Instructor's Manual

Exploring Strategy Text and Cases

Eleventh edition

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Acknowledgements

1. Introduction

Exploring Strategy represents one of the most comprehensive packages of material and support for teachers and students of strategy. The following materials and assistance are now available:

- The *text* with improved design and layout to assist readers – including objectives for each part of the book and chapter learning outcomes, concept definitions, chapter summaries, additional reading and much more.

- Over seventy *illustrations* and fifteen *Thinking Differently* sections each including questions to facilitate their use as mini cases or class discussions.

- Sixteen end-of-chapter *case examples* with specific relevance to the content of the chapter and with questions relating to the major learning issues in the chapter.

- End-of-chapter *work assignments,* which provide further opportunities for student assessment, additional work or self-assessment.

- Thirty case studies (text and cases version only) together with comprehensive teaching notes (in this manual and on the website). The case collection contains a rich mixture of material, including long and short cases from many different sectors and different countries.

- Over thirty 'classic cases' from past editions (where they are not carried forward into eleventh edition but are still useful to tutors and students).

- The Strategy Experience simulation gives students hands-on experience of strategic analysis and decision making. The simulation can be used by individual students, or as part of a wider classroom exercise.

For students:

- Revision aids (flashcards, key concepts and glossary (in six languages))

- Multiple-choice questions, work assignments and grade book

- Help with case studies (web links, FT articles and advice on analysing cases).

For tutors:

- This Instructor's Manual

- PowerPoint slides

- Tutors' workshops led by the authors are held annually. These are practical days concerned with how teachers might gain most advantage from the book and associated materials. They also act as a forum in which to meet other strategy teachers.

Details on all of these items and extensive tutors' debriefs of work assignments, illustrations, case examples and case studies are included in this manual.

Many of these materials are also relevant to our shorter version, *Fundamentals of Strategy*, which has the advantage of consistent definitions and frameworks and the same illustrations and end-of-chapter case examples. It should be very easy for teachers using *Exploring Strategy* or *Fundamentals of Strategy* to switch between these two texts according to the needs of a particular course.

2. Using this manual

This manual is designed for the assistance of teachers of strategy in planning how to gain maximum advantage from the text *Exploring Strategy* and the associated teaching and learning materials. It should provide help with:

- planning a teaching approach to suit the type of participants, time available, etc.;

- deciding on how to use the text, illustrations, case examples, readings and case studies in a teaching scheme;

- choosing additional material to include in a course;

- using the work assignments for the illustrations, case examples and those at the end of each chapter;

- preparing to teach the case studies;

- using the *Exploring Strategy* website.

The next two sections are intended to be of particular use to teachers who are relatively new to teaching strategy or are designing new courses. Experienced teachers may wish to pass over Sections 3 and 4.

3. Planning your approach

This section provides some general guidance on how the design of a strategy course can be varied to meet the requirements of the participants and the practicalities of the situation. The factors listed below will also influence the way in which the text, readings, work assignments, case examples, case studies and videos can be used to best advantage.

3.1 Purpose of the course

Strategy courses can be designed to meet many different needs. At one extreme, the course may mainly be concerned with raising *awareness* of why organisations need to change and develop over time and some of the ways in which this occurs. Alternatively, a course may be designed to improve the *skills* of participants in the formulation and implementation of strategy. Between these extremes are other purposes for strategy courses. For example, improving managers' understanding of how their job function *fits* the overall strategic development of the organisation, helping to break down the very narrow *operational outlook* of many managers or *integrating* material from other parts of a business or management course. The following is some guidance on how the use of text and cases might be adapted to these various purposes.

- If *awareness* is the key purpose, the text can be used to provide a basic framework (say through a lecture series) and devote as much time as possible to illustrative work. The illustrations and case examples in the text should prove valuable and teachers should try to supplement these with their own topical material (press cuttings, material from company websites, etc.). Where participants have access to live organisations, use of issues from those organisations should be encouraged (e.g. by presentations). Guest speakers could also prove valuable – particularly, interesting success stories. The case studies and videos can be used mainly to encourage discussion and illustrate particular aspects of strategy. Work assignments should be useful to consolidate some of the key concepts in strategic management.

- If *skills development* is most important, then the purpose of the text should be to help participants understand concepts and analytical tools which they can apply and practice. Most of the case examples and case studies lend themselves to an analytical approach, and participants should be set tasks that require them to produce detailed and practical solutions. Work assignments for the illustrations and at end of the chapters should be useful to test skills development and the understanding of key concepts. With some groups, it may be possible to require participants to develop their skills on real, company-based issues, through a project. For example, students can be asked to undertake an analysis of a particular industry or company (which could be done on the basis of secondary data), to assess the strategic choices available to an organisation and propose how issues of implementation would be managed. Many of the advanced level work assignments are specifically designed to test readers' in-depth understanding of issues and/or ability to use them in a project situation.

- Where the *relationship between strategy and the separate business functions* is of primary importance, group work (preferably with cross-functional teams) could be very helpful. This could be for work on the case studies, in-company work or business simulations.

3.2 Level of participant

The purpose of a strategy course is likely to differ with the level of participant (see Table 1). For example, this could relate to their age, job function or type of course which they are studying.

- For *younger* people with little full-time work experience the text should prove useful in providing a systematic approach and illustrations of strategy in practice. The illustrations and case examples in the text (and associated work assignments) should be used to relate theory to practice. Case studies and the video material should be used in fairly focused ways to consolidate stages in the learning rather than in an all-embracing way until later in the course. Selected readings should also prove helpful. The standard level work assignments will be the most appropriate for this group.

- Where participants have *some work experience* but are nevertheless fairly junior (e.g. final year sandwich course students and many supervisory-level courses), the same comments are relevant except that there are more opportunities to encourage participants to relate to real-life situations through presentations, in-company projects, etc.

- For *more experienced managers* (e.g. in many part-time MBA programmes or in-company courses) it should be possible to reduce the formal inputs of concepts and methods on the grounds that these are clearly laid out in the text and can be read prior to class sessions or as a means of pulling together the issues discussed in class. It is then possible to devote the majority of time to applied work (the case studies, group projects, presentations, etc.). It is also likely that the issues raised in Chapters 12–16 will warrant more emphasis since they raise critical issues of processes of strategic management confronting practising managers. It may also make sense to begin the course by discussing different ways of understanding strategy and strategic management. The strategy lenses introduced in the Commentary at the end of Part I provide a basis for this since they reflect on how strategy might be seen and interpreted in different ways.

Table 1 Using the text and cases with different participants

	No work experience	**Limited work experience**	**Experienced managers**
1. Typical groups	Undergraduates	Sandwich degree students, supervisory level, full-time MBA	Part-time MBA, in-company courses
2. Sequencing of material from text	In chapter sequence	In chapter sequence	In chapter sequence (possibly highlighting of Chapters 12–16 earlier)
3. Relative emphasis of issues	Main emphasis on Chapters 1–11	More balanced emphasis	Greater emphasis on 'process issues' and Commentaries
4. Text to read	After class sessions	After class sessions	Before or after class sessions

5. Applied work (case studies, etc.) used to	Illustrate issues from the text in a carefully focused way	Practice analytical and conceptual understanding	As a way of improving understanding and skills
6. Additional reading	Selected key readings	Selected key readings	Selected key readings

3.3 Study mode

The mode of study should also influence course design.

- For *full-time* courses, a good level of preparation of case study work should be expected. Such preparation provides an opportunity for smaller groups to work together on tasks for significant periods of time. A tightly organised package of student work (the case studies, group work, presentations, etc.) is, therefore, possible as an important way of consolidating the concepts/approaches from the text. However, the chance of live in-company work may be more limited – although projects based largely on secondary data can be very effective.

- In contrast, *part-time* students should be more in touch with ongoing management issues but may have less preparation time available and find it more difficult to meet in groups. It may be, therefore, that some group time needs to be built into the programme. It can also be helpful to provide selected readings linking theory and practice to part-time students as a basis for group/class discussions or presentations.

- Increasingly, *distance learning* elements are being used in business and management programmes. The structured nature of the text together with the illustrations, case examples readings, case studies, work assignments and website material lends itself to form the backbone of learning modules. Section 4 below, which reviews work assignments, provides guidelines on how the issues and materials in the book can be used to provide a structured learning 'path' for students.

3.4 Time available

The study hours available will also influence the course design and the use of text and cases.

- For *long* programmes (50 hours+) it should prove possible to use the text and cases extensively and to supplement the course with other materials and activities.

- For *shorter* programmes, a more selective use of the materials is possible. For example, a course concerned largely with strategy formulation could confine the use of the text to Chapters 1–11 (or 12) and the associated illustrations, case examples, readings, case studies, video, work assignments and website material. In this case, our related book *Fundamentals of Strategy* might be considered as a course text. A course on strategic change and implementation would be centred on Chapters 13–16. The other chapters would be recommended as follow-up or contextual reading. *Fundamentals of Strategy* can be considered for this kind of course.

- Where time is *very limited* – particularly with more experienced managers – sessions may consist of an introduction to some basic ideas through the frameworks from the text

together with a case study (or similar activity). More extensive use of the text would be in the participants' own time either pre- or post-course. The authors regularly use such an approach on short courses for senior managers. The work assignments also provide a valuable checklist and/or self-study guide around these basic concepts. Although experienced managers may appreciate the relative brevity of *Fundamentals of Strategy*, they often find the more detailed attention to the practicalities of process available in *Exploring Strategy* very useful as a reference source: it has been our (surprising) experience that the longer book is preferred.

4. Designing the teaching scheme

4.1 Pre-course work

It should be clear from the above that there are many circumstances where pre-course work could be essential. The text and case studies are designed to facilitate this. Where pre-course work is needed, it is suggested that it is prescribed in the following way:

- The appropriate chapters of the book with a few suggested issues to bear in mind. For example, it might prove useful for participants to read Chapter 1 and be expected to discuss what is meant by strategy or to read Chapter 4 and discuss what strategic capabilities matter most in organisation.

- Preparation of *illustrations, case examples or case study* material. Here, specific guidance can be found in the teaching notes in Section 6 and in the work assignment debriefs.

- Any *company-specific data* that they might need. For example, if participants are to undertake project work they may need to access company reports, accounts and websites. To accompany the reading of Chapter 1 and/or Chapters 13 and 16, students could be asked to reflect on how strategic issues are managed in their own organisation. Or students could be asked to bring some topical data (e.g. articles or press cuttings) that might be used to develop a presentation on the course.

4.2 Starting the course

The specific requirements of each course will vary but here is some guidance on how courses in strategy might be started:

- A traditional approach would be to run through the issues in Chapter 1 and relate them to the structure of the course. This is most successful if the course follows the text quite closely and in chapter sequence.

- With groups of experienced managers, it can be stimulating to begin with a session on *different approaches* to strategic management and strategy development using the material from Chapters 1, 13 and 16 and the Commentary at the end of Part I that introduces the four strategy lenses. This does not preclude a follow-up that works through the chapters in sequence, but helps put that approach into context.

- An alternative approach is to begin the course with a *case study*, case example or *illustration*. The end-of-chapter case for Chapter 1 (*AirBnB*), the first illustration in

Chapter 1 and the first case in the case section of the book (*Glastonbury*) are provided for this purpose. This approach starts the course with participants talking about the strategic issues relevant to that company and industry, and gives pointers to issues that will be covered in the rest of the course. A similar opening can be achieved by asking one or more participants to talk about the key strategic issues in their *own* organisation or for an organisation that is well known to many participants.

4.3 Planning the topics

The text lends itself to a range of different treatments and we encourage teachers to use it in a way which suits their own style and the needs of the participants. Some approaches might be as follows:

- The most straightforward teaching scheme is one that follows the sequence of topics from the text. For example, on a final year undergraduate programme the text can be 'covered' in one-hour lectures leaving time for applied activities. It is strongly recommended that a lecture series of this type be used to *augment* the text (e.g. by addressing more fully some of the concepts or explaining how they can be used in practice) rather than replicate what is in the text.

