Strategisch management

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Topic 1: What is strategy?

What is Strategy?

- "Everyone has a plan 'till they get punched in the mouth." Mike Tyson, heavy weight champion.
  - Hebben sportteams een strategie? Ja, wat is strategie dan? Winnen. Wat moet je ervoor doen? Wat is strategie van voetbalploeg? Punten maken, uiteindelijke doel is competitie winnen (lange termijn doel) Wat moet men doen op LT? Veel trainen,…
- Strategy & Gnomes…
  - Gnomes: south park. Zie video. Vaak als hij aan bedrijven vraagt wat hun strategie is, weten ze vaak niet wat phase 2 is. Hoe ze gaan van acties naar concrete resultaten.

1. **Longterm Performance of Companies**
   - De nieuwe commerciële strategie laat passagiers de keuze hoe ze willen reizen en voorziet ook in een expansie van het netwerk... Chief Commercial Officer Lars Redeligx: "**We combineren service én scherpe prijzen…"** Brussels Airlines Press Release 12/01/2016
   - "Spanair's Mission is to connect Barcelona with the world and the world with Barcelona and make Barcelona's airport an intercontinental flights hub by 2012."
   - Route policy? → everything to and from BCN (national, regional, and intercontinental)
   - **No frills airlines but business class service + VIP lounges**
   - Fleet : Airbus (2 makes), Boeing (3 makes), mcdonnell-Douglas (2 makes), Fokker (2 makes)
   - Ryanair vanaf 1991 begonnen met lage koststrategie en nu groot in termen van winst. Toen ze begonnen hadden ze heel duidelijke strategie. Ander spelers waren minder duidelijk qua strategie. Ryanair: zelfde vliegtuigtypes en point to point.
   - Waar zit kapitaal bij vliegtuigmaatschappij? Vliegtuigen zelf. Willen kapitaal uitgeven aan vliegtuigen. Waar is Ryanair goed in? Vliegtuigen zo veel mogelijk in de lucht te houden en korte afstanden te doen. Ryanair wordt niet mee gevlogen voor aangename ervaring.
   - AirBerlin kon er niet mee concurreren: goede service, hoge kosten, failliet
   - Heel moeilijk om goede service aan te bieden tegen lage prijzen. Ryanair doet geen moeite om goede service aan te bieden, wel lage prijzen
   - Kodak + Fujifilm. Eerste digitale camera was van Kodak. Hadden eerst niet veel op ingezet, haalde veel omzet uit video's toen. Fujifilm zaten in hetzelfde schuitje, maar zijn er anders uitgekomen. Fuijifilm heeft vooral ingezet op (schermen en) huidproducten
   - Lange termijn resultaten. Strategie is op LT gericht
2. **Positioning within your Industry**
   - Meeste business Delhaize is in VS. Colruyt 90% business in België.
   - FB t.o.v LinkedIn. Andere positionering. FB meer voor vrienden, LinkedIn meer professioneel.
3. **Choosing your Target Market**
   - Harley Davidson t.o.v. Ducati. Ducati eerder fans dan klanten
   - Kijk naar verschillende scholen, verschillende positionering. Kiezen markt (= industrie gekoppeld met bepaalde klant)
4. **Your Resources and Capabilities**
   - Smartphones. Apple kwam met eentje aan, tijdje erna google ook. Waar is apple goed in? Innovatie. Hoe komen ze bij smartphones? Vandaag is smartphone 70% van Apples business. Apple is goed in design, gebruiksvriendelijkheid
   - Googles business is advertising op toestel. Maar als je geen toestel hebt, kan er geen advertising gedaan worden; google verdient niet op telefoon, maar eyeballs op reclame. Google heeft het niet lang gedaan en business verkocht aan lenovo.
   - Belangrijk te zien wat je hebt en wat je kan en dit in de strategie te verwerken

5. **Competition and Market Entry**
    - Hoe moet je strategisch nadenken over nieuwe spelers? Bv supermarket waar je gsm moet scannen en gewoon producten moet inladen in winkelzak
    - Veel meer concurrentie en toetredingen op de supermarkten
    - Moet ook in strategie verwerkt worden
6. **Technology Convergence**
    - Bv e-reader vs Ipad
    - Nadenken over technologie op strategisch niveau
7. **Irreversibility of Decisions**
    - Bv vliegtuigbouwers. Boeing kwam met 747: brengen veel volk naar 1 plaats en dan nemen ze verschillende vluchten: veel plaats nodig in vliegtuig. Airbus is mee in verhaal en ontwikkelt ook eentje
    - Nu heeft airbus ook productie A380 stopgezet en zet in op A350. Op LT moeten belangrijke beslissingen genomen worden die onomkeerbaar zijn
8. **Sustainability?**
    - Madonna: 1984, lady gaga ook zoals Madonna. ABBA blijft ook bestaan. Spice girls, psy, Justin Bieber, ed Sheeran,.. Hoe komt het dat Madonna zo lang aan top kan blijven?
    - Sustainability binnen bedrijf: hoe lang overleeft competitief voordeel etc
9. **Non-Market Strategies**
    - Our mission has become a surprisingly controversial topic. Over the years, what I've come to realize is that this controversy exists because we are in the middle of a political campaign and it turns out the candidate is Uber. Our opponent – the Big Taxi cartel – has used decades of political contributions and influence to restrict competition, reduce choice for consumers, and put a stranglehold on economic opportunity for its drivers." (Kalanick, Uber CEO, Aug. 14, 2014)
    - Airbnb: geeft alle Airbnb locaties in bepaalde stad. Je ziet op kaart waar verschillende locaties zijn. Geeft aan hoeveel keer ze schatten dat het verhuurd is in het laatste jaar. Heeft veel opgebracht en is vaak verhuurd geweest. Steden zien Airbnb niet graag komen. Kannibaliseren huidige markten, want huizenprijzen stijgen en wordt moeilijker voor locals om zelf nog te kopen
10. **Communities**
11. **Corporate Social Responsibility**
    - Everyone deserves to belong. But for too many, it's a dire need. So our five-year goal is to make sure 100,000 people have short-term housing during urgent times.
      Please join us.
    - Sociale en environmental impact is belangrijk
    - Bij Volkswagen was er een onmiddelijke reactie, anders was het ook 1 van de bedrijven die failliet ging
12. **Not *Only* Profitability**
13. **Corporate Strategy**
    - Bv kinepolis

What is strategy?

1. **Leadership**
2. **Communication**
3. **Alignment**

- "So, in short, the master plan is:
  - 1) Build sports car
  - 2) Use that money to build an affordable car
  - 3) Use that money to build an even more affordable car
  - 4) While doing above, also provide zero emission electric power generation options"
  - Elon Musk in 2006 (2 years before the first Roadster is delivered) "The Secret Tesla Motors Master Plan (just between you and me)" blog post
- Elon Musk schreef bovenstaande tekst. Geschreven in 2006 voor de eerste Tesla werd geproduceerd. Het is duidelijk geformuleerd waar hij naartoe wou.
- Belangrijk aspecten zijn leiderschap communicatie en alignering

The Roles of Strategy?

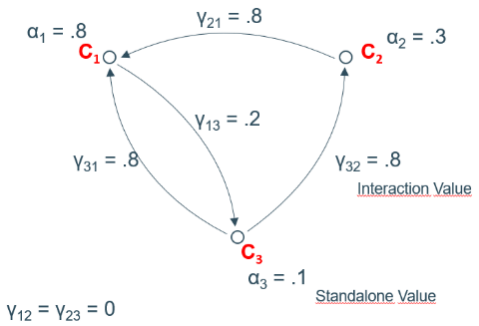
1. Strategy as **Decision Support**
2. Strategy as a **Coordinating Device**
3. Strategy as a **Target**

1) What is a Strategic Decision?

- Important decisions for direction of organizations?
- Interdependence (Leiblein, Reuer and Zenger, 2018)
  - Internal Coordination with other decisions is necessary to achieve coherence (cross-section) and consistency (over time)
    - Fit & Trade-offs (Porter, 1996)
    - Hard to reverse decisions with important commitment effect (Ghemawat, 1991)
      - Size of the investment
      - Timing of the decision
  - **External Interdependence**: reaction from competitors or other players (complementors, suppliers, customers…)
    - Small number of players
    - Game Theory: a complete contingent plan of action
- Kunnen we strategie goed definiëren?
- Interactie is heel belangrijk. Enerzijds interne coördinatie of interactie. Kan op 2 manieren: cross sectioneel of over de tijd heen
- Porter praat over 'fit' en trade-offs (zie Ryanair: kan niet zowel goede service als goedkoop zijn)

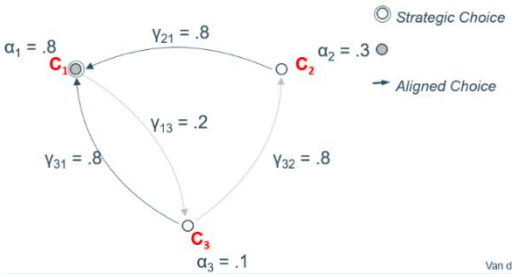
2) Which decisions are strategic?

- Definition: a decision is 'strategic' if it is investigated or announced as <u>part of the optimal strategy</u>
- Different Players make decisions, have only "local" information, and, maximize the return from their individual decision
  - Standalone Value of a decision (A or B): α
  - Interaction Value of a decision: if decisions are complements, they need to be coordinated and select the same value as the other decision (A or B): γ
  - Probability that random selection of a decision gets it right is zero. Investigation by strategist is costly.
- Example: 3 Decisions C1 (Product Development), C2 (Marketing), C3 (Operations).
- Een beslissing is strategisch wanneer het onderzocht wordt en aangekondigd wordt deel te zijn van de optimale strategie. Niet elke beslissing kan strategisch zijn.
- CEO kan niet alles controleren wat er gebeurt; strategie moet aangeven wat juiste beslissingen zijn voor elk departement



C1: productontwikkeling.
Als we niets van elkaar afweten: waarde van bedrijf is ,8 + ,3+ ,1. Als we interacties creëren zien we pijlen. Als productie afstemt op productontwikkeling: waarde is ,8
Welke beslissing is strategisch? Gaat onderzocht en aangekondigd worden zodat andere beslissingsnemers erop afstemmen
Stel marketing neemt a. Productontwikkeling heeft geen waarde afgestemd op marketing. Productie kan zien wat best is voor hen OF afstemmen op marketing. Totale waarde aankondigen marketing = ,8 + ,3 +,8 is beter dan geen strategie hebben

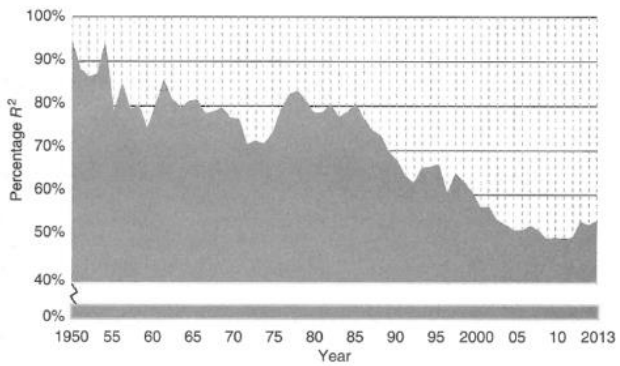
- Beste wat we kunnen doen: aankondigen wat we doen in productontwikkeling: 0,8 +,8 + ,8
- **Strategy** = Set of decisions announced or investigated by strategist
- Absent any investigation or announcement, each participant will choose locally optimal decision. This results in payoff R = Σ α_k= 1.2.
- If Strategist investigates and announces, say, C_2
  - P2 can't align with other decisions and thus chooses its locally optimal decision
  - P1 also chooses locally optimal decision as her payoff α_1 is larger than from any alignment
  - P3 can now
    - Choose locally optimal decision with payoff 0.1
    - Align with C2 with payoff 0.8 which is higher
  - So the payoff now becomes 0.3 + 0.8 + 0.8 and the value of this announcement is 0.7.
- The **optimal *strategy*** is to investigate and announce C_1
  - With payoff of 0.8 + 0.8 + 0.8 = 2.4
- Strategy is Valuable if alignment - coordination is needed.
- What if the Strategist is only correct with certain probability?
  - Reliability of Strategy: focus on more stable factors
  - Irreversibility (by itself) does not make a decision more strategic but makes strategy more valuable
  - Option to commit makes decision more strategic



- What if decisions interact with other players in the market?
- We leren dat strategie alleen maar waarde heeft als coördinatie nodig is, anders is strategie niet waardevol

3) Strategy as a Target

Strategy and Historical Numbers



Adjusted R^2 of regression of Corporate market value on reported earnings and book value, 1950-2013

Regressieanalyse waar ze kijken of ze marktwaarde bedrijf kunnen voorspellen op basis van earnings en boekwaarde.
Belangrijke correlatie marktwaarde, hoeveel boekwaarde bedrijf etc
Kijken naar R^2: hoe goed earnings en boekwaarde marktwaarde voorspellen: vandaag de dag geen goede voorspelling meer. Niet veel informatie meer. Accounting gegevens geven marktwaarde niet goed meer weer. Strategie geeft marktwaarde wel mee.

Be Different!

- Waar moeten we aan denken als we aan strategie denken? Probeer anders te zijn dan anderen. Als we strategisch denken moeten we ons differentiëren
- Meta: Originally founded in 2004 as Facebook, Meta's mission is to give people the power to build community and bring the world closer together. Our products empower more than 3 billion people around the world to share ideas, offer support and make a difference.
- Wat is er in 2016 gebeurt? Trump en FB is daar fel in gebruikt geweest om informatie te verspreiden
- Coca cola
  - **Mission** (Statement explaining why a company exists, "Purpose")
    - To Refresh the World
    - To Inspire Moments of Optimism
    - To Create Value and Make a Difference
  - **Vision for Sustainable Growth** (What leaders want the organization to become)
    - **People**: Being a great place to work where people are inspired to be the best they can be.
    - **Portfolio**: Bringing to the world a portfolio of beverage brands that anticipate and satisfy peoples'desires and needs.
    - **Partners**: Nurturing a winning network of partners and building mutual loyalty.
    - **Planet**: Being a responsible global citizen that makes a difference
    - **Profit:** Maximize long-term return to shareowners while being mindful of our overall responsibilities.
    - **Productivity:** Be a highly effective, lean and fast-moving organization.
  - Mission is statement waarom organisatie bestaat. Vision geeft richting.
  - Vandaag de dag noemen ze mission statement purpose
- Strategy and Vision

Apple 1978 ...an easy-to-use computer to every man, woman and child!	**Wal-Mart** 1962 ...to put good-sized stores into little one-horse towns which everybody else was ignoring...	**Canon** ...to build a low-volume desk-top copier, 50% cheaper than conventional copiers, 10 times as reliable and maintenance free...

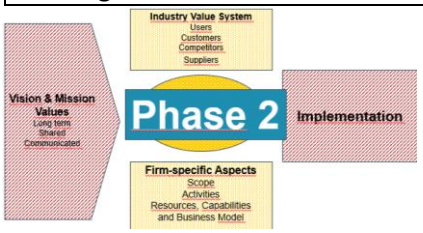
  - **Visie heel belangrijk voor strategisch denken**
  - Apple had een visie, op basis daarop heeft hij strategie uitgebouwd

What is Strategy? Definition

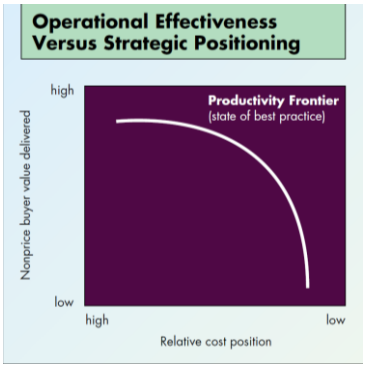
- The choice of a <u>future for the organization</u> and of a <u>way to reach</u> that future, understood as the framework that coordinates, unifies and integrates the company's decisions and actions and positions a business in an industry so as to generate superior financial returns over the long run
- Smallest set of Choices to optimally guide (or force) other choices
- How would you define a strategy? Chatgpt: A strategy is a plan or approach for achieving a specific goal or set of goals, especially in an organization or in business. It involves making **choices** about the allocation of resources such as time, money, and personnel, in order to achieve the desired outcome. Strategies help organizations to **stay focused** on their objectives and to make informed decisions that are in line with their long-term goals. Effective strategies are based on a thorough understanding of the organization's strengths and weaknesses, as well as its environment and competition. They also involve continuous monitoring, evaluation, and adaptation in response to changes in the environment and market.
- Het is een keuze, de toekomst is onzeker dus moet je strategische keuzes maken. Is tegelijkertijd ook een framework voor een organisatie. Veel elementen samenbrengen in strategie

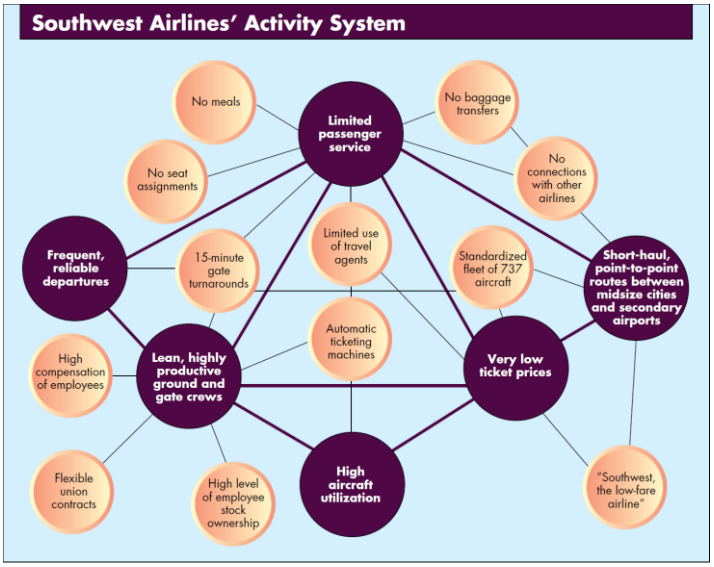
What is Strategy? Choice of a Future

Vision & Mission • Values • Long term • Shared • Communicated	**Industry Value System** • Users • Customers • Competitors • Suppliers	**Firm-specific Aspects** • Scope • Activities • Resources, Capabilities • And Business Model
Strategic Decisions • Interdependence • Alignment	**Implementation**	

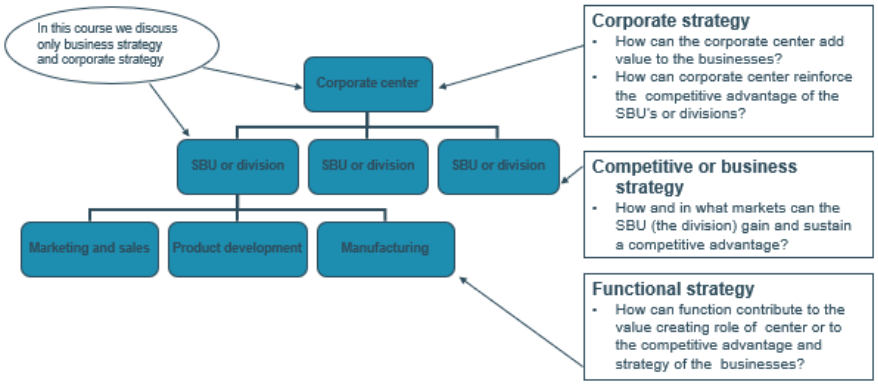


Beslissingen worden genomen in omgeving waar spelingen zijn. Hoe positioneer jezelf relatief van je omgeving. Objectief is om ruimer raamwerk te creëren. Lijkt op model van Porter

- Strategy Statement (Collis and Rukstad, 2008)
  - Objective
  - Scope (What, Who, Where, How)
  - "Competitive" Advantage
- "The strategy of Ryanair is to achieve the lowest-cost position in the airline industry so that it can offer the lowest fares to price-conscious European travelers, by means of spartan service, high capacity utilization, and high-powered incentives."
- What is Strategy? **Trade-offs**
  - 

- What is Strategy? **Coherence – Consistency**
  - 

- A strategy can be formulated for a business, several businesses or for a function



  - SBU= Strategic Business Unit, a unit of a company or a group that is responsible for its strategy in its markets and has and controls the resources and capabilities to implement such strategy.
- A lot of **Bad Strategy**
  - Strategy is not operational effectiveness (See also Porter, 1996)
  - Strategy is not benchmarking
  - Strategy is not Marketing
  - Strategy not sufficiently integrated:
    - Financial planning
    - With functional strategies
    - With day-to-day operations
  - SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) is not strategy
  - Failure to face the problem and make choices (trade-offs)
  - Mistaking goals for strategy
    - 20/20 rule (growth and profit margin); 14% EBIT;
  - Fuzzy and fluffy strategic objectives
    - Bank: "Our fundamental strategy is one of customer-centric intermediation"
- "Strategy" Used and Abused
  - Many different definitions out there (and a lot of BS)
  - There are <u>no recipes</u>. Only careful strategic analysis and thinking
  - No generally accepted methodology for formulating strategy
    - Every consultant has own methodology
    - Some common frameworks exist, but no right answers
    - Some fads and "Guru's"
- Do you have a Strategy?
  - Diagnosis about the nature of the challenge
  - Guiding policy
    - Clear objectives:
      - Maximize enterprise value
      - Maximize number of people reached
      - Stay at the frontier of clinical cures
    - Where to compete and where not to compete: **corporate strategy**
    - How to compete: **competitive strategy**
  - Coherent and consistent actions – patterns
  - Persistence in results

- When should a strategy be **reviewed or changed**?
  - The results of the strategy are disappointing and that is not due to a slower development of the market or the technology.
  - The existing resources and capabilities of the company are underutilized.
  - Important changes are taking place in the market, the technology or at the competitors.
  - The competitive advantage or strength is threatened.
  - Substantial investments have to be made.
  - Some opportunities arise and it is not certain that they fit the current strategy.
  - **Top management** of the company is replaced by a new team.
  - **Shareholders** impose different objectives on the firm.
    - *Firm is taken over by strategic partner, PE investor or is listed on the public market*
- Who does what for strategic decision-making?
  -

Quiz topic 1

1. Operational Effectiveness is about
   A. Creating a fit among the company's activities
   B. Defining a unique position
   C. Making trade-offs
   D. Constant improvement
2. Which statement is false?
   A. Strategy is creating fit among the company's activities
   B. Organizational effectiveness is about improvement of individual activities
   C. Improving its organizational effectiveness it moves the firm towards the productivity frontier
   D. The essence of strategy is described in terms of customers
3. Companies can simultaneously improve their nonprice buyer value delivered and relative costs position.
   A. True
   - True: as companies move towards the productivity frontier, they can often improve on multiple dimensions of performance at the same time. When operating at the frontier, however, simultaneous improvements become very difficult and require trade-offs

   B. False
4. According to Michael Porter, the essence of strategy is in the activities.
   A. True
   - Having a clear strategy involves choosing to perform activities differently or to perform different activities than rivals

   B. False

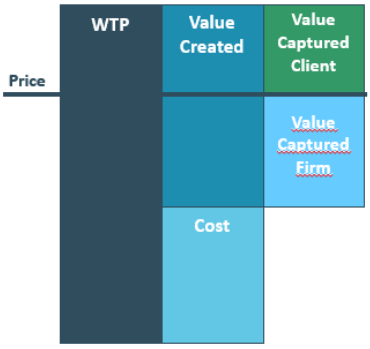
5. Strategic fit enhances the sustainability of competitive advantage
   A. False
   B. True
      - Strategic fit is fundamental to the sustainability of competitive advantage. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a single activity
6. Which statement is false?
   A. The SWOT analysis enables us to link a firm's competences and resources to environmental needs in order for them to be valuable.
   B. A firm's "willingness to gamble" relates to a firm's choice whether to pursue an opportunity which requires more developed distinctive competences in the long run.
   C. The SWOT analysis allows us to define a firm's distinctive competence.
7. One of the main strengths of portfolio planning is that it is based on the assumption that financial capital is the scarce resource on which top management has to focus
   A. True
   B. False
      - This implicit assumption is one of the problems with the portfolio planning approach
8. Which statement is correct?
   A. To formulate a good strategy it is necessary to define a clear objective, scope and competitive advantage, but it is not sufficient.
   B. To formulate a good strategy it is sufficient to define a clear objective and scope.
   C. To formulate a good strategy it is necessary to define a clear objective and scope but it is not sufficient.
9. A firm's scope is about
   A. Encouraging experimentation and initiative
   B. Specifying where the firm will not go
   C. Three dimensions, namely customer/offering, geographic location, and vertical integration
   D. All of the above
10. The strategy statement of a firm should be carefully developed by the strategic management team.
   A. False
      - The process of developing a strategy statement should involve employees from all levels of the hierarchy
   B. True

Topic 2 Value creation and value capture

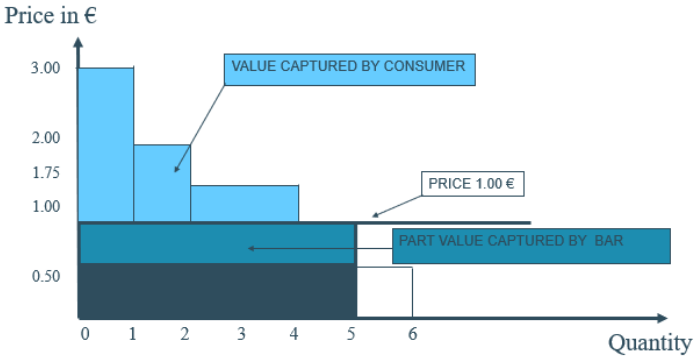
- Fundamental Questions
  - Capital is invested in the business
  1. Is value **created** by the business?
  2. Is value **captured** by the business (relative to the cost of capital invested)?
  3. Is value captured **sustained** by the business (relative to the capital invested)?
  - Meestal for-profit bedrijven (met winstoogmerk)
  - Kijken of waarde capteert en kan aanpassen aan veranderende omgeving. Kapitaal steken we in bedrijf en gaan zien naar waarde die overblijft

1. Is value created by the business?

- A Simple Framework for Value Creation & Value Capture
  - **Value Created**
    - Willingness to pay
    - Costs of providing good or service
  - **Value Captured**



- What goes into your WTP? WTP is cost + value captured firm + value captured client
- What goes into costs?
- Hoeveel zijn jullie bereid te betalen voor een pintje? Student krijgt een pintje voor 4,5 hehehehe
- Belangrijk onderscheid tussen prijs aangerekend en eigenlijke prijs
- WTP, Prices and Value Captured



Kost is donkerblauw, waarde bedrijf lichtblauw en waarde consument nog lichter blauw

Beyonce: mensen laten betalen op BTB, zo hebben ze tickets heel duur kunnen verkopen

Drivers of Value Creation

- What affects WTP?
- What affects Costs?
- Anything that affects demand or cost function.
- Inkomen: meer consumeren, maar kleiner aandeel van inkomen aan bepaalde producten
- Alternatieven: bv ice tea vs fuze tea
- Complementaire producten: verschuift vraagcurve: invloed op BTB
- Injection Molding Machines

	Husky	Major competitor
System	PET preform system producing 48 preforms per cycle, for production of 20 ounce soft drink bottle	PET preform system producing 48 preforms per cycle, for production of 20 ounce soft drink bottle
Cycle time	10,4 seconds	11,8 seconds
Average operating hours per day	22,3 hours	18,9 hours
Weight of preform Average Standard deviation	 24,39 gm 0,16 gm	 24,42 gm 0,16 gm
Floor space occupied	343,1 square feet	351,8 square feet
Electricity consumption	Husky system uses 0,137 kWh less of electricity per kilogram of Preform produced. Cost of electricity: 8 cent/kWh	
Number of surface blemishes visible on perform body	~5-10	~50
Pressure required to burst bottle Average Standard deviation	 ~205 psi ~ 5 psi	 ~205 psi ~ 20 psi
Approximate purchase price	$ 1,2 million	$ 1,0 million
Price of resin	$1,3 per kg	

Husky zijn lichter
Resin kost 1,3 dollar per kg = materiaal nodig om product te maken
Hoeveel bereid meer te betalen voor een husky machine dan een andere?
Husky is wereldleider. Komt uit een case wanneer een nieuwe speler in de markt komt. Nieuwe speler zegt dat ze even goed zijn, dus moesten bedrijfsleiders bepalen voor hoeveel ze producten zullen verkopen.

- Wat zijn belangrijke elementen:
  - Verschil in productie,
  - Kwaliteitselementen,
  - Serviceverschillen: staat tussen average operating hours. Wanneer machine stilvalt kan ze sneller opnieuw opstarten.

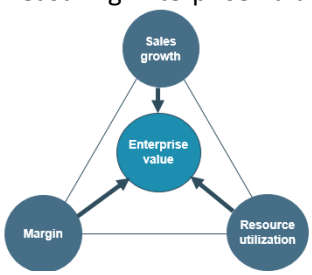
- How much MORE are you willing to pay for the Husky machine relative to a Competitor Machine?
  - Production Volume
    - Husky:
      - 48 Preforms x 3600/10.4 cycles/hour x 22.3 hours x 365 days = 135 Million Preforms / Year
    - Competitor
      - 48 Preforms x 3600/11.8 cycles/hour x 18.9 hours x 365 days = 101 Million Preforms / Year
    - Husky Machine Produces 34% more!
    - Competitor's Machine costs $1M. Husky Machine could cost upto $1.34M and still leave the customer better off.
  - Electricity Savings
    - $0.08 x 0.137kwh x (0.02439 Kg x 135M preforms) = $36.200 / year
  - Resin Savings
    - Average price is 0.13 cents / gram. 0.03 gram saving x $0.0013 x 135M preforms = $5.300 / year
  - Floor Space Savings
    - 8.7 sqft x $60 (avg of $20 - $100) = $522
  - Total Yearly Savings: $42.000.
- NPV Injection Molding Machine PET
  - NPV of Husky Machine
    - Purchasing Price: $1.2M
    - Production Volume Value: $1.34M
    - Discount rate: 20% (this is only and example, you can assume another reasonable number)
    - NPV of yearly savings (in perpetuity): $0.042M @ 20% = $0.210M
  - NPV = $1.34M + $0.210M - $1.2M = $350.000
  - **Willingness to Pay** of Husky Customer is $550K higher than for the average competitor's machine! WTP is eigenlijk 550 000 meer, terwijl er eigenlijk maar 200 000 wordt gevraagd
  - NPV= 350 000 met assumptie 20% perpetuiteit

- Determining WTP – a relative measure
  - Calculate based on engineering data (B2B)
  - Estimate based on historical data (Regression analysis)
    - Structural estimation demand (and supply)
    - Hedonic Pricing equations
  - Estimate based on "survey" data for new products and services
    - Choice analysis (Conjoint analysis)
    - Indifference analysis
  - Conjoint analysis: verschillende opties worden voorgelegd aan consumenten en zien wat ze beslissen

2. Is value captured by the business (relative to the capital invested)?

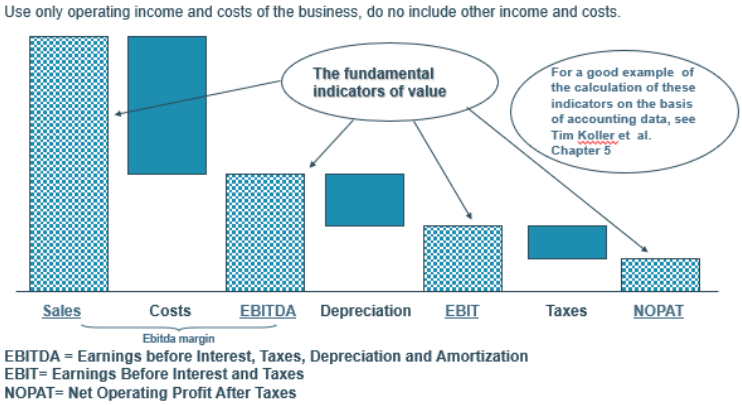
The Drivers of Capturing Value.

- Measuring Enterprise Value



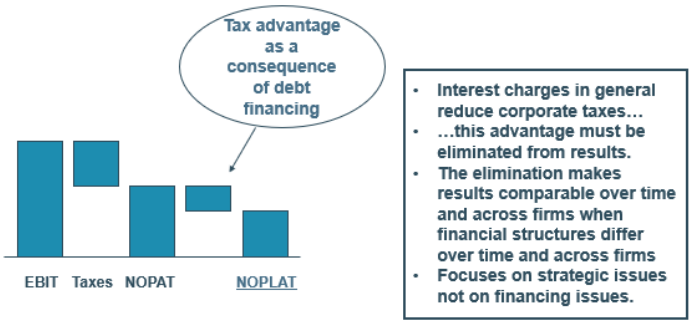
Entreprise value; waarde onderneming: representatie van waarde bedrijf dat gecapteerd wordt

- Identify the fundamental metrics for measuring and evaluating the performance of the business



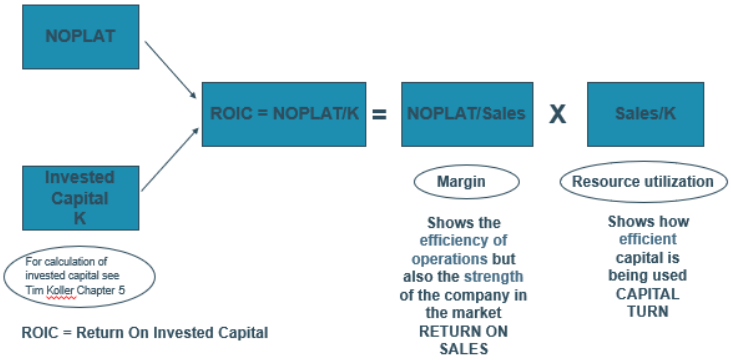
NOPAT is resultaat operatie/bedrijf

- From NOPAT to NOPLAT and why that may be necessary, sometimes!



NOPLAT = Net Operating Profits Less Adjusted Taxes

- Calculate the key variable for evaluating strategy: ROIC



Verschillende strategie: verschillende marge en middelenrotatie

- Example Barco (1) sales are declining

Consolidated Statement of Income

IN THOUSANDS OF EURO	NOTE	2018	2017	2016
Sales	4	1,028,531	1,084,706	1,102,342
Cost of goods sold	4	-615,578	-680,554	-723,538
Gross profit	4	412,953	404,152	378,804
Research and development expenses	4(a)	-120,279	-122,305	-143,362
Sales and marketing expenses	4(b)	-147,723	-146,802	-147,088
General and administration expenses	4(c)	-57,464	-58,095	-55,122
Other operating income (expense) - net	4(d)	2,488	-3,710	3,325
Adjusted EBIT (a)	4	89,974	73,241	36,557
Restructuring and impairments	6	-17,000	-32,404	-12,939
Gain on change in control	3	16,384	-	-
Gain on sale building	11,2	-	-	6,866
Other non-operating income/(expense)		-	-	33
EBIT	4	89,358	40,836	30,516
Interest income		5,915	4,666	4,401
Interest expense		-1,566	-2,653	-3,161
Income before taxes	7	93,708	42,849	31,756
Income taxes	7	-16,586	-11,355	-6,345
Result after taxes		77,121	31,494	25,411
Share in the result of joint ventures and associates	9	191	1,290	263
Net income		77,312	32,784	25,674
Net income attributable to non-controlling interest	18	2,347	8,008	14,652
Net income attributable to the equity holder of the parent		74,965	24,776	11,023
Earnings per share (in euro)	8	6.03	2.01	0.91
Diluted earnings per share (in euro)	8	5.98	1.99	0.88

- But margins increase

Return on Operating Capital Employed

IN THOUSANDS OF EURO		2018	2017	2016
Trade debtors		161,787	182,106	188,561
Inventory		135,111	154,063	166,202
Trade payables		-105,148	-114,548	-135,127
Other working capital		-189,289	-263,270	-276,004
Working capital		2,462	-41,649	-56,368
Other long term assets & liabilities		220,515	244,079	259,987
Operating capital employed		222,977	202,430	203,618
Goodwill		105,612	113,385	124,255
Operating capital employed (incl goodwill)		328,589	315,815	327,874
Adjusted EBIT		89,974	73,241	36,557
ROCE after tax (%)	(a)	23%	19%	9%

(a) Tax rate used is the effective tax rate in 2018 (17.7%), adjusted tax rate in 2017 (16%) and effective tax rate in 2016 (20%). See note 7 for the calculation of the 2017 adjusted tax rate.

