TT TEXTBOOK TESTBANKS

Solutions Manual for Essentials of Strategic Management 7th Gamble

SOLUTIONS MANUAL SAMPLE PREVIEW

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RESOURCE TYPE
Solutions Manual

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Case 1

Fixer Upper: Expanding the Magnolia Brand*

Assignment Questions

1. What are the major elements of Magnolia Inc.'s competitive strategy? How well do the pieces fit together? Is the strategy evolving?

2. Explain the pressures facing Magnolia Inc. in its internal and external environments. How would you prioritize those pressures?

3. What strategic issues confront Magnolia Inc. in 2018? What market or internal circumstances should most concern owners Chip and Joanna Gaines and the company's senior management team?

4. What recommendations would you make to Magnolia Inc. to address the strategic issues confronting it in 2016 in order to sustain its impressive growth in revenues and achieve profitability?

Section
1

Instructor Resources, Chapter Features, and Case Overview

Instructor Resources

We strived to achieve four goals in preparing this package of Instructor Resources for the 7th Edition of *Essentials of Strategic Management*:

1. To equip you with all the resources and pedagogical tools you'll need to design and deliver a course that is on the cutting-edge and solidly in the mainstream of what students need to know about crafting and executing winning strategies.

2. To give you wide flexibility in putting together a course syllabus that you are comfortable with and proud of.

3. To give you a smorgasbord of options to draw from in keeping the nature of student assignments varied and interesting.

4. To help you deliver a course with upbeat tempo that wins enthusiastic applause from students.

We believe the contents of the package will be particularly informative and helpful to faculty members teaching the strategy course for the first time but we have also tried to embellish the content with ideas and suggestions that will prove valuable to experienced faculty looking for ways to refurbish their course offering and/or to keep student assignments varied and interesting.

A Quick Overview of the Entire Instructor Resource Package

The Instructor's Manual for *Essentials of Strategic Management* contains:

- A quick look at the topical focus of the text's 10 chapters (Section 1).

- An overview of the 12 cases in the text, along with a grid profiling the strategic issues that come into play in each case (Section 1 and Section 3).

- A discussion of the reasons to use a strategy simulation as an integral part of your strategy course. The two web-based strategy simulations—*The Business Strategy Game* or *GLO-BUS*—that are companions to this text incorporate the very kinds of strategic thinking, strategic analysis, and strategic decision-making described in the text chapters and connect beautifully to the chapter content. The automated online nature of both simulations entails minimal administrative time and effort on the instructor's part. You will be pleasantly shocked (and pleased!!) at the minimal time it will take you to incorporate use of *GLO-BUS* or *The Business Strategy Game* and the added degree of student excitement and energy that either of these competition-based strategy simulations brings to the course—see Section 2 for more details.

- Tips and suggestions for effectively using either *GLO-BUS* or *The Business Strategy Game* in your course (covered in both Section 2 and Section 3).

- The merits of incorporating the use of the *Connect™ Management* Web-based assignment and assessment platform accompanying the 7th Edition, into your course requirements. Connect includes chapter quizzes, case assignment exercises for all 12 cases, and two learning assurance exercises for all 10 chapters of the 7th Edition. ***Connect offers automatic grading for all chapter quizzes, one learning assurance exercise per chapter, and all 12 cases in the text.*** Also, in this edition is a set of ***Connect Exercises for Simulation Participants***. Connect offers an easy-to-administer approach to testing and assessing individual-level student mastery of chapter concepts and case analysis (covered in Section 3).

- Ideas and suggestions on course design and course organization (Section 3 and Section 4).
- Recommendations for sequencing the case assignments and guidance about how to use the cases effectively (Section 3).
- Our recommendations regarding which cases are particularly appropriate for written case assignments and oral team presentations (Section 3).
- Two sample course syllabi (Section 4).
- A variety of schedules of activities for face-to-face, hybrid, and online courses: (Section 4)
  - Two sample schedules of class activities and assignments for face-to-face courses offered during a 15-week term;
  - Two sample schedule of activities for hybrid courses offered during a 15-week term;
  - One sample schedule of class activities for face-to-face courses offered during a 10-week term;
  - One sample schedule of class activities for hybrid courses offered during a 10-week term;
  - One sample schedule of class activities for a 7-week online course; and
  - One sample course schedule for face-to-face course offered in 5-week terms.
- A set of Lecture Notes for each of the 10 chapters (Section 5).
- A comprehensive teaching note for each of the 12 cases in *Essentials of Strategic Management* (Section 6).

In addition to the Instructor's Manual, the support package for adopters also includes several important features that should be of interest. A 600+ question test bank is available for printed or online exams in McGraw-Hill's TestGen web-based application.

***Connect*™ Management Web-based Assignment and Assessment Platform** The 7th Edition package includes a robust collection of chapter quizzes, chapter learning assurance exercises, and case preparation exercises that should prove to ease instructors' grading and assessment obligations. Student understanding of chapter concepts can be assessed at the individual-level through chapter quizzes and applied learning assurance exercises that record each student's grade in a Web-based grade book. All chapter quizzes are automatically-graded and one Assurance of Learning exercise for each of the 10 chapters is automatically graded.

Each chapter also includes a set of Connect Exercises for Simulation Participants to assist in your assessment of learning goals measured through simulation participation.

Included in this edition is a set of auto-graded exercises for all 12 cases in the text. ***The automatically graded case exercises follow the assignment questions in the case TN to fully prepare students to make meaningful contributions to class discussions of the cases. The Connect case exercises may also be used as graded assignments or a portion of graded case assignments—allowing the instructor to grade only students' recommendations for written case assignments.*** All students who purchase a Connect Plus eBook or a new copy of the text are automatically provided access to Connect at no additional charge.

