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1. Introduction

Welcome to the Basics of Strategic Management!
Strategic Management is all about identification and description of the strategies that managers can carry to achieve better performance and a competitive advantage for their organization.

Strategic management can also be defined as a bundle of decisions and acts which a manager undertakes and which decides the result of the firm's performance. The manager must have a thorough knowledge and analysis of the general and competitive environment so as to make the right decisions. Strategic management is nothing but planning for both predictable as well as unfeasible contingencies. It is applicable to both small as well as large organizations as even the smallest organization face competition and, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage.

Strategic management is the management of an organization's resources to achieve its goals and objectives.

Strategic management is a **continuous process** that evaluates and controls the business and the industries in which an organization is involved; evaluates its competitors and sets goals and strategies to meet all existing and potential competitors; and then reevaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

Following are the most important concepts and tools of strategic management.

2. Strategy

What is a strategy and why is a strategy so important? What is strategic management? And what is a competitive advantage? In this chapter, we will discuss these strategy basics that are needed to understand and use modern strategic management tools.

Defining “Strategy”

The word “strategy” is derived from the Greek word “stratçgos” – a combination of stratus (meaning army) and “ago” (meaning leading/moving).
A **strategy** is an action that managers take to attain one or more of the organization’s goals. Strategy can also be defined as a general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process.

A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives. While planning a strategy it is essential to consider that decisions are not taken in a vacuum and that any action taken by a firm is likely to be met by a reaction from those affected: competitors, customers, employees or suppliers.

Strategy can also be defined as knowledge of the goals, the uncertainty of events and the need to take into consideration the likely or actual behavior of others. Strategy is the blueprint of decisions in an organization that shows its objectives and goals, reduces the key policies, and plans for achieving these goals, and defines the business the company is to carry on, the type of economic and human organization it wants to be, and the contribution it plans to make to its shareholders, customers, and society at large.

But why is a strategy so important?

- A strategy is significant because it is not possible to foresee the future. Without perfect foresight, firms must be ready to deal with the uncertain events which constitute the business environment.
- A strategy deals with long term developments rather than routine operations, i.e. it deals with the probability of innovations or new products, new methods of productions, or new markets to be developed in the future.
- A strategy is created to take into account the probable behavior of customers and competitors. Strategies dealing with employees will predict employee behavior.

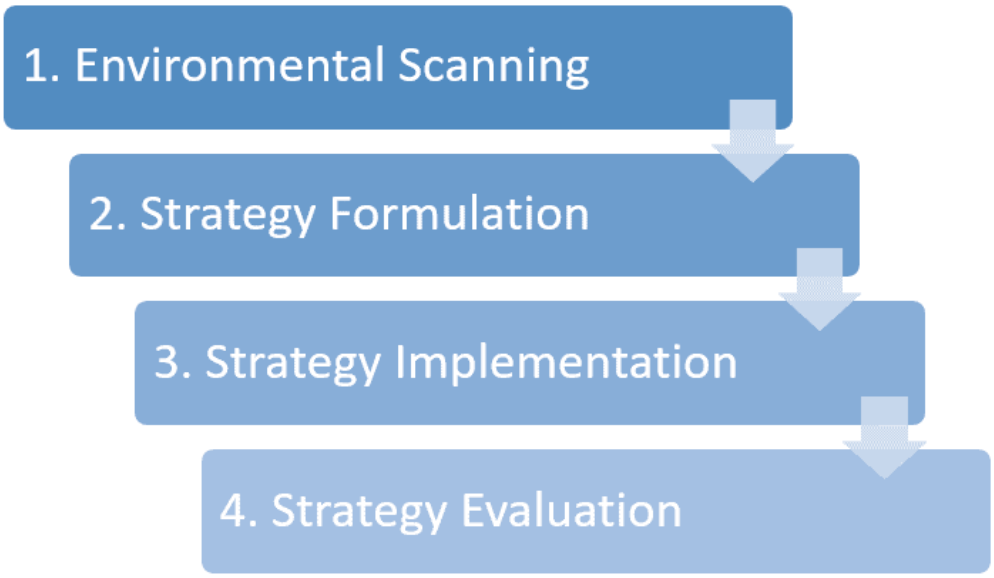
A strategy is a well-defined road map of an organization. It defines the overall mission, vision and direction of an organization. The objective of a strategy is to maximize an organization's strengths and to minimize the strengths of the competitors. Strategy, in short, is the link between "where we are" and "where we want to be".

A strategy is a road map of an organization and defines its overall mission, vision, and direction.

Strategic Management

The strategic management process means **defining the organization's strategy**. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

The strategic management process has the following four steps:



1. Environmental Scanning
Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

2. Strategy Formulation
Strategy formulation is the process of deciding the best course of action for accomplishing organizational objectives and hence achieving the organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

3. Strategy Implementation
Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing the decision-making process, and managing human resources.

4. Strategy Evaluation
Strategy evaluation is the final step of the strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial/corrective actions. Evaluation makes sure that the organizational strategy, as well as its implementation, meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes. However, strategic management is an ongoing process. Therefore, it must be realized that each component interacts with the other components.

Remember: strategic management is an ongoing process.

Competitive Advantage

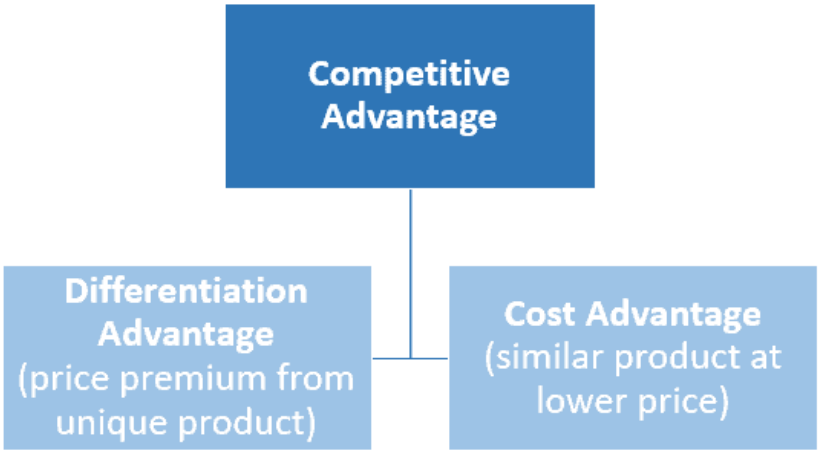
An organization is said to have a competitive advantage if its **profitability is higher** than the average profitability for all companies in its industry. But there is not only one correct way to measure it, and for the right reason. Nearly everything can be considered as competitive edge, e.g. higher profit margin, greater return on assets, valuable resources such as brand reputation or unique competence in producing jet engines.

Every company must have at least one advantage to successfully compete in the market. If a company can't identify one or just doesn't possess it, competitors soon outperform it and force the business to leave the market.

An organization can achieve an edge over its competitors in the following two ways:

- **Through external changes**
  When external factors change, many opportunities can appear that, if seized upon, could provide many benefits for an organization. A company can also gain an upper hand over its competitors when it is capable to respond to external changes faster than other organizations.
- **By developing them inside the company**
  A firm can achieve cost or differentiation advantage when it develops rare resources, unique competencies or through innovative processes and products.

Although there are many ways to achieve an advantage, American economist Michael Porter has identified two basic types of competitive advantage: cost and differentiation advantage.



- **Cost advantage**
  A company can achieve superior performance by producing similar quality products or services but at lower costs. The company that tries to achieve cost advantage is pursuing cost leadership strategy. Higher profit margins lead to further price reductions, more investments in process innovation and ultimately greater value for customers.
- **Differentiation advantage**
  Differentiation advantage is achieved by offering unique products and services and charging a premium price for that. Differentiation strategy is used in this situation and company positions itself more on branding, advertising, design, quality and new product development rather than efficiency, outsourcing or process innovation. Customers are only willing to pay higher prices for unique features and the best quality.

An organization that is capable of outperforming its competitors over a long period of time has a **sustainable competitive advantage.**

3. PEST Analysis

PEST-Analysis is a simple but powerful tool, that helps you analyze your business environment. It is part of an external analysis when conducting

a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors to be taken into consideration.

About PEST

PEST-Analysis is a framework used to scan the organization's external environment. The letters PEST stand for Political, Economic, Social, and Technological. Some approaches will add in extra factors, such as Legal and Environmental (PESTLE-Analysis). However, all approaches are all merely variations on a theme. The important principle is identifying the key factors from the wider, uncontrollable external environment that might affect the organization.

The basic PEST analysis includes four factors:

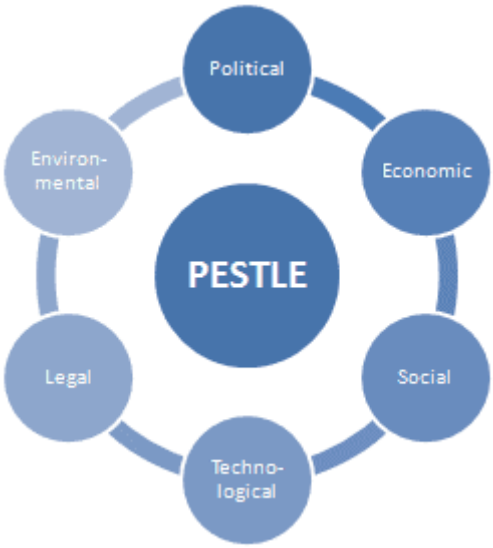
- **Political –** Here government regulations are assessed in terms of their ability to affect the business environment and trade markets. The main issues addressed in this section include political stability, tax guidelines, trade regulations, safety regulations, and employment laws.
- **Economic –** Through this factor, businesses examine the economic issues that are bound to have an impact on the company. This would include factors like inflation, interest rates, economic growth, the unemployment rate, policies, and the business cycle followed in the country.
- **Social –** With the social factor, a business can analyze the socio-economic environment of its market via elements like customer demographics, cultural limitations, lifestyle attitude,

and education. With these, a business can understand how consumer needs are shaped.

- **Technological –** How technology can either positively or negatively impact the introduction of a product or service into a marketplace is assessed here. These factors include technological advancements, the lifecycle of technologies, and the role of the Internet.

Extended to PESTLE

Expanding the PEST analysis to PESTLE adds two more factors:



- **Legal –** These factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.
- **Environmental –** Those factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, a growing awareness of the potential impacts of climate change is affecting how companies operate.

When using PESTLE as a tool for analysis it is possible to get overlap between an issue which can be put into two sections. For example, legal factors are often connected to political factors.

As with all techniques, there are advantages and disadvantages to using it to help plan an organizational strategy. On the one hand, it provides a

simple and easy-to-use framework for your analysis. It helps to reduce the impact and effects of potential threats to your organization and provides a mechanism that enables your organization to identify and exploit new opportunities. On the other hand, users can oversimplify the information that is used for making decisions. Also, the process has to be conducted regularly to be effective and often organizations do not make this investment.

To maximize the benefit of the PESTLE analysis, it should be used on a regular basis within an organization. The impact of a certain external factor may have more severe consequences for a particular division or department and the PESTLE technique can help to clarify why change is needed. Furthermore, this analysis technique should be used in conjunction with other tools (such as SWOT) to produce the best results.

Example: Starbucks

In this part, we will take a look at the American coffee company **Starbucks**. The macroeconomic environment that Starbucks operates in is characterized by the last global economic recession. However, consumers have not cut down on their coffee consumption and instead, are shifting to lower-priced options. This means that Starbucks can still leverage the buying power of consumers by offering cheaper alternatives.

We can use the PESTLE tool to screen the environment of the company and analyze the consequences for Starbucks:

1. Political Factors:
The sourcing process of Starbuck's raw materials has attracted the attention of the politicians in the West and in the countries from where it sources its raw materials. This is the reason why Starbucks is keen on

adhering to social and environmental norms and to follow sourcing strategies that are appropriate and in conformance to the “Fair Trade” practices that have been agreed upon by global corporations and the governments.

2. Economic Factors:
The foremost external economic driver for Starbucks is the last global economic recession, which has dented the profitability of many companies. However, studies have shown that consumers instead of cutting down on their coffee consumption are shifting to lower-priced alternatives which is an opportunity for Starbucks.

3. Social Factors:
Though Starbucks can offer cheaper alternatives as mentioned previously, it has to do so without sacrificing the quality and this is the key socio-cultural challenge that the company faces as it expands its consumer base to include the consumers from the lower and the middle tiers of the income pyramid.

4. Technological Factors:
The company has already introduced Wi-Fi capabilities in its outlets so that consumers can surf the web and do their work while sipping coffee. Furthermore, it has introduced app-based discount coupons and mobile payments.

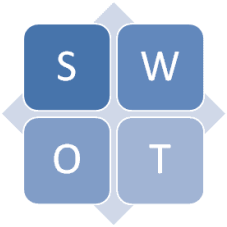
5. Legal Factors:
Starbucks has to ensure that it does not run afoul of the laws and regulations in the countries from which it sources its raw materials as well as the home markets in the United States.

6. Environmental Factors:
There have been several concerns about the business practices of Starbucks from the activists and from the consumers themselves. Therefore, Starbucks has to take into account these concerns if it has to continue holding on to the trust it enjoys with its consumers.

Conclusion
The analysis proves the point that Starbucks is operating in a relatively stable external environment. The main reason for this is the fact that it operates in the Food and Beverages space which means that despite the recession, consumers cut down on the consumption to a certain extent and not completely. Therefore, the task before Starbucks is to lower

costs and increase the value so that it retains its consumer base and attracts consumer loyalty.

4. SWOT Analysis



SWOT Analysis is a simple but useful framework for analyzing your organization's strengths and weaknesses as well as the opportunities and threats you are facing. It helps you to focus on your strengths, to minimize threats, and to take the greatest possible advantages.

About SWOT

SWOT analysis is a relatively quick way to look at organizational **Strengths, Weaknesses, Opportunities,** and **Threats**. The overall purpose of a SWOT analysis is to examine the internal and external factors that help or hinder you in achieving each of your objectives. Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. However, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control. In other words, the framework views all positive and negative factors inside and outside the firm that affect success.

1. Strengths
Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained. Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. Weaknesses
Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc. Weaknesses are controllable. They must be minimized and eliminated.

3. Opportunities
Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain a competitive advantage by making use of opportunities. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter the telecom sector.

4. Threats
Threats arise when conditions in the external environment jeopardize the reliability and profitability of the organization's business. Threats are uncontrollable. When a threat comes, stability and survival can be at stake. Examples of threats are ever-changing technology; increasing competition leading to excess capacity, and massive price wars reducing industry profits.

SWOT analysis is a tool to evaluate the strengths, weaknesses, opportunities, and threats of an organization.
The popularity of SWOT analysis is down to its simplicity and flexibility. It is easy for everyone to understand and its implementation does not

require any technical knowledge or specialist training. However, the SWOT methodology does encourage a tendency to oversimplify the situation. Another problem with SWOT is that there are no obvious limits as to what is and is not relevant. During SWOT discussions, you need to keep everyone focused on what is important in achieving the objectives, rather than just creating lists of issues.

Example: IKEA

This chapter analyzes the strategy of the world's leading furniture retailer, IKEA using the SWOT methodology. The Swedish company is known for its simple yet effective approach to retailing with the Do It Yourself (DIY) concept: The products sold by IKEA are mostly ready to use and flat packed meaning that they can be assembled by the customers themselves.

1. Strengths

The biggest strength that IKEA has is its clear vision, which is to add value to its customers irrespective of the market conditions. This has translated into an articulate and well-defined business strategy and an approach to retailing, which is pioneering in its simplicity and deadly in its targeting of competitors and effective in its positioning. Another key strength of the company is its clear concept which translates into an array of products that can be assembled by the customers themselves leading to humongous cost reductions which are then passed on to the customers.

2. Weaknesses

Given the fact that IKEA operates in multiple countries around the world, it is difficult to control standards across locations. Though the company tries its best to implement uniform quality across its product range and throughout its locations, replicable and scalable control of quality is a key weakness. Furthermore, with its obsessive focus on cost leadership,

quality sometimes goes for a toss. The point to be noted here is that it is sometimes difficult to maintain quality in the context of increasing costs and the need to replicate standards across its locations worldwide.