Margin	7,3%	5,5%	2,7%
Capital Turn	3,13	3,43	3,36

  - ROCE = (Return after tax + added back restructuring costs on which you normally would pay taxes)/ Operating capital employed (incl. Goodwill)
  - Opsplitsen tussen marge en resource utilisation. Marge belangrijk dan rotatie kapitaal
  - CEO Barko: doel sterker maken om dan door te groeien in andere markten. Zag je ook in aandelenmarkt. Eerst situatie opkuisen, daarna met groeiaanbod

- Definition Invested Capital
  - **Invested capital** represents the cumulative amount the business has invested in its core operations; primarily property, plant, and equipment and working capital (Koller)
  - Welke middelen hebben we echt nodig bedrijf te runnen en wat genereren die: kijk balans
- Invested Capital = Fixed Assets (Property, plant & equipment) + Inventories + Trade receivables - Current liabilities = Equity + Non-current liabilities – Cash
- Colruyt Invested Capital? (Assets)

(in million EUR)	Note	31.03.19	31.03.18
Goodwill	9.	55,4	58,1
Intangible assets	10.	151,1	123,6
Property, plant and equipment	11.	2.199,1	2.131,8
Investments accounted for using the equity method	12., 13.	254,2	261,5
Financial assets	14.	8,9	40,9
Deferred tax assets	17.	20,7	28,2
Other receivables	19.	43,9	37,5
Total non-current assets		**2.733,3**	**2.681,6**
Inventories	18.	630,7	592,5
Trade receivables	19.	534,4	496,1
Current tax assets		5,0	1,1
Other receivables	19.	49,3	39,6
Financial assets	14.	31,0	29,7
Cash and cash equivalents	20.	163,2	212,1
Assets held for sale	16.	-	1,4
Total current assets		**1.413,6**	**1.372,5**
TOTAL ASSETS		**4.146,9**	**4.054,1**

  - Financial assets: post is niet zo groot. Bij Delhaize is dat een heel groot bedrag: vaak zijn zij eigenaars van shopping centers. Hebben ze dat nodig om bedrijf te runnen, of kijken we enkel naar wat ze nodig hebben om bedrijven te runnen?
- Colruyt Invested Capital (Liabilities)

Share capital		331,2	315,9
Reserves and retained earnings		1.873,2	1.720,1
Total equity attributable to owners of the parent company		**2.204,4**	**2.036,0**
Non-controlling interests		3,3	5,5
Total equity	**21.**	**2.207,7**	**2.041,5**
Provisions	23.	26,3	32,7
Liabilities related to employee benefits	24.	143,1	127,6
Deferred tax liabilities	17.	51,2	59,0
Interest-bearing and other liabilities	25., 26.	6,5	13,7
Total non-current liabilities		**227,1**	**233,0**
Provisions	23.	0,3	0,9
Interest-bearing liabilities	25.	41,0	128,6
Trade payables	26.	1.120,7	1.092,3
Current tax liabilities		10,6	42,1
Liabilities related to employee benefits and other liabilities	26.	539,5	515,7
Total current liabilities		**1.712,1**	**1.779,6**
Total liabilities		**1.939,2**	**2.012,6**
TOTAL EQUITY AND LIABILITIES		**4.146,9**	**4.054,1**

Fixed assets: 2733 + current assets: 1413 – current liabilities: 1712 – cash : 163 = invested capital: 2271

- Colruyt vs Ahold Delhaize

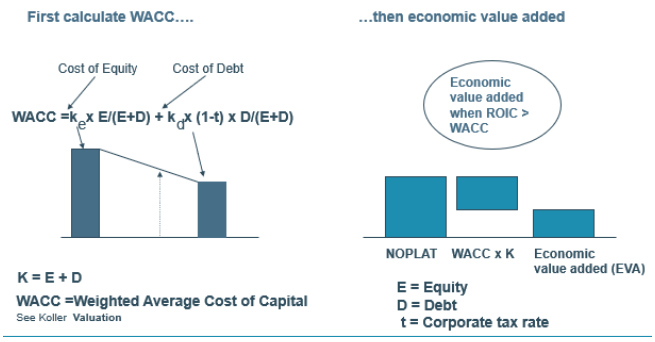
	Colruyt 2012-2013	Colruyt 2011-2012	Delhaize 2012-2013	Delhaize 2011-2012
Revenue	8311,6	7847,6	22737	21110
Cost of Goods Sold	6205,3	5839	17170	15749
Gross Margin	2106,3	2008,6	5567	5361
Selling, General and Administrative Expenses & Other	1406,5	1327,2	5177	4548
Operating Profit (EBITDA)	699,8	681,4	390	813
Depreciation	184,7	196,2	261	182
EBIT	515,1	485,2	129	631
Taxes	148,9	145,9	24	156
NOPAT	366,2	339,3	105	475
Invested Capital	1442,7	1466,6	3819	4424
ROIC	**25,3%**	**23,1%**	**2,75%**	**10,7%**
Total Assets	3443,30	3167,00	11936,00	12292,00
Return on Assets (NOPAT/total assets)	**10,64%**	**10,71%**	**0,88%**	**3,86%**

  - Aandeel Delhaize een tijdje niet goed, is erna overgenomen

	Colruyt 2018/19	Colruyt 2017/18	Ahold-D 2018/19	Ahold-D 2017/18
Revenue	9434	9030	62791	62890
Cost of Goods Sold	6963	6681	45839	46121
Gross Margin	2471	2349	16952	16769
Selling, General and Administrative Expenses & Other	1986	1861	12647	12520
Operating Profit (EBITDA)	757	734	4305	4249
Depreciation	272	245	261	182
EBIT	485	488	2395	2225
Taxes	135	144	372	146
NOPAT	350	344	2023	2079
Invested Capital	2271	2063	20188	18985
ROIC	**15,4%**	**16,7%**	**10,02%**	**10,95%**
Total Assets	4146	4055	33331	33871
Return on Assets (NOPAT/total assets)	**8,44%**	**8,48%**	**6,07%**	**6,14%**

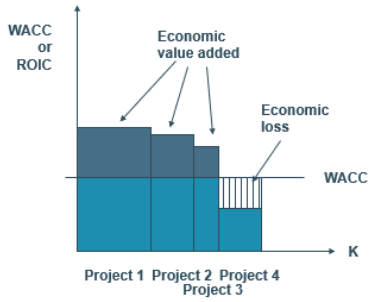
Colruyt doet nog altijd beter dan Delhaize, maar verwachtingen waren ook anders voor hun investeerders

- Economic profit or economic value added most important criteria for evaluating performance



Wat is prijs van het kapitaal? WACC: gemiddelde van equity en prijs van debt
Waarvoor nodig? Heb bepaalde opbrengsten, kapitaal en prijs van kapitaal wordt eraf getrokken: EVA

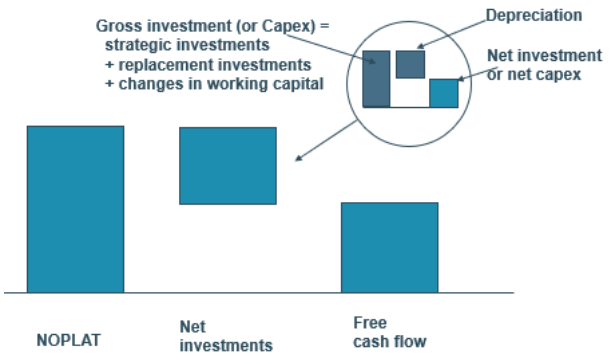
- How can economic value added grow ?



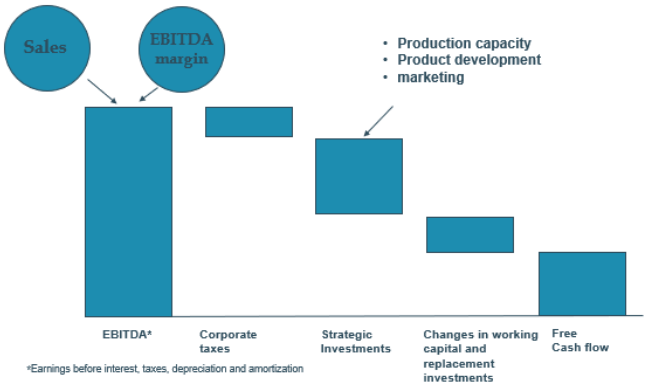
Only concentrating on highest ROIC projects does not maximize EVA
All projects with ROIC > WACC generate EVA
Discontinuing projects with ROIC below WACC generates EVA
Hoe EVA laten groeien? EVA groeit zolang ROIC> gemiddelde prijs van kapitaal
Zou project 4 niet moeten doen

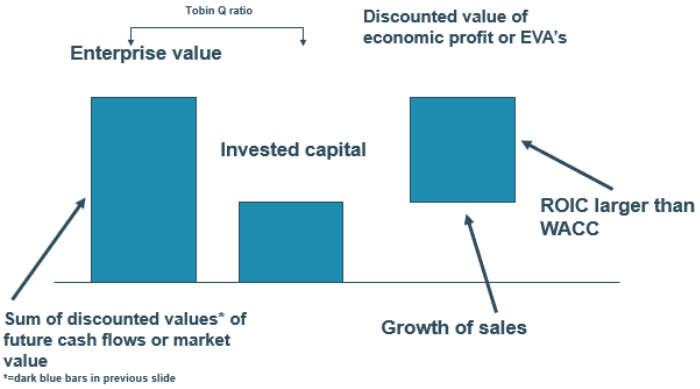
3. Sustaining value capture over time

- Determine free cash flow

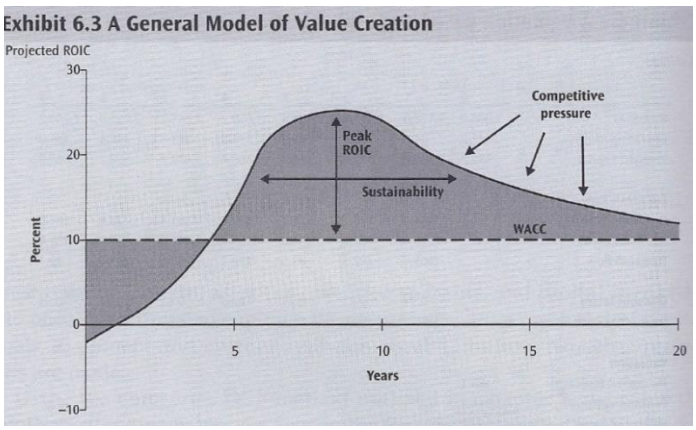


Net investments: capex – afschrijvingen: zijn investeringen voor nieuwe zaken. Wat overblijft vanuit NOPLAT dan is FCF

- Drivers of free cash flows
  - 

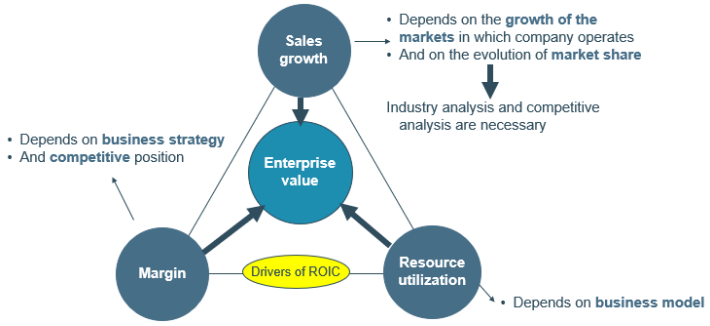
- Use future evolution of free cash flow to estimate enterprise value* and value of strategic plan.
  - Enterprise value = Sum of discounted cash flows plus discounted terminal value, can also be expressed as a multiple of EBITDA.
- Drivers of value capture: ROIC and growth
  - 

  - $\text{ROIC} = \frac{\text{NOPLAT}}{\text{Invested Capital}} = (1 - \text{Taxrate})\frac{(\text{Pr ICe}-\text{Cost})\text{Xquantity}}{\text{Invested Capital}}$
  - Economic profit
    - $\text{Enterprise Value} = \text{Invested Capital} + \frac{\text{Invested Capitalx}(\text{ROIC}-\text{WACC})}{\text{WACC}-\text{g}}$
  - Discounted cashflows
    - $\text{Enterprise Value} = \frac{\text{FCF}}{\text{WACC}-\text{g}} = \frac{\text{NOPLAT}\left(1-\frac{\text{G}}{\text{ROIC}}\right)}{\text{WACC}-\text{g}}$
  - Entreprise value= invested capital+ waarde gegenereerd door verschillende activiteiten
- ROIC Strategic Curve

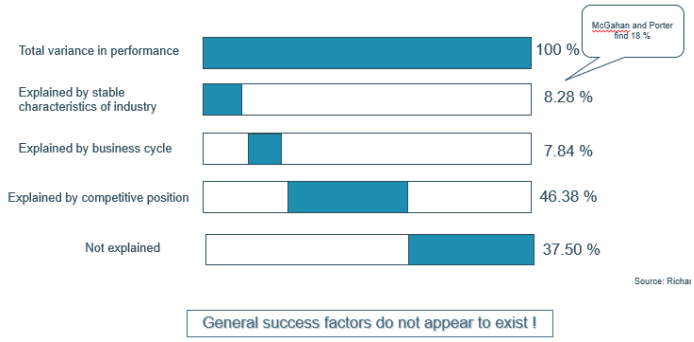


In begin in investeringsfase: negatieve returns. Hopelijk op bepaald moment hoger dan wat kapitaal kost. Dan in the money zitten, daarna gaan andere mensen toetreden en de winstgevendheid afnemen
Niet perse gezegd dat wanneer je hoog zit in de curve het ineens super goed gaat. Kan zijn dat het snel gaat afnemen wanneer nieuwe spelers toenemen etc. Grote bedrijven kunnen hier goed op inspelen. Kleinere bedrijven iets minder. Is eigenlijk a general model of value capture instead of creation

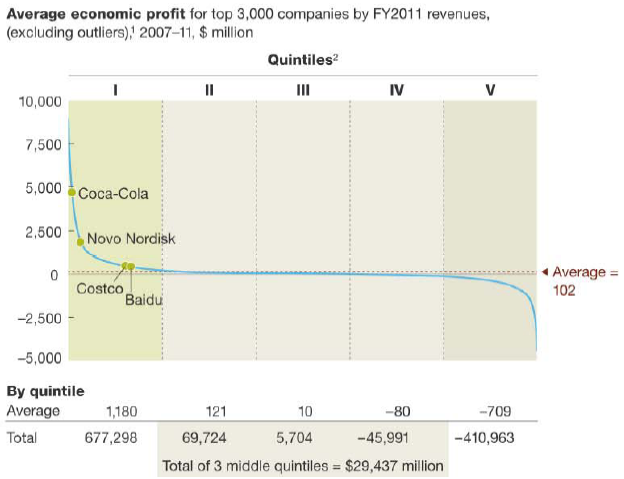
- A **strategy creates economic value**...
  - When:
    - <u>Enterprise value > invested capital</u>
  - This implies:
    - Sum of discounted values of economic profit must be positive
  - Only possible when:
    - In several periods <u>ROIC > WACC</u> this is possible when:
      - Margins are larger
      - Or the use of capital is more efficient
    - Growth is realized in activities where ROIC > WACC
  - In formulating strategy it is important to make sure that the creation of economic profit or EVA is sustained as long as possible.
- The keys to capturing value



- Performance differences between companies are difficult to explain



  - Competitieve positie binnen industrie: verschillen binnen industrieën zijn erg hoog -> daarom heel belangrijk goede strategie aan te nemen binnen industrie
- Distribution of Economic Profit

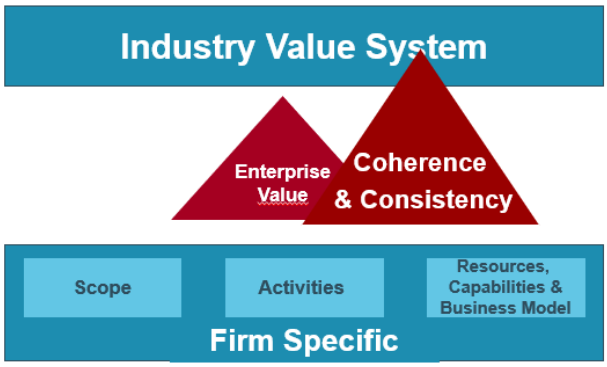


Gekeken naar gemiddelde economische winst. Je krijgt altijd hetzelfde beeld: 'power curve'. Cola heeft hoge economic profit. Er zijn veel bedrijven met lage economische profits Waarom zou het bedrijfsleiders depressief maken? Gemiddelde is rond 0. Je hebt 20% die het goed en slecht doen, maar de meeste bedrijven zitten rond 0.
Als we strategisch denken: hoe geraken we van midden naar de top, of van slecht naar de top. Dat is het interessantste. Hiervoor moeten we grote financiële beslissingen maken

- The Odds of Moving up after a Decade

Starting Position On Power Curve	Ending Position On Power Curve: Bottom	Middle	Top
Top	15	26	59
Middle	14	78	**8**
Bottom	43	40	17

Iedereen optimistisch versie van project. Als we echt strategisch willen denken: op langere termijn nadenken
In midden na 10jr is 8% verhuisd van midden naar top. Meeste blijven waar ze zitten



Deze slide is **het belangrijkste** van de les!!!
Moet kunnen uitleggen
Vandaag naar for profits gekeken en gezegd dat non profits impact zouden hebben op waarde bedrijf.
Vrijdag gaan we kijken naar strategie binnen een omgeving en hoe we die kunnen analyseren, wat eruit leren en hoe te positioneren: scope, activiteiten, etc

- Waar om draait: consistentie en coherentie: plaatje moet kloppen
- Probleem is vaak dat er iets niet coherent/consistent is. Consultants gaan proberen duiden waar plaatje niet klopt

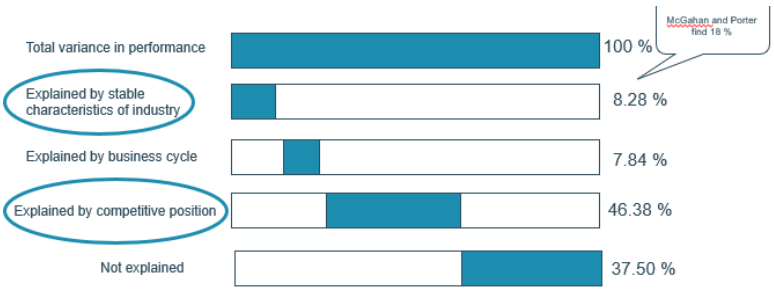
Topic 3: The competitive landscape

- Building Competitive Advantage
- Sustaining Competitive Advantage
- Developing a Sustainable Competitive Advantage
  1. **Understanding the Competitive Landscape**
  2. Define the Scope of your Business
  3. Select the Activity set of your Business
  4. Assemble the needed Resources and develop the key Capabilities
  5. Set up the Business Model to link Value Creation and Value Capture and create a Virtuous Cycle
  6. Understand the Sustainability of your Competitive Advantage
  7. Test your Strategy
  - 1) Topic 3: the competitive landscape
  - 2-5) Topic 4: building competitive advantages
  - 6-7) Sustaining competitive advantage

Developing a Sustainable Competitive Advantage

1) Understanding the Competitive Landscape

- Performance differences between companies are difficult to explain

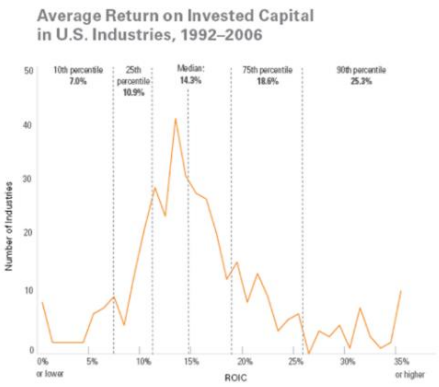


General success factors do not appear to exist

Zie vorige les. Bedrijven met verschillende resultaten met grote variatie. Hierbij 2 belangrijke dingen: competitieve positie en de industrie waarin je actief bent

- **Industry Attractiveness**
  - Industry attractiveness refers to the future average returns expected for firms operating in this industry
  - Depends on:
    - Long-term Trends: expectations about the obsolescence of activities linking buyers and suppliers and/or core assets
      - Do: trend analysis, scenario planning,…
    - Definition of Industry: Product-Technology Combination (Markets interact industries with customers)
    - Drivers of Value Capture at Industry Level
  - UBER: taxi business. Which assets link taxis to customers? Dispatch. Uber replaces dispatch.
  - Kijken naar gemiddelde onderneming in bepaalde industrie. Wat zijn returns gegenereerd door gemiddeld bedrijf in die omgeving. Attractief of niet? Afhankelijk van veel gegevens. Bv lange termijn
  - Bedrijf is eigenlijk tussenschakel binnen netwerk
  - Hoe belangrijk zijn belangrijkste activiteiten?

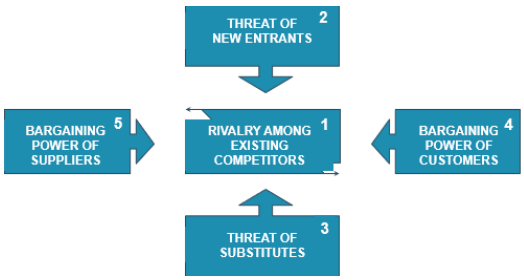
- Average Returns across Industries



Show: Softdrinks versus softdrink botteling versus grocery stores
Pharma - Semiconductors
Airlines - Hotels
Reading porter. Was een discussie over of er 5 of 6 forces waren
Kijken naar ROIC op deze figuur. Is een enorme variatie en mediaan is rond 14 percent. Wijzigt gemiddeld gezien niet op middellange termijn. Waarom? Zie airlines.

Lage returns, maar er zijn aantal bedrijven die het daar goed doen. Interessanter is de farmaceutische sector. Gemiddeld gezien doen ze het goed. Pepsi en coca cola zijn ongelofelijk winstgevend. Wordt waarde gecreëerd door verschillende spelers in keten en dan verdeeld. In welk deel keten interessant te zitten en waarom?

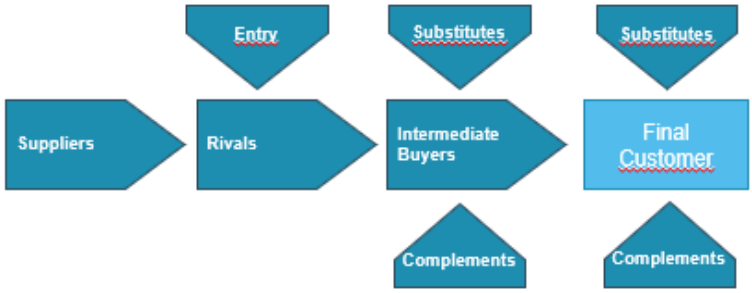
- Is the U.S. Legal Marijuana Industry an attactive Industry?
  - Geen consument, geen business
  - Zowat 5 forces model porter geherorganiseerd volgens flow product
  - Rivalry: gefragmenteerde markt, lage marges
  - Moest er winst zijn, veel toetreding; entry barriers niet heel hoog
  - Koper kan kiezen tussen verschillende producenten, maar kan ook illegale markt bespelen
  - Kan geen trademark krijgen op marihuana momenteel; toetredingsbarriere; kan geen marketing doen hierdoor
  - Mogelijkheden om schaal te creëren en kosten naar beneden te doen -> markt interessanter
  - Wat zijn drijvers die marges gaan beperken? Geen illegale markt: moet tegen opgetreden worden, maar niet perse als het gelegaliseerd wordt dat gaat opgetreden worden op illegale distributie. Zo gaat medische luik waarschijnlijk interessanter zijn
- What is the Average Value Captured by a Player in the Industry?
- Porter's 5-Forces Model



Porter based on Industrial Organization. All forces squeeze the margin.
Use Carbonated Soft Drinks as example: Little rivalry, Entry is difficult, Retailers are concentrating, Suppliers irrelevant, Bottler are tied to concéntrate producer
Regulation/Obesitas is important threath
Missing: Complements, Bottlers are intermediaries, and flow of product

  - Vroeger keken we enkel naar rivalry en competitie in eigen industrie, maar ook andere spelers die waarde proberen capteren. Alle spelers zijn anders.
  - Computerindustrie: hardware en software belangrijke complementen: had michael porter niet in rekening gebracht toen
  - Complementen kunnen zowel positief als negatief zijn, terwijl de andere hierop negatief zijn. Michael porter zegt dat het hier niet bij hoort daarom.

- The Industry Value System

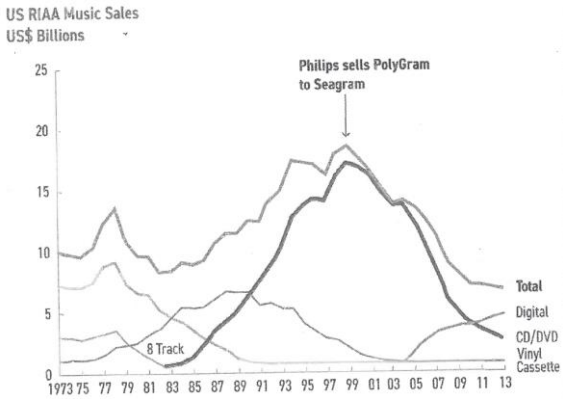


The dynamics and flow of the business matters…
Need to get to the final user.
What is the need of the final user?
Hij kijkt liever naar een waardeketen; kan op verschillende momenten kijken

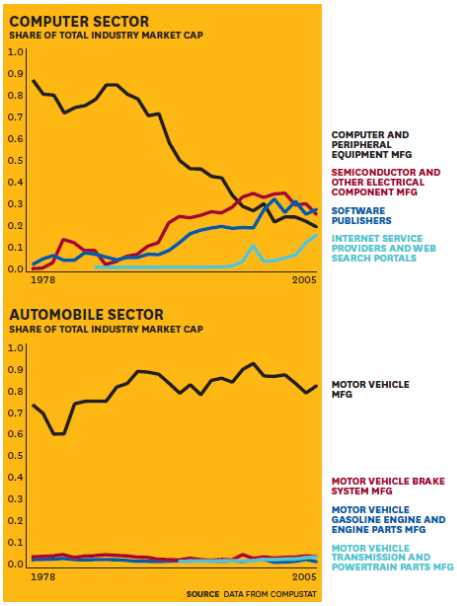
  - Gaan kijken naar welke spelers belangrijk zijn en dan zien hoe ze strategie gaan ontwikkelen
- Industry Architecture & Bottlenecks. Computing Industry: 1990 – Present

Idee van dat er waarde gecreëerd wordt en verdeeld over verschillende spelers. Verdeling varieert doorheen de tijd
Stel legalisering marihuana: waar gaat waarde kunnen gecapteerd worden en waarom? Moment of dynamiek ook belangrijk

- Dynamics of Industries



Philips business net op juiste moment verkocht voordat streaming etc komt. Hoe komt het dat Philips dat wist? Was ook in business voor CD roms, vroegen aan managers Cd-rom divisie wie dit kocht en bleek dat het mensen waren die er muziek opzette. Toen dacht Philips dat muziek business verkeerde kant ging opgaan en ging het verkopen



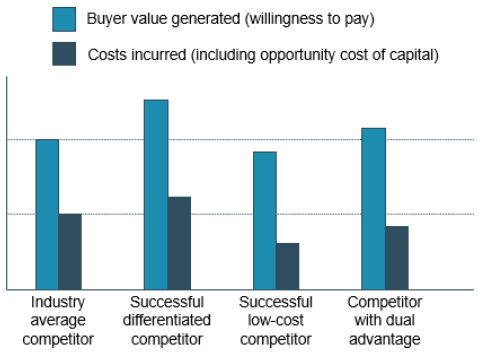
Interestingly, how is value distributed in these eco-systems…
Look at market value of players in computers versus oems in automobiles…
Marktwaarde verschillende spelers proberen samen te brengen
Marktwaarde microsoft en intel sterk gestegen
Onderste grafiek: beneden toeleveranciers, vanboven verkopers. Interessanter voor bv elektrische wagens om in batterijen, tankstations,.. Te investeren als je denkt dat die in de toekomst waarde kunnen capteren

Quiz: The competitive landscape

1. According to Michael Porter, strong industry forces result in strong profitability for companies in that industry.
   A. True
   B. False
   - Industry structure drives competition and profitability. If the forces are intense (strong), almost no company in the industry earns attractive returns on investments
2. Easy entry is a factor that makes industries more attractive according to the Five Forces framework.
   A. True
   B. False
   - The 5 forces frameworks looks at the industry from the perspective of an incumbent (a company already present in the industry). New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Therefore they reduce industry profitability
3. Indicate the factors that reduce the threat of entry:
   A. Supply-side economies of scale
   B. A government policy of offering tax cuts for small enterprises
   C. Capital investments that can easily be recovered or redeployed in another industry
   D. Low customer switching costs
   E. The requirement of an extensive distribution channel
   F. Demand-side benefits of scale
4. Indicate the factors that increase the power of suppliers:
   A. A supplier group that is more concentrated than the industry it sells to
   B. A high availability of substitutes for what the supplier group provides.
   C. Suppliers offer homogenous products
   D. A supplier group that heavily depends on the industry for its revenues.
5. Select the definition of a substitute. A substitute is:
   A. A good or service that performs the same or a similar function as an industry's product by a different means.
   B. A good or service that is used together with an industry's product.
   C. A technological advancement that occurs within an industry.
   D. An activity that is performed by a company in a more productive way.

Topic 4: Building competitive advantage

- Developing a Sustainable Competitive Advantage
  1. Understanding the Competitive Landscape
  2. **Define the Scope of your Business**
  3. **Select the Activity set of your Business**
  4. **Assemble the needed Resources and develop the key Capabilities**
  5. **Set up the Business Model to link Value Creation and Value Capture and create a Virtuous Cycle**
  6. Understand the Sustainability of your Competitive Advantage
  7. Test your Strategy
- Defining Competitive Advantage
  - A firm or a business is said to have created a **COMPETITIVE ADVANTAGE** over its rivals if it has driven a wider wedge between willingness to pay and costs than its competitors have achieved
  - Competitief voordeel: kan meer waarde creëren dan alternatief. Waarom?
- **Suppose there is only 1 Buyer. What happens?**
  - Champagne: WTP: €35, Cost: €15, Value Created: €20
  - Cava: WTP: €20, Cost: €5, Value Created: €15
  - Competitief voordeel: meer waarde creëren dan alternatief. Kijken naar verschil tussen WTP en kostprijs. In Catalonië oef doen bv: is voorkeur voor cava daar. Andere vraagcurve
- Defining **Added Value**
  - Added Value of a player is the maximum value that can be created by all participants in the vertical chain minus the maximum value that would be created without that particular player
  - Cooperative Game Theory
  - Hoeveel waarde gecreëerd met en zonder speler. Gaan kijken naar toegevoegde waarde speler.
  - Toegevoegde waarde cava is 0. Toegevoegde waarde koper is 20
  - zie met 1 en 2 spelers. Champagne wel of niet aanwezig
  - Begrenzing bij competitief voordeel door andere spelers in het spel
- Competitive Advantage & Added Value
  - A firm with a **COMPETITIVE ADVANTAGE** cannot capture more value than its **ADDED VALUE**
  - Careful though: get paid to play (Holland Sweetner versus Nutrasweet).
  - This is a good starting point…
- Types of Competitive Advantage

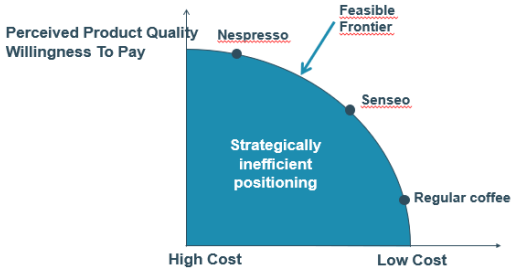


Airlines: Lufthansa vs Ryanair vs Airberlin/Easyjet??
Dual advantage: Samsung.
Differentieren: hogere BTB en hogere kosten. Wat belangrijk is is hoeveel waarde je creert. Niet de absolute WTP. Bv vliegen met Lufthansa vs ryanair. Als je niet moet betalen zal je meest fancy maatschappij kiezen, maar als je zelf moet betalen kijk je naar
waarde creatie, daarom wordt Ryanair ook nog soms gekozen. Hangt vaak ook af van bepaalde klanten.
Duaal voordeel: hoge WTP en lage kosten. Bedrijven die dit proberen nastreven gaan vaak hogere kosten hebben en mindere kwaliteit, dus lagere BTB. Samsung is een bedrijf met een duaal voordeel, maar weinig andere voorbeelden

Key Questions for Strategy

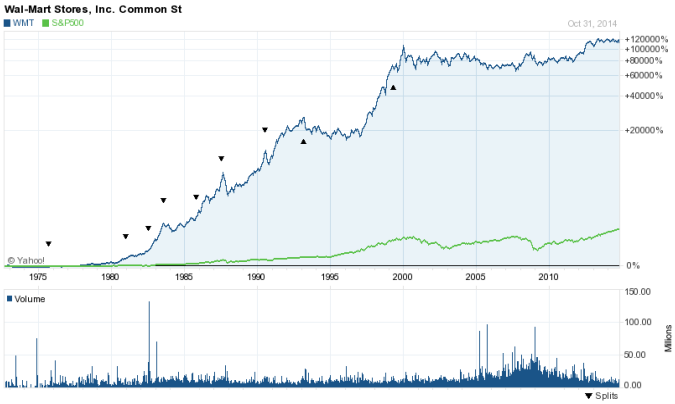
1. **Do we create value?**
   - Two broad routes to competitive advantage
     - Cost advantage (Cost)
     - Differentiation advantage (WTP)
   - Configuring activities for a low-cost position is different from how you configure activities to deliver superior customer benefits.
2. **Do we capture value?**
3. **Can we sustain this value?**

- Spelen we op kostenvoordelen of BTB? Veel bedrijven maken fout zich niet consistent te organiseren naar keuzes. Strategie is ook belangrijk voor wat we niet gaan doen.
- Choice between Strategic Positions



Wat is het beste dat we kunnen doen gegeven huidige technologie? Zie efficiënt frontier
Willen niet in blauwe deel zitten: inefficiënt of ineffectief. Want als je daarin zit kan je voor dezelfde kosten een hogere BTB hebben etc. Efficiënt frontier kan verschuiven door bv innovatie

- Size and Scope of Wal-Mart
  - World's largest firm in terms of sales revenue $550 billion worldwide
  - World's largest private employer US and Mexico (more than 2.3 million employees, 600.000 international)
  - Bigger than next 5 retailers combined: Home Depot, Kroger, Kmart + Sears, Costco and Target!
  - Bigger than most economies, except for the 30 largest!
  - Accounts for 15% of US Consumer goods imports from China.
  - Serves more than 260 million customers per week. This year 7.2 billion people will go to a Wal-Mart store (World population 7 billion).
  - Became largest grocery retailer in the US in only six years
  - Accounts for 28% Playtex sales, 25% of Clorox, 21% of Revlon, 13% of Kimberley Clark's and 17% of Kelloggs.



Have the nation's second largest computer (behind Pentagon) to support their logistics operations
Broadcast more live television than any US broadcast network
Generated $1.25 billion in sales on November 24, 2001 – the single biggest day for any retailer in history; $100 billion in 4th quarter 2007. Makes $35.000 profit/minute.

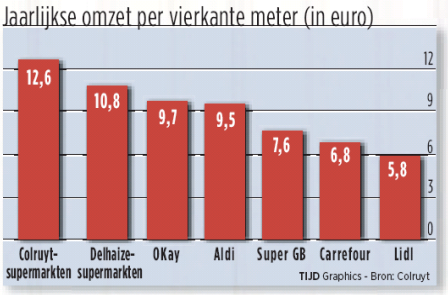
- Vraag is hoe Walmart daar geraakt is?
- Vandaag de dag felle concurrentie met Amazon
- Aandelenkoers Walmart. In Jaren 90 model ontwikkeld dat vandaag de dag nog steeds actief is

- Comparative costs (1993)

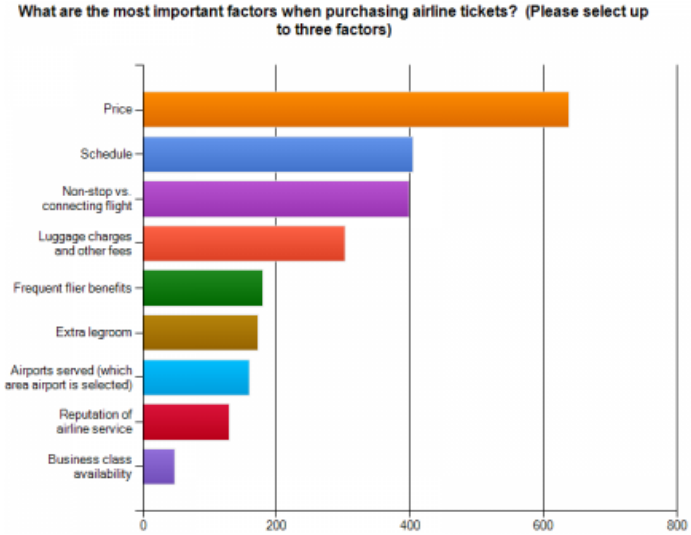
	Wal*Mart	Competitor Average	Wal*Mart Advantage
Sales	100.0%	100.0%	-
Cost of Goods Sold			
FOB Purchase Prices	*69.7%*	*66.0%*	*(3.7%)*
Inbound Logistics	*3.7%*	*4.8%*	*1.1%*
Shrinkage	*1.7%*	*2.0%*	*0.3%*
Total COGS	75.1%	72.8%	(2.3%)
Operating Costs			
Advertising	*1.5%*	*2.1%*	*0.6%*
Rental	*3.0%*	*3.3%*	*0.3%*
Info Systems	*1.5%*	*1.3%*	*(0.2%)*
Regional offices	*0.0%*	*2.0%*	*2.0%*
Payroll and Other SG&A	*12.1%*	*15.9%*	*3.8%*
Total Operating Costs	18.1%	24.6%	6.5%
Income			
Other Income	0.7%	1.3%	(0.6%)
Operating Income	7.5%	3.9%	3.6%

Walmart is heel gekend van lage prijzen. Ondehandelen ook heel hard op prijzen van toeleveranciers. Heel goed in het drukken van hun kosten.
COGS hoger dan die van gemiddelde concurrent. Probleem is dat de globale sales minder zijn, dus daardoor ook het aandeel in sales groter. COGS is heel gelijkaardig
Shrinkage: wat verdwijnt in winkel: vaak wat personeel meeneemt

  - In operating costs doen ze het 6,5% beter. Heel groot. Hoe doen ze dat?
  - Denk je dat als je in delhaize binnengaat ze jou kunnen zeggen wat marge is op elk product? Nee, in walmart doen ze dat. Leggen nadruk op marges en legt een harde focus op lage kosten. Krijgt een enorme druk op werknemers om positie te behouden
- Analyzing Competitive Advantage. Yearly revenue per square meter in supermarkets

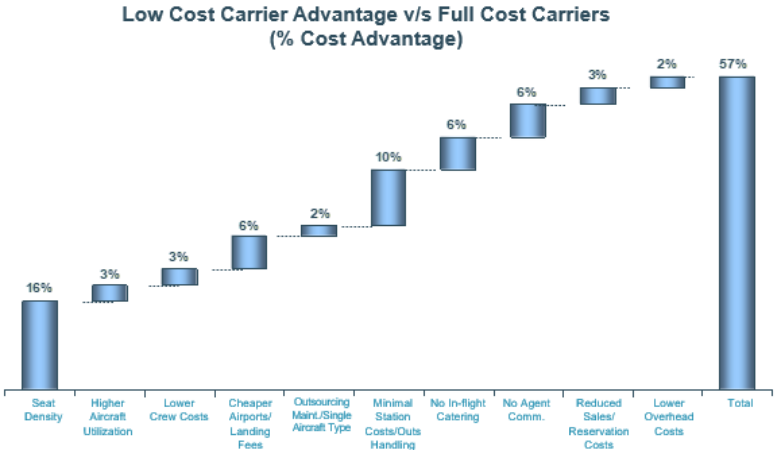


  - Alle bedrijven achteruit gegaan binnen winstgevendheid. Tegenwoordig kunnen prijzen sterk vergeleken worden



-
  - Prijs wordt enorm belangrijk gevonden

- Low Cost Carriers at 57% of Costs



More seats, Secondary airports, Minimal handling, No catering, No agents (online)
Kosten van lage kostenmaatschappij en verschil met andere spelers
Bv Ryanair vlucht minder comfortabel want er is minder beenruimte: worden meer rijen in vliegtuigen gezet. Verschillende luchthavens etc
Airport

Europe's Lowest Costs Wins!

