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From OEM to Retail

The case of Logitech International

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Sammanfattning

Titel	Från OEM till Detaljhandel: Ett fall av Logitech International
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5 Nyckelord:	OEM, Detaljhandel, Strategiska ansatser, Delegering, Struktur
Avsikt:	Avsikten med denna avhandling är att belysa förutsättningar för övergången från OEM till detaljhandel. I syfte att besvara denna fråga belyses strategi- samt strukturförändringar under två olika tidsperioder.
Metodik:	Information från intervjuer och sekundära källor samlades in för att därefter analysera den givna frågeställningen med givna modeller.
Slutsatser:	En organisation kan konkurrera effektivt inom både OEM och detaljhandel. Förutsättningarna för detta är att företaget har etablerat sig som "cost-leader" inom OEM marknaden och kan använda denna vinst till att utöka verksamheten inom detaljhandeln. Detta är dock enbart möjligt om större strategiska samt strukturella förändringar genomförs för att få total effektivitet i den nya marknaden. Beslut om verksamheten måste delegeras till "lägre" nivåer för att effektivisera verksamheten. Dessutom måste företagets olika verksamheter vävas samman till en effektiv enhet som förespråkas i value-chain modellen. Nyskapande och innovationstänkande måste uppmuntras även vid dom lägre nivåerna.

Summary

- Title** From OEM to Retail: The case of Logitech International
- Seminar date:** 2004.01.12
- Course:** Bachelor thesis in Business administration, 10 Swedish Credits (15 ECTS)
- Author** Carl Michael Nyberg
- Advisor:** Gösta Wijk
- Organization:** Logitech International
- 5 Keywords:** OEM, Retail, Strategic Lenses, Delegation, Configuration
- Purpose:** The aim of the dissertation is to try to derive at a hypothesis on the implications involve with the move from the OEM market to the retail market based on my findings on the developments within Logitech. In order to do answer the question I will analyze strategy development as well as configurational changes prior to and after the transition of 98.
- Methodology:** Information was gathered from Interviews and various secondary information sources to analyze the question with given models.
- Conclusions:** An organization can compete efficiently within both the OEM market and the retail market simultaneously if these have established cost leadership within the OEM market and can utilize this to fund a move into the retail market.
- Significant structural and strategic restructurings are however necessary in order to achieve total inner and outer efficiency within the new market.
- The organization is required to delegate much of the decision making to lower functional units and integrate these within the value chain.
- Innovation should be promoted at all levels through the emphasis of interaction and an adaptation of a strategy of ideas basis for strategy development.

Contents

1	Introduction.....	5
1.1	Background to study	5
1.2	Problem formulation	6
1.3	Aim	6
1.4	Limitations	7
1.5	Definitions.....	7
2	Method	8
2.1	Method selection.....	8
2.2	The nature of the analysis	8
2.3	Quantitative data	9
2.4	Qualitative data	9
2.5	Primary data.....	9
2.6	Secondary data	10
2.7	Source criticism	11
3	Company Description	13
3.1	Introduction.....	13
3.2	Background	13
3.2.1	The Entrepreneurs	13
3.2.2	Post Transitional	15
3.3	Organisation.....	16
3.3.1	Board and Executive management.....	18
3.3.2	Divisional Business Units – Product development teams.....	19
3.3.3	Operations and General Management.....	21
3.3.4	Sales and Marketing.....	22
3.3.5	Product development – the Strategic Front End (SFE).....	23
3.4	Market.....	24
3.4.1	OEM.....	24
3.4.2	Retail	25
3.5	Alliances	26
4	Theory	27
4.1	Introduction.....	27

4.2	Strategy as Design.....	27
4.2.1	The Planning and Positioning Based View.....	28
4.3	Resource-Based View (RBV).....	32
4.3.1	Focus on Internal Competences and Resources.....	33
4.3.2	Rent-earning potential of resources and capabilities	34
4.4	Strategy as Experience.....	35
4.4.1	Emerging strategies.....	35
4.4.2	The role of experiences and organizational culture	37
4.4.3	Developing a model of learning and Logical Incrementalism.....	37
4.5	Strategy as Ideas	38
4.5.1	The emergence of order and innovation	38
4.5.2	Strategic rules.....	39
4.5.3	Coevolving.....	41
4.5.4	Logical Incrementalism	41
4.6	Mintzberg's 6 organizational configurations	41
4.6.1	The simple configuration	42
4.6.2	The machine bureaucracy	42
4.6.3	The professional bureaucracy	42
4.6.4	The divisionalised configuration.....	43
4.6.5	The adhocracy	43
4.6.6	The missionary organization.....	43
5	Analysis.....	44
5.1	Introduction.....	44
5.2	Logitech before the transition	44
5.2.1	Strategy Development.....	44
5.2.2	Configuration	51
5.3	Logitech after the transition.....	54
5.3.1	Strategy Development.....	54
5.3.2	Configuration	58
6	Conclusion	62
7	Bibliography	68
7.1	Literature.....	68
7.2	Internet resources	68

1 Introduction

Within the dissertation I want to examine the extent to which organizations which are present in an Original Equipment Market (OEM) have to change their organizational configuration and strategy development systems to be able to compete profitably within the retail market. I have chosen to analyze Logitech International S.A. as the subject matter of analysis as these have been able to successfully establish a retail base from initially being an OEM supplier. Logitech's approach to strategy formulation and configurational structure has changed dramatically during the last five years. In my view, analyzing these changes will provide an insight into the required alternations as Logitech is currently one of the leaders within the retail input peripherals market.

1.1 Background to study

OEM manufacturers in general are exposed to less volatility than retail manufacturers. Order and sales forecasting, close contact to customers and their requirements and a competitive market based on cost leadership all point to that companies within the OEM market are structured in more classical configurations with tight controlling systems and a hierarchical leadership structure. The volatile retail markets however often entail competition based on other factors than cost leadership. Furthermore sales and order forecasting and detailed analytical research is difficult, limiting the freedom of strategic planning. To be able to successfully move from the OEM market to the retail markets, organizations are likely to have to change their strategy development processes and structural configuration. This shift entails a severe transformation and organizations are likely to adapt to the new environment hesitantly as organizational paradigms are deeply rooted within the firm.

Logitech was initially heavily dependent on the OEM sector for the sale of their products. In the late 80's they entered the retail sector the OEM sector remained the primary source of income. During the early 90's severe price pressures from competitors forced Logitech to move its manufacturing and assembly operations to the Far East to benefit from the cheaper production base. The perseverance of the competition together with the seemingly declining OEM market made Logitech to rethink its strategy with a higher focus on the retail sector. This entailed severe strategic and structural changes.

1.2 Problem formulation

For the purpose of my dissertation I have assumed that Logitech is and has been a 'normal' well established OEM producer of input peripherals. After having implemented severe changes Logitech now has managed to successfully break the dependence on the OEM sector and establish themselves within the retail sector. To determine whether these changes were necessary and whether such changes can be applied to other companies within the OEM I have asked the questions:

- *What were the past strategic and configurational conditions prior the transformation?*
- *What were the strategic and configurational conditions after the transition?*
- *What Hypothesis can be drawn from the findings?*

1.3 Aim

The aim of the dissertation is to try to derive at a hypothesis on the implications involve with the move from the OEM market to the retail market based on my findings on the developments within Logitech. It is not the purpose of the dissertation to provide a step by step manual but to create a general understanding of the implications it entails. In order to do answer the question I will analyze how strategy development has changed between the two time periods. Furthermore I will analyze how these have been integrated within the firm in terms of configurational changes.

1.4 Limitations

Since the basis for this analysis is of a qualitative nature only one organization has been used in analyzing this hypothesis. Time and resource constraints as well as the fact that the research is conducted by only one individual has not allowed for a more detailed analysis of various firms within the market. Furthermore only data which I have determined to be relevant to the hypothesis has been included.

1.5 Definitions

OEM Original Equipment Manufacturers (OEM) are manufacturers of hardware components and include manufacturers such as Canon, Epson, HP etc. The OEM's outsource the production of various components to third party suppliers. Logitech supplies OEM's with standard 'no name' mice with basic functionalities.

Retail The retail market is often referred to as the 'after purchase' market. Consumers, having bought a complete computer from an OEM prep up their computers with various products which suit their requirements. In addition to the OEM mice sales Logitech supplies the retail market with sophisticated input peripherals such as mice, keyboards, cameras, etc. These distinguish themselves through their functional specifications and price ranges.

2 Method

2.1 Method selection

The main aim of the analysis is to find a correlation between the recent tremendous success within Logitech and certain strategy developmental and configurational changes which had been undertaken during the last 5 years. The analysis is thus of an explorative nature where information from various sources is gathered in order to answer the question at hand. Similarly, my analysis is of a descriptive nature where the two different situations, the past and the present, will be described and analyzed in order to allocate these within present models. Descriptive research and analysis focuses on a few individual aspects with which one tries to identify and explain a hypothesis.¹

2.2 The nature of the analysis

It is not the aim of this assignment to test the hypothesis developed as this would go far beyond the scope of the paper. Thus the analysis will be of a nomographic nature where general patterns are sought, within the qualitative variables mentioned above, in order to develop a hypothesis or concept around the problem area.

“Modeller innehåller begrepp, definitioner, variabler och relationer och är ett verktyg att använda vid kunskapsbildning om verkligheten.” Guideline Handout²

¹ Patel, R., Davidson, B (1994): “Forskningsmetodikens grunder” p. 11

² Bachelors seminar with Gösta Wijk

The variables (which strategy schools and configurations were used at the two different time intervals) are thus used in relation to each other to find a hypothesis on how these are related to one another. From this I hope to be able to provide a “if.... Then...” hypothesis.³ This provides the basis of an inductive analysis, where if the variables are true and reasonably significant there is a strong premise for the probable truth of the hypothesis. Deductive analysis on the other hand tries to provide a model where there can be little doubt about the hypothesis’s truth. The two differ as inductive arguments are not as strong and deal with the likelihood of a hypothesis whereas the deductive argument guarantees its validity.⁴

2.3 Quantitative data

The nature of the analysis does not give rise to a quantitative analysis as the answers which are sought cannot be found in such. Quantitative data is thus not used within this study

2.4 Qualitative data

The analysis emphasizes the use of qualitative data as this can provide a ‘deeper knowledge’⁵ of the general problem at hand. Information is thus derived from interviews and previously published material. Quantitative information would not have provided me with adequate and relevant information concerning the case. The study thus solely relies on the qualitative data which I have been able to obtain.

2.5 Primary data

Primary data was collected through interviews with a source within the organization. Gareth Hayes, the marketing director for Europe was interviewed at two different points in time (11.12.03 and 22.12.03) and has been a key source to understanding the current configurations and processes of the organization. These interviews were conducted on the

³ Patel, R., Davidson, B (1994): “Forskningsmetodikens grunder” p. 18

⁴ <http://www.iep.utm.edu/d/ded-ind.htm>

⁵ P Patel, R., Davidson, B (1994): “Forskningsmetodikens grunder” p. 99

telephone and were of an informal nature to increase the scope of the questions. I chose to use this 'unstandardized' approach to the interviews in order to be able to formulate the questions in the process of the interview. Furthermore the use of unstructured interviews enabled me to gain insight into fields which the interviewee deemed important. This has provided me with a greater opportunity to 'dig deeper' into the problem area at hand. As there was reluctance, due to confidentiality issues, to answer questions concerning the strategy development process, structure as well as processes within the organization the use of unstandardised and unstructured interviews enabled me to craft questions to derive to the answers indirectly during the process of the interview. The general sequence used was the 'funnel technique' where I started in trying to gain an overall picture of the organization and then moved on to ask more specific questions.⁶ Two interviews were also selected in order to first gain an overall understanding of organization and then to elaborate on items which I deemed to be the key to the study.

As Logitech's corporate headquarter is in Fremont, USA, it was difficult to organize interviews with key board personnel. Furthermore, Christmas holidays made primary data collection through direct interviews very difficult. Requests for interviews with Daniel Borel and Guerrino de Luca were turned down as these were either on holiday or extremely busy due to the importance of Christmas sales to the organization.

2.6 Secondary data

I have used extensive secondary data material for the dissertation. Early within the dissertation I realized that I was not able to rely too much on primary data as it was expressed that the information sought was not provided to the public due to confidentiality matters. I quickly had to refocus my emphasis on data collection to the use of secondary data. After weeks of extensive web searches on relevant material I learned of a case study written by Assistant Professor Tony Davila (Stanford University Graduate School of Business) and Professor Daniel Oyon (University of Lausanne). After contacting these I received a copy of the study:

⁶ P Patel, R., Davidson, B (1994): "Forskningsmetodikens grunder" p. 66

“Logitech (A) Passing on the baton to an external CEO” dealt with the structures, systems and processes prior to the executive control handover from Daniel Borel to Guerinno De Luca. It also provides a good view of strategic control and decisions systems at that point in time.

“Logitech (B): Redefining the business model” dealt with the direct changes implemented after De Luca’s entry. Both of these articles have been extremely helpful for my dissertation and extensive data has been used from these articles. The articles were purely descriptive of the changes and contained extensive interview material between the authors and Guerinno de Luca as well as Daniel Borel.

Research analyst’s reports from financial institutions (35 research reports from 3 banks) such as DZ Bank, LODH and Pictet et Cie. have also been used as a source for secondary data. Furthermore, news searches dating back until the 1980’s have also been conducted. Sources for secondary data have provided over 500 pages of articles from NZZ databases, factiva and various online sources such as BusinessWeek online, Facts, TWST.com, Time, Forbes etc. Furthermore company information was received from the swiss stock exchange.

