On Increasing Sales

Dr. Nick Demos

Triple Imperatives …

A) VISIBILITY

B) LOYALTY

C) PROFITABILITY

Triple Imperatives …

A) VISIBILITY

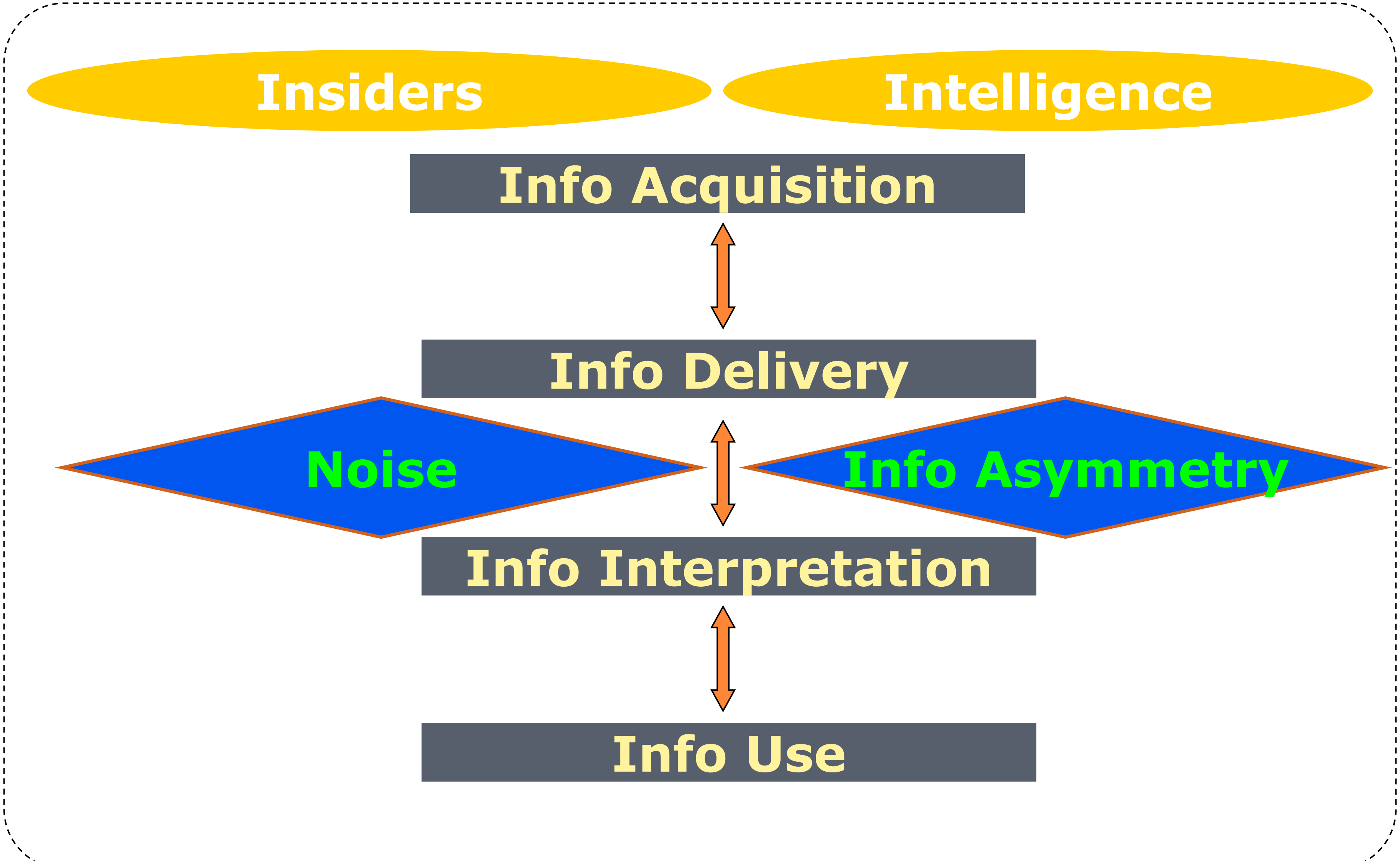
Visibility

Visibility depends upon…

1) Information
2) Technology
3) Life Cycle (LC)
4) Regulation
5) Strategy
6) Communication

1) Information
&
Info Asymmetry

Information Paradigm



Information Chock Points

Info Asymmetry

Noise

Information Symmetry & Asymmetry

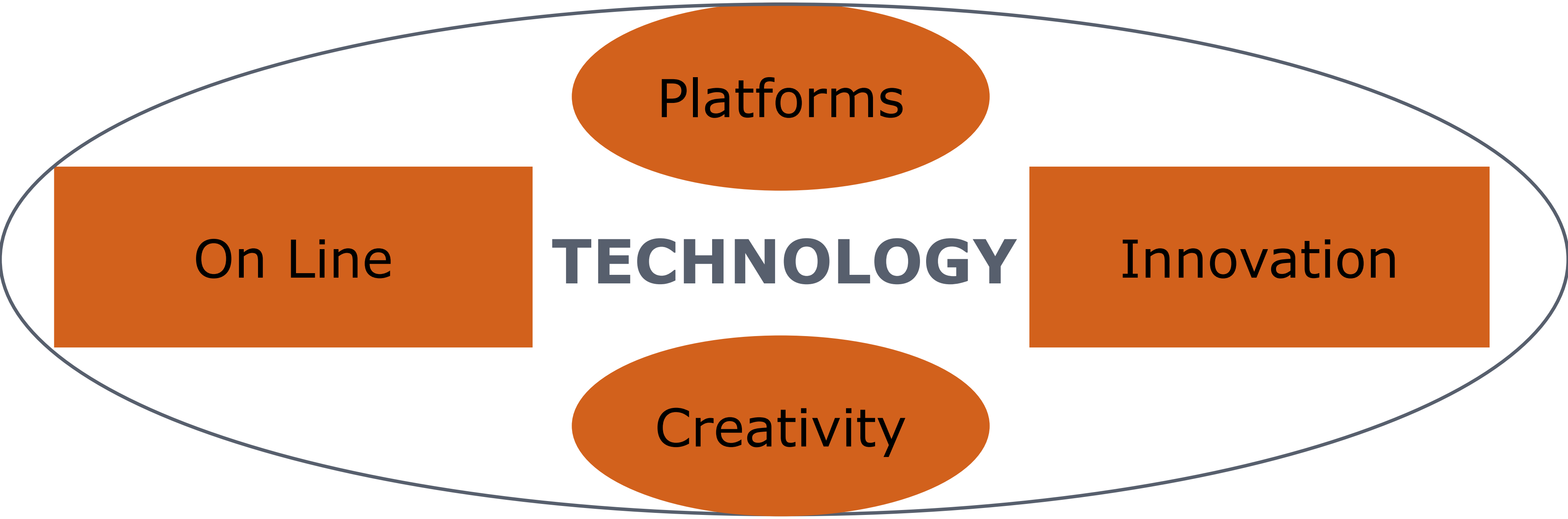
Agency Issues	*Conflicting Roles*
	■ Shareholders vs. Top Managers
	■ Owners vs. Shareholders
	■ Managers vs. Customers
	■ Government vs. Citizens

Noise Issues

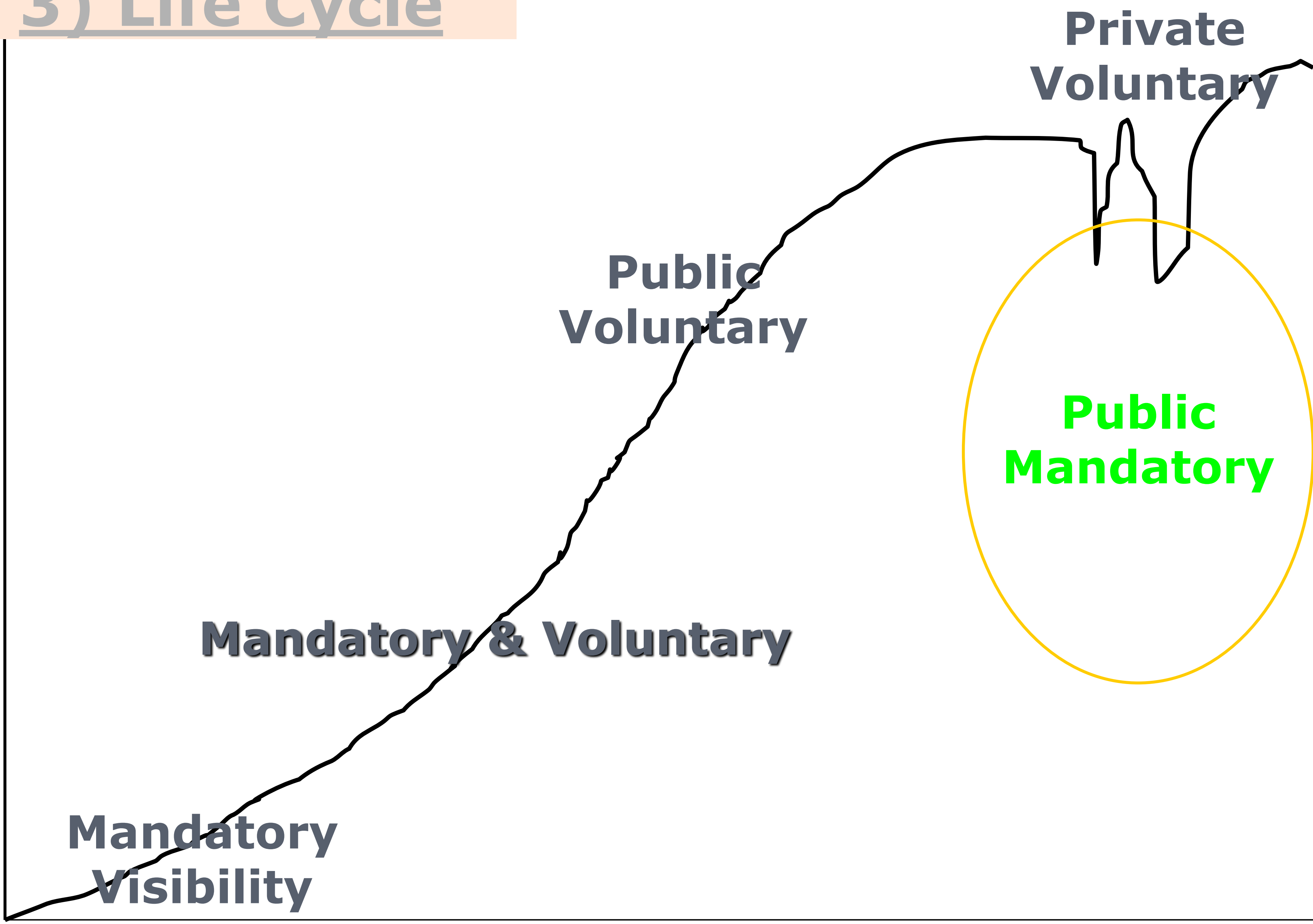
- How insiders use information?
- How informed players are being informed?
- How journalists set the com. agenda?
- How online platforms create fake news?

Information – Intelligence – Choices - DM

2) Technology



3) Life Cycle


Private
Voluntary
Public
Voluntary
Public
Mandatory
Mandatory & Voluntary
Mandatory
Visibility

4) Regulation

GOVERNEMNT INTERVENTION

DO NOTHING

Via INTERMEDIARIES

ACTIVISM

REGULATIONS

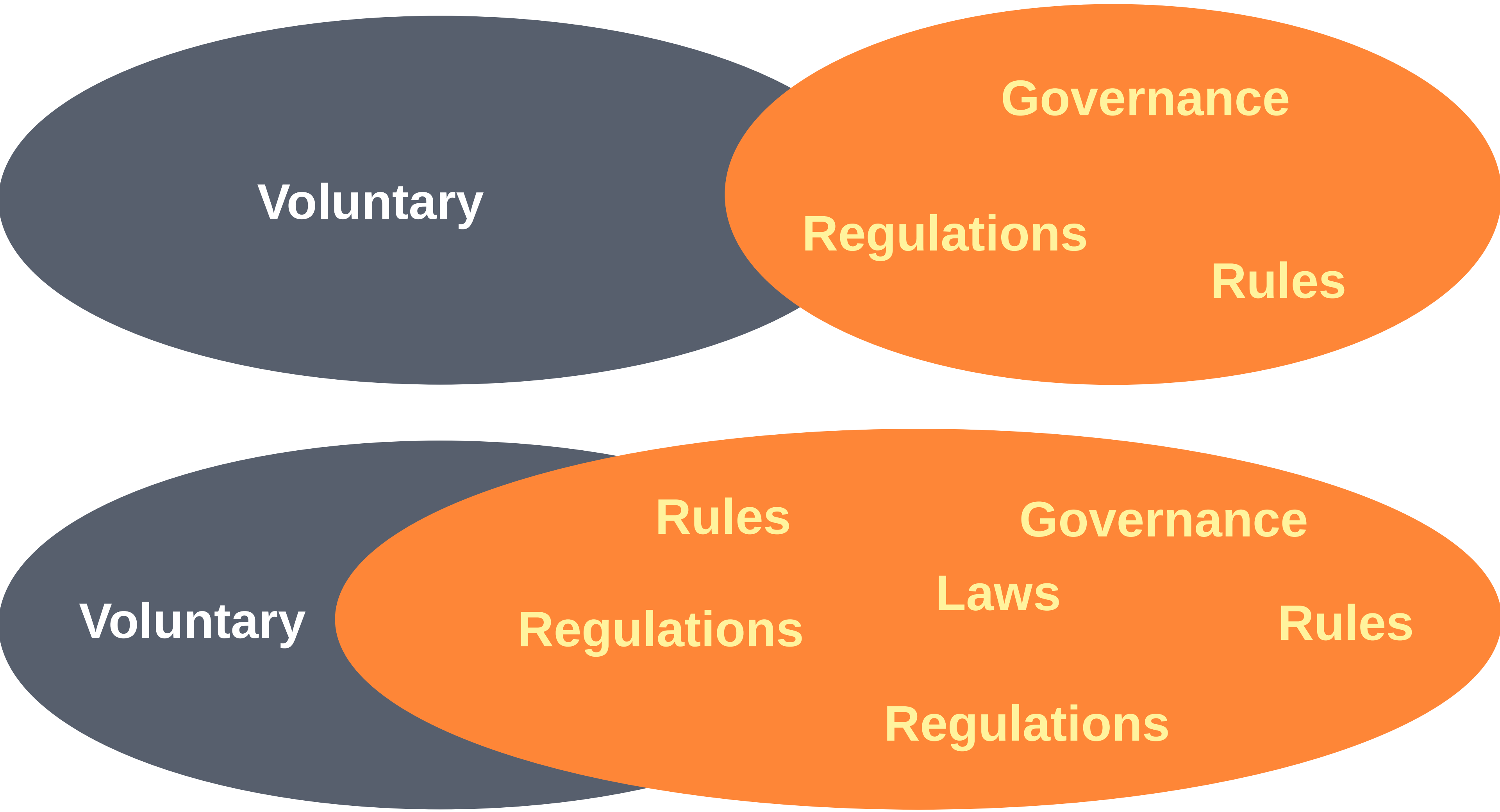
VOLUNTARY

Why Regulation?

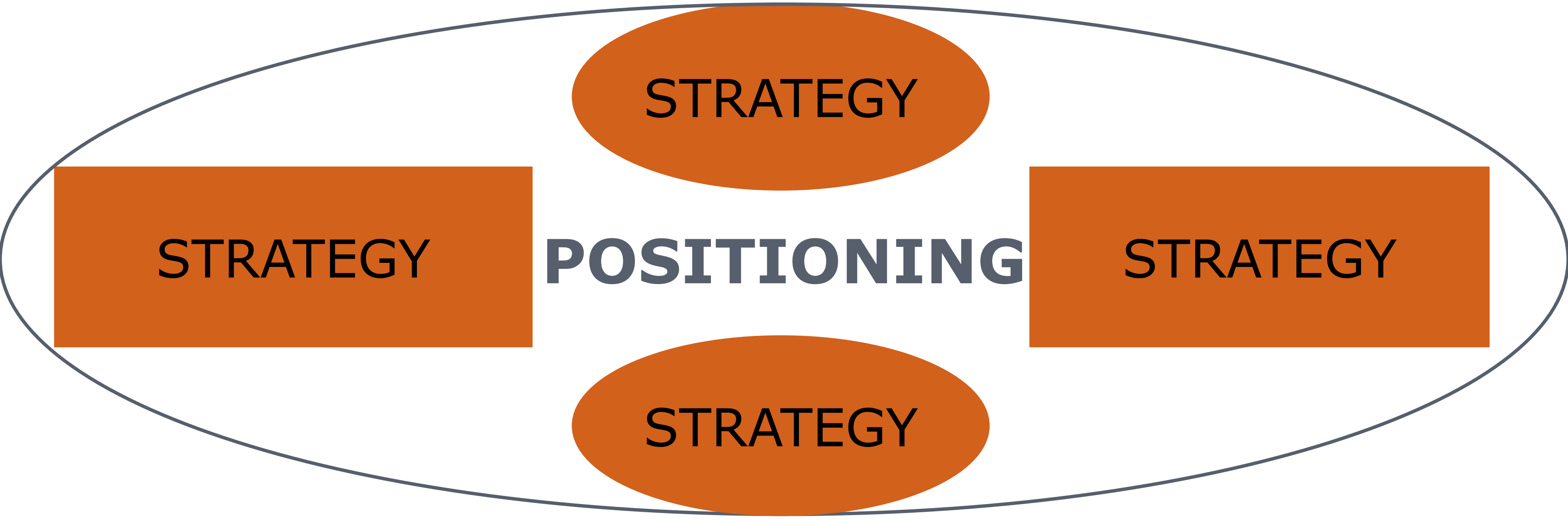
Standardization

and …**Control**

Is more Regulation Counterproductive?



5) Strategy

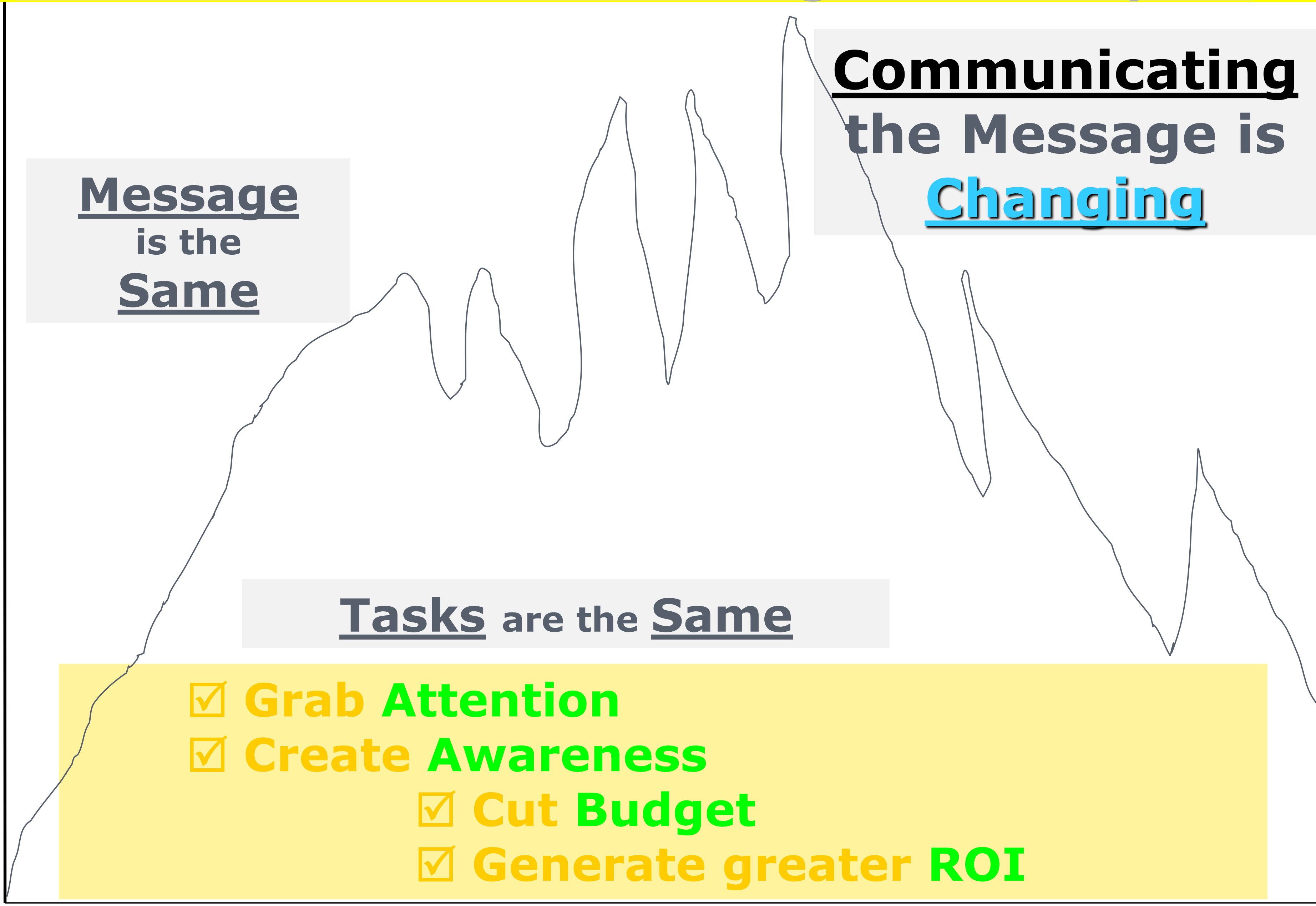


6) Business Communication

BRIDGE

INFO GAP
&
ASYMMETRIES

Business Communication along Business Cycles



Effective Int. Strategic Com. Plan

Converting

Targeted potential Customers

to

Loyal Clients

Business Communication - Process

- Using Strategic Planning & Creativity
- Creating Credibility & Trust
- Via Standardization & Customization

Accomplishing … Objectives

- Increase **Visibility** – *"Be on the Radar Screen"*
- Establish *Management & Company* **Credibility**
- Raise Consumers **Interest**
- Attract & Retain **Clients**
- Increase **Customer/Participants Numbers**
- Increase **Profitability & Value**

