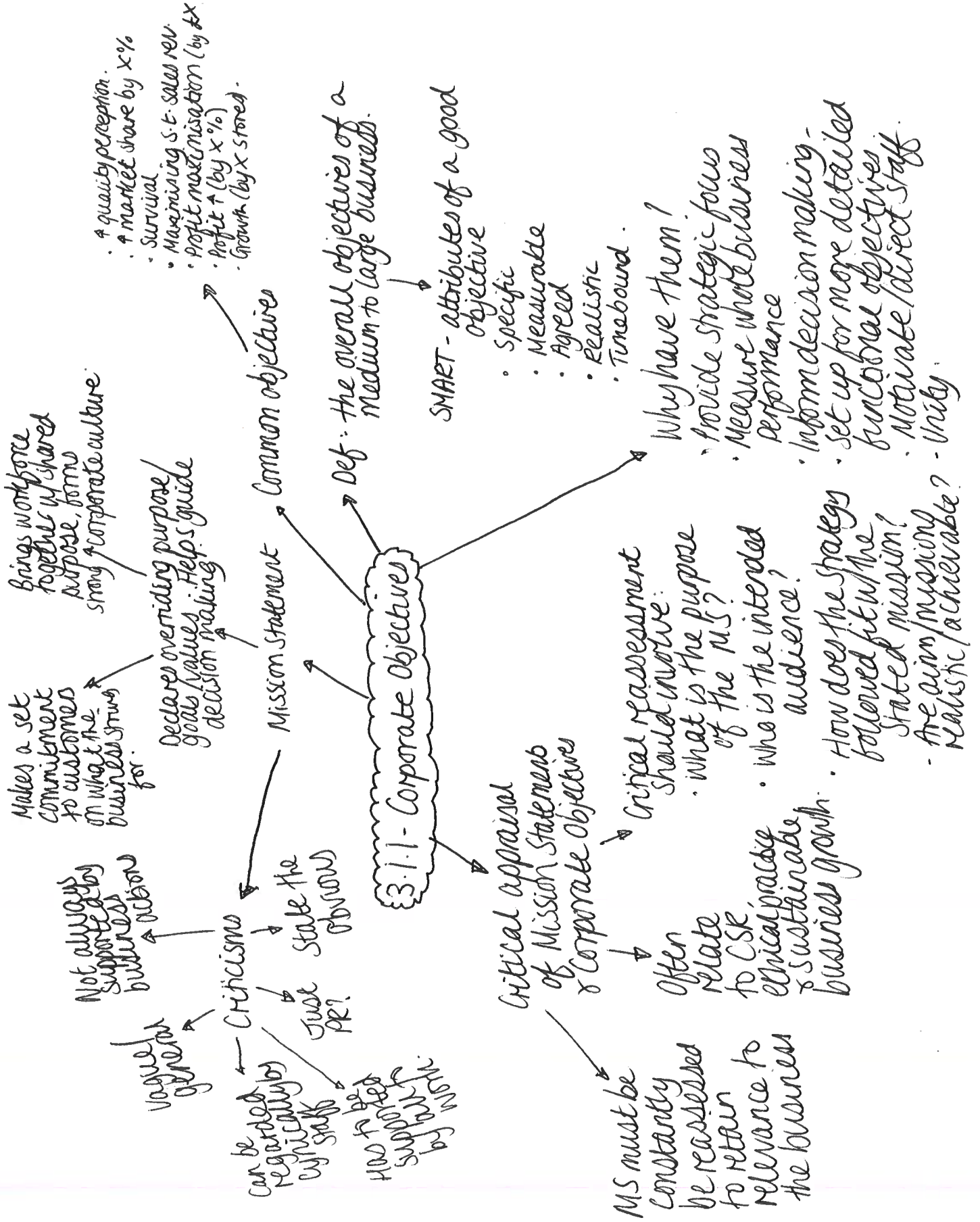




Allows owners to consider no. of factors to determine C.S. level of investing in new/existing areas. Exploitation of diff. growth strategies acceptable level of acceptable risk becomes firm the farther from value/producer consumer. Strategic tool to help business achieve growth.

	Product	
Market	Existing	New
	Existing	New
	Market penetration	Product development
	Market development	Diversification

Ansoff's Matrix

Plans/policies formed to meet a company's objective

3.1.2 - Theories of Corporate Strategy

Must adopt one to succeed

Identifies the sources of sustainable competitive advantage a business may achieve.

Differentiation/low cost are main sources

Cost Leadership

Porter's Strategic Matrix

Low cost

Differentiation

Focus (cost different)

Large scale production to exploit EoS. Similar prices => cost has highest profit. High productivity/efficiency. Capacity utilisation.

Branding/durability/quality => adding value.

Focus on USP

Focus on USP

Focus on USP

Focus on USP

Focus on USP

Focus on USP

Focus on USP

Focus on USP

Focus on USP

Focus on USP

Competitive Advantage via Distributive Capabilities

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Architecture/Relationships/Reputation

Aim of portfolio analysis

Categorising products of firm to decide where each fits within strategy plan. Then evaluate by comp. position possible growth rate.

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Current/Projected sales & future comp. performance risks

Porter's Forces

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Competitive Rivalries

Competitive Rivalries

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Competitive Rivalries

Competitive Rivalries

Boston Matrix

High Market growth rate %	Stars	Question Marks
Low Market growth rate %	Cash Cows	Dogs
	High Market Share	Low Market Share

Barriers to entry => Gain M.S., rivalry.

Supplier power, Buyer power, Threat of new entrants, Threat of substitutes, Rivalry.

