The Key Topics Covered in Chapter 4

- The Questions to Answer in Evaluating a Company’s Resources and Ability to Compete Successfully
- **Question 1**: How Well Is the Company’s Present Strategy Working?
- **Question 2**: Are the Company’s Resources and Capabilities Attractive and Well-matched to Its Market Opportunities and External Threats?
- **Question 3**: Are the Company’s Prices and Costs Competitive?
- **Question 4**: Is the Company Competitively Stronger or Weaker than Key Rivals?
- **Question 5**: What Strategic Issues and Problems Merit Front-burner Managerial Attention?

Chapter Learning Objectives

1. Learn how to identify and evaluate a company’s resource strengths, competencies, competitive capabilities, and resource weaknesses.
2. Understand the meaning and significance of company and industry value chains.
3. Gain proficiency in using four analytical tools to evaluate a company’s ability to compete successfully: SWOT analysis, value chain analysis, benchmarking, and competitive strength assessment.
4. Learn what to look for in identifying the strategic issues company managers must address.
Chapter 4

POWERPOINT SLIDES

The analytical spotlight in evaluating a company’s resource capabilities, relative cost position, and competitive strength versus rivals is trained on five questions:

1. How well is the company’s present strategy working?
2. Does the company have attractively strong resource capabilities and how well do these match its market opportunities and the external threats to its future well-being?
3. Are the company’s prices and costs competitive?
4. Is the company competitively stronger or weaker than key rivals?
5. What strategic issues merit front-burner managerial attention?

Question 1: How Well Is the Company’s Present Strategy Working?

Key Considerations

- Must begin by understanding what the strategy is
  - Identify competitive approach
    - Lower costs relative to rivals?
    - A different or better product/service?
    - Superior ability to serve a particular market niche or group of buyers?
  - Determine competitive scope
    - Broad or narrow geographic market coverage?
    - Wide or narrow product line?
  - Examine recent strategic moves
  - Identify functional strategies

Figure 4.1: Identifying Components of a Single-Business Company’s Strategy
Two Key Indicators of How Well the Strategy Is Working

The two best indicators of whether a company’s strategy is working are:

- Whether the company is meeting or beating its financial and strategic performance targets and
- Whether the company is an above-average industry performer.

Persistent shortfalls in meeting company performance targets and weak performance relative to rivals are reliable warning signs that the company has a weak strategy or suffers from poor strategy execution or both.

Other Good Indicators of How Well the Strategy Is Working

- Whether the firm’s sales are growing faster, slower, or at about the same pace as the market as a whole, thus resulting in a rising, eroding, or stable market share.
- Whether the company is acquiring new customers at an attractive rate, as well as retaining existing customers.
- Whether the firm’s profit margins are increasing or decreasing and how well its margins compare to the profit margins of rival firms.
- Trends in the firm’s net profits and return on investment and how these compare to the same trends for rival companies.
- Whether the company’s overall financial strength and credit rating are improving or growing weaker.
- Whether the firm’s image and reputation with its customers is growing stronger or weaker.
- How well the company stacks up against rivals on product innovation, customer service, product quality, delivery time, price, getting newly developed products to market quickly, and other relevant factors affecting buyers’ choice of brands.

Question 2: Are the Company’s Resources and Capabilities Attractive and Well-matched to Its Market Opportunities and External Threats?

- The simplest and most powerful tool for evaluating whether a company’s overall situation is fundamentally healthy or unhealthy is widely known as SWOT analysis, so named because it zeros in on a company’s resource strengths and weaknesses, market opportunities, and external threats.
- For a company’s strategy to be well-conceived, it must:
  - Capitalize on its resource strengths
  - Aim squarely at capturing its best market opportunities
  - Defend against external threats to its well-being
STRATEGY: Core Concepts and Analytical Approaches

Chapter 4

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Identifying Company Resource Strengths

- A **resource strength** is something a company is good at doing or an attribute that enhances its competitiveness.
- Resource strengths can take any of several forms:
  - A skill, specialized expertise, or competitively important capability
  - Valuable physical assets
  - Valuable human assets and intellectual capital
  - Valuable organizational assets
  - Valuable intangible assets
  - Important competitive capabilities
  - An achievement or attribute that puts the company in a position of market advantage
  - Competitively valuable alliances or cooperative ventures

