Essential Management Frameworks

TOP 10 MANAGEMENT FRAMEWORKS

	Framework	Used to…
1.	5-C Situation Analysis	Assess external and internal factors
2.	Porter's Five Forces	Analyze an industry
3.	Entry / Exit Barriers	Determine if you should enter / exit
4.	Industry & Product Lifecycle	Determine lifecycle "phase" to forecast industry changes
5.	Maturity-Competitive Position Matrix	Determine what to do with business units depending on each's "phase"
6.	Competitive Landscape	Identify whitespace in an industry to find opportunities
7.	The 7-S Framework	Analyze an organization internally
8.	Value Chain	Identify activities that add value
9.	Value Drivers	Identify key drivers of revenues/costs
10.	BCG Growth-Share Matrix	Optimize resource allocation

#1. 5-C SITUATION ANALYSIS

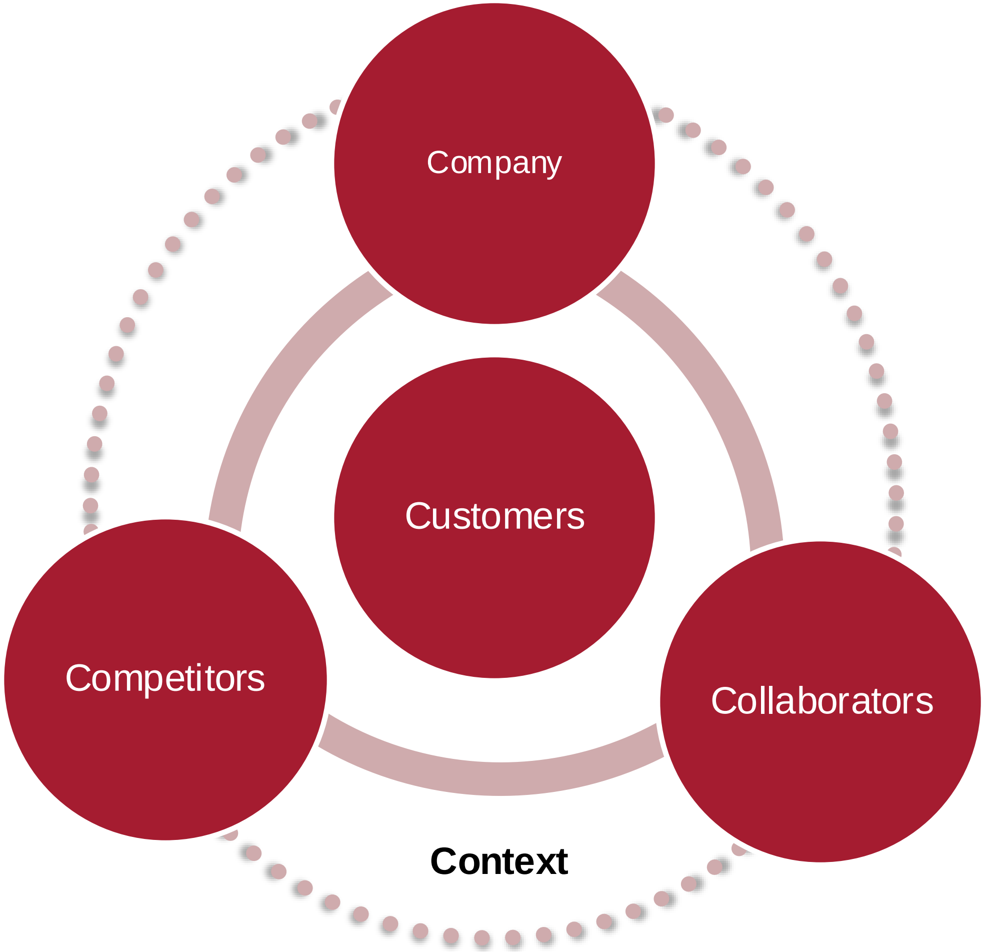
Customers: Market Size, Growth, and Segments; Customers' Value Drivers, Behavior, Habits, and Information Sources

Company: Product Line, Technology and Experience, Culture, Goals, Brand Image

Collaborators: Distributors, Suppliers, Alliances

Competitors: Products, Positioning, Market shares, Strengths and Weaknesses

Context (Climate): Political & Regulatory, Economic, Social and Cultural, and Technological Environments



