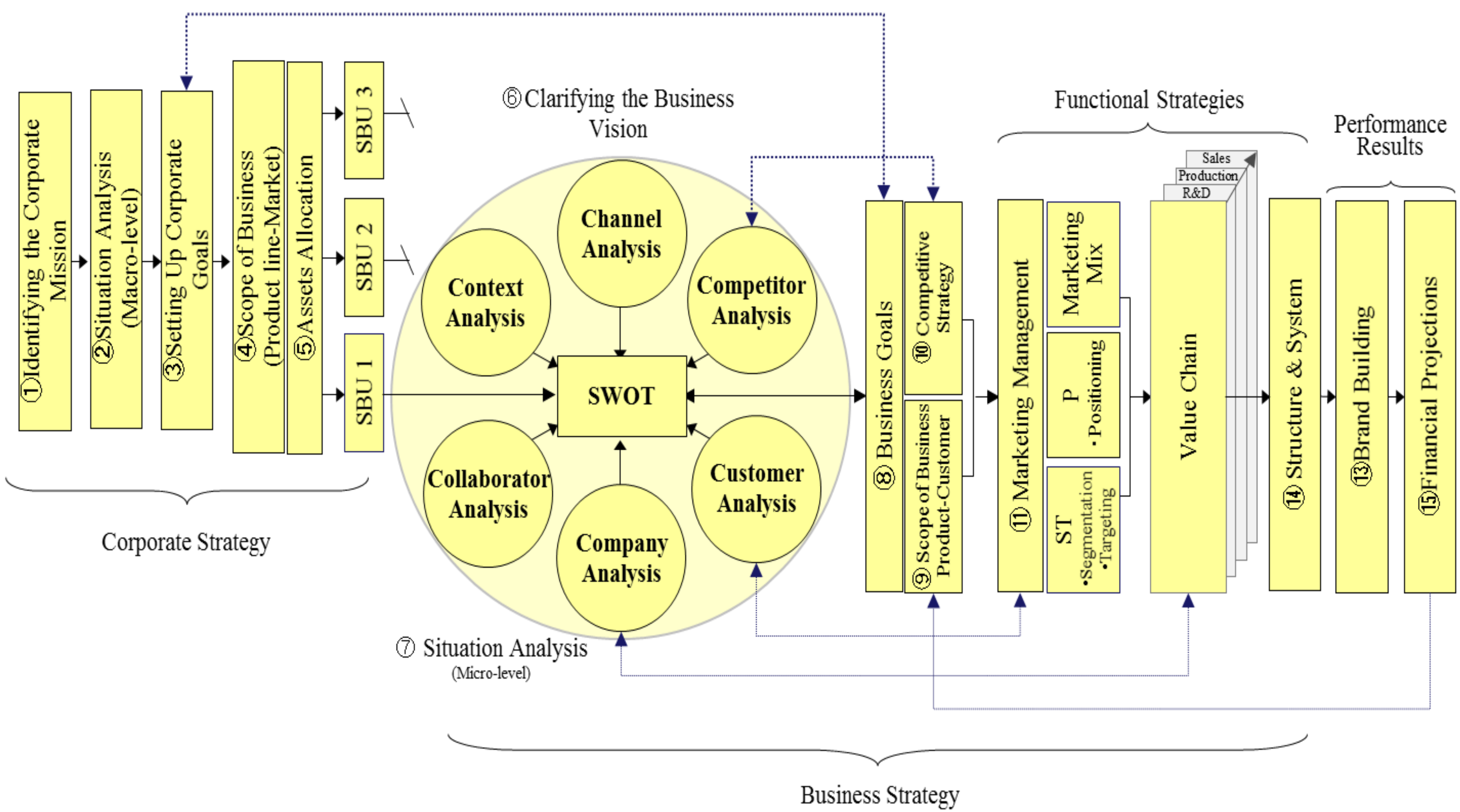
Practical Strategic Management

How to Apply Strategic Thinking in Business

First Edition

Eiichi "Eric" Kasahara

Flow and Elements of Strategic Management



Source: E. Kasahara (2009), *Industrial Marketing Management*, Hakuto Shobo, Tokyo, Japana

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Preface

I have been blessed with many opportunities up until now to be a part of stimulating consulting projects among different corporations. Giving lectures or conducting research at the graduate level are, of course, very thought provoking too; but as consulting is exactly "an opportunity to practice theory," it is very exciting. Normally, once the strategy formulation process is complete, the client team takes the lead to actively implement the execution process. At that point, I often provide lectures on strategic management or strategic marketing to the team leaders or staff members who are in charge of the implementation team. In such cases, **as much as possible, I try to avoid theories that are excessively detailed, and conversely, an analysis that is too broad**. Why? The answer is simple; these subject matters are completely useless when making strategic judgments on a business level.

