

# SECTION 1

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## Instructor Resources, Chapter Features, and Case Overview

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## Instructor Resources

We strived to achieve four goals in preparing this package of Instructor Resources for the 21st Edition:

1. To equip you with all the resources and pedagogical tools you'll need to design and deliver a course that is on the cutting-edge and solidly in the mainstream of what students need to know about crafting and executing winning strategies.
2. To give you wide flexibility in putting together a course syllabus that you are comfortable with and proud of.
3. To give you a smorgasbord of options to draw from in keeping the nature of student assignments varied and interesting.
4. To help you deliver a course with upbeat tempo that wins enthusiastic applause from students.

We believe the contents of the package will be particularly informative and helpful to faculty members teaching the strategy course for the first time but we have also tried to embellish the content with ideas and suggestions that will prove valuable to experienced faculty looking for ways to refurbish their course offering and/or to keep student assignments varied and interesting.

## A Quick Overview of the Entire Instructor Resource Package

The Instructor's Manual for *Crafting & Executing Strategy* contains:

- A quick look at the topical focus of the text's 12 chapters (Section 1).
- An overview of the 32 cases in the text, along with a grid profiling the strategic issues that come into play in each case (Section 1 and Section 3).
- A discussion of the reasons to use a strategy simulation as an integral part of your strategy course. The two web-based strategy simulations—*The Business Strategy Game* or *GLO-BUS*—that are companions to this text incorporate the very kinds of strategic thinking, strategic analysis, and strategic decision-making described in the text chapters and connect beautifully to the chapter content. The automated online nature of both simulations entails minimal administrative time and effort on the instructor's part. You will be pleasantly shocked (and pleased!!) at the minimal time it will take you to incorporate use of *GLO-BUS* or *The Business Strategy Game* and the added degree of student excitement and energy that either of these competition-based strategy simulations brings to the course—see Section 2 for more details.
- Tips and suggestions for effectively using either *GLO-BUS* or *The Business Strategy Game* in your course (covered in both Section 2 and Section 3).
- The merits of incorporating the use of the *Connect™ Management* Web-based assignment and assessment platform accompanying the 22nd Edition, into your course requirements. Connect includes chapter quizzes, case assignment exercises for 14 of the 32 cases, and learning assurance exercises for all 12 chapters of the 22nd Edition. Connect offers automatic grading for all chapter quizzes, and many of the case exercises and learning assurance exercises. Connect offers an easy-to-administer approach to testing and assessing individual-level student mastery of chapter concepts and case analysis (covered in Section 3).
- Ideas and suggestions on course design and course organization (Section 3 and Section 4).
- Recommendations for sequencing the case assignments and guidance about how to use the cases effectively (Section 3).
- Our recommendations regarding which cases are particularly appropriate for written case assignments and oral team presentations (Section 3).
- Two sample course syllabi (Section 4).

- A variety of schedules of activities for face-to-face, hybrid, and online courses: (Section 4)
  - Two sample schedules of class activities and assignments for face-to-face courses offered during a 15-week term;
  - Two sample schedule of activities for hybrid courses offered during a 15-week term;
  - One sample schedule of class activities for face-to-face courses offered during a 10-week term;
  - One sample schedule of class activities for hybrid courses offered during a 10-week term;
  - One sample schedule of class activities for a 7-week online course; and
  - Two sample course schedules for face-to-face courses offered in 5-week terms.
- A Test Bank for the 12 chapters that consists of 900+ questions (Section 5).
- A set of Lecture Notes for each of the 12 chapters (Section 6).
- A comprehensive teaching note for each of the 32 cases in *Crafting & Executing Strategy* (Section 7).

In addition to the Instructor's Manual, the support package for adopters also includes several important features that should be of interest.

**Connect™ Management Web-based Assignment and Assessment Platform.** The 22nd Edition package includes a robust collection of chapter quizzes, chapter learning assurance exercises, and case preparation exercises that should prove to ease instructors' grading and assessment obligations. Student understanding of chapter concepts can be assessed at the individual-level through chapter quizzes and applied learning assurance exercises that record each student's grade in a Web-based grade book. *All chapter quizzes are automatically graded and more than one-half of the Assurance of Learning exercises for the 12 chapters are automatically graded.*

The *Connect Management* platform also includes fully autograded interactive application exercises for 14 of the 32 cases in this edition. The exercises require students to work through tutorials based upon the analysis set forth in the assignment questions for the case; these exercises have multiple components such as resource and capability analysis, financial ratio analysis, identification of a company's strategy, or analysis of the five competitive forces. The content of these case exercises is tailored to match the circumstances presented in each case, calling upon students to do whatever strategic thinking and strategic analysis is called for to arrive at pragmatic, analysis-based action recommendations for improving company performance. The entire exercise is autograded, allowing instructors to focus on grading only the students' strategic recommendations.

All students who purchase a new copy of the text are automatically provided access to Connect at no additional charge (those who have a used copy can obtain access by paying a modest fee—\$20 at the time of this writing).

**PowerPoint Slides.** To facilitate delivery preparation of your lectures and to serve as chapter outlines, you'll have access to comprehensive PowerPoint presentations for each of the 12 chapters that the authors have developed for their own classes. The collection includes 500+ professional-looking slides displaying core concepts, analytical procedures, key points, and all the figures in the text chapters.

**Accompanying Case Videos.** Twenty-one cases have accompanying video segments that can be shown in conjunction with the case discussions. These videos can be sourced via links to YouTube postings, postings in the Connect Instructor Library for the 22nd Edition.

**Test Bank** The test bank contains over 900 multiple-choice questions and short-answer/essay questions. It has been tagged with AACSB and Bloom's Taxonomy criteria. All of the test bank questions are also accessible via **TestGen**. TestGen is a complete, state-of-the-art test generator and editing application software that allows

instructors to quickly and easily select test items from McGraw Hill's TestGen test-bank content and to organize, edit, and customize the questions and answers to rapidly generate paper tests. Questions can include stylized text, symbols, graphics, and equations that are inserted directly into questions using built-in mathematical templates. TestGen's random generator provides the option to display different text or calculated number values each time questions are used. With both quick-and-simple test creation and flexible and robust editing tools, TestGen is a test generator system for today's educators.

## What to Expect in the 22nd Edition

The distinguishing mark of the 22nd edition is its enriched and enlivened presentation of the material in each of the 12 chapters, providing an as up-to-date and engrossing discussion of the core concepts and analytical tools as you will find anywhere. As with each of our new editions, there is an accompanying lineup of exciting new cases that bring the content to life and are sure to provoke interesting classroom discussions, deepening students' understanding of the material in the process.

While this 22nd edition retains the 12-chapter structure of the prior edition, every chapter—indeed every paragraph and every line—has been reexamined, refined, and refreshed. New content has been added to keep the material in line with the latest developments in the theory and practice of strategic management. In other areas, coverage has been trimmed to keep the book at a more manageable size. Scores of new examples have been added, along with 15 new Illustration Capsules, to enrich understanding of the content and to provide students with a ringside view of strategy in action. The result is a text that cuts straight to the chase in terms of what students really need to know and gives instructors a leg up on teaching that material effectively. It remains, as always, solidly mainstream and balanced, mirroring both the penetrating insight of academic thought and the pragmatism of real-world strategic management.

A standout feature of this text has always been the tight linkage between the content of the chapters and the cases. The lineup of cases that accompany the 22nd edition is outstanding in this respect—a truly appealing mix of strategically relevant and thoughtfully crafted cases, certain to engage students and sharpen their skills in applying the concepts and tools of strategic analysis. Many involve high-profile companies that the students will immediately recognize and relate to; all are framed around key strategic issues and serve to add depth and context to the topical content of the chapters. We are confident you will be impressed with how well these cases work in the classroom and the amount of student interest they will spark.

## Organization, Content, and Features of the Text Chapters

Our objective in undertaking a major revision of this text was to ensure that its content was current, with respect to both scholarship and managerial practice, and presented in as clear and compelling a fashion as possible. We established five criteria for meeting this objective, namely that the final product must:

- Explain core concepts in language that students can grasp and provide first-rate examples of their relevance and use by actual companies.
- Thoroughly describe the tools of strategic analysis, how they are used, and where they fit into the managerial process of crafting and executing strategy.
- Incorporate the latest developments in the theory and practice of strategic management in every chapter to keep the content solidly in the mainstream of contemporary strategic thinking.
- Focus squarely on what every student needs to know about crafting, implementing, and executing business strategies in today's market environments.
- Provide an attractive set of contemporary cases that involve headline strategic issues and give students ample opportunity to apply what they've learned from the chapters.

We believe this 22nd edition measures up on all five criteria and that you'll be amply convinced that ***no other leading text does a better job of setting forth the principles of strategic management and linking these principles to both sound theory and best practices.***

Seven standout features strongly differentiate this text and the accompanying instructional package from others in the field:

1. *Our integrated coverage of the two most popular perspectives on strategic management—positioning theory and resource-based theory—is unsurpassed by any other leading strategy text.* Principles and concepts from both the positioning perspective and the resource-based perspective are prominently and comprehensively integrated into our coverage of crafting both single-business and multibusiness strategies. By highlighting the relationship between a firm's resources and capabilities to the activities it conducts along its value chain, we show explicitly how these two perspectives relate to one another. Moreover, in Chapters 3 through 8 it is emphasized repeatedly that a company's strategy must be matched *not only* to its external market circumstances *but also* to its internal resources and competitive capabilities.
2. *With this new edition, we provide the clearest, easiest to understand presentation of the value-price-cost framework.* In recent years, this framework has become an essential aid to teaching students how companies create economic value in the course of conducting business. We show how this simple framework forms the concept of the business model as well as the all-important concept of competitive advantage. In chapter 5, we add further clarity by showing in pictorial fashion how the value-price-cost framework relates to the different sources of competitive advantage that underlie the five generic strategies.
3. *Our coverage of cooperative strategies and the role that interorganizational activity can play in the pursuit of competitive advantage, is similarly distinguished.* The topics of strategic alliances, licensing, joint ventures, and other types of collaborative relationships are featured prominently in a number of chapters and are integrated into other material throughout the text. We show how strategies of this nature can contribute to the success of single-business companies as well as multibusiness enterprises, whether with respect to firms operating in domestic markets or those operating in the international realm.
4. *The attention we give to international strategies, in all their dimensions, make this textbook an indispensable aid to understanding strategy formulation and execution in an increasingly connected, global world.* Our treatment of this topic as one of the most critical elements of the *scope* of a company's activities brings home to students the connection between the topic of international strategy with other topics concerning firm scope, such as multibusiness (or corporate) strategy, outsourcing, insourcing, and vertical integration.
5. *With a stand-alone chapter devoted to this topic, our coverage of business ethics, corporate social responsibility, and environmental sustainability goes well beyond that offered by any other leading strategy text.* This chapter, "Ethics, Corporate Social Responsibility, Environmental Sustainability, and Strategy" fulfills the important functions of (1) alerting students to the role and importance of ethical and socially responsible decision making and (2) addressing the accreditation requirement of the AACSB International that business ethics be visibly and thoroughly embedded in the core curriculum. Moreover, discussions of the roles of values and ethics are integrated into portions of other chapters to further reinforce why and how considerations relating to ethics, values, social responsibility, and sustainability should figure prominently into the managerial task of crafting and executing company strategies.
6. *Long known as an important differentiator of this text, the case collection in the 22nd edition is truly unrivaled* from the standpoints of student appeal, teachability, and suitability for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 12. The 31 cases included in this edition are the very latest, the best, and the most on target that we could find. The ample information about the cases in the Instructor's Manual makes it effortless to select a set of cases each term that will capture the interest of students from start to finish.