5-C SITUATION ANALYSIS

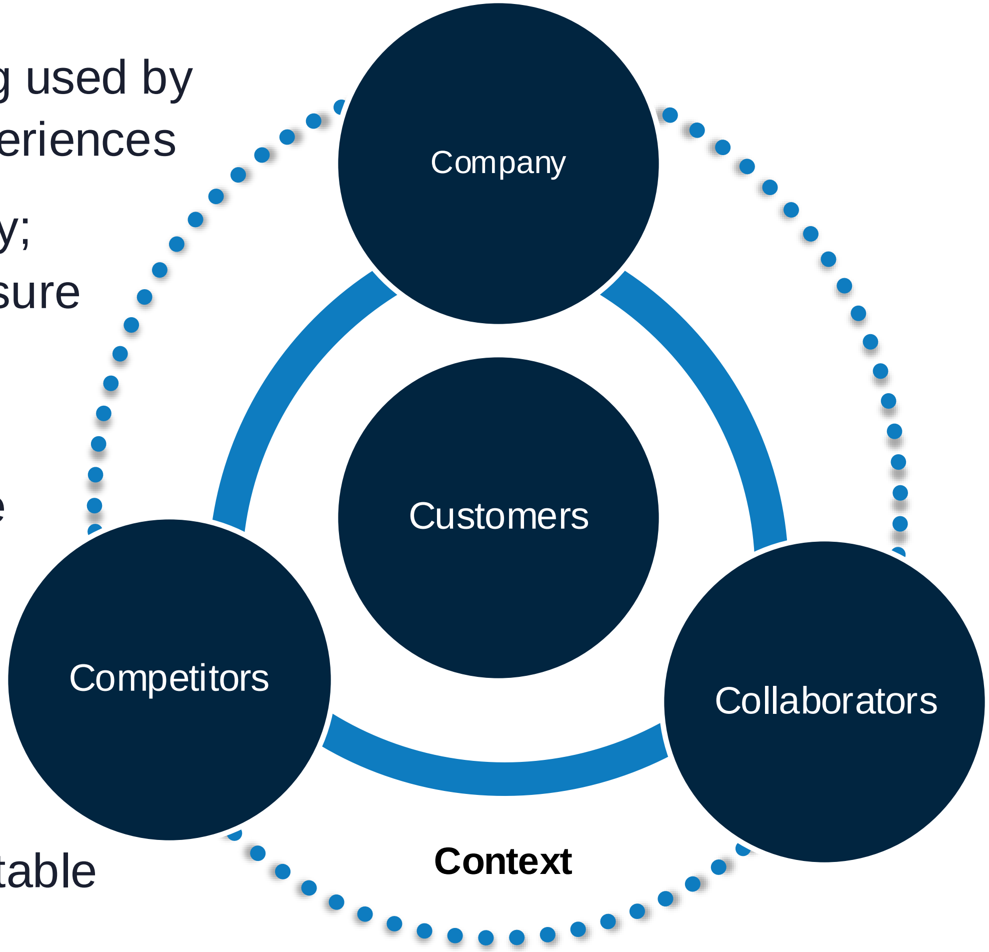
Customers: 1.8B active devices being used by customers who increasingly value experiences

Company: Multinational tech company; AirTag privacy concerns, upward pressure on salaries

Collaborators: Foxconn (Taiwan), Murata (Japan), Qorvo (US), Luxshare (China); Lingering Foxconn employee concerns

Competitors: Samsung gaining global smartphone market share

Context (Climate): Inflation; unpredictable supply chains



#2. PORTER'S FIVE FORCES

- **Buyers:** Bargaining leverage, buyer purchase volume, substitute products
- **Suppliers:** Differentiation of inputs, switching costs, supplier concentration
- **Threat of New Entrants:** Economies of scale, brand identity, capital requirements, learning curve, expected retaliation
- **Threat of Substitutes:** Relative prices and quality, switching costs, buyer likelihood of substituting
- **Internal Rivalry:** Industry growth, fixed costs / value added, product differences, exit barriers, price wars

PORTER'S FIVE FORCES
ONLINE DISCOUNT BROKERAGES

- **Buyers:** Millennials, market makers (Citadel, Two Sigma, Wolverine, Virtu)
- **Suppliers:** Suppliers of computer, networking and stationery equipment, stock exchanges, banks, ETF providers
- **Threat of New Entrants:** New trading start-ups focusing on low AUM per user, high volume trade (e.g., M1 Finance, Ally Invest, Trade Station)
- **Threat of Substitutes:** Full-service investment management services, traditional brokerage services, alternative investment products
- **Internal Rivalry:** Webull, Betterment, TD Ameritrade, ETrade, SoFi, et. al.

#3. ENTRY / EXIT BARRIERS

Barriers to Entry

Threat of entry into an industry depends on a combination of barriers to entry and expected incumbent reaction. Threat of entry is reduced if there are high barriers or likely aggressive incumbent retaliation.

7 Major Barriers to Entry:

1. Economies of scale
2. Product differentiation
3. Capital requirements
4. Switching costs
5. Access to distribution channels/property rights
6. Cost disadvantages independent of scale (e.g. favorable location; proprietary technology; access to raw materials)
7. Government policy

