

Strategic and International Management

– 4. Strategy analysis

Strategic and International Management

Agenda

- 1 Foundations of management
- 2 Stakeholders, objectives, and governance
- 3 Strategic decision making and performance
- 4 Strategy analysis**
- 5 Competitive strategies
- 6 Strategy implementation

Strategic and International Management

Agenda

4 Strategy analysis

4.1 Strategy analysis in perspective

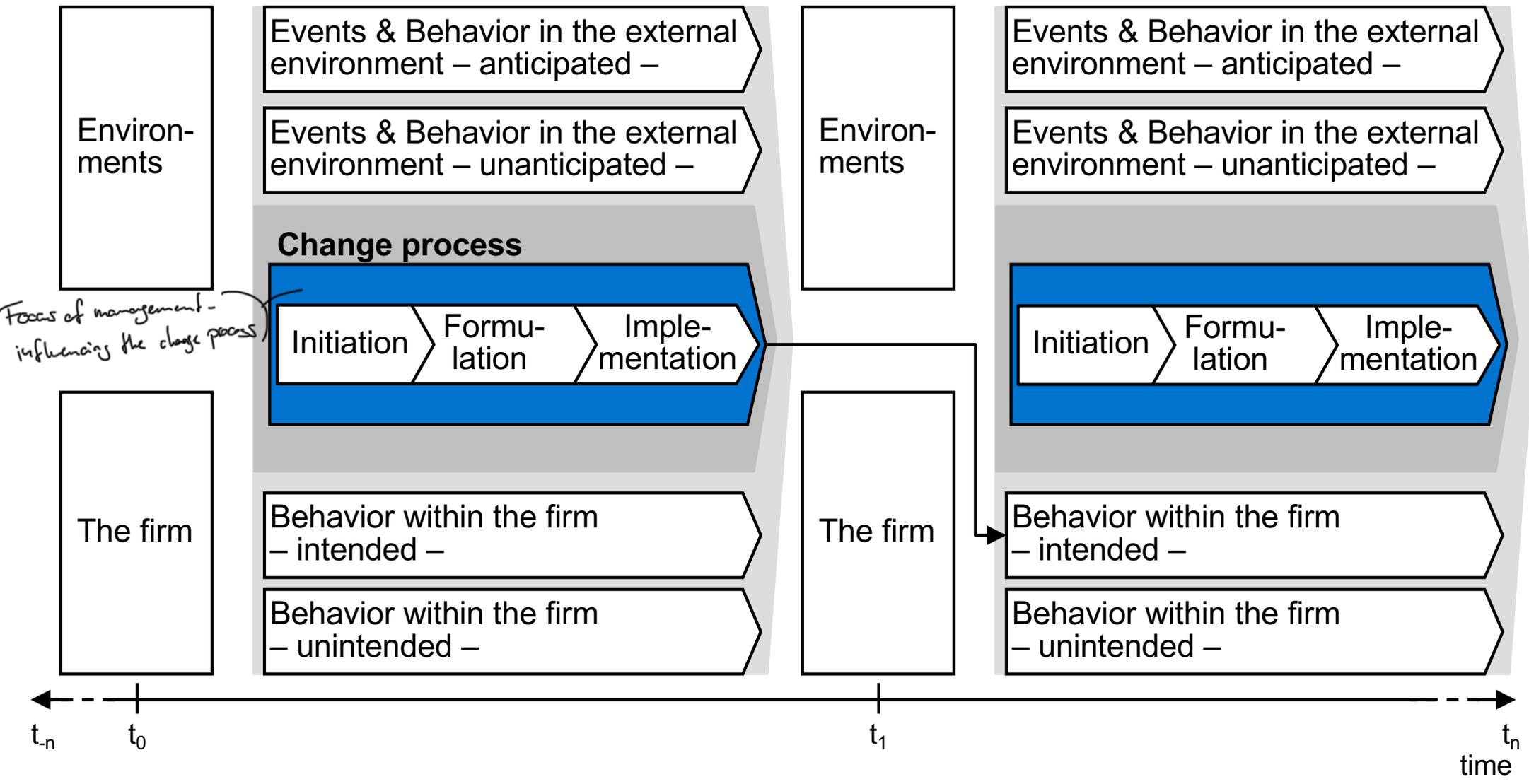
4.2 External analysis – an introduction

4.3 Internal analysis – an introduction

4.4 Fit between the firm and the environment

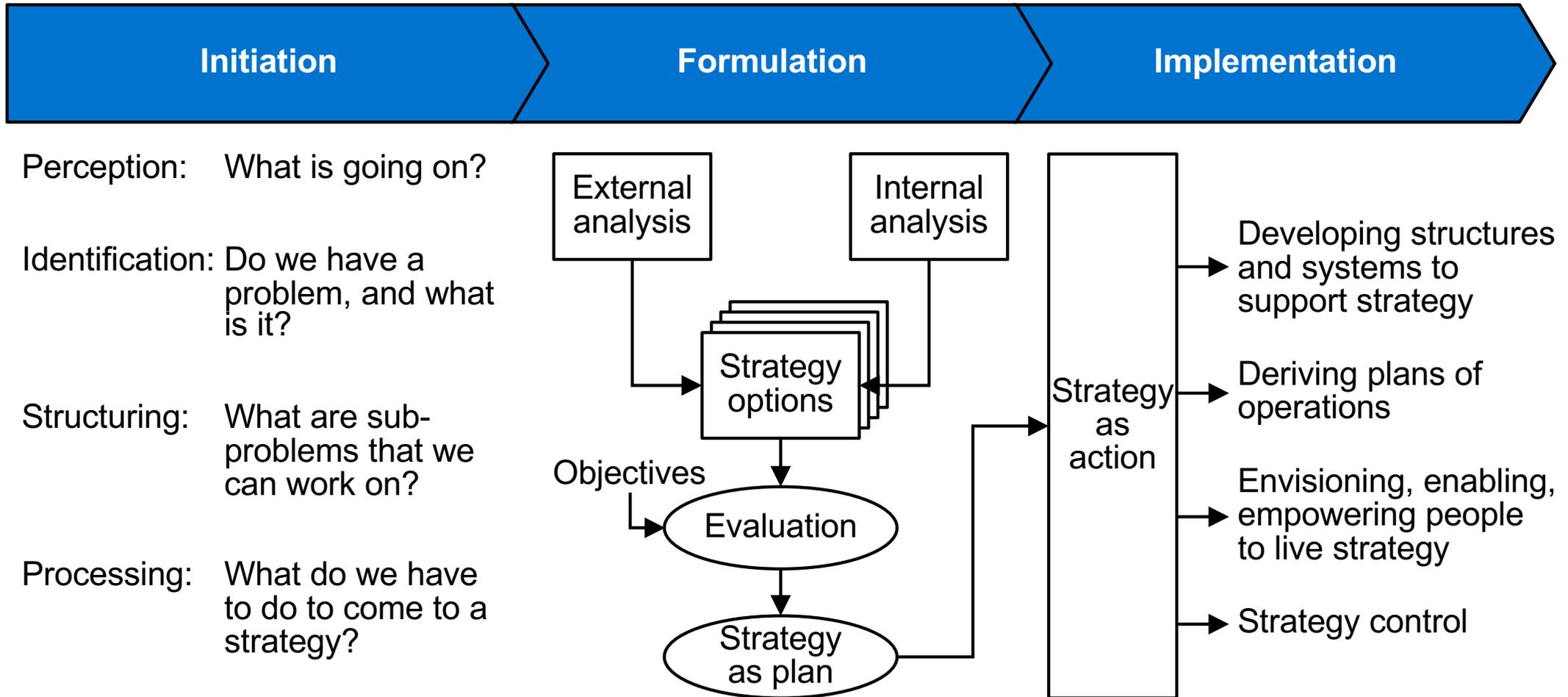
Learnings

What changes the firm?



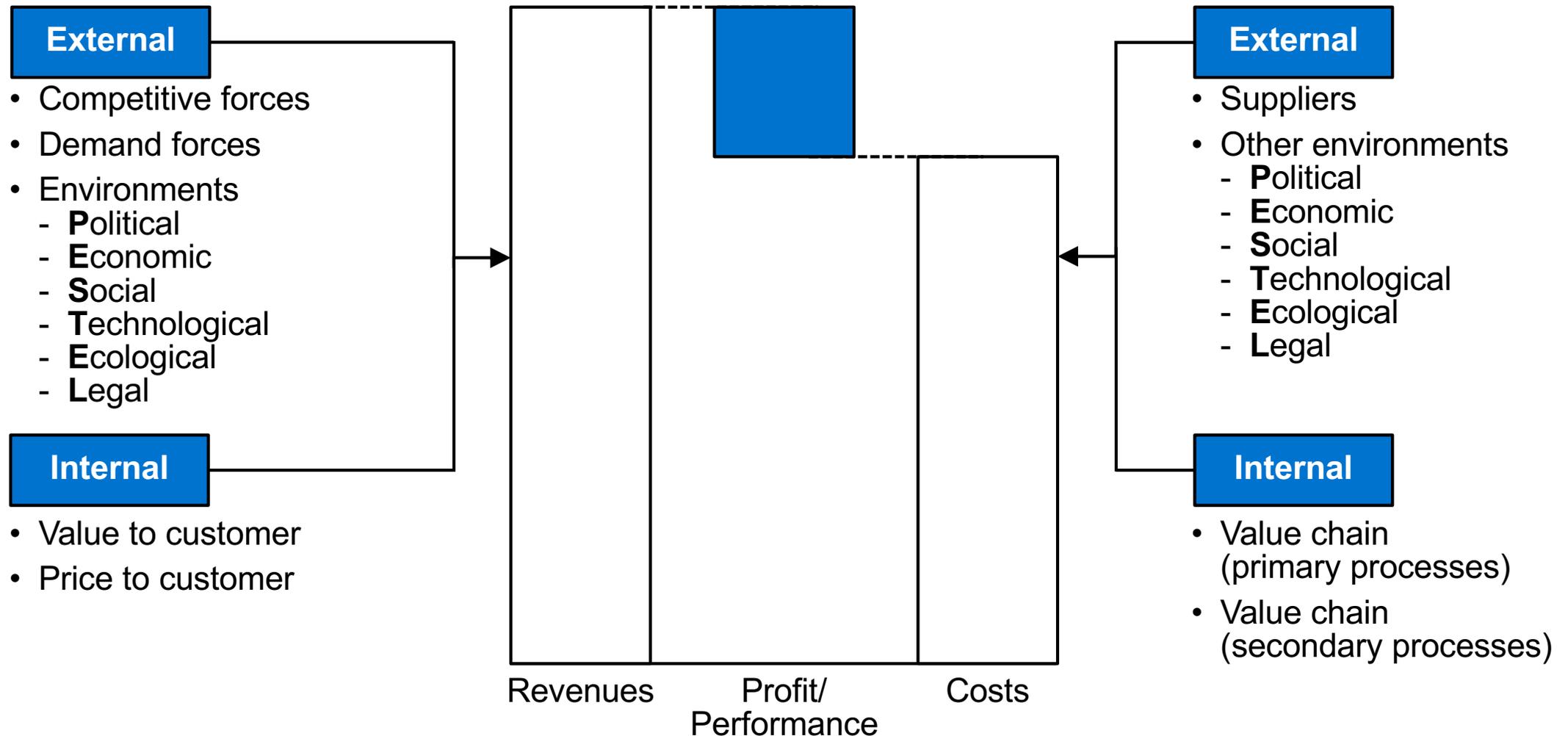
An idealized process of strategy making includes three phases