Porter's Forces

Porter's Forces

Porter's Forces

Porter's Forces

Porter's Forces

Porter's Forces

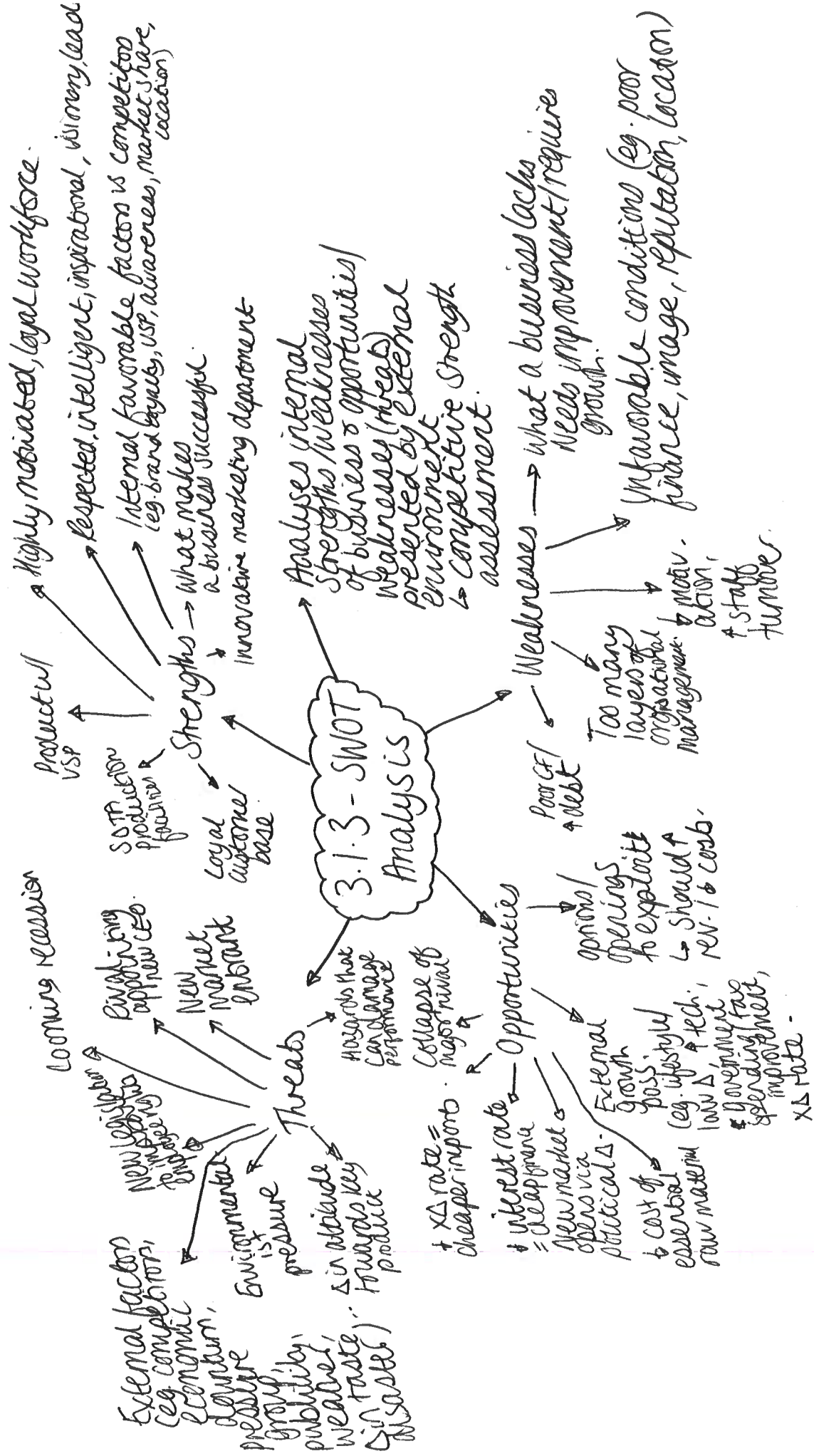
Porter's Forces

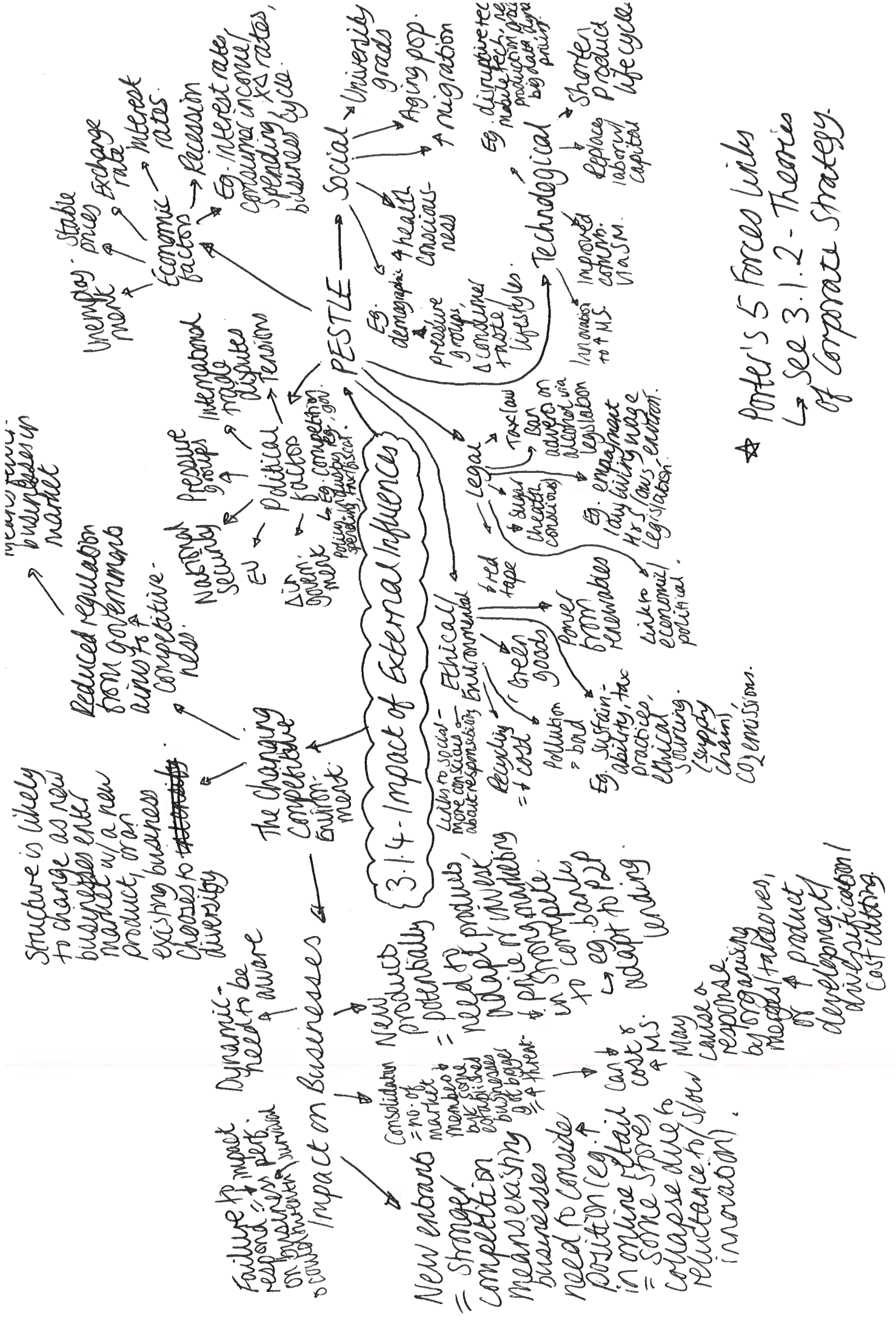
Porter's Forces

Porter's Forces

Porter's Forces

Porter's Forces





★ Porter's 5 Forces links
 ↳ see 3.1.2 - Theories of Corporate Strategy

Total production costs in period (t)

Total output in periods
(Average)
(units)

Internal communication

Overbidding

Diseconomies of scale

problems from growth

Unit Costs

3.2.1 - Objectives of Growth

grow business / shareholder value
→ large businesses = ↑ valuable

Key Objectives
→ ↑ profits
↳ key objective esp. for firms in stock markets / owned by private eq
→ Achieve EoS
↳ ↑ scale of output =
↳ unit costs = ↑ competitiveness
→ market power
↳ large firms have greater bargaining power over suppliers / customers = ↑ comp a