**Resource strengths are competitive assets!**

Assessing a Company’s Strengths and Capabilities

- A company’s skill or proficiency in performing different facets of its operations can range from one of minimal ability to the other extreme of being able to perform the activity better than any other company in the industry.
- **Core Concept:** A company has a **competence** in performing an activity when, over time, it gains the experience and know-how to perform an activity consistently well and at acceptable cost.
- **Core Concept:** A **core competence** is an activity that a company performs quite well and that is also central to its strategy and competitiveness.
  - A **core competence** is more important resource strength than a **competence** because it adds power to a company’s strategy and has a bigger positive impact on its market position and profitability.
- **Core Concept:** A **distinctive competence** is a competitively important activity that a company performs better than its rivals—it thus represents a competitively superior resource strength.

A Company Competence

- A company’s proficiency rises from mere ability to perform an activity to a true **competence** when it is able to perform the activity consistently well and at acceptable cost.
  - Achieving competence begins with deliberate efforts to simply develop the ability to perform an activity, however imperfectly or inefficiently.
  - Then, as experience builds and the company gains proficiency to perform the activity consistently well and at an acceptable cost, its ability evolves into a true competence and capability.
- Some competencies relate to specific skills and expertise in a single discipline or function and are performed in a single organizational unit.
- Other competencies are inherently multidisciplinary and cross-functional, resulting from effective collaboration among people with different expertise in different organizational units.
- Virtually all organizational competencies are knowledge-based, residing in the intellectual capital of company personnel.
A Core Competence

- A core competence is a more competitively valuable resource strength than a competence because of the well-performed activity’s key role in the company’s strategy and the contribution it makes to the company’s market success and profitability.
- A core competence can relate to any of several aspects of a company’s business:
  - Ability to speed new/next-generation products to market
  - Skills in producing a high-quality product at a low cost
  - Capability to fill customer orders accurately and swiftly.

Most core competencies are grounded in cross-department combinations of knowledge and expertise rather than being the product of a single department or work group.

A Distinctive Competence

- A distinctive competence signifies greater proficiency than a core competence because it represents a level of proficiency that rivals do not have.
- A distinctive competence is a valuable resource strength because of its potential for producing a competitive advantage potential provided
  - The distinctive competence relates to an activity important to market success
  - Rival companies do not have offsetting competencies and
  - It is costly and time-consuming for rivals to imitate the competence

A distinctive competence can add real punch and power to a company’s strategy because it represents a competitively valuable capability unmatched by rivals.

Potential Resource Strengths and Competitive Capabilities

- A powerful strategy
- Core competencies in _______.
- A distinctive competence in _______.
- A product that is strongly differentiated from those of rivals
- Capabilities and capabilities that are well matched to industry key success factors
- A strong financial condition; ample financial resources to grow the business
- Strong brand name/image/company reputation
- An attractive customer base
- Proprietary technology/superior technological skills/important patents
- Superior intellectual capital relative to key rivals
- Cost advantages over rivals
- Skills in advertising and promotion
- Product innovation capabilities
- Proven capabilities in improving production processes
- Good supply chain management capabilities
- Good customer service capabilities
- Better product quality relative to rivals
- Wide geographic coverage and/or strong global distribution capability
STRATEGY: Core Concepts and Analytical Approaches

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Determining Whether a Company Has a Competitively Attractive Collection of Resources

- It is important to identify which company skills and proficiencies qualify as a competence, which represent a core competence, and whether it may enjoy a distinctive competence in one or more activities that it performs.
- Both core competencies and distinctive competencies are valuable and act to enhance a company’s competitiveness.
- But mere ability to perform an activity well does not necessarily give a company competitive clout.
- Some competencies merely enable market survival because most rivals also have them—indeed, not having an important competence or competitive capability that rivals have can result in competitive disadvantage.

A Company’s Competencies and Capabilities Must Be Dynamic

- For a company’s competencies and capabilities to qualify as durable resource strengths, they must be continually refined, updated, and sometimes replaced by altogether new kinds of expertise.

  • Because rival companies are endeavoring to sharpen and recalibrate their competencies and capabilities
  • Because customer needs and expectations are undergoing constant change

For a company to sustain its competitiveness and improve its performance, it needs a dynamically evolving portfolio of competencies and capabilities.