There is already a great deal of literature on management theory. These include many theoretical books that analyze subjects ranging from strategic management to business strategy, competitive strategy, marketing management, strategic marketing, one-to-one marketing, consumer behavior, growth strategy, functional strategy, technology management, and so forth. Numerous how-to books on strategy formulation have also been published. However, I feel that there are not enough texts that systematically synthesize - not as individual parts - the truly meaningful essence of strategy, marketing and other related subjects in the business scene that require the pursuit of results while making actual decisions.

The theme of this book is learning how to strengthen the capability of envisioning appropriate directions or attractive and strategic options (we refer to this capability as strategic thinking), while combining the environmental changes of the market and competitors with management resources and capabilities of the company, and immediately being able to surmise the impact on your business. The uniqueness of this text lies in its systematization, through use of a strategic management process and selected elements that are essential during strategic judgment. From this awareness, the text contains 15 points that are deemed as necessary to create attractive and strategic options, which have been compiled into systematic steps. I have put together a systematic flowchart of the 15 keys essential for creating attractive and strategic options.

The 15 steps are largely divided into three parts, and the keys are analyzed under the subjects of corporate strategy, business strategy, and performance results.

The following five subjects will be discussed under corporate strategy: Clarifying the corporate mission, Macro-level situation analysis, Setting up corporate goals, Defining the scope of business (product line-market), and Asset allocation (Product Portfolio Management/PPM).

The following eight subjects will be covered again under the theme of business strategy: Clarifying the business vision, Micro-level situation analysis, Setting up business goals, Defining the scope of business (product-customer), Competitive strategy, Marketing management, Designing the value chain, Developing structure and systems.

Finally, I will comment on the performance results of strategic management that consist of brand building and financial projections. The qualitative results of strategic management are presented as brand building, while the quantitative results are presented in financial projections.

This book is suitable for management or business professionals who need to develop business strategies or who wish to improve their strategy development process within the organization. It is also designed for use in business school courses that focus on marketing and strategy-related issues, such as strategic management, strategic marketing, entrepreneurship, etc.

I hope this book becomes the backbone for the action and decision making of professionals who are practicing strategy or marketing in the business world. Furthermore, nothing would make me happier than if I am able to contribute in some way towards building a stronger economy as the sum total of creating attractive products as well as solutions, and developing competitive businesses and winning companies by working with everyone.

Eiichi “Eric” Kasahara

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About the Author

Eiichi "Eric" Kasahara is an associate professor of marketing at Rikkyo University Graduate School of Business Design Tokyo, Japan. He also serves as the president of the Asia Pacific Research Institute of Marketing (APRIM), and is a visiting scholar at the Technology Management School of the Shibaura Institute of Technology, Tokyo.

Personal history

Born in 1958, Dr. Kasahara earned his Ph.D. from the International Studies Program of the Waseda University Graduate School (International Management), and his MIM from the Thunderbird School of Global Management. He subsequently worked as a fund manager for Japanese and American institutional investors. Kasahara joined the Fuji Research Institute Corporation (currently Mizuho Research Institute Ltd.) in 1989, providing consultation at the Marketing Strategy/Kasahara Cluster. He later held the post of professor at the Rikkyo University Graduate School of Business Design. Dr. Kasahara currently conducts graduate school research and educational activities. At the same time, he consults at the Asia Pacific Research Institute of Marketing on cross-functional problem-solving support for blue chip companies as well as SMEs, and on growing medium size business clients in areas ranging from R&D and business development to marketing, sales, finance (IPO, M&A), corporate communication (CI, IR), executive training, and so on.

