Strategic Management and Organizational Change
Summer term 2019

Agenda

1. **Introduction: Competitive advantages, parenting advantages, and business models**
2. Ten schools of thought about strategy making
3. Basic frameworks for understanding strategic/organizational change
4. Developing new business models
5. Developing and implementing sustainable strategies (and business models)
6. Industry 4.0 and the big data challenge: The case of the steel industry
7. Industry analysis and new business models in the automotive industry
8. Strategic and cultural change – the case of Volkswagen reconsidered
9. Corporate diversification: The concept of relatedness
10. Re-Defining the role of the corporate headquarters: The case of Siemens
11. Towards a circular economy? Re-thinking the mobility system
12. Executive compensation and the equality/inequality issue in organizations
13. Diversity and gender issues in organizations
14. Exam preparation

Guideline

In this first lecture I will try to explain the basic difference between competitive and corporate strategies and make clear, which goals these strategies are aiming at – namely the achievement of long-term sustainable and beneficial positions, or to be more precise: *competitive advantages* on the one hand and *parenting advantages* on the other hand. First of all, chart 4 gives you an overview of the terms. After that, the charts 5-7 are supposed to give you a few more details about competitive advantage. I start with a variant of the famous SWOT analysis (chart 5) and take the element “strengths and weaknesses of the firm” as a starting point of a short introduction to the resource-based view (RBV) of the firm. During the last 20 years the RBV played a quite important role within the field of strategic management. The central element is effectively dealing with a detailed description and derivation of the concept of competitive advantage (charts 6-7). On chart 8 I remind you of the concept of the unique selling proposition, which is related to the concept of sustainable competitive advantage (chart 9).

Charts 10 and 11 are sufficient for the explanation of *parenting* advantages. But you will see: This concept is challenging – maybe not quite much from the theoretical view, but instead even more from the firm’s practical view.

In conclusion, the charts 12-19 will provide you a first introduction into the business model concept , which plays a central role in this semester.

From the strategic point of view there are two basic questions to be answered

- **In which industry should we operate?**
  - Diversification
  - Vertical integration
  - Takeover
  - Entry into new business segments
  - Disinvestments
  - Distribution of rare resources to the best possible use
  - Role of the company’s headquarters

Corporate Strategy

Parenting Advantage

- **How should we compete?**
  - Product strategy
  - Advertising measures
  - Price strategy
  - Make or buy
  - Innovation strategy
  - Building up market entry barriers
  - Usage of economies of scale
  - Building up alliances

Competitive Strategy

Competitive Advantage

Strategies are supposed to bring four perspectives into an equilibrium

Framework of the Harvard Business School in the 1960s

I **Threats and opportunities of the economic-technical environment**	**II** **Strengths and weaknesses of the company**
III **Values of the founders/ managers/ employees**	**IV** **Requirements of the social environment**

Strategy

Source: Adapted from Porter, M., The Contributions of Industrial Organization to Strategic Management, in: Academy of Management Review 6 (1981), p. 609-620 (p. 610)

