

TOMMASO MINOLA
Professor
University of Bergamo

STRATEGIC MANAGEMENT IN THE DIGITAL ECONOMY

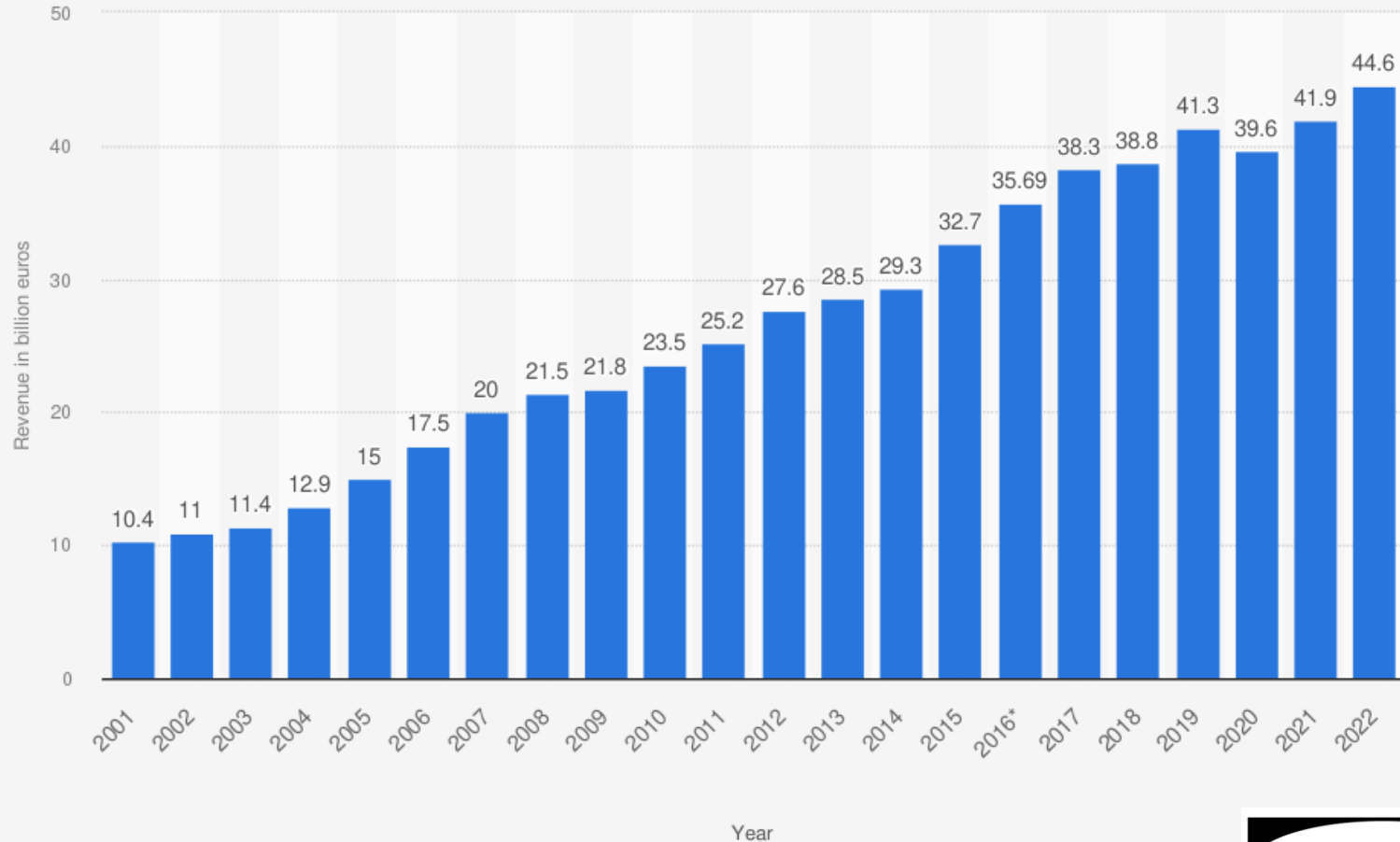
Strategic Positioning



- Understand the principles of strategic positioning and know the concept of generic competitive strategies
- Know how to analyze different customer groups and implications on strategic positioning
- Know how to apply the strategy clock as an alternative way to analyze strategic positioning

<https://www.youtube.com/watch?v=tnMafm8ih0w>

Annual revenue of the IKEA Group worldwide from 2001 to 2022 (in billion euros)



Source
IKEA
© Statista 2023

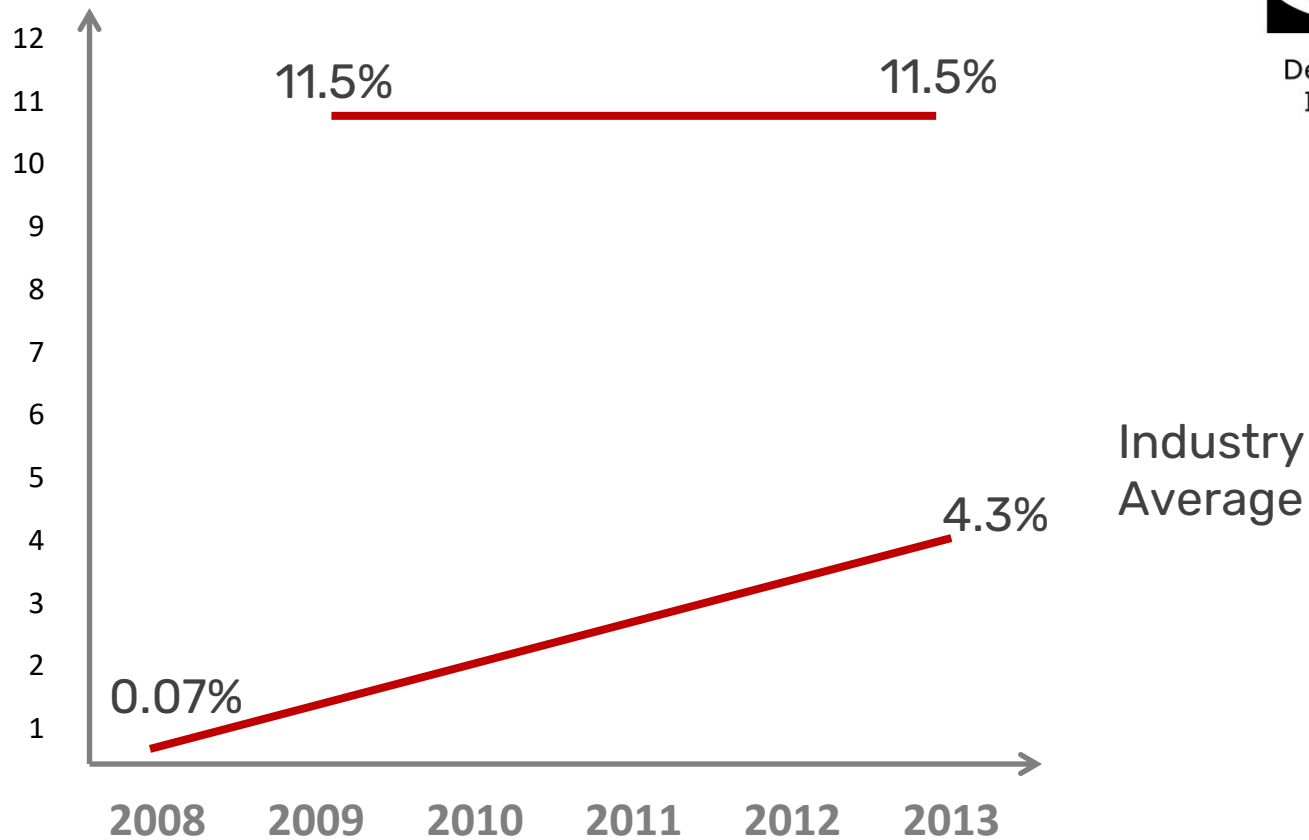
Additional Information:
Worldwide; IKEA; 2001 to 2022



Design and Quality
IKEA of Sweden

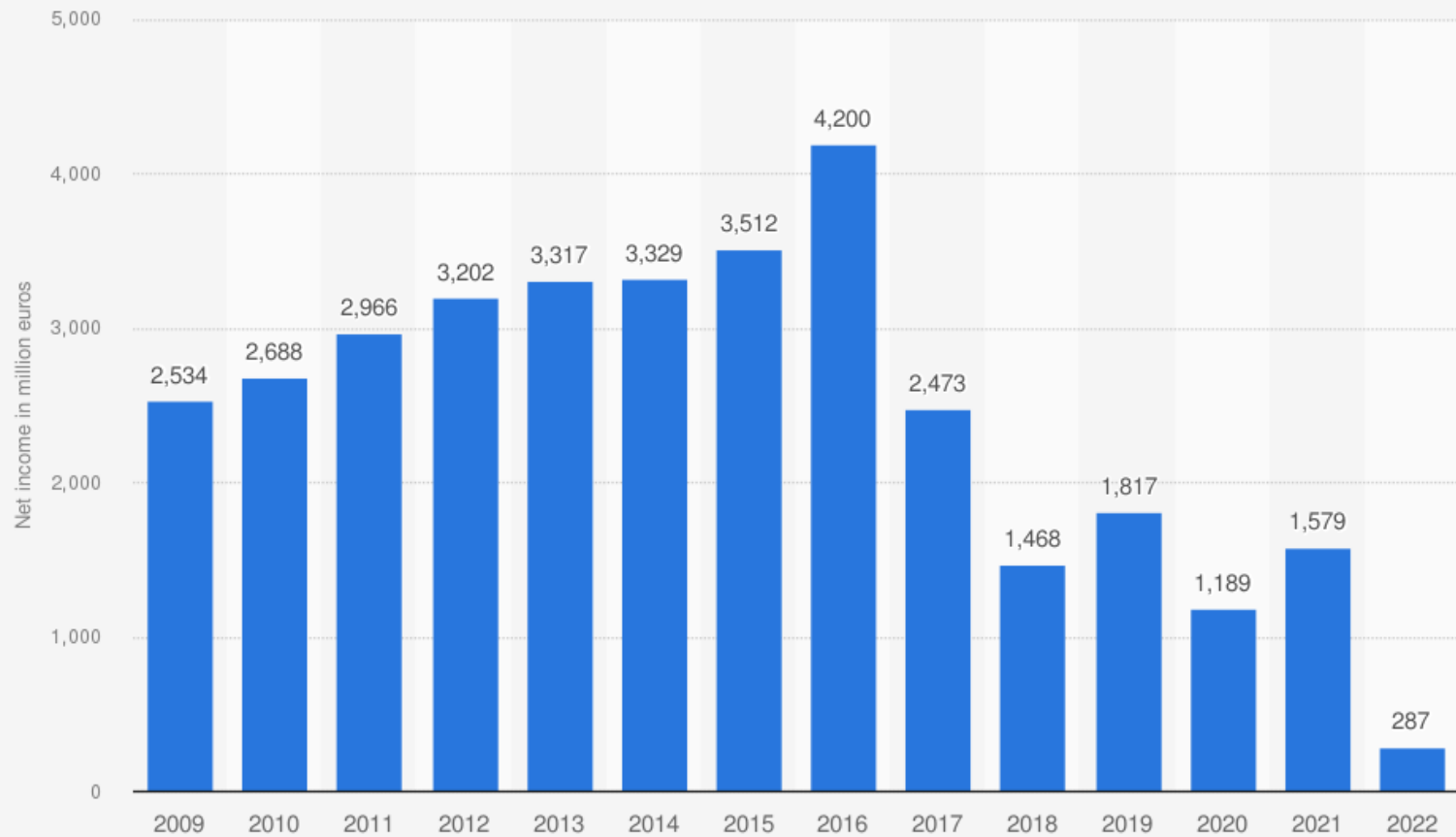


Design and Quality
IKEA of Sweden



Source: Sageworks

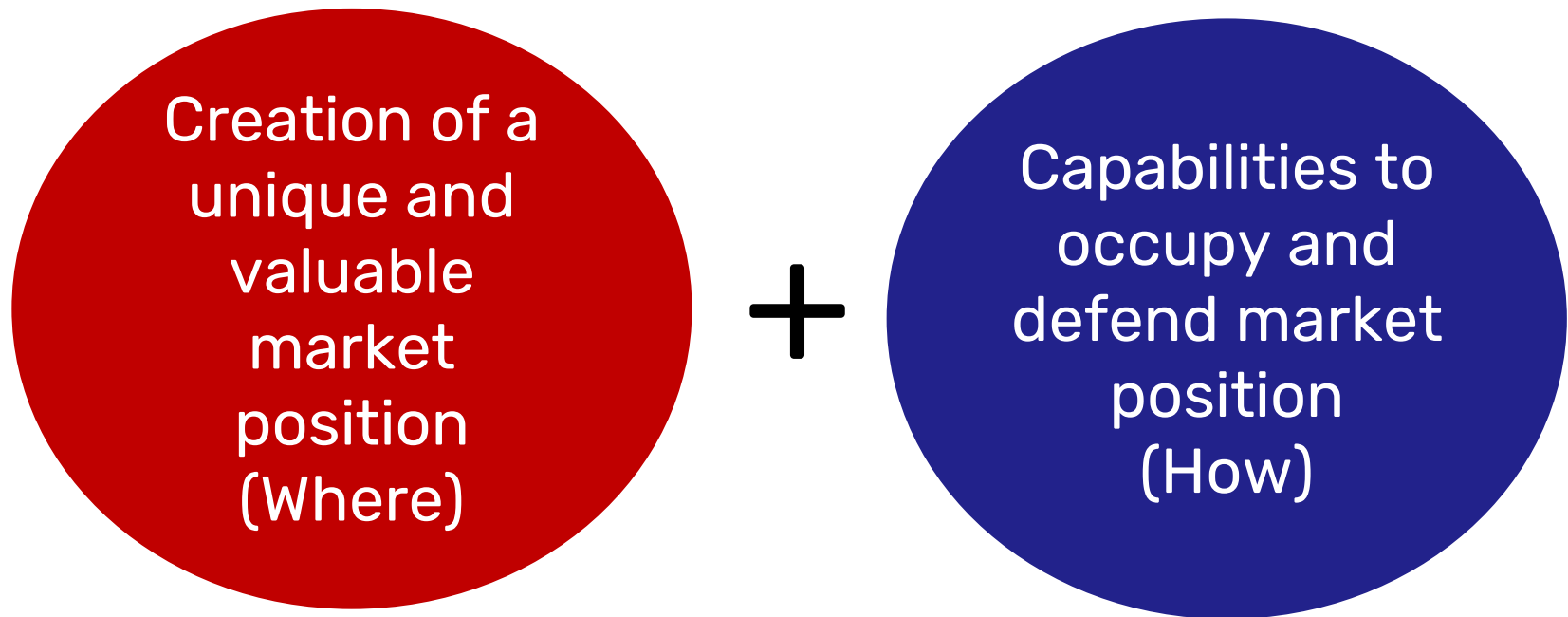
Net income of INGKA Group (IKEA) worldwide from 2009 to 2022 (in million euros)



