

Corporate Strategic Tasks

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The Central Issue for Top Management - How to Add Value at the Corporate Level

- 1. Environmental scan at the corporate level: Assessing the external forces impacting the firm.**
- 2. The mission of the firm: Choosing competitive domains and the way to compete.**
- 3. Business segmentation: Selecting planning and organizational focuses.**
- 4. Horizontal strategy: Pursuing synergistic linkages across business units.**

The Central Issue for Top Management (cont'd.)

5. **Vertical integration: Defining the boundaries of the firm.**
6. **Corporate philosophy: Defining the relationship between the firm and its stakeholders.**
7. **Strategic posture of the firm: Identifying strategic thrusts; corporate, business, and functional planning challenges; and corporate performance objectives.**
8. **Portfolio management: Assigning priorities for resource allocation and identifying opportunities for diversification and divestment.**

The Central Issue for Top Management (cont'd.)

- 9. Organization and managerial infrastructure: Adjusting the organizational structures, managerial processes and systems, in consonance with the culture of the firm, to facilitate the implementation of strategy.**
- 10. Human resource management of key personnel: Selection, development, appraisal, reward, and promotion.**

The Fundamental Elements of the Definition of Corporate Strategy - The Ten Tasks



Environmental Scan at the Corporate Level

Environmental scan formalizes the process of understanding the external forces that are impacting the firm. There are three different types of analyses to support this process: economic overview, primary industrial sectors, and basic external factors.

Environmental Scan (cont'd.)

The process for performing the environmental scan at the corporate level consists of the following steps:

Step 1 - Definition of time frame

Step 2 - Geographic segmentation

Step 3 - Identification and analysis of economic factors

Step 4 - Identification and analysis of primary industrial sectors

Step 5 - Analysis of basic external factors and definition of alternative planning scenarios

Step 6 - Identification of key opportunities and threats

Geographical Segmentation - NKK Materials Sector

Existing Geographical Scope
• Domestic
Kanto (including Tokyo)
Kansai (including Osaka)
Hokkaido
Tohoku
Chubu (including Nagoya)
Chugoku
Shikoku
Kyushu
• China
• Far East
• ASEAN
• Other Asia (including Oceania)
• Middle East
* U.S.A.
• Latin America
• Western Europe
• Former Soviet Union
• Africa
New Geographical Scope
• Eastern Europe

Source: Masayuki Tada, "Corporate Strategy for a Japanese Steel Manufacturing Company," unpublished Masters thesis, Sloan School of Management, MIT, 1993. This is not an official document of NKK Corporation.

Identification and Analysis of Economic Factors - NKK Materials Sector

	Past			Current	Future		
	1989	1990	1991	1992	1993	1994	1995
Japan							
Real GNP Growth (%)	4.7	5.5	3.4	2.1	3.5	3.7	3.8
Inflation Rate (CPI)	2.9	3.1	2.8	2.1	2.3	2.5	2.5
Unemployment Rate (%)	2.2	2.1	2.2	2.3	2.3	2.1	2.1
Prime Rate (%)	5.9	7.9	7.5	5.3	5.3	5.5	6
Growth in Private Housing Starts	0.5	4.9	-10.1	0.1	1.3	1.5	1.5
Growth in Private Investment in Plant & Equipment	16.6	12.1	4.1	2.7	5.1	6.5	6.5
Growth in Public Investment in Infrastructure	-2.2	4.4	5.4	5.8	6	6	6
Crude Oil Price (\$/Barrel)	17.8	22.9	20.7	19.1	20	22.1	24.2
Yen Rate (¥/\$)	143	141	133	120	118	116	114
Population Growth (Millions)	0.4	0.4	0.3	0.3	0.25	0.25	0.2

Source: "Japan Economic Almanac '92, "Yokyo, Nihon Keizai Shumbun, Inc. "Monthly Kaigai Keizai Data", Economic Planning Agency, Tokyo, Japan. Tada (1993). This is not an official document of NKK Corporation.

Identification and Analysis of Primary Industrial Factors - NKK Materials Sector

	Past			Current	Future		
	1989	1990	1991	1992	1993	1994	1995
Automobile Production (000)	12,954	13,592	13,146	12,580	12,160	12,740	13,210
Housing Starts (000)	1,673	1,665	1,343	1,382	1,400	1,420	1,440
Construction (000 sq. meters)*	11,986	12,656	11,958	11,898	12,000	12,200	12,400
Public Works Starts (¥ bil.)	12,187	13,390	15,174	16,000	17,000	17,500	17,500
Electronic Machinery Index ('85=100)	143	154	157	148	148	149	150
Machinery Index ('85=100)	123	130	124	111	112	115	118
Shipbuilding Starts (000 G/T)	5,705	6,886	6,942	8,120	7,580	7,990	8,400
* Non-Housing Construction							

Source: "Tekko Jyukyu No Ugoki, vol. 267," Kozai Club, Tokyo, Japan. NKK In-House Report. Author's Estimation. Tada (1993). This is not an official document of NKK Corporation.