↑ M.S. / brand recognition
↳ link between ↑ M.S. / BRW / ↑ profits

financial - large firm = cheaper / pa
Purchasing - greater quantities @ lower price

Technical - use of specialist eq to boost productivity
→ Managerial - specialist managers employed to ↑ unit costs / boost efficiency
→ Marketing - fixed spend over range of products / markets / customers

Network - adding exs customers / users to the established network

Specialist suppliers nearby
Access to R&D facilities
Pool of skilled labor

Economies of scale

Horizontal
↳ when a business joins another @ same production stage

Diseconomies of scale
↳ negative impact on businesses of expansion

Vertical
↳ when one business joins another @ a different production stage

Internal

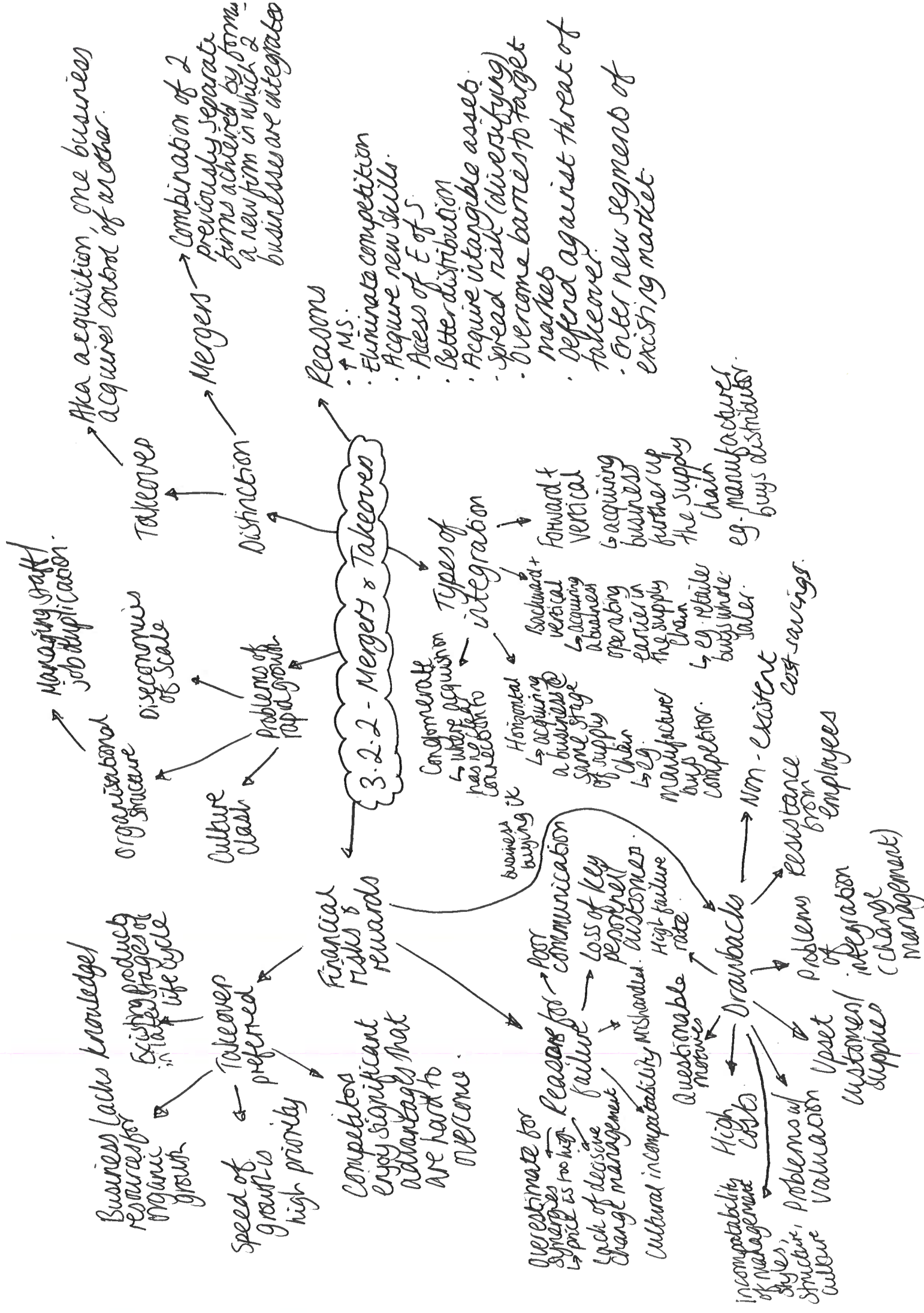
Cost impacts on businesses arising from inside

