O

ne recent wintry day, Dave Rozek prowled auction lots and city pounds in Chicago’s South Side looking for big game: Cougars, Mustangs, Sables and Bobcats. “I don’t see Impalas very much, so I like to buy them when I do,” he said, eyes darting from side to side as he steered a 1998 Oldsmobile Intrigue past mounds of wrecked cars.

Schnitzer Steel Industries Inc. of Portland, Oregon, Rozek’s employer, is one of the nation’s largest steel recyclers. For years it simply bought old cars and mashed them along with steel girders, railcars and the tracks they rode on. In 2003, as demand from Asia’s booming economies started creating metal shortages, Schnitzer switched tactics and started buying auto junkyards to better feed it recycling plants. Rozek, in turn, feeds the junkyards.

Schnitzer now operates about 50 yards in North America and plans to triple that number by the end of the decade mostly by purchasing existing junkyards. The move has transformed the old-line scrap hauler and modernized the auto-salvage industry. In Schnitzer’s yards, you can find computerized modeling and ideas drawn from retailing such as bar codes, and discount coupons. The business also turned out to be surprisingly profitable.

“We felt we needed to be closer to our source of scrap,” says Kelly Lang, Schnitzer’s vice president for capital investment. In traditional junkyards, sedans and trucks are stacked on top of

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Objectives

After studying this chapter and doing the exercises, you should be able to:

1. Summarize a general framework for planning and apply it to enhance your planning skills.
2. Describe the nature of business strategy.
3. Explain how business strategy is developed, including SWOT analysis.
4. Identify levels of business strategy, competitive forces, and types of business strategies.
5. Explain the use of operating plans, policies, procedures, and rules.
6. Present an overview of management by objectives.
each other in open dirt lots guarded by pit bulls. Grease monkeys yank the parts that buyers want. At some point, unwanted hulks go for scrap. At Schnitzer’s Pick-n-Pull chain, customers armed with their own toolboxes select and wrench off auto parts, saving both the consumer and the company the cost of hiring high-priced mechanic labor. Cars and parts are carefully monitored and they’re shipped to Schnitzer’s crushers before costs such as storage rise too high.

Booming Hispanic immigration is bringing more customers—and their dismantling tools—to Schnitzer’s door. International demand is surging, too, especially in Mexico. There is rising demand for U.S. wrecks from newly affluent motorists in Russia, Eastern Europe and Latin America, who want the cars either for parts to or drive anew.

Schnitzer has focused on one of the industry’s fastest growing niches—self-service salvage yards. Pick-n-Pulls pride themselves on providing clean waiting rooms for wives and children who join dad on his parts search—nearly all customers are male. Traditional junk yards lack the computer power or organizational skill to track the vehicles. They frequently keep clunkers on the books—or on blocks—for months, waiting for a customer to monetize the asset. During that time, without a guaranteed buyer, the junk cars are essentially worthless. Schnitzer, by contrast, knows it will always have its scrap maw (steel recycler) as a guaranteed customer. ¹

The story about the successful chain of auto junk yards illustrates how strategic planning can catapult a business to success. Schnitzer and his executive team developed the niche of combining a modern car junk yard with a steel scrap business. The niche of Schnitzer Steel Industries is almost like having a restaurant and selling the scrap food to pig farmers! Finding a focus or developing a niche is one of the business strategies covered in this chapter. By virtue of planning, including using a basic strategy, businesspeople manage the future instead of being guided by fate.

Planning is important because it contributes heavily to success and gives you some control over the future. According to one analysis, the value of planning is in the process itself. By planning, you set aside your daily tasks and deadlines so you can enlarge your mental focus and see the bigger picture. ² More specifically, planning often leads to improvement in productivity, quality, and financial results.

The purpose of this chapter is to describe the planning function in such a way that you can use what you learn to plan more effectively as a manager or individual contributor. First, the chapter looks at a framework for the application of planning. You will also learn about high-level, or strategic planning, including how strategy is developed and the types of strategy that result from strategic planning. We then describe operating plans, policies, procedures, and rules, and a widely used method for getting large numbers of people involved in implementing plans: management by objectives.

**A GENERAL FRAMEWORK FOR PLANNING**

Planning is a complex and comprehensive process involving a series of overlapping and interrelated elements or stages, including strategic, tactical, and operational planning. **Strategic planning** establishes master plans that shape the destiny of the firm. An example of strategic planning is when the executive team at Harley-Davidson Inc. planned how to deal with the demographic shift of their customer base becoming much older. The strategic issue it faced was whether to change its iconic product line to win over young buyers.

A second type of planning is needed to support strategic planning, such as how to build motorcycles that fit the preferences of younger motorcyclists. **Tactical planning** translates strategic plans into specific goals and plans that are most relevant to a particular organizational unit. The tactical plans also provide details of how the company or business unit will compete within its chosen business area. Middle managers have the primary responsibility for formulating and executing tactical plans. These plans are based on marketplace realities when developed for a business. Conditions can change rapidly in competitive fields such as a Korean company suddenly developing a substantially lower-price sports bike. The scope of tactical plans is broader than operational plans (described next), but not as broad as that of strategic plans.

A third type of planning is aimed more at day-to-day operations or the nuts and bolts of doing business. **Operational planning** identifies the specific procedures and actions required at lower levels in the organization. If Harley-Davidson wants to revamp an assembly line to produce more sports bikes, operational plans would have to be drawn. In practice, the distinction between tactical planning and operational planning is not clear-cut. However, both tactical plans and operational plans must support the strategic plan such as revamping manufacturing and marketing to capture a larger group of young cyclists.

The framework presented in Exhibit 4-1 summarizes the elements of planning. With slight modification the model could be applied to strategic, tactical, and operational planning. A planner must define the present situation, establish goals and objectives, and analyze the environment in

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**Learning Objective 1**

**Summarize a general framework for planning and apply it to enhance your planning skills.**

**ESSENTIALS OF PLANNING**

“Go to academic.cengage.com/management/dubrin and view the video. How can Yahoo’s competitors benefit from all the attention Yahoo has received in regarding its strategic alliances?”

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**strategic planning**

A firm’s overall master plan that shapes its destiny.

**tactical planning**

Planning that translates a firm’s strategic plans into specific goals by organizational unit.
terms of aids and barriers to goals and objectives. The planner must also
develop action plans to reach goals and objectives, develop budgets, imple-
ment the plans, and control the plans.

This chapter examines each element separately. In practice, however,
several of these stages often overlap. For example, a manager might be imple-
menting and controlling the same plan simultaneously. Also, the planning
steps are not always followed in the order presented in Exhibit 4-1. Planners
frequently start in the middle of the process, proceed forward, and then
return to an earlier step. This change of sequence frequently happens because
the planner discovers new information or because objectives change. Also,
many managers set goals before first examining their current position.

To illustrate the general framework for planning we turn to Harley-
Davidson, that is dealing with the planning challenge presented by its aging
customer base. The challenge was expressed by Joe Mammolito, a tow-truck
company owner from Dix Hills, N.Y., and Harley devotee for 30 years:
“I have about 14 guys driving trucks for me. The younger guys ride sports
bikes, the older fellows like a big bike. I think they should get guys in their
20s and 30s accustomed to riding Harleys. They need to get the younger
guys accustomed to the name, the products, and the dealership network.”

3 The facts about Harley-Davidson and the quotes are from Joseph Weber, “Harley Just Keeps on Cruisin’,” Business Week,
Define the Present Situation
Knowing where you are is critical to establishing goals for change. Defining the present situation includes measuring success and examining internal capabilities and external threats. Harley-Davidson has had a long tradition of success. At one time the motorcycle had a youth-oriented counterculture mystique. By the mid-2000s, Harley had become a middle-aged nostalgia brand. Because of so many loyal customers, Harley had been able to turn small product improvements into sustained growth. Many Harley-Davidson customers own multiple—sometimes even 12—Harley motorcycles. At the moment the new, bigger Twin Cam engine and six-speed transmission was announced in July 2006, orders began pouring into dealers. Annual sales of $6 billion were forecast. Another capability of Harley is a fast-growing overseas fan base that perceives the Harley-Davidson in the best possible sense, referring to being powerful and free. Over one-fifth of Harleys are sold outside the United States.

A major external threat facing Harley-Davidson was the long-time prediction that a demographic time bomb would blow up the company. The median age of a Harley buyer had leapt from 35 in 1987 to nearly 47 in 2006. The company has done little to shake its image with people in their twenties as Granddad’s or Grandma’s bike. “They haven’t kept up with the younger riders,” says a 44-year-old business analyst who owns two Harleys.

