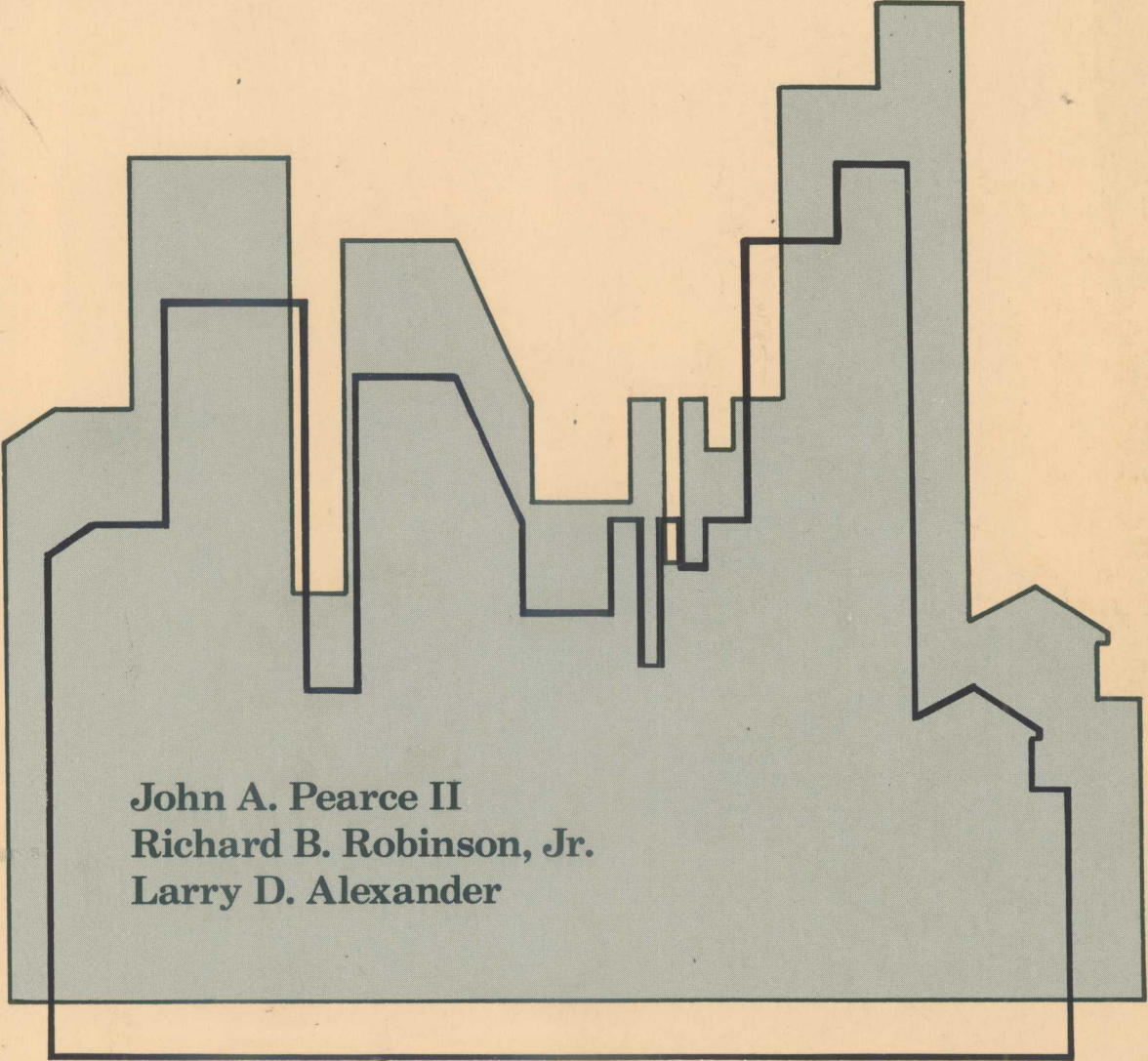


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# **Company and Industry Cases in Strategy and Policy**

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**John A. Pearce II  
Richard B. Robinson, Jr.  
Larry D. Alexander**

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We dedicate this book  
with love and appreciation  
to our parents:

Mary Frances and Jack Pearce  
Mattie and Braden Robinson

# Preface

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The inherent strength of a case book is that it offers an extraordinarily high degree of flexibility in the study of business management in terms of the number, nature, and variety of strategic situations that can be investigated. *Company and Industry Cases in Strategy and Policy* was designed and written to maximize this advantage.

