

STRATEGY

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Winning in the Marketplace

Core Concepts • Analytical Tools • Cases

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STRATEGY: WINNING IN THE MARKETPLACE
CORE CONCEPTS, ANALYTICAL TOOLS, CASES

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To our families and especially our wives:
Hasseline, Debra, and Kitty



About the Authors

Arthur A. Thompson, Jr., earned his BS and PhD degrees in economics from the University of Tennessee in 1961 and 1965, respectively; spent three years on the economics faculty at Virginia Tech; and served on the faculty of the University of Alabama's College of Commerce and Business Administration for 24 years. In 1974 and again in 1982, Dr. Thompson spent semester-long sabbaticals as a visiting scholar at the Harvard Business School.

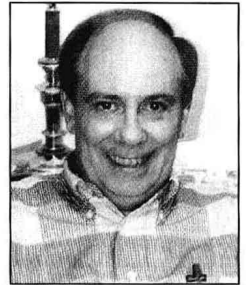
His areas of specialization are business strategy, competition and market analysis, and the economics of business enterprises. He has published over 30 articles in some 25 different professional and trade publications and has authored or co-authored five textbooks and four computer-based simulation exercises.

Dr. Thompson is a frequent speaker and consultant on the strategic issues confronting the electric utility industry, particularly as concerns the challenges posed by industry restructuring, re-regulation, competition, and customers' freedom of choice. He spends much of his off-campus time giving presentations to electric utility groups and conducting management development programs for electric utility executives all over the world.

Dr. Thompson and his wife of 42 years have two daughters, two grandchildren, and a Yorkshire terrier.

John E. Gamble is currently Chairman of the Department of Management and Associate Professor of Management in the Mitchell College of Business at The University of South Alabama. His teaching specialty at USA is strategic management and he also conducts a course in strategic management in Germany through a collaborative MBA program sponsored by the University of Applied Sciences in Ludwigshafen/Worms, the State of Rhineland Westphalia, and the University of South Alabama.

Dr. Gamble's research interests center on strategic issues in entrepreneurial, health care, and manufacturing settings. His work has been published in such scholarly journals as *Journal of Business Venturing*, *Journal of Labor Research*, *Health Care Management Review*, and *Labor Studies Journal*. He is the author or co-author of more than 20 case studies published in various strategic management



and strategic marketing texts. He has done consulting on industry and market analysis and strategy formulation and implementation issues with clients in public utilities, technology, non-profit, and entrepreneurial businesses.

Professor Gamble received his Ph.D. in management from the University of Alabama in 1995. Dr. Gamble also has a Bachelor of Science degree and a Master of Arts degree from The University of Alabama.



Dr. A. J. (Lonnie) Strickland, a native of North Georgia, attended the University of Georgia, where he received a bachelor of science degree in math and physics in 1965. Afterward he entered the Georgia Institute of Technology, where he received a master of science in industrial management. He earned a PhD in business administration from Georgia State University in 1969. He currently holds the title of Professor of Strategic Management in the Graduate School of Business at the University of Alabama.

Dr. Strickland's experience in consulting and executive development is in the strategic management area, with a concentration in industry and competitive analysis. He has developed strategic planning systems for such firms as the Southern Company, BellSouth, South Central Bell, American Telephone and Telegraph, Gulf States Paper, Carraway Methodist Medical Center, Delco Remy, Mark IV Industries, Amoco Oil Company, USA Group, General Motors, and Kimberly Clark Corporation (Medical Products). He is a very popular speaker on the subject of implementing strategic change and serves on several corporate boards.

He has served as director of marketing for BellSouth, where he had responsibility for \$1 billion in revenues and \$300 million in profits.

In the international arena, Dr. Strickland has done extensive work in Europe, the Middle East, Central America, Malaysia, Australia, and Africa. In France he developed a management simulation of corporate decision making that enables management to test various strategic alternatives.

In the area of research, he is the author of 15 books and texts. His management simulations, Tempomatic IV and Micromatic, were pioneering innovations that enjoyed prominent market success for two decades.

Recent awards for Dr. Strickland include the Outstanding Professor Award for the Graduate School of Business and the Outstanding Commitment to Teaching Award for the University of Alabama, in which he takes particular pride. He is a member of various honor leadership societies: Mortar Board, Order of Omega, Beta Gamma Sigma, Omicron Delta Kappa, and Jasons. He is past national president of Pi Kappa Phi social fraternity.