€ per pax	RYA	WIZ	EZJ	NOR	E'Wings	LUV
Staff/efficiency (py)	7 (6)	6 (5)	10 (9)	19 (17)	19 (18)	48
Airport & Hand.	7	11	21	19	33	8
Route Charges	5	5	5	7	7	0
Own'ship & maint.	6	15	9	32	21	15
S & M other	4	3	8	8	34	18
Total	29	40	53	85	114	89
%> Ryanair		+38%	+83%	+193%	+293%	+207%

(Source: FY results/Annual Reports/Company guidance)
RYANAIR

S&M = efficiency
Ezj= easy jet
Verschillen in airport en handling: gebruik van charleroi ipv parijs, niet londen heathrow
Maintenance: ryanair koopt recente vliegtuigen en kopen vooral vliegtuigen wanneer het crisis is

	Ryanair*	EasyJet*	Why?
Staff costs	5.20	7.90	Higher productivity – 25m t/a Better crew / aircraft ratio Better rosters - No overnights
Airport & handling	6.80	18.95	Better airport deals Lower handling cost/policies
Route charges	5.70	6.00	Shorter sector length
A/c ownership & maint.	6.40	9.25	Bigger a/c Low cost financing
Other costs	2.10	6.23	Meaner on costs Highly focused fare advertising Low cost media – more free PR
Total cost per pax (ex. Fuel)	26.20	48.33	Lower costs = Lower fares

Staff kosten lager om wille van productiviteit
Weten precies wat verschil in kosten zijn, vergelijking heel belangrijk te maken. Dat uit zich in productiviteitsverschillen

- The "Ryanair Formula"

		Pax per Employee	Productivity gap
Low	Ryanair	10,050	-
Med	Easyjet	6,293	60%
	Germanwings	1,000	905%
High	Lufthansa	1,281	685%
	Alitalia	959	948%
	Iberia	978	928%
	British Airways	758	1,225%

Pax: passenger

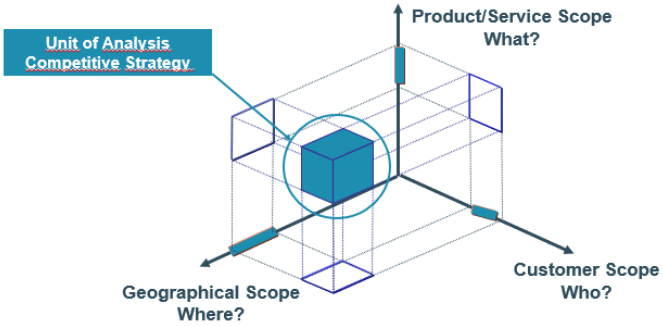
Productivity gap: (10050-6293)/6293 = 60%

Nu gaan we echt kijken hoe we ons als bedrijf positioneren tov omgeving en hoe het de resultaten beïnvloedt

2) Define the Scope of your Business

Scope: het domein dat we gaan definiëren van onze activiteit

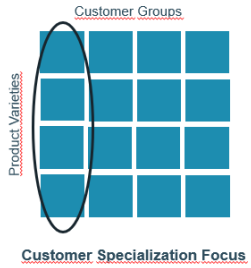
Hoe ons competitief voordeel bepaalt wordt door de beslissingen die we nemen



Domein heeft 3 dimensies: wat je doet, aan wie je ze aanbiedt en ook een geografische dimensie: waar bied je die aan

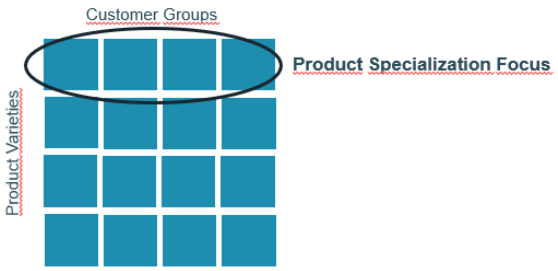
Vaak komen familiebedrijven hulp vragen: hadden succesvol product en zijn snel gegroeid. Verkopen in eigen land en internationaal gegroeid; via groothandel naar buitenland. Nog steeds succesvol, erna aangepast naar Azië etc en alles is complex geworden. Eerste vraag: hoeveel verschillende activiteiten heb je waarvoor je moet nadenken. Hebt bv hetzelfde product, maar andere klanten. Bv retail, groothandel, etc en andere landen hebben waarschijnlijk ook andere strategieën nodig

- Identify the market-, product- and customer segments the company intends to service or supply and the regions it wants to cover.
- In Flanders many businesses have chosen for a niche strategy (Barco, Picanol, LMS, Sioen,…)
- Niche strategies typically require a large degree of internationalization.
- Sometimes companies refer to their scope as their *strategic territory* or as the *space* in which they are competing.
- Product & Customer Scope



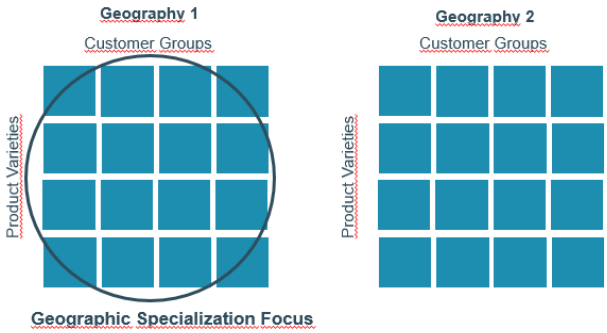
Philips Medical Systems: MRI, CT scanners, X-ray, etc. In medical imaging for Hospitals. But Siemens and GE Health doing the same.

Kan bepaalde klantengroep viseren. Bv klant als hospitaal en verschillende beeldvormingstechnieken aanbieden



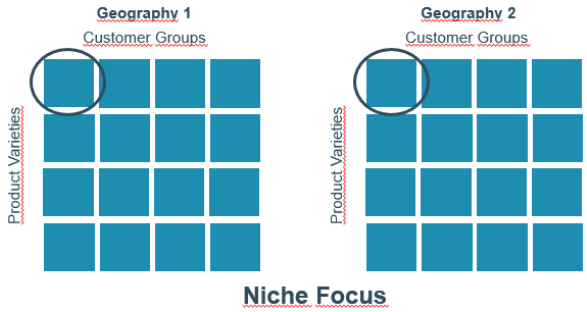
Molding machines: machine is standard, application depends on the mold and clamp power needed.

Specialisatie bepaald product, met verschillende klanten.



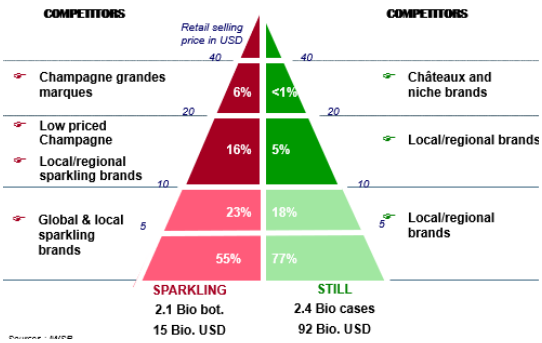
Automotive. Most cover many different segments.

Verschillende klanten, verschillende groepen. Bv Volkswagen groep heeft verschillende types wagens voor verschillende klantengroepen



Dental prostetics.
Vaak sterk gefocust op bepaald type klant en bepaald product. Vaak ook kleine markt. Bv Barko (digitale projectoren cinema)
Kijken hoe je je gaat organiseren: via product? Via geografie?

- Oefening dockers khakis
  - Stain resistent fabric
  - Hidden oversized pockets
  - Expandable waistband
  - Populair product, veel verkocht, maar makkelijk te imiteren. Dockers wilt weten hoe ze elkaar kunnen differentiëren.
  - Op foto zijn enkele innovaties verbonden: elastiek in plaats van riem, zakken een beetje meer naar achter, moest broek ook niet strijken
  - Hoe komen ze op die ideeën? Observeren hun potentiële klanten. Sommige gaan letterlijk eventjes wonen bij iemand en zien wat die gebruikt.
  - Toen was de trend dat mannen langere tijd alleen gaan wonen. In 60% van de gevallen hebben mannen geen strijkijzer. Broeken die je niet moet strijken zijn dan handig
  - Shoppen met mannen: als ze alleen gaan shoppen en broek kopen, ze die vaak te klein kopen (observatie). Elastiek in broek: zet mee uit
  - Toont goed aan dat connectie tussen wie potentiële klant is en wat je die aanbiedt veel belangrijk word vandaag de dag. Wat zijn de noden van de klanten en hoe kunnen we hieraan voorzien?
- Siemens HST
  - Meest vervelende trein: te laat/ niet rijden
  - Als trein stilvalt: probleem voor klant siemens en voor de klant daarvan (persoon op perron)
  - Hebben systeem ontworpen die uitval voorspellen.
  - Als systeem te laat is, krijg je ticket terug betaald.
- What is EW's Business Scope?
  - Estates and wines: hebben champagnes en wijnen. Afdeling wijn deed het niet zo goed. In LVMH moet je 20/20 regel respecteren; groei moet 20% zijn en EBITDA ook zoveel stijgen. Bij wijnen lukte die stijging niet. Gingen afdeling afsluiten
- The Wine Business



Customers are restaurants
Products are "collections" of wines
Top is heel winstgevend. Probleem is dat ze aantal hectare hebben, maar niet kunnen groeien. Beneden zijn goedkope wijnen: veel speler, grote spelers, erg competitief
Enige plaats we kunnen spelen: middenveld. Moeten winstgevend zijn én kunnen groeien. Vraag is wat de scope is? Wat gaan we aanbieden aan wie om winstgevend te zijn en te kunnen groeien.

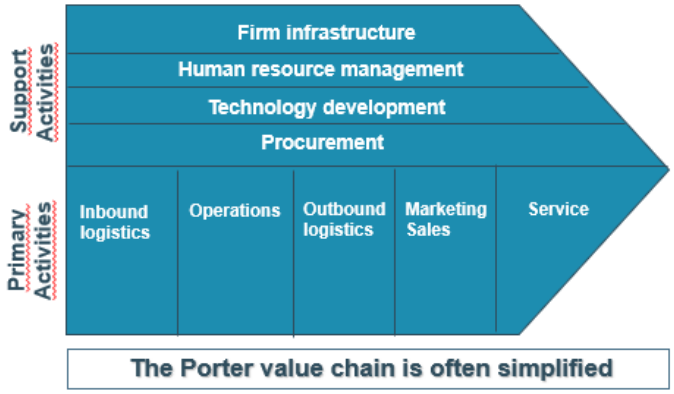
- Wat zoekt iemand die wijn drinkt? Smaak, wilt graag wat afwisseling. Als je wijn drinkt wil je verschillende zaken testen/proeven. Zijn op zoek naar verschillende soorten wijn. Hij wilt verschillende soorten aanbieden aan klanten: collections aanbieden. Tweede stap: aan wie gaan we die aanbieden? Wie is goede klant? Iemand met geld. In winkel concurreer je met heel veel bedrijven. Vaak is concurrentie binnen deze business een probleem. Waar kan ik concurrentie beperken? Bij restaurants. Als je die kan overtuigen van je collectie, kunnen ze uit je collectie kiezen
- Keuze domein is enorm belangrijk: kon zich in competitieve omgeving beter positioneren

3) Select the Activity set of your Business

- Activity analysis

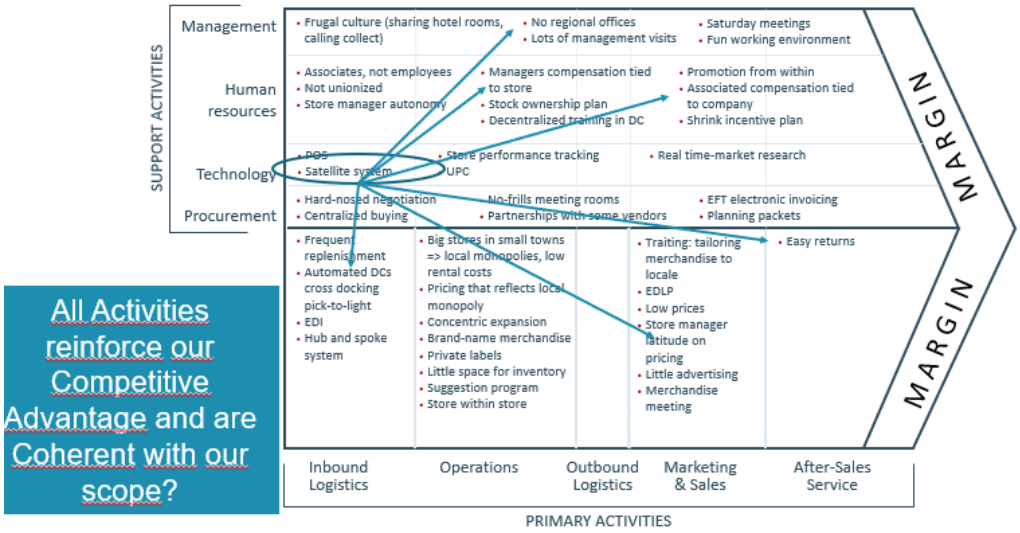
1. Catalog the firm's activities

- The value chain: Company must be broken down in activities in order to identify the drivers of competitive advantage
-

- Value chain often confused with Value system
- Carrying out activities requires capabilities
- Tesla. Suppose you want to enter in the automotive business… What do you need to do? Which activities are critical for your competitive advantage? Are all activities reenforcing our competitive advantage (coherence!) and coherent with your scope?
- Waardeketen: creëren, produceren, after sale service
- Value system is hele omgeving waarin je opereert
- The Porter Value Chain
  - 

- Andere vorm value chain: porter.
- Analyzing the Value Chain
  - Estimate the importance of the specific activity for the creation of a competitive advantage
  - Identify the scale-scope-learning advantages in the separate activities
  - Identify the interdependence or complementarity between activities
  - Identify coordination needs across activities
  - Wil verstaan wat competitief voordeel drijft
  - Kan zijn obv schaalvoordelen, omdat er bepaalde activiteiten interacties hebben,…

- Unusual Features of Wal-Mart's Value Chain

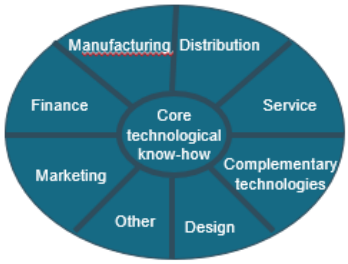


  - Wal-Mart had satelliet voor data transferts. Hierbij zie je connectie tussen verschillende activiteiten
  - Vrachtwagen moest uitgeladen worden in bestelplaats, maar worden in plaats hiervan direct van ene op ander vrachtwagen geladen worden: cross documenting. Moeilijk om dit operationeel system op te lossen: hierbij hielp het satellietsysteem
  - Mogen ook in de winkel zelf hun prijzen aanpassen als ze zien of het wel/ niet goed verkoopt. Konden controleren wat er gebeurde in winkels. Enige waar Wal-Mart aan denkt: lage kosten
  - Voordeel Wal-Mart is dat ze dat 30 jaar geleden al konden
  - Verschil met andere spelers in markt was 2% -> miljard verschil. Hadden veel data die ze makkelijk in hoofdkantoor konden bekijken
  - Probleem van shrinkage: neem iets mee in winkel zonder betalen. In Amerika vaak als je terug naar winkel gaat krijg je geld terug. Ze stolen producten en vroegen geld terug in andere winkel: konden zo zien of product gestolen was of niet als ze dan in winkel stonden
- Tesla: Creating Value and Complementary Activities

Als we denken aan Tesla: wat zijn zaken zij doen succesvol te zijn? Hebben elektrische wagen, assemblagelijn die anders is dan automative spelers. Hebben eigenlijk geen aparte dealerships. Marketing: grootste marketingmachine van Tesla is Elon Musk. Helemaal in het begin met roaster hadden ze direct reclame. Hoe heft Tesla veel reclame gemaakt? Hebben hun sportwagen laten racen tegen alle anderen: Lamborghini, Ferrari etc en videos gingen viraal omdat tesla altijd won. Enorme reclame want iedereen keek die videos -> gratis marketing.

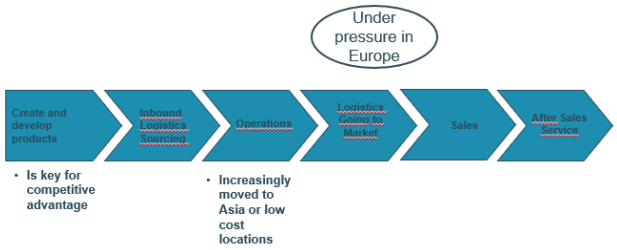
Belangrijk aspect: finance. Groot problem met Tesla: klanten vroegen zich af: wat als ik nu premium betaal voor die wagen en het bestaat niet meer over 5j? Elon Musk had gezegd dat ze die terug gaan kopen: gaf geruststelling aan investeerders om bij te dragen in kapitaal. Aangezien Tesla het goed deed, was het niet nodig hen terug te kopen. Alle activiteiten van tesla versterkte hun competitief voordeel

- Hilti: Big Moves and Complementary Activities

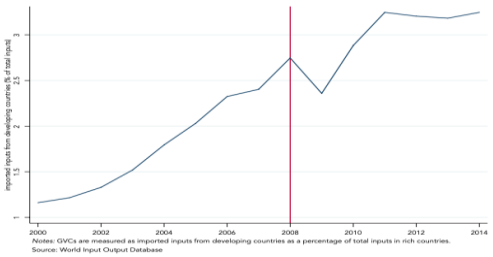


Hilti maakt power tools: concurreert met Bosh etc
Type klanten voor hun: constructiebedrijven. Hilti staat bekend als kwalitatief product dat lang mee gaat. 1 van managers van Hilti: managen tools is administratief vervelend. Niets te maken met constructie
Hilti is overgeschakeld naar 'fleet management'. Bedrijf gaat tools gebruiken en Hilti blijft ze managen
Wat moeten we veranderen als we gaan van bedrijf dat powertools verkoopt naar die powertools managen? Wat verandert in verkoop? Ervoor verkopen aan bouwvakkers zelf. Nu moet je managers overtuigen. Sales pitch moet helemaal veranderen. Zij gaan dus administratie overnemen: als boor stuk gaat gaan zij vervangen; productiviteitswinsten.

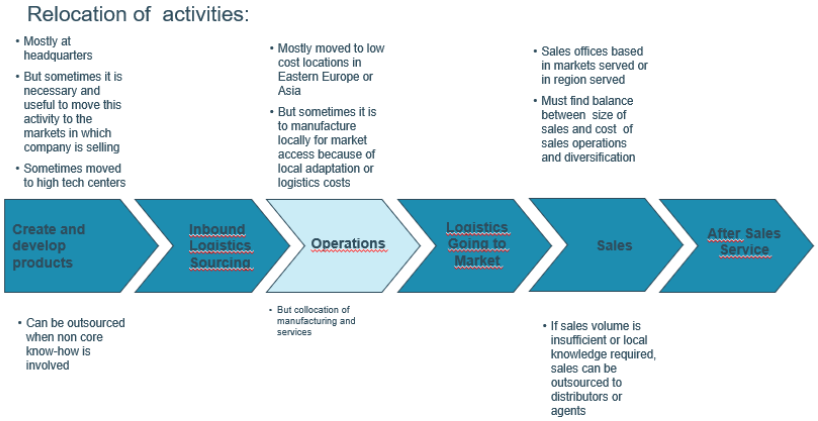
  - Kijken naar hoe activiteit aanpassen om succesvol te zijn
  - Video: First concern from finance side. 36/48 months payment period instead of 14 days before; much bigger credit risk
  - Second concern: legal side. First contract was a big book.
  - Even people is business force were sceptical. Was a good sales team which was successful, while it will change entirely. Risk that sales will decline
  - R&D: needed higher frequency in product development. If you have a 48 months contract, want a new product afterwards. Term before was 8 years, now it needs to be reduced to ¾
  - Andere bedrijven moeilijker om Hilti in voetsporen te treden en fleet management uit te bouwen
- The Value Chain is Changing



  - **Rethinking value chain is key for competitive advantage: outsourcing and relocation of activities.**
- Relocation and outsourcing
  - Relocation of activities : where should activities be located ?
  - Criteria for choice :
    - Costs at location
    - Logistics costs
    - Access and proximity to market
    - Strategic importance
    - Economics of scale
    - Labor contracts
    - Experience
  - Outsourcing of activities : Who should carry out activities ? The company or third parties?
  - Door financiële crisis: verhoging outsourcing naar ontwikkelingslanden
  - Globalisering stagneert. Vraag of het goed is productie terug naar ons te brengen of niet

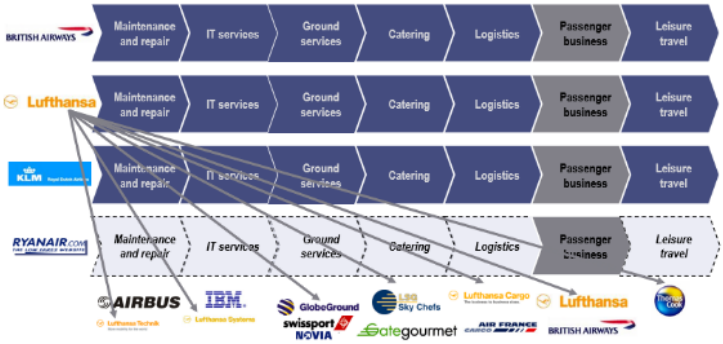


- Relocation and outsourcing: Global Value Chains



- Head and tail companies

  - Some European companies outsource many activities and only focus on development and sales
- Airline Industry Today



Bedrijven die veel zelf doen Lufthansa heeft veel geïnternaliseerde activiteiten. Ryanair niet. Gefocust op passenger business en rest aankopen

- 3D Printing and the Value Chain…
  - Think maybe of automotive: print spare parts?
  - Or even digital printing: wall paper business: print your wall decorations?
- Crowd-sourced and 3D Printed
  - Think of what this means for the value chain. Manufacturing can be done distributed… small set-up close to customer, no more economies of scale?
  - Eerste geprinte wagen
- Crowdsourcing & Design
  - **Crowdsourced DARPA Marine Assault Vehicle**
    - $639,000 contract from DARPA
    - 160 design submissions, winner got $7,500.
    - Designed in 3 weeks; Developed in 3,5 months
  - Design is gecrowdsourced. Kregen 160 designs en winnaar kreeg geld voor winnend design. Beeld je in dat je contract zou hebben met defensie hoe veel geld je dan zou moeten betaald hebben.
  - Was snel designed en ontwikkeld.
- Value Chains (Pipelines) versus **Platforms**
  - Network Externalities and the rise of Platforms
    - Direct Network Externalities
      - Online gaming, Whatsapp

        - Indirect Network Externalities
            - Alibaba, eBay, Amazon, Uber, Airbnb
    - Combining Pipes & Platforms (Apple)
    - Strategy & Platforms
        - Better information creates better matches, better matches create more value (higher WTP and possibly lower Costs through scale)
        - From resource control to resource orchestration
        - From internal optimization to external interaction
    - Zie extra reading
    - Worden veel over platformen gesproken en externaliteiten die ze hebben. Wanneer platform? Afhankelijk van strategische vragen.
    - Vaak praten we over platform als er indirecte netwerkexternaliteiten zijn
    - Platform staat niet op zichzelf en kan ook gebruikt worden als onderdeel van waardeketen
    - Apple heeft ook platform waar ze apps aanbieden; belangrijker en belangrijker geworden in waarde die ze genereren
    - Hoe meer activiteiten in platform: hoe beter matches kunnen gebeuren; hoe hoger BTB.
    - In value chain controleert bedrijf middelen. In platform bv Airbnb hebben ze die niet in eigendom. Zelfde voor Uber, taxi's zijn niet in hun eigendom, maar matchen mensen. platforms gaan anders om met bestaande middelen
- Automotive AI Eco-System

Hoe coördineren we dit om waarde te creëren en te capteren. Waar zit de gecapteerde waarde?

- Pipelines versus Platforms
    - Als we kijken naar mobiliteit: waar waarde gegenereerd en gecapteerd?

2. Examine the costs associated with each activity, and use differences in costs to understand how and why costs differ from those of the competitors

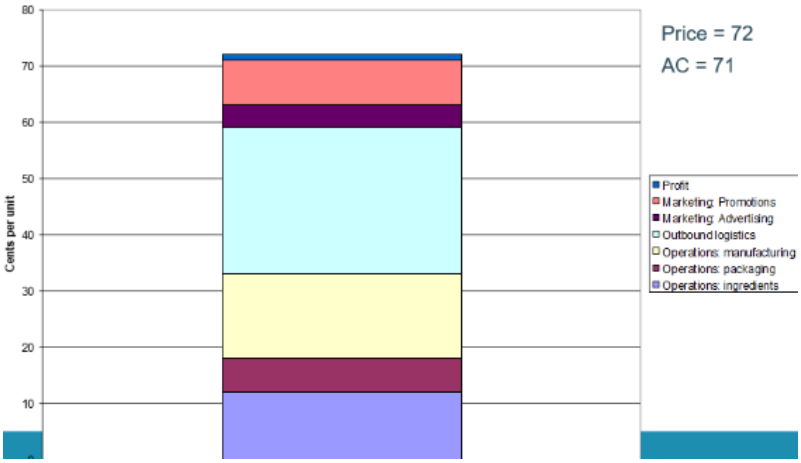
- Comparative Cost Analysis

	Wal*Mart	Competitor Average	Wal*Mart Advantage
Sales	100.0%	100.0%	-
Cost of Goods Sold			
FOB Purchase Prices	*69.7%*	*66.0%*	*(3.7%)*
Inbound Logistics	*3.7%*	*4.8%*	*1.1%*
Shrinkage	*1.7%*	*2.0%*	*0.3%*
Total COGS	75.1%	72.8%	(2.3%)
Operating Costs			
Advertising	*1.5%*	*2.1%*	*0.6%*
Rental	*3.0%*	*3.3%*	*0.3%*
Info Systems	*1.5%*	*1.3%*	*(0.2%)*
Regional offices	*0.0%*	*2.0%*	*2.0%*
Payroll and	*12.1%*	*15.9%*	*3.8%*
Other SG&A			
Total Operating Costs	18.1%	24.6%	6.5%
Income			
Other Income	0.7%	1.3%	(0.6%)
Operating Income	7.5%	3.9%	3.6%

Critical issue: sales per square meter! Nagaan waarom kosten verschillen en hoe ze aan voordeel in operating costs komen

Example: The snack cake market

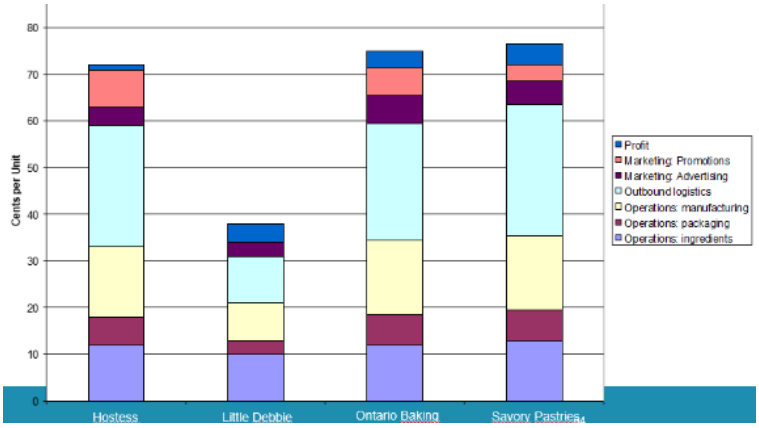
- Between 2000 and 2005, Little Debbie grew its market share from 1% to nearly 20%
- At the same time, Hostess saw its dominant 45% share dwindle to 25%
- Hostess' managers were not happy about that…
- Hostess' cost components



Kosten en prijs van hostess. Verschil met Walmart. Op een pakje had je 1 cent winst
Vergelijking met Walmart: als percentage van winst. Bij Hostess is het per stuk weergegeven.
Grote kostenposten: outbound logistics: leveringen

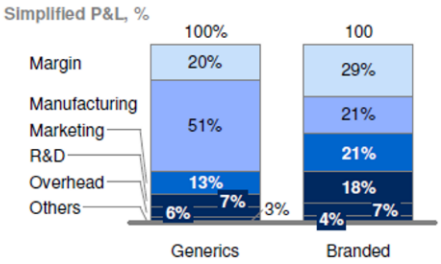
- Identify cost drivers
  - Cost drivers are the factors that make the cost of an activity rise or fall
  - Outbound logistics' cost <u>influenced by</u>:
    - Delivery costs depends on the number of stops truck driver has to make
    - Urban deliveries tend to be more expensive than suburban ones
    - Costs increase with product variety
    - Costs depend on the product: cakes with more preservatives can be delivered less frequently
  - Belangrijk hoeveel stops vrachtwagens moet maken en welke locatie (centrum Leuven is moeilijker dan buiten stad)
  - Hangt ook af van variëteiten van cake
  - Meer bewaarmiddelen: minder leveringen
  - Cost drivers are critical because they can <u>allow to estimate competitors' cost position</u>
  - One (usually) cannot observe a competitor's costs directly, but can observe the drivers (e.g., share of sales in urban areas, breadth of product line, ingredients etc.)
  - Weten wat eigen product drijft, maar weten niet kosten concurrent. Gaan ze proberen schatten aan de hand van eigen drivers.
- **Cost drivers**
  - Related to <u>firm size</u>
    - Economies of scale /scope; capacity utilization
  - Related to <u>cumulative experience</u>
    - Learning curve
  - Independent of <u>firm size /experience</u>
    - Input prices, location, complexity, government policies, efficiency, agency costs, etc.

- Relative cost analysis



Hier zie je dat prijzen per pakje cakes hoger zijn dan bij Debbie. Relatief gezien zie je ook hoe kosten kunnen spelen
Little Debbie gebruikt meer bewaarmiddelen -> minder levering -> lagere kost

- Cost Drivers: **Important issues**
  - Focus on differences in individual activities, not just differences in total cost
  - Good cost analysis focuses on a subset of all firms' activities (which ones?)
  - Activities that account for a thicker slice of costs deserve a deeper treatment in terms of cost drivers
  - A driver should be modeled only if it is likely to vary across competitors or the strategic options that will be considered
  - Sensitivity analysis is crucial
- Pharma: Generics vs. Branded

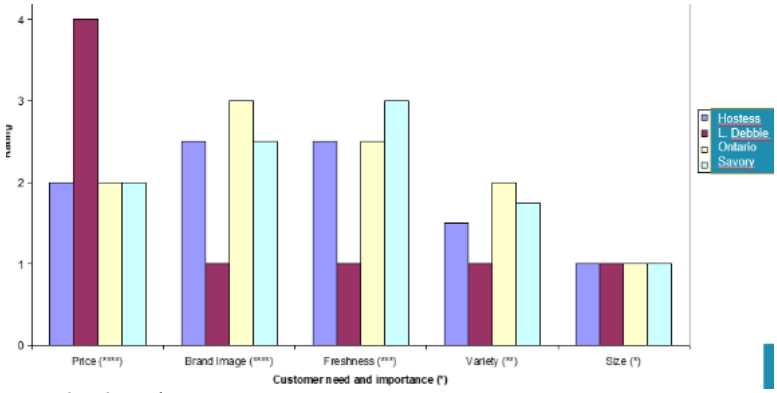


Kan niet per stuk werken: weten niet hoeveel ze verkopen. Productie belangrijker voor generic dan voor een merkproduct

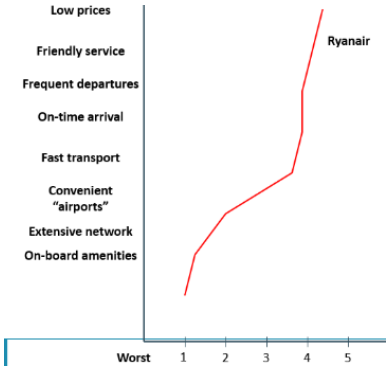
3. Analyze how each activity generates WTP and try to understand differences in WTP

- Wanneer competitief voordeel: waardecreatie: meer waarde creëren dan alternatief. Kijken naar hoe we meer waarde creëren
- Activities and WTP
  - The activities of a firm do not just generate costs (hopefully)
  - WTP is <u>difficult to calculate</u>
    - Identify the *real* buyer (scope!)
    - Understand what the buyer wants and is willing to pay for (and possible trade-offs)
    - Assess how successful the firm and its competitors are at fulfilling needs
    - Relate differences to activities
  - We did this when we calculated WTP for the Husky machine relative to its competitors.
  - Welke klanten zijn bereid te betalen voor producten

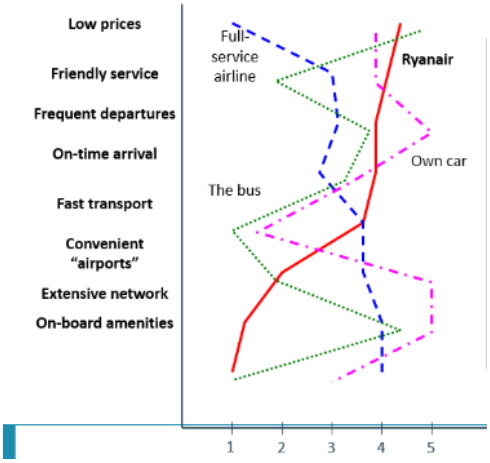
- Customer needs and relative success



Kijken naar BTB. Prijs van Little Debbie vinden we heel goed, want is erg laag. Brand image is wel een stuk lager. Is minder vers want gebruikt minder bewaarmiddelen
Willen weten welke dimensie het belangrijkst is. Veel mensen kopen Little Debbie omdat ze prijs interessant vinden



The Value Curve as a Useful Representation
Ryanair's Value Curve
A value curve is a simple tool for recording how a company performs relative to competition on the attributes that customers consider as they choose among rivals
Successful companies rarely are (or try to be) superior on all attributes
Note: Minimum criteria such as safety are not listed here
Ryanair scoort goed op lage prijzen, Goede on-time arrival



Scope is important here: who are you competing with? Bus and ferry or full service airlines?
Vergelijken ryanair met andere speler (beter luchthavens, betere connecties)
Ryanair heft andere keuzes gemaakt op dimensies die sommige klanten belangrijk vinden
Succesvolle spelers gaan andere keuzes gemaakt hebben
Bv flixbus: lage prijs
Wie is klant Ryanair?
Bus heeft lage prijzen, gaat niet zo snel, kan wel overal geraken.
Toen Ryanair begon: route tussen Dublin en Londen. Meeste mensen namen trein en ferry. Dat waren diegene waar Ryanair achter zat. Kunnen Ryanair ook vergelijken met de auto

- Wie is onze klant en welke service bieden we hun aan? Om welke dimensies geeft die en welke trade offs maakt die

4. Consider changes in activities to widen the wedge between Costs and WTP

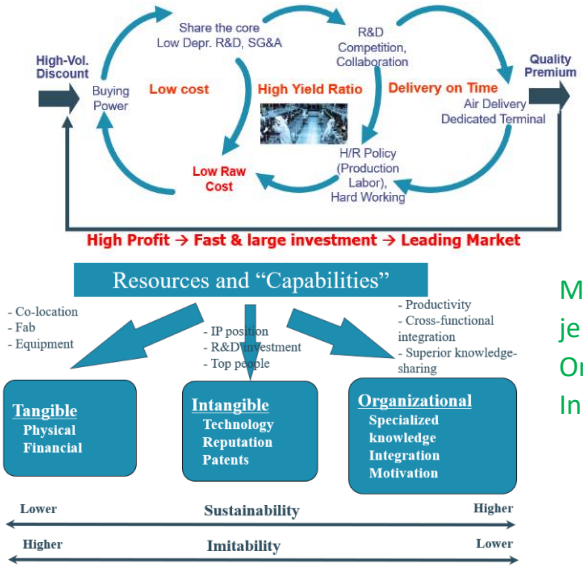
- Ook relatieve waardecreatie (andere speler)
- Explore options and make choices
  - Understand what drives competitors (e.g., Little Debbie saw preservatives as a substitute for fast delivery etc.)
  - When considering changes in activities, consider reactions (secondary airports, no animals in circus)
  - Consider also buyers/suppliers value chains (DSD, complements, etc)
  - Consider unobserved customer segments (ferry users)

- Supplier value chain: creating scale for your suppliers, e.g. Ducati. Buyer value chain: robotics that Husky would add to the injection molding machine. DSD delivery by Coke and Pepsi: they tak care of your shelf space with their product
- Kunnen concurrenten makkelijk kopieren wat ik doe? Want als ze dat kunnen heb je niet meer waarde gecreerd dan alternatief: geen competitief voordeel meer
- Ryanair koos voor iets minder berijkbare luchthavens. Lufthanse en brussels airport kunnen dat niet volgen, luchthavens gaan andere deals vragen dan aan ryanair
- Zie ook voorbeeld cirque du soleil. In beginperiode zonder dieren. Andere circussen met dieren. Moeilijk om voor traditioneel circus te zeggen dat je ineens geen dieren meer hebt.
- Coco cola vs pepsi cola in retail: blikjes worden allemaal goed gezet etc. Iemand van hun merk die dat doen en niet iemand uit de winkel

- Voorbeeld watermeloen
  - Wat is probleem watermeloen? Tamelijk groot, frigo zit direct vol, pitjes. Als we vorm watermeloen willen verbeteren: groeien in vierkantjes; worden in doos gegroeid. Moeten omgedraaid worden zodat suikers goed verspreid worden. Waarom Japan? Stockage probleem: kleine appartementje en frigo. + Daar geven ze fruit als cadeau in plaats van fles wijn. Word in living gezet als cadeau. Watermeloenen kunnen duur worden daar. Heeft een hoge prijs, omdat BTB daar hoog is. Belangrijk dat we scope connecteren met product: innovatie komt eerder in Japan dan hier of in VS

4) Assemble the needed Resources and develop the key Capabilities

- Resources & Capabilities
  - **Resources** are like "nouns": things that firms "have"
  - **Capabilities** are like "verbs": things that firms "do"
    - Typically valuable across multiple products or markets
    - Embedded in Organizational Routines
    - Tacit and cannot be reduced to simple algorithms or procedure guides
    - "capacity to perform a particular activity in a reliable and at least minimally satisfactory manner" (Helfat and Winter, 2011)
  - Heel moeilijk expliciet te maken
  - Capaciteiten: meer werkwoord: iets dat organisaties kunnen doen. Moet je aanleren
- What are Samsung's Resources and Capabilities?
  - In DRAM? Design and production.
- Virtuous Circle Reinforcing Capabilities



Dual Advantage from Samsung. Low cost and high quality
Samsung heeft lagere kosten, terwijl labor cost hoger is. Komt omdat samsung grote volumes hebben en daardoor schaalvoordelen creeëren
Vandaag de dag geeft hebben kapitaal geen competitief voordeel
Moeilijk om als start up kapitaal te hebben, maar als je goed verhaal hebt krijg je Meestal wel kapitaal
Organisatorisch gaat ook over flexibiliteit dat je hebt
In Ryanair ga je alle activiteiten moeten kunnen

- Importance of Intangibles Increases

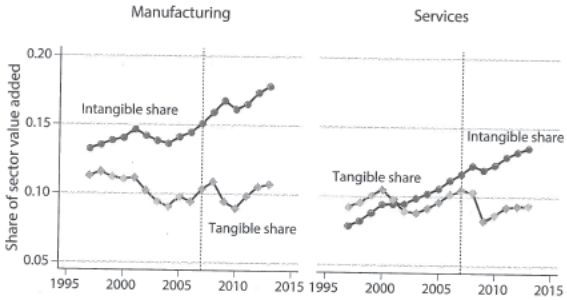


Figure 2.7. Intangible intensity in manufacturing and services (real shares of real sector value added, EU and US, non-farm business). Source: authors' calculations

Intangibles belangrijker over de jaren in waardecreatie

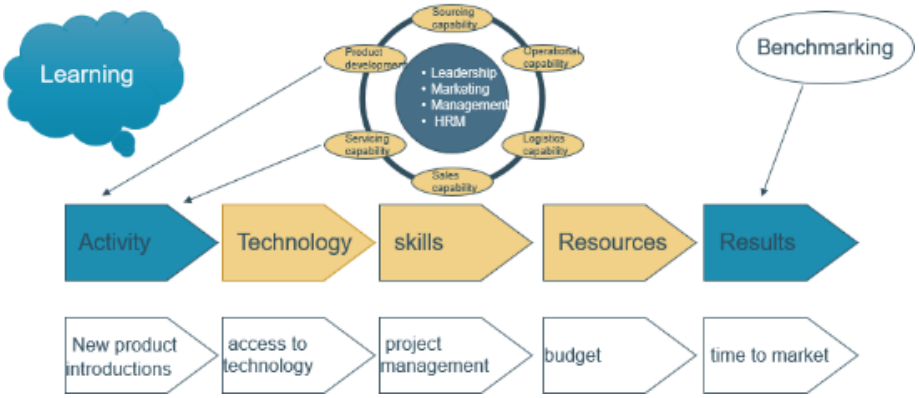
- Appraising Resources

RESOURCE		**CHARACTERISTICS**	**INDICATORS**
	Financial	Borrowing capacity Internal funds generation	Debt/ Equity ratio Credit rating Net cash flow
Tangible Resources	Physical	Plant and equipment: size, location, technology flexibility. Land and buildings. Raw materials.	Market value of fixed assets. Scale of plants Alternative uses for fixed assets
	Technology	Patents, copyrights, know how R&D facilities.	No. of patents owned Royalty income
Intangible Resources		Technical and scientific employees	R&D expenditure R&D staff
	Reputation	Brands. Customer loyalty. Company reputation (with suppliers, customers, government)	Brand equity Customer retention Supplier loyalty
Human Resources		Training, experience, adaptability, commitment and loyalty of employees	Employee qualifications, pay rates, turnover.
FUNCTION		**CAPABILITY**	**EXEMPLARS**
Corporate Management		Financial management Strategic control Coordinating business units Managing acquisitions	ExxonMobil, GE IBM, Samsung BP, P&G Citigroup, Cisco
MIS		Speed and responsiveness through rapid information transfer	Wal-Mart, Dell Capital One
R&D		Research capability Development of innovative new products	Merck, IBM Apple, 3M
Manufacturing		Efficient volume manufacturing Continuous Improvement Flexibility	Briggs & Stratton Nucor, Harley-D Zara, Four Seasons
Design		Design Capability	Apple, Nokia
Marketing		Brand Management Quality reputation Responsiveness to market trends	P&G, LVMH Johnson & Johnson MTV, L'Oreal
Sales, Distribution & Service		Sales Responsiveness Efficiency and speed of distribution Customer Service	PepsiCo, Pfizer LL Bean, Dell Singapore Airlines, Caterpillar

- From activities to capabilities: Different value activities require different capabilities

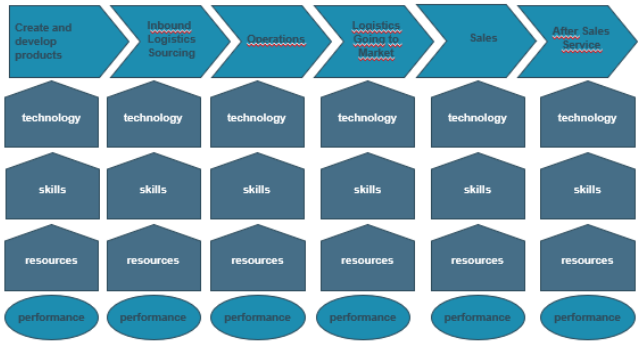
In the Porterian view, activity choices are sufficient for competitive advantage… you make trade-offs!
Going a step further, capabilities are how you run activities.
Om activiteiten te laten lopen in waardeketen hebben we bepaalde capaciteiten nodig. Daar wordt vaak ook op geconcurreerd

- Capabilities have **five critical dimensions**



It is important to have a methodology to analyze the required capabilities for the competitive advantage that the company aspires to achieve
Elke activiteit heeft middelen nodig en activiteiten om ze uit te voeren.