7. *The text is now more tightly linked to the publisher's trailblazing web-based assignment and assessment platform called Connect.™* This will enable professors to gauge class members' prowess in accurately completing (a) selected chapter-end exercises, (b) chapter-end quizzes, and (c) the creative author-developed exercises for 12 of the cases in this edition.
8. *Two cutting-edge and widely used strategy simulations—The Business Strategy Game and GLO-BUS—are optional companions to the 22nd edition.* These give you an unmatched capability to employ a text-case-simulation model of course delivery.

The following rundown summarizes the noteworthy features and topical emphasis in this new edition:

- Chapter 1 serves as a brief, general introduction to the topic of strategy, focusing on the central questions of “*What is strategy?*” and “*Why is it important?*” As such, it serves as the perfect accompaniment for your opening-day lecture on what the course is all about and why it matters. Using the newly added example of Apple, Inc., to drive home the concepts in this chapter, we introduce students to what we mean by “competitive advantage” and the key features of business-level strategy. Describing strategy making as a process, we explain why a company's strategy is partly planned and partly reactive and why a strategy tends to co-evolve with its environment over time. We discuss the importance of ethics in choosing among strategic alternatives and introduce the concept of a business model. We show that a viable business model must provide both an attractive value proposition for the company's customers and a formula for making profits for the company. A key feature of this chapter is a depiction of how the value-price-cost framework can be used to frame this discussion. We show how the mark of a winning strategy is its ability to pass three tests: (1) the *fit test* (for internal and external fit), (2) the *competitive advantage test*, and (3) the *performance test*. And we explain why good company performance depends not only upon a sound strategy but upon solid strategy execution as well.
- Chapter 2 presents a more complete overview of the strategic management process, covering topics ranging from the role of vision, mission, and values to what constitutes good corporate governance. It makes a great assignment for the second day of class and provides a smooth transition into the heart of the course. It introduces students to such core concepts as strategic versus financial objectives, the balanced scorecard, strategic intent, and business-level versus corporate-level strategies. It explains why *all managers are on a company's strategy-making, strategy-executing team* and why a company's strategic plan is a collection of strategies devised by different managers at different levels in the organizational hierarchy. The chapter concludes with a section on the role of the board of directors in the strategy-making, strategy-executing process and examines the conditions that have led to recent high-profile corporate governance failures. The illustration capsule on Volkswagen's emissions scandal brings this section to life.
- The next two chapters introduce students to the two most fundamental perspectives on strategy making: the positioning view, exemplified by Michael Porter's “five forces model of competition”; and the resource-based view. Chapter 3 provides *what has long been the clearest, most straightforward discussion of the five forces framework to be found in any text on strategic management*. It also offers a set of complementary analytical tools for conducting competitive analysis and demonstrates the importance of tailoring strategy to fit the circumstances of a company's industry and competitive environment. The chapter includes a discussion of the value net framework, which is useful for conducting analysis of how cooperative as well as competitive moves by various parties contribute to the creation and capture of value in an industry.
- Chapter 4 presents the resource-based view of the firm, showing why resource and capability analysis is such a powerful tool for sizing up a company's competitive assets. It offers a simple framework for identifying a company's resources and capabilities and explains how the VRIN framework can be used to determine whether they can provide the company with a sustainable competitive advantage over its competitors. Other topics covered in this chapter include dynamic capabilities, SWOT analysis, value chain analysis, benchmarking, and competitive strength assessments, thus enabling a solid appraisal of a company's cost position and customer value proposition vis-à-vis its rivals. *An important feature of this chapter is a table showing how key financial and operating ratios are calculated and how to interpret them.* Students will find this table handy in doing the number crunching needed to evaluate whether a company's strategy is delivering good financial performance.

- Chapter 5 sets forth the basic approaches available for competing and winning in the marketplace in terms of the five generic competitive strategies—low-cost provider, broad differentiation, best-cost provider, focused differentiation, and focused low cost. It demonstrates pictorially the link between generic strategies, the value-price-cost framework, and competitive advantage. The chapter also describes when each of the five approaches works best and what pitfalls to avoid. Additionally, it explains the role of *cost drivers* and *uniqueness drivers* in reducing a company's costs and enhancing its differentiation, respectively.
- Chapter 6 focuses on *other strategic actions* a company can take to complement its competitive approach and maximize the power of its overall strategy. These include a variety of offensive or defensive competitive moves, and their timing, such as blue-ocean strategies and first-mover advantages and disadvantages. It also includes choices concerning the breadth of a company's activities (or its *scope* of operations along an industry's entire value chain), ranging from horizontal mergers and acquisitions, to vertical integration, outsourcing, and strategic alliances. This material serves to segue into the scope issues covered in the next two chapters on international and diversification strategies.
- Chapter 7 takes up the topic of how to compete in international markets. It begins with a discussion of why differing market conditions across countries must necessarily influence a company's strategic choices about how to enter and compete in foreign markets. It presents five major strategic options for expanding a company's geographic scope and competing in foreign markets: export strategies, licensing, franchising, establishing a wholly owned subsidiary via acquisition or "greenfield" venture, and alliance strategies. It includes coverage of topics such as Porter's Diamond of National Competitive Advantage, profit sanctuaries, and the choice between multidomestic, global, and transnational strategies. This chapter explains the impetus for sharing, transferring, or accessing valuable resources and capabilities across national borders in the quest for competitive advantage, connecting the material to that on the resource-based view from Chapter 4. The chapter concludes with a discussion of the unique characteristics of competing in developing-country markets.
- Chapter 8 concerns strategy-making in the multibusiness company, introducing the topic of corporate-level strategy with its special focus on diversification. The first portion of this chapter describes when and why diversification makes good strategic sense, the different means of diversifying a company's business lineup, and the pros and cons of related versus unrelated diversification strategies. The second part of the chapter looks at how to evaluate the attractiveness of a diversified company's business lineup, how to decide whether it has a good diversification strategy, and what strategic options are available for improving a diversified company's future performance. The evaluative technique integrates material concerning both industry analysis and the resource-based view, in that it considers the relative attractiveness of the various industries the company has diversified into, the company's competitive strength in each of its lines of business, and the extent to which its different businesses exhibit both *strategic fit* and *resource fit*.
- Although the topic of ethics and values comes up at various points in this textbook, Chapter 9 brings more direct attention to such issues and may be used as a stand-alone assignment in either the early, middle, or late part of a course. It concerns the themes of ethical standards in business, approaches to ensuring consistent ethical standards for companies with international operations, corporate social responsibility, and environmental sustainability. The contents of this chapter are sure to give students some things to ponder, rouse lively discussion, and help to make students more *ethically aware* and conscious of *why all companies should conduct their business in a socially responsible and sustainable manner*.
- The next three chapters (Chapters 10, 11, and 12) comprise a module on strategy execution that is presented in terms of a 10-step framework. Chapter 10 provides an overview of this framework and then explores the first three of these tasks: (1) staffing the organization with people capable of executing the strategy well, (2) building the organizational capabilities needed for successful strategy execution, and (3) creating an organizational structure supportive of the strategy execution process.

- Chapter 11 discusses five additional managerial actions that advance the cause of good strategy execution: (1) *allocating resources* to enable the strategy execution process, (2) ensuring that *policies and procedures* facilitate rather than impede strategy execution, (3) using *process management tools* and *best practices* to drive continuous improvement in the performance of value chain activities, (4) installing *information and operating systems* that help company personnel carry out their strategic roles, and (5) using *rewards and incentives* to encourage good strategy execution and the achievement of performance targets.
- Chapter 12 completes the framework with a consideration of the roles of corporate culture and leadership in promoting good strategy execution. The recurring theme throughout the final three chapters is that executing strategy involves deciding on the specific actions, behaviors, and conditions needed for a smooth strategy-supportive operation and then following through to get things done and deliver results. The goal here is to ensure that students understand that the strategy-executing phase is a *make-things-happen and make-them-happen-right* kind of managerial exercise—one that is critical for achieving operating excellence and reaching the goal of strong company performance.

In this latest edition, we have put our utmost effort into ensuring that the 12 chapters are consistent with the latest and best thinking of academics and practitioners in the field of strategic management and provide the topical coverage required for both undergraduate and MBA-level strategy courses. The ultimate test of the text, of course, is the positive pedagogical impact it has in the classroom. If this edition sets a more effective stage for your lectures and does a better job of helping you persuade students that the discipline of strategy merits their rapt attention, then it will have fulfilled its purpose.

## The Case Collection in the 22nd Edition

The 32-case line-up in this edition is flush with interesting companies and valuable lessons for students in the art and science of crafting and executing strategy.

- There's a good blend of cases from a length perspective—about two-thirds of the cases are under 15 pages, yet offer plenty for students to chew on; 7 are medium-length cases; and the remainder are detail-rich cases that call for more sweeping analysis.
- At least 25 of the 32 cases involve companies, products, or people that students will have heard of, know about from personal experience, or can easily identify with.
- The lineup includes at least 20 cases that will provide students with insight into the special demands of competing in industry environments where technological developments are an everyday event, product life cycles are short, and competitive maneuvering among rivals comes fast and furious.
- Twenty-three of the cases involve situations where company resources and competitive capabilities play as large a role in the strategy-making, strategy-executing scheme of things as industry and competitive conditions do.
- Scattered throughout the lineup are 20 cases concerning non-U.S. companies, globally competitive industries, and/or cross-cultural situations; these cases, in conjunction with the globalized content of the text chapters, provide abundant material for linking the study of strategic management tightly to the ongoing globalization of the world economy.
- Ten cases deal with the strategic problems of family-owned or relatively small entrepreneurial businesses.
- Twenty cases involve public companies, thus allowing students to do further research on the Internet regarding recent developments at these companies.



- Twenty-one cases have accompanying video segments that can be shown in conjunction with the case discussions. These videos can be sourced via links to YouTube postings, postings in the Connect Instructor Library. The links to the relevant YouTube videos are included in the teaching notes for the applicable cases.
- Fourteen of the 32 cases have accompanying Connect-based case preparation exercises. All of the exercises are based on the recommended assignment questions for the respective case and call upon a student to develop thoughtful, analysis-based answers (as opposed to stating seat-of-the-pants opinions). Each exercise is different, depending both on the circumstances of the case and the content of the chapters to which it is closely linked. *All of the case assignment questions related to the proper analysis of the case are automatically graded, leaving only students' strategic recommendations to be graded manually by the instructor.*

A grid showing the issues that are prominent in each of the 32 cases in this edition is presented in Table 1.

Suggestions for sequencing the case assignments can be found in Section 3 of this IM. The 9 sample course outlines and daily schedules of class activities in Section 4 provide further suggestions about the sequencing of case assignments and how to integrate your coverage of the 12 chapters, the various case assignments, and use of a strategy simulation.

Specific details about how to utilize each case (including recommended assignment questions and recommended oral team presentation assignments are contained in the teaching notes for each of the cases (the TNs appear in Section 7).

Sample course syllabi displaying possible case sequencing and suggested case assignments are presented in Section 4 of this volume of the IM.

***It is worth mentioning at this juncture that there is a comprehensive table of financial ratios in Chapter 4 that provides the formulas and brief explanations of what each ratio reveals. Adopters of prior editions have told us that students find this table extremely helpful in guiding their analyses of the financial statements contained in the cases.*** You will probably want to call this table to the attention of class members and urge that they make full use of the information it contains.