Establish Goals and Objectives
The second step in planning is to establish goals and identify objectives that contribute to the attainment of goals. (Goals are broader than objectives, whereas objectives function as smaller goals that support the bigger goals.) A major goal Harley management might establish is to continue to cultivate people over 30 who prefer the big loud bikes that allow for smooth rides on long trips. Another goal would be to promote the Harley as a retirement treat, especially for young retirees. Another goal would be to promote its lower-priced sports bikes in its Buell line.

Genevieve Schmitt, founding editor of WomenRidersNow.com, believes Harley should establish the goal of continuing to focus on what they do best. She says, “They’ve responded to the needs of smaller, less muscular riders by offering motorcycles with lower motors. They realize women are an up-and-coming segment and that they need to accommodate them. They don’t market to a specific gender, but are gender-neutral. They market a lifestyle, with daughters and moms, dads and sons.” Following this thought Harley might establish the goal of making their marketing more gender neutral.

Analyze the Environment to Forecast Aids and Barriers to Goals and Objectives
As an extension of defining the present situation, the manager or other planner attempts to predict which internal and external factors will foster or hinder attainment of the desired ends. A key strength of Harley being able
to retain its prominence in the motorcycle business is that its brand is so well established. The loyal and talented Harley-Davidson workforce will be able to adapt to any shift toward smaller, sportier bikes.

A potential barrier in the environment to the continued success of Harley is that the Japanese bike makers quickly change to suit the shifting taste of customers. In contrast, Harley is over 100 years old and much more conservative. Company management is less than eager to mess with its iconic image. Kent Grayson, a marketing professor at Northwestern University says, “It’s more than a brand. It’s a culture.” Another barrier to attaining goals is that European and Japanese motorcycle manufacturers far outsell the Harley Buell line of smaller bikes in the United States. For example, in 2006 the Japanese company Suzuki sold about 27,000 motorcycles with engines in the same class as the Buell line. Harley sold about 4,200 in this class.

Another external threat is that many individuals are concerned about motorcycle safety and the disturbance to the environment from the loud exhaust blast. The Hell’s Angels image of motorcyclists is a potential barrier. Yet the barrier is offset somewhat by the fact that many would-be drivers are attracted to the rebellious image.

Develop Action Plans to Reach Goals and Objectives
Goals and objectives are only wishful thinking until action plans are drawn. An action plan consists of the specific steps necessary to achieve a goal or objective. The planners must figure out specifically how they will accomplish such ends as encouraging Harley users to keep motorcycling until later in life. Other action plans might include more advertising aimed at women, including the objective of featuring women celebrities in advertisements for Harley-Davidson. Additional action plans might include free seminars for seniors about the joy of motorcycle driving, and more extensive promotion of the Buell line.

Develop Budgets
Planning usually results in action plans that require money to implement. Among the expenses would be larger advertising and promotion budgets geared to seniors and women. Expenses for expanding the Buell line would be incentives for dealers to purchase them and increased production, so more Buells could be placed in dealer showrooms. Another budget item would include safe-driving campaigns to help soften the image of motorcycling being so dangerous.

Implement the Plans
If the plans developed in the previous five steps are to benefit the firm, they must be put to use. A frequent criticism of planners is that they develop elaborate plans and then abandon them in favor of conducting business as usual. One estimate is that 70 percent of the time when CEOs fail, the major cause of failure is poor execution, not poor planning. Poor execution in this study included not getting things done, being indecisive, and not delivering...
on commitments. Furthermore, execution is considered to be a specific set of behaviors and techniques that companies need to master in order to maintain a competitive advantage.

Part of the outstanding success of Toyota can be attributed to top-level management’s penchant for implementing its many plans. CEO Fujio Cho believes that Toyota can never afford to take its foot off the gas (or relax in executing its plans). He believes that running Toyota is less like driving a car than “trying to pull a handcart up a steep hill—there’s always tremendous danger that if we relax, even for a moment, we could lose momentum and be thrown to the bottom.”

The Harley managers and specialists seem poised to execute because their planning sessions heavily emphasize turning plans into action. Harley-Davidson management desperately wants the success of the Harley line of motorcycles to continue into the future.

**Control the Plans**
Planning does not end with implementation, because plans may not always proceed as conceived. The control process measures progress toward goal attainment and indicates corrective action if too much deviation is detected. The deviation from expected performance can be negative or positive. Progress against all of the goals and objectives mentioned above must be measured. One goal was to hold on to much of the existing customer base. Mark Barnett, an El Paso, Texas, Harley dealer believes that Harley is attaining this goal. He observes: “When they get into their 30s and 40s, people slow down and get tired of sports bikes. If you look at the sport bike demographics, the number of them over 40 is pretty low. As long as people don’t quit riding motorcycles altogether, they’re going to be our customer when they turn 40.” Company management needs more time to know if the goal for getting more young riders to purchase sports cycles in the Buell line has been attained.

In Exhibit 4-1, note the phrase “Evaluation and Feedback” on the left. The phrase indicates that the control process allows for the fine-tuning of plans after their implementation. One common example of the need for fine-tuning is a budget that has been set too high or too low in the first attempt at implementing a plan. A manager controls by making the right adjustment.

**Make Contingency Plans**
Many planners develop a set of backup plans to be used in case things do not proceed as hoped. A contingency plan is an alternative plan to be used if the original plan cannot be implemented or a crisis develops. (The familiar expression “Let’s try plan B” gets at the essence of contingency planning.) One potential crisis for Harley management would be substantial climate changes in the form of much more rain, snow, and ice that would make

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motorcycle riding less feasible in many parts of the world. Another crisis would be the escalation of motorcycle insurance premiums to the point that the demand for on-the-road motorcycles would decline sharply.

Contingency plans are often developed from objectives in earlier steps in planning. The plans are triggered into action when the planner detects, however early in the planning process, deviations from objectives. Construction projects, such as building an airport hangar, are particularly prone to deviations from completion dates because so many different contractors and subcontractors are involved.

An exit strategy might be part of the contingency plan. If the demand for both the Harley big bikes and sports bikes declined to the point of major losses, the Harley facilities and dealerships might be sold to Suzuki. Harley management, of course, does not envision this crisis.

**STRATEGIC PLANNING AND BUSINESS STRATEGIES**

The framework for planning can be used to develop and implement strategic plans, as well as tactical and operational plans. The emphasis of strategic planning in the current era is to help the firm move into emerging markets, or invent the future of the firm. Strategic planning should result in managerial workers throughout the organization thinking strategically and wondering about how the firm adapts to its environment and how it will cope with its future. James R. Bailey remarks that one of the central challenges of modern organizations is for leaders at all levels of the firm to think strategically—including seeing the overall picture as they go about their work.\(^7\)

A strategically minded worker at any level would think, “How does what I am doing right now support corporate strategy?” The call-center worker at Hewlett-Packard might say to himself, “Each time I help a customer solve a problem I am contributing to the strategy of having the highest-quality products in all the markets we serve.”

Business strategy is a complex subject that can be viewed from many vantage points. Here we look at business strategy from three major perspectives: its nature, how it is developed, and a sampling of the various types of strategy in use.

**The Nature of Business Strategy**

What constitutes business strategy has been described in dozens of ways. A strategy is an integrated overall concept and plan of how the organization will achieve its goals and objectives.\(^8\) For many managers, strategy simply refers to the direction in which the firm is pointed, such as a payday loan company deciding to set up shop in poor neighborhoods where many of the residents lack a bank account. An explanation of business

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strategy developed by Michael Porter, a leading authority, provides useful guidelines for managers who need to develop strategy. According to Porter, true business strategy has four components as outlined in Exhibit 4-2 and described next.9

**Strategy Involves More Than Operational Effectiveness**

A starting point in understanding the nature of business strategy is to understand that it involves more than operational effectiveness or being efficient. In recent years many firms in the private and public sector have become more efficient through such means as downsizing, performing work more efficiently, and outsourcing. Although the improvements in operations may often be dramatic, they rarely lead to sustainable improvements in profitability. As many top-level executives have said, “You can’t cost-cut your way to growth.” Strategy essentially involves performing activities differently, such as 1-800-MATTRESS, the company that pioneered selling mattresses over the phone. Being able to purchase a mattress over the phone is a convenience that adds value to the purchase of a mattress.