- Skill vs capability
  - Video van Ted talk van beatboxer. Video van Pentatonix one more time. Verschil tussen 1 person die technologie gebruikt en skill. Samenbrengen is moeilijker te kopiëren
- Capabilities and Activities

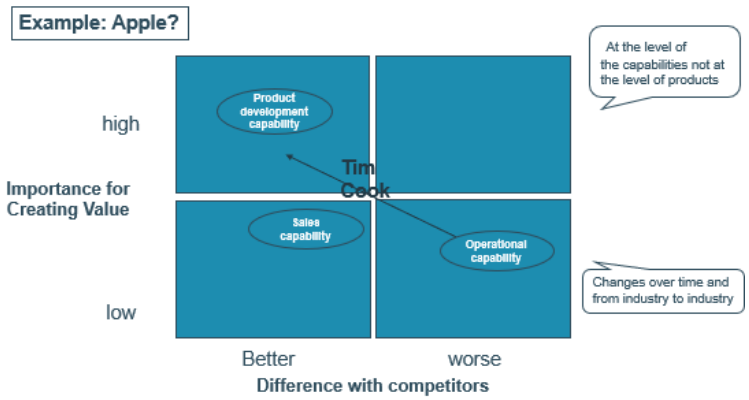


Ander bv: Patagonië: sportswear. Wou zou weinig mogelijk impact te hebben op milieu. Ontwikkelt capabilities voor innovatie. Wetsuit: omdat hij gedreven was en warden bedrijf gericht was aan omgeving moesten zo op zoek naar andere manier om wetsuit te maken.
Vonden steen om het te repliceren: resultaat was een betere wetsuit dan concurrenten: ook warmer met minder materiaal. Erg gericht op omgeving hebben ze innovatiecapaciteit ontwikkelt die andere niet konden ontwikkelen. Ook moeilijk te kopiëren

- Capabilities can be developed in many ways
  - **How?**
    - By accident or luck (Madonna?)
    - Systematic research (McDonalds, Patagonia)
    - Experiences, learning by doing (Samsung)
    - Leap-frogging investments in resources (Tesla, Mpesa)
    - Innovative combination of skills, technologies and resources (Barco DLP)

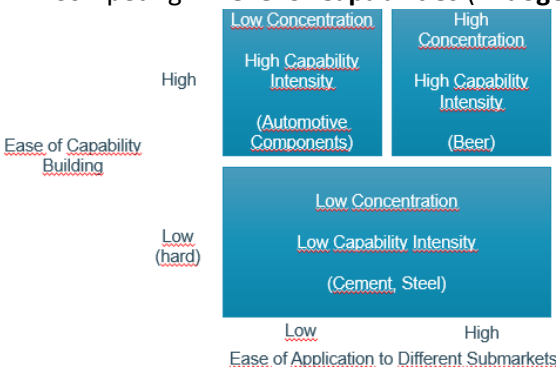
- **Sources of ideas**
  - Contacts with customers (Hilti)
  - Conditions at location (WalMart)
  - Transfer from related industries and markets (Apple)
  - In-house experiences (Ryanair)
- Capabilities take time to develop! You can run an activity, but developing the capability to run that activity well…
- Accident: Experiences: Ryanair near bancruptcy, Most entrepreneurial businesses start out differently and develop over time…
- Toeval: Madonna heeft alle Jaren volghouden en haarzelf en bedrijf heruitgevonden. MTV was uitgekomen en zij had een choquerend uiterlijk. Hierop heeft ze verder gebouwd: capaciteit zichzelf opnieuw uit te vinden
- Tesla: gevestigde automotive bedrijven kunnen moeilijk volgen.
- Barco. Eind Jaren 80 hebben ze technologie van Texas instruments in licentie genomen. In 2000 hadden ze iets klaar dat naar de markt kon. Toen technologie als winnende naar boven kwam had Barco capaciteit markt in te nemen.
- Wal mart: niemand wou goedkope producten leveren in Arkinsas. Heel system met warehouses and suplly chains ontwikkelt. Lage kostensysteem in retailing ontwikkeld. Hierdoor competitief voordeel.
- Ryanair was aanvankelijk een mislukking. gingen voor betere service aan lagere prijzen, zorgde voor grote verliezen. Na aantal Jaren: op punt failliet te gaan. Waar naartoe voor nieuw kapitaal? Gaan naar papa om geld te lenen. Broers verdwenen uit business. Al die tijd werd gekeken naar cash. Die druk werd op managementteam etc gezet en zo hebben ze lage kostenmaatschappij kunnen oprichten. Ontwikkeling capabilities neemt tijd in beslag.

- **Key or Core Capabilities**. Distinctive Capabilities
  - Not all capabilities are equally important for generating a Competitive Advantage



Operational capability of Apple has become more important. Tim Cook was responsible. Apple actually designs the equipment that suppliers use to manufacture their products.Hoe belangrijk zijn capabilities voor creëren waarde en wat is verschil met concurrentie. Apple creert waarde door productontwikkeling en design. Vandaag de dag wordt Apple gezien als topbedrijven qua organisatie supply chain.

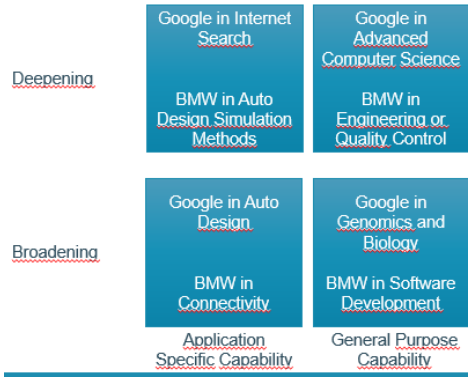
- Competing in **Level of Capabilities** (**Endogenous Sunk Costs**)



John Sutton sprak over endoginous sunk costs: speelde belangrijke rol. Kijken naar 2 dimensies om concurrentie te verstaan.
Toepassen op verschillende markten/submarkten? Veel marktstructuren konden verklaard worden. Wanneer het makkelijk te ontwikkelen is: belangrijk of je die op veel markten toe kan passen of niet. Bedrijven zoals AbInbev investeren enorm in marketing en distributie.

- Als je niet kan toepassen op verschillende market: krijg je lage concentratie: veel spelers kunnen ontwikkelen. obv capaciteiten verschillende marktstructuren voorspellen etc

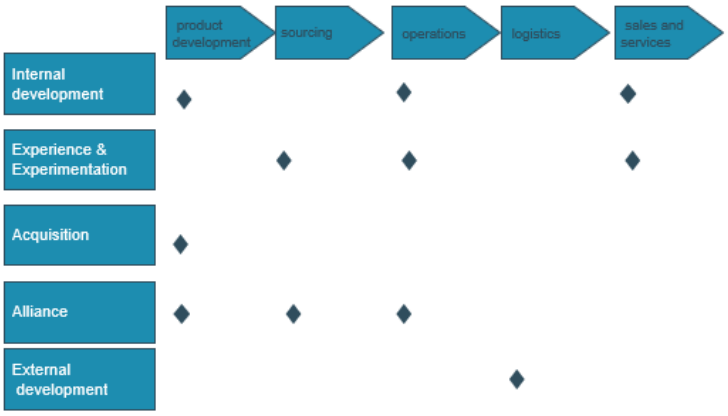
- Competing in **Type of Capabilities**

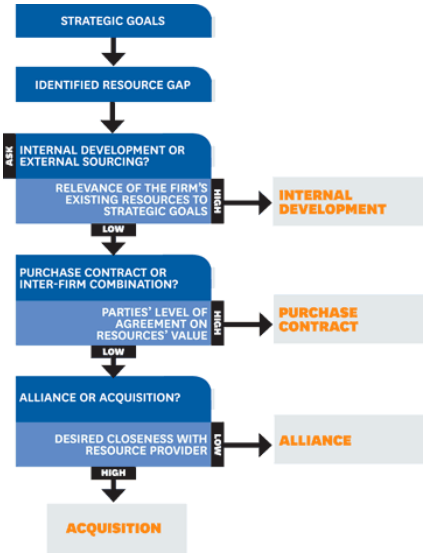


Reading als uitbreiding
Denkt na hoe we bedrijven kunnen helpen strategisch te denken aan ontwikkelen activiteiten
Algemene capaciteit: computer science/biology.
Waar sta ik als bedrijf? Verdiepen of nieuwe vaardigheden aanleren
Google weet veel over computer science. Activiteit wordt verder uitgezet. BMW gaan altijd verder gaan om te verbeteren. Google is internet search

Stable competition. BMW en Audi. Concurreren op verdiepen van activiteiten
Apple als die in car industry gaat is er broadening
Penrosian dynamics: uitbreiden als je extra capaciteit hebben -> moeilijkere en meer risicovolle investeringen
Hoe moeilijk het is bepaalde capaciteiten te ontwikkelen.

- Strategically Developing Capabilities

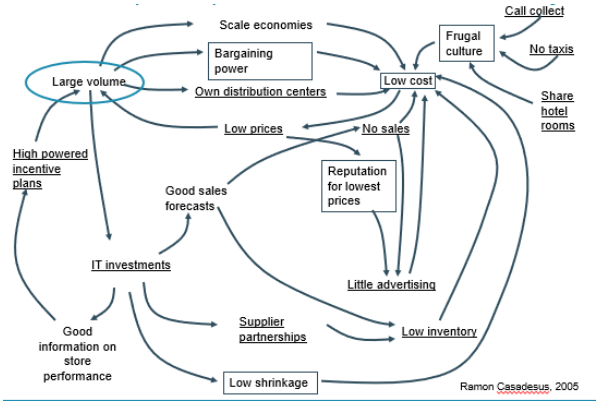




Waar zijn gaps. Welke zaken bijwerken en hoe bijwerken?
- Build, borrow/ buy. Hoe ontwikkelen resources and capabilities

5) Set up the Business Model to link Value Creation & Value Capture + create a Virtuous Cycle

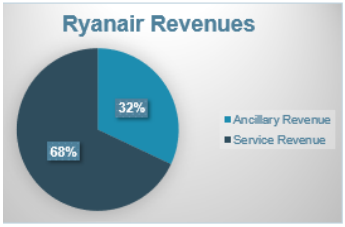
- Heel belangrijk element in strategisch denken. Connecteert waardecreatie en competitief voordeel met waardecaptatie
- Determine the **Business Model**
  - The Business Model indicates how value creation and competitive advantage are related to value capture
  - The Business Model is a dynamic expression of these relations
  - Developing the Business Model is becoming critical in many businesses:
    - 2 sided markets: newspapers and magazines with advertisers and subscribers; search engines as google with search and advertising
    - iPhone: in US telecom operators paying for data transfer
    - Music sales and concerts
    - BIG idea company or Troc: intermediary
  - The Business Model has implications for Margins, Capital Utilization, Working Capital and Capital Investments and Growth, i.e. Enterprise Value
  - Ducati Case! Dynamische voorstelling relatie waarde creatie en captatie.
  - Kranten. Bv metro volledig op reclame gebaseerd. De standaard vooral op subscriptie
  - Belangrijke implicaties voor marges die je genereert, verschillende dingen aan entreprise value.
  - A Business Model consists of **Choices** that management has made.
    - Policy choices
    - Asset choices
    - Governance choices
  - and **Consequences** of these choice
  - Successful Business Models generate virtuous cycles or feed-back loops that are self-reinforcing
  - Lunch Garden
    - Policy choices: how to organize the workforce and deal with Unions
    - Asset choices: location of restaurants
    - Governance choice: ownership or franchise
  - Uitgebreide reading
  - Niet alleen de keuzes die je maakt, maar ook de gevolgen. Belangrijkste is dat er een cyclus gecreerd wordt. Tekening maken van hoe zaken in elkaar zitten.
  - Examenvraag: Teken een business model
- Walmart (Retail) Business Model: Virtual Cycle

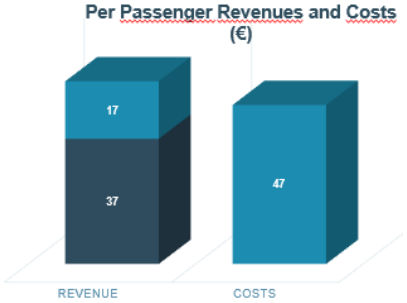


Voorbeeld van low cost retailer
Denk Colruyt: denk na over dynamiek waarde creatie en captatie voor Walmart. Grote volumes geven schaalvoordelen. Schaalvoordelen geven lagen kosten. Lage prijzen leiden tot hogere volumes. Lager volume geeft ook voordeel in onderhandelingsmacht
Hoog volume: investering in IT: betere informatie: lagere voorraden, lagere kosten, lagere prijzen, hogere volumes, schaalvoordelen, onderhandelingsmacht

  - Betere voorspellingen: hoeven geen solden te doen. Solden wanneer stock niet goed verkoopt. Lagere kosten, lagere prijzen, zo cyclus weer

    - Geen boekje want geen solden; minder advertising kosten, weer in cyclus
    - Gevaar van model. Waar stopt dit? Enorme druk in bedrijven om model in gang te houden.
    - Dynamiek belangrijk om heel goed te verstaan. Ryanair en Colruyt begrijpen die heel goed
- Innovation, Cost and Sustainability
    - Walmart says: "Today's new square or case-less milk jugs do not require crates or racks for shipping and storage. Instead, the newly designed milk gallon is self stacking because the spout is flatter and each gallon can rest on another during transport, as well as while on display. It's estimated trucks used for **shipping** from the processor to club can accommodate **9% more milk -- 4,704 gallons per truck or approximately 384 more jugs** -- without any metal racks.* In addition, the flat top and wider spout do not come in contact with other equipment during filling reducing the risk of possible contamination. At a time when the impact of food inflation appears on every grocery receipt, the new case-less jug also delivers a **cost savings of 10 to 20 cents**."
    - Geen top: interessant om te kunnen stapelen. Gebruikt ook veel minder materiaal, maar interessante is dat Wal-Mart goed weet wat de gevolgen ervan zijn.
    - 384 meer melkbussen omdat ze beter kunnen stapelen. 10-20% kostenbesparing wat ze dus in prijs kunnen doorrekenen
- Ryanair "Business Model" Per Passenger Service and Ancillary Revenue and Costs (2019)

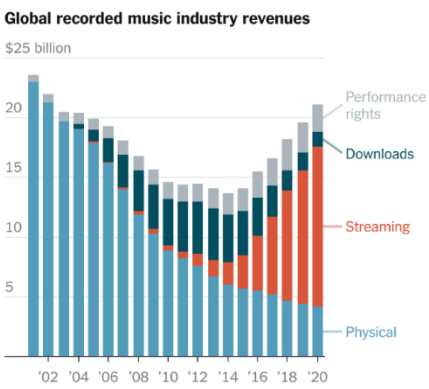




    - Ryanair ging op bepaald moment laten betalen voor toiletbezoek tijdens vlucht. Om het aantal mensen dat toiletten gebruikt te verlagen zodat ze minder toiletten moeten plaatsen en meer stoelen kunnen plaatsen. Zo kan prijs naar beneden. Hij doet alleen maar zaken die iets gaan opleveren binnen model van Ryanair
    - 68% service revenue: betalen voor vlucht
    - 32% van andere zaken. Bv reclame op vliegtuig, betalen voor valies, verschillende manier hoe Ryanair tract waarde te capteren
    - Inkomsten met alleen wat ze voor vlucht aanrekenen komen ze er niet. Belangrijk om op andere manieren omzet binnen te halen.
- What is Spotify's Value System? Business Model?
    - Hoe gaan ze van creëren waarde naar capteren waarde?
    - Value systeem: waar je als organisatie ingebed bent om te kijken naar omgeving. Moet zien wie andere spelers zijn. Hebt artiesten, labels, verschillende spelers zoals onder ander Spotify. Dan reclame. Sociale interactie mogelijk met artiesten via fb, twitter, instagram, tiktok. Ook fysieke connectie. Vorig jaar eerste jaar dat er terug veel vinyl verkocht wordt. Wat is value system? Als speler ben je nooit alleen. Bedrijf creert gaan waarde op zich. Heeft interactie met andere spelers en hier komt waarde creatie en captatie bij kijken.
        - Cost of sales bij Spotify: betalen aan artiesten Spotify? Nee, betalen aan diegene die muziek in eigendom hebben; vaak record labels. Hierbij krijgen echte artiesten meestal niet zoveel. Meeste blijft steken bij record labels.
    - Business model: mensen lokken door gewoon account met veel reclame,
        - subscription vs advertising support. Bij advertising supported: negatieve marge. Nadenken over dynamiek. Bedoeling: gratis klanten binnen krijgen; tonen wat hebben,

waarde verlagen door advertenties toe te voegen en proberen tot subscripties te leiden. Eerst gratis en dan conversion. Kijken naar conversion rate (gratis naar betalend)

Spotify			
	2019	2020	2021
Premium			
Revenues	6086	7135	8460
COGS	4443	5126	5986
Gross Margin	1643	2009	2474
%	27%	28%	29%
Ad-Supported			
Revenues	678	745	1208
COGS	599	739	1091
Gross Margin	79	6	117
%	12%	1%	10%
Total Gross Margin	1722	2015	2591
R&D	615	837	921
Sales & Marketing	826	1029	1135
General & Administration	354	442	450
Operating Profits	-73	-293	85



Over laatste Jaren enorme groei in streaming. Wie heeft ervan geprofiteerd? Spotify? Resultaten over de voorbije Jaren waren negatief. Brutomarges zijn een beetje verhoogd, maar niet veel. Wie profiteert nu? Inkomsten zijn hoger doorheen de Jaren. Record labels halen waarde allemaal binnen. Daarom belangrijk om naar value system te kijken. Aantal record labels is IPO gegaan door enorme groei in streaming. Geld wordt door hun gecapteert

- Kan Spotify blijven bestaan? Ziet er niet goed uit.
- Waar ga je muziek halen als Spotify stopt met bestaan? Apple music, sound cloud, google, amazon. Als je record label en je Spotify laat verdwijnen. Dan heb je risico dat je met Apple, google, Amazon etc moet gaan onderhandelen die hun business subsidiëren. Gaan Spotify laten overleven, maar denkt niet dat die later veel gaat verdienen

Quiz: Building competitive advantage

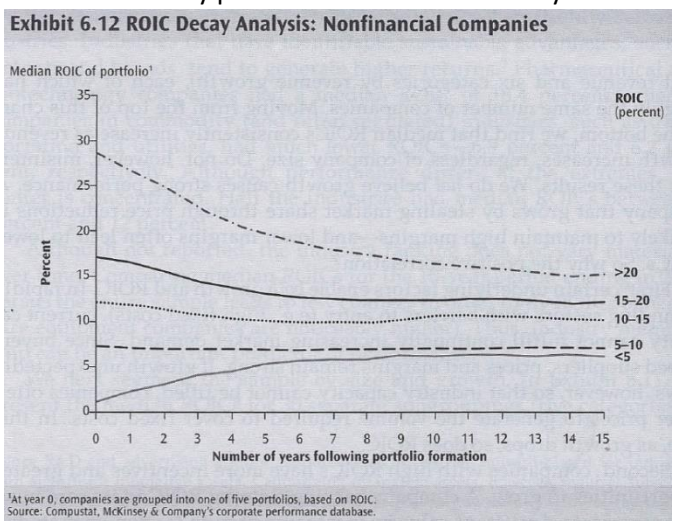
1. True or False: A firm is said to have created a competitive advantage over its rivals if it has driven a wider wedge between willingness to pay and costs than its competitors have achieved
   a. False
   b. True
2. True or False: The differentiation analysis is based on the idea that attaining low costs and offering customers low prices is the best way to compete.
   a. True
   b. **False**
      i. There is a closer focus on differentiated ways of competing with e.g. premium price by improving customers' performance or reducing their costs
3. True or false: According to Porter's idea of generic strategies of low costs and differentiation, successful companies can compete both on the basis of low cost and differentiation
   a. True
   b. **False**
      i. According to Porter's idea, competitive firms can compete either on low costs or by differentiating products on quality and performance characteristics
4. True or False: The added value of any player in the value chain is the difference between customer's willingness to pay and the supplier's opportunity cost.
   a. True
   b. False
      i. The total value created by a transaction is the difference between customer's willingness to pay and the supplier's opportunity cost. The added value of one player is the maximum value that can be created by all participants in the vertical chain minus the maximum value that would be created without the particular player

5. Put the steps of positioning analysis in the correct order:
   a. Analysing how each activity generates customer willingness to pay, studying differences in activities
   b. Cataloging the business's activities
   c. Exploring different strategic options and making choices
   d. Examining costs associated with each activity in order to analyse relative costs
   1. Cataloging the business's activities
   2. Examining costs associated with each activity in order to analyse relative costs
   3. Analysing how each activity generates customer willingness to pay, studying differences in activities
   4. Exploring different strategic options and making choices
6. True or False: the resource-based view of the firm combines internal analysis of the phenomena within companies with the external analysis of the industry and the competitive environment
   a. True
   b. False
7. True or False: The test of competitive superiority means that a firm should internally assess whether its core competences are relatively better than all its other competences
   a. True
   b. False
      i. Resources of a firm should be evaluated interplay with the market forces. There should thus be an external assessment of what the firm does better than its competitors
8. True or False: Because all resources depreciate, an effective corporate strategy requires continual investment in order to maintain and build valuable resources
   a. True
   b. False
9. Identify the common strategic errors of managers
   a. Managers tend to overestimate the transferability of specific assets and capabilities
   b. Managers overestimate their ability to compete in highly profitable industries
   c. Managers assume that leveraging generic resources will be a major source of competitive advantage in a new market, regardless of the specific competitive dynamics of that market
   d. Managers tend to upgrade to alternative resources that are threatening the company's current capabilities

Topic 5: Sustaining Competitive Advantage

6) Understand the Sustainability of your Competitive Advantage

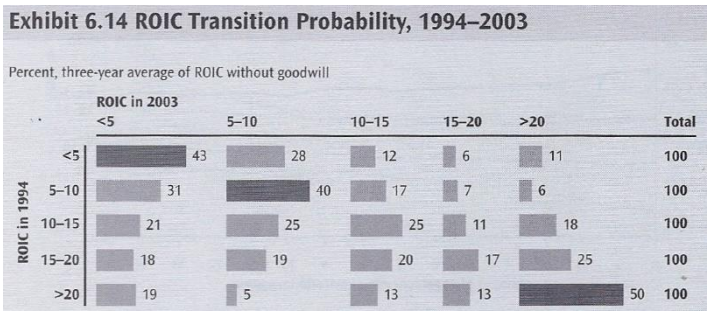
- Are there any patterns in ROIC? Persistency?



In jaar 0 hebben ze bedrijven onderverdeelt in 5 groepen. Eerste groep had heel hoge return on invested capital. Laatste groep dicht tegen 0 en andere groep ergens tussen. Toen hadden ze groepen over de tijd gevolgd. Top lijkt naar beneden te gaan en vanonder verbeteren ze

Convergentie na 5/7 jaar. Vandaag miss iets sneller

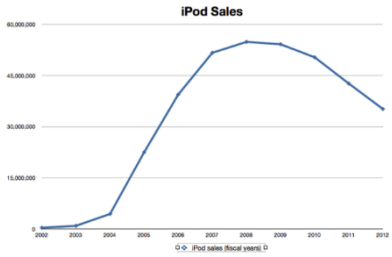
Waarom gebeurt dit? Kijken naar wat diegene vanboven aan het doen zijn en proberen om te verbeteren.

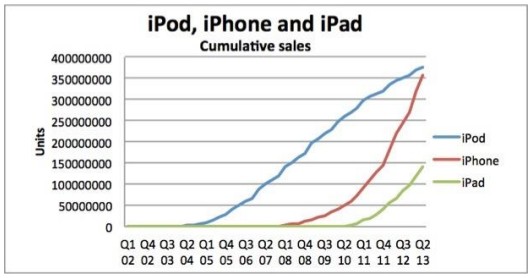


Voorbeelden die hij vaak aanhaalt zijn bedrijven die het heel goed doen en blijven goed doen.

Als je vandaag goed doet zal het niet perse blijven goed gaan. Blijven zoeken naar mogelijkheden

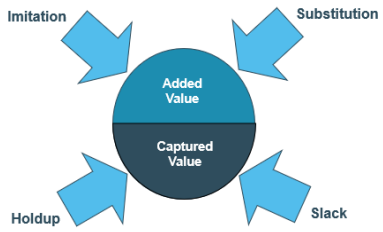
- Apple iPod





Gaat een tijd goed, erna tijd dat iets minder gaat; moet met iets nieuws uitkomen. Ipod blijven? Nee

Threats to Sustainability



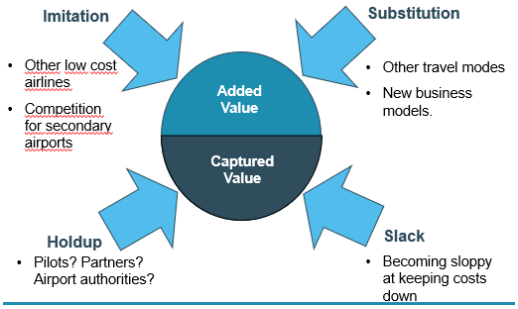
Imitation: Rivalry & Entry

Substitution

Hold up: Buyers, Suppliers & Complementors

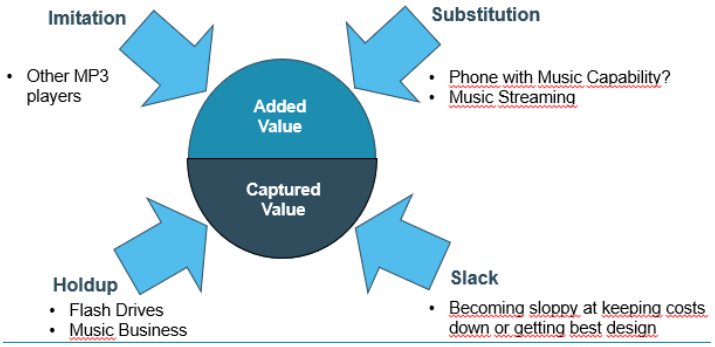
Zaken die druk uitoefenen op waarde creatie en potentieel voor waarde captatie. Imitatie gebeurt altijd. Hoe makkelijker anderen het ook kunnen doen: hoe meer druk op resultaat

- Substitutie: op een ander manier vervullen. Onmiddelijk geimiteerd, maar consument kan aanwenden als alternatief
- Slack: kosten moet je blijven drukken.
- Holdup: andere spelers in waardeketen proberen ook te verdienen aan waarde door anderen te capteren.



Imitation: Rivalry & Entry
Substitution
Hold up: Buyers, Suppliers & Complementors
Model wordt aangevallen door nieuwe spelers: imitatie
Moeilijker om iets aan te doen is substitutie. Zie HST.
Meest drukke route vliegtuig tussen Barcelona en Madrid: luchtbrug. Eens HST er was gingen ze meer met trein ipv vliegtuig

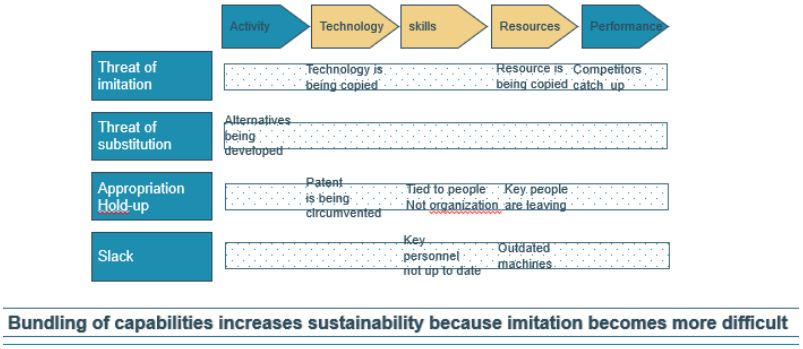
- Holdup: wat gebeurt als conjunctuur verbetert en luchtvaartmaatschappijen goed te draaien: terugbetalen of delen in winsten. Luchthavens zelf gaan heronderhandelen.



MP3 spelers.
Apple was eerste MP3 speler die goed werkte. Interessanter: wat is substituut voor MP3 speler. Vandaag de dag geen MP3 meer, streaming is substituut. Stel dat alles op telefoon kan. Apple brengt Iphone uit. Telefoon met muziek. Wat weten wij van telefoons? Met wie gaan we concurreren? Geen evidentie dat ze dat gingen realiseren.

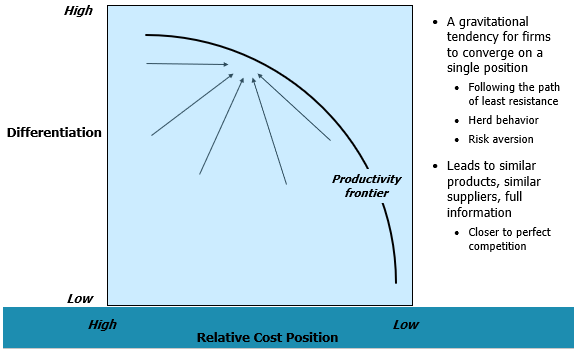
Wel duidelijk dat als ze niets doen ze business kwijt zijn

- Vandaag de dag niet evident om weinig slack te hebben. Steve jobs bv pakte werknemers hard aan, zou nu niet meer mogen
- Prijs flash drives stijgen. Wie gaat waarde capteren? Toshiba en Samsung. Apple heft contract afgesloten met hun voor 40% markt van flashdrives. Zo zorgde ze ervoor dat ze niet opgehouden warden door hard drive manufacturers
- Muziek business: Steve jobs akkoord met muziekproducenten om muziek per lied te verkopen. Kon ze maar op 5 verschillende telefoons -> hadden digital rights management. Was erg belangrijk voor waardecreatie en captatie
- Hoe makkelijk kan het geïmiteerd worden?
- Evaluating the sustainability of a competitive advantage at capability level



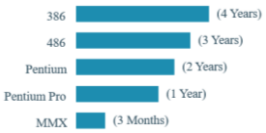
Imitation: Apple vs Google disputes, Apple vs Samsung.
Substitution: Store in the CLOUD vs Hard drive locally; hard copy (CD DVD) versus digital storage,
Appropriation: Steve Jobs gone, Consulting & Law Firms
Slack
Bij ipad hebben ze verschillende versies gemaakt; proberen continu te verbeteren en te innoveren

1) Imitation – Not being Different



- A gravitational tendency for firms to converge on a single position
  - Following the path of least resistance
  - Herd behavior
  - Risk aversion
- Leads to similar products, similar suppliers, full information
  - Closer to perfect competition

- Duration of Intel monopolies

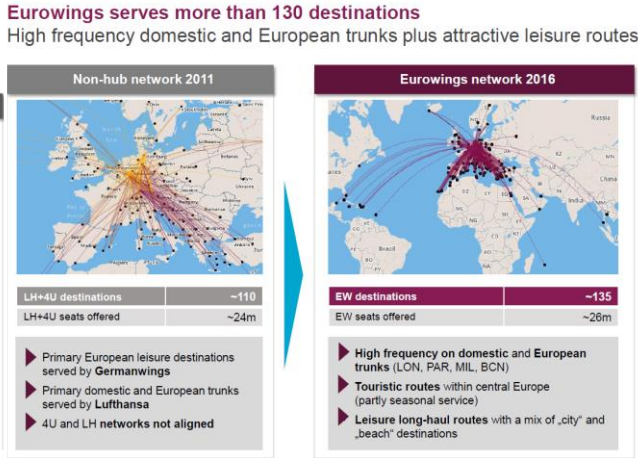


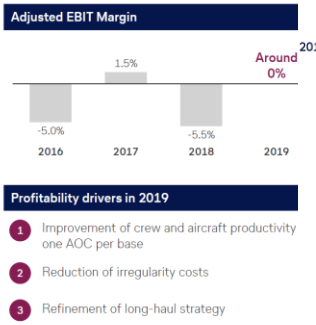
- **Barriers to imitation**
  - Economies of scale and scope
  - Learning / private information
  - Contracts and relationships / legal restrictions
  - Network externalities / Switching costs
  - Threats of retaliation
  - Causal ambiguity/Social complexity/Complexity
  - Upgrading / Crowding the Market
  - Ryanair
    - Grows fast and generates scale and scope
    - Tie airport authorities to them by more favourable contracts
    - Start price wars on particular routes
    - Causal ambiguity: .9x.9x.9… for 20 activities 12% everything correct

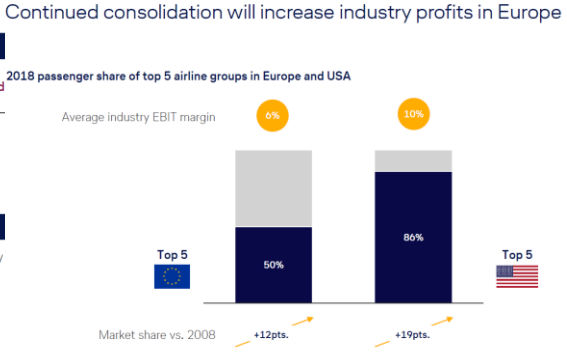
2) Substitution

- Substitution reduces the "demand" for what a firm uniquely provides by <u>shifting the demand elsewhere</u>
  - Due to changes in technology, customer needs, input prices, etc.
  - Provides higher WTP and / or lower costs to substantial segment of customer base
- Substitution threats can be subtle and unexpected *"Substitution is to imitation as bombardment is to forcing a door" (J. Schumpeter)* (belangrijke econoom)
  - Videoconferencing vs. Air Travel
  - On-line vs. Conventional Trading (Brick & Mortar)
  - Analog versus Digital Photography
  - Internal Combustion Engine versus Electric
  - Car sales versus car sharing
- For this reason, substitution is an especially effective way to attack dominant players
- Kennen concurrenten: substitutie is veel moeilijker te voorzien. Bv videoconferenties vs air traveling.

