



Strategic Management

6th lesson

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HOW TO EVALUATE AN ENTREPRENEURIAL FORMULA: EVALUATING AT STRATEGIC BUSINESS UNIT (SBU) LEVEL

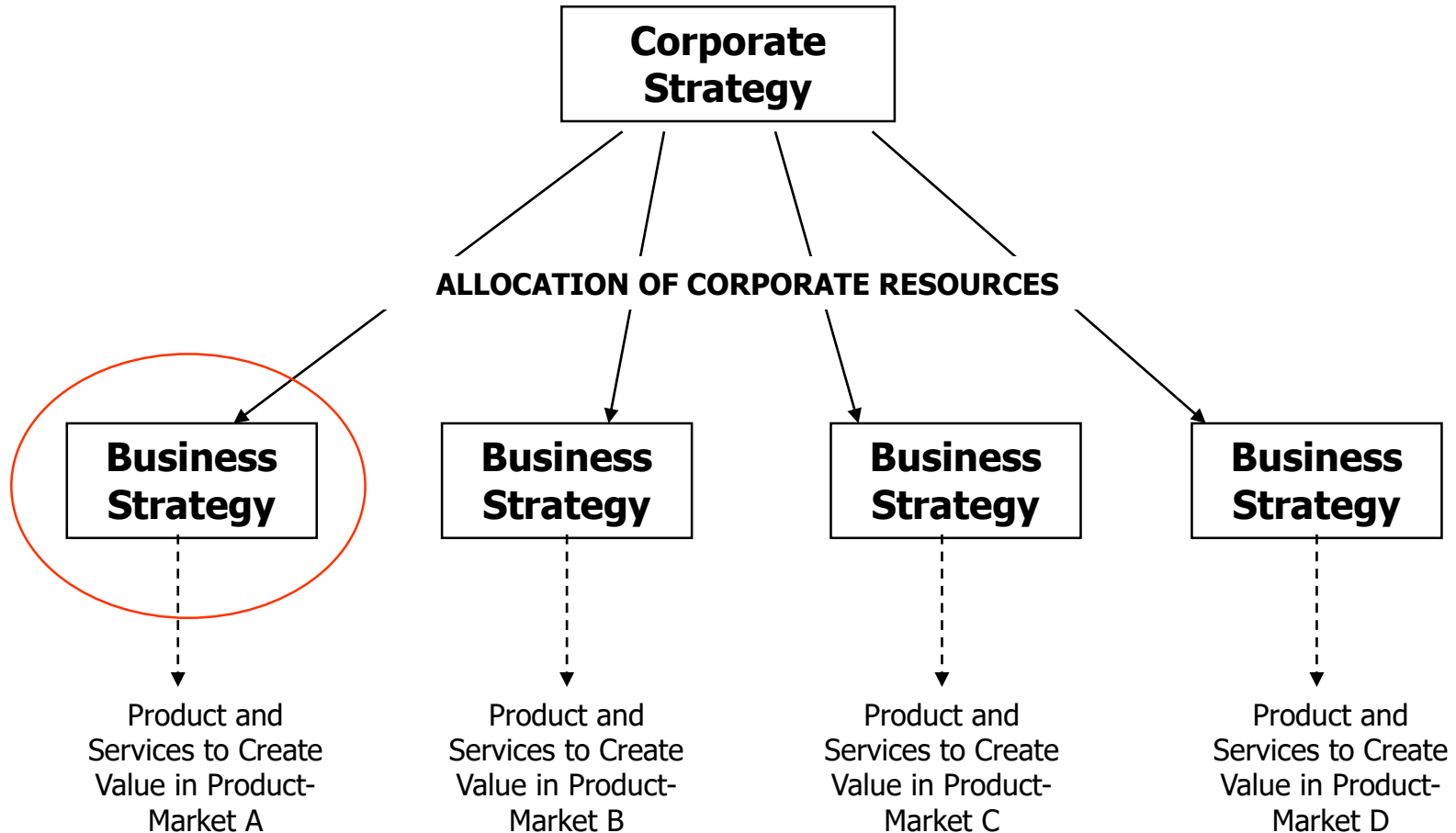
How to evaluate an entrepreneurial formula

An entrepreneurial formula should be evaluated:

- At Strategic Business Unit level (a profit center which focuses on product offering and market segment).
- At Corporate level

A company can be multi-business or mono-business.

