

# STRATEGIC MANAGEMENT CASES

THIRD EDITION



Peter  
WRIGHT

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John  
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T H I R D E D I T I O N



# STRATEGIC MANAGEMENT CASES

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# Preface

This third edition reflects the truth of one of our book's basic tenets: environmental change is inevitable. In fact, changes in the business environment and developments in the academic field of strategic management drove us to begin revising *Strategic Management Cases* less than a year after the second edition first appeared on the market. This new edition not only contains those changes, but it also benefits significantly from the perceptive feedback of our reviewers and the adopters of the first and second editions.

The text portion synthesizes and builds upon the most recent strategy-related literature from numerous fields. And virtually every concept, theory, or idea is illustrated with examples from real organizations. The cases represent the works of knowledgeable and discerning authors who have provided highly readable information on enterprises ranging from small, local businesses to huge, global corporations.

## ACKNOWLEDGMENTS

We are deeply indebted to our colleagues who have so generously permitted us to use their high quality cases in this text. The selection process was lengthy and rigorous, and we take considerable pride in presenting these cases. The author(s) of each case is identified on the first page of the case. A list of case contributors appears below:

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Administrators at each of our universities have been most supportive of our work. We particularly wish to thank Dean Donna Randall and Management Chairman Thomas R. Mills, University of Memphis; and President George F. Hamm and Vice President of Academic Affairs Vincent Falzone of the University of Texas at Tyler.

Finally, but certainly not least, the support, patience, and understanding of special family members—William, Mahin, and Teresa Wright; and Nghi Kroll—were not only helpful but essential in making this book a reality.

## CASES

"Cases in Strategic Management," includes a rich, wide-ranging collection of cases. A special introductory section preceding the cases, "Strategic Management Case Analysis," is designed to help students prepare written and oral case analysis by offering specific guidelines and methodologies. Concluding this section are several suggestions for enhancing student performance in the strategic management course and for working within a group.

We have selected 41 cases that students and instructors should find interesting and thought-provoking to read. Our case selection includes some of the largest, best-known businesses in the world as well as small, developing organizations. The companies examined include huge multi-divisional corporations, mid-size firms competing in only one or two markets, and small sole-proprietorships.

We have sought out cases which provide students an opportunity to be exposed to great diversity, both in terms of the industries covered as well as location. A vast array of industries are represented in the case selection—as diverse as producers of new-age beverages such as Clearly



Canadian and Global Marine, an offshore petroleum drilling contractor. The global breadth of the cases is also extensive, with cases covering firms in such locations as Canada, England, Lithuania, Mexico, Switzerland, and Thailand. However, we have also included cases which involve organizations as familiar as the nearest video or grocery store. The case selection also reflects a conscious effort to expose students not only to a diversity of enterprises but also to the diversity of the individuals who manage those enterprises. The following are key features of our case selection:

- In keeping with the increasing globalization of business and AACSB's concern for the internationalization of the business curriculum, we have selected cases that provide a more global perspective of business. These cases include enterprises based outside the United States, as found in "Morgan Motor Cars" and "John Labatt Ltd. and Birra Moretti," and U.S. based firms with multinational operations, such as "Federal Express Corporation," "Kentucky Fried Chicken," and "American Airlines International Strategy."
- We have included cases which focus on emerging economies around the world. "The Privatization of the Siauliai Factory of Non-woven Fabrics" case addresses the problems of managing an Eastern European business during its transition to a free market economy. "Phillip Morris: The Warning Labels Issue" deals with ethical issues of marketing in emerging economies. "Pizzas En Ciudad Juarez?" focuses on the risks and opportunities of entering the fast food industry in Mexico.
- A concerted effort was made to include cases that not only detail the history and present condition of organizations, but also present the future issues that managers must face if the enterprises are to survive and prosper. Whether the issues involve

exploiting new opportunities in the environment or taking steps to avoid threats, the student analyzing the case must make critical decisions regarding the future of the organizations examined.

- The extensive case selection gives students an opportunity to make strategic management decisions at the corporate level, the business unit level, and the functional level.
- Included are cases which focus on divisions of major corporations which are trying to turn themselves around, such as "Ford Gambles on Jaguar," and "John Labatt Ltd. and Birra Moretti." Other cases deal with successful divisions of larger firms which are coming to terms with their own success, such as "Saturn Corporation," and "Thai Chempest."
- Several small business cases are included, addressing such issues as confronting competition from much larger organizations, making a small business acquisition decision, and managing the growth of a successful small business.
- Not-for-profit cases range from one that focuses on turning around a private school which is in desperate straits ("St. Michael's Prep: Time Marches On") to one examining a community-owned resort attempting to expand its volume ("The Whistler Golf Course"), to revisiting the strategic decisions made by Colonel George A. Custer in his campaign against the Sioux nation (The Seventh Cavalry Regiment).
- Two excellent business ethics cases have also been included which address the controversial topics of selling cigarettes in third world nations and dealing with the fallout from the silicone breast implant litigation.

