Managing Strategy and Strategy Planning

BOOKS COVERED: MANAGEMENT BY GRIFFIN (CHAPTER 8)

Strategy is a comprehensive plan for accomplishing an organization's goal.

Components of strategy

Distinctive competence- it is something that an organization does exceptionally well.

Scope-it specifies a range of markets in which an organization will compete

Resource development- how it will distribute the resources across the areas in which it will compete.

Types of strategic alternatives-

Business level strategy-is the set of strategic alternatives from which an organization chooses as it conducts business in a particular industry or market.

Corporate level strategy-is the set of strategic alternatives from which an organization chooses as it manages its operations simultaneously across several industries and several markets.

Using SWOT analysis to formulate strategy

The SWOT Analysis framework enables an organization to identify the **internal strategic factors** such as -strengths and weaknesses, & **external strategic factors** such as -opportunities and threats. In SWOT analysis, the best strategies accomplish an organization's mission by-

1. Exploiting an organization's opportunities and strength
2. Neutralizing its threats and
3. Avoiding or correcting its weaknesses.

SWOT Analysis

Strengths- are things that an organization does particularly well, or in a way that distinguishes it from its competitors. Strengths are an integral part of your organization. Any aspect of the organization is only a strength if it brings it a clear advantage.

A distinctiveness strength is a strength possessed by a small number of competing firms. A common strength is an organizational capability possessed by a large number of competing firms. For example, if all of the competitors provide high-quality products, then a high-quality production process is a common strength, and it becomes a necessity.

Limitation of distinctive competence exists it can be easily duplicated. It is called strategic imitation. A sustained competitive advantage is an advantage that exists after all attempts at strategic imitation have ceased.

Weakness- characteristics of the business that place the business or project at a disadvantage relative to others. Weaknesses are negative factors that detract from its strengths. These are things that the organization might need to improve on to be competitive.

SWOT Analysis

Opportunities-elements in the environment that the business could exploit to its advantage. They usually arise from situations outside the organization, and require an eye to what might happen in the future. Being able to spot and exploit opportunities can make a huge difference to the organization's ability to compete and take the lead in the market.

Threats-elements in the environment that could cause trouble for the business or project. It's vital to anticipate threats and to take action against them before the business becomes a victim of them and its growth stalls.

Typically, Strengths and Weaknesses are considered internal factors, in that they are the result of organizational decisions under the control of your company or team. A low sales rate, for example, would be categorized as a weakness, but improving the sale is still within your control, making it an internal factor. Similarly, Emerging competitors would be categorized as a threat in a SWOT analysis, but since there’s very little you can do about this, this makes it an external factor. This is why you may have seen SWOT analyses referred to as Internal-External Analyses or IE matrices.

Formulating business strategies (PORTER)

- Porter's generic strategies: according to Michael Porter, organizations may pursue three levels of strategies-

1. Differentiation strategy: Differentiation involves making the products or services different from the competitors through quality, features, functionality, durability, support, and also brand image. How a business can do this depends on the exact nature of the industry and of the products and services themselves

Formulating business strategies
(PORTER)

2. Overall cost leadership strategy: This strategy generally consists of an organization attempting to gain a market share by appealing to cost-conscious or cost-restricted customers or consumers. Therefore, it is the aim of the organization to become the **lowest-cost producer** in their chosen industry. Although any organization will aim to remove any unnecessary costs, those employing this strategy prioritize lowering all overheads.

Formulating business strategies (PORTER)

3. Focus strategy-Companies that use focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, develop uniquely low-cost or well-specified products for the market. Because they serve customers in their market uniquely well, they tend to build strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