The case method is widely accepted as the best approach for helping students to acquire competence in the areas of strategic management and business policy. However, it is clear that case studies must elucidate and reinforce the teaching objectives of the instructor in order to maximize the benefits of the course.

Thus, in contrast to books that commit the professor and students to a single perspective on both conceptual materials and business practices, this book allows a professor the opportunity to specify the course pedagogy. In this way the course can best reflect the unique talents, needs, and interests of both the instructor and the class. Among other advantages, this approach allows a wide variety of case method options to be considered:

- Company and Industry Cases in Strategy and Policy* can be used in combination with any conceptual materials of the instructor's choosing: a text, special readings, journals, articles, newspapers and magazines, or other handout materials chosen by the instructor.
- It can be paired with other instructional methods, including computer simulations and experimental exercises.
- It can be used alone to maximize the advantages of the traditional case-study method.

*Company and Industry Cases in Strategy and Policy* offers additional flexibility because of its unique packaging of 29 business cases around eight industry notes. Thus, users of the book have the options of studying industries, businesses, or for maximum benefit, businesses within industries. Further, because four companies can be studied in two-part sets (cases A and B), students have the opportunity to experience both the developmental problems in strategy implementation and the need for continuous environmental and competitive assessments.

The greatest strength of this book is in its case studies, and for these we are very grateful to 17 professors who graciously contributed their cases:

Sexton Adams, North Texas State University  
 Shelia A. Adams, Arizona State University  
 Stephen E. Barndt, Pacific Lutheran University  
 M. Edgar Barrett, Southern Methodist University  
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 Timothy Mescon, University of Miami  
 Leslie W. Rue, Georgia State University  
 Steven A. Sinclair, Virginia Tech  
 Neil H. Snyder, University of Virginia  
 Barbara Spencer, Clemson University  
 Tom Van Dyke, University of South Carolina

We also wish to thank three authors who joined with us as collaborators in case development. Gratefully, we acknowledge the exceptional work of doctoral students J. Kay Keels and Frank Winfrey of the University of South Carolina and Jerry Fox of Virginia Tech.

Complementing the cases are three appendixes that will help students to perfect their skills in strategy analysis. "The Guide to Industry Analysis" (Appendix A) was authored by Michael E. Porter of Harvard University as an article in the *Harvard Business Review*. "The Guide to Financial Analysis" (Appendix B) was written by Elizabeth Gatewood of the University of Georgia. "The Guide to Information Sources for Use in Strategy and Policy Analysis" (Appendix C) was provided by Jugoslav S. Milutinovich of Temple University and was based on his recent article in *Business Horizons*.

Finally, we wish to express our appreciation to several individuals whose assistance and support enabled the timely completion of this book. Our special thanks are due Dean James F. Kane, Associate Dean James G. Hilton, Program Director Joseph C. Ullman and secretary Kathleen M. Fine, all of the College of Business Administration at the University of South Carolina, and Robert Litschert, Chairman of the Virginia Tech Management Department.

Jack Pearce  
Richard Robinson  
Larry Alexander

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# Guide to Strategy and Policy Case Analysis

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## The Case Method

The case approach to strategic management offers you an exciting new educational experience for several reasons. First, instead of learning only theory, the case-oriented course focuses your attention on what a firm should do in an actual business situation. Second, the case method forces you to think and to use your analytical skills. For example, what are the specific issues facing A&P grocery stores? Which alternative grand strategy should Eastern Air Lines follow? Or, what additional actions should NCNB Corporation take to implement its move into Florida banking? Third, the case course is exciting because it more actively involves you, the student. In addition to delivering lectures, your professor will lead the class in a variety of case discussions. Fourth, this course lets you apply concepts that you have already learned in other business courses. This might involve the four P's of marketing in one case, financial ratio analysis and projections in another case, and changes in the management organizational structure in still another case. Finally, this case-oriented course will let you apply concepts that your professor will present from the rapidly developing strategic management field. Thus, there are a number of reasons why case analysis can be an interesting and challenging course format.

