

**Cases to
Accompany
*Contemporary
Strategy Analysis,*
Fifth Edition**

Robert M. Grant

Georgetown University





Contents

Preface x

Acknowledgments xii

1 Madonna (*Robert M. Grant*) 1

Madonna Ciccone has been one of the world's leading female entertainers for more than two decades. Madonna shows an inexhaustible capacity to defy changes in style and her own aging by continually reinventing herself. What can we learn from Madonna's remarkable career about the nature of strategy and the foundations of success?

2 Laura Ashley Holdings plc: The Battle for Survival (*Robert M. Grant*) 11

In February 1999 Ng Kwan Cheong took over as the seventh CEO of Laura Ashley Holdings since the death of its founder in 1985. During this period, the company's performance had been mostly downhill. Cheong faces a critical situation: despite several years of cost cutting and restructuring, sales were declining and operating losses were mounting. Cheong must determine the sources of Laura Ashley's problems, and determine what can be done to stem the losses and protect the interests of Laura Ashley's long-suffering shareholders.

3 The US Airline Industry in 2004 (*Robert M. Grant*) 27

Having survived the aftermath of the terrorist hijackings of September 11, 2001, the US airline industry spent 2002 and 2003 struggling with the problem of excess capacity. As the airlines return to greater normalcy, their attention shifts to the longer term problems of the industry. Since deregulation in 1978, the airlines have been the least profitable of any major industry sector in the US. Given the structure of the industry, the characteristics of the product, and the success of the low-cost carriers, is the airline doomed to price wars and low profits, or are there strategies that offer the airline companies opportunities for improving their dismal financial performance?

4 Ford and the World Automobile Industry (Robert M. Grant) 44

During 2000–03, there had been massive organizational upheaval at Ford, and a huge cost-cutting drive. Despite this, the company's ability to improve its financial performance still depends critically upon the future of the world automobile industry. Internationalization and maturity in the industry have been associated with increasing competition and declining profitability. The industry's structure continues to change: against a backdrop of weak demand and excess capacity, the industry is consolidating rapidly. Why has the industry been so unprofitable in recent years and what will be the effects of current changes in industry structure on competition and profitability?

5 Wal-Mart Stores, Inc., March 2004 (Robert M. Grant) 67

From its humble origins in Bentonville, Arkansas, Wal-Mart has grown to be the world's largest retailer and the world's biggest corporation (in revenue). In so competitive an industry as discount retailing, what is the basis of Wal-Mart's competitive advantage? Understanding the basis of Wal-Mart's success requires careful analysis of the resources and capabilities that Wal-Mart has built over time. Will these strengths in resources and capabilities be sufficient to sustain Wal-Mart's competitive advantage into the future?

6 Eastman Kodak: Meeting the Digital Challenge (Robert M. Grant) 93

Eastman Kodak faced a dilemma as technology was changing within its core photographic market from chemical imaging to digital imaging. The company had staked its future on being a leader in digital imaging. Yet, despite massive investment and a string of acquisitions and strategic alliances, Kodak's ability to establish competitive advantage within the digital imaging sector and to generate satisfactory returns from its investments remained in doubt. The case describes Kodak's digital imaging strategy and explores the challenges of developing new organizational capabilities in a competitive, fast-moving sector.

7 Organizational Restructuring within the Royal Dutch/Shell Group (Robert M. Grant) 117

During 2000, the Royal Dutch/Shell Group of companies was emerging from one of the most ambitious and far-reaching reorganizations of its 91-year history. However, despite reducing complexity and creating worldwide business sectors, central direction remained weaker than in most other major energy companies and Shell's national operating companies retained considerable autonomy. The new structure was helping to squeeze costs, control capital expenditure, and refocus strategy; but has enough been done to create an organizational structure that would allow Shell to compete effectively in an increasingly turbulent industry environment?

8 Harley-Davidson, Inc., February 2004 (Robert M. Grant) 143

Harley-Davidson began the twenty-first century in spectacular style with strong revenue and profit growth. However, despite expectations that 2004 would be another record year, CEO Jeff Bluestein knew that Harley-Davidson could not afford to be complacent. If Harley

was to maintain its superior performance against powerful rivals such as Honda and BMW, it would need to carefully examine the sources of its competitive advantage and implement strategies that would broaden and deepen these competitive advantages in order to meet the challenges of a changing market and competitive environment.

9 Online Broking Strategies: Surviving the Downturn at Merrill Lynch, Charles Schwab, and E*Trade (Anjali Bakhru and Ann Brown) 167

The advent of the Internet resulted in established brokerage firms being challenged by a host of online upstarts riding on the back of the late 1990s technology boom. By 2001, the game has changed – declining trading volumes are putting pressure on the whole industry and on the online brokers especially. How should E*Trade (an online broker), Schwab (a discount broker), and Merrill Lynch (a full-service broker) adjust to the new market conditions, and which business model is likely to be most successful in the future?

