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EBU5402 Enterprise Management


Lecture 6 - Business Strategy: Strategic Analysis

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Coursework - Reminder

- ▶ Submission deadlines:
 - ▶ Part A (25%): on **Friday 2nd November 2018**
 - ▶ Electronic submission via QM Plus
 - ▶ 1 submission per cw group
 - ▶ late submission will not be marked



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Topics week by week

▶ Topic 1	Introduction and external environment	Week 1
▶ Topic 2	Internal environment and firms' structure	
▶ Topic 3	Economic environment	
▶ Topic 4	Business strategy	Week 2
▶ Topic 5	Marketing	
▶ Topic 6	Financial management	
▶ Topic 7	Operations management	Week 3
▶ Topic 8	Globalisation & international business	
▶ Topic 9	Risk Management	
▶ Topic 10	Human resource management (HRM)	Week 4
▶ Topic 11	Corporate responsibility	
▶ Topic 12	Revision	

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Agenda

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



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Strategy

► Strategy is a key element of business

► There are 3 big strategic questions to ask...


► Where are we?

► What's next?

► How do we get there?



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A large company

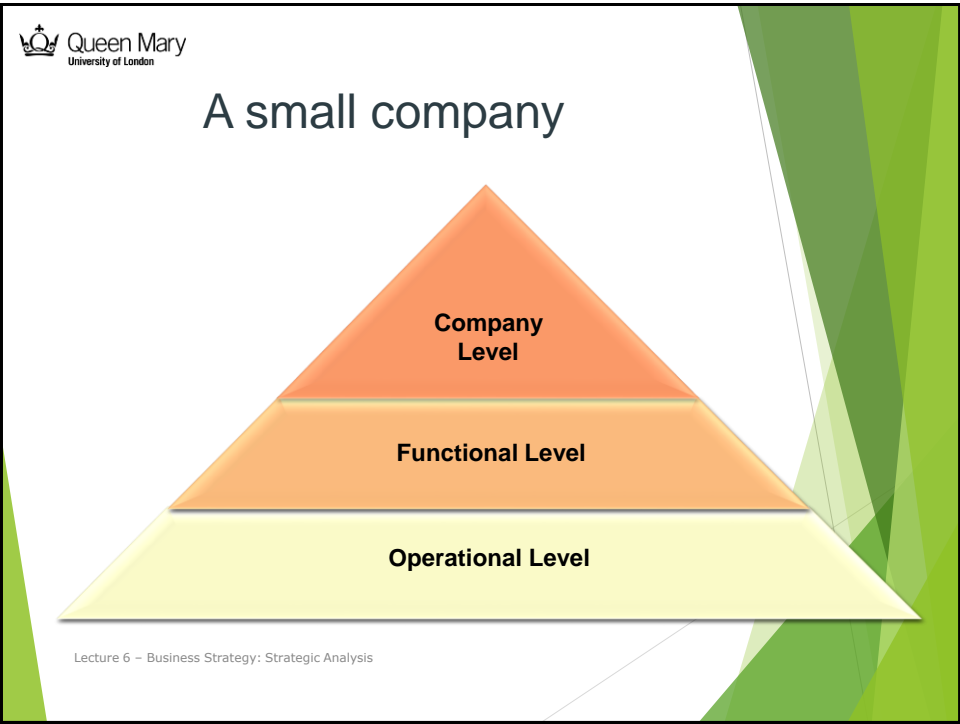
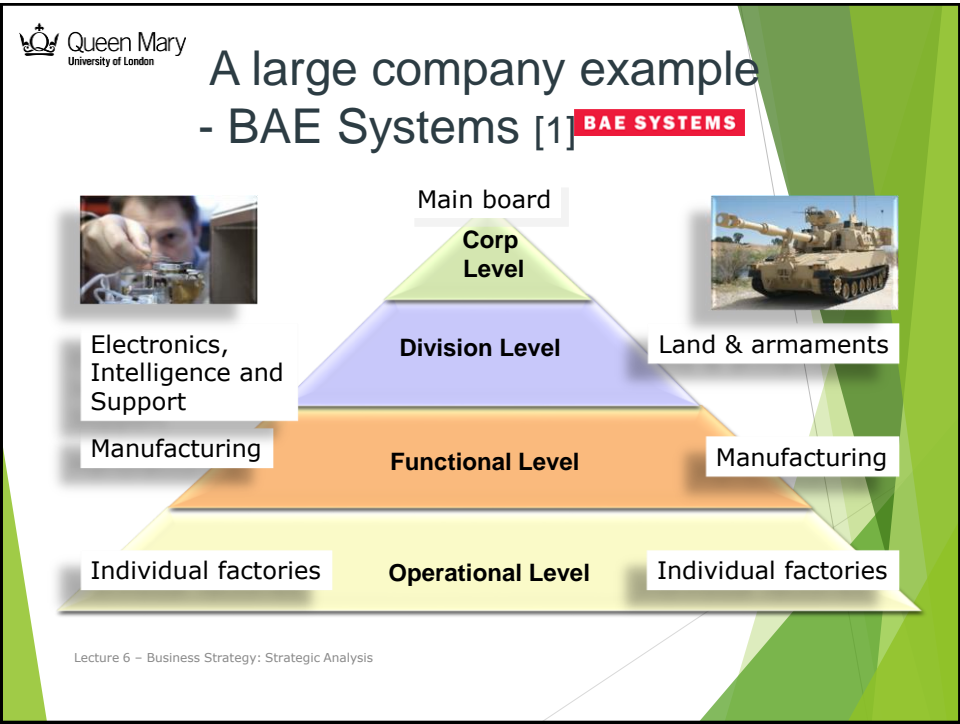
Corp Level