How to Determine the Competitive Power of a Company Resource

The competitive power of a resource strength is measured by how many of the following four tests it can pass:

1. Is the resource strength hard to copy?
2. Is the resource strength durable—does it have staying power?
3. Is the resource really competitively superior?
4. Can the resource strength be trumped by the different resource strengths and competitive capabilities of rivals?

A company’s ability to succeed in the marketplace hinges to a considerable extent on the competitive power of its resources—the set of competencies, capabilities, and competitive assets at its command.
Tying Strategy to Competitively Powerful Resource Strengths

► As a general rule, a company’s strategy should be based on its most competitively powerful resource strengths and capabilities. Why?
  ▶ Making valuable resource strengths the cornerstones of strategy gives a company its best chances for competitive success because a company’s resource strengths become center stage in its efforts to deliver value to customers and win business away from rivals.
  ▶ And if a company’s resources strengths are indeed competitively powerful relative to the resource strengths of its rivals, then a strategy grounded in its resource strengths promotes achievement of a sustainable competitive advantage.

It is very difficult for rivals to outcompete a company having durable and competitively superior resources that are hard to copy and hard to trump.

Identifying Resource Weaknesses and Competitive Deficiencies

► A resource weakness, or competitive deficiency, is something a company lacks or does poorly (in comparison to others) or a condition that puts it at a disadvantage in the marketplace.

Resource weaknesses relate to
  ▶ Inferior or unproven skills, expertise, or intellectual capital
  ▶ Lack of important physical, organizational, or intangible assets
  ▶ Missing or inferior capabilities in key areas

Resource weaknesses and deficiencies are competitive liabilities!

Potential Resource Weaknesses and Competitive Deficiencies

► No clear strategic direction
► Resources that are not well matched to an industry’s key success factors
► No well-developed or proven core competencies
► A weak balance sheet; burdened with too much debt;
► Higher overall unit costs relative to key competitors
► Weak or unproven product innovation capabilities
► A product/service with ho-hum attributes or features inferior to those of rivals
► Too narrow a product line relative to rivals
► Weak brand image or reputation
► Weaker dealer network than key rivals and/or lack of adequate global distribution capability
► Behind on product quality, R&D, and/or technological know-how
► In the wrong strategic group
► Losing market share because...
► Lack of management depth
► Inferior intellectual capital relative to rivals
► Subpar profitability because...
► Plagued with internal operating problems or obsolete facilities
► Short on financial resources to grow the business and pursue promising initiatives
► Too much underutilized plant capacity
STRATEGY: Core Concepts and Analytical Approaches

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Identifying a Company’s Market Opportunities

- While a company’s strategy should always be aimed at capturing good market opportunities, the opportunities most relevant to a company are those that
  - match up well with the company’s financial and organizational resource capabilities
  - offer the best growth and profitability
  - present the most potential for competitive advantage

Potential Market Opportunities

- Openings to win market share from rivals
- Sharply rising buyer demand for the industry’s product
- Serving additional customer groups or market segments
- Expanding into new geographic markets
- Expanding the company’s product line to meet a broader range of customer needs
- Utilizing existing company skills or technological know-how to enter new product lines or new businesses
- Online sales via the Internet
- Integrating forward or backward
- Falling trade barriers in attractive foreign markets
- Acquiring rival firms or companies with attractive technological expertise or capabilities
- Entering into alliances or joint ventures to expand the firm’s market coverage or boost its competitive capability
- Openings to exploit emerging new technologies

Identifying the External Threats to a Company’s Future Profitability

- Certain factors in a company’s external environment can pose threats to its profitability and competitive well-being
- External threats may pose no more than a moderate degree of adversity (all companies confront some threatening elements in the course of doing business), or they may be so imposing as to make a company’s situation and outlook quite tenuous.
- On rare occasions, market shocks can give birth to a sudden-death threat that throws a company into an immediate crisis and battle to survive.
Potential External Threats to a Company’s Future Profitability

- Increasing intensity of competition among industry rivals—may squeeze profit margins
- Slowdowns in market growth
- Likely entry of potent new competitors
- Loss of sales to substitute products
- Growing bargaining power of customers or suppliers
- A shift in buyer needs and tastes away from the industry’s product
- Adverse demographic changes that threaten to curtail demand for the industry’s product
- Vulnerability to unfavorable industry driving forces
- Restrictive trade policies on the part of foreign governments
- Costly new regulatory requirements
- Tight credit conditions
- Rising energy prices

