

## Strategic Mgt

- No book, alles op Toledo : articles wnt evolution in strat. mgt
- les tot 30/3/12 : 1 april final reading list (sommige vallen weg, andere erbij)
- guest speakers = examenleerstijf (9 juni exam)
- 2 on-line case studies > Pasen (april-may) : tellen enkel voor afronding
- mai : review question session
- 30 maart enkel les 8u30

## What is strategy?

verandert nt na 1<sup>st</sup> blow = LT perform. of companies

strategy difficult to define, vague idea about it in many firms

filmje gromes Southpark: fase 1 = collect pants, fase 2 = ?, fase 3 = profit

bv. Ryanair : p important, wel gr quality → toch vliegen mensen ermee, most profitable business

Spanair : bankrupt, small, more expensive

→ je wil vliegend vliegtuig = brengt op, in luchthaven brengt ht niets op

Ryanair goes to secondary airports Charleroi wnt zn enigsten daar dus take off fast, no seats assigned ⇒ plane fills much faster

no connections with Ryanair = tijd gewonnen

= incentive bonus (nt vr engineers : erger vr low-cost vliegtuig als ht crashed, dan reputatie weg, nt zo bij bekende high-cost planes)

↳ biggest airlines, growth ↑↑↑ dr focus low-cost strategy

segment the market : no busin people vaak wnt zij gaan nt vr destinaties <sup>Ryanair</sup>

bv. Kodak bankrupt : start in 1880, name covers a category

< Fuji film : cok sterk, in China wel, ≠ strategy

< Kodak went digital : first digital camera 1995 → today digit. camera on smartphones

Fuji : went into cosmetics + films on LCD screens = chemistry (diversified ⇒ survived)

bv. Delhaize : 25% busin. in Belg, 75% in USA, ≠ positionings dan Colruyt

< Colruyt : bigger amounts, cheaper = p-leader, focus on Belg. market (50%)

bv. Facebook: friends/work & companies on stocks  
    LinkedIn: profes. network

Positioning within your industry → strategy: ≠ performances  
    → nu mind PC-firma, meer iPhone, iPad... → v.l. geld. a.l. applicaties  
    → cool, expensive, devices work immediately: good integr. of # parts software

bv. Apple: - biggest provider iPhone → go up against Sony, Nokia = big sellers

Google: operat. system for free: Android osm → ook google search gebruiken zo

- advertising company goes into phones = diversify

→ companies pay when u search on google = advert. business

↳ people look at their phones, mind of PC → in phone business gaan

bv. Inber: Jupiter strong in Belg, nt anywhere else wnt enkel in Belg gepromoot

⇒ Globalisation: should companies go global

bv. Amazon <sup>= Android</sup> tablet vs. Apple tablet: more apps ⇒ more popular iPad  
book seller e.g. in business tablet wnt boeken in er gelezen

→ Apple: iPad 3 - successfull

Amazon struggling wnt sell Kindle at low p

⇒ Technol. convergence belangrk ⇒ drives companies in areas non-expected before

bv. Airbus vs. Boeing

↳ A380

↳ 747 for # years = biggest plane

↳ hadden allen  
behalve the big plane

↳ g'n ander product brengen op markt wnt kannibaliseert successful product

⇒ Irreversability of decisions bv. built A380 ⇒ no way to go back

no room for 2 jumbo planes ⇒ p↓ d'r compet. anders

bv. Madonna '87 vs. Spice girls: Victoria Beckham enkel nog famous

↳ start nu worldtour, is er elk jaar ⇒ sustainable performance

bv. Mus- museum vs. comic book museum bxl: bringing art closer to # people  
≠ financ. objectives = max. value

University hospital vs. small public hospital: latest techn & cures, involved in  
research & teaching

⇒ Not only profitability

## Wat is strategy? Strategic Decisions

- 1) statement Mike Tyson  $\neq$  strategy : nt hard to reverse
    - size of investment
    - time of decision bv. go digital, go to chemistry : no way back  
Apple  $\neq$  Microsoft : multiple uit PC-business
  - 2) Reaction from competitors
    - small # players : Apple into Phones, Nokia problem
  - 3) Coordination with other decisions for coherence & consistency over time  
bv. Ryanair doet alles om planes lang i'd lucht te houden  
    - $\hookrightarrow$  all activities fit together & create track-offs : compete against locals
- $\Rightarrow$  1 vld 3 moet voldaan zijn  $\Rightarrow$  = strategy

### Be different

$\sim$  set up direction of company

### Strategy and Vision

- bv. Apple didn't fill their vision of PC
- bv. Walmart = biggest retailer in world : low p & cost ( $\approx$  Aldi, Lidl)  
  - $\hookrightarrow$  started in Arkansas discount stores because they had great idea, nt  
 avr geld  $\rightarrow$  if ideas nt approved by mgt = verloren, toch good ideas
- bv. Canon : competed with Xerox :  $\neq$  vision  $\Rightarrow$   $\neq$  strategy,  $\neq$  direction company

Def. strategy: future : 5jr vooruit kijken, nt enkel nr historiek kijken  
(vision  $\geq$  10jr)

choice : # opties bv. Apple PC vr iedrn, q, d, child

$\hookrightarrow$  evalueren vr strategie : uncertainty bij decisions

framework : iedrn weet waar firm nrtue gt, communiceer strategy  
 $\rightarrow$  clear direction

## Strategy: choice of a future

### Phase 2:

#### Vision & Mission Values

br. Madonna doet alles to be  
a superstar: nt beste zanger,  
nt knap, nt goed danser

↳ hft nt beste resources = firm specific aspects  
wel besten die in hr werken

#### Industry value system

Madonna is controversieel  
maar nt tevl

→ ze  $\Delta$  nt  $\Delta$  environment

#### Implementation

ze werkt hl hard

### Strategies at 4 Levels:

SBU = strateg. busin. unit

→ connect cross business

functional strat = market strategy, prod. develop. strat, mktg strat, ...

### Henkel: 3 large divisions, 4 SBUs

Adhesives: Patex, Patt → growing busin.

← Cosmetics: Schwartzkopf -

Detergents → not exiting business

→ same chemics nodig

### Bad strategy

- not operat. effectiveness: Colruyt  $\approx$  Aldi → race to be more efficient
- not benchmark: similar things → strategy = be different, understand environment
- not mktg: standard product at low cost kan ook ipr differentiëren & tailor to local preferences = higher operat. costs → coordinate finance, R&D, mktg, operations, ...
- not sufficiently integr.: link strategy to finance
- no SWOT: br. electr. cars for Audi, Lamborghini = breath of opportunity?  
↳ Audi: ↳ in Lamborghini  
kennen electr cars nt
- fail to make choices br. Kodak
- mistake goals for strategy br. 12% profit margin  $\neq$  strategy = how to get there  
"fin. goal"
- fluffy objectives



## "Strategy" used & abused

fads: open innovation = cooperate with suppliers & customers (adhocracy): doesn't work for every company

Do you have a strategy? successful companies fill in all these elements

- Clear object.:

- max # people reached by museum

→ decide where you want to do business

Who does strategy & what?

- Top mgmt most import. in setting strategy

- board approves

- consultants help at  $\neq$  moments in time, vertical analysis

↳  $\neq$  companies achieve on  $\neq$  parts by Bain control strategy, McKinsey formulation

ns 2: 17/21/12: Value Creation & Value Capture

## Fundamental questions

1) value created

2) captured

3) sustained

1) Willingness to pay: by voor een biertje 2,5€

= WTP

created value =  $WTP - K$

$p - K$  = value capture by firm

$WTP - p$  = value captured by client

⇒ wine: costs 0,5 cent

## What affects WTP?

Income  $\uparrow$   $\Rightarrow$  WTP  $\uparrow$

inferior good: income  $\uparrow$   $\Rightarrow$  demand  $\downarrow$   $\rightarrow$  shift D-curve to better products

What affects costs?