10 EMI and the CT Scanner [A] and [B] (Christopher A. Bartlett) 185

EMI, a British music and electronics company, has developed a revolutionary medical imaging technology. What is the best strategy for exploiting this innovation? The subsequent [B] case revisits EMI five years after the successful introduction of its CT scanner. EMI faces competition on all sides, including the imminent entry of General Electric. Can EMI sustain its competitive advantage as the industry evolves? How can it best respond to the changing circumstances in the market for CT scanners?

11 Rivalry in Video Games (Robert M. Grant) 211

Since its beginnings in the 1970s, the world video games industry has evolved through four periods of market domination. Atari's early leadership was overturned by Nintendo, then by Sega, and finally by Sony. In this winner-take-all industry, what strategies have allowed different hardware manufacturers to achieve market leadership? In 2002, the industry was entering a new period of uncertainty. After several years of leadership by Sony, the industry had now become a three-way race with Nintendo and Microsoft introducing technologically advanced new products. What strategies could best exploit hardware–software complementarities, the presence of network externalities, and the opportunities made available by new technology?

12 Eni SpA: Building an International Energy Major (Robert M. Grant and Michael Ritter) 233

For most of its 50 year history, Eni was a broadly diversified, inefficient, state-owned corporation with dismal financial performance. Following privatization, Eni SpA emerged from a period of refocusing and cost cutting as one of the world's most profitable oil and gas majors. The case traces the development of Eni, concentrating upon the strategies pursued by its transformational CEOs, Franco Bernabè and Vittorio Mincato. The case addresses the future corporate strategy of Eni. What challenges does Eni face in a rapidly changing energy sector? How can Eni best respond to the opportunities and challenges that it faces given the profile in resources and capabilities that distinguish Eni from other integrated energy majors?

13 Birds Eye and the UK Frozen Food Industry (Robert M. Grant) 266

During the 1950s and 1960s, Unilever subsidiary, Birds Eye Foods, used a strategy of vertical integration to develop and dominate the British frozen foods industry. Birds Eye invested heavily in a national network of cold stores and refrigerated trucks, while securing supplies of fresh produce through contracts with growers and fishing boats. As the industry developed, Birds Eye lost market share to competitors that concentrated on a few stages of the value chain, outsourcing most other activities. As the industry evolved, the competitive advantages that Birds Eye had derived from vertical integration were transformed into disadvantages.

14 Euro Disney: From Dream to Nightmare, 1987–94 (Robert M. Grant) 279

Walt Disney's decision to build a European theme park was its biggest and riskiest project since the Epcot Center a decade earlier. What considerations explained the complex mode of entry that Disney adopted for Euro Disney? Unlike Tokyo Disneyland in which Disney held no equity stake and the US parks that were wholly owned, Disney held minority ownership in Euro Disney as well as licensing and management contracts. However, despite the careful planning of the project, huge losses at Euro Disney were forcing Disney to reassess its strategy.

15 Richard Branson and the Virgin Group of Companies in 2004 (Robert M. Grant) 308

Between 1998 and 2004, Richard Branson's Virgin group of companies had diversified into an ever-widening set of industries – wireless telephony, financial services, an Australian airline, soft drinks, and Internet sales of cars, motorcycles, and wine. At the same time, many of his larger business were making losses, and cash flow was strongly negative. Branson needs to consider the strategy of his loose-knit corporate empire. What is the logic, if any, that links together this motley collection of business ventures? Should any of the businesses be divested? What criteria should be used to guide future diversification? Are changes needed in the financial and management structure of the group?

16 General Electric: Life After Jack (Robert M. Grant) 336

In summer 2001, Jeffrey Immelt succeeded Jack Welch as chairman and CEO of General Electric. Following "the greatest CEO of the twentieth century" at the "world's most admired company" was a difficult act to follow, and during his first ten months in the job GE's shares fell by almost half their value. During two decades as CEO of GE, Welch had transformed GE's portfolio of businesses, and created the organizational structure, management systems, and corporate culture that could mesh the benefits of massive size and diversity with the agility and entrepreneurial drive of much small enterprises. Where was Immelt to go from here?

17 AES Corporation: Rewriting the Rules of Management
(Robert M. Grant) 354

AES was like no other company in the electricity-generation industry. It was committed to social responsibility and providing fun for employees. Its management system had been described as “empowerment gone mad.” During the 1990s it had enjoyed phenomenal growth and startling shareholder returns. By early 2002, it was reeling from the effects of Enron, the California power crisis, and overseas difficulties – notably in Venezuela, Brazil, Argentina, and Pakistan. Should AES maintain its commitment to social responsibility, fun, and employee empowerment, or is a more conventional approach to management needed?

