

# COMM 4PA3

## Week 3



# Agenda

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- SAA Textbook
  - Chapter 3
  - Chapter 4



- Tools: E13-15

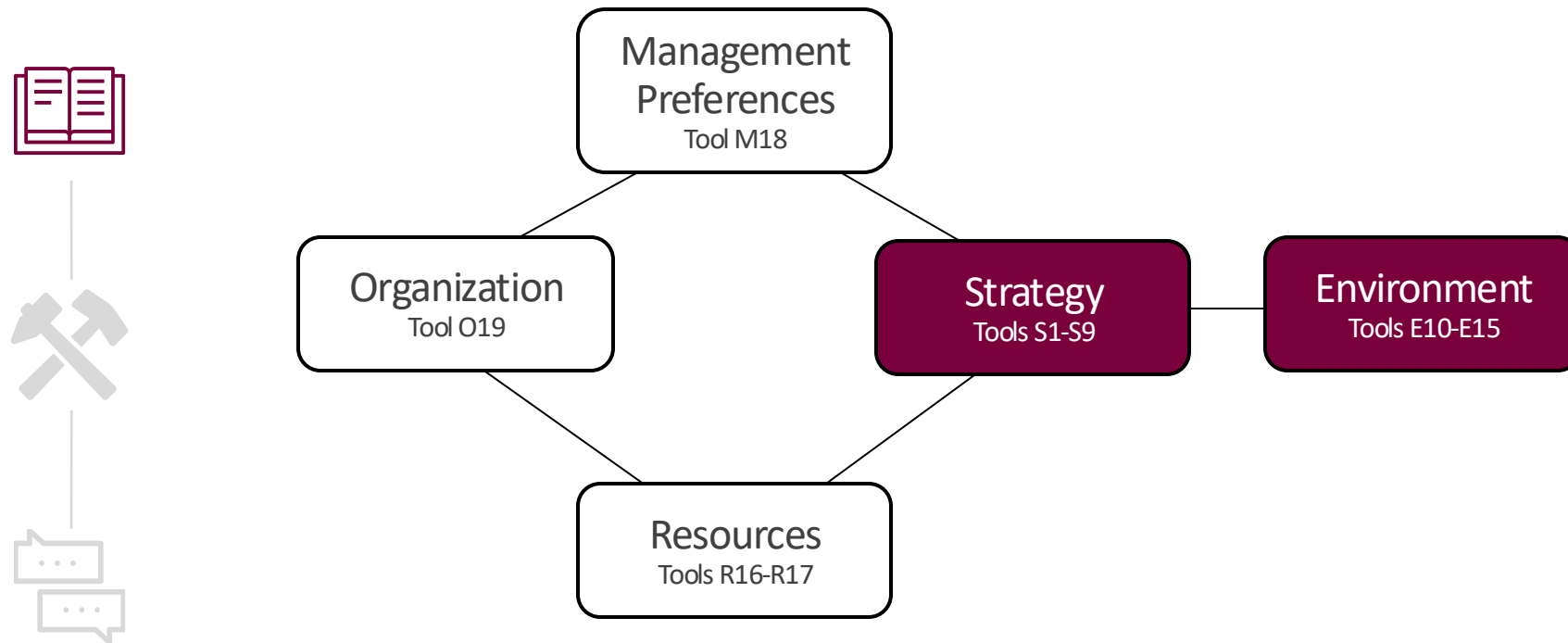


- Case Discussion
  - Canadian Airlines

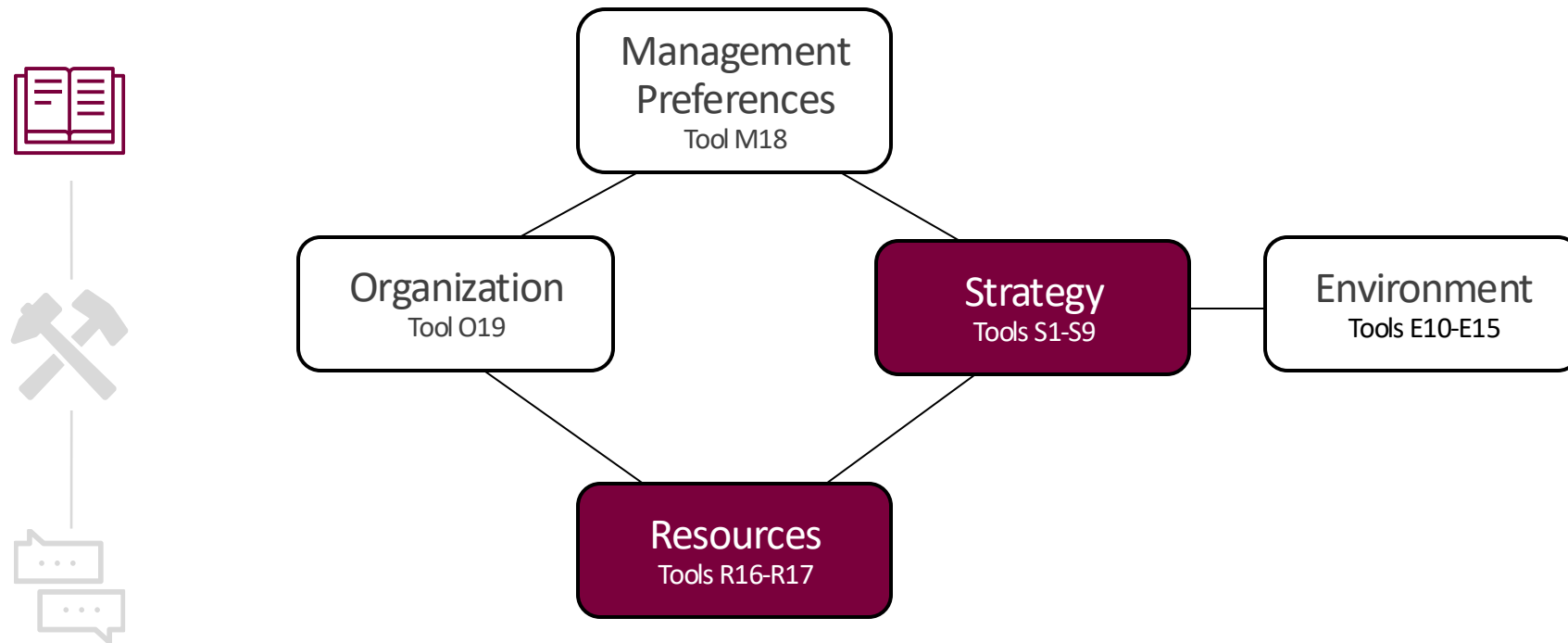


## SAA Chapter 3:

The strategy-environment linkage is the typical starting point in the Diamond-E analysis. Using the tools (E10-15) will allow you to assess trends, threats, and opportunities