WTP focus if you differentiate  
low cost producer  $\Rightarrow$  focus on costs

SCO: advertising expenditure

Learning costs

aircraft assembly eerst slow, mt tyd / ervaring gt ht sneller

Fundamental Questions

Drivers of capitalizing value

NOPAT to NOPLAT

hard to compare companies over tax benefits  $\Rightarrow$  afrekken  $\downarrow$  NOPAT = NOPLAT  
net per. profit less adjusted taxes

Roic: eval. strategy

$\frac{\text{No plat}}{\text{capital}} = \text{Roic Capital}$   $\rightarrow$  capital financed dr bank debts, shareholders equity

Delhaize vs. Colruyt: ratios = COGS 74.3% of revenues

$\hookrightarrow$  compare this: gft  $\neq$  approach weer

gross margin 25%

WACC: capital = debt + equity

Roic Invest capital > WACC anders close business

$\hookrightarrow$  EVA: eco value added

Sustaining value over time

-  $p - k = \text{margin} \nearrow \Rightarrow \text{Roic} \nearrow$

-  $\frac{\text{quantity}}{\text{invested capital}} = \text{utilization rate} \nearrow \Rightarrow \text{Roic} \nearrow$

-  $g \nearrow \Rightarrow \text{EVA} \nearrow$  ad projects for which Roic > WACC

} strategy & fin connected

idem

$\rightarrow$  look at LT for determining strategy  $\neq$  persee shareholders value

Strat. opt. : readings not covered in class, nr. keuren! (7)

### Roic strategy curve

- don't look at company at 1 point in time, maar curve bekijken
- dr. Easyjet: vl. geld in het vlieken opgebracht, nu nr. m'r

J-curve: milestones: gt. ht. b'tr. d. w'g. je curve, d. worse?

- Johnson & Johnson stable curve: vl. investmt  $\rightarrow$  Roic  $\downarrow$

### Patterns in Roic?

- protect business: patents

-  $\neq$  tss industries

$\hookrightarrow$  avg. returns high in pharma, low in airlines

- Roic  $\downarrow$  met tyd als ht. good ging, Roic  $\uparrow$  als ht. slecht gt, middelmooie perform.  $\rightarrow$  Roic  $\pm$  zelfde

- growth more volatile than Roic over time

software industries have high g-rates  $\rightarrow$  nu  $\pm$  stable growth

- $\neq$  top/bottom performers (bl. & rode lyn) in same industry, relative to the avg.: vl.  $\pm$  variatie
- $\rightarrow$  sommige firms in pharma doen ht. slechter dan gemiddeld, omgekeerd soms in airlines
- $\hookrightarrow$  wem? industry is important, not in explaining returns

- bus. cycle effects

- strategy belangrijk: compet. positioning

### Strategy as drivers of enterprise value (LT)

Ind. Value System = suppliers, environment, ...

$\hookrightarrow$  how position myself according to my environm? scope, activities, research & capabilities & bus. model

dr.  $\downarrow$  products & services offered to who, where geo?

dr. Ryanair: scope = tourists, no connections  $\rightarrow$  specific scope

activities = keep planes in air zolang moglk

bus. plan = generate extra revenue dr. sell variables for advertising

### les 3 23/2 : Understanding your environment

slide 4 : variance in industries bv.  $\Delta$  var. in plane industry en in pharma

slide 5 : drivers : industry value  $\propto$  firm specific elements

Influence of industry : cannot  $\Delta$  industry, accept that to be successful

position firm relative to environment : protect yourself bv. airplane industry

### Industry attractiveness

~ 1) LT trends

2) Def of industry : broad/narrow  $\Rightarrow$  insight

3) drivers of value captured at industry level

### Step 1: LT trends

12 # trends : 1) crisis : welke  $\Delta$  belangrjk vr busin.

2) Middle East : Israel-Iran, Syria  $\Delta$  regime  $\Rightarrow$  pol. structure  $\Delta$

3) klimaat  $\Delta$

4) food & water : how to get it to some places & drinkable

5) education

6) demographic  $\Delta$

7) terrorism :  $\Delta$  mkr controles nu in luchthavens

8) health

9) nat. disasters  $\uparrow$  : volcano, earthquakes, floods  $\rightarrow$  Henkel : glue business

10) ecosystem & biodiversity

11) energy supply  $\Delta$  : Exxon

geopolitics : Putin can close pipelines & reopen at higher price

aging & migration : pension system : who will carry it?  $qpl$  = emigrate

what to do with  
debt?  $\Delta$  dekken  
ervan maken voor  
anderen

### Industry Change

- Core assets bv. brandname, reputation  $\rightarrow$  valued but in other areas maybe industry  $\Delta$  slowly : easy to predict where you're going

bv. plane industry  $\Delta$  winning : wel low-cost airlines

- core assets & activities threatened : s-tojz failliet

- car dealership : much nuttig avr internet  $\rightarrow$  reconnect with buyers / many  $\Delta$  cars

- creative change : type movies people like  $\Delta$  vaak : project. mgt

Industry attractiveness assessed in 3 ways

- 1)  $RoIC > WACC$  : high return expect
- 2) sustainable returns :  $\neq$  year  $RoIC$  expected  $> WACC$
- 3) stability of return

Other indicators  $\Rightarrow$  wrong conclusions

Growth: - PC-assembling = fast-growing, low returns

< some slow businesses are attractive

- Size industry : niche players can be profitable, unnoticed for potential compet.
- Techn. complex industry : long investment period of R&D : returns take long time
- Life cycle of industry : emerging industry = uncertainty about returns

Less attractive busin. can tech be important

- might protect position in its core industry br. Disney theme parks & hotels  
br. Sony entert. business protects busin. in consumer electronics
- unique resources & capabilities  $\Rightarrow$  profitability  $\nearrow$  br. Kinopolis unpopular wegen small screens, no parking, ...

$\Rightarrow$   $\neq$  objective + subjective attractiveness

$\hookrightarrow$  industry, avg returns, ...

$\hookrightarrow$  position company

6 Reasons to do industry analysis in strategy analysis

Step 2 : Def of industry

- Value system = environment of competition of firm
- local/global
- interrelationship

Industry is product-techn. combin.

br. tv & computer zelfde

PDA & gsm

camera & gsm : killed kodak

ipad became iPhone : anders had Apple niet survived

prod-techn. combi tailored to # markets ~ customer types

bv. LCD screens industry # market

↳ in health sector / defence

↳ others serve these # markets also = competition

Local, global or multi-domestic?

- multi-market compet = same players in # markets

drop p in a market  $\Rightarrow$  another compet. retaliates

- multi-domestic bv. beer: local busin. uniteinde

- global bv. TNT, UPS

local bv. tv-zender

Value creation & capture

Value created = WTP - cost

PS & CS = value captured firm / client  
= value creation

Porter's 5 forces: usefull for busin.

purpose  $\neq$  fill boxes

$\rightarrow$  value captured = competing for profits > competitors only

① bv. PC-assemblers: attracting busin? qk = kijken in 5 forces

Structure: what makes rivalry intense?

markt nt uit welke gasoline je koopt, vgl p op internet

$\Rightarrow$  rivalry  $\uparrow$  bij compet. on p

- perishable goods: food, hotel rooms, airline seats

Soften compet. by beating on # aspects: delivery time, branding

- retaliation difficult to muster = p-differentiatie moeilijk controleren

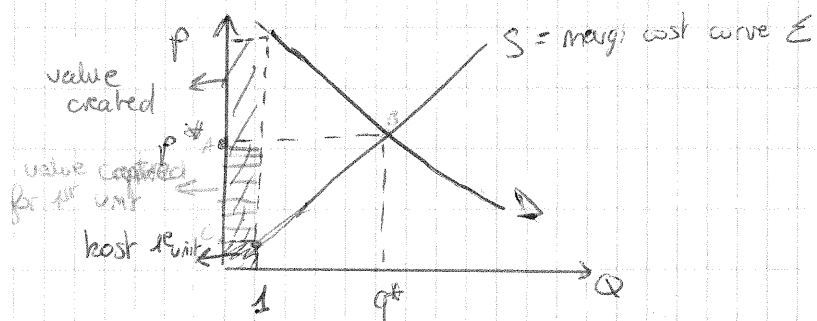
- compet have diversity of backgrounds & don't understand each other

bv. Kellogg curs p  $\Rightarrow$  others also  $\Rightarrow$  nt interessant

in new busin. mag je nt afspraken maken bv internetbusin: hard to survive & capture busin.

- family firms = important players bv. Henkel gt nooit uit original business gear  
= high exit barriers

## - Perf. Compet :



value captured client = CS

producer = PS ABC

## 2nd Force porter: entry

- barriers: gov. regulations  $\Rightarrow$  cost enter  $\uparrow$

- big sunk costs  $\Rightarrow$  more difficult to enter

- network effect: be early & build connections br Ebay with velen kansen  $q^{\text{th}}$

What makes entry easy?