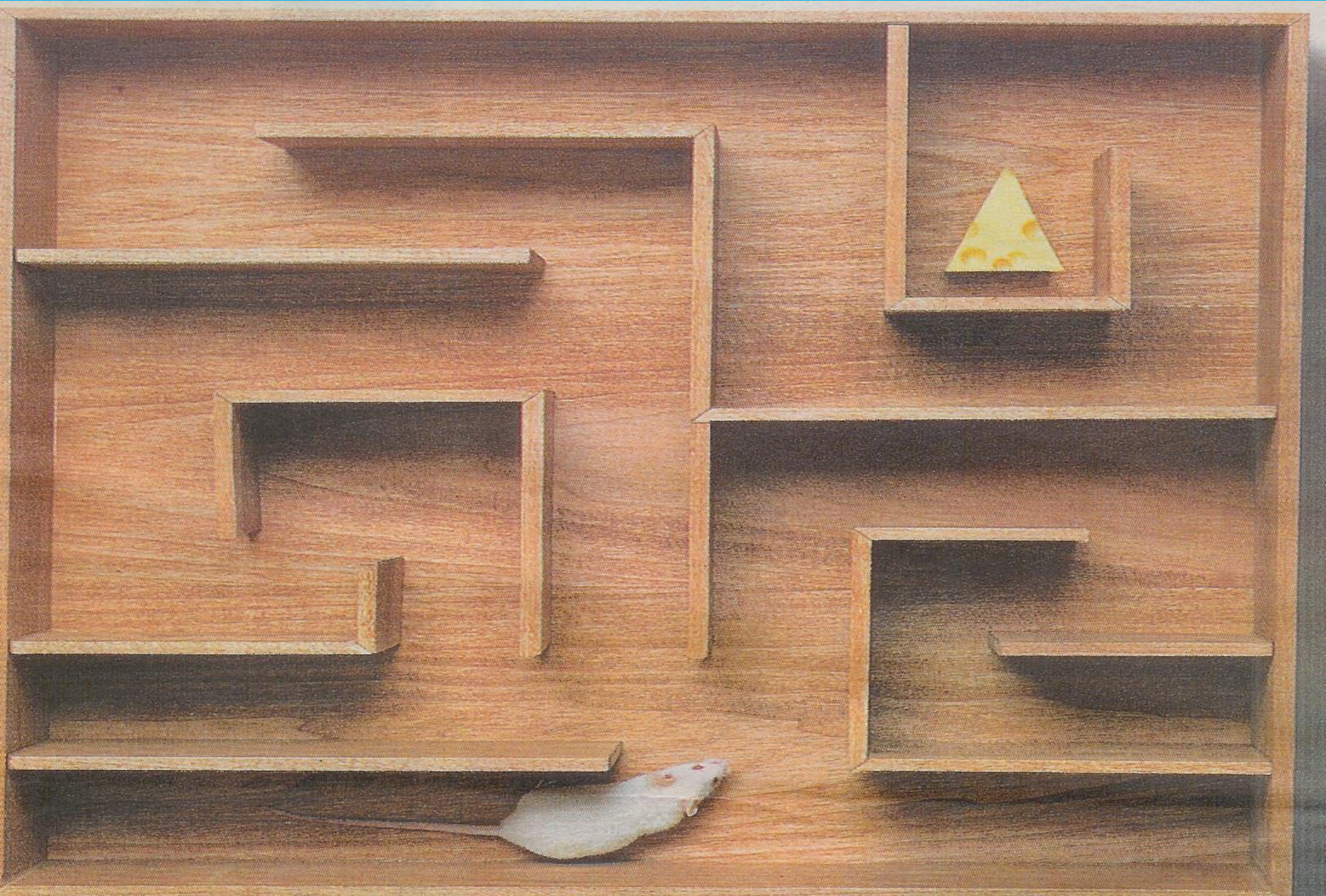
Primary Objective: **Increase Visibility**

Intermediary Objective: **Credibility**

Intermediary Objective: **Raise Interest**

Intermediary Objective: **Attract Clients**

Avoid Traps



Imperative: **Increase Participants**

Do not sell … create relationships

- Cement relationships
  - Attract more….. subscribers
    - Expand globally

Globally the issue is … **MATCHING**

Result

Maximize Value

Profitability

SSCA (Strategic Sustainable Competitive Advantage)

Strategic Positioning

Triple Imperatives …

B) LOYALTY

B) Loyalty: Subscriber Customer Model

Analytics

↓

Loyalty

↓

Profitability

Basic Steps

- Linking data to increase brand awareness and empower relationships sales
- Implementing solid strategic marketing plan and flexible channel mix
- Improving customer experience, satisfaction and loyalty
- Increasing sales and profitability

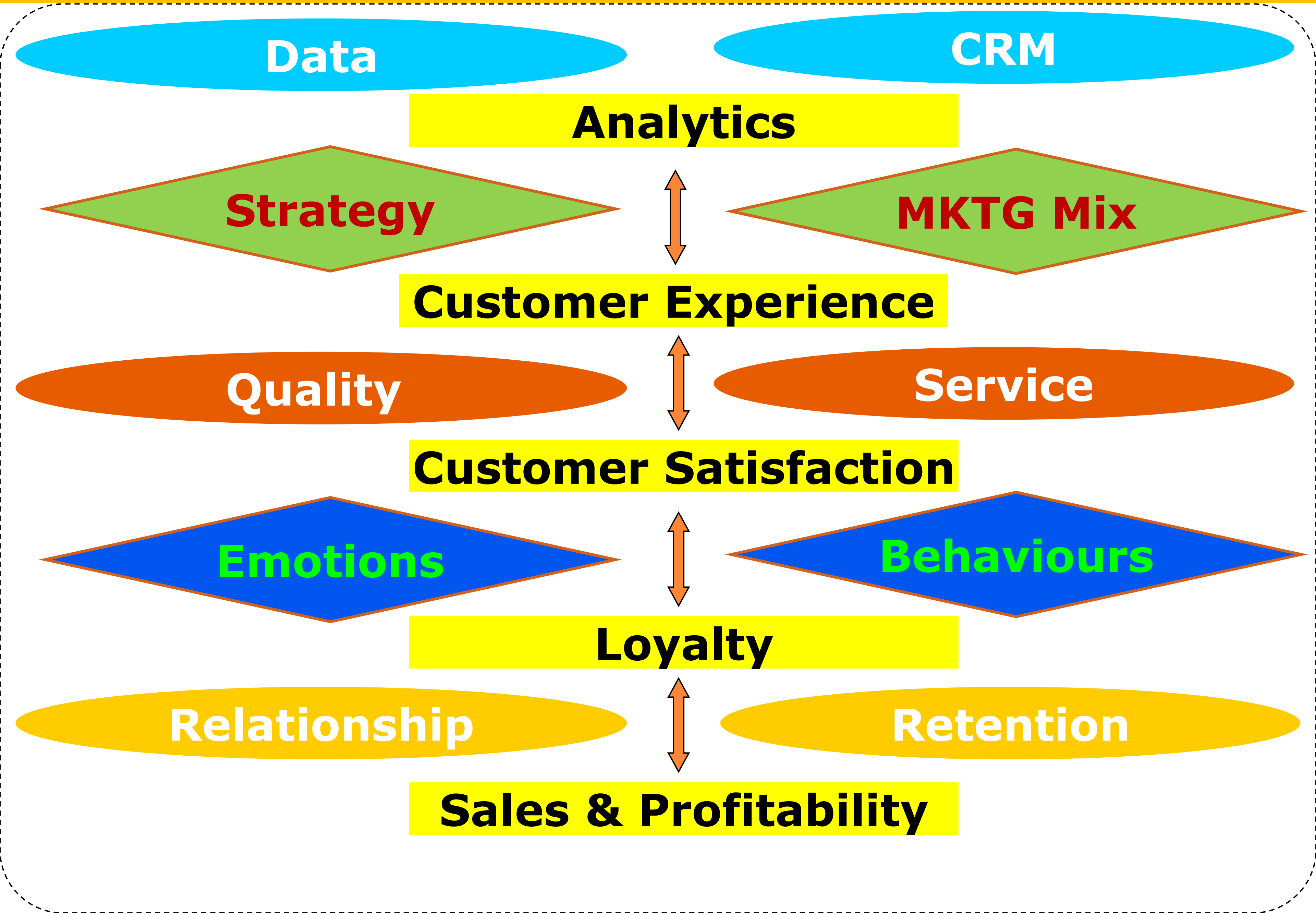
Subscriber Model – Lesson Plan

Data + CRM ⟹ Strategic MKTG Plan

Experience + Relationship + Loyalty ⟹ Subscriber Customer

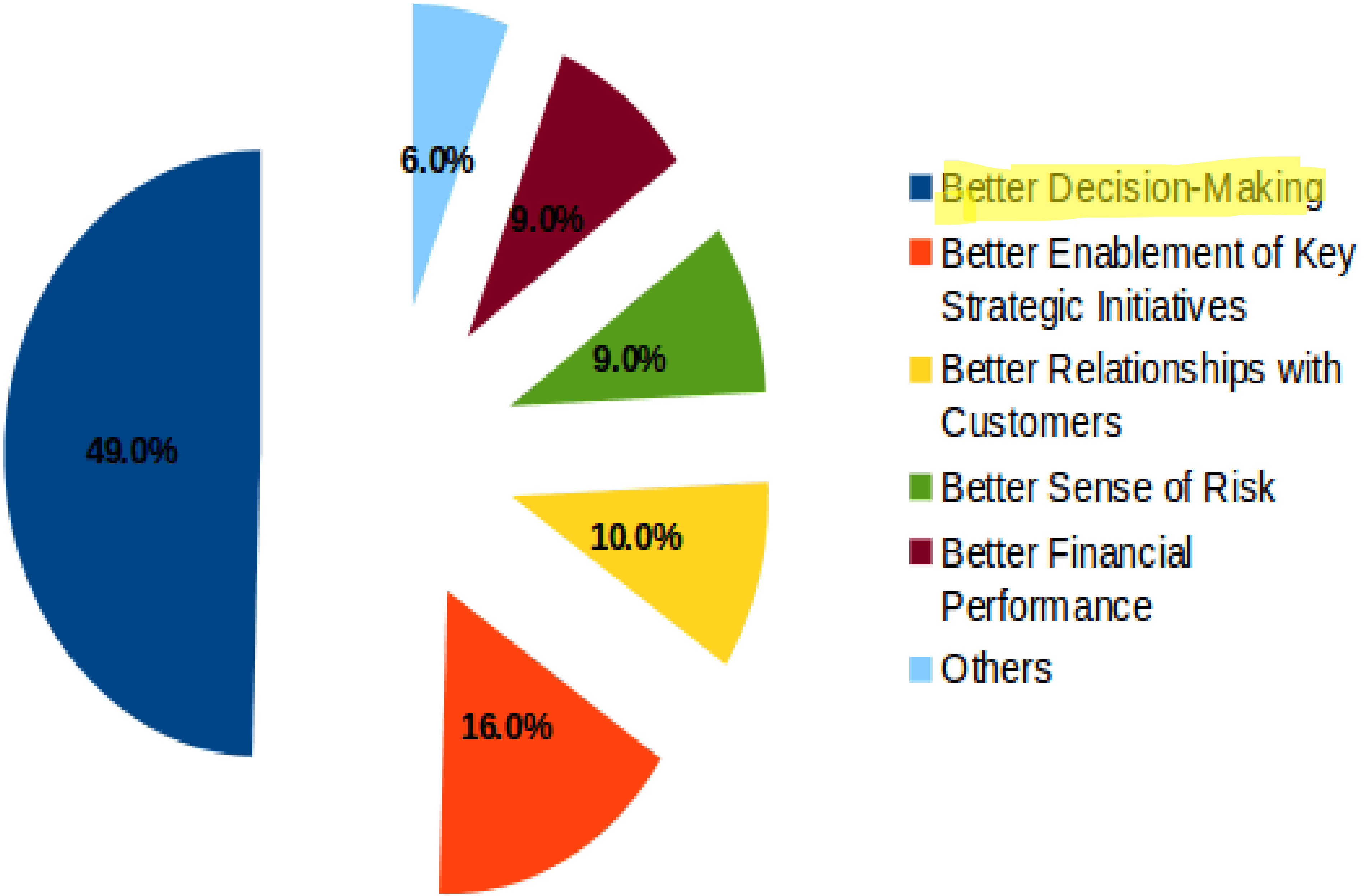
⇧ Sales ⇧ Profitability

Subscriber Paradigm

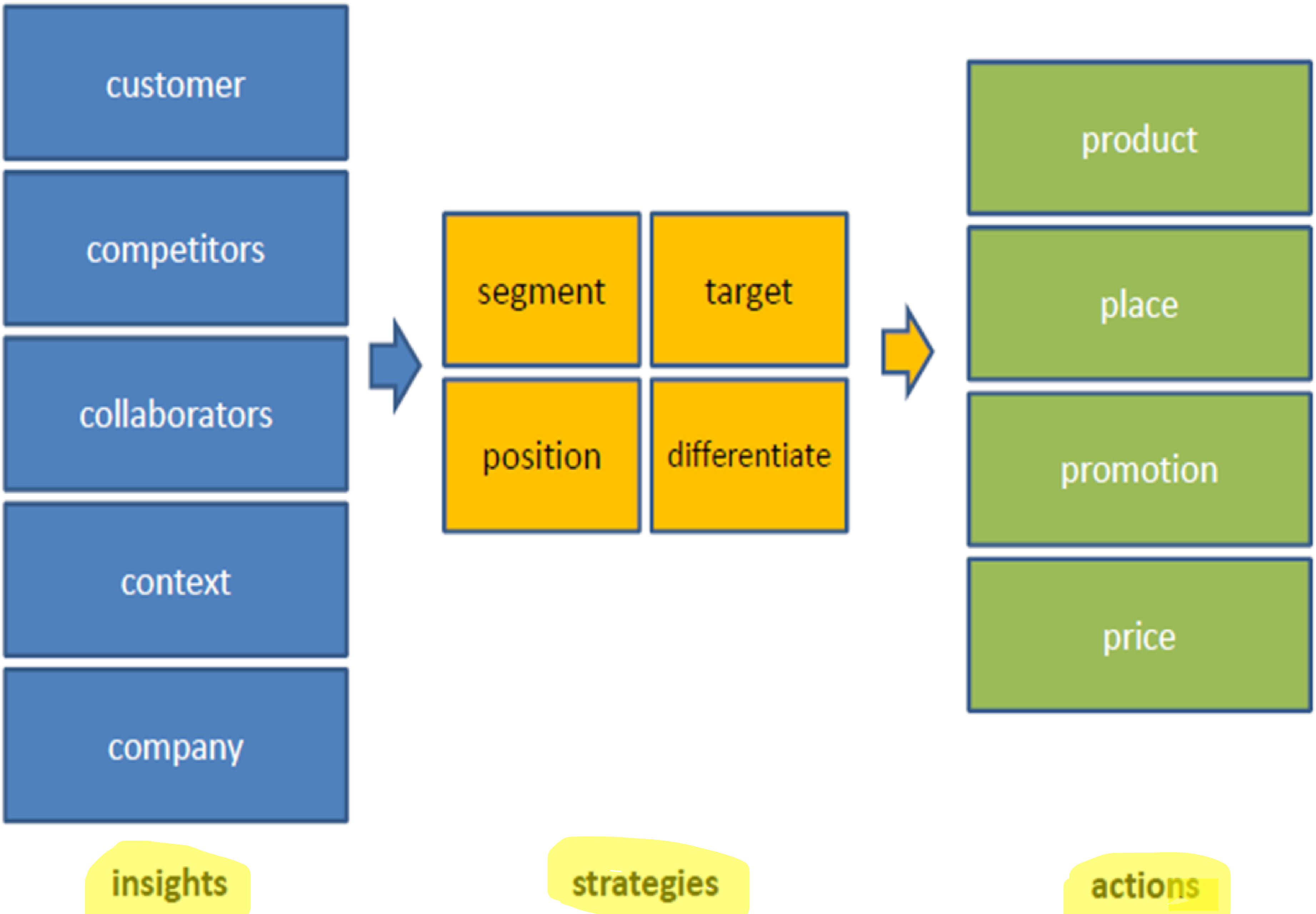


Data Analytics Benefits: DM

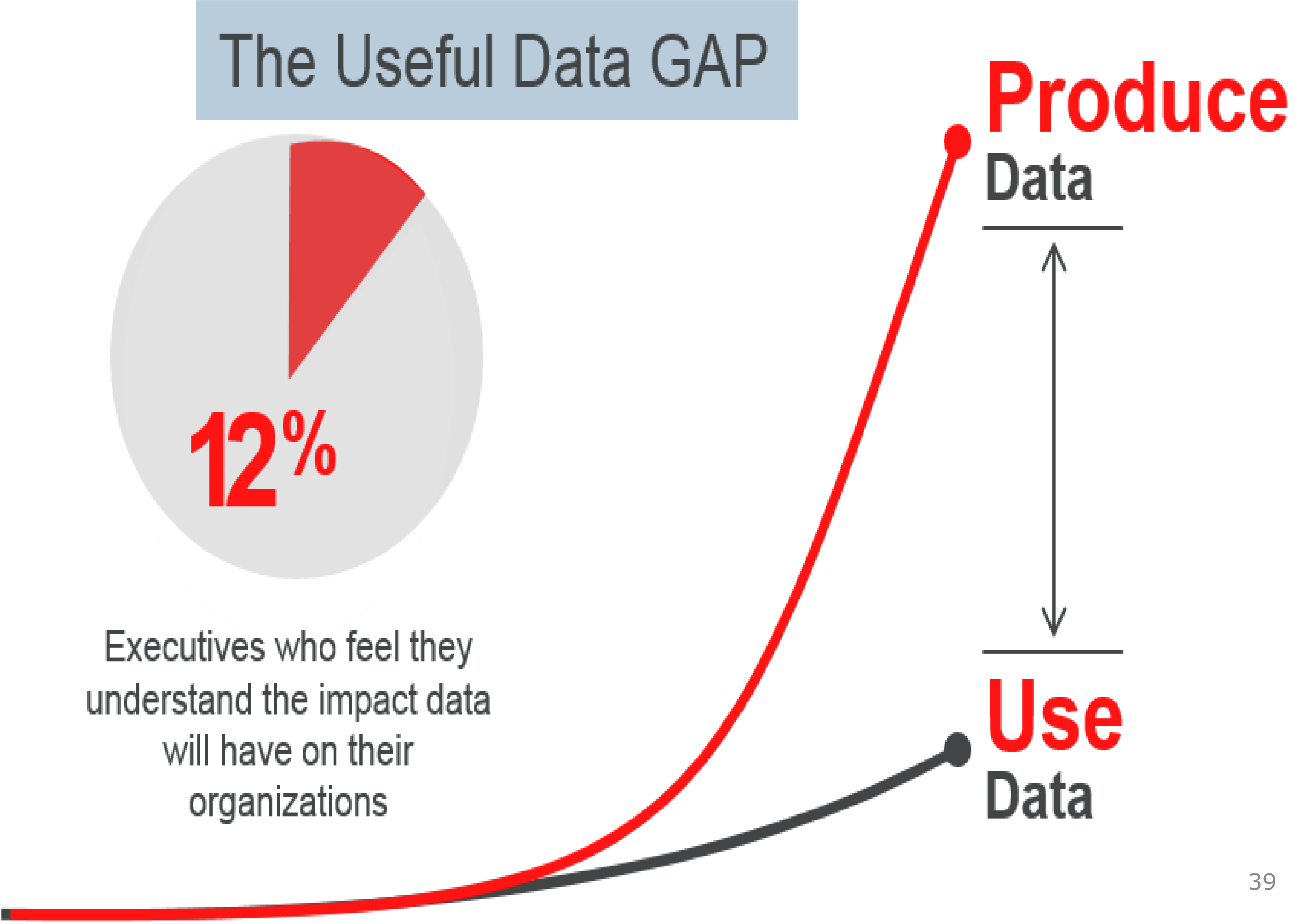
Data Analytics Benefits: DM



Data, Machine Learning and **App design** … affect …Decision Making …



… but … do we use **Data** …for positive **Results** …

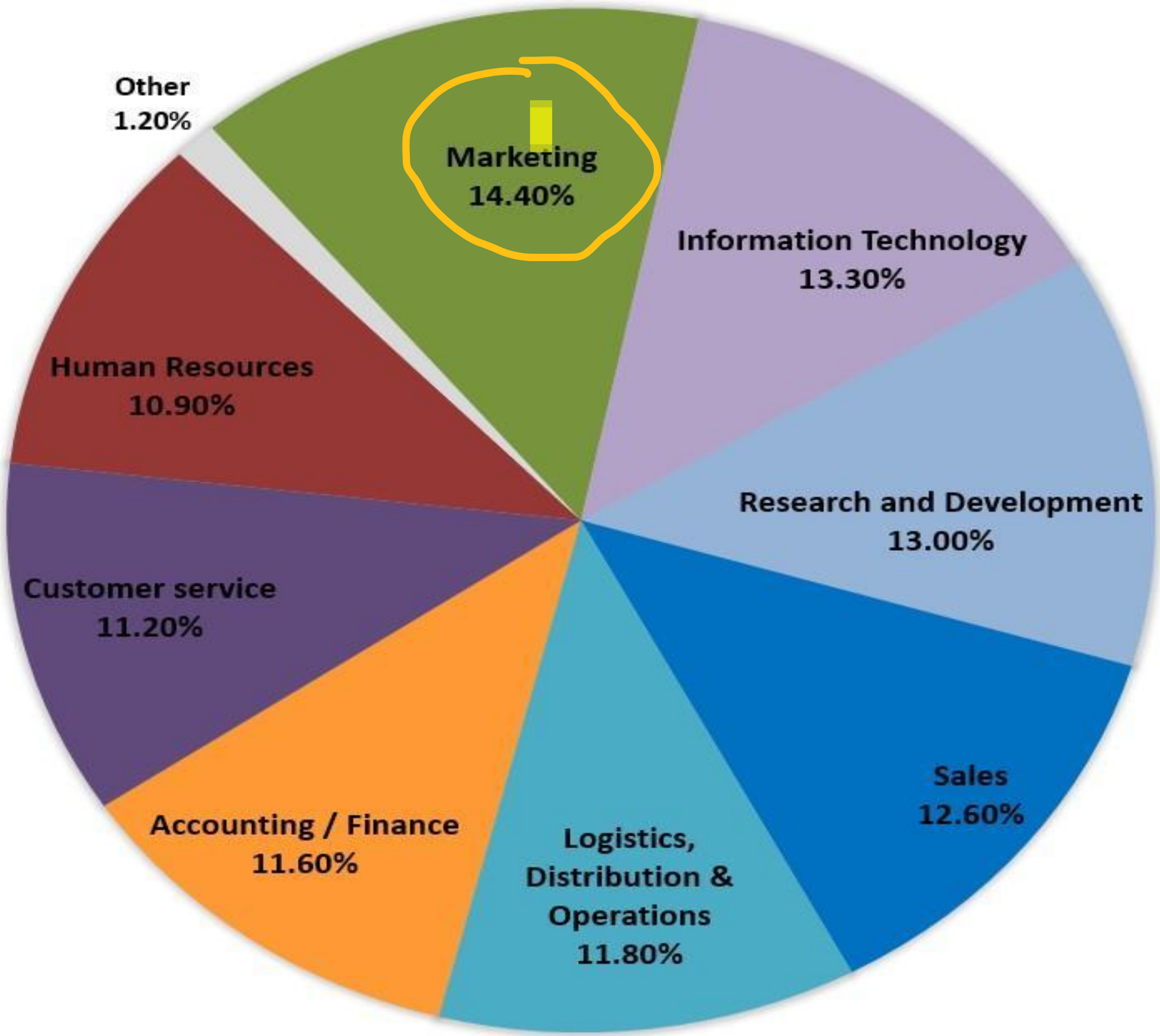


… MKTG utilizes Data …

"Which departments in your organization are using advanced data analytics or Big Data solutions for your company's needs?"