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Strategy Rests on Unique Activities

Competitive strategy means deliberately choosing a different set of activities to deliver a unique value. An often-cited example is Southwest Airlines. They offer short-haul, low-cost, direct service between midsized cities and secondary airports in large cities. Southwest’s frequent departures and low fares attract price-conscious customers who would otherwise travel by car or bus. Southwest customers willingly forego the frill of in-flight meals to save money and have a wide choice of flight departures. All Southwest activities focus on delivering low-cost, convenient service on its routes. By doing away with added features such as meals and interline transfer of baggage, the airline can achieve gate turnarounds in about 15 minutes. Planes can then be airborne more of the time, allowing for more frequent flights. By using automated ticketing, passengers can bypass travel agents, saving Southwest money on commissions. Another unique activity is flying only 737 aircraft, which boosts the efficiency of maintenance.

Southwest has been so successful with its business model that several competitors have surfaced to implement the same strategy. Among these direct competitors are JetBlue and Ted (of United Airlines) in situations where these two carriers fly the same route as Southwest.

A Sustainable Strategic Position Requires Trade-Offs

After a firm finds a strategic position (or place in the market), it can best sustain it by making trade-offs with other positions. Trade-offs are necessary when activities are incompatible. A good example is shopping through the Internet. If you want the convenience of shopping anytime and from your home or office, you sacrifice interacting with a sales associate who can answer your questions. Another trade-off with e-commerce (and shopping by phone) is that defective or ill-fitting merchandise has to be repacked and shipped back to the manufacturer. Repacking and reshipping is more inconvenient for many people than, for example, driving back to the merchant with a computer that doesn’t work.

Fit Drives Both Competitive Advantage and Sustainability

Strategy includes efficiently combining activities related to making a product or service. The chain of company activities fit and support each other to form an effective system. Bic Corporation is an example of the fit aspect of strategy. The company sells a narrow line of standard, low-priced ballpoint pens to the major customer markets (retail, commercial, promotional) through practically every available channel. Bic targets the common need for a low-price, acceptable pen throughout the markets it serves. The company gains the benefit of consistency across nearly all activities, meaning that they do not have to have different equipment or staff to conduct their business with different customer groups. Bic achieves fit by a product design that emphasizes ease of manufacturing, manufacturing plants designed for low-cost, large-scale purchasing to minimize material costs, and in-house parts production whenever cost effective.

As mentioned in passing at the outset of this section, business strategy also involves “thinking big,” or taking an overall perspective even if it means glossing over some worrisome details.
Business strategy develops from planning. Strategic planning encompasses those activities that lead to the statement of goals and objectives and the choice of strategies to achieve them. The final outcomes of strategic planning are statements of vision, mission, strategy, and policy. A vision is an idealized picture of the future of the organization. The mission identifies the firm’s purpose and where it fits into the world. Specifying a mission answers the question “What business are we really in?” A mission is more grounded in present-day realities than is a vision, but some companies use the terms interchangeably. A firm’s mission may not be apparent to the casual observer. For example, Godiva Chocolates (the company that produces high-priced chocolate sold in separate displays in retail outlets) would appear to be in the candy business. In reality, their real mission places them in the luxury and pampering business. Exhibit 4-3 presents a few examples of company vision and mission statements. You will observe that companies vary considerably in what should be included in a mission or vision statement.

Planning alone does not create strategy. Corporate values also influence strategy because well-managed organizations tend to develop strategy to fit what the people in power think is important. If the company highly values innovation, it will not adopt a strategy of being successful by imitating (or benchmarking) other successful products. Piaget, for example, has remained successful for more than 200 years by staying with its own high-quality watches, and not imitating other trends in the watch industry.

Under ideal circumstances a firm arrives at strategy after completing strategic planning. In practice, many firms choose a strategy prior to strategic planning. Once the firm has the strategy, a plan is developed to implement it. A chief
executive might say, “Let’s compete by becoming the most recognizable company in our field.” The executive team would then develop specific plans to implement that strategy, rather than strategic planning leading to the conclusion that brand recognition would be an effective strategy. For many medium-sized and small organizations it is strategy first, followed by planning.

Three major approaches to developing strategy are gathering multiple inputs, analyzing the realities of the business situation, and doing a SWOT analysis. All three of these approaches are consistent with, and extensions of, the basic planning model presented in Exhibit 4-1.

**Gathering Multiple Inputs to Formulate Strategy**

Strategic managers and leaders are often thought of as mystics who work independently and conjure up great schemes for the future. In reality, many strategic leaders arrive at their ideas for the organization’s future by consulting with a wide range of parties at interest. Strategy theorist Gary Hamel advises executives to make the strategy-creation process more democratic. He reasons that imagination is scarcer than resources. As a consequence, “We have to involve hundreds, if not thousands, of new voices in the strategy process if we want to increase the odds of seeing the future.”

An example of the democratization of strategic planning is how Walt Disney Co. CEO Robert Iger reduced in size the company’s strategic planning unit when he came into power in 2005. The strategic planning unit’s powers were then handed back to Disney business divisions. Previously the centralized planning unit shot down business strategies and deals that business unit company managers proposed—much to the displeasure of the managers. A corporate-planning group of ten replaced the 30-person strategic planning unit.

An extreme approach to gathering multiple inputs for strategy is a new development termed *crowdcasting*. A consultancy, such as Idea Crossing, holds an online contest with 3,500 MBA students to solve strategic dilemmas. Companies pay Idea Crossing to obtain the input from the students. The payoff from crowdcasting is the opportunity to penetrate a closed-circuit corporate culture and profit from the fresh insights of a large group of smart and motivated outsiders. Contestants sign confidentiality agreements, and their strategic solutions become the property of the corporate sponsors. An example of a strategic problem tackled by the business students was to devise new services featuring high-speed wireless technologies for Sprint. Exhibit 4-4 outlines how crowdcasting involves so many business students in tackling business strategy problems. Many strategy experts might label the students’ activities as problem solving rather than true strategy. Nevertheless, the consulting firm involved and the participating companies regard the activity as resolving strategic dilemmas.

**Analyzing the Realities of the Business Situation**

To develop effective business strategy, the strategist must make valid assumptions about the environment. When the assumptions are incorrect, the strategy might backfire. Let’s get preposterous for a moment. Assume

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that Krispy Kreme regards e-commerce as the wave of the future, and therefore halts its plans to vend its donuts through stores of its own and in grocery stores and service stations. Instead, Krispy Kreme develops Web sites so people can purchase donuts and coffee online, and pay for quick delivery service. The wrong assumption is that potential Krispy Kreme customers throughout the world own computers, are online, and have credit cards, and will pay a premium to have donuts and coffee delivered to their home or office. The e-tailing strategy fails because assumptions about the potential customer base were flawed.

The general point here is that firms must constantly change in order to be aligned with their key environments.12 Sometimes management can shape the nature of the business to match the external environment, such as Harley-Davidson crafting motorcycles that its aging customer base can continue to drive. (What about motorcycle tricycles such as the police vehicles with a side-car?) The assumption Harley would be making here is that motorcyclists want to continue driving motor cycles as late in life as possible.

Accurately analyzing the environment in terms of understanding customers, potential customers, production capability, and the relevant technology is a time-consuming and comprehensive activity. Yet for strategy to work well, the manager has to understand both the external environment and the capabilities of the firm, as already implied from the basic planning model. Exhibit 4-5 presents a series of questions the strategist is supposed to answer to accurately size up the environment. Finding valid answers to these questions will often require considerable interviewing, including interviewing groups of consumers, and information gathering.

**Performing a SWOT Analysis**

Quite often strategic planning takes the form of a **SWOT analysis**, a method of considering the strengths, weaknesses, opportunities, and threats in a given situation. The strengths and weaknesses take into account internal resources

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and capabilities, whereas opportunities and threats refer to factors external to the organization. SWOT is considered the most applicable to the early stages of strategic and marketing planning. Elements of a SWOT analysis are included in the general planning model, and in using the strategic inventory to size up the environment. Given SWOT’s straightforward appeal, it has become a popular framework for strategic planning. The framework, or technique, can identify a niche the company has not already exploited.

Preparing for the Analysis Four steps are recommended to bring about a successful SWOT analysis.13 First, it is important to be clear about what you

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are doing and why. The purpose might be to fine-tune a present strategy or to point the business in a new direction. Second, it is important to select appropriate contributors. Select people with appropriate experience, talent, and enthusiasm. Imaginative people are particularly useful for a SWOT analysis. Usually six to ten people are enough, but involving more people can be helpful to get more people involved in the changes that SWOT might trigger. Third, allocate research and information-gathering tasks. Several members of the team might concentrate on analyzing the firm, whereas others might concentrate on analyzing the outside environment. Step four is to create a workshop environment by encouraging open communication among participants. All present should feel free to criticize the status quo, even questioning what most people think is a company strength. A SWOT team member of a group at Starbucks might say, “Is having so many stores such a great strength? Could we be losing out to the coffee lovers who want a more unique, intimate experience?”

