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# EBU5402 Enterprise Management

Lecture 7 - Business Strategy: Strategic Planning

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## Agenda

**Yesterday**

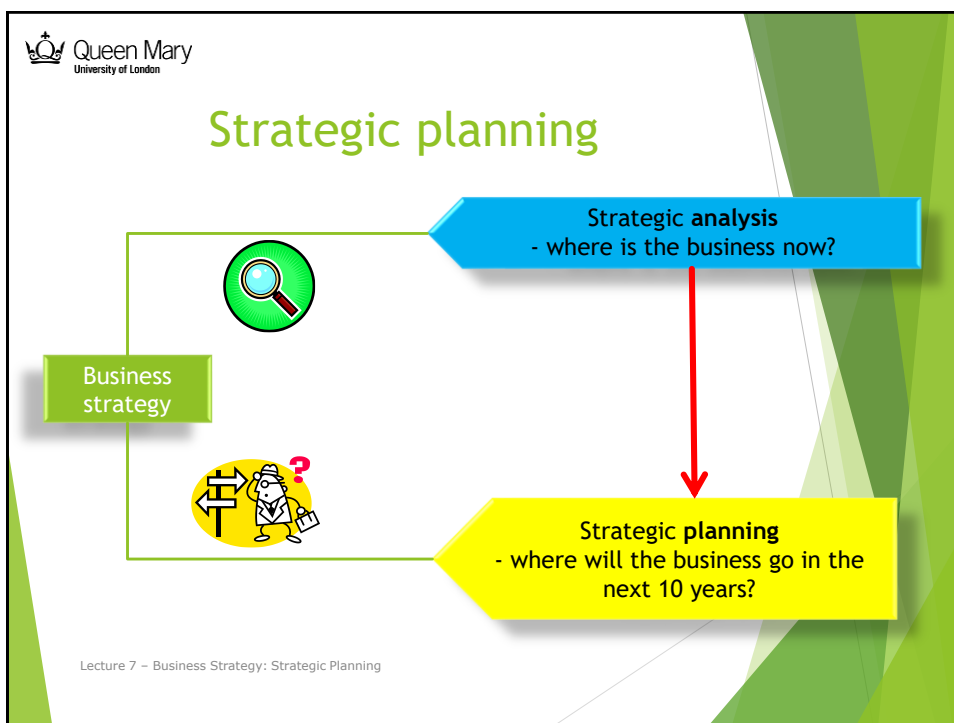
- ▶ Strategy: corporate & business levels
- ▶ Strategic Analysis
  - ▶ Strategic Analysis Tools
    - ▶ SWOT
    - ▶ PESTEL

**Today**

- ▶ Strategic Planning
  - ▶ Types of Strategy
  - ▶ Porter's 5 Forces



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## Where will the business go in the next ten years?

- ▶ Strategic planning is usually the responsibility of top-level executives at **corporate** headquarters and senior managers at domestic or foreign subsidiaries
- ▶ It needs to take into account
  - ▶ How **far** the business plan can ahead
    - ▶ For different industries/marketplaces, the answer may be different
  - ▶ How **valuable** are such plans?
    - ▶ A clear **strategic intent** provides an **outline framework** of basic principles and targets on which to base operational planning

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Strategic planning

Some of the factors to consider in the planning are:

- ▶ **Competitive Advantage**
  - ▶ identifying sources of competitive advantage
- ▶ **Adding Value**
  - ▶ looking at ways to add value
- ▶ **Mass markets or niche markets?**
  - ▶ which is the best route?
- ▶ **Cost based strategies**
  - ▶ focussing on reducing costs to compete and grow
- ▶ **Market based strategies**
  - ▶ focussing on satisfying consumer needs as the means to grow



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Types of strategic planning

There are basically two types of planning

- ▶ **Growth Plans**
  - ▶ How can the business **grow** in the future?
  - ▶ For example, a major supermarket like Tesco may have got to the stage where it is more difficult to see where future growth is coming from
  - ▶ This can require some very **innovative** thinking
- ▶ **Contingency Plans -**
  - ▶ Fallback strategies in case things do **not** go as planned
  - ▶ Nobody wants to fail but everybody needs to plan for it



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## Types of strategy

- ▶ When creating their plans, an organisation's strategies can be grouped into
  - ▶ outward looking and
  - ▶ inward looking