Process of competitive strategy making



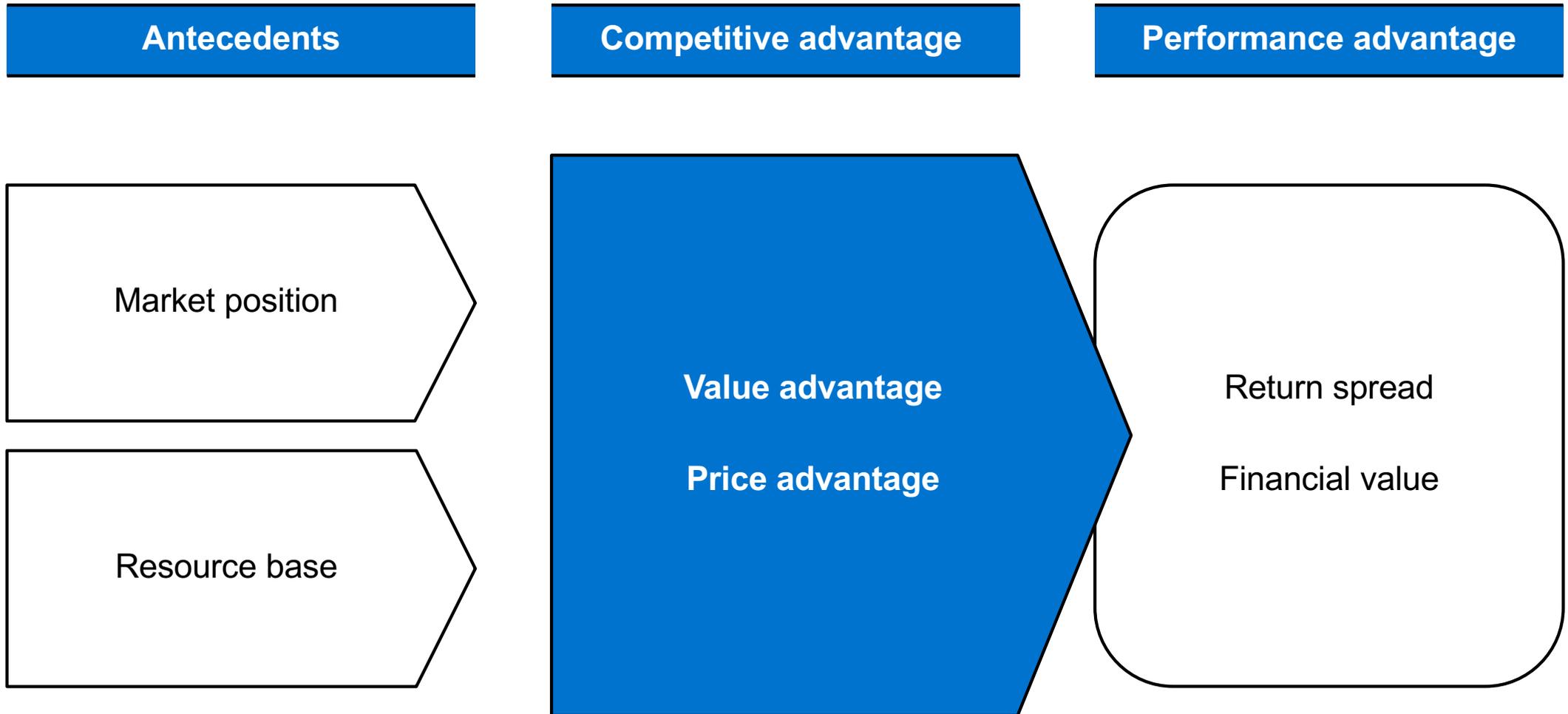
External and internal analyses help to understand current performance and to predict future performance

External and internal factors and their influence on performance



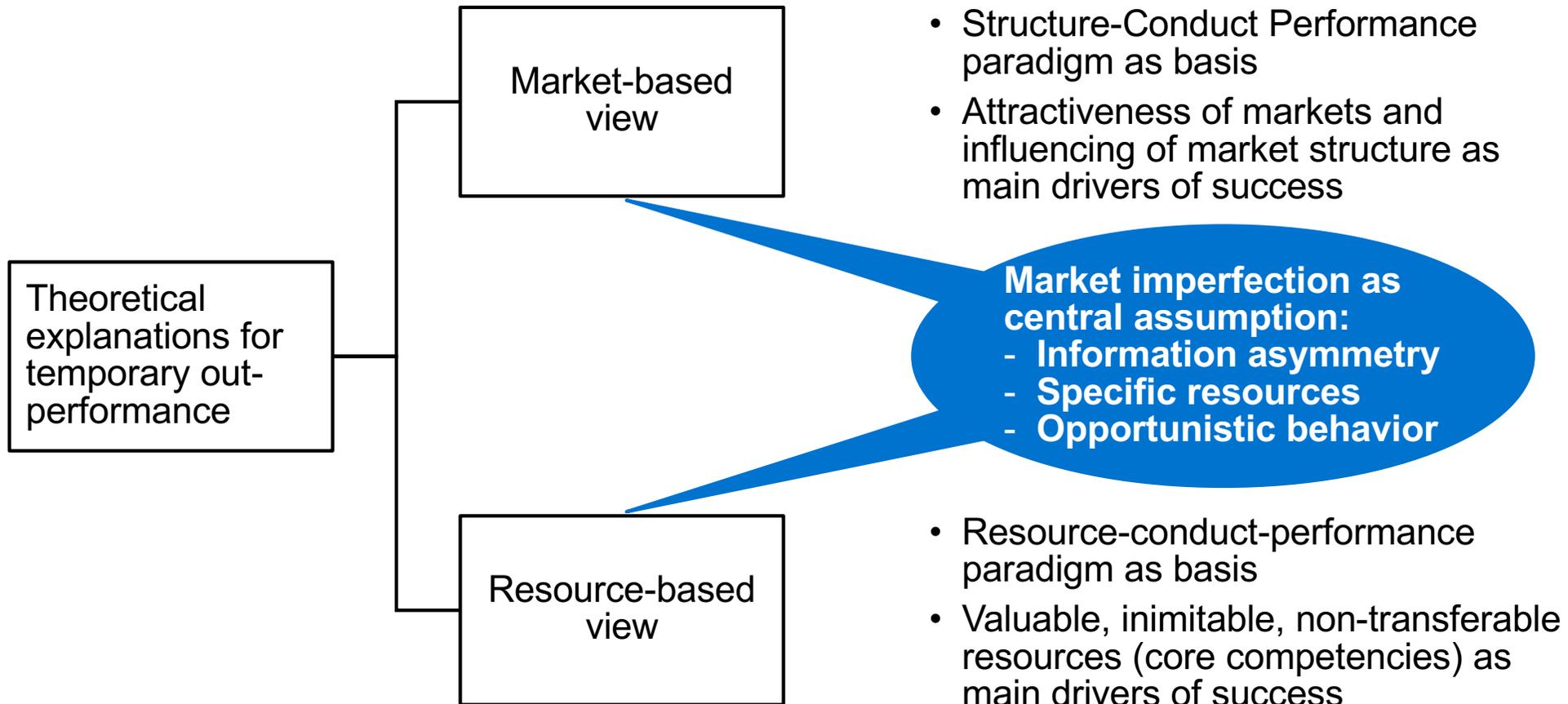
From resources and positioning to competitive advantage to performance advantage is the core of strategic thinking

Strategy and antecedents of performance advantage



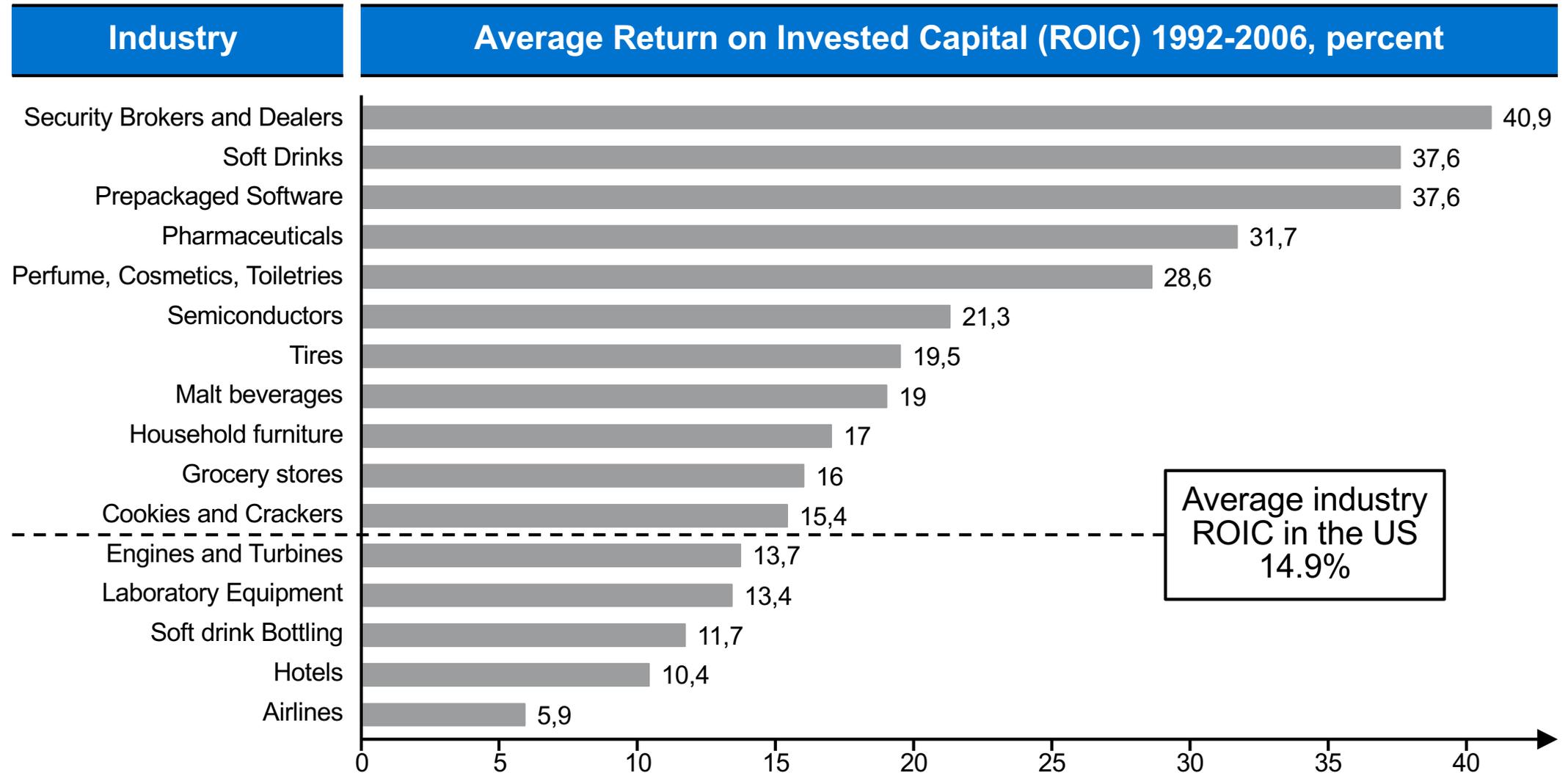
The market-based view and the resource-based view form the theoretical basis of strategy