Logitech also has a corporate website where recent annual reports and press releases are accessible. Since the website was established in the late 1998, corporate releases prior to this date have been collected from Logitech directly. A further source of information has been course literatures during the studies at Bath University as well as recommended reading lists.

2.7 Source criticism

The study emphasizes strategy development and configurational changes within the organization. During my first discussion with Logitech, they expressed that the organizational structure and especially strategy development procedures as well as organigrams and structural information are not items which are released to the public as

Logitech believes this to be one of the core strategic advantages over competitors. I would like to emphasize that this has greatly limited the resources available for the analysis as these were required to identify the current and past structures and strategic choices through secondary research. Therefore, unless otherwise stated, all configurational and structural statements presented in this report are my interpretations from interviews, annual reports and research reports and thus open to errors.

Both interviews were conducted with Gareth Heyes, the public relations manager for Europe. Gareth has been extremely helpful in trying to provide an insight into the organization given the confidentiality restrictions. I believe that Gareth was the right person to be addressed concerning general corporate information. Interviewing key personnel within other departments may have led to skewed or biased descriptions, in favor of the particular department.

I do acknowledge that further interviews with key personnel would have provided a more detailed, objective and correct insight into the workings of the organization and the changes which were implemented during the last five years. However, the difficulties of gathering secondary data and time and resource constraints have not allowed it. Yet, I believe that the extensive secondary research, especially the case study obtained, has counterbalanced this loss to a certain respect and that sufficient material was gathered to conduct the research at hand.

Both articles, Logitech A and Logitech B, are based on the research conducted by the authors and consist primarily of information gathered from interviews with founder, Daniel Borel and Chief Executive Officer, Guerinno de Luca. The information obtained from the material is thus open to their interpretations. I have been careful in trying to verify the information with other sources. The study furthermore served a different purpose and therefore some information may not be relevant. I have assumed that the study is unbiased and of good quality.

3 Company Description

3.1 Introduction⁷

Logitech is an international company with over 4'800 employees worldwide. Logitech designs, manufactures and markets personal computer peripherals (Personal interface products) such as computer mice, keyboards, wireless equipment and audio and console controllers. The company is headquartered in Fremont (California) and has regional headquarters in Romanel (Switzerland), Hsinchu (Taiwan) and Hong Kong (China). The principal manufacturing facility is located in China and distribution facilities are located in the United States, Europe and Asia. In fiscal 2003 the company had sales in excess of US\$ 1.1 billion and an operating profit of approximately US\$ 123.9 million. Two primary distribution channels are used to sell the products: Retail and Original Equipment Manufacturers (OEM). Approximately 80% of the Logitech's revenue can be attributed to the retail sector in fiscal year 2003.

3.2 Background⁸

3.2.1 The Entrepreneurs

Logitech was founded in October 1981 as a computer technology consulting company by two engineering students. Daniel Borel and Pierluigi Zappacosta, both graduates in computer science at Stanford University, wanted to join the growth in the personal

⁷ Information obtained from corporate press releases and financial statements

⁸ Davila, T. & Oyon, D. (2001): "Passing the baton to an external CEO"

computers industry and with a starting capital of CHF 50'000.- established set-up shops in Switzerland and the United States. The inability of the suppliers to meet the vastly growing demand of computer hardware and software, provided plenty of opportunities and Logitech was able to secure considerable software contracts from companies. One of these companies was Ricoh, a manufacturer of office automation equipment, contracted Logitech to produce a desktop publishing system. The contract included the development of a mouse pointer. In 1982 Logitech managed to develop their first mouse based on a prototype mouse developed by the Swiss Federal Institute of Technology in Lausanne. Simultaneously Logitech secured an OEM deal, supplying Hewlett Packard with 25'000 mice. With manufacturing originally outsourced Logitech soon gained venture capital for the establishment of in-house production facilities both in Switzerland and the United States.

Increased price pressures from large competitors such as AT&T and Apple forced Logitech to relocate production functions to Taiwan (1986) and Ireland (1988). With increasing demand, sales doubling every year from 1986 to 1988, and limited manufacturing capacity Logitech required further capital to expand its production capacity. With sales of \$100 million p.a., over a thousand employees and a truly international establishment Logitech managed to secure over CHF 25 million in the Initial Public Offering of 1988.

Going public strengthened our image, it increased our visibility and credibility” Borel⁹

Immediately after the IPO the company entered more difficult times as the market started to compete more on the base of price, marketing and innovation. At the beginning of the 90's Logitech diversified its product range into cameras, handheld scanners and game accessories. The OEM market was still attractive as it provided Logitech with a 40% gross revenue.

“In ten years the company had gained market recognition for its reliability, product quality, on-time delivery, flexibility, and responsiveness while matching the prices of aggressive Taiwanese competitors such as Alps.”¹⁰

⁹ SWX magazine „Mittendrin“ (04.03): http://www.swx.com/reports/2002/pdf/SWX_Magazin_en.pdf

The cost efficiency was however soon exhausted and price pressures from large multinationals such as IBM, Apple and HP, together with unprofitable diversifications posed increasing strains on profits. Restructurings were initiated to reduce costs in the growingly hypercompetitive environment.

“The second [repositioning towards the retail market] came in the mid 90’s where lots of companies jumped into the market. The increased competitiveness and price pressures led to that Logitech had to shut down manufacturing in Ireland and US and moved it to Sozhou in 1996.” Interview with Gareth Hayes

Some product lines such as the AudioMan lines and scanners had to be discontinued.

Scanners are not in the same class as human interface devices. We had losses and wound up restructuring and selling the business in 1996,” de Luca¹¹

Greater emphasis was now laid on product design and cost efficiency as Borel tried to decrease the dependence on the OEM market which accounted for approximately 85% of sales in 1996. The increased efficiency of the Sozhou manufacturing facility by 1997 enabled the company to gain substantial profits again as cost advantages were restored. Sales increased again however the management was now concerned as the seemingly maturing computer industry upon which the OEM sector was dependent. Yet, by 1998 the refocus had not proven successful as sales within pointing devices still accounted for approximately 80% of the total sales of the company. Logitech needed a different approach to business in order to secure the future of the company.

3.2.2 Post Transitional

In March executive control was handed over from the co-founder Daniel Borel to the ex Apple marketing Chief Guerrino de Luca. Since then Logitech has diversified into a variety of markets, such as the 3D input peripherals and the audio speaker market. Furthermore, Logitech has emphasized and expanded its product range within the accessories for video market and entered new markets with the launch of mobile

¹⁰ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p.3

¹¹ www.forbes.com/2001/11/05/1105logitech.html

accessories products. Logitech has been able to establish a cost advantage over competitors while retaining a gross margin of 37%.¹²

*“[On the issue of OEM price] Logitech is like a Chinese provider – with the difference of quality. Here our customers do not accept any compromises.” de Luca*¹³

Growth of sales has over the last years also increased steadily by more than 30%. The OEM share on total sales has also dropped dramatically to 15% as the company has successfully decreased its dependence on this distribution channel.¹⁴

*“IDC estimates that of the world’s 900 million desktop personal computers that have shipped since 1982, a Logitech mouse was shipped with 55 percent of them”*¹⁵

Sales of within its core business mice and keyboards currently only account for approximately 60% of total turnover.¹⁶ Logitech is the market leader in keyboards and web cams. Logitech’s new digital camera line ClickSmart and Pocket Digital have further emphasized the long term corporate successful strategy shifting dependence from low margin OEM sales to the more lucrative retail market. De Luca’s goal “is to be the ‘last inch’ between human fingers and electronic gizmos”.¹⁷

3.3 Organisation

From the research conducted I have concluded that Logitech’s organizational structure is primarily of a multinational matrix character.¹⁸ It consists of the executive board, four product development divisions (Control devices, Video, Audio and Interactive Entertainment and 3Dconnexion) and two functional divisions (Sales & Marketing and Operations & General Management).

¹² BusinessWeek (17.06.02) p.74

¹³ MoneyCab (24.04.03 – 16:18) “Guerrino de Luca: “Logitech ist die Luxusmarke in einem Massenmarkt”

¹⁴ www.ecommercetimes.com/perl/story/19664.html

¹⁵ Press release: www.logitech.com/

¹⁶ DZ Bank Research publication (17.02.03)

¹⁷ BusinessWeek (17.06.02) p.74

¹⁸ Johnson, G. & Scholes, K.: “Exploring Corporate Strategy, 6th edition” p.428

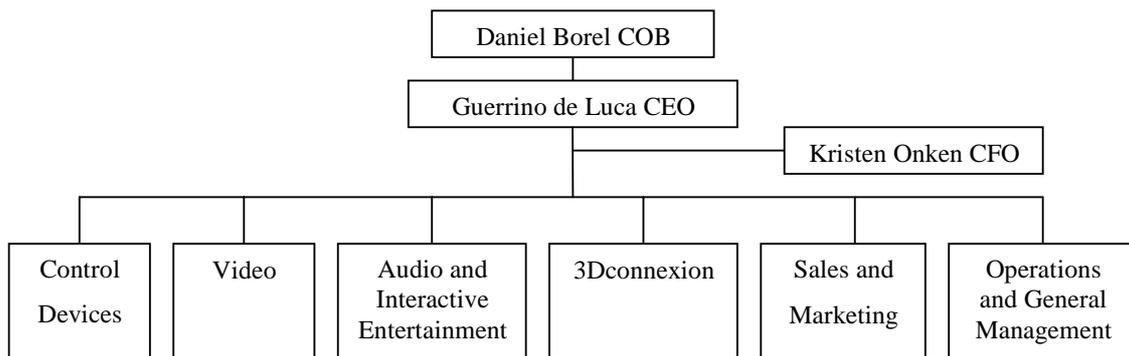


Figure 3.1: Executive Board

The board is headed by co-founder and Chairman, Daniel Borel. Seven divisional managers report to the Chief Executive Officer, Guerrino de Luca. Each of the product divisions has a product development team and a set of the engineers (mechanical, electrical, software etc.) that provide services to the product development teams. The product divisions or business units are involved in the development of products. The Sales and Marketing functional division is split into regional marketing divisions consisting of Asia, Europe, Japan and the US. Operations and General Management is concerned with the manufacturing of the products developed under the different Business Unit divisions.

The different product development division's work in a close collaboration with the Sales and Marketing and Operations divisions to ensure that products which are being develop meet the needs and requirement of the company as a whole. This matrix structure to product development is referred to as the Strategic Front End (SFE). The sales and marketing teams update the product development teams continuously on regional developments and trends as well as provide essential and important information. The sales and marketing teams are in constant contact with customers and markets. This information is then relayed to the product development teams. Manufacturing also play an essential part in product development as these provide detailed and essential information as to developments on the supply side of the business. Here essential information is relayed to the Product Development teams as to supply sources, manufacturing design, alternative designs to decrease costs etc. The SFE will be explained in detail in section 3.4.5.

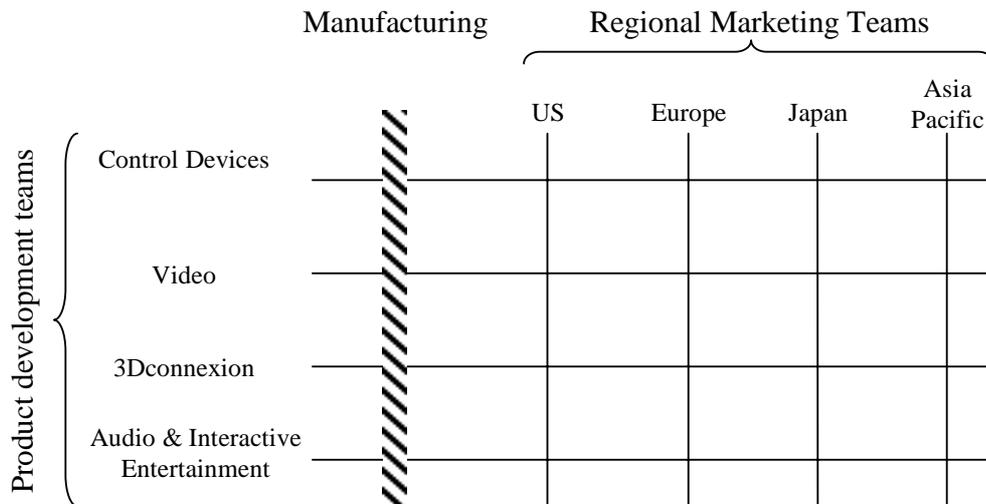


Figure 3.2: Strategic Front End

3.3.1 Board and Executive management

Within Logitech it is felt that management is there to support rather than to supervise.

“it would be a bit simplistic to say that our Organigram is written upside down, but there is a certain feel that that’s partly true in other words that the CEO is the last layer in the foundation rather than the person who sits at the top. Above him there are other layers of management support. Management is there to guide people.” Garreth Hayes

At times, the executive management does however take larger strategic decisions. Generally this is done when management wants to shift the overall strategy of the company considerably. The move to develop the cordless input devices, entrance into sound systems through the acquisition of Labtech and the Quickcam acquisition are a few examples such larger strategic shifts. It is viewed that the overall planning approach is a bottom-up structure as the computer peripherals market is too dynamic and fast moving for a top-down control process. One quote explain the overall planning process and management involvement quite well:

“He is a very smart man, he doesn’t come in every day and say this is the direction which the company is going to go in. He listen to the people around him.” Garreth Hayes

3.3.2 Divisional Business Units – Product development teams¹⁹

The Business Units develop and engineer products for the regions and have no direct customer responsibility. The product development is mainly bottom up as the business units have the expertise and know-how of future trends and current developments. Logitech holds product development and R&D sites at five engineering centers:

- Fremont (USA): mainly software development
- Romanel sur Morges: sensing and cordless technologies development
- Taiwan: provides access to engineering resources and high-tech manufacturing
- Vancouver: audio applications development
- Seefeld (Germany): 3Dconnexion R&D
-

Between the business units there is interaction such as with establishing corporate surface textures, colorings, basic designs and guidelines. The design of the products is driven by the product development people in the business units yet a corporate marketing team provides guidance as to the boundaries.