S*trategy: Winning in the Marketplace* is intended for core courses in strategic management or business policy at the undergraduate or MBA level. Our purpose in writing this book has been to address the frequently expressed concerns that the current array of leading introductory strategy texts contain too much detail and try to cover too much ground for a one-semester course. In talking to instructors and students, a recurring theme is that the course is overly jammed. Instructors complain about their difficulties in doing justice to 450–500 pages of text chapters and still finding enough room for such value-added assignments as cases and a substantive simulation exercise. Students complain they have trouble digesting the main elements of strategic thinking and strategic analysis given the rapid-fire pace of the course, the clutter of topics, and a sometimes intimidating or overwhelming workload.

This book endeavors to set an appealing standard for basic strategy texts. With fewer chapters and shorter cases than previous texts by two of the three co-authors, this first edition of *Strategy: Winning in the Marketplace* offers a concise, lively, and user-friendly presentation of strategic management. We have attempted to put together a book that (1) is sufficiently comprehensive in its coverage of important concepts and analytical tools; (2) has a desirable degree of depth and substance; (3) is flush with convincing examples of strategy in action; (4) maintains a straightforward, integrated flow from one chapter to the next; and (5) makes the discipline of business strategy relevant and professionally interesting to students.

But don't expect a shallow, watered-down, full-of-fluff nine-chapter treatment—the text chapters contain a *streamlined* and *substantive* 320-page presentation of core concepts and analytical techniques. And the shorter cases (spanning 590 pages and averaging about 18 pages each) are amply demanding in their analytical requirements and the need for good strategic thinking. Instructors and students alike will find plenty to chew on for a full-semester course.

On-Target Content

To have adequately on-target content, a strategy text must:

- Explain core concepts and provide examples of their relevance and use by actual companies.
- Present understandable explanations of what the essential analytical tools are, how they are used, and where they fit into the managerial process of crafting and executing strategy.
- Be up-to-date and comprehensive, with solid coverage of the landmark changes in competitive markets and company strategies being driven by globalization and Internet technology.
- Focus squarely on what every student needs to know about crafting, implementing, and executing business strategies in today's market environments.

- Contain fresh, value-adding cases that feature interesting products and companies, illustrate the important kinds of strategic challenges managers face, embrace valuable teaching points, and spark student interest.

This textbook does all these things without being formidable for instructors to cover in one semester and without burdening students with unnecessary pages to read and absorb. Chapter discussions cut straight to the chase on what students really need to know. Our explanations of core concepts and analytical tools are, however, covered in enough depth to make them understandable and usable, the rationale being that a shallow explanation carries little punch and has almost no value. We have chosen examples that students can easily relate to. We have incorporated state-of-the-art research pertinent to a first course in strategy.

Chapter Features and Organization

The chapter presentations reflect a host of developments in the theory and practice of strategic management: the growing scope and strategic importance of collaborative alliances, the continuing march of industries and companies to wider globalization, the inclusion of the resource-based view of the firm as a standard part of strategic analysis, the spread of high-velocity change to more industries and company environments, and how implementation of Internet technology applications in companies all across the world is driving fundamental changes in both strategy and internal operations. The text chapters emphasize that a company's strategy must be matched *both* to its external market circumstances and to its internal resources and competitive capabilities. The resource-based view of the firm is prominently integrated into our coverage of crafting both single-business and multibusiness strategies; two of the three chapters on executing strategy have a strong resource-based perspective, stressing the importance of intellectual capital, core competencies, and competitive capabilities.

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

- Chapter 1 introduces and defines a host of core concepts—strategy, business model, strategic visions and business missions, strategic versus financial objectives, strategic plans, strategic intent, crafting strategy, and executing strategy. Clear distinction is made between a company's strategy and its business model. A section on strategic visions and mission statements hammers home the importance of clear direction setting and a motivating strategic vision; there's an accompanying discussion of how core values and ethics tie in to a company's vision and business purpose. Emphasis is placed on why companies have to rapidly adapt strategy to newly unfolding market conditions and why strategy life cycles are often short. Following Henry Mintzberg's pioneering research, we stress how and why a company's strategy emerges from (1) the deliberate and purposeful actions of management and (2) as-needed reactions to fresh developments and changing competitive pressures. There's a section on corporate intrapreneuring to help underscore that a company's strategic plan is a collection of strategies devised by different managers at different levels in the organizational hierarchy. We've taken pains to explain why *all managers are on a company's strategy-making, strategy-implementing team*, why every manager is well advised to make the concepts and techniques of strategic management a basic part of his or her tool kit, and why the best companies want their personnel to be true students of the business. The chapter winds up with a section on corporate governance and a discussion of why strategy is important.