Percent of Developers Responding

Source: Big Data and Advanced Analytics Survey 2015, Volume I by Evans Data Corporation



How Companies Are Using Marketing Analytics

SOURCE CMOSURVEY.ORG, 2015


Top Objectives for Marketing Analytics
(% of respondents)
in 2013
Acting on data to improve marketing performance
66%
Combining data from multiple sources to draw correlations and make predictions
39%
Measuring attribution and interactions across channels
28%
Linking data together at the individual customer level
28%
Improving data hygiene and quality issues
27%
Hiring data-savvy marketing talent and/or training current staff
27%
Funding new analytics tools and solutions
27%
Integrating disparate systems and siloed data
27%
Gaining executive-level awareness and support
26%
Aligning marketing and IT
17%
Reducing latency/processing data more rapidly
12%
Clarifying regulatory barriers to data utilization
4%
MC
MARKETINGCHARTS.COM

… and Customer Relationship Management (CRM) …

Business philosophy and set of strategies, programs, and systems

that focus on identifying and building

loyalty

with a company's most valuable customers.

CRM process

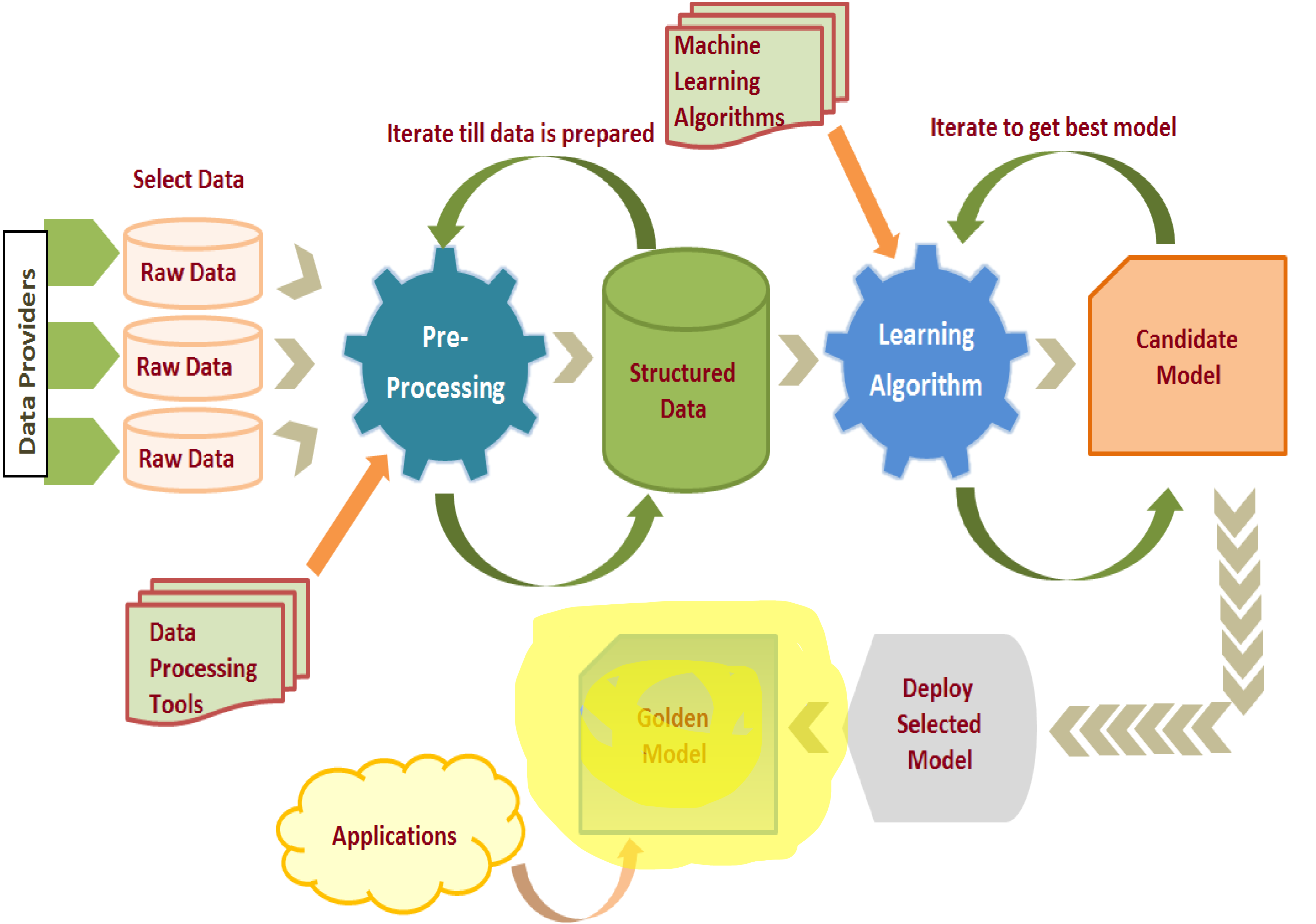
1) *Collecting customer data*
2) *Analyzing the customer data*
3) *Identifying target customers*
4) *Developing CRM programs*
5) *Implementing CRM programs*

… and other … **Computer-Based Systems** …

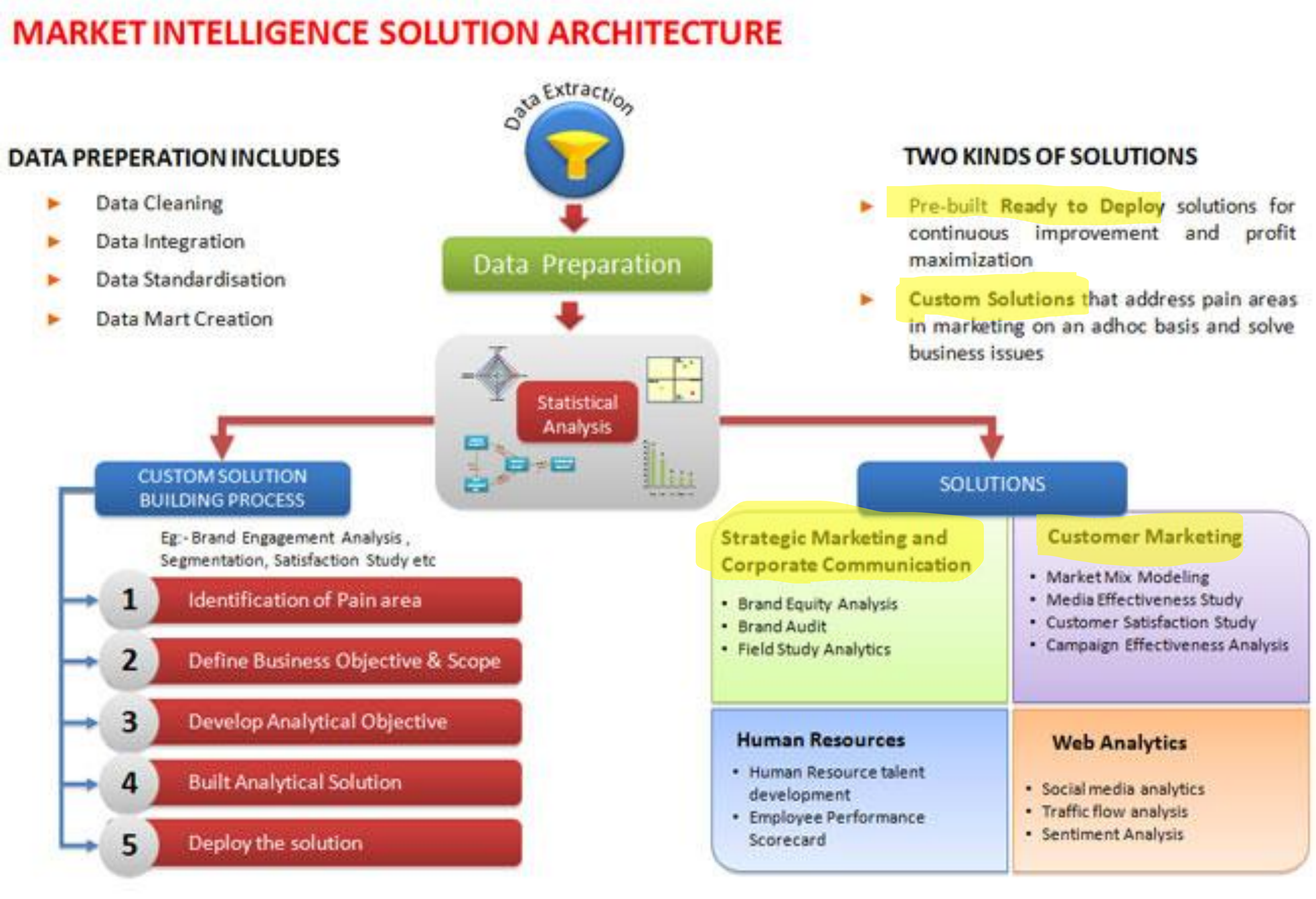
- *Customer-friendly computer-based systems are frequently used to*
  - **enhance customer service**,
  - **loyalty**, and
  - **sales growth**

…so … Linking & Synthesizing Data …

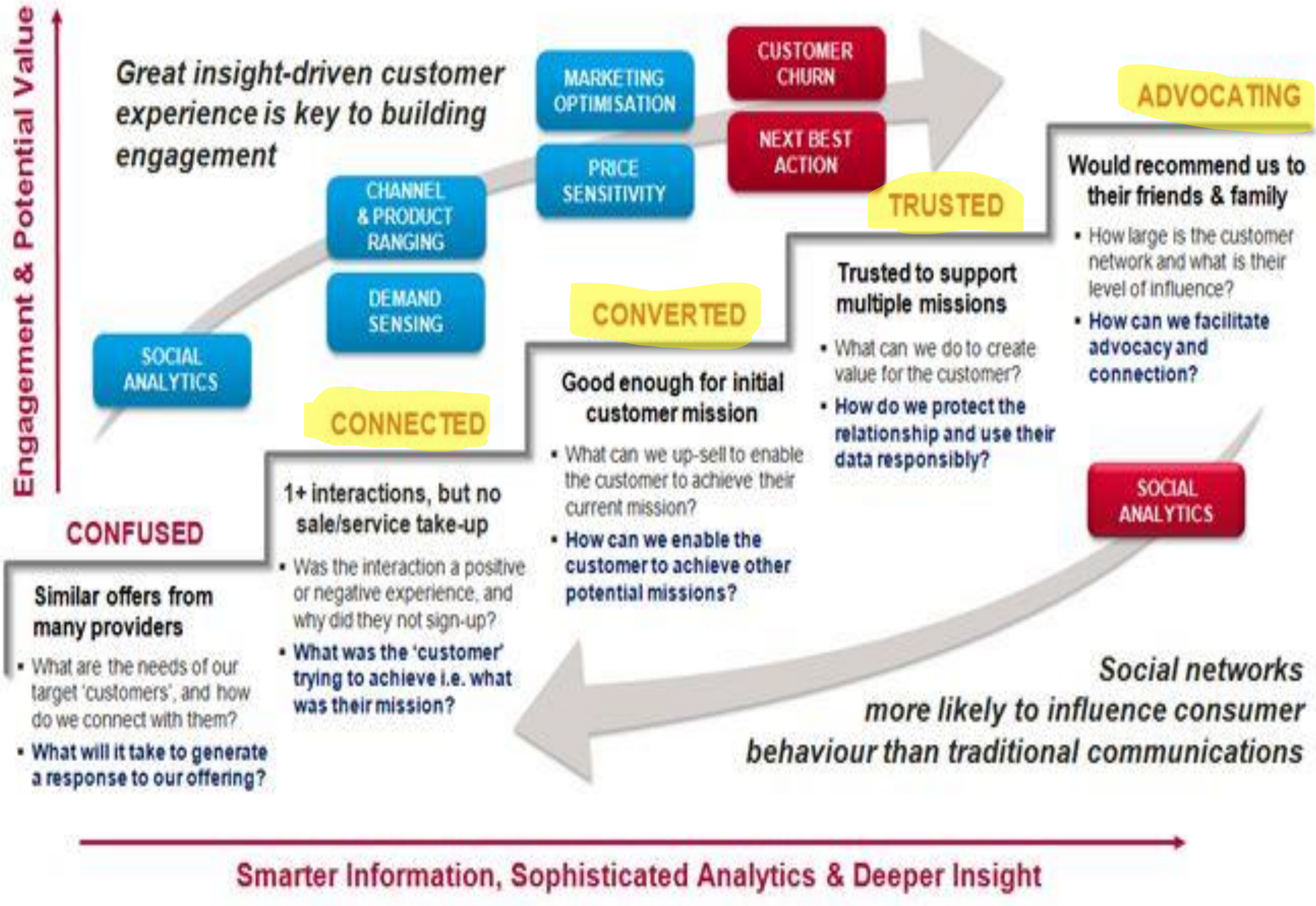
… and process **Info** …to arrive at the **proper Model** …



… to provide **innovative Solutions** …



…to persuade the **targeted Customers**…

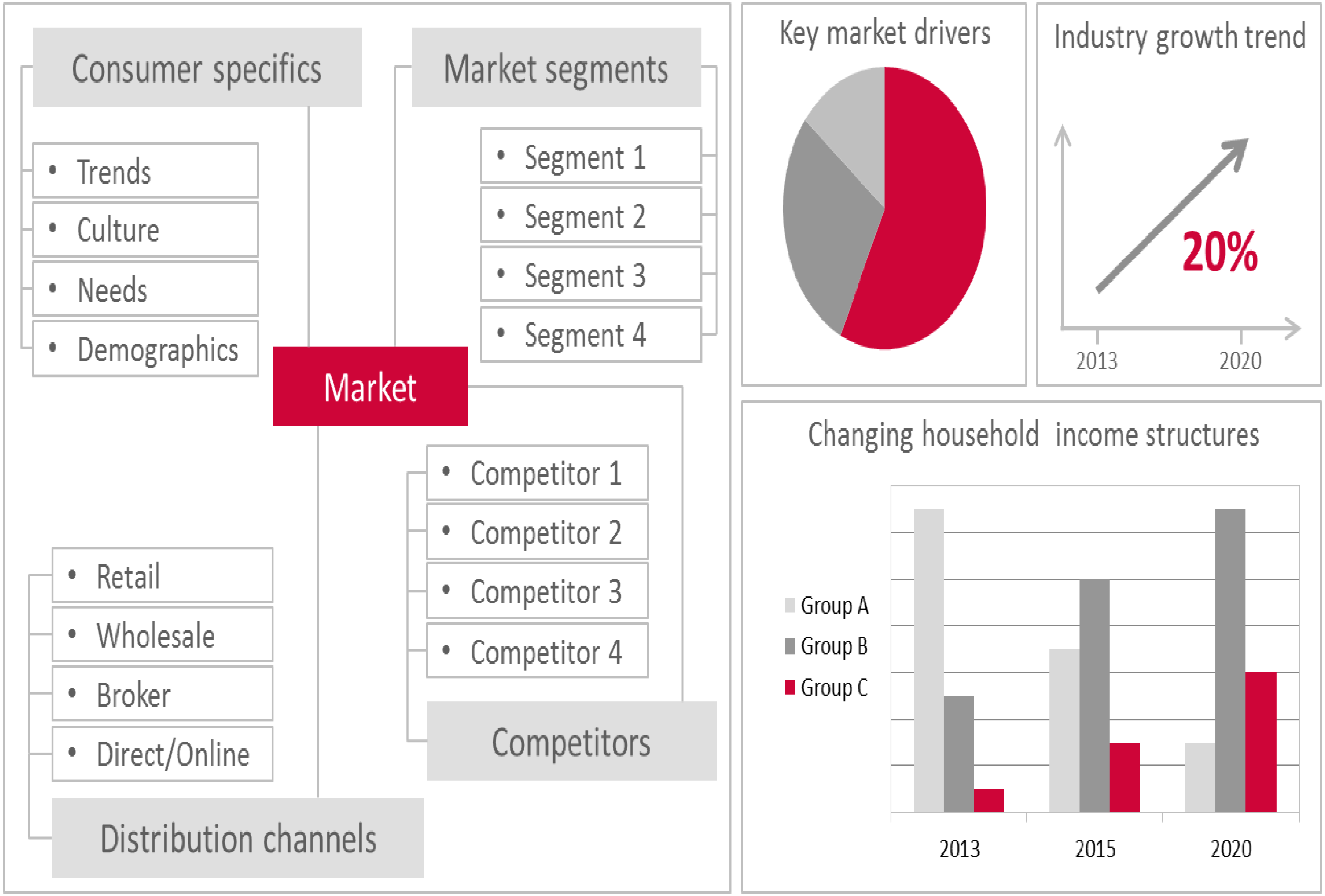


… by utilizing …**Information & Intelligence** on …

… Customers …

CUSTOMER ANALYTICS	MARKETING AND SALES ANALYTICS	DATABASE MARKETING	CUSTOMER FEEDBACK
customer segmentation strategies	loyalty program data analysis	data quality improvement plans & maintenance	customer advisory board
understanding customer decisions and customer activities	promotion performance analysis	creation & development of marketing databases	customer engagement programs
social media analysis	category management	data enrichment	Net Promoter Score
analytical CRM	sales support	data integration	customer satisfaction monitoring
		building 360° customer views	customer-oriented research panels
		marketing campaigns design & measurement	mobile technologies & gamification
DATA GATHERING	DATA CLEANING & AUDITING	IMPROVING & MAINTAINING DATA QUALITY	DATA REPORTING & ANALYSIS

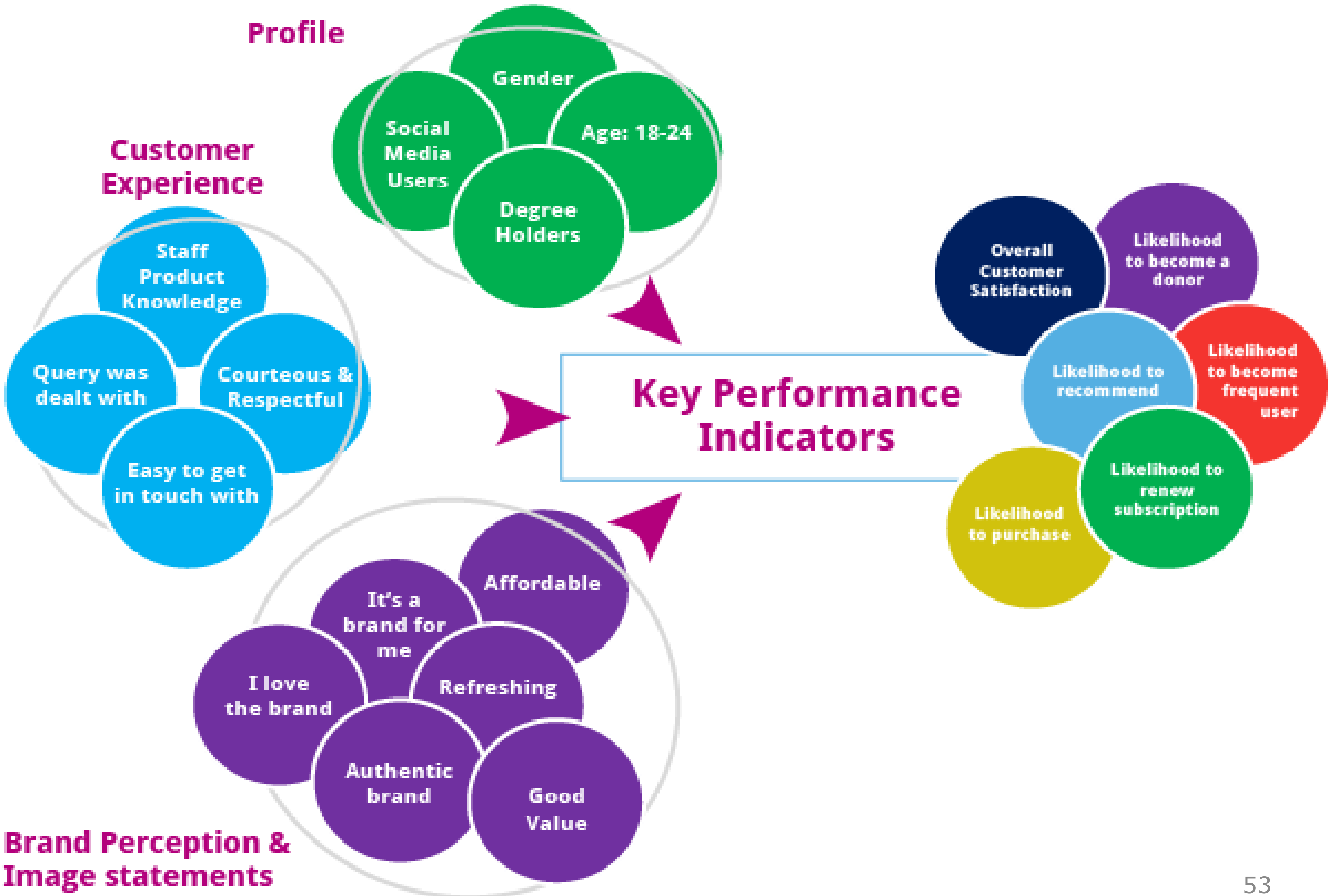
… Market Segments…



… Competition …

Factors	MY Business	Strengths	Weaknesses	Competitor 1	Competitor 2	Competitors 3	Importance to customers
Products							
Price							
Quality							
Selection							
Service							
Reliability							
Expertise							
Stability							
Reputation							
Location							
Appearance							
Employee							
Company culture							

...and vital **KPI** ...