Source
IKEA
© Statista 2023

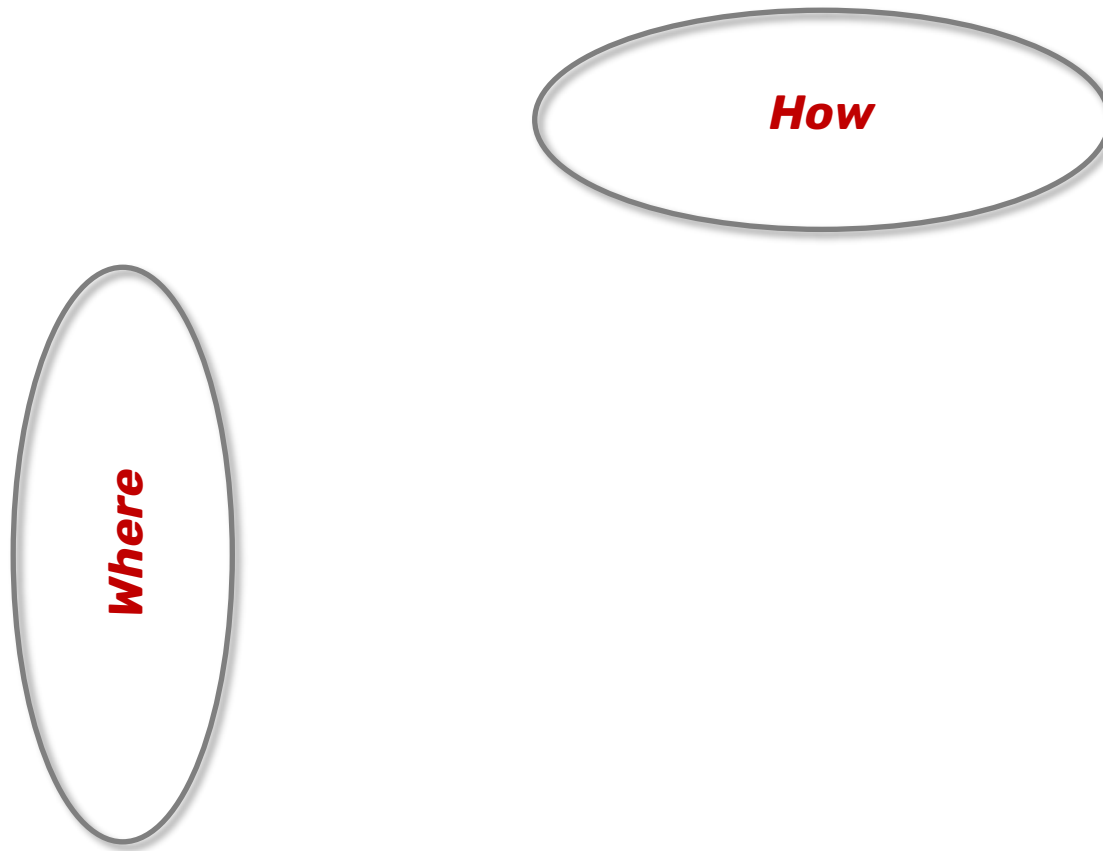
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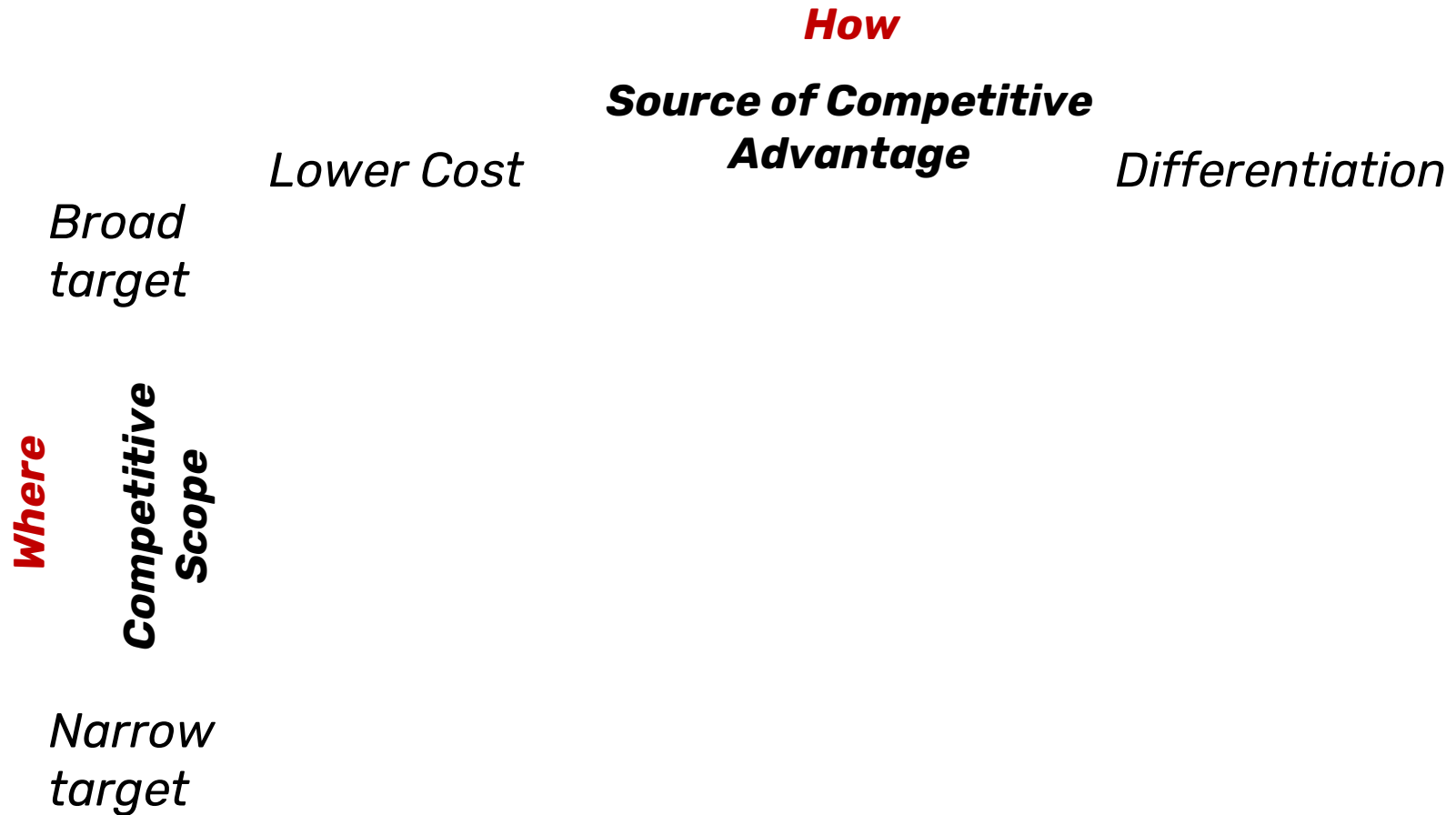
WHAT IS IKEA DOING? WHAT IS THE IKEA APPROACH?

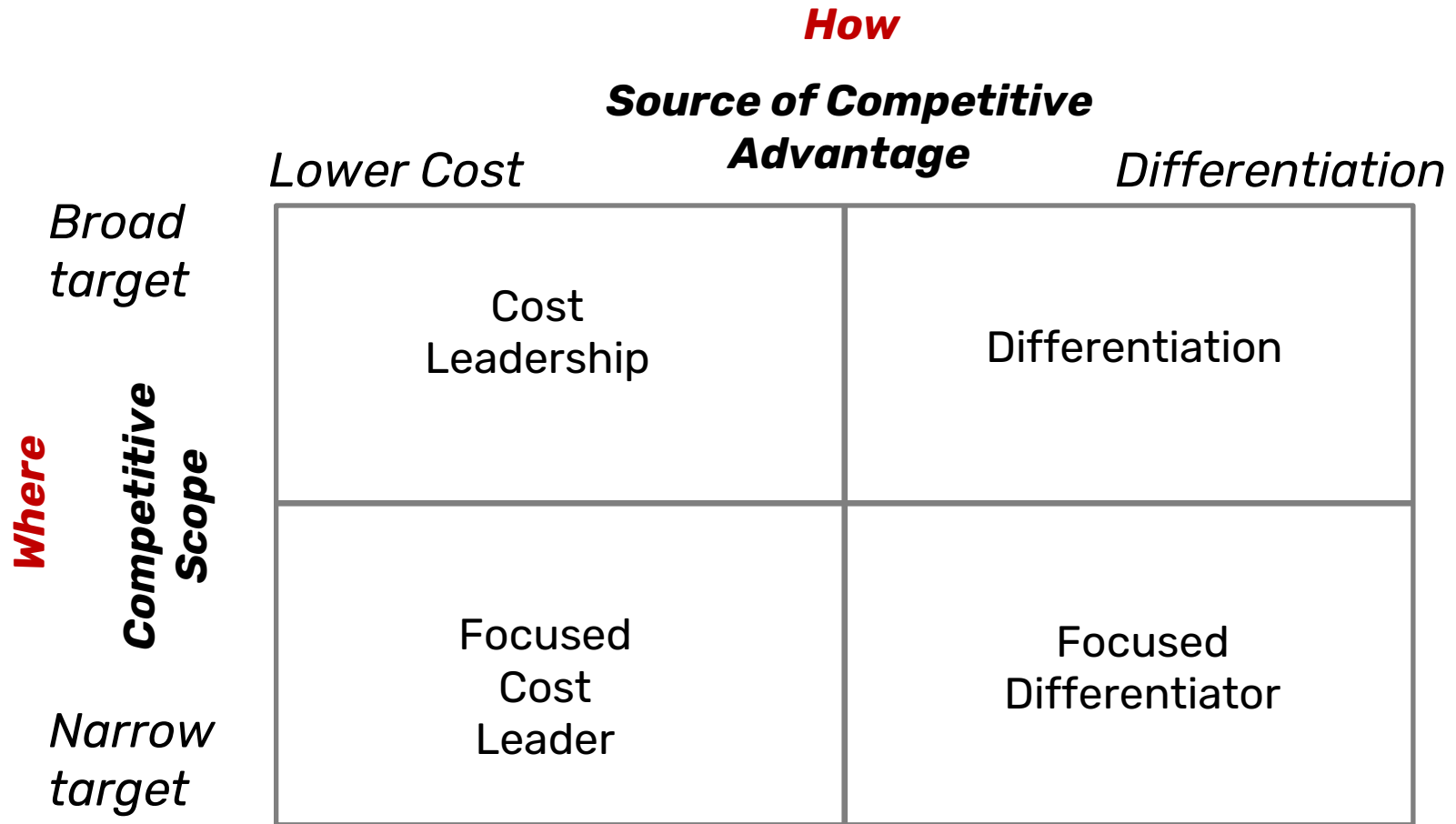


“Strategy can be viewed as building defenses against the competitive forces or finding a position in the industry where the forces are weakest”

Porter (1980)



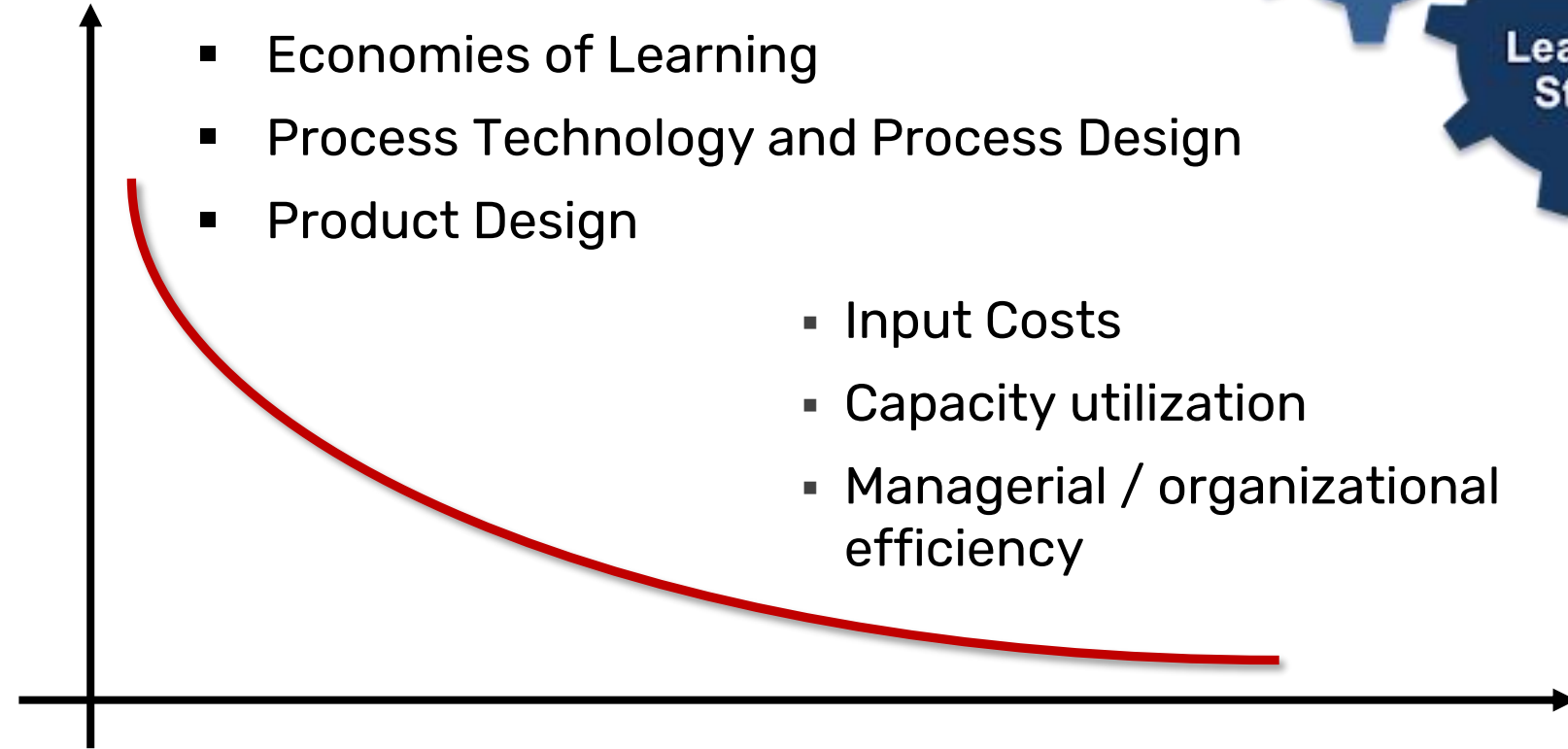






- Economies of Scale
- Economies of Learning
- Process Technology and Process Design
- Product Design

