

6

STRATEGIC PLANNING

After studying this chapter, you should be able to:

- A Understand the role that an organization's purpose, mission, and goals play in formulating a strategic plan.
- A Identify specific conditions in the environment that have increased the need for strategic planning.
- A Describe the methods managers use for conducting a SWOT analysis.
- A Identify four organizational situations that are a result of a SWOT analysis.
- A Identify various strategic alternatives that managers can select during the formulation process of the strategic plan.
- A Describe four models that interrelate the strategic plan with a strategic typology.

In April, 1985, The Coca-Cola Company announced that it was changing the formula of its number one product, Coke, for the first time in its ninety-nine-year history. This announcement led PepsiCo, the major competitor with Coca-Cola in the soft drink industry, to proclaim that "we have been eyeball to eyeball" with Coca-Cola and they just "blinked." PepsiCo, in the belief that its competitive strategy had forced Coca-Cola into a formula change due to a declining market share, proclaimed the following Friday as a holiday for all employees. Wall Street's initial reaction to Coca-Cola's move to change its formula, considered the best kept secret in all industries, was negative when the stock price of Coca-Cola decreased while the stock price of PepsiCo increased.

In 1984, Madison Silo, a manufacturing firm producing concrete silos for farmers in the Midwest, began marketing a new product. The product was a computer collar that when attached to cows would monitor and inform farmers of special feed requirements. Management of Madison Silo changed their product strategy believing that the farm economy would continue to be depressed throughout the decade. However, the change from a manufacturer to a product distributor required new skills and new information for successful performance in the market.

In the early 1960s, the CBS television network decided to supplement its broadcasting effort with the manufacture of television sets. CBS management assumed that the skills required to transmit programs were the same skills required to produce a television set. After several years and disastrous consequences, CBS discontinued its effort to manufacture television sets, recognizing that broadcasting information was totally different from manufacturing a technical electronic product. Since then, the managers of CBS have defined their company as an "information" company rather than a "television" company,

Companies
sometimes
change strategies
to meet
competitive
pressures.



Why did managers of these companies choose to alter their strategies? How did they arrive at their decision? What led them to implement the new strategy? These questions and others will be addressed in this chapter. We define strategy as a method of competition. Strategic management is that set of managerial decisions and actions that determines the long-run performance of the organization. It includes the formulation, implementation, and evaluation of a strategic plan. The strategic plan of an organization is a systematic blueprint of management's answers to three basic questions: (1) What will we do and for whom will we do it? (2) What goals do we want to achieve? (3) How are we going to manage the organization's activities so as to achieve the chosen goal?¹

Managers at Coca-Cola, Madison Silos, and CBS each established a systematic blueprint based on these three basic questions. For Coca-Cola managers, the critical goal was maintaining dominance in the soft drink industry. Advertising was found to be an inadequate method of competition for achieving this goal, and management elected to change the nature of the product in hopes of expanding its market share. Management at Madison Silo was faced with issues concerning the long-term survival of the company. As a result, it chose a strategy that required members with manufacturing skills (silo construction) to acquire marketing skills (distribution of computer collars). Management at CBS believed it had the skills required to manufacture television sets. After realizing that the skills necessary to manufacture television sets were different from skills required to broadcast programs, management at CBS reformulated its official goals and developed a strategic plan that emphasized information processing.

This chapter will begin with a discussion of the importance of strategic planning. Next we will examine key components of the strategic

I. A. A. Thompson, Jr., and A. J. Strickland, *Strategic Management: Concepts and Cases* (Piano, TX: Business Publications, 1984), 17.

plan. The formulation of the strategic plan will be discussed with an emphasis on developing effective strategic plans. Identification of a full range of strategic alternatives available for consideration by managers will follow. Finally, several models for conceptualizing organizational strategies will be discussed. The subject of implementing strategic plans will be presented in Chapter 7,

THE IMPORTANCE OF STRATEGIC PLANNING

The subject of strategic planning is relatively new to organization managers. Twenty years ago, few managers participated in strategic planning, and those who did lacked sophisticated techniques for the formulation and implementation of plans. Today, strategic planning is widespread. Many organisations have established departments whose personnel do nothing else but strategic planning. Indeed, more and more business schools within the United States have added courses in strategic planning with some schools offering degrees in strategic planning to students who fulfill the necessary course requirements.

Why the recent interest in establishing and staffing strategic planning departments within organizations- For one, the relative increase in the size of many organizations has led to a need for greater coordination among organizational activities. A strategic plan helps managers to understand how various departments, such as accounting, manufacturing, marketing, engineering, and research are linked together. A second major reason for the interest in strategic planning is an increase in environmental uncertainty. Events within an organization's context are no longer as predictable as they once were. In addition, contextual events tend to have a greater impact on organizational activities than was true in the past.

Recall our discussion in Chapter 4 of the six environmental dimensions that influence an organization's operations. They include munificence, dynamism, complexity, concentration, turbulence, and consensus. You may wish to review these concepts, which start on page 129. Increases in environmental uncertainty have placed greater pressure on organizational managers to engage in strategic planning. Strategic planning helps managers to identify and understand important environmental trends and to develop responses to those trends, leading to greater organizational effectiveness.

Strategic planning is important to managers because it links the goals of the organization with the organization's environment. If the environment of the organization was absolutely certain, that is, the environment remained constant, then strategic planning would be less important to the organization. However, few if any organizations operate in a certain environment.

While we can recognize that greater environmental uncertainty has produced an increased need for strategic planning, we still need to learn what specific activities managers perform to create a strategic plan and how managers manage the strategic plan. We can address these questions examining first the components of strategic planning.

COMPONENTS OF STRATEGIC PLANNING

Strategic planning consists of several key components. These components are linked together providing managers with a systematic method for formulating, selecting, and implementing strategies. Figure 6-1 displays each component of strategic planning and the way in which the components are linked together.

Defining Organizational Purpose and Mission

The stated purpose and mission of an organization, as discussed in Chapter 5, are the beginning points for managers in their efforts to formulate a strategic plan. The purpose and mission serve to define for management the markets, products, and environmental domains in which the organization seeks to be successful. The purpose and mission further serve to guide managers in setting official, operative, and operational goals to be achieved.

Setting Organizational Goals

Organizational goals specify long-run desired outcomes, as in the case of official goals, and short-run desired outcomes, as in the case of

figure 6-1



Source: Adapted from A. A. Thompson, Jr., and A. J. Strickland, *Strategic Management: Concepts and Cases* (Piano, TX: Business Publications, Inc., 1984), &5. Reproduced with permission.

operative and operational goals. Goal setting is an essential component of strategic planning in that it specifies performance targets for managers at all levels of the organization. The setting of goals is directly derived from the purpose and mission of the organization.

Usually, existing goals are the result of prior strategic plans and are reset when they have been achieved, have gone unmet, or the context of the organization has changed substantially. For instance, events such as governmental deregulation of the industry, the emergence of new competitors, unionization of workers, lowered demand for products or services, or the retirement of top executives can each necessitate a reevaluation of the existing strategic plan. When this occurs, managers examine the organization's purpose and mission and determine whether goals need to be reset or the existing goals are desirable and achievable.

Knowledge and setting of organizational goals provide managers with a foundation for formulating strategies. Goals further provide managers with criteria for selecting and rejecting alternative strategies based on an evaluation of each strategy's potential for achieving goals at all levels of the organization.

Formulating the Strategic Plan

Suppose you are a manager of a division in a large company with the operative goal of increasing profit by the end of the year. Would you propose to lower the price of the product and increase production? Raise the price of the product and decrease production? Expand the advertising budget? Increase commissions of the sales force; Cut back on budget allocations to the departments in the division? Hire or fire employees? A combination of these proposals? All goals in an organization have multiple strategic paths that can, on paper, lead to their achievement. Much like a coach of a football team who enters the stadium each Sunday with a "game plan" that was developed during the week, organization managers must also develop a game plan that will enable the organization to achieve its desired outcomes over the course of several years.

In formulating a strategic plan, managers must assess the organization's prior performance, current position, and desired outcomes. A strategic plan can be formulated by managers addressing four strategic questions:²

- A How do we respond to new opportunities in the environment, lessen the impact of environmental threats, and strengthen the mix of the organization's activities by doing more of some things and less of others?
- A How do we allocate resources among the various subunits, divisions, and activities of the organization.?

2. *ibid.*, *m*

- A How do we compete with other organizations for customer groups and customer needs through allocation of existing or new products and services?
- ▲ How do we effectively manage organizational activities at the departmental; divisional, and corporate level of the organization?

In summary, the formulation of a strategic plan is a process whereby management assesses the organization's opportunities and threats that exist in the environment and evaluates the organization's internal strengths and weaknesses. When management has conducted this assessment of the organization, it is ready to select a strategy that will be compatible with the organization's purpose and mission.

Implementing the Strategic Plan

Vince Lombardi, the famous coach of the Green Bay Packers football team, was once quoted as saying "The best game plan in the world never blocked or tackled anybody." Like a football coach, organization managers are faced with the difficult task of converting the strategic plan into action. In general, to implement a strategic plan successfully, managers must effectively communicate the plan; assign appropriate authority and responsibility for activities within the plan; develop methods for measuring the results of activities; and, when necessary, develop procedures for taking corrective action should the results not be supportive of the plan. Similarly, on the day of the game, a football player must understand the overall intent of the plan, his responsibilities in executing the plan, the criteria that will be used for judging his performance, and the methods that will be used should he fail to carry out successfully his assigned tasks.

On a broader level, we can think of the implementation of a strategic plan as a process whereby management has to "fit" the plan to several different aspects of the organization's operations. A number of "fits"¹ needed are between:

- A Strategy and organizational structure;
- A Strategy and organizational skills and capabilities;
- A Strategy and the allocation of resources;
- A Strategy and the organization's system of rewards and incentives;
- A Strategy and internal policies and procedures;
- A Strategy and the values shared by organizational members;
- A Strategy and budgets and programs; and
- A Strategy and the organizational culture.³

³, *ibid.*, 32.

The difficulty in implementing a strategic plan is not only the result of satisfying each of the fits between the chosen strategy and organizational operation, but also of satisfying all eight fits simultaneously. That is, an implemented strategic plan can only achieve success when each of the various fits are coordinated by management. Methods for coordinating the various fits in the strategic plan will be discussed further in Chapter 7.