External

Cost arising from outside

All competition benefit
↳ arise from industries as a whole

Ass. w / particular geographic area



3.2.2 - Mergers & Takeovers

Distinction

Aka acquisition, one business acquires control of another.

Takeover

Combination of 2 previously separate firms achieved by forming a new firm in which 2 businesses are integrated

Reasons

- MS.
- Eliminate competition
- Acquire new skills.
- Access of E of S
- Better distribution
- Acquire intangible assets.
- Spread risk (diversifying)
- Overcome barriers to target markets
- Defend against threat of takeover.
- Enter new segments of existing market.

Types of integration

Conglomerate
↳ where acquisition has no effect on relationship

Horizontal
↳ acquiring a business @ same stage of supply chain
↳ e.g. manufacturer buys competitor.

Backward vertical
↳ acquiring business earlier in the supply chain
↳ e.g. retailer buys wholesaler.

Forward vertical
↳ acquiring business further up the supply chain
eg. manufacturer buys distributor.

Culture clash

Problems of rapid growth

Diseconomies of scale

Organizational structure

Managing staff, job duplication.

Financial risks & rewards

Takeover preferred
Speed of growth is high priority

Business lacks knowledge
resources for organic growth
Existing products in later stages of life cycle

Competitors enjoy significant advantages that are hard to overcome.

Reasons for poor communication
↳ synergies price is too high
↳ Lack of decisive change management
↳ Cultural incompatibility
↳ Misunderstanding
↳ High failure rate

Drawbacks

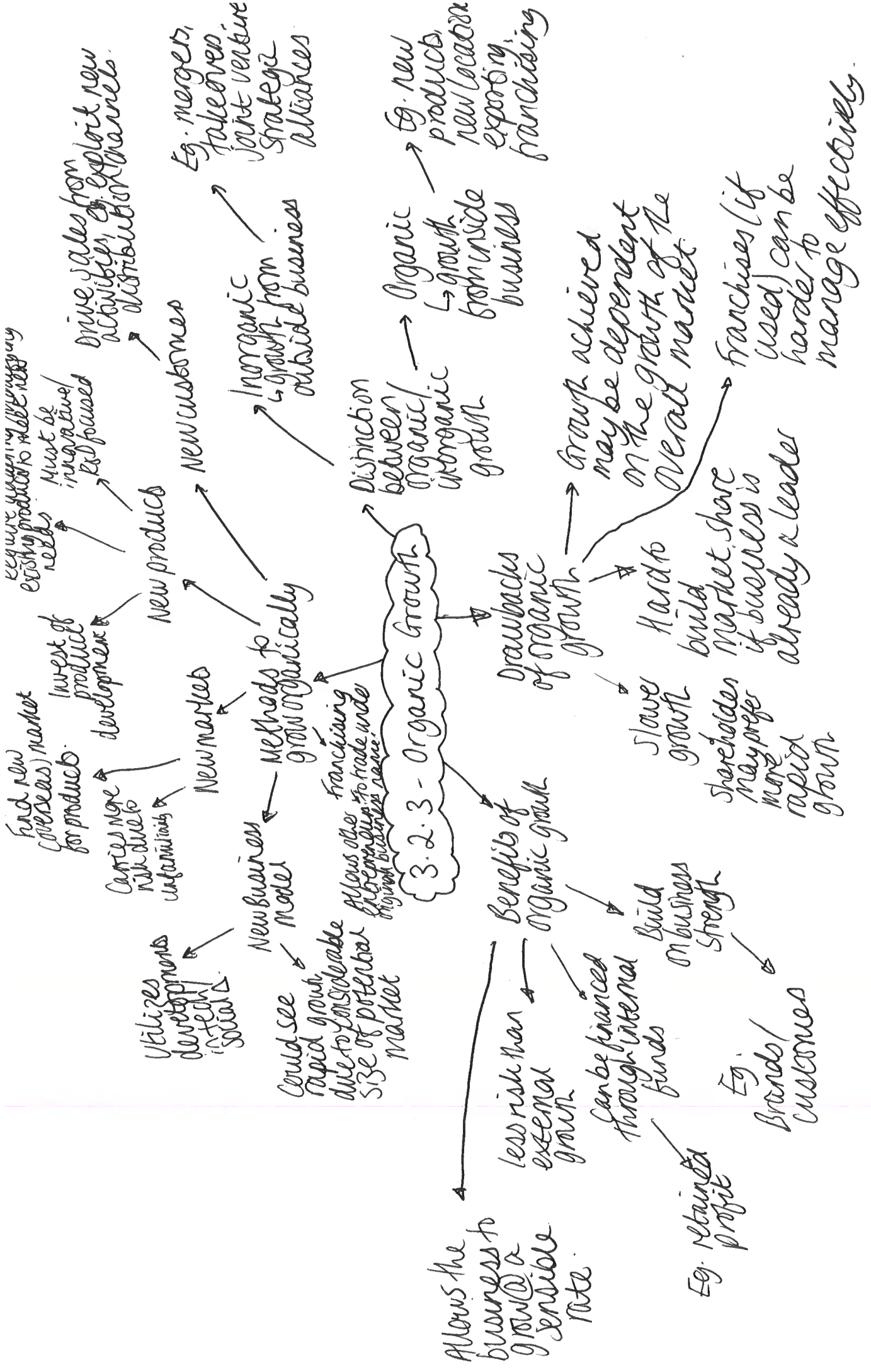
Incompatibility of management styles, structure, culture, valuation