PowerPoint Slides To facilitate delivery preparation of your lectures and to serve as chapter outlines, you'll have access to comprehensive PowerPoint presentations for each of the 10 chapters. The collection includes 350+ professional-looking slides displaying core concepts, analytical procedures, key points, and all the figures in the text chapters.

Accompanying Case Videos With the exception of the Robin Hood case, all 12 cases have accompanying video segments that are posted on YouTube and that can be shown in conjunction with the case discussions. Suggestions for using each video are contained in the teaching note for that case.

A Comprehensive Test Bank and TestGen Software There is a 600+-question test bank, consisting of both multiple choice questions and short answer/essay questions. All of the test bank questions are also accessible via **TestGen**. TestGen is a complete, state-of-the-art test generator and editing application software that allows instructors to quickly and easily select test items from McGraw Hill's TestGen test bank content and to organize, edit, and customize the questions and answers to rapidly generate paper tests. Questions can include stylized text, symbols, graphics, and equations that are inserted directly into questions using built-in mathematical templates. TestGen's random generator provides the option to display different text or calculated number values each time questions are used. With both quick-and-simple test creation and flexible and robust editing tools, TestGen is a test generator system for today's educators.

What to Expect in the 7th Edition

The distinguishing mark of the 7th edition is its enriched and enlivened presentation of the material in each of the 10 chapters, providing an as up-to-date and engrossing discussion of the core concepts and analytical tools as you will find anywhere. As with each of our new editions, there is an accompanying lineup of exciting new cases that bring the content to life and are sure to provoke interesting classroom discussions, deepening students' understanding of the material in the process.

While this 7th edition retains the 10-chapter structure of the prior edition, every chapter—indeed every paragraph and every line—has been reexamined, refined, and refreshed. New content has been added to keep the material in line with the latest developments in the theory and practice of strategic management. Scores of new examples have been added, along with fresh Concepts and Connections illustrations, to make the content come alive and to provide students with a ringside view of strategy in action. The result is a text that cuts straight to the chase in terms of what students really need to know and gives instructors a leg up on teaching that material effectively. It remains, as always, solidly mainstream and balanced, mirroring both the penetrating insight of academic thought and the pragmatism of real-world strategic management.

A stand-out feature of this text has always been the tight linkage between the content of the chapters and the cases. The lineup of cases that accompany the 7th edition is outstanding in this respect—a truly appealing mix of strategically relevant and thoughtfully crafted cases, certain to engage students and sharpen their skills in applying the concepts and tools of strategic analysis. Many involve high-profile companies that the students will immediately recognize and relate to; all are framed around key strategic issues and serve to add depth and context to the topical content of the chapters. We are confident you will be impressed with how well these cases work in the classroom and the amount of student interest they will spark.

Organization, Content, and Features of the Text Chapters

Our objective in undertaking a major revision of this text was to ensure that its content was current, with respect to both scholarship and managerial practice, and presented in as clear and compelling a fashion as possible. We established five criteria for meeting this objective, namely that the final product must:

- Explain core concepts in language that students can grasp and provide first-rate examples of their relevance and use by actual companies.
- Thoroughly describe the tools of strategic analysis, how they are used, and where they fit into the managerial process of crafting and executing strategy.

- Incorporate the latest developments in the theory and practice of strategic management in every chapter to keep the content solidly in the mainstream of contemporary strategic thinking.
- Focus squarely on what every student needs to know about crafting, implementing, and executing business strategies in today's market environments.
- Provide an attractive set of contemporary cases that involve headline strategic issues and give students ample opportunity to apply what they've learned from the chapters.

We believe this 7th Edition measures up on all five criteria and that you'll be amply convinced that ***no other leading text does a better job of setting forth the principles of strategic management and linking these principles to both sound theory and best practices.***

Differentiation from Other Texts in the Field

1. *Our integrated coverage of the two most popular perspectives on strategic management positioning theory and resource-based theory is unsurpassed by any other leading strategy text.* Principles and concepts from both the positioning perspective and the resource-based perspective are prominently and comprehensively integrated into our coverage of crafting both single-business and multibusiness strategies. By highlighting the relationship between a firm's resources and capabilities to the activities it conducts along its value chain, we show explicitly how these two perspectives relate to one another. Moreover, in Chapters 3 through 8 it is emphasized repeatedly that a company's strategy must be matched not only to its external market circumstances but also to its internal resources and competitive capabilities.

2. *Our coverage of business ethics, core values, social responsibility, and environmental sustainability is unsurpassed by any other leading strategy text.* Chapter 9, "Ethics, Corporate Social Responsibility, Environmental Sustainability, and Strategy," is embellished with fresh content so that it can better fulfill the important functions of (1) alerting students to the role and importance of ethical and socially responsible decision making and (2) addressing the accreditation requirements that business ethics be visibly and thoroughly embedded in the core curriculum. Moreover, discussions of the roles of values and ethics are integrated into portions of other chapters to further reinforce why and how considerations relating to ethics, values, social responsibility, and sustain-ability should figure prominently into the managerial task of crafting and executing company strategies.

3. *The caliber of the case collection in the 7th edition is truly unrivaled* from the standpoints of student appeal, teachability, and suitability for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 10. The 12 cases included in this edition are the very latest, the best, and the most on-target that we could find. The ample information about the cases in the Instructor's Manual makes it effortless to select a set of cases each term that will capture the interest of students from start to finish.

