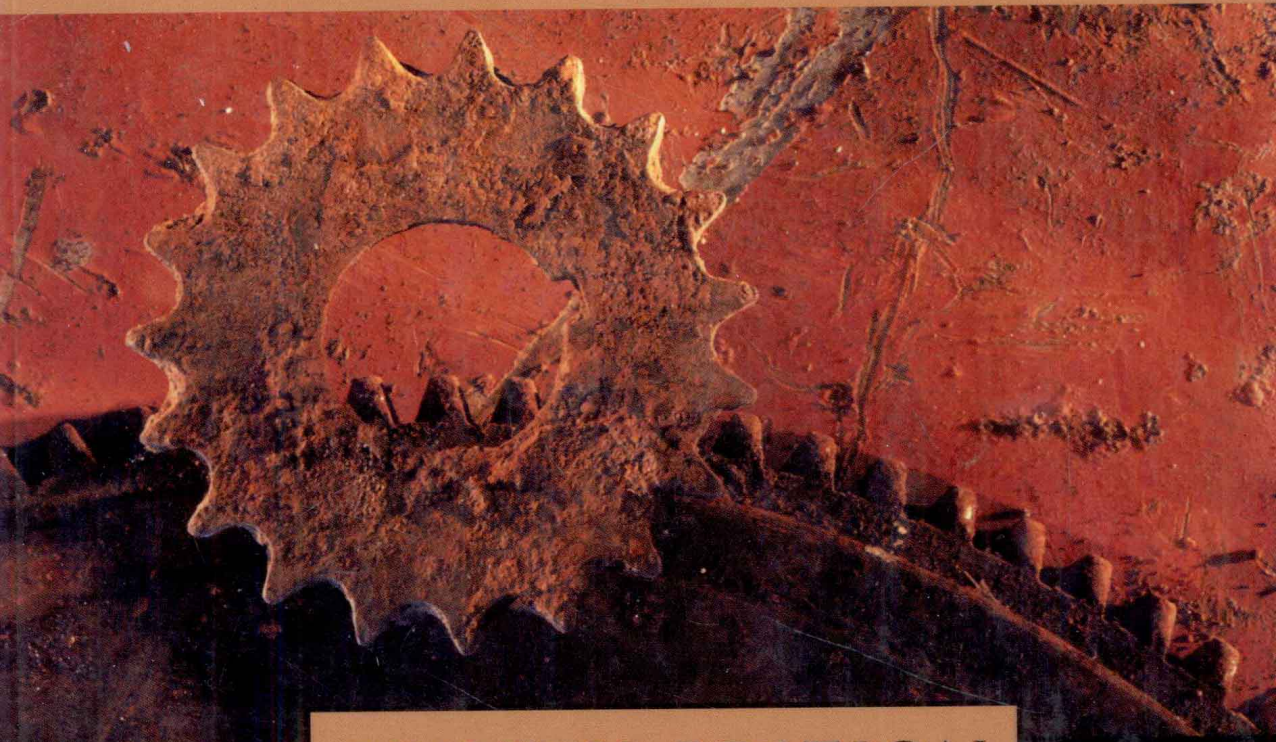


CONTEMPORARY STRATEGY ANALYSIS

CONCEPTS, TECHNIQUES,
APPLICATIONS



FOURTH EDITION

ROBERT M. GRANT



Contemporary Strategy Analysis

Concepts, Techniques,
Applications

Fourth Edition

Robert M. Grant

 **BLACKWELL**
Business

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Preface

The purpose of *Contemporary Strategy Analysis* is to equip managers and students of management with the core concepts, frameworks, and techniques of strategic management. To achieve this I have endeavored to combine rigor with relevance and applicability.

The approach is analytical. If strategic management is all about managing the enterprise to achieve superior performance, then the essence of strategic management is to identify the sources of profit available to the business enterprise, and to formulate and implement strategies that exploit these sources of profit. The result is a book that is simultaneously theoretical and practical. It is theoretical to the extent that it concentrates upon the fundamental factors that determine business success. It is practical to the extent that acquiring deep insight into the determinants of business success is the basis for developing sound strategy.