“Design is a way of differentiating within an industry where technology is basically the same. It is part of the magic of Logitech and which competitors find difficult to get.”
Garreth Hayes

3.3.2.1 Control Devices



Logitech offer a variety of products within control devices including mice, trackballs, keyboards and desktops and the newly introduced digital pen. Its mice range includes both wheeled and optical mice as well as corded or cordless (transmission through 27mHz radio frequency) mice for the OEM and retail markets. The trackballs range includes several corded or cordless mice for the retail channel. Ten different keyboards are included in Logitech’s range which ranges from standard to packaged desktop solutions (mouse and keyboard). Logitech’s new io digital pen is the newest

¹⁹ Sektion based on information obtained from the Annual Report 2003

product innovation where the user can easily transmit information written with the pen to the computer. In the financial year of 2003, Logitech had sales in excess of US\$ 700 million of control devices. Of these US\$ 500 million accounted for the sale of mice and trackballs. Keyboards and cordless desktops accounted for US\$200 million. The OEM sales of mice and trackballs amounted to US\$ 140 million (20% of total sales). Retail sales of mice and trackballs amounted to US\$ 362 million (52% of total sales). The OEM sales of keyboards and cordless desktops amounted to US\$ 55 million (8% of total sales) retail to US\$ 209 million (30% of total sales).²⁰

3.3.2.2 Video



Logitech offer a variety of products within its Video division such as Internet Video Imaging Products, Dual mode and digital still cameras. The Internet Video Imaging Products include the QuickCam family of PC video cameras for visual communication over the internet. Dual mode and digital still cameras include its Pocket Digital and ClickSmart range (digital cameras) as well as the Pocket Video recorders (digital video cameras). Logitech's customers for the video products include Small Office Home Office (SoHo) users, consumers as well as corporate customers. In the financial year of 2003, Logitech had sales in excess of US\$ 114 million of video devices within the retail sector.²¹

3.3.2.3 Audio and Interactive Entertainment



The Audio and Interactive Entertainment department develop products such as the wide range of Logitech's Multimedia speakers, its mobile phone, computer and game console headsets and microphones as well as Logitech's wide range of computer game controllers, console game controllers and Accessories. Logitech has a full range of

²⁰ Lobard Odier Darier Hentsch research report September 26, 2003

²¹ Lobard Odier Darier Hentsch research report September 26, 2003

products for the pc gaming industry including joysticks, steering wheels and gamepads. Logitech entered the console game controllers market three years ago and has established themselves within all three major platforms through its broad range of force feedback steering wheels, its cordless controllers and its headsets. Recently Logitech developed the EyeToy in an alliance with Sony. Logitech also offer a complete range of multimedia speakers and is the market leader in USB based voice access headsets and microphones. Recently Logitech has extended the product line to include mobile phone headsets. The market for interactive entertainment is primarily end consumers whereas the audio line also sells the products to SoHo users and OEM customers. In the financial year of 2003, Logitech had sales in excess of US\$ 219 million of audio and interactive devices within the retail sector.²²

3Dconnexion



3Dconnexion produce advanced motion controllers for CAD/CAM (Computer Aided Design and Manufacture), PLM (Product Lifecycle Management), DCC (Digital Content Creation) and GIS (Geographic Information Systems). Current products include the SpaceTraveller, SpaceBall, SpaceMouse, CadMan and SpaceNavigator. The products and software's are created in strategic partnerships with leading software developers to ensure compatibility. 3Dconnexion's corporate headquarters is located in Silicon Valley, California, with regional offices in Los Angeles, Dallas, Detroit, London, Munich, Paris, Stockholm, Wroclaw and Tokyo.

3.3.3 Operations and General Management

In the early 90's the company relocated its manufacturing facilities to Suzhou (China) where it mainly assembles and tests the products. The production of certain components within the manufactured products is outsourced to Asian manufacturing firms to the company's specifications. In case of shortages other manufacturers can be hired to

²² Lobard Odier Darier Hentsch research report September 26, 2003

produce the required products. This is utilized to dampen retail order volatility. The keyboards, some of the gaming devices and audio products are manufactured by third party suppliers. Retail packaging is done at specialized sites in the US, Europe and Asia to increase distributional efficiency.

The classical top-down management of manufacturing follows a more structured process. According to Garreth Heyes it is important as stringent quality requirements need to be followed and costs need to be met and constantly tested. The manufacturing facilities also try to implement TQM (Total Quality Management) and TEI (Total Employee Involvement) programs. Within product development, manufacturing provides input as to quantity levels required to hit profit targets, alternative manufacturing solutions or suppliers in order to consistently improve the production process.

“Ultimately if we cannot manufacture enough products to a high enough standard at the right price the company will not be successful. Manufacturing is thus extremely important in the process as well.” Garreth Heyes

3.3.4 Sales and Marketing

Logitech’s diverse range of products are sold primarily in North America, Europe and Asia-Pacific to consumers, SoHo users, OEM customers and corporate buyers (see respective sections for more detail on the consumers of the divisions). The Sales and Marketing department are responsible for marketing its products and brand through advertising, PR, point of sales (POS) and merchandising. Furthermore the department provides information on market research, customer (OEM and Retail) feedback and market developments to the rest of the company.

The three main distribution channels, OEM, Distributors and Large Retail Chains, are supported by a direct sales force within the regional marketing teams (Europe, US, Japan and Far East). Smaller OEM’s, resellers and retailers are supported by the larger distributors. These channels are supported by distribution centers in Europe, USA and Asia which make the final regional adjustments (regional adjustments to package, software, manuals and plugs etc.).

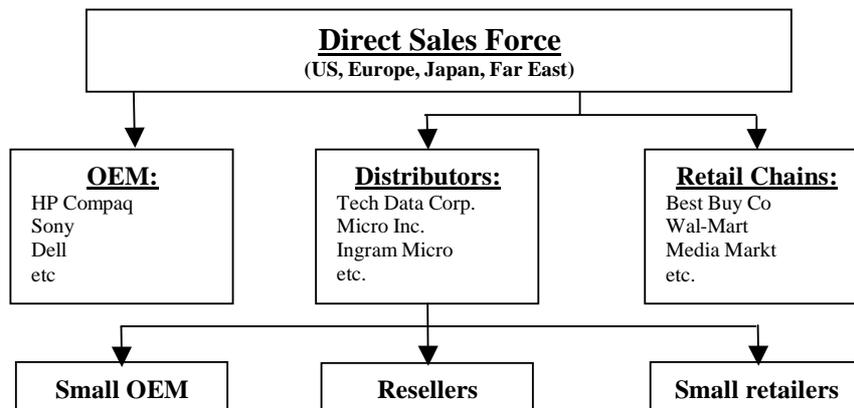


Figure 3.3: Distribution

3.3.5 Product development – the Strategic Front End (SFE)

Product development, the core to Logitech’s success, is undertaken in a matrix structure (see figure 3.3). Here the different product development teams and their engineers work in close collaboration with the regional marketing teams as well as the manufacturers. Prior to this integrated process and procedure a more straight line method was used where the engineers developed innovative products. The innovations were excellent however often far ahead of the developments of the markets. An example of such a product was Logitech’s digital camera, the Photoman, which was launched in the beginning of the 90’s. The market for digital cameras only ripened with the .com boom in the late 90’s. In order to align the timing of the product launches and to increase the likelihood of developing blockbuster products, all functions of the firms were incorporated to share knowledge, experiences and ideas.

“The main change with de Luca’s entry was to make Logitech into a better Marketing company with an emphasis and focus on pre-product development on value. The whole process and culture was changed to a marketing orientation.” Garreth Hayes

The product development process usually takes 12 months from the initial idea to launch however, if necessary, the process can be sped up to 6 months. Engineers identify the future trends and the product marketing teams develop product ideas. In the “Strategic Front End” (SFE) these two groups continuously meet and look at different factors such as design, operating systems, competition and color trends, influencing the industry.

Current products are analyzed on critics reviews, pricing assumptions and the product life cycle stage (usually 2 years). Defined ideas are then presented to top management for approval and then to the industrial design team, electrical, software and manufacturing engineers who finalize the product.

“[The SFE procedure] is difficult as it involves teamwork, interaction, negotiations and dialogue which all are really not the nature of human beings. The emphasis is on the team and company as a whole. Individualism at the expense of the team is not tolerated.”

Gareth Hayes

An information system now integrates all teams in the process and allows all functions and divisions to work simultaneously on projects, irrespectively of location. Formal processes and procedures are also defined within the information system.

“All product ideas and information are stored in an information database so that all know what goes on. At the end of the day everyone writes down what they did and an employee on the other side of the globe can pick up where he/she stopped for the day.”

Interview with Gareth Hayes

3.4 Market

3.4.1 OEM



The Original Equipment Manufacturing market, where PC manufacturers outsource the production of mice and keyboards, was initially Logitech’s core market. The overall market size is estimated to approximately US\$ 234 million.²³ Mice within the sector are sold at approximately US\$ 3 a piece. OEM customers include large pc manufacturing companies such as IBM, Dell, Hewlet Packard, Apple Computer, AST Research and Fujitsu ICL. Logitech holds a ‘deep pocket’ within OEM mice and keyboards (60% market) but also provide audio products and console game controllers to the market. Over the years the dependency on the OEM

²³ 60% market share, as stated by DZ Bank research analyst, at mice sales to the OEM sector of US\$140.4 million

market has slowly been decreased (currently only 15% of total sales) as the company refocused its business strategy towards the retail distribution chain.

The OEM market is extremely cost, quality and reliability driven.²⁴ The prices of OEM goods have dropped extremely as the market segment matured (e.g. from USD 70.- to currently USD 3.- for OEM mice)²⁵ and Logitech has had to make various restructurings in order to cope with the price drops. The advanced ordering of OEM customers and the ease of order forecasting this entails has also enabled Logitech to establish a streamlined 'build to order' manufacturing and supply chain further decreasing costs. The OEM sector also imposes threshold quality requirements. Logitech has been able to benefit from this as the quality increases has spilled over to the retail products. Furthermore, the huge economy of scale of the OEM production has provided Logitech with great externalities such as knowledge curve benefits and a large platform from which to launch products.

“OEM is kept at about 15%-25% of sales due the high quality requirements and Economies of Scale which it brings.” Interview with Garreth Hayes.

3.4.2 Retail



The overall market size is estimated to approximately US\$ 520 million.²⁶ Mice within the retail sector can range from US\$ 10 for a simple standard mouse up to US\$ 200 for an advanced cordless presenter. Customers within this segment include large retailers such as Wal-Mart, Techdata, ComUSA, Best Buy and Circuit City.

²⁴ Davila, T. & Oyon, D. (2001): “Redefining the Business Model” p.5

²⁵ Davila, T. & Oyon, D. (2001): “Redefining the Business Model” p.3

²⁶ 70% market share, as stated by DZ Bank research analyst, at mice sales to the Retail sector of US\$362 million

The company entered the retail market for its products in the late 80's and has been able to expand dramatically within the sector. In 2003 Logitech sold in excess of 43 million branded retail products in over 45'000 retail outlets and more than 100 countries. The brand is recognized globally for its product quality, innovation, user-friendliness and price performance.²⁷

The retail market is extremely seasonal where Christmas accounts for approximately 30% of annual sales. Retailers order on an 'as-needed' basis which leads to losses if demand cannot be met instantaneously. Order forecasting and stock monitoring is thus extremely important. Furthermore a system has been installed to act more swiftly on demand changes. Manufacturers in Mexico and Europe are contracted in times of shortage. In all of the major regions packaging companies exist in order to repackage products for markets with shortage of supplies. Retail is thus fairly close to order driven. In emergency situations more expensive products are even shipped to destinations by air.

3.5 Alliances

Logitech has several strategic alliances with OEM producers. The eyeToy or the steering wheels for example, an add-on for the Playstation, is produced in a strategic alliance with Sony International. Products and software are produced in alliance with OEMs to increase product appeal, compatibility and optimize timing. Within the entertainment sector for example, alliances are used in order to match the launch of a new game with the launch of an add-on optimally designed for the game. The force feedback steering wheel for the PS2 for example was developed and released in conjunction with Sony's release of the Grand Turismo racing game.

“The steering wheel was tuned together with Sony. It was sold at a high price but it worked – Logitech sold 100'000 of the 100'000 steering wheels produced.” Interview with Gareth Hayes

²⁷ Logitech Annual Report 2003

4 Theory

4.1 Introduction

In trying to define the different strategies which Logitech has used in both the 90's and now, I have chosen to present the three basic models for strategy development: Strategy as Design, Strategy as Experience and Strategy as Ideas. Here the principles for the strategy development process are laid out. Furthermore I have chosen to present the six organizational configurations defined by Mintzberg to be able to analyze the structures and processes within Logitech.

4.2 Strategy as Design

“Strategy is the great work of the organization. In situations of life or death, it is the Tao of survival or extinction. Its study cannot be neglected.” Sun Tzu, The Art of War²⁸

The school of ‘strategy as design’ view strategy development as a process of logical determinism. Through carefully analyzing and evaluating the different factors relevant, such as the firm’s environment, its industry and the resources available, the optimal strategy and clear strategic direction can be derived.²⁹ Strategic design is concerned with the best allocation of resources, given the firm’s industry and environment, to achieve the established goals and structuring the firm accordingly. The strategic process thus follows an analysis-selection-implementation process and is “synthetic, adductive, hypothesis-

²⁸ Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition

²⁹ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition

driven, opportunistic, dialectical, inquiring and value driven.”³⁰ Fundamental to this view is that the responsibility of strategy development lies with the top-management and that these are capable of choosing the optimal strategy for the business. The strategy as design has often been referred to as the traditional approach to strategy development. Over the years strategy as design has branched off into two main models; the planning and positioning and the resource based model.