4. *The publisher's Connect assignment and assessment platform is tightly linked to the text chapters, business simulations, and case lineup.* The Connect package for the 7th edition allows professors to assign autograded quizzes and select chapter-end Assurance of Learning Exercises to assess class members' understanding of chapter concepts. In addition, our texts have pioneered the extension of the *Connect* platform to case analysis. The *Connect* package for the 7th edition also includes open-ended and autograded Exercises for Simulation Participants. The autograded case exercises for each of the 12 cases in this edition are robust and extensive and will better enable students to make meaningful contributions to class discussions. The autograded *Connect* case exercises may also be used as graded assignments in the course.

5. The two cutting-edge and widely used strategy simulations—*The Business Strategy Game* and *GLO-BUS*—that are optional companions to the 7th edition give you unmatched capability to employ a text-case-simulation model of course delivery.

The following rundown summarizes the noteworthy features and topical emphasis in this new edition:

- Chapter 1 serves as an introduction to the topic of strategy, focusing on the managerial actions that will determine why a company matters in the marketplace. We introduce students to the primary approaches to building competitive advantage and the key elements of business-level strategy. Following Henry Mintzberg's pioneering research, we also stress why a company's strategy is partly planned and partly reactive and why this strategy tends to evolve. The chapter also discusses why it is important for a company to have a *viable business model* that outlines the company's customer value proposition and its profit formula. This brief chapter is the perfect accompaniment to your opening-day lecture on what the course is all about and why it matters.

- Chapter 2 delves more deeply into the managerial process of actually crafting and executing a strategy—it makes a great assignment for the second day of class and provides a smooth transition into the heart of the course. The focal point of the chapter is the five-stage managerial process of crafting and executing strategy: (1) forming a strategic vision of where the company is headed and why, (2) developing strategic as well as financial objectives with which to measure the company's progress, (3) crafting a strategy to achieve these targets and move the company toward its market destination, (4) implementing and executing the strategy, and (5) evaluating a company's situation and performance to identify corrective adjustments that are needed. Students are introduced to such core concepts as strategic visions, mission statements and core values, the balanced scorecard, and business-level versus corporate-level strategies. There's a robust discussion of *why all managers are on a company's strategy-making, strategy-executing team* and why a company's strategic plan is a collection of strategies devised by different managers at different levels in the organizational hierarchy. The chapter winds up with a section on how to exercise good corporate governance and examines the conditions that led to recent high-profile corporate governance failures.

- Chapter 3 sets forth the now-familiar analytical tools and concepts of industry and competitive analysis and demonstrates the importance of tailoring strategy to fit the circumstances of a company's industry and competitive environment. The standout feature of this chapter is a presentation of Michael Porter's "five forces model of competition" *that has long been the clearest, most straightforward discussion of any text in the field*. Chapter revisions include an improved discussion of the macro-environment, focusing on the use of the PESTEL analysis framework for assessing the political, economic, social, technological, environmental, and legal factors in a company's macro-environment. New to this edition is a discussion of Michael Porter's Framework for Competitor Analysis used for assessing a rival's likely strategic moves.

- Chapter 4 presents the resource-based view of the firm, showing why resource and capability analysis is such a powerful tool for sizing up a company's competitive assets. It offers a simple framework for identifying a company's resources and capabilities and explains how the VRIN framework can be used to determine whether they can provide the company with a sustainable competitive advantage over its competitors. Other topics covered in this chapter include dynamic capabilities, SWOT analysis, value chain analysis, benchmarking, and competitive strength assessments, thus enabling a solid appraisal of a company's relative cost position and customer value proposition vis-à-vis its rivals.

- Chapter 5 deals with the basic approaches used to compete successfully and gain a competitive advantage over market rivals. This discussion is framed around the five generic competitive strategies—low-cost leadership, differentiation, best-cost provider, focused differentiation, and focused low-cost. It describes when each of these approaches works best and what pitfalls to avoid. It explains the role of *cost drivers* and *value drivers* in reducing a company's costs and enhancing its differentiation, respectively.

- Chapter 6 deals with the *strategy options* available to complement a company's competitive approach and maximize the power of its overall strategy. These include a variety of offensive or defensive competitive moves, and their timing, such as blue ocean strategy and first-mover advantages and disadvantages. It also includes choices concerning the breadth of a company's activities (or its scope of operations along an industry's entire value chain), ranging from horizontal mergers and acquisitions, to vertical integration, outsourcing, and strategic alliances. This material serves to segue into that covered in the next two chapters on international and diversification strategies.

- Chapter 7 explores the full range of strategy options for competing in international markets: export strategies; licensing; franchising; establishing a subsidiary in a foreign market; and using strategic alliances and joint ventures to build competitive strength in foreign markets. There's also a discussion of how to best tailor a company's international strategy to cross-country differences in market conditions and buyer preferences, how to use international operations to improve overall competitiveness, the choice between multidomestic, global, and transnational strategies, and the unique characteristics of competing in emerging markets.

