

Adm. 203, Winter '78, Reading Notes

Mr Nichols, Chap. 5, "Basic Objectives & Root Strategy"

Root strat -- ea. firm needs a niche, theme, differentiation, speciality, distinctiveness, character, identity, style, personality, ~~and~~ function. E.g. of Mead Co., p. 87-9.

Something ~~more~~ ~~defining~~ a step beyond mere profit or wealth. a specific means ~~to~~ to that universal goal. a "unifying force".

Basic bus. objectives:

Profitability

Growth (of what?) Market share?

Survival

are paramount. Wrong! These may conflict.
Life, Collins, Sat Eve Post, Look,

He allows for terminal lign. as thinkable.
(conditioning a firm for merger is a good ^{true} strat.)

But doubly wrong re growth:

a) Growth follows from profitability

Assumes plowback

b) Growth neg. for survival

(Change is enough. Human metabolism continues 60-70 yrs. after

Stresses esp. long term survival -- "forego opportunistic profit max. in s.r." to stave off these threats:

- ecology
- govt. reg. (e.g. price control)
- anti-trust
- taxation
- (he might have added to wage demands)

i.e. keep big gains inconspicuous. Bury them in K-subsidy, promotional inv, random growth. Here is a reason why growth looks good, half yr. K inv. is expended.

Satisfying. Appeals to McN. Rationalizes comfort-cushions, confusion. "No firm can be aware when reaches opt. results". (It can, when others do better) He attributes this to complexity; ~~is~~ (complexity is really X-subsidy & discc. of scale, burying profits in para-consumptions of mngs.)

(Effect of inc. tax on cons. patterns, enormous. Bus. lunches, travel, etc. #

Effect on family. Girl Friday, are deductible; wives are not. Houses are, in part.)

Simon did for bus. what Lindblom does for bureaucrats: rationalize & legitimize ineff.

McN. p. 74 has max. "revs." $\equiv$ max. wealth.
He probly means net revs., but doesn't say so, & has
pro-growth bias.

(Fund v. flow, remind class.

(Max p.v. is max. rev. net of future int. cost.

Discl is subtracting.

Thus the fund approach becomes a flow approach.
I.e., PV of K you buy is its net flow

McN is modify profit max by movg from s.r.
to long. But real profit max is always that.
Foregoing current gain is an inv.

all mgt. decisions shld. be based on max'g wealth
of owners -- ~~is~~ DCF.

He says value of stock -- he's corp. oriented.
(to review valuation

$$PV = a \frac{1 - e^{-in}}{i} \quad \text{one cycle}$$

or

$$\frac{a}{i} = \frac{PV}{1 - e^{-in}} = \frac{FV}{e^{in} - 1} \quad \text{many cycles}$$

Show a 10 yr. model where salvage reflects future.
Show diff. sensitivity.

k is the firm's borrow'g rate, shown by
mkt, bonds or stock. Internal rate.

k then becomes screen device, screen out projects. Target rate

If one enterprise or alt. inv. seems hi,
check value of k , overhead. Can you get more k for
same price?

p. 79 median k factor for "U.S. indy", 1971-75,
11.5%.

(Before or after tax?

(Adj. for infln?

(Adj. for revaluation of k ? Probably not.

(What indy?

Range, 5 - 22%. None.

p. 80, use ave. of borrow'g rates. No, use highest.

Return on recoverable K is what counts.

Failure to act on survival rates. Reluctance to phase out losses. Clothing mfg. as e.g. (but clothing is not out. Jack Winter, etc. Maybe just competitive.)

e.g. Means is, "Service Systems".
Careful defn. of co.'s individuality. Enters right into customer's opn. "The system itself gives direction."

Avoid identity crises -- as hit Sears, 1975.
Upgraded merchandise, confused customers.

Transitional strategy. Basically, with the old prop'ty. to reinvest in new. N.W. Indus. did this to NWR.

Contradiction of "hi cash flow" vs. low return on "inv. cap.". Here, McN. accepts inflated statement of K.

N.W. Indus. new strategy, nibble & diversify.
Worked.

P & G changed from soap seller to supplier of supermarkets, as latter grew.

Distrib. Channel is usually an op. strategy, but P & G made it the root strategy. Also built on
a) Synergy in advertising; b) Bulk purchase, raw materials.

Avon,

a) Employees are indep. contractors. (Creative tax-avoidance.)

b) Home space for storage

c) Collection became rules

d) Opp. for women

(Re, ^{acting on} survival rates, absentee ownership may occur, drive up value of inv. K.
E.g. Citrus in R-side.)