STRATEGY

from diagnosis → choice → execution

Based on the provided Strategic Management class notes

What should you leave this class with?

The goal is not to memorize matrices. It is to think and act strategically.

Define strategy as a set of choices that creates a coherent path to winning.

Read the external environment: macro → industry → competitors.

Read the internal environment: resources → capabilities → competitive advantage.

Generate and evaluate strategic options using the **classical toolkit**.

Use **Playing to Win** to turn analysis into a small number of explicit choices.

Translate strategy into execution through BSC / Strategy Map / OKR and change management.

The 4-hour architecture

One story, four chapters, one integrated case.

Part	Focus	Time	Core question
1	Strategy foundations	50 min	What is strategy?
2	Diagnosis	60 min	Where are we now?
-	Break	30 min	-
3	Choice	60 min	Where will we play & how will we win?
4	Execution	50 min	How will we make it happen?
—	Discussion	15 min	Reflect / apply

The strategy system

The notes move from classical analysis toward a modern choice-and-test logic.

CLASSICAL PATH

Vision / Mission / Values

External: PESTEL, Five Forces, CPM, EFE

Internal: VRIO, IFE

Options: SWOT, SPACE, BCG, GE, IE

Select: QSPM

MODERN + EXECUTION

Playing to Win: explicit choices

Test strategic hypotheses

Strategy Map + BSC

OKR for agile execution

Change management + continuous learning

1 | Strategy foundations

From “what we do” to “where and how we choose to win.”

PART 1

Strategy is not a lucky outcome

A result is not evidence of a strategy unless the underlying logic is repeatable.

NOT STRATEGY

- Luck or a one-off event
- Short-term tactical victory
- Doing the same thing faster / cheaper
- Copying the market leader

STRATEGY

- A coherent set of choices
- Creates a distinctive position
- Includes explicit trade-offs
- Produces reinforcing activities

Operational effectiveness ≠ strategy

"Strategy is doing different activities from rivals — or doing similar activities in different ways."

Michael Porter

Operational effectiveness can improve performance but is easy to imitate.

If everyone competes through the same improvement race, industry economics deteriorate (Race to the Bottom).

Strategic advantage requires a distinctive position, not only better execution.

Strategy = choice + trade-off

The most strategic sentence may be: “We will not do X.”

- Rolex: chooses luxury watches instead of expanding into cheaper adjacent products.
- Trade-offs protect a position because serving everyone usually creates contradictions.
- Test: What attractive opportunity are we deliberately saying NO to?

A strategy is a system — not a list of good ideas

The activities must reinforce one another.

Case	Choice	Reinforcing activities	Strategic lesson
Nintendo Wii	Change the game	Motion play + families + lower hardware cost	Create a new basis of competition
Southwest	Low-cost simplicity	No meals + fast boarding + one aircraft type + secondary airports	Trade-offs form a system
Apple	Distinctive capabilities	Brand + design + innovation + outsourced manufacturing	Concentrate resources where they matter

Vision, Mission, Values

These concepts frame the strategic direction before detailed analysis.

VISION — FUTURE

- Ambitious and clear
- Measurable and time-bound
- Inspiring
- Culturally authentic
- Single-minded and vivid

MISSION — PRESENT

- Why do we exist today?
- Define the customer need, not merely the product.
- Google: organize the world's information.

Values

Act as guardrails for choices and behavior.

Value Gap: turn aspiration into a strategic problem

Strategy exists partly to close the gap between trajectory and ambition.

1. **Forecast**: where will the business land if the current trajectory continues?
2. **Aspiration**: where do we want to be, quantitatively and by when?
3. **Value Gap**: the distance between the two.
4. **Strategy**: a coherent set of choices and actions designed to close the gap.

2 | Strategic diagnosis

Read the outside world first — then the organization itself.

PART 2

Good diagnosis starts with good comparison

A snapshot is rarely strategic information.

Need Data and Strategic Analysis:

- **Trend** > not snapshot: interpret movement over time.
- **Benchmark:** compare with competitors, industry average and global best practice.
- **Relative progress matters**: improving yourself while falling behind the frontier is not strategic progress.
- **Data still needs interpretation**; worldview and assumptions shape decisions.

PESTEL: scan the macro environment

Six lenses for identifying forces outside direct organizational control.

P	E	S	T	E	L
Political	Economic	Socio-cultural	Technological	Environmental	Legal
Stability / sanctions	Inflation / interest / demand	Demographics / lifestyle	AI / platforms / IoT	Water / energy / pollution	IP / trade / regulation

Teaching move: do not list trends. For each trend ask: “**So what?** Which opportunity or threat does this create, for whom, and when?”