Moreover, we have included a Guide to Case Analysis that appears at the end of the book, after Case 32. This brief guide—designed especially for students unfamiliar with the case method of teaching/learning—explains what a case is, why cases are a standard part of courses in strategy, how to prepare for a class discussion of a case, how to prepare a written case analysis, what is expected in an oral presentation, and the financial ratio calculations that are used to assess a company's financial condition. We suggest having students read this Guide prior to the first class discussion of a case. We believe you will find the collection of 31 cases quite appealing, eminently teachable, and very suitable for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 12. With this case lineup, you should have no difficulty whatsoever assigning cases that will capture the interest of students from start to finish.

**TABLE 1. A Quick Profile of the Cases in the 22nd Edition of Crafting and Executing Strategy**

		Accompanying video (Y = yes; N = no)	Connect Case Exercise (Y = yes; N = No)	Size: Small (S), Medium (M), Large (L)	The manager's role in crafting strategy	The manager's role in executing strategy	Vision, mission, and objectives	Crafting strategy in single-business companies	Industry and competitive analysis	Company resources and capabilities	Global or multinational strategy	E-business strategy issues	Diversification strategies and the analysis of multi-business corporations	Financial conditions and financial analysis	Staffing, people management, incentives and rewards	Organizational structure, core competencies, competitive capabilities, staffing	Policies, procedures, operating systems, best practices, continuous improvement	Corporate culture issues	Ethics, values, social responsibility	Exercising strategic leadership	Making action recommendations
Case 1	Mystic Monk Coffee	N	Y	S	X		X	X	X	X		X		X	X			X		X	X
Case 2	Airbnb in 2018	Y	Y	M			X	X	X	X	X	X		X							X
Case 3	Wil's Grill	N	N	S	X	X	X	X		X				X							X
Case 4	Costco Wholesale in 2018: Mission, Business Model, and Strategy	Y	Y	L	X	X	X	X	X	X	X	X		X	X		X	X		X	X
Case 5	Competition in the Craft Beer Industry in 2018	Y	Y	S				X	X												X
Case 6	Fixer Upper: Expanding the Magnolia Brand	Y	N	S	X		X	X	X	X				X							X
Case 7	Under Armour's Strategy in 2018: Efforts to Revive North American Sales and Profitability	Y	Y	M	X			X	X	X	X			X							X
Case 8	MoviePass—Are Subscribers Loving It to Death?	Y	N	S	X		X	X	X	X				X							X
Case 9	TOMS Shoes: Expanding Its Successful One For One Business Model	Y	N	S	X	X	X	X	X	X				X			X	X	X	X	X
Case 10	Lola's Market: Capturing A New Generation	N	N	S	X		X	X		X				X							X
Case 11	iRobot in 2018: Can the Company Keep the Magic?	Y	N	M	X			X	X	X				X							X
Case 12	Chipotle Mexican Grill in 2018: Will the New CEO Be Able to Rebuild Customer Trust and Revive Sales Growth?	Y	Y	M	X			X	X	X				X							X
Case 13	Twitter Inc. in 2018: Too Little Too Late?	Y	N	M	X			X	X	X	X	X		X							X
Case 14	Netflix's Strategy in 2018: Does the Company Have Sufficient Competitive Strength to Fight Off Aggressive Rivals?	Y	Y	M	X	X	X	X	X	X		X		X							X
Case 15	Walmart's Expansion into Specialty Online Retailing	Y	N	L	X			X	X	X		X		X							X
Case 16	Amazon.com, Inc.: Driving Disruptive Change in the U.S. Grocery Market	Y	N	L	X		X	X	X		X	X		X							X
Case 17	Aliexpress: Can It Mount a Global Challenge to Amazon?	N	N	L	X			X	X	X	X	X		X							X
Case 18	Tesla Motors in 2018: Will the New Model 3 Save the Company?	Y	Y	M	X		X	X	X	X	X			X							X
Case 19	Mattel Incorporated in 2018: Can Ynon Kreiz Save the Toys?	Y	N	L	X	X		X	X	X	X	X		X							X
Case 20	Shearwater Adventures Ltd.	Y	N	S	X			X	X	X	X										X
Case 21	TJX Companies: Its Strategy in Off-Price Home Accessories and Apparel Retailing	Y	N	L	X			X	X	X	X			X							X
Case 22	IKEA's International Marketing Strategy in China	N	N	L	X			X	X	X	X			X							X
Case 23	PepsiCo's Diversification Strategy in 2018: Will the Company's New Businesses Restore Its Growth?	Y	Y	L	X				X	X	X		X	X							X
Case 24	The Walt Disney Company: Its Diversification Strategy in 2018	Y	Y	L	X		X		X	X	X		X	X							X
Case 25	Robin Hood	N	Y	S	X	X	X		X	X					X	X	X	X	X	X	X
Case 26	Dilemma at Devil's Den	N	N	S		X									X	X	X	X	X		X
Case 27	Nucor Corporation in 2018: Contending with the Challenges of Low-Cost Foreign Imports and Launching Initiatives to Grow Sales and Market Share	Y	Y	M	X	X		X	X	X	X			X							X
Case 28	Vail Resorts, Inc.	Y	N	M	X	X	X	X		X					X	X	X	X	X	X	X
Case 29	Starbucks in 2018: Striving for Operational Excellence and Innovation Agility	Y	Y	L	X	X	X	X			X	X			X	X	X	X	X	X	X
Case 30	Concussions in Collegiate and Professional Football: Who Has Responsibility to Protect Players?	Y	N	M	X												X		X		X
Case 31	Chaos at Uber: The New CEO's Challenge	N	N	M	X			X	X	X							X		X		X
Case 32	Profiting from Pain: Business and the U.S. Opioid Epidemic?	N	Y	L	X			X	X	X							X		X		X

## Value-Adding Student Support Materials for The 22nd Edition of Crafting & Executing Strategy

The text and text website include several kinds of support materials to help students grasp the material.

**Key Points Summaries** At the end of each chapter is a synopsis of the core concepts, analytical tools and other key points discussed in the chapter. These chapter-end synopses help students focus on basic strategy principles, digest the messages of each chapter, and prepare for tests.

**Two Sets of Chapter-End Exercises** Each chapter concludes with two sets of exercises. The *Assurance of Learning Exercises* can be used as the basis for class discussion, oral presentation assignments, short written reports, and substitutes for case assignments. The *Exercises for Simulation Participants* are designed expressly for use by adopters who have incorporated use of a simulation and want to go a step further in tightly and explicitly connecting the chapter content to the simulation company their students are running. The questions in both sets of exercises (along with those Illustration Capsules that qualify as “mini-cases”) can be used to round out the rest of a 75-minute class period should your lecture on a chapter last for only 50 minutes.

**Connect™ Management Web-based Assignment and Assessment Platform** Connect chapter quizzes, learning assurance exercises, and case exercises can be used as a graded component of the course, an assessment mechanism, or as an effective way to prepare students for chapter exams, in-class discussions of cases, written case assignments or oral case presentations. Whether Connect assignments are calculated into students’ grades for the course or not, our robust collection of chapter quizzes, chapter learning assurance exercises, and case preparation exercises will give students valid and timely feedback about their mastery of the concepts and analytical tools presented in the text.

The progress-tracking function built into the *Connect Management* system enables you to:

- View scored work immediately and track individual or group performance with assignment and grade reports.
- Access an instant view of student or class performance relative to learning objectives.
- Collect data and generate reports required by many accreditation organizations, such as AACSB International.

**CREATE™** is McGraw-Hill’s custom-publishing program where you can access full-length readings and cases that accompany *Crafting and Executing Strategy: The Quest for a Competitive Advantage* (<http://create.mheducation.com/thompson>). Through Create™, you will be able to select from 30 readings that go specifically with this textbook. These include cases and readings from Harvard, MIT, and much more! You can assemble your own course and select the chapters, cases, and readings that work best for you. Also, you can choose from several ready-to-go, author-recommended complete course solutions. Among the pre-loaded solutions, you’ll find options for undergrad, MBA, accelerated, and other strategy courses.

**The Business Strategy Game and GLO-BUS Online Simulations** Using one of the two companion strategy simulations is a powerful and constructive way of emotionally connecting students to the subject matter of the course. We know of no more effective and interesting way to stimulate the competitive energy of students and prepare them for the rigors of real-world business decision-making than to have them match strategic wits with classmates in running a company in head-to-head competition for global market leadership. In Section 2 of this IM, we outline why using a competition-based strategy simulation as a course centerpiece makes great sense and provide you with detailed suggestions for successfully incorporating either *The Business Strategy Game* or *GLO-BUS* in your strategic management course.

Should you decide to incorporate use one of the two simulations in your course, the simplest (and usually the cheapest) way for students to obtain the simulation is via a credit card purchase at [www.bsg-online.com](http://www.bsg-online.com) (if you opt to use *The Business Strategy Game*) or at [www.glo-bus.com](http://www.glo-bus.com) (if you opt to use *GLO-BUS*). Purchasing the simulation direct at the web site allows students to bypass paying sometimes hefty bookstore markups (a savings that can amount to \$10-\$15). The second way for students to register for the simulation is by using a pre-paid access code that comes bundled with the 22nd Edition when you order the text-simulation package through your bookstore—this requires use of a separate ISBN (the 22nd Edition bundled with either simulation has a different ISBN number than just the 22nd Edition ordered alone. Your McGraw-Hill rep can provide you with the correct ISBN for ordering the combination text-simulation package through your bookstore(s).

## Airbnb in 2018\*

### Overview

Airbnb was founded in 2008 when Brian Chesky and a friend decided to rent their apartment to guests for a local convention. To accommodate the guests, they used air mattresses and referred to it as the “Air Bed & Breakfast.” It was that weekend when the idea— and the potential viability— of a peer-to-peer room-sharing business model was born. By 2018 Airbnb had seen immense growth and success in its 10-year existence. The room-sharing company had expanded to over 190 countries with more than 4 million listed properties, and had an estimated valuation of \$31 billion. Airbnb seemed poised to revolutionize the hotel and tourism industry through its business model that allowed hosts to offer spare rooms or entire homes to potential guests, in a peer-reviewed digital marketplace.

This case is meant to introduce students to the sharing economy. Students can compare and contrast Airbnb’s business model with traditional models employed by bed and breakfast and hotel chain operators. Instructors should note that technology and the legal environment can lead to opportunities, as well as challenges for an upstart like Airbnb. The case opens and closes with quotes from CEO and co-founder Chesky, to juxtapose for students how rapid advances in technology can lead to changes in competitive strategies for business, yet, how the legal environment can both lag behind, and obstruct such strategies.

The case provides an overview of the accommodation market (i.e. hotels, motels and bed & breakfasts) to illustrate such strategic considerations as competitor size and market segmentation. The case then presents the comparative costs of operating traditional hotels/motels to bed & breakfasts to illustrate Airbnb’s potential to attain and sustain competitive advantage using its technology-based business model. Yet Airbnb faces continuing challenges to obtain permits and overcome regulatory barriers. While it continues to demonstrate a growth trajectory that could result in an IPO, Airbnb will need to develop new strategic approaches to build out its model and surmount competitive forces.

### Suggestions for Using the Case

Students should find Airbnb in 2018 an interesting case because of their own experiences with smartphones and companies such as Lyft, Uber or Airbnb. We recommend using the case immediately following your coverage of Chapter 1. As this case specifically addresses the sharing economy, it lends itself well to discussions of smartphones, technology and their impact on competitive positions for both new and incumbent competitors. It may also lead to discussion of disruptive innovation.