Definition of Alternative Planning Scenarios- NKK Materials Sector

Basic Factors	Pessimistic	Most Likely	Optimistic
Economic Overview	<ul style="list-style-type: none"> Increasing government debt and its reluctance to invest in infrastructure Failure to decrease trade surplus Increasing debt of U.S. government and decrease of credibility of U.S. treasury bonds Stagnant GNP growth in Japan and U.S. < 3.0%; China and ASEAN < 6% High and rapid appreciation of yen (¥100/\$) Crude oil price goes up to \$25/barrel 	<ul style="list-style-type: none"> Government invests in infrastructure Structural change of Japanese economy is started Trade surplus and trade conflicts are maintained under control Steady and strong GNP growth Steady growth in Japan and U.S. around 3.5%; China and ASEAN 8% Yen appreciation (¥120/\$) Crude oil price at \$20/Barrel 	<ul style="list-style-type: none"> Success in structural changes of the Japanese economy strengthening the domestic market Decreasing trade conflicts in foreign countries, especially the U.S. Steady and strong GNP growth in Japan and U.S. > 4.0%; China and ASEAN > 10% Stable Yen rate (¥120-130/\$)
Primary Industrial Sectors Overview	<ul style="list-style-type: none"> Automobile production level remains at less than 13,000,000 until '95 Housing starts and non-housing construction keep decreasing through '95 	<ul style="list-style-type: none"> Automobile production levels reaches 13,000,000 in '95 Housing starts and construction stop decreasing in '94 	<ul style="list-style-type: none"> Recovery of automobile production level to 13,000,000 in '94 and continuous growth afterward Increase of housing starts to 15,000,000 units in '94
Technological Trends	<ul style="list-style-type: none"> Quantity of steel used in a car decreases by 250kg/car by '95 Failure of development of steel-making process that can respond to needs from environmental concerns (especially recycling) 	<ul style="list-style-type: none"> Maintenance in use of steel Continue efforts to develop environmentally clean smelting process 	<ul style="list-style-type: none"> Successful development of value-added and light-weight steel sheets which can compete with aluminum sheets effectively Successful development of DIOS (Direct Iron Ore Smelting) process technology
Supply of Human Resources	<ul style="list-style-type: none"> Decrease of loyalty toward the company among employees due to massive restructuring between '93 and '95 Increase of difficulty in hiring excellent young people as steel manufacturers, especially engineers and shop floor workers 	<ul style="list-style-type: none"> Loyalty toward the company is acceptable Attraction of young people still a concern 	<ul style="list-style-type: none"> Manufacturing recovers popularity as an employer among young people
Political Factors	<ul style="list-style-type: none"> Japanese government introduces world's strictest environmental regulations Japanese government introduces "Land Price Tax" 	<ul style="list-style-type: none"> Environmental regulations and tax do not change significantly 	<ul style="list-style-type: none"> Japanese government gives up the introduction of "Land Price Tax"
Social Factors	<ul style="list-style-type: none"> Concern for environmental issues in increased to the same level as in Germany 	<ul style="list-style-type: none"> Increased concern for environmental issues 	<ul style="list-style-type: none"> Concern for environmental issues remains at present level
Legal Factors	<ul style="list-style-type: none"> Houses introduce product liability law as tough as U.S. law 	<ul style="list-style-type: none"> New product liability law does not mean major cost increase 	<ul style="list-style-type: none"> Houses (National Diet) give up introduction of product liability law

Source: Adapted from Tada (1993). This is not an official document of NKK Corporation.

Identification of Opportunities and Threats- NKK Materials Sector

KEY OPPORTUNITIES	
Economic Overview	<ul style="list-style-type: none"> • Stable growth of public investment in infrastructure • Stable improvement of U.S. economy • High growth of Chinese economy • Continuous growth of ASEAN
Primary Industrial Sectors	<ul style="list-style-type: none"> • Increase of public works starts • Increase of shipbuilding starts
Technological Trends	<ul style="list-style-type: none"> • Increasing needs for value-added steel • Development of Direct Iron Ore Smelting (DIOS) process technology
Supply of Human Resources	<ul style="list-style-type: none"> • Less need for shop floor workers due to introduction of further automation
Political Factors	<ul style="list-style-type: none"> • Strong support for further investment in maintenance of infrastructure • Transferring the country's Capitol outside Tokyo • Adoption of some antidumping action against low-price foreign producers by Japanese government
Social Factors	<ul style="list-style-type: none"> • Increasing concern for environmental issues
KEY THREATS	
Economic Overview	<ul style="list-style-type: none"> • Slowdown of the growth of the Japanese economy • High appreciation of Yen
Primary Industrial Sectors	<ul style="list-style-type: none"> • Dull growth of Japanese auto industry • Depressed production of machinery
Technological Trends	<ul style="list-style-type: none"> • Increasing needs for lightweight material (especially in auto industry) • Diversified needs for material and small-lot production • Improvements of process technology of mini-mills • Downsizing of information systems
Supply of Human Resources	<ul style="list-style-type: none"> • Increase of average age of employees • Unpopularity of manufacturing jobs among young people • Trend of reducing working hours in Japan
Political Factors	<ul style="list-style-type: none"> • More strict environmental regulation • Enforced Fair Trade Commission in Japan • Increasing trade conflicts between Japan and U.S. • Abuse of antidumping by the U.S. competitors • Introduction of Land Price Tax by the Japanese Government
Social Factors	<ul style="list-style-type: none"> • Increasing concern for environmental issues • Change of Japanese lifestyles (less work, more leisure)
Legal Factors	<ul style="list-style-type: none"> • Introduction of product liability related law

Source: Adapted from Tada (1993). This is not an official document of NKK Corporation.