Corporate strategy and business strategy

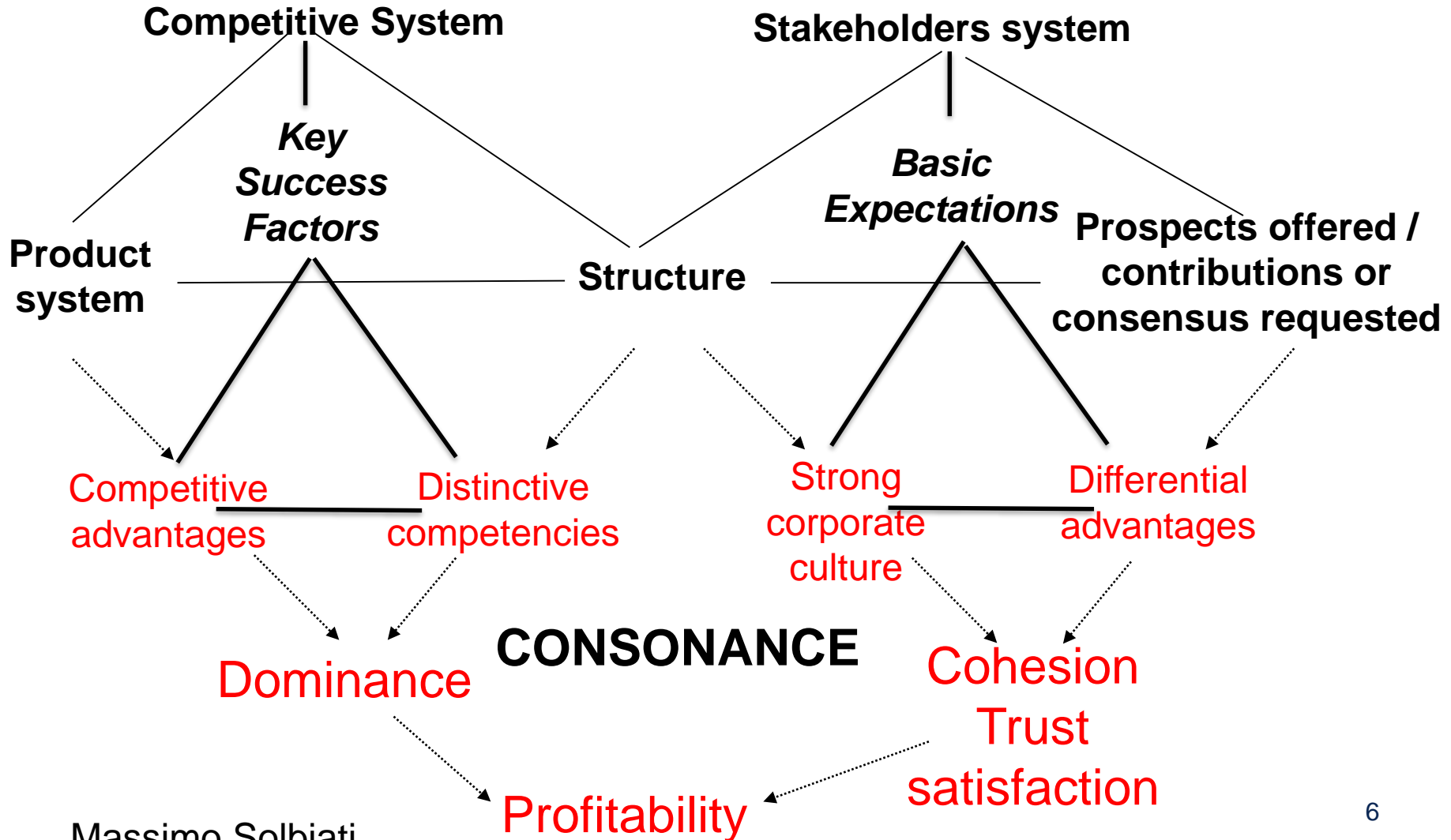


A Strategic Business Unit (SBU):

- generally it operates as an independent entity, but it has to report directly to the headquarters of the organisation about the status of its operations;
- it operates independently and is focused on a target market (customers and their needs); it can make its own decisions, investments, budgets etc.;
- it has its revenues, costs, assets, so its profits can be tracked independently;
- It use a business level strategy, that is characterized by which consumers needs to satisfy, and which core competences are necessary to satisfy customers needs.