Porter’s Five Forces: understand industry economics

The question is not “Who are our competitors?” but “Why is this industry profitable or unprofitable?”

Force	Strategic question
Rivalry	How intense is competition?
New entrants	How easy is it for new players to enter?
Suppliers	Who can raise our costs or constrain us?
Buyers	Who can push down price / demand more value?
Substitutes	What other solution can satisfy the same need?

HHI: quantify market concentration

A useful complement to qualitative industry analysis.

"HHI = Σ (market share)²"

Use percentage points, not decimals

< 1500 → competitive

1500–2500 → semi-competitive

> 2500 → concentrated / monopolistic structure (as framed in the notes)

Competitor analysis: map before you score

Direct competitors are defined by the **customer's perception** of similarity.

POSITIONING MAP

Choose two purchase criteria.

Plot brands as customers perceive them.

Close positions imply direct competition.

Look for crowded spaces and underserved positions.

CPM — COMPETITIVE PROFILE MATRIX

List industry Critical Success Factors(CSFs).

Assign weights totaling 1.

Rate each company 1–4.

Weighted score = weight × rating.

Benchmark your competitive profile.

EFE: compress external diagnosis into a decision input

The External Factor Evaluation(EFE) asks: how well is our current strategy responding to the external environment?

External factor	Weight	Rating	Weighted score
Opportunity 1	0.xx	1–4	W×R
Opportunity 2	0.xx	1–4	W×R
Threat 1	0.xx	1–4	W×R
Threat 2	0.xx	1–4	W×R
TOTAL	1.00	—	Σ weighted

In the notes: > 2.5 indicates a generally effective response; < 2.5 signals weak response.

Strategic decisions are vulnerable to cognitive bias

Sunk cost is especially dangerous when organizations must choose whether to continue.

THE TRAP

We already spent the money.

We invested five years.

We have watched five episodes.

We cannot abandon the project now.

THE BETTER QUESTION

What are the future costs?

What are the future benefits?

What is the best use of resources from today?

Would we choose this path if we started now?

Internal analysis: move from telescope to microscope

Know yourself before deciding how to compete.

External analysis asks: What is changing around us?

Internal analysis asks: What can we uniquely do well?

Look for resources, capabilities, processes, people, technology, data and organizational systems.

Convert observations into strengths and weaknesses that matter for competition.

Two lenses on competitive success

The notes contrast resource advantage with capability / activity advantage.

RESOURCE-BASED VIEW

Advantage comes from superior resources.

Financial, human, technological and physical assets matter.

Question: What do we have that others do not?

ACTIVITY / CAPABILITY VIEW

Advantage comes from doing activities better or differently.

Processes, innovation and execution matter.

Question: What can we repeatedly do that others struggle to copy?

VRIO / VRINE: when does a resource/activity become an advantage?

A resource matters strategically only if it survives the full test.

Test	Question
V — Valuable	Does it exploit opportunities / neutralize threats?
R — Rare	Do few competitors possess it?
I — Inimitable / Non-substitutable	Is it hard to copy or replace?
O — Organized / Exploitable	Can the organization actually capture its value?

IFE: summarize internal strengths and weaknesses

The internal counterpart to EFE.

Internal factor	Weight	Rating	Weighted score
Strength 1	0.xx	3–4	W×R
Strength 2	0.xx	3–4	W×R
Weakness 1	0.xx	1–2	W×R
Weakness 2	0.xx	1–2	W×R
TOTAL	1.00	—	Σ weighted

Rating reflects how the company manages the factor: 4 = major strength … 1 = major weakness. 2.5 is the reference midpoint in the notes.

3 | Strategic choice

Turn diagnosis into explicit choices — and distinguish analysis from strategy.

PART 3

Three levels of strategy

Different levels answer different questions.

Level	Core question	Typical decisions	Strategy/Tactics
Corporate	Where should we compete?	Enter / exit businesses; portfolio; acquisitions	Diversification, Integration, defensive strategies, joint venture, Merger & Acquisition
Business	How should we win here?	Positioning; cost vs differentiation; target segment	Porter 5 generic strategies, blue ocean, intensive strategies, first mover advantage, outsourcing
Functional	How must each function support the business strategy?	Marketing, HR, finance, operations, data, technology	

Porter’s generic strategies

Competitive advantage comes primarily **from lower cost or differentiation** — applied broadly or to a focused niche.

