Chapter 1 - Nature of Strategic Management

Overview

Chapter 1 introduces the basic terms in strategic management. This chapter presents the comprehensive model for strategic planning that appears in each subsequent chapter and provides a unifying, logical flow for the entire textbook. This chapter describes the benefits of doing strategic planning, the drawbacks of not doing strategic planning, and the pitfalls of doing strategic planning incorrectly.

Learning Objectives:

1. Discuss the nature and role of a chief strategy officer (CSO).
2. Describe the strategic-management process.
3. Explain the need for integrating analysis and intuition in strategic management.
4. Define and give examples of key terms in strategic management.
5. Discuss the nature of strategy formulation, implementation, and evaluation activities.
6. Describe the benefits of good strategic management.
7. Discuss the relevance of Sun Tzu's *The Art of War* to strategic management.
8. Discuss how a firm may achieve sustained competitive advantage.

Teaching Tips

1. Spend about 40 minutes going over the comprehensive strategic management model in Figure 1-1, highlighting each component part with examples. This is the best way to cover the terms introduced in the chapter. Pull up the new and improved author website for this textbook, because it has great resources for students. The URL is www.strategyclub.com

2. The Edward Deming quote mentioned in Chapter 1 (In God We Trust, All Others Bring the Data) is vitally important in this course, because students tend to use vague terms throughout their case analysis. Vagueness is detrimental to development of any strategic plan. Therefore, highlight and emphasize the relevance and importance of the Deming quote and tell students that vagueness is disastrous in this course. Strategies must be formulated to the extent possible on factual, specific, underlying key internal and external factors, rather than trying to formulate strategies based on general statements, opinion, or intuition.

3. Highlight Figure 1-2 on "the benefits of doing strategic planning." Use that exhibit to emphasize the many benefits of doing strategic planning, as well as the drawbacks of not doing strategic planning.

4. Ask students to raise their hand if they played football, basketball, or soccer for the college/university. Ask several of those athletes to "tell the class how important having a good game plan is to the success of an athletic team." Associate their answers to the importance of a business having a good game plan, i.e., strategic plan.

5. Regarding the "Comparing Business and Military Strategy" section, emphasize to students that there are countless examples in military history where a superior army was defeated by a smaller army that had a better strategic plan. The famous general, Alexander the Great, who never lost a battle, said (paraphrased): "I'd rather face an army of lions led by a sheep, than an army of sheep led by a lion." That quote emphasizes the importance of strategic planning, and having an excellent strategist.

6. All 48 end-of-chapter review questions are excellent to go over in class. Sometimes in class, the authors will assign every student a question and give the class 10 minutes to develop answers and then let each student give the class the answer, and then comment on the answer (answers to all questions are given later in this manual). This is a great way to promote teacher/student interaction.

7. Ask students to read the PepsiCo Cohesion Case presented after Chapter 1 because a third of all the end-of-chapter exercises apply chapter concepts to the PepsiCo case – thus preparing students for developing a case analysis on their assigned company. Divide students into 3 or 4 person teams within the first two weeks of class and assign to them one of the 29 cases in the book, and schedule a day for the teams to each give a 20 minute oral presentation revealing their recommended three-year strategic plan for the firm. The authors and most professors using this book use this approach.

8. The authors' favorite exercise at the end of Chapter 1 is 1D titled "Strategic Planning for My University." You could spend a whole class day on this exercise alone. Definitely spend some time on this exercise because associated exercises at the end of each chapter apply strategy concepts to your college/university. Students are very knowledgeable about their university and their opinions differ widely as to strengths/weaknesses and opportunities/threats/strategies. Thus, spending class time working through this exercise will reveal to students how opinions vary regarding the importance of various factors/issues; opinions also vary in companies doing strategic planning. We use this exercise also to facilitate teacher/student interaction as well as student/student interaction, which is especially beneficial to do early in the semester.

9. It is important to spend some class time also on Exercise 1B that applies the strategic management process to the PepsiCo Cohesion Case. Make sure students understand the basic strategic planning process as applied to PepsiCo and revealed in that exercise. Associated exercises at the end of other chapters utilize the information obtained from Exercise 1B and collectively help prepare students for performing case analysis on their assigned company.

10. Read the "Special Note to Students" at the end of this chapter and explain its importance to students.

11. Skip over to the last three pages in book (before the cases start) and go through that basic timeline/outline for a strategic management case analysis – so students will know what is expected of them in terms of preparing their case analysis/project for the course. Refer back to these three pages often in the course.

12. For the first time ever, the Excel Student Template is available FREE for students at the new and improved author website at www.strategyclub.com. Your students will find this template to be immensely helpful in this course. Plus, three example strategic management case projects provided are there as a guide for students to follow.

Answers to End-of-Chapter Review Questions

1. Strengths and weaknesses should be determined relative to competitors, or by elements of being, or relative to a firm's own objectives. Explain.

Answer: This is a true statement. An internal factor, such as ROI of 4%, can be stated much better as, ROI of 4% vs. Industry Avg. of 14%, or ROI of 4% vs. Company Objective of 2%, or ROE of 4% vs. negative 4% the prior year. Relative strength/weakness deficiency or superiority is vital information in formulating strategies, and is much better than a single number with no comparison over time or to industry average. An example of "elements of being" would be that Firm A owns 10,000 acres of oil lands.

2. Explain why internal strengths and weaknesses should be stated in divisional terms to the extent possible.

Answer: Perhaps the biggest strategic decision facing firms is the extent to allocate monies/resources across divisions/segments, so the underlying information to make those decisions needs to be stated *in divisional terms*, to the extent possible. For example, say that PepsiCo's Frito Lay division's ROI rose to 10% from 5% the prior year, rather than saying PepsiCo Inc.'s ROI is 6%. Factors to be included in formulating strategies should be *actionable*, i.e., should be conducive to determining what specific strategies would benefit the firm given that factor. So, factors stated in divisional terms are excellent.

3. Explain why both internal and external factors should be stated in specific terms, i.e., using #'s, %'s, $'s, ratios, and comparisons over time, to the extent possible.

Answer: Business people already know the vague generalities, and desperately need to know the specifics, in order to decide among many available good alternative strategies. Thus, the underlying external opportunities/threats must be stated in specific terms so give guidance in formulating and selecting alternative strategies. Thus, avoid saying “Canada’s GDP is increasing.” Instead, say “Canada’s expected GDP next year is 6% and Mexico’s expected GDP is 3%.” Words such as increasing, decreasing, growing, and expanding can mean virtually anything. Avoid vagueness. Vagueness is not helpful in making tough resource allocation decisions among divisions, regions, product, etc.

4. Compare and contrast the near-end-of-chapter quotes by Alexander the Great and Bear Bryant regarding the importance of strategic planning in military or athletic settings. How applicable are those quotes in a business setting? Discuss.

Answer: A famous quote by Alexander the Great was: *“Greater is an army of sheep led by a lion, than an army of lions led be a sheep.”* This quote reveals the overwhelming importance of an excellent strategic plan, and in particular an excellent leader (strategist) for any organization to succeed. The quote suggests the leader, who devises the game plan, is more important than the actual manpower. A similar quote by the legendary Alabama football coach Bear Bryant went something like this: *I will defeat the opposing coach’s team with my players, but if given a week’s notice, I could defeat the opposing coach’s team with his players and he take my players.* This quote reveals Coach Bryant’s confidence in his coaching staff developing a superior game plan given whatever players are available. In a business setting, the CEO or owner of the business, as chief strategist, must be better than rival CEOs for his/her firm to do well.

5. Are “strategic management” and “strategic planning” synonymous terms? Explain.

Answer: The term “strategic management” in this text is used synonymously with the term “strategic planning.” The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term “strategic management” is used to refer to strategy formulation, implementation, and evaluation, with “strategic planning” referring only to strategy formulation.

6. What are the three stages in strategic management? Which stage is more analytical? Which relies most on empowerment to be successful? Which relies most on statistics? Justify your answers.

Answer: The three stages of strategic management are: strategy formulation, strategy implementation, and strategy evaluation. Because it is the decision-making stage of strategic management, strategy formulation is the most analytical stage. The strategy implementation stage relies most on empowerment to be successful, and hinges upon managers’ ability to motivate employees, which is more an art than a science. Strategy evaluation relies the most on statistics, as it deals with reviewing external and internal factors, measuring performance, and analyzing variances between expected vs. actual outcomes.

7. Why do many firms move too hastily from vision/mission development to devising alternative strategies?

Answer: Firms that move too hastily from vision and mission development to devising alternative strategies are overlooking two important steps in the strategic management process: 1) identify and evaluate internal strengths/weaknesses and 2) identify and evaluate external opportunities/threats. Reasons why many firms are negligent in this regard include 1) laziness, 2) lack of time, 3) lack of knowledge, 4) unwillingness to do research to find specific facts and figures, and 5) unaware that matching key external with internal factors is a key to strategy formulation.

8. Why are strategic planning retreats often conducted away from the work site? How often should firms have a retreat, and who should participate in them?