The cases included in this book are written accounts of actual situations facing a variety of firms in different industries. Please keep in mind that

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these cases have not been written to illustrate either effective or ineffective handling of business situations. Rather, they provide you with the opportunity to analyze what actual businesses might do to manage different strategic issues. Thus, the cases usually include a variety of qualitative and quantitative data in the text portion and accompanying exhibits. Some of the information is clearly important, while other information may not be so important. Keep in mind that the case method is highly situational, rather than general. The lessons that can be learned from analyzing one firm facing a specific set of circumstances cannot necessarily be applied automatically to another firm facing a different set of circumstances.

The cases in this book have been grouped into six industry sets. Each set contains an industry note plus cases on three different firms in that industry. The industry note will provide you with an understanding of the overall industry, its historical development, its major segments, issues and trends that confront the industry, and strategies utilized by major firms. In addition, cases have been provided on three individual firms within that specific industry. At times, your professor will ask that you read only a case on a specific firm, and other times he or she will ask that you also read the accompanying industry note. Studying and analyzing more than one firm and its industry will help you gain rich insights into the strategic management process. We hope that you will enjoy this unique approach to analyzing cases in your strategic management course.

## Preparing for Class

Since this capstone course emphasizes a new learning mode, namely analyzing business case studies, you will have to prepare for class somewhat differently. In a typical lecture, if you do not prepare, you can still learn by attending and listening to the professor's lecture. Not so in this strategic management case-oriented course. If you come to class without having read the case, you will derive little benefit from the case discussion. The following ideas are suggested to help you effectively prepare for cases that will be assigned throughout the course.

1. *Start Early in Preparing Each Case.* You need to get started early on each case for several reasons. First of all, many of these cases are quite long and take time to read. Second, since many strategic management cases involve multiple issues, it helps if you can give yourself some time to think about the case after reading it. Furthermore, the initial ideas you consider to help the firm address the strategic issue may not be as appropriate as the ones you later develop after giving the case some thought.
2. *Read the Case More Than Once.* Since strategic management cases contain broad issues that typically involve complex, multifaceted

organizational decision making, you are urged to read each case at least twice. The first reading will give you a good overview of what is going on with the firm and the issue it is confronting. The second reading, however, will help you to fine tune your understanding of the case and to comprehend more fully information you may have quickly read over before.

3. *Focus on the Case's Strategic Issue.* As you read the case, always be on the lookout for the key issue on which the case focuses. Sometimes, it is stated by the case writer in the case's introduction. Or, it might be buried among other not so important issues, facts, opinions, and symptoms in the case. There, your task will be first to identify the root issue that the firm faces and then to make recommendations to address it.
4. *Study the Exhibits.* You should analyze the financial statements, study organization charts, look at pictures of the firm's products, etc. that may be found in the exhibits. In sum, view exhibits as an integral part of each case which often contain valuable information.
5. *Put Yourself in the Proper Time Frame.* One important rule in case analysis is to put yourself back to the year when the case ends. If the case ends in 1984, then that year becomes the present year for the purpose of analyzing the firm and its industry. While it is all right to do outside reading on the firm and its industry, confine it to material written before the case ends. Do not do outside reading on the firm written after the case ended unless your professor directs you to do otherwise. Your professor wants to see what analysis and recommendations you can develop rather than to assess the firm's actual strategic moves since the case ended.
6. *Apply Business Course Concepts to the Case.* Although analyzing cases may seem theory free, it is not. Thus, try to identify theories from your other business courses that can be applied to the case at hand. Think back to your marketing, finance, production, and economics courses, among others, that might help you analyze each case. In addition, try to apply strategic management concepts that your professor will present throughout the course. By doing so, you will improve the quality of your case analyses.

## Participating in Class

The strategic management course typically relies heavily on a discussion format. To make this class discussion format succeed, both your professor and you need to perform specific roles. Let's first consider your professor's role and then your own roles.