- Courses can be taught on an 'issues basis'. For example, by focusing on the main strategic choices discussed in Part II of the book (e.g. competitive strategy, internationalisation, mergers and acquisitions). Here, Parts I and III of the book would be used as background reading by students to prepare for and inform class discussion on the issues.

- A 'case-based' course uses a series of case studies as the backbone of the course. Classes then focus on the issues raised by the cases. Here, it makes sense to choose the cases to focus on particular issues or themes. The case version of the book provides an extensive choice of cases that can be used for this purpose. It should then be expected that students (a) do recommended pre-reading from the text and (b) apply that reading to their preparation of the cases.

- On other courses, the text can be used somewhat differently. For example, one of the authors teaches a part-time MBA course where the opening few weeks of the programme run parallel sessions following the 'content' issues in Chapters 2–6 and the 'process' issues of Chapters 13 and 16 and the Commentary. This is augmented by a readings programme and a group project running through the course.

4.4 Balance of the course

The teaching scheme will need to be balanced in relation to many of the needs identified in Section 3 in two different ways:

- The degree of *emphasis* given to different topics as discussed above.

- The *mixture* and *sequenc*ing of lectures, seminars, case studies, group work, etc. These are largely determined by the circumstances for which the programme is designed as outlined in Section 3. It is useful to look at some typical ways in which this mix can be planned:

- *Case study/applied material only* courses, where the text is used as pre-reading and/or follow-up. This approach is not very common on open access courses but can be very useful in an in-company workshop where a review of the organisation's own strategy forms the basis of the programme, and frameworks and techniques from the text are drawn upon as appropriate.

- *Case study/applied material-based* programmes. Here, the applied material is prepared before the class sessions and forms the basis of a discussion of key concepts during the session. This is the Harvard approach and the text could be used either as pre-reading or for follow-up. The case studies, case examples, illustrations, website material and work assignments would form the basis of such a course.

- *Lectures and applied work*. Here, the formal lecture accounts for perhaps 20–30% of the programme, the remainder being used for applied work – case studies, presentations, projects, etc. The text, case studies, case examples, illustrations, website materials and work assignments are ideal for providing the backbone of a course of this type. The dangers are that students do not read widely enough so teachers need to provide proper guidance on additional reading (including those identified at the end of each chapter).

- *Lecture and illustrative material.* Here, the lecture programme may amount to 50–70% of the course with illustrations, case examples, case studies and website material being used to provide practical examples of the issues in the text/lectures. This is only recommended for undergraduates.

4.5 Assessment

Many courses will require participants to be assessed. The text and cases (and the above advice on course design) provide opportunities for a wide variety of different assessments. For example:

- *Formal examinations* can be used to test understanding of the key concepts presented in the text. There are dangers that students give overly theoretical answers to questions. One way of avoiding this is to use short quotations from case studies, articles or illustrations as the basis of the issue that requires discussion in the examination question. This could include requiring answers that are directed at explaining concepts to managers as they could be asked to do, perhaps, in a job interview.

- *Case study examinations* are a commonly used method of assessment. There are typically two approaches here.

  i)   The case study is distributed before the examination, but not the questions. Students are then able to prepare, perhaps in groups. The questions are then provided in the examination and answered on an individual basis. Students are, however, able to use their prepared notes. The biggest danger with this approach is that students overwhelm themselves with prior analysis, and simply replicate their notes, failing to answer the questions posed on the examination paper.

  ii) An alternative approach is to use a brief case study together with the questions provided to the students in the examination setting or shortly before it. The problem here is that students' speed of reading can vary considerably – particularly if they are reading the case in English as a second language.

- *Project-based assessment* involves students (or groups of students) applying the concepts and techniques in the book to a real organisation. This could be done, for example, by part-time students working on their own organisations. Or it can be done with students working on nominated organisations using secondary data.

- *Student presentations* are another method of assessment, popular with many strategy teachers. They can be used to assess students' work on illustrations, case examples, case studies or in-company project work that they have undertaken. It is desirable to combine an assessment of the presentation with a write-up.

- *Executive reports* are used by one of the authors. These are an unannounced 30-minute write-up of the critical issues in a pre-seen case study or article in the form of a brief executive report.

- *Participant's topic* – where participants are required to present a write-up and/or presentation on a strategic issue – often in the context of a topical situation or their own organisation.

- *Readings* – where a readings programme throughout the course is used as a basis of linking theory to practice and can be assessed through presentation and/or write-up.

A note on *Group Projects*. Group projects can be an excellent form of learning and, therefore, lend themselves to be incorporated into the assessment package. The group project provides an extra learning dimension from the individual project namely, the *process* by which the group undertook the project and managed themselves. We would advise that the project write-up should include issues of process as well as content. Many teachers shy away from group projects because they feel that the assessment of individual contributions can be difficult (which it is!). However, the potential learning from group work is so great that we would encourage teachers to experiment with assessing the project work. There are several ways in which worries about assessing individuals can be alleviated. First, the group project can be part of an assessment package and weighted accordingly (e.g. 30–40% of the overall mark). Second, the formal requirement may be that the group project is assessed only on a pass/fail basis. The student's examination mark is that gained in other assessments. Third, the group can be given an overall group average mark and be asked to advise the tutor on the individual marks of group members (in relation to their contribution). Where the authors have used this particular approach, it has proved useful to provide *limits* within which individual marks can be varied (say 10 marks) and to ensure that students are clear that the final decision rests with the tutor. Fourth, students can be asked to complete an individual piece of work, e.g. on their own key learning points from the group work.

4.6 Sample teaching plan

This is an example of a teaching plan for a 500-strong cohort of level 3 undergraduates taking strategic management as a core double-weighted module over two semesters. Total contact hours are 36 hours, group work comprises 110 hours and independent study 154 hours. The module comprises a mixture of lectures, interactive workshops, group work, independent learning and online-mediated study (via an online learning management system such as MyStrategyLab). Case studies are a key learning vehicle for the module. Students are also required to conduct group and individual research into organisations. A series of surgery sessions and online-mediated sessions are available to students wishing to reinforce their learning. Key skills are developed in the areas of teamwork, oral and written

communications, selection and application of data collection methods, research and referencing skills, data analysis and online communications.

The strategic management module has two main learning components:

- Acquiring theory and concepts in strategy

- Application of theory and concepts to the analysis of organisations.

To some extent, these two components interact – application of the concepts helps to clarify understanding of the theory. The theory comes early in the module, in order to have something to work with. The module lectures (focusing more on the theory) are, therefore, mostly in Semester 1 and early Semester 2.

Successful studying for the module requires the following:

- Working through the *Exploring Strategy* interactive study guide together with the textbook

- Attending lectures, having prepared for them

- Working with study group on analysing case studies and a chosen organisation

- Participating actively in workshops.

Reflecting this balance, the module has three elements of assessment:

1. **Online assessment (10%).** A range of question types to test students' basic understanding of the theory at the end of Semester 1 (e.g. multiple choice, pull-down list, matching, ranking and text match).

2. **An individual written assignment, including a copy of the group presentation (30%).** This requires application of the theory to a chosen organisation. Group work involves analysing the organisation, developing and ranking strategic options and making a presentation on one aspect of the organisation. Each individual then writes up a part of the analysis.

3. **A two-hour case study-based examination (60%).** This requires application of the theory to a case study that is issued two weeks before the exam and students analyse it in their study groups prior to the exam.

The module requires commitment and time on the part of the students. They must be able to organise their own study time – reading, working through the interactive online study guide and doing the self-assessment tests, analysing the case studies, gathering data on the selected organisation, preparing presentations for the workshops and working on the assignment. Using study groups effectively is an important skill. Study group discussions provide an opportunity to practise using the strategy vocabulary. The grid in Table 2 gives a general outline of the requirements of the module.

The course structure is as follows:

Lectures: All students attend 11 two-hour lectures – 8 in Semester 1 and 3 in Semester 2.

Workshops: Each study group has 7 two-hour interactive workshop sessions. They commence in week 3, Semester 1 and run throughout the year.

Surgery sessions: Six optional surgery sessions are available.

Online: All students are required to complete the interactive study guide accompanying the *Exploring Strategy* textbook. All communication is via the learning management system (not e-mail) and students should access it at least twice a week.

Guest lectures: A series of guest lectures, 'Strategy into Practice', are organised over the course of the year. This provides an opportunity to hear how strategy is implemented in practice by leading business managers.

Tables 3 and 4 show topics, reading and cases.

Table 2 Outline of module requirements

Work area	Purpose	Group work
Read the core text *(Exploring Strategy)*, other recommended reading and work through the interactive study guide	Understand the theory	Discuss the ideas in groups; consider how to apply them and what their implications are
Read and analyse the assigned cases using strategic management theory and the analytical techniques from other modules (e.g. finance, HR and marketing)	Understand organisations in practice, and how to apply the theory	Discuss and compare analysis within groups, in workshops and via the online discussion group/discussion board facility. Assess areas of overlap or disagreement. Identify areas of uncertainty or difficulty for surgery/workshop discussion or for debating via the online discussion board
Collect and analyse information on the chosen organisation. Use strategic management theory and the analytical techniques from other modules (e.g. finance, HR and marketing)	Develop research and analytical skills. Apply strategic management theory to an organisation	Discuss analysis within study groups. Assign areas for individuals to investigate in greater depth for the group. Identify areas of uncertainty or difficulty for surgery/workshop discussion or for debating via the online discussion board
Develop group presentation	Simulate a team-based work situation and a presentation to management – develop communication and influencing skills	Discuss who is going to make the presentation, how all group members can be involved, what format it will take. Rehearse and polish the presentation and prepare answers to questions that might arise

Work on individual assignment	Apply strategic management theory to the chosen organisation and develop written presentation skills	Work in groups and discuss analysis. Do the final write-up individually
Work on the case study for the exam	Utilise team work to simplify analysis and work towards a common aim of success	Compare analysis of the case study. Discuss areas of disagreement and decide what position to take. Help weaker team members to understand the issues

Table 3 Lecture schedule

Lecture (2 hours)	Topic	Preparation for lectures (*Exploring Strategy* text and online interactive study guide)
	Semester 1	
Week 1	Introducing strategy	Chapter 1 text and online
Week 2	The environment	Chapters 2 and 3 text and online
Week 3	Strategic capabilities	Chapter 4 text and online
Week 4	Strategic purpose Culture and strategy	Chapters 5 and 6 text and online
Weeks 5/6	Surgery sessions	
Week 7	Business strategy	Chapter 7 text and online
Week 8	Corporate strategy and diversification International strategy Mergers, acquisitions and alliances	Chapters 8, 9 and 11 text and online
Week 9	Innovation and entrepreneurship	Chapter 10 text and online
Week 10	Evaluating strategies	Chapter 12 text and online
Week 11	Surgery session	
	Semester 2	
Week 1	Organising for success	Chapter 14 text and online
Week 2	Leading strategic change	Chapter 15 text and online
Week 3	Strategy development processes	Chapters 13 and 16 text and online
Weeks 4, 6, 8 and 9	Surgery sessions	

Table 4 Workshop topics

Workshop	Analytical focus	Preparation
1	Business environment: PESTEL, five forces	Case example Chapters 2 and 3. *Alibaba – the Yangtze River Crocodile* *Global forces and the advertising industry*
2	Organisational resources: value chain, strategic capability	Case example Chapter 4. *Rocket Internet – will the copycat be imitated?*
3	Organisational context: stakeholders, corporate governance, culture	Case example Chapter 6. *Culture clashes at Barclays Bank*
4	Corporate-level strategy: diversification, portfolios, parenting	Case example Chapter 8. *Virgin – is the brand more than Richard Branson?*
5	International strategy and the development and evaluation of strategic options	Case example Chapter 9. *China goes to Hollywood – Wanda's move into the US movie industry*
6	Implementation of strategy: organising and change management	Case example Chapter 15. *Sergio Marchionne – motor of change*
7	Revision	Case example from last year's examination

Workshops 2–6 allocate 30 minutes for group presentations.