… to formulate a … Customized MKTG Plan …

Marketing Phases

Strategic → Tactical

Market Analysis | Product Strategy | Develop Plan | Execute Plan | Launch | Monitor & Adjust

B2C: Requires $$$ to create awareness; Leverage consumer-focused Social media such as Facebook

B2B: Events and associations; Leverage business-focused Social media such as LinkedIn

Product: Encourage trials, endorsements from influential users

Service: Use testimonials and metrics to prove value

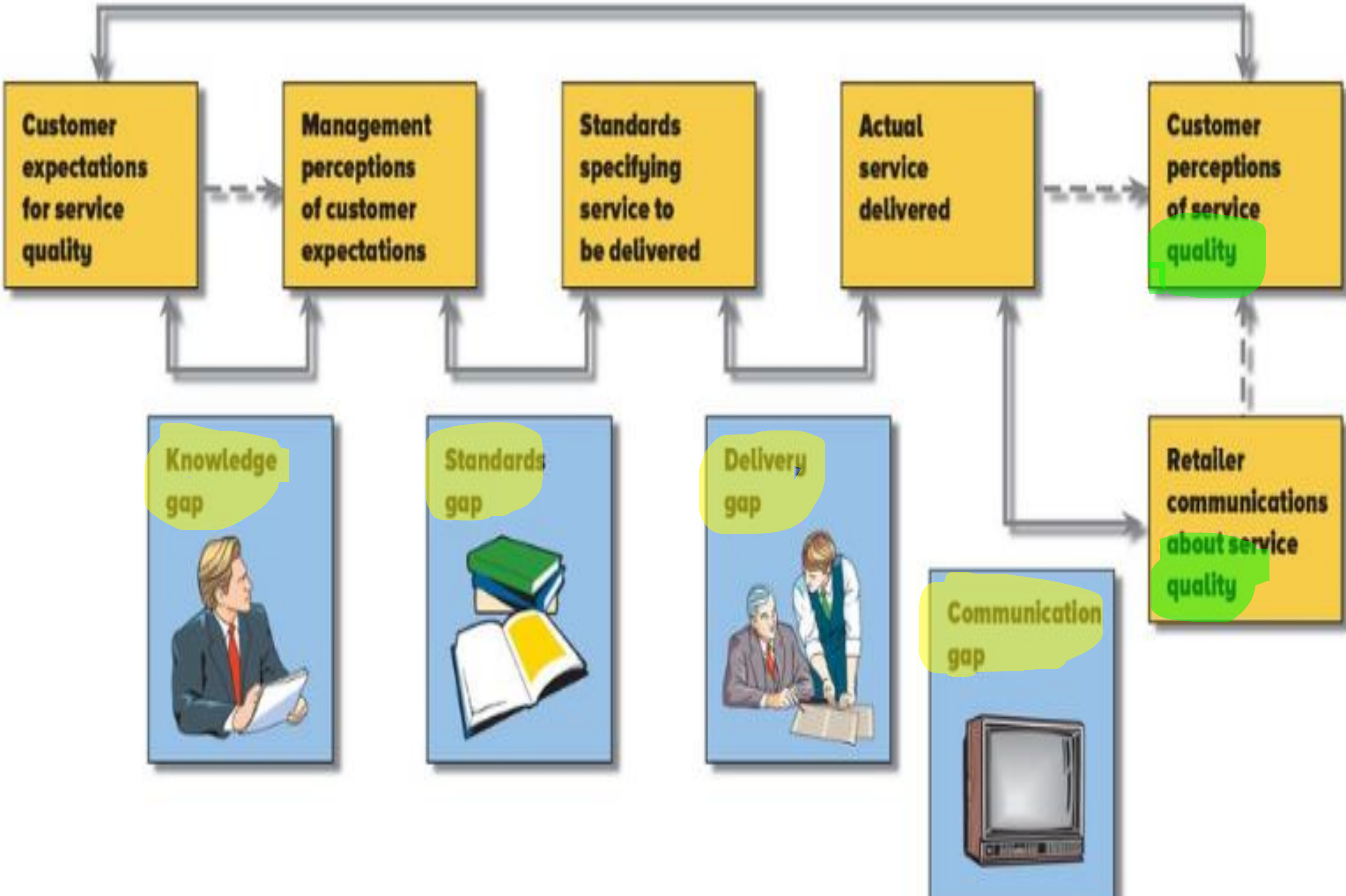
… utilize versatile **Channel Mix** … for a unique …

… with superb … **Customer Service** … via …

1. **Reliability** - *Accuracy of billing, meeting promised delivery dates*
2. **Assurance (trust)** - *Guarantees and warranties, return policy*
3. **Tangibility** - *Appearance of store, salespeople*
4. **Empathy** - *Personalized service, receipts of notes and e-mails, recognition by name*
5. **Responsiveness** - *Returning calls and e-mails, giving prompt service*

… and … **Outstanding Communication** …

… and bridge the **4 Gaps** … to improve **Quality** …



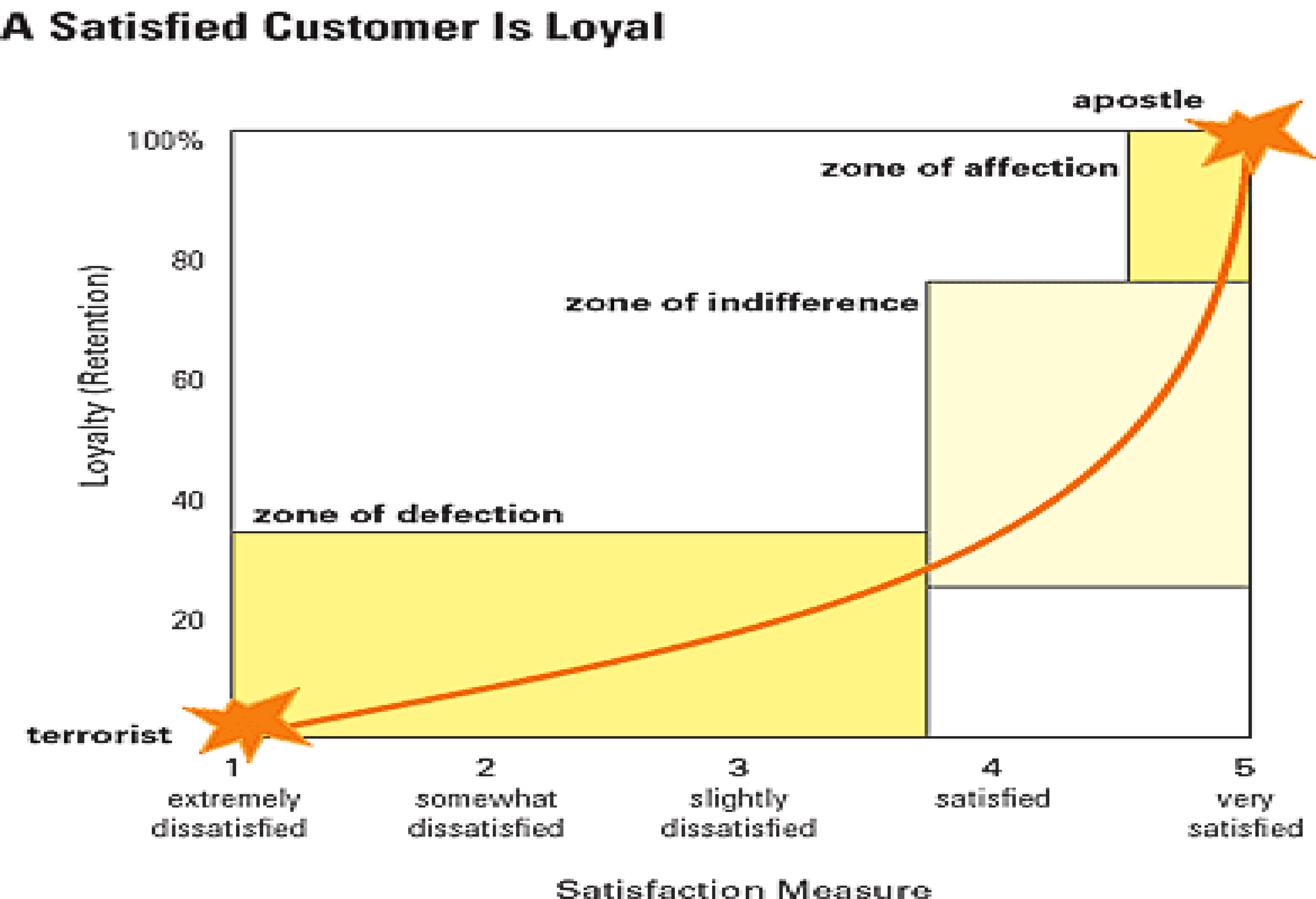
… to build … **Long-Term Relationships** via….

- **Repeated & Exceptional Customer Service**
  - *all the activities that enhance or facilitate the sale and use of a product*

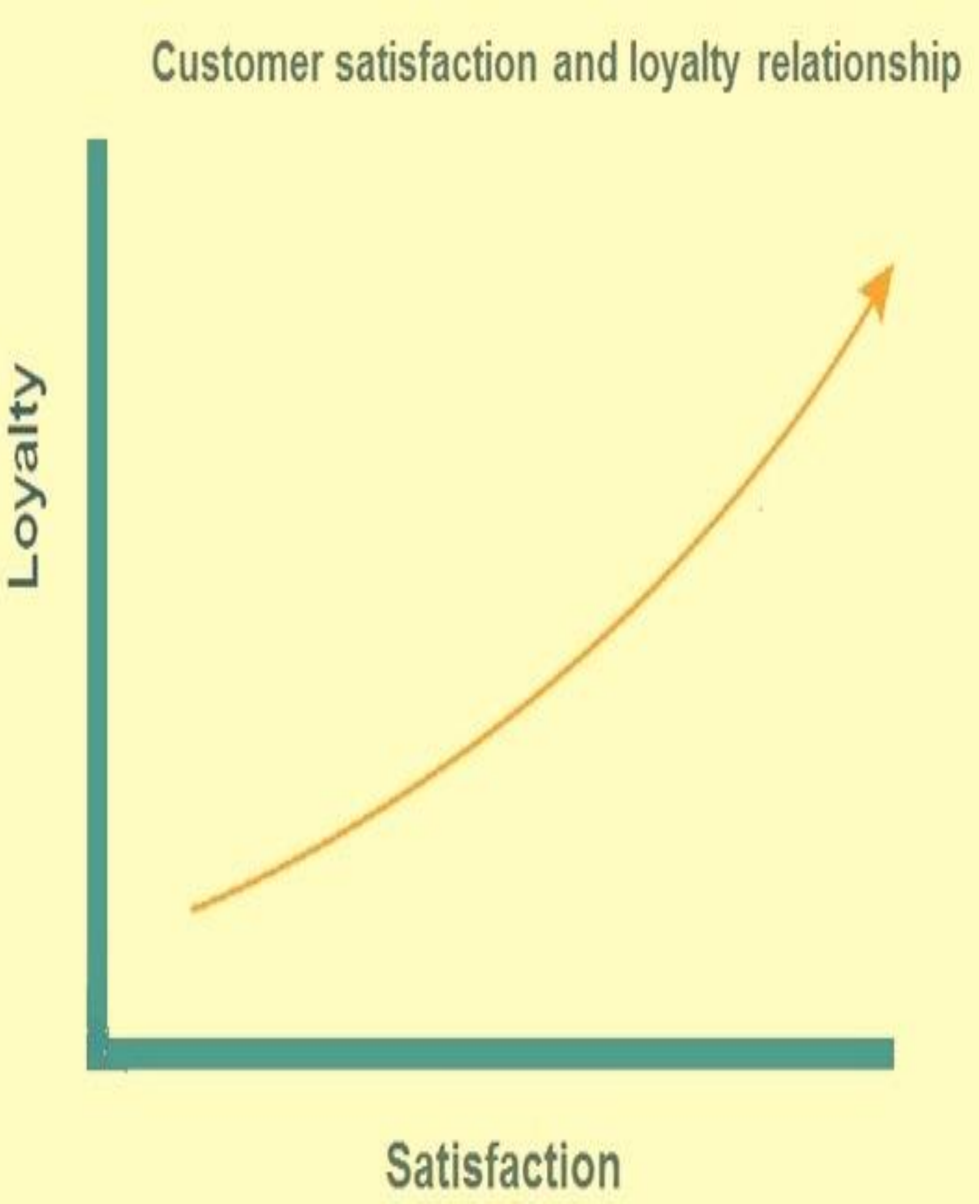
- **Servicing the sale** - *during and after the sale*
  - Customer retention
  - Value-based initiatives

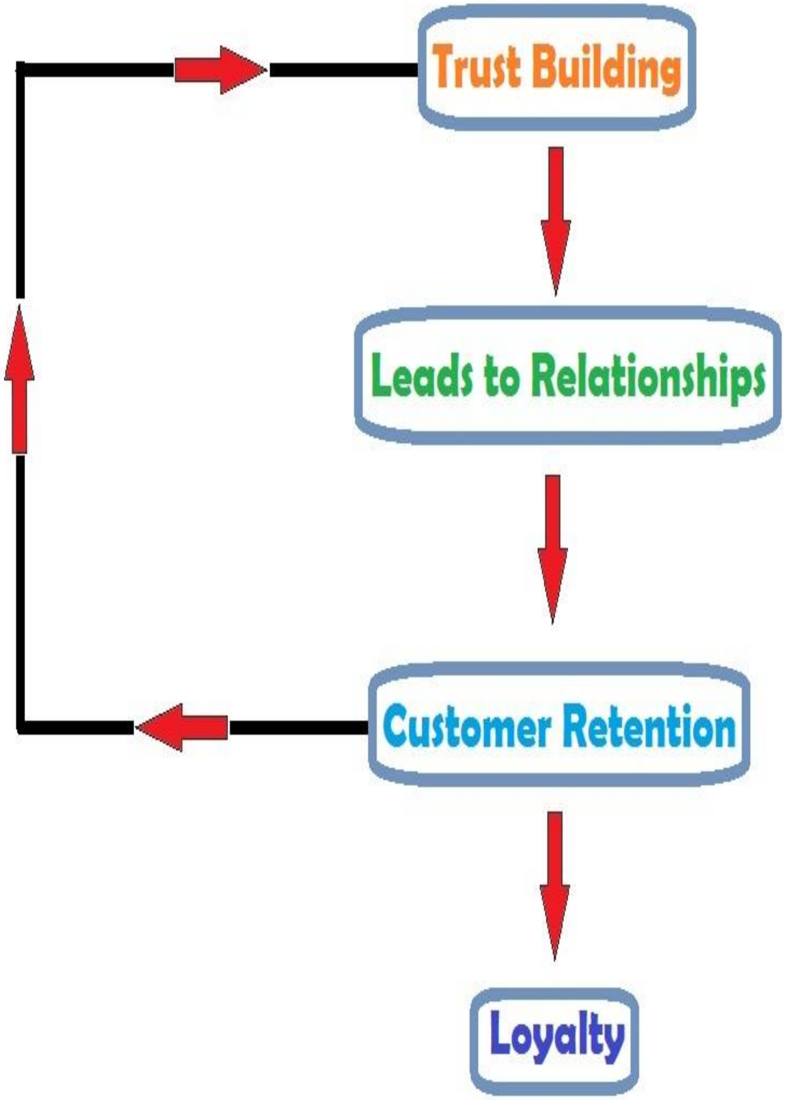
- **Satisfied customers** - represent another "sales force"
  - Recommend
    - *Good service → tells six*
    - *Outstanding service → tells twelve*
  - WoM very powerful

… and Good Relationships lead to Satisfaction …



… and Satisfaction solidifies … Loyalty …





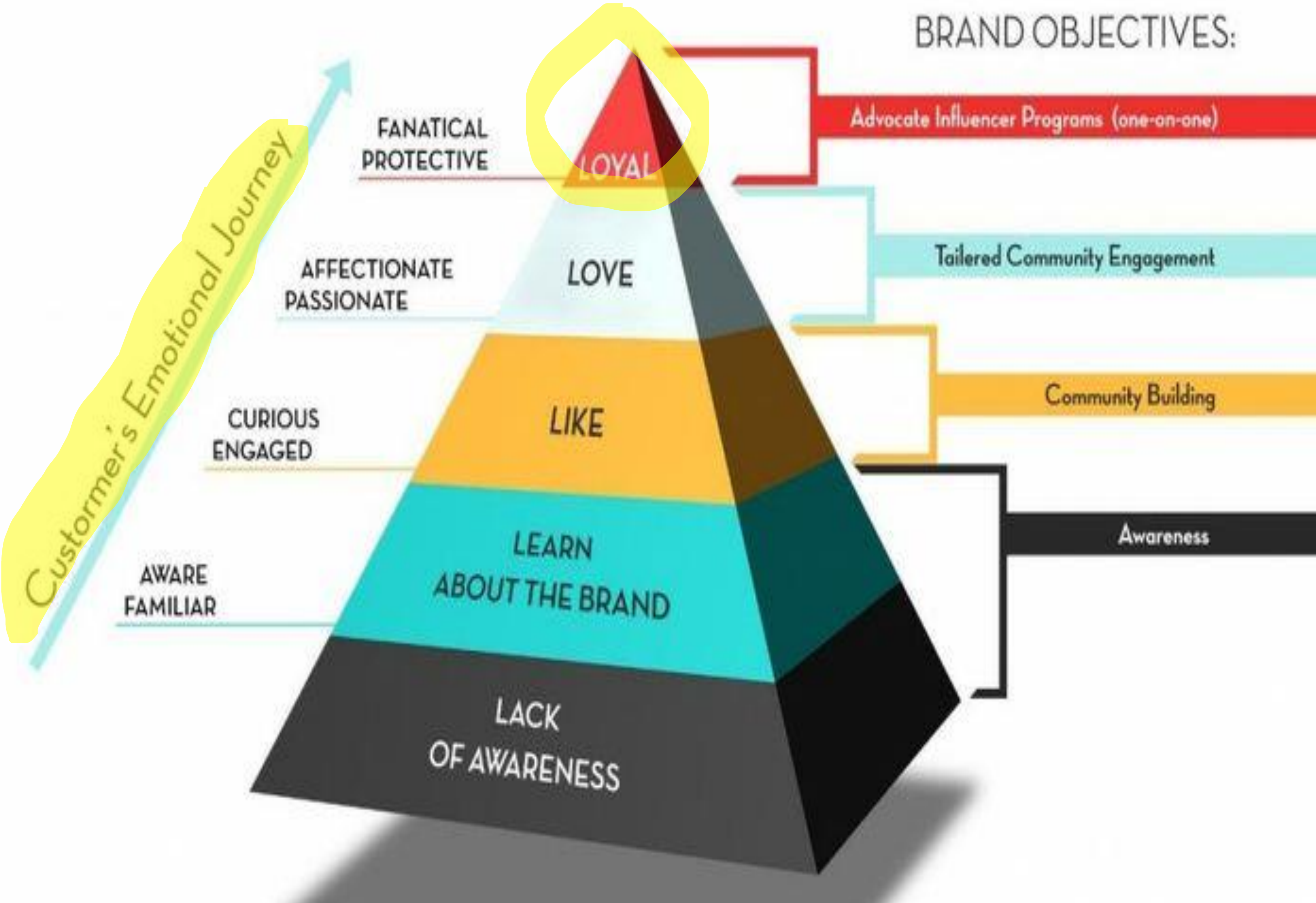
… and Customer Loyalty empowers …

- **Customer Motivation**
- **Customer Commitment** *to company, management*
- **Emotional attachment** *to product / service*
  - ***Personal attention***
  - ***Memorable positive experiences***
  - ***Brand building communications programs***
- **Habits & Behaviours**

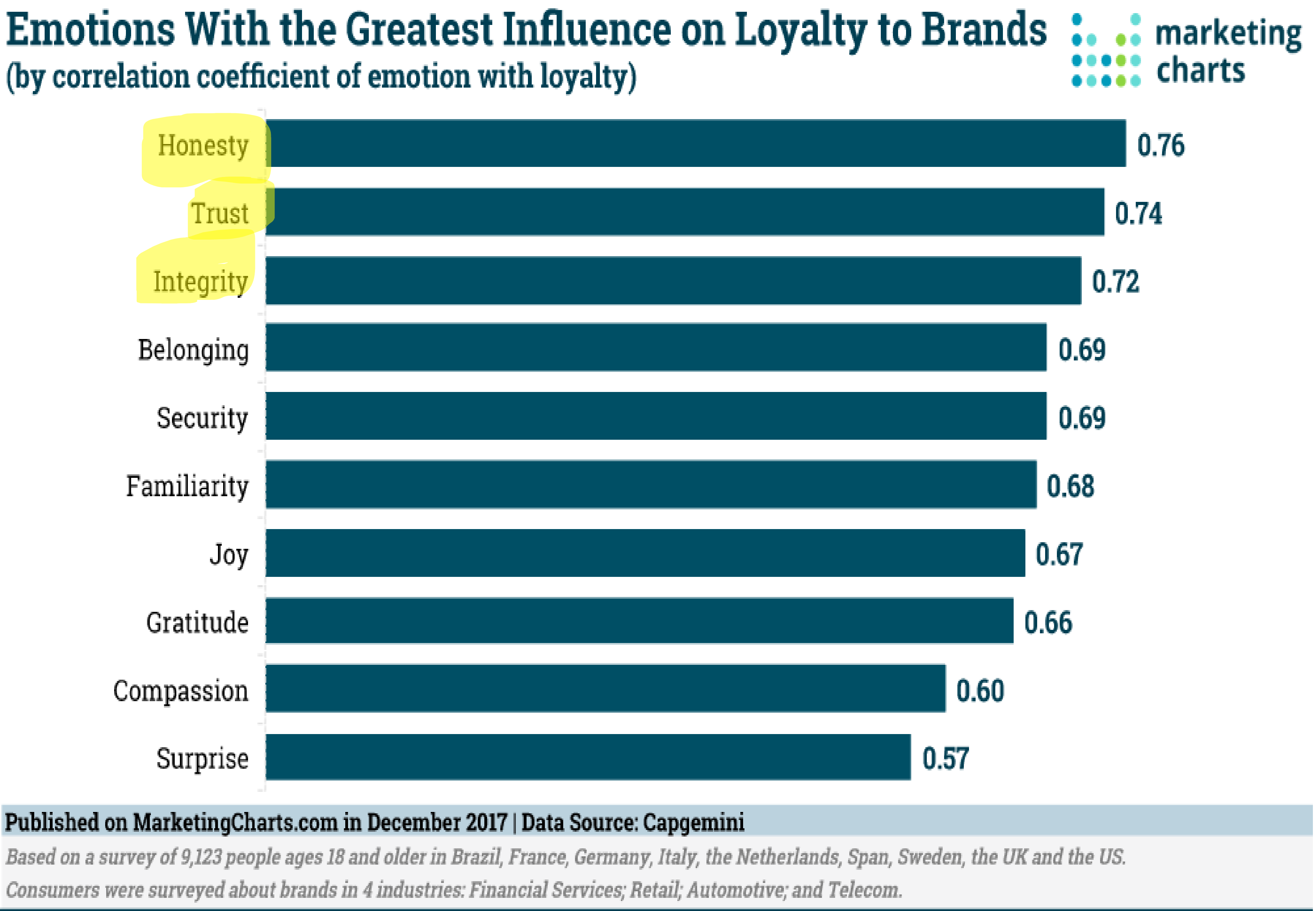
and even…

- **Sabotage efforts of competitors** *to attract the loyal customer*

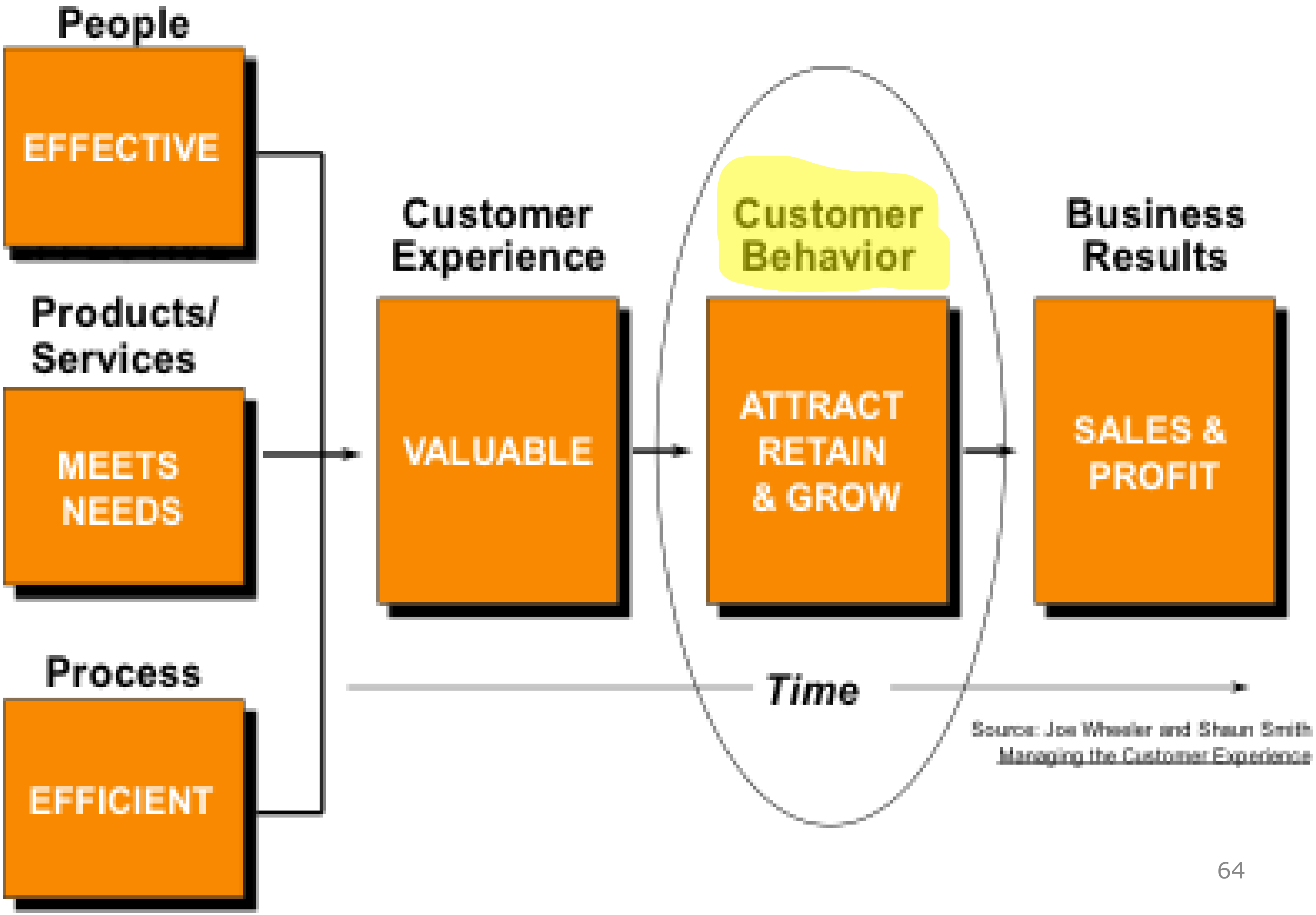
…and **Marketers** should guide customers to the **Love** status…