## Your Professor's Role

1. *Lead the Discussion.* Your professor's role is to lead the discussion of the various cases you will analyze. The professor will work to stimulate the class as a whole to share their insights and observations about the case. Since your professor is trying to facilitate the class's discussion of the case, don't expect your professor to respond to every comment you make. He or she is trying to get other students to share that responsibility.
2. *Keep the Class on the Issue.* Since strategic management cases often involve multiple strategic issues, it is easy for class discussions to bounce back and forth from one issue to the next. At times, your professor may want to focus the class's attention on one specific issue before going on to some other issue. Your professor may even ask you to hold your comment on some new issue until closure has been reached on some earlier one. The request does not mean your point is unimportant, only that you should wait a while to present it.
3. *Play the Devil's Advocate.* At times, your professor may play the devil's advocate by offering alternative positions to the ones that you and other students are taking. He or she is not being argumentative nor attempting to be more devil than advocate; rather, he or she is usually testing you, exposing alternative viewpoints, sometimes to see how sure you are of your position. Don't back down, but rather offer support and reasons for the point you are making.
4. *Drawing Students into the Discussion.* The professor does this in various ways. First, he or she will call on volunteers. Second, your professor will call on students who do not have their hands up (even if others do), in an effort to get different students involved.
5. *Help Students Understand Strategic Management Concepts.* At times, your professor will lecture on strategic management concepts. He or she may first lecture on some strategic management concept and then ask you to read and analyze one or more cases that illustrate it. In other instances, your professor may first have you struggle with one or more cases, then lecture on a strategic management concept that can be applied to those cases.
6. *Be a Jack-of-all-Trades.* Perhaps your professor's most difficult task is being a jack-of-all-trades. While you are majoring in one specific business administration discipline, say finance, your professor is trying to understand general administrative issues and all the functional areas, marketing, accounting, production, human resources, and finance. This is no easy task, especially

since your professor is trying to keep up with the rapidly expanding body of literature in the strategic management field.

### Your Role as a Student

This case-oriented capstone course also requires students to take on new and challenging roles. You cannot sit back passively. Some of your roles are as follows:

1. *Attend Class Regularly.* Since class participation is often given more weight in this course than in other courses, you need to come to class to do well.
2. *Come to Class Prepared.* There are real incentives for coming to class with a good understanding of the case to be discussed. First, it will enable you to appreciate more fully the class discussion. Second, it will help you avoid being called on by your professor when you are unprepared. Finally, third, it will enable you to take an active role in the class and to be a part of the enjoyable exchange of ideas.
3. *Enter into the Class Discussion.* If you come to class regularly and prepare for each case, it will make entering the class discussion of these cases much easier. Start early in the term to participate in the class discussions. Raise your hand when you have something to say. If your professor calls on somebody else who says the same thing, raise it again as soon as you have something to say on another issue. Almost all professors consciously try to recognize students with their hands up who have participated less often for that case. Participate by doing any of the following: (1) address the question your professor is raising, (2) build on some idea that some other student has made, (3) tactfully disagree with your professor or some other student, or (4) simply ask a question.
4. *Participate an Appropriate Amount.* You should strive to be an active contributor in your class's discussion of cases. Be a balanced contributor, however, and avoid either extreme. Avoid being the quiet student that never raises his or her hand, even though you have prepared for class. At the same time, avoid participating too much. If you continually dominate the discussion, other students may become resentful and stop listening to you, even when you have good ideas to offer.
5. *Look at the Big Picture.* Unlike functional courses in marketing, finance, human resources, and production management, this course concerns the top management of the firm. That is why this field is becoming increasingly known as strategic management, since it

focuses on the issues that general managers face. As you analyze the various cases, force yourself to look beyond just the issues that relate to a specific functional area to the larger ones facing the overall firm.

6. *Stay on the Topic.* In discussing cases in class, you need to listen carefully to what your professor and other students are saying. This will help you avoid making a statement that someone else made just a few minutes earlier. Conversely, if a new issue has just been raised, avoid changing the topic instantly to something else. If you don't have anything to say about that present topic, wait a while before calling the class's attention to some other issue that you feel is important.
7. *Have Your Case in Class.* Please be sure to bring your textbook with you to every class and have it open to the case being discussed. This is a good practice for several reasons. Your professor may refer to material on a specific page or ask your opinion on some exhibit material. At other times, your professor may read a short passage from the case and ask you to comment on it. Finally, your professor may ask the class to help him clarify a case fact. In any event, if you have your case out, you'll be able to refer to material quickly or to refresh yourself with notes you put in the margin of the pages.