to determine which business unit strategy best negates threats and capitalizes on opportunities.

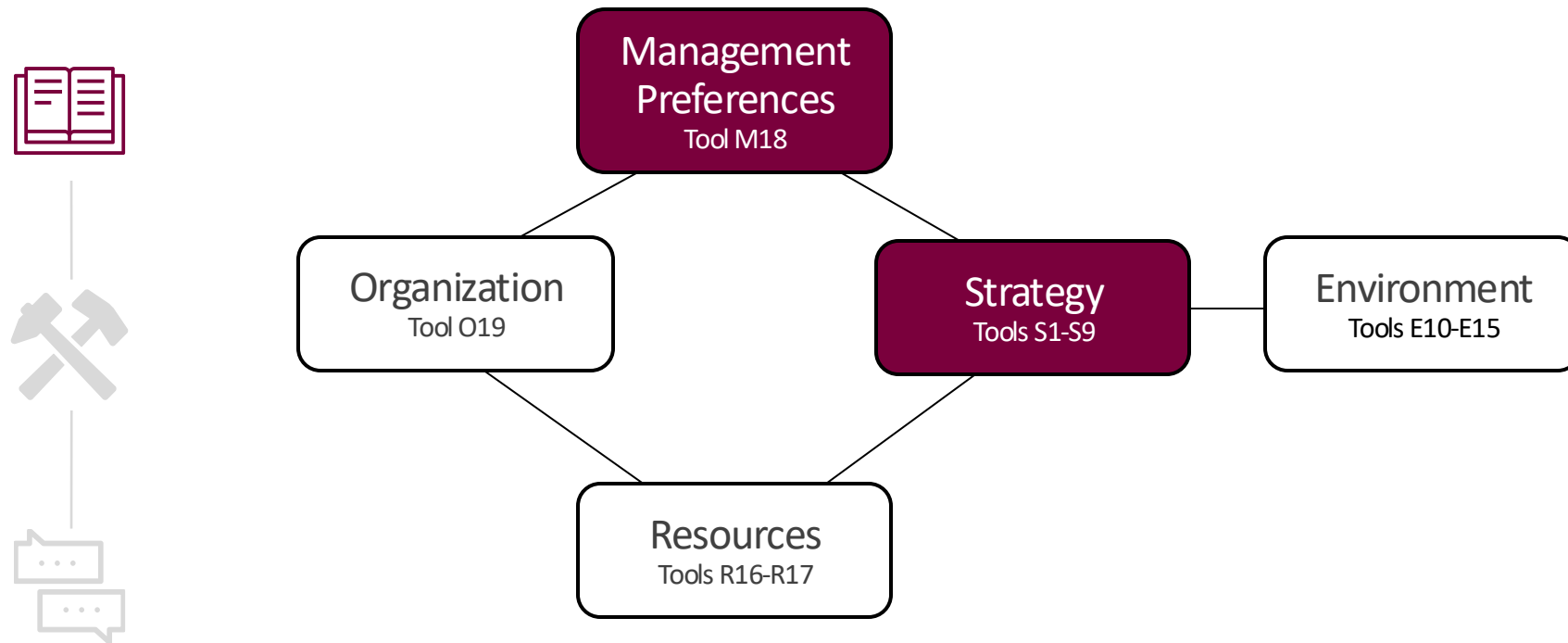


**SAA Chapter 3:** The strategy-resource linkage identifies the required resources for the *current or new strategic proposal* and compares them to one readily available—identifying resource gaps. Next is to look at the costs of closing, probability to do so, and failure for not closing the resource gaps in the gap analysis.