**Conducting the Analysis**

To illustrate the use of the model, we turn to Ulysse Nardin, a Swiss manufacturer of fine watches founded in 1846. The price range of Ulysse Nardin watches is between $7,000 and $25,000. Assume that top executives at Ulysse Nardin are thinking about finding another niche by manufacturing luxury pens in the $200 to $500 range. Some of their thinking in regard to a SWOT analysis might proceed as follows:

**Strengths.** What are the good points about a particular alternative? Use your judgment and intuition; ask knowledgeable people. Selling luxury pens appears to be a reasonable fit with the watch line because a luxury pen is often worn as jewelry. We are great at making small-size luxury items. People who just want a writing instrument could settle for a Bic or competitive brand. The profit margins on luxury pens are quite good, and they are not likely to be deeply discounted in department stores or discount stores. We can also maintain low inventories until we assess the true demand. As our sales representatives and distributors receive orders, we can manufacture the pens quickly. Our beautiful Web site, http://www.ulysse-nardin.com, could easily incorporate a line of luxury pens.

**Weaknesses.** Consider the risks of pursuing a particular course of action, such as getting into a business you do not understand. We are watchmakers, pure and simple. We would need to train our skilled craftspeople to make watches, or hire new workers. If only a handful of companies manufacture luxury pens, it could be because it is a tough market to crack. We are so well known for watches, that our clientele might not perceive us to be a crafter of fountain pens. (We will need to do some market research here.) Another risk is that we will cheapen the Ulysse Nardin name. The average price of a Ulysse Nardin product is now about $11,000. With a brand of luxury pens, a person could take home a Ulysse Nardin brand product for about $400, which could result in a scaling down of our image. Another problem is that we are not presently linked to all the...
distribution channels that sell luxury pens, such as office supply stores. We might have to rely on new distributors to get us into that channel.

**Opportunities.** *Think of the opportunities that welcome you if you choose a promising strategic alternative. Use your imagination and visualize the opportunities.* The opportunities could be quite good in terms of snob appeal. Maybe large numbers of consumers would welcome the opportunity to carry a Ulysse Nardin anything in their shirt pocket, handbag, or attaché case. Many of the people who become Ulysse Nardin luxury pen customers might want to take a step up to become a Ulysse Nardin watch owner.

**Threats.** *Every alternative has its downside, so think ahead to allow for contingency planning. Ask people who have tried in the past what you are attempting now. But don’t be dissuaded by the naysayers, heel draggers, and pessimists. Just take action.* Several manufacturers of high-end products in jewelry, clothing, and automobiles have cheapened their image and lost market share when they spread their brand name too thin. Following this approach, we could wind up having Ulysse Nardin pens, wallets, and handbags. At that point the high prestige of the Ulysse Nardin brand would be at risk.

As a result of this SWOT analysis, Ulysse Nardin sticks to its knitting (or watch making) and continues to make world-class watches. Do you think they are making the right decision? Or do you think the brand equity (value of the brand name) warrants putting the Ulysse Nardin label on another product?

A caution about the SWOT analysis is that it is sometimes viewed as too superficial, and may rely on description instead of analysis and ignores prioritizing the alternatives it generates.

**Levels of Strategy, Competitive Forces, and Types of Strategies**

The nature of strategy and how it is developed may appear complex. Yet strategy statements themselves, as expressed by managers and planners, are usually straightforward and expressed in a few words, such as “We will be cost leaders,” or “We will be competitive by offering superior service.” Keep in mind that businesspeople are likely to have a less precise and less scientific meaning of strategy than do strategy researchers. A variety of business strategies have already been mentioned in this chapter. Here we look at levels, competitive forces, and types of business strategies.

**Levels of Business Strategies**

A strategy chosen to reach an important goal depends considerably on the level of the organization. At the level of the overall firm, Amazon.com might decide that its strategy is to allow people throughout the world to purchase as many products online as they wish. Yet at the level of the distribution centers, the managers must develop a strategy for enabling world-wide distribution of products at a reasonable cost. Exhibit 4-6 provides a few details about strategy levels.

Two major concerns of *corporate-level strategy* are the total direction of the enterprise, and the selection of specific businesses. Usually the total
The direction of the enterprise begins with the founding of the company such as the Boeing Co. being founded as an aerospace company. Later, a variety of businesses may emerge, such as the company forming a commercial division, a military division, and a service division. Executives in large, diversified firms invest considerable time in deciding which businesses to enter such as Yahoo! moving into various types of entertainment.

The *business-level strategy* focuses on the question of how to compete in each of our businesses. Several of these strategies will be mentioned in the next section.

*Functional-level strategies* are formulated to specify actions required to successfully implement strategies at the corporate and business level. An example is that a corporate-level strategy of Google is to be a leading innovator in any business it enters. The human resources function must then assist in attracting, selecting, and retaining imaginative workers. Fit among the various functions is another major consideration. For example, if the human resources department at Google recruits imaginative workers, these workers must be placed in functions such as marketing and finance that provide these people with stimulating work.

### Exhibit 4-6

<table>
<thead>
<tr>
<th>Diversified Business Firms</th>
<th>Single-Business Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate-Level Strategy</strong></td>
<td><strong>Corporate-Level Strategy</strong></td>
</tr>
<tr>
<td>What direction do we pursue for the total enterprise?</td>
<td>Which business should we be in?</td>
</tr>
<tr>
<td>Which businesses should we enter?</td>
<td>How do we compete within the market we have chosen?</td>
</tr>
<tr>
<td><strong>Business-Level Strategy</strong></td>
<td><strong>Functional-Level Strategy</strong></td>
</tr>
<tr>
<td>How do we compete within each of the businesses we have chosen?</td>
<td>How can each function best support each of our businesses?</td>
</tr>
<tr>
<td><strong>Functional-Level Strategy</strong></td>
<td>How do we get the various functions working together smoothly?</td>
</tr>
<tr>
<td>How can each function best support each of our businesses?</td>
<td>How do we get the various functions working together smoothly?</td>
</tr>
</tbody>
</table>

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Under ideal circumstances, the activities of managers and other workers at the functional level support the business-level and corporate-level strategies. For example, if top-level management wants the firm to be world recognized for its quality products and services (such as IBM), business units would not engage in such businesses as selling refurbished personal computers. At the functional level, all IBM departments would hire talented people who can help deliver quality goods and services.

**Five Competitive Forces**

Before choosing the most appropriate strategy or strategies for the business, it is helpful to examine the relevant competitive forces. Michael E. Porter studied many business firms, leading him to conclude that business-level strategies are the result of five competitive forces in the company’s environment. The same five forces can also influence enterprise-level strategy. For example, strategists at PepsiCo might say, “Why bother going into the wine business? The market is already flooded.” The competitive forces the organization has to take into account are as follows:

1. **The power of customers to affect pricing and reduce profit margins.** Informed customers become empowered customers. If customers can readily purchase your produce to service from a competitor, you need to keep costs low. A telecommunications company, for example, might shop worldwide for the least expensive fiber-optic cables.

2. **The power of suppliers to influence the company’s pricing.** Manufacturing companies are dependent on suppliers for raw materials and components. With the growth of outsourcing, companies are sometimes dependent on suppliers for marketing, research and development, and even staffing. High-price suppliers could drive up costs, forcing a company to think of better ways of attracting customers other than low prices.

3. **The threat of similar or substitute products to limit market freedom and reduce prices and thus profits.** Alternatives to a company’s products are a constant menace even for stable products and services. The Internet has accelerated the power of this competitive force, in such ways as people purchasing investments online, thus decreasing the perceived need for personal advice from a stockbroker. The in-person travel agency business has been severely reduced because of online travel agencies and direct purchases of airplane tickets and hotel rooms.

4. **The level of existing competition that impacts on investment in marketing and research and thus erodes profits.** As every shopper knows, the greater the competition the lower the price. A few years ago Wal-Mart priced over 300 generic drugs at $4 per prescription in 14 states. Within a couple of weeks many supermarkets and pharmacy chains followed suit, lowering profits for all.

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5. **The threat of new market entrants to intensify competition and further impact on pricing and profitability.** Some businesses are more difficult to enter than others, often depending on the amount of investment and time required both in your own country and elsewhere. Relatively few new tire manufacturers emerge, but new online shopping sites emerge daily. Complexity and bigness tend to lower the competitive threat of new entrants. Yet the existence of even great enterprises like Ford Motor has been threatened by companies like Toyota and Kia.

**Types of Business Strategies**

Companies use a variety of strategies to survive and prosper, and these strategies have been classified in several ways. For convenience in integrating our discussion of strategy, we present eight types of strategy placed under the level in which they most nearly fit. Managers tend to think in terms of the strategy type rather than worrying about the type or which competitive force it best meets.