This fourth edition of the book reflects the impact of two key forces reshaping today's business environment: competition and speed of change. Globalization, new technologies, the formation of new enterprises, and dissolving industry boundaries all increase the intensity of competition. As a result, the quest for competitive advantage becomes critical for survival – let alone prosperity. My primary goal for the fourth edition has been to sharpen and develop the analysis of competitive advantage through a stronger focus upon the need to identify, develop, and exploit the resources and capabilities of the enterprise. The new edition gives increased prominence to the tools of knowledge management, to the development of new organizational capabilities, and the creation and management of industry standards.

As the rate of change of the business environment continues to accelerate – driven by technology, deregulation, and market turbulence – the implications for strategic management are far reaching. At the most basic level, strategy making extends beyond questions of resource deployment and market position to address fundamental questions such as: What is our business? What are we trying to achieve? What is our identity as an organization? Managing under conditions of rapid change also requires new approaches to strategy analysis. In this new edition I explore the analysis of real

options, patterns of industry evolution, the sources of strategic innovation, and the implications of complexity theory.

The fourth edition gives particular prominence to the impact of digital technologies on the strategic management, notably the rapid development of e-commerce. The book shows that the fundamental tools of strategy analysis are as applicable to the “New Economy” as they are to the “Old Economy.” Our analysis casts doubt on the potential for the New Economy to usher in a new era of business prosperity. Not only are most e-commerce sectors subject to intense price competition, but the growth of internet-based transactions and information flows will also increase competitive pressure on “bricks and mortar” businesses.

In response to customer feedback, the fourth edition places increased emphasis upon strategy implementation. There is a broader treatment of knowledge management and the development of organizational capability, fuller consideration of the design of organizational structures and management systems, and expanded treatment of strategic planning and performance management processes. Unlike other strategy texts, I do not split the book into separate sections for strategy formulation and strategy implementation. I offer an integrated approach to strategy formulation and implementation in the belief that these cannot be treated in isolation from one another. A strategy that is formulated without regard to its implementation is likely to be fatally flawed. At the same time, it is through their implementation that strategies adapt and emerge. Hence, I introduce organization structure and management systems as basic tools of strategy analysis (Part II of the book). Subsequent chapters that explore different types of strategy and different types of business then provide an integrated treatment of strategy formulation and implementation. However, I draw limits as to how far down the path of strategy implementation it is sensible to travel. Ultimately, strategy implementation takes us into the functional areas of the business – finance, marketing, operations, human resource management, and information systems. I leave these functions to their own specialists.

There is very little in this book that is original – I have plundered mercilessly the ideas, theories, and evidence of fellow scholars of strategic management. My greatest debts are to my colleagues and students at the business schools where this book has been developed and tested – University of British Columbia, California Poly, University of California at Los Angeles, City University, and Georgetown University. Also, to those in other schools who have used the book and provided me with feedback and ideas. I continue to learn and look forward to sharing that learning with you.

Robert M. Grant
Washington DC
April 2001

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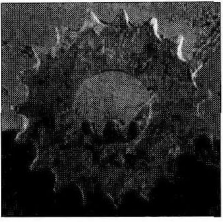
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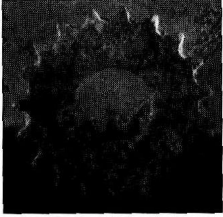
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I

Introduction

1 The Concept of Strategy



1

The Concept of Strategy

Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.

—Sun Tzu, *The Art of War*

OUTLINE

- INTRODUCTION AND OBJECTIVES
- THE ROLE OF STRATEGY IN SUCCESS
- A FRAMEWORK FOR ANALYZING BUSINESS STRATEGY
 - Beyond SWOT
 - Strategic Fit
- A BRIEF HISTORY OF BUSINESS STRATEGY
 - Origins and Military Antecedents
 - From Corporate Planning to Strategic Management
- THE DISTINCTION BETWEEN CORPORATE AND BUSINESS STRATEGY
- DIFFERENT APPROACHES TO STRATEGY: *DESIGN* VERSUS *PROCESS*
- THE DIFFERENT ROLES OF STRATEGY WITHIN THE FIRM
 - Strategy as Decision Support
 - Strategy as a Process for Coordinating and Communicating
 - Strategy as Target
- THE ROLE OF ANALYSIS IN STRATEGY FORMULATION
- SUMMARY

INTRODUCTION AND OBJECTIVES

Strategy is about winning. This chapter investigates the role of strategy in organizational and personal success – not only in its business context, but also in relation to other fields of human endeavor, including warfare, entertainment, politics, and sport. We examine the nature of strategy and we distinguish strategy from planning. Strategy is not a detailed plan or program of instructions; it is a unifying theme that gives coherence and direction to the actions and decisions of an individual or an organization.

