

STRATEGIC CHOICE (6.3)

(Chapter 39 - A Level 6.3)

Strategic choice means deciding between future strategies.

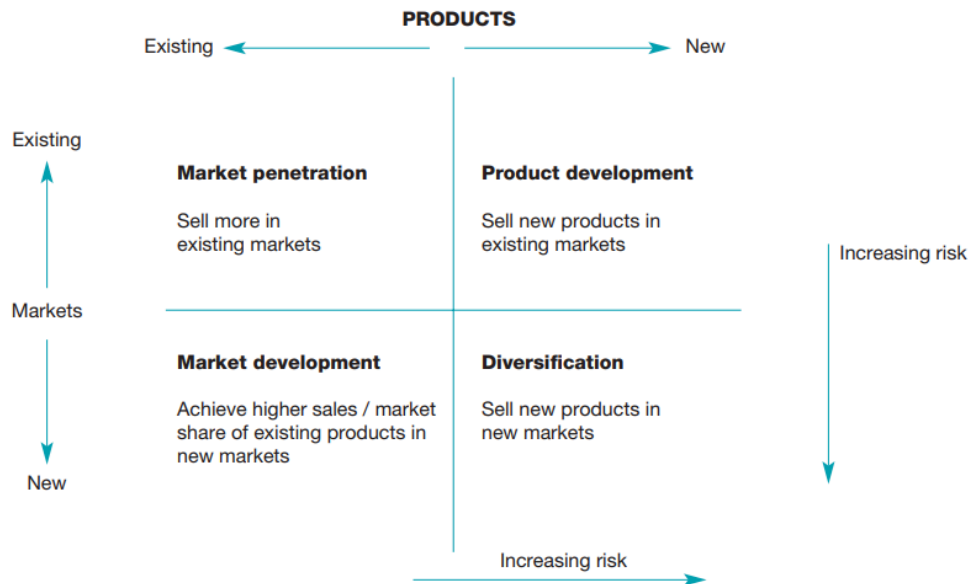
It is necessary as due to limited resources, businesses cannot pursue all possible strategies. Therefore it is important to determine the ones that will reap the best benefits with the least limitations.

Ansoff's matrix

This is a model used to **show the amount of risk associated with the four growth strategies**. These four growth strategies are as follows :

- **Market penetration** - meaning trying to achieve higher market shares in **existing markets** with **existing products**. Tactics that can be used as part of this strategy include lowering prices, increasing advertising and sales promotions as well as improving one's brand image. This is the safest form of growth
- **Market development** - the strategy of **selling existing products in new markets**. So basically finding a new use for a product already being sold. Strategies for this could include selling goods to foreign markets or selling to a new market altogether (example, a health drink being remarketed as a sports drink.) This may require having to alter the product or it's advertising a little in order to be able to sell it for a different purpose or to suit different cultural tastes
- **Product development** - the **development of new products** or **new developments of existing products** (improving old product, by giving it extra features etc.) in existing markets. This requires research and development which can be costly and time consuming, and there is quite a lot of risk involved in the production and selling of new products, especially if competitors are doing it better/cheaper. Being an already well known, established brand helps reduce the risk of producing new products
- **Diversification** - the process of **selling multiple different, unrelated goods** or services in new markets. It's a way of spreading risks across different industries so if one of the business's products fails it has others to fall back on. It is however the riskiest strategy in the short term, because the business is moving into markets in which it has little or no experience.

Ansoff's Matrix diagram

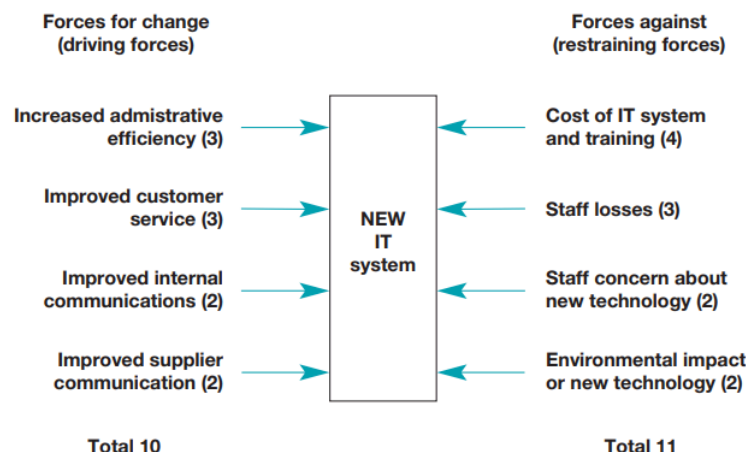


While Ansoff's analysis helps to plan the strategic business options by assessing risk, it has limitations too. It can be quite basic and lack depth, therefore other forms of analysis should be done in conjunction with it.

Force field analysis

Is a technique for identifying and analysing the positive factors that support a decision ('**driving forces**') and negative factors that hold it back ('**restraining forces**').