3. Opportunities
Perhaps the biggest opportunity that the company has is its cost leadership, which means a single-minded focus on cost at the expense of everything else. While this has raised concerns about quality, the customers do not seem to mind as they are getting their money's worth. The other opportunity lies in the company's expansion into the emerging markets and the developing world where it has an untapped customer base that can be leveraged for effective profitability.

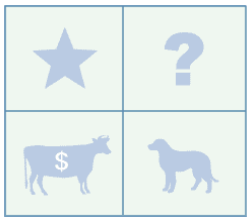
4. Threats
IKEA's low-cost business model has been imitated and copied by its rivals, which means that the company needs to constantly innovate if it has to stay ahead of the competition. For instance, several regional and local companies have caught on to the DIY bandwagon and are also focusing on costs which means that to stay nimble and agile, IKEA has to come up with newer strategies. With the advent of the internet and online shopping, DIY as a key driver of strategic success is no longer the sole USP (Unique Selling Proposition) of IKEA.

Conclusion
Through its innovative business model and its focus on products, processes, and systems, IKEA has managed to stay ahead of the competition in the furniture retailing business.

The company can diversify into other products and product lines as it can replicate its business model in other realms as well. This requires fresh thinking and a new approach to its strategy that would combine low-cost leadership with additional drivers of success like scalability and focus on quality.

Finally, the company can enter the emerging markets where its products and its business model are likely to be met with success and the untapped customer base can be leveraged.

5. BCG Matrix

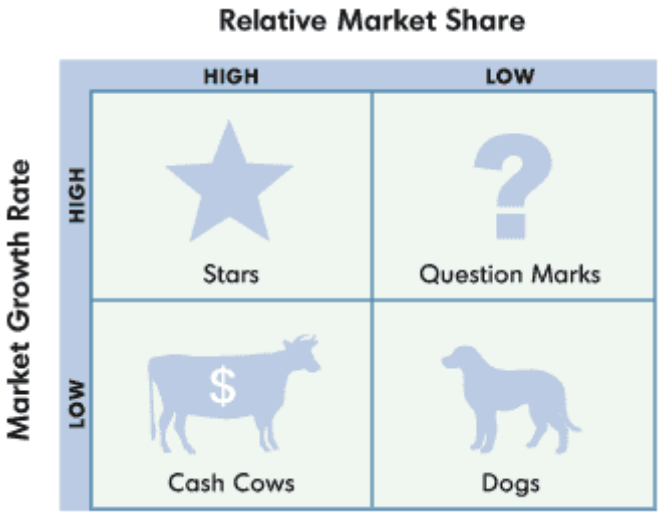


A BCG Matrix (or growth-share matrix) is a business tool, which uses market share and industry growth to evaluate the potential of a business brand portfolio. It helps organizations determine which areas of their business deserve more resources and investment.

About BCG Matrix

The BCG Matrix, named after its inventors from Boston Consulting Group, assess products on two dimensions. The first dimension looks at the products general level of **growth** within its market. The second dimension then measures the product's **market share** relative to the largest competitor in the industry. Analyzing products this way provides a useful insight into the likely opportunities and problems with a particular product.

Products are classified into four distinct groups: Stars, Cash Cows, Question marks, and Dogs.



Let's have a look at what each of these four outcomes means for the product and the decision making process:

- **Stars:** Star products all have rapid growth and dominant market share. This means that star products can be seen as market-

leading products. These products will need a lot of investment to retain their position, to support further growth as well as to maintain its lead over competing products. Star products will also be generating a lot of income.

- **Cash Cows:** Cash cows don't need the same level of support as stars. This is due to less competitive pressures within a low growth market where they usually enjoy a dominant position. Cash cows are still generating a significant level of income but are not costing the organization much to maintain. These products can be "milked" to fund Star products.
- **Dogs:** Products classified as dogs always have a weak market share in a low growth market. These products are very likely making a loss or a very low profit at best. The question for managers is whether the investment currently being spent on keeping these products alive could be spent on making something that would be more profitable.
- **Question Marks (also called Problem Children):** These products are in a high growth market but do not seem to have a high share of the market. One reason for this might be that a very new product was recently added to the market. If this is not the case, then some questions need to be answered. What is the organization doing wrong? What are competitors doing right?

The BCG Matrix is easy to perform, it helps to understand the strategic positions of the business portfolio, and it's a good starting point for further analysis. Nevertheless, this growth-share analysis has been heavily criticized for its oversimplification. Market growth is one of many factors that determine industry attractiveness and relative market share is only one of many factors that determine competitive advantage. This matrix does not take into account any other factors that may have a bearing on both industry attractiveness and competitive advantage.

Example: Nestle

The BCG matrix analysis for Nestle reveals some interesting perspectives. As a global multinational in the food and beverage industry, the Swiss company is one of the biggest corporations in the world. Over 8000 brands fall within its umbrella and are as widespread as bottled water and pet food. The company announced plans to sell off under-performing brands which were consistently showing poor sales.

Question Marks:
There are products that formulate a part of the industry that is still in the phase of development, yet the organization has not been able to create a significant position in that industry. The small market share obtained by the organization makes the future outlook for the product uncertain, therefore investing in such domains is seen as a high-risk decision. With increasing competition and growing need to consume healthy products among consumers, Nestle's Milk products and Nutrition requires significant investment from the brand to maintain and grow its market share. Nestle's Chocolates and confectionaries is another business unit that can be placed in the Question Mark quadrant of the BCG Matrix of Nestle. High competition and small market share of the product in the industry is what makes it being placed in this quadrant.

Stars:
The products or business units that have a high market share in high growth industry are the stars of the organization. In the case of Nestle, Nestle's Mineral Water and Nestle's Nescafe Coffee fall in the Star quadrant of the BCG Matrix of Nestle. Growing healthier lifestyle trends and emerging markets have prompted the brand to invest large amounts of investments in order to differentiate the bottled water brands from competitors in mature markets and grow brand awareness in emerging markets.

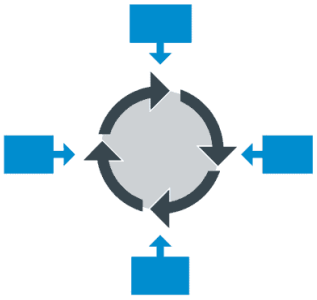
Dogs:
Dogs are those products that were perceived to have the potential to grow but however failed to create magic due to the slow market growth.

Failure to deliver the expected results makes the product a source of loss for the organization, propelling the management to withdraw future investment in the venture. Since the product is not expected to bring in any significant capital, future investment is seen as a wastage of company resources, which could be invested in a Question mark or Star category instead. Nestle's Milo was launched as chocolate and malt powder for Milk and water, however, the product failed to create any significant impact on the business and is placed in the Dog Quadrant of BCG Matrix of Nestle.

Cash Cows:
Cash cows are the products that have a high market share in a market that has low growth. For Nestle, there is one product that has undoubtedly been the Cash Cow and its Nestle's Maggi Noddles. With a market share of 80-85 %, Maggi Noddles holds a very stronghold in the market and have high customer loyalty. The product requires very less investment to maintain its market share and fight off any competition.

The BCG matrix helps organizations determine which areas of their business deserve more resources and investment. This is especially helpful for corporations like Nestle that offer a broad range of products in many different markets.

6. Porter's Five Forces

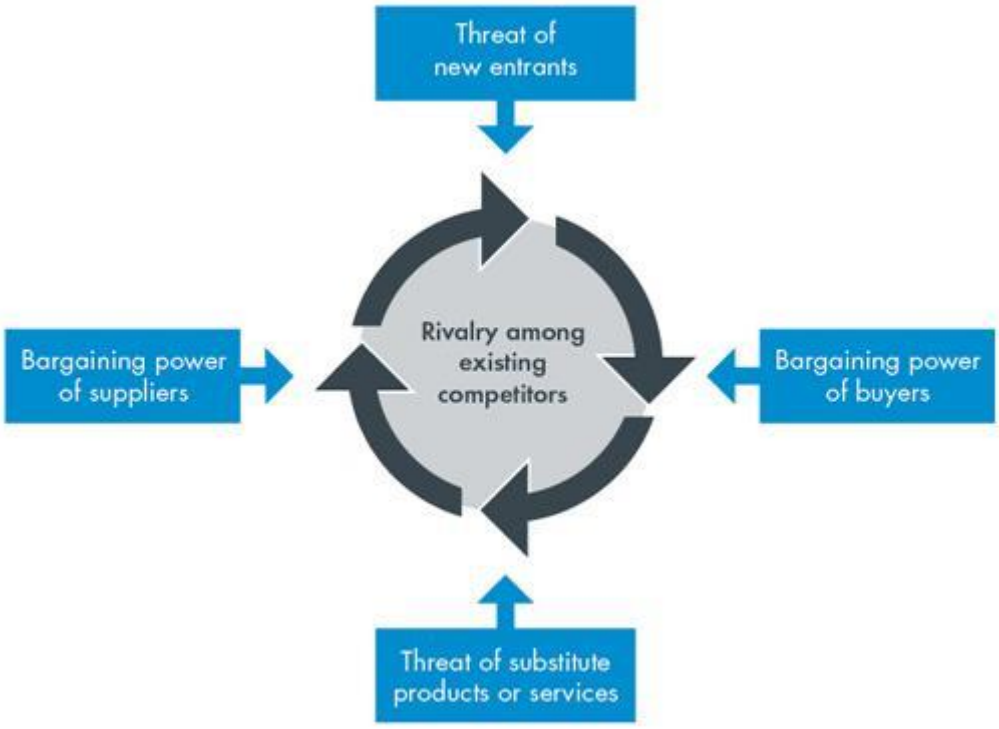


Porter's Five Forces is a simple but powerful tool for understanding the competitiveness of your business environment, and for identifying your strategy's potential profitability. This is useful, because, when you understand the forces in your environment or industry that can affect your profitability, you'll be able to adjust your strategy accordingly.

About the Five Forces

Porter's Five Forces model, named after Michael Porter, identifies five forces that shape every market and industry in the world. The five forces

are frequently used to measure competition intensity, attractiveness, and profitability of an industry or market. These five forces are:



- **Threat of New Entry:** A company's power is affected by the force of new entrants into its market. The less time and money it costs for a competitor to enter a company's market and be an effective competitor, the more a company's position may be significantly weakened. An industry with strong barriers to entry is an attractive feature for companies that allows them to charge higher prices and negotiate better terms.
- **Buyer Power:** This specifically deals with the ability that customers have to drive prices down. It is affected by how many buyers or customers a company has, how significant each customer is, and how much it would cost a company to find new customers or markets for its output. A smaller and more powerful client base means that each customer has more power to negotiate for lower prices and better deals. A company that has many, smaller, independent customers will have an easier time charging higher prices to increase profitability.
- **Threat of Substitution:** Substitute goods or services that can be used in place of a company's products or services pose a threat. Companies that produce goods or services for which there are no close substitutes will have more power to increase prices and lock in favorable terms. When close substitutes are

available, customers will have the option to forgo buying a company's product, and a company's power can be weakened.

- **Supplier Power:** This force addresses how easily suppliers can drive up the cost of inputs. It is affected by the number of suppliers of key inputs of a good or service, how unique these inputs are, and how much it would cost a company to switch from one supplier to another. The fewer the number of suppliers, and the more a company depends upon a supplier, the more power a supplier holds to drive up input costs and push for advantage in trade. On the other hand, when there are many suppliers or low switching costs between rival suppliers a company can keep input costs lower increasing profits.
- **Competitive Rivalry:** This force refers to the number of competitors and their ability to undercut a company. The larger the number of competitors, along with the number of equivalent products and services they offer, the lesser the power of a company. Suppliers and buyers seek out a company's competition if they are able to offer a better deal or lower prices. Conversely, when competitive rivalry is low, a company has greater power to charge higher prices and set the terms of deals to achieve higher sales and profits.

Frequently used to identify an industry's structure to determine corporate strategy, Porter's model can be applied to any segment of the economy to search for profitability and attractiveness.

Understanding Porter's Five Forces and how they apply to an industry, can enable a company to adjust its business strategy to better use its resources to generate higher earnings for its investors.

Example: Athletic Apparel

In this example, we will look at how Under Armour fits into the athletic footwear and apparel industry.

- **Competitive rivalry:** Under Armour faces intense competition from Nike, Adidas, and newer players. Nike and Adidas, which have considerably larger resources at their disposal, are making a play within the performance apparel market to gain market share in this up-and-coming product category. Under Armour does not hold any fabric or process patents, hence its product portfolio could be copied in the future.

- **Bargaining power of suppliers:** A diverse supplier base limits their bargaining power. Under Armour's products are produced by dozens of manufacturers based in multiple countries.
- **Bargaining power of customers:** Under Armour's customers include both wholesale customers as well as end customers. Wholesale customers, like Dick's Sporting Goods and the Sports Authority, hold a certain degree of bargaining leverage, as they could substitute Under Armour's products with those of UA's competitors to gain higher margins. The bargaining power of end customers is lower as UA enjoys strong brand recognition.
- **Threat of new entrants:** Large capital costs are required for branding, advertising and creating product demand, and hence limits the entry of newer players in the sports apparel market. However, existing companies in the sports apparel industry could enter the performance apparel market in the future.
- **Threat of substitute products:** The demand for performance apparel, sports footwear and accessories is expected to continue, and hence this force does not threaten Under Armour in the foreseeable future.

Conclusion:
By thinking about how each force affects you, and by identifying the strength and direction of each force, you can quickly assess the strength of your position and your ability to make a sustained profit in the industry. You can then look at how you can affect each of the forces to move the balance of power in your favor.

7. More Tools

To conclude this course, we will summarize three more essential strategic management tools you should know: The **Ansoff Matrix** to identify growth options, the **Balanced Scorecard** for keeping track of the execution of activities, and **McKinsey's 7-S Model** to analyze a firm's organizational design.

Ansoff Matrix

The Ansoff Matrix is a strategic planning tool that provides a framework to help executives, senior managers, and marketers devise strategies for future growth.

According to this tool, there are four possible combinations for growth. Each company needs to decide which strategy to use based on the strengths and weaknesses of the organization and its competitors. Each strategy has a different level of risk, with market penetration having the lowest risk and diversification having the highest risk.

Market Penetration
This occurs when a company infiltrates a market in which current products already exist. The best way to achieve this is by gaining the customers of competitors. Other ways include attracting non-users of your product or convincing current clients to use more of your product.

While market penetration may come with the lowest risk, at some point the company will reach market saturation with the current product and will have to switch to a new strategy.

Market Development
Market development targets non-buying customers in currently targeted segments. It also targets new customers in new segments in order to expand the potential market. New users can be defined as new geographic, demographic, institutional, or psychographic segments.

If a company believes that its strength lies with its products and they believe their products would be enticing to new customers, then a company may want to use a market development strategy.

New Product Development
New product development is a process that has two parallel paths: one involves the idea generation, product design, and detail engineering; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in the overall strategic process of product life cycle management used to maintain or grow market share.

If a company believes that its strength lies with the customers, then they should consider a product development strategy.

Diversification
Diversification seeks to increase profitability through greater sales volume obtained from new products and new markets. At the business unit level, diversification is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally via investing in a promising business outside of the scope of the existing business unit.

Because of the high risk involved with diversification, many marketing experts believe a company shouldn't attempt diversification unless there is a high return on investment.