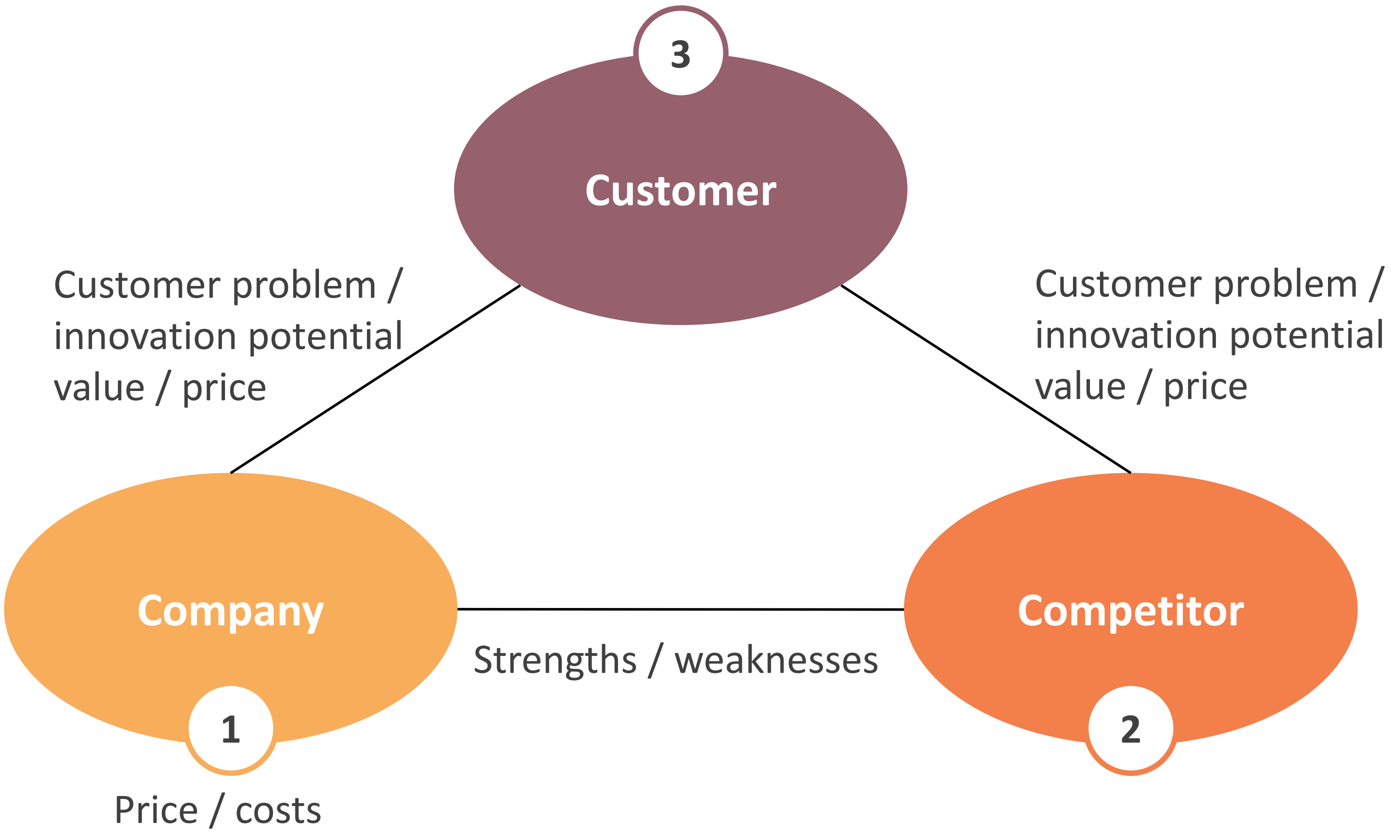
Strengths und weaknesses of the company – the company as a bundle of resources

A quote by E. Penrose

“A firm is more than an administrative unit; it is also a collection of productive resources the disposal of which between different uses and over time is determined by administrative decision. When we regard the function of the private business firm from this point of view, the size of the firm is best gauged by some measure of the productive resources it employs.”

Source: Penrose, E., The Theory of the Growth of the Firm, Oxford 1959, p. 25

In the long run no company can last without competitive advantages



Source: following K. Ohmae adapted from Hutzschenreuter, T., Allgemeine Betriebswirtschaftslehre, 3. edition, Wiesbaden 2009, p. 20

A related term: unique selling proposition (USP)

The term **unique selling proposition (USP)** is the unique feature of a product, which enables to have a competitive advantage over other providers. The marketing concept of the unique selling proposition facilitates the successful promotion of products. Highlighting of an outstanding product feature supports the company in positioning their products and helps to convince consumers of its benefits.

The concept was originally introduced by Rosser Reeves, an employee of Ted Bates & Company, an advertising agency. It was the result of a market study in the 1940s for the study of successful advertising campaigns. Reeves came to the conclusion that two features are essential for a successful advertising campaign: penetration and frequency of use. The USP relates to the latter property, the frequency of use. To achieve this and further increase it, it requires a unique value offering to the consumer. In addition, working out of a competitive advantage over comparable products makes it easier for consumers to decide purchasing a product. However, the offer must be strong enough to reach the buyer and persuade him or her.

The distinctive feature of a product, its USP, should not necessarily be justified in the price. Even in areas of design, the service, quality and special characteristics arise USPs, containing a valuable benefit of the target group. However, it is important that this USP can not be too easily copied by competitors, otherwise the product loses its unique position. Clear communication of the USP and the availability of the product for the consumer are more demands on the unique selling proposition.