High costs

Problems of integration (upset customers/suppliers, change management)

Resistance from employees

Non-existent cost savings.



Effects of time
on VPM are ignored.

ARR method

NPV = + together all
the present value of
future cash flows

Present value = rate
Cash flows discount

Reflects an
account
different rates
adjusts by adjusting
discount rate

Advantages
Accounts earnings
future earnings

Calculator
Easier on
investment
Use the
discount
tables to
show how
much future
value must
be multiplied
to calculate
present value

account effect of
interest rate & time

2 features of
discounting

Money can
be invested /
worth interest.
Value of CF in future
= present
discount rate

Further into
future CF in
from investment
project less
in present
value

More complex
calculations
Higher value
of future cash flows

Limitations
Hard to
choose
DR.

Results can be
manipulated

Profitability
is weighted
cash earned
after the payback
period is
ignored

Simple
payback

3.3.2 - Investment Appraisal

Discounted
Cash Flow
Net Present
Value

Must take
into account
what CF
profit earned
in future is
worth @
present value
future money
is worth less
than same amount
now

May be a method
adopted if a business
has cash flow problems
quicker than
others
Project chosen over
payback investment
eg. agriculture
Simple to
use
Useful when tech. is rapidly
changing
Important to know new market
investment cost
Net CF/yr taking
into account costs
Can also be turned into
cumulative net
cash flow
Amount of time it
takes to recover the
cost of an investment
project

Simple payback

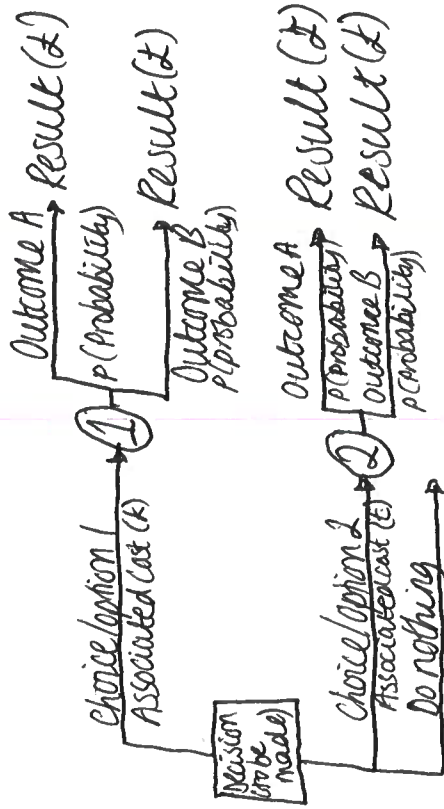
Average Rate of Return (ARR)

ARR % = $\frac{(\text{Total Returns} - \text{Capital Cost}) / \text{Yrs in Use}}{\text{Capital Cost}} \times 100$
Measures
net return
each year as %
of capital cost of
investment

Disadvantages
Doesn't take into
account effects of
time on value
Estimated inflows
(fashion/oil)
Qualitative factors
(ethical)

Advantages
Shows profit
ability of
investment
project

Allows range
of projects to
be compared
Identifies
opportunity cost
Allows them to
make decisions
(eg. postpone
if not interested
enough)



- Identify options/ add possible outcomes
- Add associated cost/outcomes/ probabilities/ financial results
- Calculate the expected values & Net gains

shows all possible outcomes of a decision.

Mathematical model
Helps managers make decisions/ probabilities
Estimates/ probable outcomes
to calculate likely outcomes
Help decide whether net gain from decision is worthwhile

3.3.3 - Decision Trees

How does it work?

Use a series of estimates/ probabilities/ assumptions to calculate likely outcomes.

