

**TABLE 1** A Quick Profile of the Cases in the 23rd Edition of *Crafting and Executing Strategy*

	Accompanying video (Y = yes; N = no)	Connect Case Exercise (Y = yes; N = No)	Size: Small (S), Medium (M), Large (L)	The role of managers in crafting strategy	The role of managers in executing strategy	Vision, mission, and objectives	Crafting strategy in single-business companies	Industry and competitive analysis	Company resources and capabilities	Global or multinational strategy	E-business strategy issues	Diversification strategies and the analysis of multi-business corporations	Financial conditions and financial analysis	Staffing, people management, incentives and rewards	Organizational structure, core competencies, competitive capabilities, staffing	Policies, procedures, operating systems, best practices, continuous improvement	Corporate culture issues	Ethics, values, social responsibility	Exerting strategic leadership	Making action recommendations
Case 1: Airbnb in 2020	Y	Y	M			X	X	X	X	X	X		X							X
Case 2: Competition in the Craft Beer Industry in 2020	Y	Y	S				X	X												X
Case 3: Costco Wholesale in 2020: Mission, Business Model, and Strategy	Y	Y	M	X	X	X	X	X	X	X	X		X	X		X	X		X	X
Case 4: Ford Motor Company: Will the Company's Strategic Moves Restore its Competitiveness and Financial Performance?	Y	N	L				X	X	X	X			X							X
Case 5: Macy's, Inc.: Will Its Strategy Allow It to Survive in the Changing Retail Sector?	Y	N	L	X			X	X	X		X		X							X
Case 6: TOMS Shoes: Expanding Its Successful One for One Business Model	Y	N	S	X	X	X	X	X	X				X			X	X	X	X	X
Case 7: lululemon Athletica's Strategy in 2020: Is the Recent Growth in Retail Stores, Revenues, and Profitability Sustainable?	Y	Y	M	X			X	X	X	X			X							X
Case 8: Under Armour's Strategy in 2020: Can It Revive Sales and Profitability in Its Core North American Market?	Y	Y	M	X			X	X	X	X			X							X

	Accompanying video (Y = yes; N = no)	Connect Case Exercise (Y = yes; N = No)	Size: Small (S), Medium (M), Large (L)	The role of managers in crafting strategy	The role of managers in executing strategy	Vision, mission, and objectives	Crafting strategy in single-business companies	Industry and competitive analysis	Company resources and capabilities	Global or multinational strategy	E-business strategy issues	Diversification strategies and the analysis of multi-business corporations	Financial conditions and financial analysis	Staffing, people management, incentives and rewards	Organizational structure, core competencies, competitive capabilities, staffing	Policies, procedures, operating systems, best practices, continuous improvement	Corporate culture issues	Ethics, values, social responsibility	Exerting strategic leadership	Making action recommendations
Case 9: Spotify in 2020: Can the Company Remain Competitive?	Y	N	S	X		X	X	X	X		X		X							X
Case 10: Beyond Meat, Inc.	Y	Y	S	X		X	X	X	X				X							X
Case 11: Netflix's 2020 Strategy for Battling Rivals in the Global Market for Streamed Video Subscribers	Y	Y	M	X	X	X	X	X	X		X		X							X
Case 12: Twitter Inc. in 2020	Y	Y	M	X			X	X	X	X	X		X							X
Case 13: Yeti in 2020: Can Brand Name and Innovation Keep it Ahead of the Competition?	Y	N	S	X			X	X	X	X	X		X							X
Case 14: GoPro in 2020: Have its Turnaround Strategies Failed?	Y	N	S	X			X	X	X		X		X							X
Case 15: Publix Super Markets: Its Strategy in the U.S. Supermarket and Grocery Store Industry	Y	N	M	X	X	X	X	X	X		X		X			X		X		X
Case 16: Tesla Motors in 2020: Can It Deliver Sustained Profitability?	Y	Y	M	X		X	X	X	X	X			X							X
Case 17: Unilever's Purpose-led Brand Strategy: Can Alan Jope Balance Purpose and Profits?	Y	N	L	X			X	X	X	X			X						X	X
Case 18: Domino's Pizza: Business Continuity Strategy during the COVID-19 Pandemic	Y	N	M	X	X		X	X	X	X	X		X						X	X
Case 19: Burbank Housing: Building from the Inside Out	Y	N	S	X		X	X	X	X				X					X		X

	Accompanying video (Y = yes; N = no)	Connect Case Exercise (Y = yes; N = No)	Size: Small (S), Medium (M), Large (L)	The role of managers in crafting strategy	The role of managers in executing strategy	Vision, mission, and objectives	Crafting strategy in single-business companies	Industry and competitive analysis	Company resources and capabilities	Global or multinational strategy	E-business strategy issues	Diversification strategies and the analysis of multi-business corporations	Financial conditions and financial analysis	Staffing, people management, incentives and rewards	Organizational structure, core competencies, competitive capabilities, staffing	Policies, procedures, operating systems, best practices, continuous improvement	Corporate culture issues	Ethics, values, social responsibility	Exerting strategic leadership	Making action recommendations
Case 20: Boeing 737 MAX: What Response Strategy is Needed to Ensure Passenger Safety and Restore the Company's Reputation?	Y	N	L	X			X	X	X	X			X					X	X	X
Case 21: The Walt Disney Company: Its Diversification Strategy in 2020	Y	Y	L	X		X		X	X	X	X	X	X						X	X
Case 22: Robin Hood	Y	Y	S	X	X	X		X	X					X	X	X	X	X	X	X
Case 23: Starbucks in 2020: Is the Company on Track to Achieve Attractive Growth and Operational Excellence?	Y	Y	L	X	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X
Case 24: Southwest Airlines in 2020: Culture, Values, and Operating Practices	Y	Y	L	X	X	X	X	X	X	X	X		X	X	X	X	X	X	X	X
Case 25: Uber Technologies in 2020: Is the Gig Economy Labor Force Working for Uber?	Y	N	M	X		X	X	X	X	X	X		X	X	X	X	X	X	X	X
Case 26: Nucor Corporation in 2020: Pursuing Efforts to Grow Sales and Market Share Despite Tough Market Conditions	Y	Y	M	X	X		X	X	X	X			X	X			X		X	X
Case 27: Eliminating Modern Slavery from Supply Chains: Can Nestle Lead the Way?	Y	N	L	X			X	X	X	X						X	X	X		X

# SECTION 6

## Case Teaching Notes for Cases 1–27

# Airbnb in 2020<sup>\*</sup>

## OVERVIEW

Airbnb was founded in 2008 when Brian Chesky and a friend decided to rent their apartment to guests for a local convention. To accommodate the guests, they used air mattresses and referred to it as the “Air Bed & Breakfast.” It was that weekend when the idea—and the potential viability—of a peer-to-peer room-sharing business model was born. By 2020 Airbnb had seen immense growth and success in its 12-year existence. The room-sharing company had expanded to over 190 countries with more than 4 million listed properties and had an estimated valuation of \$31 billion. By 2020, Airbnb had entered over 220 countries with more than 7 million locations. In early-2020, Airbnb seemed poised to revolutionize the hotel and tourism industry through its business model that allowed hosts to offer spare rooms or entire homes to potential guests, in a peer-reviewed digital marketplace. However, as travel restrictions were implemented to mitigate the spread of COVID-19, Airbnb and its hosts were left to navigate an uncertain travel and accommodation market.

This case is meant to introduce students to the sharing economy. Students can compare and contrast Airbnb’s business model with traditional models employed by bed & breakfast and hotel chain operators. Instructors should note that technology and the legal environment can lead to opportunities, as well as challenges for an upstart like Airbnb. The case opens and closes with quotes from CEO and co-founder Chesky, to juxtapose for students how rapid advances in technology can lead to changes in competitive strategies for business, yet, how the legal environment can both lag behind, and obstruct such strategies.

The case provides an overview of the accommodation market (i.e. hotels, motels and bed & breakfasts) to illustrate such strategic considerations as competitor size and market segmentation. The case then presents the comparative costs of operating traditional hotels/motels to bed & breakfasts to illustrate Airbnb’s potential to attain and sustain competitive advantage using its technology-based business model. Yet Airbnb faces continuing challenges to obtain permits and overcome regulatory barriers. While it continues to demonstrate a growth trajectory that could result in an IPO, Airbnb will need to develop new strategic approaches to build out its model and surmount competitive forces.

---

\* This teaching note primarily reflects the thinking and analysis of Professor John D. Varlaro, Johnson & Wales University. We are most grateful for his insight, analysis and contributions to how the case can be taught successfully.

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

## SUGGESTIONS FOR USING THE CASE

Students should find Airbnb in 2020 an interesting case because of their own experiences with smartphones and companies such as Lyft, Uber or Airbnb. We recommend using the case immediately following your coverage of Chapter 1. As this case specifically addresses the sharing economy, it lends itself well to discussions of smartphones, technology and their impact on competitive positions for both new and incumbent competitors. It may also lead to discussion of disruptive innovation.

We believe that Airbnb in 2020 is an excellent leadoff case for the course (other choices are Robin Hood and Costco Wholesale). This case is ideal for exploring the concepts of sustainable competitive advantage, competing differently, and business models. Instructors can drill students on such topics as customer value proposition, profit formula and compare and contrast Airbnb's approaches with those of traditional lodging operators. This case can also be used to explore factors within the general environment and how external analysis is important for incumbents and new entrants alike.

*The assignment questions and teaching outline presented below reflect our thinking and suggestions about how to conduct the class discussion and what aspects to emphasize.*

To provide students with guidance in what to think about and which analytical tools to utilize in preparing the Airbnb in 2020 case for class discussion, we strongly recommend providing class members with a set of study questions and insisting that they develop good notes/answers to these questions in preparing for class discussion of the case.

*To facilitate your use of study questions and to make them available to students, we have posted a file of the assignment questions contained in this teaching note for the Airbnb in 2020 case in the Instructor Resources section of the Connect® Library. (We should also point out that there is a set of study questions posted in the student section of the OLC for each of the 27 cases included in the 23rd Edition.)*

**The Connect®-based Exercise for the Airbnb in 2020 case.** We developed an exercise for the Airbnb in 2020 case for inclusion in the publisher's **Connect®** web-based assignment and assessment platform. The exercise will lead students through all six assignment questions in this teaching note.

It should take class members roughly 30 minutes to complete the exercise, assuming they have done a conscientious job of reading the case and absorbing the information it contains. All of the questions are automatically graded, and the grades are automatically recorded in your Connect® grade book, which makes it easy for you to evaluate each class member's ability to apply many of the concepts and analytical methods in Chapter 1 and 2.