Evaluating the Strategic Plan

Equally critical to the success of a formulated and implemented strategy is the evaluation of outcomes. Managers must continually monitor and correct, if necessary, the results of the implemented strategy to guide organizational activities toward achievement of goals. No strategic plan can predict with total accuracy the trends in the environment such as customer response to products, economic indicators, legislation, or competitive responses. Throughout the implementation process, managers must acquire information on both the environment and activities within the organization. For example, early signs of low consumer purchases of a new product may require managers to alter their advertising campaign. A lower than projected rate of product purchases may be the result of low quality due to management and worker unfamiliarity with producing a new product. If outcomes of the implemented strategy are substantially less than predicted, management of the organization may have to reevaluate the strategy which can result in totally disbanding the strategic plan. This, of course, can result in high financial and human costs within the organization.

Managers should always keep in mind that the ultimate test of a strategic plan rests with how well the organization is able to achieve its designated goals. The remainder of this chapter will focus on steps involved in formulating the strategic plan. The next chapter will discuss steps that managers follow for implementing the strategic plan.

FORMULATING THE STRATEGIC PLAN

Formulation of a successful strategic plan requires managers to have an accurate and complete understanding of the external environment and internal capabilities of the organization. This understanding must precede the selection of a strategy by managers. One technique for understanding an organization's environment and internal capabilities is through the SWOT analysis.

SWOT Analysis

SWOT is an acronym for Strengths and Weaknesses of an organization's internal capabilities and Opportunities and Threats in the organization's external environment. SWOT **analysis** enables managers to develop a strategic profile of the organization based on information they have collected. SWOT analysis assumes that an organization will achieve strategic success by maximizing strengths and opportunities and minimizing weaknesses and threats. Figure 6-2 lists key questions to guide managers in a SWOT analysis.

6-2 QUESTIONS FOR CONDUCTING A SWOT ANALYSIS

INTERNAL

Strengths

A distinctive competence?
Adequate financial resources?
Good competitive skills?
Well thought of by buyers?
An acknowledged market leader?
Well conceived functional area strategies?
Access to economies of scale?
Insulated from strong competitive pressures?
Technology leader?
Cost advantages?
Competitive advantages?
Product innovation abilities?
Proven management?
Other?

Weaknesses

No clear strategic direction? A deteriorating competitive position? Obsolete facilities?
Subpar profitability-Lack of managerial depth and talent? Missing any key skills or competencies? Poor track record in implementing strategy? Plagued with internal operating problems? Vulnerable to competitive pressures? Falling behind in research? Too narrow a product line? Weak market image? Competitive disadvantages? Below-average marketing skills? Unable to finance needed changes in strategy? Other?

Opportunities

Serve additional customer groups?
Enter new markets or segments?
Expand product line to meet broader range of customer needs? Diversify into related products? Vertical integration?
Ability to move to better strategic group?
Complacency among rival firms? Faster market growth?

Threats

Likely entry of new competitors? Rising sales of substitute products? Slower market growth? -Adverse government policies? Growing competitive pressures? Vulnerability to recession and business cycle? Growing bargaining power of customers or suppliers?
Changing buyer needs and tastes?
Adverse demographic changes?
Other?

Source: Adapted from A. A. Thompson, Jr., and A. J. Strickland, *Strategic Management: Concepts and Cases* (Piano, TX: Business Publications, Inc., 1984), 179. Reproduced with permission.

Strengths. A strength is a positive internal condition that provides the organization with an advantage relative to competitors. An organizational strength is a distinctive competence, resource, or skill that provides the organization with a competitive advantage in the marketplace. Access to higher quality materials, good financial relations, a strong image, exclusive ownership of patents, extensive distribution channels, or highly talented managers are all strengths that an organization may hold over its competitors.

Weaknesses. A weakness is a negative internal condition that can lead to a lowering of organizational performance. A weakness can be the result of an absence of necessary resources or skills, or a deficiency in the development of necessary resources and skills. Managers with inadequate strategy skills, overextended credit accounts, poor product image, outdated machinery, or poor plant locations can be weaknesses for an organization.

Opportunities. An opportunity is a current or future condition in the environment that is favorable to an organization's current or potential output. Favorable conditions may consist of changes in laws that give the organization a competitive edge, a growing number of customers, introduction of new technologies that the organization can easily exploit, improved relationships with suppliers, and so forth. Opportunities should not be examined solely in light of current conditions, but rather in terms of their long-range effects on organization activities.

Threats. A threat is a current or future condition in the environment that is unfavorable to an organization's current or potential output. Unfavorable conditions may consist of entry of a powerful competitor into the organization's market, a decline in numbers of customers, introduction of new technologies that would make existing products obsolete, passage of regulations that would constrain an organization's ability to compete, or problems locating reliable suppliers.

Upon completion of a SWOT analysis, managers are ready to evaluate their organization's existing position and make adjustments that will better prepare the organization for the future. Managers can compare external opportunities and threats with internal strengths and weaknesses by matching their position on all four analyses. Four quadrants can be used to identify how an organization can be situated from a SWOT analysis.

Quadrant I. Quadrant I is where an external opportunity matches with an internal strength. With the rapid demand for home computers in the late 70s and early 80s, IBM was able to exploit this opportunity with the existing strengths of workers skilled in the development

and production of computer products and a strong image for producing quality computer products.

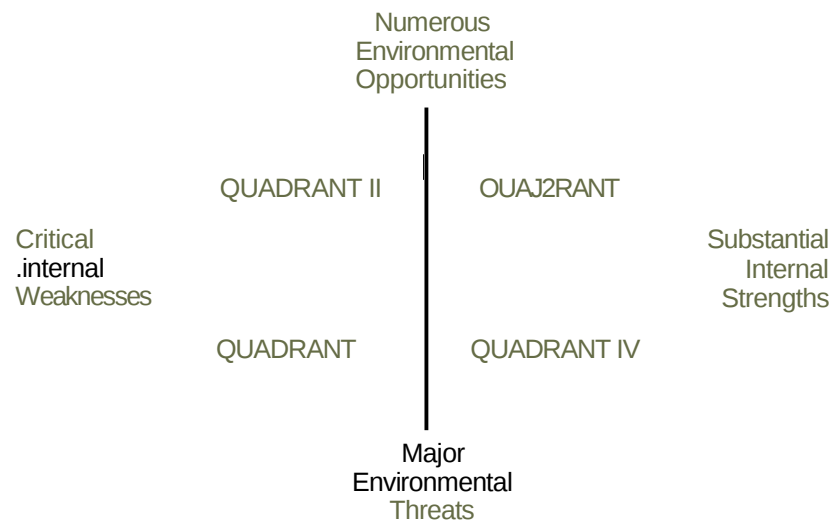
Quadrant II. Quadrant II is the result of an organization's inability to exploit an external opportunity because of an internal weakness. Managers of the organization recognize that the opportunity exists, but they are unable to act due to a lack of necessary skills or resources. Atari recognized the external opportunity that demand for home computers offered. However, the firm lacked the necessary skills and resources to change from a company that used computer technology for producing graphic displays to one that would manipulate sophisticated information (e.g., word processing and statistics).

Quadrant III. Quadrant III occurs when an external threat is positioned to undercut an organization by taking advantage of an internal weakness. The influx of small foreign automobiles into the U.S. market in the early 1980s was a major threat to U.S. automobile manufacturers. Chrysler Corporation suffered profit losses for several years because the firm lacked the necessary skills and resources to produce a small and efficient automobile that could compete with foreign manufacturers. As a result, Chrysler nearly went bankrupt.

Quadrant IV. Quadrant IV represents a situation in which external threat can cause damage to an organization's strength. Gillette was a leader in the production and marketing of shaving razors which were the strengths of the organization. However, the introduction of plastic disposable razors by Bic caused serious damage to the firm as consumers turned to a cheaper and more convenient product.

Figure 6-3 illustrates these four situations that can result from a SWOT analysis. SWOT analysis is useful for strategic planners in a variety of ways. First, it provides managers with a logical framework for assessing their organization's current and future position. Second, from this assessment, managers can identify a set of alternative strategies that would be most appropriate for their situations. And finally, the SWOT analysis can be conducted periodically to inform managers as to what external and internal areas have either increased or decreased in importance to the organization's activities. Ultimately, of course, SWOT analysis should lead to improved organizational performance. Not until Chrysler Corporation conducted a SWOT analysis after near bankruptcy did managers fully understand what environmental threats and internal weaknesses faced them. The SWOT analysis enabled Chrysler's management to reassess its situation clearly and turn the company around successfully.

Figure 6-3 SWOT ANALYSIS DIAGRAM



Formulating Strategic Goals

Recall the hierarchy of goals introduced in Chapter 5. Strategic planning can provide the basis for transforming official goals into operative and operational goals.

A SWOT analysis helps managers to identify what organizational activities can be realistically achieved over the course of time. Increasing a firm's market share from 20 percent to 50 percent may be desirable but unrealistic if the firm is externally threatened by several large corporations entering the market. Increasing production capacity by 30 percent may not be realistic if an internal weakness is a current high debt-to-asset ratio. In some instances where strategic planners discover many external threats and internal weaknesses (i.e., Quadrant III), a total reassessment of the organization's purpose and mission may be required.

Selecting a Strategy

Once managers have assessed the organization's environment, evaluated its internal operations, and established goals to be achieved, the process of selecting a strategy begins. A variety of strategic alternatives, or different methods of competition for attaining organizational goals, may be considered by managers. There are 12 broad strategic alternatives that managers may elect to implement in order to attain organizational

goals: concentration, market development, product development, innovation, horizontal integration, vertical integration, joint venture, concentric diversification, conglomerate diversification, turnaround, divestiture, and liquidation.⁴ Managers may elect to implement more than one of the strategic alternatives, depending on the size of the organization and the nature of the goals to be achieved. Each can be examined noting its relative advantages and disadvantages.

Concentration. A concentration strategy focuses on a single¹ product in a single market. Activities in the total organization are directed toward doing one thing and doing it well. A concentration strategy has many advantages. It enables the organization to maximize strengths and minimize weaknesses by becoming proficient in one activity: Producing one good or service for a set of identifiable customers. A concentration strategy allows an organization to acquire a solid reputation in the market it competes in, to increase production efficiencies, and to be highly responsive to customers since activities are focused on one concern. On the other hand, a concentration strategy constrains organizational growth and profitability by focusing activities on a narrow market without developing options to expand into new markets.