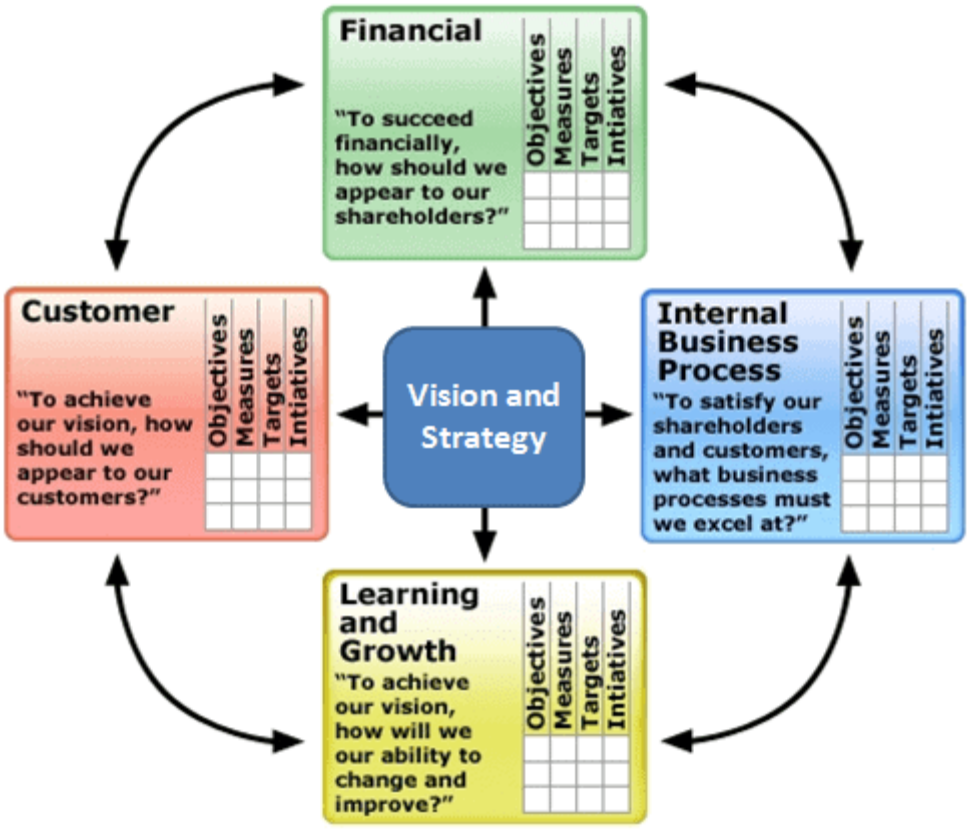
The Ansoff Matrix is a useful tool for organizations wanting to identify and explore their growth options. It is one of the most commonly used tools for this type of analysis due to its simplicity and ease of use.

Balanced Scorecard

The Balanced Scorecard, invented by Kaplan and Norton, is a strategic management system used by businesses from all over the globe to align their business activities to the overall strategy and vision of their organizations. We all know that business success, whether public or private, is ultimately down to performance. Hence, managing and measuring that performance is vital for any organization that wants to thrive in its niche or industry.

This management system enables your business to set, trace and ultimately achieve your objectives and strategies. After you develop your

business strategies and goals, they can be set and tracked using the Four Legs of the Balanced Scorecard. Each leg deals with a distinct business perspective. These legs are the **Financial** one, the **Internal Business Process** Leg, the **Customer** Leg and the **Learning & Growth** Leg.



1. Financial
Norton and Kaplan have not disregarded the need for financial data. Accurate and timely data is always a priority, being paramount for managers who want to get the complete picture. With the implementation of a large corporate database, the financial leg aims to automate processes. The financial leg tracks your business financial performance and requirements, including return on investment (ROI), cash flow, financial results (quarterly and annually) and return on capital employed.

2. Customer
More and more, managers and researchers are coming to realize the huge importance of customer focus and customer satisfaction. If customers are not happy with your company, they will eventually migrate to the competition. Hence, poor performance from the customer perspective is an indicator of decline. Some of the areas assessed by this indicator include customer retention rate, delivery performance to the

customer, customer percentage of market, customer satisfaction rate and quality performance for the customer.

3. Internal Business Processes
This perspective allows you to measure customer process needs, requirements and procedures. Metrics based on this leg allow you to know how well your business is running and whether your services and products conform to your company's mission. Some of the areas that relate to internal business processes are process automation, process bottlenecks, duplicate activities across functions, number of activities per function and process alignment.

4. Learning and Growth
This perspective focuses on teaching you to educate your employees, how you gain knowledge and how you can use this knowledge to maintain an edge in your niche. This leg deals with subjects like job satisfaction, training & learning opportunities for your employees, employee turnover and level of expertise for the job. According to Norton and Kaplan, learning is considered a much more important criterion than training. Additionally, they emphasize the importance of using high-performance work systems (or technological tools) in order to create a better work environment.

Conclusion
Each of these unique perspectives or legs is inter-dependent. In other words, you need to improve all of them in order to reap the benefits of Balanced Scorecard. Hence, these four legs have to be analyzed and improved together, on a regular basis, in order for your company to thrive. Ignoring one of these legs is like sitting on a four-legged stool with one broken leg – an impossibility. You will eventually lose your balance and fall to the ground, flat on your face.

The main benefit of this system is that it reflects all the elements that define a company's functions. This powerful management system also helps you study those areas where performance measurements are not normally present. However, there are a few downsides to using balanced scorecards. Scorecards tend to evolve into complex management instruments. Moreover, maintaining these scorecards is a daunting task which can take large amounts of time.

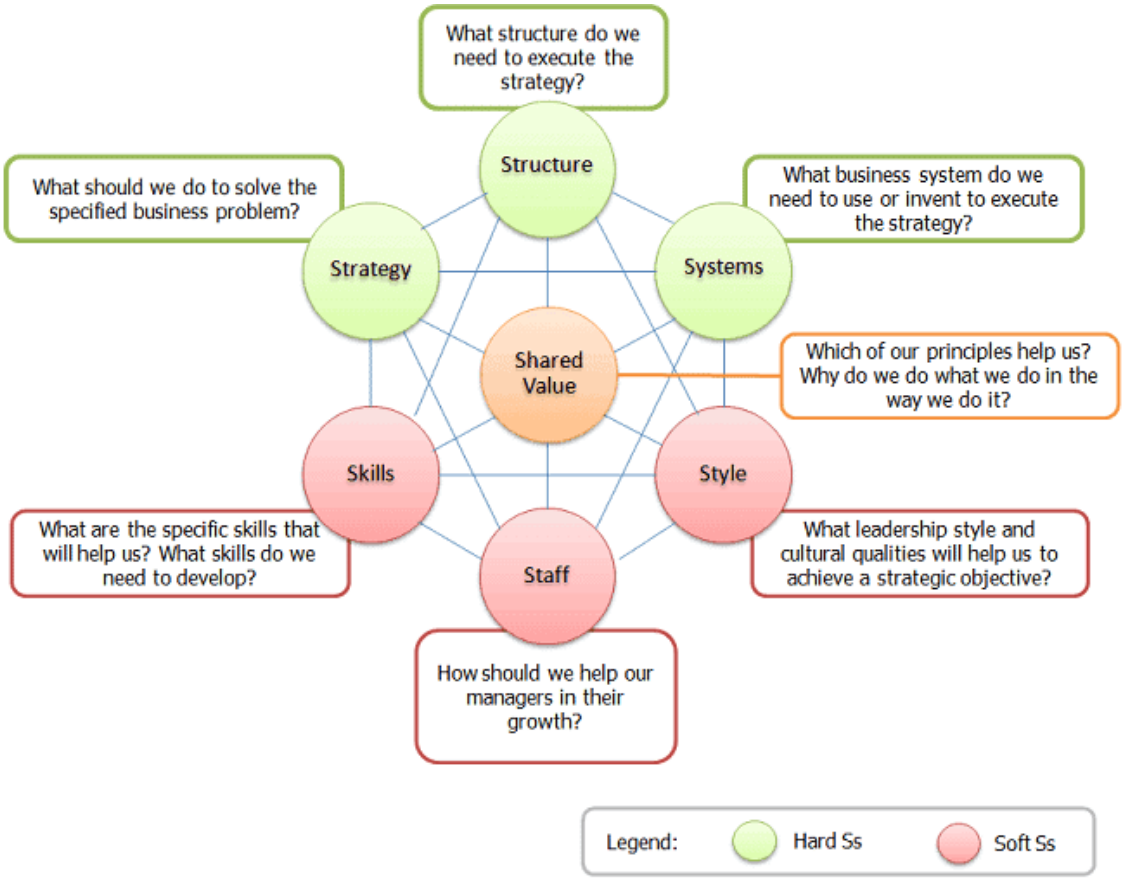
In a nutshell, the Balanced Scorecard is a very good management assessing tool that allows managers to make positive changes in their

organizations and complement smart strategies with smarter implementations.

McKinsey 7-S Model

McKinsey 7-S Model is a tool that analyzes firm's organizational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff, and skills, in order to identify if they are effectively aligned and allow an organization to achieve its objectives.

Below you can find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss':



The model can be applied to many situations. The most common uses of the framework are to facilitate organizational change, to help implement a new strategy, to identify how each area may change in the future, and to facilitate the merger of organizations.

In the McKinsey model, the seven areas of an organization are divided into the 'soft' and 'hard' areas. Strategy, structure, and systems

are **hard** elements that are much easier to identify and manage when compared to **soft** elements. On the other hand, soft areas, although harder to manage, are the foundation of the organization and are more likely to create a sustainable competitive advantage.

- **Strategy** (hard factor): the long-term plan, reinforced by strong vision, mission and values.
- **Structure** (hard factor): the way business divisions and units are organized.
- **Systems** (hard factor): processes and procedures of the company (business' daily activities and how decisions are made).
- **Skills** (soft factor): the abilities that firm's employees perform very well, including capabilities and competences.
- **Staff** (soft factor): type and number of employees, including how they will be recruited, trained, motivated and rewarded.
- **Style** (soft factor): the way the company is managed by top-level managers.
- **Shared Values** (soft factor): norms and standards that guide employee and company actions (the foundation of every organization).

The key point of the model is that all the seven areas are interconnected and a change in one area requires a change in the rest of a firm for it to function effectively. All elements must be given equal importance to achieve the best results.

8. Conclusion

Today's organizations find themselves operating in an environment that is changing faster than ever before. The process of analyzing the implications of these changes and modifying the way that the organization reacts to them is known as **business strategy**.

Competitive advantage means superior performance relative to other competitors in the same industry or superior performance relative to the industry average. A company that is able to achieve superiority in cost or

differentiation is able to offer consumers the products at lower costs or with a higher degree of differentiation and most importantly, is able to compete with its rivals.

There are many important strategic management tools. The four most important ones are listed below:

- **PEST/PESTLE Analysis** helps you identifying external factors within your environment that could have an impact on your operations regarding Political, Economic, Social, Technological, Legal, and Environmental issues.
- **SWOT Analysis** is a business analysis technique that your organization can perform for each of its products, services, and markets when deciding on the best way to achieve future growth. The process involves identifying the strengths and weaknesses of the organization, and opportunities and threats present in the market that it operates in. The first letter of each of these four factors creates the acronym SWOT.
- **BCG Matrix** (or growth-share matrix) is a business tool, which uses relative market share and industry growth rate factors to evaluate the potential of a business brand portfolio and suggest further investment strategies.
- **Porter's Five Forces** is a simple but powerful tool for understanding where power lies in a business situation. This is useful because it helps you analyze the strength of your current competitive position, the strength of a position you're considering moving into, and the fundamental attractiveness of a market or a market sector in the long term.

Whether you work in a large multinational corporation or a small organization, a good understanding of the appropriate business analysis techniques and terminology will help you to contribute to the strategic decision-making processes.

Welcome to Principles of Economics!
In this course, you will learn the basic principles that drive the economy. The word “economy” comes from the Greek word oikonomos, which means “one who manages a household.”

A household faces many decisions. It must decide which members of the household do which tasks and what each member gets in return: Who cooks dinner? Who does the laundry? Who gets the extra dessert at dinner? Who gets to choose what TV show to watch? In short, the household must allocate its **scarce resources** among its various members, taking into account each member’s abilities, efforts, and desires.

Like a household, society faces many decisions. A society must decide what jobs will be done and who will do them. It needs some people to grow food, other people to make clothing, and still others to design computer software. Once a society has allocated people (as well as land, buildings, and machines) to various jobs, it must also allocate the output of goods and services that they produce. It must decide who will eat caviar and who will eat potatoes. It must decide who will drive a Ferrari and who will take the bus.

The management of society’s resources is important because resources are scarce. **Scarcity** means that society has limited resources and therefore cannot produce all the goods and services people wish to have. Just as a household cannot give every member everything he or she wants, a society cannot give every individual the highest standard of living to which he or she might aspire.

Economics is the study of how society manages its scarce resources. In most societies, resources are allocated not by an all-powerful dictator but through the combined actions of millions of households and firms. Economists, therefore, study how people make decisions: how much they work, what they buy, how much they save, and how they invest their savings. Economists also study how people interact with one another. For instance, they examine how the multitude of buyers and sellers of a

good together determine the price at which the good is sold and the quantity that is sold. Finally, economists analyze forces and trends that affect the economy as a whole, including the growth in average income, the fraction of the population that cannot find work, and the rate at which prices are rising.

Economics is the study of how society manages its scarce resources.

2. Mankiw's 10 Principles

Although the study of economics has many facets, the field is unified by several central ideas. In this course, we look at Ten Principles of Economics formulated by Gregory Mankiw. These ten principles are often labeled as the "main pillars" of economics.

Nicholas Gregory Mankiw, born in 1958, is an American economist and professor of Economics at Harvard University. He has stood out as a well-known writer, whose best-selling and intermediate-level textbooks of economics, "Principles of Economics" and "Macroeconomics" have sold over a million copies and been translated into seventy different languages.

Mankiw has written articles on a regular basis at both academic journals and newspapers, such as "The American Economic Review," "The New York Post" or "The Wall Street Post." He is also a usual participant in many academic and policy debates.

Mankiw's most important contributions have been in the fields of both microeconomics and macroeconomics. He has dealt with subjects such as consumer's behavior, fiscal and monetary policy, financial markets behavior, and the determination of prices. Although he is a conservative, his principles are part of every economics study program, and every manager should know these assumptions. Mankiw's ten principles are:

Individual Decision-Making
1. People Face Trade-offs
2. The Cost of Something
3. People Make Rational Decisions
4. People Respond to Incentives

How People Interact
5. Trading Is Usually Better

6. Markets Are Usually Good
7. Governments Can Help

The Economy as a Whole
8. A Country's Productivity
9. Printing Too Much Money
10. Inflation and Unemployment

We will cover each principle in detail over the next chapters.

3. Individual Decision-Making

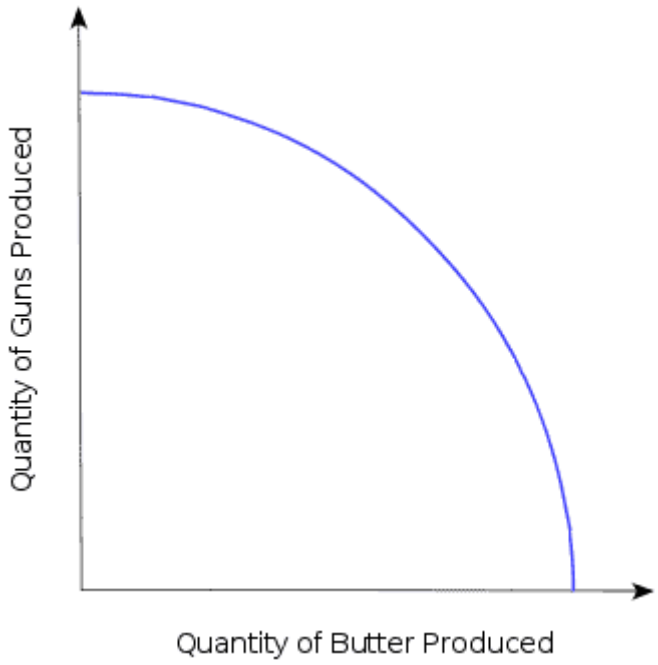
Whether we are talking about the economy of a city, a country, or of the whole world, an economy is just a group of people interacting with one another. Because the behavior of an economy reflects the behavior of the individuals who make up the economy, we start our study with four principles of individual decision making.

#1 People Face Trade-offs

The first lesson about making decisions is summarized in the adage "There is no such thing as a free lunch." To get one thing that we like, we usually have to give up another thing that we like. Making decisions requires trading off one goal against another.