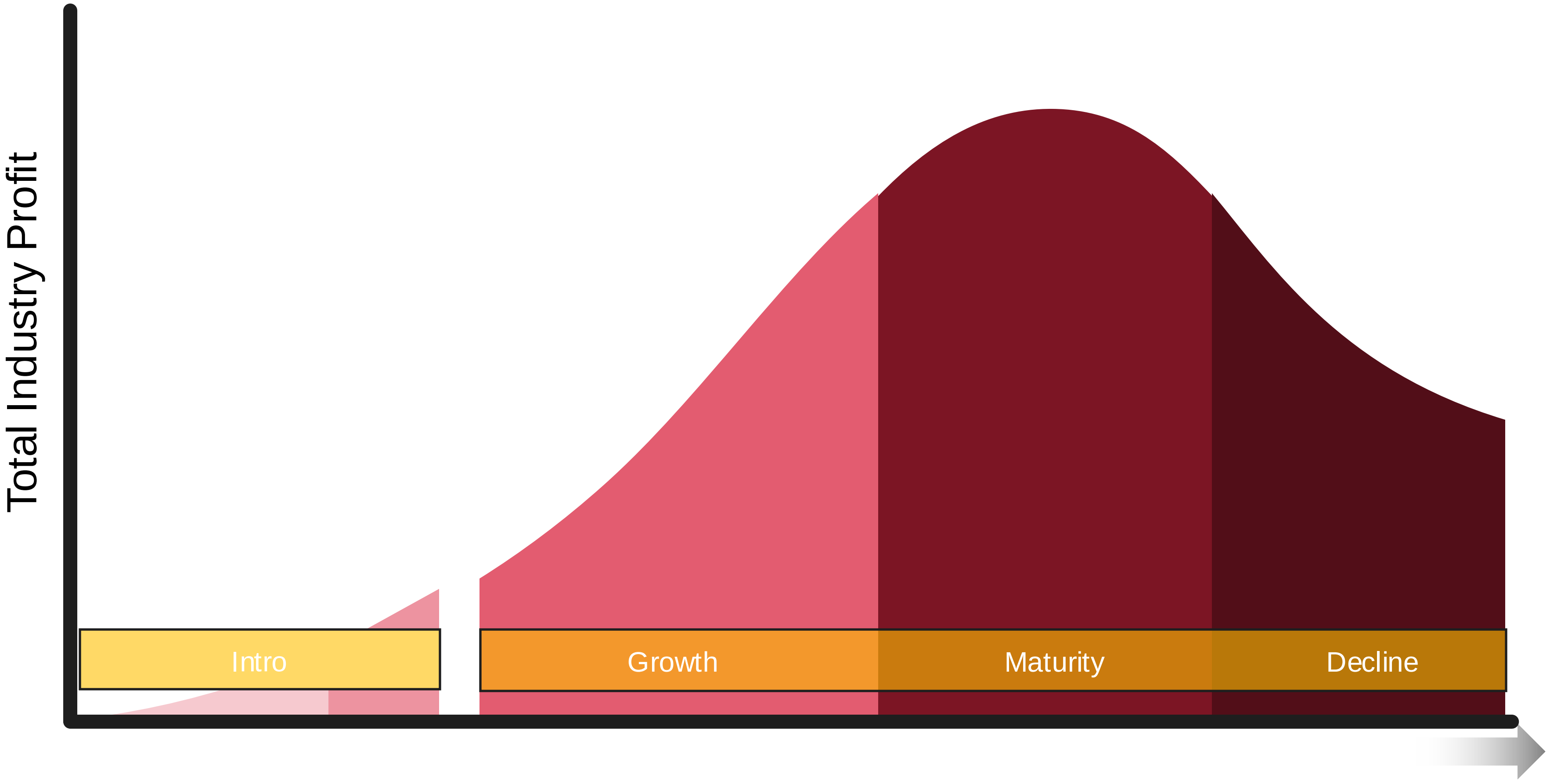
Barriers to Exit

High exit barriers can keep companies in an industry despite low or negative returns. There can be economic, strategic or emotional factors that keep companies within a low performing industry.

5 Major Barriers to Exit:

1. Specialized assets (e.g. low liquidation values; high transfer / conversion costs)
2. High fixed costs of exit (e.g. labor agreements; spare part capability)
3. Strategic inter-relationships (e.g. image, financial markets, shared facilities)
4. Emotional barriers
5. Government / Social restrictions

#4. INDUSTRY & PRODUCT LIFECYCLE (1/2)