The Final Two Steps of SWOT Analysis: Drawing Conclusions and Taking Strategic Action

- Developing lists of a company’s strengths, weaknesses, opportunities, and threats is only the first step of SWOT analysis
- The two most important steps—where the real payoff is—
  - Drawing conclusions from the SWOT listings about the company’s overall situation
    - Where on a scale of 1 to 10 (where 1 is alarmingly weak and 10 is exceptionally strong) should the firm’s position and overall situation be ranked?
    - What aspects of the company’s situation are particularly attractive? What aspects are of the most concern?
  - Translating these conclusions into strategic actions to
    - Better match a company’s strategy to its resource strengths and market opportunities
    - Correct the important weaknesses
    - Defend against external threats

Figure 4.2 The Three Steps of SWOT Analysis

- Identify company resources and competitive advantages
- Identify company weaknesses, threats, opportunities
- Identify the company’s current competitive position
- What can be discerned from the SWOT listings?
- Conclusions concerning the company’s overall business situation:
  - Where on the scale from “strongly weak” to “exceptionally strong” does the attractiveness of the company’s overall situation lie?
  - What are the company’s attractive and unattractive aspects?
- Implications for formulating company strategy:
  - Use company strengths and weaknesses as constraints for strategy.
  - Present these market opportunities best suited to company strengths and capabilities.
  - Consider the company’s current competitive position.
  - Identify potential entry points and competitive strategies.
  - Use company strengths to lessen the impact of external threats.
Question 3: Are the Company’s Prices and Costs Competitive?

- One of the most telling signs of whether a company’s business position is strong or precarious is whether its prices and costs are competitive with industry rivals.
- Two analytical tools are particularly useful:
  - Value chain analysis
  - Benchmarking

The Concept of a Company Value Chain

- A company’s business consists of all activities undertaken in designing, producing, marketing, delivering, and supporting its product or service.
- All these activities a company performs internally combine to form a value chain — so-called because the underlying intent of a company’s activities is to do things that ultimately create value for buyers.
- The value chain contains two types of activities:
  - Primary activities – Where most of the value for customers is created
  - Support activities – Facilitate performance of primary activities

Figure 4.3: A Representative Company Value Chain
Several factors give rise to differences in value chains of rival companies:
- Different strategies
- Different operating practices
- Different technologies
- Different degrees of vertical integration
- Some companies may perform particular activities internally while others outsource them

Differences among the value chains of competing companies complicate the task of assessing rivals’ relative cost positions.

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**Example: Value Chain Activities for a Bakery Goods Maker**

<table>
<thead>
<tr>
<th>Primary Activities</th>
<th>Support Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain management</td>
<td>Quality control</td>
</tr>
<tr>
<td>Recipe development and testing</td>
<td>Human resource management</td>
</tr>
<tr>
<td>Mixing and baking</td>
<td>Administration</td>
</tr>
<tr>
<td>Packaging</td>
<td></td>
</tr>
<tr>
<td>Sales and marketing</td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
</tr>
</tbody>
</table>

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**Example: Value Chain Activities for a Department Store Retailer**

<table>
<thead>
<tr>
<th>Primary Activities</th>
<th>Support Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise selection and purchasing</td>
<td>Site selection</td>
</tr>
<tr>
<td>Store layout and product display</td>
<td>Hiring and training</td>
</tr>
<tr>
<td>Advertising</td>
<td>Store maintenance</td>
</tr>
<tr>
<td>Customer service</td>
<td>Administrative activities</td>
</tr>
</tbody>
</table>

---
The combined costs of performing a company’s primary and secondary value chain activities identify the major components of a company’s internal cost structure.

What accountants call activity-based costing is used to calculate the costs of performing each value chain activity.

At a minimum, activity-based cost estimates are needed for each broad category of primary and secondary activities in a company’s value chain.

Cost estimates for more detailed activities within these broad classifications may be needed if a company discovers that it has a cost disadvantage vis-à-vis rivals and wants to pin down the exact source or activity causing the cost disadvantage.

The cost of each activity contributes to whether the company’s overall cost position relative to rivals is favorable or unfavorable.