- Chapter 8 introduces the topic of corporate-level strategy—a topic of concern for multibusiness companies pursuing diversification. This chapter begins by explaining why successful diversification strategies must create shareholder value and lays out the three essential tests that a strategy must pass to achieve this goal (*the industry attractiveness, cost of entry, and better-off tests*). Corporate strategy topics covered in the chapter include methods of entering new businesses, related diversification, unrelated diversification, combined related and unrelated diversification approaches, and strategic options for improving the overall performance of an already diversified company. The chapter's analytical spotlight is trained on the techniques and procedures for assessing a diversified company's business portfolio—the relative attractiveness of the various businesses the company has diversified into, the company's competitive strength in each of its business lines, and the *strategic fit* and *resource fit* among a diversified company's different businesses. The chapter concludes with a brief survey of a company's four main post-diversification strategy alternatives: (1) sticking closely with the existing business lineup, (2) broadening the diversification base, (3) divesting some businesses and retrenching to a narrower diversification base, and (4) restructuring the makeup of the company's business lineup.

- Although the topic of ethics and values comes up at various points in this textbook, Chapter 9 brings more direct attention to such issues and may be used as a stand-alone assignment in either the early, middle, or late part of a course. It concerns the themes of ethical standards in business, approaches to ensuring consistent ethical standards for companies with international operations, corporate social responsibility, and environmental sustainability. The contents of this chapter are sure to give students some things to ponder, rouse lively discussion, and help to make students more ethically aware and conscious of *why all companies should conduct their business in a socially responsible and sustainable manner*.

- Chapter 10 is anchored around a pragmatic, compelling conceptual framework: (1) building dynamic capabilities, core competencies, resources, and structure necessary for proficient strategy execution; (2) allocating ample resources to strategy-critical activities; (3) ensuring that policies and procedures facilitate rather than impede strategy execution; (4) pushing for continuous improvement in how value chain activities are performed; (5) installing information and operating systems that enable company personnel to better carry out essential activities; (6) tying rewards and incentives directly to the achievement of performance targets and good strategy execution; (7) shaping the work environment and corporate culture to fit the strategy; and (8) exerting the internal leadership needed to drive execution forward. The recurring theme throughout the chapter is that implementing and executing strategy entails figuring out the specific actions, behaviors, and conditions that are needed for a smooth strategy-supportive operation—the goal here is to ensure that students understand that the strategy-implementing/strategy executing phase is a make-it-happen-right kind of managerial exercise that leads to operating excellence and good performance.

In this latest edition, we have put our utmost effort into ensuring that the 10 chapters are consistent with the latest and best thinking of academics and practitioners in the field of strategic management and hit the bull's-eye in topical coverage for senior- and MBA-level strategy courses. The ultimate test of the text, of course, is the positive pedagogical impact it has in the classroom. If this edition sets a more effective stage for your lectures and does a better job of helping you persuade students that the discipline of strategy merits their rapt attention, then it will have fulfilled its purpose.

TABLE 1

A Quick Profile of the Cases in the 7th Edition of Essentials of Strategic Management

		Accompanying video (Y = yes; N = no)	Connect Case Exercise (Y = yes; N = No)	Size: Small (S), Medium (M), Large (L)	The manager's role in crafting strategy	The manager's role 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	**Fixer Upper: Expanding the Magnolia Brand**	Y	Y	S	X		X	X		X		X		X				X		X	X
Case 2	**Lola's Market: Capturing a New Generation**	Y	Y	S	X	X	X	X		X				X	X	X	X	X		X	X
Case 3	**Under Armour's Strategy in 2019: Its Struggle to Revive North American Sales and Profitability**	Y	Y	L				X	X	X	X	X		X							X
Case 4	**iRobot in 2019: Can the Company Keep the Magic?**	Y	Y	L			X	X	X	X	X	X		X							X
Case 5	**Twitter, Inc. in 2019: Are the Growth and Profit Sustainable?**	Y	Y	L			X	X	X	X	X	X		X							X
Case 6	**Netflix in 2019: Striving to Solidify Its Position as the Global Leader**	Y	Y	L	X		X	X	X	X	X	X		X							X
Case 7	**Mattel Incorporated in 2019: Hard Times in the Toy Industry**	Y	Y	M				X	X	X	X	X		X							X
Case 8	**Tesla's Strategy in 2019: Is Sustained Profitability a Realistic Prospect?**	Y	Y	M	X		X	X	X	X	X			X							X
Case 9	**The Walt Disney Company: Its Diversification Strategy in 2018**	Y	Y	L			X		X	X	X	X	X	X							X
Case 10	**Robin Hood**	Y	Y	S	X	X	X	X	X	X					X	X	X	X	X	X	X
Case 11	**Starbucks in 2019: Is the Company on Track to Achieve Operational Excellence and Attractive Growth?**	Y	Y	L	X	X	X	X		X	X			X	X	X	X	X	X	X	X
Case 12	**Profiting from Pain: Business and the U.S. Opioid Epidemic**	Y	Y	L					X	X	X						X		X		X

The Case Collection in the 7th Edition

The 12-case line-up in this edition is flush with interesting companies and valuable lessons for students in the art and science of crafting and executing strategy.

- There's a good blend of cases from a length perspective—about one-third are under 10 pages, yet offer plenty for students to chew on; about a third are medium-length cases; and the remaining one-third are detail-rich cases that call for more sweeping analysis.
- At least 10 of the 12 cases involve companies, products, or people that students will have heard of, know about from personal experience, or can easily identify with.
- The lineup includes at least on four cases that will provide students with insight into the special demands of competing in industry environments where technological developments are an everyday event, product life cycles are short, and competitive maneuvering among rivals comes fast and furious.
- All of the cases involve situations where company resources and competitive capabilities play as large a role in the strategy-making, strategy-executing scheme of things as industry and competitive conditions do.
- Scattered throughout the lineup are 8 cases concerning non-U.S. companies, globally competitive industries, and/or cross-cultural situations; these cases, in conjunction with the globalized content of the text chapters, provide abundant material for linking the study of strategic management tightly to the ongoing globalization of the world economy.
- Two cases deal with the strategic problems of family-owned or relatively small entrepreneurial businesses.
- Ten cases involve public companies, thus allowing students to do further research on the Internet regarding recent developments at these companies.
- All cases have recommended video segments that are posted on YouTube that can be shown in conjunction with the case discussions. The links to the YouTube videos are included in the teaching notes for the applicable cases.
- All of the 12 cases have accompanying Connect-based case preparation exercises. The exercises are based on the entire set of recommended assignment questions for the respective case and call upon a student to develop thoughtful, analysis-based answers (as opposed to stating seat-of-the-pants opinions).