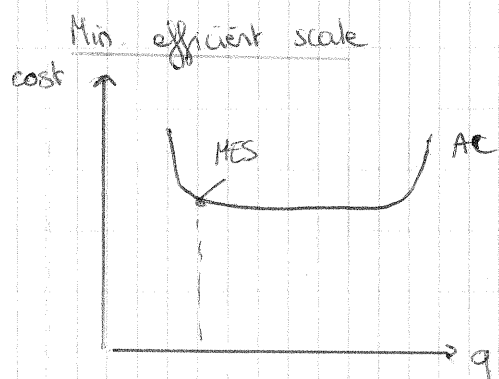
Retaliation by incumbents is difficult = busin. don't pay enough attention to moves of competitors

$\rightarrow$  no industry leader: (Iberia) Click air operated exactly as Vueling cutting p 50%  
 $\hookrightarrow$  retaliate on Vueling

$\Rightarrow$  Iberia merged Click air & Vueling into 1 company

- evolution of industry: starts of, entering firms, most firms exit industry

br V smartphones exit



MES = lowest q to hit flat AC

$\hookrightarrow$  belong: how big is MES relative to industry

"physical output / jr": 10 millions tons output sold to be at MES for oil industry

- 10% of marketshare needed to be at that q production by MES

- costly to get to MES: 9% higher costs in beer sector

$\hookrightarrow$  als je br 50% van MES zat (niet at MES)  $\Rightarrow$  25% costs

- 33% marketshare nodig to get to MES = ...  
amoglk!



## Treat of Substitutes

br. Alumin & Koper = substitutes

br. Services & Do It Yourself (DIY)

## Suppliers powerfull:

- only handful big suppliers for industry
- can supply other industries too, hoeven nt nr u te vkn enkel
- $\Delta$  supplier lastig als je nt Henkel werkt want zij doen gy m<sub>a</sub> v<sub>r</sub> u eek = customer solutions

les 4 23/2/12 Supertanker business = achrachie business (vl fluctuatie!)

klant: bargaining

→ derived demand for oil

→ vraag die  $\uparrow$  → vraag tanker  $\uparrow$  →  $p \uparrow \uparrow$

substitute = pipelines

Rivalry: spelers in oil tanking

eens tanker gebouwd, wil je transporten: high Fixed K!  
 $<$  Var. K vrij laag

Enter:  $p \uparrow$  for oil tankers  $\Rightarrow$  entry  $\uparrow$

- you just need money

- bouw duurt # jaren: eens gebouwd, heb je ht vele jaren!

→ je bent er v<sub>r</sub> lange periode

5-step: nt alles vullen

wat z<sub>n</sub> de key factors? = buyers, rivalry, entry

extra E: forces that help you capture value

→ framework vooral negatief

Andor framework: Cooperation !! = value o<sub>r</sub> customers te verbinden b<sub>j</sub>-suppliers

↳ complements: voor waarde creatie

br. ketchup & hotdog  
 PC & games

} complements offer  $\uparrow \Rightarrow$  your offer becomes more valuable

→ add complements with supplements

br: Assembly = interesting business

- ↳ rivalry: compet. on p
- ↳ PC business: p & market share
- ↳ bargaining: low switching: fighting for shelf place
- ↳ suppliers: components (chip, operating system) → Microsoft & Intel make money
- ↳ entry: easily entering in assembly business
- ↳ no real substitutes
- ↳ complements: more software, more valuable! (nt echt attractive business)

Stel: supply hard drive at lower p ovr innovation

- $K \downarrow$ :  $p \downarrow$  = lower cost for assemblers
- vl rivalry: overall  $p \downarrow$  ⇒ lagere p in industrie
- $\Delta \uparrow$  wnt  $p \downarrow$
- Volume  $\uparrow$ : mr computers ⇒ aantrekkelijker om software te ontwikkelen  
⇒ meer PCs gemaakt = value  $\uparrow$

Windows & Intel: meer volume is goed

- new OS: snel break-even (2 mnd)
- new chip: renew faster

Harddrive manufacturer: meer volume =  $K \downarrow$  ⇒ meer PCs ⇒ mr software ⇒  
meer PCs ⇒ mr software ⇒ new chip, OS, ...  
= loop!

- '90: PC zeer cheap

- Apple bijna failliet: wou alles zelf doen (hard/software) ⇒ profiteerde niet mee vld groei!

br. Wine industry = not attractive business!

Forces: growing market (nt altijd goed, wel btr dan krimpende market)

- zeer gefragmented
- quality, p, exclusive, different
- switching (want proberen)

Rivalry tough: huge players on low segment

switching is very easy: substitute out easily

Buyers of wine: distribution very powerful → distributors own the customer

Entry: very easy (hobby)

Substitutes: beer, champagne

bv. Carbonated softdrinks = attractive business

- siroop
- no final users  $\Rightarrow$  no business!
- attractive busin. : weinig concurrentie
  - 1 plant nodig for US
- Entry : very difficult  $\rightarrow$  you need to get to the final user
  - $\rightarrow$  bottler = hl afhankelijk (big investment)
- Substitutes bestaan
  - where is money made ? = high return on sales, wel weinig tov. uiteindelijk prijs  $\rightarrow$  zeer winstgevend !

bv. Automotive  $\times$  Insurance

- Integratie : forward : nr klant toe  $\rightarrow$  nr info ium vraag
  - backward : leveranciers  $\rightarrow$  controle beter
- Peps / Cola  $\Rightarrow$  forward integrated vroeger (bottling)
  - $\hookrightarrow$  zijn er uiteindelijk uitgestapt !  $\Rightarrow$  is vl complexer !

Competitor dynamics

Game theory : dominant strategy altijd bkr !

- multiple equilibrium : bkr om 1 standard te hbn, maar er zn  $\neq$  preferences omtrent wat standard is
  - exit strategy : 2 equilibria
- $\rightarrow$  Which game is played in business ? key question = hoe gedrag onder opnemen  
 gpl : kyk vanuit hun positie = opponent view

bv. Boeing : NPV for staying in the business = 7,4 billion \$

$\Rightarrow$  Boeing business will remain strong !

- Division Tree : Boeing or Airbus, allebei enter ?

$\rightarrow$  prototype is sunk

- Boeing enter  $\Rightarrow$  A  $\Rightarrow$  enter ! costs are sunk
- Boeing not enter  $\Rightarrow$  A  $\Rightarrow$  enter,  $\rightarrow$  dominante strategie  $\Rightarrow$  enter
- $\rightarrow$  Boeing zal nt enter, geg. dat Airbus enter !

$\downarrow$   
Backward werken

## Les 5:80 (2/3/12) Predicting action & reaction

Learn from game theory: rule 1: look ahead & reason backwards

bv. boeing

rule 2: if u have dom. strat, use it

rule 2 bis: boeing should expect Airbus to come up with super jumbo

→ easy rules, nt vaak gevelgd in companies

### Competition profiling

- not all companies have profit max. ~ goals
  - beliefs about business: welke? harder to catch in game theory
  - routines & history: moeilijk  $\Delta$
- complementary to game theory = structures

### Connecting with reality

- Compet. profiling: - wat wil airbus echt? = marketshare vooral, naast profit

- beliefs: gap in prod. line = gr. large plane

→ Airbus wil come up with super jumbo

Boeing delays it sjr bv.: JV mt Airbus, na 2jr

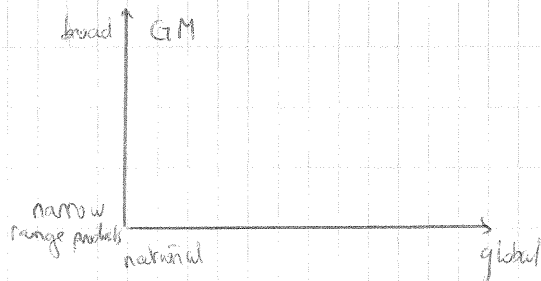
break up JV = delay for super jumbo

Behavioral game = Boeing & Airbus point at same direction

### Predict competitor reactions

bv. Automobile market

: classify firms ~ decisions they make



## Compet. strat. & compet. advantage

Defin.: Champagne vs. Cava → compet. adv.?

value created:  $35 - 15€ = 20$

$p = 25€ \rightarrow$  value captured 10€

cost to produce = 15€

$\rightarrow$  value captured = 5€, 15€ value created

Compet. adv = value creation

↳ strategy = where it comes from the value creation



Stel: 1 buyer only  $\Rightarrow$  buyer only cares about hrl captured of value

- cava  $p \geq 5€ \Rightarrow$  buyer gets 15€

- Champagne  $p < 15€ \Rightarrow$  buyer gets 15

↳ value buyer = 15,1€  $\Rightarrow p = 19,99€$

$\Rightarrow$  cava cannot reach 15,1€ anders loss

$\Rightarrow$  create more value than compet: be better off & client has best deal

Do companies set right p? Dit is onafh. vl value creation & compet. adv.

value created if in market

value created if not in market

1 buyer: Added value of a player =  $(WTP - cost) - (value created - captured)$

If your company doesn't exist  $\Rightarrow$  nobody misses it = you did bad job

$\rightarrow$  no buyer = no sales = 0 value added

added value must  $> 0$ ! anders doesn't matter if company exists or not

$\rightarrow$  firm with comp. adv. cannot capture more value than its added value!  
= boundary

$\neq$  2 buyers: Added value of a player when there are 2 buyers:

- buyer: both buyers

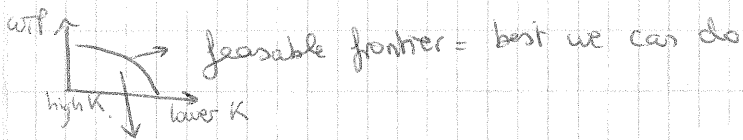
2 buyers: 1 cava, 1 champ

↳ 1 buyer: enkel 'champ. verkocht

bv. Apple has compet. adv. in WTP : not best phone, wel coolest  
→ capture bigger chunk

### Types of compet. adv.

differentiation of low-cost decisions usual



strategically ineff. position : zie paper 1 M. Porter : "what is strategy?"

strategy ≠ operat. effectiveness : strat = chooset position on curve feasible frontier  
↳ try to be different

high WTP ⇒ high prices bv. Nespresso hl duur : cool & good coffee

### Case: Walmart

compar. costs to compare companies

:- keep low costs

- speedy delivery from plant to stores/helf
- info via barcode
- efficient suppliers
- pull-production : collect info on what is being sold, tell manuf. what to produce  
→ retailer is no stock: manuf. bid.