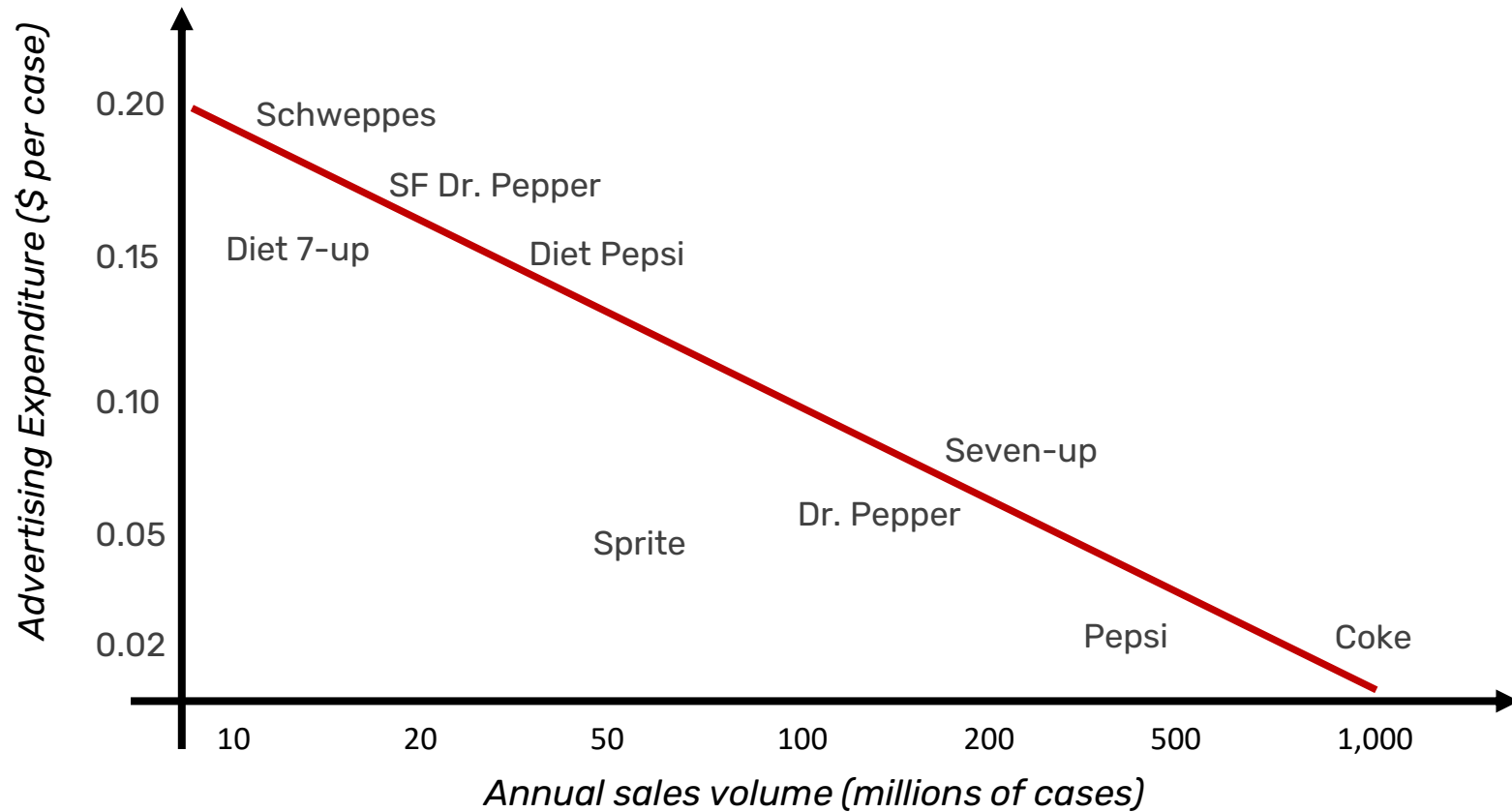
- Input Costs
- Capacity utilization
- Managerial / organizational efficiency



- **Economies of scale** exist wherever proportionate increases in the amounts of inputs employed in a production process result in lower unit costs.
- Scale economies arise from three principal sources:
 - **Technical input-output relationships:** In many activities, increases in output do not require proportionate increases in input.
 - **Indivisibilities:** Many resources and activities are “lumpy”—they are unavailable in small sizes. Hence, they offer economies of scale as firms are able to spread the costs of these items over larger volumes of output.
 - **Specialization:** Increased scale permits greater task specialization. Mass production involves breaking down the production process into separate tasks performed by specialized workers using specialized equipment. Division of labor promotes learning and assists automation.



Economies of Scale in Advertising: US Soft Drink Industry



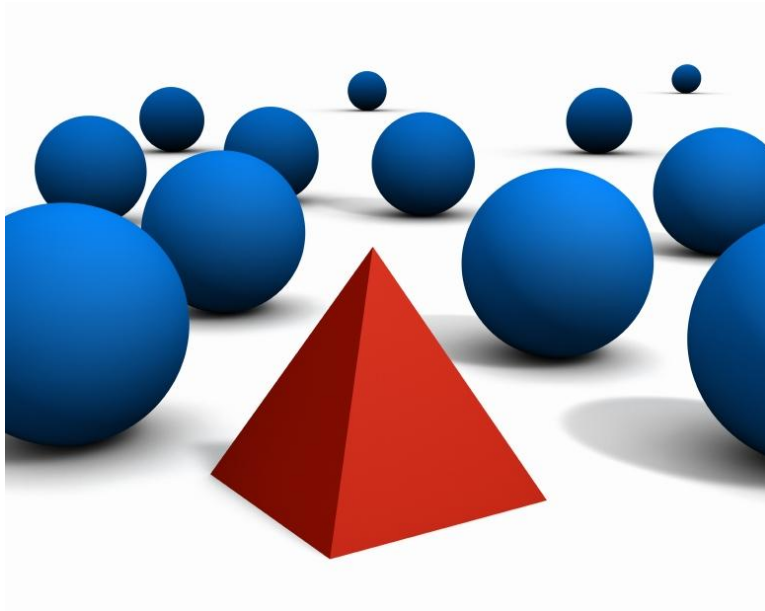
- **Economies of Learning** - The experience curve has its basis in learning-by-doing. Repetition develops both individual skills and organizational routines.
- **Process Technology and Process Design** - Superior processes can be a source of huge cost economies. *Business process re-engineering* (BPR) is an approach to redesigning operational processes that became widely popular during the 1990s.
- **Product Design** - Design-for-manufacture—designing products for ease of production rather than simply for functionality and esthetics—can offer substantial cost savings, especially when linked to the introduction of new process technology.
- **Capacity Utilization** - Over the short and medium terms, plant capacity is more or less fixed and variations in output cause capacity utilization to rise or fall. Underutilization raises unit costs because fixed costs must be spread over fewer units of production. Pushing output beyond normal full capacity also creates inefficiencies.

- **Input Costs** - There are several reasons why a firm may pay less for an input than its competitors:
 - **Locational differences in input prices:** The prices of inputs—wage rates especially—vary between locations.
 - **Ownership of low-cost sources of supply:** In raw-material-intensive industries, ownership of low-cost sources of material can offer a massive cost advantage.
 - **Bargaining power:** The ability to negotiate preferential prices and discounts can be a major source of cost advantage for industry leaders, especially in retailing.
- **Managerial / organizational efficiency** - Even after taking account of the basic cost drivers—scale, technology, product and process design, input costs, and capacity utilization—unexplained cost differences between firms typically remain. These residual efficiencies relate to the extent to which the firm approaches its efficiency frontier of optimal operation which depends on the firm's ability to eliminate “organizational slack”.

- Over-emphasis on (internal) efficiency – loss of focus on customer
- Commodity based industry – there can only be one cost leader
- Many routes to low cost position can be copied
- Technical change can nullify past investments

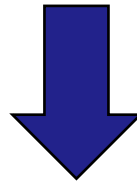


- Differentiation is not simply about offering different product features; it is about **identifying and understanding every possible interaction between the firm and its customers** and asking how these interactions can be enhanced or changed in order to deliver additional value to the customer.
- This requires looking at both the firm (the supply side) and its customers (the demand side).



- Focus on market segments
- Brand recognition
- USP (Unique selling point)
- Understand customer needs
- Etc.

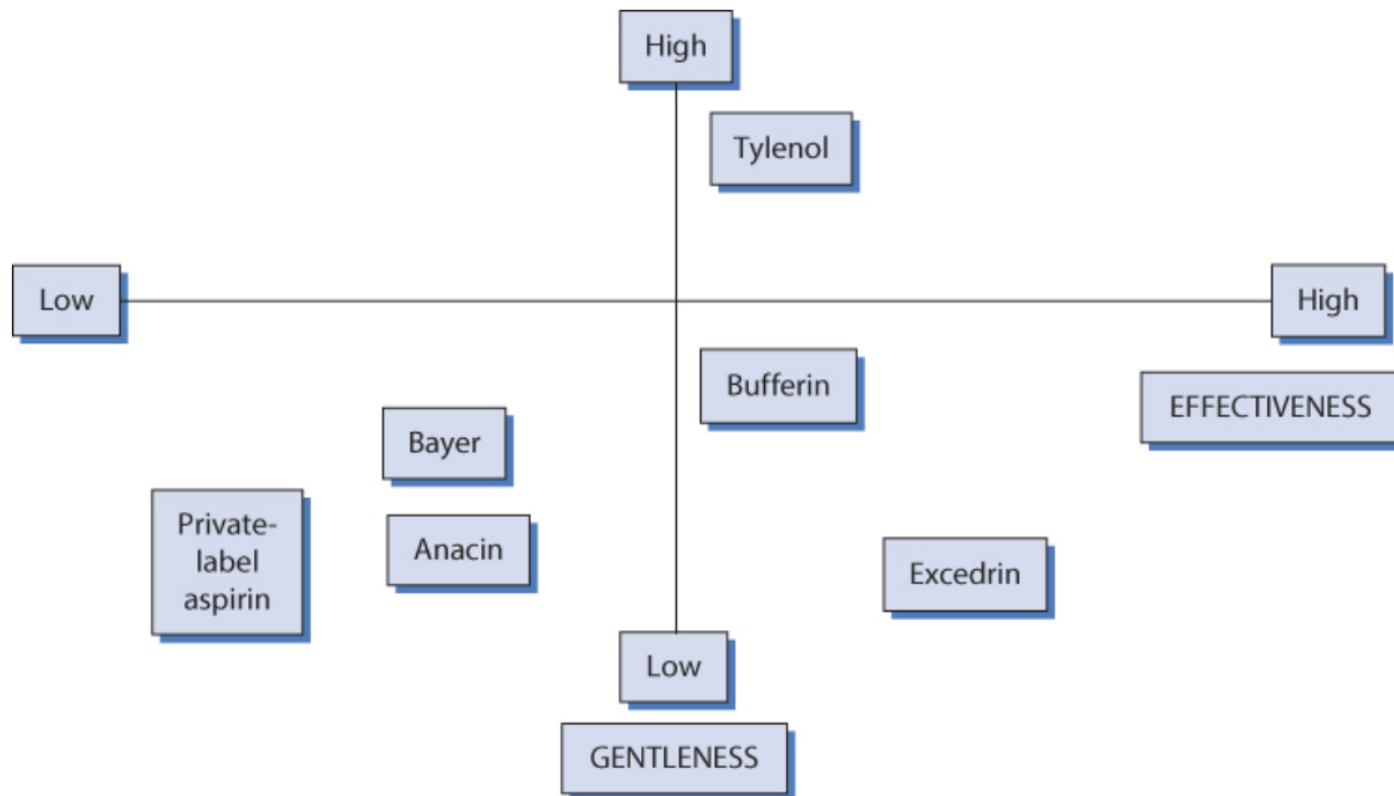
- **Differentiation is different from segmentation.** Differentiation is concerned with how a firm competes—the ways in which it can offer uniqueness to customers.
- Whereas segmentation is a feature of market structure, **differentiation is a strategic CHOICE made by a firm.**
- Differentiation may lead to focusing upon particular market segments, but not necessarily. IKEA, McDonald's, Honda, and Starbucks all pursue differentiation, but position themselves within the **mass market** spanning multiple demographic and socioeconomic segments.



- Analyzing customer demand enables us to determine which product characteristics have the potential to create value for customers, customers' willingness to pay for differentiation, and a company's optimal competitive positioning in terms of differentiation variables.

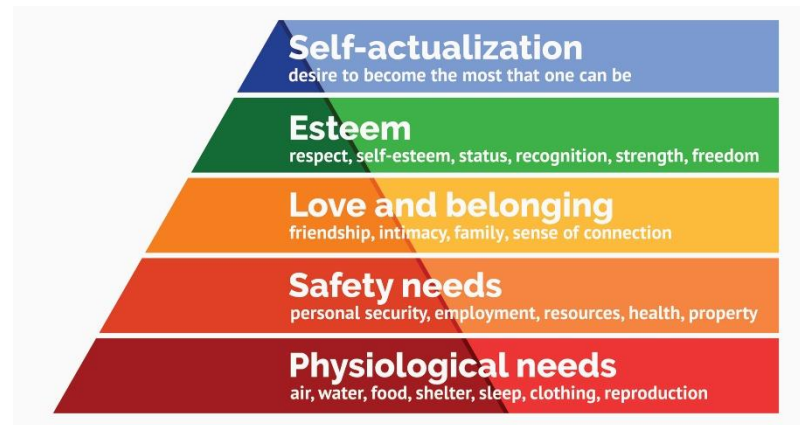
Understanding customer needs requires the analysis of customer preferences in relation to product attributes.

