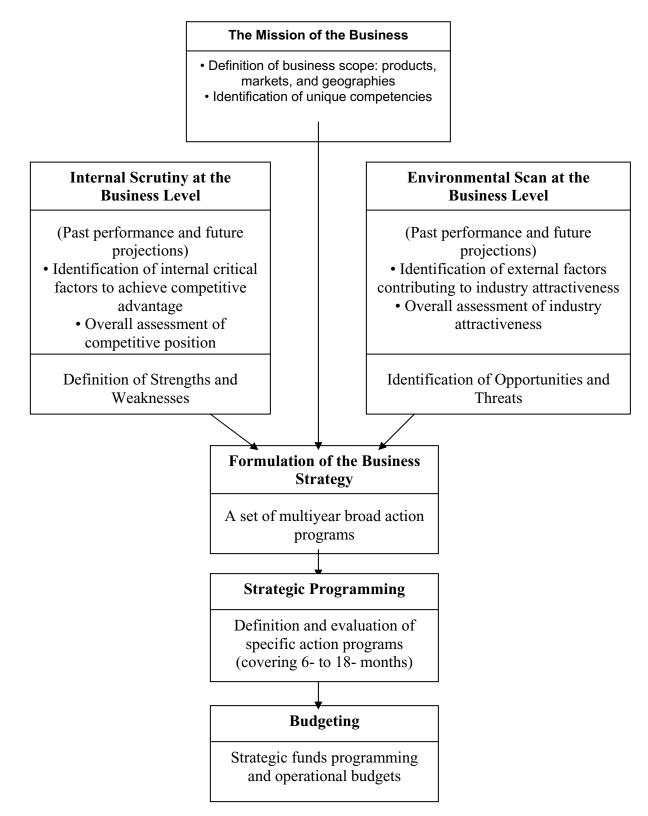
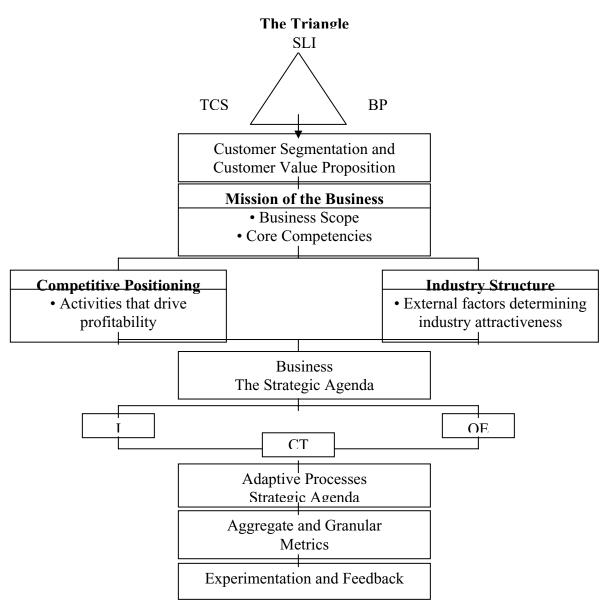
BUSINESS STRATEGY

THE FUNDAMENTAL ELEMENTS OF THE DEFINITION OF A BUSINESS STRATEGY



THE DELTA MODEL – AN INTEGRATIVE STRATEGIC FRAMEWORK



The changes introduced by the Delta Model

• Add the Triangle to decide on the strategic positioning

Add the Adaptive Processes to expand the implementation tasks

The primary outputs of the Business Strategy process are:

- Managerial Consensus
- Customer Segmentation and Customer Value
 Proposition
- The Mission of the Business (supported by Industry Structure and Competitive Positioning Analyses)
- The Strategic Agenda of the Business
- The Strategic Agenda of the Adaptive Processes (Operational Effectiveness, Customer Targeting, and Innovation)
- The Budget and Metrics

MANAGERIAL CONSENSUS

Saturn definition: 70% Agreement/ 100% Buy-In

CUSTOMER SEGMENTATION AND CUSTOMER VALUE PROPOSITION

CUSTOMER SEGMENTATION

| Customer Tier | Description |
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BUSINESS DIMENSION OF THE CUSTOMER TIER

| Customer Dimension | Customer Tier: |
|---------------------|----------------|
| Products | |
| Services | |
| Customers | |
| Channels | |
| End Users | |
| Complementors | |
| Unique Competencies | |
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VALUE PROPOSITION

| Customer Tier: | Value Proposition Elements |
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| Set of <u>experiences</u> we will provide to the tier | |
| Set of <u>value delivery</u> <u>systems</u> needed to provide the experiences | |
| Value appropriation | Value gained by the customer Value gained by us Value shared by both |
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THE MISSION OF THE BUSINESS

THE MISSION OF THE BUSINESS

A statement of the current and future expected product scope, market scope, and geographical scope, as well as the unique competencies of the business must develop to achieve its desired competitive position.