Division Level

Functional Level

Operational Level

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Levels of strategies

- ▶ International strategic management can be very **complex**
- ▶ Because of this, many global companies develop global strategies at different **levels**



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Two levels of strategies

- ▶ **Corporate-level**

- ▶ What **business** the company should be in
- ▶ **Culture** and leadership structure/style of company

BAE SYSTEMS

- ▶ Particularly important when **mergers** take place

- ▶ **Business-level**

- ▶ Competition
- ▶ Value generation
- ▶ Sustainable competitive advantage



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Corporate strategy

Definition:

“Identification of the **purpose** of the organisation and the plans and actions to achieve that purpose” [2]



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Corporate strategy examples

Can you identify the **purposes** of:

- ▶ **Microsoft**
 - ▶
- ▶ **Samsung**
 - ▶
- ▶ **Cisco**
 - ▶

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Corporate level

- ▶ Most organisations begin the strategy formulation process by creating a **Mission** statement and a **Vision** statement

- ▶ **Mission Statement** -



*What is our **business**? ...i.e. it clarifies the organisation's purpose and values*

- ▶ The mission statement serves as an **ongoing** guide without a time frame. The mission can remain the same for decades if crafted well

- ▶ **Vision Statement** -



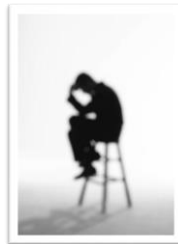
*What do we want to **become**?... i.e. it clarifies the direction that the organisation will take*

- ▶ Vision is more specific in terms of **objective** and future **state**. Vision is related to some form of **achievement** if successful

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Something for you to try

- ▶ Write a **personal** mission and vision statement
 - ▶ **Mission** - what do you see as your role in life?
 - ▶ **Vision** - what do you want to become in the next
 - ▶ 5 years?
 - ▶ 15 years?



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Mission statement examples



- ▶ **3M** - "To solve unsolved problems innovatively"



- ▶ **Mary Kay Cosmetics** - "To give unlimited opportunity to women."




- ▶ **Wal-Mart** "To give ordinary folk the chance to buy the same thing as rich people."



- ▶ **Walt Disney** "To make people happy."