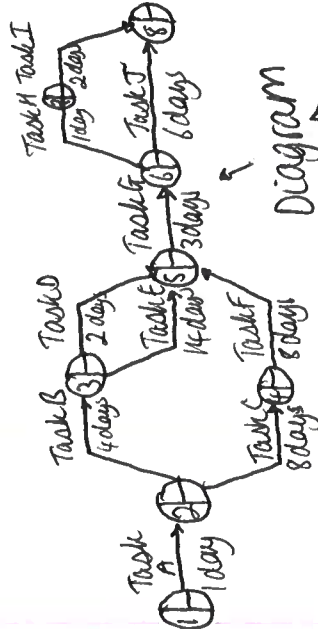
Calculating estimates help decide whether net gain from decision is worthwhile.

4 Step approach

See procedure

Diagram

Procedure



Dependent on earlier tasks

Always choose the longest amount of time when placing EST in nodes.

Earliest start time

Shown in top right of nodes

Latest finish time

Shown in bottom left of nodes

Float time

Formula: $LFT@node - \text{time taken to complete task}$

↳ amount of time by which a task can be delayed w/o affecting the project

Calculation: $= LFT \text{ of activity} - EST \text{ of activity} - \text{duration}$

Free float = delay between tasks w/o effect

If on critical path float = 0

EST start of next task - this task

3.3.4 - Critical Path Analysis

Diagram

Useful in managing big projects

Efficiency

Decision making

Time based management

Purposes

Working Capital Control

CPA is used to calculate the time minimum required to complete a project & establish any delays that may impact date of completion.

Nature & Purpose of CPA

Often used in construction, engineering, product development, software design, plant maintenance, aerospace & defense industries

Limitations of CPA

Reliability bases on assumptions! Estimates

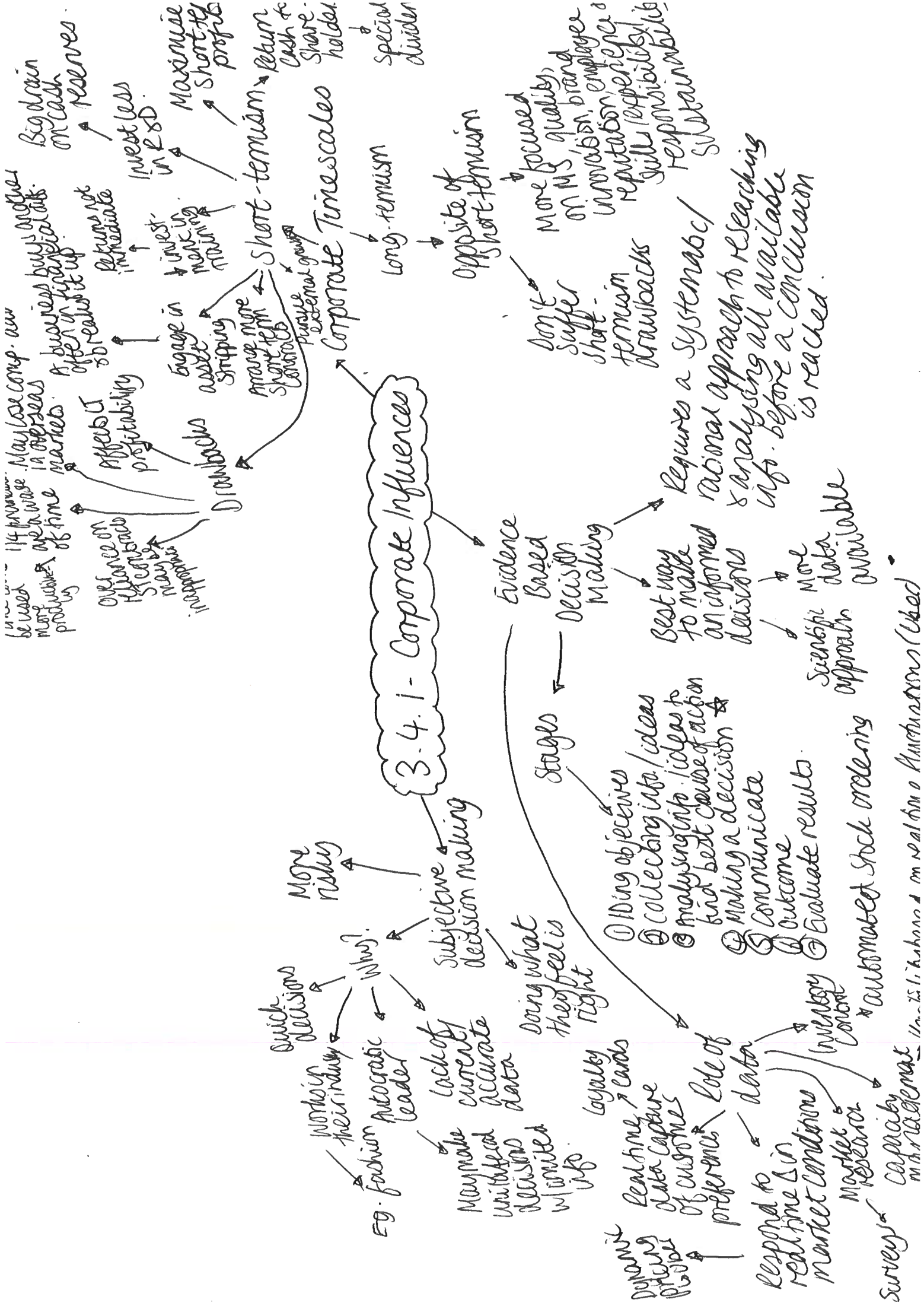
Resources may be inflexible

Can become too complex

Use computers instead

Doesn't guarantee success

3.4.1- Corporate Influences



- Sense of urgency for employees → *flexibility*
- Improves teamwork
- ↑ commitment = ↓ staff turnover
- Motivates = ↑ productivity
- Reinforces values
- Strategy control device

Strong leaders attributes → permeate business

What are their beliefs/personalities?

