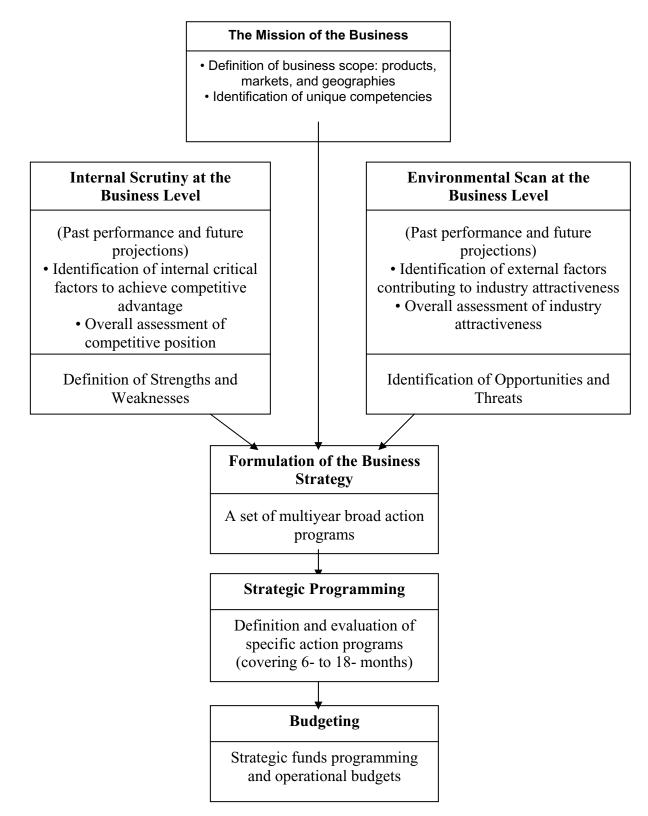
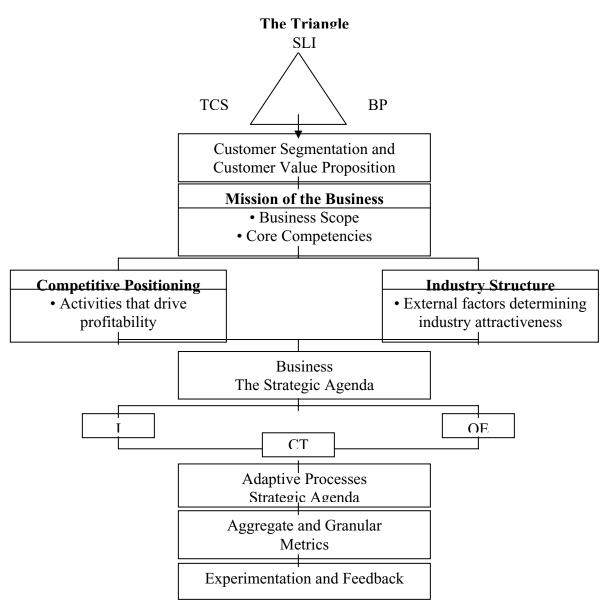
# **BUSINESS STRATEGY**

#### 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

### **BUSINESS DIMENSION OF THE CUSTOMER TIER**

Customer Dimension	Customer Tier:
Products	
Services	
Customers	
Channels	
End Users	
Complementors	
Unique Competencies	

# VALUE PROPOSITION

Customer Tier:	Value Proposition Elements
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

# 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

	Now	Future
Product/Services Scope		
Customer Scope		
End User/Consumer Scope		
Channel Scope		
Complementor Scope		
Geographical Scope		
Unique Competencies		

#### PRIORITY ASSESSMENT SCALE FOR BUSINESS SCOPE

Scope	Priority	The Product, Consumer, Channel or Geographical Location
	-	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 Product-Services Scope

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### Challenges from Changes in Customer Scope

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Challenges from Changes in Channel Scope

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Challenges from Changes in Unique Competencies

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#### Mission Statement

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NOW:		
Future:		
Customer Scope		
Now:		
Future:		
End User/Consumer Sc		
Now:		
Future:		
Channel Scope		
Now:		
Future:		
Complementor Scope		
Now:		
Future:		
Geographical Scope		
Now:		
Future:		
Unique Competencies		
Now:		
Future:		

### **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)

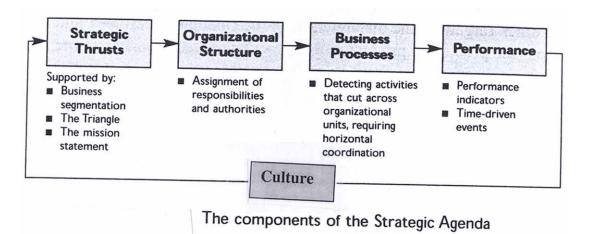
- Your complementor business (System Lock-In)

 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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<ul><li>Key role in formulation and implementation</li><li>Important role of support and concurrence</li></ul>																			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					

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	<b>294.0</b> 62.0	<b>430.0</b> 103.0	<b>503.0</b> 110.0	<b>545.0</b> 121.0	<b>634.0</b> 138.0	<b>0.0</b> 0.0	742.0 162.0	<b>910.0</b> 199.0	<b>1085.0</b> 241.0	<b>1334.0</b> 295.0	1630.0 366.0	
Operating Margin – Strategic Expenses	<b>232.0</b> 130.0	<b>327.0</b> 165.0	<b>393.0</b> 204.0	<b>424.0</b> 213.0	<b>496.0</b> 251.0	<b>0.0</b> 0.0	<b>580.0</b> 321.0	711.0 396.0	<b>844.0</b> 497.0	<b>1039.0</b> 626.0	<b>1264.</b> 789.0	
<b>SBU Margin</b> – Taxes	<b>102.0</b> 5.0	<b>162.0</b> 18.0	<b>189.0</b> 23.0	<b>211.0</b> 27.0	<b>245.0</b> 32.0	<b>0.0</b> 0.0	<b>259.0</b> 35.0	<b>315.0</b> 43.0	<b>347.0</b> 56.0	<b>413.0</b> 70.0	<b>475.0</b> 93.0	
SBU Net Income + Depreciation - Capital Investments - Increases in Working Capital	<b>97.0</b> 18.0 32.0 0.0	<b>144.0</b> 21.0 57.0 0.0	166.0 26.0 87.0 0.0	<b>184.0</b> 32.0 128.0 0.0	<b>213.0</b> 38.0 115.0 0.0	0.0 0.0 0.0 0.0	<b>224.0</b> 46.0 150.0 0.0	<b>272.0</b> 56.0 195.0 0.0	<b>291.0</b> 67.0 169.0 0.0	<b>343.0</b> 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	