You may also find it beneficial to have your class read the Guide to Case Analysis that follows Case 27 in the text and is posted in the Instructor Resources section of the Connect® Library. Students will find the content of this Guide particularly helpful if this is their first experience

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

**Videos for Use with the Airbnb in 2020 Case.** There are two videos that you may consider having students view prior to class discussion of the case (or you may choose to open the class discussion with one of the two videos). Both videos are posted at YouTube and can be accessed through the following links:

- Airbnb CEO Brian Chesky on the Future of Travel and Outlook is a 5:55 minute video posted at YouTube (<https://www.youtube.com/watch?v=lrFZr6lh7cU>).
- Airbnb CEO: Going Public in 2020 is a 10:19 minute video posted at YouTube (<https://www.youtube.com/watch?v=1jrKx5Ay0uA>).

Because the case is relatively short, it is well suited for use as a leadoff case on the first day of class, or for an in-class written case, or a final exam case. Our recommended questions for written assignments are as follows:

- Marriott management has asked you to assess the threat of Airbnb. Please prepare a 5–6 page report that includes a description of both Marriott’s and Airbnb’s business models, with an emphasis on an evaluation and comparison of disparate customer demands and user profiles. Marriott’s management also asks that you make a recommendation as to how best to mitigate the growing appeal of Airbnb, and how to potentially reach millennials and other potential users of Airbnb.
- As a new member of Airbnb’s management team, you have been asked to prepare an analysis of its competitive position and potential threats. Your 2–3 page executive summary should list strategic issues confronting Airbnb and make recommendations to address both opportunities and challenges. The executive summary should be supported by your analysis of the lodging industry.

### ASSIGNMENT QUESTIONS

1. How would you illustrate and compare the business models for Airbnb, large hotel chains such as Marriott and Hilton, and bed & breakfast operators? Use the example chart in the textbook for business models as a guide (Concepts & Connections 1.1)
2. What was Airbnb’s response to the COVID-19 pandemic? Does it appear that the company’s business model is more resilient than that of its hotel chain rivals?
3. What are the general strengths and weaknesses of a) large, hotel chains such as Marriott and Hilton, b) bed & breakfasts, and c) Airbnb? Explain how you would compare and contrast those businesses.
4. In what ways has the lodging consumer changed, and how does Airbnb’s customer value-proposition meet this change?

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

5. What key factors may determine the success or failure of Airbnb?
6. What recommendations would you make to Airbnb to improve its competitiveness in the accommodation market while mitigating any current and future risks?

## TEACHING OUTLINE AND ANALYSIS

1. How would you illustrate and compare the business models for large hotels chains such as Marriott and Hilton, bed & breakfast operators, and Airbnb? Use the example chart in the textbook for business models as a guide (Concepts & Connections 1.1)

Students should be able to identify the following:

	<b>Chain Hotels / Motels</b>	<b>Bed &amp; Breakfast (single proprietor)</b>	<b>Airbnb</b>
Customer Value Proposition	<ul style="list-style-type: none"> <li>• Familiar brands</li> <li>• International brands to which customers are accustomed and potentially feel affinity and loyalty</li> <li>• Global reach with loyalty programs</li> </ul>	<ul style="list-style-type: none"> <li>• One location, offering unique, local accommodation</li> <li>• Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area</li> <li>• If in rural area, may be only accommodation</li> </ul>	<ul style="list-style-type: none"> <li>• Use of technology to which users are familiar</li> <li>• Shorter, more intimate stays</li> <li>• Varying and different locales in which to stay, both local and international reach</li> <li>• Cheaper accommodations</li> <li>• Unique accommodations</li> </ul>
Profit Formula	<ul style="list-style-type: none"> <li>• Revenue generation dependent on renting rooms and overall occupancy</li> <li>• Cost structure extensive, composed of wages and high fixed costs associated with the purchase and upkeep of multiple physical assets/locations</li> <li>• Other costs would include food and beverage, marketing, taxes, licenses</li> <li>• Global costs further complicate structure, including operating across multiple legal and physical jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation dependent on renting rooms and overall occupancy</li> <li>• Cost structure associated with operating brick and mortar physical location, food and beverages, marketing</li> <li>• Possible staff wages if operations are large enough to necessitate staff</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation transaction fee charged to users whom offer and rent accommodations through app</li> <li>• Cost structure associated with developing and updating software and technology, marketing and advertising, wages for engineers, professional management and staff</li> </ul>
Profit Margin	<ul style="list-style-type: none"> <li>• Dependent on generating sufficient revenues across multiple locations to cover fixed and variable costs globally. Profitable locations may be used to offset losses and unprofitable locations</li> </ul>	<ul style="list-style-type: none"> <li>• Dependent on generating revenues sufficient to cover fixed and variable costs. Lack of profitability several jeopardizes business as owned by sole proprietor</li> </ul>	<ul style="list-style-type: none"> <li>• Not contingent upon the fixed costs associated with operating hotels/bed &amp; breakfasts. Instead, profitability associated with percentage of revenue generated by all participating users offering accommodations</li> </ul>

Students should be reminded that, as stated in Chapter 1 of the text:

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- The appeal of a strategy or business model that yields a sustainable competitive advantage is that it offers the potential for an enduring edge over rivals.
  - However, Chesky as CEO must be willing and ready to modify the strategy in response to the unexpected moves of competitors, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy, and mounting evidence that the strategy is not working well.
  - Most of the time, a company's strategy evolves incrementally as management fine-tunes various pieces of the strategy and adjusts the strategy to respond to unfolding events.

Here is a good opportunity to ask students to compare and contrast the strengths and weaknesses of Airbnb's business model to those of its direct competitors.

### 2. What was Airbnb's response to the COVID-19 pandemic? Does it appear that the company's business model is more resilient than that of its hotel chain rivals?

Students should be able to identify the following moves undertaken by Airbnb.

- Airbnb was forced to delay its IPO as a result of the pandemic. The company also had to raise \$2 billion in private funding and debt to support operations during the pandemic.
- The company was forced to layoff 1900 employees (about 1/4 of its workforce) in May 2020 to reduce costs.
- Guests were forced to cancel their reservations due to governmental restrictions and safety reasons. Airbnb provided refunds for cancelled reservations made prior to March 14, 2020.
- The company issued safety and cleaning guidelines to hosts.
- Hosts lost a large portion of their income leading Airbnb to establish a \$17 million dollar fund to help support the hosts.
- Airbnb created "online experiences" to virtually mimic a vacation.

Students should recognize that while Airbnb's revenues and profitability would be greatly affected by the COVID-19 pandemic, its business model is far more efficient than employed by hotel chains. Airbnb's reliance on hosts to provide physical accommodation spaces is better suited to the dramatic decline in travel accommodations than business models involving brick-and-mortar lodging locations. It should be apparent that the company's losses will be less than those of others in the accommodations industry.

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

3. What are the general strengths and weaknesses of large hotel chains such as Marriott and Hilton, bed & breakfasts, and Airbnb? Explain how you would compare and contrast those businesses.

Students should be able to identify the following:

	<b>Large Hotel/Motel Chains</b>	<b>Bed &amp; Breakfast (single proprietor)</b>	<b>Airbnb</b>
Strengths	<ul style="list-style-type: none"> <li>• Familiar, international brands</li> <li>• Brand loyalty</li> <li>• Global reach</li> <li>• Perception of safe, comfortable and/or reliable accommodations</li> <li>• Corporate accounts</li> </ul>	<ul style="list-style-type: none"> <li>• One location, offering unique, local accommodation</li> <li>• Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area</li> <li>• If in rural area, may be only accommodation</li> </ul>	<ul style="list-style-type: none"> <li>• No fixed costs associated with operating hotels, thus greatly reduced cost structure</li> <li>• Leveraging technology when consumers are more smartphone dependent</li> <li>• Market leader perception in technology</li> <li>• Ubiquitous, as user can access anytime through app</li> <li>• Offering both low-cost accommodations, as well as unique experiences</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• High cost structure, further exacerbated by global operations and presence</li> <li>• If consumer has bad experience with one location, all locations may be viewed as terrible</li> <li>• Need at times to compete on price through discount offerings</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation dependent on renting rooms and overall occupancy, highly associated with travel trends in the area</li> <li>• Cost structure which is highly sensitive to fluctuations, as a sole proprietor has very little room for shifts in revenue and costs</li> </ul>	<ul style="list-style-type: none"> <li>• Perception of at times unsafe experiences</li> <li>• Users may be hesitant to use Airbnb in specific locations, opting for a more familiar brand</li> <li>• Legal exposure through individual hosts not following laws, such as anti-discrimination</li> <li>• Legal exposure as cities and towns determine if renting rooms through Airbnb is legal, and the potential for it to be illegal</li> <li>• Business model is relatively easy to copy, as demonstrated by Uber and Lyft in the ride-sharing space</li> </ul>

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

Here is a good opportunity to recap Chapter 1 and also preview some concepts covered Chapter 2:

- In choosing among opportunities and addressing the hows of strategy, strategists must embrace the risks of uncertainty and the discomfort that naturally accompanies such risks.
  - Bold strategies involve making difficult choices and placing bets on the future.
  - Good strategic planning is not about eliminating risks, but increasing the odds of success. In sorting through the possibilities of what the company should and should not do, managers may conclude some opportunities are unrealistic or not sufficiently attractive to pursue.
  - However, innovative strategy-making that results in a powerful customer value proposition or pushes the company into new markets will likely require the development of new resources and capabilities and force the company outside its comfort zone.

That an innovative strategy has its basis in a powerful customer value proposition leads nicely into the next question.

### 4. In what ways has the lodging consumer changed and how does Airbnb's customer value-proposition meet this change?

Students should be able to identify the following changes in the profile of lodging customers:

- ***Desire for unique experiences, not focused on ownership.*** Students should be able to discuss their experiences as consumers of the sharing economy (not only with Airbnb, but also Uber, Lyft, and other similar companies).
  - Airbnb provides customers with opportunities to experience multiple, unique accommodations not typically associated with larger chain brands.
  - Smaller sole proprietors such as bed & breakfasts may be accessed through the app.
  - Those offering accommodations as hosts share in the desire to not only have a unique experience with a guest, but also to invite a stranger into their own home or apartment.
- ***Desire to access experiences immediately through smartphone technology.*** Students should note that a company like Airbnb could only exist since the advent of Internet and smartphone technologies.
  - Apps and smartphones have provided the consumer the opportunity to have immediate access, such as purchasing songs immediately only after hearing them on the radio, or even the simple act of “googling” and looking-up information.