Research activities

Dr. Kasahara is presently conducting joint research on strategy and marketing with researchers from the USA, Israel, Italy, and Singapore. He is also implementing many cases of action-based learning in Singapore, Hong Kong, and Kuala Lumpur. His research applies theories and concepts related to B2B marketing, strategic management, consumer behaviour, marketing management, marketing research, global marketing, venture management, and other fields.

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PART 1: The Essence of Strategic Management

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Elements of Strategic Management

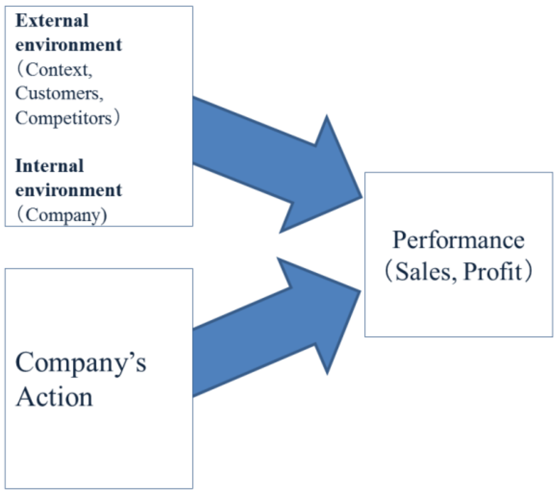
In this text, we will begin by discussing why strategic management, which is defined as a system designed to help management make strategic decisions and create strategic vision[1], is largely recognized as not being functional. What is the reason behind the phrase, "strategic management is not functioning well"? Behind such statements, I think there is a case of, "Although we started the business by giving considerable thought and created a strategy beforehand, we are not performing at the level that we expected to." Let's start from looking at the mechanism that determines performance.

The performance of a company is determined by its external "business environment (macro-economic environment or context/market or collection of customers/competition among competitors)," "business resources (company)," as well as the "action" that it takes. This can be simplified as follows:

Performance=f (business environment, business resources, action)

Strategic management functions as a guideline for specific actions to take in the external business environment within the mental model[2], as seen in Figure 1.

Figure 1: Mental model concerning performance achievement



Source: Adapted from Garth Saloner, Andrea Shepard, Joel Podolny. (2001), Strategic Management, John Wiley & Sons, Inc.

Next, let's consider the structure of **strategic management**. So far,.various strategic models have been proposed on the theory of strategic management. A classic framework would be Chandler's definition, which is: A strategy is to decide on a basic long-term goal, and to adopt the course for the action required to achieve that goal, and to allocate the required resources. Furthermore, there is the relatively recent Mintzberg's Emergent Strategy Model, which states that a strategy "needs to be systematically formulated beforehand, but also needs to be emergently created at the same time." Here, if we were to share strategic management at the minimal

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1 According to David A. Aaker, strategic (market) management is a system designed to help management both precipitate and make strategic decisions, as well as create strategic visions.

2 A mental model is an internal code or expression that was built to hypothetically explain the external reality. It plays an important role in identification and decision making. Once a mental model is built, the time and energy spent to individually examine the cumbersome process becomes streamlined.

level that is required on a practical basis, I believe it could be sufficiently explained by referring to the following three points: present location (current situation), destination (goal), and the ways to get there. Those ways are usually expressed as the scope of business. In addition, clarifying the scope of business also helps to identify the company's competitors. Subsequently, the focus becomes how to create competitive advantages against those competitors**.**

Military strategy and strategic management are essentially the same thing. However, if I were to point out a difference between the two, military strategy attempts to directly destroy the enemy by employing various tactics, as opposed to strategic management in which it is not possible to physically attack competitors. In other words, competition is played out by appealing to customers regarding your company’s solutions. **T**he deciding factors here are staking out an edge through products or quality of services, price competition, the ease of buying (accessibility), and convincing communication methods.

The strategy components are comprised of: goal settings that fit with the business environment and business resources; deciding on the scope of business in order to achieve those goals, as well as the creation of competitive advantages within that scope of business; and finally, the scenario that actualizes the fulfilment of goals by combining these elements. For comparison, what I mean by scope of business pertains to product lines or products for particular markets or groups of customers, and defining the scope of functions (vertical integration) that your own company will undertake.