THE MISSION OF THE BUSINESS

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| Product/Services Scope | | |
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| Customer Scope | | |
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| End User/Consumer Scope | | |
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| Channel Scope | | |
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| Complementor Scope | | |
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| Unique Competencies | | |
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PRIORITY ASSESSMENT SCALE FOR BUSINESS SCOPE

| Scope | Priority | The Product, Consumer, Channel or Geographical Location |
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| | - | is being divested or exited from |
| | - | will be assigned a low level of importance |
| Existing | E | will continue to receive the current level of resouroces |
| | + | resources to achieve a better competitive position. |
| | ++ | is assigned the highest level of importance and the resources needed to achieve as outstanding a competitive position as possible. |
| | - | is very tentatively considered for business activity |
| | 1 | is tentatively considered for business activity |
| New | E | will receive the necessary level of resources |
| | + | will be assigned a high level of importance and the necessary resources to achieve a strong competitive position |
| | ++ | will be assigned the highest level of importance and the resources needed to achieve as outstanding a competitive position as possible |

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Challenges from Changes in Unique Competencies

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Mission Statement

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ENVIRONMENTAL SCAN

- Different approaches
 - Summary of Porter's Five Foroces (e.g. Fig. 5-5, p. 79)
 - Detailed Five Forces Analysis (e.g. Figures 5-7 through 5-15)
 - External Forces Analysis (e.g. Figures 5-17 through 5-24).
- You can apply an environmental scan to different constituencies
 - Your industry (Best Product)
 - Your customers and suppliers industry (Total Customer Solutions)
 - Your complementors industry (System Lock-In)
- Conclude the environmental scan with a summary of Opportunities and Threats.

INTERNAL SCRUTINY

- Different approaches
 - Summary of Value Chain (e.g. Figure 6-3, p. 122).
 - Detailed Value Chain Analysis (e.g. Figures 6-8 through 6-19).
- You can apply an internal scrutiny to different constituencies
 - Your business (Best Product)
 - Your customer and suppliers businesses (Total Customer Solutions)

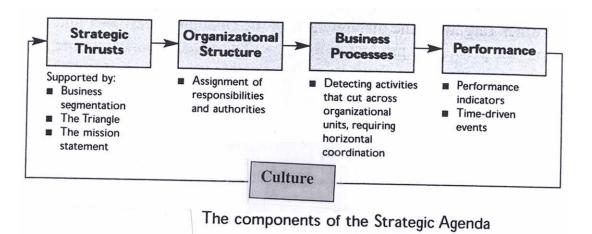
- Your complementor business (System Lock-In)

 Conclude the internal scrutiny with a summary of Strengths and Weaknesses

STRATEGIC AGENDA OF THE BUSINESS

THE STRATEGIC AGENDA IS EXPRESSED BY MEANS OF THE STRATEGIC THRUSTS

- Strategic thrusts are the primary <u>action-oriented issues</u> the firm has to address in order to achieve its desired strategic positioning.
- The statement of strategic thrusts should include:
 - Specific planning challenges the assignment of responsibilities at the corporate, business, and functional levels for the formulation and implementation of strategic programs addressing each strategic thrust.
 - Relevant measurements of performance -Identification of appropriate indicators to monitor the operational and strategic results associated with each thrust.



STRATEGIC AGENDA

| | | | | | | | | | | Oı | ganiz | ation | al Uni | its | | | | | | | Business Processes | |
|--|------------------|--------|-------|------|--------|------|------|------------------|----|------|-------|-------|--------|-----|--|---|---|---|------|-----|--------------------|--------------------------------|
| Strategic Thrusts | | | | | | | | | | | | | | | | | | | | | Business | Performance Measurements |
| | | | | | | | | | | | | | | | | | | | | | | |
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| | | _ | | | | _ | _ | | | _ | | | _ | | | _ | | _ | | | | |
| Key role in formulation and implementationImportant role of support and concurrence | | | | | | | | | | | | | | | | | | | DE - | Ope | | usiness Model effectiveness |
| - Identifies the 'Champion', who takes leaders | hip fo | or the | strat | egic | thrust | exec | utio | 1 | СТ | - Qu | istom | er Ta | argeti | ng | | | | | | | | I – Innovation |

ASSIGNMENT OF PRIORITIES TO STRATEGIC THRUSTS

| Strategic Thrusts | Priorities | | | | | | | | |
|-------------------|------------|---|---|--------|--|--|--|--|--|
| | A | В | С | Weight | | | | | |
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A - Absolute first priority (postponement will hurt competitive position significantly).B - Highly desirable (postponement will affect competitive position adversely).C - Desirable (if funds were available, competitive position could be enhanced).

DEFINITION OF STRATEGIC THRUSTS

Name _____

Description

Responsible Manager

Other Key Participants

Other Important Contributors

Key Indicators for Management Control and Targets

First Major Milestone Description

First Major Milestone Date

Resources Required

Statement of Benefits

TESTS TO EVALUATE THE QUALITY OF THE STRATEGIC AGENDA

1. Comprehensiveness

2. Stretch

3. Monitoring and Control- Ease of Implementation

4. Motivation- Quality of Working Environment

5. Vulnerability

THE BUDGET

BUDGETING AND STRATEGIC FUNDS

Strategic funds are expense items required for the implementation of strategic action programs whose benefits are expected to be accrued in the long term, beyond the current budget period.