5. A guide to using the work assignments

This section contains guidance for using the work assignments that appear with each illustration, case example and at the end of each chapter in *Exploring Strategy*. These notes are not intended to be prescriptive and instructors are encouraged to use these assignments in ways that best suit your own learning situation.

The work assignments with each illustration are designed to consolidate one or two learning points from a part of the chapter. The questions with case examples at the end of the chapter take the main issues from each chapter and suggest ways in which readers can consolidate their understanding by applying these concepts to appropriate case studies, illustrations and/or organisations of their own choice. There are also integrative assignments that look across chapters. The work assignments are provided at two levels of difficulty – in order to give flexibility in their use:

1. *Standard* are straightforward applications of concepts or frameworks to specific situations.

2. *Advanced* require a fuller analysis usually linking two or more concepts and/or situations and requiring reading round the issues.

The sections below provide chapter-by-chapter guidance on how tutors might use the work assignments to consolidate students' understanding of the concepts in *Exploring Strategy*. There are, however, a few general guidelines that you may wish to consider in deciding how to gain most benefit from incorporating these work assignments into the students' programme of study:

- Remember there are many different ways in which you can use these assignments. For example as:

  - topics for students to *pre-prepare* for a session, where the concept or issue will be discussed in the light of their preparation;

  - a basis of a student's *presentation* in a class session;

  - a student *assessment*;

  - a *self-study package,* which students use to test their own understanding.

- Although many of the work assignments draw on illustrations and/or case studies in *Exploring Strategy*, we have tried to write them in a way that does not make them entirely dependent on this specific source material. Most of these work assignments should be useable in a situation of the tutor's/student's choice.

- The reverse is also true; the use of illustrations, case examples and case studies should not be confined to the specific issues in the work assignments. With case studies you will find that the authors' teaching notes in Section 12 suggest many other issues and questions in *addition* to those cited in work assignments.

6. A guide to using the case studies

- Section 12 contains comprehensive teaching notes for each of the case studies that appear in the text and cases edition of *Exploring Strategy*. These notes have been prepared by the authors of each case study and edited by Steve Pyle, Clive Kerridge and Jason Evans. The facing page is a guide to the main focus of each case study and also appears in the book. The table also indicates the focus of the *classic cases*. These are a selection of cases from recent editions of the book which remain relevant for teaching. These can be found on the companion website.

- These case studies allow the reader to extend their linking of theory and practice by addressing the strategic issues of specific organisations in much greater depth – often providing solutions to some of the problems or difficulties identified in the cases. Cases are intended to serve as a basis for class discussion and not as an illustration of either good or bad management practice.

- The case studies have been chosen (or specifically written) to provide readers with a core of cases, which together cover most of the main issues in the text. As such, they should provide a useful backbone to a programme of study but can be supplemented by other material. We have provided a mixture of longer and shorter cases to increase the flexibility for instructors. In addition, there is a short case example at the end of each chapter (in both versions of the book). Some cases are written entirely from published sources, but many have been prepared in cooperation and with the assistance of the

management of the organisation concerned. Case studies can never fully capture the richness and complexity of real-life management situations, however, and we would encourage readers and tutors additionally to take every possible opportunity to explore the live strategic issues of organisations – both their own and others.

The authors are always interested in the development of new cases relevant to the frameworks, concepts and issues of the book. If you have an idea for such a case, please be in touch in the first place with richard.whittington@sbs.ox.ac.uk, with a brief outline of the case idea and an explanation of how it might fit with the book. A small fee is typically paid for such cases.

PAGE NUMBER IN THE BOOK	CASES	Introduction to strategy	The macro-environment context	The industry and sector context	Resources and capabilities	Stakeholders and governance	History and culture	Strategy lenses	Business-level and models strategy	Corporate strategy and diversification	International strategy	Entrepreneurship and innovation	Mergers, acquisitions and alliances	Evaluating strategies	Strategy development	Organising	Leadership for strategic change	The practice of strategy	Public sector/not-for-profit management	Family or small business strategy
541	Glastonbury: from hippy weekend to international festival	•	•																	•
545	The global pharmaceutical industry: back to the future?		•	•							•		•							
557	Siemens A: exploring the future		•	•					•											
563	The 'pub': decline of a British institution–how the brewers fought back		•	•						•			•							
568	Ricoh Canada Inc.: printing the future or recycling the past?		•	•					•											
576	H&M in fast fashion: continued success?				•				•		•									
584	The Formula 1 constructors: capabilities for success.				•		•		•				•							
593	'Access to Healthcare': integrating a CSR programme in Coloplast					•										•		•	•	
600	Manchester United FC: competing with Europe's elite clubs	•	•			•		•												
608	Adnams: a living company					•	•	•	•	•						•		•		•
616	Widespace: managing growth and culture within a maturing technology venture						•	•	•			•				•				•
622	Ryanair: the low fares airline – 'always getting better'?	•	•	•					•	•	•		•	•			•			
633	Flight Centre Limited: competing to provide the lowest air fares							•	•	•	•	•					•			
639	Megabrew: creating an undisputed global brewing champion?								•	•	•		•							
651	AirAsia and the Tune Group: diversifying across industries								•	•		•						•	•	

PAGE NUMBER IN THE BOOK	CASES	Introduction to strategy	The macro-environment context	The industry and sector context	Resources and capabilities	Stakeholders and governance	History and culture	Strategy lenses	Business-level and models strategy	Corporate strategy and diversification	International strategy	Entrepreneurship and innovation	Mergers, acquisitions and alliances	Evaluating strategies	Strategy development	Organising	Leadership for strategic change	The practice of strategy	Public sector/not-for-profit management	Family or small business strategy
659	Severstal: growth and consolidation strategies in a turbulent global steel industry		●	●						● ●	● ●									
667	Indian Premier League: glitz, glamour and globalisation		●	●							● ● ●									
671	Handelsbanken: banking done differently						●				● ● ●								●	
680	Ningbo Smarter Logistics: innovating in partnership with IBM in China											● ●	● ●	●						
684	Leadership and Innovation at Apple Inc: entering the post-Jobs era						●						● ●				●	●		
690	All change at Teva						●			●	● ●		● ●							
695	Mondelēz International: 'Are you going to stick around, Irene?'					●				●	●		● ● ●							
705	CRH plc: leveraging corporate strategy for value creation and global leadership									● ●	●		● ●							
713	Evaluating the Mexican narco-trafficking problem					●			●	●				● ●					●	
722	Where should the beds go? Infrastructure planning in NHS England				●									● ●	●				● ●	
729	Strategic planning at King Faisal Hospital and Research Centre Saudi Arabia														● ●			● ●		
734	Mormor Magda's ice cream: can you be hot in a cool market?					●						●			●				●	●
739	Academies and free schools: the future of education?					●										● ●			● ●	
744	Siemens B: implementing the strategy														●	● ●	●	●		

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750	Paul Polman: turnaround and development of strategy at Unilever						●			●	●		●			●	●●			
758	Aurizon: managing change in a complex environment		●			●			●	●							●●		●●	
764	In the boardroom at HomeCo					●				●				●					●●	●

Key: ●● = major focus ● = important subsidiary focus

There are also available on the website 'classic cases' from previous editions of *Exploring Strategy*. These are summarised below:

CASES	Introduction to strategy	The environment	Strategic capability	Strategic purpose	Culture and strategy	Business level strategy	Directions and corporate level strategy	International strategy	Innovation and entrepreneurship	Mergers, acquisitions and alliances	Strategy evaluation	Strategy development processes	Organising for success	Managing strategic change	The practice of management	Public sector/not-for-profit management	Small business strategy
The Lego Group: adopting a strategic approach	●●																
Vodafone: developing communications strategy in the UK market		●●				●											
European Tour Operators: confronting competition in the tourism industry		●●						●									
A source of cheap energy or a source of problems – the potential benefits and costs of shale gas		●●														●	
Amazon.com 2007–early 2009			●●			●											
Inside **Dyson** – a distinctive company?			●●														
Sheffield Theatres: strategy formulation for a wide audience of public and commercial stakeholders				●●												●●	
(RED)				●●													
Iona				●●												●●	
Hermes Fund Management, Total and Premier Oil: the responsibility and accountability of business				●●													
Marks and Spencer (A): can new initiatives and new management reverse a decline?					●●												
Cultural Turnaround at **Club Med**					●●												
Cordia LLP: service reform in the public sector					●●												
Thorntons: a variety of strategies in the manufacture and retail of chocolates						●●											
Madonna: the reigning queen of pop						●●											
Marks and Spencer plc (C): where next for the icon of British retailing						●	●●										
News Corporation: corporate logic and corporate management in a worldwide media business							●●										

*Classic cases are available at **www.pearsoned.co.uk/johnson**

CASES	Introduction to strategy	The environment	Strategic capability	Strategic purpose	Culture and strategy	Business level strategy	Directions and corporate level strategy	International strategy	Innovation and entrepreneurship	Mergers, acquisitions and alliances	Strategy evaluation	Strategy development processes	Organising for success	Managing strategic change	The practice of management	Public sector/not-for-profit management	Small business strategy
Lenovo computers: East meets West								●									
Sustaining the magic of Bang & Olufsen					●	●		●		●		●		●			
Coopers Creek: developments in domestic and international collaboration for a New Zealand winery			●					●									●
Skype: innovator and entrepreneurs									●								
Eden Project (A): inspiration, innovation and entrepreneurship to create a new 'wonder of the world'									●								
Eden Project (B): latest developments in a successful tourist attraction									●								
Where's Irene and just exactly what is she up to? The acquisition of Cadbury plc by Kraft Foods 2010										●							
Police Mergers: are mergers the best way forward in tackling major crime?										●						●	
Alliance Boots: a major merger in the pharmaceutical distribution and retailing sector										●							
TNK-BP: from Russia without love - a joint venture that almost fell apart					●					●							
Final Fantasy captures Lara Croft										●							
International HIV/AIDS Alliance				●						●	●		●			●	
Doman Synthetic Fibres plc (B)			●								●						
Ericsson: innovation from the periphery – the development of mobile telephone systems												●					
Direct & Care: strategy development in the multi-stakeholder context of public sector services												●				●	
Hurricane Katrina: human made disaster?													●				
Arts Council: changes in structure and responsibilities in funding the arts in the UK													●			●	

CASES	Introduction to strategy	The environment	Strategic capability	Strategic purpose	Culture and strategy	Business level strategy	Directions and corporate level strategy	International strategy	Innovation and entrepreneurship	Mergers, acquisitions and alliances	Strategy evaluation	Strategy development processes	Organising for success	Managing strategic change	The practice of management	Public sector/not-for-profit management	Small business strategy
BBC: structural changes to deliver a better service													● ●			● ●	
Managing change at **Faslane**														● ●			
Marks and Spencer (B): turnaround at the high street legend														● ●			
Forestry Commission: from forestry management to service provider: the challenge of managing change					● ●									● ●			
UNHCR: managing change in a global not-for-profit organisations			● ●										● ●		● ●		
Ray Ozzie: software strategist														● ●			
NHS Direct: managing in difficult times																● ●	

*Classic cases are available at www.pearsoned.co.uk/johnson

7. *Exploring strategy* teachers' workshops

Each year since 1989, the authors have held one-day workshops for teachers who use *Exploring Strategy* or are considering doing so.

These have been practical days concerned with how teachers might gain most advantage from the book and the associated teaching/learning aids (illustrations, case studies, work assignments, video and website materials).