Small organizations most often pursue a concentration strategy. It helps members to become proficient at performing specific tasks, which allows the organization to compete effectively with larger, more diversified organizations. However, many large companies have and still do pursue a concentration strategy. McDonald's has grown into a major corporation by focusing solely on fast-food production, and Holiday Inn has concentrated its activities on providing lodging for travelers. As Situation 1 suggests, a concentration strategy can also be beneficial for companies in a declining market.

SITUATION 1

Making Money in Mature Markets

Forget restructuring, making acquisitions, and avoiding takeover—the biggest challenge for executives at most U.S. companies in the next few years will be managing businesses that compete in markets that are growing slowly, if at all. Marakon Associates, a management consulting firm headquartered in San Francisco, predicts that through 1990, most U.S. companies will not be able to increase revenues faster than the overall economic growth rate.

4. I. A. Pearce and R. B. Robinson, Jr., *Strategic Management: Strategy Formulation and Implementation* (Homewood, IL: Richard D. Irwin, 1985); and Thompson and Strickland, *Strategic Management*, 79-95.

Conventional management wisdom on what to do when your market matures is fairly cut and dried, or cut and run: Milk the business for cash, use the proceeds to diversify, get ready to divest. These days, however, more and more management consultants and B-school professors are advising companies to dig in. "In many cases, chairmen should be delighted if their industry declines," says Michael E. Porter, a professor at Harvard Business School and an authority on strategy. "It may finally be an opportunity to make some money as others start leaving the business."

Sticking around for the long haul takes gumption: Until some players leave the field, no market is tougher than one full of competitors left over from brighter days. Running a business in a declining industry also takes an entirely new game plan from the one that saw the company through the era of market growth. To stay alive in a failing industry, companies must avoid battling for market share. They also have to control costs, keep customers coming back with flawless service and improved products, and maintain employee morale.

For guidance on how to stand out from a beleaguered pack, FORTUNE has examined seven of the most shrewdly managed organizations ever to make a buck—actually, lots of bucks—from doggy businesses. They are Bandag Inc., a tire retreader headquartered in Muscatine, Iowa; Batesville Casket Co. of Batesville, Indiana, the leading U.S. coffin manufacturer; James B. Beam Distilling Co., headquartered in Chicago, maker of bourbon; Goulds Pumps Inc., an industrial and commercial pump maker in Seneca Falls, New York; Jostens, Inc., a Minneapolis producer of high school rings and other indicia of achievement; Keystone International Inc. of Houston, an industrial valve maker; and Worthington Industries Inc., a steel-processing company in Columbus, Ohio.. ..

The seven companies have behaved with appropriate maturity for businesses in their autumn years. They do not single-mindedly pursue market share, as companies often do in a growth market. "Grabbing market share at this stage of the game usually results in a price war that will kill everyone's profits," says Kathryn Rudie Harrigan, an associate professor at Columbia University's Graduate School of Business. She calls the stage in a product's life after demand has peaked the end game—a chess term for the drawn-out final phase of a match when almost any move could be fatal.

Source: Adapted from Jaclyn Fierman, "How to Make Money in Mature Markets," *Fortune* (November 25, 1985), 47-53. © 1985 Time Inc. All rights reserved.

Market Development. Market development is a strategy that consists of selling present products in new markets. This can be achieved by entering new geographical areas for the distribution of the product. An organization may decide to market a product in a new region of the country or even overseas in order to expand sales. Another method of market development is through advertising that appeals to a new set of customers, though the product itself remains the same or is only "cosmetically" changed. Joseph Coors, the producer of Coors beer, has pursued a market development strategy by slowly distributing its product east of the Mis-

Mississippi River. Geritol, a product originally promoted to the elderly as an iron supplement, has been advertised to young women, who are believed to need iron supplements added to their diets.

Product Development. A product development strategy involves modification of an existing product or the creation of a new-product that is very similar to the existing one. This strategy is useful for organizations that produce a product or service with a short life cycle. Modifying the product or service or producing related products or services enables the organization to maintain existing customers who are satisfied with the product, while at the same time appealing to new customers with similar tastes. Procter & Gamble has been highly successful with this strategy. The leading product of Procter & Gamble has been Tide detergent. The original Tide is still manufactured, but consumers may also purchase Lemon Tide and Unscented Tide.

Like the concentration strategy, market development and product development strategies allow managers to maximize their current and future strengths without having to engage in major shifts in organizational activities. In this respect, these strategic alternatives are considered to be lowest in risk and cost to the organization.

Innovation. An innovation strategy requires the creation of a new product based on the technology of a current product. This strategic alternative differs from product development in that the motive is to make existing products obsolete rather than attempt to extend an existing product's life cycle. Opportunities for successful implementation of an innovative strategy are most common in high-technology firms. Firms in the computer industry have continually introduced new units or software that replace previous products. The recording industry has followed a path of continual innovation in the transmission of recorded music, from Thomas Edison's invention of recorded sound on a wax cylinder at the turn of the century to compact discs based on laser technology in the 1980s.

An innovation strategy is certainly more risky than the concentration, market development, and product development strategies. In a study of chemical, drug, electronic, and petroleum laboratories, it was found that of 200 projects designed to produce an innovative product, only 31 percent were fully marketed; only 38 percent of those products (or 12 percent of all product projects initiated) achieved an economic return.⁵ While more risk is associated with an innovative strategy, it does allow the organization to emphasize its strengths as a means to be successful in the marketplace.

S. E. Mansfield et al., *Research and Innovation in Modern Corporations* (New York: Norton, 1971)

showing of films with its advertising of new releases. Backward integration serves to stabilize the flow of inputs such as materials that are necessary to produce a good. A manufacturer of home computers may elect to purchase or establish a company that supplies parts for the computer in order to guarantee access to the parts over time as well as reduce costs. Vertical integration is most commonly used by organizations which identify internal strengths and major external threats. An example of external threats that may force a company to integrate vertically is presented in Situation 2.

1

SITUATION 2

Realignment in the Disk-Drive Industry

Makers of personal computer disk drives, pummeled by many of the same forces that hurt the computer and software industries, face tough times. A glut of competitors, a slowing in the growth of personal computer sales, reduced orders by International Business Machines Corp., falling prices, and the costs of making the new generations of drives have combined to produce big losses and sharp drops in revenue.

The industry's troubles arose when personal computer sales failed to grow at the robust rate the companies had become accustomed to and had continued to anticipate. Even IBM was caught unaware and was forced to cut back on orders to some of its key suppliers. As a result, dozens of companies, fattened on quick growth, and in a few cases, IBM's hunger for big volumes of disk drives, now have to fight it out for a share of the market.

To make matters worse, the slowed growth of personal computer sales came just as the disk-drive companies were squeezing the last profits from their older product lines; the prices of these products fell more quickly than anticipated. Many companies did not have their newest products up to full-scale production and thus were feeling the pressures of new product costs and lowered profits on their staples. Companies can hardly scrimp on their new products. Whenever companies change from old lines to new, they leave an opening for competitors. In this case, the companies fear Japanese companies may step in and compete for the new businesses.

To improve profits and battle foreign competition, many companies are turning to vertical integration by making more of the parts they need themselves and moving their production facilities overseas. But the problems of some companies can yield opportunities for others. "There's going to have to be mergers and acquisitions," says Alan F. Shugart, chairman and chief executive officer of Seagate Technology Inc., a leading maker of personal computer disk drives.

Source: Reprinted by permission of *The Wall Street Journal*, t, Dow Jones Company, Inc. (December 3, 1984). All Rights Reserved.

Joint Venture. Joint ventures are strategies that two or more organizations pursue when none of the organizations have the capabilities of being successful performing a task alone. A joint venture may be desirable when organizations lack sufficient resources to perform the task, desire to share the risk involved in developing an untested product, or are constrained by national or international laws from engaging in the activity independently. The construction of the Alaskan Pipeline in the mid-1970s is an example of a joint venture in which the drilling and transporting of oil from the North Slope was beyond the cost of any single oil company. General Motors and Toyota by combining their efforts to produce a small car for the U.S. market reduce risks associated with trade quotas and implementation of new technologies. Countries such as Mexico require that any enterprise engaged in manufacturing products within its borders be at least 50 percent owned by nationals.

Concentric Diversification. Creating or acquiring organizations that manufacture or distribute related products is referred to as concentric diversification. This strategic alternative can produce growth for the organization while complementing a strength of the organization. Concentric diversification may occur because managers believe there are common technologies, customers, distribution channels, managerial skills, or common suppliers. The strategy may also be selected because managers desire to stabilize sales throughout the year. A manufacturer of lawn mowers with heavy sales in the summer months may attempt to create or acquire a firm that manufactures snow blowers which have heavy sales in the winter months. Thus, sales can be more evenly spread throughout the year. Other examples of concentric diversification include Coca-Cola's purchase of Minute Maid and Taylor wines (common product and distribution channels) and Bic's manufacturing of disposable pens, razors, and cigarette lighters (common technology).

Conglomerate Diversification. Conglomerate diversification occurs when an organization creates or acquires another organization that manufactures or distributes unrelated products. This strategic alternative is attractive for managers who focus on a return on investment goal. Organizations are evaluated in terms of their contribution to the overall profit of the organization rather than in terms of having commonality with the organization. In many respects, conglomerate diversification represents a portfolio approach to organizations much like investment managers approach the stock market to compile a stock portfolio. Organizations that have pursued a conglomerate diversification strategy are Gulf & Western, ITT, American Brands, and Litton Industries.