Consider a student who must decide how to allocate her most valuable resource – her time. She can spend all of her time studying economics, she can spend all of her time studying psychology, or she can divide her time between the two fields. For every hour she studies one subject, she gives up an hour she could have used studying the other. And for every hour she spends studying, she gives up an hour that she could have

spent napping, bike riding, watching TV, or working at her part-time job for some extra spending money.
When people are grouped into societies, they face different kinds of trade-offs. The classic trade-off is between “guns and butter.” The more we spend on national defense (guns) to protect our shores from foreign aggressors, the less we can spend on consumer goods (butter) to raise our standard of living at home. This trade-off is often visually displayed in the following graph:



Another trade-off society faces is between efficiency and equity. **Efficiency** means that society is getting the maximum benefits from its scarce resources. **Equity** means that those benefits are distributed fairly among society’s members. In other words, efficiency refers to the size of the economic pie, and equity refers to how the pie is divided. Often, when government policies are designed, these two goals conflict.

Consider, for instance, policies aimed at achieving a more equal distribution of economic well-being. Some of these policies, such as the welfare system or unemployment insurance, try to help the members of society who are most in need. Others, such as the individual income tax, ask the financially successful to contribute more than others to support the government. Although these policies have the benefit of achieving greater equity, they have a cost in terms of reduced efficiency. When the government redistributes income from the rich to the poor, it reduces the reward for working hard; as a result, people work less and produce fewer

goods and services. In other words, when the government tries to cut the economic pie into more equal slices, the pie gets smaller.

Recognizing that people face trade-offs does not by itself tell us what decisions they will or should make. The poor should not be ignored just because helping them distorts work incentives. Nonetheless, acknowledging life's trade-offs is important because people are likely to make good decisions only if they understand the options that they have available.

#2 The Cost of Something

Because people face trade-offs, making decisions requires comparing the costs and benefits of alternative courses of action. In many cases, however, the cost of some action is not as obvious as it might first appear. Let's illustrate that challenge with an example:

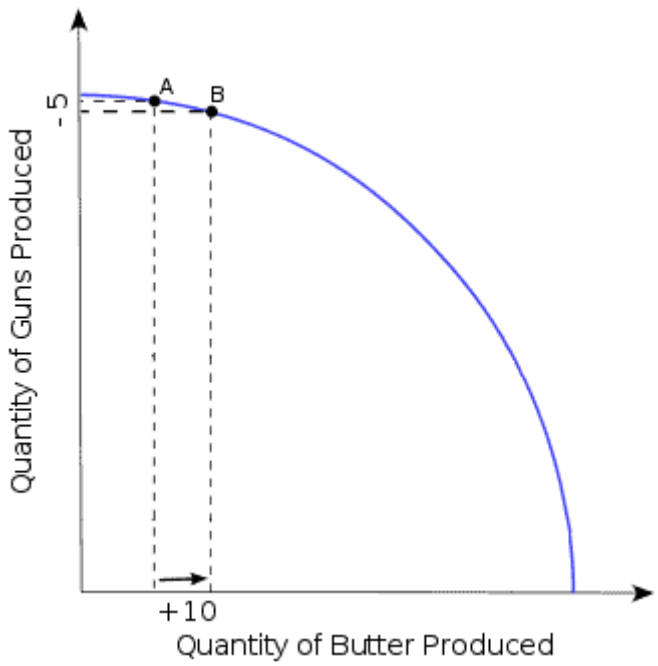
Consider the decision to start studying and going to college. The benefit is intellectual enrichment and a lifetime of better job opportunities. But what is the cost? To answer this question, you might be tempted to add up the money you spend on tuition, books, room, and board. Yet this total does not truly represent what you give up to spend a year in college.
The first problem with this answer is that it includes some things that are not really the costs of going to college. Even if you quit school, you need a place to sleep and food to eat. Room and board are costs of going to college only to the extent that they are more expensive at college than elsewhere. Indeed, the cost of room and board at your school might be less than the rent and food expenses that you would pay living on your own. In this case, the savings on room and board are a benefit of going to college.

The second problem with this calculation of costs is that it ignores the largest cost of going to college – your time. When you spend a year listening to lectures, reading textbooks, and writing papers, you cannot

spend that time working at a job. For most students, the wages given up to attend school are the largest single cost of their education.

The **opportunity cost** of an item is what you give up to get that item. When making any decision, such as whether to attend college, decision-makers should be aware of the opportunity costs that accompany each possible action. In fact, they usually are. College athletes who can earn millions if they drop out of school and play professional sports are well aware that their opportunity cost of college is very high. It is not surprising that they often decide that the benefit is not worth the cost.

One again, this can also be shown in a graph. Let's go back to our "guns and butter" example for a second: the cost of producing 10 more units of butter comes with a trade-off and leads to an opportunity cost of 5 units of guns.



The cost of something is what you give up to get it.

#3 Rational People

Economists normally assume that people are rational. **Rational people** systematically do the best they can to achieve their objectives. Rational behavior refers to a decision-making process that is based on making choices that result in the optimal level of benefit for an individual.

As you study economics, you will encounter firms that decide how many workers to hire and how much of their product to manufacture and sell to maximize profits. You will encounter consumers who buy a bundle of goods and services to achieve the highest possible level of satisfaction, subject to their incomes and the prices of those goods and services.

When exams roll around, a student's decision is not between blowing them off or studying 24 hours a day but whether to spend an extra hour reviewing your notes instead of watching TV. Economists use the term **marginal changes** to describe small incremental adjustments to an existing plan of action. Keep in mind that margin means "edge," so marginal changes are adjustments around the edges of what you are doing. Rational people often make decisions by comparing **marginal benefit** and **marginal cost**.

For example, consider an airline deciding how much to charge passengers who fly standby. Suppose that flying a 200-seat plane across the United States costs the airline $100,000. In this case, the average cost of each seat is $100,000/200, which is $500. One might be tempted to conclude that the airline should never sell a ticket for less than $500. In fact, however, the airline can raise its profits by thinking at the margin. Imagine that a plane is about to take off with ten empty seats, and a standby passenger waiting at the gate will pay $300 for a seat. Should the airline sell the ticket? Of course it should. If the plane has empty seats, the cost of adding one more passenger is minuscule. Although the *average cost* of flying a passenger is $500, the *marginal cost* is merely the cost of the bag of peanuts and can of soda that the extra passenger will consume. As long as the standby passenger pays more than the marginal cost, selling the ticket is profitable.
A rational decision-maker takes an action if and only if the marginal benefit of the action exceeds the marginal cost. This principle can explain why airlines are willing to sell a ticket below average cost. It can take some time to get used to the logic of marginal thinking, but the study of economics will give you the opportunity to practice.

Rational people think at the margin.

#4 People Respond to Incentives

Incentives are crucial to analyzing how markets work. An **incentive** is something (such as the prospect of a punishment or a reward) that induces a person to act. Because rational people make decisions by comparing costs and benefits, they respond to incentives.

For example, when the price of an apple rises, people decide to eat more pears and fewer apples because the cost of buying an apple is higher. At the same time, apple orchards decide to hire more workers and harvest more apples because the benefit of selling an apple is also higher. As we will see, the effect of a good's price on the behavior of buyers and sellers in a market – in this case, the market for apples – is crucial for understanding how the economy allocates scarce resources.
Public policymakers should never forget about incentives because many policies change the costs or benefits that people face and, therefore, alter their behavior. A tax on gasoline, for instance, encourages people to drive smaller, more fuel-efficient cars. That is one reason why people drive smaller cars in Europe, where gasoline taxes are high, than in the United States, where gasoline taxes are low. A gasoline tax also encourages people to take public transportation rather than drive and to live closer to where they work. If the tax were larger, more people would be driving hybrid cars, and if it were large enough, they would switch to electric cars.

When policymakers fail to consider how their policies affect incentives, they often end up with results they did not intend. Furthermore, when analyzing any policy, we must consider not only the direct effects but also the indirect and sometimes less obvious effects that work through incentives. If the policy changes incentives, it will cause people to alter their behavior.

4. How People Interact

The first four principles focussed on how individuals make decisions. However, many of our decisions affect not only ourselves but also other people. Therefore, the next three principles will shed light on how people interact with one another.

#5 Trading Is Better

The United States, Germany, China, and Japan are competitors in the world economy. In some ways, this is true because firms from each country produce many of the same goods. Volkswagen, Ford, and Toyota compete for the same customers in the market for automobiles.

Apple and Samsung compete for the same customers in the market for smartphones. Yet, it is easy to be misled when thinking about competition among countries. Trade between countries is not like a sports contest in which one side wins and the other side loses. In fact, the opposite is true: Trade between countries can make each country better off.

To see why, consider how trade affects your family. When a member of your family looks for a job, he or she competes against members of other families who are looking for jobs. Families also compete against one another when they go shopping because each family wants to buy the best goods at the lowest prices. So in a sense, each family in the economy is competing with all other families.

Despite this competition, your family would not be better off isolating itself from all other families. If it did, your family would need to grow its own food, make its own clothes, and build its own home. Clearly, your family gains much from its ability to trade with others. Trade allows each person to specialize in the activities he or she does best, whether it is

farming, sewing, or home building. By trading with others, people can buy a greater variety of goods and services at a lower cost.

Countries, as well as families, benefit from the ability to trade with one another. Trade allows countries to specialize in what they do best and to enjoy a greater variety of goods and services. The Japanese, as well as the French and the Egyptians and the Brazilians, are as much partners of Great Britain in the world economy as they are competitors.

Trade can make everyone better off.

#6 Markets Are Usually Good

The collapse of communism in the Soviet Union and Eastern Europe in the 1980s may be the most important change in the world during the past half-century. In communist countries, government officials (central planners) were responsible to determine the allocation of scarce resources in the economy.

Today, most countries that once had centrally planned economies have abandoned this system and are trying to develop market economies.

In a **market economy**, the decisions of a central planner are replaced by the decisions of millions of firms and households. Firms decide whom to hire and what to make. Households decide which firms to work for and what to buy with their incomes. These firms and households interact in the marketplace, where prices and self-interest guide their decisions.

At first glance, the success of market economies is puzzling. After all, in a market economy, no one is looking out for the economic well-being of society as a whole. Free markets contain many buyers and sellers of numerous goods and services, and all of them are interested primarily in their own well-being. Yet despite decentralized decision making and self-interested decision-makers, market economies have proven remarkably successful in organizing an economic activity in a way that promotes overall economic well-being.

In his 1776 book *An Inquiry into the Nature and Causes of the Wealth of Nations*, economist Adam Smith made the most famous observation in all of economics: Households and firms interacting in markets act as if they are guided by an “invisible hand” that leads them to desirable market outcomes.

As you study economics, you will learn that prices are the instrument with which the invisible hand directs economic activity. In any market, buyers look at the price when determining how much to demand, and sellers look at the price when deciding how much to supply. As a result of the decisions that buyers and sellers make, market prices reflect both the value of a good to society and the cost to society of making the good. Smith’s great insight was that prices adjust to guide these individual buyers and sellers to reach outcomes that, in many cases, maximize the welfare of society as a whole.

Markets are usually a good way to organize economic activity.

#7 Governments Can Help

If the invisible hand of the market is so great, why do we need government? One reason we need government is that the invisible hand can only work if the government enforces the rules and maintains the institutions that are key to a market economy.

Most important, markets only work if **property rights** are enforced. A farmer won’t grow food if he expects his crop to be stolen and a restaurant won’t serve meals unless it is assured that customers will pay before they leave. We all rely on government-provided police and courts to enforce our rights over the things we produce – and the invisible hand counts on our ability to enforce our rights.

Yet there is another, more profound reason we need government: The invisible hand is powerful, but it is not omnipotent. Although markets are often a good way to organize economic activity, this rule has some important exceptions. There are two broad reasons for a government to intervene in the economy and change the allocation of resources that

people would choose on their own: to promote efficiency and to promote equity. That is, most policies aim either to enlarge the economic pie or to change how the pie is divided.

Consider first the goal of efficiency. Although the invisible hand usually leads markets to allocate resources efficiently, this is not always the case. Economists use the term **market failure** to refer to a situation in which the market on its own fails to produce an efficient allocation of resources. One possible cause of market failure is an **externality**, which is the impact of one person's actions on the well-being of a bystander. The classic example of an externality is pollution. Another possible cause of market failure is **market power**, which refers to the ability of a single person (or small group) to unduly influence market prices. For example, if everyone in town needs water but there is only one well, the owner of the well is not subject to the rigorous competition with which the invisible hand normally keeps self-interest in check. In the presence of externalities or market power, well-designed public policy can enhance economic efficiency.

The invisible hand may also fail to ensure that economic prosperity is distributed equitably. A market economy rewards people according to their ability to produce things that other people are willing to pay for. The invisible hand does not ensure that everyone has sufficient food, decent clothing, and adequate healthcare. Many public policies, such as the welfare system, aim to achieve a more equitable distribution of economic well-being.

As you study economics, you will become a better judge of when a government policy is justifiable because it promotes efficiency or equity and when it is not.

Governments can sometimes improve market outcomes.

5. The Economy as a Whole

We already discussed how individuals make decisions and then looked at how people interact with one another. All these decisions and

interactions together make up “the economy.” Now, the last three principles focus on the workings of the economy as a whole.

#8 A Country’s Productivity

The differences in living standards around the world are staggering. For example, the average income of an American household is much higher than that of developing nations. Not surprisingly, this considerable variation in average income is reflected in various measures of the quality of life.

Citizens of high-income countries can often benefit from a better infrastructure (transportation, education, healthcare, etc.) than citizens of low-income countries.

Changes in living standards over time are also substantial. In the United States, income has historically grown about 2 percent per year (after adjusting for changes in the cost of living). At this rate, average income doubles every 35 years. Over the past century, the average income has risen about eightfold.

What explains these large differences in living standards between different countries? The answer is surprisingly simple. Almost all variation in living standards is attributable to differences in countries’ **productivity** – that is, the number of goods and services produced from each hour of a worker’s time. In nations where workers can produce a large number of goods and services per unit of time, most people enjoy a high standard of living. Similarly, the growth rate of a nation’s productivity determines the growth rate of its average income.

The relationship between productivity and living standards has profound implications for public policy. When thinking about how any policy will affect living standards, the key question is how it will affect our ability to produce goods and services. To boost living standards, policymakers need to raise productivity by ensuring that workers are well

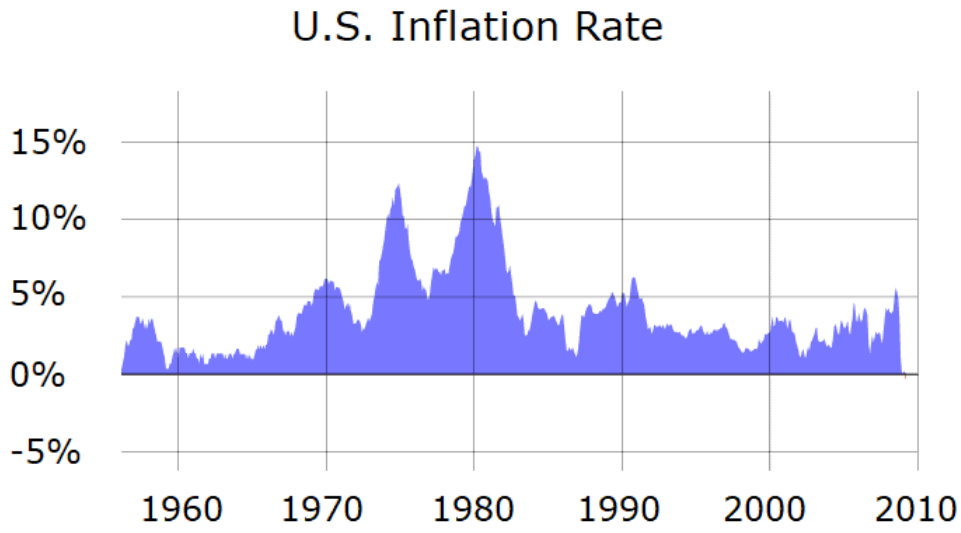
educated, have the tools needed to produce goods and services, and have access to the best available technology.

A country's standard of living depends on its ability to produce goods and services.