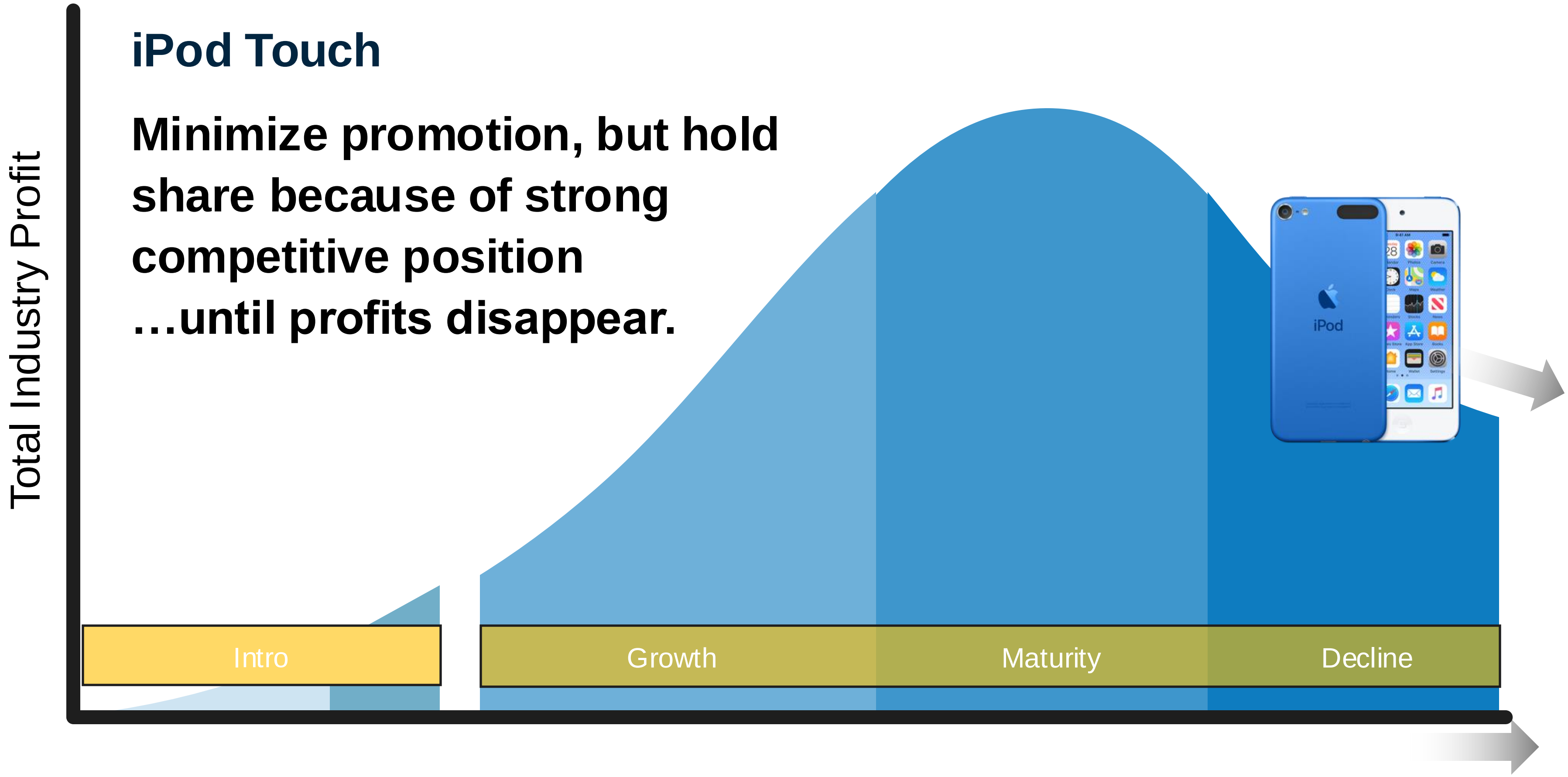
INDUSTRY & PRODUCT LIFECYCLE (2/2)

Industry Characteristics	Intro	Growth	Maturity	Decline
• Growth	Explosive	Rapid	Little	Negative
• Technology	Rapid changes	Widespread	Stable	Stable
• Customer alignment with producers	No	Low	High	High
• Barriers to entry	Low	Medium	High	High
• Competition	None	Growing	Many	Reduced
• Market shares	Changing	Stabilizing	Stable	Consolidating
Company's Marketing Strategy				
Objective	**Gain awareness**	**Stress difference**	**Maintain brand**	**Harvest**
• Product	One	More versions	Full portfolio	Best sellers
• Price	Penetrate	Gain share	Defend share	Stay profitable
• Place	Limited	More outlets	Multi-channel	Consolidate
• Promotion	Educate	Differentiate	Remind	Minimize

PRODUCT LIFECYCLE

iPod Touch

Minimize promotion, but hold share because of strong competitive position …until profits disappear.