Identification of Opportunities and Threats - The Case of P&G

KEY OPPORTUNITIES	
Economic Overview	<ul style="list-style-type: none"> • The creation of unique markets in the European Community, North America and the South Cone of Latin America should allow us to use our size to compete effectively on quality, brand recognition, and pricing • Rapid population growth in the Third World, and economic rebound in developing countries
Primary Industrial Sectors	<ul style="list-style-type: none"> • In cosmetics and personal care, high brand recognition and leadership in RD should be used to increase market share
Technological Trends	<ul style="list-style-type: none"> • Our leadership in R&D should be focused on environmental issues, to be recognized - if possible with proprietary technologies - as the "environmental company" • Opportunity to become leaders in small and recyclable packaging before its use is mandatory
Supply of Human Resources	<ul style="list-style-type: none"> • Availability of skilled inexpensive labor in Latin American and Eastern European areas
Political Factors	<ul style="list-style-type: none"> • The creation of a politically unified Europe will bring stability to the area; the same will probably happen in the South Cone of Latin America
Social Factors	<ul style="list-style-type: none"> • Similarity of needs, tastes, and fashions around the world leads to globalization of markets favorable to P&G products
KEY THREATS	
Economic Overview	<ul style="list-style-type: none"> • Margins for consumer goods in the U.S. markets are likely to keep on declining
Primary Industrial Sectors	<ul style="list-style-type: none"> • Very hard competition in growing markets, especially Latin America, where Unilever is very well positioned • Europe and North America are mature in all markets except men's cosmetics
Technological Trends	<ul style="list-style-type: none"> • Increasing investment by pharmaceutical competitors are affecting the prescription drug and over-the-counter businesses
Supply of Human Resources	<ul style="list-style-type: none"> • Intensive competition for talented individuals, particularly global managers with multicultural and multi-language skills • Unionization in the European Community may be problematic
Political Factors	<ul style="list-style-type: none"> • Uncertainty, conflicts, and chaos in former community countries • Potential for increasing friction among block trading partners
Social Factors	<ul style="list-style-type: none"> • Reduction in size of the diaper market due to a decrease in births • Increased concern over the environment could become a threat if we cannot become leaders in environmentally sound products and processes

NOTE: This is not an official document. It is an illustration drawn from public sources

The Mission of the Firm

The mission of the firm is a statement of the current and future expected product scope, market scope, and geographical scope as well as the unique competencies the firm has developed to achieve a long-term sustainable advantage.

THE MISSION OF THE FIRM

	Now	Future
Product Scope		
Market Scope		
Geographical Scope		
Unique Competencies		

The Mission of the Firm - The Case of P&G

Existing Product Scope	--	-	E	+	++
▼ Laundry and Cleaning					
Powder detergent		●			
Liquid detergent					●
Compact detergent					●
Dishwasher			●		
Fabric softeners			●		
Bleach and additives				●	
All-purpose cleaners				●	
▼ Food and Beverages					
Coffee				●	
Oil and fats			●		
Cake mixes			●		
Peanut butter		●			
Cookies		●			
Orange juice		●			
Snacks		●			
Soft drinks	●				
▼ Personal Care					
Diapers				●	
Soap				●	
Oral					●
Deodorants					●
Shampoos					●
Tissues and paper products				●	
Feminine hygiene				●	

The Mission of the Firm - The Case of P&G (cont'd.)

Existing Product Scope (cont'd.)	--	-	E	+	++
▼Cosmetics					
Skincare				●	
Perfumes and fragrances					●
▼Pharmaceutical products					
Prescription drugs	●				
OTC drugs					●
Olestra and fat substitutes			●		
Pulp and Chemicals				●	
New Product Scope					
	--	-	E	+	++
Full line of men's personal care and cosmetics					●
Laundry detergent with softener			●		
Laundry detergent with environmentally friendly packaging					●
Coffee with sweetener and creamer		●			

The Mission of the Firm - The Case of P&G (cont'd.)

Existing Market Scope	--	-	E	+	++
▼ Individual Consumers					
House wives					●
Mothers of babies and young children				●	
Young women					●
Men					●
Fashion conscious			●		
Environmentally concerned				●	
Senior citizens			●		
Low income families		●			
Medium income families			●		
High income families				●	
Health care professionals for Prescription drugs			●		
Grocery wholesalers		●			
Warehouse distributors		●			
Conventional supermarkets			●		
Discount department stores				●	
Packagers and pulp & paper consumers			●		
New Market Scope					
	--	-	E	+	++
Health care providers (and professionals) for OTC Drugs					●
Whole clubs					●
Discount drugstores					●
Hypermarkets				●	
Health food outlets					●
Specialty stores	●				
Aging baby boomers			●		

The Mission of the Firm - The Case of P&G (cont'd.)

Existing Geographical Scope	--	-	E	+	++
▼ North America					
USA				●	
Canada			●		
▼ EC					
Germany, France, and other Central Europe EC members				●	
Spain, Italy, and other Southern Europe EC members					●
UK and Ireland			●		
Poland and Czechoslovakia				●	
Scandinavia		●			
Japan					●
Asian NICs			●		
▼ Latin America					
Mexico				●	
Central America			●		
Mercosul countries					●
Other South America			●		
Middle East and Africa		●			
Australia and New Zealand			●		
New Geographical Scope	--	●	E	+	++
CIS	●				
Other Eastern Europe			●		
China					

The Mission of the Firm - The Case of P&G (cont'd.)

Existing Unique Competencies	--	-	E	+	++
▼ Managerial Infrastructure					
Global product management			●		
Employee ownership program			●		
▼ Technology					
Highest R&D resources in the industry			●		
R&D sharing across product lines			●		
R&D in packaging and process development					●
▼ Marketing					
Local expertise				●	
Strong brand recognition			●		
▼ Retail and Distribution					
Worldwide distribution network in countries with P&G presence)			●		
Automated distribution. POS information			●		
▼ Manufacturing					
Highly automated			●		
Rapid farm to market time			●		
New Unique Competencies	--	-	E	+	++
▼ Managerial Infrastructure					
Transnational management					●
▼ Technology					
R&D in biodegradable products					●
R&D in biodegradable packaging					●
▼ Marketing					
Image of environmentally safe company and products					●

The Mission of the Firm - The Case of P&G (cont'd.)

New Unique Competencies (cont'd.)	--	-	E	+	++
▼ Retail and Distribution					
Develop network in Eastern Europe		●			
▼ Manufacturing					
Cost leaders in all detergent and cosmetic products (leveraging R&D)					●

The Mission of the Firm - The Case of P&G (cont'd.)

Challenges from Changes in Product Scope

Increase the environmental content in all products. Particularly emphasis should be placed in liquid and compact detergents

Increase the breadth of the Food and Beverage segment, maintaining the distribution channels familiar to P&G. Divest non-profitable product lines

Increase the breadth of the Personal Care segment, especially Men and full line of Feminine Cosmetics, strengthening the position of oral care, deodorant, and shampoos.

