

STRATEGIC **CONCEPTS & CASES** MANAGEMENT

A Competitive Advantage Approach

FOURTEENTH EDITION



Fred R. David

Strategic Management Concepts and Cases

A Competitive Advantage Approach

Fourteenth Edition



Fred R. David

Francis Marion University

Florence, South Carolina

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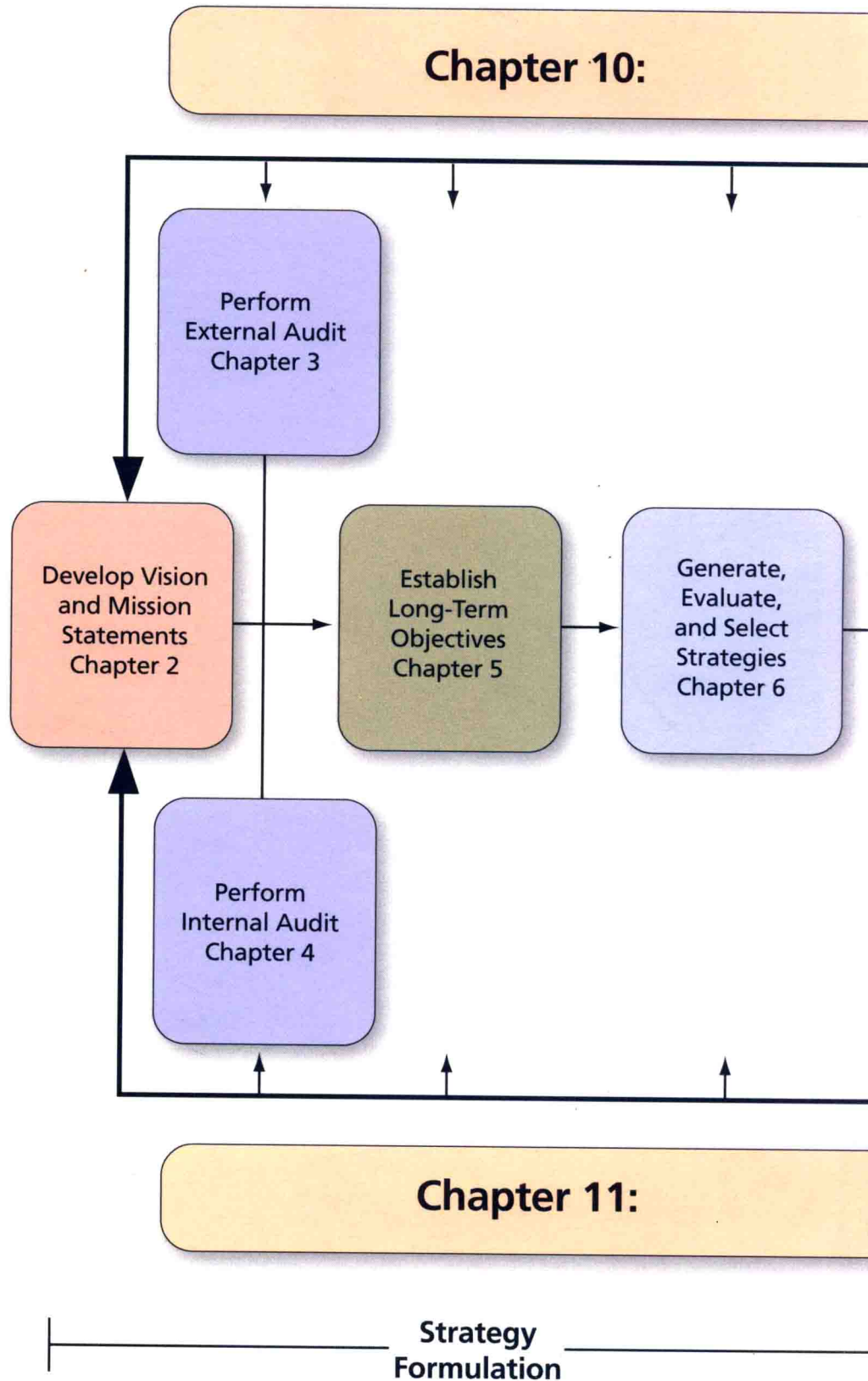
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Strategic Management

Concepts and Cases

A Competitive Advantage Approach

Fourteenth Edition

Fred R. David

Florida State University

Tallahassee, Florida, USA

UNIVERSITY

To Spikes and Aubie David—
for fifteen years of love.

Preface

Why the Need for This New Edition?