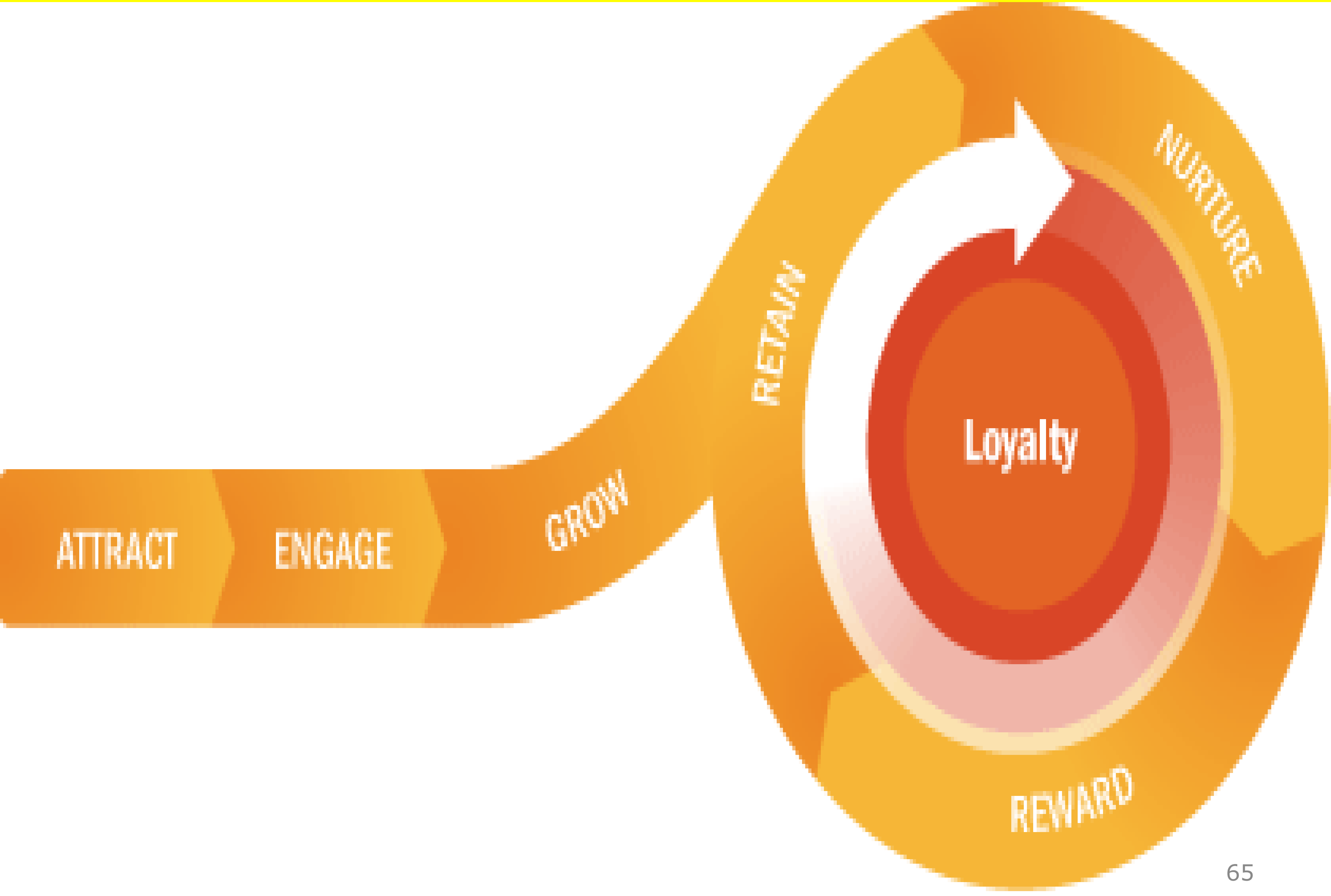
… since Emotions …affect Loyalty …



… as do **Behaviours** …



... and Loyalty creates **Subscriber Customers ...**



... "Subscriber" Customers...secure ...
... a recurring stream of Revenues & Profits ...

Triple Imperatives …

C) PROFITABILITY

C) Profitability

Profitability & Ethics

A) Competencies

B) Ethics

C) Organizational Structures

Intermediary Corporate Objective:

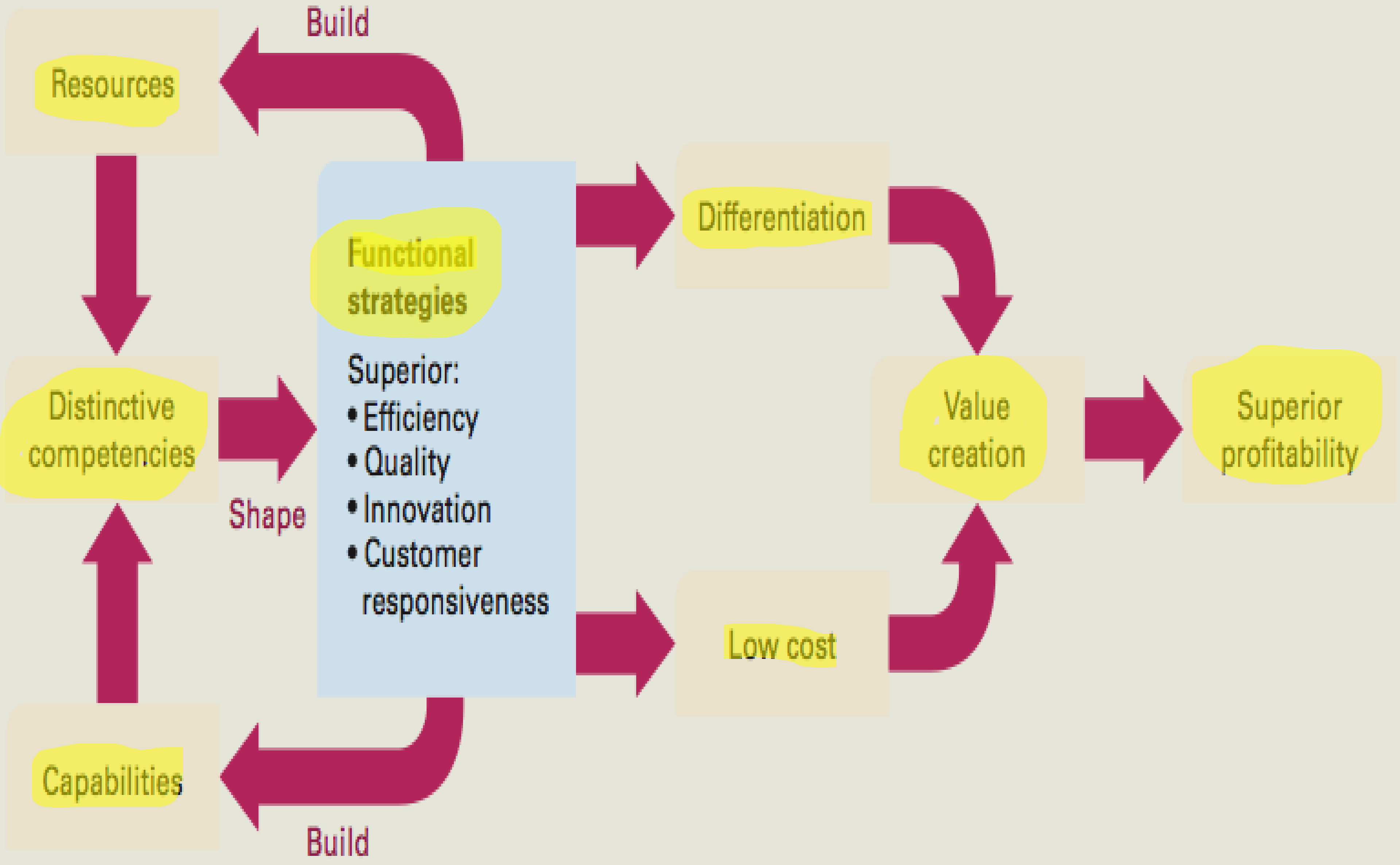
Competitive Advantage

Competitive Advantage

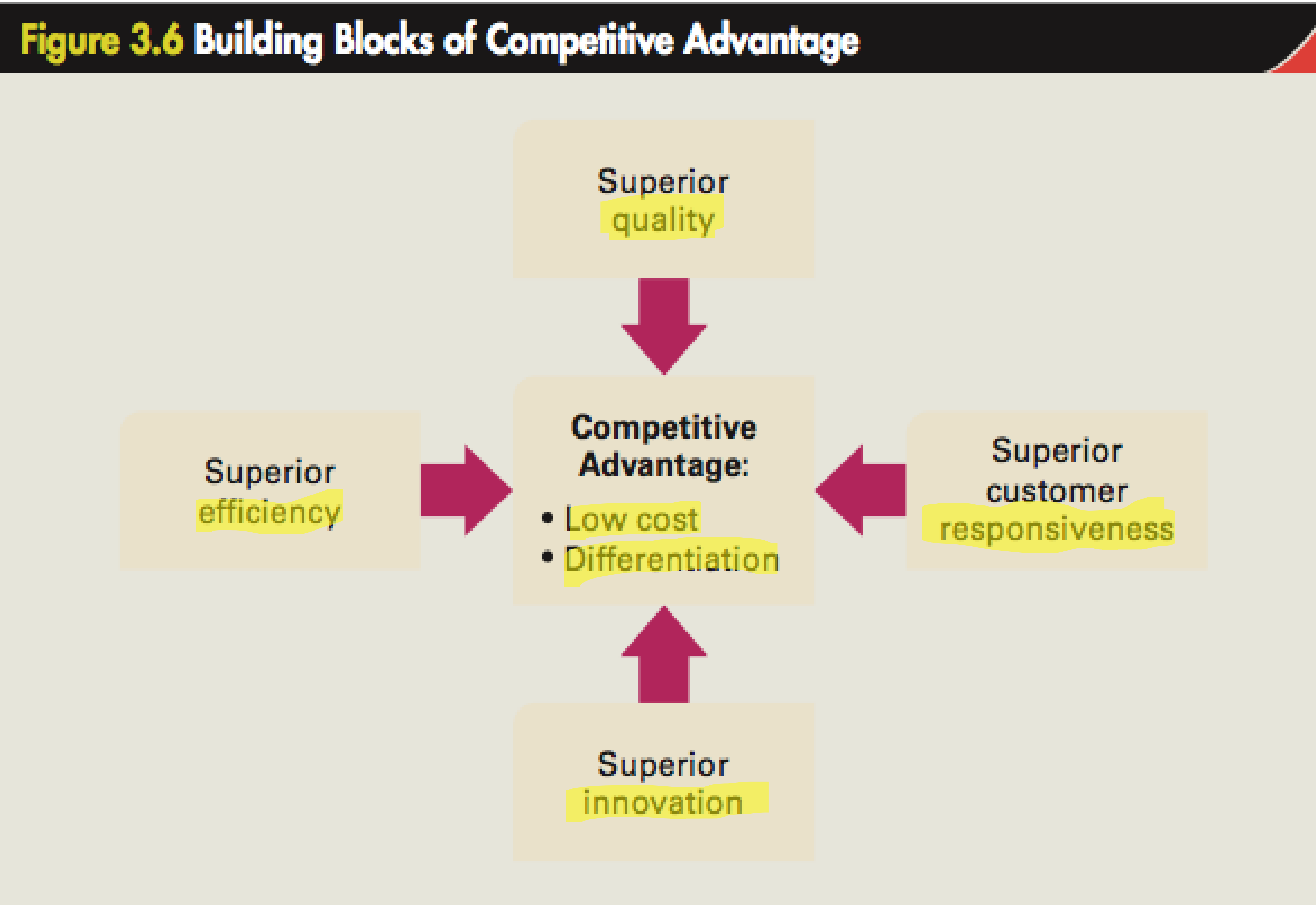
Vs

Comparative Advantage

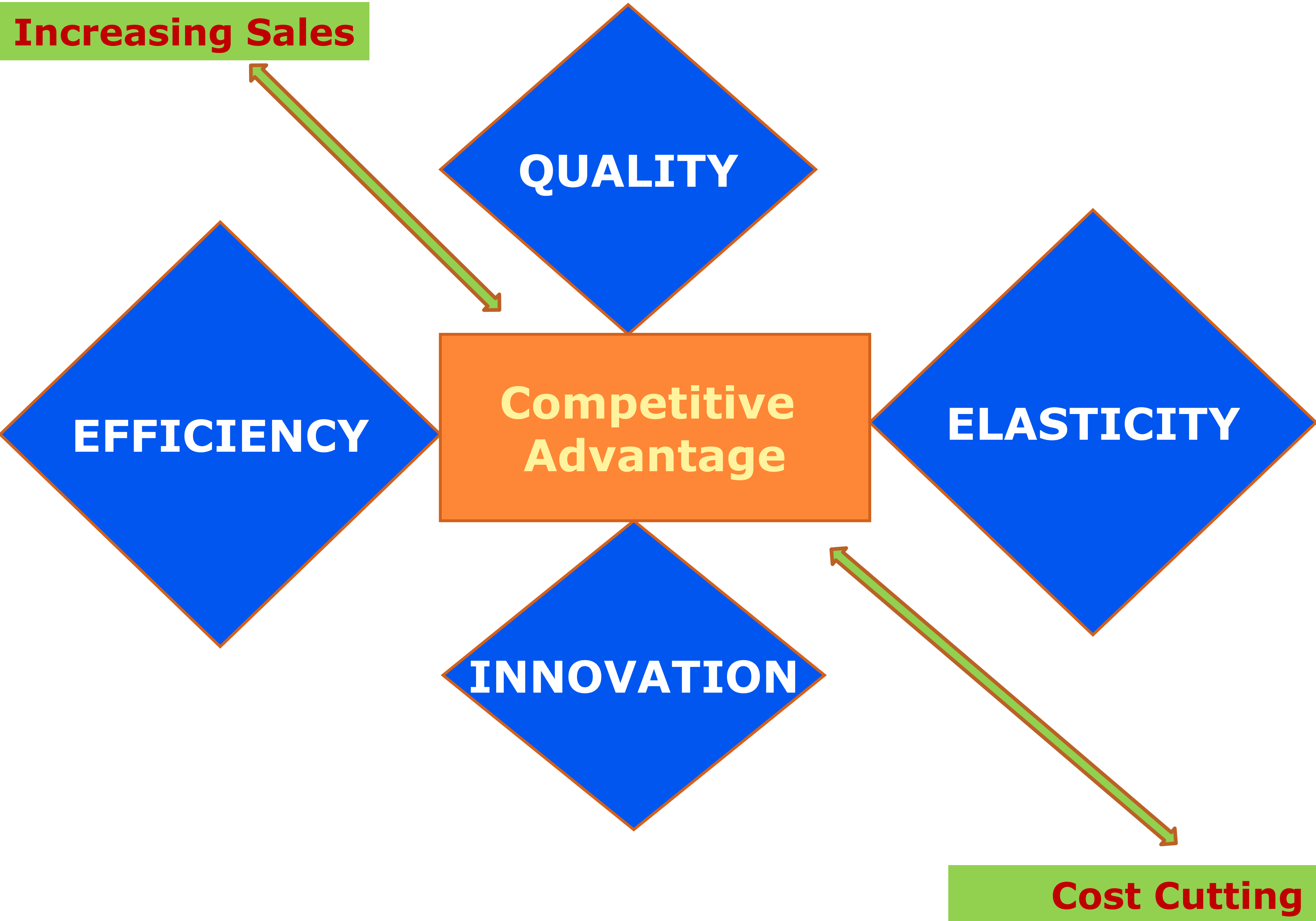
Figure 4.1 The Roots of Competitive Advantage



Building blocks of Competitive Advantage



Pillars of Competitive Advantage



Building blocks of Competitive Advantage

EFFICIENCY	➢ **Quantity of inputs to produce a given output.** ➢ **Employee productivity.** ➢ **Lower cost structure.**
QUALITY	✓ **Customers' perception: product provides higher utility.** ✓ **Product features, functions, reliability, dependability & consistency.** ✓ **Timely delivery and after sales service.**
INNOVATION	○ **Developing new and innovative products.** ○ **These products have superior attributes to existing products.** ○ **Developing new and innovative processes and delivery.**
CUSTOMER RESPONSIVENESS	• **Identifying and satisfying customer needs better than rivals.** • **Delivering and servicing better than competition.** • **Improving design, after-sales service and support.**

…to formulate & implement

Strategies

in order to attain

Profitability

you rely on

Competitive Advantage

based on

Distinctive Competencies

Everything starts from .....