Overview of theoretical concepts



Why are some industries consistently more profitable than others?

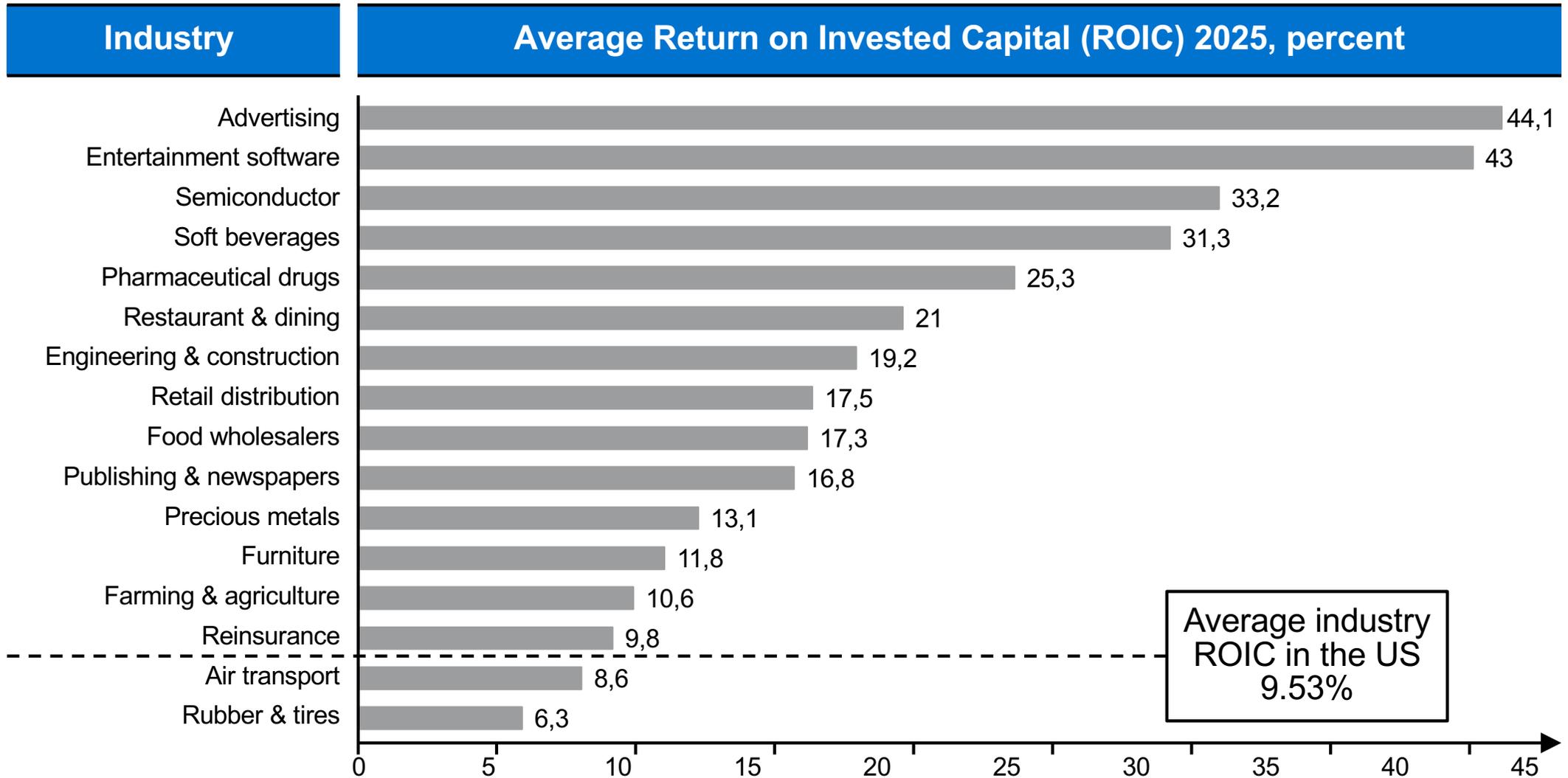
Profitability of selected U.S. industries



Source: HBR (Jan. 2008), p. 83

Why are some industries consistently more profitable than others?

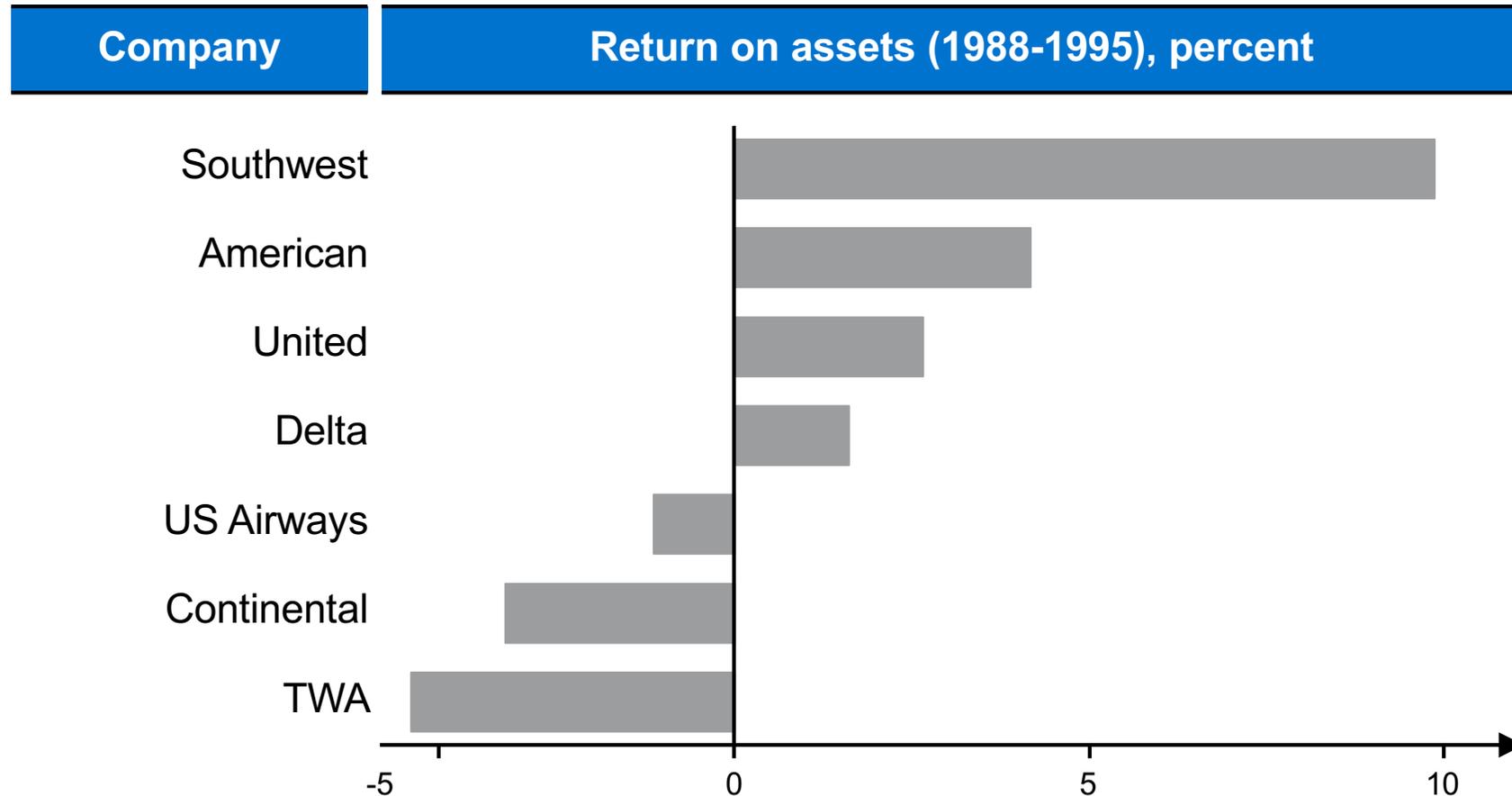
Profitability of selected U.S. industries



Source: Damodaran, A. (Jan. 2025). Margins and ROC [Dataset]. NYU Stern School of Business.
https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/mgnroc.html (17.10.2025)