#5. MATURITY-COMPETITIVE POSITION MATRIX

Competitive Position

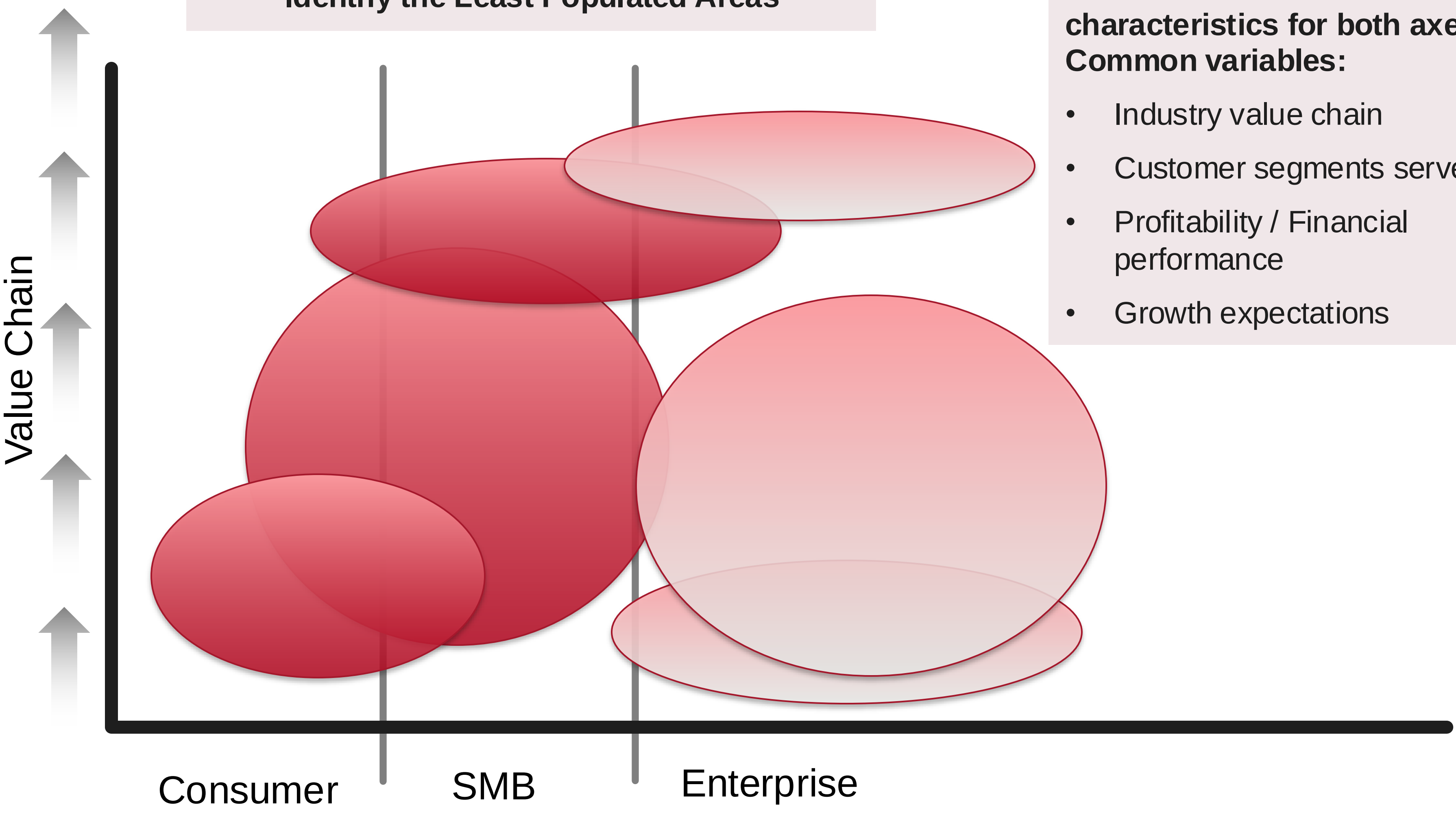
Industry Maturity

	Strong	Average	Weak
Introduction	Hold or build share	Selectively invest and build share	Selectively invest or divest
Growth	Hold or build share	Selectively invest and build share	Invest or divest
Shakeout	Hold share	Selectively invest	Invest or divest
Maturity	Hold position or grow with industry	Custodial or maintenance role. Find niche and protect	Selectively invest or divest
Decline	Hold or harvest	Harvest or phased withdrawal	Divest

Competitive position is determined by factors such as market share, profitability, growth, etc.