The world is dramatically different than it was two years ago. The global economic recovery has created a business environment that is quite different and more complex than it was when the previous edition of this text was published. Thousands of businesses are now flourishing and consumers are again buying discretionary products. Tight credit markets remain, as do high unemployment and high food prices, but millions of new entrepreneurs have entered the business world globally. Democracy is taking hold in the Middle East, and China has replaced Japan as the world's second largest in gross domestic product. Business firms today are leaner and meaner than ever, so gaining and sustaining competitive advantage is harder than ever. Intense price competition, rapid technological change, and social networking have altered marketing to its core. Opportunities and threats abound today all over the world, including Africa. This new edition reveals how to conduct effective strategic planning in this new world order.

Since the prior edition, thousands of liquidations, bankruptcies, divestitures, mergers, alliances, and partnerships captured the news. Private equity firms returned to the spotlight by taking hundreds of firms public and acquiring hundreds more. Corporate scandals highlighted the need for improved business ethics and corporate disclosure of financial transactions. Downsizing, rightsizing, and reengineering contributed to a permanently altered corporate landscape. Thousands of firms began doing business globally, and thousands more closed their global operations. Thousands prospered, and yet thousands failed in the last two years as more industries commoditized, making strategic management an even more important factor in being successful. Long-held competitive advantages, such as print media, news, and entertainment, eroded in recent years, and new avenues for competitive advantage formed. This new edition captures the complexity of this new business environment.

There is less room for error today in the formulation and implementation of a strategic plan. This new edition provides an effective approach for developing a clear strategic plan. Changes made in this edition are aimed squarely at illustrating the effect of new business concepts and techniques on strategic-management theory and practice. Due to the magnitude of recent changes affecting companies, cultures, and countries, every page of this edition has been updated. This textbook is one of the most widely read strategic-management books in the world, perhaps the most widely read. This text is now published in 10 languages.

What Is New in This Edition?

This 14th edition is 40 percent different than the prior edition and is positioned to be the leader and best choice globally for teaching strategic management. Here is a summary of what is new in this edition:

- Chapter 11, “Global/International Issues,” is expanded 70 percent. There is extensive new coverage of cultural and conceptual strategic-management differences across countries. Doing business globally has become a necessity in most industries because nearly all strategic decisions today are affected by global issues and concerns. Every case company in this edition does business globally, providing students ample opportunity to evaluate and consider international aspects of doing business.
- A brand new Cohesion Case on the Walt Disney Company (2011)—this is one of the most successful, well-known, and best managed global companies in the world—students apply strategy concepts to Walt Disney at the end of each chapter through new Assurance of Learning Exercises.
- Sixty percent brand new or improved Assurance of Learning Exercises appear at the end of all chapters to apply chapter concepts; the exercises prepare students for strategic-management case analysis.

- A new “Special Note to Students” paragraph is provided at the end of every chapter to guide students in developing and presenting a case analysis that reveals recommendations for how a firm can best gain and sustain competitive advantage. The whole notion of how to gain and sustain competitive advantage is strengthened throughout this edition. Note the brand new subtitle heading for this book: “A Competitive Advantage Approach.”
- A brand-new boxed insert at the beginning of each chapter showcases a company doing strategic management exceptionally well.
- Nearly all brand-new examples throughout the chapters.
- Extensive new narrative on strategic management theory and concepts in every chapter to illustrate the new business world order.
- On average, 15 brand-new review questions at the end of each chapter.
- Brand-new color photographs bring this new edition to life and illustrate companies and concepts.
- All new current readings at the end of each chapter; new research and theories of seminal thinkers in strategy development, such as Ansoff, Chandler, Porter, Hamel, Prahalad, Mintzberg, and Barney, are provided in the chapters; practical aspects of strategic management, however, are still center stage and the trademark of this text.
- Chapter 10, “Business Ethics/Social Responsibility/Environmental Sustainability,” is expanded 40 percent, providing extensive new coverage of ethics and sustainability because this text emphasizes that “good ethics is good business.” Unique to strategic-management texts, the sustainability discussion is strengthened to promote and encourage firms to conduct operations in an environmentally sound manner. Respect for the natural environment has become an important concern for consumers, companies, society, and AACSB-International.
- Twenty-seven brand-new cases—grouped by industry; great mix of profit/nonprofit, large/small, and manufacturing/service organizations; all the cases have a 2011–2012 time setting; all the cases are “comprehensive” in the sense that each focuses on multiple business functions rather than addressing one particular business problem or issue; all cases are undisguised and feature real organizations in real industries using real names and real places (nothing is fictitious in any case); all cases feature an organization “undergoing strategic change,” thus offering students up-to-date issues to evaluate and consider; all cases are written in a lively, concise writing style that captures the reader’s interest and establishes a time setting, usually in the opening paragraph; all cases provide excellent quantitative information such as numbers, ratios, percentages, dollar values, graphs, statistics, and maps so students can prepare a more specific, rational, and defensible strategic plan for the organization; all cases provide excellent information about the industry and competitors; all cases include 2010 financial statements for the firm; all cases are supported by an excellent teacher’s note. All cases in this text are fun, exciting, and effective for teaching strategic management concepts and techniques.