Figure 2: Scope of Business
(Product-Market Directions)

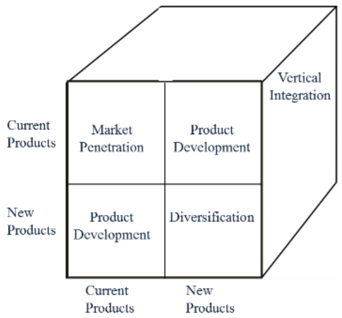
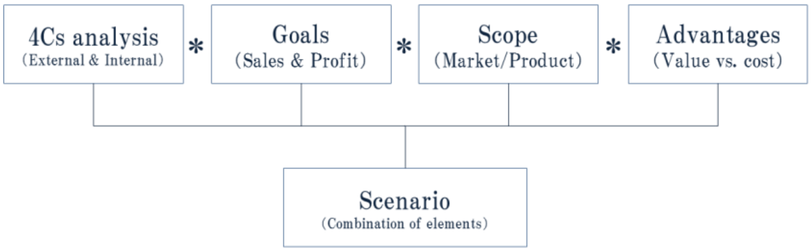


Figure 3: Components of a strategic management



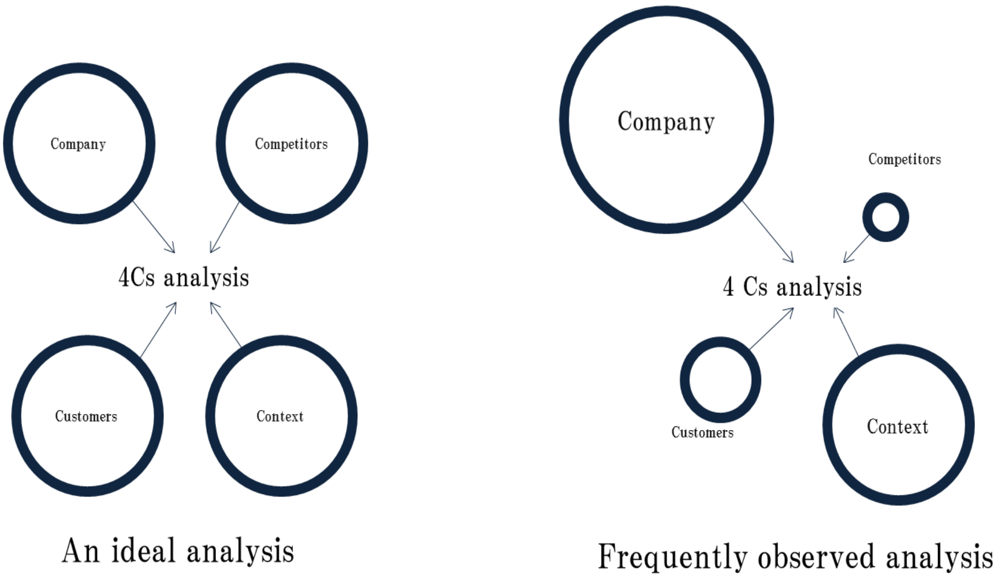
Source: Eiichi Kasahara (2013), *Building a Strong Company*. Tokyo, Kadokawa

Causes of Disconnect between Strategy and Performance

If the reason for the dysfunction of strategic management is due to performance not meeting expectations and the inability to achieve the set goals, **then you must check the present situation analysis that was conducted. In other words, you will need to verify if there has been a thorough analysis of the business environment (macroscopic environment/market/competition) and business resources (company).** I often see cases where there is a significant amount of depth when it comes to company (own) analysis and a certain degree of completion for the macroscopic environment analysis, but with a rather perfunctory market analysis. However, as for competitor analysis, the level of scrutiny appears as if the report was simply copied from some handy business journals. I recommend taking another look at your level of perception or awareness if you think that merely copying a report from a journal means the completion of analysis. **For competitor analysis, you need to get a grasp of your competitors.** Unless you are able to understand the unmet needs of customers and future directions of competitors, it is very difficult to achieve success.