#6. COMPETITIVE LANDSCAPE

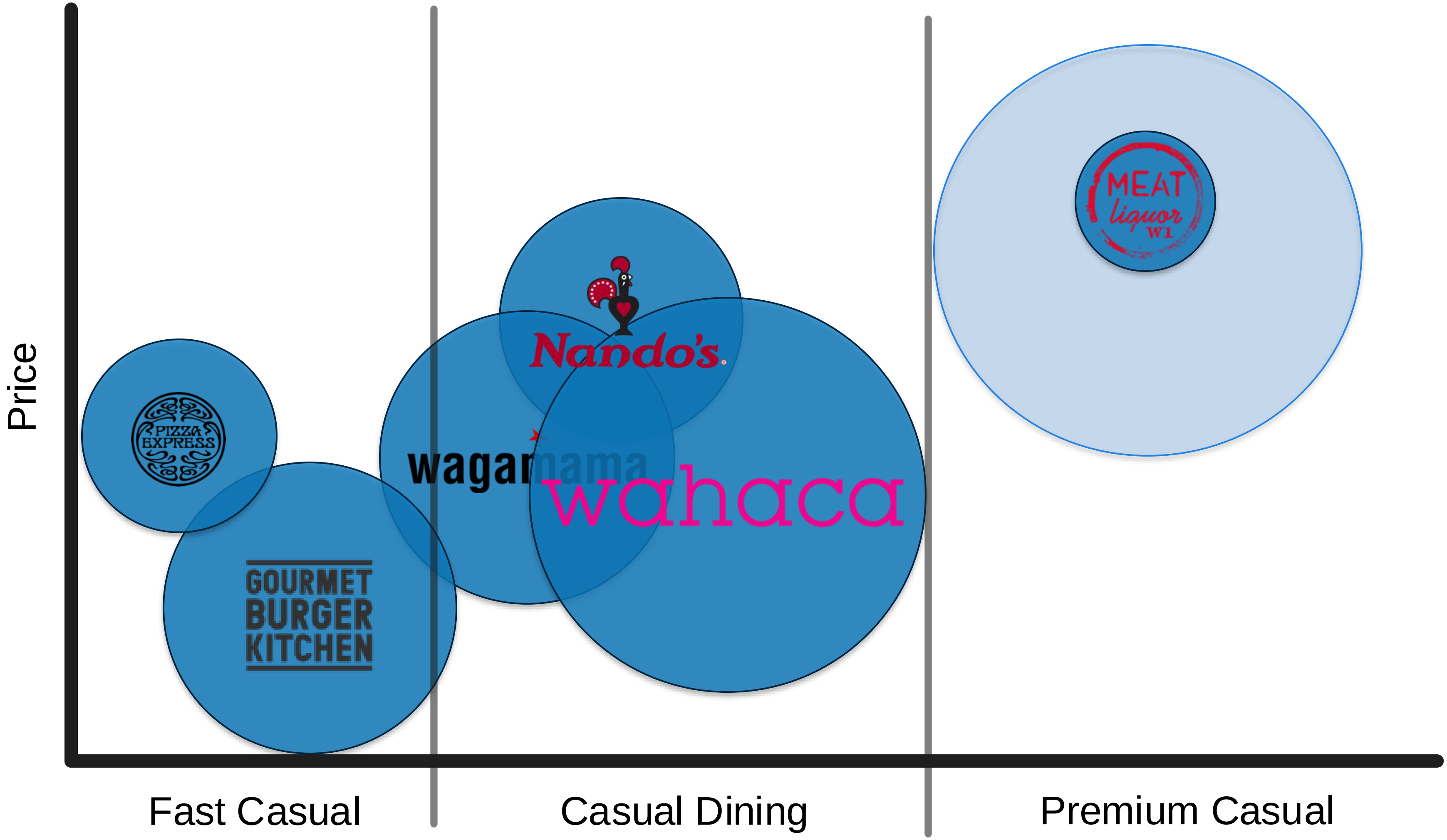
Identify the Least Populated Areas



You can choose different characteristics for both axes. Common variables:

- Industry value chain
- Customer segments served
- Profitability / Financial performance
- Growth expectations

COMPETITIVE LANDSCAPE
CHICAGO RESTAURANTS



#7. THE MCKINSEY 7-S FRAMEWORK

Shared Values: The company's core values as displayed through mission, vision, and corporate culture

Strategy: The plan to build and maintain competitive advantage

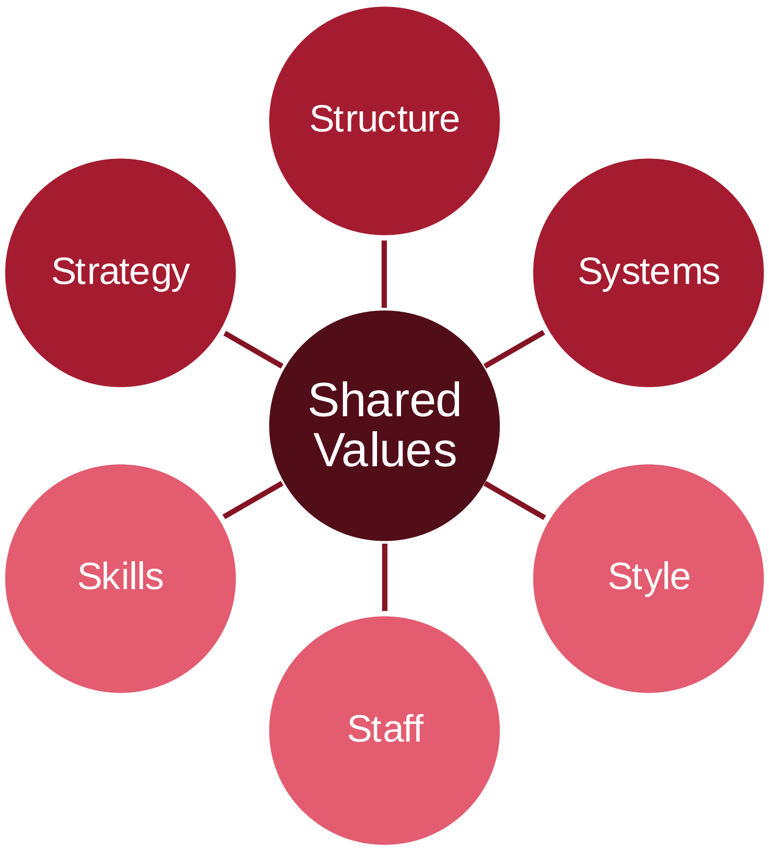
Structure: Organizational structure, who reports to whom