Emphasize presence in Cosmetics, particularly perfumes and fragrances.

Increase the breadth of OTC drugs, as they share many of the channels and consumers with other P&G products. Growing and fragmented market.

Divest prescription drugs ventures. Few very large competitors and different channels.

Develop a full line of Men Personal Care and Cosmetics

Increase the environmental friendliness and recyclability of packaging of all products.

Develop "combined" food products like coffee with creamer and/or sweetener.

Develop "combined" detergent and softener products.

Develop premeasured detergent in soluble packaging.

Develop biodegradable diapers.

Challenges from Changes in Market Scope

Continue assigning top priority to housewives as the primary purchaser of our products, while also targeting mothers with young children and young women.

Increase the market share in Men's Personal Care and Cosmetics.

Explore specialty stores for prestige cosmetic products.

Explore health food channel for specialized food and environmentally safe products.

Target high income families for high margin products.

Increase the awareness of OTC products to health care professionals as a vehicle for first time users (considering the effect of prescription drugs divestment)

Develop a strong position in the growing hypermarket, wholesale clubs, and discount drugstore channels.

Anticipate and create needs for the aging baby-boom generation (USA).

The Mission of the Firm - The Case of P&G (cont'd.)

Challenges from Changes in Geographical Scope

Continue promoting the U.S. home-base market.

Strengthen the overall position in the newly formed EC market, particularly in Spain, Italy, and other southern European countries.

Introduce basic low-end affordable products in Eastern European markets opening to western products.

Strengthen breadth of products marketed in Japan. Improve competitiveness versus KAO Corporation.

Penetrate aggressively in the Mercosur common market as well as Mexico.

Introduce basic low-end products in China and CIS.

Necessity to truly understand the differences between different geographical areas and the evolution of tastes in time, but without losing the economies of being the worldwide volume leader. Special attention to the very unfamiliar Asian markets.

Challenges from Changes in Unique Competencies

Maintain the highest levels of R&D in the different industries, attracting the best researchers in the world, with maximum interest in environmentally sound products and packages, OTC drugs, and cosmetics.

Increase at the maximum level the knowledge of local markets, focusing in the customer and linking the findings with the R&D organization.

Transition from multinational organization to a transnational one.

Develop alliances for distribution in countries without P&G presence.

Become cost leaders in the detergent and cosmetic product lines.

Develop and promote a corporate image of environmentally safe products and processes by applying technology to biodegradable products and packages.

The Mission of the Firm - The Case of P&G (cont'd.)

Mission Statement

P&G is devoted to providing products of superior quality and value to the world's consumers based on the traditional principles of integrity and doing the right thing. P&G is to be recognized as the world leader in providing consumers everywhere with cleaning, personal care, medicinal, and food products. Its purpose is achieved through an organization and working environment able to attract the most qualified individuals.

P&G is committed to preserving the environment, in its production processes and its products and packaging.

By establishing and maintaining leadership position all markets, P&G provides its shareholders with long term growth and profitability.

▼ PRODUCT SCOPE

NOW: Manufacture and distribute laundry and cleaning, food and beverage, personal care, pharmaceutical, and pulp and chemical products of superior quality to best fill the needs of the world customers.

FUTURE: Maintain market leadership in the same segments but focus the development and sale of environmentally friendly products and packaging, convenient applicability of products.

▼ MARKET SCOPE:

NOW: Provide products to all individual consumers and institutions through an integrated, global network ranging from R&D to manufacturing and distribution.

FUTURE: Respond effectively to the ever-increasing health concerns and changes of demographics, aging in U.S., and fast growth in developing countries. Market world brands that share global technology but respond to local needs and particularities.

▼ GEOGRAPHICAL SCOPE

NOW: Worldwide with different product scopes in different world regions.

FUTURE: Expand distribution of basic products (laundry and personal care) to East European and Central American countries with highest per capita income level. Establish a strong position in South America to effectively compete in the newly liberalized market.

▼ UNIQUE COMPETENCIES:

NOW: R&D leadership has been the foundation of P&G success. Horizontal integration and multinational management have allowed the firm to compete effectively.

FUTURE: World leadership in environmentally-related R&D in the detergent and packaging industries. P&G is committed to becoming a leader in the protection of our environment. The firm will develop a transnational culture to allow for a sharper focus on the differences of different territories and market segments without losing the economies of world market leadership.

Business Segmentation

- **A business unit can be defined as an operating unit or a planning focus that sells a distinct set of products or services to an identifiable group of customers in competition with a well-defined set of competitors.**
- **The business unit is the level of analysis where most of the strategic planning effort is centered.**

The Definition of a Strategic Business Unit (SBU)

- 1. An SBU is intended to serve an external market, not an internal one. This means that an SBU should have a set of external customers and not just serve as an internal supplier.**
- 2. An SBU should have a well-defined set of external competitors, with respect to whom we are attempting to obtain a sustainable advantage.**
- 3. The SBU manager should have sufficient independence in deciding the critical strategic actions. This does not mean that the SBU manager could not share resources such as**

The Definition of a Strategic Business Unit (cont'd.)

manufacturing facilities, sales force, procurement, services, technologies and the like from other business units existing in the firm. It simply means that the SBU manager is free to choose from where to obtain the necessary resources and how to compete effectively.

4. If the three conditions stated above are met, an SBU becomes a genuine profit center, totally accountable for the profitability as opposed to becoming either a cost center or an artificial product center where profit is measured through transfer price mechanisms

The Definition of a Strategic Business Unit (cont'd.)