Also within industries profitability can differ significantly

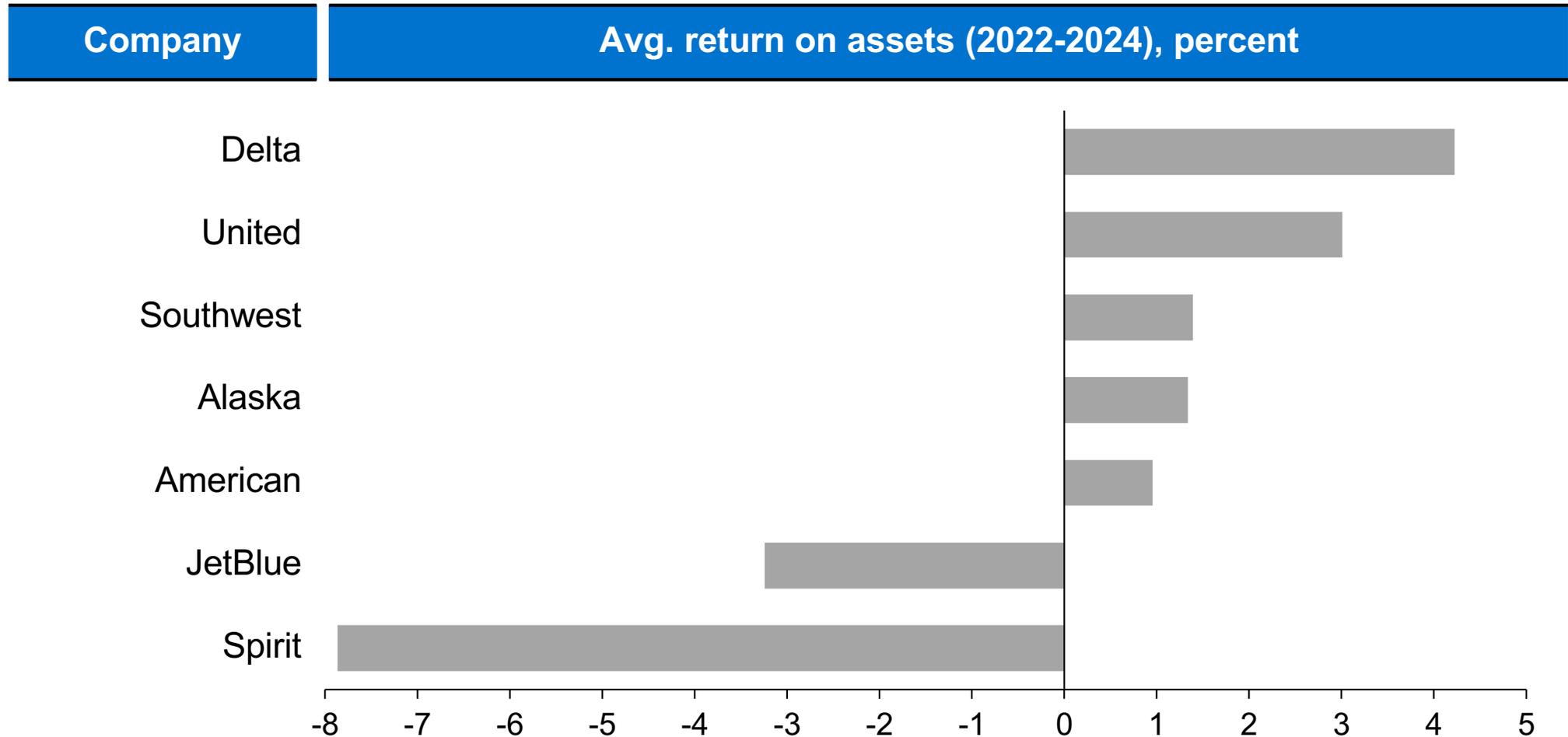
Profitability differences within the airline industry



Source: Ghemawat & Rivkin 1998, Creating Competitive Advantage, Harvard Business School

Also within industries profitability can differ significantly

Profitability differences within the airline industry



Source: Calculation based on S&P Global Market Intelligence (17.10.2025)

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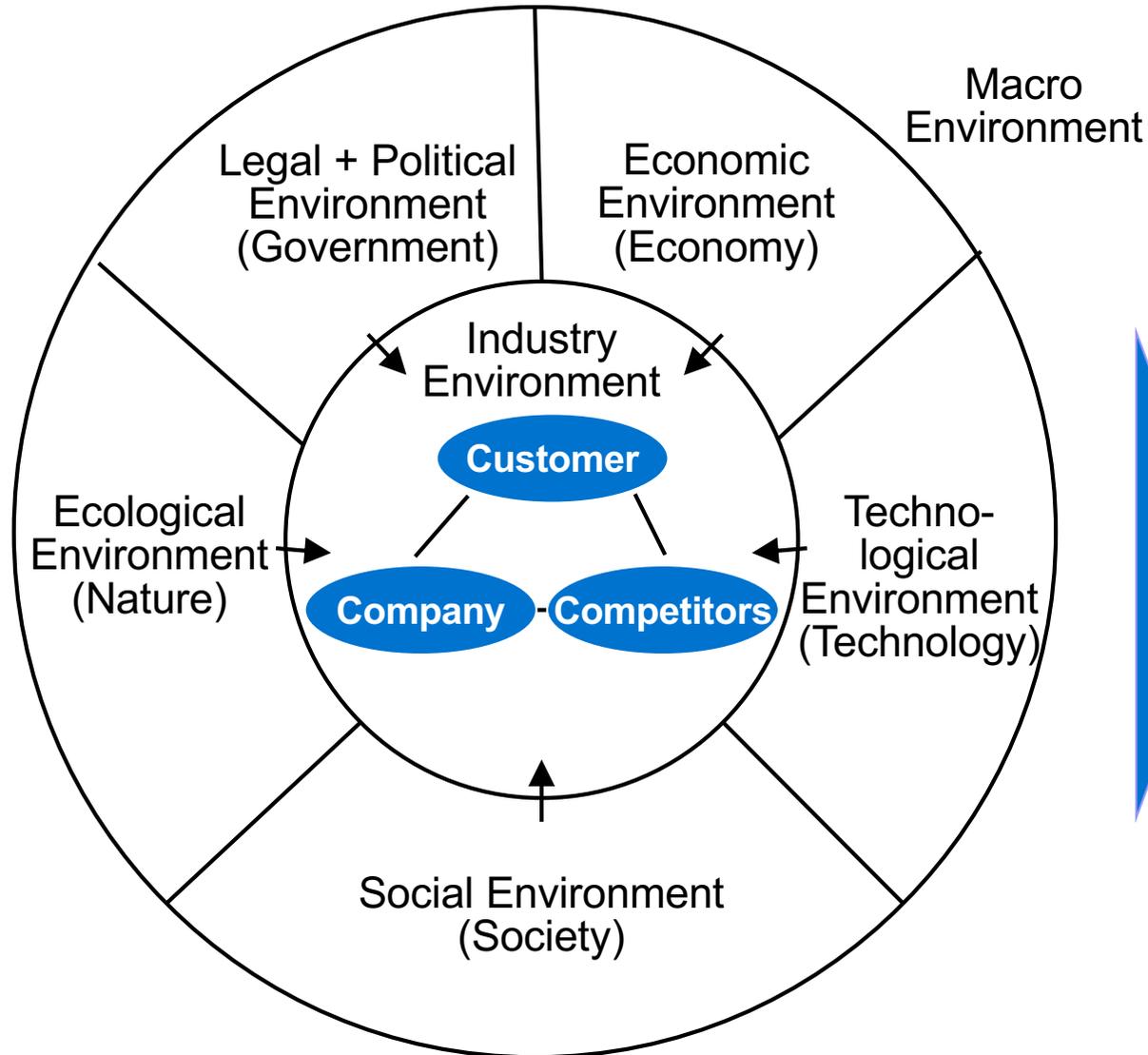
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Learnings

Firms are influenced by their environments

Environments of a firm



- The industry environment is composed of a set of forces that directly shape competition
- The macro environment has an impact on the firm through its effect on the industry environment
- The macro environment affects all firms of an economy in a general fashion
- The industry environment can partly be shaped by firms; the macro environment can hardly be influenced

Industry definition is based on the idea of substitution

Approaches to industry definition – Examples

Basic idea

Two firms operate in the same industry if one firm's production/pricing decisions materially affect the price that the other firm may charge (idea of substitution)

- Apple and Samsung mobile phones vs.
- Apple computers and Samsung mobile phones

Qualitative approaches to industry definition

- Analysis of conditions of substitution
 - Similar product performance characteristics
 - Similar occasions for use
 - Sold in the same geographic market

Quantitative approaches to industry definition

- Analysis of price elasticity: in general, if a firm faces many close substitutes, it has a large E

$$E_x = \frac{\Delta X}{X} / \frac{\Delta P_x}{P_x}$$

- Analysis of cross-price elasticity: high E indicates that products are close substitutes

$$E_{xy} = \frac{\Delta X}{X} / \frac{\Delta P_y}{P_y}$$

Qualitative approaches to industry definition - Examples





Similar product performance characteristics*

- Price per liter: € 0.83
- Packaging:
 - 0.33 l beverage can
 - 0.5 l, 1 l, 1.5 l, and 2 l bottles

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Similar occasions for use

- Satisfy someone's thirst
- Non-alcoholic party drink

- Satisfy someone's thirst
- Non-alcoholic party drink

Sold in the same geographic market

- Distribution in 200 countries around the world

- Distribution in 200 countries around the world



Coca Cola and Pepsi Cola are perfect substitutes

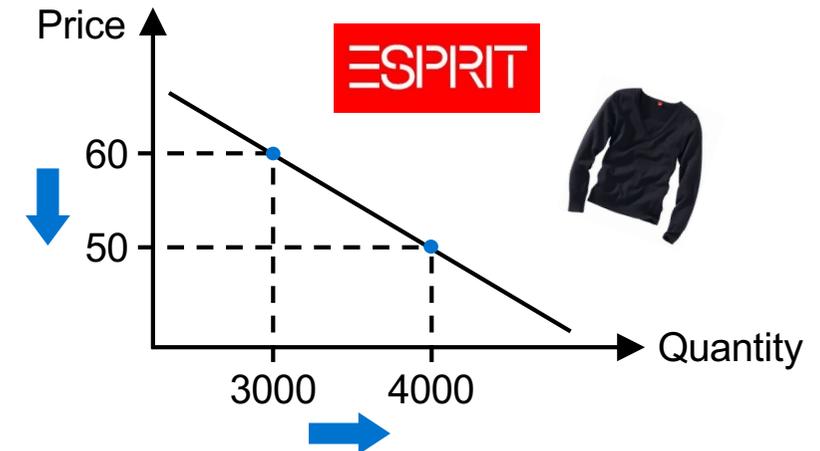
Quantitative approaches to industry definition – Examples

Price Elasticity of demand

- Reduction in price for Esprit pullover from € 60 to € 50
- Rise of demand from 3000 to 4000 units

$$E_x = \frac{\Delta X}{X} / \frac{\Delta P_x}{P_x} \quad \rightarrow \quad \frac{4000 - 3000}{3000} / \frac{50 - 60}{60} = -2$$