Source: http://www.handelsblatt.com/wirtschaftslexikon/?sw=usp&sw-startswith=&i=1&p3693446=1 (own translation)

Conditions for the sustainability of competitive advantages

1) Possibilities to acquire the (quasi-) rent of a production factor

2) Rarity

3) Intrinsic value: Improvement of efficiency and effectiveness of the company

4) No substitutability

5) No imitability

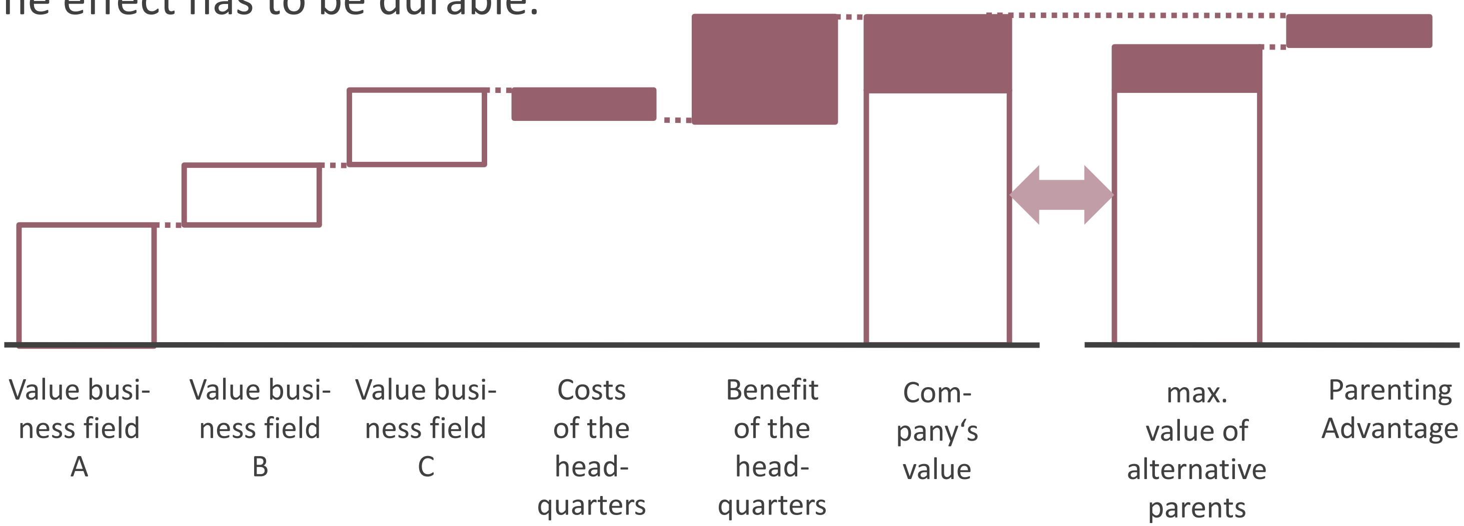
- Protection of knowledge (e.g. patents)
- Path dependency
- Causal ambiguity
- Social complexity
- Asset specificity

Source: zu Knyphausen-Aufseß, D., Theorie der Strategischen Unternehmensführung, Wiesbaden 1995, p. 82ff.

For the distinction of Parenting Advantages four criteria are crucial

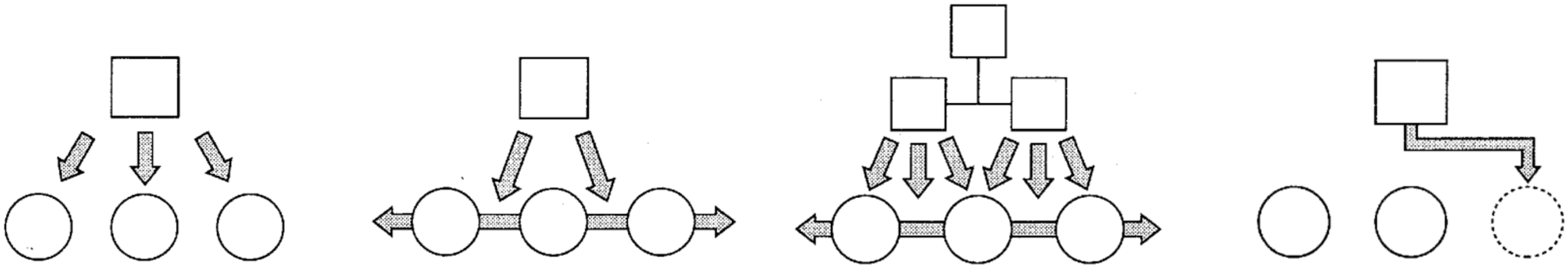
Corporate Strategy → "Parenting Advantages"