4.2.1 The Planning and Positioning Based View

The environment based view on strategy development focuses on the external environment of the company – the structure of the industry and the relative market positioning of the firm. Here it is thought that optimal positioning of the firm in the most attractive market will establish competitive advantages and market leadership.³¹

4.2.1.1 Strategy as a plan

The increasingly large organizations of the 50’s and 60’s were facing difficulties with the planning and control of their businesses. Stable markets demanded a framework for analyzing and evaluating long-term goals. One of the earliest models used within the design school, the SWOT analysis, emerged from the works of Alfred Chandler, Philip Selznick and Kenneth Andrews as a tool to align the internal organizational situation with the external expectations. Within planned approach to strategy development, a modification of the original design school, three elements can be identified: Strategic analysis, strategic selection and implementation

³⁰ Jeanne Liedtka:

http://leadership.wharton.upenn.edu/structure/tools_for_design_and_change/aligning_strategy_and_design.shtml

³¹ Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition p. 21

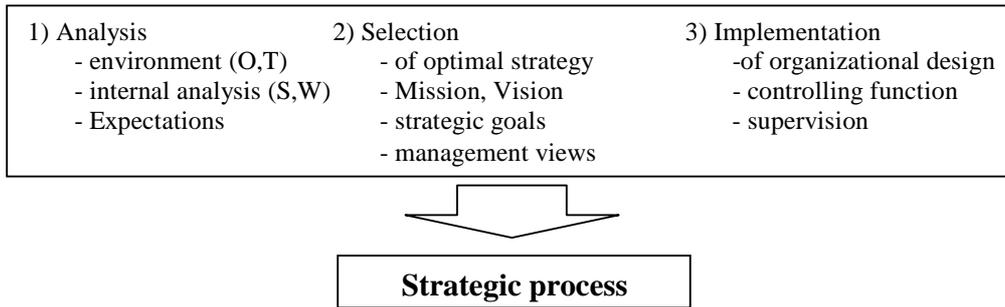


Figure 4.1: Strategic process within SWOT

Strategic analysis

Here the upper management conducts a thorough examination of the internal organizational strengths and weaknesses and the external opportunities and threats and tailor logically derived strategies and courses of action based on their findings. The strategic analysis phase is concerned with establishing goals and the quantification of these. The external environment is examined through the use of extensive prognosis and analysis tools, such as scenario planning, which assist the organization in determining future developments and situations. Internal strengths and weaknesses are also analyzed and incorporated. Over the years detailed checklists have been developed to help guide the strategists as to the environmental variables and strengths and weaknesses (see Power et al (1986:38)).

Strategic selection

Within the selection process the most optimal strategy is chosen. Various assessment tools, such as return on investment and net present value etc., assist managers in selecting strategies which ‘create value’ to shareholders and stakeholders. Grant defines value added as being “equal to the sum of all the income paid to the suppliers of factors of production.”³² Tools, such as the ROCE, DCF or NPV analysis, assist management in determining the best projects. Using past performance data and forecasted market developments strategic management can potentially increase the future profitability of the firm.³³ Performance targets are set for the selected strategies and broken down to the

³² Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition p. 39

³³ Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition p. 55

various departments and functions. Values, missions and visions help to integrate and portray the strategic intent of the managers

Implementation

Finally the strategy is implemented across all layers of the firm through organizational design, establishment of controlling functions and daily supervision to ensure adherence. According to Steiner (1979:177) the chosen strategy has to be broken down into sub-strategies in order to be effectively implemented.³⁴ Controlling functions and supervision are to ensure compliance to the strategies and managers are assessed accordingly.

4.2.1.2 Strategy as position

With the increasing competitiveness of international markets of the 70's and 80's organizations faced difficulties in forecasting the markets. The tools of the planning proved to be insufficient in dealing with the turbulent 'oil shocked' markets. In response many schools shifted the emphasis from strategic planning to strategic position with emerging models of external market analysis and bases of competitive advantages. Michael Porter's 'five-forces' approach to industry analysis set an important foundation to the school.

According to Porter the organizational strategy should orientate itself according to the market structure in which it operates. Five forces affect the competitive environment: the threat of entrants and substitutes, the power of buyers and suppliers and the competitive rivalry. The model is applied on the level of the strategic business unit and is concerned with future developments within the fields. Furthermore these forces are dependent of each other and competitors are likely to try to alter forces to their advantage.³⁵

³⁴ Mintzberg, H. Ahlstrand, B. Lambel, J. (1999): "Strategy Safari" p.69

³⁵ Johnson, G. & Scholes, K. (1984): "Exploring Corporate Strategy" 6th edition p.112

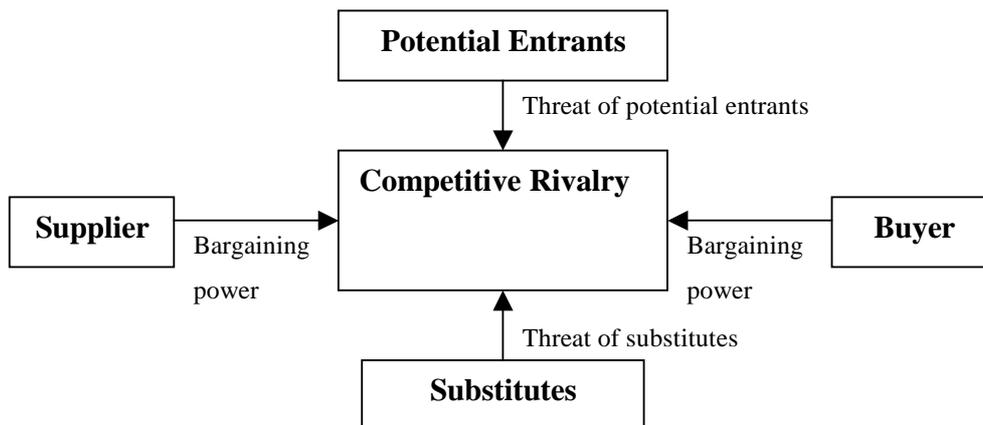


Figure 4.2: Porters Five forces framework³⁶

The threat of entry is concerned with the extent to which the market is open to new entrants. Barriers to entry hinder competitors temporarily to enter and can take the form of economies of scale, large capital requirements of entry or unique access to distribution channels. Furthermore, experience may be required to gain cost advantages which potential entrants might lack. Well differentiated markets may hinder entry due to market saturation. Substitutes can also pose a potential danger to future competitive advantage. These can take the form of product-for-product substitution where one product takes over the market of another or of a substitution of needs where the need for a certain type of product may become obsolete. Substitutes however also include generic substitution.

The buyer and supplier power can “have similar effects in constraining the competitive freedom of an organization and in influencing the margins of that organization.”³⁷ High supplier power leads to high costs of supplies. High buyer power leads to depressed product sales prices. Competitive rivalry determines the pace of the industry. Within certain markets firms can coexist peacefully however others are marked by intense competitive rivalry.

In Porters view the only two bases for competitive advantage are cost leadership or differentiation:

³⁶ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition

³⁷ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.117

		Advantage	
		Low cost	Product uniqueness
Market	Broad: Industry wide	Cost leadership	Differentiation
	Narrow: Market segment	Focus strategy: Low Cost	Focus strategy: Differentiation

Figure 4.4: Porters view on competitive advantage³⁸

Cost leadership: Focus on lowest production costs within the industry through economies of scale production or learning curve effects.

Differentiation: Focus on the production of unique goods or service to build customer loyalty through increased quality, better services or/and uniqueness.

Focused strategy: Both of these are concerned with the targeting niche markets or specific market segments to gain competitive advantages.

4.3 Resource-Based View (RBV)

The Resource-Based View within strategy as design emerged during the 1990's as the markets were becoming increasingly volatile and competitive and strategists looked for a more stable basis for long-term strategic planning. Strategy development had prior to the 1990's mainly been concerned with competitive positioning and internal analysis only on the focused on the implementation of the developed strategy. Resources to pursue a defined strategy were however often overlooked.³⁹ In fast moving markets this was especially the case where companies tried persistently and often with huge losses to satisfy their customer base.

³⁸ Mintzberg, H. Ahlstrand, B. Lambel, J. (1999): "Strategy Safari" p.124

³⁹ According to Richard Rummel (1991) industry factors, which is proposed as the key to successful strategies within the design view, only account for 16% of the variance of returns whereas corporation specific factors account for 16%.

4.3.1 Focus on Internal Competences and Resources

The RBV focuses on the internal capabilities and resources of the firm, irrespective of market, and strategies are developed accordingly.⁴⁰ There are different views as to the definition of resources. Barney for example distinguished between physical, human and organizational capital whereas Grant identifies tangible, intangible and human capital as capabilities and resources. Central to the RBV is however that the different resources must be coordinated in order to achieve core organizational capabilities⁴¹ and create synergies. Competitive advantage occurs when these resources are unique (resource heterogeneity) and cannot easily be copied by its competition (resource immobility). In such an instance the firm will reap Ricardian rents where it will remain competitive even in mature industries of perfect competition. Traditional strategy development on the other hand has focused on Monopoly rents (the return arising from lack of competition).⁴²

“A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.” Jay Barney⁴³

According to Barney, sustained competitive advantage is gained when the firm has resources which are able to add value, are rare, which are costly to imitate and cannot be substituted. Furthermore the organization has to be efficiently organized both in terms of inner (do things right) and outer efficiency (do the right things). The VRIO analysis thus provides a tool for strategy development.⁴⁴

⁴⁰ Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition

⁴¹ Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition

⁴² Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition

⁴³ <http://www.cbs.dk/staff/nicolai-foss/19>

⁴⁴ Wijk, G. (10.2003): Bachelors seminar “Företagsstrategi och företagsledning i förändring”

VRIO Model (Barney)

Valuable?	Rare?	Costly to Imitate?	Efficiently Organized?	Competitive implications
No	No	No	No	Competitive disadvantage
Yes	No	No	No	Competitive parity
Yes	Yes	No	No	Temp. competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Figure 4.3: Barney's VRIO model

4.3.2 Rent-earning potential of resources and capabilities

Grant⁴⁵ goes as far as to classify which resources or capabilities have the potential to contribute to the profit returns. These profits depend on the ability to establish, sustain and to appropriate the competitive advantage returns.

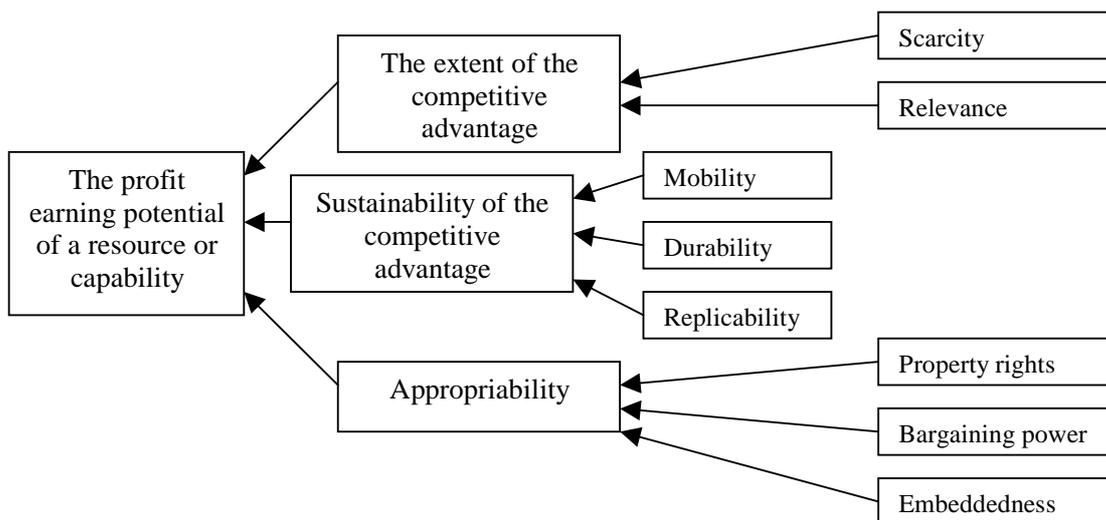


Figure 4.5: Grant's Rent-earning potential of resources and capabilities

⁴⁵ Grant, R. (1991): "Contemporary Strategy Analysis" 4th edition

The ability to establish competitive advantage depends on the resource scarcity and relevance. Both of these have to be present for competitive advantages to be established.

The ability to sustain competitive advantage depends on the extent that these advantages are durable or can easily be transferred or replicated by other firms. Durability is concerned with the extent to which the advantage will last whereas transferability asks the question of how easily these competences can be bought or acquired by competing firms. A firm can also replicate an advantage through building the competence or resource themselves. Here Grant proposes that advantages are difficult to replicate if these involve complex organizational routines or other factors such as learning curve benefits in corporations.

The ability to appropriate the returns to competitive advantage deals with the distribution of the revenues gained, to key individuals which have contributed to the competitive advantage. Here importance is laid on the bargaining power of the individual or division. The more the competitive advantage is associated with the individual or division the higher the compensation should be if the individual is mobile and the competence transferable.

4.4 Strategy as Experience

Henry Mintzberg, a proponent of the strategy as experience school, claims that strategy development under the design lens is often inaccurate as top executives are distant to daily developments of the organization.