The company



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## Types of strategy

### - outward looking

- ▶ **Competitive Advantage**
  - ▶ something which gives the organisation some advantage over its rivals
  - ▶ There are a number of ways of doing this, for example
    - ▶ **Cost advantage** - A strategy to seek out and secure a cost advantage of some kind - lower supplier costs, lower labour costs, etc
    - ▶ **Price leadership** - through dominating the industry - others follow your price lead



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## Types of strategy

### - outward looking

- ▶ **New product development**
  - ▶ to keep ahead of rivals and set the pace
- ▶ **Contraction/Expansion**
  - ▶ focus on what you are good at (core competencies), rather than everything, or seek to expand into a range of markets?
- ▶ **Global**
  - ▶ seeking to expand global operations



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## Types of strategy

### - inward looking

- ▶ **Downsizing**
  - ▶ selling off unwanted parts of the business - similar to contraction



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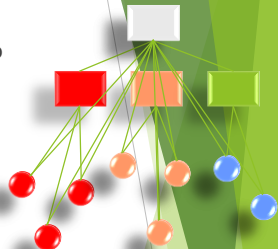


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## Types of strategy

### - inward looking

- ▶ **Downsizing**
  - ▶ selling off unwanted parts of the business - similar to contraction
- ▶ **Delayering**
  - ▶ flattening the management structure to remove bureaucracy and speed up decision making



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## Types of strategy

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- ▶ **Restructuring**
  - ▶ complete re-think of the way the business is organised



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## Types of strategy - inward looking

- ▶ **Downsizing**
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- ▶ **Delayering**
  - ▶ flattening the management structure to remove bureaucracy and speed up decision making
- ▶ **Restructuring**
  - ▶ complete re-think of the way the business is organised
- ▶ **Reengineering**
  - ▶ looking at new and innovative ways of doing things to leverage the organisation's performance




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## Porter's 5-force model

- ▶ Before any company plans to **expand** into new markets, divests product lines, acquires new businesses, or sells divisions, it should **ask** itself, 'Is the industry/market exciting/attractive?'
- ▶ Michael Porter in 1980 developed a framework for analysing **competition** within an industry
- ▶ By using this analysis technique, managers can develop their **competitive strategy**
- ▶ The outcomes of this analysis help the manager to realise **opportunities** and overcome **threats**
- ▶ This is a **key** management tool in Business Strategy



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Porter's 5-force model

- ▶ It uses **4 forces** and shows how they **combine** to influence a **fifth force**, the degree of rivalry in an industry
- ▶ These 5 forces determine the attractiveness of a **market** to a company
- ▶ The forces are those close to a company that affect:
  - ▶ its ability to serve its **customers**
  - ▶ its ability to make a **profit**
- ▶ A **change** in any of the forces normally means that you need to **re-assess** the marketplace

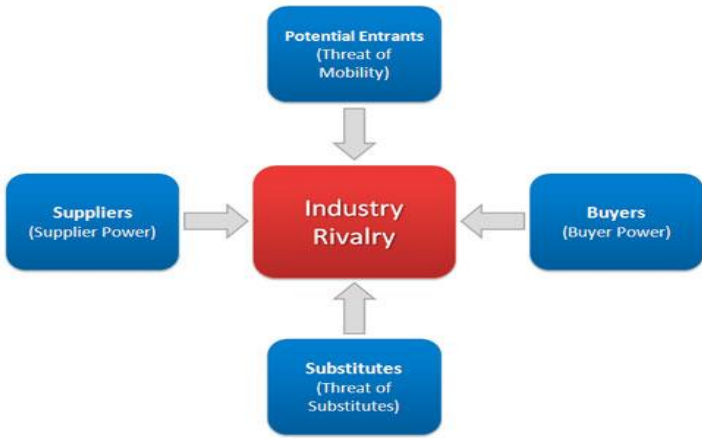
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Porter's 5 forces



```
graph TD; PE[Potential Entrants<br/>(Threat of Mobility)] --> IR[Industry Rivalry]; S[Suppliers<br/>(Supplier Power)] --> IR; B[Buyers<br/>(Buyer Power)] --> IR; ST[Substitutes<br/>(Threat of Substitutes)] --> IR;
```

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## Porter's 5-force model - threat of potential entrants

Affected mainly by barriers to entry

- ▶ brand **loyalty**
- ▶ **switching** costs
  - ▶ e.g. retraining
- ▶ **capital** requirements
- ▶ access to **distribution** channels
- ▶ **experience/learning** curve advantages
- ▶ expected **retaliation**
- ▶ **government** policies

Barriers can be **counterbalanced** by


- ▶ expected market **growth**
- ▶ expected **profitability**

**Threat of potential entrants**

**Degree of rivalry**

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## Porter's 5-force model - bargaining power of suppliers

Affected by, e.g.