→ $|2| > 1$ elastic demand

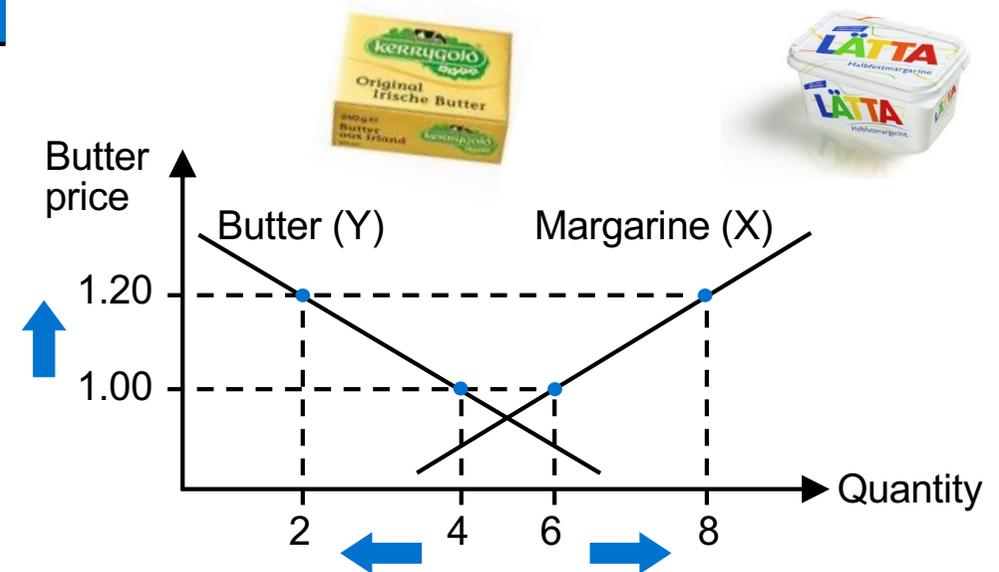


Cross-price Elasticity of demand

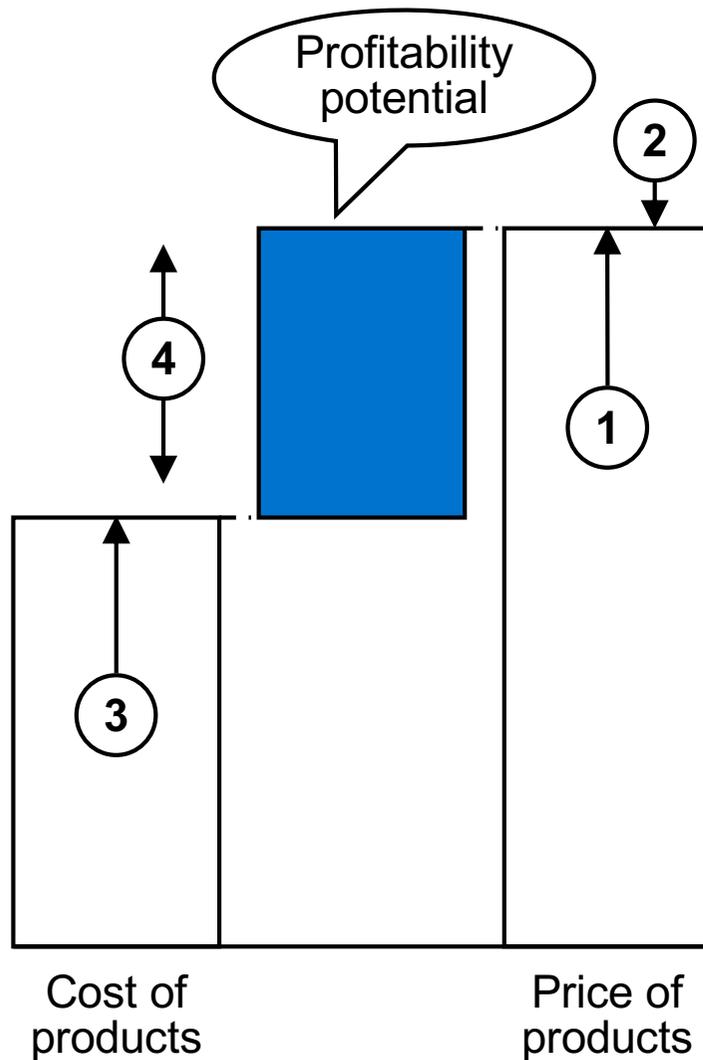
- Price for Irish butter is 1 € → customer buys 4 units of Irish butter and 6 units of Lätta margarine at a given price
- Increase in price (butter) from 1 € to 1.20 € → customer buys 2 units of Irish butter and 8 units of Lätta margarine

$$E_{xy} = \frac{\Delta X}{X} / \frac{\Delta P_y}{P_y} \quad \rightarrow \quad \frac{8 - 6}{6} / \frac{1.20 - 1}{1} = 1.66$$

→ $1.66 > 0$ butter and margarine are substitutes



Industrial organization economics provides the theory of how industry structure affects industry profitability/attractiveness

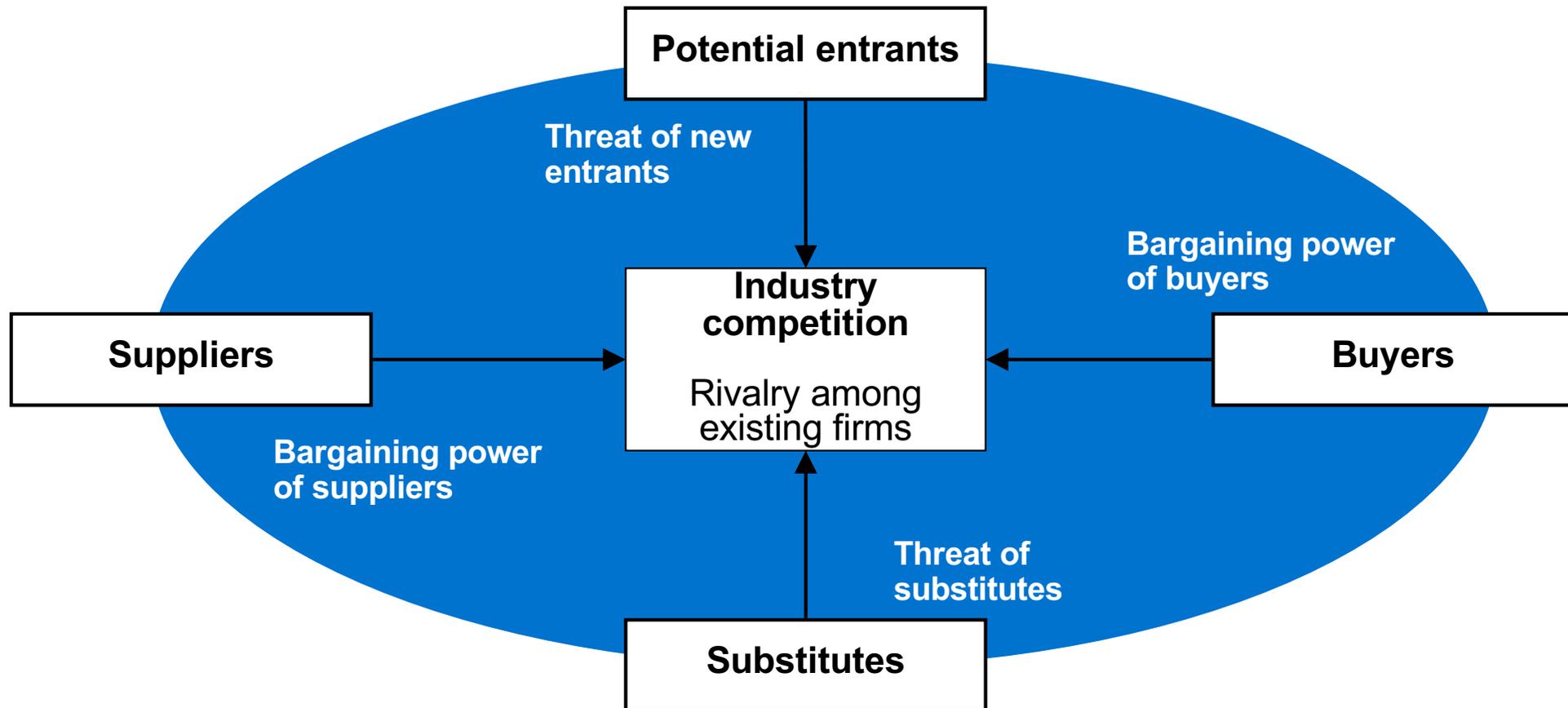


Actual profitability (= share of profitability potential remaining with producers) depends on:

- ① Value of the product to the customer
 - Importance of product
 - Alternatives/substitutes
- ② Relative bargaining power
 - Of producers and customers
- ③ Relative bargaining power
 - Of producers and suppliers (customer power, supplier power)
- ④ Intensity of competition (most obvious force and historical focus of analysis)
 - Monopoly: producer captures surplus
 - Competition: price tends toward cost of producers (rivalry, entrants)

Porter's five forces framework helps to understand the industry environment

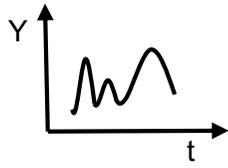
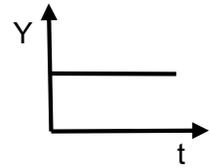
Forces affecting industry attractiveness



Exercise: Pick an industry of your choice. How would you define this industry (motives/competitors/substitution)? How attractive is this industry (profitability)?

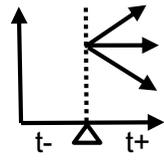
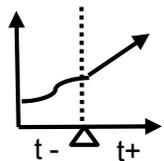
Strategizing is surrounded by *perceived* situational factors ...

