

XP Actuarial SDM Exam Study Manual Introduction

Hey students, this is Steve. I've been helping students pass SDM for about 6 years now.

First, be sure you have watched the introductory videos on the portal:

- The Reality of SDM
- How XP helps on SDM
- If you previously failed this exam, watch the video on using prior exams BEFORE you look at the SOA solutions for last sitting

OK, so having watched those videos, you should understand now that SDM is a bigger challenge than the other finance track exams because you are competing against almost exclusively students that have already passed 2 written exams. You now have to get into the top 40% of the *really* good students. But be clear, together, we can absolutely do this!

As always, feel free to reach out with questions or any ask advice. **Students are always really surprised by how much I am willing to help them directly in getting this exam.**

XP tools aside from the study manual that are all available to you on the portal:

Memory tools:

- **Key point flash cards** – these are the key points from the study manual – very efficient for doing a 20 to 30 minute weekly review of the material to keep on top of your learning.
- **Audio Cards** – flash cards that you can listen too. If these are easy for you to use, you may want to try them as quite a few students find them helpful in the last month when they are tired of reading!
- **Flash cards** – cover the entire syllabus – have both pdf & **ANKI app** flash cards and flash cards that are printable.

Seminar Videos – I touch on key points in the material, solve example questions, and relate them to case study and/or real life situations as this is often how the material is actually tested on the exam

Practice Recall Questions – these are memory/recall questions that cover the entire syllabus – these are basically the flash cards but allow you to type your answers for the students that like to do that.

Case Videos – videos on specific questions on the case study companies

Case Study Checklist – about 100 references in the case study that connect with specific syllabus material. This is only intended as an intermediate step before doing SOA and XP questions

XP Application Questions – these are a combination of medium and hard critical-thinking questions – RELEASED about 6 to 7 weeks prior to the exam (as we found that students need to do them closer to the exam to properly PEAK for a critical thinking exam).

Business Dynamics Assignment -- Most students have found this to be super-helpful for developing their Business Dynamics skills. The connected videos go through actual good and bad student answers.

Practice Exams – 4 practice exams that simulate the real thing. They have extensive answer commentary that show the typical errors students make with SDM-style questions.

Answering Skills videos – After reviewing hundreds of student’s practices on SDM specifically, we found a number of areas where students unknowingly and painfully lose marks.

Personal Video Feedback from the instructor I will give you OBJECTIVE & detailed feedback on HOW you are answering – such as if your justifications are logical and appropriate to score marks for how the graders will look at them. Students are consistently surprised at what I show them in their feedback. You need to get feedback from me on something if you want a free re-use of the study material.

The items in **RED** are released over the final 4 to 8 weeks before the exam as we have found that students should be using them closer to the exam to properly PEAK for exam day. **Basically your goal is to learn the material reasonably well** and then you have the tools in RED to really help in the final month or two.

Objective 1 Material

General Objective 1 Comments:

- In the videos for this objective, we go into many case study and real life examples of the concepts , so it's helpful to at least skim the SDM version of the case study before getting too deep into the videos. The new case comes out each February.
- There are a number of XP Application questions that will help you develop your application of the somewhat general and subjective concepts in this Objective that align with how the SDM exam will test you.

Important Instructor comments about the Understanding Michael Porter textbook and the other readings for this objective:

You should start Objective 1 with reading the Understanding Michael Porter book. This book is well-written and has a lot of great examples – there should be some examples that you can relate to. As well, this is the kind of book you can keep in your office for the rest of your career.

Now for some general comment around learning the strategy material:

You may not have a lot of experience in your current job as to the importance of strategy, but there should be some things that you can relate to.

As a first step, take one or two companies that you know well and try to apply the concepts as you read. For example, take Apple. Apple uses a **differentiation strategy** by having a powerful brand and constantly innovating to bring new features and app capabilities to its products. Because of this strategy, many customers are **willing to pay higher prices** for Apple products, allowing Apple to earn high returns on its investments relative to its competitors. Apple does not try to be the phone for all customers, but it does try to be the **ONLY** phone for **SOME** customers.

Furthermore, Apple has developed a very successful value chain. First, it is able to outsource the production of its iPhones at relatively low cost, but also very high quality. Second, Apple has over many years of continuous strategic effort to develop its own design, branding, marketing, and distribution capabilities that make it a formidable competitive force.

Lastly, customers and suppliers **KNOW** what to expect from Apple because of the **continuity of Apple's strategy over time**. A customer knows that Apple products are cool and have intuitive and friendly design, but also to expect a higher price. A supplier knows that they need to meet high quality specifications for Apple and know that Apple won't accept anything less.

At the same time, many competitors, such as Samsung, have competed aggressively against Apple and have been able to take market share from Apple. Furthermore Apple needs to be concerned about political actions such as foreign governments placing tariffs on its products. These are examples of Apple needing to understand the **five forces of its industry**.