Diversification, whether concentric or conglomerate, has been pursued by many organizations. By the mid-1980s, practically all major industries in the United States have been affected by diversification, mostly through a process of acquisition. Several observers have noted a

"new" language that has evolved from acquisition activity. Figure 64 identifies commonly used acquisitions terminology.

figure 6-4

THE LANGUAGE OF CORPORATE TAKEOVERS

Expression	Meaning
Age of Acquireus:	post-19i&7 to date.
ambush:	swift and premeditated takeover attempt. plotting and executing
big-game hunting:	takeovers oi Urge companies-Texas muneymen interested in big-
big-hat boys:	game hunting, unfriendly acquirers drawn to a target by news that,
black knights:	the company is
	already being propositioned by others, merger discussions, relatively
courtship:	friendly, .between top executives of two
	firms, ami takeover finance strategy in which the potential target
cyanide pill:	arranges
	for long-term debt to fall due immediately and in full if it is
	acquired.
double Pac-Man strategy;	target firm makes tender offer for the stock of its would-be acquirer,
friendly offer:	merger proposal cleared in advance with the target company's board
	and top management; usually leads to the firm's recommending it
	favorably to shareholders for approval, provision in the employment
golden parachutes:	contracts oiNop> executives, that assures
	them a lucrative financial landing if the firm: is acquired m a
	takeover, a firm's purchase of its PWB. stock, at a premium, from an
greenmail:	investor
	"who it fears will otherwise seek to acquire it or else initiate a
	proxy tight to oust its present management. merger and
hired guns:	acquisition specialists, other investment bankers, and
	lawyers employed by either side in any takeover. high-risk,
junk bonds:	high-yield debt certificates traded publicly, so called
	because they are rated below investment grade, either by Moody's
	or by Standard & Poor's; junk bonds are often used to help finance
	hostile takeovers, accomplishing a merger. searching for possible
rnarfying:	deals to join two companies; a niajqr activity
matchmaking:	of investment banking houses. ■postmerger problems from an acquired
	executive's standpoint: "First
mushroom treatment;	they buried us in manure; then they left us in the dark awhile;
	then they let us Stfewj and finally they panned us." hostile acquirers.
	takeover artists. protective strategies for preventing or combating a
	hostile tender
pirates or raiders:	offer.
sharks:	climax of a takeover battle, usually conducted by "hired guns." the
shark repellent:	purchase of majority ownership in a corporation; usually resisted
	by the target company but accomplished nonetheless by paying a
shoot-out:	premium above the current market price for the firm's shares.
takeover:	corporation selected for takeover by a would-be acquirer,
target: tender	proposal to purchase a firm's stock from its shareholders for an
offer::	amount higher than its current market price.,

tombstones:	advertisements in the financial press containing announcements of interest to investors and the business community (e.g., tender offers, stock underwritings, mergers, and divestments).
unfriendly offer:	proposal to transfer a firm's ownership to parties viewed as hostile or unworthy by its current board and executives; usually resisted and seldom endorsed by the target company.
white knight:	acceptable acquirer sought by a potential acquirer to forestall an unfriendly takeover; the preferred suitor.
wounded list:	executives of an acquired firm, who develop their own career paths after the deal.

Source: Adapted from Paul M. Hirsch, "From Ambushes to Golden Parachutes: Corporate Takeovers as an Instance of Cultural Framing and Institutional Integration," *American Journal of Sociology* vol. 91, no. 4- [January 1986]; 830-35. Published by The University of Chicago Press. Reprinted with permission.

Turnaround. When managers of an organization are confronted with declining performance due to internal weaknesses and external threats, a turnaround strategy is often selected. Managers believe they can correct existing problems by invoking techniques for improving operational efficiency. Many times, this requires a cutback of both labor and management. It can also result in a curtailment of research expenditures, a reduced marketing budget, and a decrease in organizational benefits such as pay, travel, and supplies. Eastern Airlines, faced with declining profits, was forced in 1985 to cut back on hiring, lay off workers, reduce salaries, and terminate flight routes in order to streamline the operations of the organization. Stiff competition due to deregulation in the industry as well as inefficiency in overall operations forced Eastern managers to pursue this strategic alternative in order to avoid further losses. However, this was not enough. By 1986, Eastern Airlines' president, Frank Borman, agreed to a merger with Texas Air.

Divestiture. Divestiture occurs when management elects to sell parts of the organization. The decision to sell may be due to poor performance of a division or subunit that cannot be readily improved or because the organization needs access to ready cash in order to support other lines of business or projects. Many times, a turnaround and divestiture strategy go together. When Chrysler Corporation was faced with potential bankruptcy, management made the decision not only to reduce the number of middle managers and labor employed by the organization, but also, to sell many of its overseas operations, its tank division, and air-conditioning business. The sale of these divisions alone resulted in over \$500 million in assets for the company to be channeled into other business lines as well as used to pay off debts.

Liquidation. Liquidation is usually a strategic alternative that managers prefer to avoid. However, under some situations, managers resort to Liquidation when they believe bankruptcy is inevitable. Liquidation

Managerial Profile

FREDERICK W. ZUCKERMAN



Frederick W. Zuckerman was elected vice-president and treasurer of Chrysler Corporation on December 1, 1981. In his current position, Mr. Zuckerman is responsible for all Chrysler's debt and equity programs and the company's relationships with commercial banks and other financial institutions worldwide. He is also responsible for the financial direction of Chrysler's diversification program, the company's pension fund, investment of Chrysler's cash portfolio, foreign exchange management, and corporate real estate services. He directs the activities and policies of the company's credit department and is chairman of the board of Chrysler International in Geneva. In addition, he is a director of System Industries, Inc., of Milpitas, California, the Law Enforcement Assistance Foundation of New York, and several Chrysler subsidiaries, including Chrysler Financial Corporation and Chrysler Realty Corporation. Prior to joining Chrysler, Mr. Zuckerman spent 15 years in various positions with International Business Machines Corporation and seven and one-half years with Ford Motor Company. He earned his M.B.A. degree in 1958 from Columbia University. ||

Q: What tasks or activities do you feel are most critical for effectively managing a company in the automobile industry?

A: The most critical variables for managing an automobile company effectively are to produce the highest quality products in each market segment in which you compete and to manage your fixed costs so that you can be profitable even in the worst possible economic scenario. At Chrysler, in the past two years we have earned \$2.4 billion each year on a pretax basis. Basically, those profits have arisen from our ability to sell about 2 million units per year to our dealers while our breakeven point was around 1.2 million units. While it is not possible to measure the effects of product quality in the short run using the financial statement, it is clear that the manufacturer with the highest quality will, win in the long run. A lesson that American industry should have learned from the Japanese is that spending to achieve higher quality levels, by definition, depresses profits in the short run but it is the ticket to sustained high profitability over long periods of time. For Chrysler, this means spending \$5 billion in the 1985-1989 period to upgrade all of our plants to world class standards; we will spend these funds irrespective of the size of the market or of our profitability in this period. Failure to do so probably would enhance profits in this time frame but surely would render us noncompetitive in the 1990s. Q: The automobile industry is currently undergoing a restructuring in terms of increased foreign competition and a renewed interest in changing methods of production. How do or will these trends affect the goals and objectives firms in the industry strive to achieve?

A: The relevant goals and objectives of Chrysler

in the 1980s are high product quality and the management of our fixed costs. I believe that the entire industry has focused on the quality objective and has been able to reduce significantly the gap between the quality of vehicles produced in the United States and Canada as contrasted with those built in Japan, in addition, we at Chrysler also focus on productivity which, in the end, is a function of introducing automation into our factories and eliminating archaic work rules which result in waste-driven inefficiencies. Chrysler and the other U.S. auto industry have been successful in automating their factories, but we have had less success in the work rule area. We believe that the job security of members of the UAW as well as of management depends on our being at least as productive as our best competitors around the world and that, in the end, the UAW will come to support this fundamental concept.

Q: What qualities do you look for in people when hiring them for management positions?

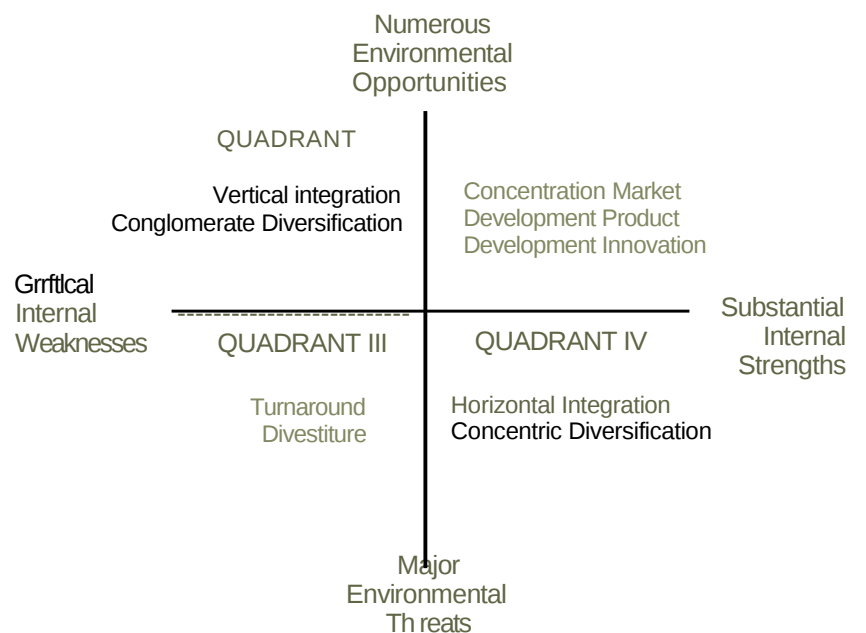
A: In hiring individuals for management positions, Chrysler believes that its recruiting efforts should be focused on graduates of U.S., Canadian, and Mexican colleges and universities. When Chrysler hires a new graduate, we believe that he or she should be given a real job on the first day; we do not believe in formal training programs as such. We believe that the best training is on-the-job training, and we look for qualities of intellect as demonstrated in academic performance, integrity for which we must make subjective judgments, and leadership qualities which often can be ascertained by evaluating the individual's accomplishments during his education.

tion enables management of the firm to acquire cash from the sale of parts of the company which can then be transferred to owner-stockholders. Procrastination of liquidation may mean further decline in the value of the organization's assets; thus in times of severe financial situations, managers may select a liquidation strategy in order to obtain the highest value possible for the firm's assets. In 1985, management of Storer Broadcasting was forced to fend off an effort by a group of stockholders who claimed the company was worth more liquidated than if it continued operations. The challenge forced management to streamline its operations and seek other avenues to avoid liquidation of assets.

Turnaround, divestiture, and liquidation are all strategic alternatives that managers must consider when the organization is internally weak and must confront critical external threats. These strategic alternatives can be painful choices for managers because their selection implies that management has failed. However, in the case of a turnaround and divestiture selection, management has an opportunity to engage in creative tactics for making the organization viable once again. Before selecting a liquidation strategy, management must weigh the interests of owners with the interests of the members of the organization.

Figure 6-5 provides a useful matrix for understanding how SWOT analysis can serve as a guide to the selection of a strategic alternative.