We believe that Airbnb in 2018 is an excellent leadoff case for the course (other choices are Robin Hood, Mystic Monk and Wil’s Grill). This case is ideal for exploring the concepts of sustainable competitive advantage, competing differently, and business models. Instructors can drill students on such topics as customer value proposition, profit formula and compare and contrast Airbnb’s approaches with those of traditional lodging operators.

\*This teaching note primarily reflects the thinking and analysis of Professor John D. Varlaro, Johnson & Wales University. We are most grateful for his insight, analysis and contributions to how the case can be taught successfully.

This case can also be used to explore factors within the general environment and how external analysis is important for incumbents and new entrants alike.

*The assignment questions and teaching outline presented below reflect our thinking and suggestions about how to conduct the class discussion and what aspects to emphasize.*

To provide students with guidance in what to think about and which analytical tools to utilize in preparing the Airbnb in 2018 case for class discussion, we strongly recommend providing class members with a set of study questions and insisting that they develop good notes/answers to these questions in preparing for class discussion of the case.

*To facilitate your use of study questions and to make them available to students, we have posted a file of the assignment questions contained in this teaching note for the Airbnb in 2018 case in the instructor resources section of the Connect Library.* (We should also point out that there is a set of study questions posted in the student section of the OLC for each of the 32 cases included in the 22nd Edition.)

You may also find it beneficial to have your class read the Guide to Case Analysis that is also posted in the instructor resources section of the Connect Library. Students will find the content of this Guide particularly helpful if this is their first experience with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

**Videos for Use with the Airbnb in 2016 Case.** There are two videos that you may consider having students view prior to class discussion of the case (or you may choose to open the class discussion with one of the two videos). Both videos are posted at YouTube and can be accessed through the following links:

- Three Business Lessons You Can Learn from Airbnb is a 2:25 minute video posted at YouTube (<https://www.youtube.com/watch?v=J9wIOu7VLnY>).
- How Airbnb is Attacking the Hotel Industry is a 2:20 minute video posted at YouTube (<https://www.youtube.com/watch?v=9aedQGRu0vQ>).

Because the case is relatively short, it is well suited for use as a leadoff case on the first day of class, or for an in-class written case, or a final exam case. Our recommended questions for written assignments are as follows:

1. Marriott management has asked you to assess the threat of Airbnb. Please prepare a 5-6 page report that includes a description of both Marriott's and Airbnb's business models, with an emphasis on an evaluation and comparison of disparate customer demands and user profiles. Marriott's management also asks that you make a recommendation as to how best to mitigate the growing appeal of Airbnb, and how to potentially reach millennials and other potential users of Airbnb.
2. As a new member of Airbnb's management team, you have been asked to prepare an analysis of its competitive position and potential threats. Your 2-3 page executive summary should list strategic issues confronting Airbnb and make recommendations to address both opportunities and challenges. The executive summary should be supported by your analysis of the lodging industry.

## Assignment Questions

1. How would you illustrate and compare the business models for Airbnb, large hotel chains such as Marriott and Hilton, and bed & breakfast operators? Use the example chart in the textbook for business models as a guide (Concepts & Connections 1.1)
2. What are the general strengths and weaknesses of a) large, hotel chains such as Marriott and Hilton, b) bed & breakfasts, and c) Airbnb? Explain how you would compare and contrast those businesses.

3. In what ways has the lodging consumer changed, and how does Airbnb's customer value-proposition meet this change?
4. What key factors may determine the success or failure of Airbnb?
5. What recommendations would you make to Airbnb to improve its competitiveness in the accommodation market while mitigating any current and future risks?

## Teaching Outline and Analysis

1. How would you illustrate and compare the business models for large hotels chains such as Marriott and Hilton, bed & breakfast operators, and Airbnb? Use the example chart in the textbook for business models as a guide (Concepts & Connections 1.1)

Students should be able to identify the following:

	Chain Hotels / Motels	Bed & Breakfast (single proprietor)	Airbnb
<b>Customer Value Proposition</b>	<ul style="list-style-type: none"> <li>Familiar brands</li> <li>International brands to which customers are accustomed and potentially feel affinity and loyalty</li> <li>Global reach with loyalty programs</li> </ul>	<ul style="list-style-type: none"> <li>One location, offering unique, local accommodation</li> <li>Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area</li> <li>If in rural area, may be only accommodation</li> </ul>	<ul style="list-style-type: none"> <li>Use of technology to which users are familiar</li> <li>Smaller, more intimate stays</li> <li>Varying and different locales in which to stay, both local and international reach</li> <li>Cheaper accommodations</li> <li>Unique accommodations</li> </ul>
<b>Profit Formula</b>	<ul style="list-style-type: none"> <li>Revenue generation dependent on renting rooms and overall occupancy</li> <li>Cost structure extensive, composed of wages and high fixed costs associated with the purchase and upkeep of multiple physical assets/locations</li> <li>Other costs would include food and beverage, marketing, taxes, licenses</li> <li>Global costs further complicate structure, including operating across multiple legal and physical jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>Revenue generation dependent on renting rooms and overall occupancy</li> <li>Cost structure associated with operating brick and mortar physical location, food and beverages, marketing</li> <li>Possibly wages if large enough to necessitate staff</li> </ul>	<ul style="list-style-type: none"> <li>Revenue generation transaction fee charged to users whom offer and rent accommodations through app</li> <li>Cost structure associated with developing and updating software and technology, marketing and advertising, wages for engineers, professional management and staff</li> </ul>
<b>Profit Margin</b>	<ul style="list-style-type: none"> <li>Dependent on generating sufficient revenues across multiple locations to cover fixed and variable costs globally. Profitable locations may be used to offset losses and unprofitable locations</li> </ul>	<ul style="list-style-type: none"> <li>Dependent on generating revenues sufficient to cover fixed and variable costs. Lack of profitability several jeopardizes business as owned by sole proprietor</li> </ul>	<ul style="list-style-type: none"> <li>Not contingent upon the fixed costs associated with operating hotels/ bed &amp; breakfasts. Instead, profitability associated with percentage of revenue generated by all participating users offering accommodations</li> </ul>

Students should be reminded that, as stated in Chapter 1 of the text:

■ ***The appeal of a strategy or business model that yields a sustainable competitive advantage is that it offers the potential for an enduring edge over rivals.***

- However, Chesky as CEO must be willing and ready to modify the strategy in response to the unexpected moves of competitors, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy, and mounting evidence that the strategy is not working well.
- Most of the time, a company's strategy evolves incrementally as management fine-tunes various pieces of the strategy and adjusts the strategy to respond to unfolding events.

Here is a good opportunity to ask students to compare and contrast the strengths and weaknesses of Airbnb's business model to those of its direct competitors.:

**2. What are the general strengths and weaknesses of large hotel chains such as Marriott and Hilton, bed & breakfasts, and Airbnb? Explain how you would compare and contrast those businesses.**

Students should be able to identify the following:

	Large Hotel Chains	Bed & Breakfast (single proprietor)	Airbnb
<b>Strengths</b>	<ul style="list-style-type: none"> <li>• Familiar, International brands</li> <li>• Brand loyalty</li> <li>• Global reach</li> <li>• Perception of safe, comfortable and/or reliable accommodations</li> <li>• Corporate accounts</li> </ul>	<ul style="list-style-type: none"> <li>• One location, offering unique, local accommodation</li> <li>• Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area</li> <li>• If in rural area, may be only accommodation</li> </ul>	<ul style="list-style-type: none"> <li>• No fixed costs associated with operating hotels, thus greatly reduced cost structure</li> <li>• Leveraging technology when consumers are more smartphone dependent</li> <li>• Market leader perception in technology</li> <li>• Ubiquitous, as user can access anytime through app</li> <li>• Offering both low-cost accommodations, as well as unique experiences</li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• High cost structure, further exacerbated by global operations and presence</li> <li>• If consumer has bad experience with one location, all locations may be viewed as terrible</li> <li>• Need at times to compete on price through discount offerings</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation dependent on renting rooms and overall occupancy, highly associated with travel trends in the area</li> <li>• Cost structure which is highly sensitive to fluctuations, as a sole proprietor has very little room for shifts in revenue and costs</li> </ul>	<ul style="list-style-type: none"> <li>• Perception of at times unsafe experiences</li> <li>• Users may be hesitant to use Airbnb in specific locations, opting for a more familiar brand</li> <li>• Legal exposure through individual hosts not following laws, such as anti-discrimination</li> <li>• Legal exposure as cities and towns determine if renting rooms through Airbnb is legal, and the potential for it to be illegal</li> <li>• Business model is relatively easy to copy, as demonstrated by Uber and Lyft in the ride-sharing space</li> </ul>



Here is a good opportunity to recap Chapter 1 and also preview some concepts covered Chapter 2:

■ ***In choosing among opportunities and addressing the hows of strategy, strategists must embrace the risks of uncertainty and the discomfort that naturally accompanies such risks.***

- Bold strategies involve making difficult choices and placing bets on the future.
- Good strategic planning is not about eliminating risks, but increasing the odds of success. In sorting through the possibilities of what the company should and should not do, managers may conclude some opportunities are unrealistic or not sufficiently attractive to pursue.
- However, innovative strategy-making that results in a powerful customer value proposition or pushes the company into new markets will likely require the development of new resources and capabilities and force the company outside its comfort zone..

That an innovative strategy has its basis in a powerful customer value proposition leads nicely into the next question.

**3. In what ways has the lodging consumer changed and how does Airbnb's customer value-proposition meet this change?**

Students should be able to identify the following changes in the profile of lodging customers:

■ ***Desire for unique experiences, not focused on ownership.*** should be able to discuss their experiences as consumers of the sharing economy (not only with Airbnb, but also Uber, Lyft, and other similar companies).

- Airbnb provides customers with opportunities to experience multiple, unique accommodations not typically associated with larger chain brands.
- Smaller sole proprietors such as bed & breakfasts may be accessed through the app.
- Those offering accommodations as hosts share in the desire to not only have a unique experience with a guest, but also to invite a stranger into their own home or apartment

■ ***Desire to access experiences immediately through smartphone technology.*** Students should note that a company like Airbnb could only exist since the advent of Internet and smartphone technologies.

- Apps and smartphones have provided the consumer the opportunity to have immediate access, such as purchasing songs immediately only after hearing them on the radio, or even the simple act of “googling” and looking-up information.

■ ***Familiarity with apps and fluency with life/smartphone integration.*** Consumers — especially the Millennial age group (i.e. those consumers born between the early 1980s and the early years of the 21st century)— are less technology-averse, use smartphones and apps, and are more willing to experiment and embrace the “experience economy” than previous generations, and this trend should continue to occur.

- As younger generations whom have used smartphones from childhood age and get older, technology and businesses such as Airbnb will seem less unusual and more commonplace.

Students should conclude that these consumer changes position Airbnb very strongly to compete effectively, especially given its unique business model (as identified in Question #1).