As in the earlier editions of this text, our primary criterion for our case selection was the overall quality of the cases. Special attention was also given to finding cases that were not only well written and interesting but also contained ample information for analysis.

# About the Authors

Peter Wright is a Professor of Management who holds the Memphis State University Endowed Chair of Excellence in Free Enterprise Management. He received his M.B.A. and his Ph.D. in management from Louisiana State University. He has acted as a consultant to many business organizations and was president/owner of an international industrial trading firm. Professor Wright is widely published in journals such as the *Harvard Business Review*, *Strategic Management Journal*, *Academy of Management Journal*, *Journal of Management*, *Journal of Business Research*, *Long Range Planning*, *British Journal of Management*, *Journal of the Academy of Marketing Science*, *Business Horizons*, *Planning Review*, *Managerial Planning*, among others.

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\*Business-level case (B), Corporate-level case (C)

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\*\*\*Case contains international issues (I), Case contains domestic issues (D)

# **II CASES IN STRATEGIC MANAGEMENT**



# Strategic Management Case Analysis

Most of you are majoring in some aspect of business administration and are already familiar with case analysis. A case portrays a real organizational situation and requires you to analyze that situation and then develop recommendations for future action. The difference between the cases in strategic management and those in previous courses is that the cases here assume a broader perspective. Cases in finance have a financial orientation, and those in organizational behavior usually focus on individual or group behavior, but the cases in this book reflect a broad, companywide perspective. Each case presents a real organization, and organizations in a wide variety of industries and operating situations are represented.

You have probably already taken a series of courses that specialize in various functional areas, such as marketing, accounting, finance, and production/operations management. This knowledge can prove very useful to you when you begin working as a functional specialist (e.g., accountant, financial analyst, or sales representative). However, most successful business executives need strategic skills particularly as they move up into general management positions. As this upward movement occurs, they typically encounter a very different set of problems from those that they dealt with as functional specialists. Unfortunately, their functional expertise is of limited assistance to them in either diagnosing or resolving these general management problems. Success in such activities requires the integration of knowledge in a wide variety of areas, both theoretical and functional. Hence, the goal of this textbook—and the course it accompanies—is to help you develop a general management capability by exposing you to a number of situations that require the integration of knowledge from different areas. The contents of this book provide the funda-



mental framework needed to bring together and integrate what you have learned in other courses so that you will be able to analyze these cases from a companywide perspective.

This introduction should help you to analyze the cases contained in this textbook and assist you in organizing and presenting your thoughts in written (or oral) form.

## READING THE CASE

---

Case analysis requires you to read the case carefully and to read it more than once. Some students read the case quickly to get an overview of the situation presented and then reread it slowly, taking notes on the important issues and problems. Subsequently, they begin to organize and analyze the case information. However, each person must develop his or her own approach to case analysis. No single technique works well for everyone.

Since cases reflect reality, it should not be surprising that some of the information is not well organized, that irrelevant information is presented, and that relevant information may be dispersed throughout the case. Information rarely comes to us in neatly tied packages. One of your first tasks, therefore, is to organize the information in the case. An outline that can help you organize the material is discussed in the following section, or your professor may provide you with his or her own guidelines for organizing the issues in the case.

Students often have questions about the time frame of a particular case. We have found it most efficient to assume that you are analyzing the case in the year(s) that the case covers. For instance, if the last year covered in the case is 1994, then you should not ordinarily analyze the case with information gathered since that date. In some instances, however, your professor may ask you to update the case, particularly if, at the case's end, significant pending problems and issues are still unresolved.<sup>1</sup>

## WRITING THE CASE ANALYSIS

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The guidelines presented in the following subsections for the written analysis of cases are offered to help you organize and present your thoughts. (If your professor gives you a set of guidelines, by all means, use those.) As you read the case carefully, you may organize and analyze the information in the case under each of the headings used for the following subsections.

### ■ Macroenvironment

The macroenvironment, the broadest of all the sections in your analysis, is intended to help you decipher the macroenvironmental information you extract from the case and organize it selectively under such headings as "Political-Legal," "Economic," "Technological," and "Social," as shown in Chapter 2. You should read the case for both explicit and implicit information in these categories. Outside research may be necessary to increase the information available in one or more of these areas. Then within each category, your task is to determine what opportunities and threats are presented to the firm featured in the case by the macroenvironmental force.

One way of accomplishing this end is to use headings and, under each heading, discuss how the external forces may act as opportunities or threats to management. Another way is to use brief, descriptive sentences for each heading's topic. For example, if the case is on General Motors (GM), the following "Economic" heading may be used with a brief sentence:

*Economic* (Opportunity)      The relatively low recent value of the dollar (compared with its value in the early 1980s) versus foreign currencies has helped GM become more price competitive.

