College Guild
PO Box 696, Brunswick, Maine 04011

Introduction to Business

Unit 5 of 6

Management & Strategy

In this unit, we will define business management and strategy, discuss what it takes to be an effective manager, and explore one of the key tools for strategy (the SWOT analysis).

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Important! Most questions in this course are essay questions and have no single correct answer.

Glossary of Terms:

1. **Commission** – a form of compensation that is typically a percentage of the sales, to serve as an incentive for the salesperson to sell more products. For example, if a salesperson earns a 10% commission and they sell a product for $100, they would earn $10 as their commission.
2. **Franchisee** – a business that is licensed to operate a location of a brand and sell its branded products, in exchange for a fee. Food and retail brands (McDonald's, Starbucks) frequently contract with franchisees to run their locations.
3. **Job Shadowing** – a practice where a manager does the job of their employees to better understand their roles and challenges.
4. **Management** – the process of planning and organizing a business's resources to drive it toward its objectives.
5. **Strategy** – the clear definition of a company's clear goals and a plan for the future.

Management & Strategy

Whether a company employs just one person or many thousands, the company must organize and use its resources effectively to deliver for its customers and to succeed. **Management** is the process of planning and organizing a company's resources to drive the business toward its goals. Small businesses usually operate with limited resources. Effective management makes sure that all of those resources – financial, human, equipment, materials – are used to maximize productivity and minimize waste.

The leader of a business must focus on managing the company to succeed today, and also must think about the future. Strategy is about setting clear goals and an achievable plan for the future of the company. This direction helps guide the efforts of all employees towards common objectives to overcome competitors and to grow. The best strategies will set an inspirational vision for the company's future, show a clear path for how the company can achieve that future, and outline why only that company (and no others) can do the same. A company with a clear strategy knows what it wants to be in the future, and has employees who know how they contribute to achieving that vision.

1. **What would it be like to work for a company that is poorly managed? What kind of problems would that company have?**

Bill Watterson, Calvin and Hobbes

Defining Management

Management in business is more than just telling other employees what to do. Management is about planning, organizing, directing, and controlling business resources to achieve specific goals. Let's look at each of these elements in turn:

- Planning: a manager sets goals for the company and determines the best way to achieve them (more detail on that below when we discuss Strategy)
- Organizing: a manager assigns resources (people, equipment, money) to act against those plans
- Directing: a manager provides focus and motivates employees to achieve company goals
- Controlling: a manager compares actual to expected performance, then solves problems and corrects actions when needed to improve performance

Imagine two factories with identical resources: they have the same raw materials, the same vehicles and equipment, and an equal number of skilled employees. Now suppose one of those factories is well-managed and the other is not. What might you see at the poorly managed factory? Probably low output because processes are not well-organized, dirty work conditions due to lack of quality control, and high amounts of waste from repeated or unnecessary tasks. The poorly managed factory might even be a dangerous place to work, and staff may be upset at the overall poor conditions and lack of organization.

On the other hand, a well-managed factory would have clearly organized procedures and tidy work conditions. All employees would be clear on their roles, and there would be little wasted effort or energy. When problems arise, they would be solved quickly, and most likely the factory's productivity and employee morale would be high.

2. **Suppose you had to choose the person to manage the factory. What qualities would you look for in that person to take this important role?**

With larger companies, there are more resources and more people to coordinate, and effective management is critical to keep everyone headed in the same direction. But in such large companies, there is typically a dedicated person or team of people who focus only on management. In small companies, managing may be just one of many jobs that the company's leader performs, in addition to marketing, production, accounting, finance and other crucial tasks. Managing well in a small company setting is no less important to its success, and can often be more difficult given all the other jobs to be done.

People Management

People are probably the most critical resource of every business; without effective employees, no business can operate successfully. One of the most important tasks for a business leader is to manage people to ensure they are productive, motivated, and delivering results. Managing people is also very difficult to do well, and there are many managers who do bad jobs of managing their teams.

3. **Have you ever worked for a bad boss? What made him or her an ineffective manager?**

There are several qualities and behaviors that are key to managing people effectively, along with critical management tools for each.

<u>Setting Clear Expectations</u> – employees need to be clear on what is expected from each of them, to help line up their work with the team's and company's goals. Each employee needs to be able to answer: what is my job and what do I need to accomplish today? How does my work help the company succeed? Without clear answers to these questions, staff can waste time duplicating efforts or doing unnecessary work, which wastes company resources (employee time) and can hurt employee morale. One important tool to achieve this is an accurate job description that outlines key expected tasks and activities for the position, so that both the manager and the employee agree upfront what is expected from that employee. A job description will also usually describe the desired experience or qualities for the 'perfect' person for the job.