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- ***Familiarity with apps and fluency with life/smartphone integration.*** Consumers—especially the Millennial age group (i.e. those consumers born between the early 1980s and the early years of the 21st century)—are less technology-averse, use smartphones and apps, and are more willing to experiment and embrace the “experience economy” than previous generations, and this trend should continue to occur.
  - As younger generations who have used smartphones from childhood age and get older, technology and businesses such as Airbnb will seem less unusual and more commonplace.

Students should conclude that these consumer changes position Airbnb very strongly to compete effectively, especially given its unique business model (as identified in Question #1).

5. What key factors may determine the success or failure of Airbnb?

Factors that are necessary for competitive success for Airbnb:

- ***Mitigation of legal threats.*** Any regulation that inhibits or prevents Airbnb users/hosts from offering their rooms on Airbnb represents a significant barrier. Students should observe that:
  - Both domestic and international legislation did not account for, and had yet to catch up to, more progressive and potentially disruptive business models utilized by companies like Airbnb.
  - Complicated legal issues existed at the local, state, and federal levels, both within the U.S. and outside the U.S.
  - Competitors, among them sole proprietor and large hotel chains, had already invested, and would most likely continue to invest in, lobbying to exclude Airbnb and create severe barriers to its expansion and growth.
  - While communities and jurisdictions might well bar or set quotas for the number of Airbnb permits to operators, Airbnb could promote the fact that its operators added to local revenues through occupancy taxes, as well as the probably economic multiplier effects that would also benefit local restaurants, retailers, and tourist attractions.
- ***Use of smartphone and other technology for differentiation.*** Due to its business model, Airbnb was already differentiated from traditional competitors. In addition, continuing innovations based on current and emergent technologies were essential to maintaining current users, while expanding into new users. Students should also recognize that user experience with the app, including ease of use, was an essential component of its competitive advantage. Students should be reminded that:

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- Most large hotel and motel chains as well as consolidators such as Priceline, HotelTonight, Hotel.com, and VRBO (Vacation Rental by Owner) also offered mobile apps that provided booking and ratings portals in direct competition to Airbnb.
  - According to case Exhibit 2, in the United States recreational travelers accounted for 70% of hotel and motel rentals, while business travelers made up 18% of lodgings.
  - Inasmuch as Airbnb operates as a global enterprise, it is exposed to political and regulatory and currency risks that could impact fee revenue generation in both domestic and international markets.
- **Expansion of Users and Accommodations.** Overall expansion of users who offer accommodations and those who use Airbnb to book accommodations was critical to its success. Students should observe that:
- While continued growth will be necessary to ensure profitability, it is not clear that Airbnb can sustain triple- or even double-digit growth rates over the long term.
    - As revenue had continued to increase through 2020, bookings growth had decreased, foreshadowing the potential slowing of extreme revenue growth (see case Exhibit 4).
- **Brand image.** Image was also a critical factor in helping consumers choose which accommodation to patronize. Included within this image was reliability, quality of stay and safety. Students should observe that:
- Given the sheer immensity of the user base, and how each location represented a unique offering, Airbnb had a significant challenge in continually ensuring both quality and safety when consumers used Airbnb.
    - While Airbnb achieved a \$90 million profit in 2017, it may want to revisit and revise upwards the expenses allocated to safety and quality as well as its efforts to prevent discrimination against customers and operators. (See exhibit 1 for the ranking of expenses incurred by B&B operators vs. hotel and motel chains).
- **Financial health.** Rapid growth businesses require capital. A 2016 cash infusion of \$850 million in Airbnb and a pre-IPO valuation of about \$31 billion (see case Exhibit 4), the fact that the company only recently reached profitability signals the need for permanent capital to continue to scale its business model. Students should observe that:
- It is unclear whether or not the \$31 billion valuation is realistic or due to a “tech bubble.” A severe downturn in the financial markets could result in the closing of the window for future IPOs and greatly impact Airbnb in its effort to scale.

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- Airbnb's \$31 billion pre-market valuation lagged Marriott's \$49 billion in 2018, but was valued higher than Marriott's market capitalization of \$29 billion in 2020 (see case Exhibit 3).
- Students should note that Airbnb's estimated revenues in case Exhibit 4, while slowing incrementally, remained strong.
- Airbnb's cost structure combined for a very solid competitive position.

Instructors may choose to foreshadow a key learning outcome from Chapter 2 here: A company's vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every-now-and-then task.

### 6. What recommendations would you make to Airbnb to improve its competitiveness in accommodation market while mitigating any current and future risks?

- Continue to lobby and advocate for friendly legislation, while proactively supporting legal compliance, such as it began in 2018 with collecting taxes automatically through its platform.
  - Identify business organizations, such as chambers of commerce, as large, pro-business groups could be leveraged to gain legislative support.
  - Identify platform enhancements, such as the automatic collection of taxes, that take advantage of its technological differentiation to further reinforce its value proposition for its users, while protecting itself legally.
- Attract and enroll single-proprietor establishments, and devise methods to provide added value for such businesses, e.g. in utilizing Airbnb as a platform for marketing and offering accommodations.
  - Doing so could mitigate the legislative risk while growing the user base and potential future revenues (as in the bullet above).
  - Doing so could also enable Airbnb to leverage its investments in technologies such as yield management and dynamic pricing systems across a wider base of proprietors.
- Pursue the business and international traveler segments, as it is an essential component of the market,
  - Business travelers and extended stay guests present opportunities for increased user base and revenue growth.
  - However, given Airbnb's current position, it is not as business friendly as rival hotel/motel chains, has not developed a customer loyalty program, and would potentially need to change its user interface and invoicing systems to accommodate corporate accounts.

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- Make continued investments in technology to maintain its differentiation/focus generic strategy.

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- These investments will not only be in smartphone and computer interfaces, but also in emergent technologies that employ big data and customer preference algorithms.
- For example, some students might discuss how virtual reality (VR) could be leveraged to advertise accommodations, or even improve brand aspects such as quality and safety.
- Find ways to mitigate competition between larger hotels and Airbnb. This can reduce legislative and competitive risk, while potentially expanding user base and revenues.
  - For example, students might suggest that Airbnb create a user interface that refers customers seeking lodging in high demand locations (such as resorts and cities) to established chain hotels during peak periods when regular Airbnb rooms are unavailable.
  - Students could argue that by doing so, Airbnb mitigates legislative risk and competitor retaliation, while also expanding into the business segment with minimal internal changes and investments.

Instructors can wrap-up the discussion by asking students if they strongly feel that CEO Chesky could well suffer from an “If it ain’t broke don’t fix it” mentality. That is, will Airbnb continue “business as usual,” and if its revenue and bookings growth rates continue on their current declining trajectories, will the company likely make slower progress towards its goal of achieving a competitive advantage and superior returns, as reflected in an IPO or possible sale to a rival technology or lodging firm?

Chesky and his team may also be betting on rather slim odds that:

- Other rivals in the online lodging industry will not identify the same emerging segments for “sharing economy” accommodations.
- Rivals will not copy Airbnb’s business model and then strive for a low-cost provider strategy in Airbnb’s current niche.
- Rivals will not catch up and perhaps overtake Airbnb on service and prices to both buyers (guests) and sellers (proprietors of lodging establishments).

Remind students that Airbnb’s handling of the strategy implementation process can be considered successful *if* things go smoothly enough that the company meets or beats its strategic and financial performance targets and shows good progress in achieving management’s strategic vision.

## EPILOGUE

More recent news on Airbnb can be found at: <https://press.atairbnb.com>.

# SECTION 6

## Case Teaching Notes for Cases 1–27

# Airbnb in 2020<sup>\*</sup>

## OVERVIEW

Airbnb was founded in 2008 when Brian Chesky and a friend decided to rent their apartment to guests for a local convention. To accommodate the guests, they used air mattresses and referred to it as the “Air Bed & Breakfast.” It was that weekend when the idea—and the potential viability—of a peer-to-peer room-sharing business model was born. By 2020 Airbnb had seen immense growth and success in its 12-year existence. The room-sharing company had expanded to over 190 countries with more than 4 million listed properties and had an estimated valuation of \$31 billion. By 2020, Airbnb had entered over 220 countries with more than 7 million locations. In early-2020, Airbnb seemed poised to revolutionize the hotel and tourism industry through its business model that allowed hosts to offer spare rooms or entire homes to potential guests, in a peer-reviewed digital marketplace. However, as travel restrictions were implemented to mitigate the spread of COVID-19, Airbnb and its hosts were left to navigate an uncertain travel and accommodation market.

This case is meant to introduce students to the sharing economy. Students can compare and contrast Airbnb’s business model with traditional models employed by bed & breakfast and hotel chain operators. Instructors should note that technology and the legal environment can lead to opportunities, as well as challenges for an upstart like Airbnb. The case opens and closes with quotes from CEO and co-founder Chesky, to juxtapose for students how rapid advances in technology can lead to changes in competitive strategies for business, yet, how the legal environment can both lag behind, and obstruct such strategies.

The case provides an overview of the accommodation market (i.e. hotels, motels and bed & breakfasts) to illustrate such strategic considerations as competitor size and market segmentation. The case then presents the comparative costs of operating traditional hotels/motels to bed & breakfasts to illustrate Airbnb’s potential to attain and sustain competitive advantage using its technology-based business model. Yet Airbnb faces continuing challenges to obtain permits and overcome regulatory barriers. While it continues to demonstrate a growth trajectory that could result in an IPO, Airbnb will need to develop new strategic approaches to build out its model and surmount competitive forces.

---

\* This teaching note primarily reflects the thinking and analysis of Professor John D. Varlaro, Johnson & Wales University. We are most grateful for his insight, analysis and contributions to how the case can be taught successfully.

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

## SUGGESTIONS FOR USING THE CASE

Students should find Airbnb in 2020 an interesting case because of their own experiences with smartphones and companies such as Lyft, Uber or Airbnb. We recommend using the case immediately following your coverage of Chapter 1. As this case specifically addresses the sharing economy, it lends itself well to discussions of smartphones, technology and their impact on competitive positions for both new and incumbent competitors. It may also lead to discussion of disruptive innovation.

We believe that Airbnb in 2020 is an excellent leadoff case for the course (other choices are Robin Hood and Costco Wholesale). This case is ideal for exploring the concepts of sustainable competitive advantage, competing differently, and business models. Instructors can drill students on such topics as customer value proposition, profit formula and compare and contrast Airbnb's approaches with those of traditional lodging operators. This case can also be used to explore factors within the general environment and how external analysis is important for incumbents and new entrants alike.