Preface

This new edition of *Cases in Contemporary Strategy Analysis* has been retitled *Cases to Accompany Contemporary Strategy Analysis, Fifth Edition* to more clearly indicate that the cases have been written and selected to complement the new edition of the textbook (Robert M. Grant, *Contemporary Strategy Analysis*, 5th edn, also recently published by Blackwell Publishing).

This casebook embodies a continuing commitment to examining the concepts and techniques of business strategy analysis in the context of real business situations. Thus, each of the cases presents issues that illuminate the ideas, concepts, and analytical techniques covered in one or more chapters of the textbook. For example: Cases Three and Four (“The US Airline Industry in 2004” and “Ford and the World Automobile Industry”) are industry cases that allow readers to apply the tools of industry and competitive analysis discussed in chapters 3 and 4 of the textbook; Cases Five and Six (“Wal-Mart Stores Inc., March 2004” and “Eastman Kodak: Meeting the Digital Challenge”) are primarily cases in the analysis of resources and capabilities that apply the tools of textbook chapter 5.

The cases in this collection represent the challenges faced by managers at the beginning of a new century. Most of the cases relate to company situations from 2001 to 2004, though a few discuss situations further back in time. However, no matter how up to date at the time of writing, by the time the book reaches the market, the business environment of 2005 will be different from that which existed between 2001 and 2004. This use of teaching cases that refer to recent history rather than the immediate present is not an impediment. The challenge for students, and their instructors, is to address the business situation as it existed at the time of the case. The only danger here is that hindsight does not necessarily yield wisdom. We now know that Vodafone and other wireless telecom companies overpaid for their 3G licenses. However, the critical strategic issue is this: going back to 1999, look at the information available at the time and ask, “How much should the companies pay for these licenses?”

The cases outline situations where decision making is required: How can Laura Ashley avoid disaster? What can Wal-Mart do to sustain its competitive advantage into the future? How can Microsoft supplant Sony as leader of the worldwide market for

video game consoles? Other cases focus more on gaining understanding of strategy formulation and the determinants of competitive advantage: How has a niche player like Harley-Davidson become one of the most profitable motorcycle companies in the world? What lessons can we learn from Kodak's difficulties in adjusting to the digital revolution in photography? By being more focused than the typical strategy cases, the cases are typically shorter than is normal for business strategy teaching cases. Brevity means also limits on the amount of information that is supplied to students. Does this mean that students should seek out additional information? Preferably not – the cases provide all the data needed to identify and analyze the key issues. More data permits more detailed analysis, but at the cost of slowing and overloading the decision process. For most companies strategic decisions must be taken with only a fraction of the relevant information available – events are moving too quickly to allow the luxury of extensive, in-depth research.

I hope you will find the cases instructive and enjoyable. I intend to continue updating the casebook regularly and I would appreciate any comments and suggestions that you have. I would also appreciate any suggestions for new cases that you might have.

Rob Grant
Washington, DC
grant@georgetown.edu

Acknowledgments

The editor and publishers gratefully acknowledge the following for permission to reproduce copyright material:

Stern Stewart & Co. for table 4.1 “Economic Value Added of major automobile producers,” *Best of Times, Worst of Times*, Stern Stewart & Co., December 2000.

Wal-Mart for extracts from www.walmartstores.com, “Sam Walton’s Three Basic Beliefs,” “Exceeding Customer Expectation,” “Helping People Make Difference,” “Sam’s Rules for Building a Business,” “Sundown Rule.” Reprinted by permission of Wal-Mart.

A. Bakhru and A. Brown for *On-line broking strategies: Merrill Lynch, Charles Schwab, and E*Trade*. London: City University Business School, 2002. Copyright © 2002 A. Bakhru and A. Brown. Reprinted by permission of the authors.

Christopher A. Bartlett for *EMI and the CT Scanner [A] and [B]*. Copyright © 1993 President and Fellows of Harvard College. Reprinted by permission of Harvard Business School Publishing.

C. Baden Fuller for table 12.4 “Shares of UK packaged grocery sales by type of retailer.” From C. Baden Fuller, *Rising Concentration: The UK Grocery Trade 1970–82*, London Business School, 1984. Reprinted by permission of C. Baden Fuller.

Virgin Group of Companies for figure 15.1 and Virgin’s Vision taken from Virgin Management Company. Reprinted by permission of The Virgin Group.

Noel Tichy and Ram Charan for extracts from interview with Jack Welch in *Harvard Business Review*. “Speed, simplicity, and self confidence: an interview with Jack Welch,” *Harvard Business Review*, September/October 1989. Reprinted by permission of Harvard Business School Publishing.

The publishers apologize for any errors or omissions in the above list and would be grateful to be notified of any corrections that should be incorporated in the next edition or reprint of this book.