In addition, these annual workshops have provided a forum to meet with the authors and other strategy teachers and share experiences of teaching problems and their solutions. Users of the book are often invited to give presentations on particular cases they have developed or teaching or assessing solutions that have worked for them and might be of interest to others. Please contact richard.whittington@sbs.ox.ac.uk if you are interested in delivering such a presentation.

Further information about forthcoming workshops can be obtained from the publisher.

Introducing strategy

Introduction

The overall structure of *Exploring Strategy* has changed since the 10th edition and this is reflected in this introductory chapter. Most notably we now have two new chapters on environmental context, Chapter 2 on the macro context and Chapter 3 on industry context. This change is identified in Section 1.3. The Exploring Strategy Framework (Section 1.3.1). The other changes to this introductory chapter include an opening section that focuses on strategy through the eyes of a strategy executive in order to more closely link strategy to practice. There is a new section on 'The purpose of strategy: Mission, Vision, Values and Objectives' (1.2.2) and the previous section on 'The levels of Strategy' has been moved (1.2.4) and adjusted. There is also a new Illustration 1.1 (Tesla Motors: the future is electric!), the other illustrations have been updated and there is a new end-of-chapter case, 'The rise of a unicorn – Airbnb'.

Illustration 1.1

Tesla Motors: the future is electric!

Many students will be familiar with the distinctive electric cars of Tesla. They maybe not be so aware that it is part of an overall energy system vision. Anyway, the main purpose of this illustration is to introduce students to the range of issues that make up strategy. It touches directly on key topics introduced in this chapter, for example, strategic purpose (to offer the world a sustainable energy system); corporate-level strategy (moving from car manufacture to battery production for homes and businesses); and business level strategy (using disruptive technology). With respect to the specific questions:

1. **How does Tesla Motor's strategy fit with the various strategy definitions in Figure 1.1?**

   On the definitions of strategy: in terms of Figure 1.1, Tesla seems to be more Chandlerian than Mintzbergian with a clear determination of long run goals and objectives ('…which fits our overarching purpose to move from mine-and-burn hydrocarbons towards a sustainable solar electric economy'). It might be worth discussing whether this is typical of entrepreneurial start-ups than larger corporations and the pros and cons of this (a business plan can be pretty important to early-stage investors: see Chapter 10). At the same time, Tesla has a Porterian concern for using disruptive innovation to gain advantage in the car market. The theory behind Tesla's purpose of offering the world a sustainable energy system is not clearly articulated in the illustration. However, from Drucker's point of view it might be that burning hydrocarbons is causing global warming and the provision of an alternative sustainable and clean energy source will remove our carbon dependency ('we also provide zero emission electric power generation').

2. **What seems to account for Tesla's success?**

   Accounting for Tesla's success: on the Porterian principle, Tesla is clearly offering a different product to the rest of the industry with a high performance luxury, electric car priced competitively. Its follow on model is designed to be a higher unit volume car with

lower prices – again disrupting the car market. Its customers also value Tesla cars differently to other cars, as these products are attractive due to their sporting performance, zero emissions and free power. There is also no denying the important role that Elon Musk plays as a charismatic visionary as well as the enthusiasm of Tesla's other entrepreneurs.

Illustration 1.2

Strategy statements

An important point in this illustration is to show how strategy applies to widely different kinds of organisations – both a large technology company and a public university. Although the precise content of the two organisation's materials vary, they both cover the major issues involved in a strategy statement: goals, scope and advantages/capabilities.

1. **Construct short strategy statements covering the goals, scope and advantage of Samsung and the Southampton University. How much do the different private- and public-sector contexts matter?**

    Strategy statements for Samsung Electronics and Southampton University. Samsung is very clear about its goals ($400bn in revenue, and top five brand by 2020; note its vision – 'Inspire the World, Create the Future' – sounds more like a mission statement); its scope is clearly expanding, from mostly consumer electronics into health, medicine and biotechnology; and Samsung believes its competitive advantages lie in new technologies, innovative products, creative solutions and the brightest talent in the world.

    Southampton University has a very broad mission, to change the world for the better. Its goals are clear: to be in the top 10 (UK) and top 100 internationally. Its scope is research and education. In terms of distinctive capabilities it mentions innovation and enterprise and suggests that collegiality, internal quality controls, sustainability processes are important. It mentions important resources such as an alumni network , high quality staff and strategic partnerships but it is not clear if these are actually distinctive.

    On the face of it, there is not much difference between Samsung and Southampton: strategy statements – and strategy – are relevant to both private and public sectors. However, you might notice that Samsung features a financial goal (revenues), while Southampton prioritises a quality goal (a reptuation for world leading research, strong educational offering).

    It might be worthwhile challenging the claims to competitive advantage of both Samsung and Southampton. How unique are Samsung's competitive advantages (vis-à-vis Apple or HTC)? Does Southampton have very substantial competitive advantages over many other universities internationally (for instance, your own!)? Here one could refer forward to Chapter 4, and its discussion of valuable, rare, inimitable and non-substitutable resources.

2. **Construct a strategy statement for your own organisation (university, sports club or employer). What implications might this statement have for your particular course or department?**

    Strategy statements for students' own organisations. This may well surface the fact that some provide more public information than others, and are often vaguer about particular issues, especially sources of competitive advantage. You might encourage students to discuss the reasons for this. Clear statements of detailed strategy – competitive advantage, precise objectives and so on – are rather more difficult to construct than broad claims about

where organisations want to go. Asking students why they think this is the case should surface issues of the complexity of strategy development, competition and accountability.

Illustration 1.3

Strategists

This illustration is intended to reinforce the theme that strategy is something that students could get involved in personally – as a middle manager (Galina), as a strategy consultant (Chantal), a strategic planner – 'in-house strategy specialist' (Paul). All of these roles are further discussed in Chapter 16.

The two questions ask students to think about strategy in relation to their own education and careers. The references at the end of the chapter point them to the major consulting firms' websites and graduate employment website www.vault.com, all of which have an abundance of interesting and attractive material relating to strategy consulting in particular.

The three strategists also usefully raise concepts and techniques that appear later in the book. You might like to note particularly how Galina raises issues to do with the role of strategic planning versus emergence (Chapter 13), how Chantal talks of problem solving (Chapter 16) and Paul explains the importance of analysis (Chapters 2, 12 and 16) and stakeholder management (Chapter 5) in order to achieve strategic outcomes.

Assignment 1.1

Strategy statements

The purpose of this assignment is to get students to engage with strategy in real organisations. These could be their own university or – better, in order to get a range – their actual employer or a desired employer. Students should be told to expect that the extent of information is likely to be variable. Students could be asked to ponder why some organisations are more informative than others. Published strategy information is often particularly deficient in two areas:

- Details with regard to objectives: Vision and mission statements are common. However, organisations are often reluctant to reveal much about their detailed objectives both for fear of giving clues about their precise strategy to competitors and because they do not wish to be held tightly accountable should they fall short.

- Competitive advantages: Organisations often draw attention to various strengths or resources that they have, but they do not show how these actually constitute advantages over competitors. For example, many universities claim to have a long historical heritage, but they do not explain why this is actually an advantage in competition today or show how their heritage is really advantageous against other universities with similarly long histories.

It is useful to encourage students to be critical of the strategy information that is made available publicly. You might also alert them to the varying ways that organisations use the same term (e.g. vision and mission) in practice. Students ought to be aware of how strategy concepts often depart from the textbook in the real world.

Assignment 1.2

The Exploring Strategy Model

This assignment requires students to use Figure 1.3 as a guide to identifying the different elements in the strategy of an organisation. It can be very useful in terms of highlighting the scope of the subject and the organisation of the book.

The Airbnb case in the case section of the book is designed for this exercise and the teaching notes for the case studies later in this manual provide a guide to its use. Using the student's own university would be the basis for a more substantial piece of work, but would also reinforce the theme that strategy is close to home, and relates to the students' own lives. Likewise, a desired future employer would be an engaging assignment.

It might be helpful to provide students with a 'blank' version of the three circle model for them to fill in themselves.

Assignment 1.3

Strategy consultants

Reinforcing the message in Illustration 1.3 ('Strategists'), this assignment is intended to emphasise to students that strategy is not just for top managers or about the fate of big organisations. Strategy is a kind of work that they too could do. For many students, the attraction of courses such as marketing or human resource management is that they lead directly into a career. For strategy, that direct link to a job is often not so clear. This assignment asks them to consider what is attractive (and not so attractive) about strategy work in a strategy-consulting firm. It also encourages them to think about what they might need to do to get such work (typically a very high class of degree!).

Assignment 1.4

Strategic management by context

The aim of Assignment 1.4 is to help students understand that the elements of strategic management shown in Exhibit 1.4 are likely to differ somewhat between different types of organisation. This is raised in Illustration 1.2 of the text (Samsung and Southampton University). Students should be able to see differences in different contexts. Try to get them to consider this in terms of specific organisations they know; or from articles in the press on businesses and business problems; or from the case section of the book as suggested below. Some of the differences which should be identified might be the following:

A small business is typically heavily influenced by an individual (e.g. owner) or small group, so understanding the values and views of such *stakeholders* is vital. However, typically small firms also face important *strategic choices* about the basis upon which they compete (e.g. should they seek particular market niches?), how they configure scarce *resources* and maintain flexibility in strategic response. It can be useful to ask students to consider how these issues might change as businesses grow.

The complexity of a multinational business such as Kraft Foods in the Mondelez case or SABMiller in the Megabrew case will mean that global logistics and structure and control are important. However, the students should also see that other elements of strategy are also there; both organisations have portfolio strategic *choices* to make; they have had to integrate after *mergers* and manage disposals; they face differences of *culture* between parts of the company and in different countries; and need to determine ways to *control* their operations across the world.

The influences on strategy in a public sector organisation require the student to recognise the nature of public control and influence. A wide range of stakeholders is likely to be important in both the public sector and not-for-profits. Determining and planning the *allocation of resources* in a context in which different *stakeholders* have significant influence is a major issue, as in the King Faisal Hospital and in Academies and Free Schools.

Overall, students should understand that all the elements of strategic management are important in most organisations; but that the weighting between these elements may differ.

Case Example

The rise of a unicorn – Airbnb

This case is based on the meteoric rise of Airbnb, a service provider most students will know and many will have experienced. Yet, they are unlikely to have considered the strategic implications of this business. Below, these notes address the specific questions highlighted in the case example. However, it's worth considering some interesting features of the case that offer opportunities for wider discussion.

For instance it is interesting to consider i) the extent to which the Airbnb model can be copied ii) how sustainably the model is? iii) whether the model is not just a service offering but has an important social component - this raises issues around corporate purpose and sustainability that will be important to young managers in the future. These issues of the increasing importance of services, rapidly changing environments, sustainable developments and the importance of strategic choice will all be important to students own strategic management.

Sticking to the 35-word limit suggested by Collis and Rukstad in Section 1.2.3, what strategy statement would you propose for the Airbnb?

1. **Strategy Statement**

   Consideration of Section 1.2.3 reveals the following points of discussion:

   - In terms of the goals of Airbnb, these were not clearly articulated at the outset of the business, unlike Tesla in Illustration 1.1. However, they came to be connecting people seeking lodging with renters who have listed their personal properties on the Airbnb platform. As Airbnb has grown these goals have been refined to be providing a home to people anywhere and they now appear to be changing to include the entire travel experience.

   - The scope of Airbnb's activity has clearly changed in operational terms, reflecting their rapid growth. Initially, the founders stated they were just targeting conferences and festivals across America. However, the business soon outgrew just conferences and festivals. Airbnb then expanded geographically, and rapidly became global.

- Their advantage is providing easy to book, significantly cheaper accommodation than traditional providers in a very wide variety of locations. Their website allows rapid matching of buyers and sellers, and their steps to provide security to renting and letting parties has allowed a degree of trust to be built up with high levels of repeat business. Airbnb benefits from network effects so that the more users it attracts, the more successful the business. The case also makes a lot of the Airbnb culture as a distinctive feature of the company.