Chapters: Time-Tested Features

This edition continues to offer many special time-tested features and content that have made this text so successful for over 20 years. Historical trademarks of this text that are strengthened in this edition are described below.

- This text meets AACSB-International guidelines that support a practitioner orientation rather than a theory/research approach. It offers a skills-oriented approach to developing a vision and mission statement; performing an external audit; conducting an internal assessment; and formulating, implementing, and evaluating strategies.
- The author’s writing style is concise, conversational, interesting, logical, lively, and supported by numerous current examples throughout.
- A simple, integrative strategic-management model appears in all chapters and on the inside front cover of the text. This model is widely used for strategic planning among consultants and companies worldwide. At the start of each chapter, the section of the comprehensive strategy model covered in that chapter is highlighted and enlarged so students can see the

focus of each chapter in the basic unifying comprehensive model. One reviewer said, “One thing I have admired about David’s text is that he follows the fundamental sequence of strategy formulation, implementation, and evaluation. There is a basic flow from vision/mission to internal/external environmental scanning to strategy development, selection, implementation, and evaluation. This has been, and continues to be, a hallmark of the David text. Many other strategy texts are more disjointed in their presentation, and thus confusing to the student, especially at the undergraduate level.”

- A Cohesion Case follows Chapter 1 and is revisited at the end of each chapter. This Cohesion Case allows students to apply strategic-management concepts and techniques to a real organization as chapter material is covered, which readies students for case analysis in the course.
- End-of-chapter Assurance of Learning Exercises effectively apply concepts and techniques in a challenging, meaningful, and enjoyable manner. Seventeen exercises apply text material to the Cohesion Case; eleven exercises apply textual material to a college or university; another nine exercises send students into the business world to explore important strategy topics. The exercises are relevant, interesting, and contemporary.
- There is excellent pedagogy in this text, including notable quotes and objectives to open each chapter, and key terms, current readings, discussion questions, and experiential exercises to close each chapter.
- There is excellent coverage of strategy formulation issues, such as business ethics, global versus domestic operations, vision/mission, matrix analysis, partnering, joint venturing, competitive analysis, governance, and guidelines for conducting an internal/external strategy assessment.
- There is excellent coverage of strategy implementation issues such as corporate culture, organizational structure, outsourcing, marketing concepts, financial analysis, and business ethics.
- A systematic, analytical approach is presented in Chapter 6, including matrices such as the SWOT, BCG, IE, GRAND, SPACE, and QSPM.
- The chapter material is again published in a four-color format.
- A chapters-only paperback version of the text is available.
- Custom-case publishing is available whereby an instructor can combine chapters from this text with cases from a variety of sources or select any number of cases desired from the 27 cases in the full text.

Cases: Time-Tested Features

- This edition contains the most current set of cases in any strategic-management text on the market. All cases include year-end 2010 financial data and information.
- The cases focus on well-known firms in the news making strategic changes. All cases are undisguised, and most are exclusively written for this text to reflect current strategic-management problems and practices. These are all “student-friendly” cases.
- Organized conveniently by industry (usually two competing firms per industry), the cases feature a great mix of domestic and international firms.
- All cases have been class tested to ensure that they are interesting, challenging, and effective for illustrating strategic-management concepts.
- All cases provide complete financial information about the firm, as well as an organizational chart and a vision and mission statement for the organization if those were available.
- All of the cases are comprehensive in the sense that each provides a full description of the firm and its operations rather than focusing on one issue or problem such as a plant closing. Each case thus lends itself to students preparing a three-year strategic plan for the firm.
- The Case Information Matrix and Case Description Matrix provided in the preface reveal (1) topical areas emphasized in each case and (2) contact and location information for each case company. These matrices provide suggestions on how the cases deal with concepts in the 11 chapters.

Instructor's Resource Center

At www.pearsonhighered.com/irc, instructors can access a variety of print, digital, and presentation resources available with this text in downloadable format. Registration is simple and gives you immediate access to new titles and new editions. As a registered faculty member, you can download resource files and receive immediate access and instructions for installing course management content on your campus server.