We go on to examine the role of analysis in strategy formulation. If strategy is purely a matter of intuition and experience, then there is little point in studying this book – the only way to learn is to go and do. The key premise that underlies this book is that there are concepts, frameworks, and techniques that are immensely useful in formulating and implementing effective strategies.

By the time you have completed this chapter, you will be able to:

- Identify the contribution that strategy can make to successful performance, both for individuals and for organizations.
- Perceive strategy as a link between the firm and its environment, and recognize external analysis (understanding the industry environment) and internal analysis (understanding the firm's resources and capabilities) as the two primary ingredients into formulating strategy.
- Describe the origins and development of business strategy.
- Recognize the multiple roles of strategy within an organization.

My intention in this chapter is to familiarize you with what strategy is and how strategic analysis and formal processes of strategy making can help organizations achieve superior performance. At the same time, I shall be outlining a framework for strategy analysis that will form the organizing framework for the whole of the book. The basis of this framework is the role of strategy as the essential link between the firm and its business environment.

Since the purpose of strategy is to help us to win, we start by looking at the role of strategy in success.

THE ROLE OF STRATEGY IN SUCCESS

Exhibits 1.1, 1.2, and 1.3 outline examples of success in three very different fields of endeavor: Madonna in popular entertainment, General Giap and the North Vietnamese armed forces in warfare, and Alex Ferguson and Manchester United in soccer. Can the success of these diverse individuals and the organizations they led be attributed to any common factors?

EXHIBIT 1.1 Madonna

Despite a new relationship (with actor Guy Ritchie) a move to London, a second pregnancy, and her 42nd birthday, the new millennium saw little evidence of a slowdown in the career of Madonna Louise Veronica Ciccone. Year 2000 saw the release of her movie *The Next Best Thing*, a major hit with her recording of Don Michelin's "American Pie," a Grammy award for her song "Beautiful Stranger," and a new album, *Music*. Meanwhile, at her production company Maverick, her stable of recording artists continued to grow in size and success. After two and a half decades at the top of her profession, Madonna continues to be the world's highest earning female entertainer and one of the best-known women on the planet.

Born in Bay City, Michigan on August 16, 1958, Madonna studied dance at University of Michigan, but left after a year to pursue a career as a dancer in New York. After a succession of small-time dancing jobs, she turned to music and eventually landed a recording contract. *Madonna*, released in 1983, ultimately sold close to 10 million copies worldwide and her second album, *Like a Virgin*, topped 12 million copies. Between 1985 and 1990, six further albums, three world tours, and five movie roles had established Madonna with an image and persona that transcended any single field of entertainment: she was rock singer, actor, author, and pinup. Yet, she was more than this – as her website proclaims, she is "icon, artist, provocateur, diva, and mogul." She has also made a great deal of money: between 1985 and 1999 she was easily the world's top earning female entertainer and has a net worth estimated at close to \$200 million.

So, what is the basis of Madonna's incredible and lasting success? As an entertainer there is little evidence of outstanding natural talent. Although she has evoked comparison with stars of the past – Monroe, Garbo, and Mae West – her endowments seem modest: she lacks the voice of Whitney Houston, the dancing ability of Janet Jackson, and the songwriting talent of Sinead O'Connor. While she is undoubtedly attractive, few would regard her as outstandingly beautiful.

To understand her success, it is first worth noting that she is not the product of any media organization or the protégée of any entertainment entrepreneur. Madonna's success is the result of her own efforts and she has always directed her own career. To launch her music career, she flew to Los Angeles in 1982 to persuade Freddie De Mann, Michael Jackson's manager, to take her on and eventually to drop Jackson. Since then she has forged alliances and drawn on the resources of a wide range of individuals and organizations. Yet, she has never compromised her independence or relinquished control over her career.