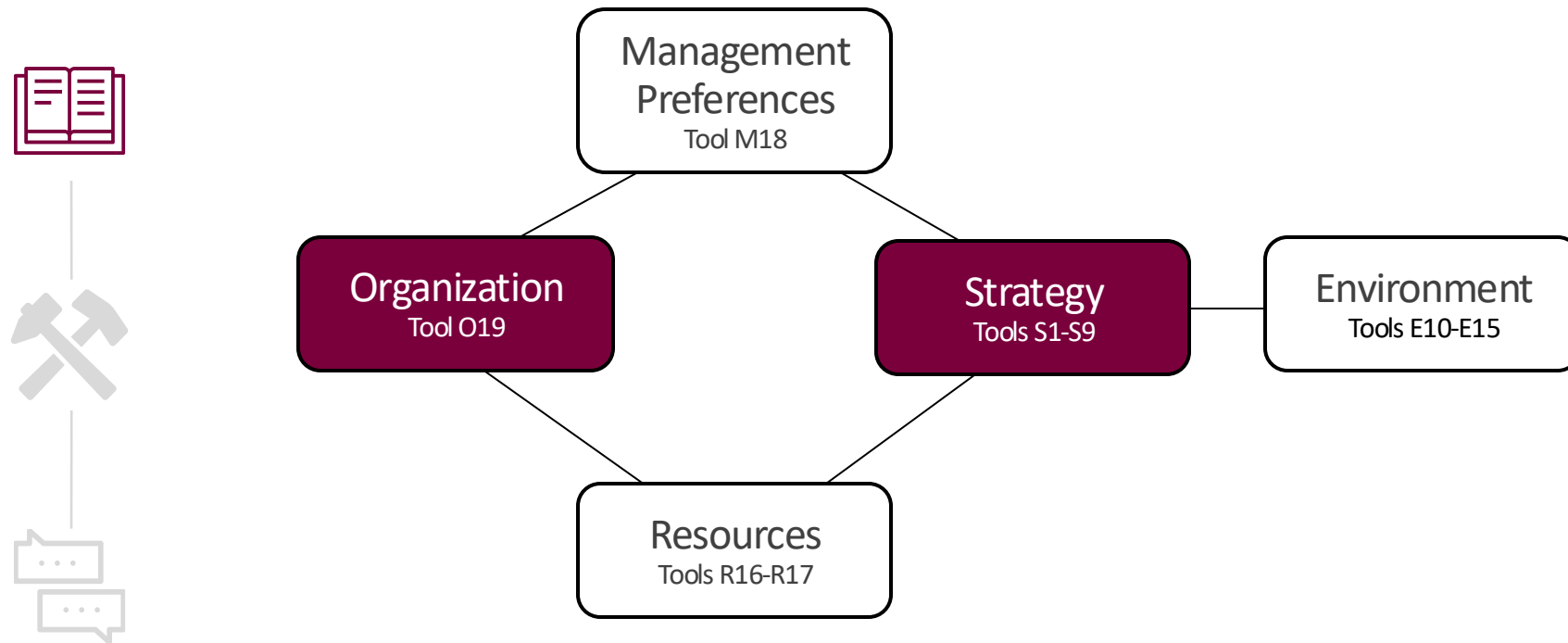


## SAA Chapter 3:

The strategic-management preference linkage identifies the desired preferences consistent with the successful execution of the strategy and compares them to those of the business managers who are critical to the execution process.



**SAA Chapter 3:** The last step on the Diamond-E analysis, the strategy-organization linkage looks at the remaining gaps left from resource and management preference analysis. These variables where gaps may appear include leadership, structure, management processes and culture.