- **Multidimensional scaling** (MDS) compares competing products in terms of key product attributes:

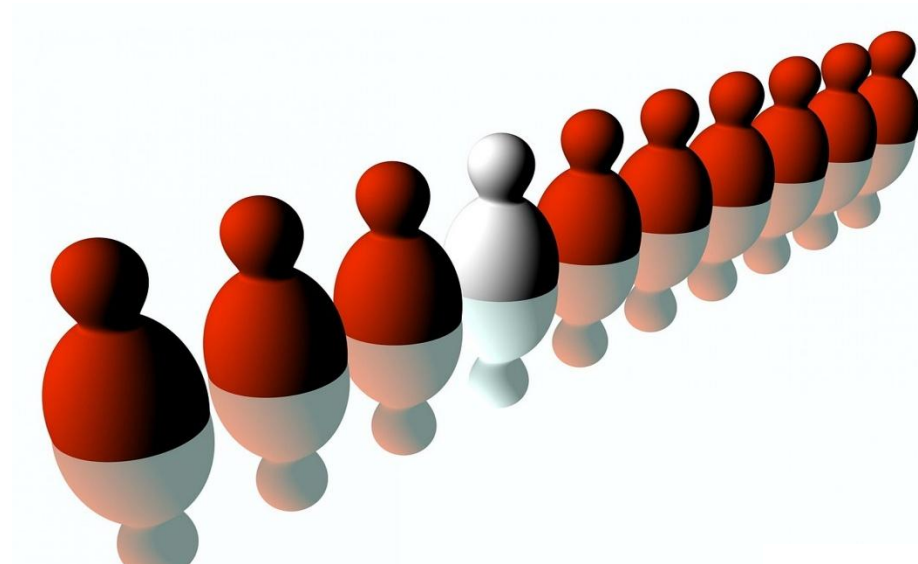


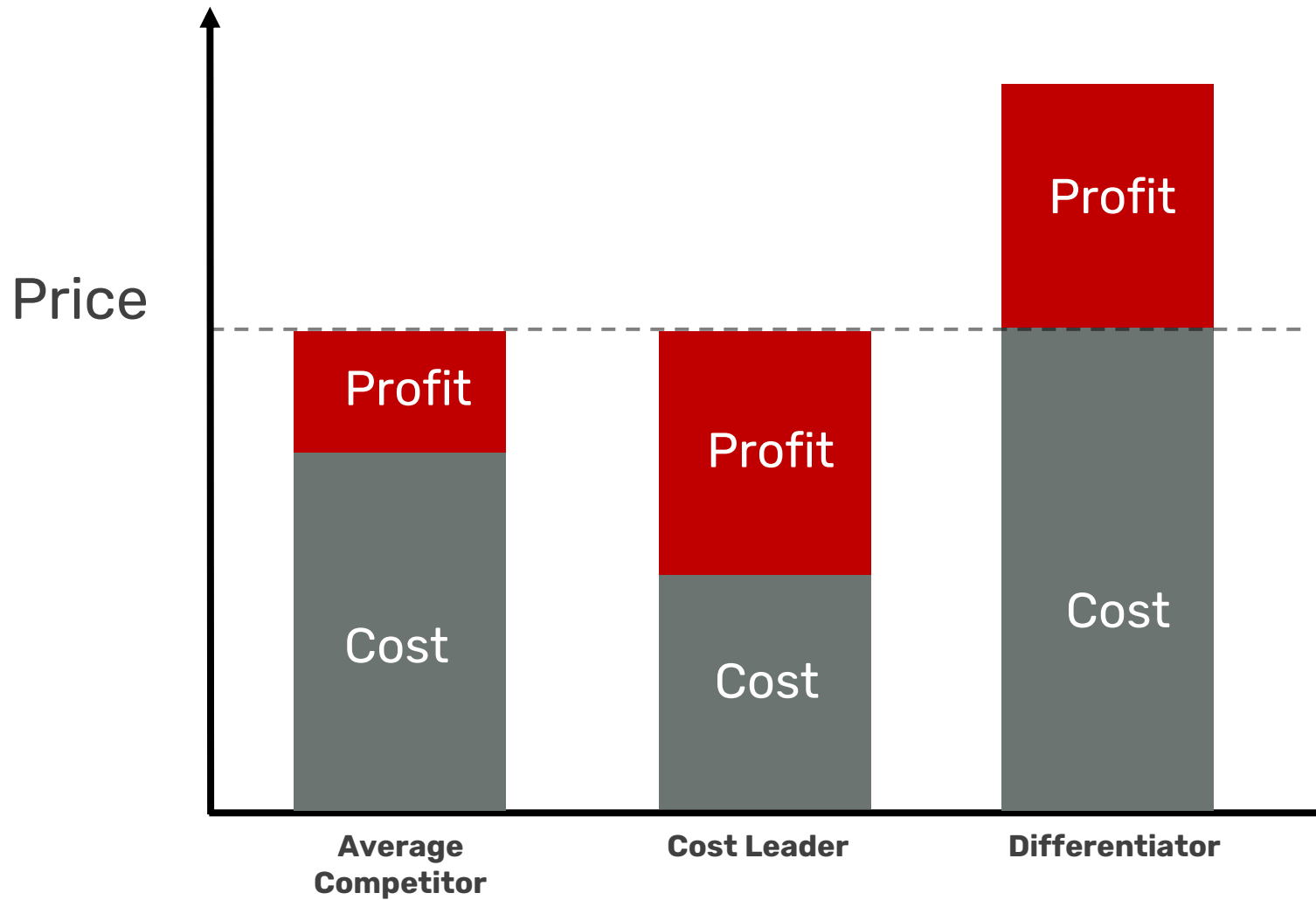
Consumer perceptions of competing pain relievers:
A multidimensional scaling mapping (Grant, 2019)

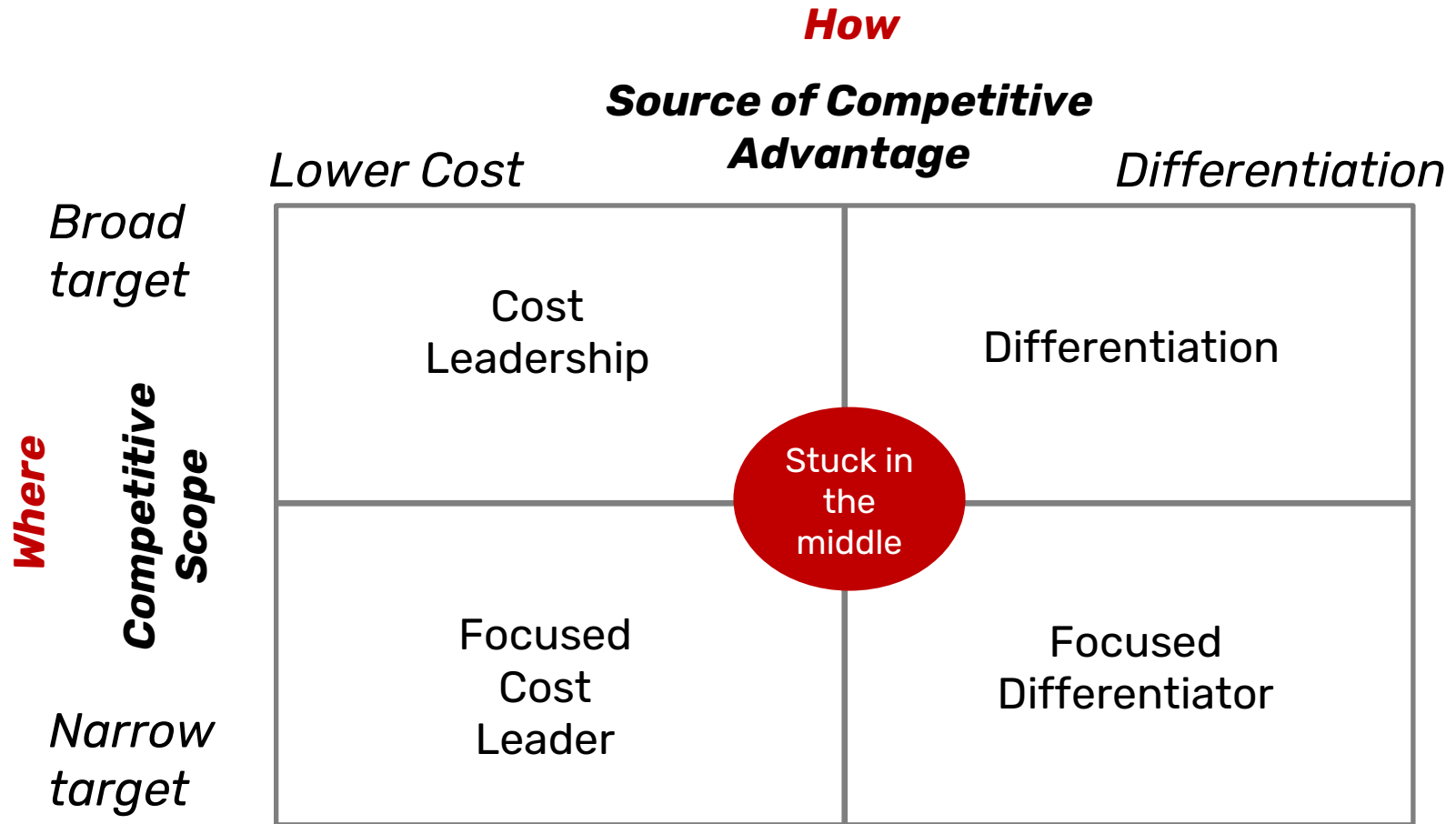
- The Role of **Social and Psychological Factors** - Analyzing product differentiation in terms of measurable performance attributes fails to take account of customers' underlying motivations.
- Few goods or services only satisfy physical needs: **most buying is influenced by social and psychological motivations**, such as the desire to find community with others and to reinforce one's own identity.
- Psychologist **Abraham Maslow** proposed a hierarchy of human needs that progress from basic survival needs to security needs, to belonging needs, to esteem needs, up to the desire for self-actualization. For most goods, **brand equity has more to do with higher-level needs such as status and identity** than with tangible product performance.



- If basis on which firm is differentiated is easily imitated, than other firms can follow
- Broad based differentiators may be out maneuvered by specialists
- Continual product innovation can enable followers to exploit (expensive) benefits
- Costs of differentiation may become too high