A company’s value chain is embedded in a larger system of activities that includes the value chains of its suppliers and the value chains of whatever wholesale distributors and retailers it utilizes in getting its product or service to end users.

Suppliers’ value chains are relevant because suppliers perform activities and incur costs in creating and delivering the purchased inputs utilized in a company’s own value-creating activities.

The value chains of a company’s distribution channel partners are relevant because

The costs and margins of a company’s distributors and retail dealers represent “value added” and are part of the price the ultimate consumer pays—and thus affect whether buyers view a company’s product/service as being price competitive.
Example: Components of Industry Value Chain System

**Pulp & Paper Industry**
- Timber farming
- Logging
- Pulp mills
- Papermaking
- Distribution

**Home Appliance Industry**
- Parts and components manufacture
- Assembly
- Wholesale distribution
- Retail sales

**Soft Drink Industry**
- Processing of basic ingredients
- Syrup manufacture
- Bottling and can filling
- Wholesale distribution
- Advertising
- Retailing
Example: Components of Industry Value Chain System

Computer Software Industry

Programming
Disk loading
Marketing
Distribution

How Industry Value Chains Fit into Determining a Company's Cost Competitiveness

- Accurately assessing a company's competitiveness entails scrutinizing the costs of activities across the entire industry value chain.
- Activity-based costs are needed for:
  - The major activities in a company's own value chain
  - Supplier activities
  - The activities of distribution allies.
- Once this cost data has been developed, one can then explore whether a company's costs compare favorably or unfavorably with those of key rivals.
- This is where benchmarking comes in.

What Is Benchmarking?

- Benchmarking entails comparing how different companies perform various value chain activities:
  - How inventories are managed
  - How products are assembled
  - How fast it takes to get new products to market
  - How customer orders are filled and shipped
  - Making cross-company comparisons of the costs of these activities
How Benchmarking Works

- Identify the best practices in performing an activity
- Learn how other companies have actually achieved lower costs or better results in performing benchmarked activities
- Figure out what actions to take to improve a company's own cost competitiveness whenever benchmarking reveals that its costs and results of performing an activity are not on a par with what other companies (either competitors or noncompetitors) have achieved
- The tough part of benchmarking is not whether to do it but rather how to gain access to information about other companies’ practices and costs.

What Determines If a Company Is Cost Competitive?

- A company’s cost competitiveness depends on how well it manages its value chain relative to how well competitors manage their value chains
- The three main areas in a company’s total value chain system where company managers can try to create a cost advantage or remedy a cost disadvantage are:
  - A company’s own activity segments
  - Suppliers’ part of the overall value chain
  - The distribution channel portion of the value chain system

Options to Lower the Costs of Internally Performed Value Chain Activities

- Implement use of best practices throughout company
- Redesign the product and/or some of its components to eliminate high-cost components or facilitate speedier and more economical manufacture or assembly
- Relocate high-cost activities to lower-cost geographic areas
- See if high-cost activities can be performed cheaper by outside vendors/suppliers
- Shift to lower-cost technologies
- Innovate around troublesome cost components
- Stop performing activities that add little or no customer value
Options to Correct a Supplier-Related Cost Disadvantage

- Pressure suppliers for lower prices
- Switch to lower-priced substitute inputs
- Collaborate closely with suppliers to identify mutual cost-saving opportunities
  - Just-in-time deliveries from suppliers can often lower inventory and internal logistics costs (and may also allow suppliers to economize on their costs)
- Integrate backward into business of high-cost suppliers and make the items in-house

Options to Correct a Distribution-Related Cost Disadvantage

- Pressure dealer-distributors and other forward channel allies to reduce their costs to make the final price to buyers more competitive with prices of rivals
- Collaborate with forward channel allies to identify win-win opportunities to reduce costs
- Change to a more economical distribution strategy
  - Switch to cheaper distribution channels
  - Integrate forward into company-owned retail outlets

Translating Company Performance of Value Chain Activities into Competitive Advantage

- A company that does a first rate job of managing its value chain activities relative to competitors stands a good chance of achieving sustainable competitive advantage by
  - Performing certain value chain activities more proficiently than rivals (and achieving a resource-based competitive advantage linked to stronger competencies and competitive capabilities)
  - Performing value chain activities more efficiently and cost effectively (and achieving a cost-based competitive advantage)
Question 4: Is the Company Stronger or Weaker than Key Rivals?