Kurt Lewin suggested using this model before making important strategic decisions. If the restraining forces outweigh the driving forces, it may not be wise to make that decision. However if the management can reduce the restraining forces and or increase the driving forces, the decision may be worthwhile. A force field diagram is shown below.



How to conduct force field analysis :

1. Analyse the current business situation and where it hopes to be
2. Identify and list out all the driving forces (+) and the restraining forces (-)
3. Assign a number to each force from 1-10 based on how important it is (10 being most important)
4. Chart the forces on the diagram with driving forces on the left and restraining forces on the right
5. Add up all numbers on each side and determine whether the positives outweigh the negatives, and if so, by how much?
6. If the strategy is decided on but the restraining forces still exceed driving forces, management must come up with strategies to either reduce restraining forces or increase driving forces

As we can see in our example force-field diagram for introducing a new IT system, the restraining forces outweigh the driving forces by 1.

Potential management strategies to help solve this include :

- Staff could be trained (increase cost by 1) to help eliminate fear of technology (reduce staff concern about new technology, -2).
- It would be important to show staff that change is necessary for business survival (add a new force in favour, +2).
- Staff could be shown that new IT equipment would introduce new skills and interest to their jobs (add a new force in favour, +1).
- Managers could raise wages to reward staff for higher productivity (increase cost, +1, but reduce cost by loss of staff, -2).
- IT machines could be selected that are more energy efficient (environmental impact of new technology, -1).

These changes would swing the balance of the force-field analysis from the original 11:10 against to 13:8 in favour of the decision.

Limitations of force-field analysis :

- May **not be possible to identify all** the restraining/driving forces (unseen factors)
- Numerical values are **subjective** - who decides what's important and what isn't?
- **Managers** may end up with a ratio result with the outcome they want as opposed to what will actually result in success

Decision trees

A **decision tree** is a diagram that sets out the options related to a decision and then the outcomes, probabilities and potential economic returns.

By comparing the likely financial results from each option, the manager can minimise the risks involved. It is quite a logical approach.

The **expected value** refers to the likely financial result of an outcome.

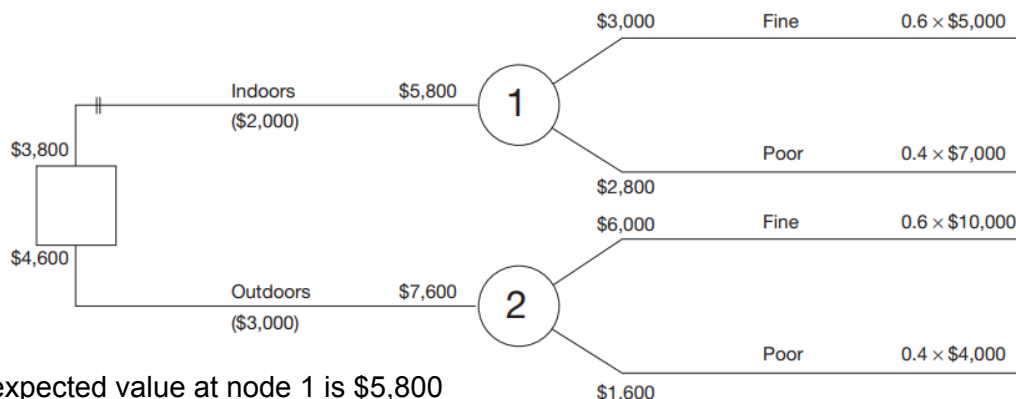
$$\text{Expected value} = \text{probability} \times \text{forecast economic return.}$$

This technique is based on a diagram that is drawn to represent four main features of a business decision:

- all of the options open to a manager
- the different possible outcomes resulting from these options
- the chances of these outcomes occurring
- the economic returns (\$) from these outcomes

Constructing a decision tree :

- **Information required** - All possible outcomes from a decision, estimated probability of each outcome occurring and estimated economic return from each outcome
- **Method of constructing** - work from left to right, square nodes for each decision point, round nodes for each set of outcomes and then add in the probabilities and e.returns
- **Calculating expected outcomes** - work from left to right, multiply probability by economic return, add these results at round nodes, minus the results from its (costs) and then compare which one is better at the square



- The expected value at node 1 is \$5,800
- The expected value at node 2 is \$7,600
- Subtract the (cost) of holding the event either indoors or outdoors.
- Indoors = \$5,800 – (\$2,000) = \$3,800
- Outdoors = \$7,600 – (\$3,000) = \$4,600

So the decision should be made to hold an event outdoors, as it gives a higher expected value

Limitations of decision trees :

- High chances of error as the probabilities and economic returns are **based on assumptions** not facts
- Does **not take into consideration qualitative** positives and negatives - like bad publicity, ethics, environmental effect etc.
- A singular **small change in data** will result in having to change the entire structure of the tree