- The company's headquarters has to create value, i.e. play a part by contributing to a more efficient and effective way of doing business than in a stand-alone-business.
- This value has to be higher than the operation costs for the company's headquarters.
- The resulting net effect has to be higher than the effect resulting from the assignment of a business field to another company's headquarters .
- The effect has to be durable.



Source: Goold, M./Campbell, A./Alexander, M., Corporate-level strategy: Creating value in the multi-business company, New York 1994; Hungenberg, H., Strategisches Management in Unternehmen, 3. Auflage, Wiesbaden 2004, p. 377.

The company‘s headquarter is able to create value in four different ways



1. Stand-alone-Influence

- Separate influence on the strategies and the performance of the particular business fields

2. Linkage Influence

- Creating synergies by taking advantages of existing relations between business fields

3. Central Functions and Services

- Avoidance of redundancies by providing cost-efficient centralized services (joint controlling etc.)

4. Corporate Development

- Design of the business portfolio through purchase, sale and restructuring of business fields

Source: Goold, M./Campbell, A./Alexander, M., Corporate-level strategy: Creating value in the multi-business company, New York 1994, S. 77-82.

'Business models' – definitions from literature

- "A *business design* is the totality of how a company selects its costumers, defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers, and captures profit. It is the entire system for delivering utility to customers and earning a profit from that activity. Companies may offer products, they may offer technology, but that offering is embedded in a comprehensive system of activities and relationships that represents the company´s business design."

  A. J. Slywotzky

- Business Model

  "... depicts the content, structure, and governance of transactions designed to create value through the exploitation of business opportunities."

- Revenue Model

  "... describes the way in which a business model enables revenue generation."

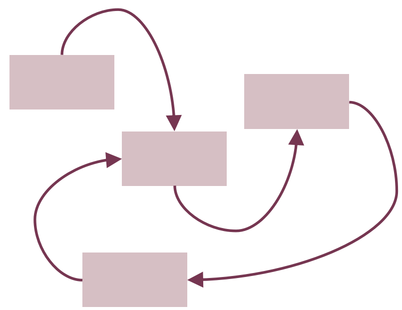
  Zott/Amit

Source: Slywotzky, A. (1996), Value Migration, Harvard Business School Press; Zott/ Amit (2000)

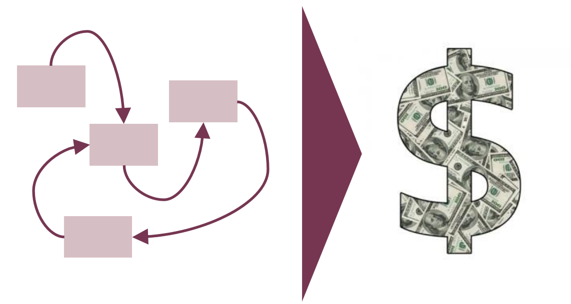
Towards an analytical understanding of business models