Systems: Daily activities and procedures

Skills: Skills and competencies of employees

Staff: Employees, recruiting, training, and capabilities

Style: Style of leadership

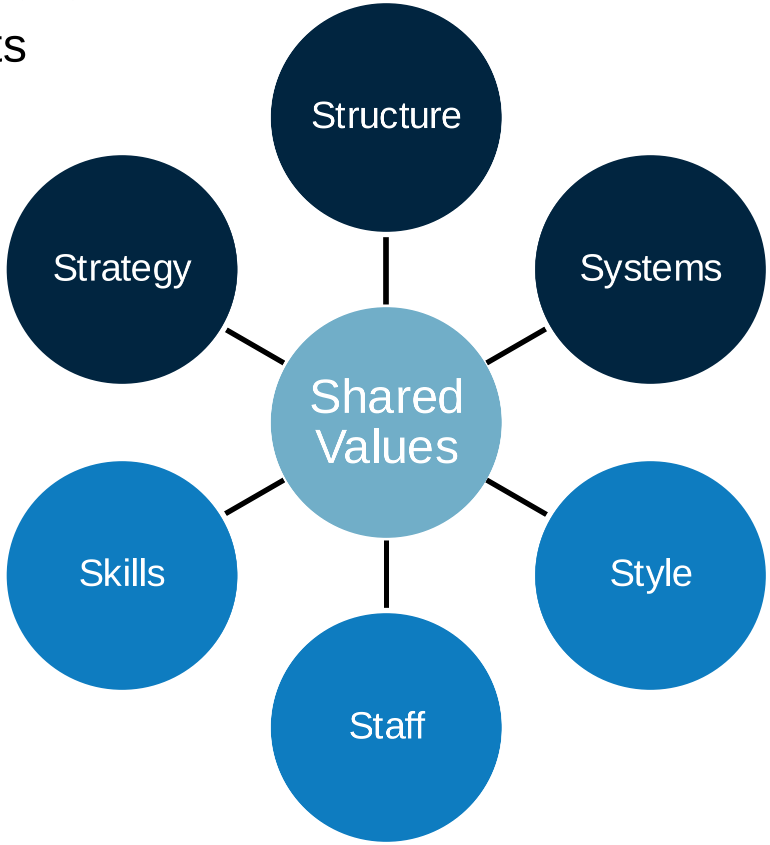


THE MCKINSEY 7-S FRAMEWORK

In 2015, McDonalds realized that its **Structure** and **Shared Values** were not aligned with its **Strategy** of cost leadership and aggressive international expansion.

Structure: CEO: Operations, HR, Legal, Brand → CEO: USA, high growth markets, international lead markets, foundational markets

Shared Values: "We grow our business profitably, and we strive continually to improve" → Serve, Inclusion, Integrity, Community, Family



#8. VALUE CHAIN

“upstream” …Proximity to customer… “downstream”

Raw Materials → R&D Engineering → Manufacturing / Assembly → Inventory → Sales & Marketing → Distribution & Service

Infrastructure, IT, HR, Finance, Logistics, etc.

Steps to Analyze Value Chains:

1. Identify
   - Construct value chains for customers and competitors
2. Analyze
   - Identify sources of differentiation
   - Analyze cost drivers
   - Breakdown activity into % and $
3. Determine
   - Compare these to competitors and identify sources of differentiation
   - Identify outsourcing or integration opportunities
4. Consider
   - Which stages are key for differentiated competitive advantage?

VALUE CHAIN

“upstream” …Proximity to customer… “downstream”

Outbound Logistics → Delivery → Inbound Logistics → Marketing & Sales → Products / Services

Technology, Infrastructure, Human Resources, Procurement

Key Takeaways:

- Customers value the ability to ship through various channels

- Wages, fixed assets, debt drive costs
- Need reliable labor sources (non-union)

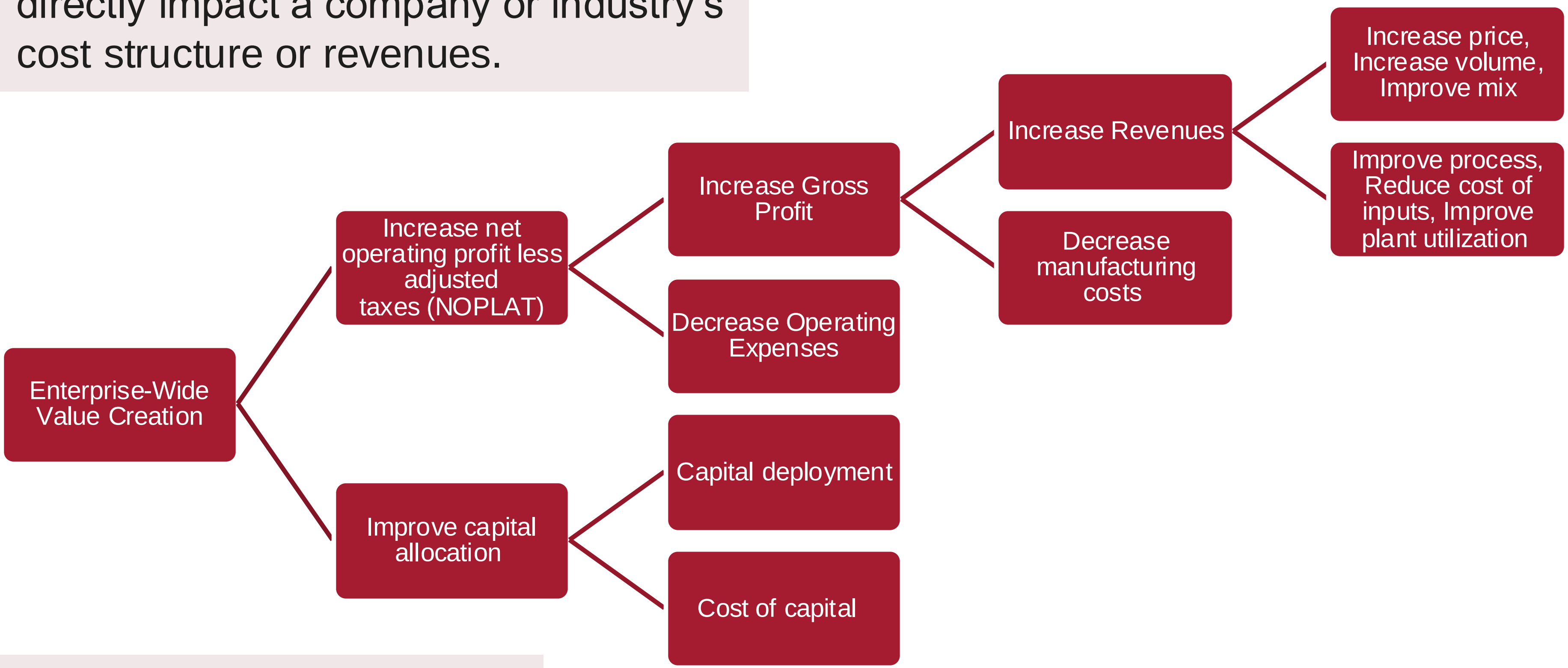
- UPS must differentiate
- Partnerships redefine package delivery