2. **'Three horizons' analysis**

   Consideration of Section 1.2.1 reveals the following points of discussion:

   - The core business of Airbnb is the matching of renters and letters for accommodation worldwide. At this point in time the business is still growing rapidly and there is no end in sight, so we cannot determine the end of horizon 1, however, new competitors are beginning to enter the market. As the market is global, and the potential is vast, this does not pose an immediate threat, but the website and capabilities upon which the business is based would not be so difficult to copy, suggesting that the growth rate may turn downwards at some point. As the nature of online businesses tends to be fast growth and, if the network advantage is not unassailable, fast decline, we must assume that the beginning of a slow-down in sales would mark the beginning of a steep decline (see Yahoo, for instance).

   - In terms of horizon 2, it seems that Airbnb is trying to broaden the scope of its offering, so that one is not just booking accommodation but a local experience. This enrichment of product offering, may help to tie in customers and would be harder to replicate by competitors. This could extend the life cycle of Airbnb if it builds customer loyalty.

   - A horizon 3 Airbnb is considering becoming a lifestyle brand business encompassing a wider set of products than just accommodation. The focus is on 'belonging' although it is not clear exactly what this might entail and whether it would really extend the strategic horizon.

3. **Environment, strategic capability, strategic purpose and culture**

   Consideration of Section 1.3.1 reveals the following points of discussion:

   - A wide range of environment issues emerges with opportunities such as new geographic territories, different types of property offerings and new social trends. Threats are also looming such as increased new competitors, local backlash from incumbents and regulatory constraints.

   - Issues such as the increasing legislation with the need for permits and potential tax charges are a threat to Airbnb and may present opportunity for competitors.

   - Airbnb has few physical resources, although the website is distinctive. Its brand is also well recognised although it remains to be seen if it is transferable to other services/products. It has developed useful capabilities including mechanisms for protecting clients and promoting properties for rental, although these are not distinctive to Airbnb. Airbnb's main advantage is its network that grows in importance with every additional client.

   - Strategic purpose has emerged overtime (see strategy statement) and now has clarity in terms of growing a successful model to its limits. However, the strategic purpose going forwards is less clear.

   - The early entrepreneurial culture of Airbnb clearly impacted on its ability to raise finance and for the company to take-off. Although the enthusiasm of the entrepreneurs

has been very important in terms of winning financial and market support for Airbnb, what is less clear is whether the culture that now exists can actually generate benefit for the business. One might argue that Airbnb does need entrepreneurial passion to create a driving vision for the third horizon, which is what the case is arguing for, although to consolidate its huge gains in the global property lettings market there could be a good argument for a different company culture.

4. **Alternative strategies**

Consideration of Section 1.3.2 reveals the following points of discussion:

- The case recognises Airbnb's phenomenal growth and does not see any immediate threat to its business strategy. However, competitors are now emerging and this will inevitably begin to reduce Airbnb's dominant position in its markets. Possible threats will be from different geographies with competitors better attuned to local tastes and also from core markets where competitors may better address specific profitable segments.

- Possible alternatives include growing the network even further to establish unassailable dominance – so local or more specialised competitors cannot build sufficiently large networks to be competitive.

- Continue to strengthen the brand so that its values are hard to imitate.

- Use brand to extend offerings into related products and services. Perhaps become a travel brand rather than just an accommodation brand. This would be closer to their core identity than a lifestyle brand. However, if they pursue the latter then they will need substantial investment to make it work.

- Continue to expand into new geographies.

- Continuing to build the network and strengthening the brand are important options but not to invest in these areas would leave the company to imitation. At the moment, the distinctive aspects of Airbnb are not so substantial that they could not be imitated. Therefore, the company also has to consider how to fund a substantial step change in investment and this is probably why they are currently discussing an IPO.

5. **Strategic thinking into action**

Consideration of Section 1.3.3 reveals the following points of discussion:

- Evaluation of the strategic options from above should reveal a number that are suitable, acceptable and feasible.

- Yet, their future strategic direction cannot be developed without substantial investment as the company is not generating large amounts of revenue.

- Airbnb strategy was originally emergent, and then planned, when they accessed external funding, and one could argue that they are now in a creative phase of exploring what they might do next.

- Leadership and change management may continue to come from the original founders although Airbnb funders will have a major say in what comes next.

- In terms of the work involved going forwards, Airbnb managers have a lot to do to communicate their vision for the future and to sell this vision to investors in order for the IPO to be successful. Assuming it works, Airbnb should then have sufficient funds to invest heavily in its next strategic direction.

PART I

The strategic position

Macro-environment analysis

Introduction

This is a new chapter, intended to help instructors develop a deeper approach on the part of students to environmental analysis. Some of the material (e.g. scenarios) is similar to that in the 10th edition's Chapter 2, but the key change here is a more extended and analytical approach to PESTEL. Every element of PESTEL now has its own analytical tool or concepts, encouraging a more critical and penetrating approach. The Figure in Illustration 2.1 provides a summary device that should help students come to an overall evaluation in their PESTEL analyses.

The focus here is on 'macro' elements of the environment. Chapter 3 now focuses on industries and sectors, including of course Porter's five forces analysis. Instructors should recognise that results of the industry and sector analysis can be fed back into the initial PESTEL analyses that students may have undertaken as part of any work related to this chapter. In other words, PESTEL is relevant to both Chapters 2 and 3. The same applies to scenario analysis.

Illustration 2.1

BP's PESTEL

This illustration introduces a new tool, as in the Figure, to assess the overall balance of threats and opportunities. BP's predicament in the face of declining oil prices and increased legal pressures to promote decarbonisation seems to stack the deck in favour of Threats. However, as just about always, there are opportunities too.

1. **In the light of this analysis, what strategic options would you advise a Western oil producer such as Shell or BP to consider?**

   The traditional oil industry seems set on long-term relative decline, principally because of legal pressures in favour of decarbonisation and declining car usage in the West (for instance, in the US). The causes of the oil price dip may partly be cyclical – something to address later in this chapter – but may also reflect these longer-term pressures. However, students will see opportunities: for example, in high growth markets such as India and Africa and in various kinds of diversification, whether in terms of methods (fracking) or actual fuels (non-carbon). It might be important to note the very different capabilities (Chapter 4) involved in these various kinds of diversification (see the Shale Gas case study in the Text and Cases edition) and also the size of African markets relative to, for instance, the US. Both developing markets and shale gas involve great political complexities (see Section 2.2.1). Technological opportunities for cost savings are liable to be very important in a toughening environment.

2. **Have the Opportunities and Threats changed since 2016? How would you update this analysis?**

   Writing the manual in 2016, this is hard to judge, but the question allows students to do some research in order to update the illustration. It may be useful to be particularly alert to

any (partial) recovery in the oil-price. The price does tend to be highly cyclical as a function of global economic growth, and could be a way of introducing the cyclical discussion in Section 2.2.2.

Students often worry about spill-overs between categories: for instance, decarbonisation could be considered under the Political and Ecological categories as well as the Legal one. This kind of spill-over is common and students should not be too concerned. PESTEL is a check-list: the important thing is to have checked under one category or another all possible kinds of opportunities and threats.

Illustration 2.2

Intelligence Unit 8200 and the small world of Israeli hi-tech

This illustration is intended to help students recognise the importance of organisational fields using network concepts such as density, hubs and brokers. It might even be useful to ask students to sketch a sociogram of Unit 8200's network (Figure 2.5).

1. **Identify at least one important hub and one important broker in the Unit 8200 network.**

   A hub is a particular organisation responsible for connecting many network members. Clearly the Unit itself occupies the most central hub position, but so too does the 8200 alumni association. A broker is a particular organisation that connects otherwise separate groups of organisations. The Advanced Technology Park at Be'er Sheva is an increasingly important broker, soon connecting Unit 8200 with Ben Gurion University, the National Cyber Bureau and many multinational technology companies. The venture capital firm JVP is another important broker.

2. **If you were a foreign cybersecurity company, what would you do to access Israel's expertise?**

   It would clearly be important to access the Unit 8200 network. You might recruit Unit alumni, locate in the Advanced Technology Park, acquire well-connected local companies, invest in the venture capital firm JVP and establish research collaborations with Ben Gurion University.

Illustration 2.3

Uber drives into trouble

The Uber taxi-hailing company has often run up against local regulations

This illustration addresses legal aspects of the environment specifically, but also raises political and technological issues. In this sense, it is a good example of how the various elements of PESTEL are liable to overlap – something for students to get comfortable with.

1. **Using the concept of 'varieties of capitalism', in which countries would you expect Uber to be most successful and in which less so?**

   Uber's freewheeling approach to innovation is likely to be most acceptable and successful in *liberal market economies* such as the United Kingdom, and possibly similar countries

such as Australia and Canada. *Coordinated market economies* are typically more hostile to overseas companies and more consensual and rule-bound: markets like Germany and Japan would, therefore, probably be harder for Uber to penetrate. *Developmental market economies* will tend to support local companies and regulate labour strictly: in economies such as China, Uber is likely to struggle. Indeed, in July 2016, after three years of trying, Uber sold its Chinese business to a local competitor, Didi Chuxing.

2. What are the costs and benefits of Uber's aggressive approach to growth?

Uber's aggression has helped the company expand rapidly internationally. In an industry where scale, reputation and network effects (Chapter 10) are going to be important, this will help Uber pre-empt competition in different countries and localities. Once a local competitor is established – and it is fairly easy to design a taxi-hailing app – it will be difficult to dislodge them. On the other hand, long-term Uber may need to get local politicians and other stakeholder groups onside. Its alienation of the Delhi authorities may lead to official favouritism benefiting the local competitor, Ola (especially given that India is a *developmental market economy*). There are already signs in various economies of a backlash, and of growing political will to impose regulations for consumer protection and worker rights. Having established its various market positions, there might be a case for Uber moderating its aggression and cooperating more with local authorities.

Illustration 2.4

Datatopia?

1. Which scenario would companies like Google and Facebook most desire and which would they most fear?

Society Inc. is likely to favour Google and Facebook, because they are well-placed to gather and exploit information, at the same time as having the capabilities to cope with regulation (unlike start-ups perhaps). *Sorcerer's Apprentice* would probably be satisfactory for them, but they would face challenges from new entrepreneurial companies. *Digital Wild West* is threatening as it would challenge the big companies' ability to gather and exploit information. *Datatopia* would empower consumers and producers information at the expense of big corporations who gather and aggregate information.

2. What are the implications of these scenarios for industries outside information technology, for example publishing and hotels?

Datatopia would favour publishing, as it would restore copyright protection. *Sorcerer's Apprentice* would allow hotels to tailor their services according to individual customers' needs and tastes, harvesting information from all the various technologies that they use. Under *Digital Wild West*, they might even charge fees not to pass on personal information they have learnt from hotel visits to other companies!

Thinking Differently

The crowdsourced forecast

Why might experts make bad forecasters in the case of (i) Presidential elections; (ii) new product developments?

Expert judgement is liable to both excessive detachment and excessive attachment. In Presidential elections, experts (middle-class, highly-educated and based in Washington or similar cosmopolitan cities) become too remote from ordinary voters to understand their true feelings. Voters may even hide their true feelings when asked or polled because they believe that the experts will disapprove of them. Experts are, therefore, liable to underestimate feelings that are different to those familiar to themselves. It was for this kind of reason that, in June 2016, many experts were surprised by the outcome of the United Kingdom's European Union referendum, which opted for so-called Brexit.

In the same way, detachment from the lives of many people may also encourage elitist experts to underestimate the markets for new products that are not appealing to their own tastes. Mencken's warning may be disagreeably expressed but is still apt: 'No one in this world … has ever lost money by underestimating the intelligence of the great masses of the plain people.' But another problem for experts in particular technologies or products is that their expertise may be too closely attached to the success (or failure) of those technologies or products. Experts are more likely to have vested interests than people who have not yet made any connection with the matter in hand.