Scope	Cost	Differentiation / Best value
Broad	1-Low-cost / 2-best-value	3-Broad differentiation
Focus	4-low cost for special users	5- best value / differentiation

Willingness to Pay (WTP) is central: differentiation works when added customer value exceeds the cost of creating it.

Blue Ocean: change the basis of competition

Instead of winning a crowded game, redesign the game.

RED OCEAN

Compete for existing demand.

Benchmark rivals.

Fight on familiar dimensions.

Price pressure is common.

BLUE OCEAN

Create / unlock new demand.

Target overlooked customers.

Reconstruct value.

Nintendo Wii, Cirque du Soleil, Grameen Bank in the notes.

Ansoff: four growth directions

A simple map for growth choices.

	Existing product	New product
Existing market	Market penetration	Product development
New market	Market development	Diversification

Penetration: more of what we already sell to current customers.

Market Development: new customers / geographies.

Product development: new products for existing customers.

Diversification: new product + new market.

Corporate strategy: growth, integration and defense

These choices determine the shape of the portfolio and value chain.

INTEGRATION / GROWTH

- Backward integration → suppliers
- Forward integration → distributors / retail
- Horizontal integration → competitors
- Diversification → new businesses

DEFENSIVE

- Retrenchment → reduce scope / cost
- Divestiture → sell a business
- Liquidation → exit / close

The classical strategy formulation machine

Three stages: input → matching → decision.

Stage	Purpose	Key tools
1. Input	Structure what we know	EFE + IFE + CPM
2. Matching	Generate strategic options	SWOT + SPACE + BCG + GE/McKinsey
3. Decision	Select among options	IE + Grand Strategy + QSPM

Matching tools: turn facts into options

These tools help create candidate strategic directions.

SWOT

SO: use strengths to capture opportunities.

ST: use strengths to defend against threats.

WO: overcome weaknesses to capture opportunities.

WT: reduce exposure / defend.

SPACE

Financial strength (FP)

Competitive position (CP)

Industry strength (IP)

Environmental stability (SP)

Output: aggressive / competitive / conservative / defensive.

Portfolio tools: BCG, GE/McKinsey and IE

Useful when the strategic question is about a **portfolio of businesses**.

Tool	Axes	Typical strategic implication
BCG	Relative market share × market growth	Stars / Cash Cows / Question Marks / Dogs
GE / McKinsey	Industry attractiveness × business strength	Invest / Select / Harvest / Divest
IE	IFE score × EFE score	Grow / Hold / Harvest or Divest

QSPM: make the final choice more explicit

Quantitative Strategic Planning Matrix (QSPM)

Factor	Weight	Strategy A Attractiveness Score	A Total Attractiveness Score	Strategy B Attractiveness Score	B Total Attractiveness Score
Factor 1	0.xx	1–4	W×AS	1–4	W×AS
Factor 2	0.xx	1–4	W×AS	1–4	W×AS
…	…	…	…	…	…
TOTAL	2.00 max	—	Σ TAS	—	Σ TAS

The notes frame the highest total attractiveness score as the preferred option. Maximum possible total = 8 under the stated weighting convention.

Two philosophies of strategic thinking

The class contrasts the classical model with a modern, problem-driven approach.

CLASSICAL

Analyze first.

Generate many options.

Score and compare.

Useful for structure and governance.

Risk: false precision / excessive complexity.

MODERN — PLAYING TO WIN

Make a few consequential choices.

State the logic of winning.

Test strategic hypotheses.

Useful for speed and ambiguity.

Risk: choices without enough diagnosis.

Playing to Win: the Strategic Choice Cascade

Strategy becomes a coherent set of linked choices.

1	2	3	4	5
Winning Aspiration	Where to Play	How to Win	Core Capabilities	Management Systems
Why do we exist to win?	Which customers / geographies / channels?	What advantage will win there?	What must we be uniquely good at?	What routines / metrics sustain it? People,technology,process

The cascade is iterative: if capabilities cannot support the choices, revisit the choices rather than forcing execution.

Case: Olay — strategy through a better choice of market

The notes use Olay to show how segmentation, value and capabilities connect.

- Reframed target: women 35+ concerned about early signs of aging.
- Created a product with prestige-like performance at an accessible price.
- Pricing at $18.99 helped bridge mass-market credibility and luxury appeal — “masstige.”
- Strategic lesson: the win came from the configuration of choices, not a single product feature.

Playing to Win as a workshop

The notes turn strategy into a facilitated problem-solving process.