4.4.1 Emerging strategies

According to Mintzberg, strategy development should be viewed as adaptive⁴⁶ and separates it into intended, realized and emergent strategies. Rather than being fixed positions it should be viewed as the “outcome of individual and collective experience of

⁴⁶ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.43

individuals and the taken-for-granted assumptions most obviously represented by cultural influences.”⁴⁷

The intended strategies are often not as rational as described by the design school. Strategy development involves “negotiation, bargaining and compromise, involving many individuals and groups within the organization”.⁴⁸ Furthermore the implemented strategy is open to interpretation of individuals, groups and departments, and their individual experiences, and biases as well as subjected to organizational and market developments over time.⁴⁹ The overall strategy of the corporation thus evolves or emerges as new strategies are adopted to cope with changes in the environment and markets. Certain aspects of the original strategy end up being dissolved into unrealized strategies. The finally realized strategy often only accounts for 10%-30% of the originally intended strategy.⁵⁰

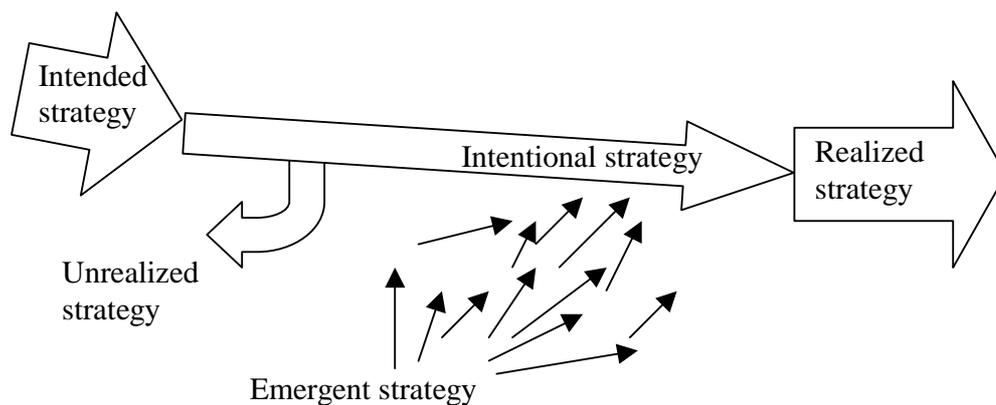


Figure 4.6: Mintzberg's model on intended, realized and emergent strategies⁵¹

⁴⁷ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.43

⁴⁸ Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition p. 25

⁴⁹ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.45

⁵⁰ Grant, R. (1991): “*Contemporary Strategy Analysis*” 4th edition p. 25

⁵¹ Mintzberg, H. Ahlstrand, B. Lambel, J. (1999): “*Strategy Safari*” p.26

4.4.2 The role of experiences and organizational culture

According to Mintzberg's, strategy development should be formulated rather than be formed. Rather than being positions, strategy development should be viewed as a perspective where the details are formulated on the way. This enables the firm to be organic to changing markets and organizational conditions and draw on learning, experiences and knowledge gained in the process. Strategy development as a structured process of analysis, selection and implementation neglects this aspect of organizational learning and experience.⁵²

Individual experience draws upon the ability of people to learn from situations and deploy the experience gained for future decisions. Biases can however prevent managers from making an objective analysis of the situation and may inhibit development as situations are dealt with in ways similar to previous scenarios. In the same way the organizational culture can contribute or hinder strategy development within an organization as this is the shared view of beliefs and taken for granted assumptions. Such imbedded 'paradigms' may hinder larger strategic changes, implicit under the resource based view, and advocate the need for an evolutionary strategy development. However, similarly they can prevent a firm from implementing necessary alterations. Furthermore, paradigms can prevent innovation within firms as individuals may resist any change which may threaten their position.⁵³

4.4.3 Developing a model of learning and Logical Incrementalism

Individuals within the firm contribute with ideas or actions and these taken together lead the firm in a new direction. James Quinn⁵⁴, a pioneer of the extreme form of organizational learning, referred to this as logical incrementalism. He believed that it is "literally impossible to predict all the events and forces that will shape the future of the

⁵² Mintzberg, H. Ahlstrand, B. Lambel, J. (1999): "Strategy Safari" p.26

⁵³ Johnson, G. & Scholes, K. (1984): "*Exploring Corporate Strategy*" 6th edition p.49

⁵⁴ neither a proclaimer of the Experience nor the Design school

company”⁵⁵. Strategies, in his view, often develop as a result of the dissolvent of internal decisions and external influences which creates a new internal pattern of behavior. Managers are to assist and lead these patterns actively so as to create an incremental and conscious strategy. Logical Incrementalism deals with the aspect of ‘learning through doing’. Strategies thus emerge from within the organization at all levels and roles⁵⁶ and are continuously being tested and unsuccessful ones disused. Networking also plays a central role as departments will need to “cooperate with each other, negotiate what should be done and find ways of accommodating different views.”⁵⁷ Within the model of Logical Incrementalism, informal systems are extremely important as these provide the basis for learning.

4.5 Strategy as Ideas

The strategy as design often take for granted that innovation occurs within the firm. When the company imposes a new strategy upon the employees it implicitly implies conformity to these. The implementation and controlling also strongly present within the design approach further emphasizes this. This may lead to a lack of innovation. In industries with short business cycles and fast technological advances successful innovation is often the key to competitive advantage. The ideas view attempts to provide an approach to utilize the innovation of the firm.⁵⁸

4.5.1 The emergence of order and innovation

According to the ideas ‘lens’ ideas are generated from the bottom of the organization. Although diverse at the individual level, the combination of the different ideas will give rise to innovation. The greater the diversity which prevails within the company the greater the innovation will be. “The culture of the organization acts as a filter of ideas; formal processes of control, planning and evaluation act to regularize what ideas will and

⁵⁵ Quinn, J (1980): “Strategies for Change: Logical Incrementalism” p.53

⁵⁶ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.71

⁵⁷ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.72

⁵⁸ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.50

will not go forward; the self-interest of powerful managers may block ideas counter of their own.”⁵⁹ Too much control can block innovation within the firm. Evolutionists often draw similarities with organisms which constantly mutate or adapt to the ever changing environment in which they dwell. The adaptation is part of a process in which living organisms continuously try to find the perfect form and refined skills which suit the ever changing environment. Equally in constantly changing industries and markets firms will need to adapt to the new situations to remain competitive.

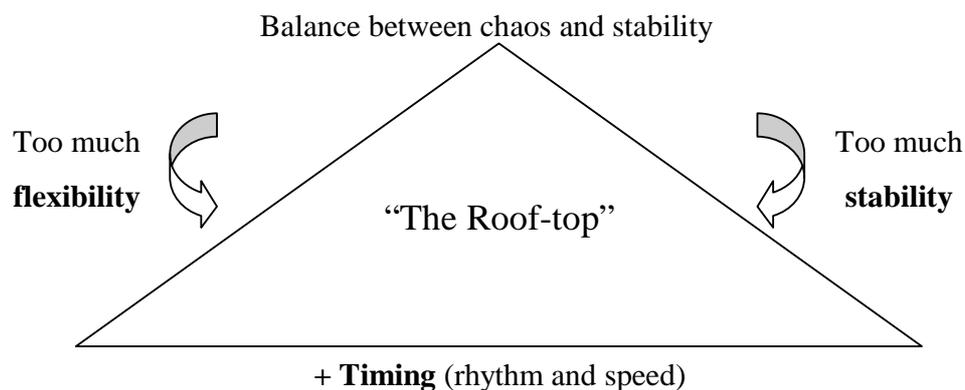


Figure 4.7: Chaos balance model of strategy development⁶⁰

“[The] Edge of chaos [is a] zone where all types of systems – biological, physical, economic, social – are most vibrant and flexible.” RFC USC Presentation⁶¹

Hierarchy, control and organizational paradigms (taken for granted assumptions) hinder variety and thus innovation. The notion of conformity which is essential within the design school is here looked upon as a disadvantage as it decreases diversity and innovation. Interaction and cooperation is also viewed as a basis for innovation as ideas are generated between individuals.

4.5.2 Strategic rules

Kathleen Eisenhardt and Donald Sull, key contributor to the ideas school, described simple rules for strategic engagement which would lead to successful leadership.⁶² These

⁵⁹ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.50

⁶⁰ Seminar Lecture handout

⁶¹ www-rcf.usc.edu/~fulk/545/structured_chaos/structured_chaos.ppt

rules lay the foundation to strategic development within the ideas school and provide a guideline as to achieve an organic organization capable of coping with a fast and ever changing environment.

Competitive advantages which the organization may have will ultimately be temporary of a temporary nature. The firm thus needs to engage in the search for new advantages on a continuous basis. Competitive advantages disappear due to the changing organizational environment. The environment is often complex and difficult to understand. The strategic direction of a firm thus has to emerge as time goes by. Efficiency should not be viewed as a prime goal as it entails structuring and a decrease in flexibility and innovation. More focus should be laid on the firm's ability to continuously create value. Structure should thus be maintained at a minimum where control of the organization is only exerted on key issues which are essential for the survival of the business. Individual responsibilities are to be emphasized in order for these to act efficiently within the segment which they operate.

Markets are to be viewed as opportunities rather than barriers and new products, including highly experimental products, should constantly be developed in order to keep the organization flexible. Alliances are thus of great importance as these provide insight and access into adjacent markets and technologies. Timing is also a key within the Ideas school. The organization should be timed in accordance to the market. This includes product launches, new product developments, product replacements, modifications etc. The ideas school emphasizes the strategy development with a view of the current situation. Future goals are to be incorporated as well however should not look too much into the future. Within the technologies sector for example it is close to impossible to predict the market in 10 years time. Even the industry leaders will not be able to predict it: "WWW? Nice toy, but what a waste of time." (Bill Gates quote of 1995).

Emerging opportunities should be approached and the managements responsibility lies with expressing the emergent strategy to the company as a whole or where necessary

⁶² www-rcf.usc.edu/~fulk/545/structured_chaos/structured_chaos.ppt

adjust the strategy. Yet the overall business strategy should be evolutionary and bottom-up driven, whereby it evolves from key innovations and skilled work force within the organization.

*“I thought it best to shut up and listen” CEO commenting on strategy meeting with key business leaders.*⁶³

4.5.3 Coevolving

The concept of coevolution is furthermore central to the ideas school. Eisenhardt and Galunic describe this as “successive changes among two or more ecologically interdependent but unique species such that their evolutionary trajectories become intertwined over time.”⁶⁴ Whereas traditional internal links were structured into fixed processes for efficiency, the ideas school views coevolution as a constantly evolving, developing and changing network which aims at maximizing growth and flexibility of the firm. Equally a firm can coevolve with other firms within the industry through strategic alliances providing access to new technologies, products and market dynamics.

4.5.4 Logical Incrementalism

The principle of logical incrementalism is applicable. Please refer to section 4.4.3

4.6 Mintzberg’s 6 organizational configurations⁶⁵

Within organizations, processes and structures define the architecture of the firm and how people, networks, and processes interact amongst each other. The combination of these set the premises for efficient or inefficient configurations within the specific market environment, organizational size etc. Henry Mintzberg identified six basic organizational configurations which are present. These are not static and configurations within the

⁶³ http://www-rcf.usc.edu/~fulk/545/structured_chaos/18

⁶⁴ <http://www.berg-marketing.dk/coevolving.htm>

⁶⁵ Section based on: Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.459

markets often involve a mix of these, yet the model provides a useful tool in identifying configurational elements within firms:

4.6.1 The simple configuration

The simple structure is often found within small or emerging entrepreneurial businesses where organizational control is executed through direct supervision from the top management usually the owner. The company usually has no official structure and is therefore very flexible to market changes.

4.6.2 The machine bureaucracy

These usually operate with strong internal control and standardized working processes. They are often large organizations within mature and slowly changing markets with standardized products and regulated tasks. These structures can often be found in organizations and industries where cost leadership is important. Decision making is fairly central and is separated from the day to day business. The standardization of work is conducted by the analysts and is well encompassing. Management and analysts are mostly concerned with further fine-tuning the standardized working procedures.⁶⁶

4.6.3 The professional bureaucracy

Professional bureaucracies can often be found in complex and slowly changing markets. Here an emphasis is laid on the standardization of knowledge and competences through the use of training. The organization is laid out to serve the operating core. Planning systems coordinate the various units within the organization. Here expertise is the major driver of control and the organization is largely inflexible. Change within the organization is often only achieved slowly and by adapting the key personnel who have the relevant knowledge.⁶⁷

⁶⁶ <http://socrates.berkeley.edu:7521/articles/mintzberg/>

⁶⁷ <http://socrates.berkeley.edu:7521/articles/mintzberg/>

4.6.4 The divisionalised configuration

The divisionalised configuration is often found in old and very large and diversified companies which face static and simple markets. Divisions are separate entities and represented by strategic business unit consisting of various functions and performing specialized tasks. The head office controls the SBU's through performance control systems such as performance targets or indicators.

4.6.5 The adhocracy

Within complex and dynamic markets innovation may be a key to competitive advantage. Organizations with an adhocracy configuration are built for the purpose they serve and are problem solving in nature. Experts of various fields are drawn together to establish creative teams which drive the organization forward. Social processes rule the daily operation leading to knowledge creation. As very few processes can be standardized the knowledge created is of a tacit nature i.e. the interaction between individuals. Explicit knowledge, often found in more bureaucratic structures, is formalized in its processes and procedures. Tacit knowledge allows the organization to be very diverse and adaptable to the fast changing surroundings as well as innovative.⁶⁸ Whereas the operating adhocracy works directly for the client it serves the administrative adhocracy provides its services to itself. In adhocracies the different specialists must join forces in multi-disciplinary teams, each formed around a specific project of innovation.