- Chapter 2 sets forth the now-familiar analytical tools and concepts of industry and competitive analysis and demonstrates the importance of tailoring strategy to fit the circumstances of a company's industry and competitive environment. The standout feature of this chapter is a dramatically enhanced presentation of Michael E. Porter's "five-forces model of competition"—we think it is the clearest, most straightforward five-forces model discussion of any text in the field. Globalization and Internet technology are treated as potent driving forces capable of reshaping industry competition—their roles as change agents have become factors that most companies in most industries must reckon with in forging winning strategies.
- Chapter 3 establishes the equal importance of doing solid company situation analysis as a basis for matching strategy to organizational resources, competencies, and competitive capabilities. The roles of core competencies and organizational resources and capabilities in creating customer value and helping build competitive advantage are *center stage* in the discussions of company resource strengths and weaknesses. SWOT analysis is cast as a simple, easy-to-use way to assess a company's resources and overall situation. There are sections describing the now-standard tools of value chain analysis, benchmarking, and competitive strength assessments—all of which, we believe, provide insight into a company's relative cost position and market standing vis-à-vis rivals. There's discussion of how company implementation of Internet technology is altering the value chain and the performance of particular value chain activities.
- Chapter 4 deals with a company's quest for competitive advantage—the options for crafting a strategy that simultaneously hold good prospects for competitive advantage while also being well suited both to industry and competitive conditions and to its own resources and competitive circumstances. While the chapter is framed around the five generic competitive strategies—low-cost leadership, differentiation, best-cost provider, focused differentiation, and focused low-cost—it also contains important sections on what use to make of strategic alliances and collaborative partnerships; what use to make of mergers and acquisitions in strengthening the company's competitiveness; when to integrate backward or forward into more stages of the industry value chain; the merits of outsourcing certain value chain activities from outside specialists; whether and when to employ offensive and defensive moves; and the different ways a company can use the Internet as a distribution channel to position itself in the marketplace.
- Chapter 5 explores a company's strategy options for expanding beyond its domestic boundary and competing in the markets of either a few or a great many countries—options ranging from an export strategy to licensing and franchising to multicountry strategies to global strategies to heavy reliance on strategic alliances and joint ventures. Four strategic issues unique to competing multinationally are given special attention: (1) whether to customize the company's offerings in each different country market to match the tastes and preferences of local buyers or whether to offer a mostly standardized product worldwide, (2) whether to employ essentially the same basic competitive strategy in the markets of all countries where the company operates or whether to modify the company's competitive approach country by country as needed to fit specific market conditions and competitive circumstances, (3) how to locate production facilities, distribution centers, and customer service operations to maximum competitive advantage, and (4) how to use efficient cross-border transfer of a company's resource strengths and capabilities to build competitive advantage. There's also coverage of profit sanctuaries

and cross-market subsidization; the special problems associated with entry into the markets of emerging countries; and strategies that local companies in such emerging countries as India, China, Brazil, and Mexico can use to defend against the invasion of opportunity-seeking, resource-rich global giants.

- The treatment of diversification strategies for multibusiness enterprises in Chapter 6 lays out the various paths for becoming diversified, explains how a company can use diversification to create or compound competitive advantage for its business units, and examines the strategic options an already-diversified company has to improve its overall performance. In the last part of the chapter, the analytical spotlight is on the techniques and procedures for assessing the strategic attractiveness of a diversified company's business portfolio—the relative attractiveness of the various businesses the company has diversified into, a multi-industry company's competitive strength in each of its lines of business, and the *strategic fits* and *resource fits* among a diversified company's different businesses.
- The three-chapter module on executing strategy (Chapters 7–9) is anchored around a solid, compelling conceptual framework: (1) building the resource strengths and organizational capabilities needed to execute the strategy in competent fashion; (2) allocating ample resources to strategy-critical activities; (3) ensuring that policies and procedures facilitate rather than impede strategy execution; (4) instituting best practices and pushing for continuous improvement in how value chain activities are performed; (5) installing information and operating systems that enable company personnel to better carry out their strategic roles proficiently; (6) tying rewards and incentives directly to the achievement of performance targets and good strategy execution; (7) shaping the work environment and corporate culture to fit the strategy; and (8) exerting the internal leadership needed to drive execution forward. The recurring theme of these three chapters is that implementing and executing strategy entails figuring out the specific actions, behaviors, and conditions that are needed for a smooth strategy-supportive operation and then following through to get things done and deliver results—the goal here is to ensure that students understand the strategy-implementing/strategy-executing phase is a managerial exercise in making things happen and making them happen right.

Our top priority has been to ensure that the nine chapters of text hit the bull's-eye with respect to content and represent the best thinking of both academics and practitioners. But at the same time we've gone the extra mile to stay on message with clear, crisp explanations laced with enough relevant examples to make the presentation convincing, pertinent, and worthwhile to students preparing for careers in management and business. We believe our enthusiasm for the subject matter will come across to readers. And the boxed Company Spotlights and Global Spotlights in each chapter relate stories aimed at both informing students and persuading them that the discipline of strategy merits their rapt attention.

