

# Managing for Maximum Performance

## UCSD Extension Business & Technology

### Chapter 7 – Planning & Strategic Mgmt – Fall 07



## Strategic Management Process

Prepared by Husain Lokhandwala for the UCSD Class - Managing for Maximum Performance on 10/18/2006



### What is Strategic Management ?

- **Definitions of Strategic Management:**
  - Art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives.
  - It is the process of specifying the organization's objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization's objectives
- **Important Characteristics**
  - combines the activities of the various functional areas of a business to achieve organizational objectives.
  - provides overall direction to the enterprise
  - dynamic and continuous process

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### What is Strategic Management ?

- **Levels of Strategy**
  - Corporate e.g. in which businesses should we compete
  - Functional e.g. new product development
  - Operational e.g. MBO (Management by Objectives)
- **Limitations**
  - Not a guarantee of success
  - May not be responsive enough in competitive environments when performed top-down
  - Assumes accurate forecasting
  - Does not take into account unexpected events, Scenario Planning technique more suitable for fast changing environments

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### Steps of strategic management process

1. Identify Mission
2. Set Objectives
3. Situation analysis
4. Strategy formulation
5. Implementation
6. Control

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## 1. Identify Mission

- **A mission**
  - is a reason for an organization's being
  - Sets the mood for where the company should go
- **Examples**
  - *Corporate mission of Google: To organize the world's information and make it universally accessible and useful.*
  - *Mission of an HR department: To contribute to organizational success by developing effective leaders, creating high performance teams and maximizing the potential of individuals*

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## 2. Set Objectives

- **Objectives**
  - Are
    - Concrete goals that an organization seeks to reach
  - Can be
    - Long term
    - Short term
      - Derive from mission
      - Derived from long term objectives
  - Should be
    - Challenging but achievable
    - Measurable
- **Examples**
  - Increase market share in existing product lines
  - Lower costs relative to key competitors
  - Better customer service than rivals

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### 3. Situation analysis

- External environment
  - Macro-environmental factors
    - PEST (Political, economic, social & technological) analysis
  - Micro-environmental factors
    - Industry analysis (Barriers to entry, Customers, Suppliers, Substitute products, Rivalry)
- Internal environment
  - Diagnose past and present performance, strategies
  - Company culture, organizational structure, access to natural resources, operational efficiency, market share, financial resources, patents and trade secrets
- Methods: SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis

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### 4. Strategy formulation

- Develop alternative strategies by integrating mission, objectives, internal and external analysis
- Generic Strategy alternatives
  - Cost leadership
  - Differentiation
  - Focus
  - Product diversification
- Concept of SBU (Strategic Business Unit) important in multi-business organizations e.g. subsidiaries, division, product line, etc. Strategy needs to be defined for each SBU

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## 5. Implementation

- Implementation requires strategy to be defined at a more granular level and in more detail to be understood at the functional level in the organization
- Translate strategy into specific policies for functional areas such as:
  - Marketing
  - R&D
  - Purchasing
  - Production
  - HR
  - IT
  - Operations
- Identify and allocate required resources
- Implement necessary organizational changes
- Assigning responsibility of specific tasks or processes to specific individuals or groups

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## 6. Control

- Measure and evaluate strategies against results
- Develop processes and control systems to measure progress of strategy implementation
- Take corrective action
- Re-visit earlier steps of strategic management process

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**A Case-study of the strategic management process**

**Company:** **YAHOO!** Inc. (YHOO)  
www.yahoo.com

**Founded:** 1994

**Sector:** Technology


**Industry:** Internet Information Providers

**Business Summary:**  
Yahoo! Inc. provides Internet services to users and businesses worldwide. It offers online properties and services to users; and various tools and marketing solutions to businesses. The company's search products include Yahoo! Search, Yahoo! Toolbar, and Yahoo! Search on Mobile, Yahoo! Local, Yahoo! Yellow Pages, and Yahoo! Maps that allow user to navigate the Internet and search for information from their computer or mobile device.

**Main Competitors:** Google, MSN, AOL

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**A Case-study of the strategic management process**

**Problem description:**

- The year is 2003. Yahoo! has survived the downturn in the Internet industry but with the advent of Google, its search market share is slowly eroding, the investor community is starting to lose confidence in Yahoo and its products are having difficulty competing with those of its competitors, mainly Google's.
- Yahoo's future depends on creating a strategic plan that will stop further erosion of its market share in the search marketing industry, keep up with Google's innovation and entry into new product lines and regain investor confidence.
- The strategic planning process in the following slides is what Yahoo may have followed from 2001 to 2007.

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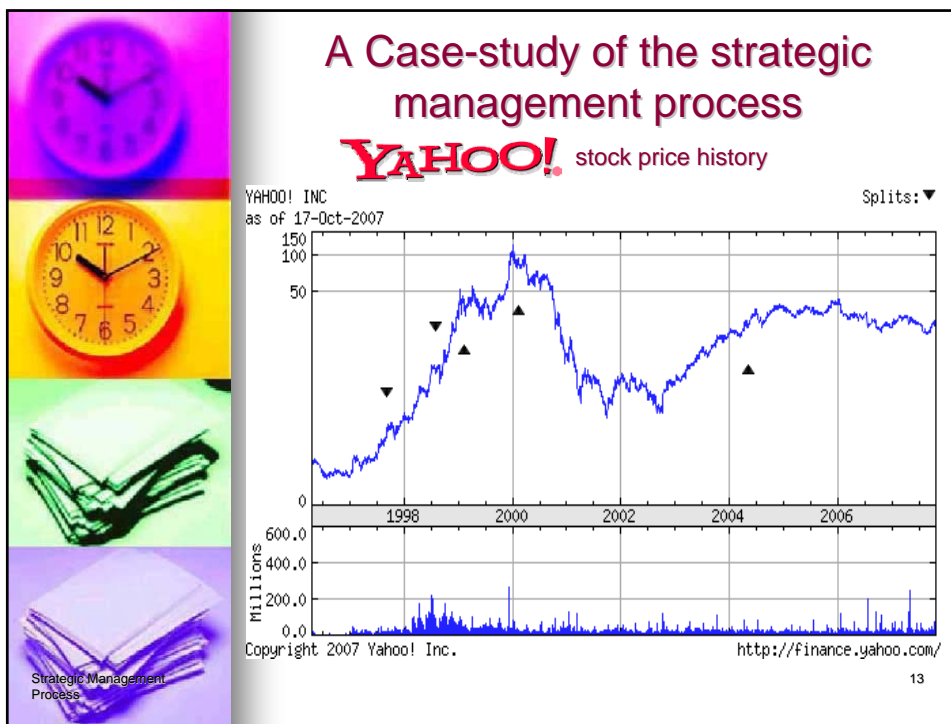
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**Strategic management process applied to YAHOO!**