**Corporate-Level Strategies** Three examples of corporate-level strategies are strategic alliances, diversification, and sticking to core competencies.

1. **Strategic alliances.** A widely used business strategy is to form alliances, or share resources, with other companies to exploit a market opportunity. A major factor contributing to the growth of alliances is the enormous costs and time involved in developing and distributing products if a company starts from zero. According to the consultancy Booz-Allen & Hamilton, strategic alliances are sweeping through nearly every industry and are a driver of superior growth.\(^{15}\) Apple and Nike formed an alliance, or partnership, with their first joint product being an iPod gizmo to put more rhythm into running: the Nike+ iPod Sports Kit. The wireless kit enables Nike’s Air Zoom Moire shoes to send fitness data to the runner’s iPod Nano via a sensor tucked inside the running shoe and a small receiver that attaches to the Nano. As you run, the sensor records your distance, time, pace, and calories burned, displaying the data on the Nano.\(^ {16}\) Neither company could develop this breathtaking high-tech product working alone.

2. **Diversification of goods and services.** “Don’t put all your eggs in one basket” is a standard business strategy. One of the many reasons that diversification is an effective strategy is that it serves as a hedge in case the market for one group of products or services softens. In recent years about three-fourths of GM’s profitability has stemmed from lending money, not selling vehicles. The General Motors Acceptance Corporation, GM’s lending division, earns most of the company’s profits. Curiously, one-half of the profits from loaning money comes from home mortgages processed through Ditech.com, the online mortgage subsidiary.\(^ {17}\)

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3. **Sticking to core competencies.** It may be valuable not only to not put all your eggs in one basket, but also to guard against spreading yourself too thin. Many firms of all sizes believe they will prosper if they confine their efforts to business activities they perform best—their core competencies. A current trend is for companies that have diversified to later sell off acquired assets in order to refocus on their core business. For instance, Xerox Corporation sold its European business that financed large purchases, which enabled Xerox to concentrate on selling document and digital products and services. (Xerox also needed the cash from the sale to pay off debt.) Divesting itself of divisions not related to its core business of telecommunications helped Xerox climb back to prosperity and vitality. A newer example is that Ford Motor Co. has sold the Aston Martin line of cars (the vehicle preferred by James Bond) from its Premier Automotive Group. The major purpose was to free time and talent to concentrate on the problems affecting the company’s core Ford, Lincoln, and Mercury brands.\(^\text{18}\)

**Business-Level Strategies** Three examples of business-level strategies are product differentiation, focus and cost leadership.

1. **Product Differentiation.** A differentiation strategy attempts to find a niche or offer a product or service perceived by the customer as different from available alternatives. Most companies believe they have a differentiated product unless their strategy is to imitate another product or service, or produce knock off merchandise. Luxury brands often stem from a differentiation strategy. An example of a low-price luxury brand that has honed a differentiation strategy is Etón Corporation of Palo Alto, California. The etón® AM/FM/Shortwave radio retails for about $100, and offers the remarkable feature of receiving AM and FM stations from several hundred miles away. The radio is advertised in such elite places as *The Wall Street Journal*. The radios are also advertised under the Grundig brand, and the corporate Web site (http://www.etoncorp.com) has a differentiated, exciting appeal.

   An extension of the product differentiation strategy is to create a new market in which competition does not exist, referred to as a blue ocean strategy. A prime example is Cirque du Soleil that increased revenue 22-fold in a ten-year period by reinventing the circus with extravagant shows that combine several forms of entertainment at once. The 1984 Chrysler minivan that created a new class of automobile is another example of blue ocean strategy.\(^\text{19}\)

2. **Focus.** In a focus strategy, the organization concentrates on a specific regional or buyer market. To gain market share, the company uses either a differentiation or a low-cost approach in a targeted market. Some companies have several products or services catering to a buyer market, such as vitamins for seniors, but it does not constitute a full focus strategy. Specialized medical products, such as leg and arm prostheses, are based on

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a focus or niche strategy. Payday-loan stores are based on a focus strategy. Typically these stores, such as Advance America, focus on the working poor who live paycheck to paycheck. Yet in recent years, these payday-loan stores have developed a presence in some affluent neighborhoods. So the real focus of payday-loan stores is people in financial need, and perhaps have already used up their credit or have poor credit. Check Into Cash opened a store in an Aurora, Colorado neighborhood with an annual median income of $95,347.20

3. Cost leadership. The cost leader provides a product or service at a low price in order to gain market share. Wal-Mart is a master at cost leadership because the company’s massive buying power enables it to receive huge price concessions from suppliers. Save-A-Lot has become one of the United States’s most successful grocery chains by serving a demographic that most supermarkets have long ignored—the poor. The Earth City, Mo. chain is covering the country with small, cheap stores catering to households earning less than $35,000 a year. Many Save-A-Lot stores are located in poor sections of the inner city, and offer prices lower than those of Wal-Mart. Note that Save-A-Lot uses the focus and cost leadership strategy simultaneously, illustrating the point that business strategies overlap somewhat.

Southwest Airlines is another well-known company that emphasizes cost leadership. In addition to the low-cost maneuvers mentioned earlier in this chapter, the company uses one aircraft type to simplify training and maintenance. Also, you will not find such luxuries as a Southwest airport club. A cost leadership strategy can create ethical problems because of what suppliers must do to cut costs, such as having goods manufactured at sweatshops.

Functional-Level Strategy Two examples of functional-level strategy are finding and retaining the best people, and high speed.

1. Find and retain the best people. A foundation strategy for becoming and remaining a successful organization is to find and retain highly competent people. Such people will help the organization develop products and services that are in demand, and will find ways to reduce costs and behave ethically. Concentrating on hiring talent can be considered a functional-level strategy because people are usually hired into specific departments. Top management at Microsoft and Amazon.com attribute most of their success to hiring only intelligent, motivated job candidates. Fast Company magazine offers this advice to modern business executives.

Yes, you need an Internet strategy. Sure, you’ve got to stay on the good side of Wall Street. But when it comes to building great companies, the most urgent business charge is finding and keeping great people. In an economy driven by ideas and charged by the Web, brainpower is the real source of competitive advantage.
2. **High speed.** Satisfy customer needs more quickly and you will make more money. High-speed managers focus on speed in all of their business activities, including speed in product development, sales response, and customer service. Knowing that “time is money,” they choose to use time as a competitive resource. It is important to get products to market quickly because the competition might get there first. Part of Domino’s Pizza’s original success was based on getting pizzas delivered more quickly than competitors. The strategy had to be modified slightly when too many deliverers sacrificed auto safety to enhance delivery speed. Dell Computer relies on high speed as part of its strategy. A custom order placed at 9 a.m. Wednesday can often be on a delivery truck by 9 p.m. on Thursday. Not every customer has the same good fortune. Porter notes that speed is not good for its own sake. The effectiveness of speed depends on what the speed allows you to do that creates lower cost or differentiation. In Dell’s case, the rapid delivery facilitates not keeping loads of products in inventory, and appeals to users who want equipment in a hurry.23

So now that you are a top executive, or an advisor to a top executive, which combination of strategies should you choose to triumph? Strategies must be selected carefully, and given a chance to work. When a strategy is agreed upon, it must be executed carefully. Jumping from strategy to strategy in the hopes of revitalizing a company has been cited as a major reason why companies fail. For example, a reason cited for the struggles of Gateway is that it attempted so many different business plans and strategies including direct sales, Gateway Country Stores, Internet access, the sale of branded electronic devices, and a merger with eMachines. Gateway still operates but became part of Acer Computer in 2007. Interim CEO Rick Snyder said, “We took a simple business and made it more complex than it needed to be.”24

The accompanying Management in Action illustrates how one of the world’s best-known companies has successfully developed and executed business strategy.

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### Management in Action

**Pepsi Thinks Outside the Cola Wars**

One November evening, Pepsi CEO Steve Reinemund laid out a smorgasbord of snacks for his board of directors to munch on. This was not gentlemanly hospitality; it was pure business. These snacks represented Pepsi’s future: a line of products aimed at cashing in on consumers’ continuing obsession with healthy food. If all goes well, the line will bring in billions for the company. According to one board member, the treats were “delightful.” But more than just the future of Pepsi, this spread in many ways represents everything the company has done right for nearly a decade: finding new ways into people’s stomachs—and wallets—and pulling off one of the great turnarounds in American business.