#9 Printing Too Much Money

In January 1921, a newspaper in Germany cost 0.30 marks. Less than two years later, in November 1922, the same newspaper cost 70,000,000 marks. All other prices in the economy rose by similar amounts. This is an extreme example of **inflation**, an increase in the overall level of prices in the economy.

Although the United States has never experienced inflation even close to that in Germany in the 1920s, inflation has at times been an economic problem. During the 1970s, for instance, the overall level of prices more than doubled, and U.S. President Gerald Ford called inflation "public enemy number one." By contrast, inflation in the 1990s was about 3 percent per year; at this rate, it would take more than 20 years for prices to double (see graph below for US inflation rates from 1960-2010).



Because high inflation imposes various costs on society, keeping inflation at a low level is a goal of economic policymakers around the world.

What causes inflation? In almost all cases of large or persistent inflation, the culprit is growth in the quantity of money. When a government creates large quantities of the nation's money, the value of the money falls. In Germany in the early 1920s, when prices were on average tripling every month, the quantity of money was also tripling every month. Although less dramatic, the economic history of the United States points to a similar conclusion: The high inflation of the 1970s was associated with rapid growth in the quantity of money, and the low inflation of the 1990s was associated with slow growth in the quantity of money.

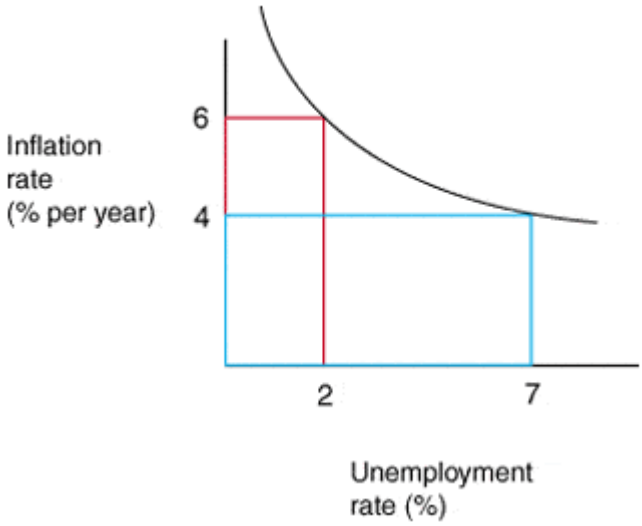
Prices rise when the government prints too much money.

#10 Inflation and Unemployment

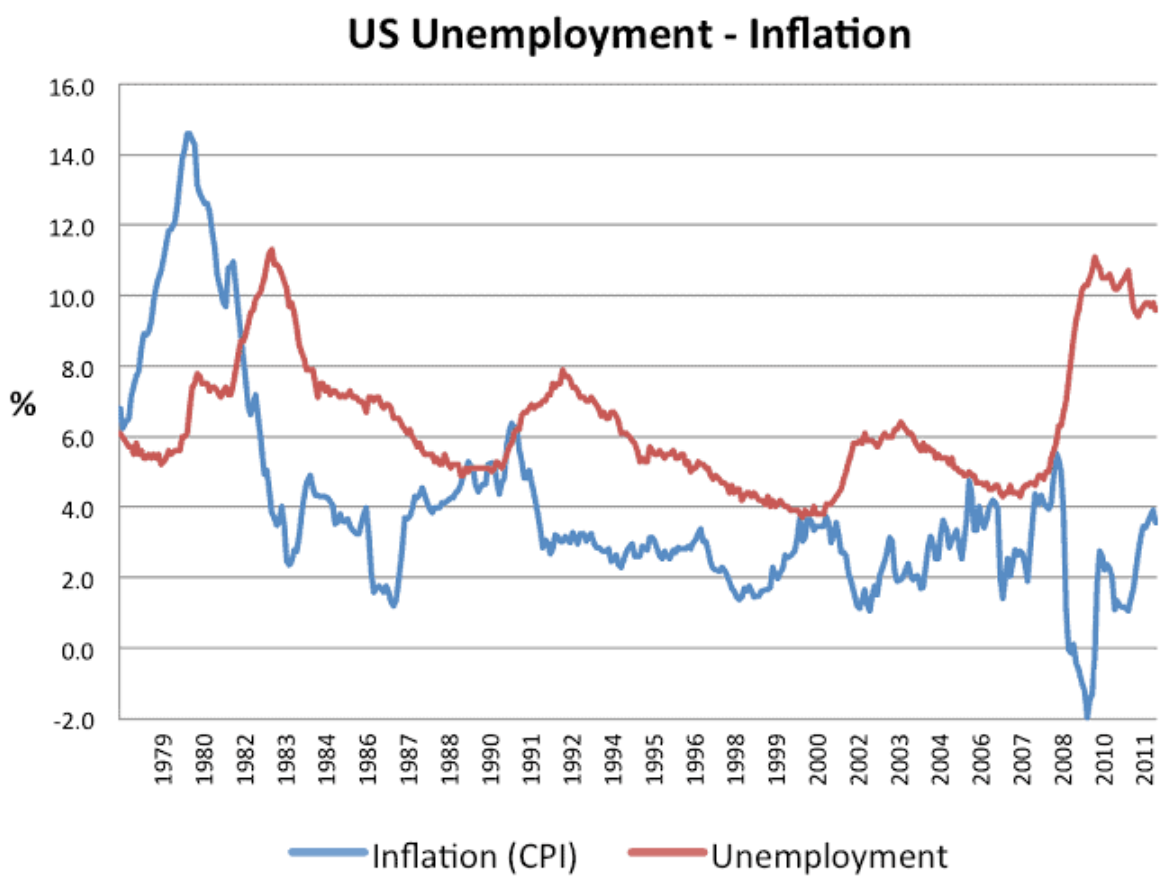
Although a higher level of prices is, in the long run, the primary effect of increasing the quantity of money, the short-run story is more complex and more controversial. Most economists describe the short-run effects of monetary injections as follows:

- Increasing the amount of money in the economy stimulates the overall level of spending and thus the demand for goods and services.
- Higher demand may over time cause firms to raise their prices, but in the meantime, it also encourages them to increase the number of goods and services they produce and to hire more workers to produce those goods and services.
- More hiring means lower unemployment.

This line of reasoning leads to one final economy-wide trade-off: a short-run trade-off between inflation and unemployment that can also be depicted as follows:



Although some economists still question these ideas, most accept that society faces a short-run trade-off between inflation and unemployment. This simply means that, over a period of a year or two, many economic policies push inflation and unemployment in opposite directions. Policymakers face this trade-off regardless of whether inflation and unemployment both start out at high levels (as they were in the early 1980s), at low levels (as they were in the late 1990s), or someplace in between. The following graph (which outlines US unemployment and inflation rates) shows that there is empirical evidence to back up this statement.



This short-run trade-off plays a key role in the analysis of the **business cycle** – the irregular and largely unpredictable fluctuations in economic activity, as measured by the production of goods and services or the number of people employed.

Policymakers can exploit the short-run trade-off between inflation and unemployment using various policy instruments. By changing the amount that the government spends, the amount it taxes, and the amount of money it prints, policymakers can influence the combination of inflation and unemployment that the economy experiences. Because these instruments of economic policy are potentially so powerful, how policymakers should use these instruments to control the economy, if at all, is a subject of continuing debate.

Society faces a short-run trade-off between inflation and unemployment.

6. Strengths and Weaknesses

Did Mankiw succeed in explaining the entire world economy with just 10 simple rules? Or is there more to our global economy and basic human interactions than Mankiw wants us to believe? In this chapter, we will briefly discuss what critics think about Mankiw's principles of economics.

Weaknesses

Does something complex like our global economy really follow 10 simple principles? Or isn't the world more complicated than that? And is Mankiw's view politically biased? One thing is for sure: not everyone agrees with Mankiw's ideas.

Critics argue that the author rarely includes a real discussion of primary sources and often slants toward the classical model of political economy, expounded most famously by Adam Smith. They criticize that Mankiw sees economic laws of the market as immutable "principles" of society — and thus makes his principles seem more like political ideology.

You might already have asked yourself if Mankiw's principles are really a good description of our daily lives. It might be a good idea to think about the following:

- Do the 10 principles ignore important parts that define our day-to-day actions? Whether you're with your friends, at home with your family, in school, or at work with your colleagues and business partners, values of cooperation, love, trust, sacrifice, and friendship are probably part of your lives. Why does Mankiw ignore *these* basic human principles of interaction and only focuses on *his* principles instead?

- Why does Mankiw ignore political power as an important concept? Political power is not even mentioned a single time in Mankiw's entire text. Yet most economists agree that political power plays an important role in explaining our global economy.

In other words, you might criticize that the whole market-centric approach of Mankiw's course is fundamentally at odds with how the world works in reality.

Given that Mankiw's ideas are at odds with the actual workings of social and economic life, and even help to perpetuate our societal and economic problems through producing this image of the individual as completely oriented toward market values and ideas, his critics claim that is time to expand the economic conversation towards more pluralism and away from hegemonic, ideologue set-in-stone "principles".

Strengths

No economic theory is perfect. No simple model can explain the complex world we live in without errors. However, we believe that it is both important and useful to learn Mankiw's 10 principles in order to better understand today's global economy.

The first edition of Gregory Mankiw's Principles of Economics (1997) initially targeted 20 percent of the economics textbook market for the first edition. Many experts opined that the publisher had a good chance of success. This makes Mankiw's principles one of the **most accessible and most-read modern economic ideas**. The success and popularity of Mankiw's principles are the results of several innovations in this book that help set it apart and put it in front of the several dozen other economic principles textbooks on the market.

Mankiw managed to make the complex theory of economics accessible to a larger audience. It is **easy to understand his principles** and follow his reasoning. He also managed to explain and include sub-topics such as consumer's behavior, fiscal and monetary policy, financial markets

behavior, the determination of prices, and many more. This is the reason why his principles are part of every economics study program.

We can put it like this: you probably should not see Mankiw's principles as "*the law of economics*", but rather as your starting point into the exciting world of economics.

7. Conclusion

You now possess a solid foundation of what economics is all about. The field of economics is based on a few basic ideas that can be applied in many different situations. Throughout other courses, we may refer back to the Ten Principles of Economics.

The fundamental lessons about **individual decision making** are that

- people face trade-offs among alternative goals,
- cost of any action is measured in terms of foregone opportunities,
- rational people make decisions by comparing marginal costs and marginal benefits,
- and people change their behavior in response to the incentives they face.

The fundamental lessons about **interactions among people** are that

- trade can be mutually beneficial,
- markets are usually a good way of coordinating trade among people,
- and the government can potentially improve market outcomes.

Finally, the fundamental lessons about the **economy as a whole** are that

- productivity is the ultimate source of living standards,
- money growth is the ultimate source of inflation,

- and society faces a short-run trade-off between inflation and unemployment.

Welcome to Marketing Essentials!
Most people link marketing to the area of consumer goods, where everything, from sponsoring a car to tv commercials, is a piece in the marketing process – all aimed at informing potential customers about a product or service.

However, marketing is part of almost every individual and business transaction. Marketing can focus on monetary business transactions (e.g. a software company representative trying to sell the company's software) or non-monetary transactions (e.g. an individual marketing himself/herself as a potential employee).

So, what exactly is marketing? How can it be defined? The crucial point is, that marketing is not just a single TV commercial, email offer, or handshake introduction. Marketing is a process. The singular events and items just mentioned, are just small pieces of a company's or individual's marketing efforts. Each piece, in addition to strategy, planning, and analysis, plays a role in the overall marketing strategy. Philip Kotler, a world-renowned marketing author, consultant, and professor defines marketing in the following way:

Marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures, and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best, and it designs and promotes the appropriate products and services.

– Philip Kotler

In the marketing process, businesses examine their capabilities, and the needs, wants, and demands of the marketplace, to determine which

customers they want to serve, and how they want their products to be perceived by these customers.

This involves:

- **Market segmentation and targeting:** identify the customers the business will try to serve and develop marketing plans and programs to reach them
- **Product positioning:** create the product's desired image in the customers' minds

Marketing programs and the marketers' decisions revolve around the traditional marketing mix variables, like product, price, place, and promotion.

Finally, businesses manage their marketing process by monitoring results obtained (e.g. sales or lack thereof) and adapting programs to stay on track, as customer and market conditions change.

Marketing is used to create, keep and satisfy the customer.

2. Customer Needs

Although many variations of the definition of marketing exist, they all include the same primary determinant: Success is achieved by meeting the customer's needs. All the time, effort, and money put into marketing aim to meet the needs of the customer.

- The most **basic needs** are those inherent to all human beings. For example, people have physiologic needs, for food, water, and sleep, in addition to safety, social, and personal needs.

- As individuals grow in their environment, and into their own personality, these needs become **wants**. For example, when someone is hungry, perhaps the person does not want a piece of bread with water, but a pizza with juice, because he has seen a commercial that advertised pizza and juice.
- The next question is, whether a person can actually afford to purchase the item. If yes, this then creates a demand for the product. A “want” combined with the “ability to pay” creates **demand**.
- When multiple purchase options are available, a multitude of factors play into the consumer’s decision, such as price, personal tastes, and preferences. Ultimately though, a consumer most likely chooses the option that provides the most **value**. Value is typically viewed as the subjective relationship between the perceived benefits and perceived costs of a product or service.

In the quest to meet customer needs, wants, and demand, while providing maximum value, companies employ a wide array of activities to make their marketing more effective. Through their own interactions with their customer base, as well as the feedback through now mostly online media, companies can gauge the pulse of their customers on a day-to-day, real-time basis.

Truly successful marketing organizations use this market intelligence, and their own operational efficiency, to adapt to any situation, while continually focusing their energy and strategy on meeting the customer’s needs.

3. STP Process

The STP process is an important concept in the study and application of marketing. The STP process demonstrates the links between an overall market, and how a company chooses to compete in that market. STP stands for the three main steps: segmentation, targeting, and positioning.

Segmentation

Step 1: Segment your market

Your organization, product, or brand can't be all things to all people. That's why you need to use market segmentation, and divide your customers into groups of people with common characteristics and needs. This allows you to tailor your approach, and meet each group's needs cost-effectively, which gives you a huge advantage over competitors who use a "one size fits all" approach. There are many ways to segment your target markets. For example, you can use the following approaches:

- **Demographic Segmentation** – By personal attributes, such as age, marital status, gender, ethnicity, sexuality, education, or occupation.
- **Geographic Segmentation** – By geographic location, such as country, region, state, city, or neighborhood.
- **Psychographic Segmentation** – By personality traits, such as risk aversion, values, or lifestyle.
- **Behavioral Segmentation** – By personal behavior, such as how people use the product, how loyal they are, or the benefits that they are looking for.

Market segmentation is the process of dividing a broad market into sub-groups of consumers (known as segments), based on some type of shared characteristics.

The Adventure Travel Company is an online travel agency that organizes worldwide adventure vacations. It has split its customers into three segments because it's too costly to create different packages for more groups than three groups. Segment A is made up of young married couples, who are primarily interested in affordable, eco-friendly vacations, in exotic locations. Segment B consists of middle-class families, who want safe, family-friendly vacation packages, offering easy and fun trips with children. Segment C comprises upscale retirees, who are looking for stylish and luxurious vacations, in well-known locations, such as Paris and Rome.

Targeting

Step 2: Target your best customers

Next, you must decide which segments to target, by finding the most attractive ones. It can take a lot of effort to target a segment effectively. Choose only one segment to focus on, at any one time. There are several factors to consider here.

- First, look at the **profitability** of each segment. Which customer groups contribute most to your bottom line (i.e. profit)?
- Next, analyze the **size and potential growth** of each customer group. Is it large enough to be worth addressing? Is steady growth possible? And how does it compare with the other segments? (Make sure that you won't be reducing revenue by shifting your focus to a niche market that's too small.)
- Last, think carefully about how well your organization can service this market. For example, are there any legal, technological, or social **barriers** that could have an impact? Conduct an environmental analysis to understand the opportunities and threats that might affect each segment.

Targeting involves concentrating your marketing efforts on one or a few key segments.