4.6.6 The missionary organization

This organization is guided by its ideology and is often of a simple structure serving static and uncomplicated markets. Selected decentralizations are controlled by social processes

⁶⁸ <http://www.business.auc.dk/pie/dwnld/all.doc>

5 Analysis

5.1 Introduction

In trying to determine the strategy developmental and configurational changes that were necessary to move into the retail industry I will analyze Logitech before and after the transition. In my view the transition occurred in the late 1990's with the handover of executive control to Apple's ex marketing chief Guerinno de Luca. In order to analyze the strategy development systems I will view Logitech out of the perspectives of the strategic lenses which were relevant for each period. The analysis will be based on corporate press releases, the interviews with Garreth Hayes and descriptions from the works of Tony Davila and Daniel Oyon. Furthermore various news coverage's and corporate descriptions have provided essential information on this matter. The configuration of the firm in the two time periods will also be presented based on the above sources and analyzed to determine their theoretical fit.

5.2 Logitech before the transition

5.2.1 Strategy Development

5.2.1.1 Strategy as Design

Strategic Planning

In analyzing the strategy development process before the transition I have found that Logitech made extensive use of the strategy as plan methodology. Prior to 98' Logitech's sales were primarily within the OEM distribution channel. This enabled Logitech to have

a smooth base of production, extensive planning systems and a hierarchical control structure. JIT systems and TQM production enabled Logitech to produce the appropriate quantities and at the right time and quality. Costs could be maintained low as the OEM production and supply systems were rather streamlined. Each year the management team met during a three day meeting to discuss strategic issues and setting three-year performance targets. The performance figures, which were prepared by the business units, were used in conjunction with International Data Corporation projections to forecast future sales, costs, demand etc.

“The annual meeting was designed to be confrontational in order to challenge assumptions and conventional thinking. However, at the annual meeting, most of the time was used to check the detailed figures projected by each business unit with the objective of getting an overall approach.”⁶⁹

The focus on the detailed planning and forecasting within Logitech’s management team during this period illustrates the use of an approach of strategy as a plan to strategy development. The rigorous attempt to mathematically and through rational analysis determine the future of the company and its environment is very similar to the planning schools attempt to create value for shareholders. Furthermore, at the end of the three days meeting the management discussed the general market movements and implemented these into their projections. The very top-down approach to strategy development can also be found within the planning school where it is viewed that it is the responsibility of the “top management to plan the destiny of the organization”⁷⁰. The complexity of the internal and external environments can be analyzed rationally and logical conclusions, as to the future trends, can be derived.

The forecasted performance figures were then broken down to the divisions, communicated to the managers and implemented as performance targets across the company. Subsequently the management closely monitored the actual sales against the forecasted performances.

⁶⁹ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p. 10

⁷⁰ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.40

“Sales variances could be tracked per product, product line, region, customer, and distribution channel. Production performance could be monitored at the product and product line level.”⁷¹

The stringent controlling functions can also be seen as an element of the planning school where it is thought to be essential to the organizations success.

Strategic positioning

Porters five forces theory is applicable to the strategic business unit of organizations. Logitech's SBU was during the initial start up and to a large extent up until the transition its OEM mice line of products. Up until the late 80's Logitech for example thought that the retail market for mice would diminish as every PC bought had a one.⁷² During Logitech's history one can clearly see a cyclical development within the competition.⁷³ With the increasing competition during the late 80's and early 90's within the mice industry price wars emerged. In response Logitech moved its production base to Ireland to benefit from cheaper production capabilities. Competitors from far Asia yet had a competitive advantage over Logitech on the basis of production costs which finally forced Logitech to reinforce the barriers to entry by moving its manufacturing operations to Suzhou.

In my view, Logitech has also made use of the elements within the positioning school during this period. The move of the manufacturing production facilities was clearly a step firmly secure the barriers to entry within the market. Although cheaper Asian goods could still compete with Logitech's cost base these could not match its qualitative manufacturing capabilities.

“In this respect Logitech is like a Chinese provider [of mice] – with the difference in quality. Here we do not tolerate any compromises.”⁷⁴ German article on Logitech

⁷¹ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p. 10

⁷² <http://www.ecommercetimes.com/perl/story/19664.html>

⁷³ Johnson, G. & Scholes, K. (1984): “Exploring Corporate Strategy” 6th edition p.120

⁷⁴ Moneycab (24.04.03 – 16:18): Interview with Logitech

Furthermore, the extensive sales to the OEM market provided Logitech with vast economies of scale and experience. These have proven to be two essential barriers to entry which competitors have found very difficult to break. The threat of subsidies within the OEM mice market was close to nil. The mice had proven to be the optimal input peripheral far superior to others such as joystick. The threat of generic substitution was also minimal as each new computer produced required an input peripheral. Supplies of materials, used for the production of the goods, were purchased from the open market. In my research I have not found any evidence that these had any larger bargaining power. It is likely that before the transition, manufacturing (operations) and the product development teams cooperated to identify the cheapest sources of qualitative supplies.

The buyers (OEMs) on the other hand had considerable power over Logitech as these were concentrated, consisting of a few very large manufacturers and purchased mice at great volumes. Furthermore, the market was saturated with OEM mice suppliers and switching cost for OEM buyers is marginal. As Garreth Hayes pointed out, OEMs set stringent quality standards on the mice and Logitech has to comply with these. This has been due to the fact that Logitech has not established long term contracts with the OEMs. The OEMs purchase the products as if it was on an open market. Although long term relationships exist with the OEMs, which have further enhanced the robustness of the barriers to entry, Logitech has no guarantee of future sales. The large buyer power of the OEMs and seemingly maturing PC market (and thus OEM supplies) led to that Logitech rethought its position in the late 90's with a higher focus on the retail market.

The competitive rivalry within the OEM mice market has been increasingly competitive. Logitech's history is freckled with periods of price wars and competitor attacks on their segment. This was especially the case during the high growth periods of the late 80's and the shakeout period of the early and mid 90's.⁷⁵ As already pointed out, Logitech has seen the price for OEM mice drop from roughly \$70.- to a mere \$3.- as a result of these pressures. The retail market, with its marked up product prices, seemed thus to be a very attractive segment in which Logitech already had had years of experience.

⁷⁵ Johnson, G. & Scholes, K. (1984): "*Exploring Corporate Strategy*" 6th edition p.119

Porter emphasized that only two bases for competitive advantage exist being cost leadership and differentiation. Logitech had successfully achieved to establish themselves as cost leaders within the OEM market while maintaining its rigorous approach to quality. Competitive advantage was established as Logitech was by far the largest supplier of OEM mice to the industry. The refocus of the business strategy towards the retail sector resulted in that Logitech introduced alongside of the cost leadership strategy a strategy of differentiation. The Retail sector is well differentiated with a focus on design, features, support functions and pricing. Logitech was able to use its core competences within cost leadership to expand within the retail sector. From analyzing the available information, it is my understanding that Logitech made use of the strategy as positioning approach within their strategy development process. The organizations efforts and restructuring for cost leadership was, in my view, a targeted strategy and successfully implemented.

Resource based view

There are aspects of Logitech's history which one can attribute to the resource based view. For example, Logitech identified that the relocation of manufacturing facilities to Suzhou would be a valuable investment and a rare resource as it would provide cost leadership over competitors and thus superior performance while maintaining the qualitative standards. Its facilities in Taiwan could furthermore provide essential input, reducing the cost of implementation of the strategy. Competitors would also find it difficult to imitate the strategic move as: Asian manufacturers were not recognized and had a lower quality; and Western manufacturers needed to establish their own manufacturing plants within the region and coordinate these with their 'home' headquarters.

From the resource point of view Logitech was able to establish essential tangible (cost and quality) resources while maintaining intangible ones (brand name and OEM contact) as well as human (product development). This unique core organizational capability provided resource heterogeneity and resource immobility and enabled Logitech to survive the tough market conditions of the mid 90's. Ricardian rents were thus be reaped.

The nature of the industry made it possible for internal processes to run very smoothly (inner efficiency) and the constant close contact with the OEM manufacturers resulted in that the right products were being developed as the OEMs set or imposed the standards (outer efficiency).

Whereas the positioning school deals with only one market as such the resource view promotes the search of sustainable competitive advantages irrespective of market. As long as the unique set of internal, external and human resources allow it, advantages can be sought in adjacent markets and industries. Here a further example of Logitech's use of the resource based view can be found. In the late 90's Logitech was voted the third most recognizable keyboard brand. A unique and rare resource and position which would cost competitors millions in marketing and product promotion campaigns to reach, yet Logitech were NOT producing keyboards at the time:

"We were the No. 3 brand, but we weren't making them" De Luca⁷⁶

The disposal of its hand held scanner business was a further example where Logitech in my view followed a resource based approach of decision making:

"The company decided to dispose of its scanner product line because of fundamental changes in the scanner market. The market has evolved from one driven by new technology and innovation, where Logitech was a leader, to one driven by cost, with prices dropping steeply." Annual Report 1998

Logitech identified its scanner line as not being valuable or at least not in the future. Although Logitech retained the unique resource of developing innovative products the future of the product line was rather poor as there was no outer efficiency - they were not making the right products:

"unit growth has been dominated by flatbed scanners, where Logitech was a new entrant in the market,, rather than by color sheetfed scanners where Logitech was the leader."
Annual Report 1998

Future sales were likely to drop off and result in huge losses to the organization. A move to become a market leader within the flatbed scanners market would prove to be very

⁷⁶ http://news.com.com/2010-1071_3-996567.html

expensive with no guarantee of success as strong competitive forces prevailed. No resource based advantage could be reaped. Logitech thus decided to dispose of the product line to Storm Technology, Inc for \$5 Million. Not long after the sale, Storm entered Chapter 7 Bankruptcy closing all facilities and liquidating all assets. Looking back, the sale was unmistakably a correct decision and analysis of the internal resources and external markets.

“a great product did not necessarily mean success”⁷⁷

5.2.1.2 Strategy as Experience

“In addition to the formal strategic planning process, Borel and Zapacosta continually discussed Logitech’s future and personally set Logitech’s strategic direction, adjusting it on an ad hoc basis as they identified new market developments and opportunities.”⁷⁸

A clear statement of an evolving strategy it illustrates that Logitech had certain element which could be ascribed to the experience based view. Although its strategy was ‘formed’ during the three day meeting in January, the organization was constantly shifting its direction to cope with environmental and internal changes. Yet the key phrase within the quote was that the executives continuously changed and altered the organizational direction. This strives against the notion of the experience based view that the organization as a whole has the capacity of learning and adapting to new situations and further emphasizes the use of a more design approach to strategy development.

“From the very beginning, the founders had privileged an informal management style and spent a large amount of time debating and “chatting” with employees from each level of the organization. For example, Borel talked to all his vice presidents at least once a week to understand the direction their business were taking in the current quarter and the full year. These tasks were centered around business risks.”⁷⁹

Strategy as experience did take place within the organization. The statements illustrate that the organizational strategy evolved in a series of steps or moves and was incremental. To function efficiently within a rapidly evolving industry such as technology

⁷⁷ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p. 8

⁷⁸ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p. 10

⁷⁹ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p. 10

it is unlikely that a grand plan can be successfully implemented. Borel and Zappacosta furthermore stressed the importance of direct discussions and debates with employees in order to understand and be aware of issues at all levels of the organization. Informal networks between employees and the founders ensured this.⁸⁰ This goes to illustrate that individual and organizational learning were incorporated within the strategic decisions. Indirectly individuals could be part of overall development.

5.2.2 Configuration

In 1997 Logitech was a functional company with the two business units, Control and Imaging devices, and the functional units Operations, Finance and Marketing. Both Daniel Borel and Pierluigi Zappacosta were the executive managers. Zappacosta was more involved with the developments in the US whereas Borel took over the management of the Swiss units. Logitech's Operations unit, in the Far East, was supervised by both executives.

The control devices produced mice, trackballs, 3D design controllers, touchpads, Joysticks, gamepads and game controllers. Mice were developed both for the OEM and the retail sector. Its touchpad products were developed for the OEM sector. All remaining products were shipped to the retail sector. Its scanner line within the imaging devices unit was dispatched in 1997 as described above and the company was now only producing color digital video cameras. In 1998 the control devices sector within the firm generated 80% of the overall sales and a majority of this (70%) was within OEM mice sales.

The sales and marketing department was mainly located in Switzerland and focused on the OEM sector where 7 sales representatives monitored Logitech's largest OEM accounts. The retail sales and marketing team was divided into the different markets: USA, Europe and the rest of the world.