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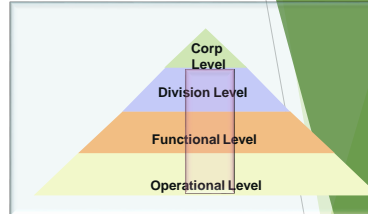
The vocabulary of strategy

Term	Definition	A Personal Example
Mission	Overriding purpose in line with the values or expectations of stakeholders	<i>Be healthy and fit</i>
Vision	Desired future state: the aspiration of the organisation	<i>To run the London Marathon</i>
Goal	General statement of aim or purpose	<i>Lose weight and strengthen muscles</i>
Objectives	Quantification (if possible) or more precise statement of the goal	<i>Lose 5 kilos by March and run the marathon next year</i>
Strategic Capability	Resources, activities, and processes	<i>Proximity to a fitness centre, a successful diet</i>
Strategies	Long term direction	<i>Exercise regularly, compete in marathons, locally stick to appropriate diet</i>

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Business (unit) strategy

- ▶ **Corporate** strategy deals with the overall organisation
 - ▶ but **business** strategy focuses on specific businesses, subsidiaries, or operating units
- ▶ This involves careful consideration of its **purpose**, its **resources** and how it interacts with the **environment** in which it operates [2]
- Business strategy is a means by which long-term **objectives** are achieved
- Business strategy is sometimes called 'business unit strategy' or 'functional strategy'




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Business (unit) strategy

- ▶ **Business strategies** include
 - ▶ marketing strategies
 - ▶ new product development strategies
 - ▶ human resource strategies
 - ▶ financial strategies
 - ▶ legal strategies
 - ▶ supply-chain strategies
 - ▶ information technology management strategies




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Business strategies


- ▶ **Some Examples**
 - ▶ Geographic expansion
 - ▶ Diversification
 - ▶ Merger & Acquisition
 - ▶ Market penetration
 - ▶ Retrenchment
 - ▶ Liquidation
 - ▶ Joint venture



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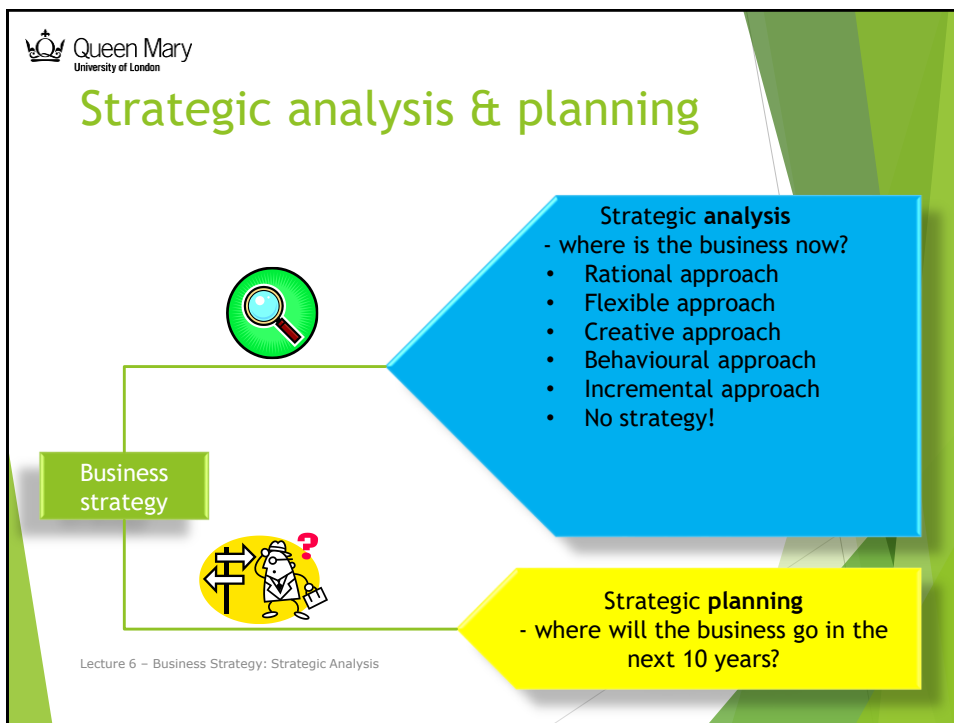
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Recap of key points



- ▶ **Corporate strategy** deals with the overall organisation
 - “Identification of the **purpose** of the organisation and the plans and actions to achieve that purpose” [2]*
- ▶ **Business strategy** focuses on specific businesses, subsidiaries, or operating units. It involves careful consideration of its **purpose**, its **resources** and how it interacts with the **environment** in which it operates [2]
- ▶ Business strategy is a means by which long-term **objectives** are achieved