If the present situation analysis (business environment and business resources) is sufficient, then the next checkpoint would be the compatibility between the present situation analysis and goals. **By crosschecking the business environment and business resources, you should know if the set goals were in sync with the present state, or if they were adequately clarified.** You need to set goals that are SMART (S=specific, M=measurable, A=achievable, R=result oriented, T=time bound). This means that you must clearly specify an achievable level for your goals. Furthermore, it is important to fix these goals by a result-oriented measurable index, and finally by being mindful of the time.

Figure 4: Ideal analysis vs. frequently observed analysis



The next checkpoint is the compatibility between the goals and scope of business. This refers to whether you have selected a scope of business that is appropriate for the goal. Regardless of how large the goal is or how mature the conventional scope of business is, continually spending your entire time on penetrating the market within that scope of business will clearly lead to a harsh result, no matter what tactics are employed. In that case, you must consider expanding the scope of business.

The next step is to verify if the selected scope of business has actualized, and maintained a relative advantage against existing as well as potential competitors. Put simply, competitive advantage refers to whether your business is able to provide products and services that customers believe have a higher value when compared with those of your competitors. Similarly, it means whether there is a value chain that can provide products with the same utility level at a lower cost than competitors.

Strategic Management is a Scenario for Success

Finally, you need to know whether a scenario exists that makes it possible to achieve the goals by combining the elements of strategic management. Have you ever received an opinion from executive managers after submitting a business plan or business strategy in the company you belong to, such as: "Overall it's not bad, and I don't really know what it is, but something is missing, " or " Your strategy proposal lacks punch"? Let's look at the following message:

"Our strategy is to become the global leader in the market for mid-grade microwave ovens through mass production."

Is it clear whether short and strategic elements are accurately included in the message? The scope of business is the global market for mid-grade microwave ovens. Needless to say, the goal is to assume the position of global leader within that market. The competitive edge is the low production cost. **Although this proposition is somewhat simple and clear, I cannot see the scenario of how the company will specifically combine the elements that compose the strategy to achieve No.1 global share. For that reason, it falls short of delivering a message with punch.** How about the next message?

"Quite a few finished-goods suppliers, such as companies manufacturing electronic home appliances in Japan and Europe, have been trying to increase their efficiency by outsourcing production. Within that process, we expect that the plants or manufacturing departments of those suppliers will become unnecessary. Our strategy is to purchase used production facilities from such manufacturers and expand our capacity, so as to enjoy what is called economies of scale. Subsequently, while utilizing those facilities, our plan is to substantially increase our production share as a contract manufacturer (the so-called EMS). From now on, we will secure fixed orders from the finished-goods manufacturers=OEM as the receiving end of their outsourcing. At the same time, we will continue to provide our own branded products with high cost performance for the market segment geared to the middle-and-lower class, without directly competing with the OEMs. This segment is expected to grow worldwide, and is quite attractive both in terms of volume and growth rate. We will contribute towards the growth of the said segment while also expanding our share within that area. Our cost reduction plan is as follows:

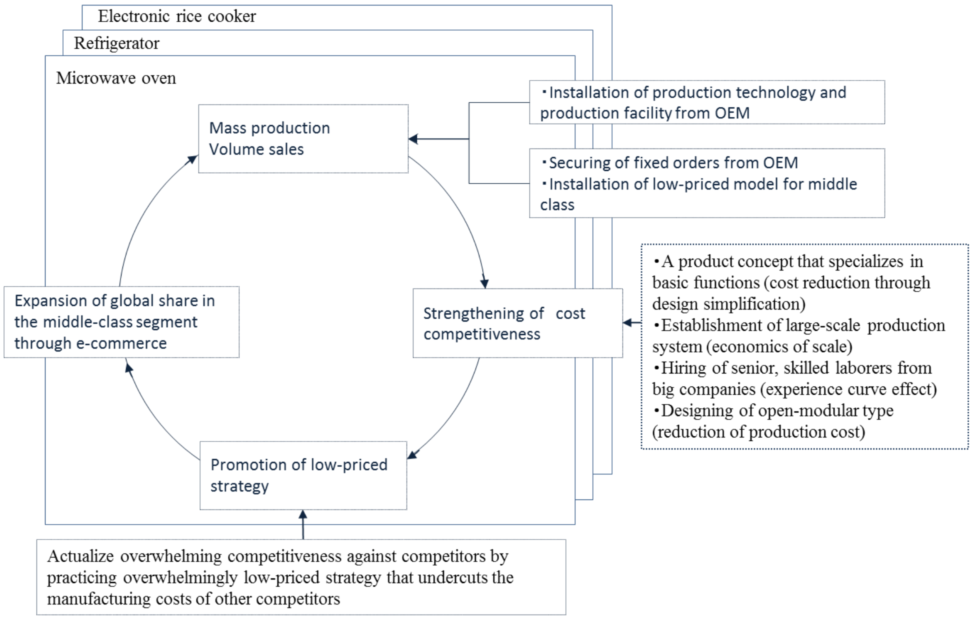
1. A product concept that specializes in basic functions (cost reduction through design simplification)
2. Hiring of senior and skilled labor from finished-goods manufacturing companies (experience curve effect)
3. Designing of open-modular type (reduction of production cost)