*The assignment questions and teaching outline presented below reflect our thinking and suggestions about how to conduct the class discussion and what aspects to emphasize.*

To provide students with guidance in what to think about and which analytical tools to utilize in preparing the Airbnb in 2020 case for class discussion, we strongly recommend providing class members with a set of study questions and insisting that they develop good notes/answers to these questions in preparing for class discussion of the case.

*To facilitate your use of study questions and to make them available to students, we have posted a file of the assignment questions contained in this teaching note for the Airbnb in 2020 case in the Instructor Resources section of the Connect® Library. (We should also point out that there is a set of study questions posted in the student section of the OLC for each of the 27 cases included in the 23rd Edition.)*

**The Connect®-based Exercise for the Airbnb in 2020 case.** We developed an exercise for the Airbnb in 2020 case for inclusion in the publisher's **Connect®** web-based assignment and assessment platform. The exercise will lead students through all six assignment questions in this teaching note.

It should take class members roughly 30 minutes to complete the exercise, assuming they have done a conscientious job of reading the case and absorbing the information it contains. All of the questions are automatically graded, and the grades are automatically recorded in your Connect® grade book, which makes it easy for you to evaluate each class member's ability to apply many of the concepts and analytical methods in Chapter 1 and 2.

You may also find it beneficial to have your class read the Guide to Case Analysis that follows Case 27 in the text and is posted in the Instructor Resources section of the Connect® Library. Students will find the content of this Guide particularly helpful if this is their first experience with cases and they are unsure about the mechanics of how to prepare a case for class discussion, oral presentation, or written analysis.

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

**Videos for Use with the Airbnb in 2020 Case.** There are two videos that you may consider having students view prior to class discussion of the case (or you may choose to open the class discussion with one of the two videos). Both videos are posted at YouTube and can be accessed through the following links:

- Airbnb CEO Brian Chesky on the Future of Travel and Outlook is a 5:55 minute video posted at YouTube (<https://www.youtube.com/watch?v=lrFZr6lh7cU>).
- Airbnb CEO: Going Public in 2020 is a 10:19 minute video posted at YouTube (<https://www.youtube.com/watch?v=1jrKx5Ay0uA>).

Because the case is relatively short, it is well suited for use as a leadoff case on the first day of class, or for an in-class written case, or a final exam case. Our recommended questions for written assignments are as follows:

- Marriott management has asked you to assess the threat of Airbnb. Please prepare a 5–6 page report that includes a description of both Marriott’s and Airbnb’s business models, with an emphasis on an evaluation and comparison of disparate customer demands and user profiles. Marriott’s management also asks that you make a recommendation as to how best to mitigate the growing appeal of Airbnb, and how to potentially reach millennials and other potential users of Airbnb.
- As a new member of Airbnb’s management team, you have been asked to prepare an analysis of its competitive position and potential threats. Your 2–3 page executive summary should list strategic issues confronting Airbnb and make recommendations to address both opportunities and challenges. The executive summary should be supported by your analysis of the lodging industry.

### ASSIGNMENT QUESTIONS

1. How would you illustrate and compare the business models for Airbnb, large hotel chains such as Marriott and Hilton, and bed & breakfast operators? Use the example chart in the textbook for business models as a guide (Concepts & Connections 1.1)
2. What was Airbnb’s response to the COVID-19 pandemic? Does it appear that the company’s business model is more resilient than that of its hotel chain rivals?
3. What are the general strengths and weaknesses of a) large, hotel chains such as Marriott and Hilton, b) bed & breakfasts, and c) Airbnb? Explain how you would compare and contrast those businesses.
4. In what ways has the lodging consumer changed, and how does Airbnb’s customer value-proposition meet this change?
5. What key factors may determine the success or failure of Airbnb?
6. What recommendations would you make to Airbnb to improve its competitiveness in the

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

accommodation market while mitigating any current and future risks?

## TEACHING OUTLINE AND ANALYSIS

1. How would you illustrate and compare the business models for large hotels chains such as Marriott and Hilton, bed & breakfast operators, and Airbnb? Use the example chart in the textbook for business models as a guide (Concepts & Connections 1.1)

Students should be able to identify the following:

	<b>Chain Hotels / Motels</b>	<b>Bed &amp; Breakfast (single proprietor)</b>	<b>Airbnb</b>
Customer Value Proposition	<ul style="list-style-type: none"> <li>• Familiar brands</li> <li>• International brands to which customers are accustomed and potentially feel affinity and loyalty</li> <li>• Global reach with loyalty programs</li> </ul>	<ul style="list-style-type: none"> <li>• One location, offering unique, local accommodation</li> <li>• Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area</li> <li>• If in rural area, may be only accommodation</li> </ul>	<ul style="list-style-type: none"> <li>• Use of technology to which users are familiar</li> <li>• Shorter, more intimate stays</li> <li>• Varying and different locales in which to stay, both local and international reach</li> <li>• Cheaper accommodations</li> <li>• Unique accommodations</li> </ul>
Profit Formula	<ul style="list-style-type: none"> <li>• Revenue generation dependent on renting rooms and overall occupancy</li> <li>• Cost structure extensive, composed of wages and high fixed costs associated with the purchase and upkeep of multiple physical assets/locations</li> <li>• Other costs would include food and beverage, marketing, taxes, licenses</li> <li>• Global costs further complicate structure, including operating across multiple legal and physical jurisdictions</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation dependent on renting rooms and overall occupancy</li> <li>• Cost structure associated with operating brick and mortar physical location, food and beverages, marketing</li> <li>• Possible staff wages if operations are large enough to necessitate staff</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation transaction fee charged to users whom offer and rent accommodations through app</li> <li>• Cost structure associated with developing and updating software and technology, marketing and advertising, wages for engineers, professional management and staff</li> </ul>
Profit Margin	<ul style="list-style-type: none"> <li>• Dependent on generating sufficient revenues across multiple locations to cover fixed and variable costs globally. Profitable locations may be used to offset losses and unprofitable locations</li> </ul>	<ul style="list-style-type: none"> <li>• Dependent on generating revenues sufficient to cover fixed and variable costs. Lack of profitability several jeopardizes business as owned by sole proprietor</li> </ul>	<ul style="list-style-type: none"> <li>• Not contingent upon the fixed costs associated with operating hotels/bed &amp; breakfasts. Instead, profitability associated with percentage of revenue generated by all participating users offering accommodations</li> </ul>

Students should be reminded that, as stated in Chapter 1 of the text:

- The appeal of a strategy or business model that yields a sustainable competitive

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

advantage is that it offers the potential for an enduring edge over rivals.

- However, Chesky as CEO must be willing and ready to modify the strategy in response to the unexpected moves of competitors, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy, and mounting evidence that the strategy is not working well.
- Most of the time, a company's strategy evolves incrementally as management fine-tunes various pieces of the strategy and adjusts the strategy to respond to unfolding events.

Here is a good opportunity to ask students to compare and contrast the strengths and weaknesses of Airbnb's business model to those of its direct competitors.

### 2. What was Airbnb's response to the COVID-19 pandemic? Does it appear that the company's business model is more resilient than that of its hotel chain rivals?

Students should be able to identify the following moves undertaken by Airbnb.

- Airbnb was forced to delay its IPO as a result of the pandemic. The company also had to raise \$2 billion in private funding and debt to support operations during the pandemic.
- The company was forced to layoff 1900 employees (about 1/4 of its workforce) in May 2020 to reduce costs.
- Guests were forced to cancel their reservations due to governmental restrictions and safety reasons. Airbnb provided refunds for cancelled reservations made prior to March 14, 2020.
- The company issued safety and cleaning guidelines to hosts.
- Hosts lost a large portion of their income leading Airbnb to establish a \$17 million dollar fund to help support the hosts.
- Airbnb created "online experiences" to virtually mimic a vacation.

Students should recognize that while Airbnb's revenues and profitability would be greatly affected by the COVID-19 pandemic, its business model is far more efficient than employed by hotel chains. Airbnb's reliance on hosts to provide physical accommodation spaces is better suited to the dramatic decline in travel accommodations than business models involving brick-and-mortar lodging locations. It should be apparent that the company's losses will be less than those of others in the accommodations industry.

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

3. What are the general strengths and weaknesses of large hotel chains such as Marriott and Hilton, bed & breakfasts, and Airbnb? Explain how you would compare and contrast those businesses.

Students should be able to identify the following:

	<b>Large Hotel/Motel Chains</b>	<b>Bed &amp; Breakfast (single proprietor)</b>	<b>Airbnb</b>
Strengths	<ul style="list-style-type: none"> <li>• Familiar, international brands</li> <li>• Brand loyalty</li> <li>• Global reach</li> <li>• Perception of safe, comfortable and/or reliable accommodations</li> <li>• Corporate accounts</li> </ul>	<ul style="list-style-type: none"> <li>• One location, offering unique, local accommodation</li> <li>• Intimate accommodation, with proprietor sometimes serving multiple roles, including ambassador to area</li> <li>• If in rural area, may be only accommodation</li> </ul>	<ul style="list-style-type: none"> <li>• No fixed costs associated with operating hotels, thus greatly reduced cost structure</li> <li>• Leveraging technology when consumers are more smartphone dependent</li> <li>• Market leader perception in technology</li> <li>• Ubiquitous, as user can access anytime through app</li> <li>• Offering both low-cost accommodations, as well as unique experiences</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• High cost structure, further exacerbated by global operations and presence</li> <li>• If consumer has bad experience with one location, all locations may be viewed as terrible</li> <li>• Need at times to compete on price through discount offerings</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue generation dependent on renting rooms and overall occupancy, highly associated with travel trends in the area</li> <li>• Cost structure which is highly sensitive to fluctuations, as a sole proprietor has very little room for shifts in revenue and costs</li> </ul>	<ul style="list-style-type: none"> <li>• Perception of at times unsafe experiences</li> <li>• Users may be hesitant to use Airbnb in specific locations, opting for a more familiar brand</li> <li>• Legal exposure through individual hosts not following laws, such as anti-discrimination</li> <li>• Legal exposure as cities and towns determine if renting rooms through Airbnb is legal, and the potential for it to be illegal</li> <li>• Business model is relatively easy to copy, as demonstrated by Uber and Lyft in the ride-sharing space</li> </ul>

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

Here is a good opportunity to recap Chapter 1 and also preview some concepts covered Chapter 2:

- In choosing among opportunities and addressing the hows of strategy, strategists must embrace the risks of uncertainty and the discomfort that naturally accompanies such risks.
  - Bold strategies involve making difficult choices and placing bets on the future.
  - Good strategic planning is not about eliminating risks, but increasing the odds of success. In sorting through the possibilities of what the company should and should not do, managers may conclude some opportunities are unrealistic or not sufficiently attractive to pursue.
  - However, innovative strategy-making that results in a powerful customer value proposition or pushes the company into new markets will likely require the development of new resources and capabilities and force the company outside its comfort zone.

