Business Strategy

A Quick Overview

Expert knowledge means success

Contents

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Introduction

Today, in business, we hear the word "strategy". With it, and if it's effective, a business prospers. Without a strategy, or with a flawed one, disaster is likely. So, it's clear that strategy is important. Some say that it's the most important core competence that an organisation has or can develop.

Strategy can mean different things to different people in different situations. For example:

- Business unit strategy - the strategy plans for an organisation with a single business unit.
- Corporate strategy - the strategy plans for an organisation with multiple businesses or business units.
- Emergent strategy - in which strategic direction emerges over time from multiple unrelated decisions and actions made within the company.
- Strategic vision - the view that an organisation takes as to its future direction
- Strategic objectives - the targets that management sets to strengthen the overall business and competitive position
- Strategic plan - a statement that articulates the mission of an organisation, its future direction, short- and long-term performance objectives and overall strategy
- Strategy - a systematic and dynamic way developed by managers to shape and position the business in the future
- Strategy implementation - a range of activities undertaken by managers in putting into action the strategy and supervising its effects towards the intended results
- Strategy innovation - the ability to re-envision the ways of working in the industry "to create new values for customers, wrong-foot competitors and produce new wealth for all stakeholders"[1]
- Strategy formulation - the direction-setting function of management to form an organisation's mission, to set performance objectives, to craft a strategy which together create a strategic plan
- Mission - a statement about the organisations objectives, activities and business format

The vocabulary of "Strategy"

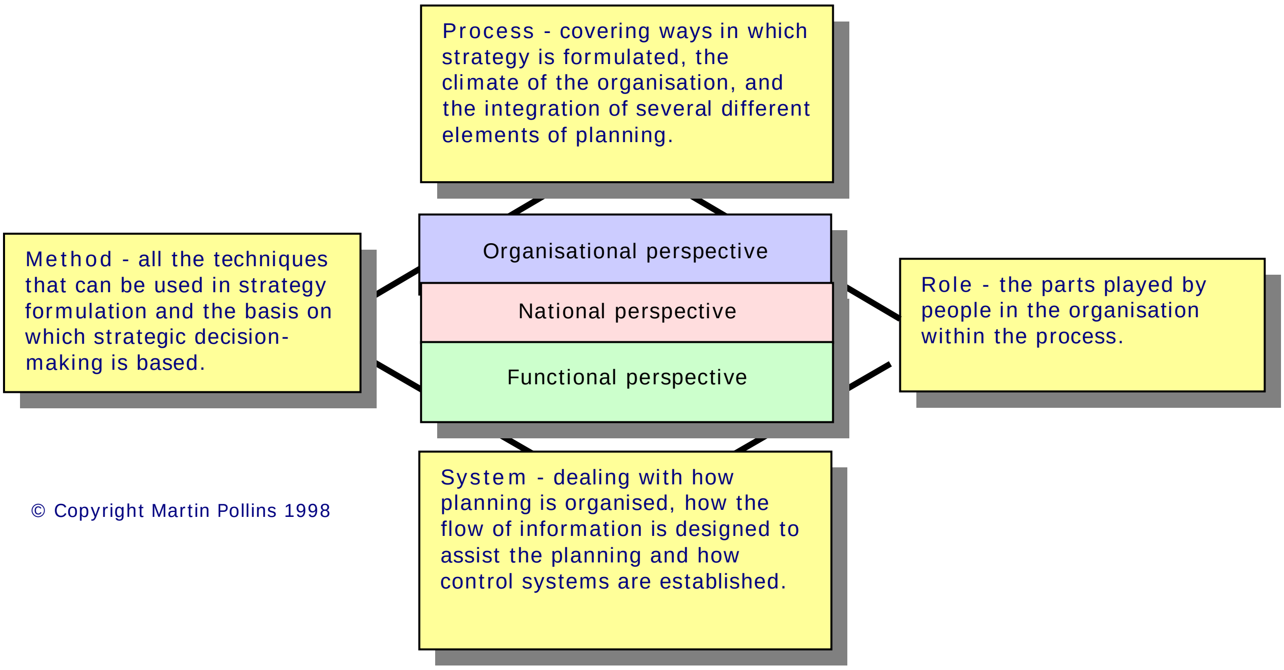
In the excellent book *"Exploring Corporate Strategy"*[2], a pictorial explanation is given to distinguish the various elements of mission, goal, objective, strategies, actions/tasks, control and rewards.