→ margin 7,5% : 1% tell wat 400 bln \$ Company

higher COGS than competitors

vgl bln on units!

→ ≠ is operat. costs : sell what people want (pull)

→ advert. is lower : no promotions wnt no stuff unsold  
only sell what needed ~ regio

→ info systems duurdr : hbn satelliet (history, color, h, ...)

→ no regional offices : satelliet dies gr local control nodig

→ inbound logistics: lots of info

shrinkage = gestolen goods, dit employees vaak

low payroll: incentives id plaats bv. stock options

→ less incentives to steal as an employee

→ stores not enjoyable: Wal Mart doet alles om K↓ ⇒ lower p fr klanten

⇒ create more value by low K want WTP in DVD bv. is zelfde overal

bv. Aldi, Lidl: nt zo goed, in Germany sterker

bv. Airline tickets: we care about safety

- h flown

- price moral

Low cost carriers: - nr stolen in flight

- uglier airport

} ⇒ 57% ≠ low cost flights  
high

## Les 6 2/3/12 Defining the scope of a business

PE = private equity

Mega buy-up funds

Step 1: Scope

bv. brek Dockers Khakis: nt streyken/wassen, resistant  
= new thing to differentiate

→ product scope & customer scope have to fit

Step 2: activity analysis

value chain

value system = environment

- outsource if value created = competit. advant. if value created > competit.

↳ operations to low-cost area

↳ sales: offices close to market: adapt to market

(develop prod. R&D = headoffice)



Head & tail comp = develop & sale, maar niets tussenin  
 ↳ if no manuf. → problem to understand products

2<sup>nd</sup> version: Porter's value chain

bv. Wall mart: linked to low costs?  
 ↳ uit value chain

Rel. cost analyze: compare better in units

outbound logistics = competitors

mtg

manuf.

↳ zoek ≠ hier, nt in tot. costs

WTP

- increase WTP dankzij different. strategy
- who is real buyer? parents - kids
- what want/needs the buyers
- focus on needs

Ryanair's value curve

- bus: low p, low service = alternatieve
- car: gt waar je wil, fast, convenient
- ↳ je denkt er nt direct aan, think about alternatives when picking strategy

Watermelon: gt nt in frigo, tevl nr 1 persn

↳ gel: grow melon in cubes → Japan: ant weinig space = Scope  
connect scope & WTP

Step 3: Resources & capabilities = how to do activities

activities

↳ harder to copy, have to learn it

bv. misle WallMart copy

→ hierarchies in capabilities: bv ≠ activities by HR

Welke capabil. critical to create > value than compet.? = KSF

br. Wal Mart: run logistic system  
= human capabilities



Core competences = capabilities

br. Apple: prod. development ng zo goed zndr Steve Jobs?

slide 77 Where do capab. come from?

br. experience

br. Wal Mart sold weening int begin wnt low cost nt popular

↳ in arkansas gelegen = pos. location ⇒ tyd om te developeren

Step 4: Determine busin. model

2-side markets: who is paying?

↳ advertisers pay for ads

↳ payers of prescription

br. Google for free, make money dr advertising & phonebusiness

Facebook " ", fb makes money

Iphone: Apple negotiated high margins nt telecom operators

Δ bus. model in US

Musicbusiness: easy to copy now, no money by selling CD  
artists make money with concerts br. Madonna

Δ model: money on concerts ipr music

Toy business: parents come up with ideas

slide 80 Bus. model as Choices:

⇒ dynamic wnt model grows

br. Wal Mart: - volume ⇒ SCQ ⇒ KW ⇒ p charged lower ⇒ sales ↑

= virtuous cycle

- high bargaining power

- volume ⇒ investments ↑

↳ Risc = internet = substitute for what Wal Mart offers ⇒ Wal Mart. com opzetten

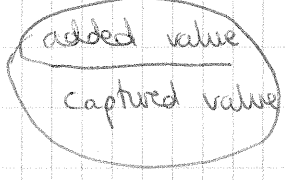
- volume creation ⇒ they have to grow aw incentives: stock options

- employees die illegal werken, klok nt ticken

⇒ pressure on system: if volume stops ⇒ Wal M. stops

br. Ryanair: clear where strategy goes: enter 2 WC's  $\Rightarrow$  6 seats extra  
= value creation

les 7 9/3/12 Treats to sustainability



1. imitation is important treat: rivalry or entry  
high returns attract others

br. Ryanair successfull  $\Rightarrow$  O-EU landen imitate: low-cost airline  
 $\hookrightarrow$  through secondary airports  
 $\hookrightarrow$  negotiates with 6 airlines at same time: wie oft best fees, want de deal

2. substitution: new busin. models to attack regular airlines  $\rightarrow$  pressure on your margins (WTP)

3. slack: 1kg terl  $\Rightarrow$  pay fee (nt zo strict by regular airlines)  
want hl kl. margins  $\Rightarrow$  nt laten verdwijnen dus strict on extra kg.

4. holdup: pilots on strike  $\Rightarrow$  no flights: maintain deal or give pilots better deals  $\rightarrow$  how to treat employees?  
 $\rightarrow$  related to suppliers, buyers, complements

$\Rightarrow$  5 forces = static, here = dynamic forces  $\rightarrow$  use 5 forces dynamically (zie vb. 8)  
 $\hookrightarrow$  make this connection!

Eval. sustainability of a compet. advantage

- What is capability of firm, how easy to maintain/copy, risk of being substituted?  
 $\hookrightarrow$  patents: try to avoid them

$\hookrightarrow$  br. high-speed train

br. No Steve Jobs  $\Rightarrow$  what will happen to Apple? same products produced?  
Key people leave  $\Rightarrow$  still tied to orga?

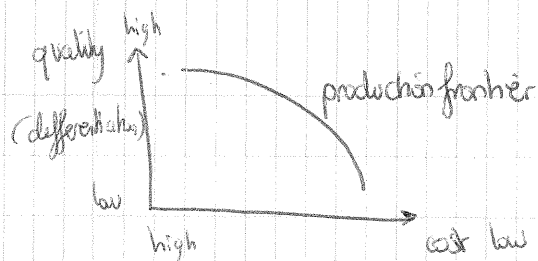
- slack: update alles anders left behind

$\rightarrow$  everything relative in strategy: tov. compet, environm, ...