VUCA elements as situational factors *I believe we skipped this*



Volatility

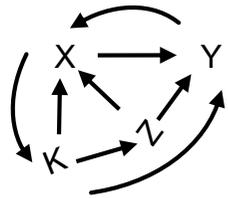
Highly frequent change with high amplitude



Uncertainty

Unknowable unknowledge on future

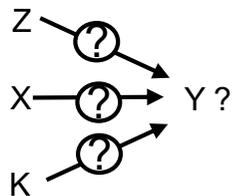
X → Y



Complexity

Multitude of system elements and relationships between them

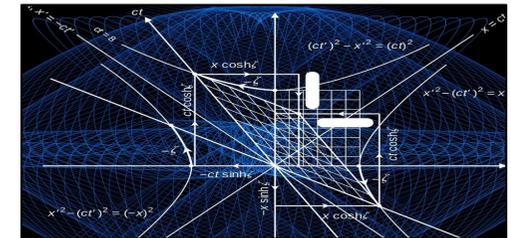
X → Y



Ambiguity

Unclearity of signals and unclearity of relationships

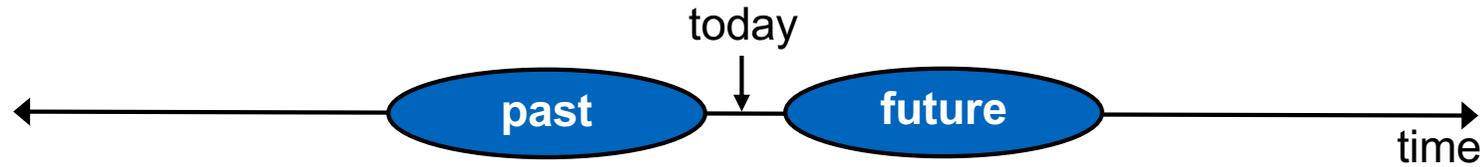
Examples



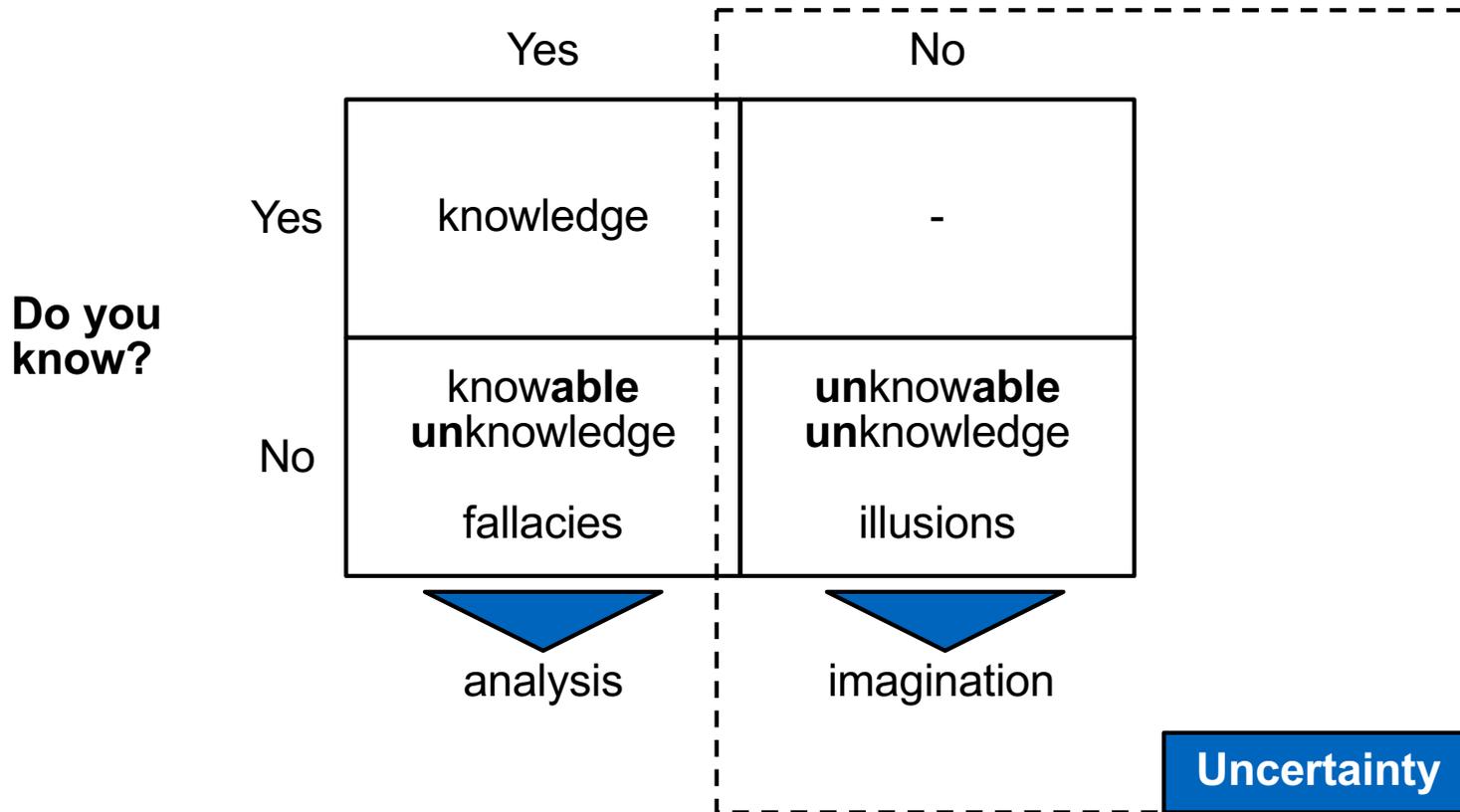
Uncertainty is a state of unknowable unknowledge

Time, (un)knowledge, and uncertainty

I believe we skipped this



Could you know?



They believed it ...

"Heavier-than-air flying machines are impossible."

Lord Kelvin, British mathematician, physicist, and president of the British Royal Society, c. 1895

"With over fifty foreign cars already on sale here, the Japanese auto industry isn't likely to carve out a big slice of the U.S. market for itself."

Business Week, 2 August 1968

"A severe depression like that of 1920-1921 is outside the range of probability."

The Harvard Economic Society, 16 November 1929

"I think there is a world market for about five computers."

Thomas J. Watson, chairman of IBM, 1943

"There is no reason for any individual to have a computer in their home."

Ken Olson, president, Digital Equipment Corporation, 1977

"We don't like their sound. Groups of guitars are on the way out."

Decca Recording Co., executive, turning down the Beatles in 1962

"The phonograph ... is not of any commercial value."

Thomas Alva Edison, inventor of the phonograph, c. 1880

"No matter what happens, the U.S. Navy is not going to be caught napping."

Frank Knox, Secretary of the Navy, 4 December 1941, just before the Japanese attack on Pearl Harbor

"They couldn't hit an elephant at this dist..."

General John B. Sedgwick, last words, Battle of Spotsylvania, 1864

Source: Cerf, C., Navasky, V., *The Experts Speak*, New York 1984.

Strategy analysis can be biased



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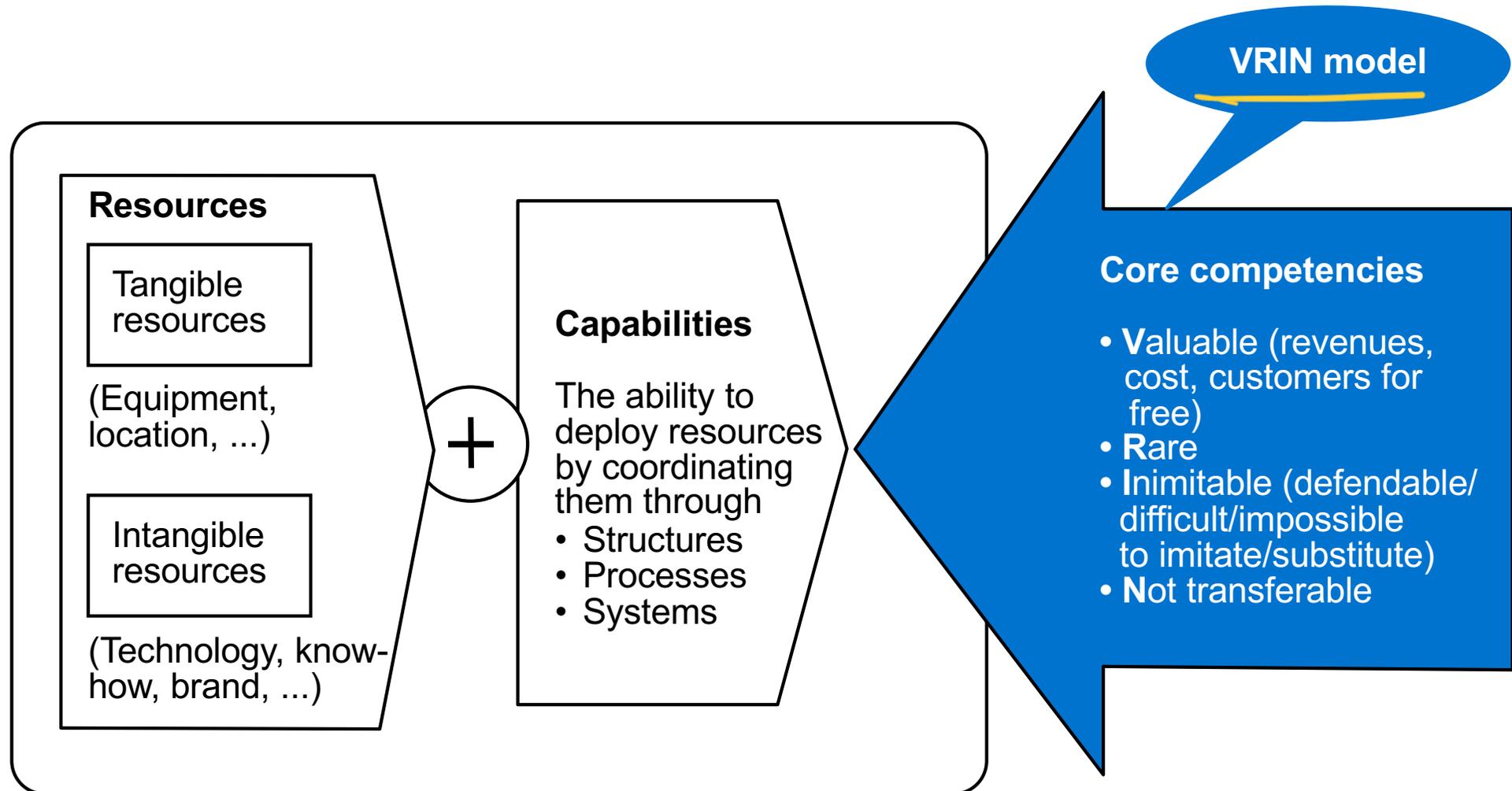
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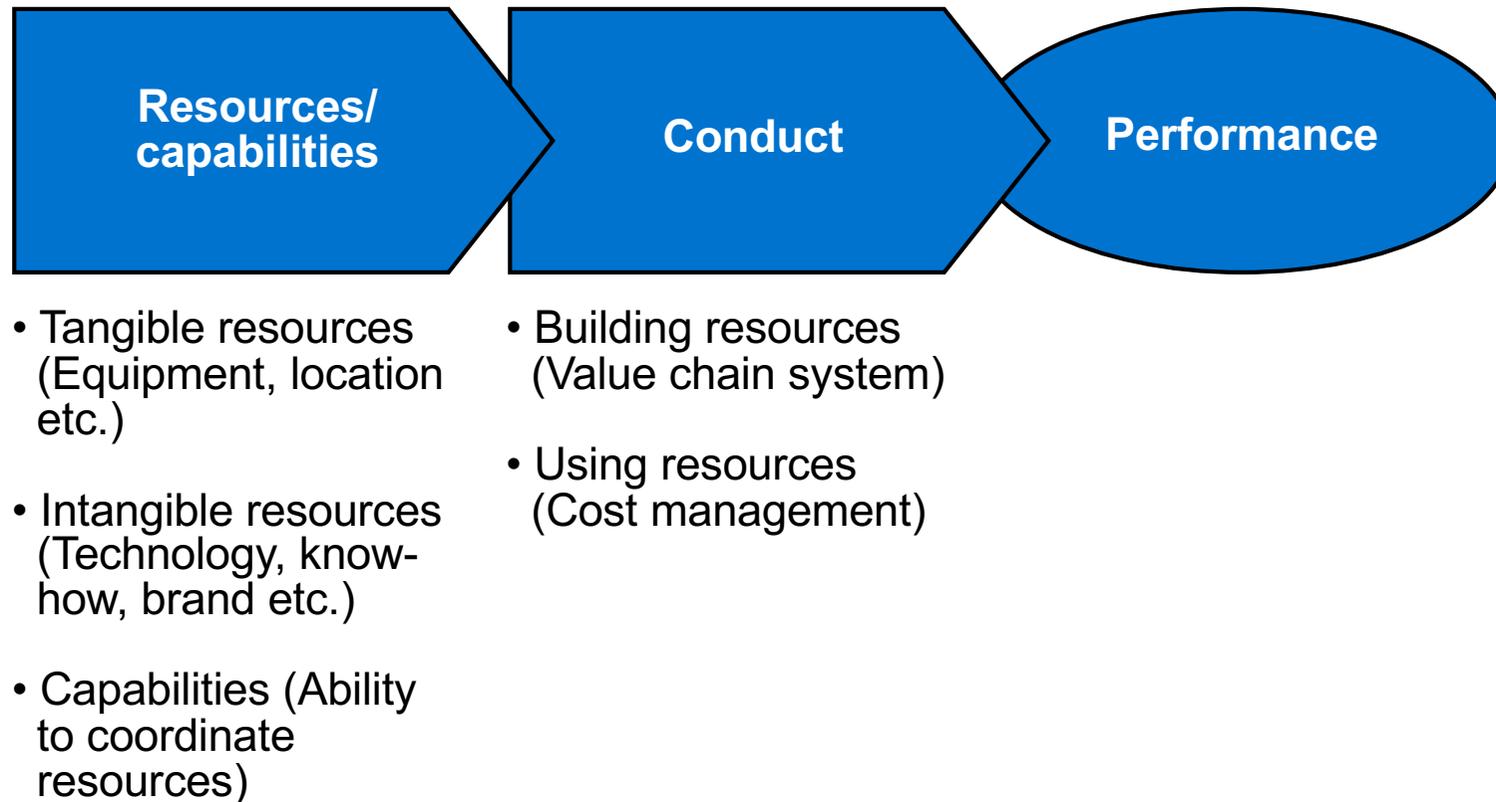
Core competencies are the basis for success in any kind of business system

