

## **Chapter 6 – Business Unit Level Strategy**

### **Introduction**

Post formulation of the corporate level strategy, strategic managers focus on Business Unit level strategy which is unique to individual business. A business unit is an independent business entity with its own vision, industry and set of competitors. Strategic managers with the SBU devise the competitive strategies for each business unit to create a sustainable competitive advantage thereby its unique strategies cannot be duplicated by the competitors.

### **Competitive Strategy**

A competitive strategy is about being different. It has primarily the following dimensions-

- Demand side dimension – looks at the size and composition of the market, which the company intends to target
- Supply side dimension – looks at core strength and competency of the firm to differentiate its offerings in the market place

### **Cost leadership Strategy**

Organisations strive to achieve leadership in the cost perspective through one or more of the following key ways-

- Achieving high asset turnover, which helps the organisation to spread the fixed costs over large number of units of products or services
- Achieving low direct and indirect operating cost, which is attained through production of highly standardised products, offering basic no frills products and limiting personalisation
- Control over supply chain to ensure low costs. This is achieved through bulk buying, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep the inventory low.

### **Differentiation strategy**

Companies adopt an approach to differentiate the products in some way in order to compete successfully. This strategy is appropriate where the target customer segment is not price sensitive.

The following are key variants of differentiation strategy-

- **Shareholder value model** – this model holds that the timing of the use of specialised knowledge can create a differentiation advantage as long as the knowledge remains unique
- **Unlimited resources model** – this approach utilises large base of resources that allows an organisation to outlast competitors by practicing a differentiation strategy

### **Focus or Leadership**

In this strategy, while adopting a narrow focus, the company ideally focuses on a few target markets. Similarly, in adopting a broad focus scope, the principle remains the same, the firm must ascertain the needs and wants of the mass market and compete either on low price or differentiation depending on its resources and capabilities

### **Value disciplines**

Three basic value disciplines that can create customer value and provide a competitive advantage

- Operational Excellence
- Product Leadership
- Customer intimacy

### **Criticisms of generic strategies**

The recommended strategies by various researchers are often criticised claiming some of the following aspects-

- Lack specificity
- Lack flexibility
- Limiting scope and possibilities

### **Choosing the right generic strategy**

An organisation's choice of which generic strategy to pursue underpins every other strategic decisions it makes, so it's worth spending time to get it right. Multiple strategies involves execution of two or more different generic strategies, each tailored to the needs of an identified distinct market or class of customer

## The Mile and Snow Strategy Framework

Miles and Snow consider four types of strategies which are detailed as under-

- **Prospectors** – An organisation that follows prospector strategy is highly innovative firm that is constantly seeking out new markets and new opportunities. The orientation of company is towards growth and risk taking
- **Defender**- Organisation that follows defender strategy concentrates on protecting its current markets, maintaining stable growth and serving its current customers
- **Analyser**- Analysers look for stability and flexibility, an attempt to capitalise on the best of the prospector and defender strategy types
- **Reactor**- An organisation that follows a reactor strategy has no consistent strategic approach and no strategic choice; it drifts with environmental events, reacting to but failing to anticipate or influence those events.

## Social Business Strategy

Social business strategy is still evolving. Social business strategy requires having a healthy eco-system to support adoption and execution of the key business initiatives.

## Business Size and assessing the competitors

The size of the business has implications on a company's ability to adjust itself to market forces like competition and environmental changes.

- Small businesses have the flexibility to change its ability to meet specific market demands and to respond quickly to environmental changes
- Mid-size businesses, as they lack the advantages of being a small or large business, generally seek to expand their business to achieve economies of scale to take advantage of lower price unit, or scale down their operations by taking retrenchment strategy to fit them into the shoes of a small business, to take advantages of flexibility of a small business.