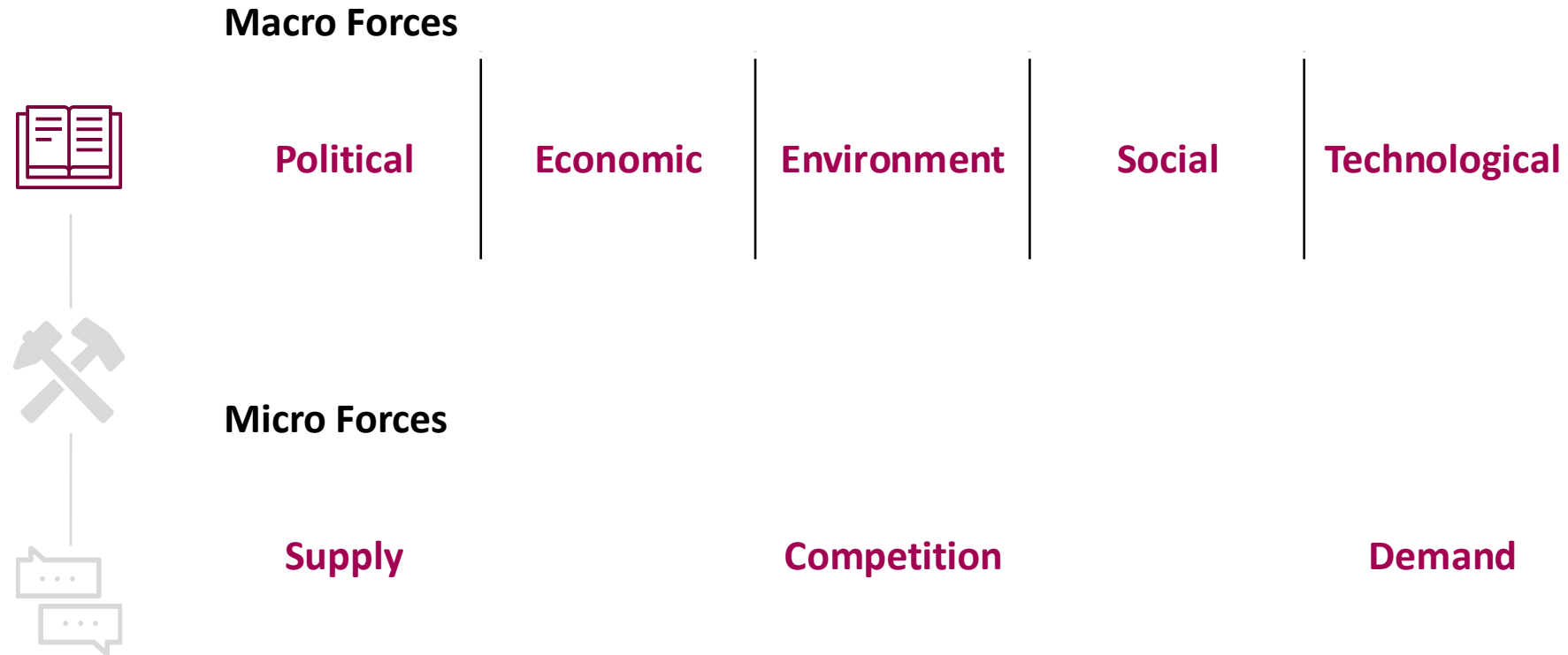


**SAA Chapter 3:** The Diamond-E is the focal point of the more comprehensive **Process of Strategic Analysis**. It progresses from the full review of a business's current performance and strategy of the business, through creation and assessment of strategic options, to decision and execution.



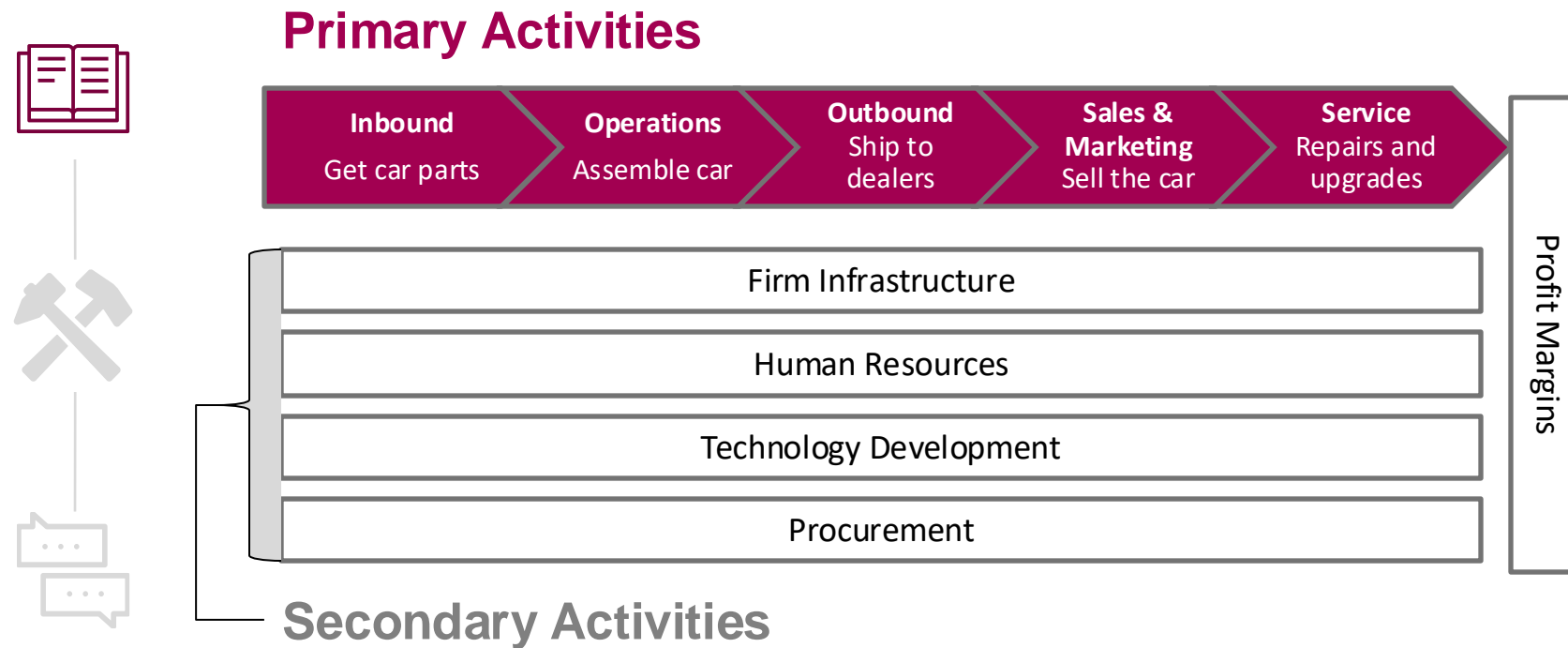
Step	Activities
<b>Step 1: Base Case Analysis</b> Assess the strategic position of the business and the urgency for action.	1. Assess past performance. 2. Identify and evaluate strategy using <b>Diamond-E</b> . 3. Forecast future performance under current strategy. 4. Decide on need, nature, and urgency of change.
<b>Step 2: Strategy Formulation and Testing</b> Develop and evaluate proposals to address business opportunities and challenges.	1. Work from environment and capabilities to generate new proposals. 2. Use the <b>Diamond-E</b> to shape and short-list proposals. 3. Prepare performance forecasts for short-listed proposals.
<b>Step 3: Decision and Execution</b> Commit, implement, and review.	1. Decide on proposal(s) to implement. 2. Move to build commitment and develop capabilities. 3. Implement.