STRATEGIC ALTERNATIVE MATRIX



After conducting a SWOT analysis, managers can locate the quadrant that best describes their present position and forecast their possible position in the future. An empirical study of 247 top managers in 88 organizations suggested that using SWOT analysis contributed to managers making an effective choice among strategic alternatives;⁶

STRATEGIC MODELS

Organization theorists have developed several models for describing and explaining different types of organizational strategies. Four such models have been developed that are useful to managers for understanding how the strategy of their organization relates to dimensions of the environment: adaptation model, competitive model, portfolio model, and survival model. Each strategic model makes different assumptions about the relationships between strategy, organization, and environment. Discussion of each strategic model will focus on its assumptions, alternative strategic types that managers can consider in selecting strategies for their organization, and the way the strategy can be formulated for success.

Adaptation Model

Raymond Miles and Charles Snow developed the adaptation model of organizational strategy.⁷ The **adaptation model** contends that a thrust of strategic management should be the alignment of organization activities with key dimensions of the organization's environment. To accomplish this end, managers must establish a strategy that will adapt to environmental conditions and also manage internal activities of the organization to support the selected strategy.

Strategic Problems. Alignment of the organization with the environment is accomplished by simultaneously solving three critical strategic problems: the entrepreneurial problem, the engineering problem, and the administrative problem.

The Entrepreneurial Problem. The **entrepreneurial problem** considers what managers believe constitutes their market. It is solved by determining what goods or services the organization will produce for a defined product-market domain. In a real sense, the entrepreneurial problem.⁸

6. L. Hrebiniak and C.C. Snow, "Top-Management Agreement and Organizational Performance." *Human Relations* vol. 35, no. 12 (1982): 1139-158.

7. R. E. Miles and C. C. Snow, *Organizational Strategy, Structure, and Process* (New York: McGraw-Hill Book Co., 1978)

Academic Profile

KATHRYN RUDIE HARRIGAN



Kathryn Rudie Harrigan (D.B.A., Harvard University) is an Associate Professor of Strategic Management at Columbia University. Professor Harrigan's teaching and research interests include industry and competitor analysis, strategic management, turnaround management, competitive dynamics, and global strategies. She has published books on such topics as strategies for declining businesses, joint ventures, and strategic flexibility. In addition, her research has been published in the *Academy of Management Review*, *Academy of Management Journal*, *Harvard Business Review*, *Strategic Management Journal*, and *Executive Woman*. She has been retained for strategic management assignments by both private and public organizations as well as strategic consulting firms.

Q: What specific steps or activities can a manager implement to retard or prevent the decline in demand in the firm's marketplace?

A: The range of strategy options available to a firm facing the *endgame*, or the stage in a product's life after demand has peaked, depends on whether its entire industry faces declining demand (as in the case of cigars, vacuum tubes, or rayon), or the firm is unable to match competitors' prices and product features. If the entire industry faces declining demand because the number of babies being born is decreasing or because health concerns make consumers reduce their intake of alcoholic beverages or tobacco, then each firm needs to reposition itself to satisfy the customers that are loyal to their products long into the future, relatively price insensitive, and in healthy financial condition. By contrast, if a firm faces declining demand because its products are no longer competitive, then it faces the devastating process of repositioning. This process includes shutting down plants, consolidating excess capacity, and moving personnel into new business activities—all done in a systematic program of consolidation, rationalization and, ultimately, exit from the noncompetitive activities. Although firms often diversify into business activities that face growing demand or are relatively young in their life cycle, they cannot avoid the endgame issue. I recommend honesty. If managers realize that an endgame strategy is needed, their firms must capture the hearts and minds of employees. An endgame strategy must tap the vast entrepreneurial potential within employees if a firm hopes to preempt competitors from serving the best customers. Firms in declining industries can earn extremely high returns if they

identify¹ the best customers first—before competitors do—and adjust their operations to serve those customers well.

O: In your many discussions with corporate managers, what areas of concern seem to be most prominent and recurring?

A: Managers are extremely concerned about how to compete in global industries where they face competitors with lower cost structures. They are concerned because offshore competition forces their firms to shut down plants and move operations overseas, leaving their lifelong U.S. employees without jobs. A minority of these managers are ignoring the problems of how to manage international business activities. At best, those managers will end up with halfway solutions. More managers are beginning to realize that market share—in and of itself—is no longer the medicine that will solve their firms' ills. Today's managers are looking for good operating strategies in order to realize synergies between those businesses that operate in related marketplaces. They are looking for ways to increase the profitability of in-house activities, regardless of whether these activities give their firms market share. Managers who pursue operating strategies like those sketched above are looking for talented prospective managers. Too many of the promising young managers that firms have hired lack the initiative to develop innovative operating strategies. They are overly absorbed in numbers. In part, their unwillingness to be entrepreneurial comes about because firms' management systems stifle creativity. Consequently, fewer young managers are volunteering to undertake the risks of difficult management assignments.

solved by the organization's mission as well as the resources management decides to commit in order to achieve goals related to the mission.

The Engineering Problem. The **engineering problem** is one of deciding which methods are appropriate for the production and distribution of goods and services. The solution to the engineering problem is determined by the solution of the entrepreneurial problem, or management's decisions as to what products or services will be provided to a market. The solution usually involves implementing a system for producing, controlling, and distributing the goods or services that support the organization's mission. Deciding whether to use robots on the production line, providing employees with authority to decide the pace of work, and allocating goods or services to specific markets can be solutions to the engineering problem.

The Administrative Problem. The **administrative problem** addresses the need for developing an appropriate administrative system within the organization. It is solved by designing an organizational system that will enhance the coordination of activities to achieve the solutions to the entrepreneurial and engineering problems. Decisions about the degree of bureaucracy in the organization, spans of control for management, and methods of hiring employees are solutions that may be selected to solve the administrative problem.

Strategic Types. The adaptation model of organization strategy contends that managers must interrelate the three solutions to the entrepreneurial, engineering, and administrative problems. Organizations that are most successful, according to this strategic model, will be those that have correctly matched the solutions to the conditions in the organization's environment. Four types of organizations based on the different ways organizations can solve their problems are identified by Miles and Snow: defenders, prospectors, analyzers, and reactors.

Defenders. The **defender strategy** is implemented when management seeks or creates an environment that is stable. Managers will emphasize protecting the market share they have acquired. A defender solves the entrepreneurial problem by defining a narrow market segment and producing only a few products or services to provide to the market. The engineering problem is solved by emphasizing efficiency in the production of goods or services in order to prevent competition from entering into the market. The more efficient the production of goods, the lower the cost; thus, a lower price can be achieved which hopefully cannot be matched by other organizations. Rigid bureaucratic controls offer a solution to the administrative problem by reducing errors and increasing efficiency in member activities. The defender strategy is similar to the concentration strategic alternative previously discussed. McDonald's

restaurants is a defender organization by focusing on a narrow market segment (fast-food consumers], maximizing efficiency in production (cooking methods that lead to uniformity of the product), and strict employee controls (strict dress and behavior codes for employees).

Prospectors. The prospector strategy is the opposite of the defender strategy. The prospector seeks or creates an unstable environment in the form of rapid change and high growth in the market. Management emphasizes organizational activities that will locate and exploit new product opportunities. The entrepreneurial problem is solved by defining the environment in broad and general terms in order to encourage innovation and diversity in activities. Since internal activities must be diverse and adaptable to new opportunities, managers solve the engineering problem by avoiding long-term commitments to any single method of production. Instead, multiple methods of production are used that can be changed when necessary. Large capital investments in plants and machinery are avoided so that activities can be shifted to new or different products readily without having to scrap old equipment or invest in new methods of production. Administratively, managers encourage flexibility in member activities through loose controls in order to maximize growth and change. Johnson & Johnson represents a prospector organization by broadly defining its market (home and personal products), employing multiple methods of production (over 150 product divisions that are continually changing), and establishing loose administrative controls [each division manager selects the administrative structure believed to be appropriate for his or her employees).

Analyzers. The analyzer is an organization that resides between the two extremes of the defender and prospector. The analyzer strategy involves adapting solutions from both the defender and prospector to the three problems. Consistency is maintained by identifying two areas of activity for the organization. One area of focus is a stable market,- thus, a defender strategy is pursued. The other area of focus is an unstable market; thus, a prospector strategy is pursued. The major concern of managers is to maintain a balance between organization subunits that are defender-oriented and subunits that are prospector-oriented. The entrepreneurial problem is solved by identifying two market segments—one stable and the other changing. The engineering problem is solved by managers in the analyzer organization who emphasize methods of efficiency in production for the stable subunits and methods of flexibility for those subunits oriented to a changing market. The administrative problem is solved by structuring the organization around tight controls over stable subunit activities and loose controls for subunits engaged in developing new products. Organizations such as Pillsbury represent the analyzer strategy. Pillsbury's original base of business is flour milling and bakery products where profits are high but growth is slow. The management of Pillsbury chose to expand

into more unstable markets by entering into food service [e.g., Burgei King, Steak and Ale, and Poppin Fresh Pie Shops], which has high competition and rapid growth. Thus, original technologies and bureaucratic controls remain for the flour milling business while multiple technologies and loose controls have been implemented for the food-service lines of business.

Reactors. The reactor organization is basically one that has suffered strategic failure. Strategic failure can be due to inappropriate managerial decisions concerning the formulation and implementation of the strategic plan. As Miles and Snow note, factors that can lead to a reactor strategy include the following:

- ▲ Top management may not have clearly articulated the organization's strategy.
- A Management does not fully shape the organization's structure and processes to fit a chosen strategy,
- A Management may have a tendency to maintain the organization's current strategy-structure relationship despite overwhelming changes in environmental conditions.⁸

In order for the organization to terminate the reactor mode of strategy, management must develop new solutions for the entrepreneurial, engineering, or administrative problems, or solutions for all three, depending on what has caused the failure. Reactor strategies are similar to the strategic alternatives of retrenchment, divestiture, and liquidation discussed earlier. An example of a reactor organization was International Harvester Company in the early 1980s. A producer of farm machinery and trucks, International Harvester had also expanded its line of businesses into construction equipment and gas turbine engines. Beset with a worldwide recession, lower demand for farm machinery equipment due to high interest rates, and a lengthy labor strike, management of International Harvester was faced with a short-term debt of over \$1 billion and a loss of \$397 million for the year ended in 1980.⁹ Management's decision to expand its product lines outside of farm and truck machinery was initially correct as a method of diversifying its product line. However, management failed to control adequately the costs and conflicts within its core businesses of farm machinery and trucks. As a result, a shift in the environment severely damaged their financial and market position. The president of John Deere, a competitor in the farm machinery market, stated, "For years, Deere has outperformed its archrival, International Harvester. Harvester's allegiance was divided between its truck business and farm

8. *Ibid.*

9. "End of a Troubled Reign," *Fortune* (May 31, 1982), 7..

machinery. Deere, by contrast, knew what its business was, who its customers were, and what they wanted."¹⁰ Ultimately, International Harvester was forced to divest major holdings outside of its truck and farm machinery businesses in order to obtain capital. The company filed for Chapter 11 bankruptcy in order to restructure its debts. In 1986, International Harvester officially changed its name to Navistar.