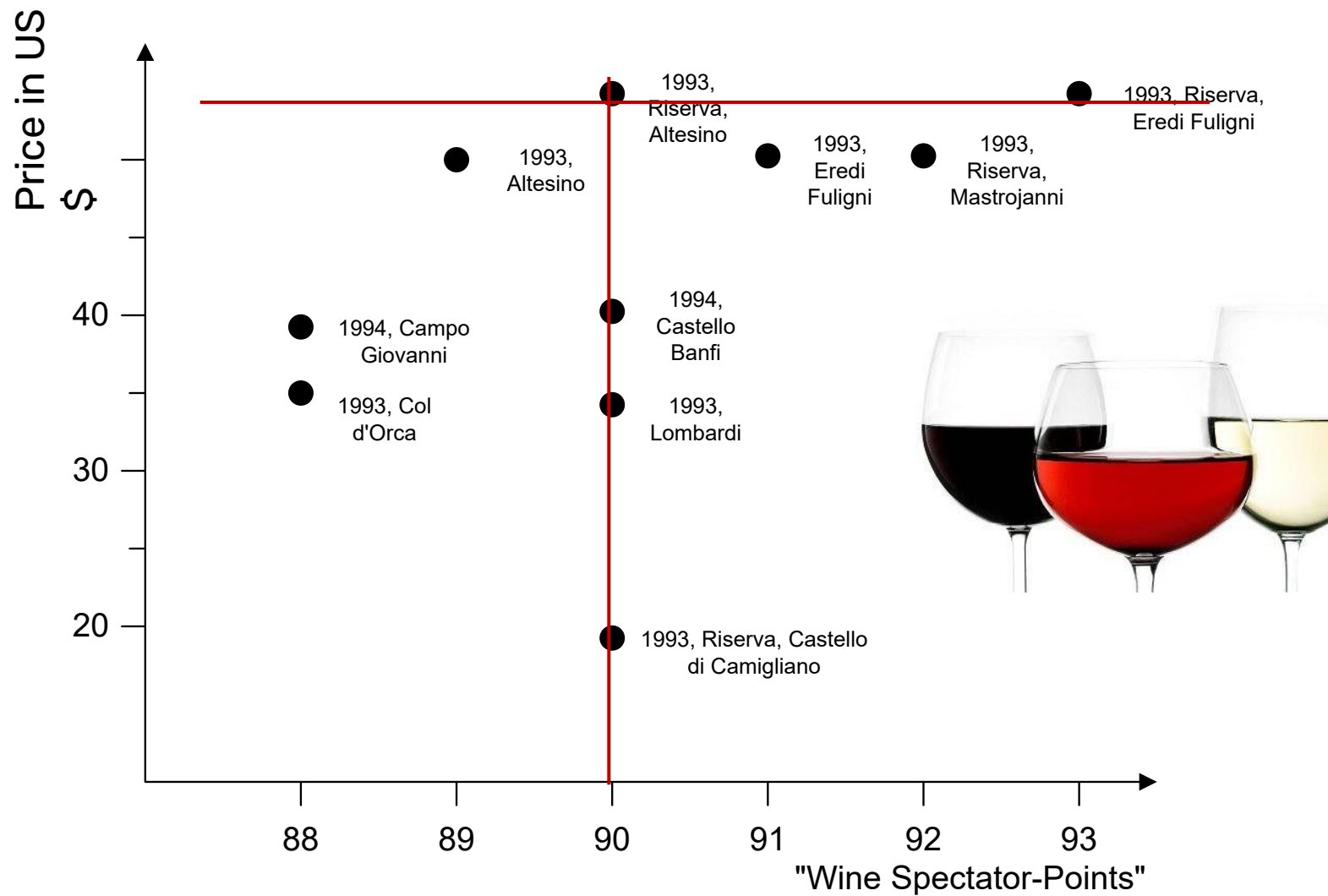




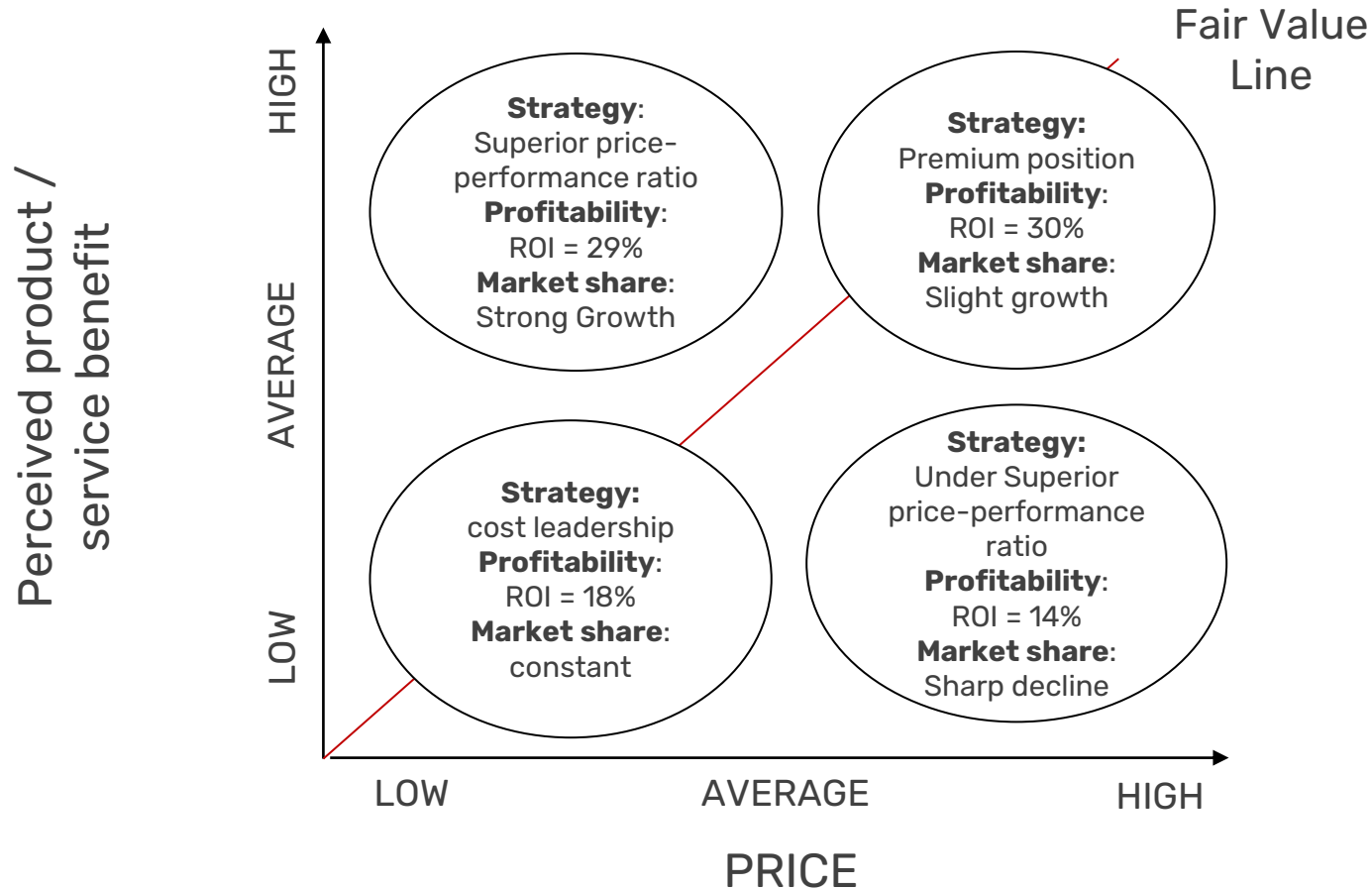
- *Organisational separation.* It is possible for a company to create **separate strategic business units (SBUs)**, each pursuing different generic strategies and with different cost structures. The challenge, however, is to prevent negative spill-overs from one SBU to another.
- *Technological or managerial innovation.* Sometimes technological innovations allow **radical improvements in both cost and quality**. Internet retailing reduces the costs of bookselling, at the same time as increasing differentiation by greater product range and, through online book reviews, better advice. Managerial innovations are capable of such simultaneous improvements too. The Japanese car manufacturers' introduction of Total Quality Management led to reductions in production line mistakes that both cut manufacturing costs and improved car reliability, a point of successful differentiation.
- *Competitive failures.* Where competitors are also **stuck in the middle**, there is less competitive pressure to **remove competitive disadvantage**. Equally, where a company dominates a particular market, competitive pressures for consistency with a single competitive strategy are reduced.

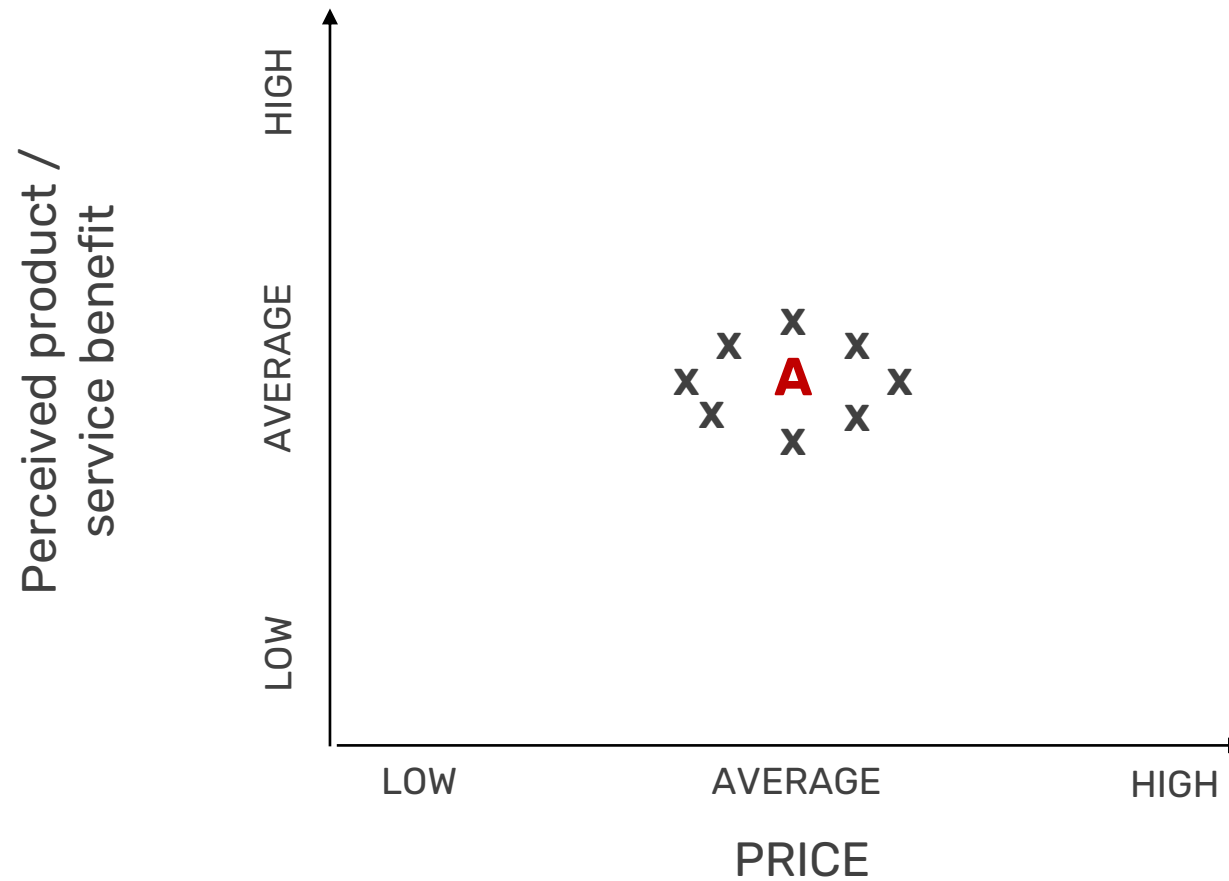
Let's take an **alternative
view** of competitive
positioning and start with
what customers think

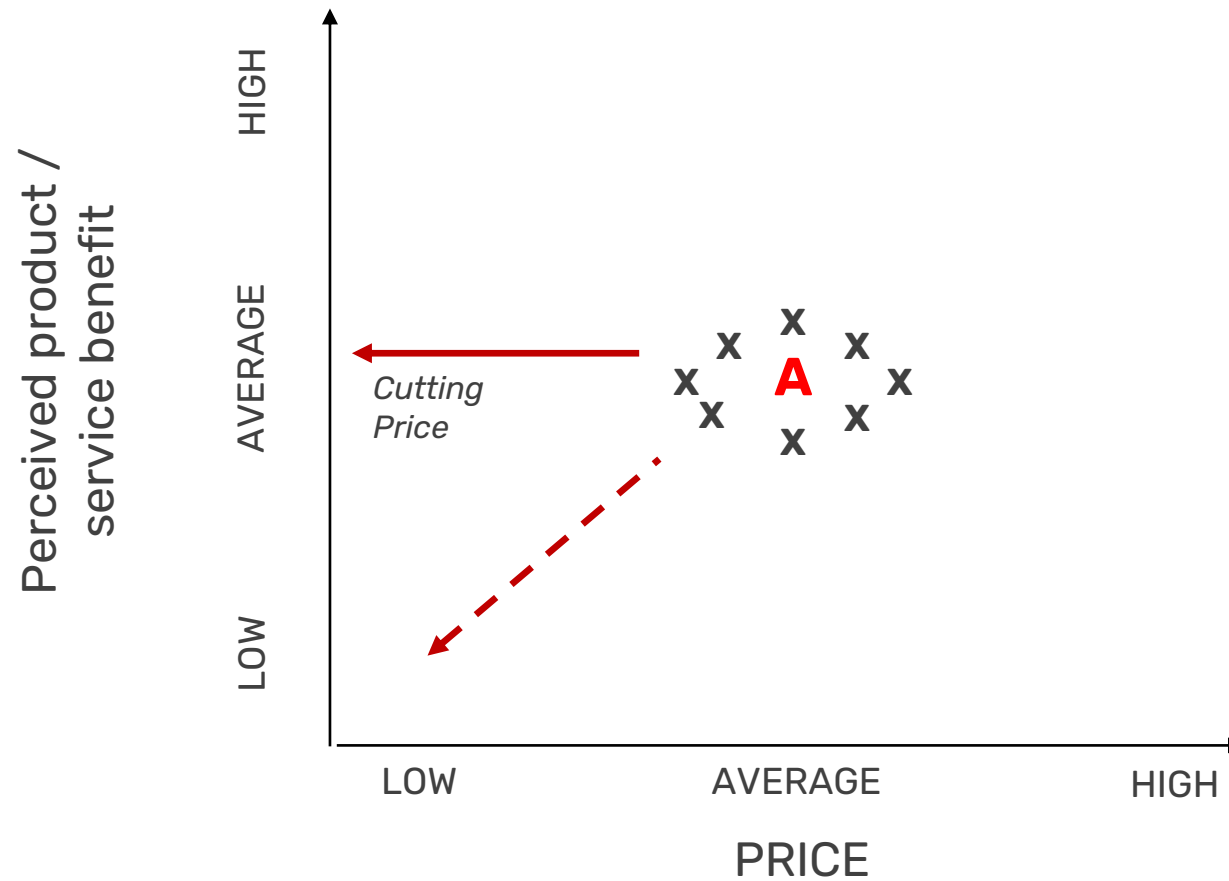
Strategic positioning – A customer perspective