Finally, we will actualize an overwhelming competitiveness against our competitors by putting in place a disruptive, low-cost strategy based on the aforementioned. At the same time, we will expand our share through world-wide e-commerce. Ultimately, we will apply this model to home electronics other than microwave ovens, and will aim for a full line-up."

So, how was it? This message has a higher degree of completion in two points than the previous one. To begin with, it shows the strengthening of cost competitiveness through mass production and volume sales. Subsequently, it clearly lays out the scenario for an increased share within the target segment due to the aforementioned. The scenario also clarifies, through the company's resources and capabilities, the fundamental question as to why this is possible. Next, regarding the reason for the attractiveness of the target segment market, not only does it state that high growth is expected, but the message also logically explains the formation of a market that is sufficiently capable of absorbing a cost leadership strategy. For the rest, it should be enough to explain the preceding by using numbers during market analysis. If the assortment or combination of strategic components is what we call strategic planning, then strategic management would be that with a scenario or a story explaining **how strategic elements such as goals, scope of business, and**

competitive advantage play out; how it facilitates fulfilling those goals; and how companies and business are led to succeed.

Figure 5: Strategic scenario/story



Source: Eiichi Kasahara (2013), *Building a Strong Company*. Tokyo, Kadokawa

As stated by Richard A. D'Aveni and Robert E. Gunther, it is assumed that the period an average firm can sustain its competitiveness based upon a certain business model is becoming increasingly shorter these days. A firm may look as if it maintains competitive advantages based upon a certain robust business model. However, in reality, a firm that remains competitive renovates/reforms its business model quite often, resulting in sustained competitiveness. That is why I consider creating a scenario/story to achieve future visions and goals is paramount in strategic management. As a summary of this chapter, I will list some basic differences between strategic planning and strategic management.

Figure 6: Differences between Strategic Planning and Strategic Management

	Strategic Planning	Strategic Management
Assumptions	Incremental changes Predictable discontinuity	Radical changes Unpredictable discontinuity
Process	Periodic cycle	Real time
Tools	Analysis and planning	Assume and respond
Key word	Sustainable competitive advantages	Chain of temporary competitive advantages
Output	Business model	Scenario/Story
In Charge	Management	Leaders and Staff

Flow and Elements of Strategic Management

Many people hear the word "strategic management" and think of creating a business model that increases profitability in a particular business, or establishing specific ways for competition in a certain industry. If your company is a manufacturer consisting of a single business or relatively small company, then strategic management is indeed about building a strategy for one particular business. However, if you are a multi-business company, you should first consider how to allocate corporate assets or capital, such as human capital or manpower and financial capital or money, before you can think of a specific strategy for each business unit. For this, you need to consider which scope of business to pursue in order to achieve sustainable growth for your company. A corporate strategy is for selecting growth areas for the overall company and setting asset allocation between those growth areas, while a business strategy aims to improve the competitive advantages and profitability of a particular business within the company. Simply put, a corporate strategy is concerned with the allocation of corporate assets, and business strategy focuses on the application of corporate assets. Let's look at the fundamental relationship between these two strategies.