Figure 6-6 summarizes the solutions to the three problems that each strategic type attempts to implement.

Figure 6-6

PROBLEMS AND SOLUTIONS FOR ADAPTIVE STRATEGIES

SOLUTIONS BY STRATEGIC TYPES				
PROBLEMS	Defender	Prospector	Analyze*	Reactor
Entrepreneurial	Stable environment	Unstable environment	Stable and unstable environment	Reformulate organization mission
Engineering	Routine and efficient methods at production	Bleisure and innovative methods of production	Combined routine, efficient and flexible, innovative methods of production	Reformulate method of production
Administrative	Tight control of activities and decisions	Loose control of activities and decisions	Tight control of older product lines, loose control of new product lines.	Reformulate organization structure

Source: Adapted from Raymond E. Miles and Charles C. Snow, *Organizational Strategy, Structure, and Process* (New York: McGraw-Hill Book Company, 1978). Reproduced with permission.

Competitive Model

The competitive model of organizational strategy was developed by Michael Porter.¹¹ The competitive model contends that the nature and degree of competition in an industry determine the strategy that is appropriate for managers to formulate and implement.

10. T. J. Peters and R. H. Waterman, Jr., *In Search of Excellence: Lessons from America's Best-Run Companies* (New York: Harper and Row Publishers, 1982), 300.

11. M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).

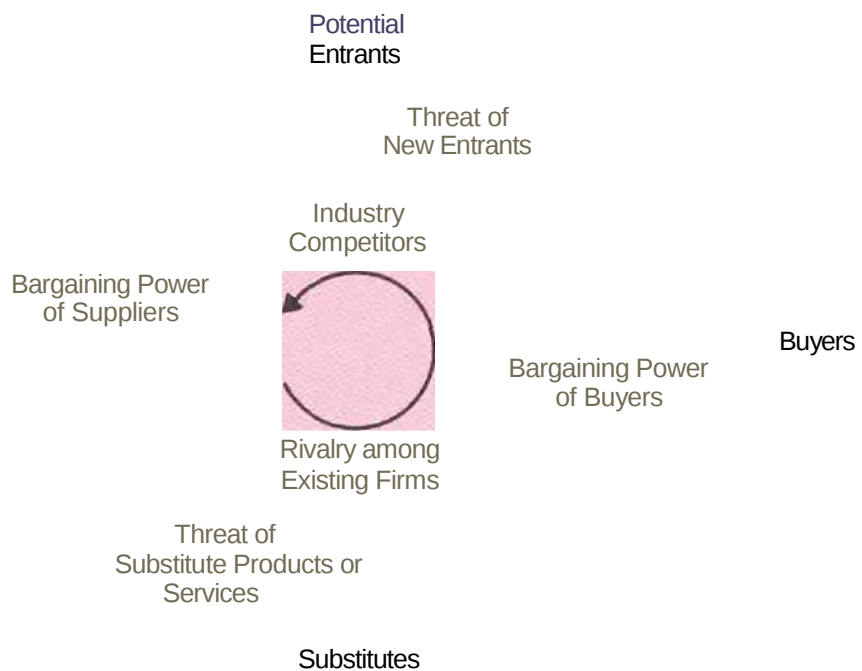
Industry Structure. Porter identified five industry forces that must be considered by managers in formulating a strategy:

- ▲ The threat of new entrants to compete in the industry,
- ▲ The bargaining power of customers in the industry.
- ▲ The bargaining power of suppliers in the industry.
- A The threat of substitute products or services from potential competitors. A. Competitive rivalry among existing firms.¹²

The arrangement of these five industry forces determines the degree of competition within an industry. Organization performance will depend on what strategy managers select based on consideration of the five industry forces. Figure 6-7 shows the relationship of the five forces on

Figure 6-7

FORCES AFFECTING INDUSTRY COMPETITION



Source: Redrawn and adapted with permission of The Free Press, a Division of Macmillan, Inc., from! COMPETITIVE STRATEGY by Michael E. Porter. Copyright © 1980 by The Free Press.

the industry to which the organization belongs. The goal of a competitive strategy is for the organization to find a position in the industry where it can best defend itself against these forces or can influence them in its favor. Managers of organizations who best understand these forces, according to Porter, will have greater success at selecting a strategy that will be suited to conditions in the industry.

Threat of Entry. New competitors entering an industry often bring with them substantial resources with the goal of acquiring market share and profits. This may be achieved through the creation of a new company, as was the case of K-Mart in the retail industry, or by firms in one industry diversifying into another industry through acquisition, as Philip Morris did with the purchase of Miller Brewery. How serious the threat of entry is depends on barriers to entry that exist in the industry and on the reaction from existing competitors that the entrant can expect.

Bargaining Power of Suppliers. In some industries, suppliers of materials to competing organizations can acquire power by either raising prices for their materials or lowering quality. Thus, powerful suppliers can squeeze profitability out of an industry by dictating the price and quality of the materials that are purchased by the competing firms.

Suppliers should not be thought of solely in terms of firms that manufacture a product to provide to an industry. Labor unions can also constitute a supplier group. For instance, in the sports industry, player unions can exert a strong influence over the profit of team owners since the unions are more concentrated, there are few substitutes, the product is important to the buyer's business, products are differentiated (e.g., fan loyalties), and players could conceivably start their own league (i.e., forward integration).

Bargaining Power of Buyers. The conditions that make buyers powerful are similar to those that make suppliers powerful. Buyers can force down prices, demand higher quality of goods and services, and play competitors against each other—all of which serve to lower overall profitability in the industry.

Consumers can be buyers, too, just as are organizations purchasing the goods or services from the industry. Returning to the example of the sports industry, one can identify two buyers of sports entertainment: fans who attend games and television networks which provide games to viewers in their homes. It is easy to understand why television networks have more bargaining power over team owners than do fans attending the games.

Substitute Products. Substitute products limit the potential prices of goods or services in an industry. If the price is too high, buyers will seek out other products that will substitute for the product that is currently

being purchased. Producers of sugar have been confronted with numerous substitutes that have greatly eroded profits and have kept the price of sugar low. Saccharin, corn syrup, and aspartame have been introduced as substitutes for sugar and have been marketed at lower prices. As a result, sugar producers have been forced to accept a smaller share of the sweetener market.

Intensity of Rivalry among Existing Competitors. Rivalry among existing competitors takes the form of such tactics as price competition, advertising battles, new product introductions, and increased customer service or warranties. Rivalry occurs because managers of competing organisations believe that they can improve their position in the industry by implementing one or more of these tactics.

The competitive model provides a mapping of industry conditions¹ that managers can examine in order to develop a strategy that will improve organizational performance. Once management has assessed the factors that influence competition within the industry, competitive opportunities and threats can be determined. Identification of organisation strengths and weaknesses will then enable management to identify a strategy that will help the organization to compete effectively.

Strategic Types. Porter identifies three potentially successful strategic types that managers can implement to compete against other organizations in the industry: [1] overall cost leadership, (2) differentiation, and [3] focus. The degree of success of each strategic type depends on the amount of commitment members have to the strategy and the effectiveness of managers in implementing the strategy.

Overall Cost Leadership. The **overall cost leadership strategy** requires management to formulate and implement a strategic plan that will lead to construction of efficient facilities; attainment of cost reductions, - tight cost and overhead control; avoidance of marginal customer accounts; and minimal costs in areas such as research and development, service, sales, and advertising. By maintaining an efficient and low-cost organization management can attain above-average returns in the industry and make it difficult for less efficient competitors to match the price of the product, less efficient competitors are successful at matching the product price of the overall cost leader, their returns will be much lower because of their higher costs.

The ability to achieve a position of overall cost leadership often requires a high market share, favorable access to raw materials, design of products for ease in manufacturing, maintenance of a wide line of related products, and service to all major customer groups in order to build volume. Organizations known for their success in implementing an overall

cost leadership strategy are Briggs and Stratton, which holds a 50 percent worldwide market share in small-horsepower gasoline engines,- Black and Decker, in the manufacturing of power tools; and DuPont, in the production of chemicals.

Differentiation. The differentiation strategy recognizes that a firm's product is unique in relation to other products produced in the industry. Management cannot ignore costs in achieving the differentiation strategy; however, costs are a secondary rather than a primary goal of the organization. A differentiation strategy is successful through emphasis on strong marketing abilities, creative product engineering, strong commitment to research and development, a reputation for quality or technological leadership, and a long tradition in the industry for having highly skilled employees.

Often the ability to achieve a differentiation strategy means that a high market share must be sacrificed. When the product is perceived to be superior, margins can be raised. However, customers may recognize the superiority of the product but be unwilling to pay the high price. Organizations that have successfully implemented a differentiation strategy are Mercedes, in the automobile industry; Macintosh, in stereo components; Coleman, in camping equipment; Hyster, in lift trucks,- Fieldcrest, in towels and linens; and Neiman Marcus, in retail stores.

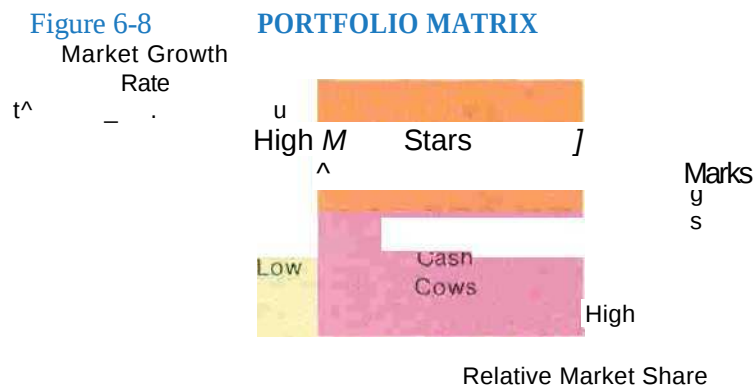
Focus. A focus strategy is one that pursues either an overall cost leadership strategy or a differentiation strategy by focusing on a narrow customer group, product line, or geographic market. The focus strategy provides products or services to a narrow segment, or niche, in the industry. Examples of successful focus strategies are Illinois Tool Works, which designs fasteners for particular buyer needs; Fort Howard Paper, which provides industrial-grade paper, thus avoiding broad consumer paper markets; and Cray Computers, which manufactures highly sophisticated computers for the government.