4. **Suppose you are a manager hiring a janitor for office buildings. What are three key responsibilities or activities you would include in the job description for this role?**

<u>Open and Honest Communication</u> – it's important for a manager to create a work environment where team members feel comfortable sharing their thoughts, ideas, and concerns. This is a two-way dynamic, where the manager can share clear, transparent communication to staff and the employees can similarly be honest with the manager. If there is open feedback on the company's situation, what is going well, and what needs to be done better, every team member will feel like their voice matters, and potential problems can be identified and solved more quickly. Performance reviews are a helpful tool for communication, where the manager and employee meet periodically (every 3, 6 or 12 months) to discuss the employee's performance, areas of strength, opportunities for improvement, and overall job satisfaction. Each review will typically include an agreement on key areas of focus or improvement, to be assessed for the next performance review.

<u>Recognition and Compensation</u> – managers should regularly acknowledge and appreciate the efforts and achievements of team members. Doing this can significantly improve motivation and job satisfaction. Recognition can be achieved through several different ways: simple verbal praise to highlight a job well done, awards like "Employee of the Month" to acknowledge star performers, or tying compensation to job performance. Compensation can be one of the best motivators and ways to reward and drive performance and extra effort – after all, making money is the key reason most people work! Performance-driven bonuses can be great tools to encourage the behaviors that managers want to see. Sales people are paid primarily through commission (or a percentage of the sales they land) rather than a flat hourly wage or salary, so that they are paid more if they sell more products. Managers could also create employee bonuses for achieving other goals important to the company, like efficiency, cleanliness or worker safety. Many companies give community service bonuses

to employees who volunteer a certain number of hours at local charities or participate in company-organized community service events.

5. Why would a company give community service bonuses? How does this benefit the company?

Empathy – maybe the most critical quality that good managers tend to have is empathy, or the ability to put yourself in someone else's shoes to see things from their perspective and feel what they are feeling. Doing this helps in understanding what employees are going through, what motivates them and how to build stronger relationships with employees. Something that can help managers to naturally have empathy for employees is if the manager has experience doing the actual jobs of the employees. A manager who worked the jobs of the staff him/herself should know from first-hand experience the challenges and realities of those jobs, and be better suited to understand his/her staff and their motivations. While this is not always required, a manager who doesn't have first-hand experience could benefit from "job shadowing," a practice where the manager observes and participates in the tasks of their employees to get a deeper understanding of their roles.

The above are just some of the many elements that can help managers build more motivated and productive teams within a company, leading to better overall performance and a positive workplace culture.

6. Think of the best manager you have had (or have heard of) – did any of the above qualities or behaviors help make them a good manager?

Defining Strategy

One of the key roles for the leader of a company is to define its strategy: a plan or a roadmap for a company to reach its goals and be successful. The strategy outlines what the company will do to make money, get customers, and beat competitors.

Imagine you are leading a high school football team. You wouldn't just have your players run around on the field without a plan, right? No, most likely you would spend a fair amount of time coming up with a gameplan. You would figure out what your team is good at, and where it is relatively weak. You would look at competitor teams to see how they can be beat. You would decide how to spend team practices, where the team needs to improve, and if there are tools or skills you need to acquire by recruiting new coaches or players. You would figure out the best plan to win this season, but also look to future seasons to find the best path to victory in the future too.

A business strategy works the same way. It's a plan for how to succeed, and at a minimum the strategy should answer the following questions:

- Objective: what does the company want to achieve?
- Actions: what specifically will the company do to achieve that goal?
- Customers: who is the company trying to sell to, and how does the company provide value to them?
- Competitive Advantage: what are the strengths of the company that will make it better than other companies?

By having a clear and effective strategy, a company can make smarter choices and be more successful than competitors in the "game" of business.

7. Think of a company you admire. Write a version of the company strategy by answering the above questions for that business.

SWOT Analysis

One of the best tools for developing a business strategy is the SWOT analysis. "SWOT" stands for Strengths, Weaknesses, Opportunities, and Threats related to a specific company. Here's a quick description of each of these elements:

- Strengths: any internal resource or trait that sets the company apart. Strengths can include a strong brand name, a loyal customer base, a skilled workforce, or products that are better than alternatives.
- Weaknesses: any internal factor that might get in the way of the business succeeding. Some examples may be limited financial resources, poor location, weak brand recognition, or an unreliable workforce.
- Opportunities: external factors that the company can take advantage of in the future. Opportunities can include ways to expand sales by selling to new customers or introducing new products, potential areas to get more efficient through using new technology, or ways to be more productive through better training of employees.
- Threats: external factors that could cause trouble for the company in the future. Examples of threats can include economic downturns where customers spend less, increasing competition, or rising costs of raw materials or labor to make products.

The SWOT analysis can provide a thorough view of the internal and external factors affecting a business, and give the company's leadership a clear and full understanding of its current situation.