#### 4. What key factors may determine the success of Airbnb?

Factors that are necessary for competitive success for Airbnb:

- **Mitigation of legal threat.** Any regulation that inhibits or prevents Airbnb users/hosts from offering their rooms on Airbnb represents a significant barrier. Students should observe that:
  - Both domestic and international legislation did not account for, and had yet to catch up to, more progressive and potentially disruptive business models utilized by companies like Airbnb.
  - Complicated legal issues existed at the local, state, and federal levels, both within the U.S. and outside the U.S.
  - Competitors, among them sole proprietor and large hotel chains, had already invested, and would most likely continue to invest in, lobbying to exclude Airbnb and create severe barriers to its expansion and growth.
  - While communities and jurisdictions might well bar or set quotas for the number of Airbnb permits to operators, Airbnb could promote the fact that its operators added to local revenues through occupancy taxes, as well as the probably economic multiplier effects that would also benefit local restaurants, retailers, and tourist attractions.
- **Use of smartphone and other technology for differentiation.** Due to its business model, Airbnb was already differentiated from traditional competitors. In addition, continuing innovations based on current and emergent technologies were essential to maintaining current users, while expanding into new users. Students should also recognize that user experience with the app, including ease of use, was an essential component of its competitive advantage. Students should be reminded that:
  - Most large hotel and motel chains as well as consolidators such as Priceline, HotelTonight, Hotel.com, and VRBO (Vacation Rental by Owner) also offered mobile apps that provided booking and ratings portals in direct competition to Airbnb.
  - According to case Exhibit 2, B&Bs in the United States catered primarily to domestic travelers in 2017, while 20% of international travelers frequented hotel and motel chains, so Airbnb may have an opportunity to capture some of the international segment.
  - Inasmuch as Airbnb operates as a global enterprise, it is exposed to political and regulatory and currency risks that could impact fee revenue generation in both domestic and international markets.
- **Expansion of Users and Accommodations.** Overall expansion of users who offer accommodations and those who use Airbnb to book accommodations was critical to its success. Students should observe that:
  - While continued growth will be necessary to ensure profitability, it is not clear that Airbnb can sustain triple- or even double-digit growth rates over the long term.
  - As revenue had continued to increase through 2017, bookings growth had decreased, foreshadowing the potential slowing of extreme revenue growth (exhibit 3).
- **Brand image.** Image was also a critical factor in helping consumers choose which accommodation to patronize. Included within this image was reliability, quality of stay and safety. Students should observe that:
  - Given the sheer immensity of the user base, and how each location represented a unique offering, Airbnb had a significant challenge in continually ensuring both quality and safety when consumers used Airbnb.

- While Airbnb achieved break-even profitability in 2016, it may want to revisit and revise upwards the expenses allocated to safety and quality as well as its efforts to prevent discrimination against customers and operators. (See exhibit 1 for the ranking of expenses incurred by B&B operators vs. hotel and motel chains).
- **Financial health.** Rapid growth businesses require capital. A 2016 cash infusion of \$850 million in Airbnb and a pre-IPO valuation of about \$31 billion (see exhibit 4), the fact that the company only recently reached break-even signals the need for permanent capital to continue to scale its business model. Students should observe that:
  - It is unclear whether or not the \$31 billion valuation is realistic or due to a “tech bubble.” A severe downturn in the financial markets could result in the closing of the window for future IPOs and greatly impact Airbnb in its effort to scale.
  - Airbnb’s \$31 billion pre-market valuation still lags behind Marriott’s \$49 billion, but Marriott is an established company (see exhibit 4) and is now growing by acquisition.
  - Students should note that Airbnb’s estimated revenues in exhibit 3, while slowing incrementally, remained strong.
  - Airbnb’s cost structure combined for a very solid competitive position.

Instructors may choose to foreshadow a key learning outcome from Chapter 2 here: A company’s vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every-now-and-then task.

## 5. What recommendations would you make to Airbnb to improve its competitiveness in accommodation market while mitigating any current and future risks?

- Continue to lobby and advocate for friendly legislation, while proactively supporting legal compliance, such as it began in 2018 with collecting taxes automatically through its platform.
  - Identify business organizations, such as chambers’ of commerce, as large, pro-business groups could be leveraged to gain legislative support.
  - Identify platform enhancements, such as the automatic collection of taxes, that take advantage of its technological differentiation to further reinforce its value proposition for its users, while protecting itself legally.
- Attract and enroll single-proprietor establishments, and devise methods to provide added value for such businesses, e.g. in utilizing Airbnb as a platform for marketing and offering accommodations.
  - Doing so could mitigate the legislative risk while growing the user base and potential future revenues (as in the bullet above).
  - Doing so could also enable Airbnb to leverage its investments in technologies such as yield management and dynamic pricing systems across a wider base of proprietors.
- Pursue the business and international traveler segments (exhibit 2), as it is an essential component of the market,
  - Business travelers and extended stay guests present opportunities for increased user base and revenue growth.
  - However, given Airbnb’s current position, it is not as business friendly as rival hotel/motel chains, has not developed a customer loyalty program, and would potentially need to change its user interface and invoicing systems to accommodate corporate accounts.

- Make continued investments in technology to maintain its differentiation/focus generic strategy.
  - These investments will not only be in smartphone and computer interfaces, but also in emergent technologies that employ big data and customer preference algorithms.
  - For example, some students might discuss how virtual reality (VR) could be leveraged to advertise accommodations, or even improve brand aspects such as quality and safety.
- Find ways to mitigate competition between larger hotels and Airbnb. This can reduce legislative and competitive risk, while potentially expanding user base and revenues.
  - For example, students might suggest that Airbnb create a user interface that refers customers seeking lodging in high demand locations (such as resorts and cities) to established chain hotels during peak periods when regular Airbnb rooms are unavailable.
  - Students could argue that by doing so, Airbnb mitigates legislative risk and competitor retaliation, while also expanding into the business segment with minimal internal changes and investments.

Instructors can wrap-up the discussion by asking students if they strongly feel that CEO Chesky could well suffer from an “If it ain’t broke don’t fix it” mentality. That is, will Airbnb continue “business as usual,” and if its revenue and bookings growth rates continue on their current declining trajectories, will the company likely make slower progress towards its goal of achieving a competitive advantage and superior returns, as reflected in an IPO or possible sale to a rival technology or lodging firm?

Chesky and his team may also be betting on rather slim odds that:

- Other rivals in the online lodging industry will not identify the same emerging segments for “sharing economy” accommodations.
- Rivals will not copy Airbnb’s business model and then strive for a low-cost provider strategy in Airbnb’s current niche.
- Rivals will not catch up and perhaps overtake Airbnb on service and prices to both buyers (guests) and sellers (proprietors of lodging establishments).

Remind students that Airbnb’s handling of the strategy implementation process can be considered successful if things go smoothly enough that the company meets or beats its strategic and financial performance targets and shows good progress in achieving management’s strategic vision.

## Epilogue

There was nothing new to report at the time this teaching note went to press, although similar news articles continued to appear discussing the aspects within the case.

## chapter 1 lecture notes

# What Is Strategy and Why Is It Important?

## Chapter Summary

Chapter 1 defines the concept of strategy and describes its many facets. The chapter explains what is meant by a competitive advantage, discusses the relationship between a company's strategy and its business model, and introduces the student to the kinds of competitive strategies that can give a company an advantage over rivals in attracting customers and earning above-average profits. The chapter examines what sets a winning strategy apart from others and why the caliber of a company's strategy determines whether it will enjoy a competitive advantage over other firms or be burdened by competitive disadvantage. By the end of this chapter, the student will have a clear idea of why the tasks of crafting and executing strategy are core management functions and why excellent execution of an excellent strategy is the most reliable recipe for turning a company into a standout performer over the long term.

## Lecture Outline

### I. Introduction

Chapter one explores the fundamental concepts surrounding organizational strategy. It begins with an explanation of the term strategy and discusses why companies need a distinctive strategy in order to compete successfully. Next, it explores why a company must have a viable business model and the five most dependable strategic approaches for setting a company apart. The chapter wraps up with an illustration of how a company's strategy tends to evolve over time due to changing business conditions and the three tests for winning strategies.

### II. What Do We Mean by Strategy?

#### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. A company's **strategy** is the coordinated set of actions that its managers take in order to outperform the company's competitors and achieve superior profitability. In effect, it represents a managerial commitment to an integrated array of considered choices about how to compete.
2. Normally, companies have a wide degree of strategic freedom in choosing the "hows" of strategy:
  - How to position the company in the marketplace.
  - How to attract customers.
  - How to compete against rivals.
  - How to achieve the company's performance targets.

- How to capitalize on opportunities to grow the business.
- How to respond to changing economic and market conditions.

### CORE CONCEPT

A company's **strategy** is the coordinated set of actions that its managers take in order to outperform the company's competitors and achieve superior profitability.

3. **Strategy Is about Competing Differently**—A strategy stands a better chance of succeeding when it is predicated on actions, business approaches, and competitive moves aimed at:
  - a. appealing to buyers in ways that set a company apart from its rivals and
  - b. staking out a market position that is not crowded with strong competitors.
4. **Figure 1.1—Identifying a Company's Strategy—What to Look For**, shows what to look for in identifying the substance of a company's overall strategy. These are the visible actions taken that signal what strategy the company is pursuing.

### connect ACTIVITY

Consider adding a File Attachment assignment requiring the student to develop a response to this Illustration Capsule. You can post instructions for the student within the assignment and collect their attachments for grading.

## III. Strategy and the Quest for Competitive Advantage

### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The heart and soul of any strategy is the actions and moves in the market place that managers are taking to improve the company's financial performance, strengthen its long-term competitive position, and gain a competitive edge over rivals.
2. A company achieves a competitive advantage whenever it has some type of edge over rivals in attracting buyers and coping with competitive forces.
3. Strategy is about competing differently from rivals or doing what competitors don't do or, even better, can't do. In this sense, every strategy needs a distinctive element that attracts customers and produces a competitive edge.
4. What makes a competitive advantage **sustainable** (or durable), as opposed to temporary, are elements of the strategy that give buyers lasting reasons to prefer a company's products or services over those of competitors

### CORE CONCEPT

A company achieves a **competitive advantage** when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm. The advantage is **sustainable** if it persists despite the best efforts of competitors to match or surpass this advantage.

5. Five of the most frequently used strategic approaches to setting a company apart from rivals and achieving a sustainable competitive advantage are:
  - a. Low Cost Provider—Achieving a cost-based advantage over rivals.
  - b. Broad Differentiation—Seeking to differentiate the company’s product or service from rivals’ in ways that will appeal to a broad spectrum of buyers.
  - c. Focused Low Cost—Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by having lower costs than rivals and thus being able to serve niche members at a lower priced.
  - d. Focused Differentiation—Concentrating on a narrow buyer segment (or market niche) and out-competing rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals’ products.
  - e. Best Cost Provider—Giving customers more value for the money by satisfying buyers’ expectations on key quality/features/performance/service attributes, while beating their price expectations.

### ILLUSTRATION CAPSULE 1.1

#### Apple Inc.: Exemplifying a Successful Strategy

**Discussion Question:** Describe Apple’s strategic approach in the computer industry

**Answer:** The student should be able to discuss that Apple uses a Focused Differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. The company designs its own operating system, hardware, and application software through continuous investments in R&D. These higher cost approaches to the market place are offset by premium pricing that the niche market can support.

## IV. Why a Company’s Strategy Evolves over Time

### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Every company must be willing and ready to modify the strategy in response to changing market conditions, advancing technology, unexpected moves by competitors, shifting buyer needs, emerging market opportunities, and mounting evidence that the strategy is not working well.
2. Most of the time, a company’s strategy evolves incrementally from management’s ongoing efforts to fine-tune the strategy and to adjust certain strategy elements in response to new learning and unfolding events.
3. Industry environments characterized by high velocity change require companies to repeatedly adapt their strategies.
4. The important point is that the task of crafting strategy is not a one-time event but always a work in progress.