Figure 7: Major Sub-systems of Strategic Management as a System

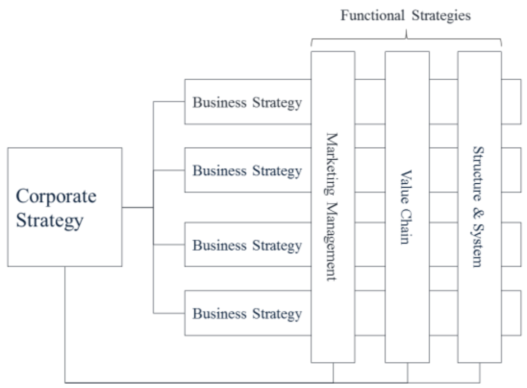
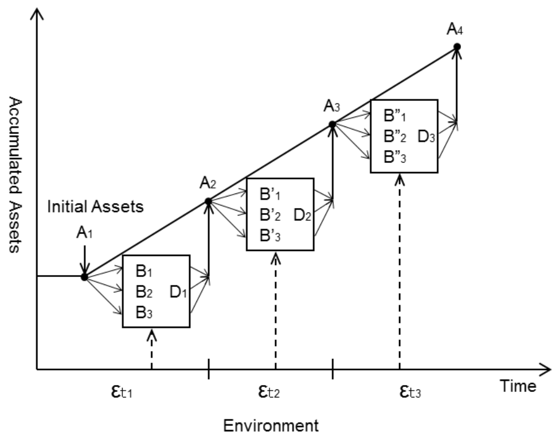


Figure 8: Components of a Business Strategy

A corporate strategy addresses mainly two questions: what businesses the corporation should be in and how the corporate office should allocate resources among the strategic business units (SBUs). In this context, an SBU is a single unit or a collection of units that has its own competitors and customers and requires a distinctive strategy. A business strategy includes a limited number of components, such as defining the scope of business supported by competitive strategy, marketing management, and functional strategy. Those components can be viewed as the building blocks of a business strategy. In other words, a business strategy can be perceived as a set of integrated strategic components. A competitive strategy aims to clarify how the SBU can establish and sustain a long-term competitive position among its competitors in its chosen product-market scope. Marketing management is for developing appropriate products/solutions for target customers within that scope. Functional strategy focuses on how resources allocated to the various functional areas can be used most efficiently and effectively to support the business strategies. In summary, corporate growth is the process of further enriching the company's accumulated assets by appropriately allocating and applying them to the relevant businesses, based on the business environment and corporate mission.

Figure 9： Corporate Growth Model



D=Domain or Scope of Business、B=Business

Source: Mitsuaki Shimaguchi (2000), Marketing Paradigm, Yuhikaku Publishing Co., Ltd.

Strategy formulation can be divided into the following steps:

① Identify the company's mission

② Analyze its macro-level situation (customers, competitors, company, and context)

③ Set up corporate goals based upon its situation

④ Define its scope of business (what product lines to which markets for achieving the above goals)

⑤ Allocate assets among strategic business units (SBUs) comprising of a few product markets

⑥ Clarify the vision of each SBU

⑦ Analyze its micro-level situation (customers, competitors, company, and context)

⑧ Set up the SBU's goals based upon its SWOT

⑨ Define the scope of business (what products to which customers)

⑩ Develop competitive advantages by creating unique value among competitors (competitive strategy)

⑪ Provide solutions to customers (marketing management)