How to evaluate an entrepreneurial formula

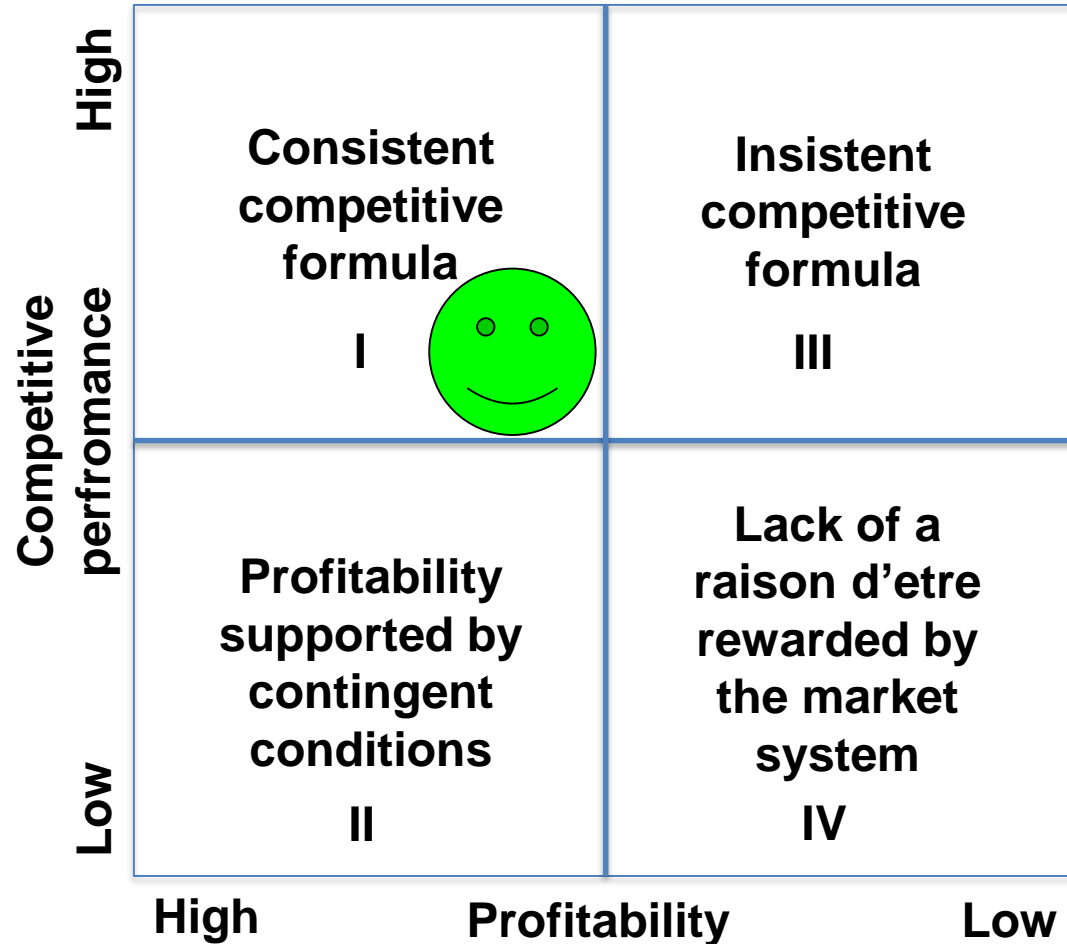
Components of the entrepreneurial formula and their distinctive traits in successful firms (Vittorio Coda)



Some questions:

- What is the positioning of the SBU in question, or of the firm as a whole, in terms of competition and profit ?
- What is the reasoning for the positioning ?
- What path was followed to get this positioning ?
- Are there impending threats which can undermine the basis of success, or deteriorate the positioning ?
- If the positioning is not advantageous, what needs for entrepreneurial innovation ?