A grid showing the issues that are prominent in each of the 12 cases in this edition is presented in Table 1.

Suggestions for sequencing the case assignments can be found in Section 3 of this IM. The 8 sample course outlines and schedules of class activities in Section 4 provide further suggestions about the sequencing of case assignments and how to integrate your coverage of the 10 chapters, the various case assignments, and use of a strategy simulation.

Specific details about how to utilize each case (including recommended assignment questions and recommended oral team presentation assignments are contained in the teaching notes for each of the cases (the TNs appear in Section 6).

Sample course syllabi displaying possible case sequencing and suggested case assignments are presented in Section 4 of this volume of the IM.

It is worth mentioning at this juncture that there is a comprehensive table of financial ratios in the Appendix that provides the formulas and brief explanations of what each ratio reveals. Adopters of prior editions have told us that students find this table extremely helpful in guiding their analyses of the financial statements contained in the cases. You will probably want to call this table to the attention of class members and urge that they make full use of the information it contains.

We believe you will find the collection of 12 cases quite appealing, eminently teachable, and very suitable for drilling students in the use of the concepts and analytical treatments in Chapters 1 through 10. With this case lineup, you should have no difficulty whatsoever assigning cases that will capture the interest of students from start to finish.

Value-Adding Student Support Materials for the 7th Edition of Essentials of Strategic Management

The text and text website include several kinds of support materials to help students grasp the material.

Key Points Summaries At the end of each chapter is a synopsis of the core concepts, analytical tools and other key points discussed in the chapter. These chapter-end synopses help students focus on basic strategy principles, digest the messages of each chapter, and prepare for tests.

Connect™ **Management Web-based Assignment and Assessment Platform** Connect chapter quizzes, learning assurance exercises, and case exercises can be used as a graded component of the course, an assessment mechanism, or as an effective way to prepare students for chapter exams, in-class discussions of cases, written case assignments or oral case presentations. Whether Connect assignments are calculated into students' grades for the course or not, our robust collection of chapter quizzes, chapter learning assurance exercises, and case preparation exercises will give students valid and timely feedback about their mastery of the concepts and analytical tools presented in the text. All students who purchase a Connect Plus eBook or a new copy of the text are automatically provided access to Connect at no additional charge.

The Business Strategy Game **and** ***GLO-BUS*** **Online Simulations** Using one of the two companion strategy simulations is a powerful and constructive way of emotionally connecting students to the subject matter of the course. We know of no more effective and interesting way to stimulate the competitive energy of students and prepare them for the rigors of real-world business decision-making than to have them match strategic wits with classmates in running a company in head-to-head competition for global market leadership. In Section 2 of this IM, we outline why using a competition-based strategy simulation as a course centerpiece makes great sense and provide you with detailed suggestions for successfully incorporating either *The Business Strategy Game* or *GLO-BUS* in your strategic management course.

Should you decide to incorporate use one of the two simulations in your course, the simplest (and usually the cheapest) way for students to obtain the simulation is via a credit card purchase at **www.bsg-online.com** (if you opt to use *The Business Strategy Game*) or at **www.glo-bus.com** (if you opt to use *GLO-BUS*). Purchasing the simulation direct at the web site allows students to bypass paying sometimes hefty bookstore markups (a savings that can amount to $10-$15). The second way for students to register for the simulation is by using a pre-paid access code that comes bundled with the 5th Edition when you order the text-simulation package through your bookstore—this requires use of a separate ISBN (the 5th Edition bundled with either simulation has a different ISBN number than just the 5th Edition ordered alone. Your McGraw-Hill rep can provide you with the correct ISBN for ordering the combination text-simulation package through your bookstore(s).

Case

1

Teaching Note

Fixer Upper: Expanding the Magnolia Brand*

Overview

In the spring of 2018, Home and Garden Television (HGTV) aired the *Fixer Upper* season finale closing five years on the network during which the series had become increasingly more popular. Not only had the program drawn attention to the other properties of Chip and Joanna Gaines, the stars of the show, but a spotlight had also been focused on the site of the show — the college town of Waco, Texas. Rarely had a business have the kind of impact on a city that *Fixer Upper*, renamed Magnolia, Inc., and its brand extensions — the Magnolia Table café, the Silos and Marketplace, Magnolia House inn, the *Magnolia Journal*, and Hillcrest Estate vacation home rental, among other lines of business, had on Waco, Texas, at least for the duration of the television series. With the end of *Fixer Upper*, people wondered what would happen to the various Magnolia businesses, as well as to the host city whose prominence had grown along with the popularity of not only the *Fixer Upper* show, but also with that of the Gaines family.

Suggestions for Using the Case

This should be a high-interest case, particularly for aficionados of Home and Garden Television, and one that will certainly trigger lively classroom discussion due to the critical incident that might severely impact Magnolia, Inc.'s sustainability and growth trajectory.