The Case Collection

The 32 cases included in this edition are the very latest and best that we could assemble; the case collection is filled with examples of strategy in action and valuable lessons for students in the art and science of crafting and executing strategy. The cases are balanced in length—close to a third of the cases are under 15 pages yet offer plenty for students to chew on; about a third are medium-length cases; and about a third are longer, detail-rich cases that call for more sweeping analysis. At least 24 of the 32

cases involve high-profile companies, products, or people that students will have heard of, know about from personal experience, or can easily identify with. There are four dot-com company cases, plus several others that will provide students with insight into the special demands of competing in industry environments where technological developments are an everyday event, product life cycles are short, and competitive maneuvering among rivals comes fast and furious. At least 21 of the cases involve situations where company resources and competitive capabilities play as large a role in the strategy-making, strategy-implementing scheme of things as industry and competitive conditions do. Scattered throughout the lineup are 13 cases concerning non-U.S. companies, globally competitive industries, and/or cross-cultural situations; these cases, in conjunction with the globalized content of the text chapters, provide ample material for linking the study of strategic management tightly to the ongoing globalization of the world economy. You'll also find 5 cases dealing with the strategic problems of family-owned or relatively small entrepreneurial businesses and 22 cases involving public companies about which students can do further research on the Internet. Eight of the cases (Whole Foods Market, Competition in the Bottled Water Industry, Callaway Golf Company, Kmart, Continental Airlines, the Transformation of BP, Southwest Airlines, and Enron) have accompanying videotape segments. We believe you will find the collection of 32 cases quite appealing, eminently teachable, and very suitable for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 9. It is a case lineup that should stimulate student interest from beginning to end.

In addition, the publisher is providing website access to PDF files of five other recent cases researched and written by the authors of the text. These five “e-cases” are available to adopters and to students who purchase the text. Students who purchase new books will receive a passcode packaged with the text, allowing them to download the cases from www.mhhe.com/thompson1e/tutor. The cases and teaching notes are also available on the Instructor's Resource CD. This extends the number of cases available in the total package to 37.

The All-New Companion *GLO-BUS* Online Simulation Exercise

GLO-BUS: Developing Winning Competitive Strategies, a completely online simulation co-created by the senior author of this text with two others, is being marketed by the publisher as a companion supplement for use with this and other texts in the field. All three co-authors of this book are avid longtime simulation users. Our own experiences, together with numerous discussions with colleagues around the world, have convinced us that competition-based simulation games are *the single most effective, most stimulating exercise available* for giving students valuable practice in being active strategic thinkers and in reading the signs of industry change, reacting to the moves of competitors, evaluating strengths and weaknesses in their company's competitive position, and deciding what to do to improve a company's financial performance. The competitive circumstances of an industry simulation force participants to wrestle with charting a long-term direction for their company, setting strategic and financial objectives, and crafting strategies that produce good results and perhaps lead to competitive advantage. And by having to live with the decisions they make, players experience what it means to be accountable for their decisions and achieve satisfactory results. All this serves to drill students in responsible decision making and to improve

their business acumen and managerial judgment. We think putting students through a simulation exercise helps make the strategy course a true capstone experience.

A Bird's-Eye View of *GLO-BUS*

This all-new, totally online simulation is modeled around the digital camera industry, a contemporary high-tech business students can readily identify with and understand. The market for digital cameras displays the characteristics of many globally competitive industries—fast growth, worldwide use of the product, competition among companies from several continents, production located in low-wage locations, and a marketplace where a variety of competitive approaches and business strategies can co-exist. Companies design and assemble their lines of entry-level and multifeatured cameras in an Asian assembly facility and ship finished goods directly to camera retailers in North America, Asia-Pacific, Europe-Africa, and Latin America.

Competition is head-to-head—each team of students must match strategic wits against the other company teams. Depending on class size and the number of co-managers assigned to each company, an industry consists of 4, 8, or 12 competing companies. While at the beginning of the simulation each company starts off as the same overall size with the same financial condition and sells its cameras in all four geographic regions of the world market, competing companies do not begin the simulation with the same market shares in each geographic area—one-fourth of the competitors have their biggest market share in Europe-Africa, one-fourth have their biggest share in North America, and so on. As the simulation unfolds, companies can reposition themselves in the four geographic market segments and two product segments (entry-level and multifeatured cameras) however they see fit, pursuing additional sales and market share in some geographic areas and de-emphasizing or abandoning others. All companies have the flexibility to adjust their annual shipments of digital cameras to mitigate the impact of fluctuating exchange rates.