- 5. Finally, an SBU does not have to be a well-defined organizational unit with a line manager in charge to be regarded as a legitimate SBU. In an organization structured along functional lines participating in a variety of markets and facing several distinct sets of competitors, it could not be feasible to match the SBU segmentation with the organizational structure. In those cases, the SBU still could be the central focus for strategic analysis, but the SBU manager would simply play a coordinating role, seeking the necessary resources from the various organizational units of the firm, none of which might report directly to him or her.**

Business Segmentation - The Case of P&G

	Business Unit	Rationale for Segmentation
1	Cellulose	Unique competitors, technology, and customers
2	Tissue and Paper Towel Products	Unique competitors and technology
3	Disposable Diapers	Largest unit Unique competitors and technology
4	Coffee	Different suppliers and customers Most profitable food segment
5	Cake Mixes	Unique competitors and technology
6	Shortening Oils	Unique competitors and technology
7	Potato Chips/Peanut Butter	Unique competitors and technology
8	Drinks	Different R&D and competitors Separated to facilitate possible divestment
9	Cosmetics	Well-defined set of customers, competitors, and technologies
10	Oral Care	Different customers and competitors
11	Soaps/Shampoos	Different customers and competitors
12	Detergents	Core product with large external market Well-defined customers and competitors
13	Chemicals	Different customers, channels, and competitors
14	OTC Drugs	Different R&D and competitors
15	Prescription Drugs	Different R&D, competitors, customers, and channels Separated to facilitate possible divestment

NOTE: This is not an official document. It is an illustration drawn from public sources.

Horizontal Strategy

- **Horizontal strategy is a coordinated set of goals and policies across distinct but interrelated business units.**
- **Defining horizontal strategy requires searching for and exploiting potential interrelationships among the various business units of the firm.**
- **Horizontal strategy is required at the group, sector, or corporate levels of a diversified firm.**
- **Through horizontal strategy, a diversified firm enhances the competitive advantage of its business units.**

Interrelationships Among Business Units

There are three types of possible interrelationships:

- Tangible Interrelationships, arising from opportunities to share activities in the value chain.
- Intangible Interrelationships, involving the transference of management know-how among separate value chains. Businesses that cannot share activities may nevertheless be similar in generic terms, such as in the type of buyer, type of purchase by buyer, type of manufacturing process, etc.

Interrelationships Among Business Units (Cont'd.)

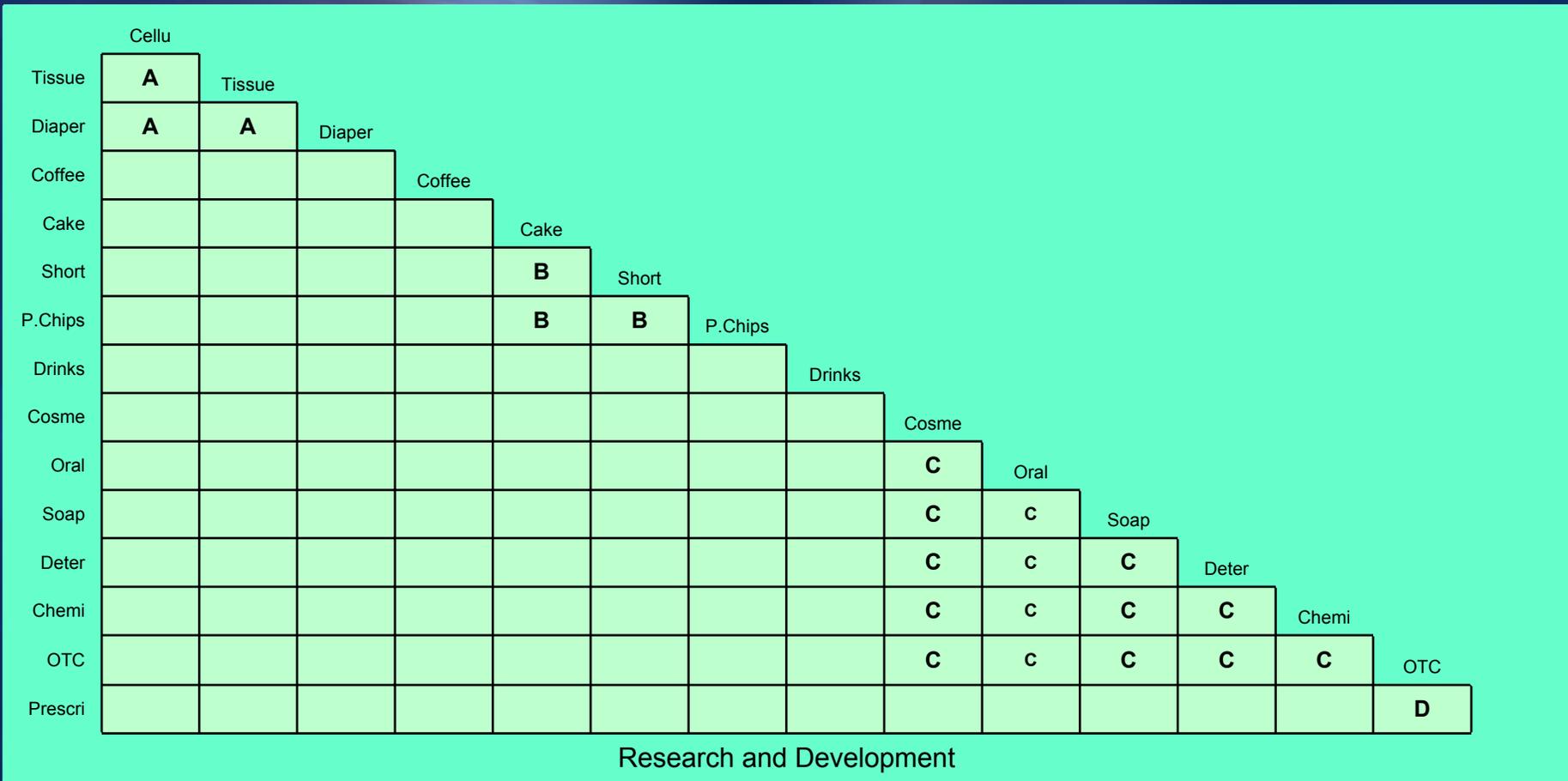
- **Competitor Interrelationships, stemming from the existence of rivals that actually or potentially compete with a firm in more than one industry. These multipoint competitors necessarily link industries together because actions toward them in one industry may have implications in another.**