1. Imitation

creates competition: terl  $\Rightarrow$  deadly

br. wines: easy entry  $\rightarrow$  hobby: not in busin. for profits (anders = difficult business)



- firms imitate on position of other firms (quality/cost)
- strategy = being different in positioning on this curve & maintain position
- br. Nike & Adidas similar: IT, low-cost produced
- Intel very profitable: weinig  $\pi$  jr benefited from profits
- ↳ created AMD <sup>18.7</sup> woude 2<sup>nd</sup> source
- lead time = an important factor to capture value → be fast

### Barriers to imitation:

- go fast {
- SCO ⇒ hard for others to follow (start with low p ⇒ scale ↑)
  - learning
  - legal restrictions: contracts with suppliers, raw materials
  - network externalities: in e-business wel, weinig: ebay succeeded, velen faild ovr jn network external
  - ↳ typisch 1 big player
  - threats of retaliation: br. no compet. moglk mt Ryanair, they will drop p zodat je eruit ligt
  - causal ambiguity: wat moet men imiteren? wie zegt dat we het juist kopiëren?
  - upgrading: br. logistics: chips pay-off
- busin. plan: think already from the start about imitation, how to protect business over time

### 2. Substitution:

Shumpeter: je kan er nt vl alden a/substitution, bkr dan imitation to attack dominant player if you're new player

### Responses to subshitt:

- bkr not respond
- fight: - p ↓ br.
- $\Delta$  busin. model: drop services, control costs ⇒ WTP ↓ wel is
- further differentiation: br. focus on busin. travel als online

- jin substitutor : bankrupt als je low-cost airpl. bent unt je wil gr flight-connections, dit doet costs ↑
- WalMart : supercenter opzetten unt supermarkets (= eten)  
woude ook electro vkn → WalMart saw that & responded quickly by supercenters  
→ bought foodchains to figure out how to run it  
= experiment, unt kenden niets a/ food selling in Arkansas, waar niemand anders is <sup>enkel discount store</sup>
- take the money of your dying business & run : no good option

### 3. Holdup:

- bargain : switch-costs als je al n supplier hebt
- by. Ipad had new techn: flash memory → contract: 40% flashmemo. sold by Apple!  
= locked up, protection of competitors
  - ↳ iTunes for Ipad enkel: techn. restrictions → 99 cents / song enkel: 1 way to think about music: buy song ipv album
  - ↳ opened up for PC-users: Apple-computer → music busin. doesn't like it: te weinig flow
- Apple had good printers maar enkel vr Mac-pc plug = missed change on printer <sup>computer</sup>
- hard to walk away if invested in specific investments: by coal mine & electric plant built there  
= lock-in  
by. Sabena job losses: je kan enkel flyh a plane → vindt nt easy job

### Responses to holdup:

- contracts : re-negotiation difficult → moeilk to protect yourself
- multiple-sourcing : have options, not locked-in
- vertical integr. : pilots integr. in airlines, but not necessarily a solution unt incentives  $\Delta$  niet!
- tough negotiation vs. built relationships to create more value & divide gains = trust

### 4. Slack:

- = ~~X~~-inefficiency (hard to measure, can be large 10-40% of revenues)
- by. mappint : NMBS has no competition → vending machines doesn't work sometimes  
↳ nt een als grn compet, anders wel erg = no.

### Responses to slack:

- Monitor performance: independent board members
  - CEO < <sup>chairman</sup> ~~mgr~~ of board separated  $\Rightarrow$  no slack
    - $\hookrightarrow$  btr bij beslissen over salary
- dividend payments: stockp  $\downarrow$  als dividend  $\downarrow$ , maar slack  $\downarrow$
- culture important: celebrate with boss by Walmart bv.
  - $\rightarrow$  moeilijk implementeren in  $\neq$  cultures vaak

### Walmart & sustainability

= sustains over time

- against imitators:
  - visit competitors
  - iedrn denken dat Walmart lowest p hft, is nt waare altijd
    - $\rightarrow$  w habit to shop there, hard to  $\Delta$  habit & go shop elsewhere
    - so you don't know if Walmart is really the cheapest
- $\hookleftarrow$  compet. drops p  $\Rightarrow$  Walmart ook
- $\hookleftarrow$  continu upgrade systems  $\Rightarrow$  costs  $\downarrow$
- against substit: btr jézelf cannibaliseren dan dr andrn
- against holdup:
  - exact inventory  $\Rightarrow$  btr Relationships with partner
  - against unions: unt might increase salaries  $\Rightarrow$  margins  $\downarrow$
- against slack: everyone has to keep low costs
  - high powered incentives
  - monitor

### Step 6: Test your strategy

1. Internal consistency
2. External "
3. Dynamic "

#### 1. Internal consistency

Tourist are very p-sensitive: consistent: want cheap & sun

Busin. travelers have specific area to go, time matters: inconsistent for Ryanair

$\rightarrow$  consistent product offerings of Ryanair

Ryancair scope & activities consistent: focus on low K  
 Walmart activities focus on K: consistency in logistics, distrib., ...

2. External consistency

3. Dynamic consistency

slide 1 Strategy & Drivers of enterprise value

Global strategy

slide 4 Globalization intuitions

- Question 1: 80% internat. calls  $\xrightarrow{\text{junk}}$  2%  
 2: 40% immigrants in the world  $\rightarrow$  junk actual: 3-4%  
 3: 15% internat. students  $\rightarrow$  5% - 7%  
 4: 45% cross-border FDI  $\rightarrow$  10%  
 5: 70% = % of trade to GDP  $\rightarrow$  20-30%

$\Rightarrow$  we overestimate globalization

we see Belgium oversized: rescale the world, biased towards proximity

Still distance matters

- distance  $\uparrow$  1%  $\Rightarrow$  trade  $\Delta$  net - 92%
- common language increases trade with 200%
- more trade in Eurozone, in NAFTA
- colony-colonizer effect: +300% trade
- ...

$\rightarrow$  many CEO's don't understand that

Walmart - extending compet. advantage

not successful in <sup>2-Korea</sup> Germany: bought too small & few stores  $\Rightarrow$  left country  
 well in UK: big store bought

$\rightarrow$  learn from abroad

Slide 16: Sold market to Chinese E-Mart:  $\neq$  layout of store

slide 10 Further from headquarters = less profitable  $\rightarrow \neq$  distance, language  
 Nt omdat je success hebt in VS, dat je overall success gt heb



ks 8 9/8/12

CAGE ModelCulture: Hofstede dimensions

- often used
- $\neq$  in cultures: Be & NL close physically, yet  $\neq$  op dimensions  
→ not globalized world in that respect

Admin distance

red tape, government restriction: huhh red tape matters  
→ link with countries determined by colonial ties

Geo distance

border control, infrastructure roads, access

Eco distance

Beverly Hills vs. Favella's:  $\neq$  doing business  
→ exploit differences = strategy

Country Portfolio analysis (paper Ghemawat, 2001)

ex. Japan big potential market size for fastfood: carefully consider other dimensions

Global strategies

- Adaptation: Coca McDo & McArabia Kofte
- Aggregation:
- Arbitrage

Global strategies in the value chainWalmart Revamped

Take advantage of cult.  $\neq$  & rotations in  $\neq$  countries to learn  
→ enter in India only by giving majority to Indian party  
regional offices, not local

Complex case: P & G

focus on aggreg. & adapt. to be country-centered compet  
↓  
by globalizing: Scale ↑

### 3 Fundamental questions

how does globaliz affect activities? AAA important

### Techno & Innovation strategy

$\Delta$  scope  $\Rightarrow$  rethink consistency

$\rightarrow$  Do you create value through innovation?

value  $\nearrow$  by improving productivity  $\Rightarrow$  WTP  $\nearrow$

process innovation  $\Rightarrow$  costs  $\downarrow$

$\hookrightarrow$  compet. that are behind, want to catch-up that way

complementarity between make & buy = high incentive to buy techn. if you already make it = consistent activities

Why would this complementarity exist? (value creation)

- to learn from it

- integr. techno in own processes

- offer techno in return for other offerings

- returns

$\rightarrow$  better innovation if doing both "make" & "buy" = complementarity

- secrecy takes more time: lead time  $\nearrow$

< buy externally = (less costs) move faster  $\Rightarrow$  compet. sees what I buy  $\Rightarrow$  no competit. advantage

make & buy  $\Rightarrow$  complexity  $\nearrow$  of innovation  $\Rightarrow$  85% strateg. advantages (LT, ...)

### Innovation portfolio

Welche projekten zu goed / nt?  $\sim$  route company

process  $\Delta$  vs. product  $\Delta$

$\nwarrow$  breakthrough innovation  
 $\nearrow$  derivative projects = incremental  $\Delta$

emergent strategy : bottom-up projects forced to company

ex. Walmart: incremental projects

ICT : breakthrough

slide 55 Scope in terms of customer market  
< technology


$\frac{x}{\text{established companies}}$  /  $\frac{x}{\text{non-established companies}}$  → vaak breakthrough  
wint  $\Delta$  alles

Stage gate:

structured process, you see the end (not in disruptive)  
# mind only to make it to gate & pass cur deadlines

Disruptive innovation → took off without help of banks

br. phone camera nt geveeg meer, mindre quality

↳ quality ↑ zodat good enough for most people =   
= disruptive innovation

br. Zopa.com = lend money (ook al wil bank je gr geld lenen, zopa wel)

↳ split money between 50 borrowers, good interest  
= banking system online

P2P lending - Basic idea

- 50 people lend money to borrower ≠ bank, = innovation
- treat/opportun. for banks?
- banks have compet. disadv.?

total lending zopa nt zo grt 63 m € maar grows → sustainability

Analogy is = snouwa in Germ, < lending club  
prosper.com in USA

Stay inside spread

borrowers are classified: rate borrower by checking

→ some risks: - trust people which are turned down by bank?