Definition of core competencies



The resource-based view sees resources and capabilities as main drivers of superior performance

Reasoning of the resource-based view



Resources are built and exploited in value chain systems

Value chain and generic competitive strategies



Differen- tiation

- | | | | | |
|---|--|--|---|--|
| <ul style="list-style-type: none"> • Patents • Creativity • Cutting edge | <ul style="list-style-type: none"> • Quality • Supplier relationship | <ul style="list-style-type: none"> • Quality control • Flexibility | <ul style="list-style-type: none"> • Brand • Target group focus | <ul style="list-style-type: none"> • Relationship • Training |
|---|--|--|---|--|

Price leadership

- | | | | | |
|---|---|--|---|--|
| <ul style="list-style-type: none"> • “Design to manufacture” • “Democratize” innovation | <ul style="list-style-type: none"> • Price • Volume | <ul style="list-style-type: none"> • Economies of scale • Volume • Automation | <ul style="list-style-type: none"> • Mass market • Market penetration | <ul style="list-style-type: none"> • Automation |
|---|---|--|---|--|

Exercise: Please characterize the value chain systems of global “full service airlines” (e.g. Lufthansa) and global “no frill airlines” (e.g. Ryanair)

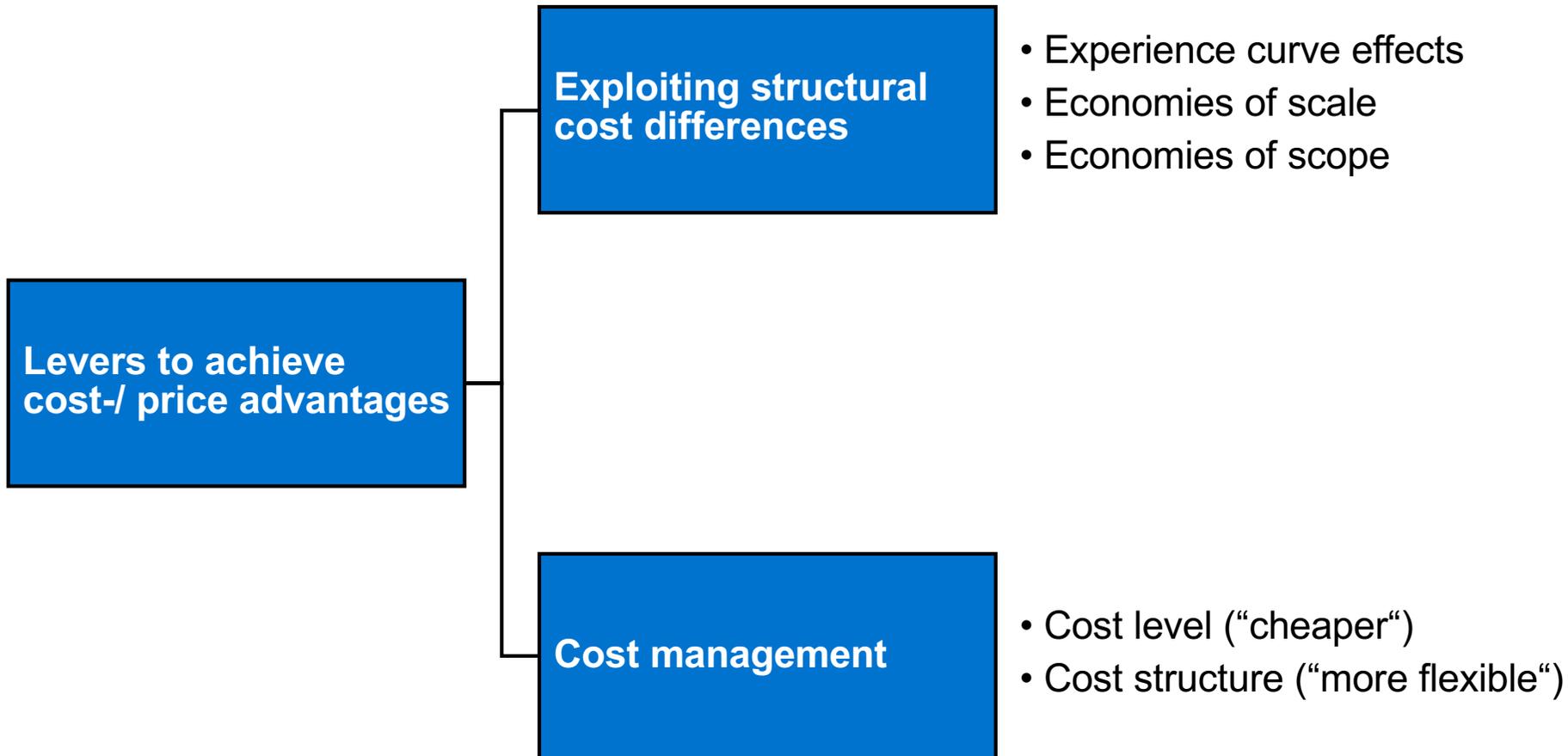


Global “full service airline”

Global “no frill airline”

There are two main reasons for cost differences to competitors

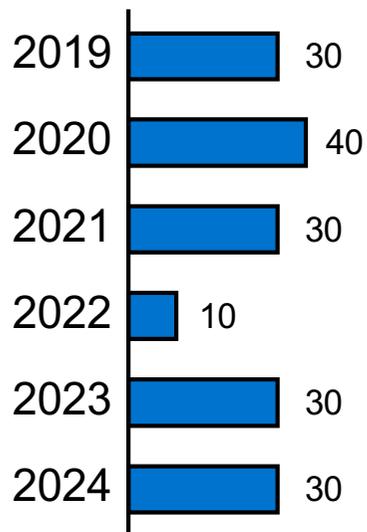
Sources of cost advantages



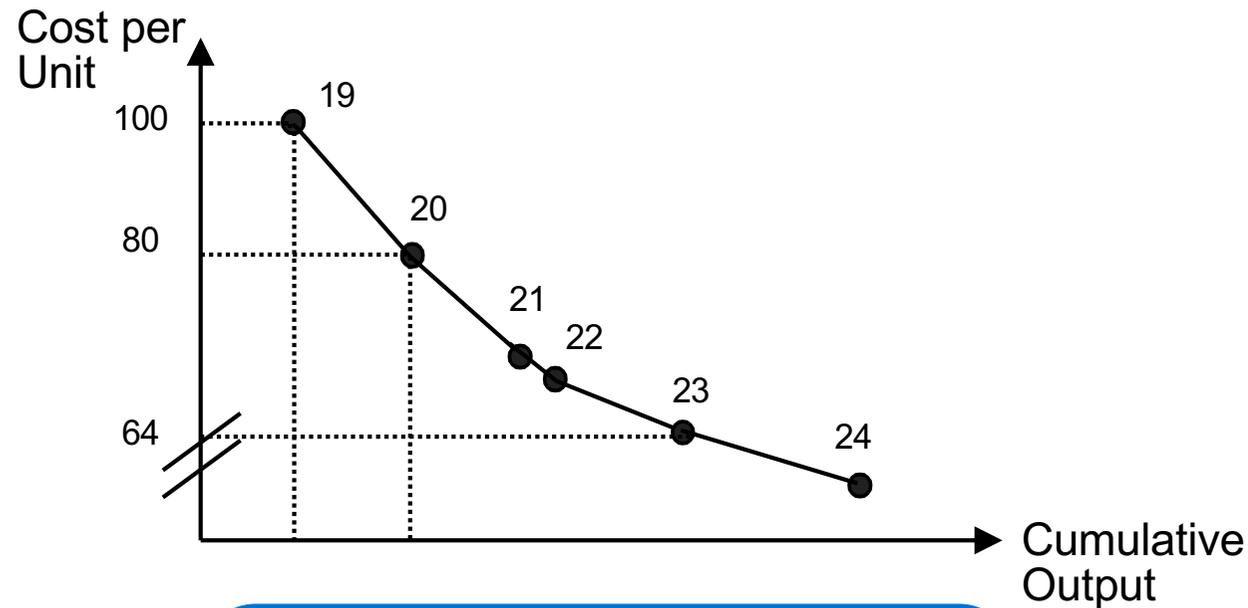
The experience curve is one of the most influential concepts in the history of strategic management