The Adventure Travel Company analyzes the profits, revenue, and market size of each of its segments. Segment A has profits of $8,220,000, Segment B has profits of $4,360,000, and Segment C has profits of $3,430,000. Therefore, it decides to focus on Segment A, after confirming that the segment size is big enough.

Positioning

Step 3: Position your offering

In this last step, your goal is to identify how you want to position your product, to target the most valuable customer segments. Then, you can select the marketing mix that will be most effective for each segment. According to Michael Treacy and Fred Wiersema, two famous marketing experts, most successful firms fall into one of the following three categories:

- **Operationally excellent firms:** These firms maintain a strong competitive advantage, by operating exceptionally efficient. This enables the firms to provide reliable service to the customers at relatively low costs.
- **Customer intimate firms:** These firms excel in serving well the specific needs of the individual customer. There is less emphasis on efficiency, which is sacrificed, as the individual wishes of the customer receive exceptional attention.
- **Technologically excellent firms:** These firms produce the most advanced products currently available, with the latest technology, constantly maintaining leadership in innovation.

Positioning refers to the place that a brand occupies in the mind of the customers and how it is distinguished from products from competitors.

The Adventure Travel Company markets itself as the “best eco-vacation service for young married couples”. It hosts a competition on various social media platforms to reach its desired market because these are the channels that these people favor. It asks customers to send in interesting pictures of past eco-vacations, and the best one wins an all-inclusive trip. The campaign goes viral, and thousands of people send in their photos, which helps build the Adventure Travel Company mailing list. The company then creates a monthly e-newsletter, full of eco-vacation destination profiles.

4. Marketing Mix (4P)

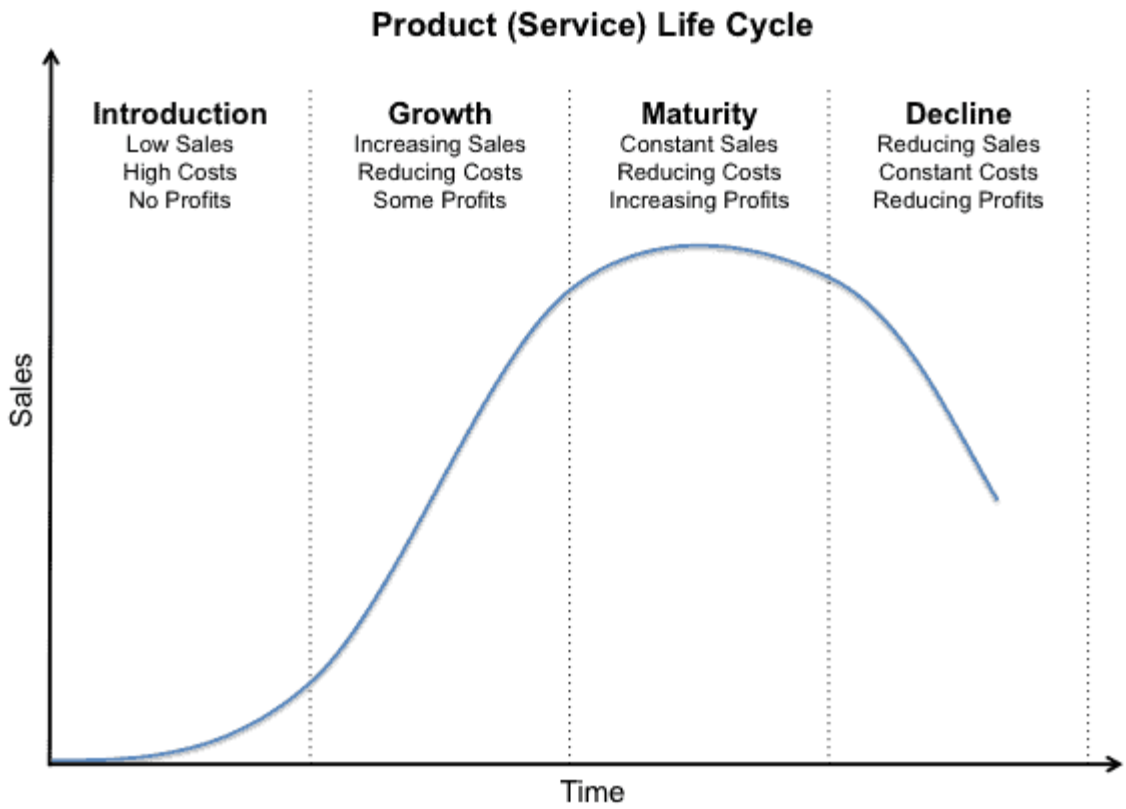
The **Marketing Mix** is a tool invented by the American professor Neil Borden, to describe the different types of choices organizations have, when bringing a product or service to market.

The basic principles of Borden's model were refined over the years until professor and author E. Jerome McCarthy reduced them to four elements, called the "**Four Ps**" of marketing.

Product

As a company evolves, it must continually assess the customers' needs, to know whether it is providing the right product. In this course (as in the world of marketing) "products" can be both tangible goods or intangible services. In assessing which customers it wants to serve, a company gains direction in terms of the products or services it will offer.

The "**product life cycle**" is a frequently used model for analyzing a product. It identifies the stages of a product, by observing sales volumes over time. Traditionally, the product life cycle charts the following four stages:



1. Introduction Stage
This stage of the cycle could be the most expensive for a company launching a new product. The size of the market is still small, although it will be increasing. However, the cost of development, production, and marketing can be very high, especially if it's a competitive sector.

2. Growth Stage
The growth stage is typically characterized, by strong growth in sales and profits, and the company starts to benefit. This makes it possible for businesses to invest more money in the promotional activity, to maximize the potential of this stage.

3. Maturity Stage
During the maturity stage, the product is established, and the manufacturer's aim is now to maintain the market share they have built up. This is probably the most competitive time, for most products and businesses need to invest wisely in any marketing they undertake.

4. Decline Stage
Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. The cause of this shrinkage could be, the market becoming saturated (i.e. all the customers who might buy the

product, have purchased it already), or the consumers switching to a different type of product.

The stages of a product life cycle are: 1. introduction, 2. growth, 3. maturity, 4. decline
It is important to assess the life cycle of the products you sell. If, for example, most of your revenues come from products in the mature or decline phases of their life cycles, you'll be hard-pressed to grow your sales in the teeth of stable or declining demand. At the other extreme, if you're too reliant on new products, the lack of an established cash cow to pay for those products' marketing and R&D could sink you. Keeping a good mix of new, refreshed, and established products can help stabilize your revenues, and give you predictable growth.

Price

Now more than ever, consumers are price-conscious in almost all their purchases. For companies trying to market their goods or services, understanding customers' needs and wants as they relate to the price variable, is essential to survival. A great product priced too high will struggle; while a product priced too low, might be devalued in the marketplace, and hamper the company's profit and growth potential. Thus, it is important for companies to find the right price point that meets both the customer's, and the company's needs.

Marketers generally choose from one of the following four pricing strategies, or create some successive combination of these strategies:

1. Penetration Pricing:
Marketers often use penetration pricing to introduce a new product. In a penetration strategy, marketers set the price of an item as low as possible, to generate the greatest possible volume of sales for that product. The company uses penetration pricing, to motivate consumers to make their purchase decision based on price.

2. Perceived Value Pricing:
Perceived value is a pricing strategy, where marketers set the price to how valuable the customer believes the item to be, and therefore how much the customer is willing to pay for it. The gap between the cost to produce and the perceived value is irrelevant to this strategy. For this reason, it is most often used for luxury goods, like prestige fragrances.

3. Skimming Pricing:
In a skimming strategy, marketers set the price of the new product as high as the market will allow. Once the population segment that is not price-sensitive has been saturated, or the product has reached almost all those consumers who were ever going to buy it, marketers progress to incorporate a different pricing strategy.

4. Target Return Pricing:
Some companies measure the success or failure of a product based on the relationship of how much revenue, or in some cases profit, a product generates in relation to how much it costs to make the product. This measure is called return on investment, or ROI.

The strategy a firm uses to price a product or service, can and does vary from firm to firm, and from product to product within a firm. Clearly, marketing professionals weigh a host of factors before choosing one strategy. Aside from the features and quality of the product itself, price is the single most powerful variable in determining the success or demise of a product.
Today, beyond promotions and discounts, companies use dynamic pricing strategies on the internet, to capture even greater profits. Dynamic pricing is a “real-time” change in price, based on customer preferences and past purchasing habits. However, having different prices for the same product can backfire, if consumers become aware of it.

Place

From a marketing perspective, place, also often labeled as “distribution”, refers to any activity designed to create value and utility by making the product(s) available. In any manufacturing industry, products must be made, packaged, and distributed to the point of sale.

If a product is a mass consumer product, it needs to be available as far and wide as possible. On the other hand, if the product is a premium consumer product, it will be available only in select stores. Similarly, if the product is a business product, you need a team which interacts with businesses and makes the product available to them.

A company could make the best product, but if it cannot get that product into the hands of the customers, then the company’s potential success is at risk.

Important questions are:

- Where do buyers look for your product or service?
- If they look in a store, what kind of store? A specialist boutique or in a supermarket, or both? Or online?
- How can you access the right distribution channels?
- Do you need to use a sales force? Or attend trade fairs? Or make online submissions?

Promotion

Finally, promotion is the marketing mix variable most commonly recognized by the consumer, given its visual nature, such as in television advertising. Promotion, however, is not just a short television commercial or a massive billboard. It functions as a company's communication arm, transmitting to consumers the other Ps – product, price, and place.

In today's world of digital and mobile technology, promotion takes many new forms while still including traditional media. Companies use a variety of outlets to promote their products (and/or services). The most common promotional methods used, include the following:

- **Advertising:**
  Advertising consists of the promotion of a given product, service, or message through mass media channels, such as newspapers, billboards, magazines, radio, internet, and television, and is used to both inform a given target market and persuade them, aiming at an increase in the use or sale of the company's products or services.
- **Sales promotions:**
  Sales promotions are found everywhere in society, such as 50% off, 0% financing, and the ever-popular "buy one, get one free." Sales promotions are used to persuade consumers, to buy the

product or service at that specific moment in time, or while the sales promotion lasts.

- **Personal selling:**
  Personal selling involves a one-on-one interaction between an individual salesperson and a prospective client. Generally speaking, a company's sales force is meant for personal selling. For years, companies have employed sales personnel to develop solid relationships with the customers they serve.
- **Direct marketing:**
  Direct marketing is a much more focused and targeted promotion, than advertising. In the current market, direct marketing has greatly expanded its reach, because of the internet and mobile technology. These always-expanding channels, enable message customization and personalized marketing messages to be directed at a specific person, place, and time.
- **Public relations (PR):**
  As its name implies, PR involves relating with the public, or those considered to be company stakeholders. PR efforts, such as press releases, sponsorship, and corporate literature, are used to generate positive attitudes and feelings, or goodwill, toward the company and its products and services.

Example: Starbucks Marketing Mix

Let's take a look at a short and simple example: the Marketing Mix of American coffee chain company Starbucks.

Product: Starbucks specializes in coffee and related beverages. The company sells coffee and espresso beverages, cold blended beverages, as well as a selection of premium teas. In addition, the firm also sells coffee-related accessories and equipment.

Price: Starbucks expects to maintain or lower the price of some of its most popular beverages, including certain espresso beverages; and, in most markets, its popular $1.50 tall brewed coffee. Furthermore, it anticipates raising prices of the labor-intensive, and larger-sized beverages.

Place: Starbucks coffees and teas were available in approximately 39,000 grocery and warehouse club stores, 33,000 of which were in the US, and 5,500 in international markets. In many cities, it is impossible to walk several blocks, and not run into a Starbucks store. Proximity and accessibility are some of the company's greatest assets.

Promotion: The company has gone to great lengths to create a "community atmosphere" among premium coffee lovers. The Starbucks reward program allows members to earn a free drink after a certain number of purchases at participating Starbucks stores. In general, Starbucks stresses quality above price, and other features it could emphasize.

5. New Models: 7P and 4C

While the traditional marketing mix was predominately associated with the 4Ps of marketing, new models such as the **extended 7Ps model** of service marketing, and the **4Cs model** try to build upon the older 4Ps model, while increasing its explanatory power.

The Extended 7P's

In the late 70's it was widely acknowledged by marketers, that the marketing mix should be updated. This led to the creation of the Extended 7Ps Marketing Mix in 1981 by Booms & Bitner, which added three new elements to the 4 Ps model. The three new factors focus not on physical products, but services. That's why the 7Ps model is also called "service marketing mix.

The three new factors are:

- **People:**
  All companies are reliant on the people who run them, from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.
- **Processes:**
  The delivery of your service is usually done with the customer present, therefore, how the service is delivered, is once again part of what the consumer is paying for.
- **Physical Evidence:**
  Almost all services include some physical elements, even if the product is intangible. For example, a travel agency would give their customers some form of printed material. Even if the material is not physically printed (in the case of PDFs), they are still receiving a kind of “physical evidence”.

Though existing since the 1980s, the 7 Ps are still widely taught, due to their fundamental logic, being sound in the marketing environment, and marketers’ abilities to adapt the marketing mix to include changes, such as in communications (social media), updates in selling locations, or customers’ expectations.

Example: Starbucks Marketing Mix II

Let's go back to our Starbucks example.

What is the company's marketing mix concerning People, Process and Physical Evidence?

People:
Starbucks has a massive workforce. In addition, it plans to recruit around 240,000 more people worldwide. It is an equal opportunity employer who is committed to building a diverse workforce. Starbucks is also known for its investment in employee training and development. It is a customer-centric company, where customers are the focal point.

Process:

- For costumers: Starbucks is often a very busy place, and employees need to serve customers as efficiently as possible. The interaction with the customers begins with a greeting by a Starbucks employee. Customers will then place their food/drink order and make the payment. This is then followed by the order being served, and a farewell being given.
- For business partners: The Starbuck Company's International special activities, includes retail stores with licensing operations in more than 55 countries. Like other big chains such as McDonald's, Burger King or Subway, Starbucks operates primarily through joint ventures and licensing arrangements, with consumer products business partners. This enables Starbucks to expand fast while keeping financial risks of store closures to a minimum.

Physical Evidence:
The famous Starbucks Logo (which is green and features a partially nude siren) has stayed largely unchanged since its origin. However, it has been altered to adjust to international sensibilities. Their logo is well-known and can be seen all over major cities. Their presence and recognizability are very important assets of the company.

The 4C Model

The 4Cs marketing model was developed by Robert F. Lauterborn in 1990. This relatively new approach to marketing shifts the focus from producer and product to the consumers and their needs. Instead of the focus on mass marketing of the traditional 4P marketing model, the 4C marketing model is aimed at niche marketing.

The idea behind it is that the more familiar a company is with the consumer, the better it can align its strategies and the greater its conversion rates will be. Because it is the customers who form a company's marketing mix, the 4C marketing model makes them the main focus.

The 4 Ps	The 4 Cs
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

- **Consumer Solutions:**
  A company should only sell a product, that addresses consumer demand. So, marketers and business researchers should carefully study the consumers' wants and needs.
- **Customer Cost:**
  According to Lauterborn, price is not the only cost incurred when purchasing a product. Cost of conscience and opportunity cost is also part of the cost of product ownership.
- **Convenience:**
  The product should be readily available to consumers. Marketers should strategically place the products, for example in several visible distribution points.
- **Communication:**
  According to Lauterborn, "promotion" is manipulative while communication is "cooperative". Marketers should aim to create an open, two-way dialogue, with potential clients, based on their needs and wants.

Whether you are using the 4Ps, the 7Ps, or the 4Cs, your marketing mix plan plays a vital role. It's important to devise a plan that balances profit, client satisfaction, brand recognition, and product availability. It is also

extremely important to consider the overall “how” aspect, which will ultimately determine your success or failure.

6. Marketing Strategies

Identifying the right strategy to market your business can be challenging. How do you get your message to the right audience effectively, and how do you beat your competitors? In this chapter, we will discuss how to choose the best marketing strategy for your product or service.