This case provides a unique opportunity for students to discuss the Gaines's attempts to gain traction in the hospitality industry due to the notoriety provided by a television program. Students should develop an appreciation of the need for companies to tailor a strategy and develop capabilities that fit the specific industry to build a sustainable competitive advantage. The case can be paired with the Wil's Grill case to provide students with a "compare and contrast" discussion question or writing assignment regarding how entrepreneurs can create and sustain competitive advantage in lifestyle businesses such as tourism and hospitality services.

This case is well suited for use as a lead-off case to be used in your introduction to strategy module and provides sufficient material for students to illustrate the following concepts in Chapter 1:

- To determine a winning strategy a company needs to ensure the strategy is well matched to industry and competitive conditions, a company's best market opportunities, and other pertinent aspects of the business environment in which the company operates
- A winning strategy should enable a company to achieve a competitive advantage over key rivals that is long-lasting

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*This teaching note primarily reflects the thinking and analysis of Professor Armand Gilinsky, Sonoma State University. We are most grateful for his insight, analysis and contributions to how the case can be taught successfully.

- The mark of a winning strategy is strong company performance. Two kinds of performance indicators tell the most about the caliber of a company's strategy:

  1. Competitive strength and market standing

  2. Profitability and financial strength

- The two elements of a company's business model are:

  1. Its customer value proposition that lays out the company's approach to satisfying buyer wants and needs at a price that customers will consider a good value.

  2. Its profit formula that 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.

The case can also be used to introduce concepts in Chapter 2:

- The process of crafting and executing a company's strategy is an ongoing, continuous process consisting of five interrelated stages:

  1. Developing a strategic vision that charts the company's long-term direction

  2. Strategic management for measuring the company's performance and tracking its progress in moving in the intended long-term direction

  3. Crafting a strategy for advancing the company along the path management has charted and achieving its performance objectives

  4. Executing the chosen strategy efficiently and effectively

  5. Monitoring developments, evaluating performance, and initiating corrective adjustments in the company's vision and mission statement, objectives, strategy, or approach to strategy execution in light of actual experience, changing conditions, new ideas, and new opportunities

- As shown in Figure 2.1 and illustrated in detail in Table 2.1, management's decisions that are made in the strategic management process are shaped by

  1. the prevailing economic conditions

  2. the competitive environment and

  3. the company's own internal resources and competitive capabilities

The Fixer Upper case also provides students with the opportunity to consider specific action steps to improve the Gaines family's position in the highly competitive tourism and hospitality industry. Some instructors may believe strongly that Chip and Joanna Gaines may have overextended their resources and capabilities into too many disparate lines of business — i.e. magazine, garden store, lodging, marketplace, restaurants and cafés, rental homes, home remodeling and improvement, etc. Instructors in this category may elect to use the Fixer Upper case to preview business portfolio assessment, retrenchment, and restructuring strategies covered in Chapter 8, and/or to preview the important role of a capable management team in executing strategy, covered in Chapter 10.

Video for Use with the Fixer Upper: Expanding the Magnolia Brand Case. There is a 3:09 YouTube video you can show (or let students view on their own) when having class discussion of the Fixer Upper case. The 2017 video is entitled "Chip and Joanna Gaines Reveal the Story Behind the Start of Their Own Business" and can be accessed at **https://www.youtube.com/watch?v=ek0mw2tgRQY**.

Utilizing the Guide to Case Analysis. If this is your first assigned case, you may find it beneficial to have class members read the Guide to Case Analysis located in the instructor resources section of the Connect Library. The content of this Guide is particularly helpful to students if your course 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.

The Connect-based Exercise for the Fixer Upper: Expanding the Magnolia Brand Case. We developed an exercise for Netflix for inclusion in the publisher's ***Connect™ Management*** web-based assignment and assessment platform because:

- Many of the topics in this case bear directly on the material in Chapters 1-5.
- One of the purposes of the case exercises is to drill students in applying the core concepts and analytical tools discussed in the chapters to the circumstances posed in the cases.

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 tools in Chapters 1-5.

What to Tell Students in Preparing the Fixer Upper: Expanding the Magnolia Brand Case for Class. To give students guidance in what to do and think about in preparing the Fixer Upper case for class discussion, we strongly recommend two things:

1. ***Have class members complete the Connect-based exercise for the Fixer Upper case in the event you have adopted the Connect software for your course***.
2. ***Provide class members with assignment questions and insist that they prepare good notes/answers to these questions before coming to class***. Our recommended assignment questions for the Fixer Upper case are presented in the next section of this TN. You may wish to have the class concentrate their attention on a subset of these questions, depending on what you want to concentrate on during the class discussion.

To facilitate your use of assignment questions and making them available to students, we have posted a file of the Assignment Questions contained in this teaching note in the Instructor's Resource Section of the Connect Library. In all instances, these assignment questions correspond to the assignment questions in the teaching note for the case.

In our experience, it is quite difficult to have an insightful and constructive class discussion of an assigned case unless students have conscientiously have made use of pertinent core concepts and analytical tools in preparing substantive answers to a set of well-conceived study questions before they come to class. In our classes, we expect students to bring their notes to the study questions to use/refer to in responding to the questions that we pose. Moreover, students often find that a set of study questions is useful in helping them prepare oral team presentations and written case assignments—in addition to whatever directive question(s) you supply for these assignments. Hence, we urge that you provide students with assignment questions—either those we have provided or a set of your own questions—for all those aspects of a case that you believe are worthy of student analysis or that you plan to cover during your class discussion.