- small amounts lend at high i-rates by ≠ lenders
- defaults rate v/borrowers gegeven op site

→ vP experiments in P2P - place

br. NGO: micro lending

stud. loans krijgen

oer 50: to get money > 50 jr

lend to family: virginmoney goes after family members

- Zopa a threat to traditional consumer credit business?
  - ↳ would work in Africa, risks small
- Zopa in traditional bank environment?
  - ↳ intermediary, no bank: doesn't care about other businesses

les 16/13/12

## Corporate strategy

functional strategies = mktg, prod dev, manuf. → how are they consistent organized towards gain/ having compet. advant.? sustain

Why make sense to be in ≠ businesses, coordinate & run businesses?

2 levels: corporate strategy } different businesses, difficult to delimit competitive " }

How to create corporate adv.? Moëtke vraag, many business don't have an answer.

bv. Henkel corporate in 3 businesses: <sup>most profitable</sup> adhesives, detergents, cosmetics  
 ↳ ≠ SBU's: automotive, consum. goods, ...

Why 3 businesses? chemistry similar in 3 businesses, ok al techn. →  
 = multi-busin. firms → most companies in ≠ businesses

- Bekaert thinks of themselves along the product line: wire, cord, coating
- ≠ < Barco: functions represented + general mgrs for each divisions  
 = combi product & customers

Def. compet. adv.: enterprise value

Def. corporate or parental advantage

break-up value = waarde separate elements

velen firms have a neg. corporate advantage

slide 7 Eu companies pressured about defining portfolio

- bv: Henkel: should it have 3 busin? makes sense? mix well?  
 ↳ bv. cosmetics is more R-driven ↳ create value? ↳ can value be created across these businesses?  
 automotive = customer-relations belongt

⇒ CEO entrepreneurship bepaalt success

- Unclear : capital market says go back to your core → what is your core? = having just 1 business?
- more focus : engage in business, create value gewoon  
↳ is not really an answer
  - capture synergies = difficult, moeilijk to capture avv. costs  
↳ explain what is behind synergies

### Strat. challenges

- capital market pressure ↑ : < risk averse, don't like intransparent compen.  
↳ think about industries ↔ companies nt aligned  
< few benefits to diversific : neg. correl. risk  
= 1 busin. down, still another up  
shareholders doesn't care : buy options in ≠ companies to diversific. risk, easier than a company in ≠ businesses to diversific. risk  
< hard to adjust portfolio : cut business from strat. point of view, but not good from (another) profitability p.o.v.  
bv. tobacco = profitable but not busin. you want to be in

⇒ companies become more focus due globaliz. < focus on business

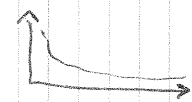
### Managerial challenges

- difficult balance synergies < divisional autonomy : work together with other divisions, difficult if you are a head
- difficult entrepreneurship at corporate level : LT-vision vs.

### Corporate strategy

2 steps : how implement through organisation?

#### Step 1 : build portfolio



comm. output  $\times 2 \Rightarrow K \downarrow \downarrow$  (BCG-consulting group model) = learning curve  
 $\Rightarrow$  formulate strategy: 1) strategic pricing:  $p \downarrow \Rightarrow K \downarrow$  wnt output  $\uparrow$   
 $\rightarrow$  race of dropping prices  
 2) go for share, be #1/2 in your market anders  
 out: never catch up if you're #4 of learning  
 curve

BCG's growth-share matrix

high growth = $>$ GDP growth	high share = star	
	low share = ? drop or grow?	
slow growth = $<$ GDP growth	high share = cash generated $\Rightarrow$ invested in	
	low share = dog = bad $\Rightarrow$ dump	

Star & growth market  $\downarrow \Rightarrow$  from star to cash (slow growth, high share)

### McKinsey industry attractiveness

industry attractiv.  
 $<$  business strenght = firm level: good at it?

$\approx$  BCG

- $\Rightarrow$  Problems:
- save money by selling down = everything stays the same, you just move cash (cash mgt: to place where you can earn more)
  - $\neq$  strategy: no relation between businesses except cash
  - simplification wnt use historical data
  - position depends on how you measure things: br. def. of market share  $\Rightarrow$  positioned as star, dog, --  
 br. world market, Flemish market, -- which definition?
  - no (potential) competition: make star out of "?", viedrn doet  
 diel  $\Rightarrow$  competitie  $\uparrow$ : everyone stays at same place

$\Rightarrow$  careful with classification & mgt decisions

### Growth by large companies

Which business you want to be in?

- look at growth = share gain (maar heel weinig 0,4%)  
 $\leftarrow$  MxA (veel 3,1%)  
 portfolio momentum: surprisingly veel 6,6%  
 $\hookrightarrow$  where to compete is important to grow, in which busin.  
 grow on revenues = successful companies  
 want nu markthabilitei



br. in detergents: where in detergents is important

China = growth → only Shanghai, not rest

= granularity growth: select right place to compete, not compete on market share

### Value Based Portfolio mgt

2 tests, both must be satisfied

- 1) Better off test: company better off by being part of orga? vgl business
  - more important player → more power
  - incorporate everything in Walmart → rivalry ↓ until you stay at Walmart
  - move out of busin: Apple: songs ipv. PC
  - Be explicit about how you create synergies
  - Virgin invests a lot in the brand → pay more for Virgin because it's Virgin branded

- 2) Best alternative test - Natural owner:
  - ↳ contracts for distribution by
  - ≠ own distribution business
  - br. Coke & bottlers contract anders hl
  - costly: Coke kocht bottlers
  - ↳ unclear property rights
  - ↳ hold up möglich by important investments → own business bet in dot geval

### Value Based Portfolio Mgt

- 4 divisions traded on stock market → value
- break-up value v 4 divisions: better off separately?
  - share HRM-costs, fin.
  - cost of center own. extra people
  - value or discount: high value, value discount

### Corporate performance driven by 4 factors

1) Compet. strength: related to comp. adv.

2) synergies

3)

4) Zie slide



Improve performance by getting rid of some businesses = compet. strategy

Find ideal busin. portfolio

- Degree natural ownership
- ROI
- Returns 10 years ahead

Returns > Cost of Capital WACC  $\Rightarrow$  value created

slide 25:



$\hookrightarrow$  difficult to deal with these businesses  
find right buyers is hard

classify worst businesses to make clear where you're going : matrix

- slide 26 - vision, values, direction (CSR) : invest in busin. because you believe it's right thing to do br.
- agency issues : decisions should be made by right people  
br. top mgt & board decides about division break-up, not head of division
  - analytical rigor
  - decisions turn out in  $\neq$  way than planned  $\Rightarrow$  cut it

Growth map. Horizons (McKinsey)

KT  $\neq$  LT-actions : Horizon 1 = KT, Horizon 2 = 3-5 yr

Patterns :  $\neq$  companies do  $\neq$  decisions

br. Venture Capitalist : 7-12 yr horizon : think way ahead  $\Rightarrow$  not listed

Organic growth = no M&A

Turnaround company =  $\Delta$  where you are, no share gain

Acquis. based growth : wordal deor M&A growth

Def

Disney : better off test or just own hotels ?

Steve Jobs bought Pixar : Toy Story, ... successful

↳ buy Pixar or just have contract?

Disney acquired Pixar, Steve Jobs CEO of Apple : movies also on Apple

slide 32: corpor. center does fewer things  $\Rightarrow$  market more efficient  $\rightarrow$  survival point  
or rechte  
less conglomerates today : - focused companies : veel

- conglom. are business with 2-3 Bus. Units & don't share anything, CEO things they can add some value

↳ spread risks : 7,5% medium returns worse on avg than a focused company (11,8%)

- Def. diversification

- Emerging markets

China, India have successful conglom.