Three Main Marketing Strategies

There are different types of marketing strategies, and every marketing manager should decide what’s the appropriate one. This step is important because it has a big impact on the marketing mix. A manager needs to pick one of the following marketing strategies:

Undifferentiated (Mass) Marketing	Differentiated (Segmented) Marketing	Concentrated (Niche) Marketing
		
Whole market with one offer → Ignore segments	Decide to target several different market segments, separate offers for each	Concentrate on one or a few segments or niches

1. Mass Marketing
This is a “push” market strategy, in which segmentation is completely ignored, and an attempt is made to reach the largest possible number of potential customers. This technique relies on the persuasion potential of communication. Traditional mass marketing methods are radio, television, and print advertising.

Coca Cola’s original marketing strategy was based on this format, at a time that they offered only one product, which they believed had universal appeal. However, now that Coca Cola has introduced other products, it has changed its marketing strategy to differentiated marketing.

2. Differentiated Marketing
This marketing strategy is also known as a multi-segment marketing strategy. Each customer segment is handled uniquely so that you target each customer segment with a different solution. This strategy keeps your team more focused and is more efficient in spending your marketing dollars.

An airline company offering first, business, and economy class tickets, with separate marketing programs to attract customers for each of the ticket types, is an example of a differentiated marketing strategy.

3. Concentrated Marketing
This strategy targets a single well-defined segment of the customer population. The marketing costs are low, but so is your sales potential. It is particularly effective for small companies with limited resources, as it does not believe in the use of mass production, mass distribution, and mass advertising.

The car-manufacturer Rolls Royce only targets the premium segment of the car market.

Perceptual Mapping

One of the biggest headaches for marketing professionals is deciding where a new product or service fits into the marketplace. In this lesson, we will show how your business can benefit from using perceptual maps to decide where to position your product or service against those of the competitors.

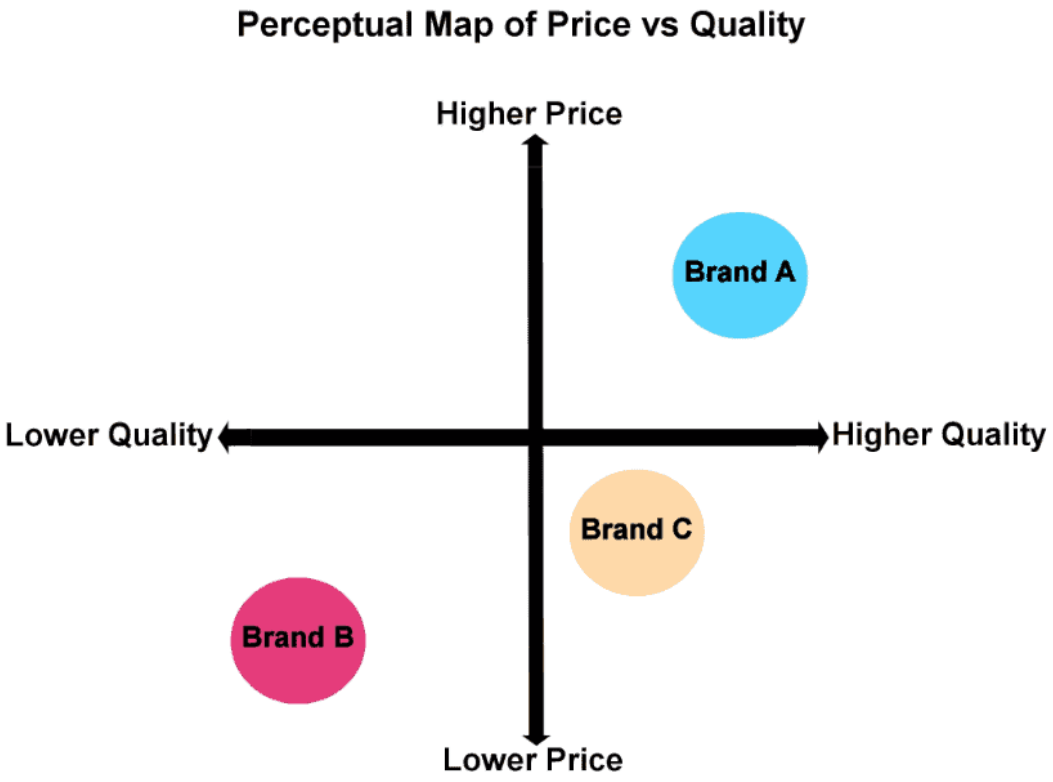
Perceptual mapping is a diagrammatic technique used by marketers, in an attempt to visually display the perceptions of potential customers. Typically, the position of a product, product line, brand, or company is

displayed relative to their competition. This kind of visual representation can give valuable information about the current position, as well as the future strategy of a company.

The data for perceptual maps comes from customer surveys of products or services – customers are typically asked to rate their views on various criteria such as:

- Performance
- Ease of use
- Price
- Reliability
- Quality
- Customer support

Survey results are compiled and plotted on a graph according to their scale values. These graphs commonly have two dimensions. In the example below, customer perceptions of price versus quality for three different brands are displayed on a graph, providing an excellent visual representation of how brands can be differentiated in the minds of consumers.

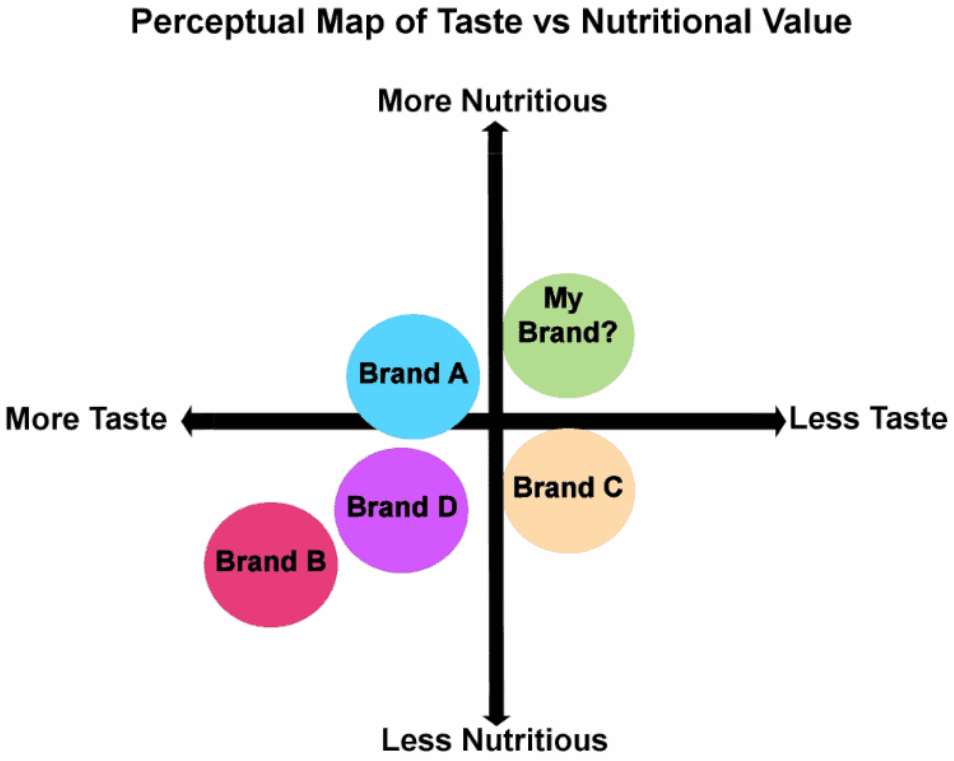


Aside from price versus quality, perceptual maps can be made for a variety of product/service attributes. For example:

- Trucks: Towing capacity versus fuel consumption
- Landscaping services: Appearance versus effect on the environment
- Coffee: Price versus sustainability
- Food/drink: Taste versus sugar or salt content
- Hotels: Price versus location, amenities, etc.

As an example, let's say you think you have developed a winning recipe for a granola bar and wish to use perceptual mapping to help you decide where to position the product in the marketplace.

- Define the attributes that are of the highest importance to the consumer and will influence their purchasing decisions. In this example, we have decided to use taste and nutritional value as the determinant attributes.
- Compile a list of the competing products that will be included in your market survey and plotted on your perceptual map. Depending on the product a minimum of four or five competitors should be surveyed, preferably those with the largest market share.
- Develop a rating scale for the determinant attributes (in this case taste and nutrition) and distribute the survey to customers. A simple 1-5 rating works well.
- Once you have your perceptual map, you will need to determine where to position your product versus the competition – preferably where there appears to be a gap in the marketplace.



In the above example, you may decide that a segment of the market would prefer to sacrifice a degree of taste for more nutrition. Competing for head to head with another brand is generally risky, but the price may enter into the decision. You may be able to take market share from a competing product that has the same or similar attribute rankings if you are able to set the price of your product sufficiently low enough.

7. Marketing Performance

At some point, every company has to assess the success of its marketing activities. Marketing effectiveness is the measure of how effective a marketing strategy is in maximizing their spending to achieve positive results, in both the short- and long-term.

Marketing Effectiveness

One way to assess whether a company successfully practices marketing is to assess its overall level of marketing effectiveness. Marketing

effectiveness is based on five dimensions, including a firm's degree of holding to a customer-oriented philosophy, strategic marketing orientation, ability to gather relevant and timely market intelligence, level of integration of the marketing organization, and operational efficiency.

1. Customer Orientation
Successful marketing is based on being able to meet customers' needs. Marketing is highly dependent on knowing, analyzing, and meeting customer needs, as opposed to a singular focus on the product or general sales. Does the company respond quickly to the customers' issues or troubles?

2. Strategic Orientation
From a strategic point of view, the marketing professionals in a company must function with the long-term strategy and success in mind. This typically takes the form of formal marketing planning, and a culture of strategic, long-term thinking.

3. Market Intelligence
To serve the customers' needs, a company and its marketing professionals should obtain as much objective information as possible, regarding its status in the marketplace. In addition to having the necessary information for planning and resource allocation, from their own internal data and sources, key decision-makers should also have at their disposal up-to-date information about the external market.

4. Organizational Integration
Based on the competitive intelligence the company gains, a company must react in an integrated and efficient manner, to maintain its level of customer service, and if necessary, adjust its strategy. Integration focuses on how good marketing and other departments in an organization communicate and work together.

5. Operational Efficiency
Operational efficiency speaks to how effective the organization is at its business. How well are the decisions, made at the higher levels of marketing, filtered throughout the organization? How responsive is the

marketing department to problems and issues? How responsive is the organization to customer requests?

Performance Measurement

Marketing performance metrics, or key performance indicators (KPIs), are useful not only for marketing professionals but also for non-marketing executives. From the chief executive officer to the vice president of sales, the senior management team needs marketing KPIs to measure how marketing activities and spending impact the company's bottom line. This is particularly important since companies are prone to reduce marketing budgets during economic downturns, downsizing, and mergers.

As marketers face more and more pressure to show a return on investment (ROI) on their activities, marketing performance metrics help measure the degree to which marketing spending contributes to profits. It also highlights how marketing contributes to initiatives in other areas of the organization, such as sales and customer service.

Other reasons why companies evaluate marketing performance include:

- Monitoring the marketing department's progress towards its annual goals.
- Determining what areas of the marketing mix – product, price, place, and promotion – need modification or improvement to increase some aspect of performance.
- Assessing whether company goods, services, and ideas meet customer and stakeholder needs.
- Establishing marketing performance metrics is an essential part to help brands satisfy customers, establish a clear company image, be proactive in the market, and fully incorporate marketing into the company's overall business strategy.

To measure the effectiveness of a marketing campaign, a business needs to agree upon the goals of the campaigns, and the KPIs (key performance indicators) that it needs to track. For example, the goal of a campaign could be to increase a company's online brand reputation. A good KPI to measure the success of this campaign might be, the number of website visitors.

8. Conclusion

The heart of your business success lies in its marketing effectiveness. Marketing does not start with a new idea or innovative product. It begins with the customers – these are the people who make your business successful, and this is where good marketing can really make a difference.

Marketing is about putting the right product in the right place, at the right time, and with the right price. The difficult part is doing this well, as you need to consider every aspect of your business plan.

Marketing enables you to position a product or service and to target different groups of customers more efficiently. It helps you to quickly zoom in on the most profitable parts of your business so that you can fully exploit the opportunities present. Start by segmenting your market into groups. Next, choose which of these groups you want to target. Last, identify how you want to position your product, based on the personality and behavior of your target market.

In this course, we have seen that marketing is not just a single advertisement or public relations campaign, but rather a continual process of creating value for customers, and meeting their needs. Through managing and adjusting the four primary marketing mix variables (product, price, place, and promotion), identifying appropriate customers (segmentation and targeting), and placing the desired product or service image in the minds of those customers (positioning), marketing professionals are putting their companies in a position to achieve success.

What is strategy? When your friend tells you that his "strategy" in basketball is to win, he is not telling you a strategy at all. A strategy is a plan of action designed to achieve a goal – in the case of your friend, a more appropriately defined strategy for his basketball game would be: "I am going to apply defensive pressure and force the opposing team to make mistakes with the end goal of winning the game". In this course, you will learn that you must first clearly define your goals before you develop strategies in order to achieve them. You will also learn that strategy in business is similar to strategy in sports, war, or politics; the parallels are so close that early business strategists studied military strategies in depth. The science of strategy development has developed beyond this by now, but the parallels still exist.
Strategic management involves two processes: first, the process of identifying specific goals for a firm and designing strategies to achieve those goals, and second, the process of implementing those strategies. It is easy to say that your goal is to increase sales by 50% in three years, but how do you go about achieving that goal? Are you going to lower prices, acquire a competitor, move into other businesses, or something else? Assuming you are going to lower prices, how are you going to do so and keep profits up? These are the sorts of questions that strategists must answer.

This course is the capstone of Saylor Academy's Business Administration program because it incorporates elements from all of the other courses in the program. If you have taken those courses already, almost every topic in this course should be familiar to you, but Strategic Management ties them all together. This course begins with an introduction to the field and the definition of some important terms and concepts. You will then move on to identifying goals and formulating strategies before addressing implementation topics. This course will conclude with strategies for the 21st century.

Unit 1: Introduction to Strategy

In order to understand how to design a strategy, you must first review some definitions. Accordingly, this unit will open by defining the terms strategy, markets, firms, and management. This unit will also underscore that firms must identify the market that they compete in. It is not enough to identify competitors, which will be discussed in a later unit; Microsoft and Google are competitors, but they do not compete in all of the same markets. Google mostly competes in the search engine market, to which Microsoft has recently started to devote an increasing number of resources in the hopes of competing with the new "decision engine" called Bing. Likewise, Microsoft competes in the operating system market, and Google has recently diverted resources to compete in this market with Google Chrome OS. However, competitors do not always compete in the same markets. For example, Apple competes in many markets with Google and Microsoft, but makes these companies' products available on its own platform. Apple does not have a search engine, so it allows Google and Microsoft to compete on the iPhone.

Identifying markets and industries gives a firm the foundation it needs to develop goals and strategies. Microsoft may aim to take 5% of the search engine market from Google and then develop a strategy in which to accomplish this. This unit focuses on topics such

as these as well as issues like designing strategies at different levels within a firm. There are corporate strategies, but there are also strategies designed by a line of business or department.

Completing this unit should take you approximately 8 hours.

- Upon successful completion of this unit, you will be able to:
  - define strategy in its many forms;
  - discuss the participants in strategy as a hierarchy; and
  - analyze market structures.

- **1.1: Definition**

  - Introduction to Strategic ManagementPage

    This video is an introduction to strategic management, starting with a traditional approach. It leads you through the major concepts that will follow in BUS501. Do not be overwhelmed by the scope of strategic management. You may want to have the course syllabus in front of you and note the flow of the course as you watch the video.

  - Business StrategyURL

    Read through this book as a high-level introduction to Strategic Management and its applications. Outline or take notes as you read, and pay attention to the key points identified in each section. Consider the three-legged stool explanation 5 minutes into the video you just watched. How do the three legs compare with this book's three main processes of business strategic management?

  - **1.1.1: Strategy**

    - What is Strategy?Page

      As you watch the videos in this course, recognize that they have been produced by several different professors and often include references to activities and resources used in the course in which they have been recorded. Pay attention to key concepts stressed in the instructions included with each activity as you progress through BUS501.

