly believe that companies have only two basic functions: innovation – developing new products and services – and marketing them. Our marketing people are heavily involved in new product development. They get the reactions of **focus groups** – groups of consumers who say what they think of the product – at a very early stage in the **development process**.'



B Pioneers and followers



'One problem is to know whether to introduce a product or service before anyone else, or to wait for others to introduce similar products. Some say that if you **bring a product to market** first, you have **first mover advantage** – you can influence the way the market develops. These companies are **trendsetters** or **innovators**. Others say that it's better to be a **follower** and learn from the mistakes of the **pioneers**.'

Note: 'Pioneer' is also a verb.

C Shakeout and consolidation

A new or **emerging industry**, perhaps one based on a new **technology**, can be **attractive** – the future **structure** of the industry is not yet **established** and there is room for many competitors. But as growth in the new market slows, smaller competitors with higher costs can no longer compete. They **drop out** or are bought by the larger companies in a process of **shakeout and consolidation**, leaving the larger companies with the resources to **dominate** the industry, which is now **mature**.

20.1 This article contains words from A opposite. Complete it by choosing the best phrase (a–d) below to go in each of the gaps (1–4).

INTRAPRENEURSHIP

Increased global competition is forcing large companies to consider more venturesome ways of stimulating product ideas

As a theory, intrapreneurship, where large established companies turn to internal 'entrepreneurs' for breakthrough innovations, sounds like a good idea. On the surface, nothing can be more efficient than (1)

In practice, things have not been that easy. (2) many companies which have ventured into the world of intrapreneurship have failed to reap any benefits. After its birth in the

1960s, the concept fell out of favour in the mid-1980s. Fostering different cultures in the same organization has proven to be difficult, while remuneration has also been a problem.

Intrapreneurship seems to have been perceived to be more effort and pain than it was worth. There is an increasing recognition that (3) Most of the corporate venturing activity in the past has been centred around US companies, and the concept never really caught on in the UK. But increased competition in global markets and the pressure for

innovation is forcing Britain's large companies to look for methods to stimulate ideas for new products.

(4) companies through corporate venturing and intrapreneurship may be given new life in the UK. 'Too many UK companies used to lack global ambition, but now, those who want to compete internationally realize that they need to innovate,' says Jim Martin, director of technology investment at 3i, the venture capital group.

Financial Times

- a The push for innovation among large
- b encouraging innovation among employees so that they come up with mould-breaking products and ensure the company's survival.
- c the nature of big companies is to stifle innovation and entrepreneurship, hampering their performance in the global arena.
- d Apart from a few examples of success,

20.2 Complete the sentences with appropriate forms of expressions from B opposite.

- 1 The alliance put ARM in partnership with Psion, the early of pocket-sized computers.
- 2 Freeserve was the first Internet service provider to drop upfront charges and, with this, came to dominate the UK market.
- 3 But when one company a successful business, competition inevitably intensifies. Consumers benefit from the resulting cuts in prices and improvements in quality.
- 4 So far Taiwan has always been a, making things invented elsewhere more cheaply.

20.3 Look at the following facts about the development of the market for online book sales. (They are not in chronological order.) Complete the facts with appropriate forms of expressions from C opposite.

- 1 Some smaller companies stopped selling altogether: they ...
- 2 There is a trend towards fewer and bigger companies in the market, a trend towards ...
- 3 Amazon and a few others lead the industry: they ... it.
- 4 The market is no longer young: it is now ...

Over to you



Is it always difficult for large organizations to come up with innovative ideas and products? How does your organization, or an organization you would like to work for, produce new ideas?