- ▶ number of **suppliers**
- ▶ number of **customers** your supplier has
- ▶ importance of **volume** to supplier
- ▶ degree of **differentiation** of inputs
- ▶ availability of **substitute** supplies
- ▶ **switching** costs of changing supplier
  - ▶ e.g. specialised equipment or processes
- ▶ threat of forward **vertical integration** by suppliers relative to the threat of backward vertical integration by firms
- ▶ cost of **inputs** relative to selling **price** of the product

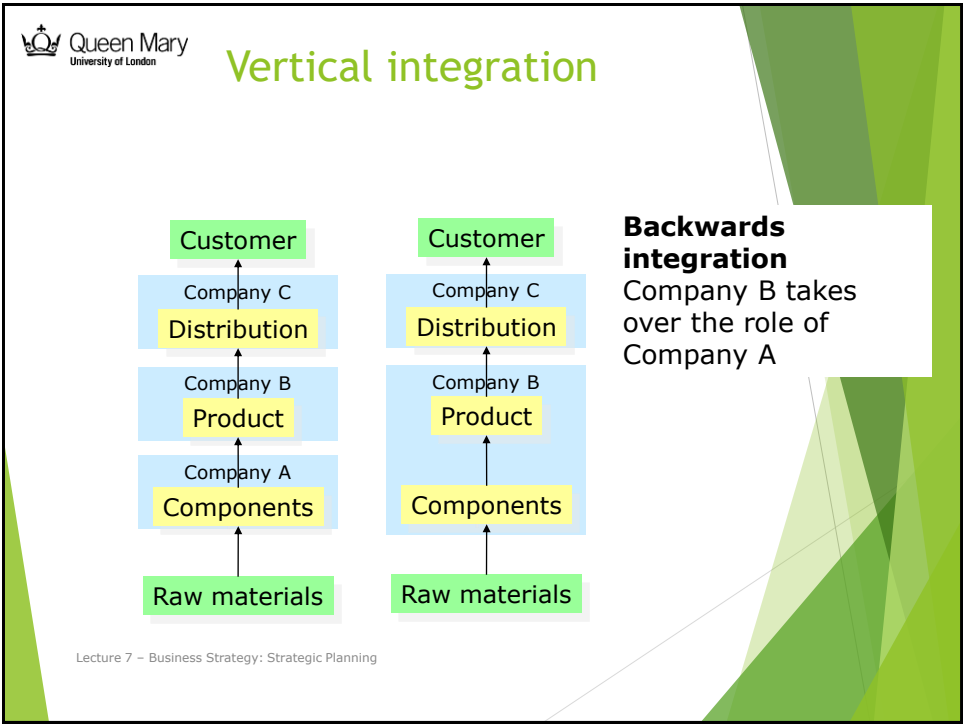
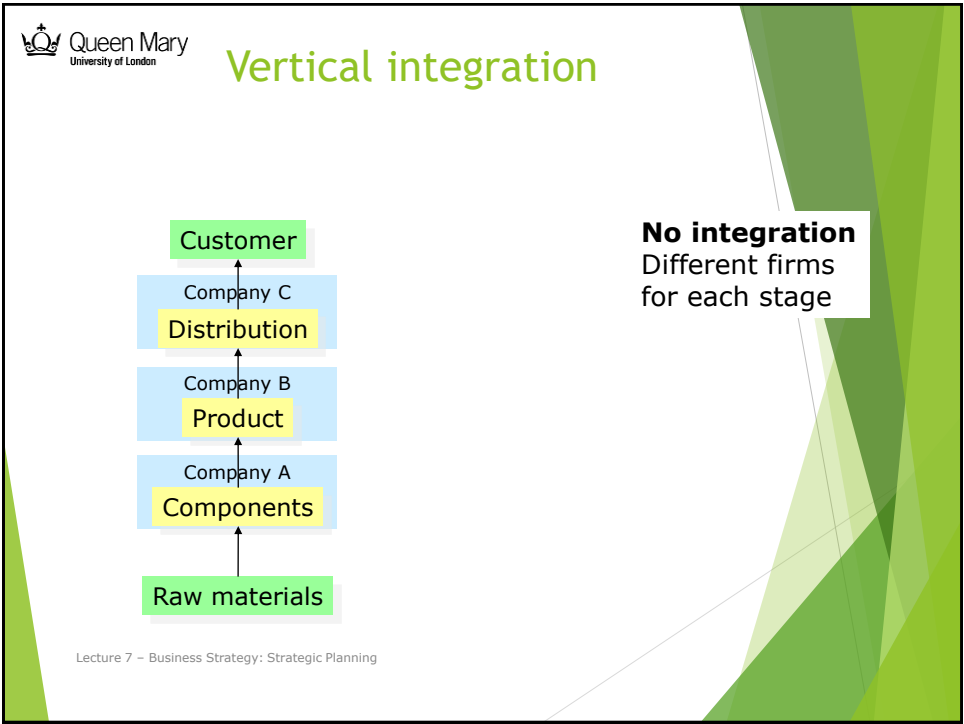
**Bargaining power of suppliers**