      Before you watch this video, write down your definition of strategy. Pay attention to the role of strategy in achieving organizational goals. This professor has recorded many informational lectures on strategy that cannot be specifically referenced in this course because of copyright issues. However, as you continue through the materials in this course, you are encouraged to do your own independent research to access other items by the professors with presentation styles that are meaningful to you.

Now, sit back and enjoy this overview of strategic management!

- **1.1.2: Markets**
  - Market StructurePage

    Read this short article and study the diagram. This is a good reference item identifying and defining the four basic market structures. In developing a strategy, one needs first to identify the structure the firm is competing in.

  - Other Market StructuresPage

    This video defines and explains competition in each of the different market structures from an economics viewpoint. In which structure might uniqueness be the most important? In which structure might uniqueness be the least important?

  - Perfect CompetitionPage

    As you watch this video, pay attention to the terms you've heard in your economics courses. Pause the video and review any terms that are unfamiliar to you. Can you name at least one business or service in your community that is an example of (near) perfect competition?

  - MonopolyPage

    Watch this video for a better understanding of monopolies. Consider the current evolution of these two structures (perfect competition vs. monopoly) in an expanding global-enterprise environment.

- **1.1.3: Firms**
  - Price, the Only Revenue GeneratorURL

    In microeconomics, the purpose of every business is to make a profit. In business strategy management, this profit motive is often opposed by organization goals that bend towards social welfare or the firm's reputation. Read the section on the firm's pricing objectives. Can you identify a business that appears to promote a non-profit business goal, such as being a "green" organization?

  - Developing Organizational Objectives and Formulating StrategiesURL

    Read this section, which serves as an overview of the strategic planning process from a market plan perspective. Various

stakeholders may look to a firm to maximize different objectives. Think about how firms are in a competitive marketplace and how they can survive and thrive long term.

- **1.2: Strategic Hierarchy**
  - The Hierarchy of StrategiesPage

    This chart summarizes the many levels in a business that may be affected by a strategy decision. As you examine this chart, think about how each level of strategy is interrelated to the others. A more complex organizational structure must be strategically managed to be effective and efficient. Any structure must leverage each part's strengths.

- **1.3: Industry Analysis**
  - **1.3.1: Industry Classification System**
    - North American Industry Classification System (NAICS)URL

      Read the introduction, which explains how industries are categorized in the United States. This system allows governments to measure the overall business activity in each sector of the economy.

    - SIC Division StructureURL

      The SIC Division Structure is a list of categorizations of businesses and industries. Explore the many classifications and think about how strategies might differ among industries.

  - **1.3.2: Porter's Five Forces**
    - Developing Strategy through External AnalysisURL

      Read this section to learn the difference between internal and external forces and how they affect organizations. Attempt the exercises at the end of the section.

    - Porter's Five ForcesPage

      Read this article, which explains Porter's five forces to consider in business strategy development. This model has been the classical approach to industry analysis since the late 1970s.

    - The Five Forces of Industry Competitive AdvantageURL

      Read this section, which updates Porter's five forces model to account for the effect of technology on strategic management. After you read, complete the exercises at the end of the section.

Unit 2: Strategic Planning

Strategic planning is the phase of strategic management that comes after goals are defined but before the strategy is put into place. In this phase, the financial situation of your firm must be taken into account. For example, if your firm wants to grow, this usually involves additional investment of capital. If your firm does not have the cash or the means to raise money to spend, then the goal may be dead in its tracks.

Likewise, there are external issues that must be taken into consideration. Google cannot grow much in the advertising space market without facing reviews from the Department of Justice for anti-trust issues. These are political issues, but there are also economic, social, and technological concerns at play. By considering these factors, strategic planners can design a strategy that can be implemented without being stalled or shut down by some unforeseen issue.

There are many ways to analyze a system and develop a strategic plan. Hopefully, you will study the methods in this course, and then further research systems that may be best catered to your desired industry of employment.

Completing this unit should take you approximately 21 hours.

- Upon successful completion of this unit, you will be able to:
  - describe how organizational goals are established;
  - identify internal and external factors that impact strategic planning; and
  - select and apply the appropriate strategic management tools based on internal and external analysis.

- **2.1: Organizational Goals**

  - Introduction to Advanced Strategic ManagementPage

    Watch this video by an international professor. At the beginning, the professor defines his course structure, but he then moves on to the topics we're interested in. As he discusses strategic planning skills, which ones do you already possess? Which ones do you want to develop further as you proceed through this course?

  - Developing Mission, Vision, and ValuesURL

    Read sections 2, 3, 5, 6, and 7 to see how vision and mission statements are created and used in a modern organization. Attempt the exercises at the end of each section.

  - Proclaiming Your Dream: Developing Vision and Mission StatementsPage

    Read this example of how to apply and develop vision and mission statements.

- Strategic Planning and the Final ProductPage

  While this video emphasizes strategy development in healthcare, take notes of its key points. Think about the "I CARE" mission statement what goal each letter stands for. Could this mission statement be used in any business? The last 12 minutes covers SWOT, which we will discuss soon.

- **2.2: SWOT Analysis**

  - SWOT AnalysisURL

    What is SWOT? How is it used in strategic planning? Read this section and do the exercises at the end. SWOT is a basic tool that can be used to analyze an organization's internal and external factors.

  - An Overview of SWOT AnalysisPage

    Read this article as an overview to SWOT analysis. A quick web search for a company SWOT analysis, such as Walmart, will lead you to several copyright-protected sites with the table in this article completed for the company you chose.

  - How to Conduct a SWOT AnalysisFile

    Read this presentation, which covers how to do a SWOT analysis.

  - Strategic Management in the P-O-L-C FrameworkURL

    Read this section to see how a SWOT is created and applied. Attempt to answer the exercises at the end of the section.

  - SWOT Analysis: Strengths, Weaknesses, Opportunities, and ThreatsPage

    Be sure you understand the four quadrants of a SWOT analysis. Examine the supplemental checklist and tools, each of which provide additional context.

- **2.3: PEST Analysis**

  - How to Conduct a SWOT Analysis with a Strategic Orientation RoundPage

    Watch this video of a live SWOT analysis in an organization. Note the completion of each of the four components.

  - PEST AnalysisPage

A SWOT analysis often is preceded by a PEST Analysis: Political, Economic, Social, Technology. The PEST Analysis model was first introduced in 1967 and has evolved assuming other names. In this course, the PESTEL Analysis (PEST plus Environmental and Legal issues) will be used to examine this macro-level viewpoint analysis tool.

- PESTEL: A Framework for Considering ChallengesPage

  This article introduces the PESTEL model. There are a number of ways to diagram the six categories in the PESTEL Analysis model. Do a quick search to see the variety of template diagrams that have been created.

- **2.4: Factors of Success**

  - Making Strategy EffectivePage

    This article discusses three factors to consider in order to form an effective strategy. What conditions influence the effectiveness of strategy formation?

Unit 3: Creating Competitive Advantage

The success of a strategy depends on the firm's competitive advantage, or whether its position in a competitive market allows it to achieve its goals, which might include higher returns on investments, greater efficiency or superior effectiveness in comparison to competitors. What sets your product or service apart from the competition? Two generic strategies for developing a competitive advantage are cost leadership and differentiation. Cost leadership is a strategy that Walmart follows. This company aims to offer the lowest prices in order to draw in customers. Differentiation is a strategy designed to make your product or service so unique that it stands out from the competition in a desirable way to a target market. Nintendo launched the Wii video game console by differentiating their product with motion sensitive controllers. This company pursued a cost leadership strategy in conjunction with this differentiation strategy.

There are a number of ways to achieve competitive advantage, and they all require a focus on the competitors. It is important to keep this in mind when studying this unit. This unit's primary takeaway should be the concept of sustainable competitive advantage. As soon as your competitors see a strategy of yours working, they will either copy or leapfrog it. Sony immediately attempted to copy Nintendo by developing its own motion-sensitive controllers, and Microsoft has moved to motion recognition via cameras. Sustainable competitive advantage involves not only jumping ahead, but staying there.

Completing this unit should take you approximately 18 hours.

- Upon successful completion of this unit, you will be able to:
  - explain the meaning of competitive advantage;
  - describe the factors that create competitive advantage;

- apply Total Quality Management to strategic management principles as a best practice; and
- analyze ethical concepts about objectives and process.

- **3.1: Competitive Advantage**

  - Niccolò Machiavelli's "The Prince"URL

    This is a classic work about strategy and its usefulness. As you skim this text, think about how the author discusses one's ability to control their own destiny. Compare this to the idea of fate and consider how other cultures may approach that idea in the strategic management process. Lastly, analyze the concept of "the ends justifying the means". How does this relate to your own idea of ethics?

  - Generic Strategies for Competitive AdvantagePage

    Watch this video for a quick introduction to developing a strategy for competitive advantage.

  - Competitive AdvantagePage

    Read this article.

  - The Value ChainURL

    Read this section. As you read, think about the role of the value chain in strategic management.

- **3.2: Types of Competitive Advantage**

  - Towards a Dynamic Theory of StrategyURL

    Read this article, which provides a historical account of using a value chain to develop the organization's sustainable competitive advantage.

  - Porter's Competitive StrategiesPage

    Read this article.

  - Understanding Business-Level Strategy through "Generic Strategies"URL

    Read this section on business-level strategy. Do the exercises at the end of the section.

  - The Delta ModelURL

This presentation presents and explains the Delta Model as a tool for competitive advantage by identifying business competencies in three different areas: system lock-in, total customer solutions, and best product.

- **3.3: Total Quality Management**
  - Business FundamentalsURL

    Read pages 167–171, which discuss how strategic managers can apply a process to sustain a competitive advantage by creating high-quality products and reducing costs.

Unit 4: Corporate Strategy

Corporate strategy is perhaps the most important strategy, because it sets the metric by which all other strategies are formed within the company. For example, BMW has a focus on quality vehicles that they can sell for a premium. If a business unit of BMW decides to pursue a cost leadership strategy that will not work well with the overall firm strategy, it would be very difficult and could tarnish BMW's brand image, although that is not to say that it is impossible.

The subject of corporate strategy is vast; however, corporate strategies are usually based around one central goal: growth. It is up to the management to determine the best way to achieve growth. Some prefer to integrate into the value chain. For BMW, this would mean pursuing opportunities to produce parts for its cars instead of paying contractors. Other firms may want to grow by diversifying. While a firm like GE, which has produced engines, financial products and entertainment programming, can diversify across industries, most diversify with closely-related industries. BMW also makes motorcycles and owns the Mini and Rolls-Royce brands, which cater to different markets than do BMW vehicles. Companies may create subsidiaries, different branches of a major company, in order to cater to these different markets. For example, in educational textbook publishing, a company like Pearson Education also has subsidiaries (although this company has since moved to combine these subsidiaries into the whole of Pearson Education, Inc.). The subsidiaries Prentice Hall and Addison-Wesley focus on specific fields, such as mathematics and economics, in which to market textbooks. At one point, these subsidiaries competed against each other, while at the same time both brought in market share for the Pearson Education company as a whole. Pearson Education has since merged these subsidiaries, although it has kept the names for branding, and now focuses on selling its products without this internal competition.

This unit focuses on the various methods a firm can use to pursue growth. Growing is not just about buying the competition, because that is not always possible or expeditious. This unit will explore why that is and how to determine the best strategy for growth.

Completing this unit should take you approximately 8 hours.

- Upon successful completion of this unit, you will be able to:
  - explain commonly used corporate strategies;

- analyze which strategy alternatives will create the most value; and
- relate strategy theory to specific applications.

- **4.1: Growth Strategies**

  - Sun Tzu's "The Art of War"URL

    Skim this book about ancient Chinese philosophy and strategy. Pay attention to passages about being victorious over rivals. Consider these general ideas in light of corporate actions like takeovers, price wars, and buyouts.

  - Growth StrategyPage

    Read this article.

  - Growth Strategies for Start-UpsURL

    Read this chapter for an expanded view of growth theories. What areas might affect strategic planning?

- **4.2: Retrenchment**

  - Corporate StrategiesPage

    Read the section of this article concerning corporate strategies. Not all firms can make a profit, and sometimes they must cut back. Consider the pros and cons of each retrenchment strategy: turnaround, divestment, bankruptcy, and liquidation.

  - Strategies for Getting SmallerURL

    Read this section to reinforce what you learned about retrenchment and restructuring. By the end of this section, you should be able to distinguish between the two strategies and understand why a firm would want to shrink or exit from its business.

- **4.3: Corporate Strategy Selection**

  - The GE ApproachPage

    Read this article.

Unit 5: 21st-Century Strategy

Research in strategy really picked up steam in the 20th century. However, new research shows that there are other factors that can seriously impact strategies. For example, the use of psychology in business has moved up in the strategic planning world. Managers used to assume that all employees were the same and that all employees would do what they are told. We now know that employees are unique and motivated by different goals

themselves. Understanding the culture of a firm and what motivates employees will allow strategy managers to extract more out of each individual.

Additionally, the idea of innovation as a strategy leader has complemented the competitive advantage strategy. There are issues with getting to the top of an industry by innovating and then falling behind to rising competitors. Collectively, these issues are known as the innovator's dilemma, and technology companies have been fighting tooth and nail to avoid falling victim to this problem (as have many other industries). One way to avoid this dilemma is by maintaining a high level of cash and simply acquiring the innovating companies. From 2007 through 2009, Google acquired 24 companies (that were disclosed) and Microsoft acquired 34.

Finally, as globalization makes the world a real global economy, the focus of strategy must go beyond the borders of your own country. Technology has enabled even small companies of just a few people to outsource work to the other side of the world. A global view will be essential to any 21st century strategy.

Completing this unit should take you approximately 8 hours.

- Upon successful completion of this unit, you will be able to:
    - apply modern strategic management techniques in a globalized environment;
    - choose the best alternative strategy under technological uncertainty; and
    - synthesize strategy options to maximize competitive advantage.

- **5.1: Enterprise Culture**

    - Globalization and UnemploymentPage

      As you watch this video, note the influential activity that shaped the history and development of globalization of business. How does each activity affect strategy?

    - Competitive Advantage and the Value ChainPage

      As you watch these videos, note the application of competitive advantage in the global arena. The second video covers the application of competitive advantage in the global environment. Note the discussion of the value chain.

    - **5.1.1: Socialization**

        - Defining Organizational CulturePage

          Read this article for an introduction to the role of culture in an organization. As you read, think about how an enterprise culture might change the present norms and behaviors in established

organizations. What is organizational culture? Why is it important to business strategy formulation and management?

- **5.1.2: Managerial Theories**
  - MacGregor's Theory X and Theory YPage

    Read this article. How does MacGregor's theory X compare to theory Y?

  - Ouchi's Theory ZPage

    Read this article for an introduction to Ouchi's theory Z. Would you rather work under theory X, Y, or Z? Which strategy would you follow as a manager of a global organization?

- **5.2: Innovation**
  - Embracing Disruptive InnovationPage

    Watch this video for an introduction to innovation as a disruption to established corporations. Take notes on some of the innovation examples in the first 30 minutes of the presentation. Which ones have had an important impact on your personal life? Innovation is more than technology!

  - **5.2.1: Sustained Innovation**
    - Innovation: A Four-Part Recipe for Sustaining an Innovation PipelinePage

      Read this article. This article assumes you are familiar with agile/lean values from a prior management course. Search these topics to understand this material better. Then, direct your attention to the visual at the end of this resource. Note the division between disruptive and sustainable innovation.

  - **5.2.2: Innovator's Dilemma**
    - Understanding the Innovator's DilemmaPage

      Read this article. Do you agree or disagree that Apple is an example of an innovator's dilemma?

  - **5.2.3: Research and Development**
    - The Diffusion of InnovationPage

Read this article. Technology innovations have been an influence throughout this course, affecting both strategy and strategic planning.

- **5.3: Global Strategy**
  - What Is International Trade Theory?URL

    Read this introduction to mercantilism. What is its historical significance to international trade patterns?
  - Advanced StrategyURL

    Read this presentation, which is a review of strategic management topics. Which items were included in this course?