Answer: The rationale for periodically conducting strategic-management meetings away from the work site is to encourage more creativity and candor from participants. Good communication and feedback are needed throughout the strategic-management process in order to 1) formulate effective strategies and 2) achieve understanding and commitment that are vital to strategy implementation.

9. Distinguish between long-range planning and strategic planning.

Answer: Long-range planning is striving to optimize for tomorrow the trends of today, whereas strategic planning is striving to exploit and create new and different opportunities for tomorrow. Strategic planning requires much more work and diligence as indicated by the activities and stages described in the chapter.

10. Compare a company's strategic plan with a football team's game plan.

Answer: A strategic plan is, in essence, a company's game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Weaker teams with a better game plan very often defeat stronger teams, and the same thing happens in the business world.

11. Describe the three activities that comprise strategy evaluation.

Answer: The three fundamental strategy-evaluation activities are (1) review external and internal factors that are the bases for current strategies, (2) measure performance, and (3) take corrective actions. The first activity involves determining whether strength/weakness/opportunity/threat facts and figures have changed, which is actually facilitated by activity two, that involves comparing actual performance to expected results across regions and products. The third activity can include altering a firm's vision/mission/objectives/strategies/policies/procedures/organizational chart, etc.

12. How important do you think "being adept at adapting" is for business firms? Explain.

Answer: Being adept at adapting is vital for survival of business firms (and organisms). The strategic-management process is based on the belief that an organization's survival can depend on how well the firm continually monitors internal and external events and trends and makes timely changes as needed.

13. Compare the opossum and turtle to the woolly mammoth and saber tooth tiger in terms of being adept at adapting.

Answer: Species that adapt well to their changing environment are, like companies, able to survive, while those that do not adapt, are more likely to perish and become extinct. The opossum and turtle have been on earth for millions of years, while the saber tooth tiger and woolly mammoth became extinct about 11,000 years ago.

14. As cited in the chapter, Edward Deming, a famous businessman, once said, "In God we trust. All others bring data." What did Deming mean in terms of developing a strategic plan?

Answer: The strategic-management process can be described as an objective, logical, systematic approach for making major business decisions in an organization. The process attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Mr. Deming insisted on facts and figures because he knew that vague generalities were not helpful in choosing among many attractive alternative strategies. Mr. Deming insisted on seeing #'s, $'s, ratios, and %'s across regions and products in order to best chart a path forward for any organization.

15. What strategies do you believe can save newspaper companies from extinction?

Answer: Newspaper companies could invest more in Internet technologies, including developing nice aps for smartphones, and charging for the aps. Also, they could charge for an online subscription. Perhaps they could shift to a business model of giving away newspapers, while simultaneously enticing advertisers to advertise more, given the expected increased circulation from "free at newsstands and nominal fee for delivery." Free is a good price, if expenses can be exceeded by advertising revenue. But any strategies pursued should be determined after thorough analysis as described in this text, rather than haphazardly determined.

16. Distinguish between the concepts of mission and vision.

Answer: Mission statements are "enduring statements of purpose that distinguish one business from other similar firms." Visions statements answer the question "What do we want to become?" A vision statement should be one sentence, whereas a mission statement is several sentences, but less than 200 words.

17. Your university has fierce competitors. List three external opportunities and three external threats that face your university.

Answer:
Opportunities – 1) The blackboard collaborate technology for online classes has become easier, more popular, and less expensive. 2) The USA economy and GDP is growing 6% annually. 3) Construction costs for building new buildings is declined 14% year-over-year.
Threats – 1) The local tech school has cheaper tuition and easier classes that transfer into our university. 2) Our rival firms all offer a BBA Degree online. 3) There is an 8% decline in population in the last few months in our county.

18. List three internal strengths and three internal weaknesses that characterize your university.

Answer:
Strengths – 1) Our College of Business is AACSB accredited at both the BBA and MBA levels. 2) Our average classroom size is 19 students. 3) Our university has a new Nursing Program and Building.
Weaknesses – 1) Only 50% of our business faculty hold a PhD in business. 2) Our university lacks sufficient dorm space for students. 3) Our university lacks sufficient parking for students and faculty.

19. List reasons why objectives are essential for organizational success.

Answer: Objectives are essential for organizational success because they state direction, aid in evaluation, create synergy, reveal priorities, focus coordination, and provide a basis for effective planning, organizing, motivating, and controlling activities.

20. List four strategies and a hypothetical example of each.

Answer: Business strategies include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures. Student answers as to examples of each could vary widely.

21. List six characteristics of annual objectives.

Answer: Like long-term objectives, annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized.

22. Why are policies especially important in strategy formulation?

Answer: Policies, like annual objectives, are especially important in strategy implementation because they outline an organization's expectations of its employees and managers. Policies allow consistency and coordination within and between organizational departments. Policies can be broad and include rules, regulations, and procedures.

23. What is a "retreat" and why do firms take the time and spend the money to have these?

Answer: Retreats are formal meetings conducted semiannually to discuss and update the firm's vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. Retreats are commonly held off-premises to encourage more creativity and candor from participants. The feeling is that off-premise retreat facilitates communication, shared understanding, and commitment.

24. Discuss the notion of strategic planning being more formal versus informal in an organization. On a 1 to 10 scale from formal to informal, what number best represents your view of the most effective approach? Why?

Answer: Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Application of the strategic-management process is typically more formal in larger and well-established organizations. Smaller businesses tend to be less formal. Firms that compete in complex, rapidly changing environments, such as technology companies, tend to be more formal in strategic planning. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic-management concepts. Greater formality in applying the strategic-management process is usually positively associated with the cost, comprehensiveness, accuracy, and success of planning across all types and sizes of organizations. Informality too often invites guessing, laziness, politics, and emotion, which are generally not good in strategic planning.

25. List ten guidelines for making the strategic-planning process effective. Arrange your guidelines in prioritized order of importance in your opinion.

Answer: Table 1-2 presents 17 guidelines for the strategic-planning process to be effective:

1. It should be a people process more than a paper process.
2. It should be a learning process for all managers and employees.
3. It should be words supported by numbers rather than numbers supported by words.
4. It should be simple and non-routine.
5. It should vary assignments, team memberships, meeting formats, and even the planning calendar.
6. It should challenge the assumptions underlying the current corporate strategy.
7. It should welcome bad news.
8. It should welcome open-mindedness and a spirit of inquiry and learning.
9. It should not be a bureaucratic mechanism.
10. It should not become ritualistic, stilted, or orchestrated.
11. It should not be too formal, predictable, or rigid.
12. It should not contain jargon or arcane planning language.
13. It should not be a formal system of control.
14. It should not disregard qualitative information.
15. It should not be controlled by "technicians."
16. Do not pursue too many strategies at once.
17. Continually strengthen the "good ethics is good business" policy.

26. List what you feel are the five most important lessons for business that can be garnered from *The Art of War* book.

Answer: Both business and military organizations must adapt to change and constantly improve to be successful. Table 1-3 provides narrative excerpts from *The Art of War*, but some of the following especially apply to business.

- Analyze the enemy's plans so that you will know his shortcomings as well as his strong points.
- An army should be likened to water. Just as flowing water avoids the heights and hastens to the lowlands, so an army should avoid strength and strike weakness.
- Unskilled leaders work out their conflicts in courtrooms and battlefields. Brilliant strategists rarely go to battle or to court; they generally achieve their objectives through tactical positioning well in advance of any confrontation.
- When you do decide to challenge a rival, much calculating, estimating, analyzing, and positioning bring triumph.
- Skillful leaders do not let a strategy inhibit creative counter-movement.
- When a decisive advantage is gained over a rival, skillful leaders do not press on. They hold their position and give their rivals the opportunity to surrender or merge.
- Brilliant strategists forge ahead with illusion, obscuring the areas of major confrontation, so that opponents divide their forces in an attempt to defend many areas.

27. What is the fundamental difference between business strategy and military strategy in terms of basic assumptions?

Answer: The fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with an assumption of competition, whereas military strategy is based on an assumption of conflict.

28. Explain why the strategic management class is often is called a "capstone course."

Answer: Strategic management is commonly called a capstone course because students' major responsibility in this class is to use all knowledge gained in prior courses to chart the future direction of different organizations. Students have the opportunity in this course to utilize their marketing, finance, management, MIS, and accounting knowledge.

29. What aspect of strategy formulation do you think requires the most time? Why?

Answer: Important aspects of strategy formulation include developing a business mission, performing an external audit, conducting an internal audit, generating alternative strategies, and choosing among alternative strategies. Performing an external audit generally takes the most time. For example, identifying competitors' strengths and weaknesses is an essential aspect of the external audit. Effective use of the Internet can reduce the time required for performing an external audit.

30. Why is strategy implementation often considered the most difficult stage in the strategic-management process?

Answer: Strategy implementation is often considered to be the most difficult stage in strategic management because it requires discipline, sacrifice, commitment, and hard work from all employees and managers. It is always more difficult to do something than to say you're going to do it.