Consider role of founding members

Advantages

Strong & weak cultures

- Strong - deeply embedded into organisation's way of thinking
- Weak - difficult to identify factors that form culture / wide subculture range exists

Determining a strong/weak culture

Surface manifestations → Rikva

- Stories → Business heroes
- Norms → Physical dress, layout, day
- Walls → Disney
- Training → Open Hot plan dealing
- Uniforms → Award ceremony song
- Furniture → Tools
- Artifacts → Ceremonials

Charles Handy: Understanding 1990s organisations

- Autocratic → Allows for swift decisions & few rules
- Competitive atmosphere → Compete to gain power as it allows them to achieve min objectives
- Political atmosphere w/ little bureaucracy

Central source of power responsible for decision making

Power

- Common in small/med. & new businesses w/ one owner
- Decisions made through well established rules & procedures
- Tall or flat hierarchy w/ long chains of command of command → bureaucratic / paternalistic

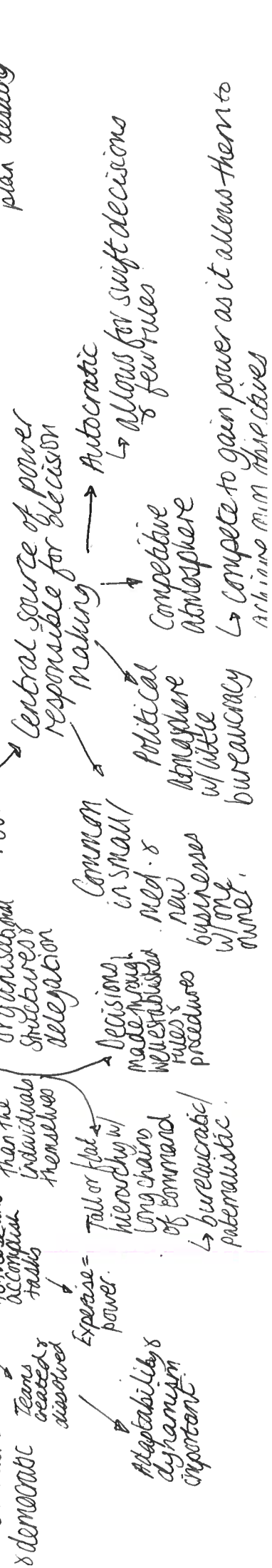
Role

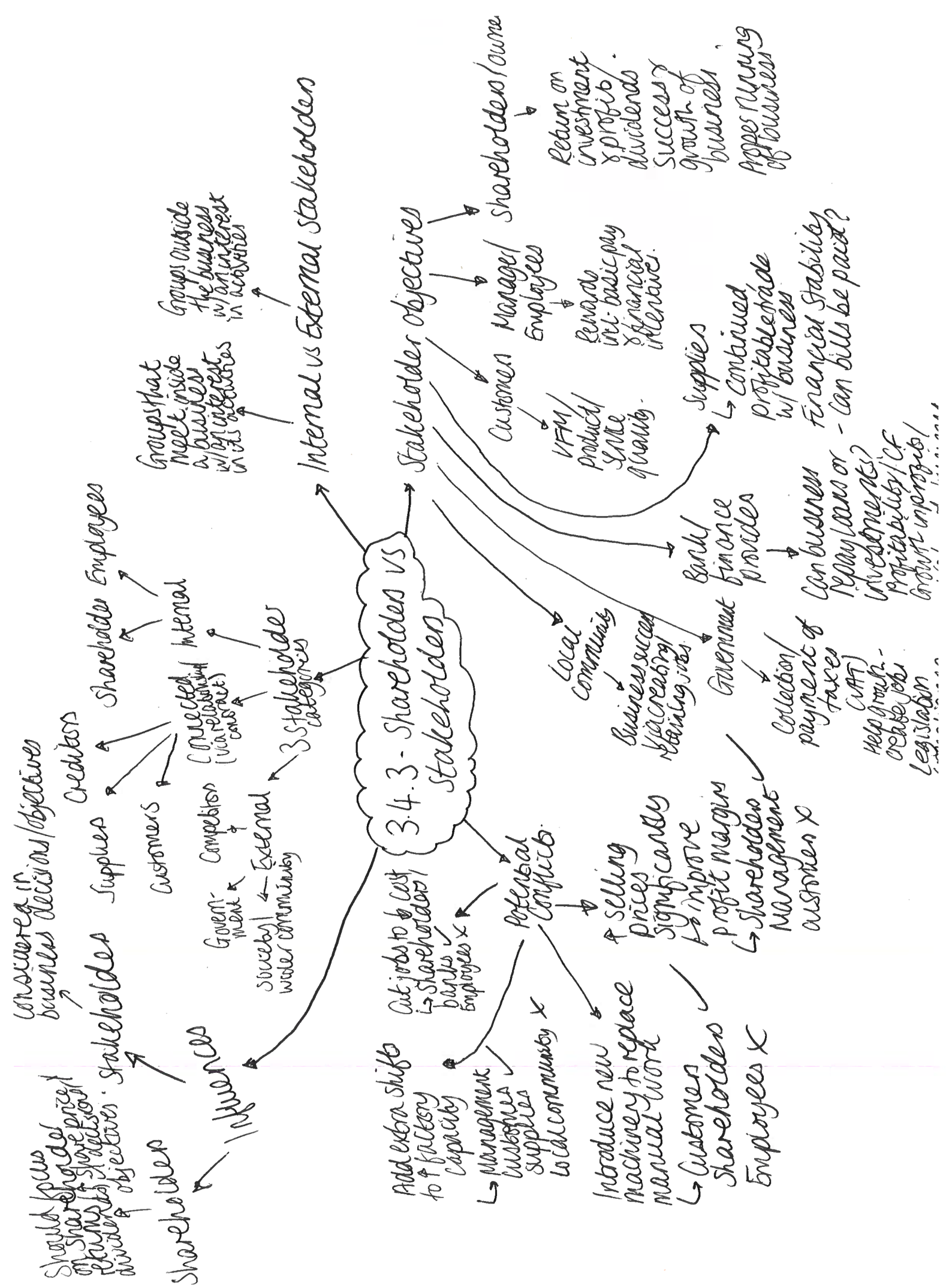
- Common, linked to organisational structures & delegation
- Influence & control lies w/ individuals rather than the individuals themselves