- **Responses to substitution**
  - Do not respond
  - Fight the threat
    - Incorporate their WTP benefits / cost reductions
    - Face up to your loss of uniqueness, and reduce price before the substitute gets a foothold
    - Further differentiate
  - If you can't beat them, join them
    - Will you have a competitive advantage?
    - Will you accelerate undesirable cannibalization?
    - Will you face straddling problems?
  - Take the money and run
  - Hub-and-Spoke airlines
    - Fight with own low cost airline
    - Go "low cost": cut service and amenities, drop prices, further differentiate. Only business class.
    - Most straddlers lost a lot of money
  - Amazon versus Walmart
  - Vechten tegen substitutie en trachten te doen wat zij doen.
  - Zaak die elke airline geintroduceerd heeft: laten betalen voor bagage





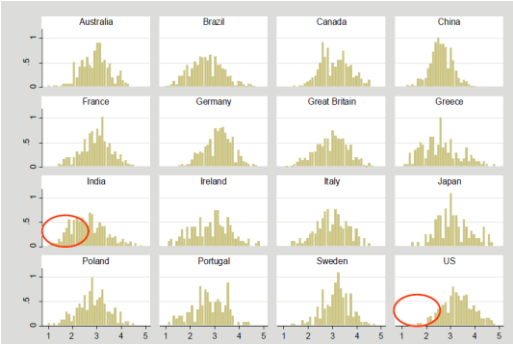


3) Holdup

- Holdup diverts value to customers, suppliers, or complementors who have some bargaining leverage
  - They have bargaining leverage because they have something you need and can't get elsewhere (added value)
- Holdup is especially threatening when parties in a relationship have invested in assets that are specific to that relationship (so it's hard to walk away): quasi-rent
  - An electric plant built at the mouth of a coal mine
  - Skills that are tailored to a particular employer

- **Responses to holdup**
  - Contractual arrangements
    - But contractual incompleteness limits this option
  - Multiple sourcing (make others *dispensabl*e)
    - But investments in relationship specific assets are important
  - Vertical integration
  - Tough negotiation
  - Build relationships / Trust

4) Slack

- Slack: extent to which the value appropriated by a firm falls short of the amount potentially available: X-inefficiency
- Slack is hard to identify...
- …but slack is thought to be large…
- Slack tends to be worse under certain conditions
  - Forgiving competitive environments
  - Settings in which managers must have wide discretion over productive processes
- Monitoring Targets Incentives
- Management Practice Across the World (Bloom & Van Reenen, 2009 GSB)
  - 

- **Responses to slack**
  - Monitoring of performance
    - Benchmarking
    - Time-motion studies
    - Outsiders on Boards
  - Managerial incentives
    - In the past, on average, top executives got roughly $3.25 for each $1,000 of shareholder value created (Jensen & Murphy, 1990)
  - Commitments to return cash to shareholders
    - E.g., dividends
  - Appeals to a higher calling, a sense of mission (Culture)

- Apple iPod and Sustainability
  - Against **Imitation**:
    - New versions of iPod
    - Crowding the market (nano, shuffle, iPod, iPod (xGB), iPod video,…)
    - Continuous upgrading of applications
  - Against **Substitution**:
    - Develop iPhone
  - Against **Hold-up**:
    - Lock up 40% flash memory
    - Keep music business in check through DRM
  - Against **Slack**:
    - High powered incentives management and employees
    - Exciting work environment
    - Secrecy and expectation in new product development

7) Test your Strategy

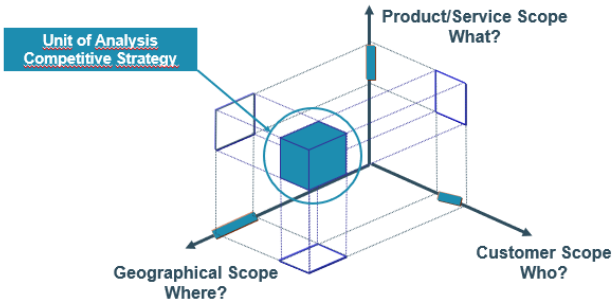
- Denk na over elementen waarde creatie en captatie en hoe je erop in kunt gaan

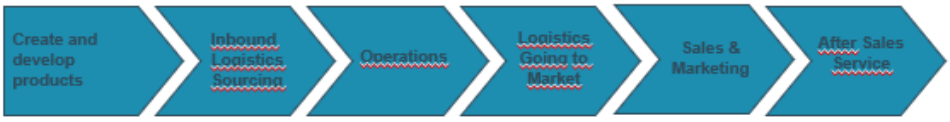
1. *Internal* consistency – coherence
2. *External* consistency – coherence
3. *Dynamic* consistency

- 3 vragen: Hebben we interne/externe en dynamische consistentie?

1) Internal Consistency – Coherence

- Do the elements of the strategy fit well with each other? Are there complementarities between the different elements of the strategy?
  - Does your scope match your activities, your resources and capabilities?
  - Do your activities all reinforce your competitive advantage?
  - Are you developing resources and capabilities that fit and reinforce your competitive advantage?
- Greenyard Foods: frozen, local produce, price conscious customer
- Lunch Gardens: not you as a customer!
- Ryanair Scope: Tourists, Price conscious, point-to-point flights, Secondary airports
- Walmart Scope: price conscious, low-middle income buyer, range of products, suburbs and smaller towns
- Ryanair, Wal-Mart Activities: all focus on Low Costs
- Both companies have a low cost strategy consistent with scope.
- Resources and Capabilities all focused on Low Costs. Is er een fit?
- Defining Scope of a Business



- The value chain
  - Company must be broken down in activities in order to identify the drivers of competitive advantage
  - 

2) External Consistency – Coherence

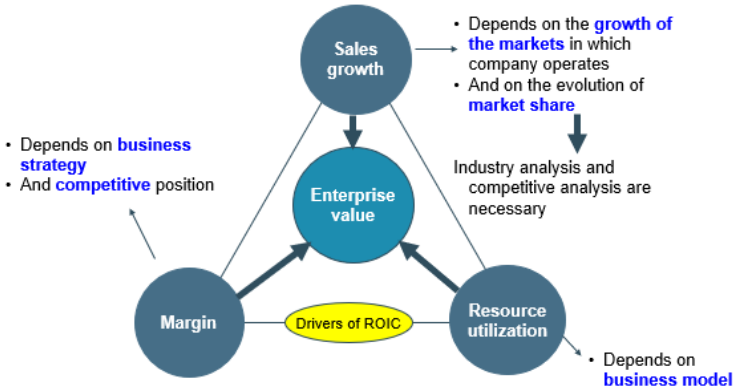
- Does the strategy neutralize the threats posed by the external environment? Does it take advantage of the opportunities?
- Objective:
  - Neutralize the pressures on value capture of rivals, potential entrants, substitutes, buyers and suppliers
  - Take advantage of opportunities provided by complementors
- Very competitive industry (retailing and airlines).
- Size/Monopoly neutralizes several factors.
- Neutralize Supplier power.
- Hard for entrants and substitutes to get footing if you are constantly reducing costs.
- Hoe neutraliseren verschillende elementen omgeving. Ducati goed gedaan? Probleem: na aantal Jaren te ver afgezakt naar Japanse merken en kreeg reactie -> business model ging teniet

3) Dynamic Consistency

- Is the strategy set up to help sustain competitive advantage over time?
- Objective: Neutralize the **threats to sustainability** of competitive advantage
  - Imitation
  - Substitution
  - Hold up
  - Slack
- Did the example for Walmart already. How Walmart got into Supercenters, starting in Arkansas
- How Apple got into consumer electronics
- Wat gaat druk zijn op modellen? Qua imitatie, substitutie,.. En hoe neutraliseren?
- Voor Ducati case hebben we alle stappen doorlopen van opbouwen competitief voordeel, kijken naar omgeving en duurzaamheid competitief voordeel analyseren

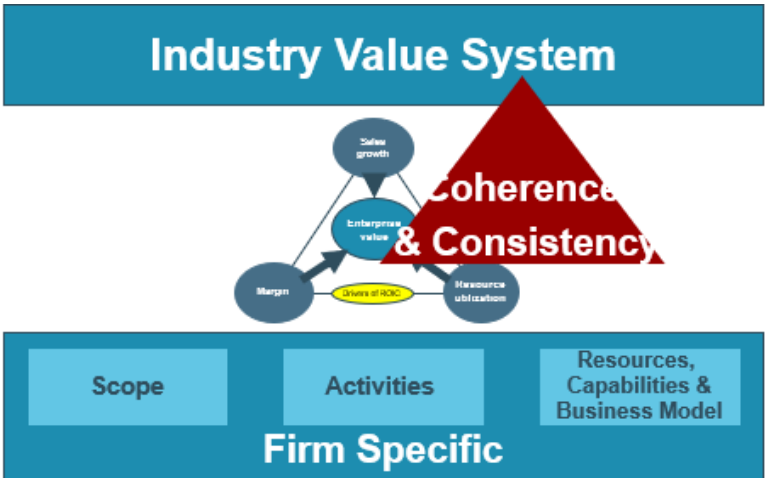
Putting it all Together

- The keys to capturing value



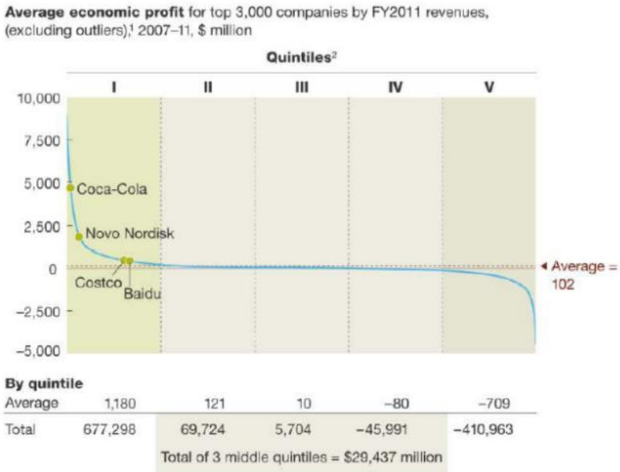
Vaak problemen gerelateerd aan inconsistenties. Die worden getracht opgelost te worden. Waarde captatie over tijd heen en handvaten die captatie beïnvloeden

- Strategy and the Drivers of Enterprise Value



Figuur waarmee we begonnen zijn. Alle elementen moeten in elkaar passen. Eerst gekeken naar industry value system; omgeving en analyse hiervan. Positionering organisatie: scope, activiteiten, resources. Coherentie is kritiek. Klopt het of niet?
Consultants gaan zien waar Plaatje al dan niet klopt

- Distribution of Economic Profit



Economic profit bedrijven. Geen extra overwinsten. Sommige bedrijven doen het heel goed

- The Odds of Moving up after a Decade

Starting Position On Power Curve	Ending Position On Power Curve: Bottom	Middle	Top
Top	15	26	59
Middle	14	78	**8**
Bottom	43	40	17

8% diegene die in midden beginnen gaan erna naar de top. Dat zijn de interessante die we willen analyseren.
Ducati had ook tijd nodig en nu heel sterk dankzij beslissingen 10 jaar geleden
Volgend niveau strategie is corporate strategy: in welke business moet je concurreren

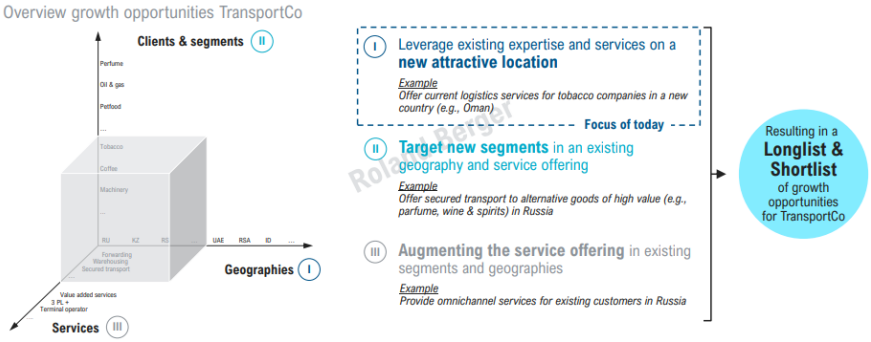
Topic 6: Putting it all together

RolandBerger Consulting Case Discussion: Consultant for one Day NOG AANVULLEN

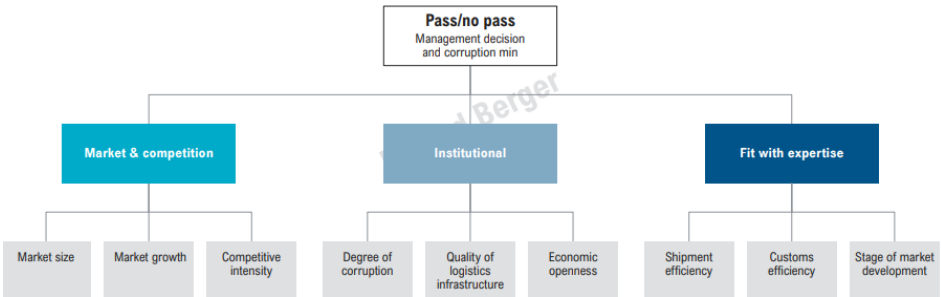
As annual growth has been below managements' expectations, TransportCo's management has hired you for advice to embark on a new growth journey

1. Which growth strategy should we follow in order to achieve sustainable and lasting growth for the coming years?

- What are the options for TransportCo to grow its revenue? What growth strategy do you prefer?
  - **Growth strategy**
  - Long term growth can be achieved along 3 axis – Entering new geographies has most sustainable potential for TransportCo as it reduces dependency on RUS



- How would you prioritize geographies? Which screening criteria would you use to assess these geographies?
  - **Macro-screening of countries – Step 1**
  - We defined 6 criteria to assess geographical relevance from an objective perspective and 3 criteria to assess the geographical fit with current expertise



- Based on the 3 different views, which regions would you prioritize?
  - **Macro-screening of countries – Step 2**
  - We prioritized 6 out of 21 clusters for a deepdive – Selection was based on attractiveness and fit, but also included extra input from management

Cluster	Market growth[1] [EUR bn]	Competitive intensity	Institutional context[2] [0;5]	Fit with expertise[3] [0;5]
1 Southeastern Asia [SEA]	104	Medium low	3.0	3.7
1 Indonesia [IDN]	111	Medium low	2.9	4.2
India [IND]	167	Low	2.7	2.6
Russia [RUS]	53	Medium high	1.9	4.4
2 Northern Africa [NAF]	26	Medium low	1.5	5.0
Southern Africa [SAF]	14	Medium low	2.8	3.6

Cluster	Market growth[1] [EUR bn]	Competitive intensity	Institutional context[2] [0;5]	Fit with expertise[3] [0;5]
China [CHN]	856	Medium high	3.1	2.4
3 Central Asia [CAS]	27	Medium low	1.2	4.8
Eastern Europe [EEU]	11	Medium low	1.7	4.9
Southern Europe [SEU]	17	Medium high	3.4	3.6
4 Central Europe [CEU]	31	Medium high	3.7	2.5
5 Western Asia [WAS]	57	Medium high	1.8	4.3

High score | Low score | Strong relatedness with Russia | XXX Deepdive | XXX Excluded because of current presence | XXX Excluded because of management decision

1) Market growth is the expected added value to the logistics market within the next 5 years, based on the current logistics market size and expected market growth; 2) Institutional context score is an equally weighted combined score of the 3 dimensions of View 2 (quality of logistics market, EFI, and CPI); 3) Fit with expertise is an equally weighted combined score of the 3 dimension of View 3 (complexity of customs process, trade flow to Russia, and market dev. stage)

Cluster	Market growth[1] [EUR bn]	Competitive intensity	Institutional context[2] [0;5]	Fit with expertise[3] [0;5]
Eastern Asia [EAS]	0	Medium low	2.0	4.6
Balkan States [BALK]	7	Medium high	3.0	3.3
Central Africa [CAF]	14	Low	1.0	3.2
6 Gulf Cooperation Council [GCC]	44	High	3.2	2.1
Southern Asia [SAS]	83	Low	1.1	1.7

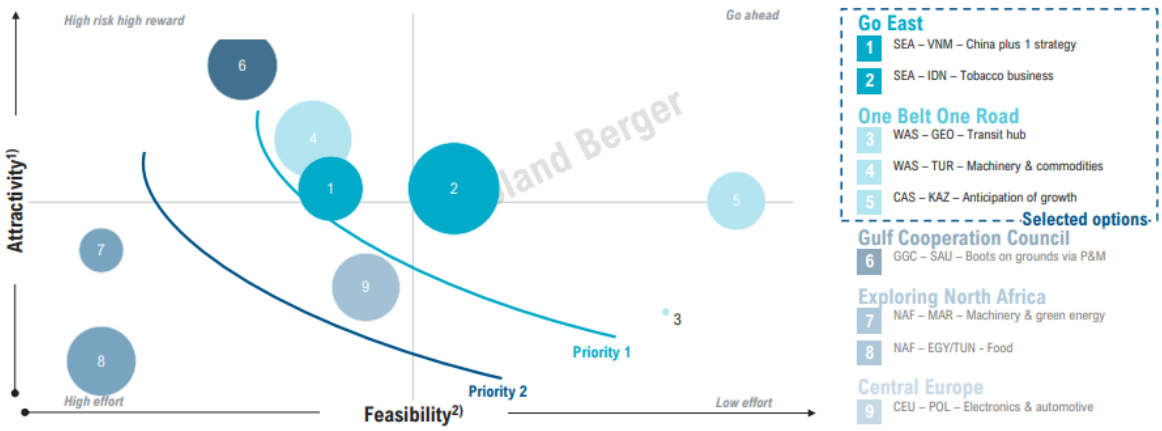
Cluster	Market growth[1] [EUR bn]	Competitive intensity	Institutional context[2] [0;5]	Fit with expertise[3] [0;5]
Baltic States [BALT]	4	High	4.0	2.3
Eastern Africa [EAF]	55	Low	1.1	1.4
Japan [JPN]	47	High	5.0	0.1
South Korea [KOR]	21	High	4.3	1.2

High score — Low score; XXX Deepdive; XXX Excluded because of current presence; XXX Excluded because of management decision; XXX Excluded because of low attractiveness

1) Market growth is the expected value which will be added to the logistics market within the next 5 years, based on the current logistics market size and expected market growth; 2) Institutional context score is an equally weighted combined score of the 3 dimensions of View 2 (Quality of logistics market, EFI, and CPI); 3) Fit with expertise is an equally weighted combined score of the 3 dimension of View 3 (Complexity of customs process, trade flow to Russia, and market dev. stage)

- In the deepdive we further deepened our analysis and based on Attractivity and Feasibility mix, 5 strategic options were selected

Overview feasibility and attractivity of opportunities

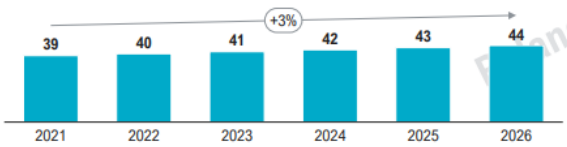


1) Attractivity considering the logistics market size, competitive intensity, local purchasing power and fit with operational assessment; 2) Feasibility considering the connection with current clients, institutional context and link with Russia; 3) Bubble size represents market size of specific logistic services per country on a natural logarithmic scale

- Taking into account both attractivity and feasibility is key in a prioritization exercise in order to develop a realistic growth plan
  - During a prioritization exercise it is key to not only look at the attractiveness of the opportunity (e.g., market growth and market size) but also consider the feasibility of the opportunity (e.g., presence of current customers, competitive intensity)

As a smaller market, KAZ overall attractiveness is lower, however, TransportCo connections with the market make it highly feasible

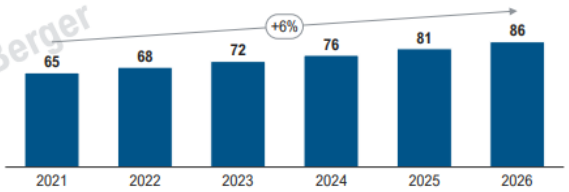
Logistics market size KAZ, 2021-2026F [USD bn]



- TransportCo is **currently active in neighboring countries** and **current customers** have **voiced interest in potential warehousing collaboration**
- Due to **close link with Russia** and **political dynamics** of market **large transportation service providers** are a bit **wary about increasing activities** in KAZ market

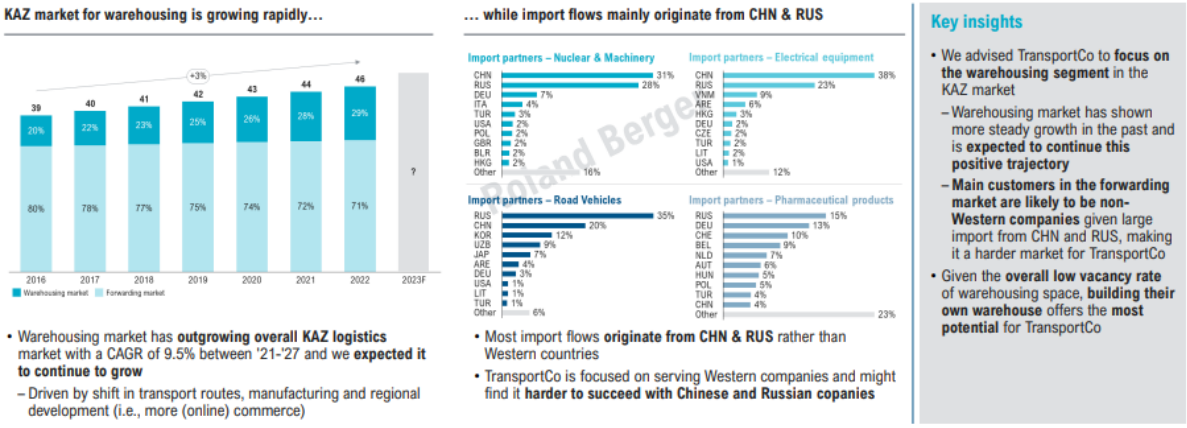
SAU is home to one of the largest logistics market thanks to its rapid development of the economy, but TransportCo chances of success are low

Logistics market size SAU, 2021-2026F [USD bn]

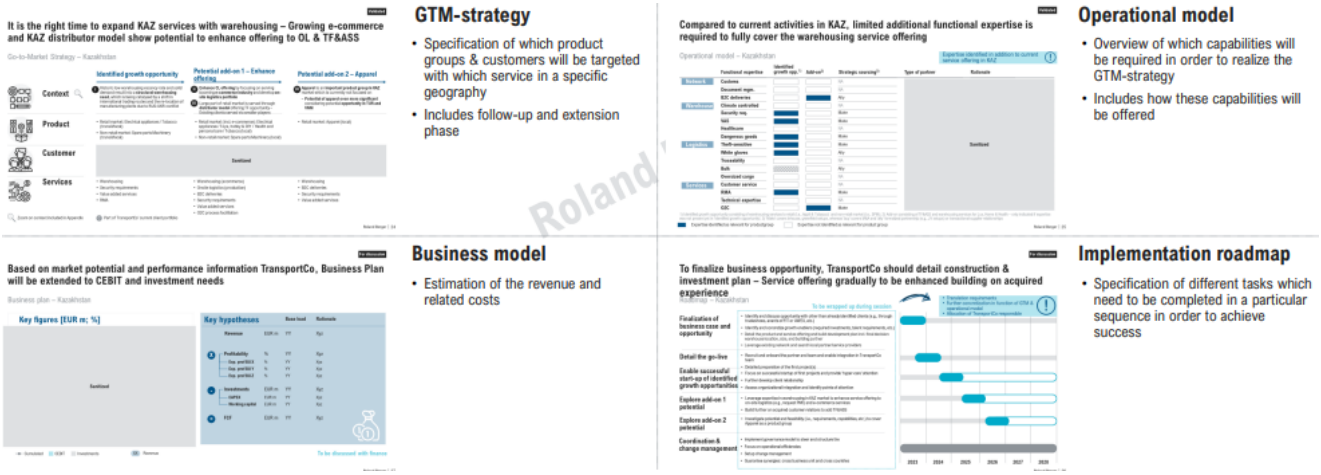


- SAU is at the **brink of large development plans** in order to diversify economy away from oil and gas
- **All international players are active in the SAU** market which is also characterized by **strong domestic players** for the local market
- **Need for local partner is high** to navigate complex political environment

- How will TransportCo enter the prioritized markets? What is the Go-to-Market strategy? What items would you consider to determine a market entry strategy
  - **Market entry strategy**
  - One of our recommendations for TransportCo was to enter the KAZ market through building their own warehouse



  -
  - To help our client enter the KAZ market successfully, we developed next to the GTM-strategy, an operational & business model, and an implementation roadmap

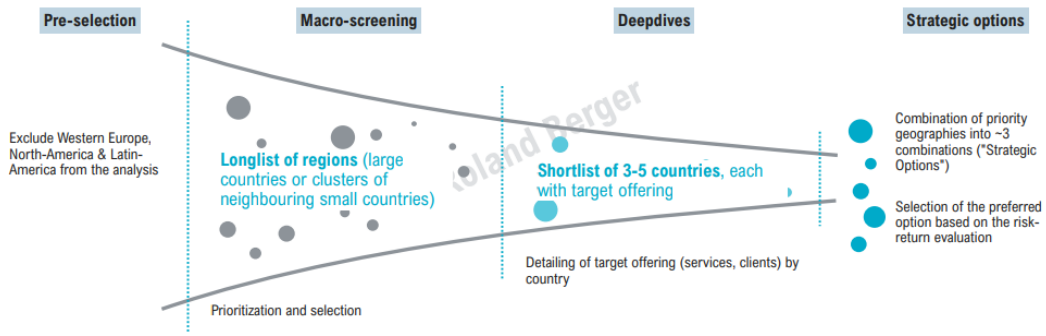


-
2. Which criteria would you use to rank and prioritize different growth options?
3. Which elements should we take into consideration when developing our growth strategy?
- We typically propose a 3 step approach to tackle growth and strategic development projects – Setting ambitions and planning validation points are key
- 1) What is our ambition?
  - Agree on long-term aspirations & objectives
    - Vision & aspiration: what TransportCo wants to achieve
    - Quantitative objectives: market share, revenues, EBIT
    - Investment criteria & principles
  - Assess TransportCo' current positioning & USP
    - Evaluation of current performance compared to key criteria for differentiation
    - Formalizing and detailing the USP and the current strengths
  - -> 2 weeks
- 2) "Where to Play?"
  - Macro screening of geographies
    - Mapping and evaluating (current and future) geographies based on match with TransportCo' USP (market size of valuable goods, import regulation, etc.)

- Pragmatic Deep-dives on top ranked segments
  - Assessment of products, customers per top ranked destination geography
  - Prioritization based on attractiveness and accessibility of market segments (e.g. size, growth, competition, profitability, Belgian export)
- Evaluation of strategic options
  - Define c.3 combinations or market segments into strategic options, with different risk exposure, return on investment, etc.
- -> 4 weeks

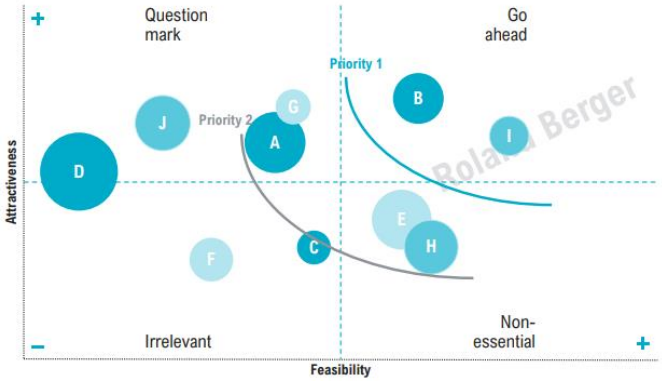
- 3) "How to Win?"
  - Detail TransportCo' go-to-market & operating model
    - Go-to-Market definition, i.e. greenfield/ brownfield vs. M&A vs. partnerships
    - Fit-gap analysis with development requirements
    - Identification of necessary resources and impact on the organization
    - Adjustment of the governance model and group structure for anchoring and monitoring the strategy
  - Define TransportCo' business plan
    - Future funding needs and financing sources
    - 5-year business plan and 10-year outlook
  - Define TransportCo' implementation plan
    - Activities to achieve strategic goals being mapped in a roadmap
    - Argumentation and action points for key "stakeholders"
  - -> 4 weeks
- Example of typical screening approach: Using a funnel approach allows for efficient prioritization of strategic options – Narrowing down the scope will increase quality of actual analysis

Funneling mechanism



- Attractivity and feasibility analysis: Taking into account both attractivity and feasibility allows for companies to focus on attractive opportunities in which results can be realized

Prioritization based on attractiveness/feasibility - Illustration



- **Attractiveness and feasibility** is typically performed on shortlist of strategic options (after a first filtering)
- A **systematic approach** will define priorities based on the position within the market segment matrix
- Segment attractiveness is normally assessed through **market size**, **growth** and **profitability**/ competitive intensity e.g.
- Feasibility will be typically evaluated through fit with key **strengths** & capabilities, **link with current business model**, **time to market**, **risk**, **investment** requirements, **synergy** potential

- Market entry strategy: How you enter the market can significantly influence overall success of your entry – Finding the right balance between risk and return is crucial

- How do we get our insights: To identify our insights and test our assumptions we rely on several internal and external sources – Collaboration with experts of the client is key to success

-

Ducati Case

What is Ducati's business scope?

- Geographic: Asian pacific is leading region, US in second place. Vooral noord Amerika en Europa
- Customer: Jongere mensen/ racers
- Product: High performance, Quality, Sport
- Wat verkoopt Ducati? Kwaliteit? Niet perse heel gekend voor. Consistente scope? Ja

How does Ducati create value?

- Nieuw management, meer investeringen in R&D
- World of Ducati
- Value
  - Nieuwe modellen uitbrengen, WTP is hoger omdat mensen laatste nieuwe willen
  - Welke accessoire belangrijk voor Ducati? Uitlaat: Ducati maakt speciaal lawaai
- Kosten: outsourcing: minder kosten. Waar deden ze outsourcing? Speciale regio in Italië. Hoe creëert het waarde? Productie gaat sneller omdat outsourcing bedrijven gespecialiseerd zijn. Wat doet specialisatie? Lagere kosten, sneller, meer kennis en efficiëntie. Zijn schaalvoordelen, leercurve kan ook meespelen om kosten te verlagen
  - Als er meer kennis is, hoe waarde creëren voor ons? Betere kwaliteit dus hogere WTP
- Waarom R&D zo belangrijk?
  - Nieuwe modellen, verhoogt WTP
  - Wat grootste probleem voor Ducati? Als ze geen high performance zouden kunnen hebben. Moeten dat kunnen behouden
- Ook heel aantal investeringen in intangibles

How does Ducati capture value?

- Hoe connecteren we waarde creatie aan waarde captatie?
- Minoli vooral geïnvesteerd in brand. Hoe terugverdienen? Prijzen. Wat zou je doen? Verhogen? Heeft Minoli dat gedaan? Zie exhibit 5. Price premium: wat ze extra vragen tov gelijkaardige modellen van concurrenten. Verandert marge? Niet zoveel nee.
- Waarde captatie: (WTP- P) + (P – cost).
  - Ofwel spelen op marges ofwel
- Enorme groei in aantal verkocht. Waarde captatie kan hierdoor gebeuren. Prijs is niet verhoogd.
- Wat doen ze nog? Customer acquisities model is dat ze beginnen bij lage prijs in hoop dat ze later model met hogere prijzen kiezen. Hierop niet perse super hoge marges -> kijken naar NPV over verschillende jaren. Waar reflecteert het zich? Wachten totdat mensen nieuwe moto gekocht hebben? Waarde reflecteert in perspectief dat klanten andere modellen kopen. Total NPV bedrijf: entreprise value. Winsten gaan niet in proportie omhoog. Eigenlijk goedkope motors tegen kleine marge om klanten binnen te lokken. In de toekomst ook veel mensen kopen tegen hogere marges
- Accessoires, pak, nieuwe uitlaat. Nog eens 6 000 euro extra als mensen dat willen.

Effect meest zichtbaar in entreprise value

- Hebben groei en toekomstige groei gecreëerd
- Als we denken over resource utilisation: hoe speelt outsourcing in waarde captatie? Wat gebeurt er met kapitaal dat we gebruiken? Productiecapaciteit en ruimte schuif ik op toeleveranciers: minder invested capital: resource utilisation gaat omhoog
- Is het waarde creatie of spel van waarde appropriatie? **Alleen waarde creatie als ze minder kapitaal moeten investeren om hetzelfde te doen**
- Productiviteitsverhoging: waarde creëren, niet het geval: doorschuiven middelen. Zonder waarde creatie is puur waarde captatie verhaal

What problems does Ducati face? What would you do about them? Which problem is really strategic

- Veel concurrentie Japanse producenten
  - Lagere prijs en hogere technologie. Private equity heel ongelukkig over. Kawasaki vs Ducati: prijs is lager dus denken soms om toch Kawasaki te kopen. Enorm probleem ivm competitie. Belangrijkste element van waarde captatie wordt hierdoor onderuit gehaald. -> strategisch is dit het belangrijkste
- Wisselkoers Euro vs dollar. Alle leveranciers in euro. Operationele hedging: aankopen in dollars?
- Model totaal verandert. 998 met 999. Heel dwaas om zo'n fout te maken.
- Ducati zagen zichzelf in performance, function. Hoge performantie en heel functioneel. Comfortabel lifestyle is Harley Davidson. In het midden: alle Japanse modellen. Ducati waren in hun richting afgezakt tot moment dat Japanse bedrijven dachten: 'dit kunnen we ook'
- Echte vraag: je bent CEO, private equity is niet tevreden. Wat ga je doen als aandelen minder waard zijn? Wat ga je vertellen aan eigenaars?
  - Ducati is een niche product. Hoe meer niche, hoe minder klanten. bv BTB verhogen, maar moet het ook nog kunnen capteren dan. Enige mogelijkheid: prijs verhogen. Eerste dat ze gedaan hebben: entry models afschaffen, prijzen aanpassen.
  - Mensen die website bezoeken. Gaan ze motors kopen? Accessoires. -> Merchandise
  - Nieuwe markt aanspreken. BRIC landen. Bv Brazilië: racing is heel populair. Probleem in BRIC landen met Ducati: motor aanzien als een opstapje naar auto. Een Ducati komt pas na de auto. In China mag je niet zomaar met moto op de weg en mag je niet zoveel lawaai maken. In Brazilië mag je het niet invoeren. Moet uit elkaar halen en daar pas assembleren.
  - Nieuw segment: bv performance + lifestyle. Waar goed in? Ervaring bieden. Misschien goed in ervaring creëren voor ander segment? Hebben we voordeel als Ducati om vrouwen aan te spreken? Verschil Ducati en BMW motor. Ducati heeft kleine motor en hoge prestaties. Kunnen zelfde ervaring uitbreiden naar ander segment.
  - Hoe creëren opties? Zie dimensies van scope. Product, klant en geografische regio. Hierover nadenken. Ander product en andere potentiële klant. Zelfde product aan zelfde type klanten in andere regio? Harder gaan in Noord-Amerika: meer ruimte om te groeien. Als ze andere HD gebruikers kunnen aanspreken om Ducati te gebruiken. Of bv ander type klant: vrouwen.

What is Ducati's competitive advantage?

- Trachten consistent verhaal te vertellen: wat doe je, welke activiteiten om waarde te creëren etc. Hoe concurreren met Japanse merken? Kunnen niet op kosten concurreren.
- CEO: Uiteraard WTP. Wat drijft competitief voordeel? Intangibles: museum, brands,.. laat ons toe 40% verschil in marge te hebben met concurrenten. Ander persoon in executive committee: product, R&D, tangibles
- Uit deze discussie komen betere ideeën.
- Product verbeteren en in VS verkopen. Verschillen over opties die ze kiezen want hebben ander idee over wat competitief voordeel is
- Als je mensen begint te ontslaan om kosten te besparen ga je inbreuk doen op cultuur die ze hebben opgebouwd
- Sportieve Harley Davidson. Als je daar in Alpen rijdt, gaat uitlaat tegen grond. Bij hun is dat probleem er niet. Hebben sportief model ontwikkeld waarmee je daar kan rijden
- Markt voor racing motorcycles was ingestort. Kan eigenlijk niet meer met racemoto op de weg rijden
- Dit jaar beste jaar ooit van Ducati. 1 miljard verkopen. Doorgegroeid met nieuwe modellen. Italië is nog steeds hun belangrijkste markt

CEO Kom op tegen Kanker Marc Michils NOG AANVULLEN

- No financial support from the government
- Maximal transparency: explain what you are doing is very important
- Bottom up organisation where patients, volunteers etc have an important voice
- Challenge: combining profit and social profit.
- Needed to move culture from value oriented to result oriented
- 10 years ago it was more bringing money together and depending on gifts. Started projects you could participate
- Moving from compassion to optimism and hope
- Voice of the patients is important

- Bottom up: let stakeholders participate
- Thinking and doing: good to have a strategy, but don't think to long and just do it

The organising idea

- If you want to move things forward, you will do it with the right emotion to make people move. Is reason can go together with big emotion: things will change
- Real strong brand is strong on respect, love. Should combine a strong emotion with a strong project, then you get lovemark
- Something that you cannot invent in the office: have to talk to consumers (in this case patients) to really understand
- Are doing a lot of preventative things. Took quite a time to find the summary where their brand stood for.

Mobilise people

- What is the 1 000 km really about? Bringing people together
- Need to pay 5 000 euro to participate -> it's about solidarity, not about biking
- It's about the good feeling: giving is much more fun then receiving.

Credibility

- Are people prepared to fund us? Need to prove what you are doing
- Invest money in research: better treatments and better survival rate
- Researchers have to explain what they are doing with the money
- How can survivors get back to work, how can you facilitate that? Influencing policy.
- From output to impact: if you can demonstrate impact: money spend in right ways
- Welcoming house where they can get together, see peers etc. Good to see how many patients are visiting the facilities
- Try to clearly set objectives
- Werkmodel kom op tegen kanker: analyse needs, financing research,…

Thinking and doing

- Strategic plan kom op tegen kanker: get in action

CEO BNP-Paribas-Fortis Michael Anseeuw NOG AANVULLEN

- Insight in what strategy means for financial institutions
- One rule: solve customers' problem. -> main mission. Set into long term vision/ mission as an organisation.
- Stategy: cycles of 3/5 years.
- When defining short term mission take into account: customer (look at what's happening, key needs, evolution), environment (changes quickly), yourself as a company (what you do, strengths, weaknesses)
- Goal bank is wider than what you see on the streets etc
- 0.9% profit. Renumeration less than that: negative effect on bottom line
- Inflation in 2022 was very high. Belgian market had higher inflation than Europe and America. Negative impact on foreign investments in Belgian markets (salary needs to increase with inflation so it's more expensive -> handicap in Belgian market). Hope that inflation starts flatting
- Inflation: policy rates banks. Use policy rates to fight inflation: credits more expensive: people invest less and spend less -> stabilise inflation. Extremely volatile environment
- Less 12 years: negative or zero interest rates: investments were cheap. Now live in new environment and decisions need to be taken in another way

Electricity

- Inflation and energy crisis came and energy went up with 5 times more than before. As a company you need to adapt
- Everyone expect that price will be 100. Lower than 250 in 2022, but twice as high as the past 20 years (50) -> base cost are twice as expensive
- Renewables will be cheaper
- Second graph: carbon intensity for production. Belgian market is well placed. First reason: nuclear energy and secondly: lot of renewable energy (windparks etc) -> big advantage.
- Green deal European commission: price of carbon rises and then it becomes more interesting to invest in renewable energy
- US: immediately give tax advantage to invest in renewables
- If you have carbon intensive production -> potential negative impact in the future

Moving forward

- 2 things key: important to support resilience and insure agility. Second is investing in future. Europe wants to be carbon neutral in 2050. Investing in future is what you need to do in the short term to reap long term benefits
- Banking remains people business : human interaction is very important
- Important to make clear investment decisions. Choosing for tech that creates value

Our purpose

- Commit to a better society. Together is about company together with stakeholders and society
- Trust is very important in the banking world.
- Generic vision. How you translate it into strategy is what you do differently every 3/5 years
- **GAS: growth, accessibility, sustainability**: where they want to invest in

Growth

- Look at customer, market and yourself. What are you good at?
- Basis to select strategic development

The strongest franchise

- Market share of bank is between 30/40% -> Can make investments, choices, have impact. 3 examples: transaction banking, startups and…
- If you have strategy to only defend. Not good!