If you ever need assistance, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com/> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available for download to adopting instructors:

- Instructor's Manual
- Case Instructor's Manual
- Test Bank
- TestGen® Computerized Test Bank
- PowerPoints

Videos on DVD

Exciting and high-quality video clips help deliver engaging topics to the classroom to help students better understand the concepts explained in the textbook. Please contact your local representative to receive a copy of the DVD.

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Author Website

The Strategic Management Club Online at www.strategyclub.com contains templates and links to help students save time in performing analyses and make presentations look professional.

Special Note to Professors

Thank you for considering this text. This new edition provides exceptionally up-to-date coverage of strategic-management concepts, theory, research, and techniques. Every sentence and paragraph has been scrutinized, modified, clarified, deleted, streamlined, updated, and/or improved to enhance the content and caliber of presentation. The basic structure of this edition stays with 11 chapters, but there are many new examples, concepts, readings, exercises, and review questions in every chapter—and a new Cohesion Case on the Walt Disney Company. The improvements in readability and coverage are dramatic. Every chapter features strategic-management concepts and practices presented in a clear, focused, and relevant manner with hundreds of new examples integrated throughout.

The skills-oriented, practitioner perspective that historically has been the foundation of this text is enhanced and strengthened in this edition. New and expanded coverage of strategic-management theories and research in the text reflect companies' new perspective on doing business. To survive and prosper in this global economic recovery, organizations must build and sustain competitive advantage. This text is now trusted around the world to provide future and present managers the latest skills and concepts needed to effectively formulate and efficiently implement a strategic plan—a game plan, if you will—that can lead to sustainable competitive advantage for any type of business.

The reviewers and I believe you will find this edition to be the best strategic-management textbook available for communicating both the excitement and value of strategic management. Concise and exceptionally well organized, this text is now published in English, Chinese, Spanish, Thai, German, Japanese, Farsi, Indonesian, Indian, and Arabic. A version in Russian is being negotiated. On five continents, this text is widely used in colleges and universities at both the graduate and undergraduate levels. In addition, thousands of companies, organizations, and governmental bodies use this text as a management guide, making it perhaps the most widely used strategic planning book in the world.

This textbook meets all AACSB-International guidelines for the strategic-management course at both the graduate and undergraduate levels, and previous editions have been used at more than 500 colleges and universities.

A Sample of Universities Presently Using This Textbook

You can trust this textbook to meet all your needs. Although very widely used around the world, a sample of colleges and universities using the prior (13th) edition of this text in English in the United States is given here:

Albany State University	Eastern Oregon University
Alcorn State University	Eastern Washington University
Alvernia University	East Stroudsburg University
Ambassador College	Elmhurst College
American International College	Faulkner University
Anderson University	Florida Institute of Technology
Angelo State University	Fort Valley State College
Aquinas College	Francis Marion University
Bellevue University	Fresno Pacific University
Belmont Abbey College	Frostburg State University
Benedictine University	George Fox University
Briar Cliff University	Georgetown College
Brooklyn College	George Washington University
California State University–Long Beach	Georgia Southwestern State University
California Lutheran University	Hampton University
Carnegie Mellon University	Harding University
Catawba College	Hofstra University
Central Connecticut State University	Indiana University–Kokomo
Central Washington University	Indiana Wesleyan University
Chatam University	Iona College
Chicago State University	Jackson Community College
Clafflin University	Jamestown College
Clarion University of Pennsylvania	John Brown University
Clarkson College	Johnson & Wales University–Charlotte
Cleveland State University	Johnson & Wales University–Denver
Columbia College	Johnson & Wales University–Providence
Concordia University	Kansas State University
Delaware State University	Keene State College
Depaul University–Loop Campus	Kellogg Community College
Dominican University	La Salle University
Eastern Michigan University	Limestone College