31. Why is it so important to integrate intuition and analysis in strategic management?

Answer: No analytical tools can capture all aspects of a given organization's culture and situation. Nor can analytical tools assimilate all the subjective information that must be considered in strategic management, such as personalities, emotions, values, beliefs, customs, and ethical factors. However, analytical tools are essential to utilize in strategic planning because they have been developed over many years using actual data, and are effective for assimilating facts and figures. Intuition alone is insufficient for making good strategic decisions. Based on one's past experiences, judgment, and "gut" feelings, intuition is especially under time constraints, and in assigning weights and ratings in planning matrices. Strategists must integrate intuition and analysis in strategic management, but in the view of this author, analysis is more important than intuition. Unfortunately, too many firms rely too heavily on intuition, and some disastrously rely exclusively on intuition.

32. Explain the importance of a vision and mission statement.
Answer: Reaching agreement on a formal vision and mission statement can greatly facilitate the process of reaching agreement on an organization's strategies, objectives, and policies. Organizational success depends on reasonable agreement on key issues, so a clear, jointly developed and supported, vision and mission statement are essential in strategic management.

33. Discuss relationships among objectives, strategies, and policies.

Answer: Long-term objectives and strategies are products of strategy formulation. Short-term (annual) objectives and policies are products of strategy implementation. Firms should translate long-term objectives into annual objectives. Strategies should be supported with clear policies.

34. Why do you think some chief executive officers fail to use a strategic-management approach to decision making?
Answer: Various reasons listed and described in Chapter 1 include:
Lack of knowledge or experience in strategic planning. Poor reward structures. Firefighting. Waste of time. Too expensive. Laziness. Content with success. Fear of failure. Overconfidence. Prior bad experience. Self-interest. Fear of the unknown. Honest difference of opinion. Suspicion.

35. Discuss the importance of feedback in the strategic-management model.

Answer: As indicated in the strategic-management model, feedback is critically important. Changes can occur at any stage in the process and impact all other strategic-management activities. Feedback allows these changes to be identified and adjustments to be made. Feedback promotes the creation of a climate for two-way communication and, thus, allows esprit de corps to be achieved in an organization.

36. How can strategists best ensure that strategies will be effectively implemented?

Answer: Strategists can best assure that strategies formulated will be effectively implemented by involving as many managers as possible in the strategy formulation process. It is important to communicate effectively why changes are needed, and how managers and employees will benefit from the expected results. Good communication yields good understanding yields good commitment, which is essential for good implementation (See Figure 1-2).

37. Give an example of a recent political development that changed the overall strategy of an organization.

Answer: Gun control legislation is pending at the federal level and in some state legislatures, which has led to increased demand for ammunition and various guns. So, companies that make ammo and guns have increased production in the short-term, but in the long-term, some are diversifying into related products and services, such as hunting and fishing products.

38. Who are the major competitors of your college or university? What are their strengths and weaknesses? What are their strategies? How successful are these institutions compared to your college?

Answer: Answers to this question will vary by institution. But, online courses and online degrees are becoming commonplace. Two year schools are continually offering 100 and 200 level classes more cheaply and "easier" than four year schools, that are more and more focusing on graduate schools. Schools are also becoming more student-friendly, modifying curriculum to be more "practical," and even offering certifications in some areas.

39. Would strategic-management concepts and techniques benefit foreign businesses as much as domestic firms? Justify your answer.

Answer: The answer to this question is YES. But, management style and culture varies considerably across countries as will be elaborated upon in Chapter 11. For example, northern European countries tend to be more participative in management style, whereas southern European countries tend to be more autocratic (as does Mexico). Many foreign businesses are using strategic-management concepts and techniques effectively. This textbook is very widely used globally, being the best seller in Japan, China, and Mexico.

40. What do you believe are some potential pitfalls or risks in using a strategic-management approach to decision making?

Answer: Thirteen risks are listed under the "Pitfalls in Strategic Planning" section of Chapter 1. But, there is a risk of too little top management support for the process. There is a risk of too little involvement by line managers and employees. There is a risk that top managers will underestimate the importance of understanding and commitment.

41. In your opinion, what is the single major benefit of using a strategic-management approach to decision making? Justify your answer.

Answer: The single major benefit is the potential for improved understanding of the business and industry on the part of all managers and employees. Understanding generally leads to increased commitment, which, in turn, leads to creativity, innovativeness, and overall cooperativeness. The process is more important than the plan. Also, the strategic-management process allows an organization to initiate and influence, rather than just respond and react to its environment. That is, it allows an organization to be proactive, rather than reactive, in controlling its own destiny. Strategic-management concepts provide an objective basis for allocating resources and for reducing internal conflicts that can arise when subjectivity alone is the basis for major decisions.

42. Compare business strategy and military strategy.

Answer: As discussed in the latter part of this chapter, business and military strategy are similar in many respects. Many of the ideas utilized in business strategy were first developed as a part of military strategy. Both military and business organizations have competitors. A fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with the assumption of competition, while military strategy is based on an assumption of conflict. For example, if your forces of 10,000 men are X, and your enemy of 10,000 men are Y, with other variables being equal, which of the following strategic positions would you prefer to launch an attack: A, B, C, or D, and why? In a military sense, and business sense for companies, life or death could hang in the balance, depending on your choice among strategies.

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        A.                  B.              C.            D.

       X      X             X  X  X      XXXXXX            XX
X      YYYYYY     X         YYYYYY       YYYYYY      YYYYYY  XX
       X      X             X  X  X                         XX
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43. Why is it important for all business majors to study strategic management since most students will never become a chief executive officer or even a top manager in a large company?

Answer: Strategic management takes place at multiple levels within an organization. Although most students may never become the CEO of a corporation, they may become the "branch manager" or department head or manager. In these roles, they may be asked to participate in development of a strategic plan. Employees at all levels are frequently asked to contribute to development of their firm's strategic plan. Thus, an understanding of the strategic-management process is important, perhaps for the career development of any business major.

44. Describe the content available on the strategy club website at www.strategyclub.com.

Answer: The strategy club website provides the new, free, excel Student Template designed to help students generate the matrices required for case analyses. The site also provides several sample student case presentations and other resources to benefit strategic management students.

45. List four financial and four nonfinancial benefits of a firm engaging in strategic planning.

Answer: Businesses engaging in strategic planning experience many financial benefits, including: 1) significant improvement in sales, profitability, and productivity compared to firms without strategic planning activities, 2) superior long-term financial performance relative to their industry, 3) seem to make more informed decisions with good anticipation of both short and long-term consequences, and 4) better prepared for fluctuations in their external and internal environments. In addition to the financial benefits, firms using strategic planning also experience nonfinancial benefits that include 1) an enhanced awareness of external threats, 2) an improved understanding of competitors' strategies, 3) increased employee productivity, 4) reduced resistance to change, and 5) a clearer understanding of performance-reward relationships.

46. Why is it that a firm can sustain a competitive advantage normally for only a limited period of time?

Answer: A firm can sustain a competitive advantage for only a certain period of time due to rival firms continually trying to imitate and duplicate strategies, products, and services of the lead firm, in order to take market share from the leader, and build their own competitive advantage.

47. Why is it not adequate to simply obtain competitive advantage?

Answer: Rival firms will constantly attempt to undermine firms with competitive advantages and try to imitate/duplicate those advantages/products/services – and perhaps offer similar products at much lower prices. Organizations must constantly strive to achieve sustained competitive advantage by continually evaluating their own strategies/products/services as well as rival firms efforts to undermine and overcome.

48. How can a firm best achieve sustained competitive advantage?

Answer: Sustained competitive advantage can best be achieved by 1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources, and by 2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

Answers to the End-of-Chapter Assurance of Learning Exercises

ASSURANCE OF LEARNING EXERCISE 1A:
COMPARE BUSINESS STRATEGY WITH MILITARY STRATEGY

ANSWER:
All nine of the military maxims listed in this exercise do have direct business applications, as indicated below. Rankings as to relative importance with rationales will vary by industry and situation.

1. Objective – Numerous benefits of objectives are given in Chapters 1 & 5; objectives are vital for business success.
2. Offensive – As revealed in Chapters 5 & 6, being aggressive is appropriate in many business strategy settings, but not all. Sometimes defensive strategies are best, such as retrenchment and divestiture.
3. Mass – This is almost always applicable in business setting. Rarely can firms pursue a little bit of many strategies. In contrast, tough strategic decisions must generally be made among many alternative strategies that could benefit the firm – and then commit substantial resources to the chosen direction.
4. Economy of Force – Businesses must cull unprofitable and secondary endeavors, and focus on profitable, growth segments and areas.
5. Maneuver – Gaining and sustaining competitive advantage is a huge need for businesses; this can be achieved by knowing the rival firms and continuously putting those firms at a disadvantage in terms of price and service
6. Unity of Command – Businesses commonly assign a "champion" for new products, i.e., a lead person. In addition, businesses increasingly delegate accountability and responsibility to a President of various segments.
7. Security – Businesses continuously gather and analyze competitive information trying to never let rival firms surprise them with new products/services/strategies.
8. Surprise – Businesses do seek to put rival firms out of business by aggressively identifying and attacking their weak areas in unsuspecting ways.
9. Simplicity – Businesses realize that good communication leads to excellent understanding which leads to high commitment and that to achieve these ends, simplicity rather than complexity is necessary.