Horizontal Strategy - The Case of P&G

	Cellu													
Tissue		Tissue												
Diaper		@	Diaper											
Coffee		@	@	Coffee										
Cake		@	@	@	Cake									
Short		@	@	@	@	Short								
P.Chips		@	@	@	@	@	P.Chips							
Drinks		@	@	@	@	@	@	Drinks						
Cosme		@	@	@	@	@	@	@	Cosme					
Oral		@	@	@	@	@	@	@	@	Oral				
Soap		@	@	@	@	@	@	@	@	@	Soap			
Deter		@	@	@	@	@	@	@	@	@	@	Deter		
Chemi		@	@	@	@	@	@	@	@	@	@	@	Chemi	
OTC		@	@	@	@	@	@	@	@	@	@	@	@	OTC
Prescri														@

Wholesale Distribution and Retail

Horizontal Strategy - The Case of P&G (cont'd.)

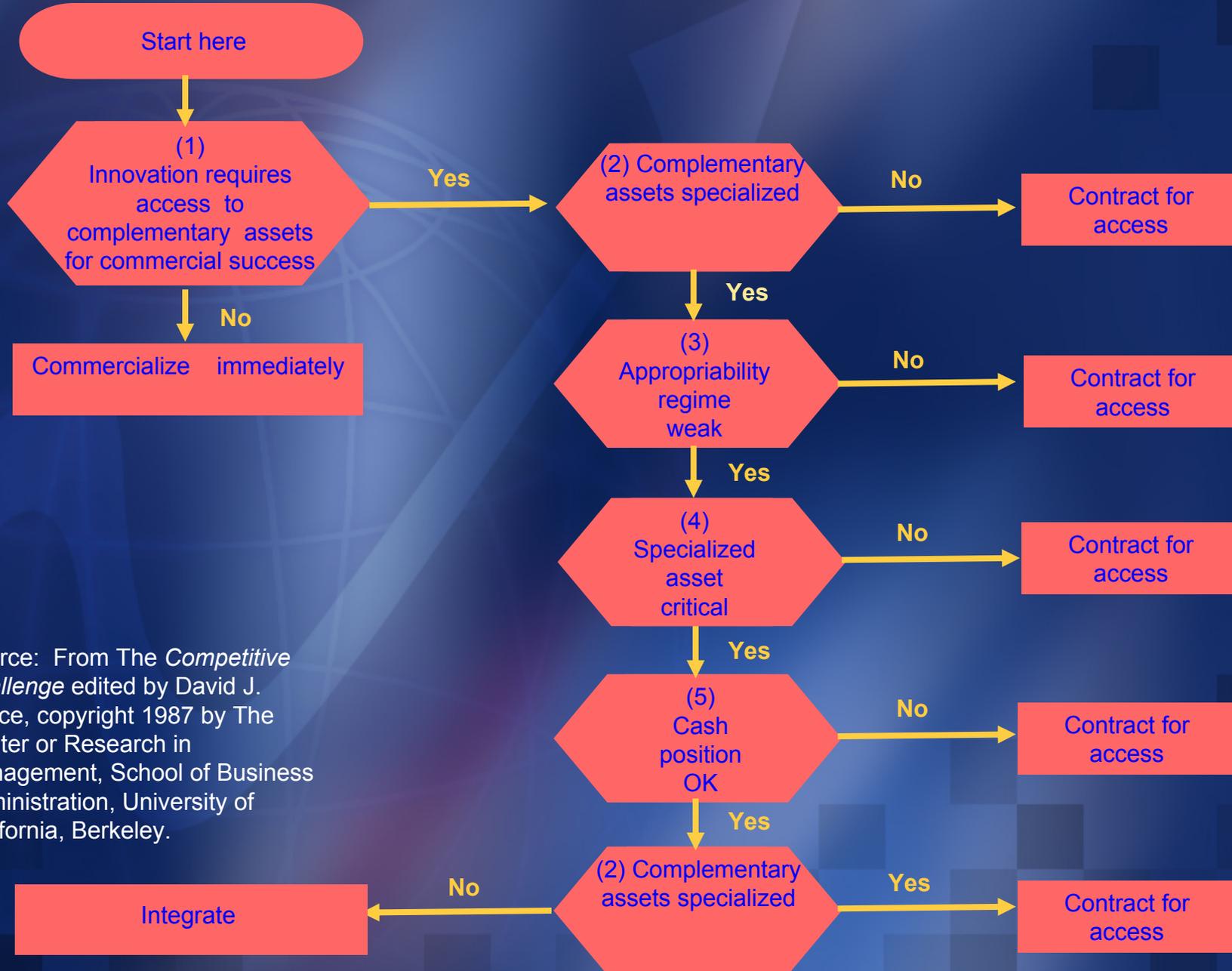


Vertical Integration

Vertical integration involves the following set of decisions:

1. **Defining the boundaries a firm should establish over its generic activities on the value chain (the question of make vs. buy or integrate vs. contract).**
2. **Establishing the relationship of the firm with its constituencies outside its boundaries, primarily its suppliers, distributors, and customers.**
3. **Identifying the circumstances under which those boundaries and relationships should be changed to enhance and protect the firm's competitive advantage.**

Selecting Between Vertical Integration and Contracting Options



Source: From *The Competitive Challenge* edited by David J. Teece, copyright 1987 by The Center of Research in Management, School of Business Administration, University of California, Berkeley.