Low-cost leadership, differentiation strategies, best-cost producer strategies, and focus strategies are all viable competitive options. Company managers can try to gain an edge over rivals with more advertising, longer and more frequent promotions, longer warranties, wider product selection, or better technical support. They can have a strategy aimed at being the clear market leader in either entry-level cameras, upscale multi-featured cameras, or both. They can focus on one or two geographic regions or strive for geographic balance. They can pursue essentially the same strategy worldwide or craft slightly or very different strategies for the Europe-Africa, Asia-Pacific, Latin America, and North America markets.

Company co-managers make 44 types of decisions each period, ranging from R&D, camera components, and camera performance (10 decisions) to production operations and worker compensation (15 decisions) to pricing and marketing (15 decisions) to the financing of company operations (4 decisions). Cause-effect relationships are based on sound business and economic principles.

The *GLO-BUS* participant's guide (about 25 pages) is delivered online—students can read it on their monitors or print out a copy, as they prefer. There are built-in help screens and on-screen information that provide students with the relevant information and full instructions. Students make all *GLO-BUS* decisions online and access all the results online. While decisions are made annually, there is an option that instructors can turn on allowing students to review the results by quarter and to make changes for upcoming quarters in prices, special promotions, and production levels. Decisions are processed online automatically according to times and dates set by the instructor—nothing is required on the part of instructors beyond assigning students to teams, specifying

the desired simulation schedule (done online), monitoring the results as they occur, counseling with students who may request advice about their company's performance, and deciding on a simulation grade (based on automatically calculated scores of company and individual performances using scoring weights specified by the instructor). Technical support is provided directly by the simulation co-authors and the staff at GLO-BUS.com. There is no software for students or instructors to download or install. The only requirement of players and instructors is that user PCs must be equipped with Microsoft Excel (versions 2000 or later), Internet Explorer, and have access to an Internet connection.

For more information and details, please visit www.glo-bus.com.

Instructor Support Materials

Instructor's Manual

The accompanying instructor's manual contains a section on suggestions for organizing and structuring your course, sample syllabi and course outlines, a copy of the test bank, and comprehensive teaching notes for each of the 32 cases.

Test Bank

There is a test bank prepared by the co-authors containing almost 900 multiple-choice questions and essay questions.

Computest

A computerized version of the test bank allows you to generate tests quite conveniently and to add in your own questions.

PowerPoint Slides

To facilitate preparation of your lectures and to serve as chapter outlines, you'll have access to approximately 500 colorful, professional-looking slides displaying core concepts, analytical procedures, key points, and all the figures in the text chapters. The slides are the creation of Professor Jana Kuzmicki of Troy State University.

Accompanying Case Videos

Eight of the cases—Whole Foods Market, Competition in the Bottled Water Industry, Callaway Golf Company, the Transformation of BP, Kmart, Continental Airlines, Southwest Airlines, and Enron—have accompanying videotape segments that you can show during the course of the case discussions. Suggestions for using each video are contained in the teaching note for that case.

Presentation CD-ROM

The instructor's manual, all of the PowerPoint slides, the video clips, teaching notes for the 32 cases in the text, and the five supplemental e-cases and teaching notes available with *Strategy: Winning in the Marketplace* have been installed on a CD for easy access in preparing a syllabus and daily course schedule, preparing customized lectures, and teaching the cases.

Website: www.mhhe.com/thompson1e

The instructor portion of the website contains a password-protected section that provides epilogue updates on the 32 cases contained in this text, plus an assortment of instructor's manual and other support-related materials that can be downloaded directly.

The *GLO-BUS* Online Simulation

The optional companion simulation of the digital camera industry is a powerful and constructive way of emotionally connecting students to the subject matter of the course. We know of no more powerful way to stimulate the competitive energy of students and prepare them for the rigors of real-world business decision making than to have them match strategic wits with classmates in running a company in head-to-head competition for global market leadership.

Student Support Materials**Chapter-End Exercises**

Each chapter contains a select number of exercises, most related to research on the Internet, that reinforce key concepts and topics covered in the chapters.

Website: www.mhhe.com/thompson1e

The student portion of the website features a "Guide to Case Analysis," with special sections on what a case is, why cases are a standard part of courses in strategy, preparing a case for class discussion, doing a written case analysis, doing an oral presentation, and using financial ratio analysis to assess a company's financial condition. In addition, there are self-scoring 20-question chapter tests and a select number of PowerPoint slides for each chapter.