## V. A Company's Strategy Is Partly Proactive and Partly Reactive

### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The evolving nature of a company's strategy means that the typical company strategy is a blend of (1) *proactive*, planned initiatives to improve the company's financial performance and secure a competitive edge, and (2) *reactive* responses to unanticipated developments and fresh market conditions.

### CORE CONCEPT

A company's **deliberate strategy** consists of *proactive* strategy elements that are both planned and realized as planned; its **emergent strategy** consists of *reactive* strategy elements that emerge as changing conditions warrant.

2. The biggest portion of a company's current strategy flows from ongoing actions that have proven themselves in the marketplace and newly launched initiatives aimed at building a larger lead over rivals and further boosting financial performance.—Deliberate Strategy
3. Managers must always be willing to supplement or modify the proactive strategy elements with as-needed reactions to unanticipated conditions.—Emergent Strategy
4. In total, these two elements combine to form the company's Realized Strategy. **Figure 1.2, A Company's Strategy is a Blend of Proactive Initiatives and Reactive Adjustments**, illustrates the elements of strategy that become the Realized Strategy.

## VI. Strategy and Ethics: Passing the Test of Moral Scrutiny

### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Managers must be careful to embrace actions that can pass the test of moral scrutiny. This goes beyond just staying within the bounds of what is legal.
2. Ethical and moral standards are not fully governed by what is legal, they are concerned with right vs. wrong and a sense of duty.
3. While the legal realm deals with must or must not, the ethical/ moral realm deals with should or should not.
4. Senior executives with strong ethical convictions are generally proactive in linking strategic action and ethics.

## VII. What Makes a Strategy a Winner?

### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.



**CORE CONCEPT**

A company's **business model** sets forth the logic for how its strategy will create value for customers, while at the same time generate revenues sufficient to cover costs and realize a profit.

1. A business model is management's blueprint for delivering a valuable product or service to customers in a manner that will generate revenues sufficient to cover costs and yield an attractive profit.
2. The two elements of a company's business model are (1) its customer value proposition and (2) its profit formula.
3. The customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customers will consider a good value.
4. The profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.
5. Figure 1.3 illustrates the elements of the business model in terms of what is known as the Value-Price-Cost Framework highlighting the relationship between the Customer's Value Proposition (V-P) and the Profit Formula (P-C).

### ILLUSTRATION CAPSULE 1.2

#### Pandora, Sirius XM, and Over-the-Air Broadcast Radio: Three Contrasting Business Models

**Discussion Question 1:** What is the prominent difference between the business models of these three organizations?

**Answer:** While all three provide essentially the same type of entertainment service, the business models employed by Pandora, Sirius XM, and Over-The-Air Broadcast Radio are completely different. In the area of value proposition (what the customer sees), Sirius XM provides commercial free entertainment with some local content based upon a monthly fee, while Broadcast Radio provides entertainment with some local content with interruptions for commercials without a fee. Pandora bridges these two methods. In one mode it operates more like Over-the-Air Broadcast Radio in that it provides entertainment without a fee that includes targeted advertisements, with the added benefit of allowing the listener to customize the music mix. In the other mode, listeners can elect to go ad-free for a fee using Pandora One.

For profit, Sirius XM must attract a large enough customer base in order to cover costs and provide profit, while Broadcast Radio must attract a large enough advertiser base to cover costs and provide profit. Pandora, once again bridging the two, generates profit by either an advertiser base or through ad-free services.

## VIII. What Makes a Strategy a Winner?

### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Three questions can be used to test the merits of one strategy versus another and distinguish a winning strategy from a losing or mediocre strategy:
  - a. The Fit Test: How well does the strategy fit the company's situation? To qualify as a winner, a strategy has to be well matched to industry and competitive conditions, a company's best market opportunities, and other aspects of the enterprise's external environment.
  - b. The Competitive Advantage Test: Is the strategy helping the company achieve a sustainable competitive advantage? The bigger and more durable the competitive edge that a strategy helps build, the more powerful and appealing it is.
  - c. The Performance Test: Is the strategy producing good company performance? Two kinds of performance improvements tell the most about the caliber of a company's strategy: (1) gains in profitability and financial strength and (2) gains in the company's competitive strength and market standing.
2. Strategies that come up short on one or more of the above questions are plainly less appealing than strategies passing all three test questions with flying colors.

### IX. Why are Crafting and Executing Strategy Important?

#### connect ACTIVITY

Consider adding a LearnSmart assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Crafting and executing strategy are top priority managerial tasks for two big reasons
  - a. High-performing enterprises are nearly always the product of astute, creative, and proactive strategy making
  - b. Even the best-conceived strategies will result in performance shortfalls if they are not executed proficiently.
2. Good Strategy + Good Strategy Execution = Good Management
  - a. Crafting and executing strategy are core management functions.
  - b. Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team charts the company's direction, develops competitively effective strategic moves and business approaches, and pursues what needs to be done internally to produce good day-to-day strategy execution and operating excellence.

### X. The Road Ahead

1. Throughout the remaining chapters and the accompanying case collection, the spotlight is trained on the foremost question in running a business enterprise: What must managers do, and do well, to make a company a winner in the marketplace?
2. The mission of this book is to provide a solid overview of what every business student and aspiring manager needs to know about crafting and executing strategy.

#### connect ACTIVITY

Use the Question Bank to build a quiz for the chapter to measure and reinforce learning. Consider using the questions you select to build a comprehensive mid-term and final exam for the course. The assignment can be graded and posted automatically.

## ASSURANCE OF LEARNING EXERCISES

1. Based on your experiences and/or knowledge of Apple's current products and services, does Apple's strategy (as described in Illustration Capsule 1.1) seem to set it apart from rivals? Does the strategy seem to be keyed to a cost-based advantage, differentiating features, serving the unique needs of a niche, or some combination of these? What is there about Apple's strategy that can lead to sustainable competitive advantage?

### connect ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

#### Response:

**Setting Itself Apart**—The student should be able to discuss that Apple uses a Focused Differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. They strategically place stores in areas where their target market frequent and staff them with knowledgeable people. The firm is also committed to CSR and sustainability throughout its supply chain.

**Elements of Strategy**—The student should identify that some of key elements of Apple's strategy include a strong focus on R&D, providing a complete hardware/software/service solution, and a strong brand identity. These elements, along with the focus on CSR and sustainability combine to form a high end value proposition for consumers that allows for premium pricing.

**Sustainable Competitive Advantage**—The student should identify that developing a sustainable competitive advantage relies on a) building competitively valuable capabilities that rivals cannot readily match and b) having a distinctive product offering. Further, they should be able to highlight that the two areas described above are both distinctive and difficult to match.

2. Elements of eBay's strategy have evolved in meaningful ways since the company's founding in 1995. After reviewing the company's history at [www.ebayinc.com/our-company/our-history](http://www.ebayinc.com/our-company/our-history) and all of the links at the company's investor relations site ([investors.ebayinc.com](http://investors.ebayinc.com)), prepare a one- to two-page report that discusses how its strategy has evolved. Your report should also assess how well eBay's strategy passes the three tests of a winning strategy.

**Strategy Evolution**—From the information found in the links provided, the student's report should include information similar to the following.

The company was founded in 1995 with the mission of bringing together buyers and sellers in an honest and open marketplace. By mid 1996, the company had already sold \$7.2 million worth of goods, and in late 1997, the name AuctionWeb was replaced with the now iconic ebay name. In 1998, the company began to focus more on the customer experience through its first of many strategic acquisitions. By mid 1999, ebay had begun its overseas expansion with moves into Germany, Australia, and the UK. In 2001, ebay continued to customize the customer experience by providing eBay stores for its sellers. The period from 2001 through 2016 are marked by continued strategic acquisitions that bolster the company's product and service offerings including paypal, stubhub, and most recently, corrigo just to name a few of the more prominent ones. Global expansion continues today with ebay available in 180 countries.

The student should conclude that all of these innovations follow a careful underlying strategy of adding services and features to the overall product mix that leverage and take advantage of developments in personal and business technology and devices as well as shifting consumer demands. The company's strategy has evolved from a simple mission of providing a market place on the internet to being a comprehensive solution for engaging in commerce, making the financial transaction as smooth as possible, and moving the merchandise effectively.

**Strategy Assessment**—The student’s report should include specific indications that the company’s strategy is a winner as follows.

- a. Does the strategy fit the company’s situation? Yes, the company’s strategy fits the evolving world of technology, consumer behavior, and market demands.
  - b. Does the strategy helping the company achieve a sustainable competitive advantage? Yes, the growing base of customers and revenue streams from various services and platforms is led by continuous innovation which differentiates the company well. The growing profit stream indicates that the strategy is sustainable.
  - c. Does the strategy producing good company performance? Yes, but the company needs to address profit margins. The 2017 Annual Report shows that market growth is steady with \$9.56 Billion for fiscal year 2017 up from \$8.79 Billion in 2014. Gross profit for fiscal year 2017 was \$7.34 Billion up slightly from \$7.13 Billion in 2014, and operating profit for fiscal year 2017 was \$2.26 Billion down slightly from \$2.48 Billion in 2014. Taken together, these financial measures indicate market growth but increases in cost of sales which is driving down operating profits
3. Go to [investor.siriusxm.com](http://investor.siriusxm.com) and check whether the SiriusXM’s recent financial reports indicate that its business model is working. Are its subscription fees increasing or declining? Is its revenue stream advertising and equipment sales growing or declining? Does its cost structure allow for acceptable profit margins?

#### connect ACTIVITY

This Assurance of Learning exercise is available as a Connect Assignment. The assignment can be graded and posted automatically.

#### Response:

**General**—The responses developed by the students may include information such as the following. SiriusXM is a leading satellite media company that provides commercial free music from numerous genres, live play by play sports, news and talk shows, and other forms of audio entertainment streaming to the consumer’s home, auto, business, or even boats within 200 miles of the coast.

**Is the business model working**—The student should note that the company’s annual revenue has increased steadily over the last three reporting periods from \$4.57B in 2015 to \$5.42B in 2017, while net income has grown from \$509M to \$647M over the same period. This is an increase in net profit from 11.1% in 2015 to 11.9% in 2017. This illustrates an increasing value proposition (revenue) as well as an effective and growing profit formula (earnings). The conclusion the student should reach is that the business model is working effectively.

**Subscription Fees**—The student should identify that the company had subscription revenue of \$3.8B in 2015 and \$4.47B in 2017, representing a 5.86% average annual growth.

**Revenue Stream from Advertising**—The student should identify that the company had advertising revenue of \$122M in 2015 and \$160M in 2017, representing a 10.3% average annual growth.

**Revenue from Equipment**—The student should identify that the company had revenue from equipment of \$111M in 2015 and \$131M in 2017, representing a 6% average annual growth.

**Cost Structure and Profit Margins**—The student should identify that the company had consistently growth in Operating Profit with \$1.3B in 2013 and \$1.68B in 2015, representing a 9.7% average annual growth. This demonstrates that the company’s cost structure allows for attractive profit margins.