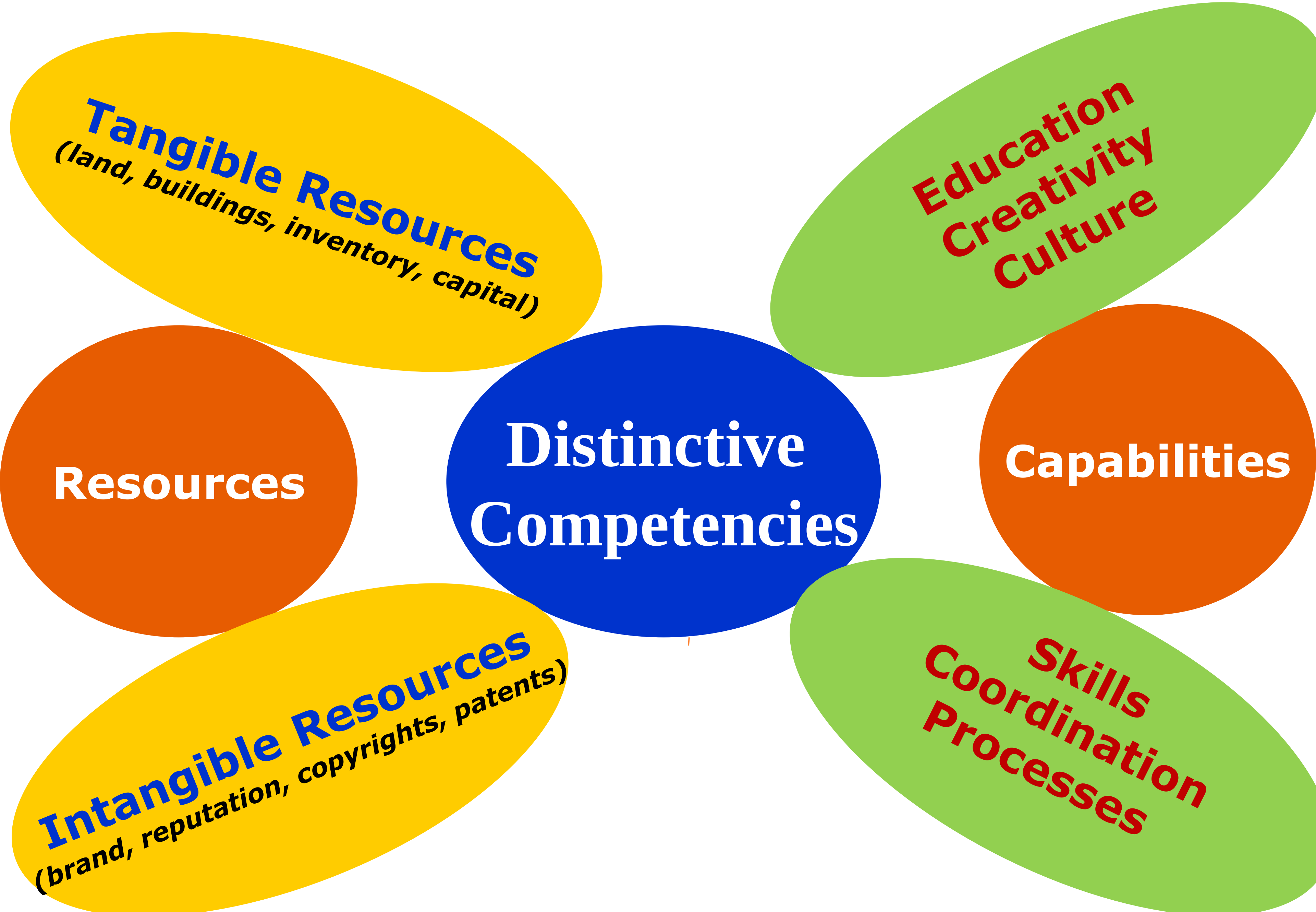
Having/ Acquiring

Distinctive Competencies (DC)

- **DC are firm-specific strengths** that allow to
  - differentiate its products/services &
  - produce with lower costs than its rivals

- **DC arise from the combination of:**
  - **“physical” resources** &
  - **“human” capabilities**

DC: Human & Non-Human Induced



DC create Value

DC properly managed and fully coordinated

CREATE VALUE

But above all **INNOVATION** creates Value

- **The process of translating an IDEA or INVENTION into a good or service that creates VALUE or for which customers will pay.**

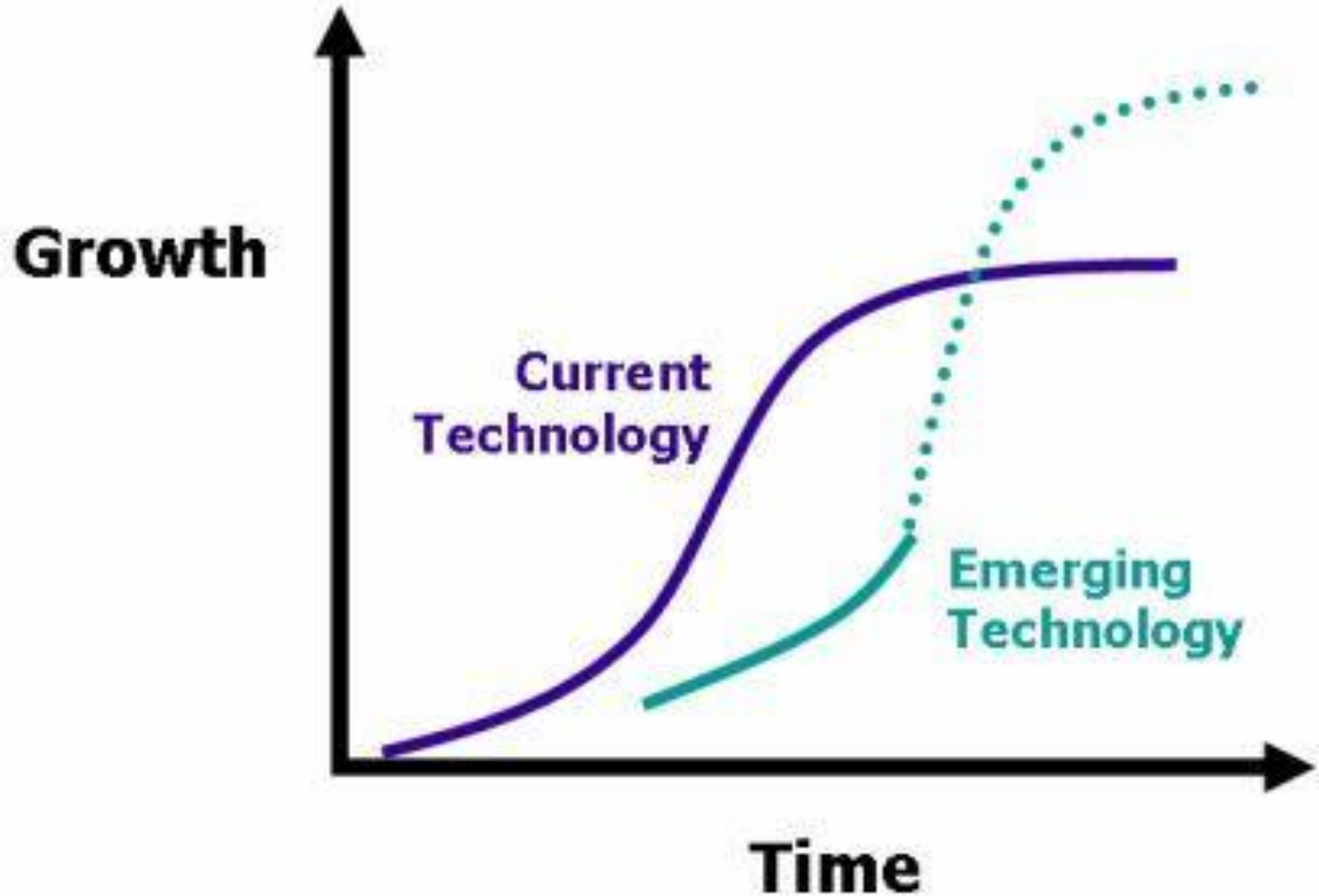
- **Innovation** involves deliberate application of
  - information,
  - imagination and
  - initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products.

INNOVATION

- Innovations are divided into two broad categories:
- **Evolutionary innovations** (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology or processes &
- **Revolutionary innovations** (also called discontinuous innovations) which are often disruptive and new.

- Innovation is synonymous with **risk-taking** and organizations that create revolutionary products or technologies take on the greatest risk because they create new markets.

INNOVATION

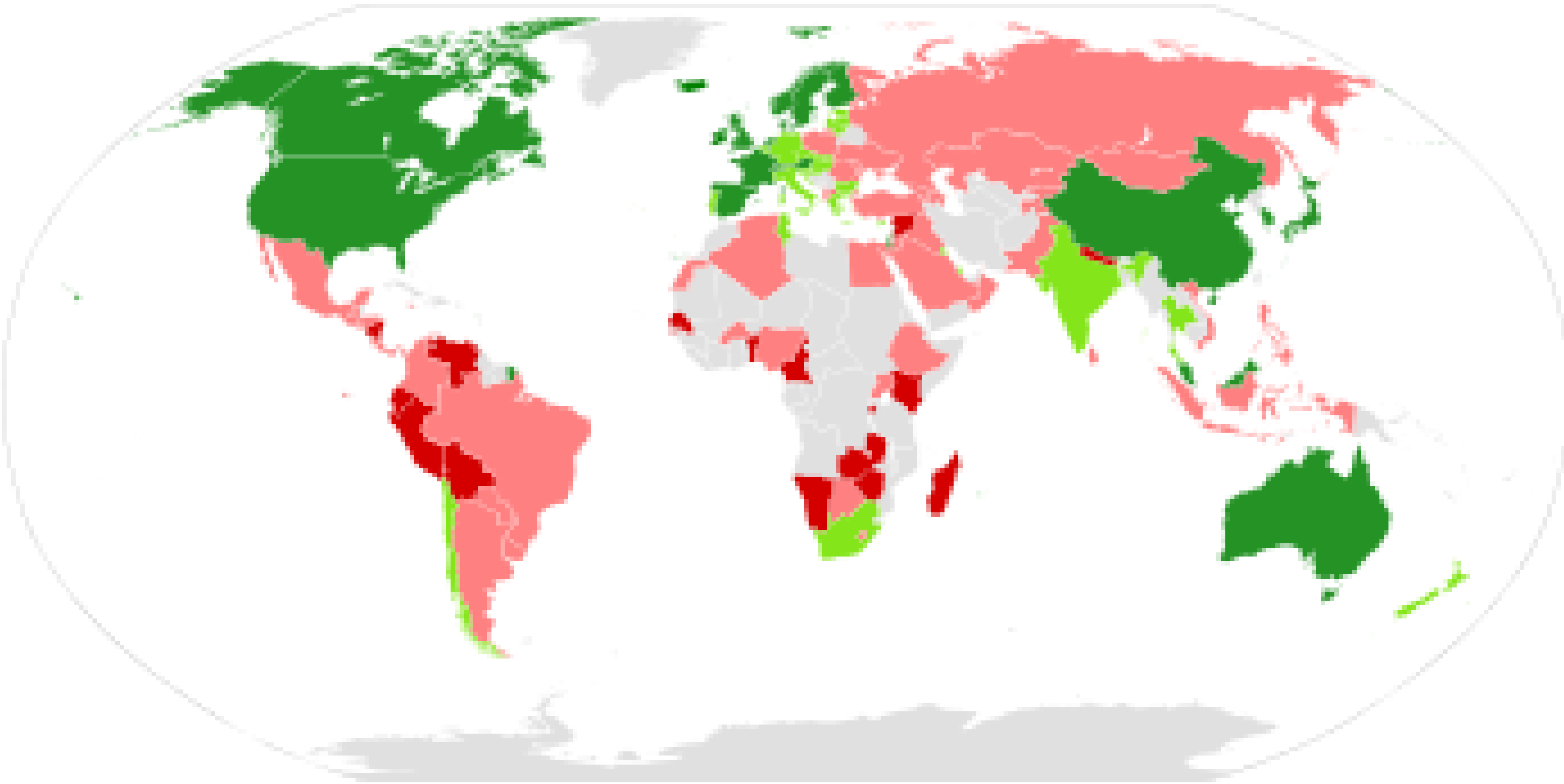


Large country ranking

Rank	Country	Overall	Innovation Inputs	Innovation Performance
1	South Korea	2.26	1.75	2.55
2	United States	1.80	1.28	2.16
3	Japan	1.79	1.16	2.25
4	Sweden	1.64	1.25	1.88
5	Netherlands	1.55	1.40	1.55
6	Canada	1.42	1.39	1.32
7	United Kingdom	1.42	1.33	1.37
8	Germany	1.12	1.05	1.09
9	France	1.12	1.17	0.96
10	Australia	1.02	0.89	1.05
11	Spain	0.93	0.83	0.95
12	Belgium	0.86	0.85	0.79
13	China	0.73	0.07	1.32
14	Italy	0.21	0.16	0.24
15	India	0.06	0.14	-0.02
16	Russia	-0.09	-0.02	-0.16
17	Mexico	-0.16	0.11	-0.42
18	Turkey	-0.21	0.15	-0.55
19	Indonesia	-0.57	-0.63	-0.46
20	Brazil	-0.59	-0.62	-0.51

INNOVATION

Innovation Globally



above 1
0 to 0.99
0 to −0.99
below −1
No data

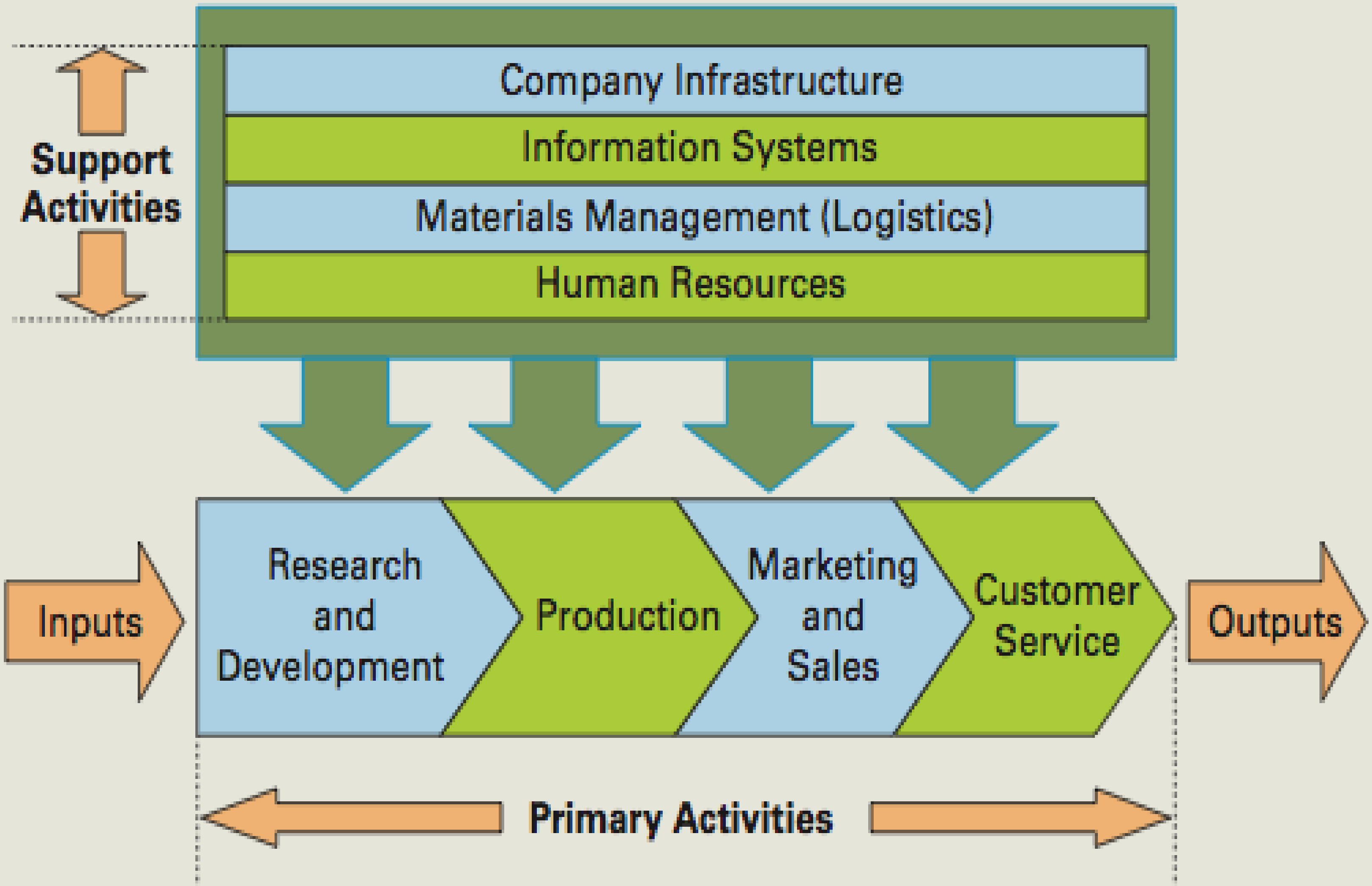
Value Creation

by

Business Activities

Value Creation

Figure 3.5 Primary and Support Value-Chain Activities



Value added via…

- **Research and development (R&D)**
  - Design of products and production processes.
  - Superior product design increases a product’s functionality and add value.
- **Production**
  - Creation process of a good or service.
  - Helps lower cost structure and leads to differentiation.
- **Marketing and sales**
  - Brand positioning and advertising - increase customers’ perceived value of a product.
  - Help create value by discovering customers’ needs.
- **Customer service**
  - Provide after-sales service and support.
  - Create superior utility by solving customer problems and supporting customers after a purchase.

Value added via…

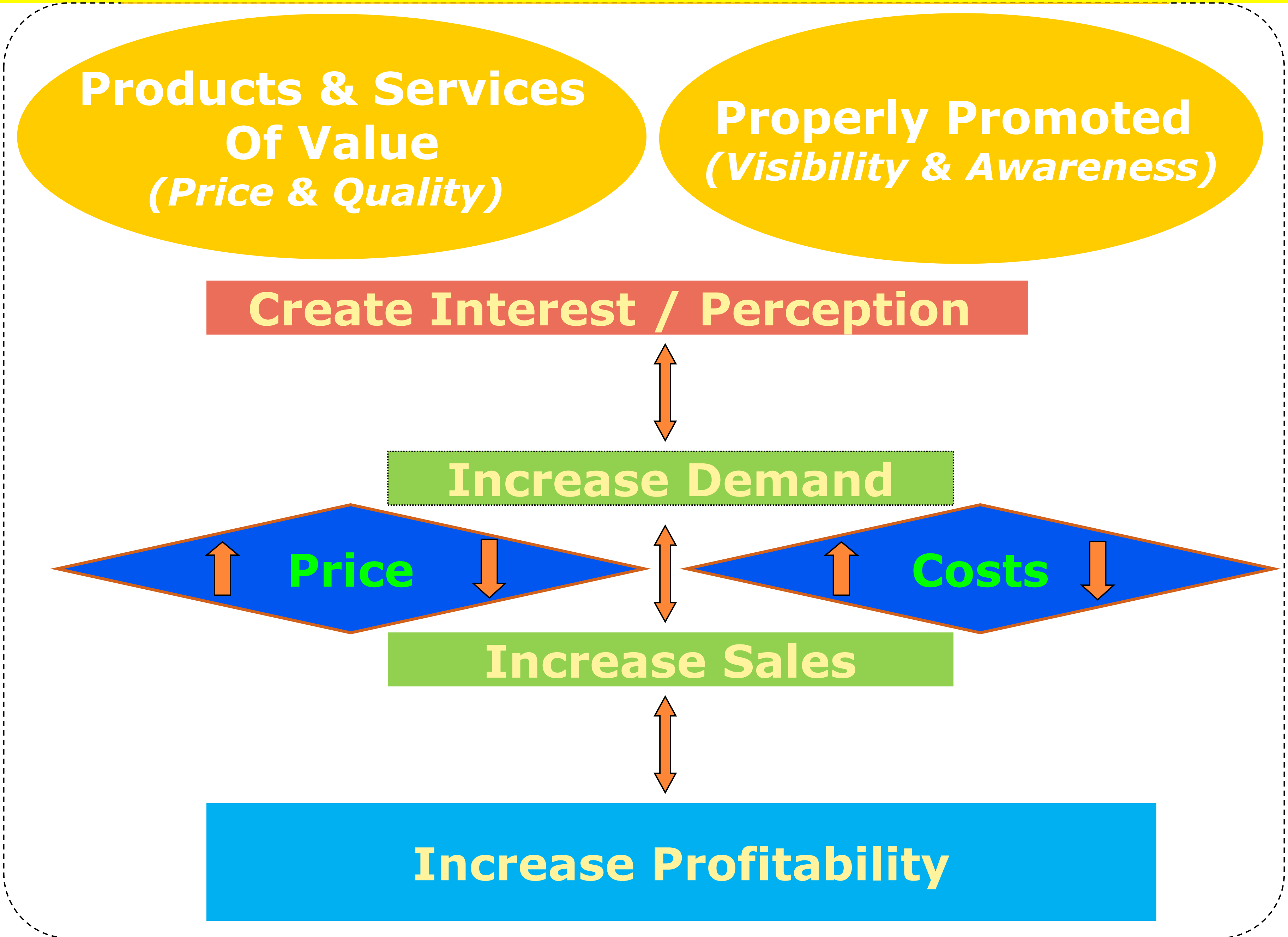
- **Materials management**
  - Controls the transmission of physical materials through the value chain.
  - Lowers cost and creates more profit
- **Human resources**
  - Ensures value creation by making sure that the company has the right combination of skilled people
- **Information systems**
  - Electronic systems to improve efficiency and effectiveness of a company’s value creation activities
- **Company infrastructure**
  - Companywide context within which all the other value creation activities occur
  - Organizational structure
  - control system
  - company culture

<u>Ultimate Objective:</u>

Profitability

(Π)

Profitability Paradigm



Superior Profitability

- **Profitability of a company depends on the:**
  - **value** customers place on its products.
  - **price** it charges for its products.
  - **costs** of creating those products.

- **Managers must understand:**
  - dynamic relationships among:
    - value, selling price, demand, and costs.
  - how value creation and pricing decisions affect demand.
  - how **unit costs** change with increases in volume.

Extras…. Superior Profitability

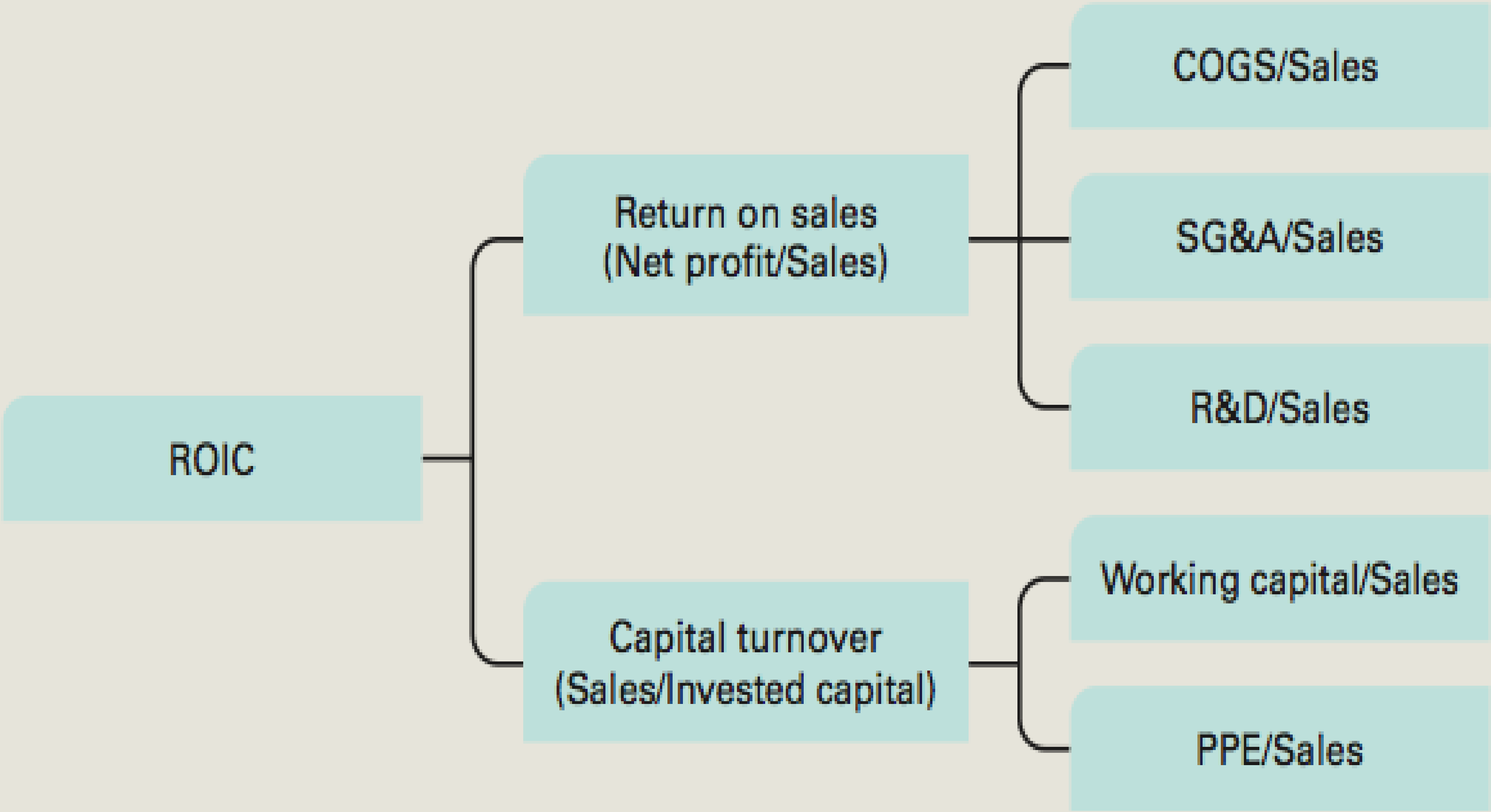
Term	Definition	Source
Cost of Goods Sold (COGS)	• Total costs of producing products	Income statement
Sales, General, and Administrative Expenses (SG&A)	• Costs associated with selling products and administering the company	Income statement
R&D Expenses (R&D)	• Research and development expenditure	Income statement
Working Capital	• Amount of money the company has to work with in the short term: Current assets – current liabilities	Balance sheet
Property, Plant, and Equipment (PPE)	• Value of investments in the property, plant, and equipment that the company uses to manufacture and sell its products • Also known as fixed capital	Balance sheet