Horizontal and Vertical Integration - The Case of P&G

Stages of Value Chain		Business Units														Overall Degree of Horizontal Integration								
		CEL	TP	DD	COF	CM	SO	PCP	DR	COS	OC	SSD	DE	CH	OTC	PD	Current			Desired				
																	H	M	L	H	M	L		
Wholesale distribution			X	X	X	X	X	X	X	X	X	X	X	X	X&Y	Y								
Manufacturing		A	A	A		B	B	B		C	C	C	C	C	C&D	D								
Raw materials		E	E	E						F	F	F	F	F	F&G	G								
R&D		H	H	H		I	I	I		J	J	J	J	J	J&K	K								
Overall Degree of Vertical Integration	Current	H																						
		M																						
		L																						
	Desired	H																						
		M																						
		L																						

Key: Letters identify clusters of sharing value chain activities across the various businesses of P&G. At the margins we indicate the current and future levels of horizontal and vertical integration

SBU:
 CEL = Cellulose
 TP = Tissue & Paper
 DD = Disposable Diapers
 COF = Coffee
 CM = Cake Mixes
 SO = Shortening Oils

PCP = Potato Chips & Peanuts
 DR = Drinks
 COS = Cosmetics
 OC = Oral Care
 SSD = Soap, Shampoo & Detergents
 DE = Detergents

CH = Chemicals
 OTC = OTC Drugs
 PD = Prescription Drugs

NOTE: This is not an official document. It is an illustration drawn from public sources.

Corporate Philosophy

Corporate philosophy is a rather permanent statement, articulated primarily by the CEO, addressing the following issues:

- 1. The relationship between the firm and its primary stakeholders - employees, customers, shareholders, suppliers, and the communities in which the firm operates.**
- 2. A statement of broad objectives of the firm's expected performance, primarily expressed in terms of growth and profitability.**

Corporate Philosophy (cont'd.)

- 3. A definition of basic corporate policies with regard to issues such as management style, organizational policies, human resource management, financial policies, marketing, and technology.**
- 4. A statement of corporate values pertaining to ethics, beliefs, and rules of personal and corporate behavior.**

Corporate Philosophy - The Case of P&G

	Existing	Desired
RELATIONSHIPS WITH STAKEHOLDERS		
Employees	Competition among individuals, brands, and teams. Commitment to recruiting and retaining talented people irrespective of creed, race, sex, or national origin.	Extend coordination and cooperation across different organizational units. Make corporate profit a goal of all individuals. Continue and expand the employee ownership program.
Customers	U.S. customer dominant in defining product characteristics.	Our customers are the people of the world. Detect geographical differences and account for the ever increasing power of the distribution channels. Our customers will chose P&G products for their outstanding value.
Shareholders	High returns and stock appreciation.	Continue providing high returns and stock appreciation.
Suppliers	Regarded as important partners. Solid relationships in the U.S.; uneven in the rest of the world.	Recognize them as essential partners in our global value chain.
Communities	Environmental concerns.	Attain indisputable environmental leadership.
BROAD CORPORATE OBJECTIVES		
Growth	Continuous market share increases in the past years.	Growth should not be limited to market share. It includes product development and the entrance in geographical areas in which P&G has no presence.
Profitability	Above average returns.	Maintain above-average returns.
CORPORATE POLICIES		
Management Style	Mainly centralized U.S. focused.	Become truly global and decentralized in those aspects needing local focus. Create a transnational culture.
Organizational Policies	Focus on the ability to transfer technology and retain individuals.	Adopt the philosophy of the learning organization.
HR Management	Good professionals with individual focus.	Increase mobility and team spirit. Emphasize international training.
Finance	Local funding and management of currency exchanges.	Centralize access to worldwide markets.
Marketing	Localized.	Disseminate knowledge. Local focus.
Manufacturing	Good with some aging plants.	Improve cost structure; emphasis on process advantages.
Technology	Innovative in all products and markets.	Become "the environmental company," both in products and packages as well as production processes.
CORPORATE VALUES		
Ethics	Good reputation.	Environmental focus.
Beliefs	Honest dealings are rewarded.	Honest dealings will always be rewarded.
Rules of Personal Behavior	The power resides in the individual.	Add long-term perspective in all areas.

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Summary of the Corporate Internal Scrutiny: Strengths and Weaknesses of the Firm - The Case of P&G

CURRENT CORPORATE STRENGTHS

1. Information technology linking customers to production.
2. Application of R&D for innovation to extend product life cycle.
3. Advanced R&D capabilities to generate new products. Regional R&D centers focused on regional differences.
4. Human resource management.
5. Marketing and advertisement.
6. Brand management.
7. International management experience.
8. Proactive environmental policies.
9. Vertical integration from paper and packaging to a broad distribution network ending at the store shelf.
10. Employee stock ownership plan.

REQUIRED CORPORATE STRENGTHS (CURRENT CORPORATE WEAKNESSES)

1. Increase knowledge of the food and beverage businesses.
2. Attain cost leadership in as many product lines as possible.
3. Develop transnational infrastructure and corporate culture.
4. Expand in newly opening markets.
5. Improve responsiveness to local markets.
6. Become the environmental leader.