# SAA Chapter 4: PEEST (E11)—political, economic, environmental, social, and technology (can be extended to PESTLE to include legal) are macro level forces that in many respects are early warning signal about changes in the industry. PEEST forces end up effecting the micro level forces: Supply, Competition, and Demand.





**SAA Chapter 4:** Porter's Value Chain examines the set of activities from an industry lens. It is broken into primary and secondary activities with the fundamental principle being that both contribute to a firm's cost as well as to the ability to deliver value to the customers. *It can be used to understand where economic profit lies in the value chain—looking at the Porter's five forces for each link in the chain.*



## SAA Chapter 4: Cooperation and Competition

are two important, yet overlooked, aspect of conducting an environmental analysis that examines how competitors will behave to a strategic decision. Three questions help to predict a competitor's reaction. 1) Will they react? 2) What options will they consider? 3) Which options will they choose? These actions don't always have to lead to negative or zero-sum results (like the results of predatory pricing) and a competitors can choose outcomes to improve the industry for all (i.e. Cola Wars).



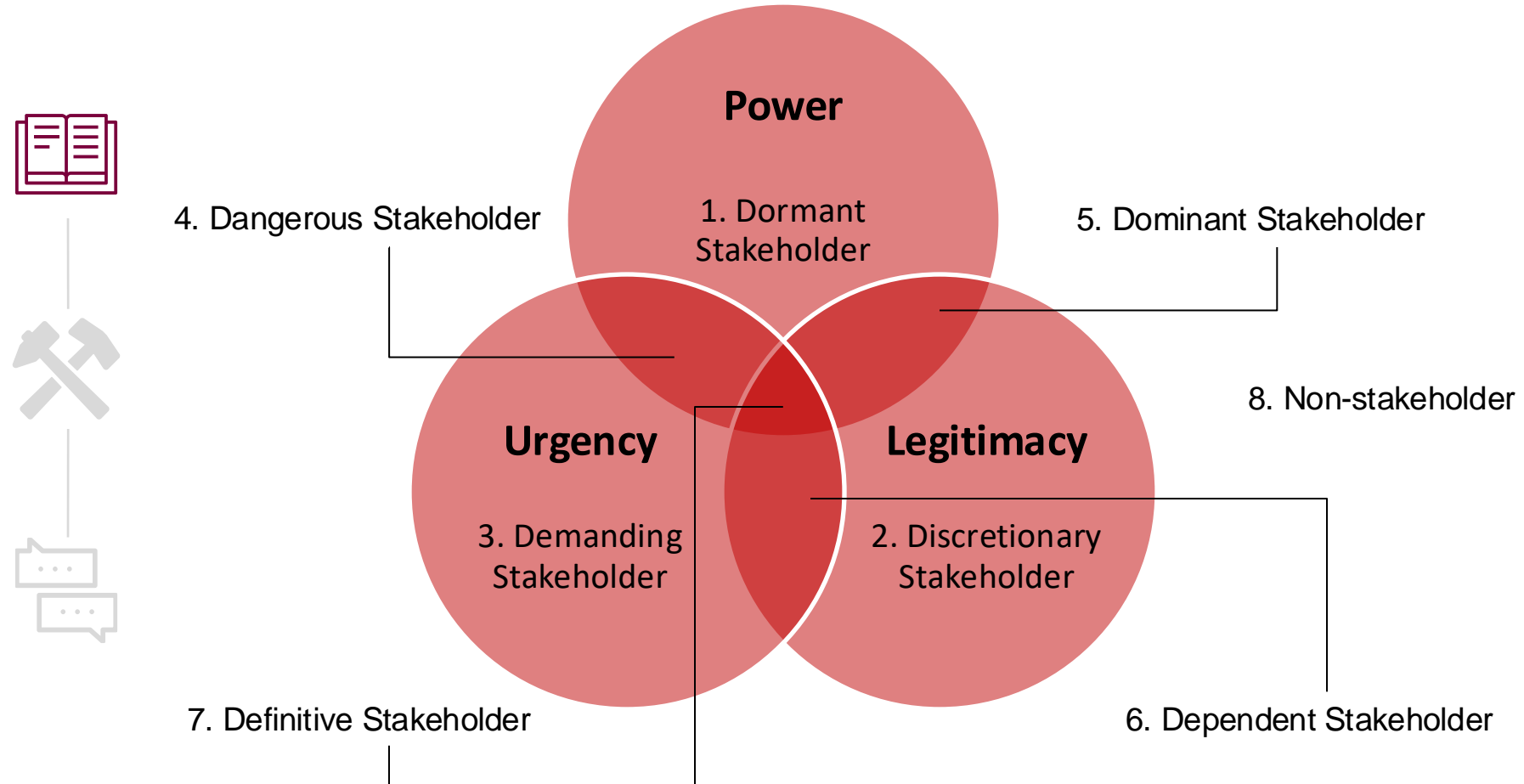
### Cooperate, Compete or Cheat?