ASSURANCE OF LEARNING EXERCISE 1B:
GATHER STRATEGY INFORMATION FOR PEPSICO

ANSWER:
The following are possible external opportunities/threats and internal strengths/weaknesses taken directly from the PepsiCo Cohesion Case. The instructions request ten for each category. Make sure students see the difference in internal vs. external factors. Ask students to note the need to be as specific as possible in stating each factor. Ask students to keep this information for use in later exercises. Remind students that:

PAB = PepsiCo Americas Beverage
PAF = PepsiCo Americas Foods
LAF = Latin America Foods
AMEA = Asia, Middle East, & Africa
QFNA = Quaker Foods North America
FLNA = Frito-Lay North America

Strengths:
1. FLNA is the largest salty snack provider in the USA.
2. PepsiCo is excellent in innovating/changing products to match local tastes and cultures globally.
3. PepsiCo is the largest food and beverage company in Russia, India, and the Middle East and is number two in Mexico, and is in the top five in Brazil, Turkey, Vietnam, the Philippines, and Thailand.
4. PepsiCo just replaced Coke as the product sold at all Burger Kings in China.
5. PepsiCo has a large, new R&D facility in Shanghai, China.
6. PepsiCo is cutting 8,700 jobs as part of an aggressive cost-cutting program.
7. PAF's revenues in 2012 increased to 36.6% from 34.8%.
8. PepsiCo's revenues from Russia increased 2.36% in 2012.
9. PepsiCo's Europe operating profits increased 9.9% in 2012.
10. PepsiCo's European revenues rose 5% in Q1 of 2013.
11. About 17% of PepsiCo's North American revenue comes from Wal-Mart.
12. PepsiCo and Anheuser-Busch InBev cooperate extensively in marketing.
13. FLNA has 40% of the global salty snack market and 64% of that market in the USA.
14. FLNA generates 40% of PepsiCo's operating profits.

Weaknesses:
1. For Q1 of 2013, PepsiCo's earnings fell to $1.08 billion from $1.13 billion a year earlier
2. PepsiCo's four business units (PAF, PAB, Europe, and AMEA) does not match its six reportable segments (PAB, FLNA, QFNA, LAF, Europe, and AMEA).
3. PAB revenues dropped to 32.7% of the company total in 2012 from 33.7%.
4. PepsiCo's revenues from Mexico dropped 17.29% in 2012.
5. AMEA's operating profit dropped 15.9% in 2012.
6. PAB operating profit dropped 10.3% in 2012 to $2.937 B.

7. QFNA operating profit declined 12.8% in 2012.
8. PepsiCo's non-carbonated drink volume (Gatorade and Tropicana) dropped by 1% in Q1 2013, while Coca-Cola's comparable products rose 6%.
9. PepsiCo's AMEA region revenue dropped 14% in Q1 of 2013.
10. PAB revenue dropped 0.6% in Q1 of 2103.

Opportunities:
1. Fountain soda accounts for about a quarter of soft drink sales volume in China.
2. Coca-Cola's sparking beverage volume growth in Q1 of 2013 grew only 2% in Brazil.
3. For Q1 of 2013, Coca-Cola's revenues dropped 1% in North America, 2% in Europe, and 4% in Pacific.
4. DPS derives 90% of its revenue from North America; 70% of that total comes from carbonated drinks.
5. Mondelez's top management would support a merger with PepsiCo.
6. The energy drinks category of the beverage industry is growing 8% annually.

Threats:
1. Coca-Cola is changing all its plastic bottles to its green PlantBottle by 2020.
2. Kellogg just acquired P&G's Pringles business.
3. PepsiCo lags Coca-Cola in revenue per employee, return on investment, and long-term debt.
4. Coca-Cola generates 70% of its revenue and 80% of its operating profit from outside the USA.
5. The carbonated beverage consumption growth rate is about zero in North America and developed markets.
6. Coca-Cola is investing over $4 billion in China between 2012 and 2015.
7. Coca-Cola revenues in Q1 of 2013 grew 8% in both India and Russia, and 18% in Thailand.
8. Coca-Cola's sparking beverage volume growth in Q1 of 2013 grew 15% in Russia, 30% in India, 38% in Thailand, and 6% in China.
9. DPS has started to distribute its products in Australia, China, Japan, South Korea, and Malaysia.
10. DPS holds the #1 position in the flavored non-cola market in the USA with a market share of 40%.
11. Mondelez has the leading market share in salty snacks outside the USA in every country.
12. Monster Beverage posted 35% growth in Q4 of 2012 in energy drinks and sells its products in 90 countries.
13. Per capita soda consumption of the USA has been declining for years, and is now 44 gallons per person, down from 54 gallons in 1998. The percentage consumption is dropping 1% annually in the USA.
14. USA and many other consumers globally are becoming much more health conscious – shunning sugary, carbonated drinks. The volume of packaged food is declining while the volume of fresh food in increasing.
15. Coca-Cola has reduced the size of its cans from 8.0 ounces to 7.5 ounces to bring the calorie count below 100.

ASSURANCE OF LEARNING EXERCISE 1C:
UPDATE THE PEPSICO COHESION CASE

ANSWER:
PepsiCo is continually in the news and posts company news releases at their website www.pepsico.com. Simply click on the News & Press Releases icon and read all the up-to-date news about PepsiCo. Or simply go to a site such as www.finance.yahoo.com and enter PepsiCo's stock symbol (PEP) and then click on Headlines. Select several articles and prepare your executive summary based on that information.

ASSURANCE OF LEARNING EXERCISE 1D:
STRATEGIC PLANNING FOR YOUR UNIVERSITY

ANSWER:
Ask students to keep results of this exercise because, at the end of each chapter, at least one exercise applies chapter material to your university. Make sure students see the difference in internal vs. external factors. Ask students to note the need to be as specific as possible in stating each factor. While answers to this exercise will vary for each institution, a sample is provided below.

Strengths:
1. Location in a state capital with several Fortune 500 companies nearby
2. $200 million technology donation has resulted in high-tech facilities
3. Diverse (28%) student body and faculty, up from 21% three years prior
4. Visionary presidential leadership
5. Nationally-ranked programs in nursing and business
6. Athletic teams performing excellent, raising college visibility
7. Tuition 15% lower than peer institutions
8. Our engineering and life sciences buildings are new and modern
9. We operate at full capacity in our dorms

Weaknesses:
1. Urban campus with limited space for expanding campus
2. Police arrests on campus rising 5% annually
3. Gyms and athletic facilities 30 years old
4. Food service complaints up 11% vs. prior year
5. 30% of faculty are near retirement age and drawing high salaries
6. Student activity surveys indicate 14% decline in satisfaction
7. Alumni giving declining 10% annually
8. 30% of classes taught by adjunct faculty
9. Student/faculty ratio of 51 to 1 is higher than peer institutions

Opportunities:
1. 14% increase in percentage of minority students enrolling in college vs. prior year
2. Need for adult education programs in the area growing 15% annually
3. Demand for international and online programs growing 20% annually
4. Large local firms seek new certification programs from the institution
5. Demand for nursing graduates growing 12% annually
6. The USA GDP is rising 1% annually
7. Social media use is growing 6% annually in North and South America
8. Demand for engineers is growing 5% annually in the USA

Threats:
1. Pressure from state to admit marginal students in order to provide increased access for underserved minority students
2. Local two-year institutions offer courses 20% cheaper and less rigorous
3. 15% decline in international student applications
4. 12% annual decline in state funding levels
5. Major rival peer institutions offer and heavily market online degrees in our area
6. State population declining 4% annually
7. Unemployment rate stable at 9.0% causing many would-be students to have to work
8. The number of high school graduate is dropping 3% annually
9. The number of two-year tech school students is growing 8% annually
10. Demand for liberal arts degree students is declining 6% annually

ASSURANCE OF LEARNING EXERCISE 1E:
STRATEGIC PLANNING AT A LOCAL COMPANY

ANSWER: Answers will vary for each student. The following questions could be used to guide the class discussion.

- How many of the organizations used formal as opposed to informal planning? How did this vary by size and type of firm?
- How many of the firms had a written vision and/or mission statement? How did this vary by size and type of firm?
- Did the people interviewed recognize the benefits of strategic planning? How did they inform the organizations' employees of the strategic plans and the benefits of strategic planning?
- What would the students recommend in terms of changes to the strategic planning process used by the businesses they evaluated?

ASSURANCE OF LEARNING EXERCISE 1F:
GETTING FAMILIAR WITH THE STRATEGY CLUB ONLINE

ANSWER:
For the first time ever, the popular Excel Student Template is provided free to all students who use this textbook. Just go to the www.strategyclub.com website. Widely used for more than a decade by both students and businesses, and improved dramatically just for this edition, the Excel Student Template enables students to more easily apply strategic management concepts while engaging in assurance of learning exercises or case analysis. Using the Template, students can devote more time to applying strategy concepts and less time to the mechanics of formatting strategy matrices, tables, and PowerPoints.