Case-TUTOR Software

Accompanying the 32 cases is a software package containing assignment questions for all 32 cases in the text, plus analytically structured exercises for 10 of the cases that coach students in doing the strategic thinking needed to arrive at solid answers to the assignment questions for that case. Conscientious completion of the exercises helps students gain quicker command of the concepts and analytical techniques and points them toward doing good strategic analysis.

PowerWeb

With each new book, students gain access to the publisher's PowerWeb site offering current news, articles from 6,300 premium sources, a Web research guide, current readings from annual editions, and links to related sites.

Acknowledgments

We heartily acknowledge the contributions of the case researchers whose case-writing efforts appear herein and the companies whose cooperation made the cases possible. To each one goes a very special thank-you. We cannot overstate the importance of timely, carefully researched cases in contributing to a substantive study of strategic management issues and practices. From a research standpoint, strategy-related cases are invaluable in exposing the generic kinds of strategic issues that companies face, in forming hypotheses about strategic behavior, and in drawing experienced-based generalizations about the practice of strategic management. From an instructional standpoint, strategy cases give students essential practice in diagnosing and evaluating the strategic situations of companies and organizations, in applying the concepts and tools of strategic analysis, in weighing strategic options and crafting strategies, and in tackling the challenges of successful strategy execution. Without a fresh stream of well-researched, well-conceived cases, the discipline of strategic management would lose its close ties to the very institutions whose strategic actions and behavior it is aimed at explaining. There's no question, therefore, that first-class case research constitutes a valuable scholarly contribution to the theory and practice of strategic management.

In addition, a great number of colleagues and students at various universities, business acquaintances, and people at McGraw-Hill provided inspiration, encouragement, and counsel during the course of this project. Like all text authors in the strategy field, we are intellectually indebted to the many academics whose research and writing have blazed new trails and advanced the discipline of strategic management. The following reviewers provided seasoned advice and suggestions that further guided our preparation of the chapters:

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As always, we value your recommendations and thoughts about the book. Your comments regarding coverage and contents will be taken to heart, and we always are grateful for the time you take to call our attention to printing errors, deficiencies, and other shortcomings. Please e-mail us at athompso@cba.ua.edu, jgamble@usouthal.edu, or astrickl@cba.ua.edu; fax us at (205) 348-6695; or write us at P.O. Box 870225, Department of Management and Marketing, The University of Alabama, Tuscaloosa, Alabama 35487-0225.

*Arthur A. Thompson
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Guided Tour

CHAPTER 1

What Is Strategy and Why Is It Important?

Unless we change our direction we are likely to end up where we are headed.
—Ancient Chinese proverb

If we can know where we are and something about how we got there, we might see where we are trending—and if the outcomes which lie naturally in our course are unacceptable, to make timely change.
—Abraham Lincoln

If you don't know where you are going, any road will take you there.
—The Koran

Without a strategy the organization is like a ship without a rudder.
—Joel Ross and Michael Kamr

Each chapter begins with a series of pertinent quotes and an introductory preview of its contents.

In-depth examples—Company Spotlights and Global Spotlights—appear in boxes throughout each chapter to illustrate important chapter topics, connect the text presentation to real-world companies, and convincingly demonstrate strategy in action.

COMPANY SPOTLIGHT 1.1 A Strategy Example: Southwest Airlines

Southwest Airlines is the only major short-haul, low-fare, point-to-point carrier in the U.S. airline industry. It is one of the industry's great success stories and is the only airline that made a profit in each of the past 25 years. In 2003, Southwest operated 275 jets to 50 airports in 30 states. The company's no-frills strategy offers passengers a single class of service at the lowest possible fares.

Aside from its low fares, which make air travel affordable to a wide segment of the U.S. population, Southwest has made friendly service a core piece of its strategy and one of its trademarks. Company personnel work hard at creating a positive, enjoyable flying experience for passengers. Gate personnel are cheery and witty, sometimes entertaining those in the gate area with trivia questions or contests. Casually dressed flight attendants warmly greet passengers coming onto planes, directing them to open seats and helping them store their bags. Southwest's attendants, all screened carefully for fun loving and outgoing personalities, joke and chat with passengers—some even sing the announcements on take-off and landing.

Southwest's market focus is flying between pairs of cities ranging anywhere from 150 to 700 miles apart where traffic potential is high enough for Southwest to offer several daily flights. Most recently, however, Southwest has begun offering longer range flights, using its low-cost advantage to horn in on the most profitable flights of such rivals as American, United, Northwest, Delta, and US Airways. Southwest grows its business by adding more flights on existing routes and by initiating service to new airports—its objective is steady growth year after year, not rapid growth for a few years that then becomes impossible to sustain.