The Miles and Snow Typology

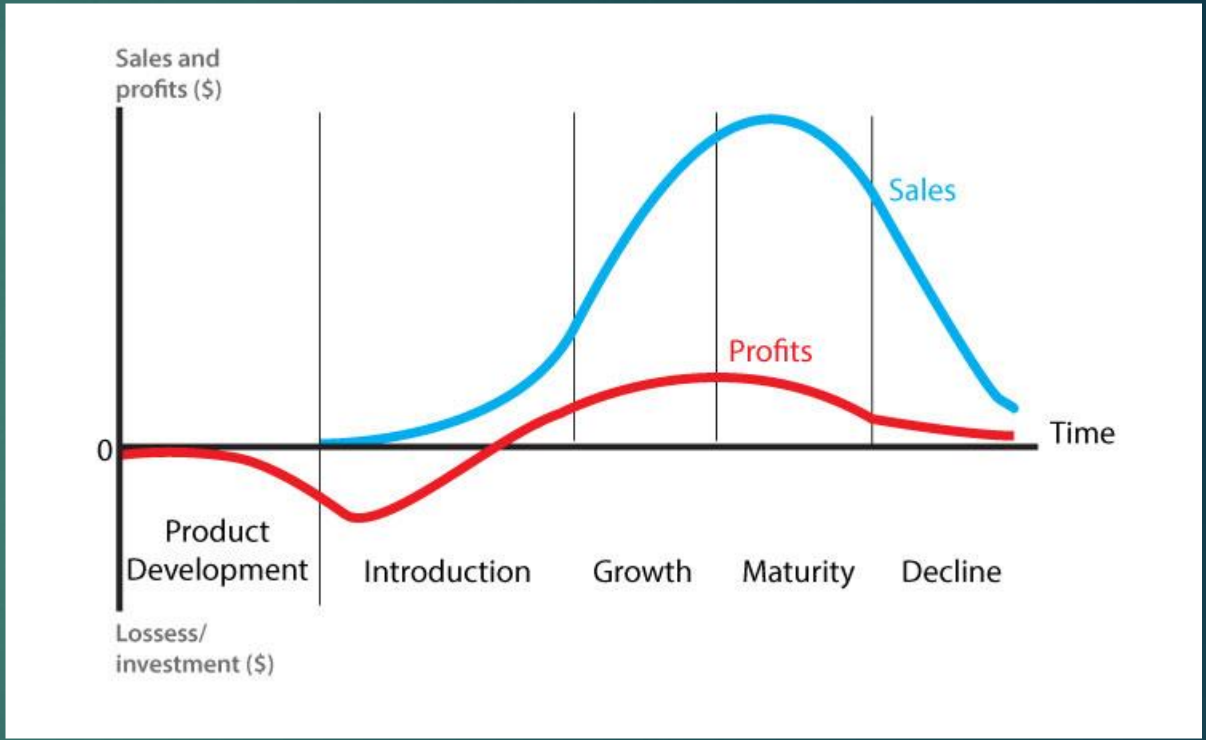
1. Prospector strategy-is a highly innovative firm that is constantly seeking out new markets and new opportunities and is oriented toward growth and risks taking.
2. Defender strategy-concentrate on protecting its current markets, maintaining stable growth, and serving current customers.
3. Analyzer strategy-in which it attempts to maintain its current businesses and to be somewhat innovative in new businesses.
4. Reactor Strategy-has no consistent strategic approach, it drifts with environmental events, reacting to but failing to anticipate or influence those events. .

Strategies based on product life cycle

The product life cycle is the process a product goes through from when it is first introduced into the market until it declines or is removed from the market. The life cycle has four stages - introduction, growth, maturity and decline.

Introduction-Once a product has been developed, the first stage is its introduction stage. In this stage, the product is being released into the market. When a new product is released, it is often a high-stakes time in the product's life cycle. During the introduction stage, marketing and promotion are at a high - and the company often invests the most in promoting the product and getting it into the hands of consumers.

- It is in this stage that the company is first able to get a sense of how consumers respond to the product, if they like it and how successful it may be. However, it is also often a heavy-spending period for the company with no guarantee that the product will pay for itself through sales.
- Costs are generally very high and there is typically little competition. The principle goals of the introduction stage are to build demand for the product and get it into the hands of consumers, hoping to later cash in on its growing popularity.



Growth stage: Consumers are already taking to the product and increasingly buying it. The product concept is proven and is becoming more popular - and sales are increasing.

Other companies become aware of the product and its space in the market, which is beginning to draw attention and increasingly pull in revenue. If competition for the product is especially high, the company may still heavily invest in advertising and promotion of the product to beat out competitors. As a result of the product growing, the market itself tends to expand. The product in the growth stage is typically tweaked to improve functions and features.

As the market expands, more competition often drives prices down to make the specific products competitive.