ASSURANCE OF LEARNING EXERCISE 1G:
GETTING FAMILIAR WITH MYLAB

ANSWER:
For the first time ever with any strategic management text, a Case MyLab ancillary enables professors to systematically utilize cases to monitor student learning of stragegic management concepts. The authors have identified 29 key strategic management concepts, and written the 15th ed. cases in a manner to exemplify those concepts. All 29 cases now include coverage of most strategy concepts, but the Concepts by Cases matrix given earlier in this manual reveals which cases are designed for monitoring student learning of various strategy concepts. The before-class MyLab testing feature includes 25 multiple choice questions for each case –10 Basic questions that test if the student simply read the case before class and 15 Applied questions that test the student's ability to apply various strategic management concepts. In addition, there are 2 Discussion questions per case. This testing feature enables professors to determine, before class if desired, whether students 1) read the case and 2) are able to apply strategy concepts to resolve issues in the case. Example MyLab case questions for the Applied questions are something like this: What two components recommended for inclusion in a mission statement are missing in the Nikon statement? Example Basic Questions would be like: In what country is L'Oreal headquartered? The Case MyLab product helps assure that the cases apply the concepts, but in addition the ancillary simplifies grading for professors and helps achieve AACSB's key assurance of learning objectives – even in purely or partly online class settings.

Domino's Pizza, Inc. – 2013

Forest R. David

A. Case Abstract

Domino's Pizza, Inc. is the second largest pizza chain in the world with operations in over 70 nations and over 10,200 stores as of March 2013. Domino's trails only Yum Brand's Pizza Hut in store numbers and global presence. Domino's specializes in takeout and delivery of pizza and more recently chicken wings and sub sandwiches, but so far does not offer a dine in experience for customers. Lacking seating inside greatly reduces margins and startup costs for franchisees and allows products to be sold cheaper to more price-conscious buyers. Domino's operates under three business segments: 1) Domestic Stores, 2) Domestic Supply Chain, and 3) International. The Domestic Supply Chain produces and/or supplies over 99 percent of all franchisee stores and accounts for over half of company- wide revenue. Founded in 1960, Domino's is headquartered in Ann Arbor, Michigan.

B. Vision Statement (taken from stated mission)

To be the best pizza delivery company in the world.

C. Mission Statement (proposed)

At Domino's, we are committed to providing our customers (1) around the world (3) an affordable, consistently high quality pizza, subs and chicken wings (2), with timely delivery each and every time they order (5,6,7). Our new PULSE computerized system (4) allows orders to be more streamline and accurate. The system also allows for nutritional labels to be printed and provides accurate driving directions for delivery drivers. With our new apps for mobile phones, and website platform, customers can ensure a quick and easy ordering process. We believe good ethics is good business, and strive to sponsor programs within the communities we serve (8). We hire only dedicated employees and selectively screen and train all potential franchisees (9).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

D. External Audit

Opportunities

1. Domino's is only serving approximately 50 percent of the international market they could possibly be serving.
2. There is a steadily growing international appetite for American fast food, and an improving global economy. Markets such as China, Russia, India, and Brazil are still relatively untapped.
3. Many customers are looking for healthier fast food options.
4. College campuses and shopping malls are often frequented by young people.
5. Over 16 percent of residents of the USA identify themselves as Hispanic.
6. Many customers in today's climate are willing to tolerate a degree of inconvenience if they can get a better deal.
7. Small margins in the restaurant business are the reason why so many mom-and-pops fail.
8. The current landscape in the Quick Service Restaurant (QSR) business is a bimodal population distribution with a large population of bargain-minded customers seeking deals on cheap fast food options, and another population of more affluent consumers targeting middle-to-higher end restaurants.
9. Domestic stores voted to increase their advertising revenue contribution to 5.5 percent in 2011.

Threats

1. Governments potentially forcing all restaurants to label all nutrition information on the menu at the point of sale.
2. Trademark and patent protection laws are not as sophisticated in developing countries.
3. YUM Brands (parent company of Pizza Hut) revenues are over 60 percent greater than Domino's.
4. Little Caesars was listed as the fastest growing pizza chain in 2010, with revenues up 13.6 percent over 2009, followed by Pizza Hut's 8 percent increase and Domino's 7.2 percent increase.
5. Many restaurants such as Wendy's, Subway, and even Pizza Hut offer customers low calorie options on the menu.
6. Currently, there are over 925,000 fast food service locations in the USA or one for about every 330 people.
7. Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.
8. In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places are abundant, and consequently there is intense price competitiveness among rival firms.
9. Wild fluctuations in commodity prices, especially prices in dairy products since they cannot be locked in for long periods of time, are particularly problematic for the industry.
10. Labor is the second greatest expense in the fast food industry.

Competitive Profile Matrix

		Domino's		Pizza Hut		Papa John's	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
Advertising	0.08	2	0.16	3	0.24	4	0.32
Global Presence	0.10	3	0.30	4	0.40	1	0.10
Healthy Food Options	0.05	2	0.10	3	0.15	1	0.05
Store Locations	0.09	3	0.27	4	0.36	2	0.18
Brand Awareness	0.07	3	0.21	4	0.28	2	0.14
Dining Area	0.04	2	0.08	4	0.16	1	0.04
Financial Profit	0.12	2	0.24	4	0.48	1	0.12
Customer Loyalty	0.08	1	0.08	2	0.16	3	0.24
Market Share	0.10	3	0.30	4	0.40	1	0.10
Product Quality	0.07	2	0.14	4	0.28	3	0.21
Stockholders' Equity	0.12	1	0.12	4	0.48	2	0.24
Price Competitiveness	0.08	4	0.32	2	0.16	3	0.24
Totals	**1.00**		**2.32**		**3.55**		**1.98**

Domino's score of 2.32 reveals a below average company with respect to Pizza Hut and Papa John's. Over $1.5 billion in long term debt severely impacts Domino's stockholders' equity and financial profit.

EFE Matrix

	Opportunities	**Weight**	**Rating**	**Weighted Score**
1.	Domino's senior management estimates the company is only serving approximately 50 percent of the international market they could possibly be serving.	0.10	4	0.40
2.	There also is a steadily growing international appetite for American fast food, and an improving global economy. Markets such as China, Russia, India, and Brazil are still relatively untapped.	0.08	3	0.24
3.	Many customers are looking for healthier fast food options.	0.08	1	0.08
4.	College campuses, shopping malls, and other high traffic areas are more commonly frequented by young people.	0.06	3	0.18
5.	According to the US Census in 2010, over 16 percent of residents of the USA identify themselves as Hispanic.	0.02	1	0.02
6.	While an inconvenience over delivery, many customers in today's climate are willing to tolerate a degree of inconvenience that they historically were not if they can get a better deal.	0.03	3	0.09
7.	The small margins in the restaurant business are the reason why so many mom-and-pops fail.	0.02	3	0.06
8.	The current landscape in the Quick Service Restaurant (QSR) business is a bimodal population distribution with a large population of bargain-minded customers seeking deals on cheaper end fast food options, and another population of more affluent consumers targeting middle to higher end restaurants.	0.05	4	0.20
9.	Starting in 2009, domestic stores voted to increase their advertising revenue contribution rate to 5 percent and eventually to 5.5 percent in 2011.	0.06	4	0.24

	Threats	Weight	Rating	Weighted Score
1.	Governments potentially forcing all restaurants to label all nutrition information on the menu at the point of sale.	0.03	2	0.06
2.	Trademark and patent protection laws are not as sophisticated in developing countries.	0.02	2	0.04
3.	YUM Brands (parent company of Pizza Hut) revenues are over 60 percent greater than Domino's.	0.10	3	0.30
4.	Little Caesars was listed as the fastest growing pizza chain in 2010, with revenues up 13.6 percent over 2009, followed by Pizza Hut's 8 percent increase and Domino's 7.2 percent increase.	0.08	3	0.24
5.	Many restaurants such as Wendy's, Subway, and even Pizza Hut offer customers low calorie options on the menu.	0.06	1	0.06
6.	Currently, there are over 925,000 fast food service locations in the USA or one for about every 330 people.	0.03	2	0.06
7.	Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.	0.03	3	0.09
8.	In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places are abundant, and consequently there is intense price competitiveness among rival firms.	0.05	3	0.15
9.	Wild fluctuations in commodity prices, especially prices in dairy products since they cannot be locked in for long periods of time, are particularly problematic for the industry.	0.06	2	0.12
10.	Labor, is the second greatest expense in the fast food industry.	0.04	3	0.12
	TOTALS	**1.00**		**2.75**

Domino's received an above average EFE score of 2.75 which can be attributed largely to the excellent job Domino's has done with international expansion. Domino's still lags competitors by not offering a healthy line of menu items.

E. Internal Audit

Strengths

1. Domino's reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone, accounting for over 60% of all sales.
2. Domino's operates stores in 70 different nations.
3. International stores grew 30% from 2009 to 2012 to total 4,835 at year end 2012.
4. Backward integrated supply chain provides over 99% of supplies for franchisee stores.
5. Domino's enjoys large economies of scale and great brand recognition.
6. Domino's is exclusively a delivery/take out business, reducing overhead by not offering dine in space.
7. PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.
8. Domino's Pizza markets their pizzas as having gluten-free crust.
9. Domino's recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.