Tool for the initial diagnosis of the strategic formula at the strategic business unit level: SBU positioning



The informations for scoring ***competitive performance***:

- Sales growth rates (compared with the market growth rate)
- Absolute and relative market shares
- Degree of penetration among different customer segment
- Qualitative level of the customers
- Customer satisfaction indexes
- Brand loyalty

But this informations show only the score, not the causes

The causes for ***competitive performance***:

- The competitive differentials respect to each competitor
- The distinctive competencies respect to each competitor

Some informations for scoring profitability:

- EBITDA
- EBIT (earning before interest and taxes)
- ROI or ROCE
- Costs
- Contribution Margin Ratios
- Current assets rotation ratios
- Turnover or value added per employee
- Mark up on base cost (to calculate sales price)
- Discount policies
- ...

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

High competitive performance / high profitability:
the consonance of EF

- ❑ Is success threatened by changes underway in the foreseeable future ? Where are these threats on the time horizon ? How serious are they ? How likely ? Can the company deal with them without radically renewing the EF ?
- ❑ Is success consolidated or can it be consolidated ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

High competitive performance / high profitability:
need to innovate the EF

- Depending on the circumstances, the EF might need to be:
 - radically reoriented ?
 - redefined ?
 - consolidated ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

High competitive performance / high profitability:
questions on management quality

- ❑ Is management aware of the strategy issue ?
- ❑ Is action being taken accordingly ?
- ❑ Or is management investing in the wrong direction, aiming for consolidation instead of diversification or vice versa ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

Low competitive performance / high profitability:
the consonance of EF

- ❑ How much longer will favorable conditions last ?
What will the impact to be on profitability when they end ?
- ❑ How much longer before the industry reaches the maturity ? If this stage is close, is the firm far behind competitors in molding a valid EF ? If maturity is far off, what role can the firm play in the industry ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

Low competitive performance / high profitability:
need to innovate the EF

- Depending on the circumstances, the firm must:
 - accelerate the process of learning a successful EF
 - Gradually shape the EF as strategic uncertainty associated with the industry's initial life cycle stages decreases; the aim is to play a major role in the future structure of the industry

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

**Low competitive performance / high profitability:
*questions on management quality***

- ❑ Does the management have a clear vision of the industry and macroeconomic scenarios ? What is management doing to gain control over strategic inherent in the environment, to anchor profitability in more stable foundation ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

High competitive performance / low profitability:
the consonance of EF

- ❑ Can the internal inconsistency of the EF be easily corrected ? How much time will it take ? Are investments necessary ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

High competitive performance / Low profitability:
need to innovate the EF

- Depending on the circumstances, the EF has to be:
 - rationalized and/or
 - radically reoriented

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

Low competitive performance / high profitability:
questions on management quality

- ❑ Is management aware of the anomaly of competitive success not being confirmed by profitability ? How is this explained ? What is being done to put the situation right ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

Low competitive performance / low profitability:
the consonance of EF

- What is the potential for improving profitability ?
What obstacles lie in the way ? What are strategic opportunities ?

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

Low competitive performance / Low profitability:
need to innovate the EF

- ❑ Without neglecting the change for short term financial improvement, a new and valid entrepreneurial vision must be developed and implemented

Questions for the appraisal of an entrepreneurial formula (EF) at the strategic business unit level

Low competitive performance / low profitability:
questions on management quality

- Is there a new entrepreneurial vision that deserves support ? If not, what is being done to come up with one? How is management contenting with the problem of short-term survival ?

Now each project team must evaluate the entrepreneurial formula at business level of its company case

- Is the company successful?
- What kind of competitive strategy is adopted in this company?
- Is its competitive advantage well built?
- How are they built (value drivers)?
- Put the company into the matrix SBU positioning
- Are there risk factors for the EF in the future ?