Take a look at this sample SWOT analysis for the fast-food company McDonald's:

STRENGTHS	**WEAKNESSES**
- One of the world's best-known brands - Iconic food products loved by many millions of people - Over 38,000 locations worldwide - Very efficient production and franchise system to ensure consistent quality and low costs	- High turnover rates in staff, which can cause poor customer service - Health concerns as McDonald's food is seen as unhealthy and contributing to obesity - Reliance on franchisees who run most McDonald's locations, which can lead to different levels of service and quality
OPPORTUNITIES	**THREATS**
- Expand menu to include healthier options - Use technology (mobile orders, delivery apps, self-service kiosks) to improve speed and customer experience - Open locations in new, emerging markets globally - Improve employee satisfaction - Increase training and monitoring of franchisees	- Competition from other fast-food chains, local restaurants, and other food options - Laws + regulations: health + food safety standards, labor laws increasing costs and complexity - Changing consumer preferences towards healthier eating - Economic downturns reducing consumer spending on dining out

- Partnerships with other popular brands to attract new customers	

8. **Suppose you are the CEO of McDonald's. Based on this SWOT analysis, what would you choose as the most important thing (from any of the four boxes) that the company should focus on in the future? Why?**
9. **What is a specific action that McDonald's should do to address that important thing you chose?**
10. **The SWOT analysis can be useful for companies, and for individual people as well. Take some time to complete a SWOT for yourself – think of 2-3 items each for your personal Strengths, Weaknesses, Opportunities and Threats.**

The SWOT analysis can be useful in business strategy in many different ways. First, going through the exercise of creating a SWOT can give the company leadership an honest and complete view of the company's situation. Having this in place makes it much easier to set a strategy for the future.

All businesses have strengths. The size of its revenue or the number of employees doesn't matter – every company has a unique set of strengths that it can draw upon to take advantage of opportunities, or to overcome potential threats. How to best use that business's strengths is a core part of setting a company strategy.

11. **Choose one of McDonald's strengths listed above. How can that strength be used either to achieve one of its opportunities or to combat one of its threats?**
12. **Now look at your personal SWOT – what strength can help you to achieve your own opportunities or overcome your threats?**

At the same time, understanding the weaknesses of a business can help immensely in developing a plan to improve or overcome those areas. How is the company worse than competitors: perhaps its product quality is worse, its operations too slow, or it is unable to attract good employees? Knowing exactly where a company is relatively weak can directly highlight future opportunities and threats that the company should focus on.

13. **Look again McDonald's weaknesses – which do you think is most critical for the company to address?**
14. **Look again at your personal SWOT – what do you think is your biggest weakness of the ones you listed?**

Done right, the SWOT analysis can be a valuable guide for businesses to plan how they should focus their resources, their teams and investments in the future to give the best chance for long-term success.

Case Study: Forever 21

Do-Won Chang and Jin-Sook Chang, a husband-and-wife couple who moved to the US from South Korea, opened a clothing store called *Fashion 21* in the Highland Park area of Los Angeles in 1984. They used their savings of $11,000 to open and stock the store with low-cost fashion items targeted at youth, based on popular designs from Korea. The store was an immediate hit, with first-year sales hitting $700,000.

After the early success, the Changs pursued aggressive growth through new store openings and changed the name to *Forever 21*. Eventually, the company evolved to become a giant in "fast fashion," rapidly producing low-cost clothing based on the latest popular trends.

At its peak in 2015, Forever 21 achieved over $4 billion in sales from about 800 stores worldwide, with over 43,000 employees. Customers appreciated the young, trendy looks that were also very affordable. Many of its stores were large 'flagship' stores, with some occupying over 100,000 square feet in expensive locations like New York's Times Square. But sales started to slump at that point due to several factors: a general shift from stores to online shopping, increasing competition from other fast fashion brands and Amazon.com, and a series of controversies within the company itself. The company was accused of sweatshop labor practices, paying employees less than minimum wage. Other brands and celebrities like Ariana Grande sued Forever 21 for allegedly stealing and copying signature styles and selling knock-offs for much cheaper prices. The brand was accused of fat-shaming customers who bought larger size clothing.

Forever 21 Store, Times Square New York; iStock.com

Many of these missteps were blamed on the Changs' unwillingness to change how they oversaw the company, maintaining their strict control even as they grew from that 1st store to 800. In 2019, Forever 21 filed for bankruptcy, closed hundreds of stores, and was eventually sold to a group of investors for $81 million, a fraction of its previous value just a few years earlier.

15. What did the Changs do right from a management and strategy standpoint? What should they have done differently?

Self-Reflection Exercise

16. What was the most interesting thing you learned about Management and Strategy?

17. How do the lessons of Management and Strategy apply to your own life?

18. Setting a good strategy is critical for both companies and individuals, but it must be refreshed from time to time. How often do you think a strategy must be reviewed and updated?

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Remember: First names only & please let us know if your address changes

Appendix
Introduction to Business: Unit 5 of 6

Sources:

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