That an innovative strategy has its basis in a powerful customer value proposition leads nicely into the next question.

### 4. In what ways has the lodging consumer changed and how does Airbnb's customer value-proposition meet this change?

Students should be able to identify the following changes in the profile of lodging customers:

- ***Desire for unique experiences, not focused on ownership.*** Students should be able to discuss their experiences as consumers of the sharing economy (not only with Airbnb, but also Uber, Lyft, and other similar companies).
  - Airbnb provides customers with opportunities to experience multiple, unique accommodations not typically associated with larger chain brands.
  - Smaller sole proprietors such as bed & breakfasts may be accessed through the app.
  - Those offering accommodations as hosts share in the desire to not only have a unique experience with a guest, but also to invite a stranger into their own home or apartment.
- ***Desire to access experiences immediately through smartphone technology.*** Students should note that a company like Airbnb could only exist since the advent of Internet and smartphone technologies.
  - Apps and smartphones have provided the consumer the opportunity to have immediate access, such as purchasing songs immediately only after hearing them on the radio, or even the simple act of “googling” and looking-up information.

Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- ***Familiarity with apps and fluency with life/smartphone integration.*** Consumers—especially the Millennial age group (i.e. those consumers born between the early 1980s and the early years of the 21st century)—are less technology-averse, use smartphones and apps, and are more willing to experiment and embrace the “experience economy” than previous generations, and this trend should continue to occur.
  - As younger generations who have used smartphones from childhood age and get older, technology and businesses such as Airbnb will seem less unusual and more commonplace.

Students should conclude that these consumer changes position Airbnb very strongly to compete effectively, especially given its unique business model (as identified in Question #1).

### 5. What key factors may determine the success or failure of Airbnb?

Factors that are necessary for competitive success for Airbnb:

- ***Mitigation of legal threats.*** Any regulation that inhibits or prevents Airbnb users/hosts from offering their rooms on Airbnb represents a significant barrier. Students should observe that:
  - Both domestic and international legislation did not account for, and had yet to catch up to, more progressive and potentially disruptive business models utilized by companies like Airbnb.
  - Complicated legal issues existed at the local, state, and federal levels, both within the U.S. and outside the U.S.
  - Competitors, among them sole proprietor and large hotel chains, had already invested, and would most likely continue to invest in, lobbying to exclude Airbnb and create severe barriers to its expansion and growth.
  - While communities and jurisdictions might well bar or set quotas for the number of Airbnb permits to operators, Airbnb could promote the fact that its operators added to local revenues through occupancy taxes, as well as the probably economic multiplier effects that would also benefit local restaurants, retailers, and tourist attractions.
- ***Use of smartphone and other technology for differentiation.*** Due to its business model, Airbnb was already differentiated from traditional competitors. In addition, continuing innovations based on current and emergent technologies were essential to maintaining current users, while expanding into new users. Students should also recognize that user experience with the app, including ease of use, was an essential component of its competitive advantage. Students should be reminded that:

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- Most large hotel and motel chains as well as consolidators such as Priceline, HotelTonight, Hotel.com, and VRBO (Vacation Rental by Owner) also offered mobile apps that provided booking and ratings portals in direct competition to Airbnb.
  - According to case Exhibit 2, in the United States recreational travelers accounted for 70% of hotel and motel rentals, while business travelers made up 18% of lodgings.
  - Inasmuch as Airbnb operates as a global enterprise, it is exposed to political and regulatory and currency risks that could impact fee revenue generation in both domestic and international markets.
- **Expansion of Users and Accommodations.** Overall expansion of users who offer accommodations and those who use Airbnb to book accommodations was critical to its success. Students should observe that:
- While continued growth will be necessary to ensure profitability, it is not clear that Airbnb can sustain triple- or even double-digit growth rates over the long term.
    - As revenue had continued to increase through 2020, bookings growth had decreased, foreshadowing the potential slowing of extreme revenue growth (see case Exhibit 4).
- **Brand image.** Image was also a critical factor in helping consumers choose which accommodation to patronize. Included within this image was reliability, quality of stay and safety. Students should observe that:
- Given the sheer immensity of the user base, and how each location represented a unique offering, Airbnb had a significant challenge in continually ensuring both quality and safety when consumers used Airbnb.
    - While Airbnb achieved a \$90 million profit in 2017, it may want to revisit and revise upwards the expenses allocated to safety and quality as well as its efforts to prevent discrimination against customers and operators. (See exhibit 1 for the ranking of expenses incurred by B&B operators vs. hotel and motel chains).
- **Financial health.** Rapid growth businesses require capital. A 2016 cash infusion of \$850 million in Airbnb and a pre-IPO valuation of about \$31 billion (see case Exhibit 4), the fact that the company only recently reached profitability signals the need for permanent capital to continue to scale its business model. Students should observe that:
- It is unclear whether or not the \$31 billion valuation is realistic or due to a “tech bubble.” A severe downturn in the financial markets could result in the closing of the window for future IPOs and greatly impact Airbnb in its effort to scale.
    - Airbnb’s \$31 billion pre-market valuation lagged Marriott’s \$49 billion in 2018, but was valued higher than Marriott’s market capitalization of \$29 billion in 2020 (see case Exhibit 3).

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- Students should note that Airbnb's estimated revenues in case Exhibit 4, while slowing incrementally, remained strong.
- Airbnb's cost structure combined for a very solid competitive position.

Instructors may choose to foreshadow a key learning outcome from Chapter 2 here: A company's vision, objectives, strategy, and approach to strategy execution are never final; managing strategy is an ongoing process, not an every-now-and-then task.

### 6. What recommendations would you make to Airbnb to improve its competitiveness in accommodation market while mitigating any current and future risks?

- Continue to lobby and advocate for friendly legislation, while proactively supporting legal compliance, such as it began in 2018 with collecting taxes automatically through its platform.
  - Identify business organizations, such as chambers of commerce, as large, pro-business groups could be leveraged to gain legislative support.
  - Identify platform enhancements, such as the automatic collection of taxes, that take advantage of its technological differentiation to further reinforce its value proposition for its users, while protecting itself legally.
- Attract and enroll single-proprietor establishments, and devise methods to provide added value for such businesses, e.g. in utilizing Airbnb as a platform for marketing and offering accommodations.
  - Doing so could mitigate the legislative risk while growing the user base and potential future revenues (as in the bullet above).
  - Doing so could also enable Airbnb to leverage its investments in technologies such as yield management and dynamic pricing systems across a wider base of proprietors.
- Pursue the business and international traveler segments, as it is an essential component of the market,
  - Business travelers and extended stay guests present opportunities for increased user base and revenue growth.
  - However, given Airbnb's current position, it is not as business friendly as rival hotel/motel chains, has not developed a customer loyalty program, and would potentially need to change its user interface and invoicing systems to accommodate corporate accounts.
- Make continued investments in technology to maintain its differentiation/focus generic strategy.

## Case 27 Teaching Note: Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?

- These investments will not only be in smartphone and computer interfaces, but also in emergent technologies that employ big data and customer preference algorithms.
- For example, some students might discuss how virtual reality (VR) could be leveraged to advertise accommodations, or even improve brand aspects such as quality and safety.
- Find ways to mitigate competition between larger hotels and Airbnb. This can reduce legislative and competitive risk, while potentially expanding user base and revenues.
  - For example, students might suggest that Airbnb create a user interface that refers customers seeking lodging in high demand locations (such as resorts and cities) to established chain hotels during peak periods when regular Airbnb rooms are unavailable.
  - Students could argue that by doing so, Airbnb mitigates legislative risk and competitor retaliation, while also expanding into the business segment with minimal internal changes and investments.

Instructors can wrap-up the discussion by asking students if they strongly feel that CEO Chesky could well suffer from an “If it ain’t broke don’t fix it” mentality. That is, will Airbnb continue “business as usual,” and if its revenue and bookings growth rates continue on their current declining trajectories, will the company likely make slower progress towards its goal of achieving a competitive advantage and superior returns, as reflected in an IPO or possible sale to a rival technology or lodging firm?

Chesky and his team may also be betting on rather slim odds that:

- Other rivals in the online lodging industry will not identify the same emerging segments for “sharing economy” accommodations.
- Rivals will not copy Airbnb’s business model and then strive for a low-cost provider strategy in Airbnb’s current niche.
- Rivals will not catch up and perhaps overtake Airbnb on service and prices to both buyers (guests) and sellers (proprietors of lodging establishments).

Remind students that Airbnb’s handling of the strategy implementation process can be considered successful *if* things go smoothly enough that the company meets or beats its strategic and financial performance targets and shows good progress in achieving management’s strategic vision.

## EPILOGUE

More recent news on Airbnb can be found at: <https://press.atairbnb.com>.

## chapter 1 lecture notes

# What Is Strategy and Why Is It Important?

### CHAPTER SUMMARY

Chapter 1 defines the concept of strategy and describes its many facets. The chapter explains what is meant by a competitive advantage, discusses the relationship between a company's strategy and its business model, and introduces the student to the kinds of competitive strategies that can give a company an advantage over rivals in attracting customers and earning above-average profits. The chapter examines what sets a winning strategy apart from others and why the caliber of a company's strategy determines whether it will enjoy a competitive advantage over other firms or be burdened by competitive disadvantage. By the end of this chapter, the student will have a clear idea of why the tasks of crafting and executing strategy are core management functions and why excellent execution of an excellent strategy is the most reliable recipe for turning a company into a standout performer over the long term.

### LECTURE OUTLINE

#### I. Introduction

Chapter 1 explores the fundamental concepts surrounding organizational strategy. It begins with an explanation of the term *strategy* and discusses why companies need a distinctive strategy in order to compete successfully. Next, it explores why a company must have a viable business model and the five most dependable strategic approaches for setting a company apart. The chapter wraps up with an illustration of how a company's strategy tends to evolve over time due to changing business conditions and the three tests for winning strategies.

#### II. What Do We Mean by *Strategy*?

##### **Connect® Activity**

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. A company's **strategy** is the coordinated set of actions that its managers take in order to outperform the company's competitors and achieve superior profitability. In effect, it represents a managerial commitment to an integrated array of considered choices about how to compete.

2. Normally, companies have a wide degree of strategic freedom in choosing the “hows” of strategy:
  - How to position the company in the marketplace.
  - How to attract customers.
  - How to compete against rivals.
  - How to achieve the company’s performance targets.
  - *How* to capitalize on opportunities to grow the business.
  - How to respond to changing economic and market conditions.