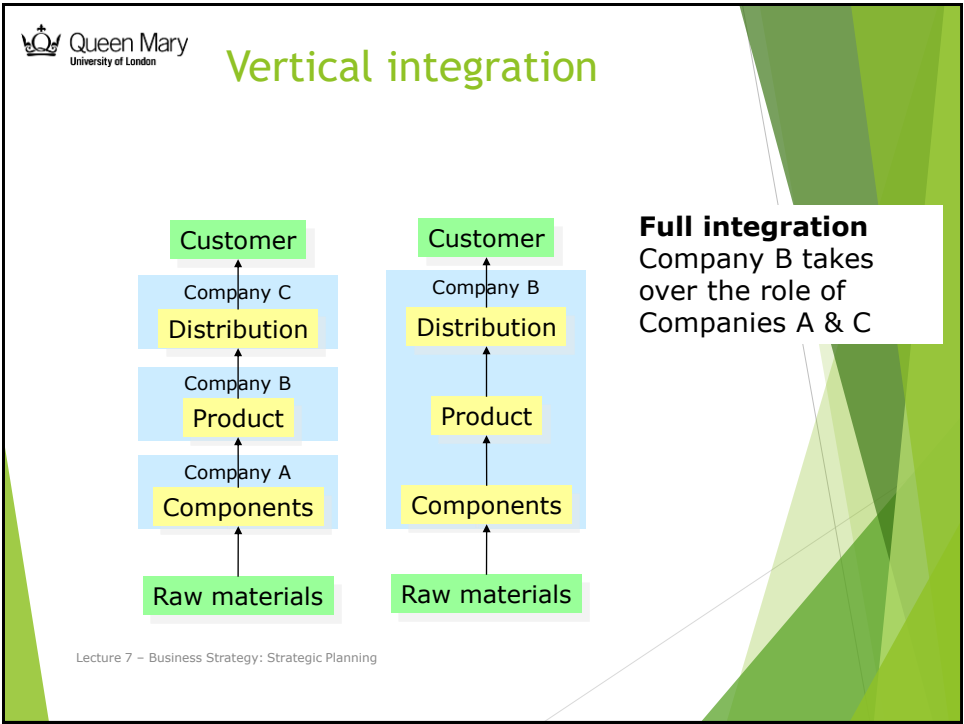
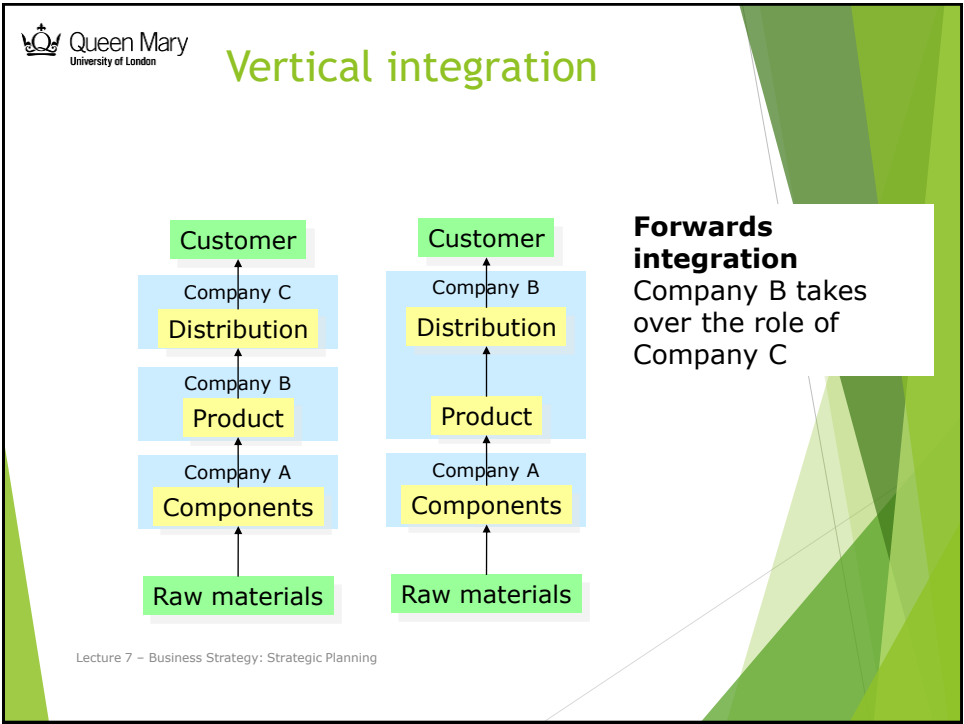
**Threat of potential entrants**