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Strategic analysis - rational approach

- ▶ Regards strategy as a **scientific** and **rational** process
- ▶ Uses **techniques** such as
 - ▶ SWOT analysis
 - ▶ PESTEL
- ▶ The main aim is to **maximise profits**
- ▶ We'll look at these techniques later in the lecture


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Strategic analysis - flexible approach

- ▶ A **complex** and **volatile** environment may mean that a detailed rational analysis, such as SWOT, is **difficult** and **inappropriate**
 - ▶ Profit maximisation may **not** be the right strategy
 - ▶ The environment may be **changing** so rapidly that **historical data** is irrelevant
- ▶ **Scenario planning** is used as an alternative
 - ▶ **Several** scenarios are planned for
 - ▶ **Contingency** plans can be prepared for each possible outcome
- ▶ This approach is more **flexible** and is often used in **start-ups**

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Strategic analysis - creative approach

- ▶ Takes the flexible approach one step further by stressing the importance of **imagination** in the strategic process
- ▶ This relies much more on the **flexibility** and **creativity** of the individual managers
- ▶ The rational and flexible approaches may inhibit managers from reacting in a new and possibly better way when there is a **change** in the environment

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Strategic analysis - behavioural approach

- ▶ Strategy is **far** from being a rational process
- ▶ Strategic choice is much more about the **management** of an organisation, what their values, ideologies, personalities and beliefs are
- ▶ There may also be **conflict** between stakeholders that can have an impact on the company's strategy, usually the **dominant** character having their way
- ▶ This can influence how the SWOT analysis is carried out
- ▶ Often used in **start-ups**

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Strategic analysis - incremental approach

- ▶ Long term strategy is **not** clearly planned
- ▶ Instead, management in the organisation **gradually** comes to terms with the firm's environment
- ▶ Strategies are constantly **changing** in relation to the external environment
- ▶ The benefit of this approach is that it gives management a **repertoire** of **effective** strategies on the basis of what worked in the past

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Strategic analysis

- lack of strategy

- ▶ **No** strategic plan
- ▶ **Reactionary** management
- ▶ Usually happens in a time of **crisis** - often called ‘fire-fighting’



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Strategic analysis & planning

We will concentrate on this approach

Strategic analysis


- where is the business now?

- Rational approach
 - Pestel
 - SWOT
- Flexible approach
- Creative approach

However, tools such as PESTEL can be used in other approaches

- No strategy!


Business strategy



Strategic planning

- where will the business go in the next 10 years?


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PESTEL analysis

- ▶ What is it?
 - ▶ An analysis of the **external environment** that affects organisations
- ▶ What is it used for?
 - ▶ Identifying what **external factors** exist that may affect the companies **future**
 - ▶ This could be in terms of future markets, growth, loss of profit etc

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PESTEL analysis (cont.)

- ▶ The factors it looks at are
 - ▶ **P**olitical
 - ▶ **E**conomic
 - ▶ **S**ocial
 - ▶ **T**echnological
 - ▶ **E**nvironmental/Ecological
 - ▶ **L**egal (not just law)
- ▶ We will look at each of these

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PESTEL analysis

- political

- ▶ Political **parties** and alignments at local, national and European or regional trading-block level
- ▶ The **legislative environment** e.g. government policy on taxation and employment law
- ▶ **Relations** between government and the organisation
 - ▶ This may influence the preceding items in a major way and form part of future corporate strategy
- ▶ Government **ownership** of industry and attitude to **monopolies** and competition e.g. Microsoft

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PESTEL analysis

- economic

- ▶ **Inflation**
- ▶ **Consumer** expenditure and disposable income
- ▶ **Interest** rates e.g. current debt
- ▶ **Currency** fluctuations and exchange rates
- ▶ **Investment**, by the state, private enterprise and foreign companies
 - ▶ e.g. investment leaving UK for new markets
 - ▶ e.g. Ford to Germany, Dyson to Asia
- ▶ **Cyclical**ity of the economic factors
- ▶ **Unemployment**
- ▶ **Energy** costs, transport costs, communications costs, raw materials costs