Task

- Power given to those who accomplish tasks
- Teamwork → Teams created & dissolved
- Expense = power
- Adaptability & dynamism important

Paternalistic & democratic





- helps motivate investors.
- ↑ motivation of employees.
- Helps correct social issues caused by business.

- Improves business image / reputation.
- Necessary to avoid excessive regulation.
- Socially responsible actions = profitable.
- Improved social environ. benefits business.

Ethical thing to do

Arguments from CSR

- Employment / wages
- Investment / innovation
- Profits / taxes

Society

Business & Society are interdependent

- Create demand
- Public assets / infrastructure
- Legal protection

CSR & Ethics

CSR is about responsibility to all stakeholders

The extent to which a business addresses concerns / obligations to wider stakeholders

Actions a business takes over/above the min. required by law to address societal needs & wants

3.4.4 - Business Ethics

Drawbacks of Behavior

- Higher costs - eg. sourcing Fairtrade rather than price.
- Higher overheads - eg. training / comm. of policies.
- Danger of building up false expectations.
- Expensive USPs / comp. adv.

Benefit of Ethical Behavior

- Higher revenues - demand from positive consumer support / comp. adv.
- Improved brand / business awareness & recognition.
- Better employee motivation / recognition.
- New sources of finance, eg. ethical investors.

Areas where ethics are tested

- Pricing
- Contracts
- Advertising
- Personal selling

Pay & Rewards

'Bonus Culture'

Do management cut come via incentive of bonuses?

'Fat Cats'

Is it ethical for CEOs are paid 100s of £'s more than average employees?

operating profit: selling/admin costs subtracted from gross profit
 profit generated from functional activities

Admin costs: selling expenses: directly related to sale of products
 - Commission, advertising, phone calls
 - Gross profit: COS subtracted from Rev. Profit before giving overheads
 - Cost of sales: production (direct costs) → raw material / labour

Key info → Revenue: money received from selling goods (extra: VAT)

Can consider capital structure to raise finance

Finance costs: eg. interest that needs to be paid on a loan
 Borrowing money

Profit for the year (net): COS of finance subtracted from operating profit

Profit for the year (after tax): amount of money left over after expenses (if tax have been deducted from rev)

Bottom line

Manager/Director
 - Useful for management to money for financial working capital

Shareholders
 - Share capital
 - Shareholders' equity
 - Share capital is used to finance the business

Belongs to Owners
 Shareholders (if it's limited) → some may be distributed as dividends

Stakeholder Interest
 - Used to evaluate business performance

Retained earnings: profit
 - Same as retained profit
 - Amount retained after paying dividends to shareholders
 - Used for future projects

Equity
 - Amount of money owned by shareholders

Capital
 - Money borrowed by owners (ie. buying shares)
 - Source of funding (assets)

Liabilities
 - Debt: source of funding (ST = overdraft, LT = mortgage)
 - Current: borrowing, trade, dividends, tax liabilities: money owed expected to be repaid in 12 months

Net assets
 - Value of all assets minus value of all liabilities
 - Some value as Shareholders Equity

Stakeholder Interest

Manager/Director
 - Use SCI to monitor progress
 - Eg. growth set targets for new profit growth

Suppliers
 - Useful for char on creditworthiness before accepting orders via trade credit
 - Tend to look @ trading history or profitability

Shareholders
 - Interested in net profit after tax
 - This, & ↑ profits, are an effective guide to performance
 - Also look @ growth via statement of comprehensive income

The Government
 - SCI must be presented by law
 - Needed by HMRC to assess tax business must pay & assess profits loss
 - ONS collect economic data so accounts are useful for them too

Statement of Financial Position
 - Balance sheet → assets, liabilities, Capital

Assets
 - Resources owned/used
 - Current: liquid, either cash or will be in 12 months (raw materials, money from sales)

Liabilities
 - Debt: source of funding (ST = overdraft, LT = mortgage)
 - Current: borrowing, trade, dividends, tax liabilities: money owed expected to be repaid in 12 months

Net assets
 - Value of all assets minus value of all liabilities
 - Some value as Shareholders Equity

Other reserved
 - Amount reserved for future projects

Share premium account
 - Shows diff. between value of new shares & nominal value

Capital
 - Money borrowed by owners (ie. buying shares)
 - Source of funding (assets)

Liabilities
 - Debt: source of funding (ST = overdraft, LT = mortgage)
 - Current: borrowing, trade, dividends, tax liabilities: money owed expected to be repaid in 12 months

Net assets
 - Value of all assets minus value of all liabilities
 - Some value as Shareholders Equity

3.5.1 - Financial Statements

Statement of Comprehensive Income (Profit & Loss)

Statement of Financial Position

Balance Sheet

Assets

Liabilities

Net Assets

Shareholders

Manager/Director

Stakeholder Interest

Retained Earnings

Equity

Capital

Liabilities

Net Assets

Share premium account

Other reserved

Current

Non-current

LT resources

Goodwill (amount business is willing to pay for another business)