Recognizing that low fares necessitate zealous pursuit of low operating costs, Southwest has perfected a number of operating strategies for keeping its costs below those of rival carriers:

- The company's aircraft fleet consists entirely of Boeing 737s, thus minimizing spare parts inventories, making it easier to train maintenance and repair personnel, improving the proficiency and speed of maintenance routines, and simplifying the task of scheduling planes for particular flights.

- As the launch customer for Boeing's 737 300, 737 500, and 737 700 models, Southwest acquires its new aircraft at favorable prices.
- Southwest encourages customers to make reservations and purchase tickets at the company's website. Selling a ticket on its website costs Southwest one-tenth as much as delivering a ticket through a travel agent and about
- with the precision of assigning each passenger a reserved seat. Instead, passengers are given boarding passes imprinted with A, B, or C at check-in and then board in groups of 30 according to their assigned letters, sitting in whatever seat is open when they get on the plane.
- Southwest flight attendants are responsible for cleaning up trash left by departing passengers

GLOBAL SPOTLIGHT 5.1 Microsoft, McDonald's, and Nestlé: Users of Multicountry Strategies

Microsoft's Multicountry Strategy in PC Software

In order to best serve the needs of users in foreign countries, Microsoft localizes many of its software products to reflect local languages. In France, for example, all user messages and documentation are in French and all monetary references are in euros. In the United Kingdom, monetary references are in British pounds and user messages and documentation reflect certain British conventions. Various Microsoft products have been localized into more than 30 languages.

McDonald's Multicountry Strategy in Fast Food

McDonald's has been highly successful in markets outside the United States, partly because it has been adept in altering its menu offerings to cater to local tastes. In Taiwan and Singapore, McDonald's outlets offer a bone-in fried chicken dish called Chicken McCrispy. In Great Britain, there's the McChicken Tikka Naan to appeal to British cravings for Indian food. In India, McDonald's features the Maharajah Mac sandwich (an Indian version of the Big Mac); in Japan, there's the Chicken Tatsuta sandwich and a Teriyaki Burger sandwich; in Australia, there's a McOz Burger. However, the infrastructure and operating systems that are employed in the outlets are largely the same, enabling McDonald's to achieve low-cost leadership status once it builds volume up at its outlets (sometimes a 3-year process) and once it has enough outlets operating in a country to achieve full economies of scale (sometimes a 5- to 10-year process in the largest foreign markets).

Nestlé's Multicountry Strategy in Instant Coffee

Swiss-based Nestlé, the largest food company in the world, is also the largest producer of coffee. With a total workforce of 22,541 people operating in nearly 490 factories in 100 countries, Nestlé's presence is clearly multinational. Chief executive Peter Brabeck-Letmathe advocates understanding the distinctions between the cultures in which Nestlé markets its products: "[I]f you are open to new languages, you are also open to new cultures," he explains. Thus, instant coffee names like Nescafé, Taster's Choice, Ricco, and Nesquik line grocery shelves in various countries. If customers prefer roast or ground coffee, they can purchase Nespresso, Bonka, Zoegas, or Loumidis, depending on where they live.

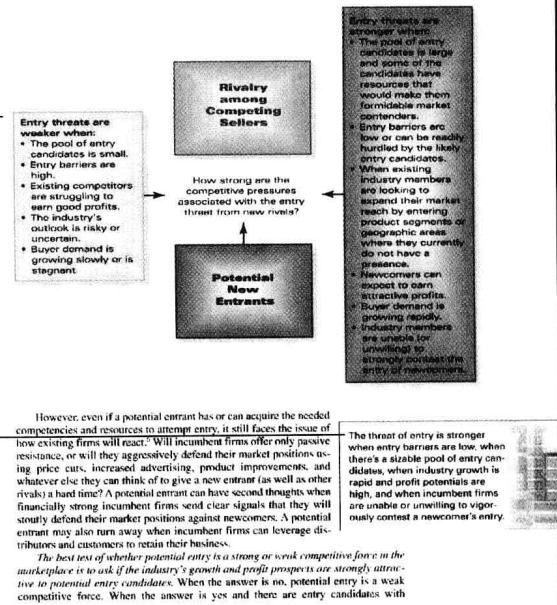
Nestlé produces 200 types of instant coffee, from lighter blends for the U.S. market to dark espresso for Latin America. To keep its instant coffees matched to consumer tastes in different countries (and areas within some countries), Nestlé operates four coffee research labs that experiment with new blends in aroma, flavor, and color. The strategy is to match the blends marketed in each country to the tastes and preferences of coffee drinkers in that country, introducing new blends to develop new segments when opportunities appear and altering blends as needed to respond to changing tastes and buyer habits. In Britain, Nescafé was promoted extensively to build a wider base of instant-coffee drinkers. In Japan, where Nescafé was considered a luxury item, the company made its Japanese blends available in fancy containers suitable for gift giving.

