

Strategy 101

January 9, 2004

Objectives

- *Quick* introduction to strategy tools for case interviews.
- How to survive (or excel) at these interviews.
- My own advice (perhaps unsolicited) on these interviews.
- Teaser for your S290 class.

What this is NOT!

- Comprehensive look at strategy.
- Substitute for your S290 class.
- *All-purpose* template for any interview (even case interviews).
- Comprehensive approach for making strategic business decisions.

Interview Case Studies

- **Change** in industry structure:
 - New technology or product
 - Entry or exit
 - Deregulation
 - Cost shock
- **Change** in firm strategies:
 - By a competitor or firm itself.
- Something wrong but not sure what – what has **changed**?

Your Objective

- Help your “client” respond to this **change . . .**
- In the completely artificial setting of a 15-minute conversation with someone you have never met.

Motivating Example



Mileage Plus



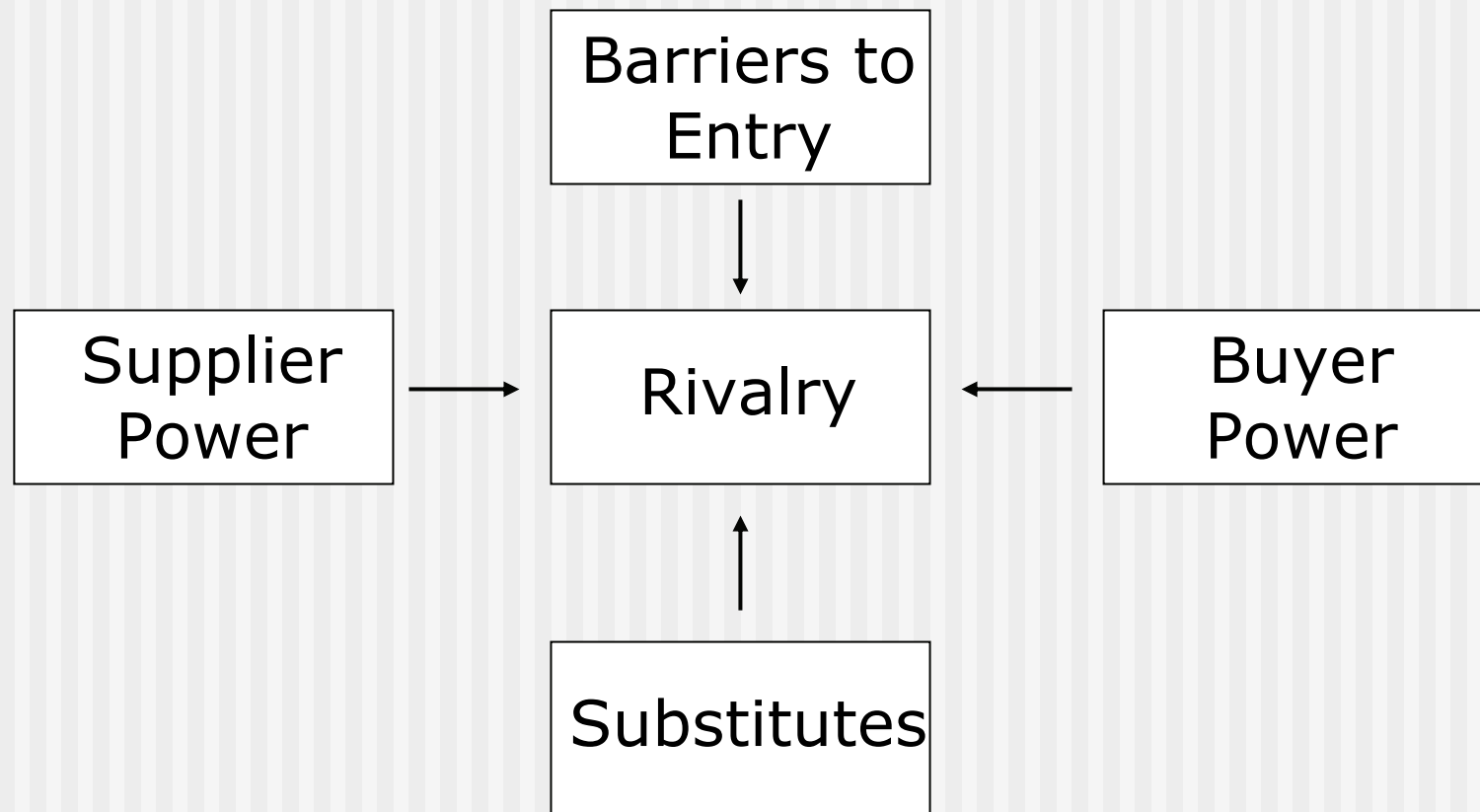
Think in Levels

- Industry
- Firm
- Within the firm

- **REMAIN CALM!**

INDUSTRY LEVEL TOOL 1

Tool 1 – 5 Forces



Substitutes

How does the change affect the availability or goodness of substitutes for industry's product?

Substitutes – Example

- Main substitutes for air travel: driving, bus, train.
- These are largely unaffected by introduction of United's FF plan.

NOT MUCH CHANGE

Supplier Power

Does the change increase or lower suppliers' ability to extract profits from firms in industry?

Supplier Power – Example

- Main suppliers to airlines: labor, fuel, aircraft manufacturers, airports.
- These are largely unaffected by introduction of United's FF plan.

NOT MUCH CHANGE

Barriers to Entry

Does the change lower or raise the barriers to entry in the industry?

Barriers to Entry – Example

- Harder to steal customers away if they have built up miles on United.

SLIGHTLY HIGHER BTE

Buyer Power

Does the change increase or lower firms' leverage over customers?

Buyer Power – Example

- A customer's decision quite different after they have accumulated miles.
- Less likely to defect from United.
- Much more “locked-in” than before.

BIG! – LOWER BUYER POWER

Buyer Power – Extra Credit

- Subtle point:
 - Business travelers value FF plans the most.