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In December 2005, for the first time in this 108-year rivalry, Pepsi beat Coke in market capitalization. “Pepsi’s been on fire,” notes Robert van Brugge, beverage analyst with Sanford Bernstein. Part of Pepsi’s progress in the food and beverage business is due to the rigor and competitiveness of CEO Reinemund. “Steve’s an ex-Marine, and everything you would associate with that pertains,” says Ken Harris, a consultant who has worked with Reinemund at PepsiCo.

“You’ll leave a meeting knowing exactly what is expected of you and the time frame in which it should be done.” Reinemund has put together one of the strongest management teams around, including president and CFO Indra Nooyi, and is a hands-on manager who’s been known to personally make sales calls to help Pepsi win a contract. One Christmas Eve a few years back, while on vacation with his family, he found himself at a convenience store just as a Frito-Lay delivery arrived to replenish the shelves; he pushed aside his purchases and helped pack chips.

Nooyi worked so closely and so well with Reinemund that she was appointed chief executive officer in August 2006, when Reinemund decided to leave executive life and spend more time with his family. Nooyi said she felt fortunate to become CEO at a time when PepsiCo had such solid growth across all business units. Reinemund said, “I can’t tell you how excited I am to pass the baton to Indra.”

Pepsi’s resurgence is not considered to be an accident. A decade ago Coke offered investors a compelling story: a recession-resistant product inexpensive enough that consumers would buy it in good times and bad, but valued enough that they would willingly pay an extra nickel or so above what no-name brands charged. What Coke investors didn’t envision was that an emerging preference for other soft beverages—water, sports drinks—would fracture demand. By 2007, however, Coke was moving rapidly into non-carbonated beverages, as exemplified by two key purchases: Energy Brands which produces vitamin-enhanced water, and Fuze Beverage LLC, a producer of energy, tea, and vitamin-enhanced drinks.

Losing the cola wars, it turns out, was the best thing that ever happened to Pepsi. It prompted Pepsi’s leaders to look outside the confines of their battle with Coke. “They were the first to recognize that the consumer was moving to noncarbonated products, and they innovated aggressively,” observes Gary Hemphill of Beverage Marketing. PepsiCo embraced bottled water and sports drinks much earlier than its rival. Pepsi’s Aquafina is the No. 1 water brand, with Coke’s Dasani trailing; in sports drinks, Pepsi’s Gatorade owns 80 percent of the market while Coke’s Powerade has 15 percent.

Throughout the past five years the company has deftly moved with every shift in consumer tastes. “He’s thinking about what the products should look like in the future,” says Victor Dzau, a director of PepsiCo. For example, as COO in 2000, Reinemund had a hand in Pepsi’s acquisition of Sobe, buying the company a critical foothold in an emerging category of New Age drinks—the business now pulls in an estimated $200 million a year. Through its partnership with Starbucks, PepsiCo now dominates the bottled-coffee market, with annual sales of over $300 million of Frappuccinos.

But Pepsi’s strongest business lies outside drinks altogether. Over the past ten years, the Frito-Lay division has become a powerhouse, controlling 60 percent of the U.S. snack food market. So strong is Pepsi in this arena that many investors no longer judge it by how it stacks up against Coke. “Most people think of Pepsi and Coke as fighting it out,” observes Eric Schoenstein, an analyst at Jensen Investment Management. “But we don’t see it that way. Pepsi isn’t really a beverage company anymore: It’s a food company that also sells beverages.” The company now boasts 16 brands that bring in more than $1 billion each year in revenue.

Questions
1. Why might this story about PepsiCo be considered an example of business strategy?
2. Which business strategy or strategies are illustrated in this story about PepsiCo?

OPERATING PLANS, POLICIES, PROCEDURES, AND RULES

Strategic plans are formulated at the top of the organization. Four of the vehicles through which strategic plans are converted into action are operating plans, policies, procedures, and rules.

Operating Plans

Operating plans are the means through which strategic plans alter the destiny of the firm. Operating plans involve organizational efficiency (doing things right), whereas strategic plans involve effectiveness (doing the right things). Both strategic and operational plans involve such things as exploring alternatives and evaluating the effectiveness of the plan. In a well-planned organization, all managers take responsibility for making operating plans that mesh with the strategic plans of the business. Operational plans (a term used synonymously with operating plans) provide the details of how strategic plans will be accomplished. In many firms, suggestions to be incorporated into operating plans stem from employees at lower levels.

Operating plans focus more on the firm than on the external environment. To illustrate, the strategic plan of a local government might be to encourage the private sector to take over government functions. One operating unit within the local government might then formulate a plan for subcontracting refuse removal to private contractors and phasing out positions for civil-service sanitation workers.

Operating plans tend to be drawn for a shorter period than strategic plans. The plan for increasing the private sector's involvement in activities conducted by the local government might be a ten-year plan. In contrast, the phasing out of government sanitation workers might take two years.

Policies

Policies are general guidelines to follow in making decisions and taking action; as such, they are plans. Many policies are written; some are unwritten, or implied. Policies, designed to be consistent with strategic plans, must allow room for interpretation by the individual manager. An important managerial role is interpreting policies for employees. Here is an example of a policy and an analysis of how it might require interpretations.

Policy: When hiring employees from the outside, consider only those candidates who are technically competent or show promise of becoming technically competent and who show good personal character and motivation.

A manager attempting to implement this policy with respect to a given job candidate would have to ask the following questions:

- What do we mean by “technical competence”?
- How do I measure technical competence?
- What do we mean by “show promise of becoming technically competent”?
How do I rate the promise of technical competence?
• What do we mean by “good personal character and motivation”?
• How do I assess good personal character and motivation?

Policies are developed to support strategic plans in every area of the firm. Many firms have strict policies against employees accepting gifts and favors from vendors or potential vendors. For example, many schools endorse the Code of Ethics and Principles advocated by the National Association of Educational Buyers. One of the specific policies states that buyers should “decline personal gifts or gratuities which might in any way influence the purchase of materials.”

Procedures
Procedures are considered plans because they establish a customary method of handling future activities. They guide action rather than thinking, in that they state the specific manner in which a certain activity must be accomplished. Procedures exist at every level in the organization, but they tend to be more complex and specific at lower levels. For instance, strict procedures may apply to the handling of checks by store associates. The procedures for check handling by managers may be much less strict.

Rules
A rule is a specific course of action or conduct that must be followed; it is the simplest type of plan. Ideally, each rule fits a strategic plan. In practice, however, many rules are not related to organizational strategy. When rules are violated, corrective action should be taken. Two examples of rules follow:

• Any employee engaged in an accident while in a company vehicle must report that accident immediately to his or her supervisor.
• No employee is authorized to use company photocopying machines for personal use, even if he or she reimburses the company for the cost of the copies.

MANAGEMENT BY OBJECTIVES: A SYSTEM OF PLANNING AND REVIEW

Management by objectives (MBO) is a systematic application of goal setting and planning to help individuals and firms be more productive. The system began in the 1950s, and continues to contribute to organizational effectiveness. An MBO program typically involves people setting many objectives for themselves. However, management frequently imposes key organizational objectives upon people. An MBO program usually involves sequential steps, which are cited in the following list. (Note that these steps are related to those in the basic planning model shown in Exhibit 4-1.)
1. **Establishing organizational goals.** Top-level managers set organizational goals to begin the entire MBO process. Quite often these goals are strategic. A group of hospital administrators, for example, might decide upon the strategic goal of improving health care to poor people in the community. After these broad goals are established, managers determine what the organizational units must accomplish to meet these goals.

2. **Establishing unit objectives.** Unit heads then establish objectives for their units. A cascading of objectives takes place as the process moves down the line. Objectives set at lower levels of the firm must be designed to meet the general goals established by top management. Lower-level managers and operatives provide input because a general goal usually leaves considerable latitude for setting individual objectives to meet that goal. The head of inpatient admissions might decide that working more closely with the county welfare department must be accomplished if the health-care goal cited earlier in this list is to be met. Exhibit 4-7 suggests ways to set effective goals.

3. **Reviewing group members’ proposals.** At this point, group members make proposals about how they will contribute to unit objectives. For example, the assistant to the manager of inpatient admissions might agree to set up a task force to work with the welfare department. Each team member is also given the opportunity to set objectives in addition to those that meet the strategic goals.

4. **Negotiating or agreeing.** Managers and team members confer together at this stage to either agree on the objectives set by the team members or negotiate further. In the hospital example, one department head might state that he or she wants to reserve ten beds on the ward for the exclusive use of indigent people. The supervisor might welcome the suggestion but point out that only five beds could be spared for such a purpose. They might settle for setting aside seven beds for the needy poor.

**exhibit 4-7**

**Guide to Establishing Goals and Objectives**

Effective goals and objectives have certain characteristics in common. Effective goals and objectives

- **Are clear, concise, and unambiguous.** An example of such an objective is “Reduce damaged boxes of printer paper during April 27 to April 30 of this year.”