Madonna's drive and purposefulness are evident throughout her life. Her wide range of activities – records, concerts, music videos, movies, books, and charity events – belies a remarkable dedication to a single goal: the quest for superstar status. For close to 20 years, Madonna has worked relentlessly to market herself and to maintain and renew her popular appeal. She is widely regarded as a workaholic who survives on little sleep and rarely takes vacations.

I am a very disciplined person. I sleep a certain number of hours each night, then I like to get up and get on with it. All that means that I am in charge of everything that comes out.

Her career has been largely undeflected by other goals. Many of her personal relationships have been stepping stones to career transitions. Her transition from dancing into music was assisted by relationships, first with a rock musician and later with disc jockey John Benitex. Her move into Hollywood followed her brief marriage to actor Sean Penn and an affair with Warren Beatty. As Jeff Katzenberg of Deamworks observed:

She has always had a vision of exactly who she is, whether performer or businesswoman, and she has been strong enough to balance it all. Every time she comes up with a new look it is successful. When it happens once, OK, maybe it's luck, but twice is a coincidence, and three times it's got to be a remarkable talent. And Madonna's on her fifth or sixth time.

EXHIBIT 1.1 (cont'd)

Like Evita Perón, whom Madonna portrayed in the movie *Evita*, Madonna has shown a determination to climb out of her humble origins, ambition to reach a pinnacle of achievement, astuteness in making the right connections, mastery of the strategic use of sex, and a knack for being in the right place at the right time.

She was quick to learn how to play the game both in Tin Pan Alley and in Hollywood. As a self-publicist she is without equal. In using sex as a marketing tool, she has followed a tradition that extends back thousands of years: her innovation has been to go further in the subtle and not-so-subtle suggestions of sexual deviance, the portrayal of pornographic imagery (often under the banner of "art"), and the juxtaposition of sexual and religious themes. But she is also astute at walking the fine line between the shocking and the unacceptable. She has had concerts banned for indecency, videos pulled from MTV because of their sexual content, and a sponsorship deal with Pepsi canceled once Pepsi discovered that the advertising video featured Madonna making love on an altar (Madonna pocketed \$3 million from the deal). Yet, she has carefully nurtured relationships with key producers and promoters, and never risked being exiled from the major channels of distribution that she needs to link her to her audience.

Most striking has been her continuous renewal of her image. From her street kid look of the early 1980s, her fans have been treated to multiple reincarnations. These have included her glam-rock look of the late 1980s, a Marilyn Monroe retro look, her hard-core sexuality of the early 1990s, to her softer and more spiritual image that has accompanied motherhood. Not all her projects have been successful – several of her films have been outright failures, with her performances described as "wooden" and "one-dimensional." Yet, every time her career appears to be in decline, she has shown a remarkable ability to stage publicity coups and renew her image and appeal.

Her approach involves very careful exploitation of her own talents and endowments. Her foremost ability is designing and projecting images that combine music, dance, theater, physical presence, and her sense of style. Her weaknesses as an entertainer are compensated for by her heavy reliance on technology, sexual suggestion, and an array of support personnel, including musicians, dancers, and designers. These are effectively integrated through her own creative vision and design capability.

In all her activities, Madonna shows obsessive attention to detail. Her insistence on control is reflected in the organization of her business interests. Most of her entertainment ventures have been owned and operated by her own companies, including Boy Toy Inc. (publishing), Siren films, and Slutco Inc. (video). In 1992 she formed the recording and management company Maverick Inc., a joint venture with Time Warner. Her Maverick deal guaranteed her a base salary of \$8 million a year plus a share of profits. This represented a significant shift in Madonna's business base. Rather than rely on revenues from her music and acting output, she has increasingly become a developer and promoter of younger talent. Maverick provides a vehicle focusing her creative and promotional intuition and experience and the wealth of talented specialists that she has gathered around her to develop new entertainers and enterprises. The company has recording contracts with the Deftones, William Orbit, Cleopatra, and No Authority. Madonna has also been active in launching the international careers of singer Donna De Lory, the French band Mirwais, and comedian Ali G. As Madonna noted:

I've met these people along the way in my career and I want to take them everywhere I go. I want to incorporate them into my little factory of ideas. I also come into contact with a lot of young talent that I feel entrepreneurial about.

While Madonna's musical career continues to flourish, her business development activities occupy an increasing part of her life and provide a growing share of her income, despite the increasing dominance of the global media sector by a few mega-conglomerates: AOL-Time