

## CHAPTER 1

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# Introducing strategy

## Introduction

For the fourth edition of *Fundamentals of Strategy*, we have introduced in this opening chapter some brief coverage of key elements of a strategic plan. This complements the materials on strategic planning and strategy emergence that also appear in this chapter and which are discussed at more length in Chapter 13 of *Exploring Strategy*, eleventh edition. The chapter has two new illustrations: Illustration 1.1 examines the rise of Tesla Motors® to highlight key topics in the chapter of strategic purpose, corporate-level strategy and business-level strategy. Illustration 1.2 shows how strategies in different organisations may vary but can be captured in key aspects of strategy statements: goals, scope and advantages/capabilities. The end-of-chapter case is also new. It charts the rise of Airbnb® and raises questions about its business model: whether it can be copied, whether it is sustainable and also questions its broader purpose.

## Illustration 1.1

### ***Tesla Motors: the future is electric!***

Many students will be familiar with the distinctive electric cars of Tesla. They may not be so aware that it is part of an overall energy system vision. Anyway, the main purpose of this illustration is to introduce students to the range of issues that make up strategy. It touches directly on key topics introduced in this chapter, for example, strategic purpose (to offer the world a sustainable energy system); corporate-level strategy (moving from car manufacture to battery production for homes and businesses); and business-level strategy (using disruptive technology). With respect to the specific questions:

#### **1. How does Tesla Motor's strategy fit with the various strategy definitions in Figure 1.1?**

On the definitions of strategy: in terms of Figure 1.1, Tesla seems to be more Chandlerian than Mintzbergian with a clear determination of long-run goals and objectives ('...which fits our overarching purpose to move from mine-and-burn hydrocarbons towards a sustainable solar electric economy'). It might be worth discussing whether this is typical of entrepreneurial start-ups than larger corporations and the pros and cons of this (a business plan can be pretty important to early-stage investors). At the same time, Tesla has a Porterian concern for using disruptive innovation to gain advantage in the car market. The theory behind Tesla's purpose of offering the world a sustainable energy system is not clearly articulated in the illustration. However, from Drucker's point of view it might be that burning hydrocarbons is causing global warming and the provision of an alternative sustainable and clean energy source will remove our carbon dependency ('we also provide zero emission electric power generation').

#### **2. What seems to account for Tesla's success?**

Accounting for Tesla's success: on the Porterian principle, Tesla is clearly offering a different product to the rest of the industry with a high-performance luxury, electric car priced

competitively. Its follow-on model is designed to be a higher unit volume car with lower prices – again disrupting the car market. Its customers also value Tesla cars differently to other cars, as these products are attractive due to their sporting performance, zero emissions and free power. There is also no denying the important role that Elon Musk plays as a charismatic visionary as well as the enthusiasm of Tesla's other entrepreneurs.

## Illustration 1.2

### **Strategy statements**

An important point in this illustration is to show how strategy applies to widely different kinds of organisations – both a large technology company and a public university. Although the precise content of the two organisation's materials vary, they both cover the major issues involved in a strategy statement: goals, scope and advantages/capabilities.

#### **1. Construct short strategy statements covering the goals, scope and advantage of Samsung and Southampton University. How much do the different private and public sector contexts matter?**

Strategy statements for Samsung Electronics and Southampton University. Samsung is very clear about its goals (\$400bn in revenue, and top five brand by 2020; note its vision – 'Inspire the World, Create the Future' – sounds more like a mission statement); its scope is clearly expanding, from mostly consumer electronics into health, medicine and biotechnology; and Samsung believes its competitive advantages lie in new technologies, innovative products, creative solutions and the brightest talent in the world.

Southampton University has a very broad mission, to change the world for the better. Its goals are clear: to be in the top 10 (UK) and top 100 internationally. Its scope is research and education. In terms of distinctive capabilities, it mentions innovation and enterprise and suggests that collegiality, internal quality controls and sustainability processes are important. It mentions important resources such as an alumni network, high-quality staff and strategic partnerships but it is not clear if these are actually distinctive.