Weaknesses

1. While many fast food restaurants have added healthy options, Domino's offers little with respect to healthy food options such as salads or fruit.
2. Domino's does not produce a sustainability report or have a sustainability statement on their website.
3. Domino's reported over $1.3 billion in negative stockholders' equity at yearend 2012.
4. Domino's is a relatively large company to operate under a functional type structure.
5. One large slice of hand- tossed, pepperoni pizza contains 300 calories and 12 grams of fat, and there are 8 slices in a pizza.
6. No dine in option.
7. Domino's suffered a quality image before the launch of the new Artisan pizzas, and there is some belief there remains a residual quality problem.

Financial Ratio Analysis

Profit Margin Percent	**Domino's**	**Industry**	**S&P 500**
Gross Margin	29.87	31.98	37.55
Pre-Tax Margin	10.79	17.46	16.89
Net Profit Margin	6.7	11.88	12.42
Liquidity Ratios			
Debt/Equity Ratio	NA	0.7	0.97
Current Ratio	1.3	0.7	1.2
Quick Ratio	1.2	0.6	0.8
Profitability Ratios			
Return On Equity	NA	36.7	20.88
Return On Assets	23.4	13.4	7.7
Return On Capital	42.2	16.3	10.2
Efficiency Ratios			
Income/Employee	11,239	16,959	129,395
Revenue/Employee	167,844	138,523	1.05 Mil
Receivable Turnover	18.5	49.3	14.2
Inventory Turnover	38.1	93	13.5
Asset Turnover	3.5	1.1	0.8

Domino's is a healthy company based on most of the financial ratios. However, $1.5 billion in long-term debt weighs heavily.

Net Worth Analysis (in millions)

Domino's Company Worth Analysis	
Stockholders' Equity	-$1,336
Net Income x 5	$560
(Share Price/EPS) x Net Income	$3,237
Number of Shares Outstanding x Share Price	$3,124
Method Average	**$1,396**

Papa John's Company Worth Analysis	
Stockholders' Equity	$182
Net Income x 5	$308
(Share Price/EPS) x Net Income	$1,504
Number of Shares Outstanding x Share Price	$1,418
Method Average	**$853**

Methods 3 and 4 are likely the best representation of company worth. Like Domino's, Papa John's is also heavily leveraged with long term debt.

IFE Matrix

	Strengths	Weight	Rating	Weighted Score
1.	Domino's reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone. Accounting for over 60 percent of all sales.	0.11	4	0.44
2.	Domino's operates stores, in 70 different nations.	0.09	4	0.36
3.	International stores grew 43 percent from 2008 to March 2013 to total 5,327.	0.08	4	0.32
4.	Backward integrated supply chain provides over 99 percent of supplies for franchisee stores.	0.09	4	0.36
5.	Domino's enjoys large economies of scale and great brand recognition.	0.07	4	0.28
6.	Domino's is exclusively a delivery/take out business, reducing overhead by not offering dine in space.	0.04	4	0.16
7.	PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.	0.04	4	0.16
8.	Domino's Pizza markets their pizzas as having gluten free crust.	0.02	3	0.06
9.	Domino's recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.	0.05	4	0.20

	Weaknesses	Weight	Rating	Weighted Score
1.	While many fast food restaurants have added healthy options, Domino's offers little in respect to healthy food options such as salads or fruit.	0.06	1	0.06
2.	Domino's does not produce a sustainability report or have a sustainability statement on their website.	0.02	1	0.02
3.	Domino's reported over $1.3 billion in negative stockholders' equity at year end 2012.	0.15	1	0.15
4.	Domino's is a relatively large company to operate under a functional type structure.	0.05	2	0.10
5.	One large slice of hand tossed pepperoni pizza contains 300 calories and 12 grams of fat, and there are 8 slices in a pizza.	0.03	1	0.03
6.	No dine in option.	0.02	1	0.02
7.	Domino's suffered a quality image before the launch of the new Artisan pizzas and there is some belief there remains a residual quality problem.	0.08	2	0.16
	TOTALS	**1.00**		**2.88**

With a score of 2.88, Domino's is doing an above average job based on internal factors. One area of improvement would be to develop a healthy line of menu items.

F. SWOT

SO Strategies

1. Add 500 new stores over the next 3 years in China, India, and Brazil (S2, S3, O1, O2).
2. Add 500 new stores over the next 3 years in traditional European and Middle Eastern Markets (S2, S3, O1).
3. Increase advertising expenses from $40M to match Pizza Hut's $75M over the next 3 years to market the new Artisan pizzas and other new products (S9, O9).
4. Offer 15 percent off all takeout orders (S5, S6, O6, O8).

WO Strategies

1. Create and market a new Artisan salad (W1, W5, O3).
2. Add 500 new stores over the next 3 years in traditional European and Middle Eastern Markets (W3, O1).
3. Open 10 restaurants with a dining area as a pilot study near college campuses (W6, O4).
4. Restructure by division to further capitalize on any differences in consumption preferences in international markets (W4, O1, O2).

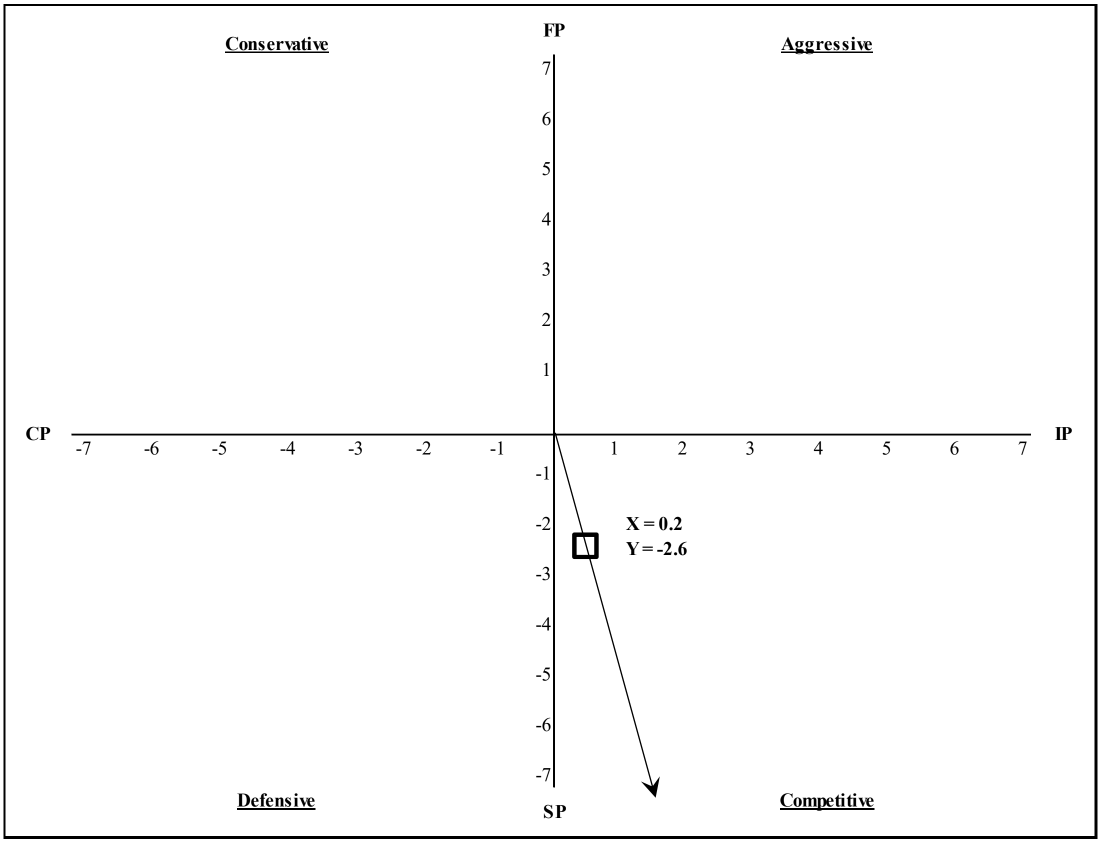
ST Strategies

1. Hire a market research firm to determine the value in offering discounts or other marketing strategies to combat against new competitors in select markets (S1, S5, T3, T4, T5, T6, T7, T8).
2. Market to consumers more readily the healthier aspects of Domino's pizza's (S8, T1).

WT Strategies

1. Create and market a new Artisan salad and pizza with lower-fat cheese (W1, W5, T1, T5).
2. Offer complimentary pizza at events around the world as a means of introducing customers to the new Artisan pizza recipe (W7, T3, T4, T5).