Assignment 2.1

PESTEL analysis

PESTEL is a useful starting point for environmental analysis. Illustration 2.1 provides some initial guidance for students. In particular, the Figure is designed to encourage students to *take a view* (on the balance of positives and negatives) based on their analysis, rather than simply list forces and influences. A good follow-up question is to assess which of the forces are likely to be *most significant* in driving industry change. Students should justify their views in terms of the evidence from the past and the likely impact in the future of any particular influence.

For simplicity, it is sensible to guide students to do a PESTEL of a relatively undiversified business (like BP, BMW, Airbnb or Uber) rather than of a diversified conglomerate (like Google or General Electric).

Assignment 2.2

Political risk analysis

This could be very valuable for students as they will be forced often to challenge their unexamined assumptions about their countries of origin, and engage with the judgement of expert analysts about issues that they may take for granted. As in Thinking Differently, these experts can of course be wrong, but students will be obliged to assemble their own evidence to support their beliefs. Also, expert political risk analyses may be suddenly outdated, for example

by a change of oil price for many oil producing nations or by an unexpected election or referendum result (see the Brexit referendum above).

It might be wise to anticipate that some students may be reluctant to engage in objective political risk analysis of their own country (for example, of China, Egypt or Russia). It is, therefore, sensible to offer students a choice. It might also be sensible to set-out marking criteria that explicitly give more weight to the evidence provided than the final view about political risk.

Assignment 2.3

Forecasts

This assignment will help familiarise students with the key sources of economic forecasts, at the same time as cultivating a cautiously critical view of them. Note, while this may helpfully integrate any economics courses that students may have taken, it does not really require a formal training in macroeconomics. Everybody, regardless of training, should be able to have a stab at this assignment. Indeed, instructors might want to specifically warn students from being too technical in their economics.

Students should be able to tell differences between forecasts and outcomes from widely available statistical and media sources. Media sources – especially the *Economist*, the *Financial Times*, the *Wall Street Journal* or local equivalents – should be able to give some views on reasons for lower or higher growth than originally forecast. The question assumes a focus on world economic growth, but one could equally specify growth for a particular country or region (the suggested sources typically forecast for important countries and regions as well). Again, it might be wise to discourage a technical discussion of which reasons were most important for any difference between forecast and outcome: the point is to encourage awareness of the impact of economic cycles along with a critical approach to forecasts, not to train students to be macroeconomic forecasters themselves.

Assignment 2.4

Building scenarios

Guidelines for the construction of scenarios are given in Section 2.4. It is recommended that students follow these, building either two or four scenarios for a given industry. The work done in Assignment 2.1 on PESTEL should provide the bases of identifying the key forces or influences which will enable them to do this. Some of the problems of scenario building should be emphasised to students:

- Students may try to build in *too many factors* and, therefore, not be able to limit the number of scenarios. Identifying 'megatrends' may help here.

- They may find difficulty in generating scenarios with a *coherent* and compatible set of factors.

- Some may be wary of having to exercise *judgement*; and others will confuse judgement with hunch. Try to encourage a realistic debate that tests out assumptions and projections against known facts and trends.

A particularly useful exercise is to ask students to build scenarios for an industry for which the Text and Cases edition has a company case (or for their own industry/company if possible) and then to assess the company's strategic position in the light of the different scenarios (e.g. see the notes above on the brewing industry).

One of the issues that might surface is the ease or difficulty with which scenarios can be constructed. It usually emerges that scenarios are much easier to construct where the number of key forces at work in an industry is relatively few. They are less easy to construct if the number of important forces is high because the number of variables the student is trying to handle becomes too great.

This, in turn, raises another issue. Scenarios are of particular use in uncertain environments as a means of helping managers to think through possible futures. However, uncertainty may arise for a number of reasons. If uncertainty arises because of the unpredictability of a few forces, then arguably scenarios may be very helpful, but what if uncertainty arises primarily because there are a large number of forces at work: to what extent are scenarios of use in such circumstances? There are a limited number of very important forces at work in the brewing industry: but what of fast-moving hi-tech industries where there are many different forces at work?

Integrative assignment 2.5

Full analysis of an industry or a sector

This assignment would be a demanding research project over a significant part of the course. It is, however, a very good test of students' ability to apply tools to real data appropriately, as well as developing their research skills. Students will see it as practical and, if allowed a choice of sectors, relevant to their own interests.

Good research resources are essential. As well as free web-based resources such as company reports, trade association statistics and some government or supra-governmental (EU, UN) reports and statistics, students would likely need limited-access resources such as the business press and journals available through Business Source Premier, Factiva or Proquest and reports from organisations such as Euromonitor and Mintel. Your institution's librarian will advise you on what is available to students and how proficient they are likely to be in using such sources.

You would also want to guide students on which industries or sectors to choose. Very broad industries – for example, the world airline industry – are likely to overwhelm students with data. It might be helpful to encourage focus – for example, the airline industry in India, or similar.

Industry focus also reduces the risk of plagiarism. There are many student assignments of a similar nature available for a fee on the web, and it would definitely be wise to avoid allowing students to research the same industries in successive years. Requiring a specific focus on particular themes (e.g. internationalisation) or some less common concepts (e.g. the strategy canvas, cycles of competition, etc.) can also reduce plagiarism. Insisting on precisely citing sources for key data and points (through an end-note system or similar) makes simple plagiarism harder too, as well as being good practice: lots of out-of-date references might indicate plagiarism.

If allowed, students will find very helpful a couple of example assignments from previous years to guide them roughly on what they are supposed to do. A report length limit of around 2,000–

2,500 words would encourage students to focus on what is really important. Requiring an 'executive summary' would also force students to consider what is really important and what are the key implications.

Over a two semester course, this assignment could be stage one of a two-part assessment regime; the second semester could have as an assignment asking students to consider implications of the first part for the strategy of a particular company in the original industry or sector.

Case Example

Alibaba – the Yangtze River Crocodile

This case focuses on PESTEL, and could also provide a good way of introducing a discussion of politics, social networks and technological forces in particular. This might be a good opportunity to draw on the knowledge of any Chinese students in your classroom.

1. **Carry out a PESTEL analysis of Alibaba at the time of the case. Evaluate the balance of opportunities and threats, using same kind of figure as in Illustration 2.1.**

    A basic PESTEL figure is below. Although there are many positive opportunities in the Macro-environment, there are also many threats. It might be worth observing how many of these opportunities and threats are tied to state policy, not exclusively just under the Politics category: for example, the state's policies regarding supporting ecommerce and moving away from heavy industries are positive, but the anti-corruption campaigns and the anti-forgery investigations are potentially negative. The issue of growing competition may be more fully explored after students tackle Chapter 3, but JD.com appears better placed to tackle the technological threat of a shift to mobile commerce. Overall, this analysis would suggest that the balance of opportunities and threats is turning more negative for Alibaba.

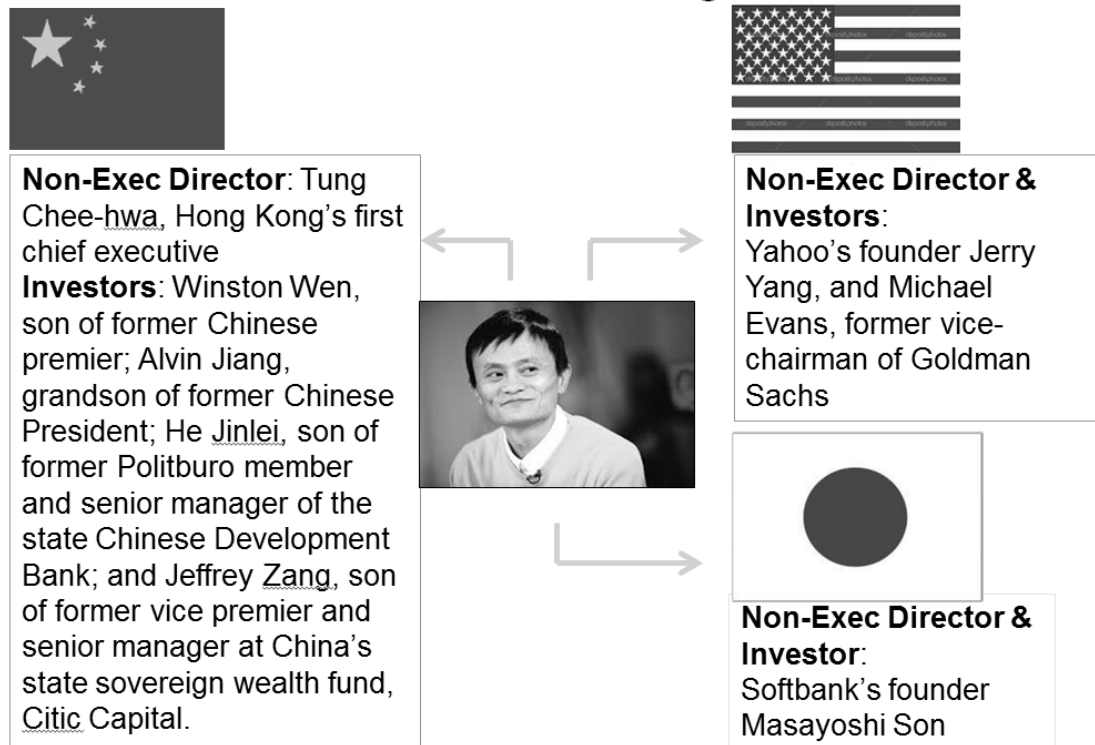| Opportunities		Threats
Sector support	**P**	Anti-corruption campaign
	E	Chinese economic slowdown
Strong networks	**S**	Chinese aging demographics
	T	Shift to mobile commerce
Shift v heavy industry	**E**	
	L	Anti-forgery investigations

2. **Draw a basic sociogram of Alibaba's network (see Section 2.2.3 and Figure 2.5). Explain why this network may be useful.**

A basic sociogram is offered below. A much more sophisticated one is available in the *New York Times*, September 6, 2014. What will be immediately apparent from this sociogram is the international connections enjoyed by Alibaba under Jack Ma, pictured in the middle: he is well-connected in China, Japan and the United States. It is noticeable that these connections are not just business connections but also political.

This network is useful because it may help Alibaba deal with political threats, a growing issue in the PESTEL analysis above. Connections with leading investment bank Goldman Sachs ('the squid') will help with access to capital markets in the United States, possible acquisition opportunities, political contacts and favours, as well as general market access. Softbank and Yahoo may help with connections to latest Japanese and American technological and consumer trends, though very likely links with the second company are a declining asset. A good question to ask is the extent to which these kinds of connections might be important for example in Russia and Brazil, where they are growing fast but so far do not seem to have made the equivalent links.

Basic Alibaba Sociogram

Non-Exec Director: Tung Chee-hwa, Hong Kong's first chief executive
Investors: Winston Wen, son of former Chinese premier; Alvin Jiang, grandson of former Chinese President; He Jinlei, son of former Politburo member and senior manager of the state Chinese Development Bank; and Jeffrey Zang, son of former vice premier and senior manager at China's state sovereign wealth fund, Citic Capital.

Non-Exec Director & Investors:
Yahoo's founder Jerry Yang, and Michael Evans, former vice-chairman of Goldman Sachs

Non-Exec Director & Investor:
Softbank's founder Masayoshi Son

Industry and sector analysis

Introduction

This chapter has been re-written and is now entirely focused on industry and sector analysis. Porter's five forces analysis remains the core of the chapter, but it has been extended and more comprehensive discussions of complementors and network effects have also been included.

Illustration 3.1

Busted banking barriers?

Entry barriers into the banking industry have traditionally been unusually strong and this industry thus allows one to illustrate all five important entry barriers discussed in Section 3.2.2. The first question requires students to make a careful analysis of the strong barriers to entry into banking. The second question extends the illustration and focuses on what is labelled *strategic barriers* in the illustration. They include keeping or driving out competitors out and students are asked to reflect over ethical considerations in relation this type of strategic behaviour.