A threat or constraint may be noted as follows:

*Political-Legal* (Threat)      The U.S. government is demanding higher and higher fuel efficiency standards from U.S. automakers.

A number of different factors may be listed under each of the macroenvironmental headings, depending upon the range of information provided in the case and the extent of your research outside what's given in the case. Some cases may have many relevant factors under, for instance, the heading "Political-Legal" but few under "Technological."

## ■ Industry Environment

The industry environment section requires you to extract information from the case and from any other available source through your own research and then organize and analyze it under the five industry forces discussed in Chapter 2: "Threat of Entry," "Intensity of Rivalry Among Existing Competitors," "Pressure from Substitute Products," "Bargaining Power of Buyers," and "Bargaining Power of Suppliers." You should use these headings to help you organize your analysis.

For example, assume that the case you are analyzing is on GM's automobile business units. Under the heading, "Threat of Entry," you might mention that economies of scale act as a barrier to domestic companies that may seek to enter the U.S. automobile industry. However, more and more vehicle producers from abroad have entered the American market over the years. Thus, although the threat of new entry from U.S. sources is limited, the threat of foreign automakers' exporting their products to America and even building manufacturing facilities in the United States is certainly present.

Under "Bargaining Power of Suppliers," you might mention that most suppliers of automobile parts do not have strong positions relative to GM. For instance, the major U.S. steel companies are not working at full capacity and, hence, would be anxious to sell to GM.

This is not to say that suppliers generally have weak bargaining power. In certain industries, some suppliers possess relatively strong bargaining power relative to buyers. For instance, Monsanto's NutraSweet unit had a strong bargaining position as a supplier to the soft-drink producers until its patent for aspartame expired in 1992.

The point of analyzing the macroenvironment and industry environment, of course, is to relate the opportunities and threats in these two areas to the firm featured in the case. A review of Chapter 2 should help you in this analysis.

## ■ The Firm's Resources, Mission, Goals, Objectives, Social Responsibility, and Ethics

Parts or all of the heading "The Firm's Resources, Mission, Goals, Objectives, Social Responsibility, and Ethics" may be used for your analysis. Sometimes, information is explicitly provided on these topics; other times, it is implicit, forcing you to read between the lines. One question that you might consider posing and analyzing is the following:

1. What are the firm's strengths and weaknesses?

As discussed in Chapter 3, a firm's strengths and weaknesses reside in its resources. Consequently, you may wish to use the questions posed in Chapter 3 regarding the firm's human, organizational, and physical resources to determine the corporation's particular strengths and weaknesses.

You might also pose the following:

2. Is there an explicit or an implicit statement of the firm's mission? Does it accurately portray the direction in which the firm is going, or are the firm's operations incompatible with its mission?

You may recall that in Chapter 3, the mission of GM (to continue our example) is stated in the following way:

The fundamental purpose of General Motors is to provide products and services of such quality that our customers will receive superior value, our employees and business partners will share in our success, and our stockholders will receive a sustained, superior return on their investment.

Unfortunately for GM, there has been a gap between its mission and its actual operating results. Surveys of car owners indicate that GM is not perceived as offering superior value to its customers.<sup>2</sup> In fact, a car produced by Toyota and sold under the GM brand (Geo Prism) has sales far below those of its "twin" product, Corolla, which is produced and marketed by Toyota.<sup>3</sup> Furthermore, GM has laid off large numbers of employees, and its stock has not been a top performer.

Another question you might consider:

3. Are the expressed or implied goals and objectives of the firm consistent with one another? Is there evidence that these goals and objectives are being attained?

In Chapter 3, we indicated that the goals of various stakeholders often differ. And Chapter 9 pointed out that compromise may be important in helping resolve these differences. Sometimes, however, compromise is not attainable, and the effectiveness of the firm suffers as a result. For example, in the middle to late 1980s, H. Ross Perot—head of Electronic Data Systems, a subsidiary of GM; a member of the GM board of directors; and a major stockholder in GM—desired a course of action for GM that differed significantly from the course favored by GM's top management. Because compromise was unattainable, GM's management purchased Perot's stock holdings for about \$750 million, at a time when GM had just incurred a large quarterly loss.

Here is another question you might consider for your analysis.

4. Is the firm operating in a socially responsible manner? Are the decisions and actions of its managers ethical?

As we emphasized in Chapter 3, analysis in the areas of social responsibility and ethics can be difficult because the guidelines are not always clear-cut. If the

case contains these issues, you may have to formulate your own answer to dilemmas such as whether it is socially responsible to lay off employees to enhance a firm's competitiveness or whether social responsibility can be better served by keeping the employees on the payroll, even at the expense of the firm's profits and, perhaps, survival.