This case is suitable for both written and oral presentations. Our recommended assignment questions are as follows:

1. As part of your internship requirements with the Magnolia, Inc. group of businesses, you have been asked to prepare an analysis of its competitive position in the e-commerce marketplace. Your report should contain 2-3 pages of recommendations for continuing the company's success in e-commerce, improving its financial position, and a recommendation about potential new areas for diversification. Write an executive summary of recommendations of no more than 2–3 pages, accompanied by supporting exhibits. These exhibits may include an overview of Magnolia Inc.'s strategy, a competitive strength assessment, and a financial analysis.

2. Chip and Joanna Gaines, Magnolia Inc.'s owners, have learned of your considerable skills in strategic analysis and has hired you to develop a strategic plan for Magnolia Inc., continue to build a stronger financial position, and make a decision about future diversification or retrenchment from its existing lineup of businesses. In developing your recommendations, you should assess the hospitality and tourism industry. You should also assess Magnolia Inc.'s competitive strength in its key product categories and analyze its recent financial performance. Finally, the plan should offer specific, actionable recommendations that will allow Magnolia Inc. to further improve its position. Your recommendations should be well supported with arguments and justifications for each recommendation. Your report should include 4-6 pages of recommendations and whatever supporting charts, tables or exhibits you deem useful.

Assignment Questions

1. What are the major elements of Magnolia Inc.'s competitive strategy? How well do the pieces fit together? Is the strategy evolving?

2. Explain the pressures facing Magnolia Inc. in its internal and external environments. How would you prioritize those pressures?

3. What strategic issues confront Magnolia Inc. in 2018? What market or internal circumstances should most concern owners Chip and Joanna Gaines and the company's senior management team?

4. What recommendations would you make to Magnolia Inc. to address the strategic issues confronting it in 2016 in order to sustain its impressive growth in revenues and achieve profitability?

Teaching Outline and Analysis

1. What are the major elements of Magnolia Inc.'s competitive strategy? How well do the pieces fit together? Is the strategy evolving?

There elements of the Gaines's strategy include:

- Low/no cost property conversions
- Fees from TV production company + an undisclosed fee from renovators.
- Related diversification into tourism and leisure and home furnishing businesses
- Target customers: families, high net worth individuals, median age 50+

- Charge premium prices for lodging and meals, at least relative to Waco market
- Partner w/ stakeholders, i.e. City of Waco government and Chamber of Commerce

Here is an ideal opportunity to ask students, which of the *generic strategies* illustrated in Chapter 1 might characterize the Gaines's Magnolia Inc. operation? Basic strategic approaches for setting a company apart from rivals and winning a sustainable competitive advantage include a low-cost provider strategy, a broad differentiation strategy, a best cost provider strategy, and a focused differentiation strategy.

We think a good case could be made that Magnolia Inc. has implemented a *best cost provider* strategy. A best-cost provider strategy is giving customers more value for the money by satisfying their expectations on key quality features, performance, and/or service attributes while beating their price expectations. This approach is a hybrid strategy that blends elements of low-cost provider and differentiation strategies; the aim is to have lower costs than rivals while simultaneously offering better differentiating attributes.

In addition to their pursuit of related diversification into segments they could at least indirectly promote on their television series, Gaines's strategy is evolving, inasmuch as the cancellation of their Fixer Upper TV series on HGTV has turned out to be a mixed blessing:

- Chip and Joanna clashed with HGTV executives over not being able to showcase their furniture line on the show and were unhappy with their contract because it was so restrictive, i.e. present contract prevented them from taking advantage of some lucrative deals
- On April 10, 2018, Joanna launched a *Fixer Upper* spinoff series entitled "Behind the Design" to share details on her design strategies, decorating, staging a home, and cover all the elements that go into home makeovers

2. Explain the pressures facing Magnolia Inc. in its internal and external environments. How would you prioritize those pressures?

Here is an ideal place to preview one or more of the situation analysis concepts and frameworks that will be covered in greater depth in Chapters 4 and 5, and strategy implementation concepts that will be covered in later chapters, such as 8 and 10.

It's also an ideal place to ask students to read the case exhibits carefully, not just gloss over them particularly case Exhibits 2 and 5.

SWOT analysis is a simple but powerful tool for sizing up a company's strengths and weaknesses, its market opportunities, and the external threats to its future well-being.

See Table 1, and remind students that a SWOT analysis is much more than "placing bulleted lists in boxes," that is, it involves making conclusions that could lead to generation of strategic alternatives for the company.

TABLE 1

SWOT Analysis for Magnolia, Inc.

<table>
<tr><th>Strengths / Competitive Assets</th><th rowspan="4">Conclusions about Magnolia’s situation:

• Develop a company vision & mission (previews Ch. 2)
• Pursue differentiation focus generic strategy (previews Chs. 1 & 5)
• Curtail further diversification or retrench from business unrelated to real estate, as owners have limited experience outside that arena (previews Ch. 8)
• Recruit & hire professional management team capable of good strategy execution (previews Ch. 10)</th></tr>
<tr><td>• > $2 million in TV revenues over 5 seasons & Gaines’ combined net worth of ext. $18 million (case Ex. 2)
• Organic growth of diverse businesses under same brand umbrella
• Supportive of Waco’s mission, “Do good work that matters”</td></tr>
<tr><td>Weaknesses / Competitive Deficiencies</td></tr>
<tr><td>• No apparent long-term company vision or mission
• Reliance on $400–$500K annual revenue stream in jeopardy due to show cancellation (Ex. 2)
• Reliance on one geographical location
• Reliance on owners/founders who have no succession plan
• Relatively low level of Millennials among Magnolia Journal readership and patronage of this demographic segment at Waco properties is unknown (Ex. 5)
• Management team expertise — an unknown</td></tr>
<tr><th>Opportunities / Favorable External Factors</th><th>Implications for improving Magnolia’s strategy:</th></tr>
<tr><td>• Residuals from rentals & streams of HGTV series
• Magnolia Market > 30,000 visitors a week to WACO
• High net worth of Magnolia Journal readership
• Silos attraction could potentially draw 1.6 million visitors annually (50 % non-Texas)
• Economic multiplier effects increased patronage at local hotels and restaurants
• Rising Waco property values, @ 4x national average in March 2015</td><td rowspan="3">• Focus on TV, real estate & lodging arenas
• Pursue selective retrenchment out of businesses where the Gaines have little or no expertise (or time) to manage
• Seek strategic partnerships in parking, hotel shuttle transport, food services and retail operations to share costs & minimize risks of adversity in external environment
• Meet or exceed industry standards for product quality and data security</td></tr>
<tr><td>Threats / Unfavorable External Factors</td></tr>
<tr><td>• Parking a major, costly challenge near the Silos
• Locals’ complaints about the increased traffic
• Demise of the popular television program Fixer Upper
• Another reputation-damaging incident in Waco
• Economic recession & downturns in travel & housing markets</td></tr>
</table>

(Adapted from Figures 4.1 and 4.2 in the text)

3. What strategic issues confront Magnolia Inc. in 2018? What market or internal circumstances should most concern owners Chip and Joanna Gaines and the company's senior management team?

Students may point to the Gaines's tactical challenges,

"Some [Waco] locals complained about the increased traffic."

"Some history buffs in the city complained that the name "Elite" should have been retained since the café's history had been so intertwined with that of the town."

But their biggest strategic challenges are likely to be in the aftermath of the HGTV cancellation, despite the announcement of a spinoff series with an unknown network and unknown audience. It is also somewhat likely that the novelty of their original Fixer Upper series has long worn off. The strategic challenges are:

- Sustain the pace of growth
- Maintain the pace of diversification to assure that growth
- Recruit and retain experienced, objective management to run their disparate portfolio of business
- Remain in the good graces of the City of Waco
- Stay healthy to avoid burn-out

The last point above may be missed by students, even though the case indicates that the Gaines's fifth child arrived during summer 2018 and the case indicates that filming a series over 11 months can be tiring and repetitive for the Gaines family.

4. What recommendations would you make to Magnolia Inc. to address the strategic issues confronting it in 2018 in order to sustain its growth in revenues and profitability?

Students should engage in an active discussion/debate to defend their recommendation(s) to continue the existing business model, propel growth forward via product line extensions or via a strategic alliance or partnership (foreshadowing the coverage of these diversification strategies in Chapter 8), or cash out and exit the business via a sale to another online marketplace.

Wrapping-up the case:

We believe strongly that although the new TV series may indeed turn out to be a success, at least temporarily, absent a clear company mission and vision for Magnolia Inc., it is difficult to tell what the longer-term future might hold for Chip and Joanna Gaines.

The Gaineses have surely provided Waco, Texas with a renaissance and more attractions than just being a "college town" (Baylor U.) or a curiosity for those who remember the Branch Dravidian cult.

Yet, there are good arguments to be made for the Gaines family to:

- Direct time and investments to only those businesses that complement the home improvement business model and profit formula and that provide the company with a potentially *sustainable competitive advantage* (covered in Chapter 1)
- Craft a formal mission and vision for Magnolia Inc. (covered in Chapter 2)
- Divest labor-intensive businesses like food services, gardening store, and magazines (covered in Chapter 8)

- Monitor relationships with key stakeholders in the City of Waco and strive to be a socially responsive and socially responsible business (covered in Chapter 9)
- Hire an experienced management team (covered in Chapter 10)
  - Safeguarding the Gaines's primary assets (resources and capabilities) is increasingly important now that the family's net worth is in in distance of an eight-figure range ($5 million as of 2018)

There is a danger of becoming overextended and stretching their still modest resources and capabilities even further, into too many disparate lines of business — i.e. magazine, garden store, lodging, marketplace, restaurants and cafés, rental homes, home remodeling and improvement, etc. Why? Because, as highlighted in Chapter 1:

- To determine a winning strategy a company needs to ensure the strategy is well matched to industry and competitive conditions, a company's best market opportunities, and other pertinent aspects of the business environment in which the company operates
- A winning strategy should enable a company to achieve a competitive advantage over key rivals that is long-lasting

Epilogue

On April 11, 2019, Chip and Joanna Gaines announced that they would be launching a television channel and related phone ap with the possible creation of a subscription-based streaming service with Discovery, Inc. The couple said the new network would focus on "community, home, garden, food, wellness, entrepreneurism and design." Discovery, Inc. is the owner of HGTV, Discovery Channel, Science Channel, Animal Planet, TLC, ID, Food Network, Travel Channel and DIY Network. The intention of the joint venture is to rework the DIY Network as the new Magnolia TV offering.

The launch date of the new network is proposed for summer of 2020. The DIY Network in 2019 was reaching more than 52 million homes across the country; whereas HGTV was reaching 99 million homes.

Additional case updates can be found at Magnolia Inc.'ss website: **https://magnolia.com**, or via its social media site on LinkedIn, **https://www.linkedin.com/company/magnolia**.