> ***"A strategy is a** commitment to follow one set of actions rather than **another."***
>
> Sharon M Oster (Professor at Yale University)

Term	Definition
Mission	Overriding premise in line with the values or expectations of stakeholders
Goal	General statement of aim or purpose
Objective	Specificity - quantification or a more precise statement of the goal
Actions and Tasks	Individual and personal steps to implement the strategies - perhaps related to operational issues
Control	Monitoring (measuring) of action steps to reinforce the objectives - hopefully leading to: (1) the assessment of effectiveness of strategies and actions; and (2) modification of strategies and/or actions as necessary
Rewards	The payoff for achieving the objective

Important Terms

Business Definition – this is more than it sounds. It's a form of three-dimensional segmentation analysis by customer function, customer group and alternatives technologies such that a company can compare its understanding of itself with that of competitors.
Competitor analysis- systematically collecting and analysing competitor information.
Core competences - analysing the skills knowledge, and intellectual capital a corporation owns through its employees that are core to its activity and purpose.
Decision trees - a method for determining options which sets out a chain of decisions and chance events with each chance having a number of consequences.
Environmental analysis - using checklists to evaluate the likely impact of environmental trends on corporate strategy.
Experience curve - based on "industrial learning curve theories", it can assess future costs based on volume changes.
Gap analysis - the measure of the gap between company profit or growth targets on the one hand and what is likely to be achieved if no strategic action is taken.
Industry analysis - analysing the structure of an industry.
Life cycle concepts - analysis of the life cycle position of either an industry or a product – in stages such as development, growth, shake-out, maturity, saturation, and decline,
Product/market matrix - the matrix has four cells derived from one axis (with markets existing and new) and another axis with products (existing and new).
Scenario planning - a technique that starts an uncertain future is and works towards a number of plans drawn up according to the characteristics of each scenario.



Strategy - the Art of War

In the dictionary, "Strategy" is defined as: *"The art of the General"* and an examination of strategic principles promulgated by the famous Chinese general Sun Tzu indicates useful didactic learning for the strategy student. Sun Tzu wrote the classic work *"The Art of War"*. It was concerned with military strategy although business managers have found value in his teachings since business, as with warfare, is run in a dynamic way, its pace is fast and often requires usage and effective management of scarce resources.

Mark McNeilly has captured Sun Tzu's strategic principles in his 1996 book[3] in a way that can successfully be applied to business situations in the late 1990s. He says that the six pertinent strategic principles are:

- Win all without fighting – capture your market without destroying it
- Avoid strength, attack weaknesses – strike where/when they (the competition) least expect it
- Deception and foreknowledge – maximise the power of market information
- Speed and preparation – move swiftly to overcome your competitors
- Shape your opponent – employ strategy to master the competition
- Character-based leadership – provide effective leadership in turbulent times

Strategic Planning

Most definitions of "strategy" omit the contextual relationship aspect in which strategy becomes the enabler for all the subsequent business processes and decisions. It's a fundamental point that what drives strategy are business objectives and plans - you can't have one without the other. Strategy is the adhesive which glues business plans and operational objectives with the process of implementation in both a time dimension and as an "enabling" role rather that a "doing" role.

For any strategic planning exercise to work there needs to be complete commitment from the top of an organisation downwards. As can be seen later in this publication, the most common reason for failure in attempting to implement strategy is failure to get people committed and failure to plan properly. In a word, this is a failure of commitment. It starts at the beginning with a failure to agree:

- What the business is
- Who the customers are
- What the business wants to be
- Where the business wants to go

Strategic planning should be an integral part of management. Without it, the *status quo* remains and opportunities will pass the business by.

"All men can see the tactics whereby I conquer, but what none can see is the strategy out of which great victory is evolved"

Sun Tzu, the Chinese military strategist, 3,000 years ago

So, what is strategic planning? It is many things, from a simple definition such as *"a means to an end"* to more complex multi-faceted definitions, which include:

- a dynamic, organised (systematised) approach to the conduct of business
- a way to shape and guide the direction of the business
- a method to critically appraise the various options available
- a management tool to measure progress
- a document, akin to a bible, to be followed and referred to at all times

On the other hand, strategic planning is not a panacea for all the problems a business may have. Neither is it:

- a replacement for good, well-trained management
- something that is fashionable but without any foundation in common sense
- something which, once developed, remains unchangeable notwithstanding changing circumstances

Taking "Strategy" apart

As already mentioned, there are many definitions of strategy. A good definition is:

> *"An integrated set of actions aimed at achieving a sustainable competitive advantage"*

What does this mean? The four key words are emphasised in the definition above and are explained more fully below:

- Integrated - this means the strategy has to be consistent and supportive across businesses and functions within it.
- Actions - actions mean that specific steps are taken to improve the current position. They're aimed at creating the future rather than attempting to predict it.
- Sustainable - this means that the advantage can be "held on to" and the action is not easily copied or neutralised.
- Competitive - this means that the strategy is externally against specific rivals in the industry competing for customers and or resources.