- **Are accurate in terms of the true end state or condition sought.** An accurate objective might state, “The factory will be as neat and organized as the front office after the cleanup is completed.”

- **Are achievable by competent workers.** Goals and objectives should not be so high or rigid that the majority of competent team members become frustrated and stressed by attempting to achieve them.

- **Include three difficulty levels: routine, challenging, and innovative.** Most objectives deal with routine aspects of a job, but they should also challenge workers to loftier goals.

- **Are achieved through team-member participation.** Subordinates should participate actively in setting objectives.

- **Relate to small chunks of accomplishment.** Many objectives should concern small, achievable activities, such as uncluttering a work area. Accomplishing small objectives is the building block for achieving larger goals.

- **Specify what is going to be accomplished, who is going to accomplish it, when it is going to be accomplished, and how it is going to be accomplished.** Answering the what, who, when, and how questions reduces the chance for misinterpretation.
5. **Creating action plans to achieve objectives.** After the manager and team members agree upon objectives, action plans must be defined. Sometimes the action plan is self-evident. For example, if your objective as a call-center manager is to hire three new customer service representatives this year, you would begin by consulting with the human resources department.

6. **Reviewing performance.** Performance reviews are conducted at agreed-upon intervals. (A semiannual or annual review is typical.) Persons receive good performance reviews as to the extent they attain most of the major objectives. When objectives are not attain, the manager and group member mutually analyze what went wrong. Equally important, they discuss the corrective actions. New objectives are then set for the next review period. Because establishing new objectives is part of an MBO program, the process of management by objectives can continue for the life of an organization.
**SUMMARY OF Key Points**

1. **Summarize a general framework for planning and apply it to enhance your planning skills.**

   A generalized planning model can be used for strategic planning, tactical planning, and operational planning. The model consists of seven related and sometimes overlapping elements: defining the present situation; establishing goals and objectives; analyzing the environment in terms of forecasting aids and barriers to goals and objectives; developing action plans; developing budgets; implementing the plan; and controlling the plan. Contingency plans should also be developed.

2. **Describe the nature of business strategy.**

   A current explanation of business strategy emphasizes four characteristics. First, strategy involves more than operational effectiveness. Second, strategy rests on unique activities. Third, a sustainable strategic position requires trade-offs. Fourth, fit among organizational activities drives both competitive advantage and sustainability.

3. **Explain how business strategy is developed, including a SWOT analysis.**

   Business strategy usually develops from planning, and is also influenced by values. Gathering multiple inputs, including the new technique of crowdcasting, is important in developing strategy. Strategists must also analyze the realities of the business situation to guard against false assumptions about customers, production capability, and the relevant technology. Strategy development often begins with a SWOT analysis, but first the group must prepare for the analysis. The SWOT analysis considers the strengths, weaknesses, opportunities, and threats in a given situation.

4. **Identify levels of business strategy, competitive forces, and types of business strategies.**

   In a diversified business firm, strategy is formulated at the corporate level, the business level, and the functional level. Competitive forces facing the firm include customers affecting pricing, suppliers influencing pricing, substitute products, existing competition, and new market entrants. Types of strategies are as follows: Corporate-level strategies include diversification, strategic alliances, diversification of goods and services, and sticking to core competencies. Business-level strategies include product differentiation, focus, and cost leadership. Functional-level strategies include find and retain the best people, and high speed. The right strategy or combination of strategies must be chosen with care.

5. **Explain the use of operating plans, policies, procedures, and rules.**

   Operating plans provide the details of how strategic plans will be accomplished or implemented. They deal with a shorter time span than do strategic plans. Policies are plans set in the form of general statements that guide thinking and action in decision making. Procedures establish a customary method of handling future activities. A rule sets a specific course of action or conduct and is the simplest type of plan.
6 Present an overview of management by objectives.

Management by objectives (MBO) is the most widely used formal system of goal setting, planning, and review. In general, it has six elements: establishing organizational goals, establishing unit objectives, obtaining proposals from group members about their objectives, negotiating or agreeing to proposals, developing action plans, and reviewing performance. After objectives are set, the manager must give feedback to team members on their progress toward reaching the objectives.

KEY TERMS AND PHRASES

- Strategic planning, 114
- Tactical planning, 114
- Operational planning, 115
- Action plan, 117
- Contingency plan, 118
- Strategy, 119
- Vision, 122
- Mission, 122
- SWOT analysis, 124
- Operating plans, 135
- Policies, 135
- Procedures, 136
- Rule, 136
- Management by objectives (MBO), 137

QUESTIONS

1. In what way does planning control the future?
2. How can you use the information in this chapter to help you achieve your career and personal goals?
3. Some business owners make a statement something to the effect, “We’re too busy to bother with strategy. We have to take care of the present.” What might be wrong with their reasoning?
4. How realistic is Microsoft’s mission (or vision)? “To enable people and businesses throughout the world to realize their full potential.”
5. Why are companies willing to spend up to $50,000 for business students to propose solutions to their strategic dilemmas? Shouldn’t the company be relying on experienced business people?
6. Using the information presented in Exhibit 4-7 as a guide, prepare an effective goal for a call-center customer-service worker who is responsible for resolving call-in problems about digital cameras.
7. Give an example of how a rule could fit the corporate strategy of cost leadership.

SKILL-BUILDING EXERCISE 4-A: Conducting a SWOT Analysis

In this chapter you have read the basics of conducting a SWOT analysis. Now gather in small groups to conduct one. Develop a scenario for a SWOT analysis, such as the group starting a chain of coffee shops, pet-care service centers, or treatment centers for online addictions. Or, conduct a SWOT analysis for reorganizing a company from being mostly hierarchical to one that is mostly team based. Keep in mind one of the biggest challenges in doing a SWOT analysis—differentiate between internal strengths and weaknesses, and external opportunities and threats. Because most of your data are hypothetical, you will have to rely heavily on your imagination. Group leaders might share the results of the SWOT analysis with the rest of the class.

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SKILL-BUILDING EXERCISE 4-B: Developing Business Strategy for Coca Cola

Imagine yourself as part of a strategy development team for the Coca Cola Co. You have gathered information indicating that the worldwide demand for carbonated soft drinks has been declining. More and more consumers are moving toward the purchase of specialty beverages such as energy drinks, including Red Bull, and flavored water. According to a Beverage Digest sales of non-soda drinks in the United States are rising about 14 percent per year, whereas the soda market is slipping about 2 percent. Coca Cola has diversified into a variety of bottle and canned drinks, as well as water (for example, Dasani). Yet top management is concerned about Coca Cola becoming a less dominant force in the beverage world. Work as part of small team to recommended a business strategy that will help invigorate the company. Your final strategy statement should be about 25 words long, yet powerful enough to add billions of dollars in annual profit to the Coca Cola Co.

INTERNET SKILL-BUILDING EXERCISE: Business Strategy Research

The purpose of this assignment is to find three examples of business strategy by searching the Internet. A good starting point is to obtain information about a company of interest to you by visiting its Web site. After copying down several strategic statements (or transferring them to a storage drive or your hard drive), compare them to the section of this chapter called “Types of Business Strategies.” Attempt to match the company statement about its strategy to a type of strategy listed in the chapter. If you cannot find the information you need in the company Web sites, research companies you are curious about by inserting their name in a search engine.
Zales Jewelers Flops at the High End

Jewelry retailer Zale Corp. named interim chief executive officer Mary “Betsy” Burton to the post permanently and launched a search for a new chief financial officer. Zale’s board tapped Burton, a director, as its interim CEO in late January after forcing the resignation of Mary Forté, CEO since 2002. Zale’s board made the change following the failure of Forté’s campaign to shift the advertising and merchandise at the retailer’s flagship Zales Jewelers to appeal to a more upscale and fashion-conscious clientele.

Zale, Irving, Texas, has annual sales of over $2 billion. In the United States it operates under the Zales Jewelers, Zales Outlet, Gordon’s Jewelers, Bailey Banks & Biddle and Piercing Pagoda brands. In Canada, its brands are Peoples Jewellers and Mapins Jewellers.

In Burton, Zale gets a CEO with extensive experience on the boards and retailers and in turning around struggling operations. She served as CEO of the hair-salon chain Supercuts Inc. from 1987 to 1991, of a printing concern from 1991 to 1992, and of Revlon Inc.’s 250-store Cosmetic Center Inc. chain from 1998 to 1999. She has served as CEO of two large private ventures: Toysrus.com in 1999 and Tower Records in 2003.