## SECTION 6

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Case Teaching Notes  
for Chapters 1-32

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# Mystic Monk Coffee

## Overview

This 24-page case requires that students consider the future direction of a monastery located in Clark, Wyoming and evaluate the vision, strategy, and business model of the fledgling Mystic Monk coffee business. As the case unfolds, students will learn of Father Daniel Mary's vision to build a new Mount Carmel in the Rocky Mountains and transform the small brotherhood of 13 monks living in a small home used as makeshift rectory into a 500-acre monastery that would include accommodations for 30 monks, a Gothic church, a convent for Carmelite nuns, a retreat center for lay visitors, and a hermitage. Father Daniel Mary had identified a nearby ranch for sale that met the requirements of his vision perfectly, but its listing price of \$8.9 million presented a financial obstacle to creating a place of prayer, worship, and solitude in the Rockies. Father Daniel Mary hoped to fund the purchase of the ranch through charitable contributions to the monastery and through the profits of its Mystic Monk coffee business, which had earned nearly \$75,000 during its first year of operation.

## Suggestions for Using the Case

This case was written as a leadoff case and was carefully crafted by the case author to require students to draw upon most all of the concepts discussed in Chapters 1 and 2 to sufficiently prepare for a class discussion of the case. The case involves issues relating to mission, vision, objectives, strategy, business models, and decisive strategic leadership; the need for an action plan is obvious—these are the very things one looks for in a good leadoff case. And the nature of the case virtually guarantees the stimulating kind of class discussion one needs to get the course off on the right foot.

We think Mystic Monk Coffee (MMC) is an excellent leadoff case for the course (other good choices are Robin Hood, Airbnb in 2016, and Amazon.com's Business Model and Its Evolution—which also require that students draw upon the material covered in Chapters 1 and 2). The unusual topic of the business ventures of cloistered monks, student familiarity with the coffee industry, and the very close connection between the case and the material in Chapters 1 and 2 make this an especially good leadoff case. You may want to consider covering Chapter 1 in your first day's lecture, Chapter 2 on your second day's lecture, and then assigning Mystic Monk Coffee for class discussion on Day 3.

We suggest use of a teaching plan that focuses on Father Daniel Mary's strategic vision for the monastery and its coffee operations and Mystic Monk Coffee's strategy and business model. Of course, there is the opportunity for students to make recommendations regarding the strategic issues confronting the monastery and its coffee venture.

***The assignment questions and teaching outline presented in upcoming sections of this TN reflect our thinking about how to conduct the class discussion of the Mystic Monk Coffee case.***

It is really very difficult to have an insightful and constructive class discussion of the Mystic Monk Coffee case unless students have not only read the case but also conscientiously worked their way through a set of well-conceived study questions before they come to class. In our classes, we expect students to bring their notes to the study questions to use/refer to in responding to the questions that we pose. Students often find having a set of study questions is useful in helping them prepare oral team presentations and written case assignments—in addition to whatever directive questions you supply for these assignments.

***To facilitate your use of study questions and making them available to students, we have posted a file of the Assignment Questions contained in this teaching note for the Mystic Monk Coffee case in the instructor resources section of the Connect Library.*** (We should also point out that there is a set of study questions posted in the student section of the OLC for each of the 32 cases included in the 22nd Edition.)

You may also find it beneficial to have your class read the Guide to Case Analysis that is posted in the Connect Library and in the textbook immediately following Chapter 12. Students will find the content of this Guide particularly helpful if this is their first experience with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

**Auto-Graded Connect Case Exercise.** The 21st Edition includes a fully auto-graded Connect case exercise for 14 cases included in the text. The auto-graded exercises closely follow the assignment questions and analysis included in the teaching note for the case. ***The auto-graded exercise for the Mystic Monk Coffee case requires that students answer a series of multiple choice questions related to Assignment Questions 1-5.*** Question 6 is left as an open ended question that allows students to fully discuss recommendations concerning improvements to the company's coffee operations, changes in its long-term direction, objectives, strategy, or approach to strategy execution.

**Students should be expected to spend about 45 minutes to complete the exercise, assuming they have done a conscientious job of reading the case and absorbing the information it contains. All of the questions are automatically graded, and the grades are automatically recorded in your Connect grade book, which makes it easy for you to evaluate each class member's ability to apply many of the concepts discussed in Chapters 1 and 2.**

The length of the case makes it ideal for an in-class written case or a final exam case. Our suggested written assignment questions are as follows:

1. As a new business school graduate who has relocated to Cody, Wyoming and supports the local foundation to benefit the Wyoming Carmelites, you have been asked to prepare a strategic review and action plan for the Father Daniel Mary's consideration. Your report to Father Prior should include an evaluation of the monastery's mission, its vision for Mystic Monk Coffee, objectives for the monastery and the coffee operations, and MMC's strategy and business model. You should also propose recommendations to improve Mystic Monk Coffee's vision, objectives, strategy, business model, or approach to strategy execution. It is your job to convince Father Daniel Mary to pursue your proposed plan; hence your report should include full justification and arguments to support your recommended course of action.
2. Cody, Wyoming business owners have noted your quickly developing skills of analysis and growing business acumen and have asked that you prepare a report for Father Daniel Mary that evaluates Mystic Monk Coffee's mission, vision, strategy, business model, and operations. Your report should also make recommendations concerning strategic issues related to:
  - The vision and mission of the monastery and its coffee operations,
  - MMC's strategic and financial objectives,



- MMC's strategy and business model, and
- The action steps that will need to be taken to implement the strategy effectively.

Please provide supporting analysis and persuasive argument for your recommended course of action (you must convince Father Daniel Mary to do what you suggest!) and you need to be specific about what to do and how to do it.

## Assignment Questions

1. Has Father Daniel Mary established a future direction for the Carmelite Monks of Wyoming? What is his vision for the monastery? What is his vision for Mystic Monk Coffee? What is the mission of the Carmelite Monks of Wyoming?
2. Does it appear that Father Daniel Mary has set definite objectives and performance targets for achieving his vision?
3. What is Father Prior's strategy for achieving his vision? What competitive advantage might Mystic Monk Coffee's strategy produce?
4. Is Mystic Monk Coffee's strategy a money-maker? What is MMC's business model? What is your assessment of Mystic Monk Coffee's customer value proposition? its profit formula? its resources that enable it to create and deliver value to customers?
5. Does the strategy qualify as a winning strategy? Why or why not?
6. What recommendations would you make to Father Daniel Mary in terms of crafting and executing strategy for the monastery's coffee operations? Are changes needed in its long-term direction? its objectives? its strategy? its approach to strategy execution? Explain.

## Teaching Outline and Analysis

1. **Has Father Daniel Mary established a future direction for the Carmelite Monks of Wyoming? What is his vision for the monastery? What is his vision for Mystic Monk Coffee? What is the mission of the Carmelite Monks of Wyoming?**

Students should have little trouble recognizing that Father Daniel Mary's vision for the Carmelite Monks of Wyoming is to recreate Mount Carmel in the U.S. Rocky Mountains and transform the *small brotherhood of 13 monks living in a small home used as makeshift rectory into a 500-acre* monastery that would include accommodations for 30 monks, a Gothic church, a convent for Carmelite nuns, a retreat center for lay visitors, and a hermitage. However, students should also recognize that there is no clear evidence in the case that Father Daniel Mary has articulated a vision for Mystic Monk Coffee.

If you are using this case as your lead-off case for the course, you may find that many students don't distinguish between the monastery and MMC and believe the Prior's general vision applies to the monk's coffee operations. To clear up this confusion and *to illustrate the lack of an appropriate vision for MMC, please have students compare Father Prior's vision to Howard Schultz's vision for Starbucks*. Howard Schultz's vision of bringing the Italian Espresso bar experience to America very accurately described his intended course and direction and helped stakeholders understand "where we are going." Schultz's vision for Starbucks was graphic, focused, desirable, and easy to communicate. The same can be said for Father Daniel Mary's vision for the Carmelite Monks, but not for its coffee business. Initially doubting students should concede that Father Daniel Mary has yet to spell out a long-term direction for Mystic Monk Coffee. There's merit to having students critique both visions using the information in Table 2.1 presented in Chapter 2 of the text.



You'll likely find that most students readily recognize that the *ultimate mission of the cloistered monks is to worship God*. Some may wish to begin a debate on the role of the monastery's coffee operations in pursuit of this mission, but we've found it's best to hold this discussion for the very end of the case discussion. We prefer to have students consider this dilemma after they've recommended an action plan that would help the monastery achieve its vision of creating a new Mount Carmel in the Rocky Mountains.

## 2. Does it appear that Father Daniel Mary has set definite objectives and performance targets for achieving his vision?

Students will find it very difficult to argue that Father Daniel Mary has set definite objectives or performance targets for achieving the vision. Other than the broad goal of obtaining funds to purchase the \$8.9 million Lake Irma Ranch, there isn't any evidence that the monks have set short-term or long-run goals for developing charitable contributions or for its MMC business.

## 3. What is Father Prior's strategy for achieving his vision? What competitive advantage might Mystic Monk Coffee's strategy produce?

Students will generally agree that Father Daniel Mary is relying on charitable contributions to the monastery and profits from its Mystic Monk Coffee enterprise to fund the purchase of the Irma Lake Ranch. Students should also recognize that *MMC does have a deliberate strategy, although it may be only tacitly understood among the monks*. The case doesn't discuss to what extent Father Prior has articulated the strategy to Brother Java (Brother Elias) and the other monks involved with MMC's operations, but students *should be able to identify the following elements of MMC's focused differentiation strategy*:

- Exclusive use of high quality fair trade Arabica and fair trade organic Arabic beans
- Variety of blends, roasts, and flavors to appeal to a broad range of coffee preferences
- Focus on U.S. Catholic consumers and those wishing to support the mission of the Carmelite Monks of Wyoming. An appeal was made to Catholics "to use their catholic coffee dollar for Christ and his Catholic church."
- Word of mouth advertising among loyal customers in Catholic parishes across the U.S.
- Majority of sales made through MMC's Web site
- Telephone orders accepted
- Affiliate program that provided 18 percent commissions to secular Web site operators allowing MMC banner and text ads to appear on their sites
- ShareASale participation program that allowed affiliates to refer new affiliates and earn 56 percent of the new affiliate's commission
- Wholesale sales to churches and local coffee shops
- Product line extension that included sales of T-shirts, mugs, gift cards, and CDs featuring the monastery's
- Gregorian chants

Students will generally approve of MMC's *focused differentiation* strategy and suggest that it is capable of building competitive advantage. The use of *high quality coffee beans, the variety of blends, roasts, and flavors and the Mystic Monk image produce a number of tangible and intangible benefits* for MMC customers. Students will also recognize that *MMC's focus on the 69 million members of the Catholic Church in the United States* makes the target market sufficiently large to earn attractive profits. Students

should conclude that *even though MMC is incapable of sustaining an advantage in the industry based upon the quality of its coffee alone, its monastic relationship would be very difficult for a rival seller to imitate.*

**4. Is Mystic Monk Coffee's strategy a money-maker? What is MMC's business model? What is your assessment of Mystic Monk Coffee's customer value proposition? its profit formula? its resources that enable it to create and deliver value to customers?**

Even though MMC's business model has a compelling customer value proposition, there is reason for students to challenge the overall soundness of the business model. *MMC's attractive differentiating features and competitive pricing create a strong customer value proposition, but its profit formula is suspect.* Other than the lack of labor expense, MMC enjoys no cost advantage and many of its non-differentiating activities involve higher than normal costs because of its low production volume. The company's cost of sales of 30 percent, broker fees of 3 percent, and inbound shipping costs of 19 percent contributed to a cost of goods sold of 52 percent. Even though students might argue that some indirect operating expenses (37 percent of revenues) are largely fixed and might go down as volume increases, most of these expenses are somewhat variable and will increase with volume. *MMC's current sales and 11 percent net profit margin are quite insufficient to generate \$8.9 million in cumulative earnings within a reasonable amount of time.*

Students are also likely to note that *MMC generates losses on all sales coming from affiliate Web sites* since the company pays an 18 percent commission on these sales, but has a net profit margin of only 11 percent.