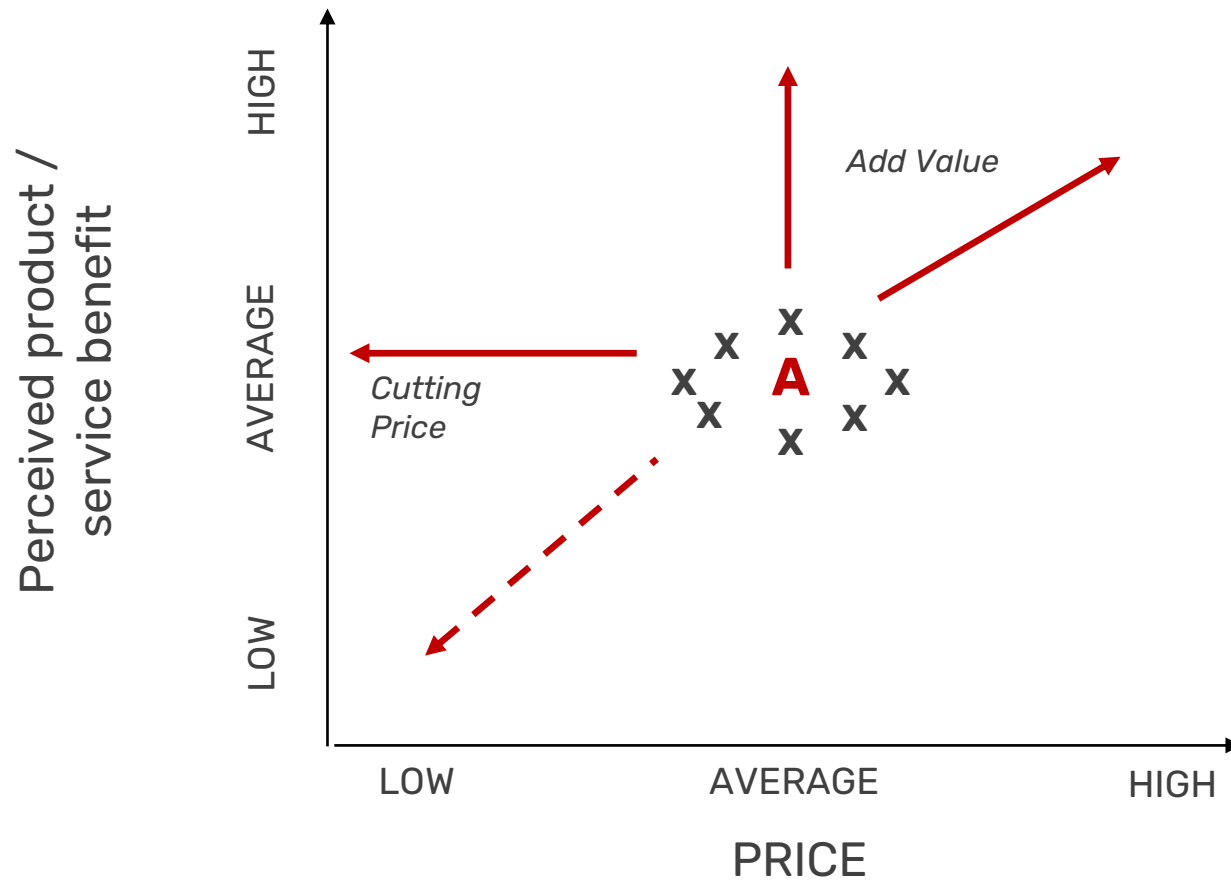


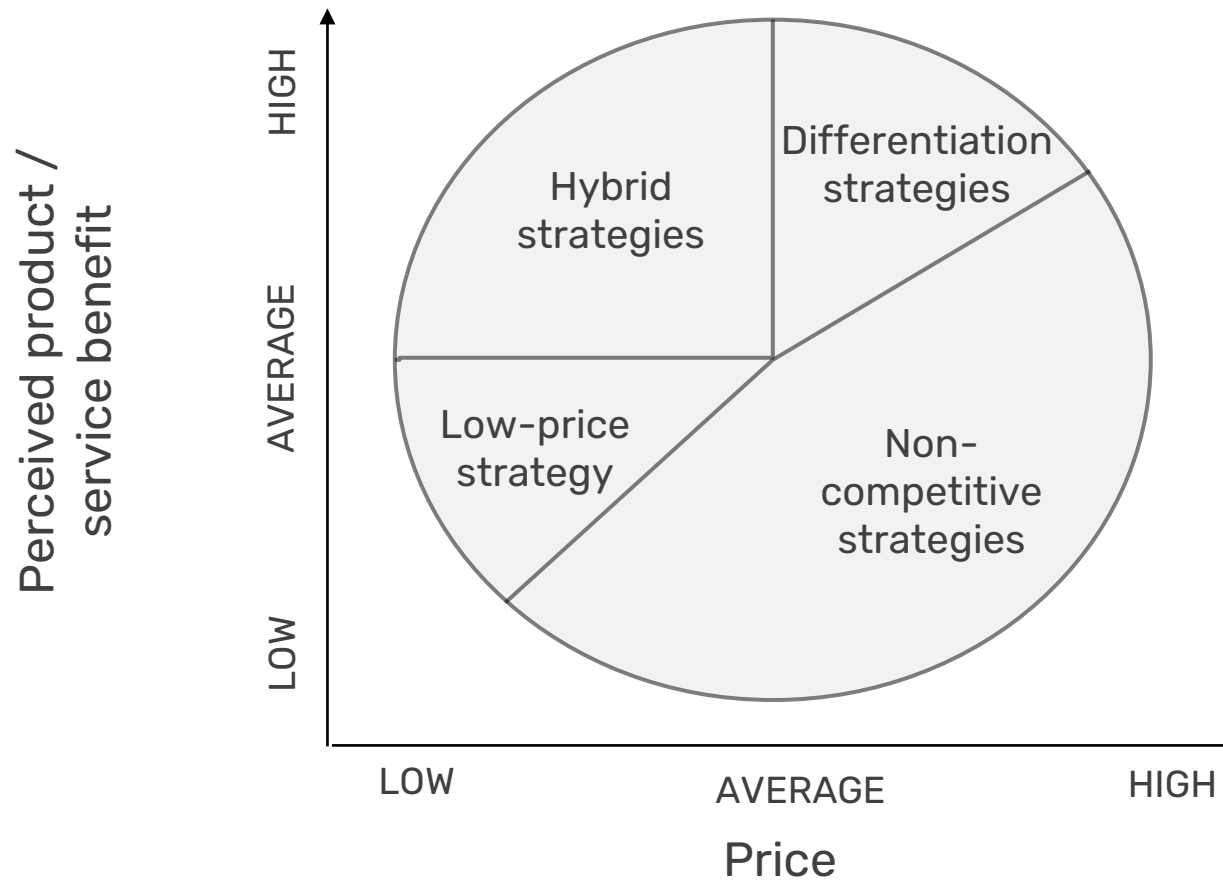
Strategic positioning – A customer perspective











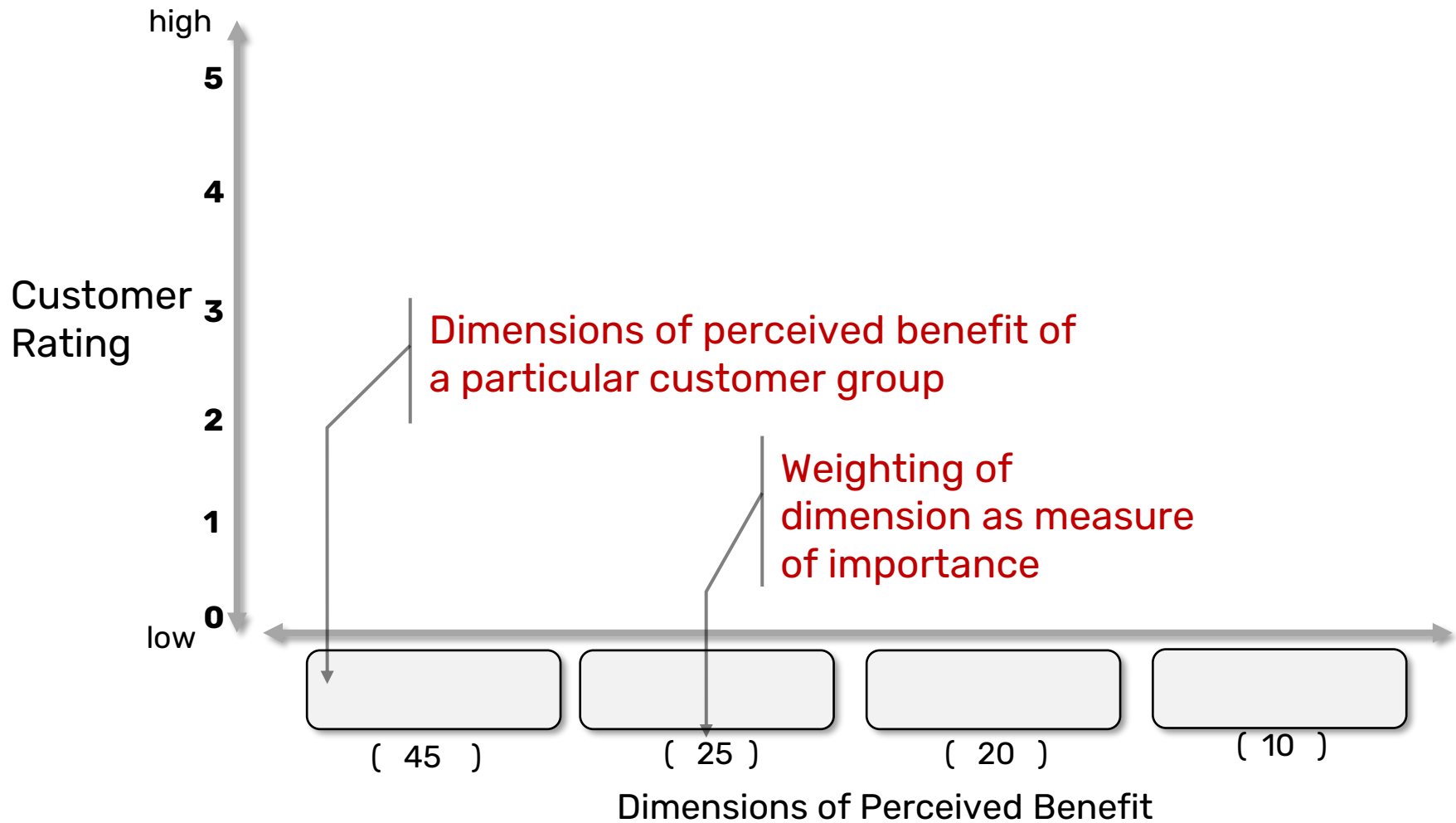
Dimensions	Items
Cost leadership	Minimization of general costs Minimization of production costs Lower costs than competitors Economies of scale Process automation Productivity improvement Lower prices than competitors Cost standards Minimization of advertising expenses Cost centres
Marketing differentiation	Intensive promotion Intensive sales force Advertising campaigns Brand image Complementary services Advertising costs (%) Market share
Innovation differentiation	Leaders or followers Frequency of product innovations Higher quality or performance No. of incremental innovations Frequency of process innovations No. of patents Delivery speed No. of radical innovations
Effectiveness compared to competitors	Sales growth Employment growth Market share growth Profits before tax Cashflow Returns on investment

Pertusa-Ortega et al. (2009)

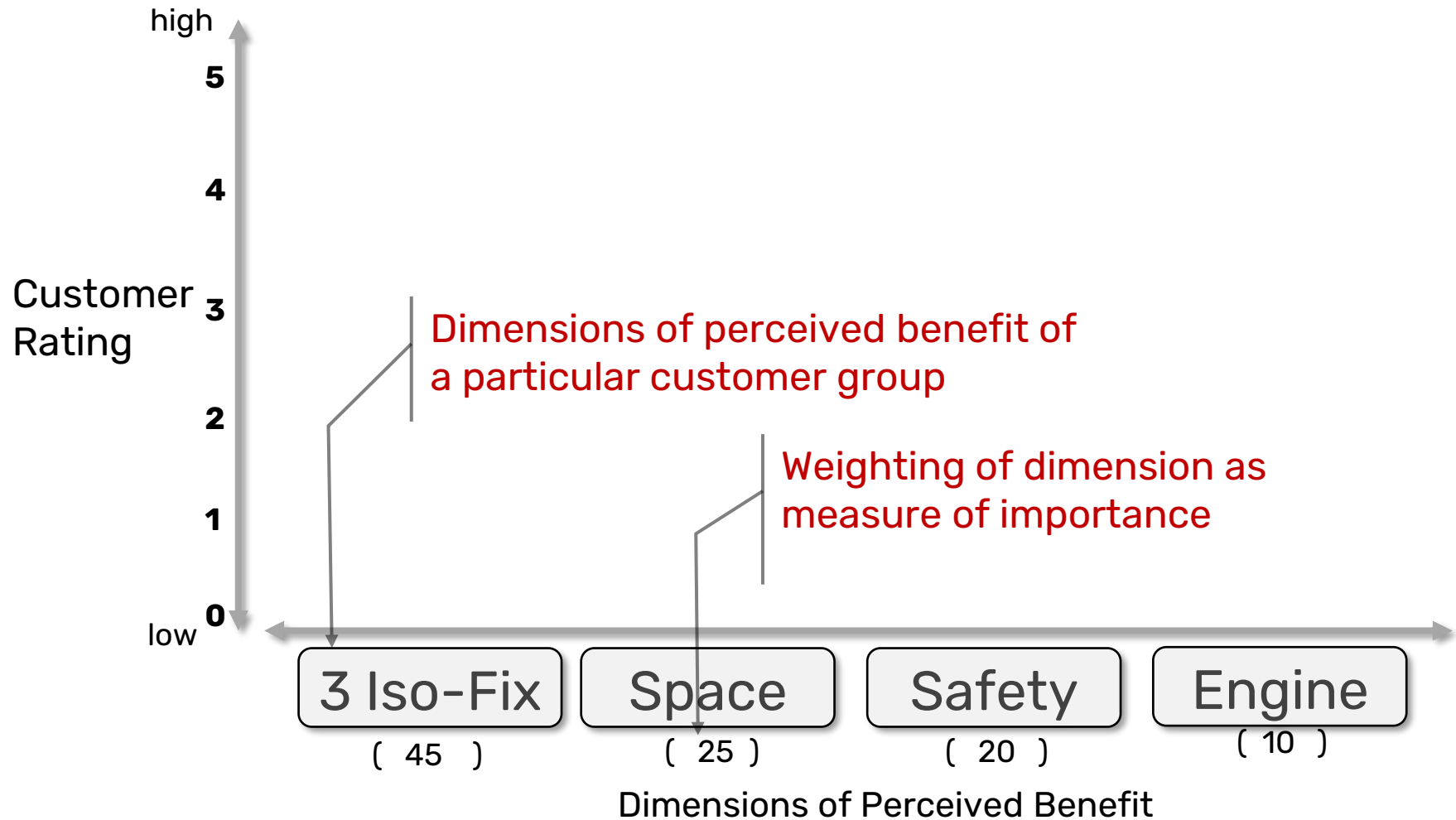
- Different customer groups have **different perceptions of price and product / service benefit**
- Meeting the needs of all customer groups **may not be possible**
- Trying to meet the needs of all customer groups creates **opportunities for a more focused competitor** to steal more profitable groups
- Strategic positioning therefore **involves CHOICE**

- ⑩ Companies need to understand which features are of particular interest to a group of customers
- ⑩ In order to differentiate a company needs to excel on these factors