Experience curve

Output per year



Cumulative output

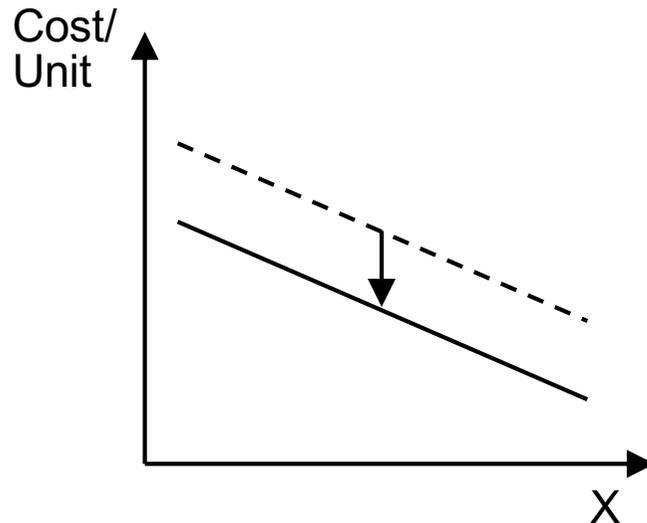


"Law of experience"
 The unit cost of a standard product declines by a constant percentage (typically 20 - 30%) each time cumulative output doubles

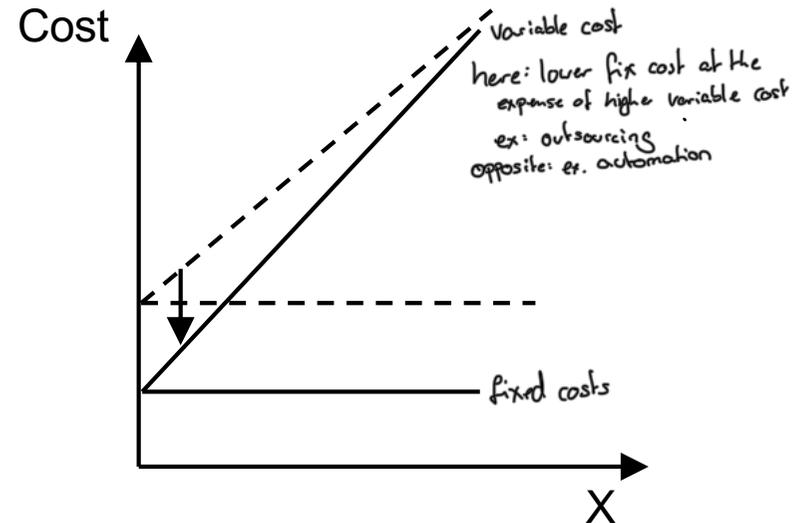
Cost management is concerned with constantly improving level and structure of costs

Concerns and instruments of cost management

Cost level



Cost structure



- Instruments**
- Zero Base Budgeting
 - Life Cycle Costing
 - Overhead Value Analysis
 - Target Costing
 - Activity Based Costing
 - Cost Benchmarking
 - ...
 - ...

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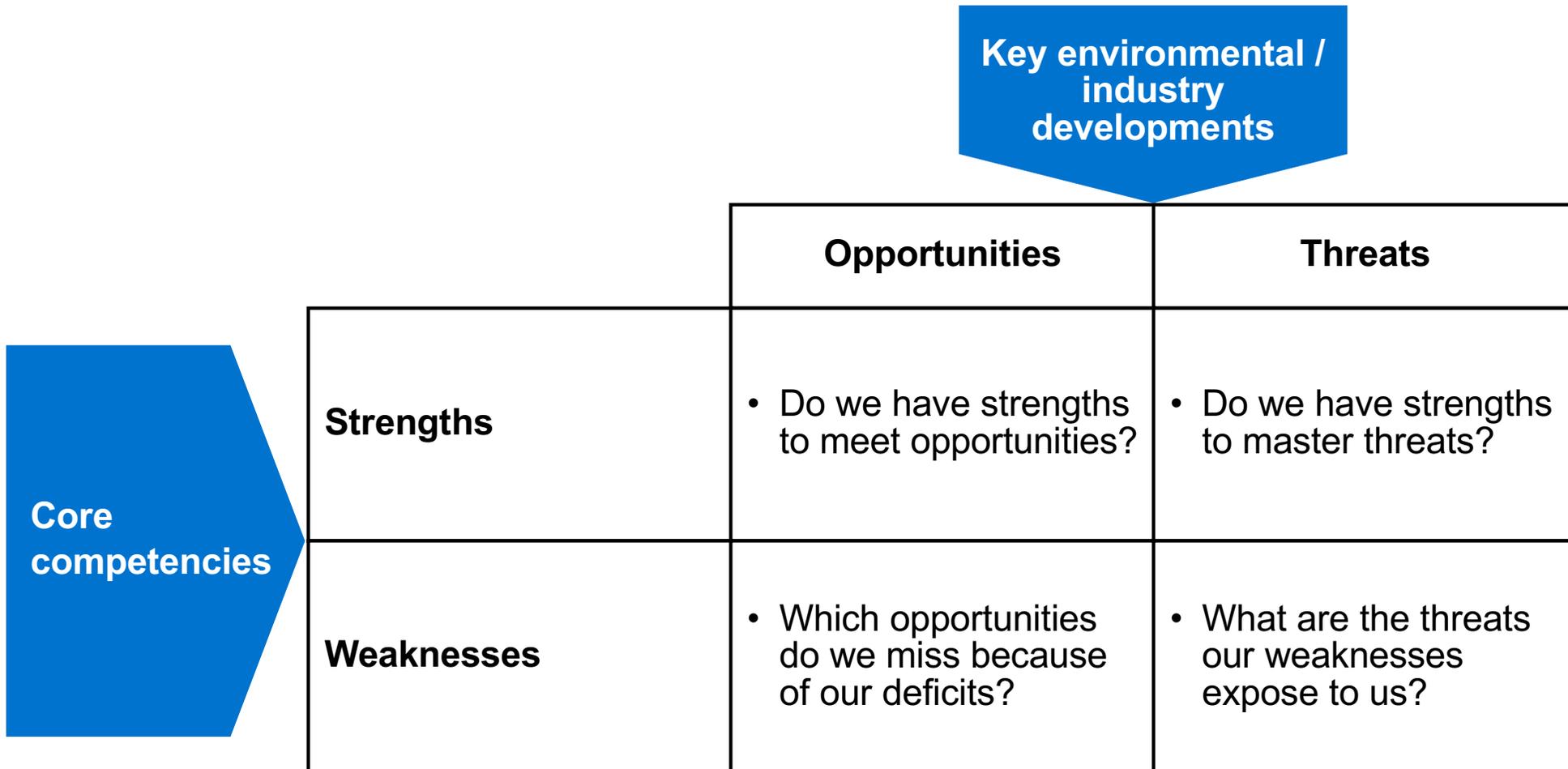
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SWOT Analysis summarizes internal and external analyses and identifies key issues

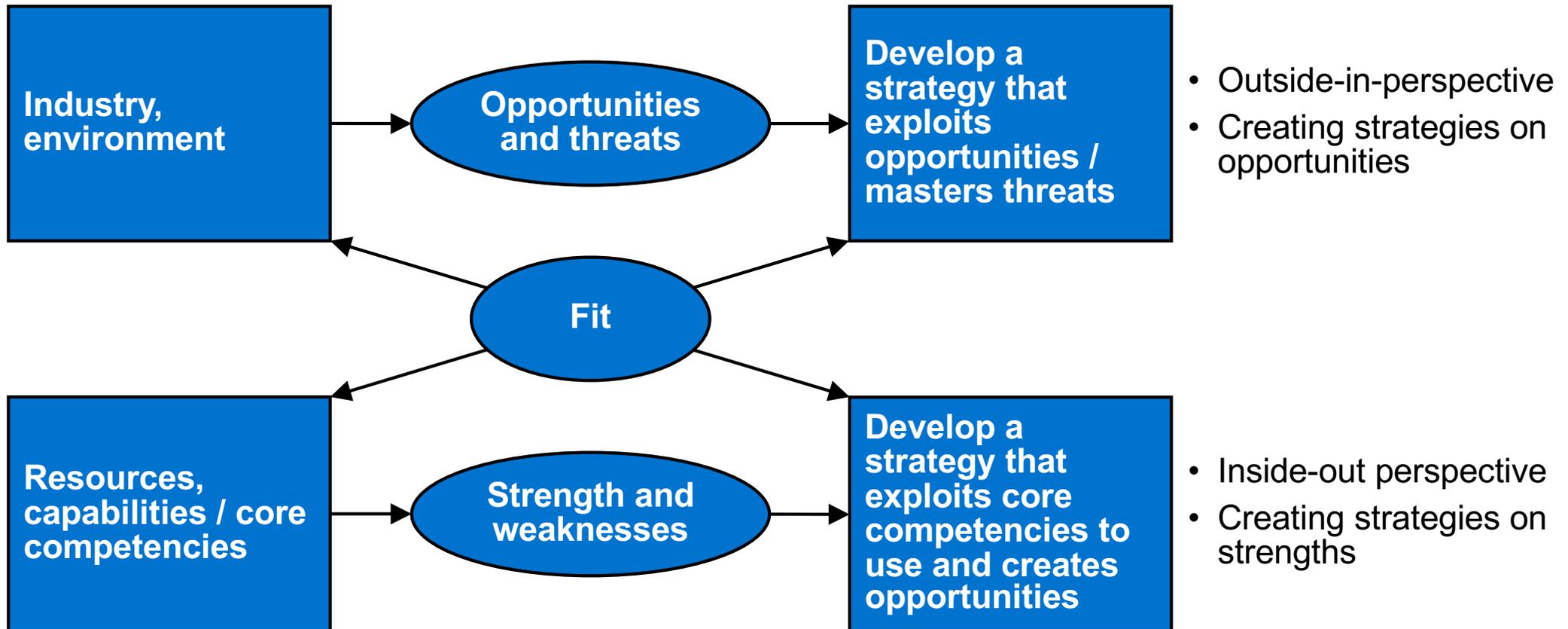
SWOT Analysis



Source: Bruner et al., The Portable MBA, 2003, p. 223.

The resource-based view of strategy has altered the dominant perspective of strategic management

Logic of the market and resource-based view of strategy



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