 - Decision maker choosing airline often different than entity paying.

EVEN BETTER!

Rivalry

Does the change “soften” or intensify competition among firms in the industry?

Rivalry – Example

- United will compete less aggressively with other airlines for customers that have built up miles.

BIG! DECREASE IN RIVALRY

How to Use

- Means of organizing your thoughts.
- Fairly comprehensive – so don't forget anything big.

Warning!

- Don't use like a laundry list:
 - Make it a conversation.
 - Not a regurgitation of Porter's 5 forces.
- Focus on what is important.
- Ask questions to get information.

Add-Ons

- Potential Industry Earnings (PIE):
 - Are consumers willing to pay relative to cost? (Webvan)
- Complements (gasoline stations and mini-marts)
- Government (spectrum allocation)

Potential Industry Earnings

Is consumers' willingness to pay great enough to offset costs of supplying?

PIE – Example

- If can restrict awards to flights with excess capacity then marginal cost close to zero.
- Reason for restrictions.

ROOM FOR PROFITS

**FIRM LEVEL
TOOL 2**

Tool 2 – Firms' Positions

- Who is best positioned to take advantage of (or survive) the change?
- How will change affect firm's position vis-à-vis its competitors?

Firms' Positions – Example

- Consumers want FF plans on airlines that have more destinations.
- Airlines with large route structures (like United) benefit vis-à-vis smaller carriers.
- Subtle point: especially attractive to business travelers.

**FIRM LEVEL
TOOL 3**

Tool 3 – Sustainability

- Does the change make the firm's CA more or less sustainable:
 - Less or more unique?
 - Less or more imitable?
- Who is likely to imitate?:
 - Current competitors
 - Large customers/suppliers
 - Potential entrants

Sustainability – Example

- Other carriers (especially large) will likely copy.
- Will industry structure be made worse or better off?:
 - Carriers start to compete on FF plans or
 - Customers naturally align with particular carriers.

Summary

- Think in Levels
- Three main tools:
 - 5 Forces (Industry)
 - Firms' Positions (Firm)
 - Sustainability (Firm)
- Within the firm: if ask about implementation.

Parting Thoughts

- Don't get discouraged:
 - My experience.
- Good Luck!