### CORE CONCEPT

---

A company’s strategy is the coordinated set of actions that its managers take in order to outperform the company’s competitors and achieve superior profitability.

3. **Strategy Is about Competing Differently**—A strategy stands a better chance of succeeding when it is predicated on actions, business approaches, and competitive moves aimed at:
  - a. appealing to buyers in ways that *set a company apart from its rivals* and
  - b. staking out a market position that is not crowded with strong competitors.
4. **Figure 1.1—Identifying a Company’s Strategy—What to Look For**, shows what to look for in identifying the substance of a company’s overall strategy. These are the visible actions taken that signal what strategy the company is pursuing.

### Connect® Activity

---

Consider adding a File Attachment assignment requiring the student to develop a response to Illustration Capsule 1.1: Apple Inc.: Exemplifying a Successful Strategy. You can post instructions for the student within the assignment and collect their attachments for grading.

## III. Strategy and the Quest for Competitive Advantage

### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The heart and soul of any strategy are the actions and moves in the market place that managers are taking to improve the company’s financial performance, strengthen its long-term competitive position, and gain a competitive edge over rivals.
2. A company achieves a competitive advantage whenever it has some type of edge over rivals in attracting buyers and coping with competitive forces.

3. Strategy is about competing differently from rivals or doing what competitors don't do or, even better, can't do. In this sense, every strategy needs a distinctive element that attracts customers and produces a competitive edge.
4. What makes a competitive advantage **sustainable** (or durable), as opposed to temporary, are elements of the strategy that give buyers lasting reasons to prefer a company's products or services over those of competitors

### CORE CONCEPT

---

A company achieves a **competitive advantage** when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm. The advantage is **sustainable** if it persists despite the best efforts of competitors to match or surpass this advantage.

5. Five of the most frequently used strategic approaches to setting a company apart from rivals and achieving a sustainable competitive advantage are:
  - a. Low-Cost Provider—Achieving a cost-based advantage over rivals.
  - b. Broad Differentiation—Seeking to differentiate the company's product or service from rivals' in ways that will appeal to a broad spectrum of buyers.
  - c. Focused Low Cost—Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by having lower costs than rivals and thus being able to serve niche members at a lower price.
  - d. Focused Differentiation—Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products can do.
  - e. Best-Cost Provider—Giving customers more value for the money by satisfying buyers' expectations on key quality/features/performance/service attributes, while beating their price expectations.

### ILLUSTRATION CAPSULE - 1.1 Apple Inc.: Exemplifying a Successful Strategy

---

Discussion Question: 1. Describe Apple's strategic approach in the computer industry.

**Answer:** Students should be able to discuss that Apple uses a focused differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. The company designs its own operating system, hardware, and application software through continuous investments in R&D. These higher cost approaches to the market place are offset by premium pricing that the niche market can support.

## IV. Why a Company's Strategy Evolves over Time

### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Every company must be willing and ready to modify the strategy in response to changing market conditions, advancing technology, unexpected moves by competitors, shifting buyer needs, emerging market opportunities, and mounting evidence that the strategy is not working well.
2. Most of the time, a company's strategy evolves incrementally from management's ongoing efforts to fine-tune the strategy and to adjust certain strategy elements in response to new learning and unfolding events.
3. Industry environments characterized by high velocity change require companies to repeatedly adapt their strategies.
4. The important point is that the task of crafting strategy is not a one-time event but always a work in progress.

## V. A Company's Strategy Is Partly Proactive and Partly Reactive

### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The evolving nature of a company's strategy means that the typical company strategy is a blend of (1) *proactive*, planned initiatives to improve the company's financial performance and secure a competitive edge, and (2) *reactive* responses to unanticipated developments and fresh market conditions.

### CORE CONCEPT

---

A company's **deliberate strategy** consists of *proactive* strategy elements that are both planned and realized as planned; its **emergent strategy** consists of *reactive* strategy elements that emerge as changing conditions warrant.

2. The biggest portion of a company's current strategy flows from ongoing actions that have proven themselves in the marketplace and newly launched initiatives aimed at building a larger lead over rivals and further boosting financial performance.—Deliberate Strategy

3. Managers must always be willing to supplement or modify the proactive strategy elements with as-needed reactions to unanticipated conditions.—Emergent Strategy
4. In total, these two elements combine to form the company's *realized strategy*. **Figure 1.2, A Company's Strategy Is a Blend of Proactive Initiatives and Reactive Adjustments**, illustrates the elements of strategy that become the realized strategy.

## VI. Strategy and Ethics: Passing the Test of Moral Scrutiny

### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Managers must be careful to embrace actions that can pass the test of moral scrutiny. This goes beyond just staying within the bounds of what is legal.
2. Ethical and moral standards are not fully governed by what is legal, they are concerned with right versus wrong and a sense of duty.
3. While the legal realm deals with must or must not, the ethical/moral realm deals with should or should not.
4. Senior executives with strong ethical convictions are generally proactive in linking strategic action and ethics.

## VII. A Company's Strategy and Its Business Model

### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

### CORE CONCEPT

---

A company's **business model** sets forth the logic for how its strategy will create value for customers, while at the same time generating revenues sufficient to cover costs and realize a profit.

1. A business model is management's blueprint for delivering a valuable product or service to customers in a manner that will generate revenues sufficient to cover costs and yield an attractive profit.

2. The two elements of a company's business model are (1) its customer value proposition and (2) its profit formula.
3. The customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customers will consider a good value.
4. The profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.
4. Figure 1.3 illustrates the elements of the business model in terms of what is known as the Value-Price-Cost Framework highlighting the relationship between the Customer's Value Proposition (V-P) and the Profit Formula (P-C).

#### ILLUSTRATION CAPSULE 1.2

##### Pandora, SiriusXM, and Over-the-Air Broadcast Radio: Three Contrasting Business Models

Discussion Question: 1. What is the prominent difference between the business models of these three organizations?

**Answer:** While all three provide essentially the same type of entertainment service, the business models employed by Pandora, SiriusXM, and Over-the-Air Broadcast Radio are completely different. In the area of value proposition (what the customer sees), SiriusXM provides commercial-free entertainment with some local content based upon a monthly fee, while Broadcast Radio provides entertainment with some local content, interrupting for commercials without a fee. Pandora bridges these two methods. In one mode it operates more like Over-the-Air Broadcast Radio in that it provides entertainment without a fee but includes targeted advertisements, with the added benefit of allowing the listener to customize the music mix. In the other mode, listeners can elect to go ad-free for a fee using Pandora One.

For profit, SiriusXM must attract a large enough customer base in order to cover costs and provide profit, while Broadcast Radio must attract a large enough advertiser base to cover costs and provide profit. Pandora, once again bridging the two, generates profit by either an advertiser base or through ad-free services.

### VIII. What Makes a Strategy a Winner?

#### **Connect® Activity**

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Three questions can be used to test the merits of one strategy versus another and distinguish a winning strategy from a losing or mediocre strategy:

- a. The Fit Test: How well does the strategy fit the company's situation? To qualify as a winner, a strategy has to be well matched to industry and competitive conditions, a company's best market opportunities, and other aspects of the enterprise's external environment.
  - b. The Competitive Advantage Test: Is the strategy helping the company achieve a sustainable competitive advantage? The bigger and more durable the competitive edge that a strategy helps build, the more powerful and appealing it is.
  - c. The Performance Test: Is the strategy producing good company performance? Two kinds of performance improvements tell the most about the caliber of a company's strategy: (1) gains in profitability and financial strength and (2) gains in the company's competitive strength and market standing.
2. Strategies that come up short on one or more of the above questions are plainly less appealing than strategies passing all three test questions with flying colors.

## IX. Why Crafting and Executing Strategy Important?

### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Crafting and executing strategy are top priority managerial tasks for the following two big reasons:
  - a. High-performing enterprises are nearly always the product of astute, creative, and proactive strategy making.
  - b. Even the best-conceived strategies will result in performance shortfalls if they are not executed proficiently.
2. Good Strategy + Good Strategy Execution = Good Management
  - a. Crafting and executing strategy are core management functions.
  - b. Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team charts the company's direction, develops competitively effective strategic moves and business approaches, and pursues what needs to be done internally to produce good day-to-day strategy execution and operating excellence.

## IX. The Road Ahead

1. Throughout the remaining chapters and Part 2 of this text, the spotlight is trained on the foremost question in running a business enterprise: What must managers do, and do well, to make a company a winner in the marketplace?

2. The mission of this book is to provide a solid overview of what every business student and aspiring manager needs to know about crafting and executing strategy.

### **Connect® Activity**

---

Use the Question Bank to build a quiz for the chapter to measure and reinforce learning. Consider using the questions you select to build a comprehensive mid-term and final exam for the course. The assignment can be graded and posted automatically.

## **ASSURANCE OF LEARNING EXERCISES**

1. Based on your experiences and/or knowledge of Apple's current products and services, does Apple's strategy (as described in Illustration Capsule 1.1) seem to set it apart from rivals? Does the strategy seem to be keyed to a cost-based advantage, differentiating features, serving the unique needs of a niche, or some combination of these? What is there about Apple's strategy that can lead to sustainable competitive advantage?

### **Connect® Activity**

---

This Assurance of Learning exercise is available as a Connect® Assignment. The assignment can be graded and posted automatically.

### **Response:**

**Setting Itself Apart**—Students should be able to discuss that Apple uses a focused differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. They strategically place stores in areas where their target market frequent and staff them with knowledgeable people. The firm is also committed to corporate social responsibility (CSR) and sustainability throughout its supply chain.

**Elements of Strategy**—Students should identify that some of key elements of Apple's strategy include a strong focus on R&D, providing a complete hardware/software/service solution, and a strong brand identity. These elements, along with the focus on CSR and sustainability, combine to form a high-end value proposition for consumers that allows for premium pricing.

**Sustainable Competitive Advantage**—Students should identify that developing a sustainable competitive advantage relies on a) building competitively valuable capabilities that rivals cannot readily match and b) having a distinctive product offering. Further, they should be able to highlight that the two areas described above are both distinctive and difficult to match.

2. Elements of Amazon's strategy have evolved in meaningful ways since the company's founding in 1994. After reviewing the company's history and all of the links at the company's investor relations site ([ir.aboutamazon.com](http://ir.aboutamazon.com)), prepare a one- to two-page report that discusses how its strategy has evolved. Your report should also assess how well Amazon's strategy passes the three tests of a winning strategy.