The competitive model identifies five industry forces that managers must consider in order to successfully formulate and implement strategy that will lead to organisational effectiveness. They include the threat of new entrants, bargaining power of suppliers, bargaining power of customers, threat of substitutes, and the nature of competitive rivalry among organizations in the industry. Analysis of these five forces by management should enable it to devise a strategic plan that will lead to efficiency in operations (overall cost leadership), uniqueness of product (differentiation), or targeting a narrow market segment and developing efficiency or uniqueness (focus). Those organizations that develop the best methods for achieving these goals will be the most successful in the industry.

Portfolio Model

The portfolio model of strategy was developed by the Boston Consulting Group and is often referred to as the **BCG matrix**. The **portfolio model** emphasizes the nature of the internal mix, or diversification, of business units that are under the control of management. Unlike the adaptation and competitive models which view the environment and industry as a major determinant of an appropriate strategy, the portfolio model views the overall investment an organization has made in various lines of business. The object of the portfolio model is to assist managers in making decisions about the deployment of resources to each business unit or product line owned and operated by an organization.

Business units or product lines of an organization are classified according to two dimensions: overall market growth rate and market share held by the business unit. Market growth rate and market share can be classified as high or low, enabling managers to situate a business unit within a 2x2 matrix. The classification of business units within the matrix leads to identification of four strategic types as shown in Figure 6-8: stars, cash cows, question marks, and dogs. Each strategic type describes a business in a different stage of development which has unique implications for overall organization cash flow and profit.



Source: Adapted from: The Product Portfolio, © 1970, The Boston Consulting Group, Inc.

Stars. The **star** is a business unit that has both high market growth rate and a relatively large share of the market. Typically, this is a product or organization that has high potential for growth and needs large amounts of short-run cash to support rapid growth. Stars are attractive to organizations because they have the potential to increase sales and there-

fore to generate large amounts of profits in the future. An example of a star would be a manufacturer of video cassette recorders.

Cash Cows. A **cash cow** is a business unit or product line in a mature industry. The business has a large share of the market, but there is little growth. Many cash cows were formerly successful stars. Cash for investment in expanded facilities or advertising is no longer required. Rather, large amounts of surplus cash can be obtained from a cash cow and thus can be "milked" to channel funds into new business units or products that have high potential for growth, but are short on cash [e.g., stars]. An example of a cash cow business unit would be Mars, the producer of candy bars.

Question Marks. A **question mark** is the most problematic for managers formulating a strategic plan. Question marks exist in a rapidly growing market but have a small market share. Managers must decide whether to invest more capital into the business unit or product to take advantage of the high growth opportunity (i.e., transform it into a star), or divest in order to emphasize other business units or products in the portfolio. Either way, managers are faced with some risk—either in making a large investment that will result in failure or giving up on an opportunity that may later turn out to be highly profitable. In the early 1970s, management of W. R. Grace decided to sell Miller Brewery to Philip Morris in the belief that the unit could not be transformed into a star. The management of Philip Morris saw Miller Brewery differently. After purchasing the business unit, they began producing Lite beer. As a result, the business unit became a major source of revenue.

Dogs. The **dog** is a poor performer due to little growth in the market and its small market share. Usually, dogs are a cash drain on the organization because they are unable to support themselves with what little revenue they are able to generate. Management must either try to sell the business unit to another company or liquidate its assets. An example of a dog would be a producer of transistor radios.

The portfolio, or BCG matrix, is designed to provide managers of diversified organizations with an understanding of the actual and potential contribution the various business units or product lines can make to the overall profit of the company. As depicted in Figure 6-9, managers should develop a portfolio where cash cows are available to provide cash for new ventures in the form of stars or question marks. Question marks are needed to become the stars of the future. Stars are needed to become cash cows of the future. Current cash cows are most likely to become dogs over time and are therefore divested. Managers who formulate and implement a balanced portfolio among cash cows, stars, and question marks should achieve successful outcomes for the organization.

PORTFOLIO TYPES				
	Stars	Cash Cows	Question Marks	Dogs
STRATEGY	Invest for rapid growth, convert to cash cow	Channel revenues to stars and question marks	Evaluate for future potential as star, divest remainder	Divest or liquidate

Survival Model

The **survival model** of organizational strategy examines the impact that environmental trends have on organizational populations. **Organizational populations** are groupings of organizations that must share scarce resources in order to survive. The model was developed by Michael Hannan and John Freeman and is drawn from theories of natural selection in biology.¹³

Environmental Conditions. Organizational populations consist of those organizations that have successfully adapted to environmental variations over time. Adaptation results from the organization pursuing a strategy that is highly suited to environmental conditions at one point in time. The survival model views organizational success as being highly problematic. Luck, randomness, and chance often determine whether an organization survives or fails, particularly in the early stages of organizational growth. The survival model views the environment as undergoing frequent changes so that success for an organization one year may mean complete failure the next year. Managers, according to this model, have less impact on an organization's outcomes due to the overwhelming impact environmental variations have on the chances of surviving. Change within the population of organizations over time comes in three stages; variation, selection, and retention.

Variation. Variation is the result of numerous organizations being created to provide a product or service. These organizations may be founded by entrepreneurs, created by large corporations, established and supported by governments, or formed by a small group of investors. As new organizations are continually created, diversity in the type of organiza-

13. Michael Hannan and John Freeman, "The Population Ecology of Organizations," *American Journal of Sociology* 82 [March 1977]: 929-64.

tion and the strategy pursued increases. However, growth in numbers of organizations in the population and diversity in strategies to reach the market lead to increased pressures on limited resources in the environment.

Selection. Some types of organizations are more suited to the environmental conditions than other types. Selection occurs as more and more organizations compete for fewer resources in the environment; a few will survive and many others will fail. Failure may be due to high inefficiencies in producing a good or service, insufficient demand for the product, or an inability of managers to obtain the resources they need to continue operating. Those organizations that fail are therefore "selected out" of the organization population. Those that survive are "selected in" to the organization population.

Retention. Retention occurs for those organizations that are selected in. However,, retention does not guarantee continued success. Rather, it implies that under the current environmental conditions, the strategy that managers have chosen to pursue is favorable for continued success. Thus, if conditions remain the same, the organization should grow and prosper. However, since the survival model views the environment as continually changing over time, managers must continually seek out methods that will increase the chances of continued survival in the future. For instance, at the turn of this century there were over 180 independent automobile manufacturers in the United States. Today, only three have been retained of which one, Chrysler, nearly failed in the 1970s.

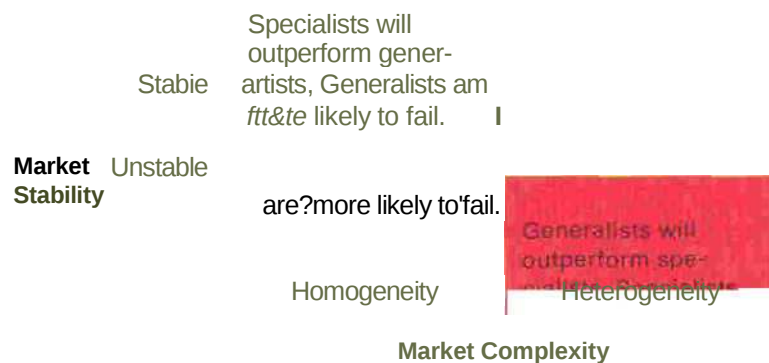
Strategic Types. The survival model identifies two strategic types ■wvth \rnpUcauons tot tHeu survival and iaiUite vnt\ -nn an oy&amzation population. They include specialists and generalists.

Specialists. A specialist is an organization that attempts to devote all its resources to producing a limited set of goods or services. In doing so, the specialist becomes a very efficient organization. If the environment is stable and homogeneous, one would expect to see those organizations that have survived to be primarily specialist in orientation. Stability and homogeneity allow members of the organization to increase knowledge about the production of a good and service and this knowledge can be used over time as long as the environment remains the same. An example of a specialist organization would be a lobster restaurant in Boston. As long as there is a stable demand for a lobster dinner among local residents and tourists, the restaurant need have only one dinner item on the menu in order to survive. However, should it be discovered that lobsters have become chemically contaminated or have decreased in number due to an environmental catastrophe, the restaurant would probably fail.

Genexalisis. A generalist is an organization that directs its activities over the production of a wide range of goods and services. As a result, generalist organizations are less efficient than specialist organizations but are better prepared to adapt to an unstable and heterogeneous environment. By spreading their activities over the production of several goods and services, generalists can shift their emphasis to those activities that show potential for growth and away from those activities that seem to be stagnant. However, managers may not want to eliminate stagnant activities, because next year, they may prove to be oriented toward growth due to shifts in consumer demands. An example of a generalist organization would be a restaurant in Boston that in addition to lobster on its menu also serves tacos, spaghetti, egg rolls, hot dogs, quiche, and other assorted cuisines.

While the survival model presents a much broader description of strategic types, it is an important framework for understanding what environmental conditions lead to survival and failure among a population of organizations over time (see Figure 6-10). The model diminishes the importance of strategic planning over lengthy periods of time by viewing the environment as undergoing frequent changes. Thus., long-range strategic planning would only have a minimal impact on organizational performance according to the survival model. The model also views managers of organizations as having little influence to change an organization's strategy readily. For instance, in the example of the lobster house in

Figure 6-10 "SURVIVAL STRATEGIES AND ENVIRONMENTAL CONDITIONS



Boston, it would be inconceivable, according to this model, for managers to convert the menu overnight or even over the next six months from selling lobster meals to tacos and enchiladas and still survive. Thus, once an organisation's strategy has been set, the environment more than managers determines the fate of the organization over time.

STRATEGIC PLANNING MODELS: AN OVERVIEW

Which strategic planning model is best? The answer to this question is that no model is "best." Rather, each model can provide managers with useful insights during the process of selecting a strategy. Depending on the nature of the strategic questions managers seek to answer, each model may be more or less beneficial in selecting a strategy.