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PESTEL analysis

- social

- ▶ Often has a **cultural** aspect
- ▶ Shifts in **values** and cultures
- ▶ Change in **lifestyles**
- ▶ Attitudes to **work** and **leisure**
- ▶ 'Green' **environmental** attitudes e.g. Eco products
- ▶ **Education** and **health**
- ▶ **Demographic** changes
- ▶ Distribution of **income**

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PESTEL analysis

- technological

- ▶ Government and regional (e.g. EU) **investment** policy
- ▶ Identified new **research** initiatives
- ▶ New patents and **products**
- ▶ Speed of **change** and adoption of new technology
- ▶ Level of **expenditure** on R&D by organisation's rivals
- ▶ Developments in nominally **unrelated** industries that might be applicable

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PESTEL analysis - environmental

- ▶ 'Green' issues that affect the **environment** and the organisation
 - ▶ e.g. higher airport tax, amount and type of energy consumed, renewable energy
- ▶ **Rubbish**, waste and its disposal
 - ▶ e.g. new markets for recycling services, WEEE regulations
- ▶ **Climate** change

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PESTEL analysis - legal

- ▶ The legal environment in which the firm operates, including
 - ▶ Competition law e.g. Microsoft
 - ▶ Employment and safety law
 - ▶ Product safety issues
 - ▶ Data Protection Act
 - ▶ Freedom of Information Act
- ▶ This also includes the regulatory environment
 - ▶ e.g. telecoms regulators

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PESTEL analysis

- good or bad?

► Strengths

► It is vital to be aware of the **impact** of the external environment and **prepare** for it. Not doing so can be harmful - e.g. dot.com boom, legal implications

► Could identify potential markets for **future** products


► Criticisms


► Environment may be **changing** so rapidly that historical or even current data is of no use

► Often difficult to judge **exactly** what effect an external factor will have on an individual company

► Time consuming

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SWOT analysis

strengths	weaknesses
opportunities	threats



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SWOT analysis

- ▶ SWOT analysis can be a useful way of summarising the **relationship** between
 - ▶ key **environmental** influences
 - ▶ the strategic **capability** of the organisation, and therefore
 - ▶ the agenda for developing new strategies [3]
- ▶ The concept is accredited to **Albert Humphrey**, who led a research project at Stanford University in the 1960s and 1970s using data from Fortune 500 companies


strengths

weaknesses

opportunities

threats

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SWOT analysis - Strengths

- ▶ Describes the **internal** strengths of your organisation, e.g.
 - ▶ Your specialist **marketing** expertise
 - ▶ A new, innovative **product** or service
 - ▶ **Location** of your business
 - ▶ **Quality** processes and procedures
 - ▶ Any **other** aspect of your business that adds value to your product or service

strengths

weaknesses

opportunities

threats

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SWOT analysis - Weaknesses

- ▶ Describes the **internal** weaknesses of your organisation, e.g.
 - ▶ Lack of **marketing** expertise
 - ▶ Undifferentiated **products** or services (i.e. in relation to your competitors)
 - ▶ **Location** of your business
 - ▶ Poor **quality** goods or services

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strengths	weaknesses
opportunities	threats

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SWOT analysis - Opportunities

- ▶ Describes the **external** opportunities for your organisation, e.g.
 - ▶ A **developing** market such as the Internet
 - ▶ Mergers, joint ventures or strategic **alliances**
 - ▶ Moving into **new market segments** that offer improved profits
 - ▶ A new **international** market
 - ▶ A market **vacated** by an ineffective competitor

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strengths	weaknesses
opportunities	threats

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SWOT analysis - Threats

- ▶ Describes the **external** threats to your organisation, e.g.
 - ▶ A new **competitor** in your home market
 - ▶ **Price wars** with competitors
 - ▶ A competitor has a new, innovative **product** or service
 - ▶ Competitors have superior access to **channels** of distribution
 - ▶ **Taxation** is introduced on your product or service

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Wal-Mart in China [4]

– a SWOT example



- ▶ Wal-Mart serves more than 176 million customers per week. It is the world's largest private employer and retailer with over 2 million associates worldwide and more than 7,800 stores in 16 countries
- ▶ Wal-Mart came to China in 1996. Today, there are 146 units in 89 cities. Across China Wal-Mart employs over 70,000 associates
- ▶ Wal-Mart claims to provide its customers with friendly service and a wide selection of quality products at low prices
- ▶ Wal-Mart believes in local procurement
- ▶ Wal-Mart aims to continue to grow in China and contribute to the local economy

<http://www.wal-martchina.com/english/walmart/index.htm>

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SWOT analysis - time to think!