On the face of it, there is not much difference between Samsung and Southampton: strategy statements – and strategy – are relevant to both private and public sectors. However, you might notice that Samsung features a financial goal (revenues), while Southampton prioritises a quality goal (a reputation for world-leading research and strong educational offering).

It might be worthwhile challenging the claims to competitive advantage of both Samsung and Southampton. How unique are Samsung's competitive advantages (vis-à-vis Apple or HTC)? Does Southampton have very substantial competitive advantages over many other universities internationally (for instance, your own!)? Here one could refer forward to Chapter 4, and its discussion of valuable, rare, inimitable and non-substitutable resources.

#### **2. Construct a strategy statement for your own organisation (university, sports club or employer). What implications might this statement have for change in your organisation?**

Strategy statements for students' own organisations: this may well surface the fact that some provide more public information than others, and are often vaguer about particular issues, especially sources of competitive advantage. You might encourage students to discuss the

reasons for this. Clear statements of detailed strategy – competitive advantage, precise objectives and so on – are rather more difficult to construct than broad claims about where organisations want to go. Asking students why they think this is the case should surface issues of the complexity of strategy development, competition and accountability.

## Case Example

### ***The rise of a unicorn: Airbnb***

This case is based on the meteoric rise of Airbnb, a service provider most students will know and many will have experienced. Yet, they are unlikely to have considered the strategic implications of this business. Below, these notes address the specific questions highlighted in the case example. However, it's worth considering some interesting features of the case that offer opportunities for wider discussion.

For instance, it is interesting to consider (i) the extent to which the Airbnb model can be copied (ii) how sustainable the model is? (iii) whether the model is not just a service offering but has an important social component – this raises issues around corporate purpose and sustainability that will be important to young managers in the future. These issues of the increasing importance of services, rapidly changing environments, sustainable developments and the importance of strategic choice will all be important to students' own strategic management.

#### **1. Sticking to the 35-word limit suggested by Collis and Rukstad in Section 1.2.3, what strategy statement would you propose for Airbnb?**

Consideration of Section 1.2.3 reveals the following points of discussion:

- In terms of the goals of Airbnb, these were not clearly articulated at the outset of the business, unlike Tesla in Illustration 1.1. However, they came to be connecting people seeking lodging with renters who have listed their personal properties on the Airbnb platform. As Airbnb has grown these goals have been refined to be providing a home to people anywhere and they now appear to be changing to include the entire travel experience.
- The scope of Airbnb's activity has clearly changed in operational terms, reflecting their rapid growth. Initially, the founders stated they were just targeting conferences and festivals across America. However, the business soon outgrew just conferences and festivals. Airbnb then expanded geographically, and rapidly became global.
- Their advantage is providing easy-to-book, significantly cheaper accommodation than traditional providers in a very wide variety of locations. Their website allows rapid matching of buyers and sellers, and their steps to provide security to renting and letting parties has allowed a degree of trust to be built up with high levels of repeat business. Airbnb benefits from network effects so that the more users it attracts, the more successful the business. The case also makes a lot of the Airbnb culture as a distinctive feature of the company.

2. **Carry out a three horizons analysis (Section 1.2.1) of Airbnb, in terms of both existing activities and possible future ones. How might this analysis affect its future strategic direction?**

**'Three horizons' analysis**

Consideration of Section 1.2.1 reveals the following points of discussion:

- The core business of Airbnb is the matching of renters and letters for accommodation worldwide. At this point in time, the business is still growing rapidly and there is no end in sight, so we cannot determine the end of horizon 1; however, new competitors are beginning to enter the market. As the market is global, and the potential is vast, this does not pose an immediate threat, but the website and capabilities upon which the business is based would not be so difficult to copy, suggesting that the growth rate may turn downwards at some point. As the nature of online businesses tends to be fast growth and, if the network advantage is not unassailable, fast decline, we must assume that the beginning of a slow-down in sales would mark the beginning of a steep decline (see Yahoo, for instance).
  - In terms of horizon 2, it seems that Airbnb is trying to broaden the scope of its offering, so that one is not just booking accommodation but a local experience. This enrichment of product offering, may help to tie in customers and would be harder to replicate by competitors. This could extend the life cycle of Airbnb if it builds customer loyalty.
  - A horizon 3 Airbnb is considering becoming a lifestyle brand business encompassing a wider set of products than just accommodation. The focus is on 'belonging' although it is not clear exactly what this might entail and whether it would really extend the strategic horizon.
3. **Using the headings of macro-environment, industry environment, strategic capability and stakeholders seen in Section 1.3.1, identify the key positioning issues for Airbnb and consider their relative importance.**