Leader in working capital and transaction banking

- Around 30% French fries are produced in Westlander. Big industry of frozen French fries in that area. If you are foreign company and sells. Farmer wants money as soon as possible. Factoring allow to sell and give you a part of the bill already -> creates liquidity
- When you have liquidity -> need cash management. Not only going to sell potatoes in homeland. But maybe also in UK. Need to finance in different currencies.
- -> transaction banking: propose solutions for factoring, cash management,… Known very strong growth. Combining existing elements and turn into new offering. Huge increase in factoring

High degree of digitalisation

- Almost half of full growth came from new segment. By investing into new activity, opened up completely new market.
- Investing in B2B solution

Insurance: one -stop

- Second example
- Rising need of insurance.
- Launched in 2022. Since then 8 000 policies sold. Biggest broker in Belgium has less than that. Invest in people, bankers, expertise etc

Supporting tomorrow's economy

- Fastest growing in economy. People became much more entrepreneurial
- Have developed fully online solution, where entrepreneur can start up your complete activity
- If you create a solution that serves need for customer helps increase business

Accessibility

- Strategy needs to be based on customer
- Couple of challenges. Out of 4 million, 80% has digital activities. Has 800 000 customers that are not digitally active. Cannot leave those people outside. Accessibility is also to ensure inclusion for people who are not digitally active

We serve 4 500 000 customers

- Also active in micro credits

Listening to our customers

- People are asked to give you a score
- 9/10: promotor, 7/8 neutral, Detractors
- Need more promotors than detractors
- People give feedback on what is working well and what is not working well
- 2 weaknesses: accessibility and people see them as an expensive bank.
- Internal view: best offering on market. External view: most expensive offering

Combining the best of both worlds

- 6.7 million physical interactions in 2022. In same years lot more digital interactions
- Tackle accessibility by revamping offering
- Customers wants to go into a branch. When you do this; not always have service you want. Organising work becomes extremely difficult and creates frustrations
- More and more people: wants digital. Gives customer choice to be in physical or digital model

New service models

- Design is created in collaboration with customers.
- Pricing varies in what aspects you use
- Key element: provide additional solutions who have value for customers

Budget management

- Looks at expenses and categorise them and see where you spend money: create insight

Sustainability

- Governance: most difficult to explain. See what happened in US with Silicon valley bank

Accelerate in renewable energy

- Everything around developing technologies and see that we are net zero
- Wind bars in north see. Total investment was 5 billion

The groups position

- Invest in sustainable way
- Belgium is front runner in sustainable investments
- One small city in Belgium is already carbon neutral because of them.

Accelerate the transition of companies

- Many companies have question around it. Needs to assist companies in their relations

Sustainable & responsible

- Will help us decide how companies will move ahead in the future
- Combined technological with societal investments
- Ask customer whether he/ she wants to make an investment in sustainability
- 1/5 Belgians still give priority to revenue instead of sustainability

Sustainable mobility

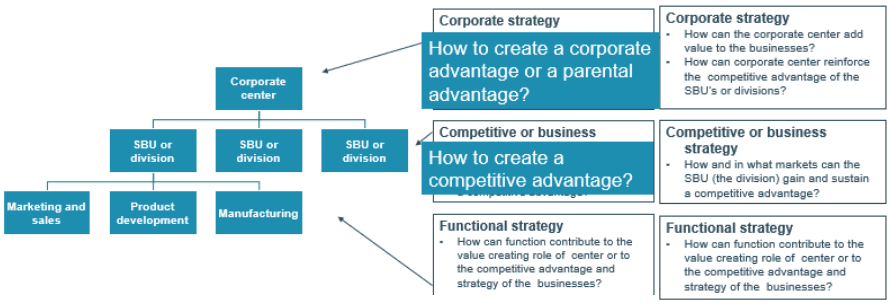
- If every car becomes electric: cannot support it. Network is not big enough
- European commission has decided that in 12 years no more combustible engines will be sold in Europe: enormous challenge
- Also investing in service around charging

Quiz Collis (2021): putting it all together

1. The article argues that many companies fail because:
    A. CEOs tend to think too much about value creation and not enough about value capture
    B. CEOs think too much about value capture and not enough about value creation
    C. CEOs did not consider the consistency between their different choices
    D. All of the above
2. The article defines a "complete" strategy as:
    A. A strategy that specifies all the details
    B. Thinks carefully about the competitive positioning of the business
    C. Specifies carefully coordinated choices about the business model, competitive positioning and implementation processes
    D. All of the above
3. The article argues that problems occur when entrepreneurial activity drives continual improvement but is not consistent with the strategy. He suggests that a solution is:
    A. Experimentation within boundaries clearly established by the CEO
    B. Selection by the CEO of tactical projects to be pursued that are consistent with some long-term initiatives
    C. Pay employees with stock options
    D. A & b are correct
    E. A & c are correct
    F. B & c are correct
    G. A, b & c are correct

Topic 7: Corporate strategy

- A strategy can be formulated for a business, several businesses or for a function



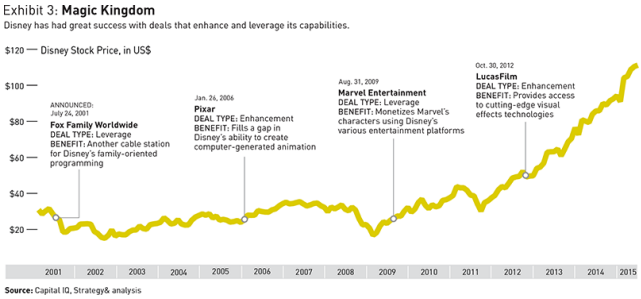
Veel tijd rond competitive strategy: hoe competitief voordeel creëren. Eens dat we competitief voordeel hebben, moeten we het vertalen naar verschillende functies. Gaan naar corporate strategy: hoe creëren we corporate advantage om verschillende zaken samen te brengen

- Defining **Competitive Advantage**
  - A firm or a business is said to have created a COMPETITIVE ADVANTAGE over its rivals if it has driven a wider wedge between willingness to pay and costs than its competitors have achieved
  - Meer waarde creëren dan alternatief
- Defining **Corporate or Parental Advantage**
  - A company is said to have created a CORPORATE or PARENTAL ADVANTAGE if it has driven a wedge between the break-up value of its businesses and the enterprise value
  - Meer verschil tussen wat bedrijf waard is in stukken tov alle activiteiten samen
  - Break-up value: als je onderneming opsplist
  - Zie actueel voorbeeld Alibaba: opsplitsen in 5/6 onderdelen
  - Zie video: combinatie van verschillende zaken

-

  - Greenyard
    - A global player in fruits and vegetables, active in all segments
      - Fresh, frozen, prepared, horticulture
- Walt Disney & Pixar
  - Overname Pixar door Disney.
  - Zie video: Vorige les gesproken over ontwikkelen capabilities. In video zie je waar Disney vandaan komt. Heeft nooit goed kunnen doen wat Pixar gedaan heft
  - Zie video: Pixar: software, programmering. Disney: tekeningen. Heel andere startpunt en heel moeilijk te combineren/over te nemen
  - Disney zorgde voor merchandising hier. Waarom is het zinvol van Disney om het over te nemen?
  - Disney acquired Pixar in a stock deal worth $7.4 b. Steve Jobs became the largest shareholder of Disney (7% stake)

- Iger conscious of importance of dealing with Pixar assets: “The Pixar culture should be protected and allowed to continue.”
- Pixar and Disney animated feature films are kept as independent units.
- Pixar workers preserve compensation structure, Pixar softens position on sequels. Iger says: “While Disney can make them, Pixar making them is totally different.”
- Both units under Catmull leadership backed by a steering committee.
- Some rough moments (“Bolt”). Catmull: “It took about a year before there was a collective letting down the guard.”
- Iger: Pixar en Disney kan je niet volledig samenbrengen. Eerst apart als aparte eenheden. Bv verloning in Pixar en Disney was helemaal anders -> organisatorische problemen bij samenbrengen



Waarom belangrijk was eigenaar te worden van Pixar? Om met Nemo te kunnen doen wat Disney wou doen. Wie kan vriend zijn van Nemo. In welk soort pakjes kan je Nemo steken? Kunnen moeilijk omschreven worden in contract/alliantie

- Disney – Fox Acquisition: $71B
- Audi (VW Group) Acquires Ducati
  - Audi is onderdeel van Volkswagen. Bepaalde synergiën hier? Blijkbaar niet zo veel. Daarom is Ducati altijd onderdeel geweest van groep die mogelijks verkocht ging worden
- WhatsApp Acquisition: €16B
  - Facebook heft Whatsapp gekocht. Belangrijke vraag: zie video. Focus on connecting more people. Hoe FB 19 miljard gaat terug verdienen.
  - Verhaal achter samengaan. Waarde creatie/captatie?
  - Als jij geïnvesteerd heb ik FB vraag je je af wat ze ermee gaan doen? Geen verhaal
- Maersk 2015: Premium Conglomerate
  -

  - Premium: verschillende activiteiten. Zijn premium conglomerate. Gaan bv aankopen standaardiseren.
  - Niet goed om alle activiteiten zoals hier onder dezelfde organisatie te hebben

Moest iets veranderen omdat het niet goed ging -> nieuwe strategie ontwikkeld

A.P. Moller - Maersk announced in September 2016 that it would depart from the 'Premium Conglomerate' strategy, and pursue a new strategy to become an integrated container shipping, logistics and ports company, and consequently to find new structural solutions for its energy-related businesses. Since then, A.P. Moller - Maersk has been organised under two divisions, Transport & Logistics and Energy.

A.P. Moller - Maersk will lead the transformation of the container transport and logistics industry through offering customers more integrated services, and by using data and digital technology to create opportunities through the end-to-end container logistics value chain.

Gingen alle activiteiten waardeketen aan elkaar rijgen. Gaan van fabriek tot waar ze moeten komen organiseren. Aantal zaken verkopen: olietanker business

Total Agrees To Buy Maersk Oil In US$7.5bn Deal

EurOil - Europe Oil & Gas
25 August 2017, Week 33, Issue 414

France's Total has agreed to buy Maersk Oil from AP Moller-Maersk in a deal expected to cost a total of US$7.5 billion.

AP Moller-Maersk AS + Add to myFT

AP Moller-Maersk sells oil tanker business

Second stage of four-part programme to split energy-related activities under way

Maersk Line, Damco will merge in 2019

AUTHOR
Shefali Kapadia
@skapadiaDC

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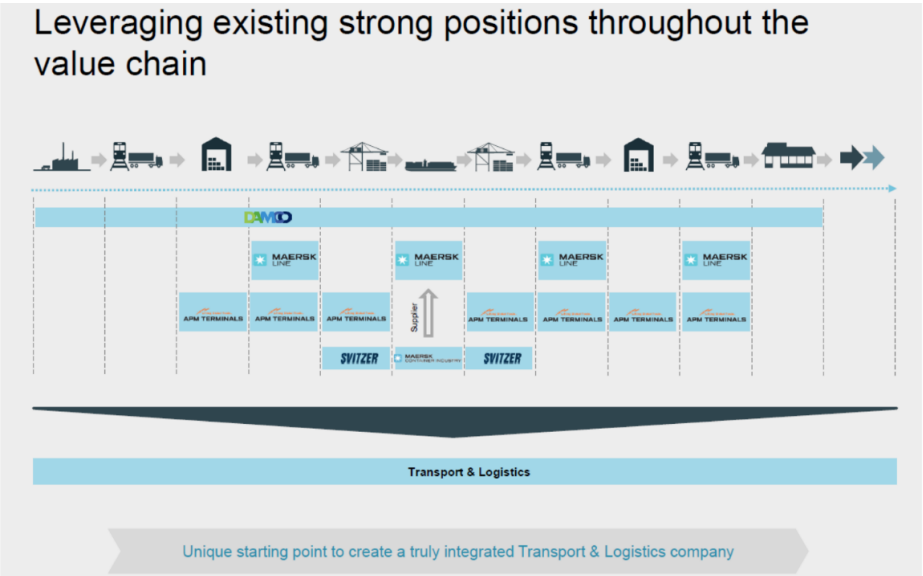
Dive Brief:

- A.P. Moller Maersk will merge Maersk Line and Damco into one organization at the beginning of 2019 in an effort to provide "end-to-end logistic solutions for cargo owners," the company announced Wednesday morning.

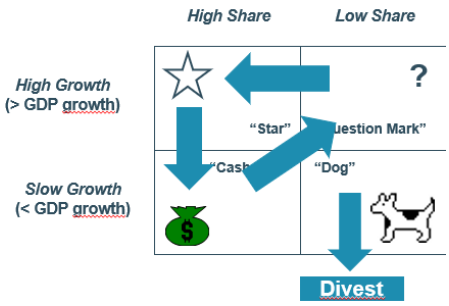


Gaan van begin tot einde keten logistiek ondersteunen. Hebben nieuw verhaal waarom het zinvol is om container schepen samen met havens en andere activiteiten onder 1 noemer te hebben Vandaag hebben ze return on invested capital van 60% in hoeverre komt waarde captatie van strategie of is het gewoon omdat markt goed zit voor hen?

- **Corporate Strategy**
  - **Step 1:** Building your Portfolio of Businesses and Defining your model for Corporate Advantage
  - **Step 2:** Designing your Group and Organizing for Corporate Advantage
  - Iets meer creatief, verschillende bedrijven verschillende verhalen waarom je activiteiten samenbrengt.
  - Oplossen/analyseren in 2 stappen: 1) portfolio samenbrengen (hoe corporate advantage) 2) ook organisatie organiseren zodat je voordeel kan realiseren! Volgens geografisch,… focus op andere aspecten en hierop strategie uitoefenen. Vooral focus op stap 1) portfolio

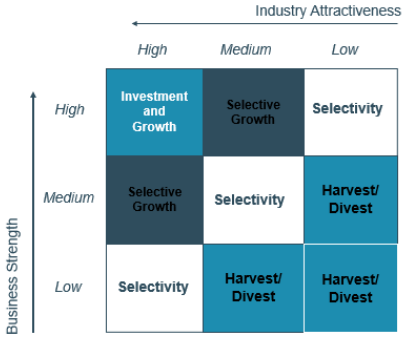
Step 1: Building your Portfolio of Businesses and Defining your model for Corporate Advantage

- Brief History of Portfolio Management
  - Learning Curve: cumulative output doubles, costs drop by 20% (BCG)
    - Strategic pricing
    - Go for share, be #1 or #2 (GE & Jack Welch)
  - Growth/Share Matrix (BCG) or Industry Attractiveness/Competitive Advantage (McKinsey)
    - Invest in Stars
    - Milk Cows
    - Divest Dogs
    - Decide on ?
  - Problems?
  - Belangrijk: leercurve -> strategisch voordeel. Cumulatieve output verdubbelt: kosten omlaag.
  - Prijs verlagen. Veel volume, output sneller eruit en kosten gaan omlaag gaan door leercurve. -> idee van go for share hier
  - Go for share: als ze niet nummer 1 of 2 zijn, gaan ze uit markt. Willen onklopbaar zijn obv kosten. Moeten voorzichtig zijn om te zien of er echt een leercurve is en voordeel op termijn
- BCG's Growth-Share Matrix



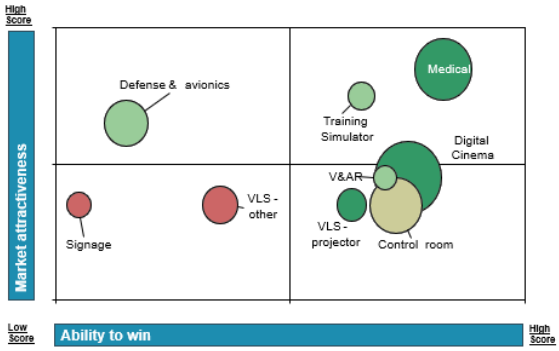
2 dimensies: groei en marktaandeel. Op basis hiervan activiteiten classeren
"dog": desinvesteren. Geen goede activiteit voor ons: uitstappen
"cash cow":
"question mark": geen idee of interessant is
"star": steractiviteiten
Willen leercurve uitspelen. Cash van cash cow gebruiken om vraagtekens te financieren. Als je financieert en leercurve uitspeelt gaan vraagtekens sterinveseringen worden want marktaandeel stijgt. Op termijn worden sterren nieuwe cashcow -> creeëren dynamiek

- The Industry Attractiveness-Business Strength Matrix (McKinsey)



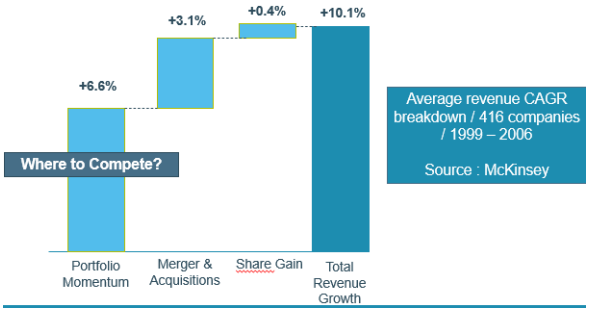
Op basis hiervan advies over ontwikkelen corporate strategy

- The first step in redefining Barco was an in-depth analysis of the current activities



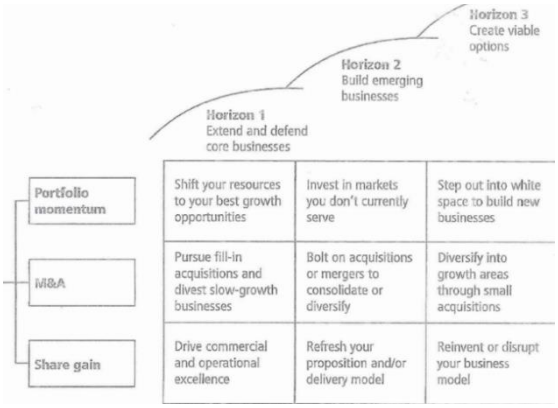
Enerzijds zie je markt attractiveness, anderzijds ability to win (zowat zoals marktaandeel in andere matrix)
Scherpe schermen voor radiologen, mammografieën etc
Minder attractief: alles wat te maken heeft met defensie. Hier moeilijk te concurreren met buitenland. Zijn afgesloten

- Brief History of Portfolio Management
  - Problems Growth/Share Matrix (BCG) or Industry Attactiveness/Competitive Advantage (McKinsey)
    - No Strategy
    - Oversimplification: using historical data, basically finance/cash driven
    - Actual positioning depends on measurement techniques (market definition)
    - Assumed independence between businesses
    - No (potential) competition
  - Geen strategie. Gaat in principe alleen over cash verschepen van ene naar andere activiteit. Nooit gesproken over concurrentie in analyse. Kijken of er groei/geen groei is.
  - Belangrijk: veronderstelde onafhankelijkheid verschillende activiteiten
- Growth by Large Companies



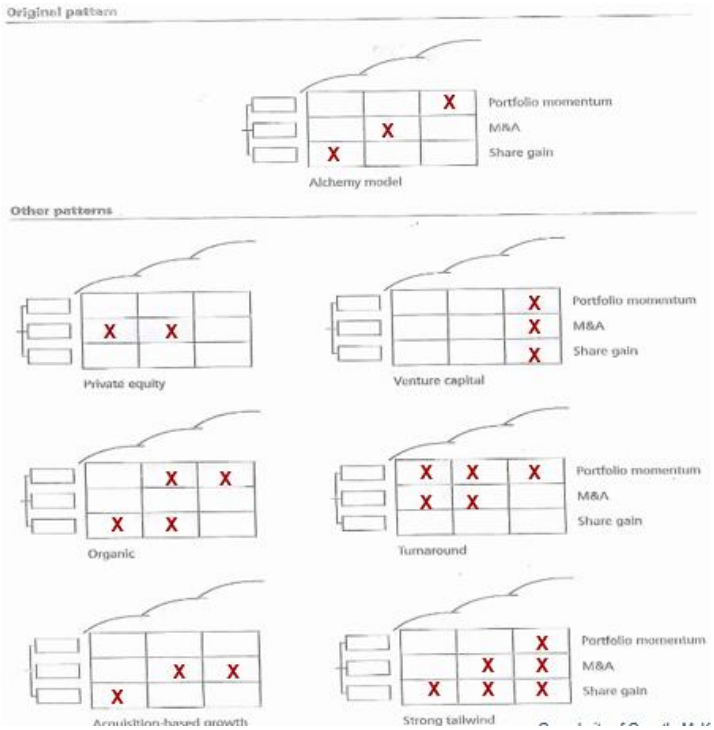
Corporate strategy is letterlijk: hoe groeit een organisatie
Gemiddelde groei: 10% (top-line growth. Sterk gecorreleerd met shareholder value.)
Keken naar van waar groei komt: 3 elementen.
Marktaandeel. Bv P&G en Unilever spelen elk jaar met elkaar voor klein marktaandeel
3% groei komt van acquisitie: externe groei

  - Belangrijkste deel groei is van portfolio momentum; belangrijk in welke activiteiten ze spelen en op de juiste plaats op het juiste moment te zijn
  - Grote steden worden belangrijke groeipolen.
  - China groeit wel veel gemiddeld gezien. Maar zeiden nu dat er een plaats in Duitsland was die even hard groeide in China. Zo pikken ze groei op
  - Waar willen we concurreren? Op basis hiervan boek geschreven; zie hieronder
- Growth Map: Horizons



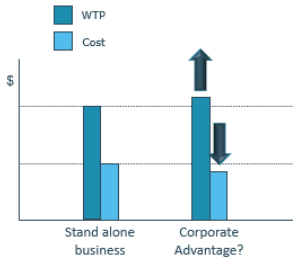
Verschillende horizonten horizon1: 1/3jaar; horizon 2: 3/5j; horizon 3: 5+ jaar

- Growth Map: Patterns



Private equity doen alleen acquisities en gaan niet verder dan 5j.
Venture capitalists langer dan 5j
Barco stak meer tijd in werken bestaande markt en bestaande technologie. Focus vooral op het sterk maken op kortere termijn en erna een groeiverhaal. Op kt doen ze aan value engineering. Proberen zelfde elementen te gebruiken in alle…

- Corporate Strategy and Competitive Advantage
  - **Corporate advantage** is realized at the business-unit level, where individual businesses use the benefits of corporate affiliation to outperform their rivals in a particular industry



Vraag is: als we aparte business hebben is er WTP en cost. Als we andere business ernaast zetten binnen zelfde organisaties kunnen we dan meer waarde creëren? Hoe creërt die meer waarde?

Value Based Portfolio Management

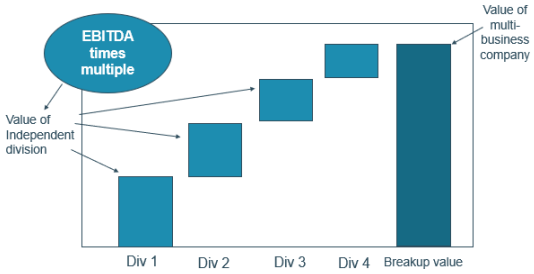
- **"Better off" Test**
  - Industry attractiveness:
    - Mitigate 5 forces (rivalry, entry barriers, buyer power, supplier power, substitutes) (Microsoft: OS – SW; PepsiCo: dinks and Frito Lays)
    - Migrate out of structurally poor industry (Apple)
  - Competitive Advantage:
    - Cost Effects: shared cost economies (Scale & Scope) "synergies"
    - Willingness-to-Pay and Pricing Effects: one-stop shopping (Amazon), umbrella branding (Virgin), cross-promotion (Banking, new media)
  - Be Explicit!
- **"Best Alternative" Test** – Natural Owner
  - Complexity and contractual incompleteness
  - Unclear property rights
  - Relationship-specific or co-specialized assets: Hold up
  - Example: Coca-Cola and Bottlers
- Zijn we beter door 2 activiteiten samen te brengen? Moeten we in eigendom hebben, of kunnen we gewoon alliantie/contract aangaan? Waarom belangrijk eigenaar? Hoe beter af zijn? Enerzijds

op industrie niveau:zie 5 forces. Kunnen aantal factoren in bedwang houden die waarde capteren.

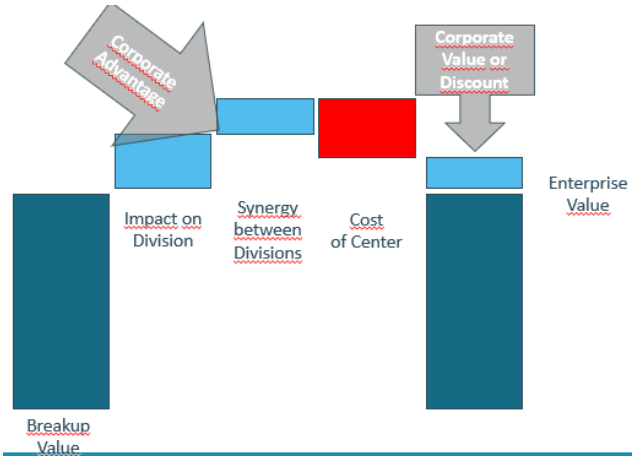
- Bv Pepsi co. zag dat retail ging concentreren. Grote speler waarbij je moest onderhandelen. Als ze drank en chips samen zetten; meer onderhandelingsmacht
- Microsoft zelfde verhaal. Dell brengt zowel software als operating system: meer macht.
- Apple: gaat van computerindustrie die niet attractief was, capaciteiten toepassen op andere markt (MP3, Ipod, Ipad,..)
- Synergiën. Als je leest over acquisitie zie je dat ze dromen hebben over synergiën, maar hoort achteraf niet of ze hebben kunnen realiseren. Is moeilijk realiseerbaar
- Belangrijk dat samenbrengen activiteiten waarde creëert: moet goed verhaal vertellen.
- Contractual incompleteness: kunnen niet alles neerschrijven in contract.
- Als eigendomsrechten niet duidelijk zijn creëert dat problemen.
- Cola: exclusief territorium zorgde ervoor dat ze snel konden groeien. Moeten bij elke keer dat ze opnieuw uitbrengen onderhandelen met bottelarij. Enorme inefficiëntie als je met zoveel moet onderhandelen. Hebben dankzij concurrentie met Pepsi bottelarijen gewoon opgekocht. Nieuw contract waar instaat dat bottelarij steeds moet volgen wat Cola wilt en Hierna moeten ze dat weer verkopen.
- Value Adding or Substracting

VERTICAL	HORIZONTAL
People	One face to customer
Strategy	Cross-selling
Targets	Economies of Scale
Performance Management	Shared Resources
Policies & Standards	Multipoint competition
Relationships	Vertical Integration
Technology or products	Sharing knowledge & good practice
Expertise	New Business Development
Brand	Risk management
Financial Engineering	

  - 2 manieren: horizontal of vertical
  - Verticaal: management in private equity. Ik heb goede managers en plaats ze in nieuw bedrijf. Doen een turnaround en dan naar ander bedrijf. Of standaarden van compliance.
  - Horizontaal: verschillende activiteiten en dezelfde klant: keer??? count: bespaart kosten om te organiseren



Kijken naar of we wel waarde creëren. Bedrijf met 4 divisies. Gaan ze apart waarderen als ze apart zouden worden In markt gezet
Bv Spotify. Enkel gefocust op streaming services. Apple op zoveel meer. Op basis van Spotify zouden ze waardering streaming kunnen bepalen

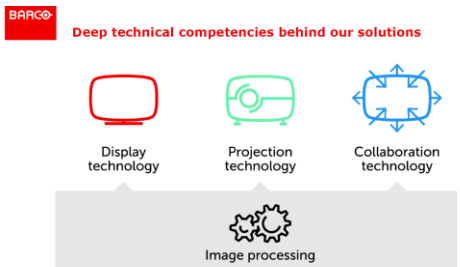


Nu Ali Baba nog samen is, creëert het waarde of niet over die 6 divisies. Creëert waarde door goede mensen, managers,.. Of mogelijke synergie tussen verschillende afdelingen. Er is ook nog een cost of center. Hoofdkwartier op zich verdient niets. Kost veel. Vraag is: hoe groot is kost tov voordelen. Kan voordeel of discount hebben

- Defining Corporate or Parental Advantage
  - A company is said to have created a CORPORATE or PARENTAL ADVANTAGE if it has driven a wedge between the break-up value of its businesses and the enterprise value
- **Not one Size Fit All Corporate Strategy**
  - Verschillende mogelijke manieren om over corporate strategy te denken. 2 mogelijke dimensies
- Value Based Portfolio Management
  -

When to Create Value?	One Time	Continuous
How to Create Value? Stand Alone	Builder of Businesses	Best Owner
Across Business	Aquire, Integrate and Grow	Creator & Manager of Synergy

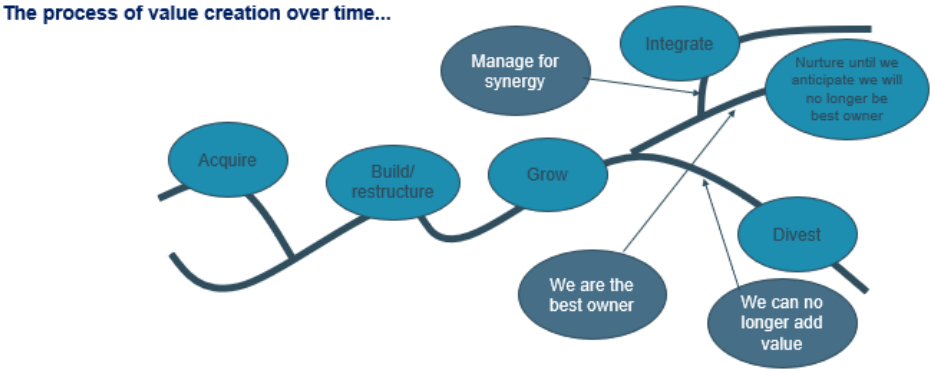
1. **Builder of businesses:** 'one time, stand alone'
   - 1996: TPG buys Ducati 2005: InvestIndustrial Holdings buys Ducati
   - Builder of businesses: typische private equity: koopt bedrijf, verandert management, doet turnaround en verkopen terug
2. **Aquire, Integrate and Grow**: 'one time, across business'
   - Lvmh: moët hennessy – louis vuitton
     - Wines & spirits
     - Perfumes & cosmetics
     - Watches & jewelry
     - Fashion & leather goods
     - Selective retailing
   - Aankopen, eenmalig integreren en verschillende activiteiten laten groeien. Zie LVMH
3. **Best Owner**: 'continous, stand alone'



Best owner: barco is gekend voor image single processing, maar wordt heel anders uitgewerkt in verschillende activiteiten. Discontinu omdat ze gebaseerd zijn op single theorie, maar redelijk afhankelijk

4. **Creator & Manager of Synergy**: 'continuous, across business'
    - Diversification at Disney
        - Media Networks, Parks & Resorts, Studio Entertainment, Consumer Products, Interactive Media
    - Mickey mouse; in parken, merchandise,…Figuren allemaal uitspelen in verschillende activiteiten: continue waardecreatie over verschillende activiteiten

- Building businesses is the essence of corporate strategy



Many theories of corporate strategy are too static, they do not show how the corporate strategy will create value over time.
Zaken veranderen over tijd heen. Bv Ducati aangekocht door DPG en erna doorverkocht etc
Corporate strategy uniek per organisatie en over tijd heen veranderingen

DEME Corporate Strategy

Why merge Dredging International and Baggerwerken Decloedt & Zoon in 1991?

- Was overcapaciteit. Wat gebeurt met kosten? Naar beneden. Gaan capaciteit beter gebruiken. Overcapaciteit: haalt kosten naar benden. Expliciet link met waarde creatie en captatie.
- Dynamisch. Wat kunnen we dan doen? Gaan waarde creëren, capteren en over tijd gebruiken voor andere zaken. Bv nieuwe activiteiten, verbeteren bestaande activiteiten. Hoe efficiënter? Zo veel mogelijk met 1 boot, zo snel mogelijk. Wat kan je doen met boten? Groter maken. Grotere en sterkeren boten kunnen meer vervoeren, dieper gaan -> nieuwe projecten aanboren die ervoor niet bereikbaar waren. Hoe creëert dit waarde? Meer bereid te betalen. Kosten verbeterd, meer waarde gecapteerd/ meer inkomsten, herinvesteren -> cyclus
- Wordt een spel tussen baggergroepen om volgende boot uit te brengen. Draait vooral om hun schepen. Boten ook op juiste plaats etc. wanneer ga je nieuwe boot aankopen is het strategisch spel.
- China heeft veel baggerwerken, maar markt is niet toegankelijk voor andere spelers. Waren teveel maatschappijen die baggerwerken aanboden. Capaciteiten ontwikkeld over tijd zijn veel van belang.

Should DEME develop the "Dredging+" strategy? Why? Why not?

- Belangrijk: bagger blijft belangrijk. Welke activiteiten errond? Verbeteren technisch. Ontwikkelen capability. Hoe zinvol om activiteiten samen te brengen? Minder concurrentieel, kunnen groeien. Waarom is er waarde voor ons? Dredging business was cyclisch en andere activiteiten konden misschien compenseren. Wat als we activiteiten waardeketen samenbrengen? Alles in pakket. Meer BTB. Bieden service aan door bundelen activiteiten. Meer waarde creatie en op basis daarvan kunnen we het ook capteren.
- Welke activiteiten we wel of niet of in eigendom willen is belangrijk. DEME verschuift van subcontractor naar aanbieden van interessante oplossingen. 'main contracter'.
- Hoe **corporate advantage**? Keken nog altijd naar dredging. Hoe vermindert kosten/ maakt efficiënter. DEME ontwikkelde portfolio van complementaire activiteiten.
- Cyclische business. Andere zullen dan ook waarschijnlijk cyclisch zijn

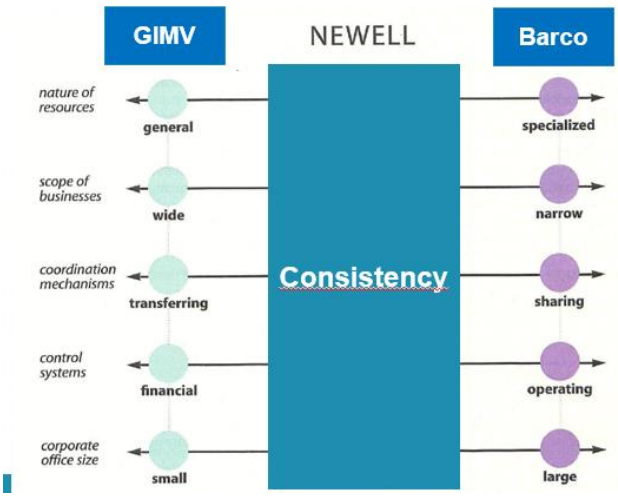
- Nadenken over risico. Als we risico goed kunnen inschatten zijn kosten lager. Capaciteit ontwikkelen om risico in te schatten

Should DEME enter Offshore Wind? Why? Why not?

- Fractie offshore wind: toen verwaarloosbaar voor windindustrie. Nu 1 van belangrijkste spelers.
- Zinvol voor DEME? Ja, kennen zee en hebben boten. Hebben ook management system om boten efficiënt in te zetten. Synergiën. DEME is goed in zaken combineren. Ook een deel risk management. Moet risico's goed kunnen inschatten. DEME heft al getoond dat ze dat kan voor ander zaken, staan in goede positie het te doen.
- Veel contracten zijn overheidscontracten
- Als we denken over offshore wind, past bij dredging + filosofie. Hadden al divisie die ermee bezig was. Management is mee ingestapt bij financiering van offshore wind om te tonen dat e zelf vertrouwen hadden. Markt moest ontwikkeld worden, bestond niet.
- 2000: 2 organisaties opzetten. Eentje voor proposals voor overheden, andere voor samenbrengen verschillende activiteiten om projecten op te zetten.

Step 2: Designing your Group and Organizing for Corporate Advantage

- organisatie klaarmaken om voordeel te realiseren

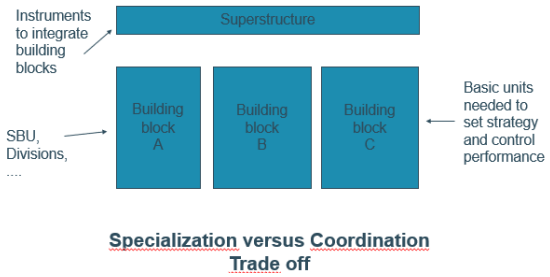


GIMV: private equity
Barco: technologie bedrijf
Bedrijven organiseren zich heel verschillend.
Veel verschillen in corporate strategy
GIMV investeert erg ruim. Bij Barco meer beperkte middelen.
Verschillende coördinatiemechanismes.
GIMV vooral over transfereren kennis. Barco meer over delen informatie/kennis/technologieën
GIMV kan je met gereduceerde set van mensen coördinatie vervullen.
Consistentie is belangrijk om te organiseren over verschillende aspecten

- Corporate Strategy & Structure
  - **Bekaert (changes 2019 – 2020)**
    - Oswald Schmid (2021) Matthew Taylor, Chief Executive Officer
    - Yves Kerstens (2021) Jun Liao, Executive Vice President North Asia CEO Specialty Business & COO
    - Curd Vandekerckhove Divisional CEO Bridon-Bekaert Ropes Group
    - Arnaud Lesschaeve Divisional CEO Rubber Reinforcement Platform
    - Stijn Vanneste, Executive Vice President Europe, South Asia and South East Asia Divisional CEO Steel Wire Solutions
    - Taoufiq Boussaid Frank Vromant, Chief Financial Officer Americas Regional Operations Europe, North America and South Asia
    - Yves Kerstens (2021) Oswald Schmid Operations Officer
    - Kerstin Artenberg (2021) Rajita D'Souza, Chief Human Resource Officer
    - Piet Van Riet Executive Vice President Industrial & Specialty Products Platform, Marketing, Customer Excellence and Group Business Development
    - Geert Vanhaver, Chief Technology & Engineering Officer
    - Juan Carlos Alonso is Chief Strategy Officer

- Interessant om te kijken naar topmanagement: kunnen zien hoe organisatie zich structureert. In groen zie je veranderingen. Merken dat structuur organisatie verschilt door namen/taken toegewezen door verschillende mensen. Vroeger Bekaert vooral gestructureerd obv van regio's. Bij nieuwe CEO vooral coördinatie obv producten

- Building blocks and superstructure

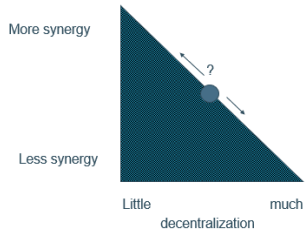


Superstructure: headquarters: zorgt voor coördinatie
Wat zijn voordelen coördinatie? Hoe gaan we organisatie opdelen? Verschillende mogelijkheden.

- Different building blocks are possible
  - Can be based on….