Walmart

strengths	weaknesses
opportunities	threats

Any ideas about how each of these applies to Wal-Mart?

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SWOT analysis of Wal-Mart - strengths

Walmart

- ▶ Wal-Mart is a **powerful retail brand**. It has a reputation for value for money, convenience and a wide range of products all in one store
- ▶ Wal-Mart has grown substantially over recent years, and has experienced **global expansion** (for example its purchase of the United Kingdom based retailer ASDA)
- ▶ The company has a **core competence** involving its use of information technology to support its international logistics system.
 - ▶ For example, it can see how individual products are performing country-wide, store-by-store at a glance. IT also supports Wal-Mart's efficient procurement

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SWOT analysis of Wal-Mart

- weaknesses



- ▶ Wal-Mart is the World's largest grocery retailer and control of its empire, despite its IT advantages, could leave it weak in some areas due to the **huge span of control**
- ▶ Since Wal-Mart sell products across many **sectors** (such as clothing, food, or stationary), it may not have the **flexibility** of some of its more focused competitors
- ▶ The company is **global**, but has a presence in relatively **few countries** worldwide

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SWOT analysis of Wal-Mart

- opportunities




- ▶ To **take over**, merge with, or form strategic alliances with other **global retailers**, focusing on specific markets such as Europe or the Greater China Region
- ▶ The stores currently only trade in a relatively small number of **countries**. Therefore there are tremendous opportunities for future business in **expanding** consumer markets, such as China and India
- ▶ **New locations and store types** offer Wal-Mart opportunities to exploit market development. They diversified from large super centres, to local and mall-based sites
- ▶ Opportunities still exist for Wal-Mart to continue with its current strategy of **large, super centres**

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SWOT analysis of Wal-Mart - threats



- ▶ Being number one means that you are the **target of competition**, locally and globally
- ▶ Being a global retailer means that you are **exposed to political problems** in the countries that you operate in
- ▶ Manufacturing costs have fallen due to outsourcing to low-cost regions of the world. This has led to **price competition**, resulting in price deflation in some ranges. Intense price competition is a threat
- ▶ Wal-Mart customers in the USA tend to have **below average income**
 - ▶ their Wal-Mart spending can be greatly affected by their other costs

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Summary



- ▶ ‘Strategic’ management is concerned with the analysis of the external business environment of the organization and developing its internal capabilities and strategies to match this business environment.
- ▶ **Strategic Analysis** uses techniques such as
 - ▶ SWOT analysis
 - ▶ PESTEL

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Directed Reading

Course Textbook (Ebert, R. J. and Griffin, R. W., 9th Edition)

- ▶ Strategic Management: Setting Goals and Formulating Strategy (p184 - p 89)

Additional Reading

- ▶ Palmer, A. (2011) The Business Environment, Chapter 15, p520
- ▶ Wal-Mart in China:
 - ▶ <http://www.wal-martchina.com/english/walmart/index.htm>



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References

1. <http://www.baesystems.com/AboutUs/CompanyStructure/OrganisationChart/index.htm>
2. Corporate Strategy, R. Lynch, 3rd 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 - Vitamix

Get ready before the class

- ▶ Visit QMPlus and download the file
Lecture 6 - In-Class Exercise: Vitamix
- ▶ Read the case study in depth to begin to absorb the facts and start thinking of approaches/solutions to the set questions.
- ▶ Carefully consider any tables/charts in the case, as authors usually don't add them unless there is a reason, often these numbers are telling a story that is important to the situation and your evaluation of it.
- ▶ At this point you should begin to outline what the key strategic issues are. Until you do this you are unable to start interpreting, evaluating, drawing out implications or linking together related issues, since you had not decided what to analyse, or which techniques might be appropriate.

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