- LVHM : same distrib. channels, retail knowledge, know how to manage brands

- Barco has  $\neq$  businesses,  $\neq$  technologies br. digital cinema in entert. business  
= continuous, standalone

- continuous, across busin. : br. Disney : intellect. property

↳ share resources, interaction hotels/stores/

movies & parc = continuous value creation

= dynamic process, no divestment

- "Builder of business" : divest all the time = how they make money

"Creator & Mng of Synergy" : no acquisitions

Step 2 :

les 16/3/12 Barco gastcollege : Eric van Zele CEO & president Barco  
take initiative, grab opportunity, believe in yourself

- start Barco: few friends, low morale, find new CEO difficult want risky  
↳ turnaround later
- quoted on NYSE, global company
- in 1 year added 6000 bn sales

### Company structure

4 core divisions: aspire to be #1 in industry serviced

start: niche mentality; high K, small market shares  
not play in midsegment: who cannot pay Barco  
↳ governments want China, India  $\Delta$  rapidly

= Entertainment, Healthcare, Control rooms & simulation, defence & aerospace  
↳ dangerous for government  
⇒ ltd export to some countries  
= ltd competition

→ learn more from mistakes than from successes

Barco saw opportunity before everybody else: be quick & discuss with others Random u  
= 1<sup>st</sup> mover advantage

Barco: Chinees - India - EU - USA over globalization

### Flagship products

camera of 12 mln pixels in normal nowadays: no compressing ⇒ quality ↑  
concurrent: Sony, Christie, Alcyon: 3 bought LPD-technology

↳ LCD also

→ liquid cooling in projector ⇒ lamp closer to projector ⇒ quality ↑

↳ enkel bij Barco, 1<sup>st</sup> to introduce laser technology: belangrijk voor 3D projecties ⇒ compet. adv.

by. Mammography: 80% share

Vliegtuigen: 90%

- Belg - American - Radio - Corporation = Barco  
Talk to belangrijkste customers & suppliers: give our techn. away is stupid in mid segment instead of going myself to India  $\Rightarrow$  bespar 6 mln €  
3 companies payed 10 mln to license technology of Barco = goede zet
- Imax screen is beste
- stock  $\downarrow$  to 10 € in 2006-7-8 = price for being publicly quoted  
2009 new CEO Eric v. Zele = turnaround: stock prices  $\uparrow$  again

### Observations

- Act now
- complexity in presentations Barco, not reliable machine at high K  
gn SAP/Oracle maar old computer system = 20 mln € to put new computer system in
- silo culture: each division fully integrated  
- 8 companies in Barco

### Strategy: 3jr plan in 3 phases

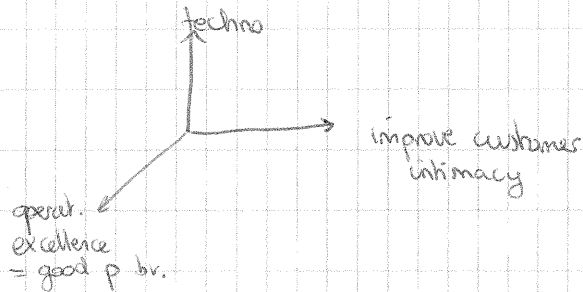
- 1) survive = generate cash (banken zouden nt lenen) want sales  $\downarrow$
- 2) restore growth in successful businesses Barco br. healthcare
- 3) reposition Barco for the next decade

- 1) find cash in working capital: inventories, acc payables/receivables  
 $\hookrightarrow$  downsize company: assets without value  
afschrijven = saved money  
64 mln cash €  
 $\hookrightarrow$  no bonuses/dividends, used generated cash 64m for acquiring techn. of Philips = today's most profitable business of Barco GDLP  
 $\Rightarrow$  rightsized company: digital cinema & healthcare
- 2) work on soft skills  
 $\hookrightarrow$  define mission statements

« What is strategy & how to get there ?

« Processes bezyken, right people & culture to succeed ?

### Dimensions of compet. adv.



- 50% growth of business in 5 yrs

market share ↑  
compet. adv. → go for #1 in healthcare in 3 markets  
divest from ~~certain~~ businesses, sell them  
selective niche player in 1 market : lower volumes

- 2009 worst year → 2010 : bonus, good year → 2011 : groei

- Drive on passion & commitment of people ⇒ success & sustainable company
- Core values : 1 strong common feeling
- Leaders help orga trough necessary, painful Δ : make progress by constantly questioning status quo ⇒ success  
⇒ motivate people to follow

↳ 12 dimensions of leadership = 360° test

→ develop skills in time by learning

# les 23/3/12 Strategy matters! McKinsey guest speaker

Strategy is complex: business, corporate, ... strategy?

→ concept is important  $\neq$  msg

→ role = beat market

- Split in 2: corporate strat: make portfolios: allocation capital among  $\neq$  busin. units  
 $\neq$  busin. strat: what you do in that busin. unit, how?  
 → should you own bus. units?  
 ↳ make it successful = better than alternative

why better in market?

- $\neq$  portfolios in  $\neq$  companies: diversification assets  
 br. facebook & google =  $\neq$  search platforms

- shared resources: br. competence, specific asset

br. google: millions people use it  $\Rightarrow$   $\neq$  businesses open: google chrome, ...

- Bus. strategies = at level of busin. units

↳ industry structure doesn't explain variances, but strategy does

- Technol. to redesign strategy

## Example of corp. strat.

- Facebook: luck at right time & place, market allocates resources

$\neq$  ads on it to monetize it

→ compet. adv. to grow? can fb capture revenue?

→ corp. strat =  $\neq$  busin. units: consumer audience

- busin. audience = more assets to work  
 ↳ only advertisers on facebook

↳ convince 1% fb-users to develop products on their platform = huge success  $\Leftrightarrow$  Microsoft can do it

br. former employees give tips to P&G on how to develop products = success

- Move to commercial: not especially compete with amazon  
 → fbk can monetize on new busin. models wnt hlt of users  
 → gain users fbk continue to use it?

- Busin unit strategy: define rules of the game  
 ⇔ tactics = how to do it = arrangements

→ wars where sides unevenly matched: 72<sup>=strong</sup> tegen 28<sup>=weak</sup> br. ⇒ 'strong' wins  
 pursue ≠ strategies ⇒ 36 vs. 64<sup>=weak</sup> ⇒ weak win  
 " = strategies ⇒ 78 vs. 22<sup>=weak</sup> loose

br. Lancôme in Z-Korea: WTP high there if product has desired features,  
 regardless of packaging → strategy = commitment  
 ⇒ redesign product to fit to Z-Korean ♀  
 en location desired by Z-Korean ♀ in exchange  
 they have to pay for it

⇒ from 3% market share to 20%.

mtg = understand cust. need & create commitment = strategy

↳ real retail location die niemand anders kent & brand trust (commitment)  
 ↳ 2 zaken die Lancôme successful maken

Definition busin. strat: irreversible, uncertainty, create & capture eco surplus

- 10 tests to know if strat. works: sunk assets, ... ⇒ can you beat market?  
 ① vrg is nt can I make money, never beat next best alternative on market?  
 ② compet. adv.? market research on global platform  
 ↳ deliver what you promise  
 ③ Granular about what segment to compete?  
 br. Nt zelfde doen als in Z-Korea in andere markten, wouldn't work wnt not get location  
 Right = too high risk, ≠ culture ⇒ no source of compet. advantage



④ Entreprenze ahead of trends & discontin.?

⑤ privileged insights & foresights?

⑥ Uncertainty properly defined & accounted for?

understand type of uncertainty; more uncertainty  $\Rightarrow$  more commitment  
 $\hookrightarrow$  move in 1 direction

⑦ Commitment = strategy, tactics = flexibility

! ⑧ We all have bias: evaluate alternatives without bias or false inference  
 $\Rightarrow$  always ask someone else to check your strategy  
 not because scales  $\nearrow$  that strategy is right: miss gun lucky

! ⑨ True conviction to act?

Gier assets to be worked by soil good for vineyard in Africa, waar  
 vroeger appelbomen stonden  $\rightarrow$  niemand  
 dacht om daar wijngaard te zetten = bias

! ⑩ Strat. translated into clear actions & realloc. of resources?

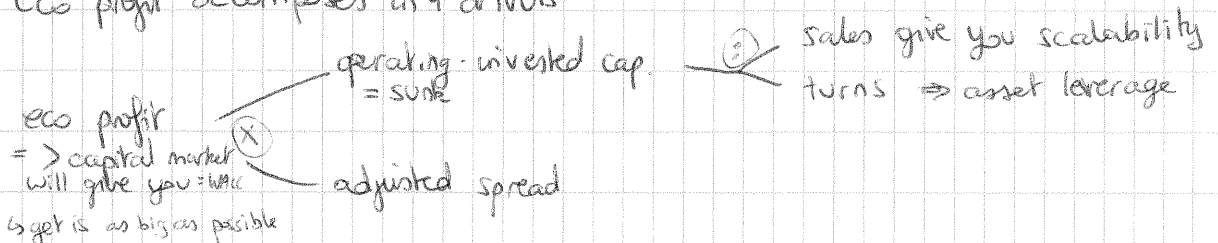
$\rightarrow$  slechts 1-3 vldze tests voldaan in many enterprises

Who in the market?

who is making money in airlines? look at whole value chain: divide it  $\rightarrow$   
 which part makes money

Go beyond B-E point: differentiate  $\rightarrow$  beat the market

Eco profit decomposes in 4 drivers



WACC = no source of comp. advr.