Source: Nestlé website (www.nestle.com), accessed August 13, 2003; "Nestlé S.A.," Hoover's Online (www.hoovers.com), accessed August 16, 2003; Tom Hult, "Nestlé Prep to Global Audience," *Industry Week* (www.industryweek.com), August 13, 2003; company annual reports; Shawn Tully, "Nestlé Shows How to Global Markets," *Fortune*, January 16, 1999, pp. 74-76; and "Nestlé: A Giant in a Hurry," *Business Week*, March 22, 1993, pp. 90-94.

and fresh market conditions (see Figure 1.2). The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation and newly launched managerial initiatives to strengthen the company's overall position and performance. This part of management's game plan is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer patronage. But the uncertainty and unpredictability of future business conditions prevent company managers from plotting every needed strategic action in advance. A portion of a company's strategy is always developed on the fly, coming as a reasoned response to changing customer preferences, the latest strategic maneuvers of rival firms, new requirements and expectations on the part of customers, emerging technologies and market opportunities, a shifting political or economic climate, and other unforeseeable happenings. Crafting a strategy thus involves not only stitching together a comprehensive *intended strategy* but also modifying first one piece and then another as events unfold and circumstances surrounding the company's situation change (*adaptive/strategic strategy*). In short, a company's actual strategy is something managers shape and reshape as circumstances dictate and as managers learn from experience and seek out improvements.

As a rule, most multinational competitors endeavor to employ as global a strategy as customer needs permit. Philips N.V., the Netherlands-based electronics and consumer products company, operated successfully with a multicountry strategy for many years but has recently begun moving more toward a unified strategy within the European Union and within North America.³ A global strategy can concentrate on building the resource strengths to secure a sustainable low-cost or differentiation-based competitive advantage over both domestic rivals and global rivals racing for world market leadership. Whenever country-to-country differences are small enough to be accommodated

Figure 2.5 Factors Affecting the Threat of Entry



Figures scattered throughout the chapters provide conceptual and analytical frameworks.

Margin notes define core concepts and call attention to important ideas and principles.

When a company decides an industry is fundamentally attractive and presents good opportunities, a strong case can be made that it should invest aggressively to capture the opportunities it sees and to improve its long-term competitive position in the business. When a strong competitor concludes an industry is relatively unattractive and lacking in opportunity, it may elect to simply protect its present position, investing cautiously if at all and looking for opportunities in other industries. A competitively weak company in an unattractive industry may see its best option as finding a buyer, perhaps a rival, to acquire its business.

Key Points

Thinking strategically about a company's external situation involves probing for answers to the following seven questions:

1. *What are the industry's strategy-shaping economic features?* Industries differ significantly on such factors as market size and growth rate, the geographic scope of competitive rivalry, the number and relative sizes of both buyers and sellers, ease of entry and exit, the extent of vertical integration, how fast basic technology is changing, the extent of scale economies and learning-curve effects, the degree of product standardization or differentiation, and overall profitability. While setting the stage for the analysis to come, identifying an industry's economic features also promotes understanding of the kinds of strategic moves that industry members are likely to employ.
2. *What kinds of competitive forces are industry members facing, and how strong is each force?* The strength of competition is a composite of five forces: the rivalry among competing sellers, the presence of attractive substitutes, the potential for new entry, the competitive pressures stemming from supplier bargaining power and supplier-seller collaboration, and the competitive pressures stemming from buyer bargaining power and seller-buyer collaboration. These five forces have to be examined one by one to identify the specific competitive pressures they each comprise and to decide whether these pressures constitute a strong or weak competitive force. The next step in competition analysis is to evaluate the collective strength of the five forces and determine whether the state of competition is conducive to good profitability. Working through the five-forces model step by step not only aids strategy makers in assessing whether the intensity of competition allows good profitability but also promotes sound strategic thinking about how to better match company strategy to the specific competitive character of the marketplace. Effectively matching a company's strategy to the particular competitive pressures and competitive conditions that exist has two aspects: (1) pursuing avenues that shield the firm from as many of the prevailing competitive pressures as possible, and (2) initiating actions calculated to produce sustainable competitive advantage, thereby shifting competition in the company's favor, putting added competitive pressure on rivals, and perhaps even defining the business model for the industry.
3. *What forces are driving changes in the industry, and what impact will these changes have on competitive intensity and industry profitability?* Industry and competitive conditions change because forces are in motion that create incentives or pressures for change. The first phase is to identify the forces that are driving

Key Points sections at the end of each chapter provide a handy summary of essential ideas and things to remember.