- Whether a company is competitively stronger or weaker than key rivals hinges on the answers to two questions:
  - How does the company rank relative to competitors on each important factor that determines market success?
  - Does the company have a net competitive advantage or disadvantage vis-à-vis major competitors?

How to Do a Competitive Strength Assessment

1. Make a list of 6 to 10 of the industry’s key success factors and most telling measures of competitive strength/weakness.
2. Assign weights to each of the measures of competitive strength based on their perceived importance.
3. Rate firm and key rivals on strength measure using rating scale of 1 to 10 (1 = very weak; 5 = average; 10 = very strong).
4. Multiply each strength rating by its importance weight to obtain weighted strength scores.
5. Sum weighted strength scores to get an overall measure of competitive strength for each rival.
6. Based on overall strength ratings, determine overall competitive strength of firm.
Table 4.3: A Representative Weighted Competitive Strength Assessment

<table>
<thead>
<tr>
<th>Key Success Factor</th>
<th>Importance</th>
<th>Strength</th>
<th>Weighted</th>
<th>Strength</th>
<th>Weighted</th>
<th>Strength</th>
<th>Weighted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation/ Image</td>
<td>0.18</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Manufacturing capability</td>
<td>0.19</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Technological skills</td>
<td>0.85</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Dealer network-distribution capability</td>
<td>0.85</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>New product innovation capability</td>
<td>0.85</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Financial resources</td>
<td>0.18</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Relative cost/price</td>
<td>0.34</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Customer service capabilities</td>
<td>0.15</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

**Sum of importance weights:** 1.00

**Weighted overall strength rating:** 5.95 7.70 2.10

**Interpreting the Competitive Strength Scores**

- The higher a company’s overall weighted strength rating, the stronger its overall competitiveness versus rivals.
- The lower a company’s score, the weaker is its ability to compete successfully.
- The sizes of the differences between a company’s score and those of its rivals are indicative of the size of its net competitive advantage or disadvantage vis-à-vis these rivals.

**Strategic Implications of the Competitive Strength Scores**

- A company’s competitive strength scores
  - Pinpoint where it is competitively stronger and weaker vis-à-vis rivals
  - Point directly to the kinds of offensive/defensive actions it can use to exploit its competitive strengths and/or reduce its competitive vulnerabilities.
- When a company has high competitive strength scores in areas where one or more rivals have low scores, it makes sense to consider offensive moves that pit its competitive strengths directly against rivals' competitive weaknesses.
- When a company has low scores on strength measures where one or more rivals have high scores, it makes sense to consider defensive moves to curtail its vulnerability to rivals’ offensive attacks.
Question 5: What Strategic Issues Merit Managerial Attention?

- Involves drawing on the results of both industry and competitive analysis (the 6 analytical questions posed in Chapter 3) and the evaluations of the company’s own competitiveness (Questions 1-4 in this chapter) to compile a “worry list”
- Issues are best couched in such phrases as
  - “How to . . . ?”
  - “Whether to . . . ?”
  - “What should be done about . . . ?”

Identifying the Strategic Issues: Some Possibilities

- How to stave off market challenges from new foreign competitors?
- How to combat price discounting of rivals?
- How to reduce a company’s high costs?
- How to sustain a company’s present growth in light of slowing buyer demand?
- Whether to expand a company’s product line?
- Whether to acquire a rival firm?
- Whether to expand into foreign markets rapidly or cautiously?
- What to do about aging demographics of a company’s customer base?

The Purpose of Compiling a “Worry List”

- The role of the “worry list” is to pinpoint
  - What strategic and competitive challenges confront the company
  - Which competitive shortcomings need fixing
  - What obstacles stand in the way of improving the company’s competitive position and financial performance
  - Identify the specific issues/problems that management needs to address
- The purpose is NOT to list what specific actions to take.
  - Deciding what to do—which strategic actions to take and which strategic moves to make—comes later (after identifying the various strategic alternatives and considering which actions are best).
- A worry list with relatively minor problems/issues suggests the company’s strategy is mostly on track and that fine-tuning of the present strategy will likely be adequate.
- A worry list with major problems/issues signals probable need for major strategy revisions.

A “good” strategic action plan must address “what to do” about each item on the “worry list”!