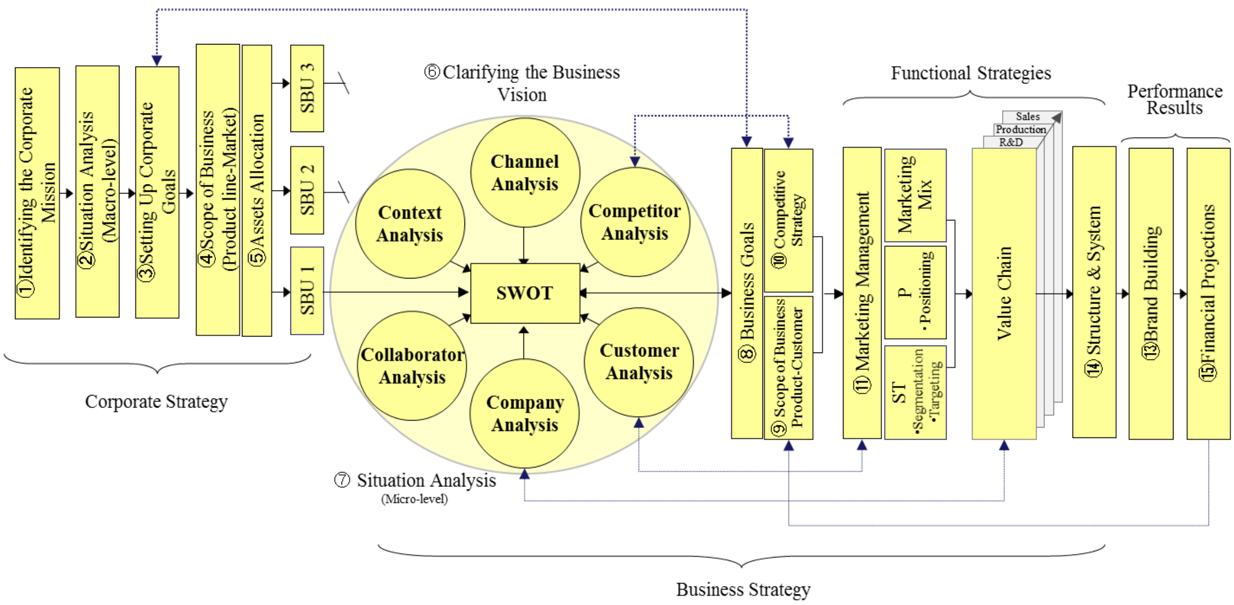
⑫ Focus on how resources allocated to the various functional areas can be used most efficiently and effectively to support the business-level strategy (value chain)

⑬ Describe the infrastructure required to promote all the above strategies, including organization, framework, and leadership (structure and system)

⑭ Try to achieve the right brand identity (brand relationship)

⑮ Develop a profit model (financial projections)

Figure 10: Flow and Elements of Strategic Management



Source: E. Kasahara (2009), *Industrial Marketing Management*, Hakuto Shobo, Tokyo, Japana

Contingency Approach in Strategic Management

It is believed that how to develop and execute strategies should be different, depending on the environmental predictability and environmental interactivity of the business you are in. Environmental predictability refers to what extent changes in the market, competition, and the macro economic climate, can be predicted; meanwhile, environmental interactivity refers to the degree that the impact on the market and competition can be can be created proactively and independently by your firm.

Although the predictability of the industries in the first quadrant of Figure 11 is low, the environmental interactivity is high. ICT and advanced medical equipment industries are examples in which there are many opportunities for changing the industry structure. As those industries have not yet been fully established and the barriers for entry are low, it is difficult to make assumptions on demand and competition. In the second quadrant, both environmental predictability and environmental interactivity are high. The airplane and defence industries are examples of this quadrant, which represents industries in which businesses can achieve their future visions relatively independently. A typical industry in the third quadrant is the automobile industry, where environmental predictability is highly stable but interactivity is relative low. It is clear what will be the main issues for R&D in the automobile industry in the future. As you can imagine, safety or automatic driving systems and energy savings are the main issues for R&D, which every automobile manufacturer is highly aware of. However, even industry leaders such as Toyota cannot fully control the industry structure. Numerous environmental elements, such as industry rules, government policies, and social values, should be considered when doing business. Finally, the electronic device industry and building materials industry are examples of industries with both low environmental predictability and environmental interactivity.

Mintzberg pointed out that strategies consist of aspects in which the future is deliberately planned out, and strategy is emergently formed through the consideration, selection, and execution of strategic options considered as appropriate for the environmental changes. Strategies formed in an emergent manner are recognized as patterns when accompanying trends. Mintzberg also indicated that strategy has the aspect of perspective, or corporate vision, as well as clarifying the actual value provided to the market as the positioning of a given company's products on a positioning map, which expresses the value provided in the market on X and Y axes. While strategy is deliberately planned in advance and is concurrently formed in an emergent manner, the characteristics of your business will determine whether to focus on deliberateness or emergence and what kind of approach should be taken in the strategy formulation process. It is believed that style in strategic management is contingent on the business environment.

Issues relating to strategic management, such as the level of flexibility required in executing strategies, review period for strategies, selection of customers as strategic targets, relationship with targeted customers, and so on, should be considered based upon the nature of your business.

Figure 11: Contingent Approach in Strategic Management