Loyola College, Bush Center	San Antonia College
Loyola University, Maryland	Savannah State University
Madonna University	Seton Hall University
Marshall University	Siena Heights University
Mercer University	South Carolina State University
Mesa State College	Southern New Hampshire University
Miami-Dade College	Southern University–Baton Rouge
Middle Georgia College	Southern Utah University
Millersville University	Southern Wesleyan University
Millsaps College	Southwest Baptist University
Morgan State University	St. Bonaventure University
Morrison College of Reno	St. Joseph College
Mount Hood Community College	St. Louis University
Murray State University	St. Thomas University
New England College	Texarkana College
New Mexico State University	Texas A&M University–Commerce
New York University	Texas A&M University–Texarkana
North Carolina Wesleyan College	Texas Tech University
Norfolk State University	Three Rivers Community College
North Central College	Troy University–Dothan
Northwest Arkansas Community College	Troy University–Main Campus
Oakland University	Troy University–Montgomery
Ohio Dominican University	University of Alabama–Birmingham
Ohio State University–Main Campus	University of Arkansas–Fayetteville
Oklahoma State University	University of Colorado–Boulder
Oral Roberts University	University of Hawaii–Manoa
Pace University–Pleasantville	University of Louisiana–Monroe
Palm Beach State College	University of Maine–Augusta
Park University	University of Maine–Fort Kent
Penn State University–Abington	University of Maryland–College Park
Penn State University–University Park	University of Miami
Philadelphia University	University of Michigan–Flint
Point Park University	University of Minnesota–Crookston
Queens College of CUNY	University of Mobile
Quinnipiac University	University of Nevada–Las Vegas
Rider University	University of New Orleans
Robert Morris College	University of North Texas–Dallas
Roger Williams University	University of Pennsylvania
Saint Cloud State University	University of San Francisco
Saint Leo University	University of Texas–El Paso
Saint Mary's College	University of Texas–Pan American
Saint Xavier University	University of Texas–San Antonio
Sam Houston State University	University of The Incarnate Word

University of Toledo
University of Nevada–Reno
University of New Orleans
University of North Texas
University of Toledo
Valley City State University
VCCS
Virginia State University
Virginia Tech–Blacksburg
Wagner College

Washington University
Webster University
Western Connecticut State University
Western Kentucky University
Western Michigan University
Widener University
William Jewell College
Williams Baptist College
Winona State University
Winston-Salem State University

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Many persons have contributed time, energy, ideas, and suggestions for improving this text over 14 editions. The strength of this text is largely attributed to the collective wisdom, work, and experiences of strategic-management professors, researchers, students, and practitioners. Names of particular individuals whose published research is referenced in this edition of this text are listed alphabetically in the Name Index. To all individuals involved in making this text so popular and successful, I am indebted and thankful.

Many special persons and reviewers contributed valuable material and suggestions for this edition. I would like to thank my colleagues and friends at Auburn University, Mississippi State University, East Carolina University, and Francis Marion University. I have served on the management faculty at all these universities. Scores of students and professors at these schools helped shape the development of this text. Many thanks go to the following 23 reviewers whose comments shaped this 14th edition:

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Daniel Slater, Union University
Jill Lynn Vihtelic, Saint Mary's College
Michael W. Wakefield, Colorado State University–Pueblo
Don Wicker, Brazosport College

Individuals who develop cases for the North American Case Research Association Meeting, the Midwest Society for Case Research Meeting, the Eastern Case Writers Association Meeting, the European Case Research Association Meeting, and Harvard Case Services are vitally important for continued progress in the field of strategic-management. From a research perspective, writing strategic-management cases represents a valuable scholarly activity among faculty. Extensive research is required to structure strategic-management cases in a way that exposes strategic issues, decisions, and behavior. Pedagogically, strategic-management cases are essential for students in learning how to apply concepts, evaluate

situations, formulate a “game plan,” and resolve implementation problems. Without a continuous stream of updated cases, the strategic-management course and discipline would lose much of its energy and excitement.

Professors who teach this course supplement lecture with simulations, guest speakers, experiential exercises, class projects, and/or outside readings. Case analysis, however, is typically the backbone of the learning process in most strategic-management courses across the country. Case analysis is almost always an integral part of this course.

Analyzing strategic-management cases gives students the opportunity to work in teams to evaluate the internal operations and external issues facing various organizations and to craft strategies that can lead these firms to success. Working in teams gives students practical experience solving problems as part of a group. In the business world, important decisions are generally made within groups; strategic-management students learn to deal with overly aggressive group members and also timid, noncontributing group members. This experience is valuable as strategic-management students near graduation and enter the working world full time.

Students can improve their oral and written communication skills as well as their analytical and interpersonal skills by proposing and defending particular courses of action for the case companies. Analyzing cases allows students to view a company, its competitors, and its industry concurrently, thus simulating the complex business world. Through case analysis, students learn how to apply concepts, evaluate situations, formulate strategies, and resolve implementation problems. Instructors typically ask students to prepare a three-year strategic plan for the firm. Analyzing a strategic-management case entails students applying concepts learned across their entire business curriculum. Students gain experience dealing with a wide range of organizational problems that impact all the business functions.

The following people wrote cases that were selected for inclusion in this 14th edition. These persons helped develop the most current compilation of cases ever assembled in a strategic-management text:

Dr. M. Jill Austin, Middle Tennessee State University
 Dr. Alen Badal, The Union Institute
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