The adaptation model is useful for managers when they are concerned with aligning activities with the mission of the organization. If the mission suggests that the entrepreneurial problem is best solved through producing a good or service to a narrow range of customers, then a defender strategy would be most appropriate. *On* the other hand, if the mission suggests that multiple goods and services are to be provided to a broadly defined market, then a prospector strategy would be most appropriate. Most important, however, is that managers understand how to avoid incorrect responses to the entrepreneurial, engineering, and administrative problems so that they do not lead the organization into a reactor strategy.

The competitive model is useful to managers when they believe that competition, suppliers, buyers, and possible new entrants pose a threat to the performance of the organization. The competitive model enables managers to understand what strategies can be used to reduce those threats. Overall cost leadership directs organizational activities to greater efficiency in the production and distribution of goods and services. Differentiation emphasizes the importance of developing an image for a product or service in such a way as to build and maintain customer loyalty. A focus strategy is useful for organizations that do not have the size or resources to become dominant within the market.

The portfolio model is more restricted in its application. It is primarily used by managers of diversified firms who want to find an optimal balance between business units that will generate revenues in the present and the future. It helps managers to identify business units or products that have potential [stars] and should be retained as well as those that are liabilities (dogs) which should be removed from the portfolio. It also underscores the importance of utilizing a business unit or product that generates large amounts of cash to fund those that are cash poor.

The survival model addresses issues concerning which strategies are least likely to result in failure under environmental conditions of

instability and complexity. This model benefits individuals who want to establish a new organization as well as managers who want to identify those organizations most likely to survive and those most likely to fail. Ultimately, managers should consider the implications of each model separately in order to optimize their selection of a strategic alternative. At the very least, each model will sensitize managers to various conditions that should be addressed in the process of selecting a strategic alternative. Selecting a strategic alternative that is inappropriate for the organization is a high price to pay for neglecting to consider the full range of options available to the organization. The four models presented will lead managers to a better understanding of those options.

IMPLICATIONS FOR MANAGEMENT

The subject of strategic planning has increasingly dominated discussions in corporate boardrooms. The past decade has witnessed large-scale changes in the structures of many industries. These changes have meant that many company managers who once made decisions in a benign environment must now adjust to making decisions in an environment that may be uncertain and perhaps hostile.

Strategic planning prepares managers by reducing the chances of making erroneous decisions and increasing awareness of opportunities that may be beneficial to the organization in the future. As a manager, you should be attentive to changes in your organization's environment or industry. This is true whether you are a first-line manager or a top executive. First-line managers, though not responsible for strategic decisions, can usually identify important changes in the environment or industry before top management. This is particularly true for those first-line managers who are in a department that spans the boundaries of the organization. By reporting changes to upper management, managers at all levels of the organization can make an important contribution to the formulation and implementation of a strategy.

Managers that fail to understand the goals of the organization risk implementing strategies that will not lead to successful outcomes. Managers at all levels of the organization should have a clear understanding of the goals and how those goals are to be pursued. Misinterpretation of the goals can lead to misinterpretation of the strategy that is being implemented. Many times, an incorrect interpretation of an organization's goals leads to the selection of a strategy that may emphasize internal weaknesses rather than strengths. As a manager, you should be constantly aware of the company's strengths and try to formulate and implement strategies that will exploit those strengths. Awareness of an organization's strengths and weaknesses, as well as external opportunities and

threats, can be obtained from a SWOT analysis. Encourage your organization to conduct a SWOT analysis *if* it has not already done so.

As a strategic planner, do not be afraid to readjust or reformulate a new strategy. Many times, managers feel "married" to a strategy because they have committed resources or their careers to the success of the strategy. Staying with a strategy that is not achieving desired results may not only be costly for the organization, but may also jeopardize the fortunes of many employees. An excellent manager is one who knows when to change the organization's strategic direction.

Finally, you should understand your organization's strategy by asking broad questions about positioning within the industry or market. Is the industry highly competitive? If so, develop an understanding of the industry forces and identify whether your company is more capable of pursuing with success a cost leadership, a product differentiation, or a focus strategy. Are the fortunes of your organization dependent on how well you adapt technology and administrative structures to the environment? If so, consider whether a defender, prospector, or analyzer strategy best exploits your organization's strengths. Does your company pursue a diversification strategy? If so, you may want to examine the portfolio of business units or product lines that your organization controls in order to assess what units have potential for growth (stars); what units can generate large amounts of resources (cash cows); what units may need further support or should be divested (question marks); and what units are poor performers with few opportunities (dogs). Finally, is survival of your organization in question? If so, you will want to consider whether a specialist or generalist strategy will increase your organization's chances of being retained over a long period of time.

KEY TERMS AND CONCEPTS

adaptation model	portfolio model <i>or</i> BCG matrix
administrative problem	prospector strategy
analyzer strategy	question mark reactor
barriers to entry	strategy specialist
cash cow	star
competitive model	strategic alternatives
defender strategy	strategic management
differentiation strategy	strategic plan
dog	strategy
engineering problem	survival model
entrepreneurial problem	SWOT
focus strategy	SWOT analysis
generalist	
organizational populations	
overall cost leadership	
strategy	

REVIEW QUESTIONS

1. Define and explain the differences among the terms *strategy*, *strategic management*, and *strategic plan*.
2. How do an organization's purpose, mission, and goals contribute to the formulation of a strategic plan?
3. What are the four questions managers should address in formulating a strategic plan?
4. What aspects of an organization's operations must a strategic plan "fit"?
5. What five key components must managers seek to integrate in strategic planning?
6. What is a SWOT analysis; Identify and discuss the quadrants in which a firm may be located after a SWOT analysis has been completed.
7. What are the 12 major strategic alternatives? Briefly discuss their relative strengths and weaknesses.
8. Identify the three problems that managers must solve according to the adaptation model. How does each strategic type solve these problems?
9. What are the five industry forces that managers must consider according to the competitive model? How does each strategic type respond to the five forces?
10. Describe the two dimensions used in the portfolio model. Under what conditions would managers want to use a BCG matrix?
11. What three stages lead to changes in a population of organizations according to the survival model? How does each strategic type respond to these environmental conditions?

CASE 6 A Bar Wars: Hershey Bites Mars

Hershey and Mars are engaged in a brutal back-and-forth battle to be No. 1 in the \$8-billion-a-year U.S. candy market. Mars deposed Hershey as candy king in the early 1970s, and by the end of the decade had pushed its market share 14 percentage points ahead of its rival's. "It took the Hershey people seven or eight years to realize that Mars was not going to go away," says a top industry executive. "Then it took them another five years to get their act together." With successful new products, lots of heavy advertising, and often brilliant marketing, Hershey has come roaring back. Industry analysts say the race between the candy

monsters is now neck and neck. As they fight for leadership, they bring fresh excitement to a once stale candy market: increased sales, interesting new products aimed at grown-ups, and even the improbable notion that candy is good food.

The principal combatants in the bar wars make all ten of the best-selling candies in the U.S. (five for Hershey, five for Mars), and they share 70 percent of the candy bar market.

Mars and Hershey have distinct corporate styles and battle strategies. Fifty percent of the Hershey stock is owned by an orphanage that founder Milton Hershey

established when he and his wife could not have children. For years the Hershey company operated mainly to provide funds for the orphanage. But after Mars began eating into Hershey's business, William Dearden, who grew up in the orphanage and was chief executive officer from 1976 until 1984, decided to make the company more aggressive. He diversified the company to lessen its vulnerability to wild swings in the prices of cocoa beans and sugar.

Because its research shows that candy customers rarely buy the same bar twice in a row, Hershey has become a fearless product innovator. "When most people walk up to the candy counter, they will choose from among six, maybe as many as twelve items, that are acceptable," says Richard A. Zimmerman, the successor to William Dearden. "We want to be sure we are on that menu." Hershey has 17 of the 60 best-selling candy bars, versus nine for Mars. Almost 20 percent of its candy sale came from new products in 1985, versus 7 percent in 1979.

Much less innovative than Hershey lately, Mars concentrates most advertising and marketing efforts on long-successful brands: Snickers, the No. 1 U.S. candy for a decade, which had 1984 retail sales of about \$400 million, and the two M&M's candies, plain and peanut, which shared \$500 million in sales just about equally. The company's last successful new product was the caramel-and-chocolate Twix bar, introduced in 1976.

Forrest Mars, Jr., and his brother John, grandsons of Frank, the founder, control Mars, one of the world's largest private companies. Mars is so secretive that the industry calls it the Kremlin. Insiders say that Forrest, Jr., runs the candy operation and John runs most of the rest, which includes Kal Kan pet foods, Uncle Ben's rice, and an electronics division that makes money-changers for vending machines, among other things. These businesses, plus a large international

candy operation, make Mars three times as big as Hershey.

Mars seems to be melting under the heat from Hershey. Those who have worked at Mars say that things get ragged quickly when all is not well. "These are people devoted to the company and under a lot of pressure to perform," says a former man from Mars. "When market share is growing healthily, everything is okay, but when sales flatten out or even when goals are not quite met, guys can start tearing each other's throats out."

One area of competition has been in pricing policy. Mars scored a marketing coup in late 1980 when it increased the size of the bar without raising its price. But in December, 1983, Hershey took the lead, raising wholesale prices enough to push up the retail price of a standard Hershey bar by 5 cents. Mars tried to hold the line, hoping to sell more by being cheaper. That never happened; retailers charged the same price for both companies' bars, pocketing an extra nickel on every Mars product—about \$5 million a month. Mars eventually raised its wholesale price to the level of Hershey's.

Mars's latest offensive is to create a new image for candy—one aimed at convincing consumers that it's a "sweet snack," not a fattening, tooth-rotting, pimple-producing junk food.

Source: Adapted from Steve Lawrence[^] "Bar Wars: Hershey Bites Mars," *Fortune* (July 8, 1985), 52-57. © 1985 Time Inc. All rights reserved.

1. Review the strategic alternatives discussed in the chapter. Which strategic alternative does Hershey pursue? Which strategic alternative does Mars pursue?
2. What are the internal strengths and weaknesses of Mars and Hershey? What are the external opportunities and threats in the candy bar industry? Based

on this analysis, is each company pursuing the appropriate strategic alternative? Why or why not? Describe the strategic type of Mars and Hershey according to Porter's competitive model. Based on the information provided in the case, how would you describe each company's relationship to its suppliers? Its buyers