1. **Evaluate the strengths of the banking industry's entry barriers according to Porter's criteria.**

    Here students should make a step by step analysis of all the entry barriers into the banking industry. However, as with five force generally, it is important they carefully justify their analysis and provide clear conclusions. They should clearly motivate *why* a particular entry barrier is of importance and *how*. A common mistake in five force analysis is to make more or less thoughtful lists of five force sub-factors without carefully analysing their impact on the industry and its various competitors. Banks have grown, often by acquisitions, into mega entities and today huge *scale and experience* barriers protect banks from new entrants. The market structure in many markets is categorised by an oligopoly situation with reduced competition. Banks have also vertically integrated to take control over not only *distribution*, but also *supply channels*, for example of mutual funds. They have fiercely *retaliated* when new entrants have managed to enter often by acquiring them. Although *government action* lately has aimed at increasing competition as indicated in the illustration this has been preceded by several years of legislation that rather have increased entry barriers by increasing capital requirements, which has implied even larger bank entities. Finally, banks often have *incumbency advantages* based on their brands, government relations and IT infrastructure.

2. **How would you evaluate the ethical behaviour of banks trying to keep competition out?**

    Question 2 extends the illustration by asking students to think about ethical considerations in relation to the five forces and strategy more generally. The *strategic barriers* mentioned in the illustration include competitors deliberately trying to reduce competition by different means. To what extent can this kind of strategic behaviour be defended in the pursuit of an improved competitive position? This question is especially pertinent in the banking industry as its ethical standards have been questioned repeatedly during the last few years. It should also be considered that higher standards of ethical behaviour and a more significant contribution to society are increasingly expected from companies today (see Chapter 5). It's simply no longer enough to supply products and make money for

shareholders, companies, including banks, need also to have high ethical and sustainability standards and contribute to society more broadly. In fact, this is increasingly expected by large institutional shareholders like government retirement funds and the like.

Illustration 3.2

Facebook's network fears

Network effects' have probably become the most ubiquitous phrase used in relation to online businesses and Facebook's strategy is centrally focused on them. There are network effects in an industry when one customer of a product or service has a positive effect on the value of that product for other customers. Even though most industries aren't subject to them they can make an industry highly structurally attractive with high barriers to entry, low intensity of rivalry and strong power over buyers (as entrants and rivals can't compete with competitors' larger networks when buyers become locked into them). If network effects are present in an industry they thus need to be carefully considered in addition to the five forces when trying to understand industry structure and strategic positioning. The questions for this illustration encourages students to consider what network effects are and think about how the students' own and their friends' decisions in choosing social media networks are part of them.

1. **Why are network effects important for Facebook? Would you switch to another social network if it had better features even if it was considerably smaller?**

    Here students need to specify what exact network effects Facebook builds on and why they are so important for the company and how this is related to the students' own decisions when choosing social media networks. A new social media network or platform may include cool features that attract some students. However, if none or very few of their friends use them and they thus can't communicate with them via the network it's doubtful they would choose them over Facebook. The more customers that use Facebook the better for everyone in the network of users or put simply: more users = more value users. The value of Facebook thus increases for a user when the network of users grows as this implies a larger number of friends, messages, updates, photos, videos, etc. Cooler, but smaller social media networks may thus not be threatening for Facebook if they don't attract enough users.

2. **What other social media networks and apps do you use that you think could beat Facebook? Why?**

    Students are likely to mention a range of social media platforms, for example Snapchat, but they need to think carefully to what extent these can build on network effects to beat Facebook. The reason why network effects have become something of a holy grail for online businesses is the possibility for a single company to become the first to build and thrive on them and thus get ahead of competitors. While Facebook currently is in the lead the illustration shows that several other social networking sites preceded Facebook and it's not unconceivable that Facebook one day will face a superior social media platform. To stay ahead, Facebook thus must continuously update and improve their services and ensure that users' switching costs are sufficiently high to lock them into their particular service. Whatsapp and Instagram could have threatened Facebook as they increasingly attracted more teenage users, but they were acquired by Facebook. As Facebook has faced continued declines in engagement among its teenage users they also tried to acquire Snapchat for $3 billion in 2013, but the founders declined. In brief, students should consider the attractiveness of the social media network or app and their potential for growth and thus network effects.

Illustration 3.3

Steps in an industry analysis

This illustration emphasises that industry analysis is something more comprehensive than a quick five force overview. Too often students make quite thin and weak five force analyses including simple descriptions and lists of factors that may or may not influence industry attractiveness and competitive strategy in the industry. Some steps in an industry analysis may even be ignored, like defining the industry clearly (step 1), determining the strength of each force (step 3), assessing possible changes in the five forces (step 5) and drawing final conclusions (step 5 and 6). The first question thus invites students to make a proper industry analysis step by step. They are forced to think carefully about important industry forces and factors. Students should have some insights into the coffee shop industry and it provides a fairly easy-to-understand case of industry analysis. The second question turns to the primary aim of the five force analysis, helping organisations and companies to understand their competitive position and what strategy to pursue. Surprisingly, this last step in industry and five force analyses is often ignored altogether.

1. **Help Emily and go through each step above. Answer the questions and make a complete analysis. What is your assessment of the industry?**

   The first question can simply be approached by making an industry analysis of the coffee shop industry. It's important that students cover all five first steps as indicated in the illustration and not only step 3 including the five force analysis (step 6 is considered in Question 2 below). The five force analysis can be summarised using the plot device introduced in Figure 3.5. The radar-plot might look roughly such as the following:
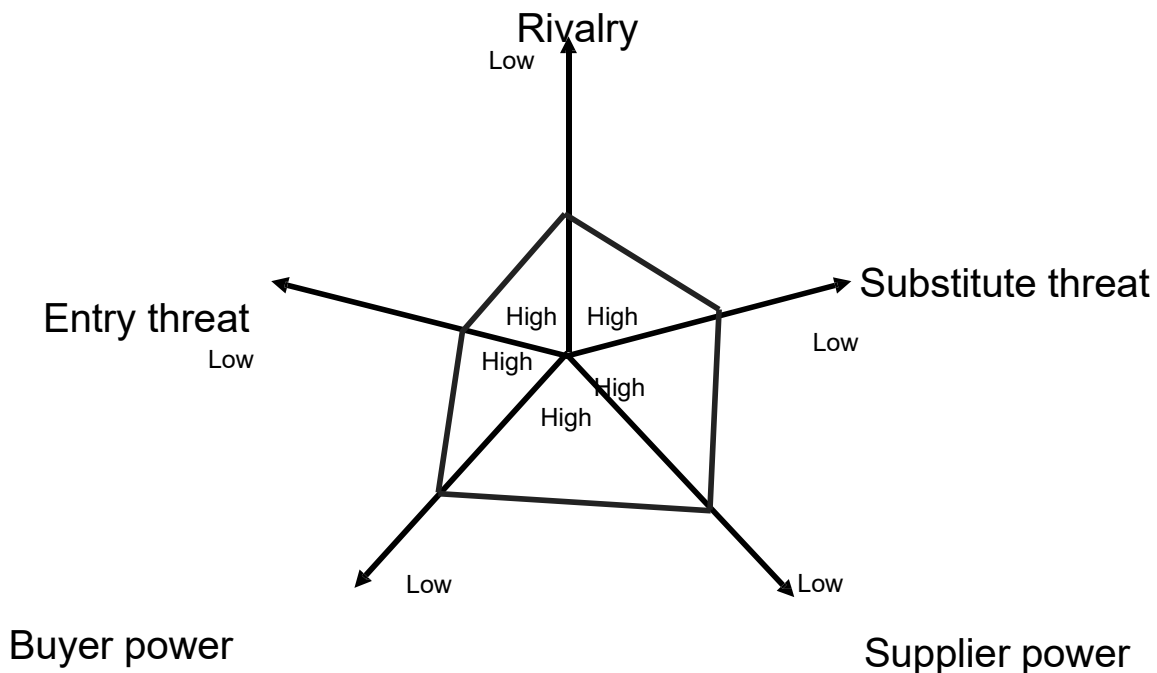
2. **Based on your analysis: How should Emily handle the different forces? What strategic options should she consider?**

This question emphasises what the ultimate aim of an industry and five force analysis really is: to assist organisations or individual entrepreneurs like Emily in formulating and developing strategy. There are several strong competitive forces in this industry some of which Emily possibly could influence or at least avoid, but others would be more difficult for Emily to do something about. Forces that are somewhat weaker present an opportunity for Emily to exploit to her advantage. Students should be invited to propose different strategic options and strategies, but be required to carefully motivate how they handle each of the competitive forces and any potential change in them. While students are likely to suggest a whole range of strategies the most feasible ones are likely to involve some type of differentiation (see Chapter 7) to neutralise the rather strong entry and rivalry forces. The most challenging aspect of the supplier force is access to good locations as rents at the most attractive sites are likely to be high. Even though customers are quite strong based on the wide range of coffee shops to choose from in rural areas they are not too price sensitive and they can be attracted by a differentiated concept.

Illustration 3.4

Consolidation across the UK charity and public sectors

The aim of this illustration, of course, is to show that industry structure analysis is relevant to not-for-profits and the public sector as well. Indeed, charities appear ruthlessly competitive and the public sector too risk developing multiple entities that perform similar activities and indeed compete with each other.

1. **How would you describe the current charity industry structure? How could it change if consolidation increases and what would be the benefits and disadvantages?**

The first question encourages students to think about the current industry or sector structure and how it possibly could improve. Currently, it can be described as highly fragmented and competitive. While the mergers and increasing concentration levels imply growing industry consolidation it is far from a consolidated structure. The largest charities are growing fastest through mergers and acquisitions and there may be widespread advantages to the sector moving towards a more oligopolistic situation.

2. **Which of Porter's five forces are creating problems for the UK's charity sector?**

The second question points to at least three of the Porterian forces as causing problems:

(i) There are low barriers to entry, with 'constant refreshment' of the industry by new charities.

(ii) There is strong buying power on the part of local authorities commissioning services.

(iii) There is intense rivalry because of the number of competitors and tendency towards overlap and duplication of charitable services. In addition, they face substitutes in the form of local authorities and other agencies performing services in-house, but at this point the trend in that respect was in their favour. The suppliers of funds – donors – have many alternative charities to give to.

Thinking Differently

From five forces to one

Porter's five competitive forces framework has sometimes been criticised for focusing too much on competition and not taking value creation into consideration. This Thinking Differently is based on a *Harvard Business Review* article based on game theory that rather has value creation as the point of departure for competitive analysis (M. D. Ryall, 'The new dynamics of competition', *Harvard Business Review*, 91(60), 2013, 80–87). The question invites students to think carefully about how this emerging view differs from Porter's:

How would you compare the 'value capture model' with Porter's five forces when making an industry analysis? What's the benefits and drawback of each?

Most obviously the difference relates to what was mentioned above: the primary focus on competition in Porters view and the emphasis on value creation in this alternative view. The question, however, requires students to engage more deeply with the objective of an industry analysis. Is it more defensive in trying to keep entrants and competitors out and buyers and suppliers weak as in Porters framework or is it to identify opportunities to create more value as in the 'value capture model'? There may also be ethical considerations to consider here – what perspective is more legitimate, trying to make other actors (entrants, competitors, buyers and suppliers) weaker as in Porters view or trying to generate a higher value together with those? While this illustrates the potential drawback with the Porter framework one of its primary benefits is of course its intuitive appeal and relative easiness to apply (indeed, that is why it has become one of the most popular strategy tools!). The benefits of the 'value capture model' should be clear from the above – a changed perspective with the primary focus on value creation and how value can be created together with other actors, but also incorporating what actor that can appropriate most value from this. One clear drawback compared to the five forces is the lack of a clear and easily applied framework for applying this model in practice, something that also is acknowledged in the *Harvard Business Review* article.