**Response:**

**Strategy Evolution**—From the information found in the links provided, the student’s report should include information similar to the following:

[Amazon.com](https://www.amazon.com) began as an online bookseller in 1995 with Jeffrey Bezos viewing books as a commodity where price was the only differentiating factor. By warehousing and shipping in high volume, the traditional brick-and-mortar bookstores such as Barnes & Noble were unable to compete. By 2018, Amazon.com is the largest U.S. bookseller.

By the late 90s, Amazon.com has diversified the product portfolio to include electronics, software, video games, and many other categories. Once again, the core strategy is to focus on commodity products where price point is the key factor. By 2000, Amazon.com had adopted a new concept called *marketplace* where merchants were able to offer products on the website and warehouse at Amazon as a service to the merchant. This allowed a broader product portfolio without impacting Amazon’s cash flow. With the 2005 release of Prime membership, the company was able to position themselves as the “first choice” for many online shoppers. By 2018, the company is the leader in e-commerce with over 40 percent of the industry.

Amazon adopted an overarching strategy called *flywheel* with the idea of pursuing projects that would support other initiatives already in place. This has resulted in another string of innovations to include Web Services in 2006, the Kindle E-reader in 2007, the 2009 acquisition of Zappos, and the 2017 acquisition of Whole Foods.

Students should conclude that all of these innovations follow a careful underlying strategy of adding services and features to the overall product mix that leverage and take advantage of developments already in place and meet shifting consumer demands. The company’s strategy has evolved from a simple mission of providing online books to becoming the leading global retailer across many industries.

**Strategy Assessment**—The student’s report should include specific indications that the company’s strategy is a winner as follows:

- a. Does the strategy fit the company’s situation?—Yes, the company’s strategy fits the evolving demands of both in-person and e-commerce shoppers.
- b. Does the strategy helping the company achieve a sustainable competitive advantage?—Yes, the growing base of customers and revenue streams from various services and platforms is led by continuous innovation which clearly differentiates the company. The growing profit stream indicates that the strategy is sustainable.
- c. Does the strategy producing good company performance?—Yes, the company is estimated to have close to 1 percent of global retail sales and close to 8 percent of U.S. retail sales.

3. Go to [investor.siriusxm.com](http://investor.siriusxm.com) and check whether the Sirius XM's recent financial reports indicate that its business model is working. Are its subscription fees increasing or declining? Is its revenue stream advertising and equipment sales growing or declining? Does its cost structure allow for acceptable profit margins?

### **Connect® Activity**

This Assurance of Learning exercise is available as a Connect® Assignment. The assignment can be graded and posted automatically.

### **Response:**

**General**—The responses developed by the students may include information such as the following: SiriusXM is a leading satellite media company that provides commercial-free music from numerous genres, live play-by-play sports, news and talk shows, and other forms of audio entertainment streaming to the consumer's home, auto, business, or even boats within 200 miles of the coast.

**Is the Business Model Working?**—Students should note that the company's annual revenue has increased steadily over the last three reporting periods from \$5.42B in 2017 to \$7.79B in 2019, while net income has grown from \$647M to \$914M over the same period. While the absolute dollar amount is larger, this is essentially the same in terms of percentage with 11.93% in 2017 and 11.73% in 2019. This illustrates an increasing value proposition (revenue) as well as an effective and stable profit formula (earnings). The conclusion the student should reach is that the business model is working effectively.

**Subscription Fees**—Students should identify that the company had subscription revenue of \$2.99B in the first six months of 2019 and \$3.16B in the first six months of 2020, representing a 5.68% growth.

**Revenue Stream from Advertising**—Students should identify that the company had advertising revenue of \$567M in the first six months of 2019 and \$521M in the first six months of 2020, representing an 8.11% decrease. The company should be seeking ways to increase advertising revenue.

**Revenue from Equipment**—Students should identify that the company had revenue from equipment of \$82M in the first six months of 2019 and \$66M in the first six months of 2020, representing a 19.5% decrease.

**Cost Structure and Profit Margins**—Students should identify that the company had consistent growth in Operating Profit with \$1.64 in 2017 and \$1.73B in 2019, representing a 5.48% average annual growth. This demonstrates that the company's cost structure allows for attractive profit margins.

# What Is Strategy and Why Is It Important?

## CHAPTER SUMMARY

Chapter 1 defines the concept of strategy and describes its many facets. The chapter explains what is meant by a competitive advantage, discusses the relationship between a company's strategy and its business model, and introduces the student to the kinds of competitive strategies that can give a company an advantage over rivals in attracting customers and earning above-average profits. The chapter examines what sets a winning strategy apart from others and why the caliber of a company's strategy determines whether it will enjoy a competitive advantage over other firms or be burdened by competitive disadvantage. By the end of this chapter, the student will have a clear idea of why the tasks of crafting and executing strategy are core management functions and why excellent execution of an excellent strategy is the most reliable recipe for turning a company into a standout performer over the long term.

## LECTURE OUTLINE

### I. Introduction

Chapter 1 explores the fundamental concepts surrounding organizational strategy. It begins with an explanation of the term *strategy* and discusses why companies need a distinctive strategy in order to compete successfully. Next, it explores why a company must have a viable business model and the five most dependable strategic approaches for setting a company apart. The chapter wraps up with an illustration of how a company's strategy tends to evolve over time due to changing business conditions and the three tests for winning strategies.

### II. What Do We Mean by *Strategy*?

#### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. A company's **strategy** is the coordinated set of actions that its managers take in order to outperform the company's competitors and achieve superior profitability. In effect, it represents a managerial commitment to an integrated array of considered choices about how to compete.

## Chapter 1 What Is Strategy and Why Is It Important?

2. Normally, companies have a wide degree of strategic freedom in choosing the “hows” of strategy:
  - How to position the company in the marketplace.
  - How to attract customers.
  - How to compete against rivals.
  - How to achieve the company’s performance targets.
  - *How* to capitalize on opportunities to grow the business.
  - How to respond to changing economic and market conditions.

### CORE CONCEPT

---

A company’s strategy is the coordinated set of actions that its managers take in order to outperform the company’s competitors and achieve superior profitability.

3. **Strategy Is about Competing Differently**—A strategy stands a better chance of succeeding when it is predicated on actions, business approaches, and competitive moves aimed at:
  - a. appealing to buyers in ways that *set a company apart from its rivals* and
  - b. staking out a market position that is not crowded with strong competitors.
4. **Figure 1.1—Identifying a Company’s Strategy—What to Look For**, shows what to look for in identifying the substance of a company’s overall strategy. These are the visible actions taken that signal what strategy the company is pursuing.

### Connect® Activity

---

Consider adding a File Attachment assignment requiring the student to develop a response to Illustration Capsule 1.1: Apple Inc.: Exemplifying a Successful Strategy. You can post instructions for the student within the assignment and collect their attachments for grading.

## III. Strategy and the Quest for Competitive Advantage

### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The heart and soul of any strategy are the actions and moves in the market place that managers are taking to improve the company’s financial performance, strengthen its long-term competitive position, and gain a competitive edge over rivals.
2. A company achieves a competitive advantage whenever it has some type of edge over rivals in attracting buyers and coping with competitive forces.

## Chapter 1 What Is Strategy and Why Is It Important?

3. Strategy is about competing differently from rivals or doing what competitors don't do or, even better, can't do. In this sense, every strategy needs a distinctive element that attracts customers and produces a competitive edge.
4. What makes a competitive advantage **sustainable** (or durable), as opposed to temporary, are elements of the strategy that give buyers lasting reasons to prefer a company's products or services over those of competitors

### CORE CONCEPT

A company achieves a **competitive advantage** when it provides buyers with superior value compared to rival sellers or offers the same value at a lower cost to the firm. The advantage is **sustainable** if it persists despite the best efforts of competitors to match or surpass this advantage.

5. Five of the most frequently used strategic approaches to setting a company apart from rivals and achieving a sustainable competitive advantage are:
  - a. Low-Cost Provider—Achieving a cost-based advantage over rivals.
  - b. Broad Differentiation—Seeking to differentiate the company's product or service from rivals' in ways that will appeal to a broad spectrum of buyers.
  - c. Focused Low Cost—Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by having lower costs than rivals and thus being able to serve niche members at a lower price.
  - d. Focused Differentiation—Concentrating on a narrow buyer segment (or market niche) and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products can do.
  - e. Best-Cost Provider—Giving customers more value for the money by satisfying buyers' expectations on key quality/features/performance/service attributes, while beating their price expectations.

### ILLUSTRATION CAPSULE - 1.1 Apple Inc.: Exemplifying a Successful Strategy

Discussion Question: 1. Describe Apple's strategic approach in the computer industry.

**Answer:** Students should be able to discuss that Apple uses a focused differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. The company designs its own operating system, hardware, and application software through continuous investments in R&D. These higher cost approaches to the market place are offset by premium pricing that the niche market can support.

#### IV. Why a Company's Strategy Evolves over Time

##### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Every company must be willing and ready to modify the strategy in response to changing market conditions, advancing technology, unexpected moves by competitors, shifting buyer needs, emerging market opportunities, and mounting evidence that the strategy is not working well.
2. Most of the time, a company's strategy evolves incrementally from management's ongoing efforts to fine-tune the strategy and to adjust certain strategy elements in response to new learning and unfolding events.
3. Industry environments characterized by high velocity change require companies to repeatedly adapt their strategies.
4. The important point is that the task of crafting strategy is not a one-time event but always a work in progress.

#### V. A Company's Strategy Is Partly Proactive and Partly Reactive

##### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. The evolving nature of a company's strategy means that the typical company strategy is a blend of (1) *proactive*, planned initiatives to improve the company's financial performance and secure a competitive edge, and (2) *reactive* responses to unanticipated developments and fresh market conditions.

##### CORE CONCEPT

---

A company's **deliberate strategy** consists of *proactive* strategy elements that are both planned and realized as planned; its **emergent strategy** consists of *reactive* strategy elements that emerge as changing conditions warrant.

2. The biggest portion of a company's current strategy flows from ongoing actions that have proven themselves in the marketplace and newly launched initiatives aimed at building a larger lead over rivals and further boosting financial performance.—Deliberate Strategy

## Chapter 1 What Is Strategy and Why Is It Important?

3. Managers must always be willing to supplement or modify the proactive strategy elements with as-needed reactions to unanticipated conditions.—Emergent Strategy
4. In total, these two elements combine to form the company's *realized strategy*. **Figure 1.2, A Company's Strategy Is a Blend of Proactive Initiatives and Reactive Adjustments**, illustrates the elements of strategy that become the realized strategy.