⁸⁰ Davila, T. & Oyon, D. (2001): "Passing the baton to an external CEO" p. 7

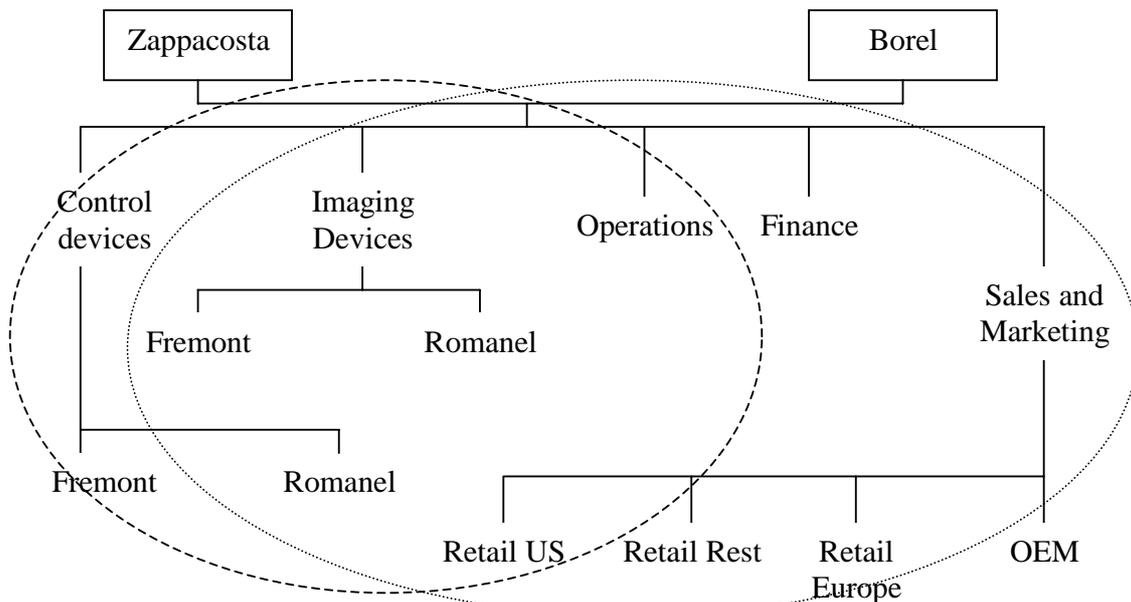


Figure 5.1: Organizational Chart 1997. Formal (lines) and informal zone of influence (curves)⁸¹

As with Mintzberg’s divisionalised configuration management controlled the business units through a variety of different performance control systems (see section 5.2.1.1). With the exception of the product development teams the structure was of a functional nature. Primary activities were broken up into key functional activities and the chief executives supervised these through the functional Vice Presidents on a daily basis. The responsibilities were clear to all departments.

The management supervised the functional divisions both on the basis of direct supervision and through the use of planning and control systems.⁸² Borel was especially involved in the day to day business of the organization and the functions under his control. Three performance books were monitored to spot problems within the process. Borel was the only one within the organization that knew the exact context of the reports which often consisted of hundreds of pages of detailed figures and statements. Zappacosta on the other hand preferred to use planning and control systems as a means of

⁸¹ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p.20

⁸² Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.432

supervision.⁸³ As already explained both founders made extensive use of performance targets which were delicately drafted during the beginning of each year.

All the departments reported to the management on a continuous basis and these decided on an ad hoc basis what to do. The product development within the organization was to an extent top down driven.⁸⁴ Operations received the production details from the forecasts and orders received. Marketing was concerned with fulfilling the requirements of the OEM customers (and the relatively small retail customers). In my view the separate processes within the value chain of the organization were centralized around management. They were not directly integrated with each other but rather acted on the commands of the management team. Most likely, the product development team only approached marketing if it really was required and vice versa. Operations were only in contact with the product development team when a new product was launched. Marketing dealt with operations merely on an order basis. Management controlled and steered the operation which required a strong emphasis on reporting and direct control.

Thus the relationship between the operational center and the functional departments was of a “Master Planner”⁸⁵ nature where managers set detailed targets and goals for the functions to adhere to. Management was constantly involved with supervising the implementation of the plans and the development of new strategic directions.

The structure of Logitech in 1997 was thus in accordance with the belief of the planning school. Here the school advocates that the planned strategies should be implemented across the whole organization without exception. This premise gives rise to difficulties in larger organizations as the intended strategy is diluted the further into the organization one goes. Yet, with a smaller functional structure which is supported through direct supervision, planning and control systems and performance targets, large amount of control can be retained as to the implementation of the strategy. Through an experience

⁸³ Davila, T. & Oyon, D. (2001): “Passing the baton to an external CEO” p.4

⁸⁴ Interview with Garreth Hayes

⁸⁵ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.446

based view one could argue that the structure encouraged management to be involved in the day to day business and thus be able to realign strategies in accordance to the market developments.

From the analysis one can see that Logitech has applied the use of both the design and the experience approach to strategy development and had structured the organization in accordance to these.

5.3 Logitech after the transition

5.3.1 Strategy Development

Strategic Planning

Comparing the section 5.2.2 with the current structure of Logitech one cannot fail to notice the numerous new entities or so called business units. Since De Luca joined two new product divisions have been added and both its video (formally Imaging Devices) and control device units have been enlarged by further acquisitions. In order to cope with such a dramatic increase in both the divisional numbers and sizes de Luca had to architect a new strategic development process. Managing the organization through direct supervision and tight planning and control systems was virtually impossible. Furthermore the move into the volatile and diverse retail sector meant that strategy planning under the ideas and experience lenses became obsolete. Too much information would have to be gathered and analyzed for a strategic plan to take form and planning and markets moved faster than such a system would allow.

Strategic planning for the retail sector could not be based on detailed forecasts. The forecasts had been based on PC market projections, that is on the estimated future sales of PC's which gave a good forecast of the OEM mice which were required. Retail however depended on other factors than overall market movements. Here consumers looked for distinguishing features such as design, price classes, brand name and the innovativeness of the products which all are variables that are extremely difficult to predict in the

competitive marketplace. De Luca thus shortened projections to cover just one year as he felt that this would be sufficient.

“Previously, we would finish the planning process and we would never look back at it, it died as soon as it was done.”⁸⁶

The three day strategic planning process has been maintained however now only the first day is used to examine the estimates and set the budgets. These estimates were developed by the business units. The following days are used to explore strategic themes which are prepared and presented by managers.

“Guerrino’s done a great job. Before he arrived Logitech had great products, but they weren’t marketing them right.”⁸⁷

5.3.1.1 Strategy as Ideas

From the analysis which I have conducted I strongly believe that a substantial part of Logitech strategy emerges through the Ideas lens. Logitech promotes diversity and strives to find new ways of doing business. Individuals within the organization are constantly being promoted to provide new ideas and concepts:

“Everyone is encouraged to think like a CEO and CFO and a CIO, et cetera. Guerinno never tires of fresh thinking and new ways of succeeding.” Kris Onken⁸⁸

According to the ideas lens innovations evolve from within the organization. Variety and diversity help to create new ways of thinking about problems and thus innovation. Prior to De Luca the product development process had been solely pursued by engineers and regulated from the top down. The market reality was often not integrated into the product development process with a result that these could not be sold. An example of such a product was the digital camera introduced in the early nineties. Although being an excellent feat of engineering there was no market for it and Logitech was forced to discontinue the product line.

⁸⁶ Davila, T. & Oyon, D. (2001): “Redefining the Business Model” p.6

⁸⁷ Yves Kissenpfennig (Analyst UBS Warburg) extract from BusinessWeek online 13.02.02

⁸⁸ <http://www.svbizink.com/exec/printarticle.asp?aid=4710&tc=>

The Strategic Front End incorporates all departments within the firm. This provides great input and new ideas as communication is encouraged, designs questioned and market developments absorbed into the process. The strategic process thus gives rise to organizational learning where all parts are actively involved within the process and ideas communicated to one another. The final product ideas are generated and approved by the lower tier of the organization and passed up to the management for final approval.

“Ultimately he is responsible for the money that is attached to the projects but its not a top down strategy but a question of people proposing different directions with a recommendation as to which way to pursue and he approves that before it happens if it is an important investment. So of course he blesses the strategy but most of the time he can’t be into the details of the projects. Its too much detail.” Garreth Hayes

The detail comes with the complexity of the four fundamental markets in which Logitech operates.

“Its not a surprise that the best inventions are made by very young people, especially in complex matters” and “You always have to assume that you know very little and that you are learning, I tend to absorb from everyone.” De Luca⁸⁹

The complex market environment of the retail sector and tremendous growth of the business over the last five years have made direct supervision by management impossible. Rather than trying to impose stricter controls to supervise the organization De Luca has taken a more distant supportive role (see quote in section 3.3.1) role. This view is also shared by the ideas lens where it is thought that management should only provide the tools with which the departments can evolve. Control is however still maintained through constantly monitoring the planned and actual performance figures.

Markets have during the last five years not seemed to impose any barriers to Logitech as businesses were acquired and included in the overall business and new markets were explored (wireless). Alliances have been established with major console producers to co-develop add on products for this segment and time the product launches with games releases. Overall the organization has been geared towards to retail market where timing

⁸⁹ <http://www.svbizink.com/exec/printarticle.asp?aid=4710&tc=>

plays a particularly important role in product launches. The Christmas market being the most important for the performance of the firm, all product development teams are set on delivering new products by this quarter. One of the key factors which impress investors is the company's:

“Ability to deliver refreshed products on a short time interval and to leverage their consumer identity across all product lines while executing a low-cost business model.”
Analyst Dane Lewis of Robertson Stephens⁹⁰

The ideas school stresses that the far future cannot be predicted. Any predictions should thus be of the immediate future. Here a striking similarity can be found with De Luca's shortening of the planning horizon from three years to one year. It is my firm belief that the design lens planning systems, which I described above, actually describes parts of the Ideas lens. Within the ideas lens it is viewed that management should maintain control over certain key variables which are essential to the survival of the business. De Luca has drastically decreased the analytical procedures within the planning meeting and focused on broader issues. The forecasts and sales requirements are monitored on a monthly basis and, in my view, act as an indication and control device to keep the organization from moving into a chaotic state.

Coevolution can also be found within Logitech. The metrics structure of the organization allows and forces the different departments to constantly revise processes and procedures to adapt to the new environment. Marketing as well as engineering is engaged in the product development process and can provide helpful inputs as well as prepare themselves for the new products. The organization thus evolves together as an organic form rather than consisting of separate business/functional units which develop in accordance to their own views. Furthermore it can learn and contribute to organizational learning and adaptation through constant information exchanges.

⁹⁰ Forbes Magazine (28.08.2000): www.forbes.com/2000/08/28/feat2.html

5.3.2 Configuration

With the integration of two new divisions within the Logitech family control of the business units through the original configuration would have been virtually impossible. Furthermore the functional team structure did not integrate the knowledge of the organization and would prove difficult in markets of diversity.⁹¹ Prior to de Luca two senior managers were overseeing the daily businesses. De Luca on his own was unlikely to cope with the burden and soon sought to redesign the configuration.

De Luca maintained the divisional and functional team structure of the organization however sought to integrate these. The matrix structure of the strategic front end was created to incorporate and share the knowledge base of the organization. Furthermore the structure enabled the departments and units to work in close conjunction with each other on a daily basis. The flow of knowledge and information became more direct as the units were required to constantly interact with other functions. Managerial supervision was thus passed down the structure to the departments, freeing up managerial time for other tasks. However, the matrix structure of the 'Strategic Front End' is strikingly similar to Porter's value chain model. This stresses that the organization can leverage its activities through integrating the different processes. Value can thus be added or destroyed through combining primary activities with support activities. The following model helps to understand the theory. It is a modified version of Porters value model bearing in mind Logitech's primary and secondary functions:⁹²

⁹¹ Johnson, G. & Scholes, K. (1984): "*Exploring Corporate Strategy*" 6th edition p.446

⁹² Johnson, G. & Scholes, K. (1984): "*Exploring Corporate Strategy*" 6th edition p.160

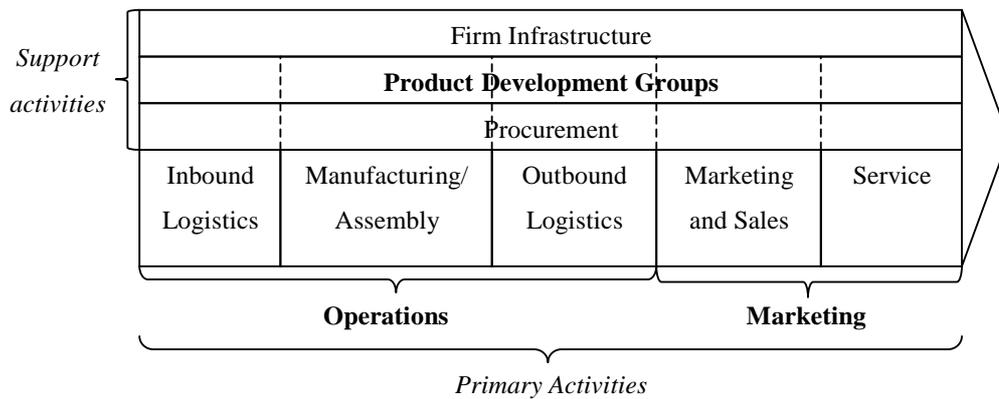


Figure 5.2: Logitech's value chain post transition

The Operations unit is responsible for the assembly of the components purchased through its inbound logistics activity. These distribute the products to the respective locations. Marketing and sales maintain customer contact and provide support to these. The product development teams develop and engineer the required products. This is very much like prior to the transformation with the difference in the ties between the activities. Rather than being separate entities, controlled and directed through the direct supervision of management these are now bound together through an extensive infrastructure. Upon entry, de Luca saw to it that the three different infrastructures used within the firm were unified into one all encompassing information management system.

The worldwide ERP developed received lots of criticism as each region believed their own system to be superior and had grow accustomed to their information system. Yet de Luca felt that the move was essential for the monitoring of the divisions and the integration of the regions. The new system (outlined in section 3.3.5) enabled the organization to coevolve and changed the fundamental processes and procedures of the organization. It enabled extensive interaction between the different units and allowed knowledge to be shared. Projects could now be examined by the different units and key input on features, costs, markets, etc. could be provided instantaneously across the organization. Knowledge generation increased dramatically as people and divisions were

less hindered by different time zones and locations. The processes had to be changed and thus employees have detailed information as to how to go about.⁹³

“Formal processes and procedures [for product development] are listed in a database that tells exactly what and how you have to go about. Furthermore a system (database) is in place to structure procedures. All product ideas and information are stored in an information database so that all know what goes on. At the end of the day everyone write down what they did and an employee on the other side of the globe can pick up where he/she stopped for the day.” Garreth Hayes

The product divisions now constantly interact with the regional marketing teams as well as the operations department to gain insight into external and regional developments. The high degree of conflict it entails gives rise to communication, negotiation and organizational learning (see last quote in section 3.3.5). The direct contact furthermore leads to a decrease in bureaucracy, promotes diversity and an increase in innovation.