G. SPACE Matrix

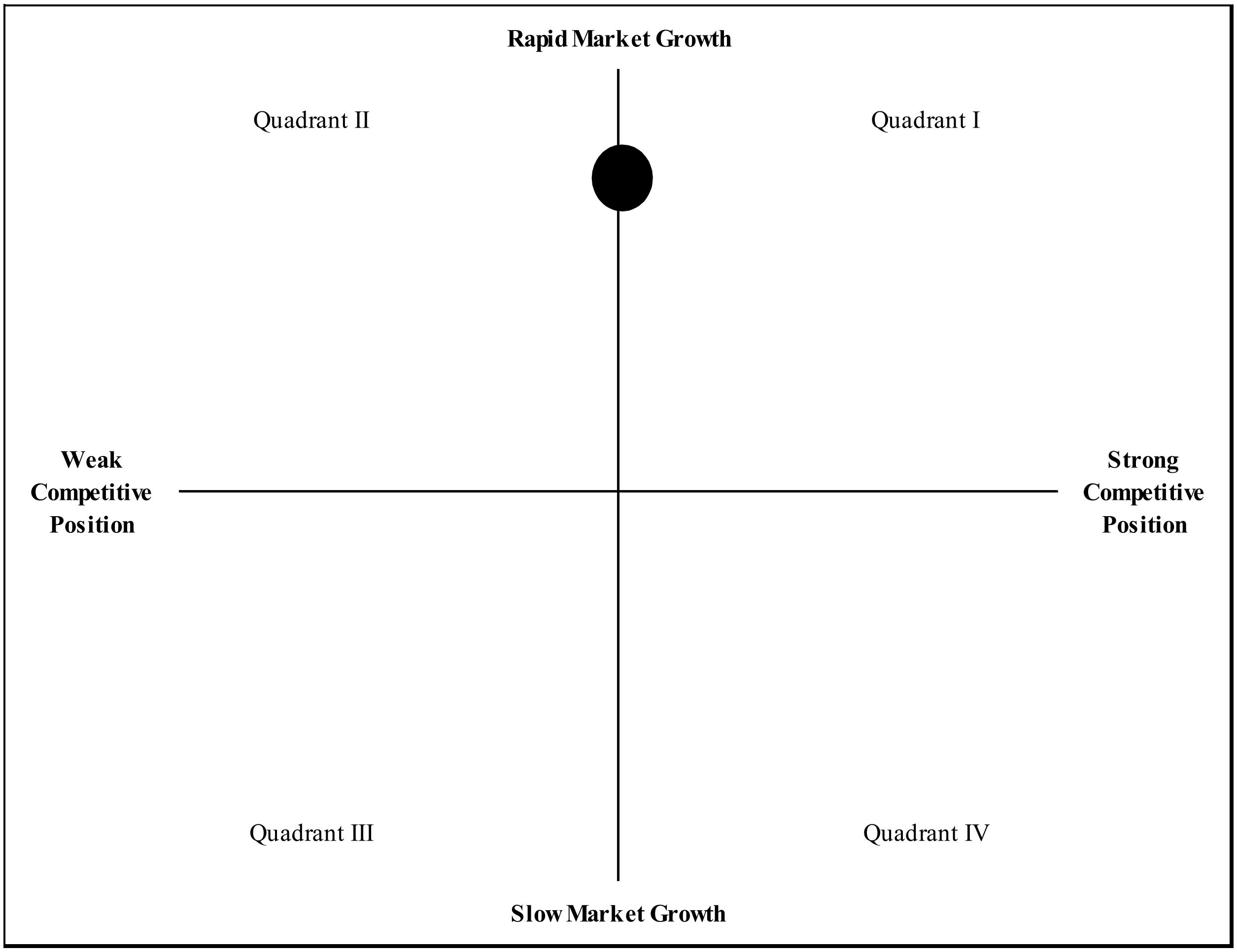


Internal Analysis:		External Analysis:	
Financial Position (FP)		**Stability Position (SP)**	
Stockholders' Equity	1	Rate of Inflation	-4
Debt/Equity	4	Healthy Minded Public	-7
Current Ratio	5	Rising Food Prices	-5
Cash	3	Competitive Pressure	-7
Net Income	2	Barriers to Entry into Market	-5
Financial Position (FP) Average	**3.0**	**Stability Position (SP) Average**	**-5.6**

Internal Analysis:		External Analysis:	
Competitive Position (CP)		**Industry Position (IP)**	
Market Share	-2	Growth Potential	6
Product Quality	-4	Financial Stability	3
Customer Loyalty	-5	Ease of Entry into Market	2
Technological know-how (PLUSE System)	-2	Ease of Obtaining Commodity Contracts	2
Control over Suppliers and Distributors	-3	Profit Potential	4
Competitive Position (CP) Average	**-3.2**	**Industry Position (IP) Average**	**3.4**

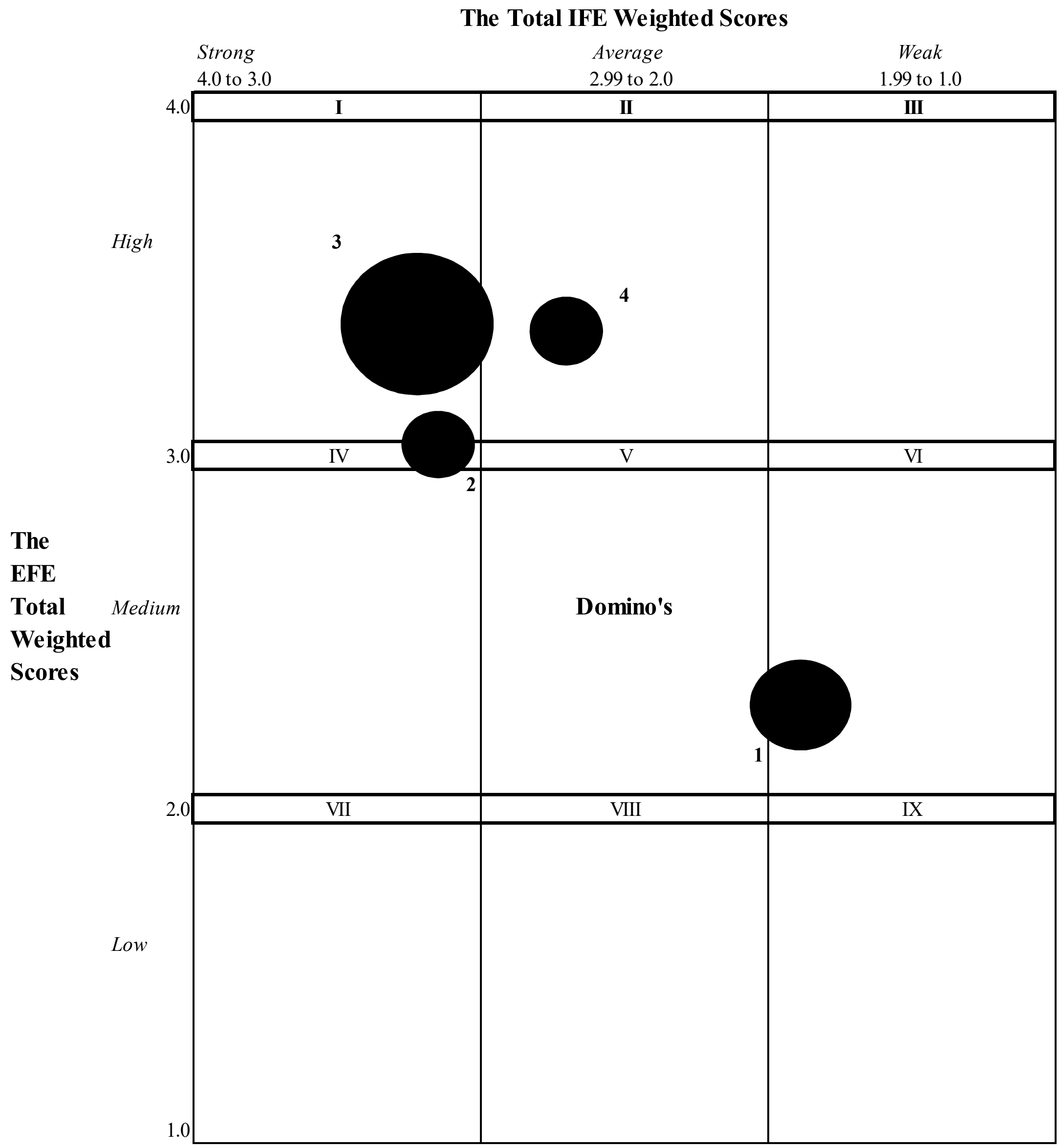
Domino's lands in the Competitive Quadrant based mostly on 1) $1.5 billion in long term debt, 2) intense competition within the fast food industry and 3) Offering products that are generally not a healthy food choice. Domino's should consider adding a line of salads to their menu to help move up the Y-Axis on the Space Matrix.

H. Grand Strategy Matrix



Domino's is clearly experiencing rapid growth, especially internationally; however, their competitive position is unclear lying somewhere between Quadrant I and II. While the company has many more locations and a much better international presence than Papa John's, Pizza Inn, and Little Caesars, the overriding debt problem is a concern. Yum Brand's Pizza Hut still remains supreme among pizza chains. Paying off debt would be a viable strategy for Domino's management.