Superior Profitability

Term	Definition	Source
Return on Sales (ROS)	• Net profit expressed as a percentage of sales • Measures how effectively the company converts revenue into profits	Ratio
Capital Turnover	• Revenues divided by invested capital • Measures how effectively the company uses its capitals to generate revenue	Ratio
Return on Invested Capital (ROIC)	• Net profit divided by invested capital	Ratio
Net Profit	• Total revenues minus total costs before tax	Income statement
Invested Capital	• Interest-bearing debt plus shareholders’ equity	Balance sheet

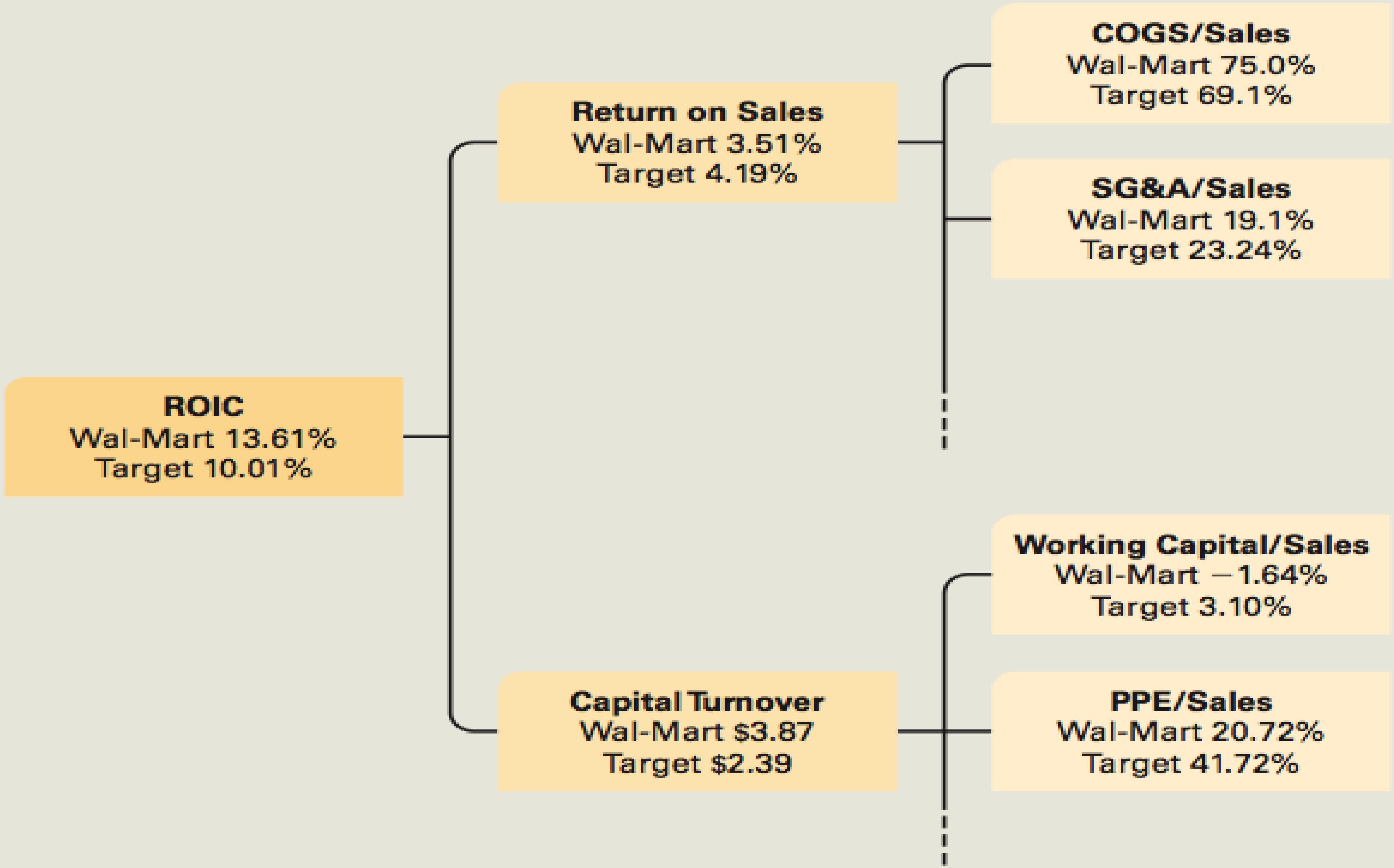
Superior Profitability

Figure 3.8 Drivers of Profitability (ROIC)



Case: Superior Profitability

Figure 3.9 Comparing Wal-Mart and Target, 2012



*A)	Competencies*

B) Ethics

*C)	Organizational Structures*

Ethics

- How mostly **endogenous internal variables** affect *strategic formation, competitive advantage and profitability?*

- Will examine the **triple relationship**: **insiders-owners-government.**

- **Government induced**
  Regulations & Corporate Governance can help/break a corporation….
- **Company initiated & applied**
  Rules & Social Responsibility improves public image/product selling….

✓ **How an artistic combination of the CG and SR benefits everybody….**

Who gets the profits?

- Conventionally,

  Increase of profits /stock price

  comes from:

  - A growing market *(i.e. Toronto real estate,..)*
  - Taking market share from competition *(bigger MKT slice)*

  - Horizontal integration → *(synergies)*
  - Vertical integration → *(efficiency)*
  - Diversification → *(barriers to competition)*

  - International expansion *(power, diversification, challenges)*

Who is in control?

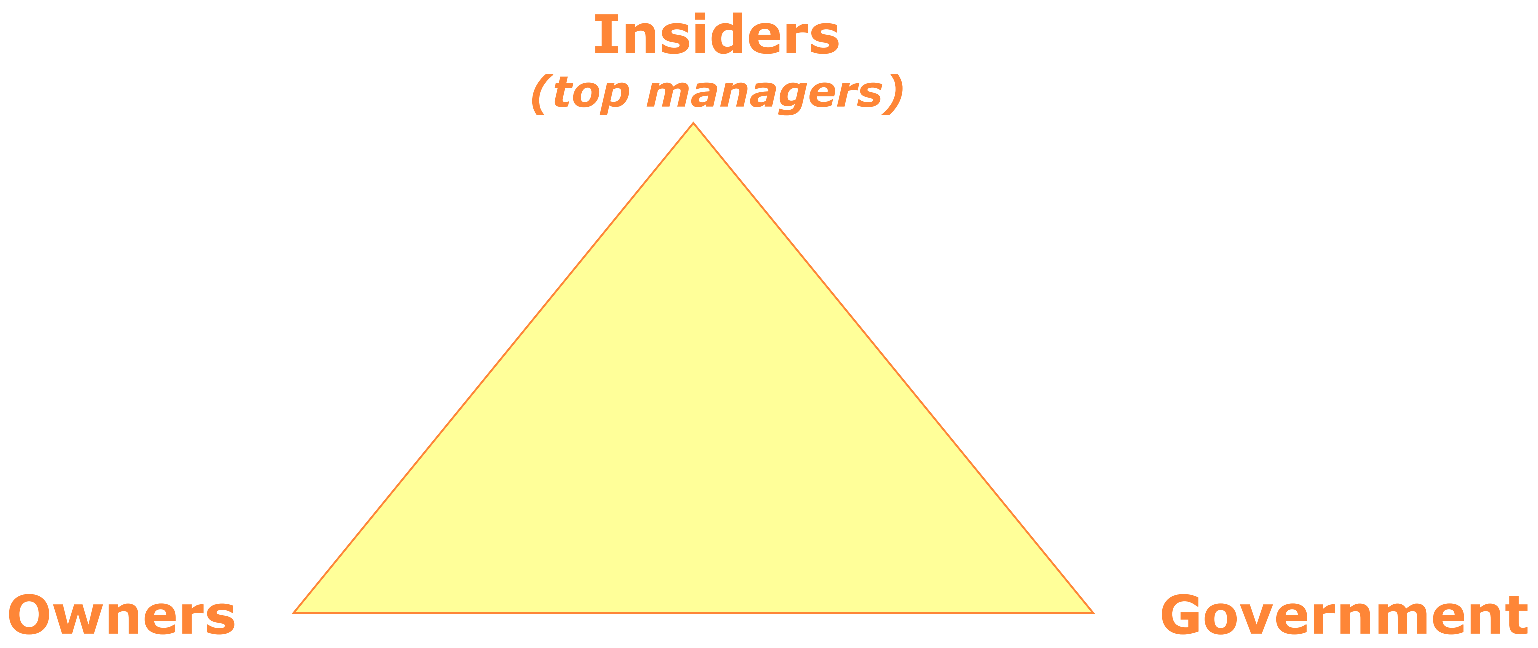
Control, Power and Ethical Behaviour…

Balance and Continuous fighting…

Among Stakeholders:

Individuals or groups with an interest, claim, or stake in the company

But let’s take a closer look at the major three……



Stakeholders

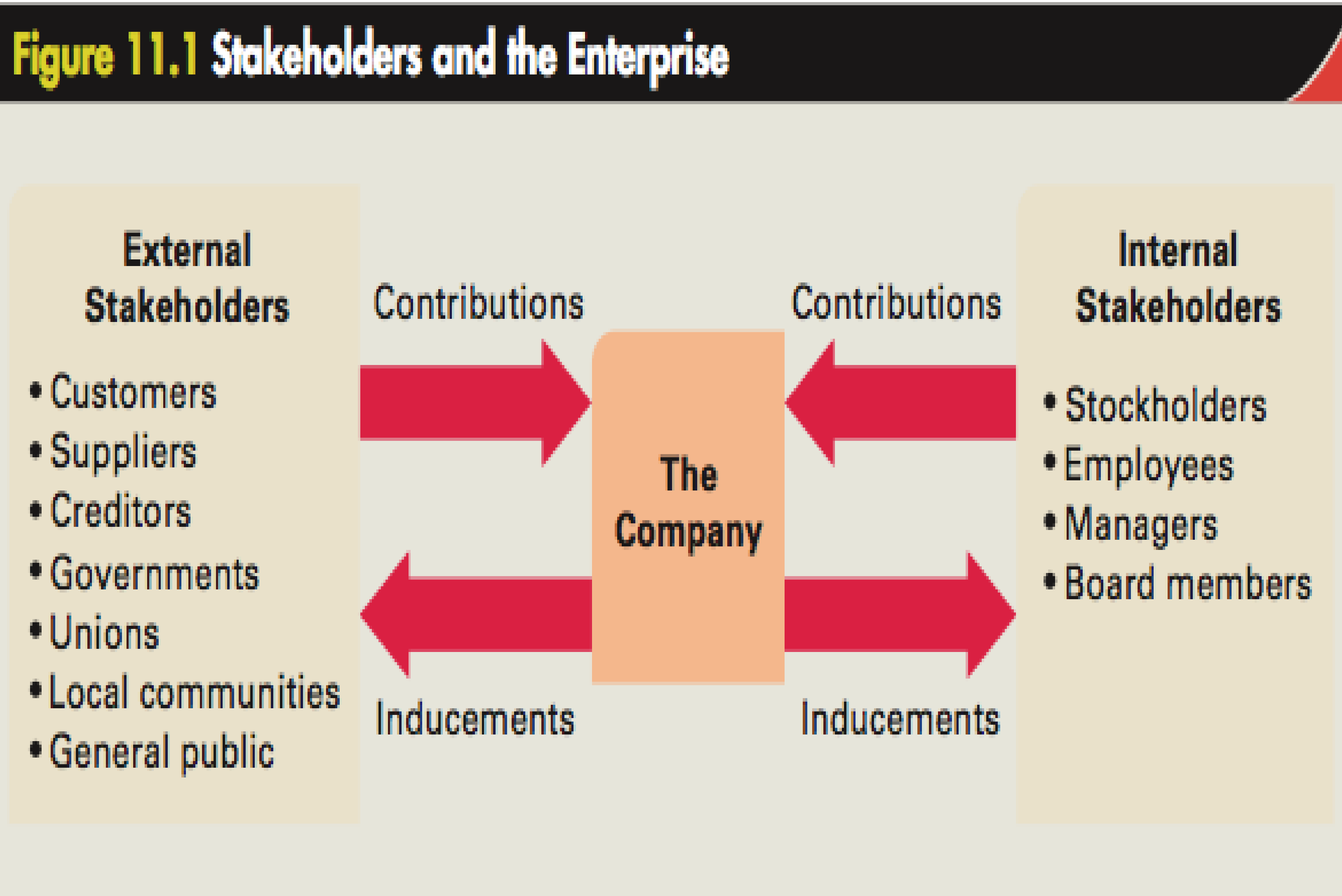
Internal Equilibrium
(Corporate Responsibility)

External Stakeholders
(Everybody has claims)

Internal Stakeholders
- **Stockholders**
- **Employees**
  (Managers, BOD)

Government Intervention
(Corporate Governance)

Stakeholders



Rights of stakeholders

Stakeholders	Rights
Stockholders	• Timely and accurate information about their investments
Customers	• Be fully informed about the products and services they purchase
Employees	• Safe working conditions • Fair compensation for the work they perform • Just treatment by managers
Suppliers	• Expect contracts to be respected
Competitors	• Expect that the firm will abide by the rules of competition and not violate the basic principles of antitrust laws
Communities and the general public	• Expect that a firm will not violate the basic expectations that society places on enterprises

Shareholders

- ❑ **Stockholders** are the underlying owners of the company
  - Active & Passive shareholders
  - Both receive a return on their investment
    - Either as dividend and/or
    - Capital appreciation (stock increase)
- *Compare todays real estate vs stock returns*

- ❑ **Hidden shareholder?**
- ❑ **Who controls it?**
- ❑ **Can it be audited?**
- ❑ **Any proposals?????**

Strategist's Questions & Challenges

Based on Statistics, Attitudes, Opinions, Perceptions, Motivations,...

- **Who are the stakeholders and stockholders**?
  - Their interests and concerns
  - Their obvious and hidden claims on the organization
  - The resulting strategic challenges

- Motivating the agents' behaviour to act in accordance with the goals set
- Reducing the information asymmetry
- Developing mechanisms for removing agents who do not act in accordance with the goals

Agency Problem

- **Relationship between**
  - owners & managers
  - insiders *(decision-makers)* and investors *(shareholders)*
    - funds
    - Individuals (even papa and mama)
  - stockholders and senior managers
    - ✓ Stockholder - Principal
    - ✓ Senior managers - Agent

Agency problems & Unethical behaviour

Self-dealing

- Managers using company funds for personal use

Information manipulation

- Managers use their control over corporate data to distort or hide information
  - To enhance their own financial situation or the competitive position of the firm

Anticompetitive behavior

- Aimed at harming actual or potential competitors to enhance the long-run prospects of the firm

Opportunistic exploitation

- Managers rewriting the terms of a contract to make it favorable to the firm

Information Asymmetry

- Business:
  - The essence of business life
  - The essence of making money
  - The essence of winning

- Countries:
  - Intelligence agencies *(CIA, etc.)*

- **Insiders (Agents) have more and better information than the owners (principals)**

- **Corporations-internally & Governments-externally** try to:
  - Align motivations, incentives, actions and benefits
  - Monitor and control moves & practices

- <u>Some applied measures & regulations:</u>
  - Securities and Exchange Commission (SEC)
  - Generally agreed-upon accounting principles (GAAP)
  - Codetermination law (Mitbestimmungsgesetz in German law)
  - Equivalent Information

Information Symmetry

Agency Issues	*Conflicting Roles* ▪ Politicians vs. Citizens ▪ Owners vs. Shareholders ▪ Institutional vs. Retail Investors
Noise Issues	▪ How insiders use information? ▪ How informed players are being informed? ▪ How Politicians set the agenda?

Government induced:

Regulations & Corporate Governance

Board of Directors	♦ Inside directors: Senior employees of the company ♦ Outside directors: Not full-time employees of the company *To provide objectivity to the monitoring and evaluation of processes.*
Stock-based Compensation	◆ Stock options: Right to purchase company stock at a predetermined price at some point in the future ■ Strike price - Stock's trading price when the option was originally granted ■ Motivate managers to adopt strategies that increase the share price of the company To align management and stockholder interests but these regulations have become increasingly controversial.

Government induced:

Regulations & Corporate Governance

Financial Statements & Auditors	► Quarterly and annual reports of publicly traded companies are filed with the SEC: ■ to give accurate information about the way the agents run the company. ► SEC requires that the accounts be audited by an independent and accredited accounting firm: ■ to make sure managers do not misrepresent the financial information.
Takeover Constraint	▲ Risk of being acquired by another company ▲ Corporate raiders - Purchase large blocks of shares in companies that appear to be pursuing strategies inconsistent with maximizing stockholder wealth ▲ Greenmail: Pushing companies to either change their strategy to benefit stockholders, or charging a premium for the stocks when the company wants to buy them back

Company applied:

Rules & Social Responsibility

Strategic Control Systems	**Employee Incentives**

Targets & Feedback

- Establish standards and targets against which performance can be measured
- Create systems for measuring and monitoring performance on a regular basis
- Compare actual performance against the established targets
- Evaluate results and take corrective action if necessary

- Motivate employees to work toward goals central to maximizing long-term profitability
  - Employee Stock Ownership Plans (ESOPs)
  - Stock-option grants
  - Bonus pay

Normative & Ethical behaviour

- **Encourage** hiring and promotion with a well-grounded sense of personal ethics
- **Build** an organizational culture that places a high value on ethical behavior
  - **Code of ethics**: Formal statement of the ethical priorities to which a business adheres
- **Ensure** that managers practice and preach ethical behavior

- **Ensure** employees and stakeholders consider the ethical dimension of business decisions
- **Use** ethics officers
- **Put** strong governance processes in place
- **Act** with moral courage

How an artistic combination
of the CG and SR
benefits
ALL stakeholders....

Synthesis: Ethics and Strategy

Ethics

- Accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organization

Business ethics

- Accepted principles of right or wrong governing the conduct of businesspeople

Ethical dilemmas

- Situations where there is no agreement over exactly what the accepted principles of right and wrong are

Ethical Issues in Strategy

- Due to potential conflict between:
  - Goals of the enterprise
  - Goals of individual managers
  - Fundamental rights of important stakeholders

- Noblesse oblige
  - Responsibility of people of high birth to give something back to the society that made their success possible

Roots of Unethical Behavior

- **Personal ethics**: Generally accepted principles of right and wrong governing the conduct of individuals
- Failing to ask oneself if a decision is ethical
- Some organizational cultures de-emphasize business ethics
- Pressure to meet unrealistic performance goals
- Unethical leadership

A) Competencies
B) Ethics

C) Organizational Structures

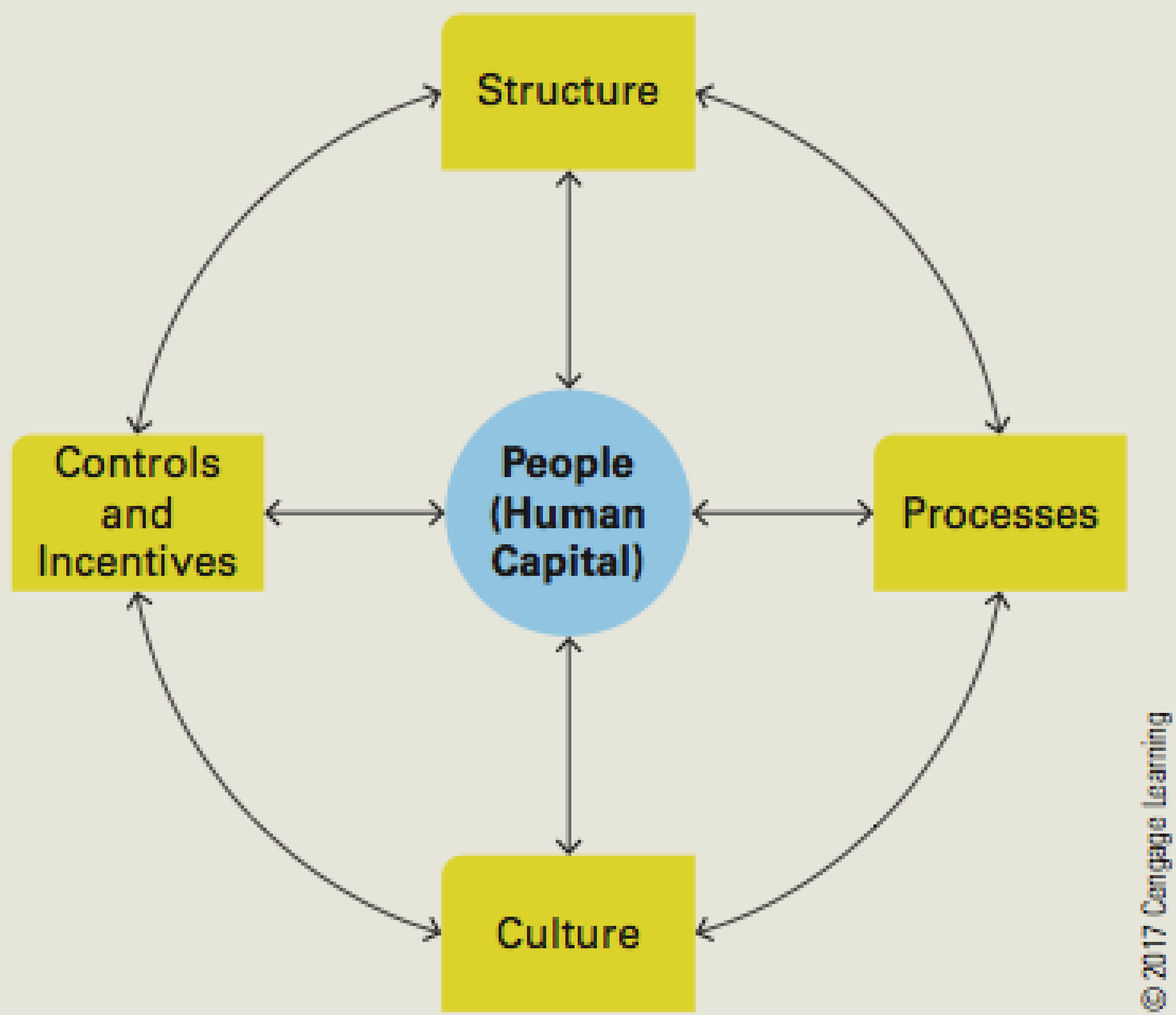
Organizational Issues

- <u>How Organizational factors **CCSP (Culture-Controls-Structure-Processes)** affect Strategic Formation, Competitive Advantage and Profitability?</u>

- **Culture**
- **Controls & Incentives**
- **Structure**
- **Processes**

Organizational factors CCSP

Figure 12.1 Organizational Architecture



a) Culture

- **Organization culture**:
  - **Norms and value systems**
  - shared among the employees of an organization

- **People**:
  - The employees of an organization
  - Companies recruit, compensate, motivate and retain
    - individuals that **fit and add value**
      - via skills and capabilities

Values & Norms

- **Convergence of values and norms**, shared by people and groups in an organization
  - **Values:** The ideas or shared assumptions about what a group believes to be good, right and desirable
  - **Norms:** Social rules and guidelines that prescribe the appropriate behavior in particular situations
- **Culture** can exert a profound influence
  - on the way people behave within an organization
  - on the decisions that are made
  - on the things that the organization pays attention to and
  - on the strategy and performance of the firm.

b) Controls & Incentives

- **Controls:** Simple or complicated **Metrics** that
  - **Measure the performance** of divisions & units and
  - Evaluate how well managers are running them

- **Incentives:**
  – The **devices used to encourage** employee behavior.