Business + **Model** = **Business model**

A **business** is a venture aimed at profit



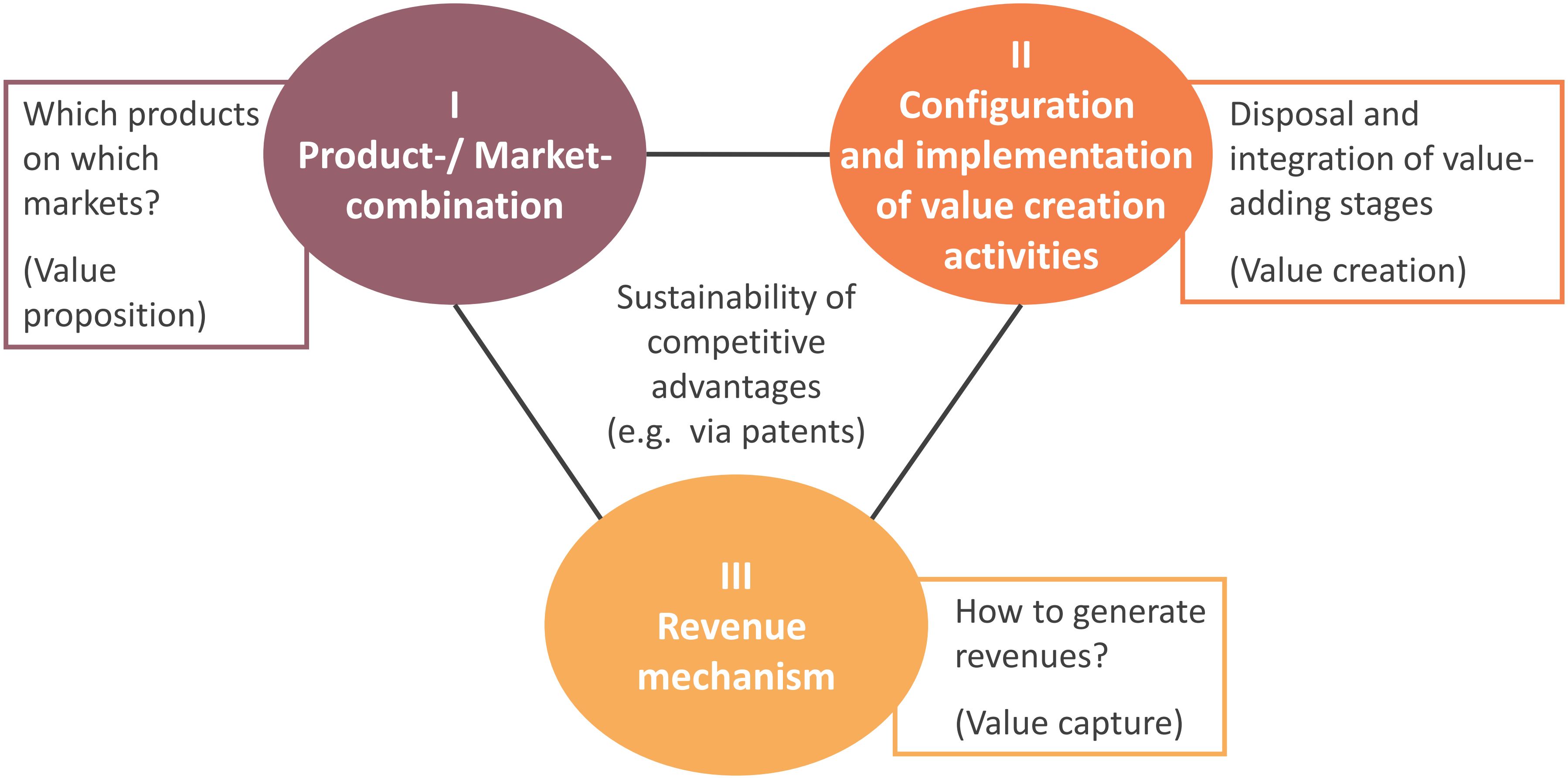
A **model** is a simplistic representation of the reality, consisting of elements and their connections



A **business model** is a simplistic representation of an profit aimed venture, consisting of the significant elements of the venture and their connections, and aiming at convincing investors about the profit potential

Source: Hoppe, K./ Kollmer, H. (2001), Strategie und Geschäftsmodell, unveröffentlichtes Arbeitspapier, Bamberg/Regensburg