“The strategic front end is one expression of this collaborative approach to working and would not be possible without an environment where different groups bring different inputs to the product development process and everyone has a part to play depending on their expertise.” Garreth Heyes

The information system is thus elementary for a well functioning value chain especially in a multi-product organization with personnel and activities spread out across the globe. The direct supervision of the organization, as described during the control of Borel, was well suited for an OEM orientation. In a retail market, where first mover advantage and innovation are key to the survival within the industry, the organization needed to be linked to create a smooth value chain. Interaction had to be integrated within the firm and made an intrinsic element within the organizational culture. The value chain had to be united to maximize organizational learning, knowledge generation and coevolution.

In my view, Logitech went beyond closing the value chain through the creation of a strong interactive working environment. As was described to me at several times, the imbedded culture of communication between the departments is viewed as a core element of the organizational success. The matrix structure presented earlier still holds as the

⁹³ Davila, T. & Oyon, D. (2001): “Redefining the Business Model”

amount of integration between the departments is substantial. Scholes and Johnson referred matrix structures as “geographical divisions or functional and divisional structures operating in tandem”⁹⁴ where the authoritarian route is substituted with cross matrix relationships. Logitech’s ‘Strategic Front End’ certainly fits this description. The extent of the direct supervision under Borel’s leadership was decreased and an emphasis was placed on control systems. These are used in quarterly performance reviews where de Luca checks to see whether short term forecasts were met. In my view de Luca furthermore shifted the relationship between the units and executive management towards more strategic control where management were concerned with the direction in which the business was going than the direct planning of the direction.

In my view, the structure of Logitech is of an Ideas school where innovation is fostered in a fully integrated, functionally divisionalised, matrix structure which promotes organizational learning. Management involvement has in my view decreased drastically and is now concerned with laying the foundation upon which its business units can operate. Successful innovations are promoted through variety and the constant interaction of the people within the organization. The value chain has been closed to create a smoothly fast and flexible organization.

The purely functional design under Borel’s leadership was in my view the optimal organizational structure given the rather narrow product range which Logitech was exposed to in the late 90’s. Top-down control was thus an optimal configuration for this purpose. Yet a move into the retail market requires the organization to compete on diversification. This in turn requires a more diverse product range. A purely functional structure was thus according to the theory not optimal and the organization had to be reconfigured. The mix between the divisionalised and functional configuration with less top down control which Logitech currently has was in my view required for a successful shift of markets. Furthermore the matrix structure and the ideas based strategy development approach provided the right ground for successful innovations.

⁹⁴ Johnson, G. & Scholes, K. (1984): “*Exploring Corporate Strategy*” 6th edition p.427

6 Conclusion

Logitech's progress since the start in the early 80's has truly been exceptional. Within 20 years it has been able to reach over one billion dollars sales and survived several fierce competitive wars. Its incredible growth path is far from obvious and can be pinpointed to a few extremely successful strategic decisions by its management team. The cost advantages gained within the OEM market has provided Logitech with a platform from which to launch attacks on other markets. These deep pockets or strongholds have proven to be invaluable to the future of the organization. Yet, in the mid 90's sales started to stagnate and the founders sought new ways of enlarging their business. The retail market provided a promising ground in which Logitech had been trying to gain a firm position for quite some time. Guerrino de Luca has successfully increased Logitech's exposure to the retail market and continues to do so. Certain strategic modifications and configurational alternations were necessary to invoke the transition from a successful OEM supplier to a successful retail manufacturer.

The OEM market in general is concerned with price and quality. OEM manufacturers purchase the cheapest components at a given level of quality. As OEM's often order in advance, order forecasting can provide significant cost saving effects helping firms to establish a advantageous cost base. Strategy as design implemented through top down control, direct supervision and bureaucratic structures enable firms within this sector to develop a streamlined production system producing standardized goods in vast quantities. The aim for OEM manufacturers is thus to gain an established cost leadership base. This can be achieved through the reallocation of labor intensive processes to low cost countries such as the Far East, through outsourcing the production of components to other

component manufacturers or the installation of the latest production systems. Industrial design can also provide an advanced cost base if the product development process focuses on the production of products with regards to minimum assembly/production effort. A further means of establishing increased sales may be to offer higher quality goods than competitors for the same price as these.

Stringent control has to be exerted to ensure qualitative requirements and management effort should be constantly devoted on finding cheaper ways of production without the loss of the quality requirements. Inner efficiency, as proposed by the resource based view, can then be accomplished. Outer efficiency, the production of the right products, follows as a result of the close relationship with the OEM's. Establishing the position of cost leadership is very difficult and problematic as competitors will constantly try to imitate changes implemented. Focus should thus be laid on the development of processes which cannot be imitated. Once achieved, Ricardian rents will result and the company will be able to withstand the fiercest price pressures from competitors.

Within the retail market sales are dependent on other factors such as design, pricing, features and functionality which all cannot easily be predicted. The market is fast and constantly changing thus the organization needs to be structured to accommodate the environment. The VRIO inner efficiency of the OEM market is not applicable to the retail market as management may not be able to predict or respond efficiently to the constantly changing market. The customers are not a few large OEM's but the end users making it difficult to predict market movements by management. The emphasis must thus be applied on delegating some of the managerial power to the divisions in order to foster innovation and organizational learning. The strategy as ideas lens is thus optimally tailored for this purpose. The overall organization has to be bound together through the value chain. Operations can still be maintained in a classical top down hierarchy to ensure the production of the right quality at a minimal cost.

This stage of delegating power to the lower functional departments is also in accordance to Larry Greiner's five phases of growth model. He proclaims that an organization undertakes five 'revolutionary' stages. From initially being driven by the creativity of the

founders where a simple structure prevails the organization moves through a crisis of leadership. The evolving 'directional' management will then have introduced means of monitoring the organization through performance targets and budget levels and implemented these through specialized functional divisions. The new structure will however give rise to greater autonomy at the functional level as managers seek more responsibility. In order to cope with the crisis management delegates decision making to the functional groups. The decentralized structure enables higher management to focus on the overall long run strategy of the organization and provides the functional department with the required freedom. The next step in the organizational development model will be the feel of a loss of control by management as the organization develops in different paths. In phase four, management will have implemented processes by which to evaluate the functional managers, increasingly bureaucratizing the organization. The resulting red-tape will set of the next 'revolution' where the emphasis is shifted towards organizational culture. The idea being that the strong organizational culture will guide and control the functional managers.⁹⁵

With the change of management, Logitech, in my view, went through or skipped several of these crises. Prior to de Luca, Logitech was firmly established within the second stage where a functional structure as well as direct management control through performance targets as well as budgets steered the organization. De Luca delegated power to the functional groups effectively moving into the third stage. The recent expansion into several 'new' markets and products could however result in a crisis of control. Management will be concerned with the overall direction of the organization. However during my interviews, Gareth explained that a key to Logitech's success lies within the organizational culture and the way of doing business. This gives rise to the question of whether in fact de Luca shifted the organization directly to the 5th phase of Greiners model and may be an interesting subject for further studies.

The main implications with the finding is that firms, willing to enter the retail market are required to delegate power to subsidiary functional departments in order to stay organic

⁹⁵ Robbins, S. (1998): "Organization Theory: Structure Design and Applications" p. 472

and cope with the volatile market changes. To ensure this, the organizational departments need to be tied in with the value chain through a well functioning information management system such as a sophisticated information technology network. The top down control which gave rise to inner efficiency within the OEM market is not applicable within the retail sector. Through realigning the organization horizontally (value chain), the organization can gain temporary advantages within the retail market as organizational co-evolution may be achieved, fostering the production of innovative and marketable products.

Here it is important to note that the 'outer efficiency' (making the right products) is not set by large customer's demands but rather the market movements. Consumers are ultimately the purchasers of the products and these determine its value. Outer efficiency is thus extremely difficult to be achieved by top down control and is more likely to be achieved through the integration of the whole organization in the product development process. Marketing, who are the eyes and ears of the organization, can provide invaluable input as to customers response and market developments. Operations can contribute to identifying even cheaper sources of materials, components or production methods which can be incorporated within the production design. Through realigning processes, networks and social structures within the organization in order to foster communication, organizational learning and innovation, the organization can thus gain a temporary advantage. The outer efficiency is thus driven by the inner efficiency. An organization will be more likely to produce the right products if it establishes inner efficiency through the delegation of power and integration of the functional departments in a strong value chain. As the operations department is maintained in a more traditional top down control matter both the retail and the OEM market can be addressed simultaneously.

These findings fundamentally challenge Porter's competitive strategies as the organization would be competing on cost leadership and differentiation grounds. Porter proclaims that an organization would end up being 'stuck in the middle' if it were to follow more than one generic strategy at a time. A modest market share as well as a low return compared to the industry average would result. According to Porter, such an approach would not be advantageous as it would deliver a confusing image to the

industry.⁹⁶ Given the recent performance of the organization it is clear that this has not been the case with Logitech.⁹⁷

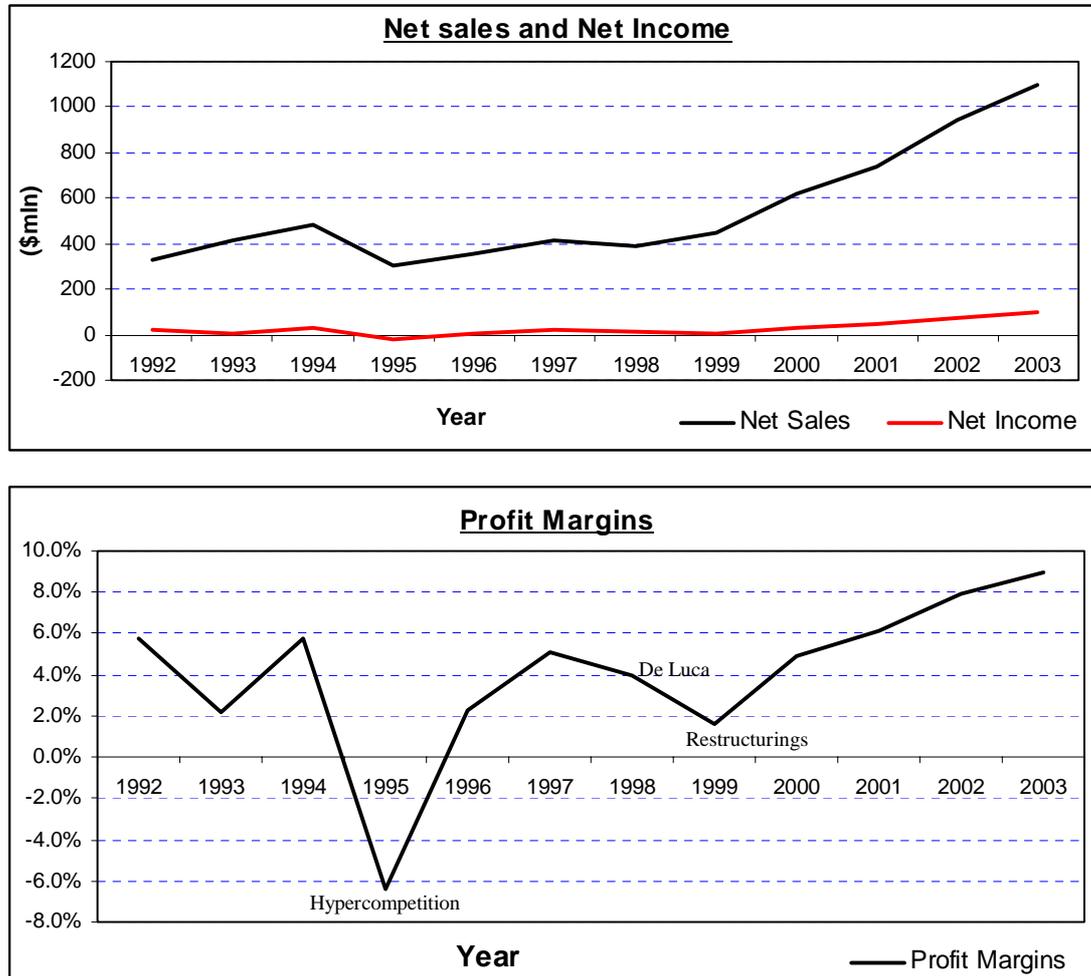


Figure 6.1: Logitech sales and performance

Although ultimately the same customers will be targeted, irrespective of industry, the difference lies in that OEM products usually are sold as ‘no name’ brands. Although a mouse may be manufactured by Logitech, the item will have the OEM brand name on it when shipped to the end user. Customer confusion thus will not develop and both the retail and the OEM market can be targeted. Porter explains that the pursuit of such a strategy is possible, however only if it is made using different brand names. Snowflake,

⁹⁶ Robbins, S. (1998): “Organization Theory: Structure Design and Applications” p. 137

⁹⁷ Financial information from Annual Reports (1994-2003)

SAS's budget airline, is an example of such a brand name separation. In my view Porter's competitive strategies does not hold as:

- a) usually the brand name of the OEM supplier is not promoted on the product
- b) the OEM product is part of a bundled product thus eliminating brand and price transparency
- c) two separate direct customers (OEM's and retail customers) are targeted and these have different tastes and priorities

An organization can compete efficiently within both the OEM market and the retail market simultaneously if these have established cost leadership within the OEM market and can utilize this to fund a move into the retail market. Significant structural and strategic restructurings are however necessary in order to achieve inner and outer efficiency in the new market. The organization is required to delegate much of the decision making to lower functional units and integrate these within the value chain. Innovation should be promoted at all levels through the emphasis of interaction and an adaptation of a strategy of ideas basis for strategy development.

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