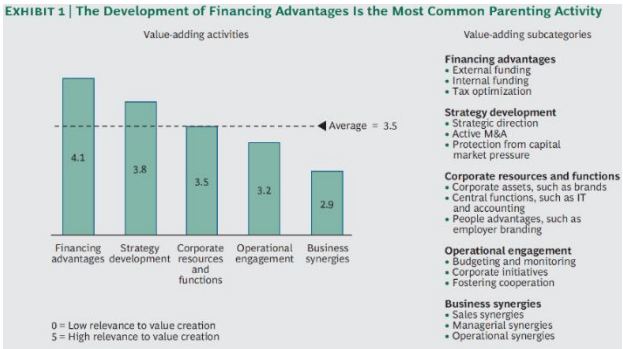
Customer divisions bv Barco
Regionaal: bv Beckaert
Belangrijk dat er coordinatie is over verschillende functies heen

- A key challenge for a multi-business group



Trade off in corporate strategy tussen decentralisatie en focus en ook volgens synergieën
Voor synergieën moet je centraliseren
Waar liggen voordelen? Zie volgende slide

- **Synergies?**



Hoe relevant activiteiten zijn voor waardecreatie
Middelen verdeeld.
Zaken met een lagere score: met business synergiën. Is altijd moeilijk te creëren. Ook aandacht voor coördineren tussen divisies moeilijk en hier loopt het vaak spaak. Moeilijk in praktijk te brengen

- Some conclusions
  - There is not one success formula for corporate strategy. Value can be created in several way.
  - Synergy is often talked about but is difficult to implement ("dirty word")
    - theoretical benefits are not easy to capture in practice
    - modern organizational structures make capturing of synergies more difficult
  - Samenbrengen activiteiten vereist een goed verhaal. Synergieën vaak moeilijk

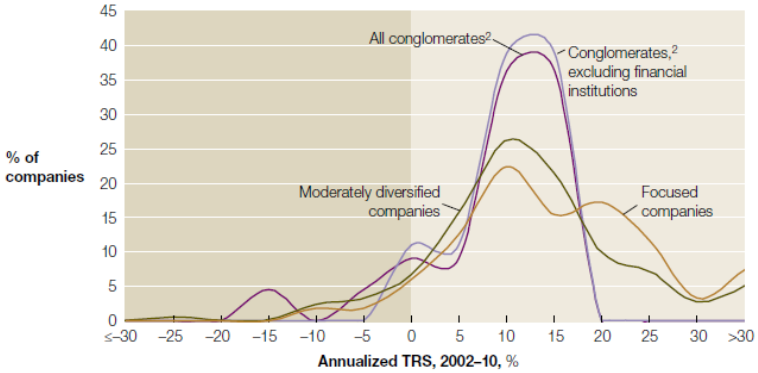
Quiz: corporate strategy

1. True or False: If the nature of resources is specialized, the corporate office size should be small.
   A. True
   B. False
      - The more specialized the resources and the more the need for sharing, the larger the corporate office should be
2. True or False: If the nature of resources is specialized, the control system should lean toward an operating control system
   A. True
      - As resources become more specialised, the value of moving from financial to operating controls increases
   B. False
3. True or False: The objective of corporate strategy is to increase the integration of business units.
   A. True
   B. False
      - Integration in itself is not an objective of corporate strategy. The optimal level of integration depends on the nature of the resources of the corporation
4. True or False: Financial control is more appropriate in stable industries compared to operational control.
   A. True
      - Financial control holds managers accountable for a limited number of objective output measures, such as return on assets or aggregate sales growth. Operating control recognizes that all sorts of events outside managers' influence may affect their performance. Financial control works best in mature, stable industries and for discrete business units
   B. False

Topic 8: Diversification Strategy

- Interessante toepassing van corporate strategy

Distribution of S&P 500 companies by total returns to shareholders (TRS), n =461[1]



[1]Includes companies in 2010 S&P 500 that were also publicly listed on Dec 31, 2002.
[2]Defined as any company with 3 or more business units that do not have common customers, distribution systems, manufacturing facilities, or technologies.

-
  - **Diversification Discount**
    - Median Total Return to Shareholders (2002-2010)
      - Focused Company: 11.8%
      - Conglomerate: 7.5%
  - Conglomerate hebben veel lagere return dan een focused company -> **diversification discount**. Activiteiten die weinig met elkaar te maken worden gegroepeerd -> onderneming krijgt discount op markt
  - Carve out/spin out is gecompliceerde materie.
  - Alibaba gaat splitsen in 6 verschillende activiteiten. Op termijn zouden ze spin out willen creëren en op de markt gaan als verschillende activiteiten. Waarom gesplitst?
- Emerging markets
  - South Korea: 80% top 50 companies by revenue are conglomerates with average growth rate of 11%
  - India: 90% top 50 companies by revenue are conglomerates with growth rate of 23%
  - Product market, capital market, labor market, government regulation, contract enforcement
  - Is focus the right advice for emerging markets' groups? What's different?
  - Diversification discount bij emerging markets? blijkbaar niet
  - Verschillende verklaringen. In product markt, arbeidsmarkt etc. zie volgende slide
- Institutions and strategy

Dimension	**USA**	**India**
Capital mkt	**Equity-focused, mkt for corporate control**	**Underdeveloped, weak monitoring**
Labor mkt	**Many BSs, consulting**	**Few BSs, little training**
Product mkt	**Liability laws, info, activists**	**Little info, few activists**
Government regulation	**Low, low corruption**	**High, corruption diffused**
Contract enforcement	**Predictable**	**Highly unpredictable**

Institutional Voids

Kapitaalmarkt in VS veel efficiënter
India: interne arbeidsmarkt
In VS: als er problem is zijn er veel legale wegen om jezelf hiertegen te verdedigen
Wat doen social entrepreneurs?
Institutional voids proberen overbruggen

- Martin and Sayrak (2003) What is the Puzzle?
  - Does corporate diversification create or distroy value?
  - Why diversify?
    - Agency theory
      - Increase compensation, power, prestige
      - Make position in firm more secure due to manager-specific skills
      - Reduce risk personal investment portfolio
    - Resource based firm
      - Excess capacity in resources and capabilities transferable across industries (economies of scope)
    - Market power
      - Sustain predatory pricing from one business to another
      - Multi-market contact
      - Reciprocal buying to squeeze out small firms
  - Waarom gaan bedrijven diversifiëren. Leidt tot discount of creëert waarde?
  - Wat zijn theorieën achter diversificatie en waardecreatie? 3 theorieën.
    - Als je risico diversifieert kan je risico spreiden
    - Agency theorie: agent handelt niet perse in voordeel van de eigenaar
    - Marktmacht: door samenbrengen activiteiten ben ik sterker. Gebruik van activiteiten om andere te financieren. Aanvallen van concurrent in bepaalde activiteit: kan terug vechten in andere activiteit
  - Corporate strategy vaak een onderneming specifiek verhaal
  - Empirics 1: **diversification destroys shareholder value**
    - Resource misallocation: agency and inefficiency
    - Test? Diversified versus focused firms
  - Empirics 2: **diversification does not destroy shareholder value**
    - Diversified and focused companies are different
    - Test? Before and after diversification
  - Empirics 3: **diversification creates shareholder value**
    - Diversified companies are better
    - Test? Measurement error in Business segment data
  - Future? Better measures of corporate diversification capturing relatedness…
  - In finance vooral aanhang agency theory
  - Elk divisie waarderen/vergelijken met een gefocuste onderneming en zijn/haar waardering. Kritiek op vgl. Later kijken of diversificatie waarde vernietigt of niet. Bedrijven die diversifiëren zijn ander dan gefocuste bedrijven. Kijken naar bedrijf dat eerst gefocust was en erna gediversifieerd. Aantonen dat er bedrijfsspecifieke elementen zijn.
  - Besluit: geen waarde teniet gedaan, maar ook geen waarde gecreëerd gemiddeld gezien
  - Men gebruikt industrieclassificatie. Classificatie werkt eigenlijk niet zo goed. Bij herclassificatie vaak ander resultaat.
  - Meestal een goed verhaal achter opnemen bepaalde activiteiten -> die ondernemingen doen het wel vaak beter.

Quiz topic 8: diversification strategy

1. True/false: The conventional wisdom on corporate diversification state that it destroys shareholder wealth such that the shares of diversified firms sell at a discount.
   - **True**
   - False
2. True/false: The diversification discount means that when you split up a conglomerate, they would be worth less than what they were today on the stock market.
   - True
   - **False**
     - A diversification discount means that when you would split up a conglomerate, they would be worth more than what they were today on the stock market
3. Seen through the eyes of Agency theory, we can see diversification as the result of manager's pursuit of self-interest at the expense of stockholders because diversification will
   - **Increase their compensation, power and prestige**
   - **Reduce the risk of their personal investment portfolio**
     - They do this by reducing firm risk since the managers cannot reduce their own risk by diversifying their own portfolios
   - **Make their positions more secure**
     - Managers can make manager specific investments whereby their particular skills are required
4. Indicate the benefits to diversification that the financial economics literature identifies:
   - **It mitigates failures in product, labor and financial markets**
   - **It increases the firm's debt capacity**
   - **Headquarters can shift funds from operating divisions with less opportunities to others which are more promising to create shareholder value**
   - It reduces managerial agency problem
     - The financial economics literature identifies the exacerbation of the managerial agency problem as a cost of diversification
5. True/false: The proposed agency problem of corporate diversification results in cross-subsidization. This means that cashflows from the firm's weak divisions are reallocated to stronger divisions.
   - True
   - **False**
     - Cross-subsidization happens when cash flows from stronger divisions are used to support investments in the firm's weak divisions.

Topic 9: Governance & corporate social responsibility

- Shareholder Value Perspective
  - "The social responsibility of business is to increase its profits." - Friedman, (1970)
  - Zie classic reading Friedman; wordt vaak verwezen naar wat hij geschreven had in NYTimes
  - …it may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill… or have other worthwhile effects.
  - Kan zijn dat het in lange termijn visie onderneming past om zaken te doen voor andere stakeholders, maar objectief is nog wel steeds hetzelfde
  - "Yes the planet got destroyed, but for a beautiful moment in time, we created a lot of value for shareholders"
- Value for whom?
  - **Shareholder Perspective**: The firm exists to maximize the wealth of its owners.
  - **Stakeholder Perspective**: The firm is a coalition of interest groups - it seeks to balance their different objectives
  - Teruggrijpen naar framework van waardecreatie
  - Shareholder perspective: waarde eigenaars maximaliseren
  - Hoe wij waardecreatie gedefinieerd: geen focus op onderneming, maar waardecreatie tussen verschillende spelers. Binnen een keten. Focus is niet waardecaptatie, maar waardecreatie groepsspelers en hoe ze die appropriëren

"Purpose"

- Purpose is not a mere tagline or marketing campaign; it is a **company's fundamental reason for being** – what it does every day to create value for its stakeholders.
- Purpose is not the sole pursuit of profits but the animating force for achieving them. Profits are in no way inconsistent with purpose – in fact, **profits and purpose are inextricably linked**.
- Profits are essential if a company is to effectively serve all of its stakeholders over time – not only shareholders, but also employees, customers, and communities. Similarly, when a company truly understands and expresses its purpose, it functions with the **focus and strategic discipline that drive long-term profitability**. Purpose unifies management, employees, and communities. It **drives ethical behavior** and creates an essential check on actions that go against the best interests of stakeholders. Purpose guides culture, provides a framework for consistent decision-making, and, ultimately, helps sustain long-term financial returns for the shareholders of your company.
- Companies that fulfill their purpose and responsibilities to stakeholders reap rewards over the long-term. Companies that ignore them stumble and fail. This dynamic is becoming increasingly apparent as the public holds companies to more exacting standards. And it will continue to accelerate as millennials – who today represent 35 percent of the workforce – express **new expectations of the companies** they work for, buy from, and invest in.
- Larry Fink, CEO BlackRock 2019 Letter to CEO's
- Purpose linken met strategie van ondernemingen waarin ze investeren
- Eerste zin: kijkt naar waardeappropriatie van groep spelers
- Purpose geeft focus en strategische discipline.
- Let my people go surfing: als je ze laat surfen als er golven zijn gaan mensen tevreden werken en gaan ze beter doelen etc realiseren

- Patagonia's stated goals
  - Cause no unnecessary harm
  - Be profitable: "it's ok to be eccentric as long as you are rich otherwise you are just crazy"
  - Achieve growth "The company was targeting a 10% annual growth for the next five years"
  - Objectieve Patagonia.
  - No unnecessary harm: ook rekening houden met planet
  - Was groei en winstgevendheid
- Van de Velde
  - Making Women Stronger
  - Mission: Shaping the bodies and minds of women
  - Purpose van Van de Velde; maakt vrouwenlingerie. Waarom belangrijk? Moet vertaald worden naar strategie toe. Discussie vandevelde: mannenondergoed? Geen optie: zie missie
- The brand essence of Marie Jo is redefined towards the core DNA

Purpose en mission worden volledig vertaald tot in producten en marketing strategie. Van hier komt belang van purpose

- Colruyt

Common purpose

Our group mission is to channel the creative power of our people.
That is our shared 'why'. At Colruyt Group we want to:

Create sustainable added value together through value-driven craftsmanship in retail.

- **Together.** Only together with our colleagues, suppliers, business partners, investors and customers can we make a positive difference.
- **Added value**. Creating social added value gives our work meaning, generates satisfaction and makes us wiser. Those are the true, lasting 'rewards'. Money, on the other hand, is merely a resource that we invest to realise our common dream.
- **Sustainable creation**. Every day, we start with a blank page. We gaze in amazement at the world to see what is possible, conscious of our strengths and limitations. And we don't waste energy needlessly from ourselves, our environment or nature.
- **Value-driven**. Our values form a common frame of reference that determines how we behave and cooperate with one another. They ensure that we act coherently and consistently, in everything we do.
- **Craftsmanship**. Living craftsmanship is a source of joy and pride. Our company's success is determined by the skills, attitudes and knowledge of our employees and their teams.
- **In retail**. Our craft is still retail, even though, over time, our entrepreneurship and creative drive have spawned many other initiatives.

Colruyt: zie jaarverslag over common purpose. Stakeholders zijn al in bullet point 1 verwerkt. Als we kijken naar purpose zien we dat stakeholders naar voor komen en vooral mensen die voor hun werken. Zien we gevolgen in strategie en hun beslissingen?

- Delhaize

OUR PURPOSE

EAT WELL
Not only do we want to make it easy for people to choose a healthy, balanced diet, but also have access to products that are high quality, responsibly sourced – and of course, delicious!

SAVE TIME
People are busy. And in this hectic world, anything we can do to make things quicker, smoother and easier is a good thing.

LIVE BETTER
For some, this means healthy eating. For others, shopping more inexpensively or more ethically. Whatever it means to our customers, associates and communities, we're committed to helping make it happen.

OUR VISION

LEADING
We always strive to be number one in our markets – not only in market share but also in our ambition to be a frontrunner in innovation.

LOCAL
We have a unique opportunity through our great local brands to leverage our scale while understanding and serving the needs of local customers and communities.

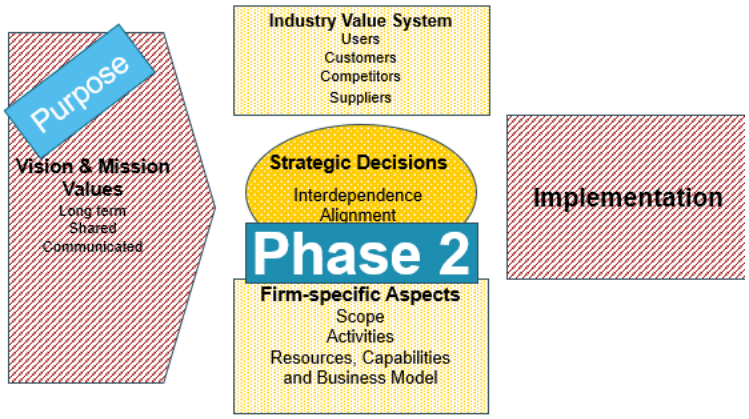
FOOD
Food is not the only thing we sell, but it has been at the core of our business for 150 years. We love food and pride ourselves on offering customers healthy, quality and delicious choices in all our markets.

SHOPPING
We serve our customers' needs from the time they start planning what they want to buy and eat, during their shopping trips and all the way through to the moment they enjoy their meal.

EXPERIENCE
We stay connected with our customers so we can offer the seamless omnichannel shopping experience that gives them more time to enjoy the moments in life that matter most to them.

Purpose and vision Delhaize. Bullets eronder wordt niet gesproken over hun werknemers: associates worden maar 1 keer vermeld
Gaat over lokale experience klanten. Klanten central en eigen mensen niet. Gevolgen strategie/beslissingen

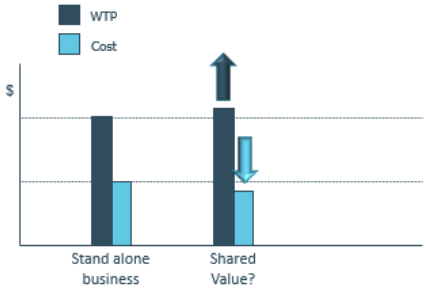
- What is Strategy? Choice of a Future



Slide getoond in eerste les: toen gezegd vooral bezig houden met midden: phase 2. op dit ogenblik eerder purpose en link met vision. Belangrijk purpose beter af te lijnen.

Creating shared value legt link tussen CSR, purpose and stakeholder value en framework van waardecreatie

- Types of Competitive Advantage

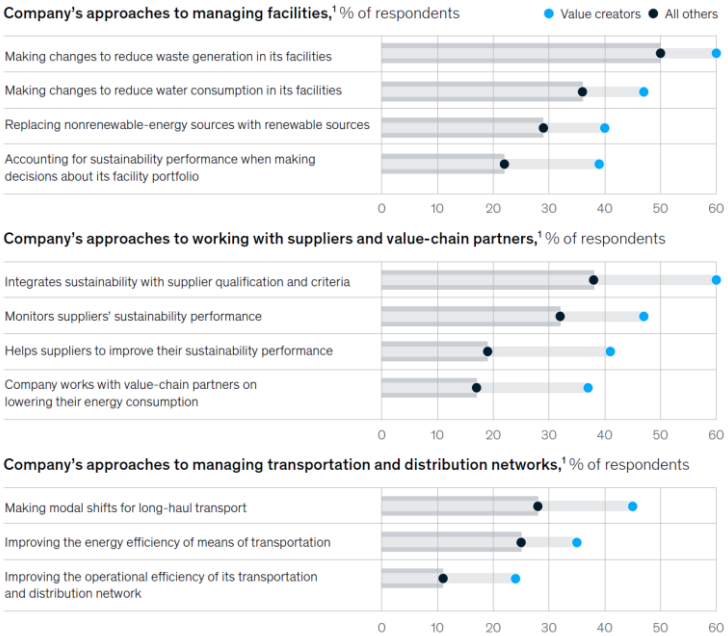


  - In framework: waardecreatie. Competitief voordeel: meer waardecreatie dan alternatief
- A strong environmental, social, and governance **(ESG) proposition links to value creation** in five essential ways

	Strong ESG proposition (examples)	Weak ESG proposition (examples)
Top-line growth	Attract B2B and B2C customers with more sustainable products Achieve better access to resources through stronger community and government relations	Lose customers through poor sustainability practices (e.g. human rights, supply chain) or a perception of unsustainable/ unsafe products Lose access to resources (including from operational shutdowns) as a result of poor community and labor relations
Cost reductions	Lower energy consumption Reduce water intake	Generate unnecessary waste and pay correspondingly higher waste-disposal costs Expend more in packaging costs
Regulatory and legal interventions	Achieve greater strategic freedom through deregulation Earn subsidies and government support	Suffer restrictions on advertising and point of sale Incur fines, penalties, and enforcement actions
Investment and asset optimization	Enhance investment returns by better allocating capital for the long term (e.g. more sustainable plant and equipment) Avoid investments that may not pay off because of longer-term environmental issues	Suffer stranded assets as a result of premature write-downs Fall behind competitors that have invested to be less 'energy hungry'

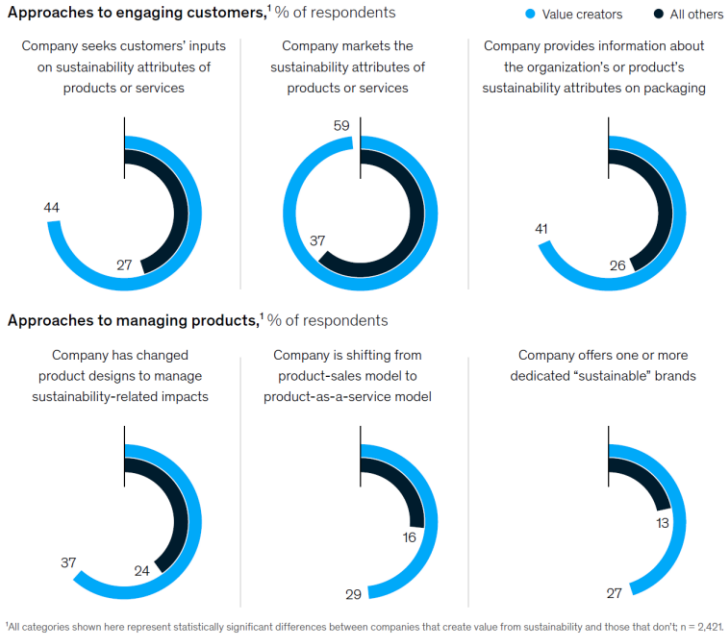
  - Expliciet link gemaakt met hoe proposities waarde creëren voor een onderneming. connectie maken tussen propositie en hoe het waarde kan creëren

- Companies creating value with sustainability are more likely than others to address the issue for reasons related to their organizational purpose
  - Environmental sustainability
  - Zaken rond sustainability integreren in het hart van de organisatie
  - Trachten industrie normen te respecteren
  - Bedrijven die het goed doen zijn bedrijven die sustainability integreren in hun dagelijkse activiteiten



Bedrijven die het integreren op supply side doen het beter

- It's more common for value creators than for other to engage customers on sustainability attributes and update product offerings in response

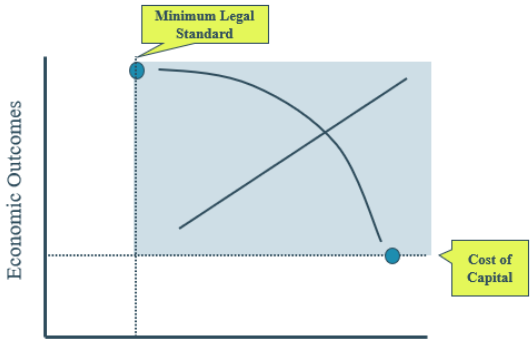


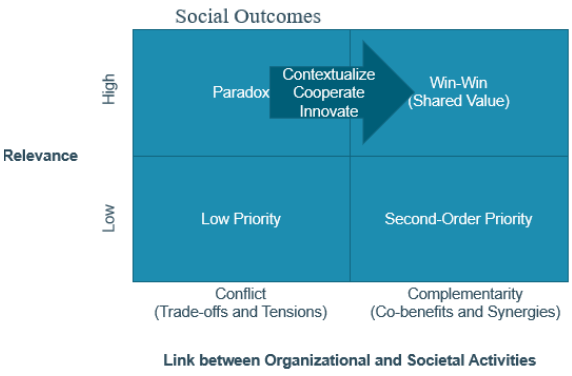
[1]All categories shown here represent statistically significant differences between companies that create value from sustainability and those that don't; n = 2,421.

- Sustainability is a more significant element of corporate culture and employee engagement at value-creating companies than at others

Kunnen over veel zaken debatteren over verbeteren wereld
17 development goals van de UN
Hoe trachten belangrijke vraagstukken aan te pakken zonder ons te verliezen in mogelijkheden?

- The Role of the Firm: Economic and Social Performance

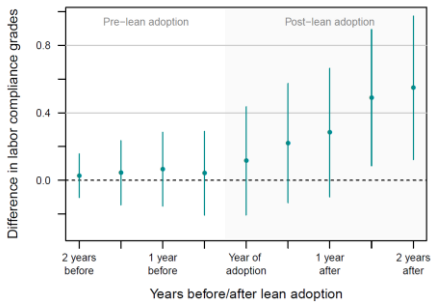




Kijken naar 2 dimensies; economische resultaten: moeten voldoende winstgevend zijn en ook: minimale sociale voorwaarden. Speelveld is blauwe rechthoek. Vraag is of zaken positief gecorreleerd zijn. McKinsey studie zegt van wel, maar problem is dat wanneer we middelen gaan investeren ze vaak beperkt zijn. Is vaak een trade off. Vraag is of er een trade off is of een win-win situatie.
Minimum legal standard: Friedman outcome
Reading Berrone et al gaat over trade-offs.
Classeren activiteiten die belangrijk zijn (hoge sociaal sustainability)
Tweede dimensie: connectie organisatie
Kunnen in conflict liggen en trade-off zijn, anderzijds kunnen ze complementair zijn en synergiën hebben. Zo worden acties geclassificeerd
Win win: complementair met organisatie: zie ook shared value context. Moeilijke geval: maatschappelijke relevantie hoog, maar conflict activiteiten organisatie

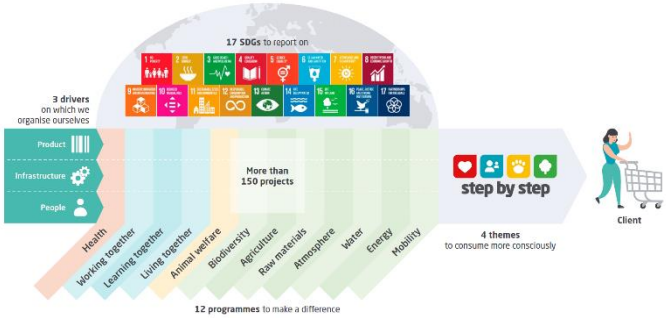
    - Wat kunnen we doen om vooruit te gaan in richting meer win win? Geven aan dat er 3 belangrijke elementen zijn. Context moet verduidelijkt worden? Cooperatie stakeholders noodzakelijk en waarschijnlijk ook innoveren.
- Contextualize: Geographically
    - In Africa hebben meeste mensen geen bankrekening. Stuurde geld vanuit steden naar dorpen en familie via bus: niet efficiënt. Oplossing: geldtransfers via telefoon. -> M-pesa. Telecomoperator werd eigenlijk bank. Geld wordt op telefoon gezet en kan zo getransfereerd worden. Erg maatschappelijk relevant Africa, belgie minder. Contextualiseren dus erg belangrijk hier
- Contextualize by Industry: Nike and Lean Manufacturing

Figure 1: Leads and lags of lean adoption



Tracht efficiëntie toeleveranciers te verbeteren.
Veel verbeteringen tegelijkertijd met de hogere efficiëntie
Na start lean gaat labour compliance omhoog. Hoe komt het? Kan liggen aan betere training, zie volgende slide

- Contextualize by Industry: Supply Chains
    - Lean supply chain improves social performance?
    - Potential mechanisms
        - Labor relations: try to keep better and better trained workers
        - Management processes: complementarity between improved management systems and complying with labor, health and environmental standards
    - Betere behandeling; labor compliance verhoogt. Kan zijn dat er complementariteiten zijn
    - Productieproces verbeteren en verbeteringen aanbrengen in situatie werknemers
- Contextualize, Cooperate and Innovate. Circular Economy: Mattresses and Dow Chemicals?
    - Voorbeeld van Dow chemicals and circular economy. Levert material voor matrassen. Komen op afvalberg of worden verbrand. Niet gunstig voot environment. Hebben geprobeerd om matrassen te reverse engineeren en materiaal er opnieuw uit te halen en te hergebruiken. Proces bestond al hele tijd. Probleem om business op te zetten was vooral een logistiek probleem. Hoe ze matrassen op recyclageplaats gingen krijgen. Probeerde lokale organisaties te stimuleren voor opzetten kleine recylagefabriekjes. Was innovatie voor nodig (in business model: hoe verzamelen en hoe krijgen tot bij onderneming die procede gebruikt). Kan veel waarde gecreerd worden, maar moet met juiste spelers worden samengewerkt. Goed nadenken over contextualisatie en innovatie
- Colruyt



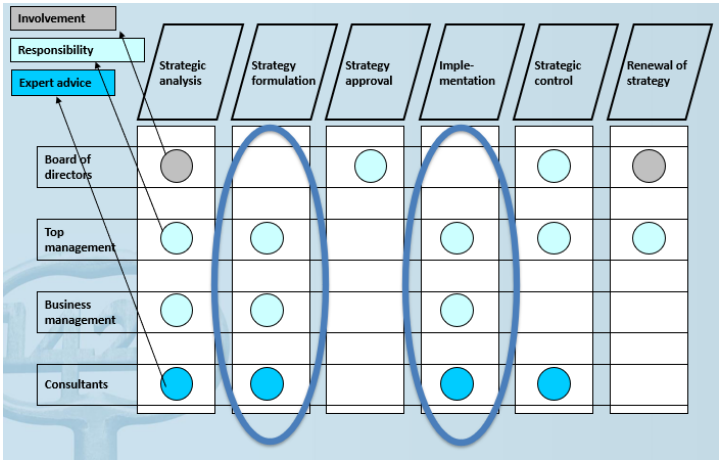
Colruyt: 17 verschillende goals van UN: kunnen onmogelijk alles oplossen. Hoe contextualiseren? Meer dan 150 projecten, 12 programma's waar ze dat in trachten verwerken etc
Kunnen 17 goals niet allemaal aanpakken, maar 7 uitgekozen omdat ze geloven dat ze hier grootste impact kunnen hebben voor organisatie.

Quiz topic 9: corporate social responsibility

1. True/False: Friedman argues that a corporate executive cannot pursue corporate social responsibility since he/she acts as an agent of the company's owner(s).
   a. True
      i. According to Friedman, the corporate executive acts as an agent of the company's owner, here the principal. The corporate executive can then only pursue social responsibility in his own life, being a principal
   b. False
2. Shared value as defined by porter and kramer is about
   a. Personal values
   b. The redistribution of already created values by firms
   c. Expanding total pool of economic and social value
3. Friedman compares the act of corporate social responsibility with a taxation process. Here he means that
   a. The corporate executive spends stakeholders' money (e.g. Through higher prices for customers)
   b. A corporation needs to pay taxes on its corporate social responsibility
   c. The stakeholders need to pay taxes
4. True/False: According to Porter & Kramer, the shared value concept is in contrast with capitalism.
   a. True
   b. False
      i. Porter & Kramer argue that shared value entails a new, broader and higher form of capitalism where profits involve a social purpose.
5. True/False: According to Friedman, the social responsibility's view that see business profit as something 'not good' is dangerous because it would lead to government involvement in terms of price and wage controls.
   a. True
   b. False
6. True/False: According to Porter & Kramer, businesses can successfully create shared value only when governments do not interfere.
   a. True
   b. False
      i. There are several conditions under which government regulation can be encouraging. E.g. if they set clear measurable social goals and set prices for resources which reflect the true costs
7. Which statement about the creation of shared value is **false**?
   a. Community-focused corporate social responsibility programs will be much more effective than Initiatives which address cluster weaknesses that constrain companies
   b. Firms create shared value by building clusters to improve company productivity while addressing gaps for failures in the framework conditions surrounding the cluster
   c. Businesses can create shared value by reconceiving products and markets

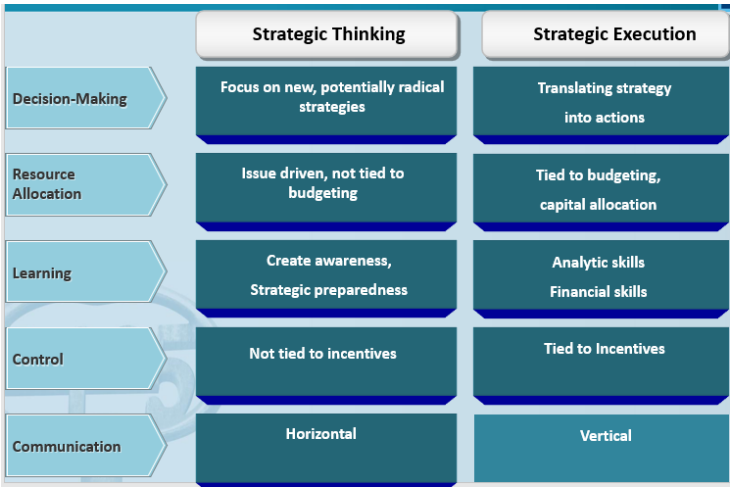
Topic 10: strategy process

- Strategy and the Drivers of Enterprise Value
- Who does what for strategic decision-making?



Different things that happen in overall strategy process
Decision making
Talked a lot about strategy formulation. Integral part of leadership of the organization

- Formulation and Execution

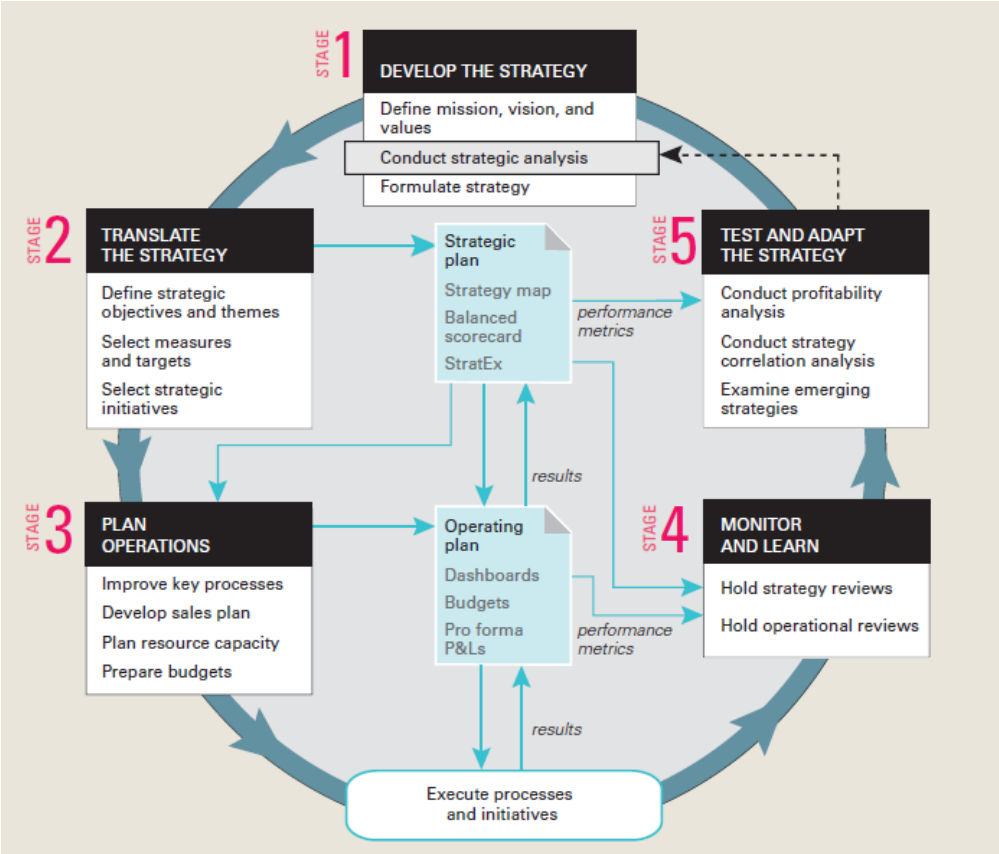


Strategic thinking and strategic execution is not the same thing.
Strategic thinking focuses on new ideas
Execution is linked to translating: how to translate goals to employees
Without means, you cannot realise ambitions
Right incentives for execution

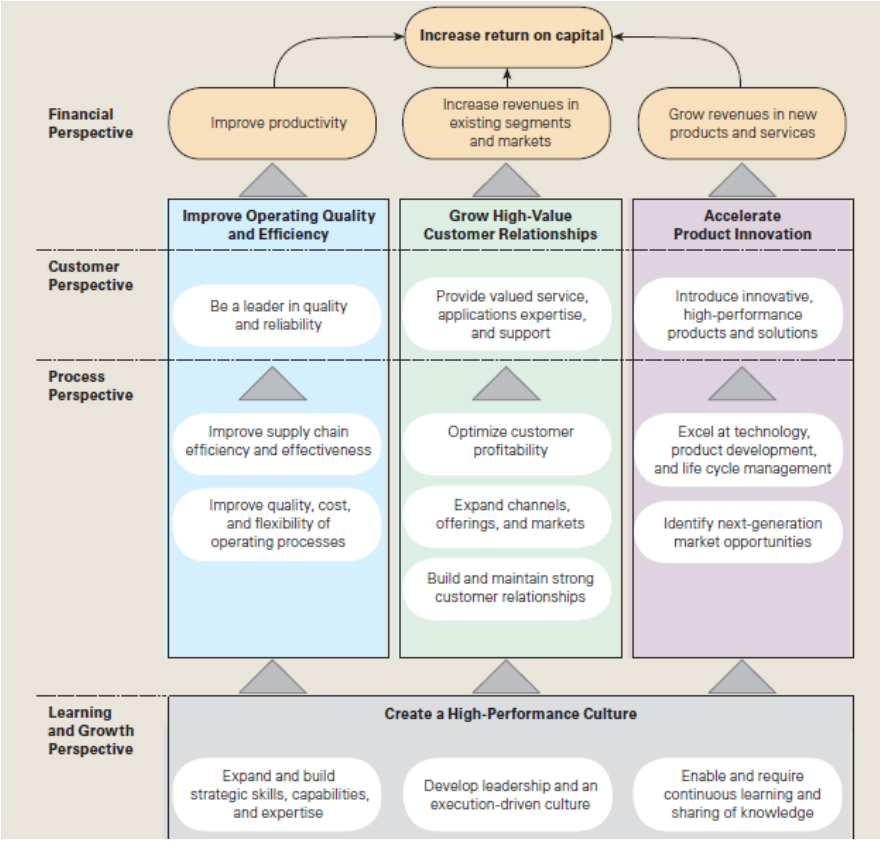
- Getting Things Done

Survey of executives
Makes decisions all the time
If decisions don't add up to where you want to go: no reason to think strategically
Only few are satisfied. Need to make decision which are consistent with strategy

- **The Management System**



KPI's are critical
Connect to this year; short term.
Connecting short term to long term is important
Key issue: develop measures you are going to track. Review outcomes. Test and maybe adapt



Tried to develop different initiatives for a company.
Affect returns
Initiatives are linked to scope.
Process perspective is linked to activities
Learning and growth perspective is linked to resources, capabilities and business model
How do you position yourself relative to your environment?

- Top Management Team
  - The CEO matters! (Bertrand and Schoar, 2003)
    - Significant effect of CEO changes on investment policies, dividend policy, cash management, number of acquisitions, R&D and advertising, SG&A.
  - Leaders matter! Very simple paper. Looked at person who are in a particular company for a number of years and then switch. When they switch: analyze effects of leadership. Find CEO effects. Effect could be positive or negative
- Top Management Team & Strategy

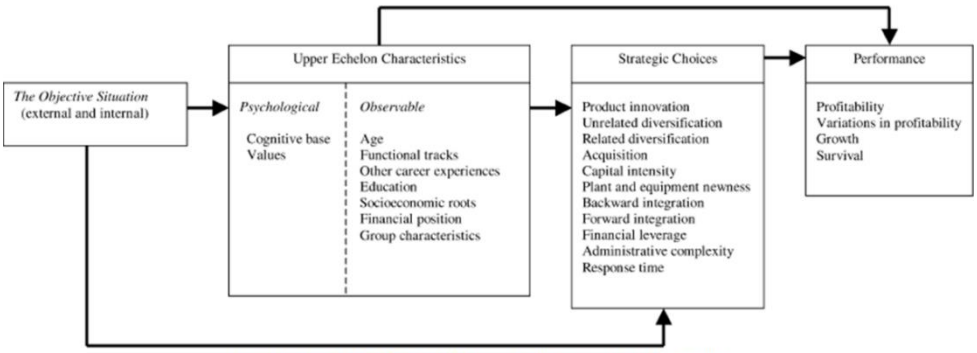


Figure 1. Hambrick and Mason's (1984) upper echelons perspective of organizations.