**Degree of rivalry**

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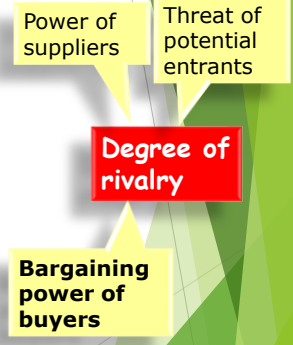


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## Porter's 5-force model - bargaining power of buyers


Affected by, e.g.

- ▶ how many **customers** there are
- ▶ how many **suppliers** they can choose from
- ▶ product **differentiation**
- ▶ availability of existing and expected **substitute** products
- ▶ buyer **volume**
- ▶ buyer **switching** costs
- ▶ ability to vertically **integrate** backwards
- ▶ buyer **price sensitivity**



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## Porter's 5-force model - threat of substitutes

- ▶ A **substitute** is not a competing product but one that meets a similar need, e.g.
  - ▶ Two airlines **compete**, but
  - ▶ A train provides a **substitute** product


The threat is affected by, e.g.

- ▶ buyer **willingness** to substitute
- ▶ relative **price** of substitutes
- ▶ buyer **switching** costs
- ▶ **availability** of substitutes
- ▶ **perceived** level of product differentiation & quality



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## Porter's 5-force model - degree of rivalry

Affected by, e.g.

- ▶ **number** of competitors
  - ▶ More firms= more competition
  - ▶ Not in oligopolistic industries
- ▶ **diversity** of competitors
- ▶ **demand**
- ▶ industry (over)**capacity**
  - ▶ can vary greatly with time
- ▶ rate of industry **growth**
- ▶ level of **advertising** expense
- ▶ **exit** barriers

**Oligopolistic industry**  
Highly consolidated  
with a few large firms

**Degree of rivalry**

High demand and  
low capacity  
gives **less** competitive  
pressure

Low demand and  
high capacity  
gives **more** competitive  
pressure

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## Summary

- ▶ Strategic Planning needs to take into account:
  - ▶ *How far the business plan can ahead?*
  - ▶ *How **valuable** are such plans?*
- ▶ **Growth Plans or Contingency Plans**
- ▶ **Porter's 5 Forces**
- ▶ **Type of Strategies**
  - ▶ Outward looking (**Competitive Advantage, Cost advantage, Price leadership, New product development, Contraction/Expansion, Global Operation**)
  - ▶ Inward looking (**Downsizing, Delaying, Restructuring, Reengineering**)



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## Directed Reading

**Course Textbook (Ebert, R. J. and Griffin, R. W., 9<sup>th</sup> Edition)**

- Strategic Management: Setting Goals and Formulating Strategy (p122 - p 130)

**Additional Reading**

- Palmer, A. (2011) The Business Environment, Chapter 15, p520



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## References

1. <http://www.baesystems.com/AboutUs/CompanyStructure/OrganisationChart/index.htm>
2. Corporate Strategy, R. Lynch, 3<sup>rd</sup> Edition, 2003, Prentice Hall, pg. 6
3. Exploring Corporate Strategy, G. Johnson & K. Scholes, 1997, Prentice-Hall pg. 174
4. <http://www.wal-martchina.com/english/walmart/index.htm>



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## In-Class Exercise



## Quiz Time

?

- ▶ Quiz includes questions from Lecture 1, 6 and 7
- ▶ Raise your hand when I point out the answer that you think is right
- ▶ This isn't group work, I want you to make up your own minds
- ▶ There are no prizes from this quiz!



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