Depend on several factors

- 1) Can competitors directly communication/collude?
- 2) Cheating does not lead to large payoffs
- 3) Cheating leads to costly sanctions
- 4) Players are more interested in their payoffs than beating the payoffs of others

*When these do not exist, competition and cheating is more likely.*

**SAA Chapter 4:** The **Stakeholder Analysis (E12)** is concerned with identifying all stakeholders—any person or group who has an interest in the firm’s strategy and can exert influence, both internal to and external to the organization. The analysis needs to define and compare their interests and to take action to align the strategy with their interests (and if not, then assess the impact and how you can deal with it).



# Tools E13-15



**E13 – Industry Structure:** How the industry is structured and how it changing can affect the strategic options



**E14 – Genealogy:** The history and development of companies in the industry.



**E15 – Business Model:** How do companies in the industry earn money? What drives each variable and what are the key success factors in driving those variables favorably?

**Tools E13-15:** It is important to look at how macro-level (PESTLE) forces have changed the **Industry Structure (E13)** and if any anticipated changes to those forces will change how the industry.



### Types of Industry Structures

- Monopoly
- Duopoly
- Oligopoly
- Monopolistic
- Perfect Competition

### Example of Industry Structure Change

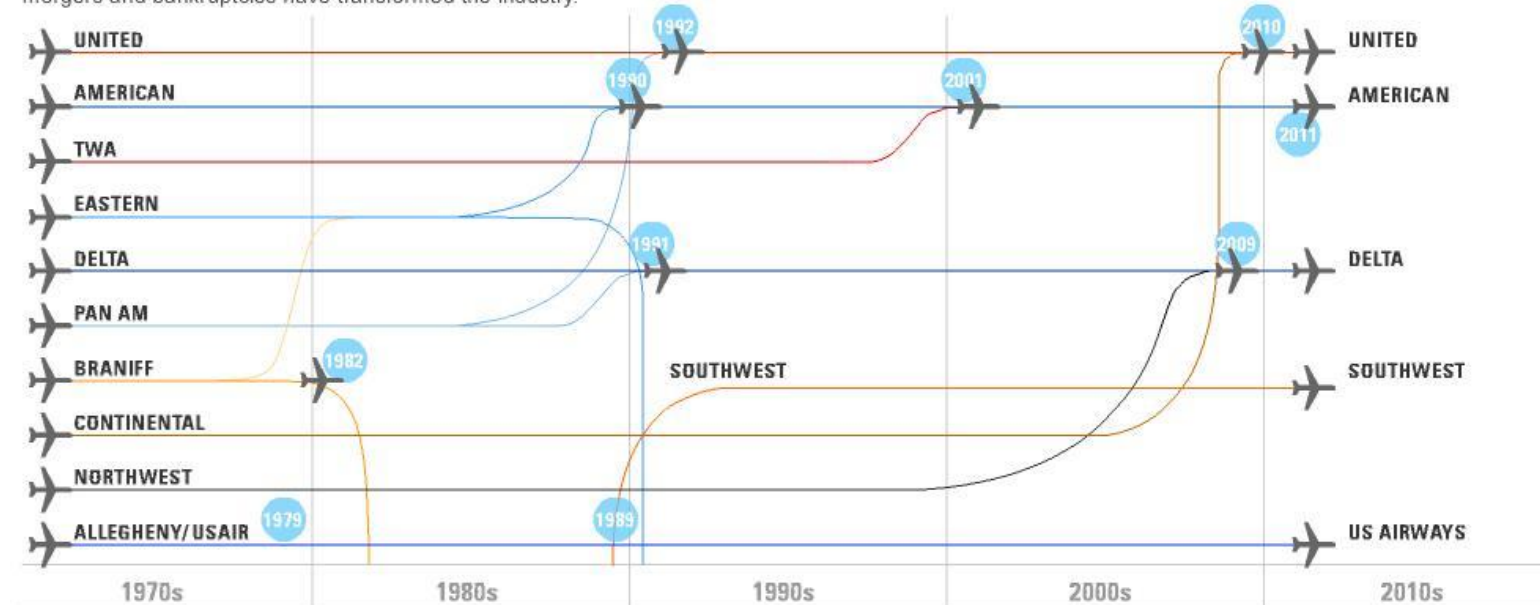
- There used to be many fishing boats in Iceland.
- A fishing quota (political force) limited the number of fish each fisherman could take in a given year.
- Some fishermen weren't able to survive with the quota they were given.
- Larger fishing operations purchase the quota from smaller fishers—shrinking the industry to only a few very large players (Oligopoly).