Workshop	Core work	Output
1. Prepare	Document current state	Shared fact base
2. Create future	Problem → options → reverse-engineer success → barriers & tests	Testable strategic choices
3. Decide	Review evidence + leadership consensus	One-page strategy ready for execution

4 | Execution & adaptation

A strategy that cannot change behavior is only a document.

Why strategy execution fails

The class emphasizes the gap between strategic intent and everyday behavior.

- No strategy owner
- No correlation with bonus and reward
- Functions work in silos rather than around strategic themes. No cross-functional collaboration.
- Being ok with underperformance
- Strategy stays at the top and never reaches operations.
- Execution is treated as a project instead of a continuous management process.

Execution Premium: strategy as a management cycle

Norton & Kaplan frame execution as continuous Plan → Execute → Control & Learn.

PLAN	EXECUTE	CONTROL & LEARN
Translate strategy into objectives.	Align organization and operations.	Monitor results.
Define measurable outcomes.	Allocate resources.	Learn from success / failure.
Build strategic logic.	Run initiatives.	Adapt strategy to new conditions.

Balanced Scorecard (BSC): four perspectives

A “tree” metaphor: roots → process → customer → financial outcomes.

it is a way to turn strategy into measurable objectives and actions.

Perspective	Strategic question
Learning & Growth	What capabilities, people, information and culture must we strengthen?
Internal Processes	Which processes must excel?
Customer	What value proposition must customers experience?
Financial	What outcomes must the business ultimately deliver?

Strategy Map: tell the causal story

A good strategy map makes the logic of value creation visible.

Capabilities → stronger strategic processes → distinctive customer value → financial outcomes.

Objectives should form cause-and-effect chains, not a random list of KPIs.

Strategic themes break silos and organize cross-functional work.

Cascading translates enterprise-level objectives into business, team and individual contributions.

OKR: connect strategy to agile execution

OKR is based on MBO. OKR is especially useful for smaller, technology-driven and high-uncertainty environments.

	OKR	KPI	BSC
Purpose	Stretch goal-setting	Performance monitoring	Strategic alignment + execution
Structure	Objective + Key Results	Metric / target	Objectives + measures across 4 perspectives
Best fit	Agile / uncertain	Operational health	Medium / large organizations
Core question	What ambitious outcome will we achieve?	How are we performing?	How does strategy create value?

OKR mechanics: ambition + measurable evidence

Keep the distinction between a goal and the evidence of achievement. 60% bottom up

OBJECTIVE

Qualitative.

Clear and motivating.

Challenging / ambitious.

KEY RESULTS

Quantitative.

Measurable and time-bound.

Show whether the objective was achieved.

Example: 15% market share in a target region.

The notes emphasize a 60–70% achievement zone for stretch goals; OKRs should not become disguised task lists.

In 3 stage: individual, team, business

Change management: strategy requires behavior change

Kotter's eight steps provide the change engine around the strategic system.

1–4	5–8
Create urgency	Remove barriers
Build coalition	Create short-term wins
Create / communicate vision	Sustain acceleration
Align people around the change	Anchor change in culture

The notes also use the Rider / Elephant metaphor: data and direction help the rational side; motivation and emotional momentum help the human side.

The integrated strategy playbook

If you remember only one page, remember this flow.

1	2	3	4	5	6
Clarify	Diagnose	Choose	Test	Translate	Adapt
Vision / mission / values	PESTEL / Five Forces / VRIO	Where + how to win	Strategic hypotheses	BSC / OKR / initiatives	Review / learn / change
What matters?	What is true?	What will we choose?	What must be true?	How will work change?	What changed?

15-minute mini-case: make one strategic choice

Use any business you know. Do not try to complete every matrix.

1. Define the strategic problem in one sentence.
2. Name 2 major external shifts (PESTEL) and 2 industry forces.
3. Name 2 distinctive capabilities and test one through VRIO.
4. Choose one target segment / arena.
5. Complete: “We will win by ______ for ______, because ______.”
6. Name one thing you will explicitly NOT do.

Debrief: what makes the choice strategic?

Use these questions to challenge the group.

- Is the choice distinctive, or could every competitor say the same thing?
- Does it contain a real trade-off?
- Do the capabilities support the chosen way to win?
- Does the activity system reinforce the choice?
- Can we translate it into measurable outcomes and changed behavior?
- How will we know within 3–6 months whether the strategic logic is working?

Strategy is choice.

Choice creates focus.

Focus creates a system.

The system creates advantage.

Execution makes it real.

Learning keeps it alive.

End of 4-hour Strategy Overview