Students will also question whether the monastery possesses sufficient resources to operate a thriving coffee roasting and sales business. Current monthly sales of \$56,500 suggest that MMC sells about 4,250 pounds of coffee each month at a retail price of \$9.95 per 12-ounce bag. The capacity of the coffee roaster will allow for production of 540 pounds per day, which is about 22.5 pounds per hour. Brother Elias (Brother Java) is able to work for only 6 hours per day, which limits production to about 135 pounds per day. *At a rate of 135 pounds per day, it appears that Brother Java is working 7 days per week to meet MMC's current monthly sales!!* Students will also note that a larger roaster could be purchased that would push production to 130 pounds per hour, which would *increase daily production by a factor of 6.* Still there is much labor involved in packaging the coffee and preparing daily shipment pickups for UPS or the US Postal Service. *There is strong reason to believe that the monk's monastic constraints would prevent a six-fold increase in daily production, even if demand permitted such an increase in daily production.*

Students' overall assessment of the business model should recognize its flaws and conclude that MMC's current business model severely limits its ability to make a meaningful contribution to the purchase of Lake Irma Ranch. However, MMC's average monthly profits of slightly more than \$5,000 should go a long way to supporting the current operating expenses of the monastery. *Students may conclude that the business model is quite sufficient should Father Daniel Mary choose to scale back his vision.*

**5. Does the strategy qualify as a winning strategy? Why or why not?**

There's merit in directing students to the three tests of a winning strategy presented on page 9 of Chapter 1 of the text if you've chosen to schedule Mystic Monk Coffee as the lead-off case for the course. Assessments made by students may include the following arguments and comments:

- *Does the strategy fit the company's situation?* You should find the class more or less evenly divided in whether to classify MMC's strategy as a winner. The strategy fits the external situation nicely since the market for *specialty coffees had grown at an annual rate of 32 percent between 2000 and 2007 to reach \$13.5 billion.* Also, students should note that the retail sales of organic specialty coffee had grown to \$1 billion by 2007. MMC's focus on Catholic consumers in the United States represents a large market for MMC—and one that would arguably become very loyal customers. *Students who suggest MMC lacks a winning strategy are likely to point to a poor fit between MMC's strategy and its internal situation that requires monks to devote most of their day prayer and worship.*

- ***Has the strategy yielded a sustainable competitive advantage?*** There should be little disagreement that the strategy has the *potential to yield sustainable competitive advantage*, although it's debatable if such an advantage has been achieved at that time of the case. But students who say it's still unclear if any competitive advantage exists should concede that the company's \$56,500 average monthly sales suggest MMC has a growing and loyal following among Catholic consumers.
- ***Has the strategy produced good financial performance?*** Students' assessment of MMC's ability to pass the third test of a winning strategy depends heavily upon their perceptions of "excellent company performance." Students who are impressed with MMC's average monthly sales of \$56,500 and its average profit margin of 11 percent will suggest that the strategy has produced good financial performance. Those who are focused on the need to generate profits sufficient to generate funds to purchase the Irma Lake Ranch will argue forcefully that MMC's strategy has failed this test.

We tend to agree with students who find that MMC's strategy is a winning strategy and that its limitations to generate sufficient funds to purchase Irma Lake Ranch result from flaws in its business model. All evidence suggests that the strategy is a winner, but that the business model must be revised substantially if MMC is to experience dramatic increases in sales and earnings.

**6. What recommendations would you make to Father Daniel Mary in terms of crafting and executing strategy for the monastery's coffee operations? Are changes needed in its long-term direction? its objectives? its strategy? its approach to strategy execution? Explain.**

Student recommendations are likely to fall into two groups, with one group suggesting that the vision be scaled back dramatically and the other group recommending an action plan to dramatically increase MMC's revenues and earnings.

Students arguing that Father Daniel Mary's vision should be scaled back drastically will be able to support such a recommendation with several facts from their analysis:

- The monastery does not have the human resources necessary to roast, package, and ship the volume of coffee necessary to accrue \$8.9 million.
- Additionally, Father Daniel Mary nor the other Carmelite brothers have the necessary business experience to manage a large coffee operation capable generating annual earnings in the millions of dollars.
- There is nothing in the case to suggest that the Carmelite brothers share Father Daniel Mary's vision to build a new Mount Carmel in the Rockies. It is quite likely that the brothers would prefer to pursue traditional monastery life rather than to be concerned with increasing Mystic Monk Coffee's annual sales and profits.
- Mystic Monk Coffee's operations are capable of supporting the expenses of the existing monastery without dramatic revenue and volume growth. Perhaps, Father Daniel Mary should be satisfied with MMC's currently monthly profits.
- Father Daniel Mary could choose to use the monastery's recent \$250,000 donation to expand the current rectory to provide additional living space for existing monks and any new monks joining the monastery. The Carmelites' current 42-acre parcel of land could be used to construct a larger rectory if the current ranch-style four-bedroom home could not be expanded.

Students arguing that Father Daniel Mary should stick with his current vision must make a number of recommendations for improving Mystic Monk Coffee's strategy and business model. Appropriate recommendations include:

- Before making specific recommendations to revise MMC's strategy and business model, ***students must first determine to what extent donations can be relied upon to generate funds necessary to purchase the Irma Lake Ranch.*** In our calculations, we've assumed that one-half of the funds necessary to purchase the ranch will come from charitable contributions.
- Father Daniel Mary should request that the Catholic Church send priests or others not constrained by a cloistered life to develop a strategy with Cody, Wyoming business people to maximize the potential of the foundation established for the benefit of the monastery. It's likely that the Cody, Wyoming business people don't have the know-how or time to generate substantial contributions to the foundation.
- Father Daniel Mary should also utilize the resources of the Catholic Church to find major donors willing to contribute to the creation of a new Mount Carmel. However, Father Daniel Mary's efforts might be limited by the Catholic Church's charitable giving requests for competing projects and needs.
- Assuming that charitable giving will account for 50 percent of the funding requirements to purchase the \$8.9 million Irma Lake Ranch, it would take MMC nearly 67 years to accrue \$5 million in earnings if its level of annual profits remains at \$75,000. Students going forward with recommendations to make MMC's profits a major contributor to the \$8.9 million purchase price should propose a plan that will allow MMC to record net earnings of \$1 million annually, at a minimum.
- The purchase of the larger 130-pound per hour roaster will not allow MMC's annual profits to increase to \$1 million since Brother Java's 6-hour shift will allow only 780 pounds of coffee to be roasted each day (130 pounds/hr x 6 hours). This level of production would allow MMC to sell up to 1,040 12-ounce bags of coffee each ((780 pounds x 16 ounces)/12 ounces = 1,040 12-ounce bags). This level of production at \$9.95/bag allows for daily revenues of \$10,348 and a daily profit of \$1,138 given the current profit margin of 11 percent. So, MMC's annual profits could arguably increase to about \$415,000 if demand could be increased to match the 6-hour capacity of the larger roaster. (A more simple calculation to project MMC's profits if sales increase by a factor of 6 involves merely multiplying MMC's current annual profits of \$75,000 by 6 to arrive at a projected annual profit of \$450,000.)
- Students should recommend that MMC use ***its improved bargaining power stemming from any volume increases to negotiate better terms with its suppliers, shippers, and its coffee broker.*** The case doesn't provide enough detail for students to make an exact determination about to what extent cost of goods sold could be decreased, but students should be able to come up with some easily supported assumptions. In general, students should be able to justify a reduction in MMC's cost of goods sold from 52 percent to about 48 percent – 50 percent because of enhanced buyer leverage as volume increases.
- Utilities, telephone, and Web site maintenance are indirect expenses that will increase as sales and production increase, but still ***might offer some economies of scale opportunities.*** Students should be able to justify a decline in operating expenses from 37 percent to about 33 percent to 35 percent because of scale economies.
- Students making the assumption that increased volume will allow MMC's net profit margin to improve from 11 percent to 15 percent - 19 percent, will note that MMC's daily net profit will increase to \$1,552
  - \$1,996 based on daily sales of \$10,348. The improvement in margins would result in an annual net income for MMC of \$566,000 - \$717,500.
- Most students will recommend that MMC immediately ***reduce commissions paid to affiliate Web sites,*** since the current 18 percent commission cannot be supported.
- Students should recognize that even under the most favorable scenario, Father Daniel Mary will be ***required to schedule additional 6-hour shifts*** for MMC reach \$1 million in annual profits.

- Students should also recommend strategies that will allow MMC to increase sales to support higher levels of production. Possible recommendations include:
  - Send e-mails to Catholic churches in the U.S. asking that MMC coffee be used for church events and that parish members be told of MMC's Internet coffee sales.
  - Provide churches purchasing MMC coffee with a sign promoting MMC that could be placed near a coffee urn. The sign could improve awareness of MMC among members of Catholic parishes.
  - Target coffee shops located in communities with large Catholic populations for wholesale purchases.
  - Promote the Wyoming Carmelite's vision of a new Mount Carmel and MMC coffee at Catholic religious conferences. MMC might consider providing conferences with free MMC coffee and promotional materials.
  - Students may suggest that MMC obtain permission to place banner ads or links to MMC on church and parish websites.
- Some students may recommend that MMC change its business model because of its resource limitations discussed in Assignment Question 4. Father Daniel Mary could adopt a business model that would allow the monks to develop new blends, roasts, and flavors at the monastery and have the production and shipping performed by a contract manufacturer such as First Colony Coffee and Tea. Such an arrangement would allow MMC to receive royalties much like First Colony's fine department store and specialty retailer customers do. MMC's *value proposition* would remain largely intact since the coffee blends, roasts, and flavors would be developed by the monks and some portion of the purchase price would go to support the monks and Father Daniel Mary's vision for a new Mount Carmel. The *profit formula* for a business model that relies on contract manufacturing would be more viable than MMC's current profit formula. Students should easily recognize that a contract manufacturer with a proven track record would have the *resources* necessary to produce and ship large volumes of packaged coffee.
- Students supporting contract manufacturing may also suggest that First Colony or similar coffee producer might be able to help Mystic Monk Coffee gain access to specialty retailers who might wish to carry the brand.
- Students who argue forcefully against contract manufacturing should be challenged by the instructor to consider the logistical problems should the Wyoming Carmelites be able to purchase Irma Lake Ranch and move MMC's operations to the new Mount Carmel. *The ranch was at the end of a 7-mile private gravel road. Inbound and outbound logistics during much of the year would likely be extremely difficult given the duration of Wyoming's winters.*
- As a final question to the group of students who may be against contract manufacturing, you should ask if MMC's increased volume would present a conflict with the overall mission of the monastery. *How would the demands of operating a very successful coffee producer interfere with the men's vows and requirement to spend their lives in prayer and worship?*

## Epilogue

Mystic Monk Coffee has added several new blends and coffee accessories at its Web site since the close of the case. You can visit [www.mysticmonkcoffee.com](http://www.mysticmonkcoffee.com) to see the monastery's latest coffee offerings.

The monastery had also established the New Mount Carmel Foundation, Inc. to support Father Daniel Mary's vision of creating a new Mount Carmel in the Rocky Mountains. The foundation website (<http://www.newmountcarmelfoundation.org>) provides photo galleries, videos, news and other information related to the foundation's efforts to develop funding to build the mountain monastery.