I. The Internal-External (IE) Matrix



Business Segment	Revenue 2013	Revenue 2012	Revenue 2011
(1) Domestic Company Owned Stores	$324	$336	$345
(2) Domestic Franchise	195	187	173
(3) Domestic Supply Chain	942	928	876
(4) International	218	201	176
TOTAL	**$1,679**	**$1,652**	**$1,571**

Domino's Domestic Supply Chain segment is the true gem of all the segments. Backward integrated and serving 99% of domestic franchisees with their products is a recipe for an enduring revenue stream. While company owned stores have more revenue than either domestic or international franchises, much of Domino's long term debt problem is associated with these stores. Finding franchisees to place into these stores would be a viable strategy for Domino's.

J. QSPM

			Continue Robust International Expansion		*Develop a Line of Healthy Menu Options*	
	Opportunities	**Weight**	**AS**	**TAS**	**AS**	**TAS**
1.	Domino’s reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone. Accounting for over 60 percent of all sales.	0.10	4	0.40	1	0.10
2.	Domino's operates stores, in 70 different nations.	0.08	4	0.32	2	0.16
3.	International stores grew 43 percent from 2008 to March 2013 to total 5,327.	0.08	1	0.08	4	0.32
4.	Backward integrated supply chain provides over 99 percent of supplies for franchisee stores.	0.06	0	0.00	0	0.00
5.	Domino’s enjoys large economies of scale and great brand recognition.	0.02	0	0.00	0	0.00
6.	Domino’s is exclusively a delivery/take out business, reducing overhead by not offering dine in space.	0.03	0	0.00	0	0.00
7.	PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.	0.02	0	0.00	0	0.00
8.	Domino’s Pizza markets their pizzas as having gluten free crust.	0.05	0	0.00	0	0.00
9.	Domino’s recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.	0.06	0	0.00	0	0.00

	Threats	Weight	AS	TAS	AS	TAS
1.	Governments potentially forcing all restaurants to label all nutrition information on the menu at the point of sale.	0.03	1	0.03	4	0.12
2.	Trademark and patent protection laws are not as sophisticated in developing countries.	0.02	0	0.00	0	0.00
3.	YUM Brands (parent company of Pizza Hut) revenues are over 60 percent greater than Domino's.	0.10	3	0.30	2	0.20
4.	Little Caesars was listed as the fastest growing pizza chain in 2010, with revenues up 13.6 percent over 2009, followed by Pizza Hut's 8 percent increase and Domino's 7.2 percent increase.	0.08	4	0.32	3	0.24
5.	Many restaurants such as Wendy's, Subway, and even Pizza Hut offer customers low calorie options on the menu.	0.06	1	0.06	4	0.24
6.	Currently, there are over 925,000 fast food service locations in the USA or one for about every 330 people.	0.03	3	0.09	1	0.03
7.	Barriers to entry are relatively low for the restaurant industry, but rivalry (competitiveness) among firms is exceptionally high.	0.03	1	0.03	2	0.06
8.	In the QSR industry, the bargaining power of consumers is quite powerful, availability of restaurant options in most places are abundant, and consequently there is intense price competitiveness among rival firms.	0.05	0	0.00	0	0.00
9.	Wild fluctuations in commodity prices, especially prices in dairy products since they cannot be locked in for long periods of time, are particularly problematic for the industry.	0.06	0	0.00	0	0.00
10.	Labor, is the second greatest expense in the fast food industry.	0.04	0	0.00	0	0.00

			Continue Robust International Expansion		*Develop a Line of Healthy Menu Options*	
	Strengths	**Weight**	**AS**	**TAS**	**AS**	**TAS**
1.	Domino's reached $1 billion in USA online sales in 2012 from its website, IPhone and Android apps alone. Accounting for over 60 percent of all sales.	0.11	0	0.00	0	0.00
2.	Domino's operates stores, in 70 different nations.	0.09	4	0.36	1	0.09
3.	International stores grew 43 percent from 2008 to March 2013 to total 5,327.	0.08	4	0.32	1	0.08
4.	Backward integrated supply chain provides over 99 percent of supplies for franchisee stores.	0.09	0	0.00	0	0.00
5.	Domino's enjoys large economies of scale and great brand recognition.	0.07	2	0.14	3	0.21
6.	Domino's is exclusively a delivery/take out business, reducing overhead by not offering dine in space.	0.04	0	0.00	0	0.00
7.	PULSE touch screen ordering system allows for increased order accuracy and provides driving directions to drivers.	0.04	0	0.00	0	0.00
8.	Domino's Pizza markets their pizzas as having gluten free crust.	0.02	1	0.02	4	0.08
9.	Domino's recently introduced new Artisan pizzas, and new recipes (higher quality products) for their crust, sauce and cheeses.	0.05	1	0.05	2	0.10

	Weaknesses	Weight	AS	TAS	AS	TAS
1.	While many fast food restaurants have added healthy options, Domino's offers little in respect to healthy food options such as salads or fruit.	0.06	1	0.06	4	0.24
2.	Domino's does not produce a sustainability report or have a sustainability statement on their website.	0.02	0	0.00	0	0.00
3.	Domino's reported over $1.3 billion in negative stockholders' equity at year end 2012.	0.15	4	0.60	3	0.45
4.	Domino's is a relatively large company to operate under a functional type structure.	0.05	0	0.00	0	0.00
5.	One large slice of hand tossed pepperoni pizza contains 300 calories and 12 grams of fat, and there are 8 slices in a pizza.	0.03	1	0.03	4	0.12
6.	No dine in option.	0.02	0	0.00	0	0.00
7.	Domino's suffered a quality image before the launch of the new Artisan pizzas and there is some belief there remains a residual quality problem.	0.08	0	0.00	0	0.00
	TOTALS			**3.21**		**2.84**

K. Recommendations

1. Increase advertising expenses by $35M over the next 3 years to market the new Artisan pizzas and other new products.
2. Establish new franchisees for 1000 new stores over the next 3 years; (200 in Russia, 200 in India, 200 in China, and 400 in Europe/Middle East) for a cost of $100M. (many of these connections are already established).
3. Hire a market research firm to assess the feasibility of adding new healthy options to the menu for a cost of $5 million.

Total Amount of Funds Needed = $140M

L. EPS/EBIT Analysis (in millions expect for EPS and Share Price)

Amount Needed: $140
Stock Price: $55
Shares Outstanding: 57
Interest Rate: 5%
Tax Rate: 37%

	Common Stock Financing			Debt Financing		
	Recession	*Normal*	*Boom*	*Recession*	*Normal*	*Boom*
EBIT	$240	$280	$340	$240	$280	$340
Interest	0	0	0	7	7	7
EBT	240	280	340	233	273	333
Taxes	89	104	126	86	101	123
EAT	151	176	214	147	172	210
# Shares	59	59	59	57	57	57
EPS	**2.56**	**2.98**	**3.62**	**2.58**	**3.02**	**3.68**

	20 Percent Stock			80 Percent Stock		
	Recession	***Normal***	***Boom***	***Recession***	***Normal***	***Boom***
EBIT	$240	$280	$340	$240	$280	$340
Interest	6	6	6	1	1	1
EBT	234	274	334	239	279	339
Taxes	87	102	124	88	103	125
EAT	148	173	211	150	176	213
# Shares	57	57	57	59	59	59
EPS	**2.57**	**3.01**	**3.67**	**2.56**	**2.99**	**3.63**

The EPS/EBIT chart reveals debt financing as the most attractive alternative for all economic conditions. However, it is unclear if Domino's could acquire debt capital at 5%, given the firm's current $1.5 billion of long- term debt on the 2013 balance sheet. With the high stock price, and all recommendations (in this note) suggest having franchisees provide the capital for new stores, acquiring $140 million through equity would only increase total shares outstanding from 57 million to 59 million, so dilution of ownership is not a concern.

L. Epilogue

As of first quarter March 2013, Domino's continues to carry $1.5 billion in long-term debt on the balance sheet resulting in over $1.3 billion in negative stockholders' equity. Despite the continued troubles with debt, one interesting strategic change is as of March 2013. Domino's has changed their principle strategy of delivery speed to taking extra time to produce a top-quality pizza. Down are the advertisements of yester year, promising free pizzas if not at your door in 30 minutes and in is a nation-wide marketing campaign claiming Domino's pizzas are made fresh from never frozen dough, and it just takes a bit longer to make a better pizza. This campaign comes on the heels of Domino's starting their Artisan Pizzas and new recipes just a few years earlier. The new buzz word/slogan for Domino's newest marketing campaign is simply "try our Handmade Pan Pizza."

In addition to the new Handmade Pan Pizza, Domino's is rolling out a new $5.99 value menu that offers Penne Pastas, Stuffed Cheesy Breads, 8-piece chicken varieties, and Oven Baked Sandwiches. All of these products are in addition to the $5.99 medium two topping pizza pick-up special Domino's has offered in recent years. With the new products (and change in pizza recipe), Domino's is claiming through advertisements that 80 percent of their menu items are new since 2008.

Chapter 1: Domino's Pizza

10 Basic Questions

1: A

2: C

3 C
4: B

5: A

6: D

7: C

8: B

9: C

10: C

15 Applied Questions

Porters Five Forces Model

1: D

2: B

3: A

4: B

5: D

Organizational Structure

1: A

2: C

3: D

4: D

5: A

Strategy Types

1: D

2: D

3: D

4: A

5: D