

GLOSSARY OF STRATEGIC MANAGEMENT TERMS

Acquisition:

When one company, the acquirer, purchases and absorbs the operations of another, the acquired.

Barriers to Entry/Exit:

Economic or other characteristics of a marketplace that make it difficult for new firms to enter or exit. Examples include: economies of scale; product differentiation; capital requirements; cost disadvantages other than size; access to distribution channels; government policy; etc.

Benchmarking:

An analysis of competitor strengths and weaknesses; used to evaluate a firm's relative competitive position, opportunities or improving, and success/failure in achieving such improvement.

Best Practices:

The business methods and procedures utilized by firms considered the leader in an industry.

Business Model:

A company's business model is management's storyline for how the strategy will be a money maker.

Company Culture:

The mix of important assumptions shared by members of an organization; may be explicit or implicit, usually determined by the business environment of a firm's industry; the prior experience of employees in other firms, professions, communities, etc; and the experiences that the employees share in their everyday work environment within the firm.

Company Mission:

The unique purpose of a firm that sets it apart from firms of its type; identifies scope of operations including markets, customers, products, distribution, technology, etc. in manner that reflects values and priorities of the firm's strategies.

Competitive Advantage:

Advantages that a firm has over its competitors. See also Sustainable Competitive Advantage.

Competitive Position:

The position that a firm has or wishes to achieve within its industry as measured against its competition.

Competitive Reaction:

Anticipated reaction of competition to a firm's strategic initiatives.

Concentric Diversification:

A strategy of growing a firm by acquiring other firms which are similar to and synergistic with the acquiring firm in terms of markets, products, or technology. See also Conglomerate Diversification.

Conglomerate Diversification:

A strategy of growing a firm by acquiring other firms for investment purposes; usually little or no anticipated synergy with the acquired firm. See also Concentric Diversification.

Consolidation:

The merger of business units and/or property portfolios.

Core Competencies:

The competencies of a firm required to fulfill its value proposition with its customers; competencies may be competitively unique to an industry but not necessarily a single firm. See also Competencies, Non-Core Activities, Value Proposition.

Cost Advantage (Disadvantage):

Operating advantage enjoyed by an entrenched firm, which would be difficult for entering firms to capture, regardless of size. May relate to patent protection, proprietary technology, learning curve, experience curve, government subsidies, favorable locations or access to key raw materials.

Differentiation Strategy:

One of three generic strategies in which a firm strives to create and market unique products/services for various customer groups. See also Focus Strategy and Low Cost Strategy.

Diseconomy of Scale:

When a company has become so large that additional production creates reduced marginal revenue. See also Economy of Scale.

Distribution Channel:

The means by which products or services are moved from production to customer.

Distinctive Competence:

A competence that provides a firm with a competitive advantage in the marketplace.

Diversified Company:

A company that has enough different products so it does not depend on success of one product or type of product.

Divestiture:

The sale of all or major part of a firm.

Driving Forces:

The most dominant forces because they have the biggest influence on what kinds of changes will take place in the industry's structure and competitive environment.

Early Entrants:

Firms entering new markets or developing new products before other firms. (Also known as "first mover") See also Late Entrants.

Economy of Scale:

A reduction in costs through larger operating units, spreading fixed costs over large numbers of items/units. See also Diseconomy of Scale.

Emerging Industry:

A newly formed or restructured industry growing faster than the overall economy. Usually created by changing customer needs, technological change or other socioeconomic conditions. See also Mature Industry.

External Environment:

The conditions and forces that define a firm's competitive position and influences its strategic options. Also called Competitive Environment.

Financial Objectives:

Concerned with the financial results and outcomes the management wants the organizations to receive. Ex: earnings/growth/stock price.

Five Competitive Forces:

A tool that helps diagnose the principle competitive forces in the market and assess how important each one is:

- The rivalry among competitive sellers in the industry
- The potential entry of new competitors
- The market attempts of companies in other industries to win customers to their own substitute products
- The competitive pressures from sellers
- The competitive pressure from buyers

Flat Organization:

An organizational structure in which most middle management functions are eliminated, allowing senior management to have greater exposure to customers and to those in the organization that deal with customers. See also Flat and Matrix Organizations.

Focus Strategy:

One of three generic strategies in which a firm tries to appeal to one or more customer groups focusing on their cost or differentiation concerns. See also Low Cost Strategy and Differentiation Strategy.

Focused (Market Niche) Strategy Based on Lower Cost:

Concentrating on a narrow buyer segment and out competing rivals by serving niche members at lower cost than rivals.

Functional Organization:

An organizational structure along functional lines (e.g. marketing, acquisition, asset management, development, finance and accounting, etc.) See also Flat and Matrix Organizations.

Functional Strategies:

Strategies for each firm's function or division; integrates into Grand Strategy and ties to Long-Term Objectives. See Grand Strategy; Long-Term Objectives.

Generic Strategies:

Three approaches to strategic planning based on different fundamental ideas about how to appeal to the customer. See Low Cost Strategy, Differentiation Strategy, and Focus Strategy.

