**Chapter 1 Lecture Note**

**Strategy, Business Models, and Competitive Advantage**

Chapter Summary

Chapter one explores the fundamental concepts surrounding organizational strategy. It begins with an explanation of the term strategy and discusses why companies need a distinctive strategy in order to compete successfully. Next, it explores why a company must have a viable business model and the five most dependable strategic approaches for setting a company apart. The chapter wraps up with an illustration of how a company’s strategy tends to evolve over time due to changing business conditions and the three tests for winning strategies.

Lecture Outline

**I. The Importance of Managing Strategically**

1. A company’s strategy spells out why the company matters in the marketplace by defining its approach to creating superior value for customers and how capabilities and resources will be employed to deliver the desired value to customers.

2. In effect, managers must determine how many and which strategic options to pursue including:

a. How to create products or services that attract and please customers.

b. How to position the company in the industry.

c. How to develop and deploy resources to build valuable competitive capabilities.

d. How each functional piece of the business (R&D, supply chain activities, production, sales and marketing, distribution, finance, and human resources) will be operated.

e. How to achieve the company’s performance targets.

CORE CONCEPT

A company’s **strategy** explains why the company matters in the marketplace by specifying an approach to creating superior value for customers and determining how capabilities and resources will be utilized to deliver the desired value to customers.

**II. The Importance of Strategic Uniqueness**

1. For a company to matter in the minds of customers, its strategy needs a distinctive element that sets it apart from rivals and produces a competitive edge.

2. Simply trying to mimic the strategies of the industry’s successful companies never works.

3. Every company’s strategy needs to have some distinctive element that draws in customers and produces a competitive edge.

**III. Strategy and a Company’s Business Model**

1. A company’s business model is management’s blueprint for delivering a valuable product or service to customers in a manner that will yield an attractive profit.

2. The two elements of a company’s business model are:

a. *Customer value proposition* - The company’s approach to satisfying buyer wants and needs at a price customers will consider a good value.

b. *Profit formula* - The company’s approach to determining a cost structure that will allow for acceptable profits given the pricing tied to its customer value proposition

CORE CONCEPT

A company’s **business model** sets forth how its strategy and operating approaches will create value for customers, while at the same time generate ample revenues to cover costs and realize a profit. The two elements of a company’s business model are its (1) customer value proposition and (2) its profit formula.

**IV. Strategy and the Quest for Competitive Advantage**

1. The heart and soul of any strategy is the actions and moves in the market place that managers are taking to gain a competitive edge over rivals.

a. Low Cost Provider - Achieving a cost-based advantage over rivals.

b. Broad Differentiation - Seeking to differentiate the company’s product or service from rivals’ in ways that will appeal to a broad spectrum of buyers.

c. Focused Low Cost – Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by having lower costs than rivals and thus being able to serve niche members at a lower priced.

d. Focused Differentiation – Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals’ products.

e. Best Cost Provider - Giving customers more value for the money by satisfying buyers’ expectations on key quality/features/performance/service attributes, while beating their price expectations.

CORE CONCEPT

A company achieves **sustainable competitive advantage** when an attractively large number of buyers develop a durable preference for its products or services over the offerings of competitors, despite the efforts of competitors to overcome or erode its advantage.

**V. The Importance of Capabilities in Building and Sustaining Competitive Advantage**

1. Winning a *sustainable* competitive edge over rivals with any of the five strategies relies on two interrelated efforts:

a. Building competitively valuable capabilities that rivals cannot readily match.

b. Having a distinctive product offering.

**VI. Why a Company’s Strategy Evolves over Time**

1. Every company must be willing and ready to modify its strategy in response to changing market conditions, advancing technology, competitive moves, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy, and mounting evidence that the strategy is not working well.

2. Most of the time a company’s strategy evolves incrementally from management’s ongoing efforts to fine tune pieces of the strategy, but, on occasion, major strategy shifts are called for.

3. The evolving nature of a company’s strategy means the typical company strategy is a blend of (1) proactive moves to improve the company’s financial performance and secure a competitive edge and (2) adaptive reactions to unanticipated developments and fresh market conditions.

4. **Figure** **1.1,** **A** **Company’s** **Strategy** **is** **a** **Blend** **of** **Proactive** **Initiatives** **and** **Reactive** **Adjustments,** depicts the typical blend found within a company’s strategy.

5. A company’s realized strategy tends to be a combination of proactive and reactive elements.

CORE CONCEPT

A company’s **realized strategy** is a combination deliberate planned elements and unplanned emergent elements. Some components of a company’s deliberate strategy will fail in the marketplace and become abandoned strategy elements.

**VII. The Three Tests of a Winning Strategy**

1. Three Questions can be used to distinguish a winning strategy from a so-so or flawed strategy:

a. How well does the strategy fit the company’s situation?

b. Is the strategy helping the company achieve a sustainable competitive advantage?

c. Is the strategy producing good company performance?

1. Strategies that come up short on one or more of the above tests are plainly less appealing than strategies passing all three tests with flying colors.

**VIII. Why Crafting and Executing Strategy are Important Tasks**

1. High-achieving enterprises are nearly always the product of astute, creative, and proactive strategy making.

2. Indeed, good strategy and good strategy execution are the most telling signs of good management.

**IX. The Road Ahead**

1. Throughout the remaining chapters and the accompanying case collection, the spotlight is trained on the foremost question in running a business enterprise: What must managers do, and do well, to make a company a winner in the marketplace?

2. The mission of this book is to provide a solid overview of what every business student and aspiring manager needs to know about crafting and executing strategy.