$\rightarrow$  investmt big enough? beneficial investmt? asset leverage only if control  
 by control over all holes to put  
 waist in

lv: P & G: problem = deployment, rest is good (scalability, asset leverage, p-k disparity)

Southwest always in difficult position door vl competition

Google: 10 bln \$ added value (= eco profit) → a.u.v. big sales (nt groter dan elektr.)

huge asset leverage: 25% worldwide traffic

↳ bought youtube wnt youtube = 2<sup>nd</sup> big platform of search ⇒ monopoly Google

by creating scale & asset leverage: once you got scale, keep it  
anders val je meteen nr beden

Why do some people make money?

R. Federer: corporate strategy = where do I want to play? be at right market

1) compet. adv. = make sure you're the best

→ only stars make money: collude in unions to create bargaining power

Firm or industry effect?

Good to be in pharmacy, not in airlines a.u.v. structure (variante: de graf)

Category comparison

- high influence = better

- use data clever ⇒ strong statist. predictive power → Google has data, bij elke klikken voeren ze experiment uit & houden data bij

les 23/3/12 Gastcollege - Gimv

- wel specialized teams
- quoted on <sup>NYSE</sup> <sub>EUROSTX</sub>, invest in 90 companies: general investment in everything
- today: redefine company, refine strat & mission statement
  - start: small investment fund of gov
    - 1). Companies in trouble
    - 2). " not yet in difficulties
  - 2000: internalization: expand: invest in new skills, activities
  - elke 4jr: look where we stand, what happened  $\Rightarrow$  we  $\Delta$  all the time, if not we will disappear
  - not expand when stock market is in difficulties
  - world is more compet. & specialized

where to compete?

Mission statement: - old company 31 years, manage 2 bln €  
- invest in young comp. or comp. that want to become bigger / grow internat. in 3-7 years from now

Always sell companies after having invested in it, wel gedurende tijd heel close to company by strateg. reposition. & growth, daarna is company op zichzelf sterk genoeg to deal with new investors, partners, --  
→ sustainability = LT

Inside, buzzing, endosense, ... = all these companies make a loss, eat cash

- 3) Scale up: pos. increase of our reach  
trajectory to go to goal = out of the box thinking  
in the box = eerst trajectory & see where you get, no goal set

Private equity - value creation strategy: case study VCST  
assets = portfolio invested

fin. part

Drivers of value creation

$$\text{value} = (\text{profits} \times \text{to bv}) - \text{debts}$$

drivers = 1) Ebitda growth!

2) reduce debts = (de)leverage

3) multiple arbitrage  $\frac{\text{bv}}{\text{to}}$  = buy cheap, sell high

by. loan of Gmrv = 60, <sup>Gmrv</sup> put 40 <sup>equity</sup> → acquire company for 100  
 sold: value is 180 → profit 80 na Sjir : 160 equity, 20 debt  
 40 → 160 = multiple of 4  
 ↳ repaid 20 at  
 = written off by banks  
 and's not geld made by  
 Gmrv wnt debt up to groot

### VCST Transaction

= automotive <sup>parts</sup> company, bad financials wel strong fundamentals of company  
 ↳ market conditions: wel pos op LT

→ tech acquired: vl negotiation & attention given to VCST

= Volvo car Sint Truiden → location company in Limburg

- 2-tier components suppliers market = focus

- vl competitors vkn components

- 15-20 (strategic) customers only: prepared to outsource → all stayed

- diversified: R&D, production, material technology, ... in company VCST

- Gmrv 80% shares: easy company structure

- product range van engine gears to brake components

### VCST strat & performance

- 2009: big crisis year → Gmrv stept into VCST

growth measured by EBITDA: no restructuring wnt je weet dat crisis  
 gt stoppen binnenkort ⇒ temporary  
 unempl & 3/4 activity ⇒ ebitda ↑, sales ↑

⇒ Successstory after the crisis

- mission defined before strat.

### Objectives

- turnover growth > 6% per year

- profit generation: ebitda ↑ : investment in machines, assets

↳ it will take 7,8 years to recover capital expenditure,  
 but it is building for the future

- fin. position: net fin. debt (NFD) ↓

Pes 30/31 '12 Practical Issues

Roland Berger: EU roots : 50 consultants in Bxl

Case study as strategy consulting : Facebook (zie slides)

→ gas, fluid, chemicals, water in steel pipes : go to Latin-USA ? Asia ?

= real decision steps + info, framework + its limitations, influence clients

apply concepts < ideas = material for exam

What's to come ?

online case 1: 23/4 - 5/5  
" " 2: 17/5 - 21/5 (kort) } ≈ 2015 exam

review session + debrief: Monday 21/5 : 19u (MSA 03.58)

Exam: lectures, slides, readings (1 april: list)

→ 9/6/12: Closed book exam

weblectures beschikbaar

→ linken met elkaar + leerstof

questlectures: hoe gaan ze om met strategy (to test for strat. !!!) < practice

→ ask mini case on exam: apply course material on it !!

slide 56 Corporate strat

Step 1 < 2 : ability to win < market <sup>→ center</sup> attractivens - graf Barco

→ Barco can use more megapixels, most other cannot  
= attractive profitable growing market

→ Cinema digitaal = attractive business → less than megapixel-market want zijn er nog die het doen

→ Defense + aviation: gov. contracts: small player ⇒  
what do with this profitable busin.? doesn't fit with Barco  
CEO wil erin blijven want big busin., has to grow in it  
dan ability to win OF sell to big buyer?

Action plan 3: VCS similar picture: market attract. / ability to win - graf

expand in ≠ customers: move to strong position < attractive market

→ corporate strat = where do we play

≠ < compet. " = how compete in commercial vehicles

## slide 47 Design group < corporate value : Step 2

- create value 1 time or continuously in 1 business or across
- by Gmiv creates value 1 time for 1 company : finances VCST
- corporate capabilities : how connect businesses where we're good at
- corporate orga : how get things done

### 6 ways to create synergy = real question

- Merger, cut K : share # activities (HR, finance) by Gmiv  
# assets (location : sell # products at same location)
- control  
busin. system : IT be important
- pooled market strenght : push distrib. channels when you're big player  
by ABInbev acquires US-companies, local companies with control locally  
are more value by acquisitions  
→ to become exclusive  
→ control them → market share
- joint busin. creation
- coordin. bus. strategies : complements → WTP ↑  
substitutes → p ↓ cur competition  
→ p-strategy : complements p ↓ if I owned both  
more people will be products = coordin.  
- substit. p ↑ if I owned your products too

## slide 49 Corporate advantage Collis & Montgomery

Tyco, Newell, Sharp

↳ good at mgt  
= private equity

by Gmiv in auto & biotech  
wrt same way of mgt  
→ in v businesses  
= only financial

Small HQ : only control fin. nodig

↳ good at R&D : LCD screens

by Barco : enkel in busin. where they can leverage their knowledge  
= continuously upgrading  
→ operations

## slide 50 Building blocks < superstructure

- coordin. is important by financial (= weinig coordin.) of operations (vl coordin.)  
succesfull ⇒ je moet specialiseren ⇒ superstructure volgt
- large company : decentralize more to make it easier



slide 52 5 main tasks

- coordin. synergies = supershewchure
- key challenge : decentralization / synergy
- multibusin. strategy =  $\Delta$  shewchure

slide 54 conclusions corporate strategyslide 5 Top mgt team

mgrs, CEO matter : hoe weten ij mgt goed werkt? kijken nr mgrs die v/job  $\Delta$  in companies : hoe doen ze ht

- overconfidence ~ skills
- < overoptimism : "busin. will boom"  $\rightarrow$  uiteindelijk is dit nt zo
- learn to burn : burn money but how fast get info?
- $\rightarrow$  go in 1 direction with decisions, nt  $\Delta$  : consistent

Bias

- confirmation bias : look data which confirms what you think  
 $\rightarrow$  tegengestelde data nt accepteren : not looking at neg.

- groupthinking : look for consensus, not obsef everybody

opl : boss speaks last

be open to challenge

write memo

- loss aversion : prospect theory  
= care more about loss than a gain



opl : zero budgetting = take budget last year  $\times$  say each year which budget every unit needs

- Status quo bias : keep it because it goes well
- sunk-cost fallacy : already invested lot of money, why not a little more to be profitable

br : Barco : hij zgn ze dat digitaal cinema is the future  
maar digit. cinema only successful since 2008

br : platte band blijft werken extra : service guys didn't like it until new equipment nodig : Michelin had ht nt taken into account



slide 18 Getting things done

How to connect planning (elk jr per Bus. Unit) < decisions (all the time) ?

slide 20 Mgt system: Kaplan & Norton 2002

- 1) develop strat
- 2) translate " % objectives, measures, targets
- 3) operations plan  
exec. processes & initiatives
- 4) Monitor & learn
- 5) Test & adapt strat.