Grand Strategy:

A firm's comprehensive plan of key actions by which it plans to achieve its Long-Term Objectives; usually considers factors such as market development, product development, innovation, horizontal and/or vertical integration, diversification, joint ventures and strategic alliances, turnaround, divestiture, liquidation, etc.

Growth Industry:

An industry growing at the same rate as the nation's economy.

Horizontal Integration:

The acquisition of similar firms operating at the same stage of the production/marketing chain as the acquiring firm. Utilized to expand into new markets and/or eliminate competition. See also Vertical Integration.

Joint Venture:

A third party commercial operation established by two or more firms to pursue a particular market, resource supply, or other business opportunity. Created and operated for the benefit of the co-owners.

Key Success Factors:

The product attributes, competencies, competitive capabilities and market achievements with the direct bearing on company profitability.

Late Entrants:

Firms entering new markets or developing new products after they have been established by other firms. Also called Latecomers. See also Early Entrants.

Leapfrogging:

Establishing entirely new competitive space in which a firm is not only a leader but establishes most, if not all, of the standards by which other firms in its industry are measured.

Long-Term Objectives:

A firm's intended performance over a multi-year period of time; usually includes measures such as competitive position profitability, return on investment, technology leadership, productivity, employee relations and development, public responsibility. See also Short-Term Objectives.

Low Cost Strategy:

One of three generic strategies in which a firm attempts to establish itself as the cost leader in the industry. See also Focus Strategy and Differentiation Strategy.

Macroenvironment:

All relevant forces outside company boundaries that are important enough to affect the company's business model strategies.

- The economy at large
- Legislations and regulations
- Population and demographics
- Societal values and lifestyles
- Technology
- Immediate industry and competitive environment

Market Leader:

The company that has control over a certain market.

Market Share:

The revenues generated by a firm as a percentage of total revenues; usually measured by industries, markets, or products.

Matrix Organization:

An organizational structure which delegates power to independent operating units which then rely on centralized corporate facilities for functional support. See also Flat and Matrix Organizations.

Mature Industry:

An industry growing slower than the overall economy or actually declining. See also Emerging Industry.

Merger:

Combination and pooling of equal companies, with the newly created company often taking on a new name.

Outcomes:

Results arising from management actions.

Outsourcing:

Contracting and activity to another firm.

Partnerships:

Entails forming a new corporate entity owned by partners that can be terminated whenever one of the partners choose.

Portfolio Approach:

A method of looking at each of the “businesses” of a firm as elements in a total portfolio.

Product Life Cycle Analysis:

A forecasting technique which analyzes/predicts the performance of a product/service during each stage of its development.

Retrenchment Response:

In a turnaround situation, cost cutting and asset reduction to improve a firm’s fortunes.

Short-Term Objectives:

Usually one year objectives sometimes known as Annual Objectives. They often coincide with Long-Term Objectives; they usually indicate the speed at which management wants the organization to progress. See also Long-Term Objectives.

Stakeholder:

A person, group, or business that has an interest in the outcomes of a firm’s operations.

Strategic Advantage:

See Competitive Advantage.

Strategic Alliances:

Cooperative agreements between firms that go beyond normal company-to-company dealings but fall short of merger or full joint venture partnership with formal ownership ties.

Strategic Analysis:

Contrasts a firm’s Company Profile with its External Environment to identify a range of possible strategic alternatives; screened against the Company Mission statement to determine desired opportunities.

Strategic Business Units:

The organization of a firm by “groups” of divisions that serve similar strategic interests of the firm. Utilized by larger firms with multiple divisions.

Strategic Decisions:

Management decisions related to the future of a firm’s operations; made at the corporate, business, functional, and individual level.

Strategic Vision:

The company's direction and future product/customer/market/technology focus.

Strategic Management- Consists of 5 Interrelated Managerial Tasks:

1. Develop a Strategic Vision
2. Set Objectives
3. Craft a Strategy
4. Implement and Execute the Strategy
5. Evaluate Performance, Monitoring New Development and Initiating Corrective Adjustment.

Strength:

A skill, resource, or other advantage that a firm has relative to its competitors that is important to serving the needs of customers in its marketplace. See also Weakness.

Sustainable Competitive Advantage:

Competitive advantages that can be maintained over a fairly long period of time. See also Competitive Advantage.

Switching Costs:

The costs incurred by a customer in changing from one firm to another to meet their requirements.

Trend Extrapolation:

A forecasting technique utilizing linear or exponential smoothing or averaging of historical values.

Value-Chain:

Separate activities, function and business processes that are performed in designing, producing, marketing, deliveries, and supporting a product or service.

Vertical Integration:

The acquisition of suppliers (backward integration) or distributors (forward integration). Utilized to expand operations, achieve greater market share, increase the efficiency of capital, and/or improve economies of scale. See also Horizontal Integration.

Weakness:

A limitation or lack of skills, resources, or capabilities that impedes a firm's effective performance. See also Strength.