**1. Identify Mission**

- Old mission: "To be the most essential global Internet service for consumers and businesses"
- New mission: "To connect people to their passions, communities, and the world's knowledge."

**2. Set Objectives**

1. become the starting point for most consumers on the Internet
2. establish Yahoo as the "must-buy" for advertisers and increase the amount of ads the company sells on its own network as well as on other sites
3. create a platform that will attract developers by building services on open APIs
4. connect the right users to the right content at the right time.
5. create better user experiences not simply by knowing what you want, but also by leveraging who you know.
6. leverage it's assets to build the most relevant, comprehensive, dynamic, and open repository of knowledge and content on the Web

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## Strategic management process applied to **YAHOO!**

	Helpful	Harmful
I N T E R N A L	<b>2. Situation Analysis</b> <b>Strengths</b> <ol style="list-style-type: none"> <li>1 Most widely used website in the world, 400 million users</li> <li>2 Global brand awareness</li> <li>3 Possess top notch talent</li> <li>4 Successful strategic acquisitions and collaborations: Overture, Inktomi, Alibaba.com, Flickr</li> <li>5 Diverse properties: Mail, Photos, Music, etc.</li> </ol>	<b>Weaknesses</b> <ol style="list-style-type: none"> <li>1. High workforce attrition rates at all levels</li> <li>2. Slow innovation compared to leading rivals</li> <li>3. "Technology neutral" leadership at highest levels</li> </ol>
	<b>Opportunities</b> <ol style="list-style-type: none"> <li>1 Have data about users than competitors because of portal, provides competitive advantage</li> <li>2 Can leverage wide user base in other properties like Answers</li> <li>3 Recent re-structuring has made company more streamlined</li> <li>4 Social networking</li> </ol>	<b>Threats</b> <ol style="list-style-type: none"> <li>1. Eroding market share</li> <li>2. Rise of Google and loss of customers to Google in last 5 years, "Google" is a verb</li> <li>3. Human rights abuse cases involving Yahoo and privacy conscious environment</li> <li>4. Successful key acquisitions by Google, YouTube, Double-click next, etc.</li> <li>5. Low investor/Wall Street confidence in Yahoo</li> </ol>

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## Strategic management process applied to **YAHOO!**

### 4. Strategy formulation

- Growth by acquisition vs. growth by building in-house
- Customer focused organization vs. product centric organization
- Diversify vs. specialize and excel in existing product lines

### 5. Implementation

- Re-organize the company with one of the central themes being the evolution of a culture from one largely organized around products, to one that is far more organized around customers (Audience, Advertiser & Publisher, and Technology)
- Leverage and integrate the powerful assets we've got e.g. Flickr integration into Yahoo! Search
- Build out our research ranks to include some of the most renowned social scientists in the world

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## Strategic management process applied to **YAHOO!**

### 5. Implementation (cont.)

- Diversify and specialize by making key strategic acquisitions and collaborations e.g. Alibaba in China, Overture, Flickr, del.icio.us
- Tighten media integration by hiring Fox CEO Terry Semel in 2001 and other television media executives
- Revamp Advertiser system to compete with Google (project Panama completed in 2006)

### 6. Control

- 2004 - Panama development starts
- 2006 - Panama announced complete but fails to raise earnings, stock price
- 2007 – Customer focused re-org complete
- 2007 - CEO Terry Semel “quits”, viewed as unsuccessful by many observers. Failed to buy Google, close Facebook deal

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## Strategic management process applied to **YAHOO!**

### 6. Control (cont.)

- 2007 Q2 - Founder Jerry Wang takes over in 2007, announces 100 day business review mapping out the strategic plan for the company.
  - Goals:
    - leverage data across the advertising platform for advertisers and publishers
    - focus on differentiated products
    - prioritize teamwork, leadership and the will to win
- 2007 Q2
  - Yahoo rationalizes existing product lines; closes Yahoo! Photos and Yahoo! Auctions; opens Yahoo websites to developers to create APIs
  - Moves to an ad-based model for Yahoo Music
- 2007 Q1 – Panama catching on with advertisers
- 2007 Q3 – revenue and stock price improves, company announces that Panama rollout complete and helped increase revenues

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## Sources

- David, F Strategic Management, Columbus:Merrill Publishing Company, 1989
- Wikipedia
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- Yahoo company blogs

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## Q & A

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**Class exercise**

1. Write down your company name, industry and at least 3 things your company could do better strategically (5 mins)
2. Share with class

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1253 Orchard Glen Circle, Encinitas, California 92024 Ph: 760-519-9360 Fx: 760-753-9380  
greg@goatesconsulting.com www.goatesconsultinggroup.com