The central elements of a business model



Business models as activity systems

The product- / market combination as the first relevant aspect

I

High growth- and earnings potential of markets

Innovative products

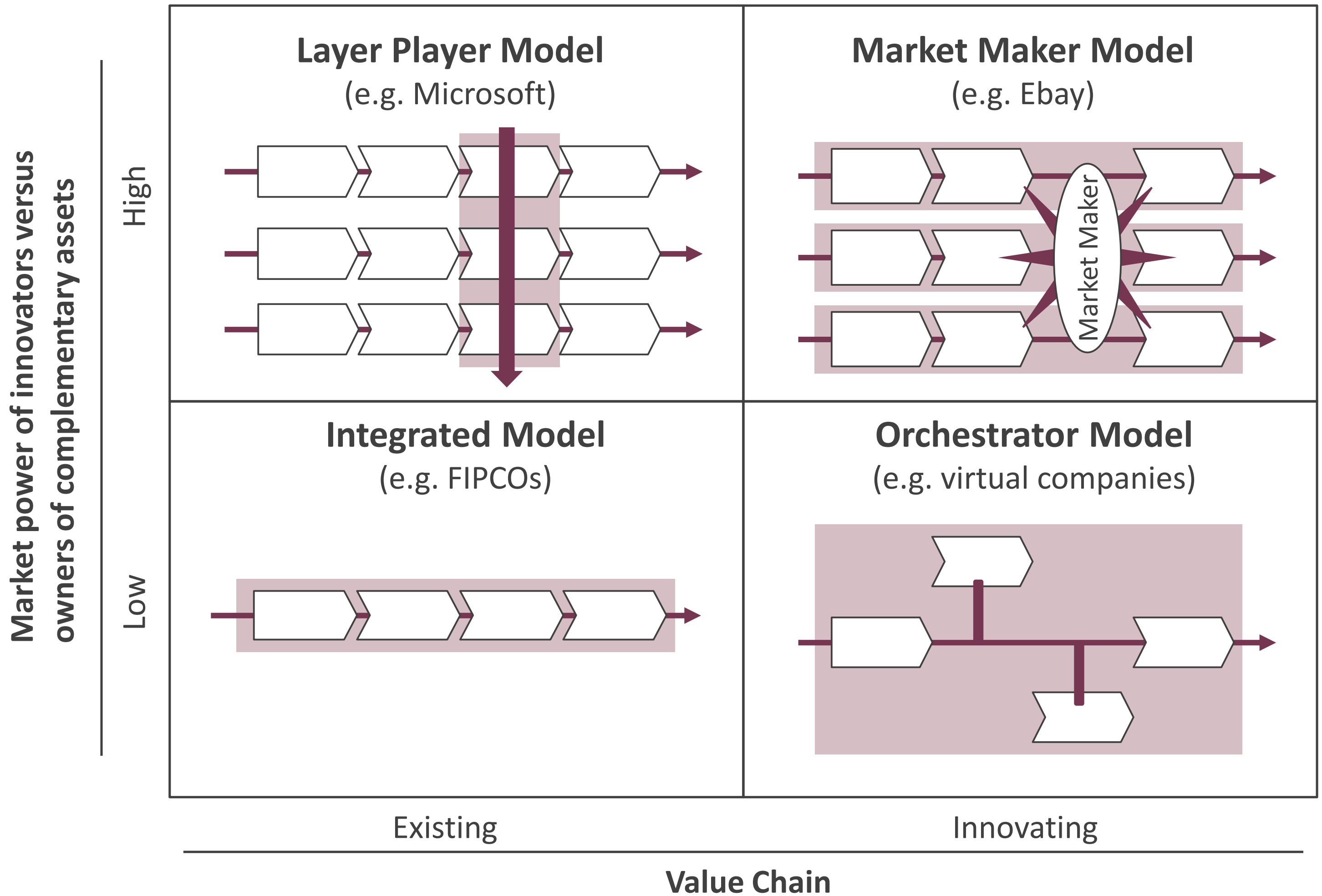
Proprietary technology

- e.g. biotech-, semiconductor- and computer industry
- Products versus services
- Product eco-systems

New type of market differentiation

- e.g. LC1 from Nestlé (Yoghurt as a healthy product)
- Gaining more and more importance; enables low-tech companies to achieve growth potential