Upper echelon top management teams and effect on performance
Biases and observable characteristics
Lot of research on biases of CEOs

- Challenges in dealing with Execution
  - Mind your Biases in Decision Making
    - Overconfidence & overoptimism
    - Confirmation bias & GroupThink
    - Loss Aversion
    - Statusquo bias & Preference for even allocations
    - Sunk-cost fallacy
  - Think about your Network
  - People make not necessary rational decisions
  - Might be biases in strategic decision making
  - Network might be important in execution
- Biases in Decision Making
  - **Overconfidence & Overoptimism**
    - Overestimating our skill relative to others, taking credit for past outcomes, and neglect the role of chance. Overestimate the likelihood of positive events.
    - A survey by the Institute of Advanced Motorists (IAM) has revealed that nearly two-thirds of newly qualified male drivers think they are more skilful than the average person behind the wheel (Green Flag, 2011).
    - Even in the hospital after an accident, drivers overestimate their driving abilities (Preston & Harris, 1965).
  - After they had an accident they still think they are better than average
- Overconfident Economics Students

TABLE 1. Actual Grade vs. Expected Frequency

Expected grade	Actual grade A	B	C	D	E	Total (expected)
A	153	63	4	1	0	221
B	38	164	111	15	0	328
C	0	22	93	29	6	150
D	0	0	4	5	4	13
E	0	0	1	1	1	3
Total (actual)	191	249	213	51	11	715

Students also have the quality to overestimate themselves

Biases in Decision Making

1) Overconfidence & Overoptimism

- Overestimating our skill relative to others, taking credit for past outcomes, and neglect the role of chance. Overestimate the likelihood of positive events.
- A survey by the Institute of Advanced Motorists (IAM) has revealed that nearly two-thirds of newly qualified male drivers think they are more skilful than the average person behind the wheel (Green Flag, 2011).
- Even in the hospital after an accident, drivers overestimate their driving abilities (Preston & Harris, 1965).

- How to counter?
  - Test strategies under a much wider range of scenarios
  - Add 20-25% more downside to the most pessimistic scenario.
  - Build more flexibility and options into your strategy to allow the company to scale up or retrench as uncertainties are resolved (learn-to-burn rate).
- How do we counter that? Different scenarios: maybe bank will not exist anymore, new players will enter,…Push people to think less optimistic
- Entrepreneurs who are successful **pivot**: changed if something did not work

2) Confirmation bias & Groupthink

- Overweighting of evidence consistent with a favored belief, or the failure to search impartially for evidence.
- Striving for consensus at the cost of a realistic appraisal of alternative courses of action

- How to counter?
  - Create a culture of challenge.
  - Strong checks and balances with independent review
  - Establish a challenger team
  - Do a "pre-mortem" analysis
- We always look for things that confirm argument. But actually need to look for a counterargument
- Groupthink: like to have consensus, make everybody happy
- Clashes in executives committee: improve on options etc. cannot have everybody happy
- Need to create challenges. Want people that actually say no and challenge them. Risks come out
- Challenger team: one team in favour of option and one team against option and debate it
- Pre mortem: acquisition. Write a memo why it's going to fail. Then at least issues that might be risky can be analysed. Force people to think about what might go wrong

3) Loss aversion (Prospect Theory)

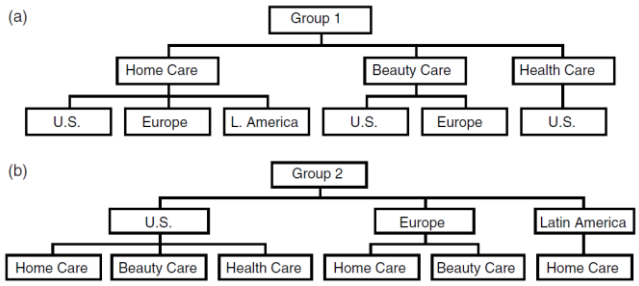
- Tendency to feel losses more acutely than gains of the same amount, making us more risk averse than a rational calculation would suggest.

- How to counter?
  - establish stretch targets that are impossible to achieve through "business as usual."
  - Zero-based (or clean-sheet) budgeting
- We don't like negative outcomes. Prospect theory: win or lose 100 euros. Losing 100 euros create more suffering than gaining 100 euros make us happy -> makes people more risk averse
- Force people to take more risks. P.e. setting stretch targets
- Zero based budgeting: re-evaluate independently of previous years

4) Status quo bias

- Preference for the status quo in the absence of pressure to change it
- Preference for even allocations

- Might be worse think to do
- We don't like change
- Change management is difficult in consulting
- Preference for even allocation
- Bardolet, Fox & Lovallo (2011)



Experimental studies. Done with executive MBA students. Received case and numbers and were asked to divide resources over business units. Structure for both groups was different. In group 1 divided in care and other groups a geographical division. All information was similar

In this case we expect 1/3 for every care group in group one and every geographical division in group 2

Table 5. Mean responses for Experiment 2 (product versus geographical hierarchies)

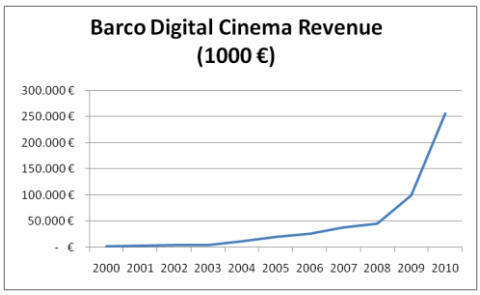
	Product partition		Geographical partition				
	Ignorance prior	Mean	Ignorance prior	Mean	Difference between ig. priors	Difference between means	t-statistic for the difference between means
Home U.S.	11.1%	12.2%	11.1%	9.2%	0%	3%	1.77
Home Europe	11.1%	9.5%	16.7%	14.1%	−5.5%	−4.6%	−2.53
Home Latin America	11.1%	16.7%	33.3%	39.6%	−22.2%	−23%	−4.65
Beauty U.S.	16.7%	15.4%	11.1%	9.4%	5.5%	6%	5.66
Beauty Europe	16.7%	14.1%	16.7%	16.5%	0%	−2.4%	−0.91
Health U.S.	33.3%	32.2%	11.1%	11.2%	22.2%	21%	7.85

People like to divide things more equally In experiment they almost got 1/3 in geographical they expected 1/9 and got almost 1/9. How do we counter that?

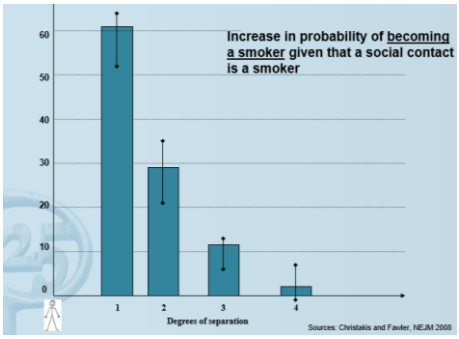
- **Status quo bias**
  - Preference for the status quo in the absence of pressure to change it
- How to counter?
  - Adopt a radical view of all portfolio decisions. View all businesses as "up for sale".
  - Subject status quo to a risk analysis as rigorous as any change options.
- Look at each business separately and up for sale. How much would they need to develop etc
- To avoid status quo: do a risk analysis for status quo. What are the risks if they don't do anything? Biggest risk to not do anything

5) Sunk-cost fallacy: "throwing good money after bad"

- Paying attention to historical costs that are not recoverable when considering future courses of action
- "…there are signs indicating that the long awaited breakthrough is perhaps just around the corner…"
  - Barco Annual Report … 2001
- Rather successful example. Barco projector on digital cinema
- When did digital cinema break through: 2009. was still 8 years before
- Big questions of innovative company is when to stop investing

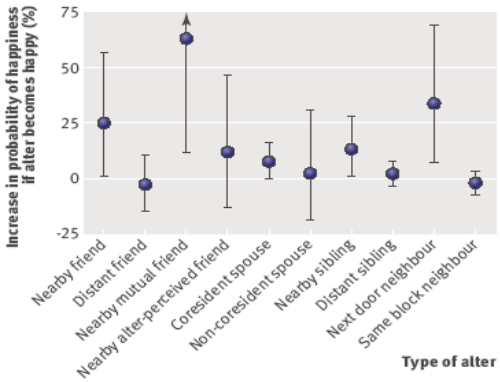
- Digital Cinema Take Off
  - 

    - Have been investing since 1990's
- **Sunk-cost fallacy: "throwing good money after bad"**
  - Paying attention to historical costs that are not recoverable when considering future courses of action
- How to counter?
  - Full rigor investment analysis to ***incremental*** investments, only looking at incremental prospective costs and revenues.
  - Be prepared to kill strategic experiments early
  - Use "gated funding" for strategic investments
  - What you spend in past does not matter. Look at what they spend now and in the future
  - Have to kill projects early -> put in staged gate projects. Different gates are hurdles you would like to make. Force is to rethink towards future
- Challenges in dealing with Execution
  - Mind your Biases in Decision Making
    - Overconfidence & overoptimism
    - Confirmation bias & GroupThink
    - Loss Aversion
    - Statusquo bias & Preference for even allocations
    - Sunk-cost fallacy
  - Think about your Network
  - Issue in strategic decision making. Will be problem for execution and actual returns
  - Another discussion is about networks
- Your Network Matters…

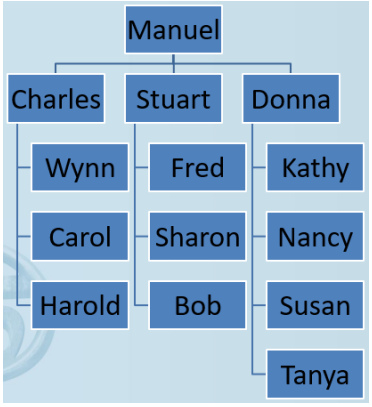


Networks really matters.
2 degrees of separation: friend of friend, 3 degrees of separation: friend of friend of friend
Checked probability to become smoker if you befriend smoker. Have 60% chance to become smoker if friend is smoker. If friends friend is a smoker, still a 30% probability to become a smoker

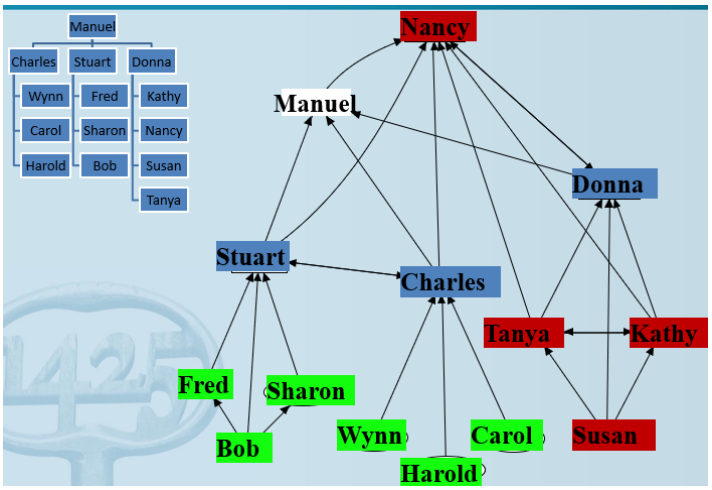
What makes us happy
If mutual friend is happy: higher probability to also become happy
If neighbour is happy: also higher prop to be happy
If partner is happy: not a significant effect
Network seems to matter



- Auditor Unit in Large Aircraft Manufacturer

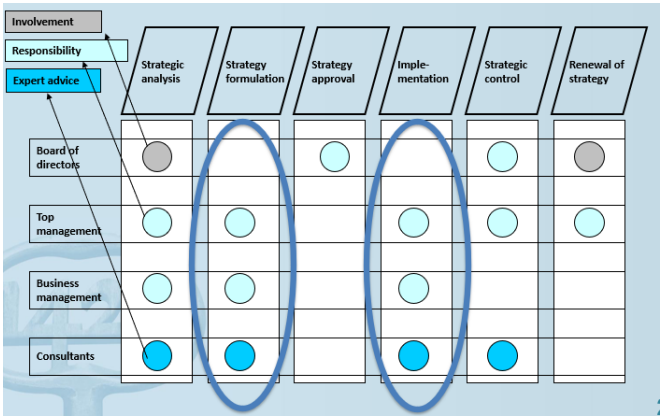


Manuel recently finished MBA and started working for a local manufacturer
Went into compliance: check what happens internally
Got a bigger team. 2 auditors with their team and a administrative person with their team
In a large team: things are not working. Asked who has power in organization. Who had power: ability to get things done. Who you think has the power? Difficult to understand power while looking at chart.
Have to figure out network. Need to figure out informal network. They look for advise network. Question they ask everybody: who do you go to for advice. Need to map it to get informal network



Informal network. Nancy seems to be having power.
Nancy has been for the organization for the longest time; knows how to get things done. Even he goes to Nancy What should he do? Talk to Nancy. If you want to get things done: need to understand how people respond to impulses
Manuel talks to Nancy and she said that people are confused and there is mistrust. Organize BBQ or picknick and things will take off. Does it and things went better. Interesting patterns in terms of organization

- Who does what for strategic decision-making?

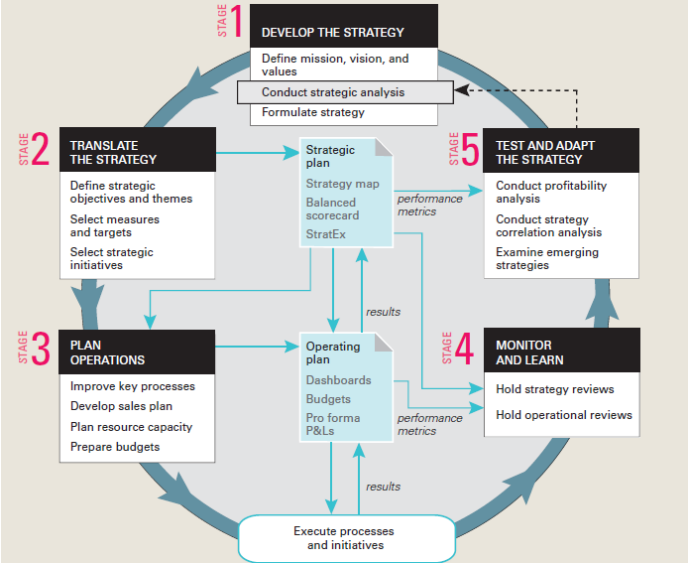


  -
  - Don't forget about execution.

Quiz: Strategy process

1. The management system is an integrated set of processes and tools that a company uses to:
   a. Develop its strategy
   b. Improve the effectiveness of its strategy and operational actions
   c. Monitor the effectiveness of its strategy and operational actions
   d. Translate its strategy into operational actions

2. Put the stages of the management system in the correct order
   a. Test and adapt the strategy
   b. Plan operations
   c. Develop the strategy
   d. Translate the strategy
   e. Monitor & learn



3. Which question(s) should be explored during the first stage (develop the strategy) of the management cycle?
   a. What business are we in and why?
      i. The company must first agree on the mission, vision and values of the company
   b. How can we best compete?
      i. The company tackles the strategy formulation and identifies its sustainable competitive advantage
   c. What are the key issues we face in our business?
      i. The company conducts strategic analyses of the company's internal and external situation
4. True/False: The strategy map and balanced scorecard are important visual tools to help companies develop their strategy.
   a. True
   b. False
      i. These are powerful tools for the visualization of the strategy that should be used when companies try to translate their strategy into objectives and measures that can be clearly communicated to units and employees (the second stage of the management cycle)
5. In a third stage, the company will develop an operational plan that lays out the actions that will accomplish its strategic objectives. Indicate the steps of the operational plan:
   a. Authorize the spending on resources
   b. Calculate the dynamic operating and capital budgets
   c. Identify the process improvement priorities
   d. Develop a sales plan with sales forecasts consistent with the strategic plan
   e. Develop and fund the portfolio of strategic initiatives
      i. The development and funding of the portfolio of strategic initiatives happens in the second stage (translation of the strategy)
   f. Estimate the resource capacities that are required for the sales plan

Quiz: Collis (2016) – strategy process

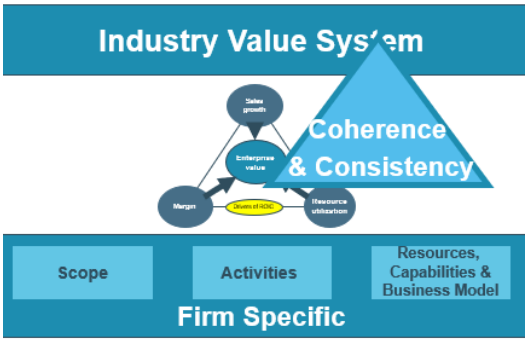
6. This article argues that:
    a. Strategy is not useful for start-up companies
    b. Vision is more important than strategy in entrepreneurial firms
    c. Strategy provides a framework for interpreting market feedback
7. The lean strategy process implies that:
    a. Strategies of companies are too complicated ("fat")
    b. Entrepreneurs should experiment more
    c. Strategy can help to limit the scope of experimentation by entrepreneurs
    d. Entrepreneurial firms need a different kind of strategy process compared to established firms
8. Emergent strategy...
    a. Is the opposite of deliberate strategy
    b. Helps amend the deliberate strategy
    c. Is agreed upon by the senior executives

Conclusion

- Strategy as Phase 2

Wat is strategie? Spraken over Gnomes. Deden dingen en kregen resultaat, maar groot vraagteken bij strategie. Phase 2: wat is 2e fase: consistent verhaal over hoe puzzelstukjes in elkaar passen

- Strategy and the Drivers of Enterprise Value



Alle elementen komen samen.
In midden resultaat. Alle elementen hierop invloed
Strategie om entreprise value te beïnvloeden. Zien resultaat strategische acties/investeringen.
Bedrijf gaat zich plaatsen in omgeving en nadenken over scope. Aan wie bieden we producten aan. Welke activiteiten brengen we samen. Welke middelen hebben we en wat is het business model
Coherentie: zaken kloppen op bepaald moment in tijd

- Developing a Sustainable Competitive Advantage
  1. Understanding the Competitive Landscape
  2. Define the Scope of your Business
  3. Select the Activity set of your Business
  4. Assemble the needed Resources and develop the key Capabilities
  5. Set up the Business Model to link Value Creation and Value Capture and create a Virtuous Cycle
  6. Understand the Sustainability of your Competitive Advantage
  7. Test your Strategy
  - Om een duurzaam competitief voordeel uit te bouwen; stappenplan
  - Consulting businesses zullen allemaal eigen framework ontwikkelen
  - Zaken waarover we moeten nadenken. Geen lineair stappenplan. Bij inconsistentie terugkeren naar vorige stappen. Vaak interactief gegeven om strategie te ontwikkelen

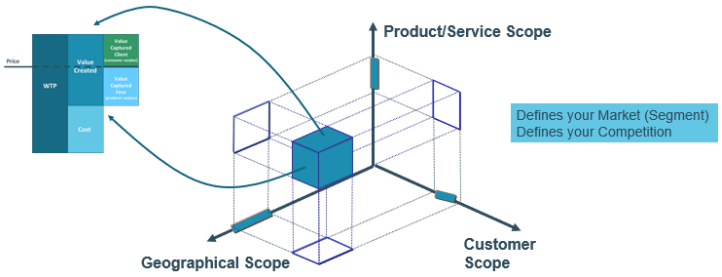
Test your Strategy

- 3 vragen die we moeten stellen bij strategie
- Vertellen we een goed verhaal/ kloppen alle elementen

1. *Internal* consistency – coherence

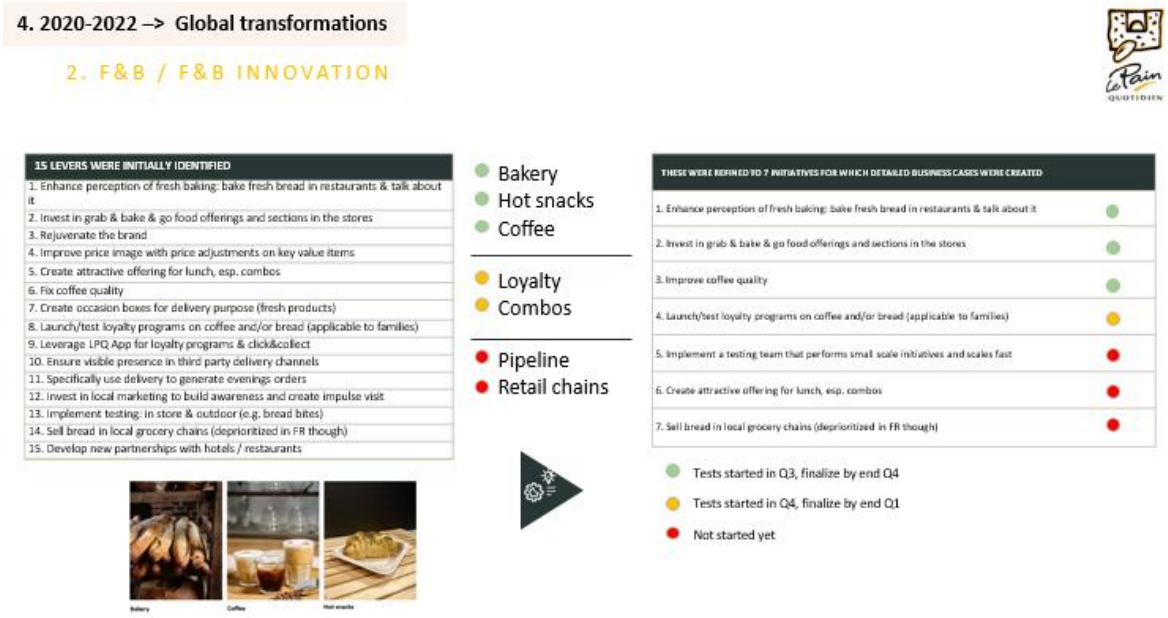
- Do the elements of the strategy fit well with each other? Are there complementarities between the different elements of the strategy?
  - Does your *scope* match your activities, your resources and capabilities?
  - Do your *activities* all reinforce your competitive advantage?
  - Are you developing *resources and capabilities* that fit and reinforce your competitive advantage?

- Defining Scope of a Business: Where you Play



Wat doen we, voor wie en waar.
Linken aan hoe we waarde creëren en meer waarde creëren dan alternatief (competitief voordeel)
Strategie ontwikkelen voor bepaalde business en waar we gaan spelen
Wie concurrenten zijn. Wie iets gelijkaardigs aanbiedt/ gelijkaardige nood kan verhelpen

- Zie le pain quotidien



4. 2020-2022 –> Global transformations

2. F&B / F&B INNOVATION

15 LEVERS WERE INITIALLY IDENTIFIED
1. Enhance perception of fresh baking: bake fresh bread in restaurants & talk about it
2. Invest in grab & bake & go food offerings and sections in the stores
3. Rejuvenate the brand
4. Improve price image with price adjustments on key value items
5. Create attractive offering for lunch, esp. combos
6. Fix coffee quality
7. Create occasion boxes for delivery purpose (fresh products)
8. Launch/test loyalty programs on coffee and/or bread (applicable to families)
9. Leverage LPQ App for loyalty programs & click&collect
10. Ensure visible presence in third party delivery channels
11. Specifically use delivery to generate evenings orders
12. Invest in local marketing to build awareness and create impulse visit
13. Implement testing: in store & outdoor (e.g. bread bites)
14. Sell bread in local grocery chains (deprioritized in FR though)
15. Develop new partnerships with hotels / restaurants

- Bakery
- Hot snacks
- Coffee

- Loyalty
- Combos

- Pipeline
- Retail chains

THESE WERE REFINED TO 7 INITIATIVES FOR WHICH DETAILED BUSINESS CASES WERE CREATED	
1. Enhance perception of fresh baking: bake fresh bread in restaurants & talk about it	Tests started in Q3, finalize by end Q4
2. Invest in grab & bake & go food offerings and sections in the stores	Tests started in Q3, finalize by end Q4
3. Improve coffee quality	Tests started in Q3, finalize by end Q4
4. Launch/test loyalty programs on coffee and/or bread (applicable to families)	Tests started in Q4, finalize by end Q1
5. Implement a testing team that performs small scale initiatives and scales fast	Not started yet
6. Create attractive offering for lunch, esp. combos	Not started yet
7. Sell bread in local grocery chains (deprioritized in FR though)	Not started yet

- Tests started in Q3, finalize by end Q4
- Tests started in Q4, finalize by end Q1
- Not started yet

4. 2020-2022 –> Global transformations

1. BRAND / BRAND DNA

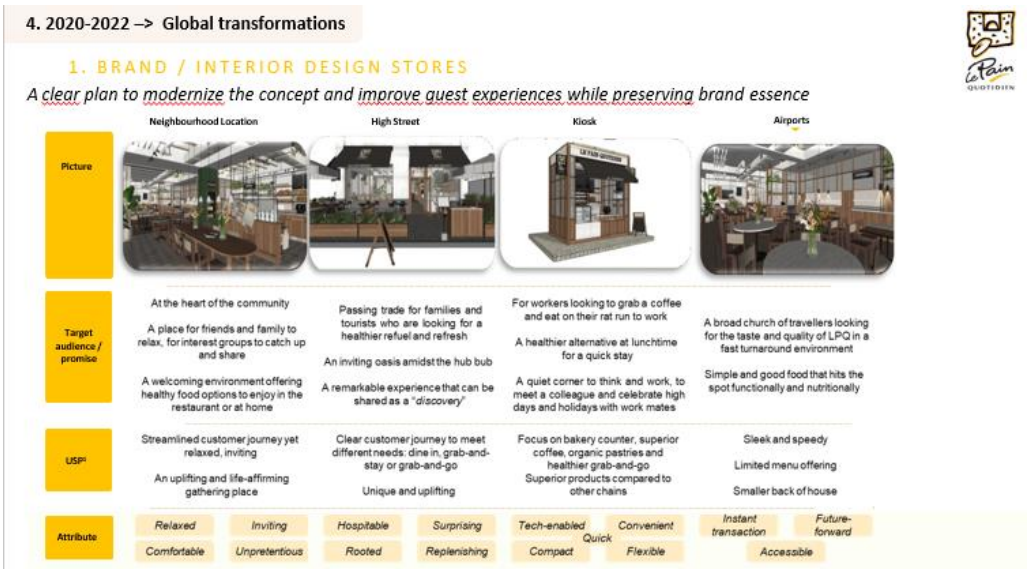
Brand transformation - Brand redefined

FACTS: BELGIAN ORIGIN, ALL-DAY BAKERY, COMMUNAL TABLE, NATURAL

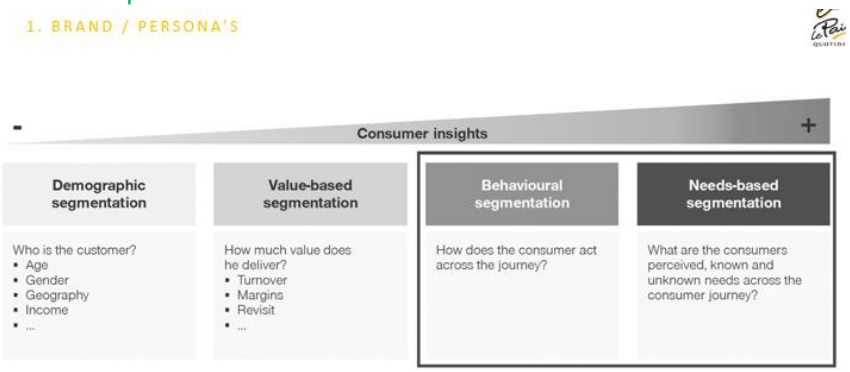
VALUES: QUALITY, AUTHENTICITY, SIMPLICITY, CONVIVIALITY

PERSONALITY: THOUGHTFUL, WELCOMING, ARTISAN, HONEST

- Le pain quotidien: zoeken naar wat ze eigenlijk aanbieden



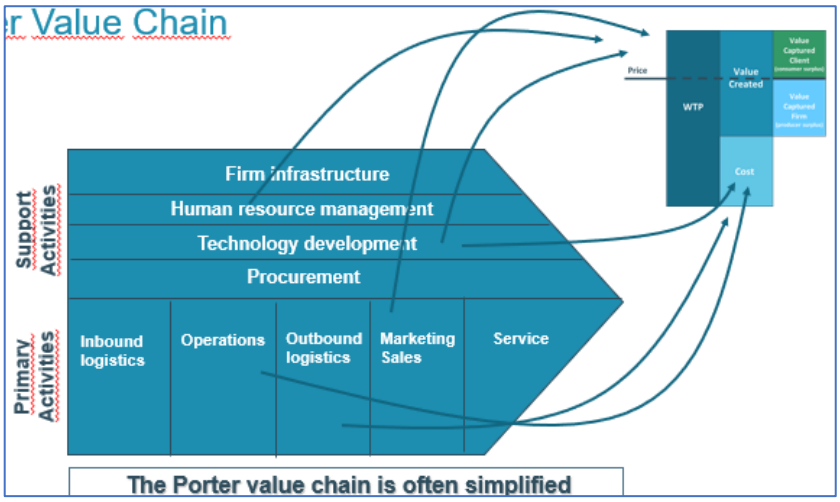
- Ook een bepaald element mbt design van de winkel
- Winkel aanpassen om concreet te maken wat ze aanbieden



- Wie is onze potentiele klant? Demografisch, customer journey,..

- Hebben een groeiplan. Vraag is waar groeien? Wat bieden we aan aan wie en wat past best binnen onze strategie?

- The Porter Value Chain



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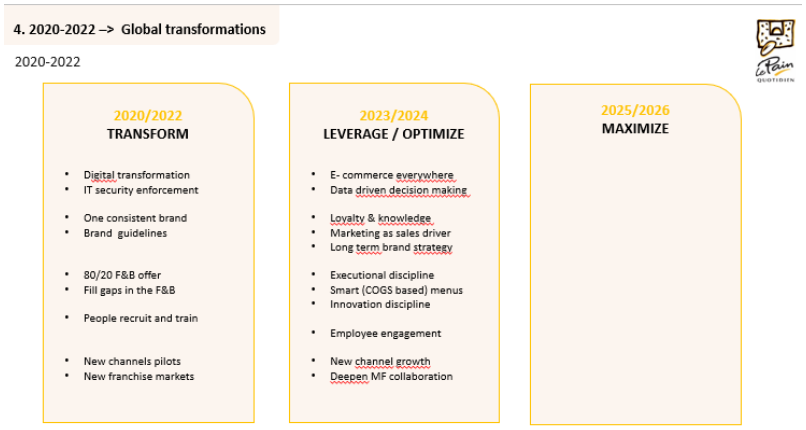
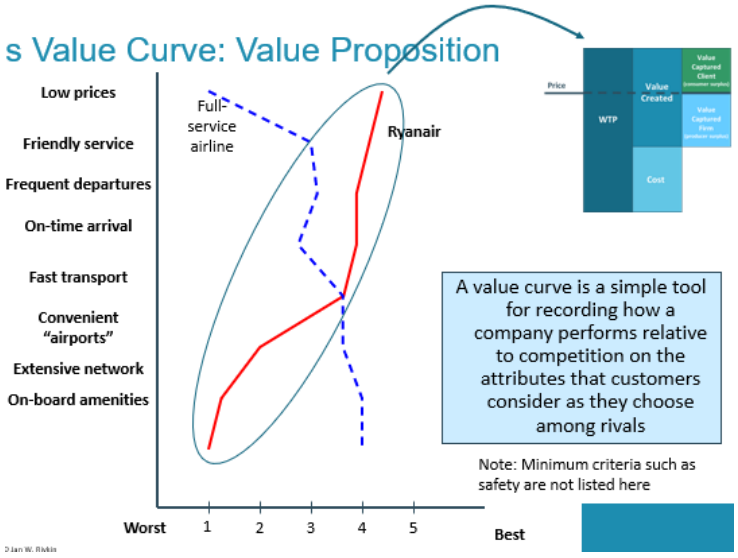
- Hoe gaan activiteiten waarde creëren. Lage kosten of hogere BTB?
- Le pain quotidien spelen op brand en WTP



Stappenplan over tijd
Zien welke activiteiten belangrijk zijn om aan te pakken en competitief voordeel uit te bouwen
Brand spelt heel belangrijke rol

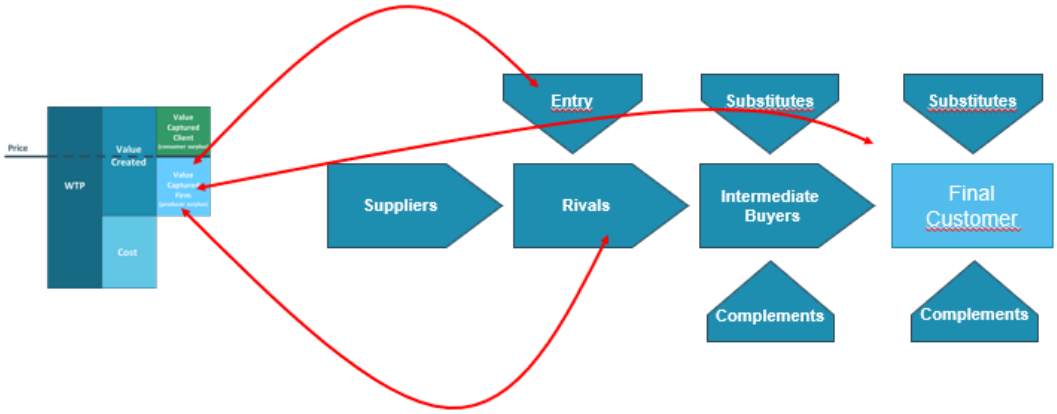
- Ryanair's Value Curve: Value Proposition



Value curve en drivers van WTP uitgezet
Gaan onszelf en concurrenten hierop mappen. Strategisch gezien belangrijk trade offs te maken en te differentiëren

2. ***External* consistency – coherence**

- Does the strategy neutralize the threats posed by the external environment? Does it take advantage of the opportunities?
- Objective:
  - Neutralize the pressures on value capture of rivals, potential entrants, substitutes, buyers and suppliers
  - Take advantage of opportunities provided by complementors
- Kunnen we krachten die waardecreatie en captatie beperken neutraliseren?
- The Industry Value System



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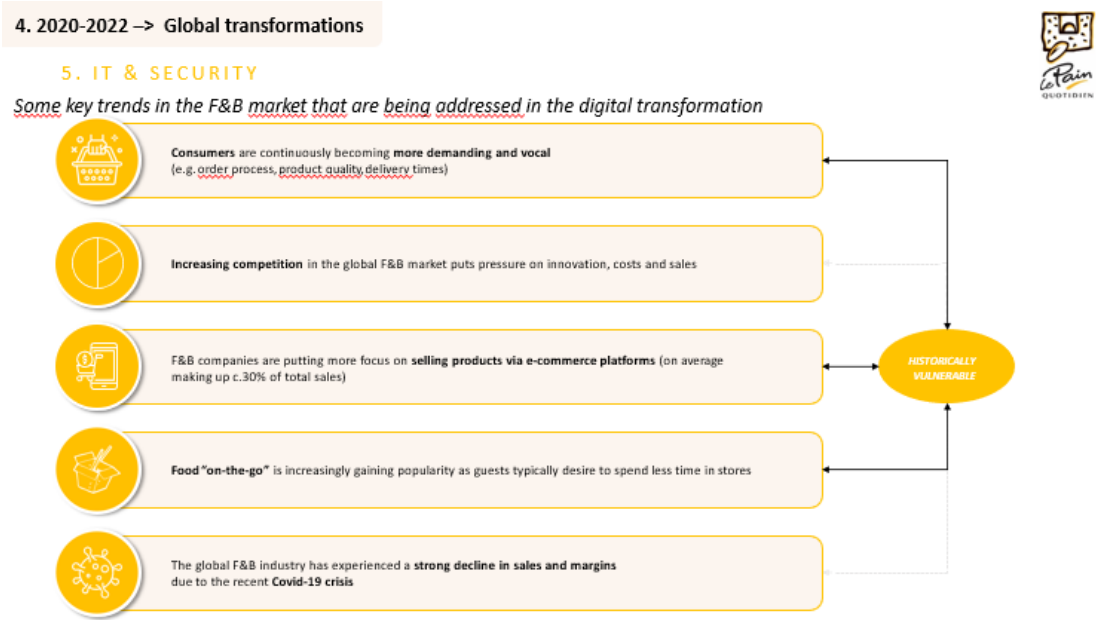
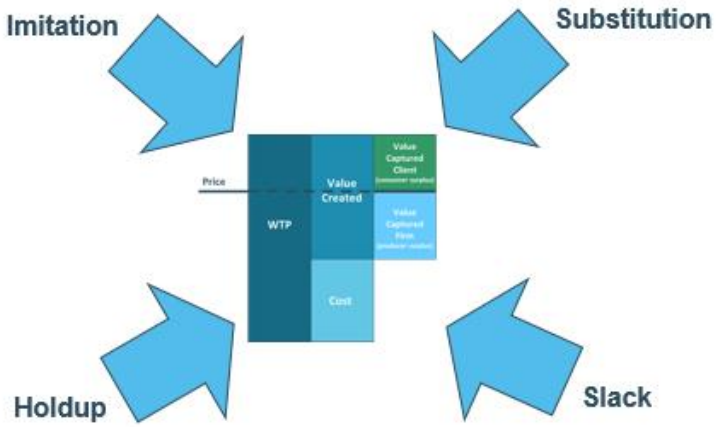
  - Herken 5 forces Porter en complementen die waarde ook kunnen capteren
  - Hoe gaat competitie, marktmacht kopers een rol spelen etc. hoe neutraliseren gezien positionering
  - Hoe connecties met externe omgeving



  - Le pain quotidien. Marktmacht consumenten oefent druk uit op waarde creatie en captatie
  - Duidelijk hoe druk uitgeoefend worden door omgeving op manier waarde creatie en captatie
  - Geeft aan waar ze kwetsbaar zijn. Voor e-commerce ga je niet naar hun. Is gericht op interactie etc.

3. ***Dynamic* consistency**

- Is the strategy set up to help sustain competitive advantage over time?
- Objective: Neutralize the threats to sustainability of competitive advantage
  - Imitation
  - Substitution
  - Hold up
  - Slack
- Threats to Sustainability



  -
  - Hoe gaat imitatie. Anderen gaan trachten te imiteren, substitueren
  - Slack: blijven merk uitbouwen en kosten te drukken

4 STRATEGIC PILLARS

Continued global and local expansion through franchising: • Master franchise development plan across top 50 targeted countries • Expand single unit franchising network in owned countries	**Diversified formats and models:** • Leverage multitude of proven formats ranging from EUR 5+ mln flagship stores to EUR 100k food trucks and kiosks • Increased presence in travel retail through partnerships • Expand expo / exhibit offering • Deploy store in store model
Brand positioning and customer relevance : • Better understanding of clients' profiles and needs through CRM • Leverage loyalty to tailor communication and improve store visit frequency • Strengthen presence across channels : dine in, retail, take out, catering, ecomm • Continue roll out of new look and feel and product innovation to improve loyal customer repeat visits and attract new segments	**Differentiating factors and USP:** • Leverage brand DNA and core values (simplicity, conviviality, authenticity, quality) • Communicate on product quality and innovation : local, healthy and organic • Focus on key day part strengths : breakfast, brunch, lunch and afternoon

Elementen worden vermeld als we denken over strategie bij Le pain quotidien
Moeten mee groeien in veranderende omgeving
Moeten meespelen in nieuwe formats als ze niet gesubstitueerd willen worden
Dynamische consistentie over nagedacht worden

- Short theory questions on exam
  - Explain the different corporate value creating models and provide an example
  - Which tool or framework would you use to analyze the industry attractiveness? Explain why.
  - Hoe past strategie kom op tegen kanker binnen framework we gezien hebben?