Mechanism is used to monitor and evaluate the business model:

– Is the model working *(as intended)*

– How we can improve it?

Types of Mechanisms:

1. **Formal Integrating Mechanisms**
2. **Informal Integrating Mechanisms**

1. Formal Integrating Mechanisms (FIM)

- **Coordinate the activities**
  - of functions and divisions
  - to achieve the defined strategic objectives

- **Formal integrating mechanisms** utilize
  - direct contact
  - liaison people
  - teams
  - matrix structure

- The complexity of the FIM raises questions of effectiveness

2) Informal Integrating Mechanisms

- **Knowledge network:**
  - transmitting information within an organization
  - Formally and/or informally

- **Knowledge networks**
  - Thrive in “soft” organizational cultures
  - DNA formations
  - Excites & coincides with efficient teamwork
  - Avoid politics & disruptions
  - Promotes cross-unit cooperation…..

Methods of Control

- **Personal control**:
  - by personal contact
  - direct supervision of subordinates
- **Bureaucratic control**:
  - a formal system of written rules and procedures
- **Output control:**
  - set for units or individuals to achieve and
  - monitor performance *(against those goals)*
- **Market control:**
  - regulation of the behavior of individuals and units
  - by setting up an *internal market* for some valuable resources *(i.e. capital)*

Control via Incentives

- **Incentives**:
  - The devices used to encourage and reward appropriate employee behavior
- When incentives are tied to team performance they have the added benefit of
  - encouraging cooperation between team members and
  - fostering a degree of peer control.

➢ **Peer control:** The pressure that employees exert on others within their team or work group to perform up to or in excess of the expectations of the organization

c) Structure

- **Organizational structure**:
  - the combination of the location of **decision-making responsibilities**
  - the formal division of the organization into subunits and
  - the establishment of integrating mechanisms to **coordinate the activities of the subunits**.

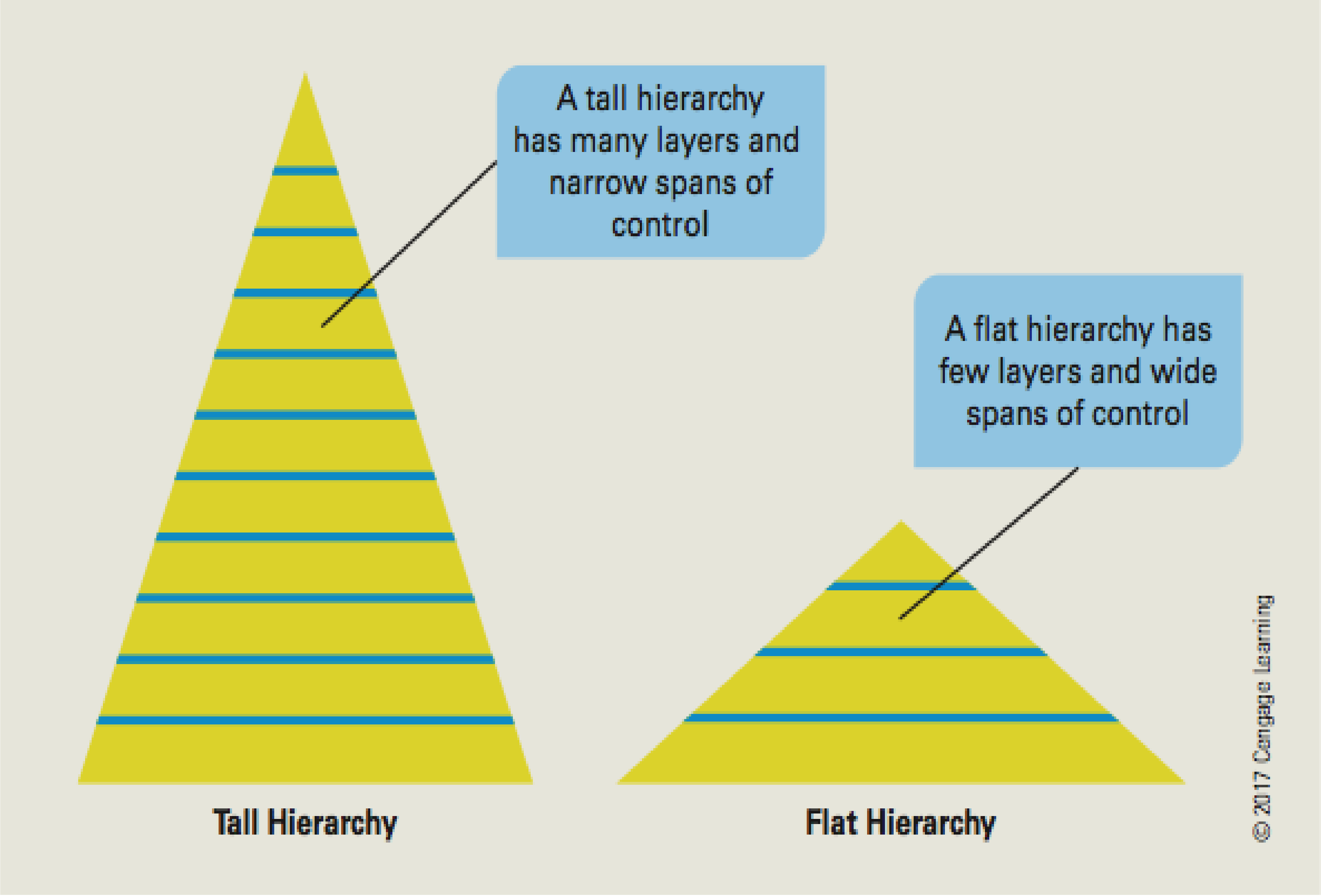
Organizational Structure

- **Organizational structure** can be thought of in terms of three dimensions:
  a) **Vertical differentiation**: The location of decision making responsibilities within a structure, referring to centralization or decentralization, and number of layers in a hierarchy, referring to whether to organizational structure is tall or flat.
  b) **Horizontal differentiation**: The formal division of the organization into subunits.
  c) **Integrating mechanisms**: Processes and procedures used for coordination subunits.

Example: Vertical Differentiation

- A firm's vertical differentiation determines where in its hierarchy the decision-making power is concentrated.
  - **Centralization:** Structure in which the decision making authority is concentrated at a high level in the management hierarchy
  - **Decentralization:** Structure in which the decision making authority is distributed to lower level managers or other employees
    - **Autonomous sub-unit**: A sub-unit that has all the resources and decision-making power required to run the operation on a day-to-day basis

Figure 12.2 Tall Versus Flat Hierarchies



Tall Organizations

Limitations

- Communication problems
  - Long time taken in decision-making and adherence
  - Distortion of commands and orders
- Increases expenses

Solution

- **Delayering**: The process of reducing the number of levels in a management hierarchy

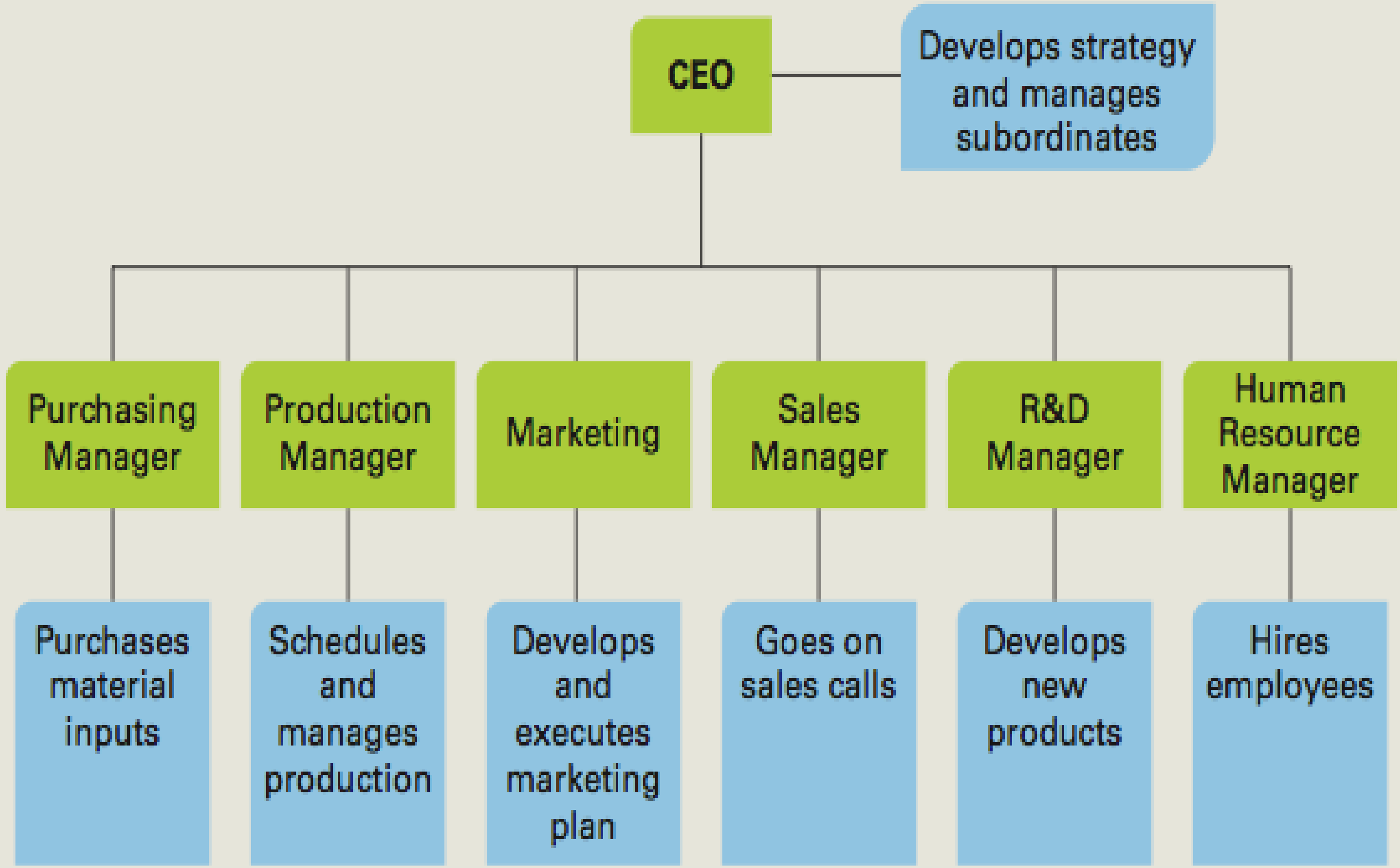
i) Functional Structure

- **Functional structure**: The organizational structure is built upon the division of labor within the firm with different functions focusing on different tasks

  - Thus, there might be a production function, and R&D function, a marketing function, a sales function, and so on.

  - A top manager, such as the CEO, or a small top management team, oversees these functions. Most single businesses of any scale are organized along functional lines.

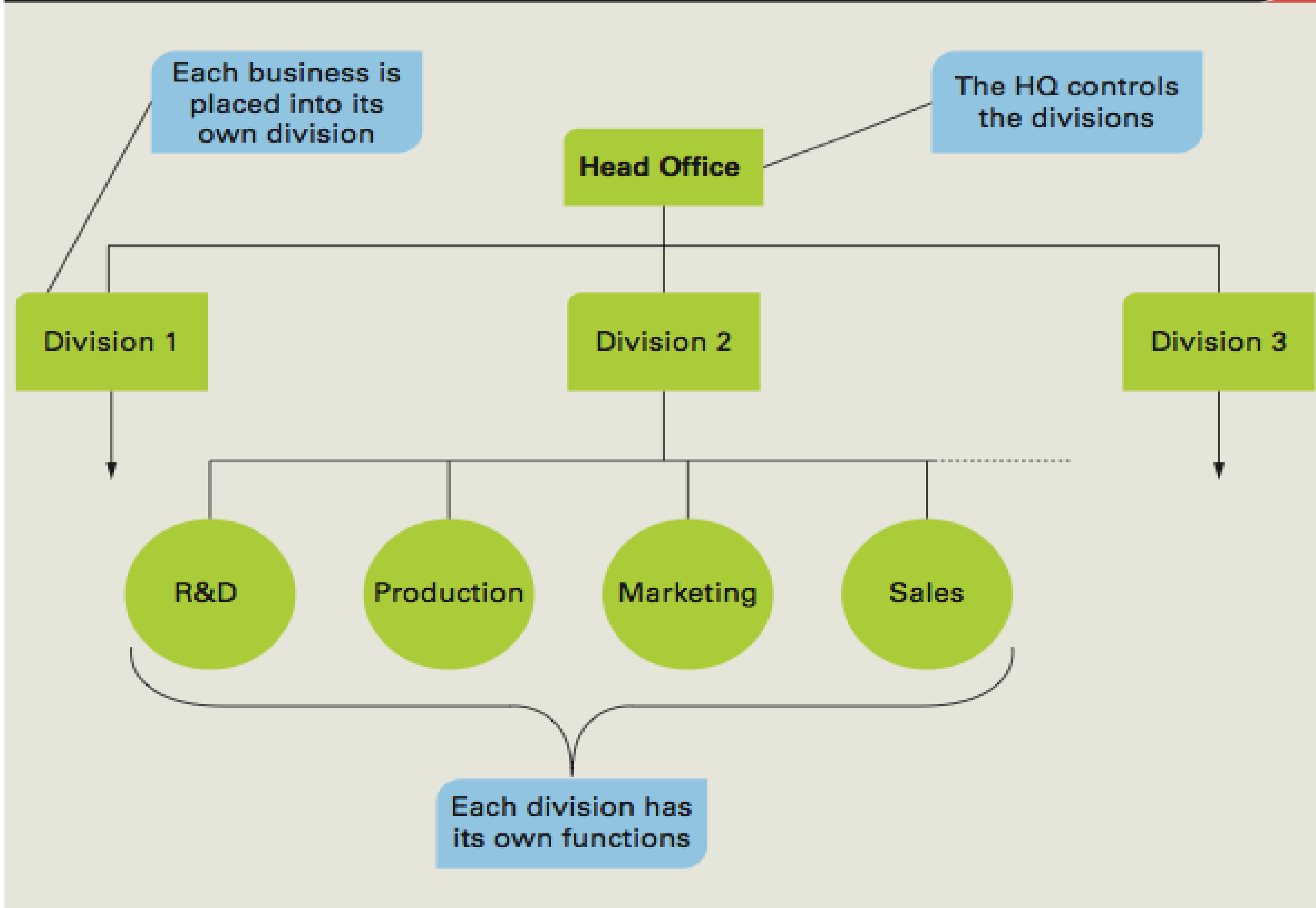
Figure 12.3 A Typical Functional Structure



ii) Multi-divisional structure

- **Multidivisional structure**: An organizational structure in which a firm is divided into divisions, each of which is responsible for a distinct business area.
  - Allows a company to grow and diversify while reducing coordination and control problems
  - Uses self-contained divisions and has a separate corporate headquarters staff

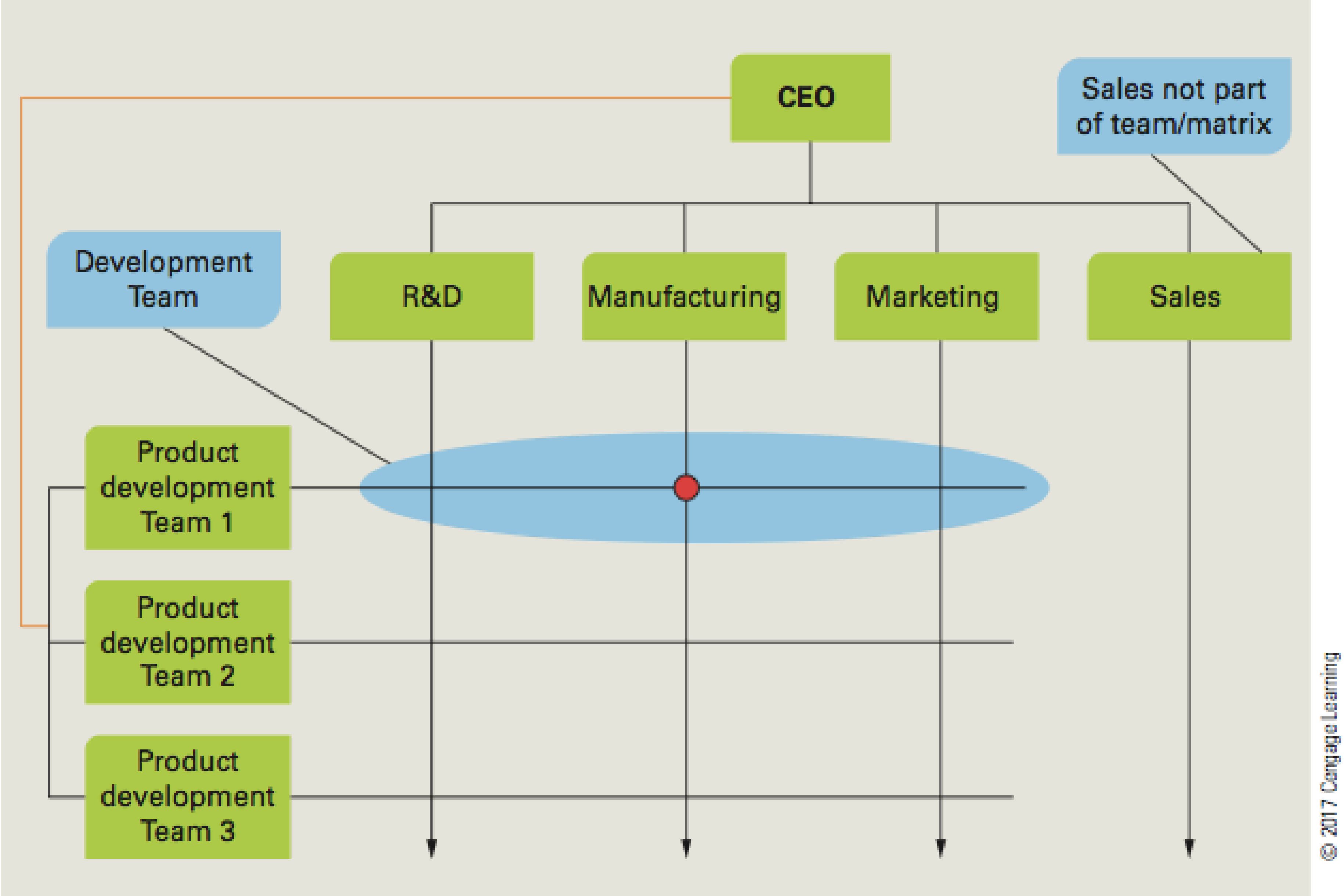
Figure 12.4 A Multidivisional Structure



iii) Matrix Structure

- **Matrix structure**: An organizational structure in which managers try to achieve tight coordination between functions, particularly R&D, production, and marketing
  - High technology firms based in rapidly changing environments will sometimes adopt a matrix structure.

Figure 12.5 Matrix Structure in a High-Tech Firm



d) Processes

- **Organization processes:** The manner in which decisions are made and work is performed within the organization.

e) Technology

- How **Technology (exogenous) factors** affect Strategic Formation, Competitive Advantage and Profitability?

- **Technology & Technical Standards - Format wars (Differentiation)**
- **Technology & Cost Structures**
- **Technology & First mover strategies and rebuff**
- **Technology & Macro Technological Paradigm Sifts**

Direct & Indirect Network Effects / Externalities

- **<u>Network effects</u>**:
  - Promoting **complementary products**
    - Product demand (due to technical standards connectivity)

➢ **<u>Positive feedback loops:</u>**

technology demand product demand

➢ Consumers can be **locked into** a technical standard

<u>Alternative standards</u> then are **locked out**

First Mover strategies due to Technology

- **Pioneering Company**
  - Introduces first a product or service
  - Being first to offer it to the market.
  - A revolutionary product results in a monopoly position

First-mover advantage

- Once pioneering easily followed
- Continuous pioneering induce slow rate of copying/imitation

First-mover disadvantage

- Bearing most of the cost
- FAST & FURIOUS………

WINNER TAKES ALL

Pioneering Pros & Cons

Advantages	***Disadvantages***
➢ Opportunity to exploit network effects and positive feedback loops. ➢ Ability to establish brand loyalty and increase sales volume ahead of rivals. ➢ Ability to create switching costs for customers and accumulate knowledge.	○ Bear significant pioneering costs. ○ More prone to making mistakes. ○ Risk of building the wrong resources and capabilities. ○ Risk of investing in inferior or obsolete technology

Formulating a pioneering **strategy**

❑ Utilize complementary assets to

- Exploit a new innovation
- Gain a competitive advantage
- Help build brand loyalty
- Achieve rapid market penetration

❑ Build high barriers to imitation/copy

- Defensive higher barriers confuse and discourage rivals to imitate
- Offensive barriers by constantly innovating & creating an enduring advantage

❑ Watch carefully for capable competitors

- Who can quickly imitate
- Who has the capability
- Who has the R&D skills
- Who has access to complementary assets

Strategic Implications for Established companies

- Being aware of how **disruptive technologies** can revolutionize markets is a valuable strategic asset.
- Investing in new technologies that may become disruptive technologies.
- Creating an autonomous operating division solely for the disruptive technology.

Strategic Implications for New Entrants

- Do not face pressures to continue the existing out-of-date business model.
- Do not have to worry about established:
  - customer base.
  - relationships with suppliers and distributors.
- Can focus their energies on the opportunities offered by the new disruptive technology.
- Must decide whether to partner with an established company or go solo.