Maturity-When a product reaches maturity, its sales tend to slow or even stop - signaling a largely saturated market. At this point, sales can even start to drop. Pricing at this stage can tend to get competitive, signaling margin shrinking as prices begin falling due to the weight of outside pressures like competition or lower demand. Marketing at this point is targeted at fending off competition, and companies will often develop new or altered products to reach different market segments.

- Given the highly saturated market, it is typically in the maturity stage of a product that less successful competitors are pushed out of competition - often called the "shake-out point."
- In this stage, saturation is reached and sales volume is maxed out. Companies often begin innovating to maintain or increase their market share, changing or developing their product to meet with new demographics or developing technologies.
- The maturity stage may last a long time or a short time depending on the product.

Decline stage-Although companies will generally attempt to keep the product alive in the maturity stage as long as possible, decline for every product is inevitable.

- In the decline stage, product sales drop significantly and consumer behavior changes as there is less demand for the product. The company's product loses more and more market share, and competition tends to cause sales to deteriorate. Marketing in the decline stage is often minimal or targeted at already loyal customers, and prices are reduced.
- Eventually, the product will be retired out of the market unless it is able to redesign itself to remain relevant or in-demand. For example, products like typewriters, telegrams and muskets are deep in their decline stages (and in fact are almost or completely retired from the market).

Formulating corporate level strategies

- A **strategic business unit**, popularly known as SBU, is a fully-functional **unit** of a **business** that has its own vision and direction. Typically, a **strategic business unit** operates as a separate **unit**, but it is also an important part of the company.

1. Single product strategy-manufactures just one product or service and sells it to the single geographic market.

- Strength-it all efforts go to manufacturing and marketing a single product, the firm is likely to be successful
- If it doesn’t become successful the firm can be kicked out from the market.

Formulating corporate level strategies

2. Related diversification-Related Diversification occurs when the company adds to or expands its existing line of production or markets. In these cases, the company starts manufacturing a new product or penetrates a new market related to its business activity. Under related diversification the company makes easier the consumption of its products by producing complementing goods or offering complementing services.

For example, a manufacturer of computers might begin making calculators as a form of related diversification of its existing business or a shoe producer starts a line of purses and other leather accessories.

- Bases of relatedness-
  a) Similar technology: Facebook has messenger, Instagram, WhatsApp
  b) Common distribution and marketing skills: Unilever, Square Food & Beverage selling products through common channels
  c) Common brand name and reputation: Maggi, Radhuni, Samsung
  d) Common customers: Pharmaceutical products, companies selling software packages to the banking industry (Data soft sells **AML Solution Suite, Remit365 to the banking industry)**

Formulating corporate level strategies

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- Advantages of related diversification-

I. It reduces the organization's dependency on any one of its business activities

II. It reduces the overhead costs of the businesses

III. The firm can exploit its strength and capabilities in multiple businesses.

Formulating corporate level strategies

3. Unrelated diversification- operate multiple businesses that are not logically associated. it is implemented when the research determines that this unrelated diversification in a completely new field would bring significantly higher revenues compared to the related diversification on the basis of similar products, services, markets or complementing strategies.

Advantage- Spreading the risk through different sectors of the economy. It is very important to identify industries in which the business activity slowdown does not coincide with the slowdowns in the main business of the company.

- ***Disadvantages:***

- Achieving successful unrelated diversification requires good management skills, closely following each of the business activities and timely identifying and solving even the smallest problems. The greater the number of business activities, the more difficult is the total management task.
- In many instances the overall performance of the unrelated business activities does not exceed the individual ones. Sometimes it is even worse, unless the managers are exceptionally talented and focused.
- As a rule, the implementation of unrelated diversification strategy requires allocation of significant financial and human resources and there is always the risk of harming the main company business.

Managing Diversification

- BCG matrix-The Boston Consulting group's product portfolio matrix (BCG matrix) is designed to help with long-term strategic planning, to help a business consider growth opportunities by reviewing its portfolio of products to decide where to invest, to discontinue or develop products. It's also known as the Growth/Share Matrix.

The Matrix is divided into 4 quadrants based on an analysis of market growth and relative market share, as shown in the diagram below.

1. **Dogs:** These are products with low growth or market share.
2. **Question marks or Problem Child:** Products in high growth markets with low market share.
3. **Stars:** Products in high growth markets with high market share.
4. **Cash cows:** Products in low growth markets with high market share