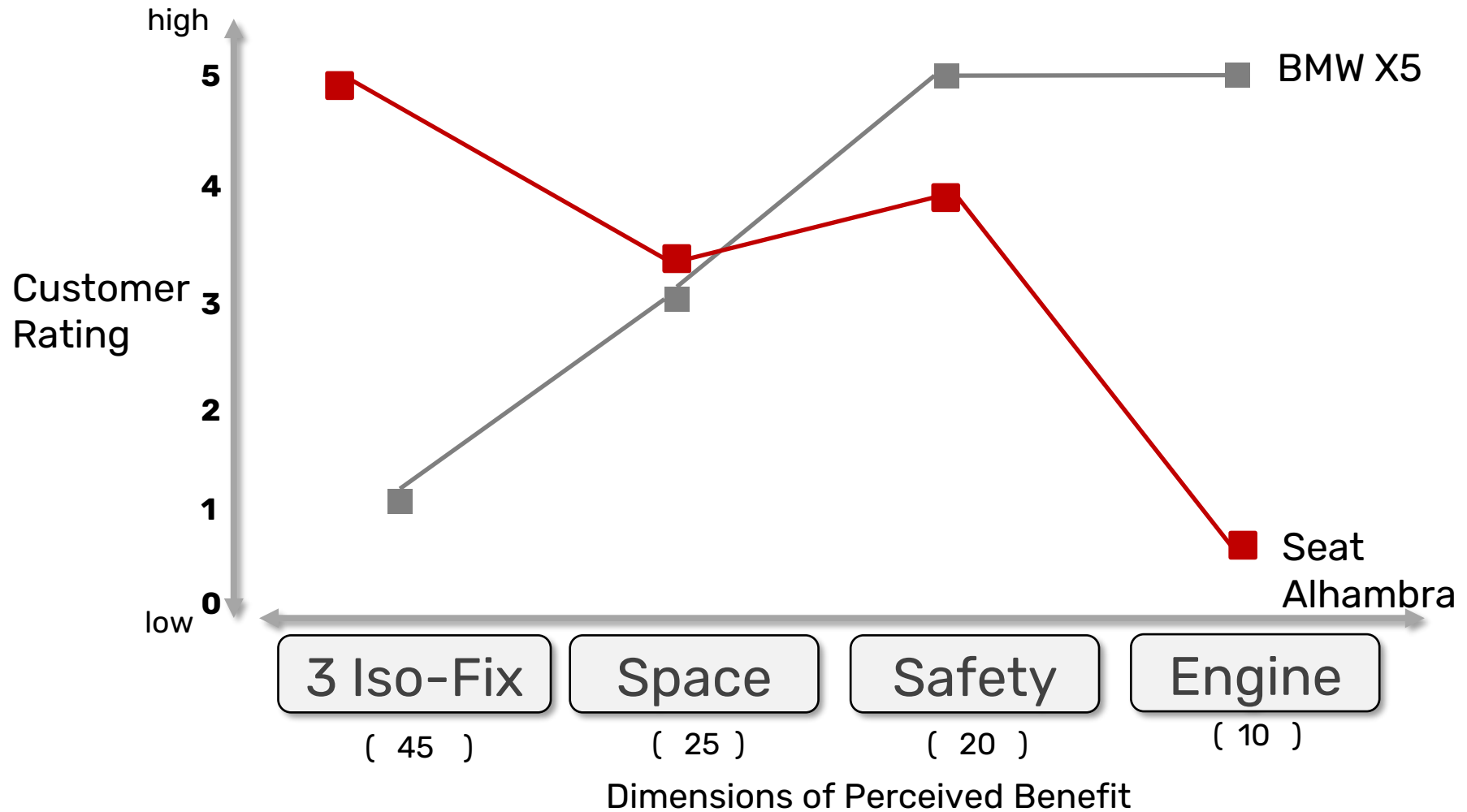
Market segment –



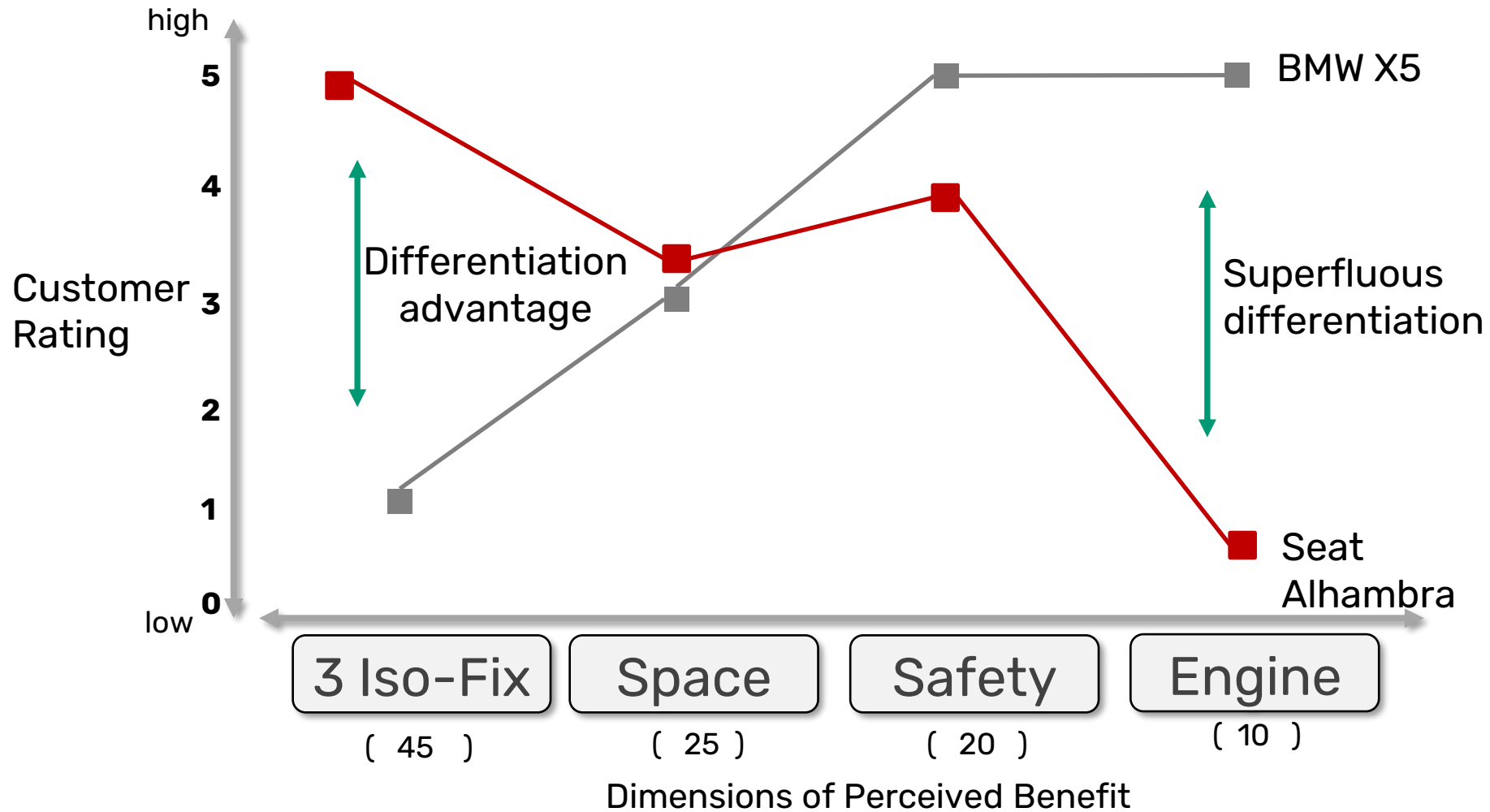
Example: Market segment – Family cars



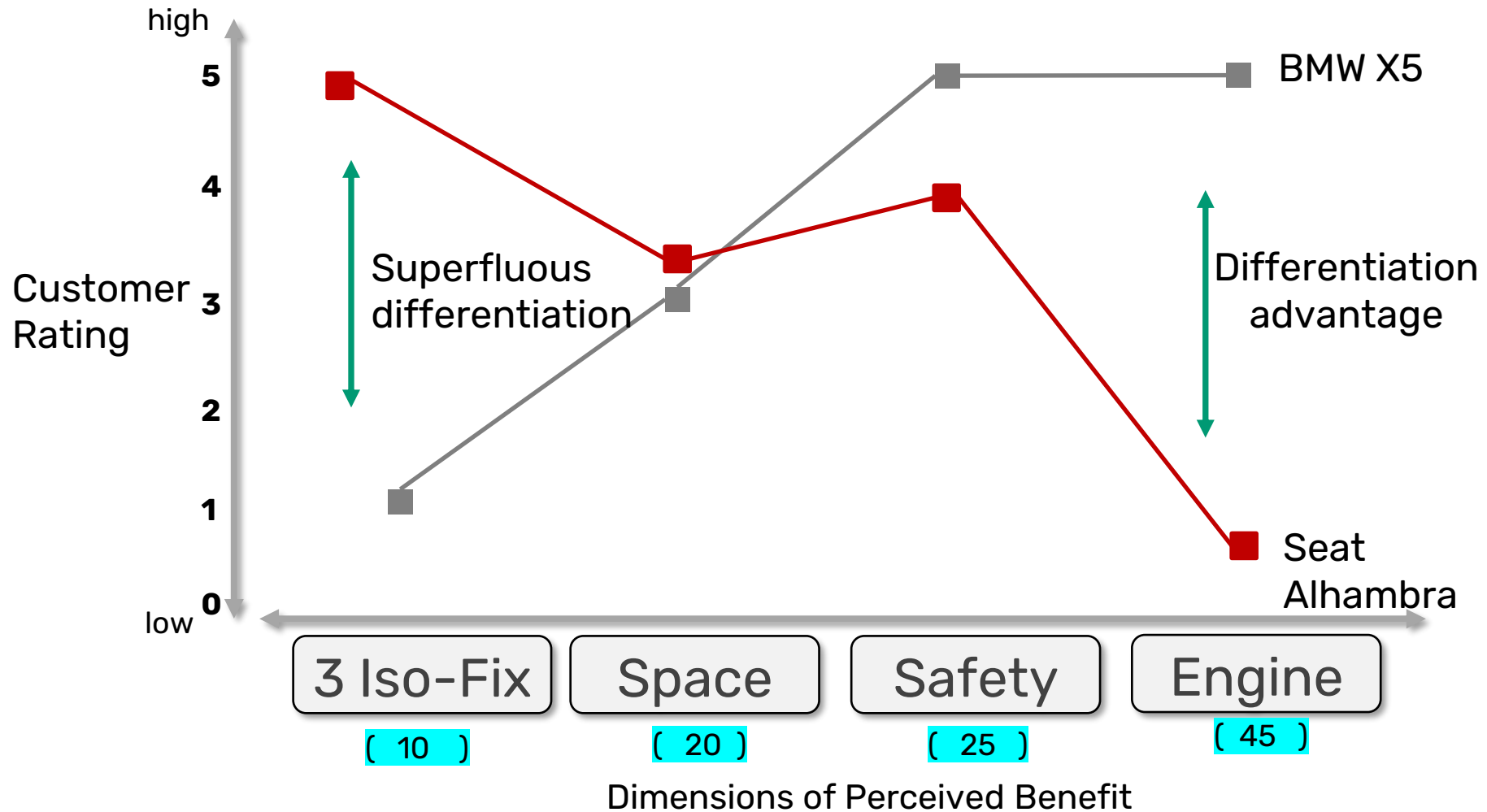
Example: Market segment – Family cars



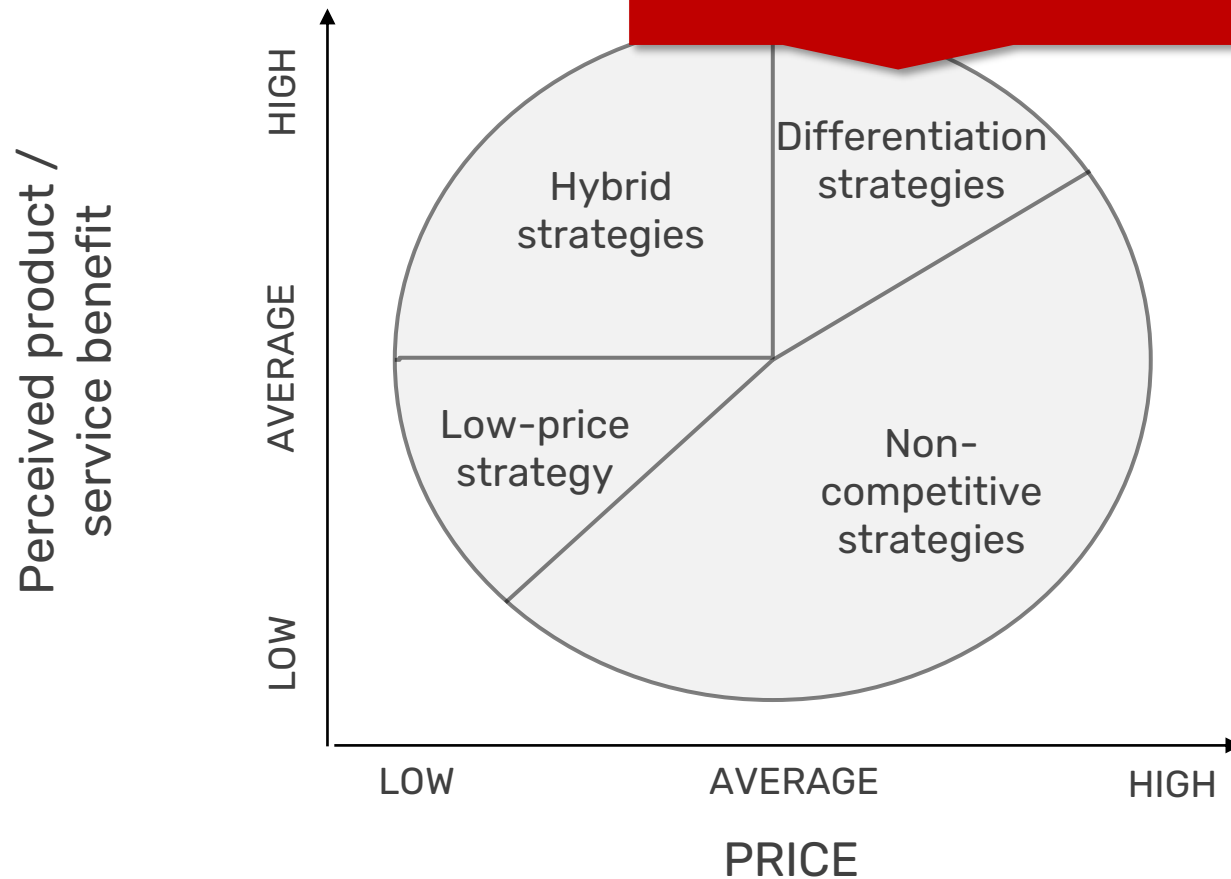
Example: Market segment – Family cars



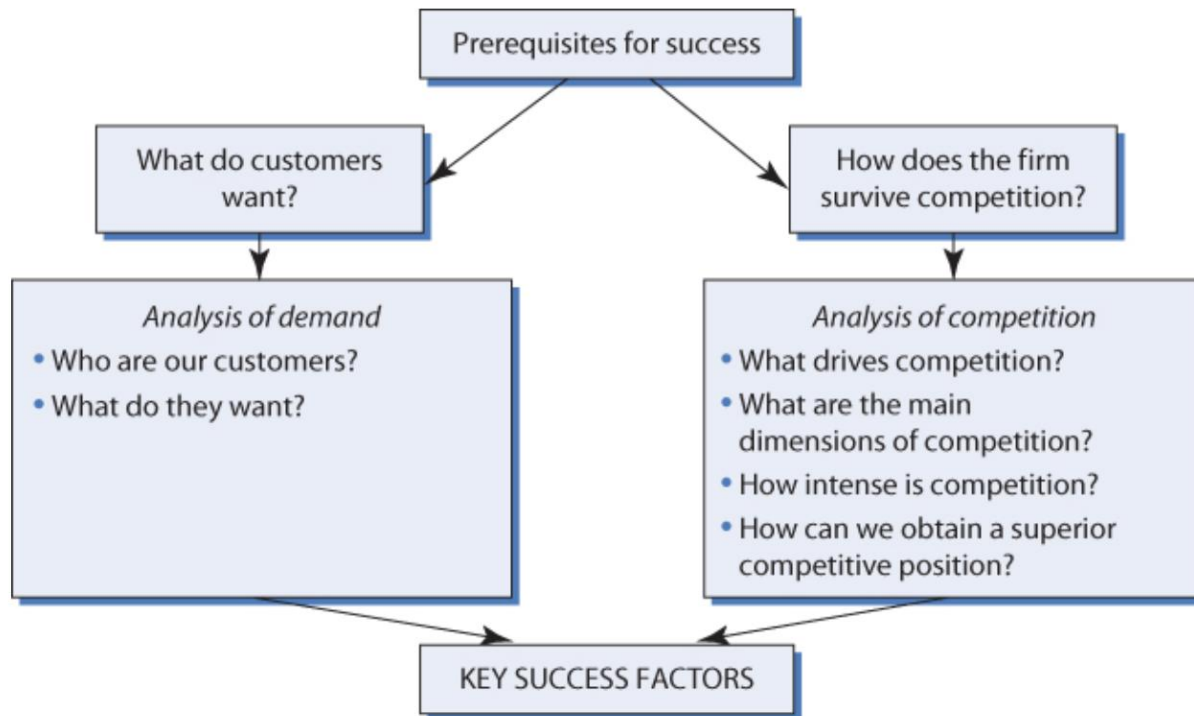
Example: Market segment – **Business cars**



Use strategy canvas to analyze level of perceived product / service benefit



- Identifying key success factors is straightforward and commonsense. To survive and prosper in an industry, a firm must meet two criteria: first, it must **attract customers**; second, it must **survive competition**. Hence, we may start by asking two questions:
 - What do our customers want?
 - What does the firm need to do to survive competition?