In January of 2005, after a disappointing Christmas season and amid worries about competition from discount retailers, Zale Corp., decided to shake things up: The self-proclaimed jeweler to Middle America was going to chase upscale customers. In a few months, Zale drew up a plan than involved replacing almost a third of the merchandise at its Zales Jewelers division. To dodge a battle with retailers such as Wal-Mart Stores Inc., Zales dropped inexpensive, low-quality diamond jewelry for fashionable 14-karat gold and silver pieces with higher margins. It started buying direct from overseas dealers, cutting out U.S. middlemen, and even dumped a decades-old marketing slogan: “The Diamond Store.”

The move was a disaster. ‘The Irving, Texas, retailer lost many of its traditional customers without winning the new ones it coveted. A second poor Christmas badly dented the company’s annual profits. Within weeks, Forté was forced to resign.

In recent years, discounters such as Wal-Mart and J. C. Penney were grabbing an increasing amount of the jewelry business. At the same time, Internet retailers and TV shopping networks were selling more diamonds and other fine jewelry, encroaching on Zale’s turf.

Early in 2005, Forté moved to cultivate a higher-income clientele. “We are in the process of really tearing things apart, now,” Forté told Wall Street analysts. She proposed dumping many of the company’s $99 diamonds as well as Zale’s long-running TV campaign promoting those pieces. Forté also wanted to get rid of promotions on holidays such as Veteran’s Day and Columbus Day, when Zales slashed its prices and saw sales soar, albeit at low margins. After sprucing up Zales Jewelers, Forté also began doing the same to Zale’s existing upscale divisions. Bailey Banks & Biddle, she thought, could be like Tiffany & Co., say several former employees.

Zale couldn’t do much to improve the quality of its diamonds—better gems would cost too much for some of its clientele. Instead, it stopped selling inexpensive diamond pieces, leaving only items that cost more than $200. In total, Zale changed 30 percent of its merchandise and replaced 15 percent of its suppliers.

Burton says, “The big mistake, and how we really broke Zales going into a key holiday season, was changing the product line-up, especially in diamonds. We literally had a broken category going into the all important quarter, the one where you make all your money.”

Forté defends her strategy and argues that the company was beginning to work through its problems. “You don’t have to go inexpensive to show great value,” she says. Forté also claimed that Zales was able to offer better quality jewelry because it had finally started to buy products directly from overseas suppliers. “We were working to improve the business and these things take time,” Forté says. “We were starting to hit our stride, but direct sourcing was still new and was just beginning to infiltrate the inventory.”

Since taking the reins, Burton, 54 years old, has scrapped Forté’s upscale strategy, recast Zales Jewelers’ advertising campaign to focus on value rather than fashion and shifted the division’s merchandise back to a heavy focus on diamond rings and jewelry. She also overhauled Zale’s training and commission programs.

Zale put former chief financial officer Mark Lenz on administrative leave in May 2006 for allegedly failing to
Case Problem 4-A

inform Zale’s auditors that roughly $8 million in payments to vendors recorded prior to the end of Zale’s fiscal year on July 31, 2006 were actually received by the vendors in August. Zale has since April faced a Securities and Exchange Commission investigation focused on multiple topics, including vendor payments, warranty programs, leases, and executive severance and stock trading.

Discussion Questions
1. What do you think will be the effectiveness of Burton returning Zales Jewelers to its regular business strategy? In your answer, define or categorize that strategy.

2. What should Burton do about the ethical and legal problems facing Zales?

3. Do you think Mary Forté had a good strategy in attempting to move Zales upscale? As part of your answer think of your own experience at Zales, or anybody else who has shopped there.

4. If you were a board member at Zales would you be concerned about the job-hopping of Mary Burton?

Case Problem 4-B

What Should Dell Do Next?

Chris Conroy works at a publisher of scientific journals in Washington, D.C. He first logged onto Dell Inc.’s Web site to browse personal-computer offerings online. But because his laptop was dying quickly, the 31-year-old figured buying a PC on the Internet and getting it shipped home would take too long.

So Conroy went to a Circuit City Stores Inc., which doesn’t stock any Dell computers. There, he checked out several laptops before snapping up a $1,200 Hewlett-Packard Co. model. “Most importantly, I could get my hands on it right then, without having to worry about it being shipped,” he says.

Conroy’s experience signals a fundamental problem facing Dell. For years, Dell—famous for selling products directly over the phone and Internet—was a dynamo thanks to bulk sales to corporations, mostly of desktop computers. Its direct-sales business model made the Round Rock, Texas, company a widely admired paragon of efficiency as it underpriced rivals such as H-P and Gateway, Inc.

But in the past few years, buying behavior in the PC world has changed. Much of the growth has come from consumer demand rather than the business market on which Dell focused. What’s more, people looking for a new home computer are increasingly turning to laptops. There Dell is particularly weak (according to some observers): its models lack the pizzazz and features of its rivals. For laptops, especially, consumers prefer to hold and test models in a store, but Dell computers are not sold there. According to the NPD Group, 56 percent of laptops sold to consumers are now bought in stores, up from 50 percent two years ago.

Dell still considers consumers an important market. The company has poured money into corporate products such as printers, storage systems and computer servers. It mixed some overtures from retailers to sell its wares in stores. Yet the company has one retail store to display products (but not sell them), and operates more than 170 kiosks in malls around the country, where consumers can see and order a selection of Dell products.

At the same time, rivals such as H-P, Gateway, and Apple Computer Inc., have charged ahead in the consumer PC market. In particular, H-P cut costs to become competitive with Dell, began working more closely with retailers, and redoubled its marketing efforts. As Dell cut prices, H-P invested in consumer-friendly features on its notebooks. H-P computers, using a laser, can write a label on specially coated music CD with artist and title so users don’t have to use a marker.

Early in 2006, Dell expanded more slowly than the overall U.S. PC market for the first time in more than a decade. Consumers make up about 30 percent of H-P’s sales, in contrast to 15 percent of Dell sales.

Dell is now scrambling to contain the damage. It has overhauled its Web site and streamlined its pricing, and has introduced a new consumer advertising campaign with the tagline “Purely You.” Chief Executive Kevin Rollins calls the consumer business volatile, and says it remains a secondary focus for the company. But privately, has admitted to some mistakes. At a meeting with 50 Dell employees in Round Rock to discuss a change in direction for the company, the CEO conceded that “historically we didn’t pay enough attention to our customer experience. Some of our new competitors did.”

Some on Wall Street are pushing for founder Michael Dell to take a more hands-on role in the company. Investors applauded Dell’s recent acquisition of Miami’s Alienware Corp., a maker of high-end videogame PCs. The company has said that deal, which boosted its offerings for consumers, was personally pushed by Mr. Dell.

In 2007, Rollins was released and replaced by Michael Dell. Later that year Dell began selling $700 desktop computers at 3,400 Wal-Mart Stores.

The desktop market began cooling a few years ago as many companies slowed the pace of upgrading their computers. Meanwhile, consumers gravitated to laptops as prices fell and new wireless technology made them more useful at home and on the go. While corporate demand focused on replacing the desktops employees already had, consumers were adding second, third and fourth computers at home as mod, dad, and the kids listened to digital music, shared digital photos and played games. The research firm IDC predicts that by 2010, consumers will likely be buying more laptops than do corporations.

The move to temporary workers at call centers backfired for Dell. Ro Parra, a senior vice president who was asked to look into the problem, discovered that the temporary call-center workers who wanted full-time jobs weren’t being promoted. Turnover in the centers soared.
to 300 percent a year from 30 percent in 2002. “We were very efficient, and we made those decisions that work with the short term, but they were really damaging to us over the long term,” says Parra.

In late 2004, the profitability of Dell’s consumer business began deteriorating. Dell told Wall Street its competitors were cutting prices to gain market share at the expense of profit, and said its focus was the high-end PC consumer. But Dell was also participating in a price war, dropping its prices as low as $299 for desktops.

Dell rolled out some new products to woo consumers. In October 2004, it released its first plasma-screen television sets, a digital music player and a new photo printer with a built-in display to preview photos. But many consumers were wary about buying some of these products sight unseen from a company not known as a consumer electronics maker.

In May 2006, the company pledged $100 million to improve the “customer experience,” including hiring more than 2,000 new U.S. sales and support staff. It has since added another $50 million to the effort. Internal Dell data show that its efforts are reducing call volumes and call transfers for customers.

**Discussion Questions**

1. Identify several business strategies Dell has used so far.
2. Suggest a plan to Dell executives for continuing its past successes into the future.
3. Advise Dell management as to whether they should be so concerned about their recent downturn in sales.
4. What is your opinion of the quality of Dell desktops and laptops based upon what you have observed personally and what people in your network have said.