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Strategic Posture of the Firm

The strategic posture is a pragmatic and concrete set of guidelines which serves as immediate challenges for the development of strategic proposals at the business and major functional levels of the firm:

It is expressed primarily by:

- **Corporate strategic thrusts**
- **Corporate, business, and functional planning challenges**
- **Corporate performance objectives**

Strategic Posture of the Firm (cont'd)

Its derivation is supplied by:

- **The vision of the firm**
- **Environmental scan at the corporate level**
 - **Environmental assumptions**
 - **Definition of relevant scenarios**
- **Internal scrutiny at the corporate level**
 - **Identification of unique competencies**
 - **Driving forces**

Statement of Strategic Thrusts - The Case of P&G

STRATEGIC THRUST	COR	BUSINESSES															FUNCTIONS						PERFORMANCE MEASUREMENTS
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Fin	Proc	Prod	Mkt	Tec	MI	
1. Concentrate on the profitability of food & beverages. Divest if necessary.	1				1	1	1	1	1								1	2	2	2	2	2	Sales, profit, and margin
2. Emphasize environmentally friendly product, particularly compact & liquid detergents.	2											1					2	2	2	2	1		Sales and product mix
3. Develop OTC product lines.	2													1	1	2	2	2	1	1		Size of product line, and overall market share	
4. Increase R&D in process manufacturing.	2	2	2	2	2	2	2	2		2	2	2	2	2	2		2	1		1		Production costs and environmental impact	
5. Develop biodegradable diapers.		1	2	1													2	2		2		Time to market	
6. Constantly monitor changes in tastes and health concerns			1	1	1	1	1	1		1	1	1	1	1	1				1	1		Number of consumer surveys and product improvements	
7. Develop geographical strategies for different regions, with emphasis on Lat. America, W. Europe, & Asia.	1		2	2	2	2	2	2		2	2	2	2	2	2	2	2	2	1	2	1	Regional market shares	
8. Develop specialty stores as a channel for prestige care products.										1	1	1							1			Market share	
9. Improve relationships with suppliers.	2	1	1	1	1	1	1	1		1	1	1	1	1	1		1	2			2	Increase % of supplier sales to P&G	
10. Encourage communication between market research & product R&D.	2	2	2	2	2	2	2	2		2	2	2	2	2	2		2	2	1	1	2	Customer-driven product innovations	
11. Develop a full line of men's cosmetics.										1	1	1					2		2	1	1	Product line market share	
12. Develop combined products, both in the food & detergent segments.					1	1	1	1		1	1	1	1					2	1	1		Number of products, sales, market share	
13. Develop distribution channels through wholesale clubs & discount drugstores.			1	1	1	1	1	1	1	1	1	1	1						1	1		Market share	
14. Develop entry strategies for China & countries without P&G presence in E. Europe, Lat. America, & Africa, through distribution alliances.	1		2	2							2	2	2		2				1		1	Market share per product introduced and country	
15. Develop a transnational organization.	1	2	2	2	2	2	2	2		2	2	2	2	2	2	2	2	2	2	2	1	Completion of a first proposal	

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CODE: 1 = Key role in formulation and implementation; 2 = Important support role; COR = Corporate

CODE FOR BUSINESS NUMBERS: 1. Cellulose; 2. Tissue and Towel Paper Products; 3. Disposable Diapers; 4. Coffee; 5. Cake Mixes; 6. Shortening Oils; 7. Potato Chips/Peanut Butter; 8. Drinks; 9. Cosmetics; 10. Oral Care; 11. Soap/Shampoos; 12. Detergents; 13. Chemicals; 14. OTC Drugs; 15. Prescription Drugs

Corporate Financial Performance Objectives - The Case of P&G

Performance Indicators	Past Years			Current	Objectives
	1989	1990	1991	1992	1993-1997
Sales Total Growth (%)	21,398	24,081 21.5	27,026 12.2	29,306 8.4	To \$42 billion by 1997. Increases mainly overseas. Monitor by product, specifically OTC & cosmetics.
Profits Total Profit Growth (%) Profit/Sales	1206	1602 32.8 6.65%	1773 10.7 6.56	1879 6.0 6.41%	Maintain profits about 6% of sales. Monitor by product line. Concentrate in food & decide on divestment.
Assets Total Growth	16.351	18.487 13.1	20.464 10.7	21.696 6.0	Continue investing at current levels.
Capital Structure Long-Term D/E Long-Term D/TC	59.5 43.7	47.7 40.4	53.1 53.1		Maintain current ratios.
Profitability ROE ROA	23.1 7.4	24.6 8.7	30.9 8.7		Maintain around 25% Maintain around 9%
Earnings/Share	3.47	4.27	4.62		Maintain around 4.5%
Division/Earnings	41	41	42		Above 40%
Marketing/Book	3.37	4.63	4.56		Maintain above 4.0.

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Corporate Non-Financial Performance Objectives - The Case of P&G

Performance Indicators	Objectives/Metrics
R&D Spending/Sales	Maintain at 3%
R&D Productivity	Number of R&D driven innovations
Product Development Time	Average of 3 months
Job Satisfaction	Turnover, Employee Surveys
Procurement Costs	Decrease 10% cost of materials
Procurement Quality	Quality control report on purchases
Supplier Relationships	Percentage of supplier's sales to P&G
New Product Introductions	Number of introductions
Manufacturing Costs	Decrease 10% production costs
Manufacturing Quality	Number of defects (or defective runs)
Environmental Protection	Number of environmentally safe products
Geographical Expansion	Percentage of sales in different regions

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The Balanced Scorecard

The balanced scorecard is a set of measures that gives top managers a fast but comprehensive view of the business.

The balanced scorecard includes financial measures that tell the results of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal process, and the organization's innovation and improvement activities - operational measures that are the drivers of future financial performance.

The Balanced Scorecard Provides a Framework to Translate a Strategy into Actionable Terms



Source: "The Balanced Scorecard - Measures That Drive Performance," Robert S. Kaplan and David P. Norton, *Harvard Business Review*, January-February 1992.

Example of the Balanced Scorecard - The Case of P&G

Customer Perspective	
Goals	Measures
Preferred supplier	Market share/Account share
Consistency/Reliability	Customer satisfaction Survey
Responsive distribution	On-Time delivery (defined by customer)
Innovative	Percentage of revenues from new products

Example of the Balanced Scorecard - The Case of P&G (cont'd.)

Internal Business Perspective	
Goals	Measures
Globalization	Percentage of revenues earned overseas
Production Excellence	Reduction in cost of goods sold
Quality	Rework
Employee empowerment	Percentage of employee shareholders Staff suggestions implemented Customer suggestions implemented
Supplier partnership	Number of long-term supply contracts