## Conducting the Strategic Analysis for a Firm

We recommend that you conduct a strategic analysis for the cases you analyze. This three-phased analysis, however, will vary depending on the actual case being analyzed and the specific assignment that your professor will give you. The three phases of this analysis are as follows:

1. Analyzing the industry.
2. Evaluating the firm's corporate level strategy.
3. Analyzing the firm's SBU strategies.

### Analyzing the Industry

Analyzing an industry is a complex, yet important phase of the strategic analysis. Competition within an industry is influenced greatly by the various competitive weapons that each firm utilizes. Competition is also influenced by the suppliers and buyers to the firms in the industry. Understanding competition thus involves looking backward toward the firms' sources of supply and forward in the distribution channels to the buyers of the industry's products. Competition within an industry is also influenced

by the industry success factors, which are those things a firm must do well in that industry to be successful. Finally, competition in an industry is influenced by substitute products being offered by other industries, which may have lower or higher price performance payoffs.

Some key questions to consider when analyzing the industry are as follows:

1. What are the industry success factors that firms must satisfy to compete well in that specific industry?
2. What are the different segments in the industry, and how much is each segment growing?
3. What stage of the product life cycle is the industry in, and how has this stage affected competition?
4. Who are the major suppliers to the industry, and how much power do they have relative to the firms in the industry they supply?
5. Who are the major buyers of the industry's products, and what do they value when making purchasing decisions?
6. To what extent do suppliers and buyers pose a threat to integrate forward or backward vertically into the industry?
7. How do substitute products from this and other industries compare on their price/performance trade-off?
8. What developing technological breakthroughs in other industries may adversely impact on the industry in coming years?
9. To what extent are foreign competitors occupying a dominant position in the industry?
10. What legislative or regulatory changes are threatening the industry, and how might they change the nature of competition within the industry?
11. What impact do economic recessions and inflation have on the industry?
12. What industry trends may cause the industry to change in the coming years?

Although the above list is not meant to be exhaustive, it should help you get started in doing an industry analysis. The important point to stress is that a firm's strategy should be developed and implemented with a thorough analysis of the industry in which it competes.

## Corporate Level Strategy

A second phase of strategic analysis involves evaluating the firm's corporate level strategy. This is top management's overall game plan for running

the corporation. For firms that compete within only one industry, the corporate level strategy may be the same as the SBU (Strategic Business Unit) strategy level. For multidivisional firms that compete in more than one industry, however, the corporate level strategy is usually different from the SBU level. In the latter case, the corporate level strategy is determined by a few people at the corporate level and within each SBU. Corporate strategists must first decide the overall purpose, corporate mission, and long-term objectives of the firm. With this in mind, top management then decides which industry segments to compete in and what game plan to pursue in each.

You should consider asking a number of questions as you analyze a firm's corporate level strategy. While the list that follows is not exhaustive, it should get you started understanding a firm's corporate level strategy.

### **Company Mission**

1. What is the company mission, which describes the product, market, and technological areas of emphasis for the business?
2. What are the values and philosophy of the corporate top management, and how are they reflected in its mission statement or creed?
3. Are competitive pressures impacting on the firm that might necessitate changing its company mission?

### **Company Profile**

1. What are the corporation's various SBUs and how well is each one performing?
2. What are the distinctive competencies, or strengths, of the corporation as a whole?
3. How has the corporation performed financially in recent years?
4. Which SBUs have been identified as resource generators?
5. What are common weaknesses that the corporation currently has in a number of its SBUs?
6. How do the corporation's SBUs stack up against key competitors in the various industries in which they compete?

### **Strategic Choice**

1. What long-term objectives have been established for the corporation as a whole?
2. What is the current corporate grand strategy (e.g., concentration, diversification, vertical integration) which serves as the basis for the firm's competitive posture?