The configuration of value chains can be very different



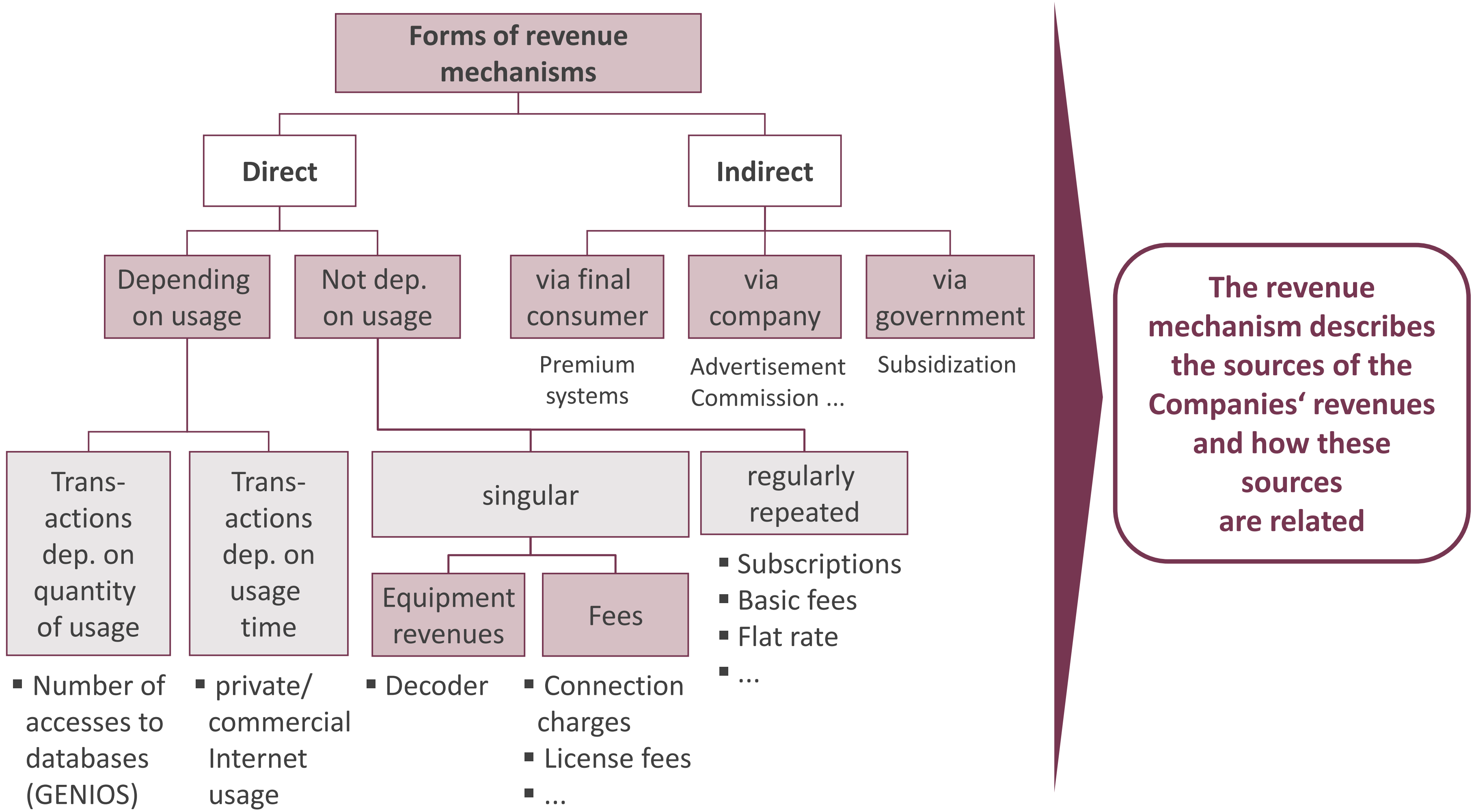
Source: Schweizer. L. (2004), Concept and evolution of business models, Working Paper, Otto-Friedrich-Universität Bamberg; adapted from Dieter Heuskel (BCG)

Also, the execution of value creation activities can be very different

Example: furniture stores

	Raw material	Production	Assembling	Transport	Show Room	Delivery time	Delivery method
Conven-tional Furniture stores	depending on materials: low to high costs	small quantities: high costs	labour intensive: high costs	by air: high costs	central location: high costs	small warehouse: long	by air: high costs
IKEA®	low costs	large quantities: low costs	by customer: no costs	outside: low costs	distributed compactly: low costs	large warehouse: short	pickup by customer: no costs

The third element of business models: revenue mechanisms



Source: Zerdick, A./Picot, A., Die Internet-Ökonomie: Strategien für die digitale Wirtschaft, Berlin u.a. 1999, p. 25; adapted

Inventive revenue mechanisms – how (mature) Internet- and software start-ups make money

- Business concept: Internet-search engine
- Revenue mechanism: "sponsored links" as major revenue source

- Business concept: Provider of software (also open source software) and IT-Services
- Revenue mechanism: charges for software upgrades and services

- Business concept: virtual marketplace, change of goods through online auctions
- Revenue mechanism: Percentage fees on the final selling price

- Business concept: Mediation of carpooling via smartphone
- Revenue mechanism: Percentage fees