**Environment, strategic capability, strategic purpose and culture**

Consideration of Section 1.3.1 reveals the following points of discussion:

- A wide range of environment issues emerges with opportunities such as new geographic territories, different types of property offerings and new social trends. Threats are also looming such as increased new competitors, local backlash from incumbents and regulatory constraints.
- Issues such as the increasing legislation with the need for permits and potential tax charges are a threat to Airbnb and may present opportunity for competitors.
- Airbnb has few physical resources, although the website is distinctive. Its brand is also well recognised although it remains to be seen if it is transferable to other services/products. It has developed useful capabilities including mechanisms for protecting clients and promoting properties for rental, although these are not distinctive to Airbnb. Airbnb's main advantage is its network that grows in importance with every additional client.

- Strategic purpose has emerged overtime (see strategy statement) and now has clarity in terms of growing a successful model to its limits. However, the strategic purpose going forwards is less clear.

The early entrepreneurial culture of Airbnb clearly impacted on its ability to raise finance and for the company to take-off. Although the enthusiasm of the entrepreneurs has been very important in terms of winning financial and market support for Airbnb, what is less clear is whether the culture that now exists can actually generate benefit for the business. One might argue that Airbnb does need entrepreneurial passion to create a driving vision for the third horizon, which is what the case is arguing for, although to consolidate its huge gains in the global property lettings market, there could be a good argument for a different company culture.

**4. Following on from the previous questions and making use of Section 1.3.2, what alternative strategies do you see for Airbnb?**

**Alternative strategies**

Consideration of Section 1.3.2 reveals the following points of discussion:

- The case recognises Airbnb's phenomenal growth and does not see any immediate threat to its business strategy. However, competitors are now emerging and this will inevitably begin to reduce Airbnb's dominant position in its markets. Possible threats will be from different geographies with competitors better attuned to local tastes and also from core markets where competitors may better address specific profitable segments.
- Possible alternatives include growing the network even further to establish unassailable dominance – so local or more specialised competitors cannot build sufficiently large networks to be competitive.
- Continue to strengthen the brand so that its values are hard to imitate.
- Use brand to extend offerings into related products and services. Perhaps become a travel brand rather than just an accommodation brand. This would be closer to their core identity than a lifestyle brand. However, if they pursue the latter then they will need substantial investment to make it work.
- Continue to expand into new geographies.
- Continuing to build the network and strengthening the brand are important options but not to invest in these areas would leave the company to imitation. At the moment, the distinctive aspects of Airbnb are not so substantial that they could not be imitated. Therefore, the company also has to consider how to fund a substantial step change in investment, and this is probably why they are currently discussing an IPO.

- 5. Converting good strategic thinking into action can be a challenge: examine how Airbnb has achieved this by considering the elements seen in Section 1.3.3, *Strategy in action*.**

**Strategic thinking into action**

Consideration of Section 1.3.3 reveals the following points of discussion:

- Evaluation of the strategic options from above should reveal a number that is suitable, acceptable and feasible.
- Yet, their future strategic direction cannot be developed without substantial investment as the company is not generating large amounts of revenue.
- Airbnb strategy was originally emergent, and then planned, when they accessed external funding, and one could argue that they are now in a creative phase of exploring what they might do next.
- Leadership and change management may continue to come from the original founders although Airbnb funders will have a major say in what comes next.
- In terms of the work involved going forwards, Airbnb managers have a lot to do to communicate their vision for the future and to sell this vision to investors in order for the IPO to be successful. Assuming it works, Airbnb should then have sufficient funds to invest heavily in its next strategic direction.