### ■ Corporate-Level Strategies

As we pointed out in Chapter 4, a basic question facing top management at the corporate level is, In what particular businesses or industries should we be operating? The answer to this question depends upon the firm's particular resource strengths and weaknesses and the opportunities and threats in the external environment.

The next step is to answer the following questions: Which specific strategies has the firm adopted—growth, stability, or retrenchment? How effective have these strategies been? Some corporations have effectively adopted growth strategies, but others have been less successful. Some companies have grown by developing or acquiring businesses with a common core. General Electric, for example, has attained success through involvement in businesses that share a common technological core. As another instance, Philip Morris has been one of the world's largest consumer product firms, particularly with its tobacco and food businesses. However, Philip Morris was unable to transfer its expertise in consumer products to its marketing of 7-Up, which it eventually divested.

Some corporations or business units have effectively adopted the stability strategy. This strategy enables the corporation to focus managerial efforts on the existing businesses with the goal of enhancing their competitive postures. Top executives may also adopt this strategy if they perceive that the cost of adding new businesses is more than the potential benefits. At the business unit level, the stability strategy may be chosen for other reasons. For instance, some enterprises have decided not to expand because of concern that growth may reduce the quality of their products and services. In a number of industries, some large businesses may elect stability to avoid being prosecuted for engaging in monopolistic practices.

A strategy of retrenchment may be appropriate in certain situations. For instance, Tambrands diversified in the 1980s from a single-product company into such unrelated businesses as home diagnostics and cosmetics. These acquisitions, however, provided "little more than a stream of operating losses and management distraction that has hurt its basic tampon business."<sup>4</sup> In its retrenchment strategy, Tambrands sold both the diagnostics and cosmetics businesses at a loss. However, since pruning those operations, it has performed well by concentrating solely on its tampon business.

Your answer to the question—In what businesses or industries should we be operating?—may be made more specific by examining the discussion in the next section.

### ■ Corporate Portfolio Management and Related Issues

Many firms operate multiple business units in various industries, as we saw in Chapter 5. At the corporate level of such enterprises, the task is to use S.W.O.T. analysis to analyze each business unit within a portfolio framework context.



For example, a weak business unit that faces external threats would be placed in compartment H or I of our proposed S.W.O.T. framework. (Alternatively, this same business would be classified as a "dog" in the original BCG framework, would be placed in the "divest" compartment of the revised BCG framework, and would be considered an "unsuccessful business unit" in the GE framework.) Once the business unit is placed in the appropriate category in the portfolio framework, then the guidelines associated with its placement may be used to recommend corporate growth, stability, or retrenchment strategies. In the example we are using, the guideline in our S.W.O.T. framework is to turnaround, divest, or liquidate the business. (The original BCG, revised BCG, and GE frameworks recommend either liquidating or divesting the business.)

You may also wish to determine how involved corporate-level top management should get in formulating and implementing business unit strategies. Recall from Chapter 5 that relatively centralized decision making may be appropriate for corporations with related businesses, while relatively more decentralization may be better for firms operating unrelated businesses. Finally, you may wish to explore such issues in the case as corporate returns and top management's motives for engaging in acquisitions.

### ■ Business Unit Strategies and Functional Strategies

If the case is about a corporation with individual business units, then the units may have adopted different generic business unit strategies. If the firm is in a single business, such as McDonald's, or Tambrands, then its business unit and corporate-level strategies are the same. In either case, your task is to identify which business unit strategy the firm has adopted and to evaluate how appropriate that strategy is. Is it compatible with the firm's corporate strategies and with its objectives for market share? Does it enable the company to compete effectively? Here you will wish to refer to Chapter 6 and review the seven generic strategies available to business units.

As discussed in Chapter 7, business unit strategies influence functional strategies; and conversely, the extent to which functional strategies are effectively formulated helps determine the success of the business strategies. In this section of your analysis, you will want to explore the consistency of the business unit strategies and the supporting functional strategies.

For example, if the corporation emphasizes scope economies and if the business unit has adopted a low-cost strategy, then it would be inconsistent for the business unit to formulate a marketing strategy with costly advertising and promotion. However, expensive promotional campaigns would be consistent with corporate scope innovations and the adoption of the differentiation strategy.

Your analysis may extend to other considerations as well. For instance, a firm that produces a high-priced luxury product with the niche-differentiation strategy should not pursue a goal of substantially increasing its production/operations capacity and market share. Consumers who purchase luxury products or services do so only as long as the items are perceived as exclusive.

### ■ Strategy Implementation

The actual implementation of corporate, business unit, and functional strategies is considered in this part of your analysis. Reference to Chapter 8 will help you in evaluating the relationship of the firm's organizational structure to its