Assignment 3.1

Five competitive forces

Five forces analysis is an absolutely fundamental technique in strategy. Section 3.2 should give students the ability to carry out a basic five forces analysis of any industry. They should be encouraged to consider all of the elements of each of the five forces; so, for example, under barriers to entry, scale and experience effects, channels, retaliation and so on. The radar-plot technique of Figure 3.5 should only be used as a summary *once* the full analysis is complete; the danger is of it being used to short-circuit the analysis. Students should be expected to do more than simply list elements; they should clearly identify the implications (positive or negative) of each. The second question about conclusions for industry attractiveness should underline the importance of drawing out implications, rather than just listing.

Assignment 3.2

Network effects

Network effects are often considered a demand or buyer side economies of scale and is present when one customer of a product or service has a positive effect on the value of that product or service for other customers. Students are here invited to choose an industry that they think involve network effects and thus need to think carefully if it is the case that the more customers that use the core service or product in the industry the better for everyone in the network of users (hence, more users = more value for users). Students are likely to choose various social media networks like Facebook described in Illustration 3.2 or other online businesses. Besides in online businesses, however, network effects are especially prominent in software and hardware industries and in businesses where platforms play an important role, like the video console gaming industry.

One online business example is online auction sites as the value of this service increases for a customer and user as the network of other sellers and buyers grows. eBay in the online auction industry has built their strategy on these network effects. They got an early start and attracted a large network of sellers and buyers and today the amount of goods on their site surpasses any competitor, which makes their service more attractive compared to others. However, to stay ahead, eBay, and others that build on network effects like Airbnb and Uber, must continuously update their services and ensure that customers' switching costs are sufficiently high to lock them into their particular service.

Assignment 3.3

Comparisons between industries and over time

This assignment allows students to build on Assignment 3.1 in order to consider the investment implications of differences between industries and change over time. The assignment is a substantial one if relying on students' own research. However, time can be saved if two case studies are used (e.g. pharmaceuticals or brewing, perhaps looking backwards at change over the past three to five years, rather than change in the future). Similarly, students may save time by using the radar-plot technique (Figure 3.5), as in the discussion of Illustration 3.3.

It is important to note the two follow-up questions. Explicitly asking for justification helps students avoid the superficial analysis which is easy to do with five forces. Asking the question about investment helps students think about concrete implications, again something that five forces analyses often neglect. By looking over time, students will learn to be cautious about investing in industries with declining attractiveness. By comparing industries, students can also consider industry attractiveness in their diversification decisions, an issue picked up in Chapter 8.

At the same time, it is worth countering the implications of five forces analysis with two thoughts:

- Industries that are highly attractive are likely to have high barriers to entry, so the costs of entry may outweigh the benefits of entering.

- An industry that is becoming relatively unattractive may be neglected by competitors, and, if you enjoy a strong competitive advantage in that industry, it may still be a source of profit to you.

Assignment 3.4

Strategic groups

This assignment builds on the notion of strategic groups and strategic space outlined in Section 3.4.1 in the text. Figure 3.6 provides an example of how the exercise could be carried out. This could, for example, be applied to the advertising industry:

- Key strategic dimensions might come under either of the scope or resource commitment characteristics in Section 3.4.1 – for example, product range or extent of vertical integration. Possible key strategic dimensions in the advertising industry might include geographical coverage, diversification, size of firm, degree of creativity and so on.

- Students are encouraged to draw more than one strategic group map if they believe that more than two dimensions are important. It is useful to ask them to consider the extent to which different bases of such maps give rise to similar or different configurations. They might find, for example, that however the maps are drawn up, some companies always tend to end up in the same groups. In other words, some companies may have a very similar set of strategic characteristics along *many* dimensions.

- Students are asked to examine the strategic group maps to see if there are any under-populated 'white spaces' in the industry. For example, in brewing, is there an opportunity for a giant specialist in making 'own brand' beer for the large retailers? However, students should assess carefully *why* there are few competitors in any such white spaces. White spaces can often turn out to be dangerous 'black holes' rather than attractive opportunities.

Assignment 3.5

Critical success factors and the strategy canvas

It is very likely that students will concentrate on success factors that are salient to them as consumers – for example, the product ranges of a clothing retailer. Less visible elements, such as ownership by a diversified parent company, may be neglected. However, for a short assignment, this need not matter too much: the essence is comparison in order to identify areas of (potential) competitive advantage. The key insight of a strategy canvas is to encourage competitors to compete where it is relatively easy to secure a significant advantage (Blue Ocean), and not necessarily to compete fiercely over the top-rated success factors if advantage can only be obtained at very considerable cost (Red Ocean). You can introduce less visible, but strategically significant elements after they have done their basic analysis.

Integrative assignment 3.6

Full analysis of an industry or a sector

This assignment would be a demanding research project over a significant part of the course. It is, however, a very good test of students' ability to apply tools to real data appropriately, as well as developing their research skills. Students will see it as practical and, if allowed a choice of sectors, relevant to their own interests.

Good research resources are essential. As well as free web-based resources such as company reports, trade association statistics and some government or supra-governmental (EU, UN) reports and statistics, students would likely need limited-access resources such as the business press and journals available through Business Source Premier, Factiva or Proquest, and reports from organisations such as Euromonitor, Key Notes and Mintel. Your institution's librarian will advise you on what is available to students and how proficient they are likely to be in using such sources.

You would also want to guide students on which industries or sectors to choose. Very broad industries – for example, the world airline industry – are likely to overwhelm students with data. It might be helpful to encourage focus – for example, the airline industry in India, or similar.

Industry focus also reduces the risk of plagiarism. There are many student assignments of a similar nature available for a fee on the web, and it would definitely be wise to avoid allowing students to research the same industries in successive years. Requiring a specific focus on particular themes (e.g. internationalisation) or some less common concepts (e.g. the strategy canvas, cycles of competition, etc.) can also reduce plagiarism. Insisting on precisely citing sources for key data and points (through an end-note system or similar) makes simple plagiarism harder too, as well as being good practice: lots of out-of-date references might indicate plagiarism.

If allowed, students will find very helpful a couple of example assignments from previous years to guide them roughly on what they are supposed to do. A report length limit of around 2,000–2,500 words would encourage students to focus on what is really important. Requiring an 'executive summary' would also force students to consider what is really important and what are the key implications.

Over a two semester course, this assignment could be stage one of a two-part assessment regime; the second semester could have as an assignment asking students to consider implications of the first part for the strategy of a particular company in the original industry or sector.

Case Example

Global forces and the advertising industry

The case on the advertising industry focuses on the key techniques of Porter's five forces and complementors. The Strategy Experience simulation (http://www.mystrategylab.com/strategy-experience) further explores strategic issues in this industry.

This teaching note is focussed on the key techniques introduced in Chapter 3 for undertaking an Industry and Sector Analysis of the Advertising Industry. The analysis should enable students to:

- assess the attractiveness of this industry, competitive rivalry and profit potential;

- consider the basis for building competitive advantage in this industry and strategies that will deliver sustainable advantage in an industry undergoing such radical change by influencing the five forces.

1. **Carry out a five forces analysis of the advertising industry in 2015. What is the strength of the five forces and what underlying factors drive them? What is the industry attractiveness?**

   Five forces:

   With the five forces analysis, it is beneficial to draw students out on the 'so what' question on their analysis.

   Buyers: The Top 100 advertisers globally account for nearly 50% of measured advertising. Emergence of the new trends in advertising agency remuneration driven by major FMCG companies such as Unilever and Procter & Gamble who are re-negotiating accepted advertising agency remuneration structures which require advertising agencies to share risk and success of their advertising campaigns created on behalf of their clients.

   Suppliers: Major advertising agencies have the power to use contracts to lock-in specialist suppliers with specialist knowledge to help differentiate their offering on an exclusive basis. Small- and medium-sized agencies have to compete for these suppliers. Google is a potential supplier to advertising agencies, but is also a potential substitute.

   Substitutes: Google and other search companies compete for a share of the marketing budget targeted by advertising agencies. In the case, it is pointed out that WPP the world's largest advertising agency sees Google as both a supplier ('friend') and a competitor ('enemy') and coined the term 'frenemy' for its relationship with Google.

   The five forces framework should be used with care and is not necessarily complete in itself. Some industries have used the identification of a '6th force' in the analysis: organisations that are **complementors** rather than simple competitors. So a key question in the advertising industry is: are search companies such as Google complementors, suppliers or competitors to advertising agencies? Where Google is used by advertising agencies as a 'media company' it can be viewed as a supplier and possibly a complementor if data is shared to 'add value' for strategic insight/foresight to the advertising agencies' offering. Where Google is used by clients of advertising agencies and does not give the agency complete access to search data analytics (as has been pointed out by WPP), Google could be regarded as a competitor or substitute. However, Google could be seen as a complementarity organisation if the relationship is open and mutually beneficial, i.e. friend.

   Similarly, social media can be seen as acting as advertising substitutes, with the powerful word-of-mouth effect of Twitter, Facebook and SMS messaging replacing traditional media in advertising terms.

   New entrants: Technologically focused 'digital' agencies are taking more advertising budget away from 'traditional' media focused agencies. There are different levels of response from advertising agencies, depending on their size and access to capital for

acquisitions. Besides search and social media companies, phone companies could emerge as a potential new entrant by creating their own marketing medium as technologies converge.

Rivalry: Lower advertising budgets in Western Europe and North America; new technology-based entrants, increase the scope for rivalry. However, sector expertise and creativity can mitigate price-competition. The larger global players are consolidating into multi-discipline conglomerates by buying emerging specialist companies, for example WPP's acquisition of digital agency AKQA. It might be useful to ask students to compare how smaller and mid-sized agencies compete with the top five global players. Smaller and mid-sized agencies must have specialist sector knowledge or specialist knowledge in order to compete. Among the mid-sized to smaller agencies, the emergence of price competition.

Industry Attractiveness: The ultimate aim of a five forces analysis and the fundamental question at its conclusion should typically be: is the industry attractive, in the sense of offering profit opportunities? It is easy to be down about the advertising industry. However, Table 2 indicates pretty good profit margins for the major players. It is also instructive to check the advertising industry or media industry (of which advertising is a large part) stock-market indices, as against the market as a whole. Over the five years to 2015, US advertising agencies tended to outperform the New York Stock Exchange as a whole. This indicates that investors at least regard it as a relatively attractive industry, with good future profit potential. It is fairly easy to get free online updates on the advertising sectoral indices through BigCharts.com or FinancialContent.com, and similar. This would be a useful student exercise.

2. **What are the changes in the industry? Which forces are becoming more negative or positive for the major advertising agencies?**

   As can be seen from the case, **rivalry** has intensified with the development of new technologies, and the resultant emergence of search and social media as potential advertising media **substitutes.** Plus **buyers,** the clients of major advertising agencies, have put pressure on advertising agencies to accept a different remuneration model which has impacted on revenues and margins.

   In order to counter these negative forces, major advertising agencies with the capital available have acquired smaller emerging **rivals** and **suppliers** as a response in order to differentiate themselves from their competitors by being able to offer a wider range of specialist advertising and marketing services.

   On the positive side, the holding company model offers a continued degree of flexibility and specialisation within individual agencies – the 'unbundling' of services – as clients demand more services in specialist channels in non-traditional areas and online, while being able to keep a global client's overall spend within a single overall set of agencies. Unbundling may signal the structural end of the older-style 'one-stop-shop' agency, but it is also an indication of the increasing complexity of advertising offerings and the advertising value chain – stretching across holding companies, advertising agencies, media agencies and marketing services.

   The rise of the global holding companies is a solution to grasp some of the positives of globalisation and convergence, while creating enough scale to serve global company needs effectively.

   It has also forced the advertising industry to develop new business models and to go beyond advertising to focus on consumer-centric marketing tactics.