Continuing this example, Samsung, in its efforts to profitably gain customers away from Apple, sometimes **tries to be unique** such as when it was the first to introduce larger screen smartphones. This was risky as it had not been attempted before and thus the results were less predictable. However, once large phones were recognized as a useful feature, Samsung became recognized as an innovative company as well and was able to strengthen its brand and garner many loyal customers

By taking a couple of companies you know, you can start to get a better understanding of how to apply many of these strategy concepts so the concepts become less murky. These companies may be widely-known or may be a small company you have worked a summer job at.

Later on, there will be many opportunities to apply these concepts to the case study through the case study assignment and checklist. Also, and by far most importantly, the XP Application questions have many questions relating the strategy concepts to the case study. And finally, the XP practice exams

have several tough questions to push your ability to apply these concepts really well to very specific situations.

Why do you need a deep understanding of how to apply these concepts in detailed situations? Because that is specifically how you will be tested on this material. The exam graders are always noting that students **lose a lot of marks** because their answers were **not specific to the situation given**. So if all you have done is memorized the lists, you will not do well on this exam! You also need to be able to apply the information deeply ... and accurately.

We can see this in the syllabus learning outcomes: for example, **Assess and recommend** business strategies **under different business situations** and market opportunities, utilizing the **applicable strategic or change management models**. You will have past SOA questions AND XP Application questions and practice exams that WILL test you in this way, so that will be what you have in the last month or so of your preparation to be able to do this well on the exam.

Active Study Tip: For now, write down a couple of companies you are familiar with and make notes on those companies as a way to apply the concepts in this objective's material.

Instructor Comment: The Understanding Michael Porter book is new in 2023, but there were many questions from similar material (early chapters of Strategic Management) on past exams. In the "Past Relevant Exam Questions" spreadsheet, I've made some notes on past SOA SDM questions that still mostly apply ... but note that there might be a few concepts or terms that are not a perfect match to the new material on the syllabus.

Understanding Michael Porter

Part 1 – What is competition?

- **Strategy** explains how an organization, faced with competition, will achieve superior performance
- The key to an organization’s success is the ability to create unique value, rather to be the overall “best”
- That is creating value is the heart of competition, rather than being the “best”
- Where does superior value come from? Two parts:
 - 1) *The structure of the industry* in which competition takes place
 - Because being unique is relative to a set of rivals
 - Also industry determines how that value created is shared
 - Here, the **Five Forces** analysis is the framework to use
 - 2) *The company’s relative position* within the industry
 - What kind of value will be created and how will that value be created
 - Here, **competitive advantage** and **value chain** are the frameworks to use
- This set of frameworks - five forces, competitive advantage, and the value chain - explain why there are large and sustained differences in profitability *across* industries and why some companies are able to outperform others *within* an industry

Understanding Michael Porter Chapter 1

Competition: The Right Mindset

Key Points:

- Strategy explains how an organization, faced with competition, will achieve superior performance
- Where does superior value come from? Two parts: the structure of the industry and the company's relative position within the industry
- Five forces, competitive advantage, and value chain/system are the key frameworks from Porter
- The right mindset for competition is **TO BE UNIQUE**, rather than to be the "best" on everything
- You want to earn higher returns by creating superior value for your chosen customers and

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- A good competitive strategy will result in sustainably superior performance in the face of competition
- What value will your organization create? And how will you capture some of that value?
- It's not about being the "best" on everything, but rather being unique in some way amongst your competitors
- Competition focuses more on meeting customer needs than on demolishing rivals – because there are so many needs to serve -> there are many ways to win!
- E.g. McDonald's wins in fast food, but In-N-Out Burger wins for those who want a made-to-order freshly made unprocessed burger
 - **Instructor comment:** for example, in a rush, you might grab something at McDonald's, but on a date, you would more likely go to In-N-Out Burger instead of McDonald's (hopefully!) -> *each company wins at meeting different customer needs*
- Competing to be the best leads inevitably to a destructive zero-sum completion that no one can win
 - E.g. Airlines have often competed on price or even when they add new offerings, other airlines just copy it
- **Competitive convergence** – by competing to be the best, over time rivals begin to look alike. This usually leads to a descent into solely price competition. Often the only remedy is to try to consolidate the industry

Competition to Be Unique

- For Porter, strategic competition means choosing a path different from that of others.
- Instead of competing to be the best, companies can – and should – compete to be unique.
- This concept – competing to be unique – is all about value: the value you create and how you create it
- You are trying to create superior value for your chosen customers
- In this approach, price then is just one of many competitive variables
- E.g. you don't need to be the "best" singer, but you can find a large audience that specifically likes your music

- Competing to be unique thrives on things like innovation
- Competition is multi-dimensional, and strategy is about making choices along MANY dimensions, not just one.
- Now, why are some companies more profitable than others?
 - First, the structure of the industry matters -> Five Forces analysis in Ch. 2
 - Second, a company’s relative position in an industry matters -> value chain and competitive advantages in Ch. 3

The right mindset for competition – Be Unique

Be the Best	Be Unique
Be number 1	Earn higher returns
Focus on market share	Focus on profits
Serve “best” customer with “best” product	Meet diverse needs of target customers
Compete by imitation	Compete by innovation
Zero sum – a race that no one can win	Positive Sum – multiple winners. Many events