There are 3 major components of strategic funds:

- 1. Investment in tangible assets, such as new production capacity, new machinery and tools, new vehicles for distribution, new office space, new warehouse space, and new acquisitions.
- 2. Increases (or decreases) in working capital generated from strategic commitments, such as the impact of increases in inventories and receivables resulting from an increase in sales; the need to accumulate larger inventories to provide better services; increasing receivables resulting from a change in the policy of loans to customers, and so on.
- 3. Development expenses that are over and above the needs of existing business, such as advertising to introduce a new product or to reposition an existing one; R&D expenses of new products; major cost reduction programs for existing products; introductory discounts, sales promotions, and free samples to stimulate first purchases; development of management systems such as planning, control, and compensation; certain engineering studies, and so on.

SPLITTING THE PROFIT AND LOSS STATEMENT OF A DIVISION IN TERMS OF OPERATIONAL AND STRATEGIC EXPENSES

| | Conventional | Operational | Strategic* |
|---|--------------|-------------|------------|
| | Statement | Expenses | Expenses |
| Net sales Less: Variable mfg. costs | 100 30 | 100 30 | - |
| Depreciation | 20 | 20 | - |
| Other fixed mfg. costs | <u>10</u> | <u>5</u> | <u>5</u> |
| Gross margin Less: | 40 | 45 | - |
| Marketing expenses | 15 | 5 | 10 |
| Admin. expenses | 10 | 5 | 5 |
| Research expenses | <u>5</u> | <u>0</u> | <u>5</u> |
| Division margin Operating margin Total strategic expenses | 10 | 35 | 25 |

* Also called Development Expenses

STRATEGIC FUNDS PROGRAMMING AND OPERATIONAL BUDGETS – AN ILLUSTRATION

| | | History | | | | | | Projections | | | | |
|---|------------------------------------|-------------------------------------|------------------------------|--------------------------------------|--------------------------------------|--------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------|--|
| | 1988 | 1989 | 1990 | 1991 | 1992 | Actual | Budget | 1994 | 1995 | 1996 | 1997 | |
| Total Market | 4032.0 | 4994.0 | 5822.0 | 6722.0 | 7820.0 | 0.0 | 9266.0 | 11120.0 | 13123.0 | 16012.0 | 19312.0 | |
| Market Share (%) | 52.0 | 51.0 | 52.0 | 49.0 | 49.0 | 0.0 | 49.0 | 50.0 | 50.0 | 51.0 | 52.0 | |
| Company Sales – Operating Cost of Goods Sold | 2083.0 1789.0 | 2568.0 2138.0 | 3002.0 2499.0 | 3316.0 2771.0 | 3799.0 3165.0 | 0.0 0.0 | 4502.0 3760.0 | 5522.0 4612.0 | 6577.0 5492.0 | 8123.0 6789.0 | 9966.0 8336.0 | |
| Gross Operating Margin – Operating SG&A | 294.0 62.0 | 430.0 103.0 | 503.0 110.0 | 545.0 121.0 | 634.0 138.0 | 0.0 0.0 | 742.0 162.0 | 910.0 199.0 | 1085.0 241.0 | 1334.0 295.0 | 1630.0 366.0 | |
| Operating Margin – Strategic Expenses | 232.0 130.0 | 327.0 165.0 | 393.0 204.0 | 424.0 213.0 | 496.0 251.0 | 0.0 0.0 | 580.0 321.0 | 711.0 396.0 | 844.0 497.0 | 1039.0 626.0 | 1264. 789.0 | |
| SBU Margin – Taxes | 102.0 5.0 | 162.0 18.0 | 189.0 23.0 | 211.0 27.0 | 245.0 32.0 | 0.0 0.0 | 259.0 35.0 | 315.0 43.0 | 347.0 56.0 | 413.0 70.0 | 475.0 93.0 | |
| SBU Net Income + Depreciation - Capital Investments - Increases in Working Capital | 97.0 18.0 32.0 0.0 | 144.0 21.0 57.0 0.0 | 166.0 26.0 87.0 0.0 | 184.0 32.0 128.0 0.0 | 213.0 38.0 115.0 0.0 | 0.0 0.0 0.0 0.0 | 224.0 46.0 150.0 0.0 | 272.0 56.0 195.0 0.0 | 291.0 67.0 169.0 0.0 | 343.0 82.0 202.0 0.0 | 382.0 100.0 183.0 0.0 | |
| Contribution/Request of Funds to the Corporation | 83.0 | 108.0 | 105.0 | 88.0 | 136.0 | 0.0 | 120.0 | 133.0 | 189.0 | 223.0 | 299.0 | |