**Tools E13-15:** **Genealogy (E14)** looks at the history of the industry. Looking back at those companies who succeed and those who's strategies and failed (and why) can provide insight into a current or possible strategy. It is also a way to look at the way the industry structure has changed over time.

## Airline mergers, bankruptcies shrink the skies

American Airlines has filed for bankruptcy court protection. In the past 33 years, mergers and bankruptcies have transformed the industry.

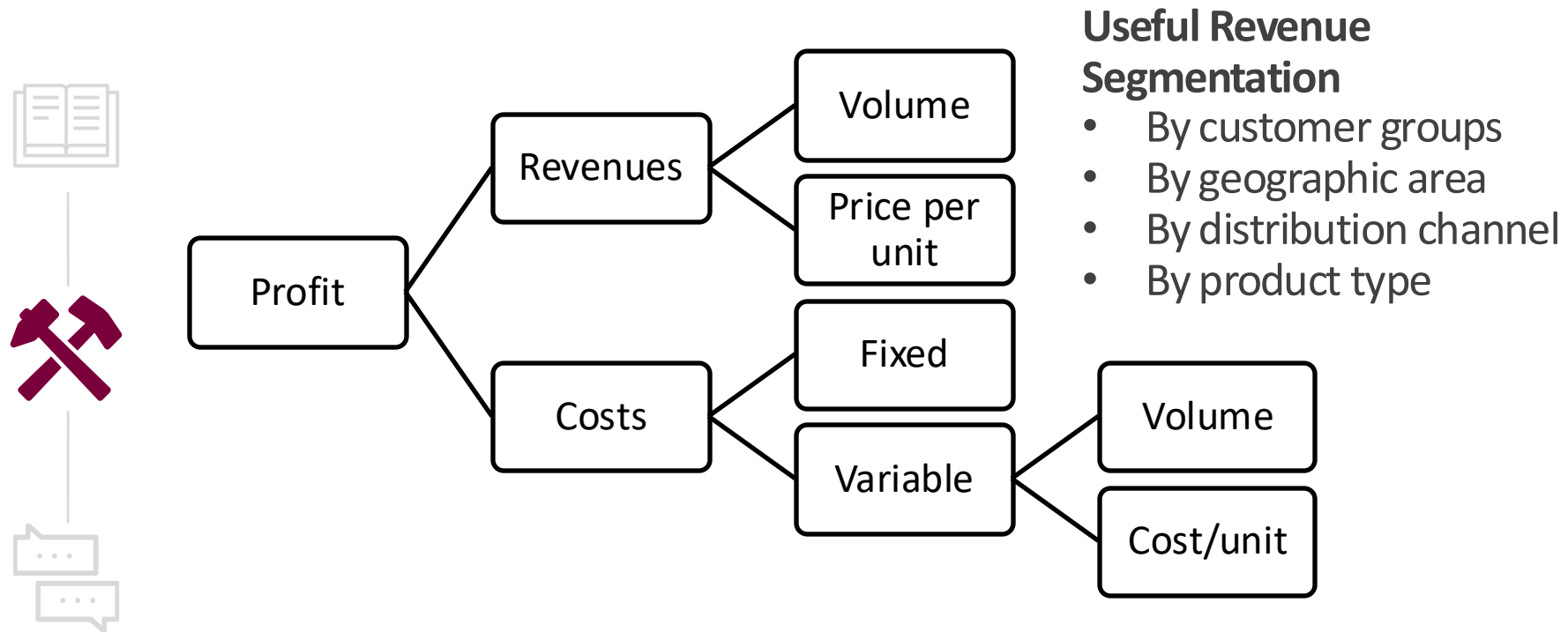
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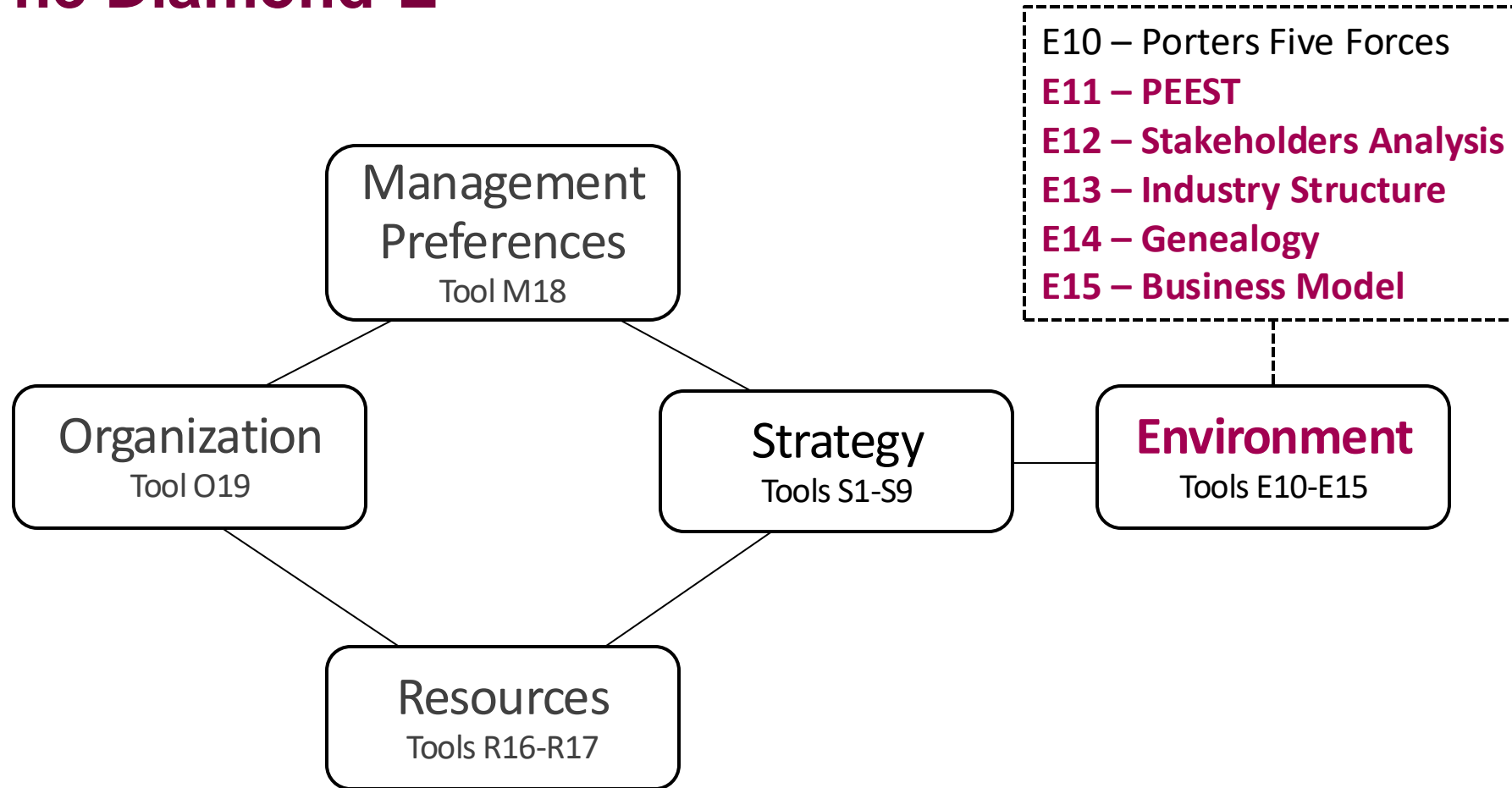
Source: Air Transport Association and USA TODAY research

By Anne R. Carey, Doug Carroll, Barbra Hansen, Denny Gainer, Robert W. Ahrens and Jerry Mosemak, USA TODAY

**Tools E13-15:** But how does it make money? A profit tree can be an important starting point for understanding the drivers that impact a business in an industry makes money; however, the model should be further expanded to show drivers of each variable. This will provide the **Business Model (E15)** for the industry.



# The Diamond-E



Covered Today: Tools E11-15

Next Week (Week 3): Tools R16-17



# Case Discussion: Canadian Airlines



- What is the difference between a regulated and deregulated industry
- What are the implications of deregulation for companies, the government and customers?
- What is your assessment of CA's strategic initiatives during the various phases of its history
- In retrospect, should CA have done something different?

# Case Discussion: Canadian Airlines



- **How does this industry make money?**
- **Conduct a Porter's 5 forces analysis on the industry**
- **How do airlines differentiate in order to compete?**
- **Describe the nature of the rivalry between CA and AC**
- **Choose and defend either Plan A or Plan B**