### VI. Strategy and Ethics: Passing the Test of Moral Scrutiny

#### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Managers must be careful to embrace actions that can pass the test of moral scrutiny. This goes beyond just staying within the bounds of what is legal.
2. Ethical and moral standards are not fully governed by what is legal, they are concerned with right versus wrong and a sense of duty.
3. While the legal realm deals with must or must not, the ethical/moral realm deals with should or should not.
4. Senior executives with strong ethical convictions are generally proactive in linking strategic action and ethics.

### VII. A Company's Strategy and Its Business Model

#### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

#### CORE CONCEPT

---

A company's **business model** sets forth the logic for how its strategy will create value for customers, while at the same time generating revenues sufficient to cover costs and realize a profit.

1. A business model is management's blueprint for delivering a valuable product or service to customers in a manner that will generate revenues sufficient to cover costs and yield an attractive profit.

## Chapter 1 What Is Strategy and Why Is It Important?

2. The two elements of a company's business model are (1) its customer value proposition and (2) its profit formula.
3. The customer value proposition lays out the company's approach to satisfying buyer wants and needs at a price customers will consider a good value.
4. The profit formula describes the company's approach to determining a cost structure that will allow for acceptable profits, given the pricing tied to its customer value proposition.
4. Figure 1.3 illustrates the elements of the business model in terms of what is known as the Value-Price-Cost Framework highlighting the relationship between the Customer's Value Proposition (V-P) and the Profit Formula (P-C).

### ILLUSTRATION CAPSULE 1.2

#### Pandora, SiriusXM, and Over-the-Air Broadcast Radio: Three Contrasting Business Models

Discussion Question: 1. What is the prominent difference between the business models of these three organizations?

**Answer:** While all three provide essentially the same type of entertainment service, the business models employed by Pandora, SiriusXM, and Over-the-Air Broadcast Radio are completely different. In the area of value proposition (what the customer sees), SiriusXM provides commercial-free entertainment with some local content based upon a monthly fee, while Broadcast Radio provides entertainment with some local content, interrupting for commercials without a fee. Pandora bridges these two methods. In one mode it operates more like Over-the-Air Broadcast Radio in that it provides entertainment without a fee but includes targeted advertisements, with the added benefit of allowing the listener to customize the music mix. In the other mode, listeners can elect to go ad-free for a fee using Pandora One.

For profit, SiriusXM must attract a large enough customer base in order to cover costs and provide profit, while Broadcast Radio must attract a large enough advertiser base to cover costs and provide profit. Pandora, once again bridging the two, generates profit by either an advertiser base or through ad-free services.

## VIII. What Makes a Strategy a Winner?

### Connect® Activity

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Three questions can be used to test the merits of one strategy versus another and distinguish a winning strategy from a losing or mediocre strategy:

## Chapter 1 What Is Strategy and Why Is It Important?

- a. The Fit Test: How well does the strategy fit the company's situation? To qualify as a winner, a strategy has to be well matched to industry and competitive conditions, a company's best market opportunities, and other aspects of the enterprise's external environment.
  - b. The Competitive Advantage Test: Is the strategy helping the company achieve a sustainable competitive advantage? The bigger and more durable the competitive edge that a strategy helps build, the more powerful and appealing it is.
  - c. The Performance Test: Is the strategy producing good company performance? Two kinds of performance improvements tell the most about the caliber of a company's strategy: (1) gains in profitability and financial strength and (2) gains in the company's competitive strength and market standing.
2. Strategies that come up short on one or more of the above questions are plainly less appealing than strategies passing all three test questions with flying colors.

### IX. Why Crafting and Executing Strategy Important?

#### Connect® Activity

---

Consider adding a SmartBook assignment requiring the student to review this section of the chapter as an interactive question and answer review. The assignment can be graded and posted automatically.

1. Crafting and executing strategy are top priority managerial tasks for the following two big reasons:
  - a. High-performing enterprises are nearly always the product of astute, creative, and proactive strategy making.
  - b. Even the best-conceived strategies will result in performance shortfalls if they are not executed proficiently.
2. Good Strategy + Good Strategy Execution = Good Management
  - a. Crafting and executing strategy are core management functions.
  - b. Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team charts the company's direction, develops competitively effective strategic moves and business approaches, and pursues what needs to be done internally to produce good day-to-day strategy execution and operating excellence.

### IX. The Road Ahead

1. Throughout the remaining chapters and Part 2 of this text, the spotlight is trained on the foremost question in running a business enterprise: What must managers do, and do well, to make a company a winner in the marketplace?

## Chapter 1 What Is Strategy and Why Is It Important?

2. The mission of this book is to provide a solid overview of what every business student and aspiring manager needs to know about crafting and executing strategy.

### **Connect® Activity**

---

Use the Question Bank to build a quiz for the chapter to measure and reinforce learning. Consider using the questions you select to build a comprehensive mid-term and final exam for the course. The assignment can be graded and posted automatically.

## ASSURANCE OF LEARNING EXERCISES

1. Based on your experiences and/or knowledge of Apple's current products and services, does Apple's strategy (as described in Illustration Capsule 1.1) seem to set it apart from rivals? Does the strategy seem to be keyed to a cost-based advantage, differentiating features, serving the unique needs of a niche, or some combination of these? What is there about Apple's strategy that can lead to sustainable competitive advantage?

### **Connect® Activity**

---

This Assurance of Learning exercise is available as a Connect® Assignment. The assignment can be graded and posted automatically.

### **Response:**

**Setting Itself Apart**—Students should be able to discuss that Apple uses a focused differentiation strategic approach. The company focuses on the upper end of the computer buyer market and offers a premium product. They strategically place stores in areas where their target market frequent and staff them with knowledgeable people. The firm is also committed to corporate social responsibility (CSR) and sustainability throughout its supply chain.

**Elements of Strategy**—Students should identify that some of key elements of Apple's strategy include a strong focus on R&D, providing a complete hardware/software/service solution, and a strong brand identity. These elements, along with the focus on CSR and sustainability, combine to form a high-end value proposition for consumers that allows for premium pricing.

**Sustainable Competitive Advantage**—Students should identify that developing a sustainable competitive advantage relies on a) building competitively valuable capabilities that rivals cannot readily match and b) having a distinctive product offering. Further, they should be able to highlight that the two areas described above are both distinctive and difficult to match.

2. Elements of Amazon's strategy have evolved in meaningful ways since the company's founding in 1994. After reviewing the company's history and all of the links at the company's investor relations site ([ir.aboutamazon.com](http://ir.aboutamazon.com)), prepare a one- to two-page report that discusses how its strategy has evolved. Your report should also assess how well Amazon's strategy passes the three tests of a winning strategy.

**Response:**

**Strategy Evolution**—From the information found in the links provided, the student’s report should include information similar to the following:

[Amazon.com](https://www.amazon.com) began as an online bookseller in 1995 with Jeffrey Bezos viewing books as a commodity where price was the only differentiating factor. By warehousing and shipping in high volume, the traditional brick-and-mortar bookstores such as Barnes & Noble were unable to complete. By 2018, Amazon.com is the largest U.S. bookseller.

By the late 90s, Amazon.com has diversified the product portfolio to include electronics, software, video games, and many other categories. Once again, the core strategy is to focus on commodity products where price point is the key factor. By 2000, Amazon.com had adopted a new concept called *marketplace* where merchants were able to offer products on the website and warehouse at Amazon as a service to the merchant. This allowed a broader product portfolio without impacting Amazon’s cash flow. With the 2005 release of Prime membership, the company was able to position themselves as the “first choice” for many online shoppers. By 2018, the company is the leader in e-commerce with over 40 percent of the industry.

Amazon adopted an overarching strategy called *flywheel* with the idea of pursuing projects that would support other initiatives already in place. This has resulted in another string of innovations to include Web Services in 2006, the Kindle E-reader in 2007, the 2009 acquisition of Zappos, and the 2017 acquisition of Whole Foods.

Students should conclude that all of these innovations follow a careful underlying strategy of adding services and features to the overall product mix that leverage and take advantage of developments already in place and meet shifting consumer demands. The company’s strategy has evolved from a simple mission of providing online books to becoming the leading global retailer across many industries.

**Strategy Assessment**—The student’s report should include specific indications that the company’s strategy is a winner as follows:

- a. Does the strategy fit the company’s situation?—Yes, the company’s strategy fits the evolving demands of both in-person and e-commerce shoppers.
- b. Does the strategy helping the company achieve a sustainable competitive advantage?—Yes, the growing base of customers and revenue streams from various services and platforms is led by continuous innovation which clearly differentiates the company. The growing profit stream indicates that the strategy is sustainable.
- c. Does the strategy producing good company performance?—Yes, the company is estimated to have close to 1 percent of global retail sales and close to 8 percent of U.S. retail sales.

3. Go to [investor.siriusxm.com](http://investor.siriusxm.com) and check whether the Sirius XM's recent financial reports indicate that its business model is working. Are its subscription fees increasing or declining? Is its revenue stream advertising and equipment sales growing or declining? Does its cost structure allow for acceptable profit margins?

### **Connect® Activity**

This Assurance of Learning exercise is available as a Connect® Assignment. The assignment can be graded and posted automatically.

### **Response:**

**General**—The responses developed by the students may include information such as the following: SiriusXM is a leading satellite media company that provides commercial-free music from numerous genres, live play-by-play sports, news and talk shows, and other forms of audio entertainment streaming to the consumer's home, auto, business, or even boats within 200 miles of the coast.

**Is the Business Model Working?**—Students should note that the company's annual revenue has increased steadily over the last three reporting periods from \$5.42B in 2017 to \$7.79B in 2019, while net income has grown from \$647M to \$914M over the same period. While the absolute dollar amount is larger, this is essentially the same in terms of percentage with 11.93% in 2017 and 11.73% in 2019. This illustrates an increasing value proposition (revenue) as well as an effective and stable profit formula (earnings). The conclusion the student should reach is that the business model is working effectively.

**Subscription Fees**—Students should identify that the company had subscription revenue of \$2.99B in the first six months of 2019 and \$3.16B in the first six months of 2020, representing a 5.68% growth.

**Revenue Stream from Advertising**—Students should identify that the company had advertising revenue of \$567M in the first six months of 2019 and \$521M in the first six months of 2020, representing an 8.11% decrease. The company should be seeking ways to increase advertising revenue.

**Revenue from Equipment**—Students should identify that the company had revenue from equipment of \$82M in the first six months of 2019 and \$66M in the first six months of 2020, representing a 19.5% decrease.

**Cost Structure and Profit Margins**—Students should identify that the company had consistent growth in Operating Profit with \$1.64 in 2017 and \$1.73B in 2019, representing a 5.48% average annual growth. This demonstrates that the company's cost structure allows for attractive profit margins.