- Use M&S to support holiday strategy
- Promotions have high ROI around holidays

- Find new ways to service customers who demand “one-click solutions”

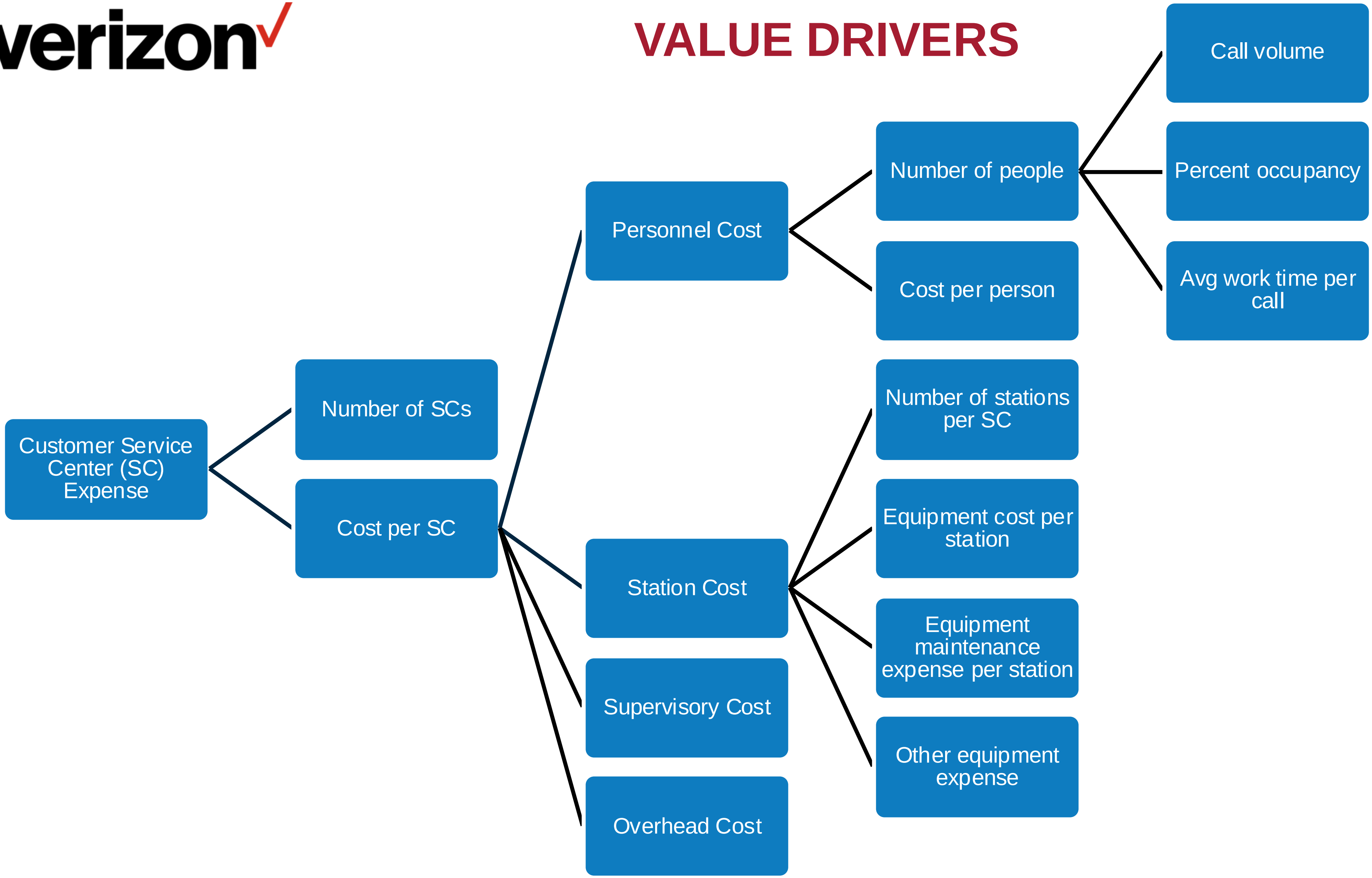
#9. VALUE DRIVERS

Map the activities / items that most directly impact a company or industry's cost structure or revenues.



Each industry has its own unique set of value drivers.

VALUE DRIVERS



#10. BCG GROWTH-SHARE MATRIX

Relative Market Share

Market Growth Rate

	High	Low
High	**Stars:** Keep and feed A business unit with large market share in a fast-growing industry. May generate cash, but because the market is growing rapidly, it requires investment to maintain its lead. If successful, will become a cash cow.	**Question Marks:** Need more information A business unit with small market share in a high growth market. Requires resources to grow market share, but questions remain if it can succeed and become a star.
Low	**Cash Cows:** Keep alive A business unit with large market share in a mature, slow growing industry. Requires little investment and generates cash that can be invested in other business units.	**Dogs**: Divest A business unit with small market share in a mature industry. May not require substantial cash, but nevertheless ties up capital. Unless it has a strategic purpose, liquidate if there is little prospect to gain market share.