(Grant, 2019)

Key success factors - Examples

	What do customers want? (Analysis of demand)	How do firms survive competition? (Analysis of competition)	Key success factors
Steel	Low price Product consistency Reliability of supply Technical specifications	Intense price competition results from undifferentiated products, excess capacity, and high fixed costs. Survival requires cost efficiency and financial strength	Cost efficiency requires: large-scale plants, low-cost raw materials, rapid capacity adjustment Hi-tech small-scale plants viable with flexibility and high productivity Quality, and service can yield a price premium
Fashion clothing	Diversity of product options Customers will pay premium for brand, style, exclusivity, and quality Mass market is highly price sensitive	Low barriers to entry and many competitors imply intense competition Differentiation offers price premium, but imitation is rapid	Combining differentiation with low costs Differentiation involves style, brand appeal, quality, and market responsiveness Cost efficiency requires manufacture where wages are low

(Grant, 2019)

Behavioral Theory Of the Firm (BTOF), stakeholder management theory, and Corporate purpose



- Businesses are composed of overlapping groups and individuals
 - A stakeholder in an organisation is any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman, 1984)
 - Family firms as the overlap of family, ownership, management and employees (Tagiuri & Davis, 1996); making the family particularly likely to emphasise its goals (Chrisman et al. 2012)
- Each group/individual has its own financial and non-financial goals (Randolph, 2022)
 - Income
 - Social status
 - Reputation
 - Work-life balance
 - Sustainability

- **Purpose** in the for-profit firm captures the essence of an organization's existence by explaining what value it seeks to create for its stakeholders. In doing so, purpose provides a clear definition of the firm's intent, creates the ability for stakeholders to identify with, and be inspired by, the firm's mission, vision, and values, and establishes actionable pathways and an aspirational outcome for the firm's actions (George et al., 2023)
- Implementation process
 - Framing (understanding, narrating)
 - Formalising (structuring, embedding, governing)
 - Realising (impacting, monitoring)
- Firms without a clear purpose can affect mission drifts (both intentional and unintentional): the perceived discontinuity between an organization's actions and its identity (Grimes et al, 2020)

- Purpose to give direction: as blueprints for making credible commitments and resource allocations (Rindova & Martins, 2023)
 - Reference for strategic decision-making (clarity/coherence)
 - Reduce corporate myopia (long-term perspective)
 - Holistic performance measures
 - Trust and collaboration among stakeholders
 - More horizontal organisational structure (delegation)
 - Employees camaraderie/motivation
- Yet, purpose can also be exploited for social-washing, delegitimizing national and international institutions in favour of corporate self-regulation, and reducing employees' wages (Kaplan, 2023)

A whole spectrum of entrepreneurial initiatives according to the purpose:

- Non-profit firms: pro-social firms where any revenues that exceed expenses is reinvested in the firm's activities
- Hybrid firms: for-profit firms bounded to pro-social activities by mission, certifications (e.g., B-Corp), and/or legal status (e.g., Italian "società benefit")
- For-profit firms
 - Purpose driven: mission, vision, and values are a summary of the financial and non-financial goals shared in the organization
 - Profit driven: mission, vision, and values are limited to financial goals

Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'

Updated Statement Moves Away from Shareholder Primacy, Includes Commitment to All Stakeholders

August 19, 2019

Washington – Business Roundtable today announced the **release** of a new Statement on the Purpose of a Corporation signed by 181 CEOs who commit to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders.

Since 1978, Business Roundtable has periodically issued Principles of Corporate Governance. Each version of the document issued since 1997 has endorsed principles of shareholder primacy – that corporations exist principally to serve shareholders. With today's announcement, the new Statement supersedes previous statements and outlines a modern standard for corporate responsibility.

"The American dream is alive, but fraying," said Jamie Dimon, Chairman and CEO of JPMorgan Chase & Co. and Chairman of Business Roundtable.

"Major employers are investing in their workers and communities because

<https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

Corporate Purpose at a Crossroads: Emerging Frontiers from an International Perspective

The image shows a YouTube video player interface. The video title is "Corporate Purpose at a Crossroads: Emerging Frontiers from an International Perspective". The video is from the "POLIMI School of Management" channel, which has 33 subscribers. The video is part of a series called "WEBINAR 2" and is hosted by the "Osservatorio Purpose in Action". The video player shows a thumbnail of the video content, which includes the title and the text "Purpose in Action Observatory". The video player also shows a list of participants in the webinar: Rodolphe DURAND, Jason Cox, and Josip Kotlar. The video player has a progress bar at the bottom showing 0:17 / 52:17. The video player also has a "Riproduci (k)" button and a "Condividi" button.

POLIMI School of Management | ISF | OSSERVATORIO PURPOSE IN ACTION

WEBINAR 2

Purpose in Action Observatory

Corporate Purpose at a Crossroads:
Emerging Frontiers from an International Perspective

Riproduci (k)

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Corporate Purpose at a Crossroads: Emerging Frontiers from an International Perspective

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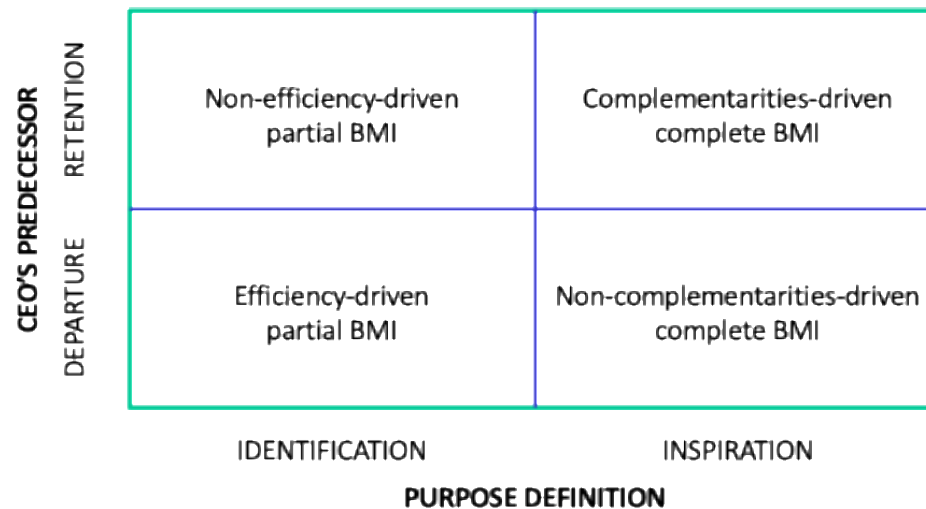
<https://www.youtube.com/watch?v=Q8-F9AjZH2k>

On the Interplay between Corporate Purpose and Business Model Innovation (BMI)

- **Corporate purpose** (purpose) is the essence of an organization's existence (George et al., 2023):
 - what **value** it seeks to create for its stakeholders with a clear definition of the firm's intent
 - lets **stakeholders** to identify with, and be inspired by, the firm's mission, vision, and values
 - establishes **actionable** pathways and an aspirational outcome for the firm's actions
- **Business model innovation** (BMI) describe the introduction of novelty in the business model (Amit & Zott, Wiley, 2020)
 - according to the **elements** affected (**activities**, structure, **governance**, **value logic**)
 - according to the **themes** followed (novelty, lock-in, complementarities, efficiency)
- Once an organization has framed its **purpose**, a necessary passage toward value creation is to design and implement its **business model** coherently (George et al., 2021)
- To facilitate the communication of the **business model** and its **innovation**, it can be synthesized as a **purpose** (Shepherd et al., 2023)
- RQ: What is the **interplay** between **purpose** and **business model innovation** in established firms?

- **Social constructionist** epistemological approach
 - Inductive and explorative approach (Eisenhardt, 1989, 2021)
 - Multiple holistic case studies, purposive theoretical sampling (De Massis & Kotlar, 2014)
- **Sample of 10 firms**
 - Involved in an **entrepreneurs' learning community** discussing about **purpose**
 - **Established firm**, all with at least the ownership in second generation
 - Located in **north of Italy**, but different sizes and sectors
- Multiple **data sources**:
 - **33** personal **semi-structured interviews** (Owner; CEO; Manager; Employee; External partner)
 - **4** full-day in-person community **meetings**
 - **8** online community **roundtables**
 - **Multimedia** data collection (web sites, books, video, picture)
- Inducting-abducting **analysis**
 - **Inducting coding** then grouped by topic (purpose, BMI, ownership, other)
 - Modeling by **within-case and cross-case comparison**

- **Purpose orientation**
 - **Identification** vs **Inspirational**
- **BMI elements breadth**
 - **Partial** elements involvement vs **Complete** elements involvement
- **BMI themes combination**
 - **Efficiency** theme discriminating vs **Complementarities** theme discriminating
- **Governance** after CEO's succession
 - CEO's predecessor **retention** vs CEO's predecessor **departure**



- **Purpose orientation** ↔ Approach to **BMI elements**
 - Purpose and business model as **complementary** concepts (Shepherd et al., 2023)
 - How purpose is **framed** can influence the scope of its **realization** (George et al., 2023)
- **Purpose orientation & governance elements** ↔ Approach to **BMI themes**
 - Strategy, purpose, governance, and activities must be **aligned** (Kaplan, 2023; Grimes et al., 2020)
- **Purpose identification/inspirational orientation** as effective **classification**
 - Based on the **values** and the **ideals** shared among the organization (Rindova & Martins, 2023)

A configurational study on family and non-family businesses

- Purpose can be defined and implemented in different ways, also according to the firm characteristics, there is not a clear answer to when and which of these aspects (purpose orientation, purpose execution, firm ownership) can influence innovation in for-profit firms
- RQ: *Under what conditions does corporate purpose affect business model innovation in family and non-family firms?*

- The type of purpose orientation influences if the firm focuses on either creating or capturing more value.
- The lack of purpose execution pushes the firm to explore new proposition.
- Family firms can be more critical and willing to explore new propositions, but also risk being more selfish and oriented toward value capture.

	Value creation innovation			Value capture innovation			Value proposition innovation		
	A	B	C	D	E	F	G	H	I
OWNERSHIP									
Family Firm	●	⊗	⊗	●	●	⊗	●	●	⊗
P. ORIENTATION									
Meaningfulness	●	●	●	●	●	●	●	⊗	●
Organisational Identity	●	●		●	●	●	●	⊗	●
P. EXECUTION									
Purpose Explicitness	●		●	●		⊗	●	⊗	⊗
Purpose Ingraining		●	●		⊗	●	⊗	⊗	●
raw coverage	0,333	0,333	0,333	0,333	0,222	0,111	0,111	0,444	0,111
unique coverage	0,333	0,111	0,111	0,222	0,111	0,111	0,111	0,444	0,111
consistency	1	1	1	1	1	1	1	0,8	1
solution coverage	0,778			0,556			0,667		
solution consistency	1			1			0,857		

Appendix A: Findings table

	Purpose	Succession	BMI elements				BMI themes			
	Orientation	CEO's predecessor	Activities	Structure	Governance	Value logic	Novelty	Lock-in	Complementarities	Efficiency
Emblic	Identification	Retention		x	x		x	x	x	
Orange	Identification	Retention		x	x		x	x		
Melon	Identification	Retention	x	x		x	x		x	
Berry	Identification	Departure	x			x	x			x
Lime	Identification	Departure	x			x	x		x	x
Clementine	Inspiration	Retention	x	x	x	x	x		x	
Durian	Inspiration	Retention	x	x	x	x	x		x	
Apricot	Inspiration	Departure	x	x	x	x	x	x		x
Goji	Inspiration	Departure	x	x	x	x	x	x		
Plum	Inspiration	Departure	x	x	x	x	x			x

- **Identification-oriented purpose**

<<The meaning of why the founder does business, and therefore the dream, is to create a large company that earns a lot to create jobs, expand it, and allocate a portion of the profits to charitable actions in Italy and abroad>> C1, CEO of Clementine.

- **Inspiration-oriented purpose**

<<Our function, that is, let's say our purpose, is "to be at the service of the independent pharmacy", we want the pharmacist to be able to do his job and the model I was telling you helps everyone, large and small>> L1, President and shareholder of Lime

- **CEO's predecessor retention**

<<In the sixties, as Melon, it was then passed to the total management of my parent until now, having this generational transition between my parent [the president of Melon] and my sibling M1>> M2, Manager and shareholder of Melon.

- **CEO's predecessor departure**

<<Once the generational passage ended, the manager who arrived came from the world of large-scale retail trade so he wasn't clear on our model; then there was the myth of "we need to reach a billion in turnover" and therefore we looked at the turnover, instead we didn't look at the margins; so to do this we took people who were, let's say, recruiting pharmacies not according to our model but according to those little contracts, therefore distorting the model>> L1, President and shareholder of Lime.

- **Non-efficiency-driven partial BMI**

<<The contamination with [this and] the other start-up is because [...] we realized that to understand the macro trends we also need a young breath, second to understand the evolution of technology [...] I need to acquire skills, from those it is more technologically advanced and therefore on the one hand the technology and on the other hand the cultural changes because we provide people through technology>> M1, CEO of Melon.

- **Efficiency-driven partial BMI**

<<You have to bid and the lowest price wins. Prices and that's it. Nothing else matters, therefore, honestly for a customer who experiences relationships with suppliers like this, the question of purpose is secondary. But we don't do it with that purpose>> B1, CEO and shareholder of Berry.

- **Complementarities-driven complete BMI**

<<[...] so we saw the competitors who would arrive in Italy, so discovering that the business model had changed, it is no longer a local production but a mass production made in Asia and therefore the decision to say "good , you continue the path of made in Italy with ClemeThird and instead the other brand ClemeFirst decides to focus on mass production>> C2, Manager of Clementine.

- **Non-complementarities-driven complete BMI**

<<I have met a person who has been my right-hand man since the beginning who was a consultant, but today he also has an intrinsic responsibility in the group; with senior roles and with this consultant we started to put together these ideas of service before and service after, thinking that customers needed to delegate work peaks and mobility management aspects more quickly; and that ultimately it could no longer just be a mobility linked to this region, but knowing the client, knowing what his interests were, they then had to be expressed everywhere in the world>> G1, CEO of Goji.