A few other definitions of the component parts affecting strategy are shown below:

Management - the way things get done well through and with people	Participative Management - management that allows people to express their feelings/views and opinions, prior to and during the process being managed.	Corporate View - the way the business is viewed from and through the eyes of the Leader (the Managing Director/CEO).
Strategic Planning - to make decisions now based on what is available (people, resources etc and opportunities) to meet an objective agreed in advance.	Strategic Implementation – the "doing" part of strategy, making what needs to happen to actually take place.	SBU - this is a "strategic business unit" - the appropriate (relevant) unit of business for planning purposes having its own characteristics, customers, suppliers, competitors, products (and services) and operational technologies.

On its own, a description and picture of "strategy" isn't enough. The next thing to understand is why it is so important. The clue lies in the examination of *Strategic Issues* - these are things (issues, challenges or circumstances) that face an organisation on which a management consensus can only be achieved with significant compromise formulated by the strategic plan. It is the something or things which is/are forthcoming either inside or outside of the business which is likely to impact heavily on the ability of the organisation to meet its objectives. It can be:

- an opportunity to be grasped
- an internal strength to be advantageously and profitably exploited
- an external threat or internal weakness of such magnitude as to put at risk the ongoing success of the business

In *Thompson & Strickland's* book[4] on strategy they introduce the idea of "running a simulated company", arguing that doing so helps develop student's business judgement. In addition, they cite these beneficial learning opportunities:

- Learning about risk-taking
- Responding to changing market conditions and spotting market opportunities
- Reacting to the moves of competitors
- Choosing among alternative courses of actions
- Gaining practice in being able to read the signs of introducing change

- Evaluating threats
- Weighing the trade-off of short-term pay back compared with long-term
- Learning to work with the numbers
- Attempting to unite the different sectors of a business (productivity, sales, marketing, human resources, finance and so on)

Among the better known elements of a successful strategic exercise is the ability to *craft* and *articulate* a vision but far less talked about and less glamorous is the hard work that has to be done to make the strategic plan work – the *implementation*. Adam Tobler[5] believes it to be an important element of strategy. Some of the things that should be done to transmute great ideas into tangible successes are:

- Gain the support of top management – without top management's blessing, strategy implementation can be very hard work.
- Assemble the team – getting the right skills mix (technical or functional; problem-solving and decision-making; and interpersonal skills and expertise), instilling a common level of commitment, creating mutual accountability, developing an effective team-working style, and ensuring that team membership is 10 or less – all these contribute to successful implementation.
- Make implementation the mission (with a sense of urgency) – keeping the team focused on the results that are key to the success of the strategic plan.
- Lead for results - remaining focussed on results is crucial and one way to do that is to avoid become overly concerned with diagnostic measures and ratios. Performance should be measured "only along those dimensions that truly matter to success… and people should be held accountable only for as many diagnostic measures as they can memorise (the limit should be seven)".

Strategic Vision

The mission statement for an organisation is important - indeed, the leading question that managers face in any direction-setting exercise is probably this: *"just what are we trying to achieve?"* The answer, whether articulated or not, is the organisation's objective the pursuit of which requires a strategy. If articulated, whether in writing or not, it becomes the organisation's mission. The objectives are the goals or ends to which the business is to be directed whilst the strategy is the means to get there.
There are three parts to the formation of a strategic vision:

- Truly understanding what business the organisation is really in (the US Railroad industry missed the opportunities offered by air transportation since they believed they were in the railroad business - and so missed the point completely as they were really in the people transportation business).
- Communicating the vision and mission with clarity (consider the inspirational, clear and exciting content of Martin Luther King's proclamation "I have a dream" on 28 August 1963, on the steps of the Lincoln Memorial in Washington DC, before 250,000 constituents as he appealed to their values, interests, hopes and dreams).
- Deciding when to take the decision to alter a strategic course and when to make changes to the mission.

The purpose of setting objectives is to translate intention (something that would be rather woolly and usually non-specific) into specific targets of required performance:

- A well structured and thought out strategic vision provides clarity of purpose and sets out the organisation's intent to pursue a specific goal
- Setting the objectives provides measures to track the performance and progress of an organisation in pursuit of the specified goal.

If Strategy has Objectives – what's the Objective of Strategy?

The objective of strategy is to mould all business decisions and activities through cohesive enterprise towards achieving a specific objective. The five tasks of making strategy and its implementation process are:

1. The decision stages - making a decision about what business the organisation is in or wants to be in and articulating a strategic vision about where the direction to which it needs to go.
2. The target-making stage - taking the strategic vision and the mission and translating them into measurable objectives and performance targets.
3. The crafting stage - "Crafting" a strategy to achieve the desired results. Businesses need strategies to guide them on *how* to achieve objectives and *how* to pursue its mission.
4. The implementation stage - implementing and executing the strategy.
5. The measuring stage - evaluating performance, looking at any changes in the economic and political environments, and making adjustments as necessary to the strategy, or objectives or means of implementation.

The objectives need to be both financial and non-financial (strategic). The financial objectives are clearly very important. It doesn't matter how worthy the strategic goals are, if there's no underpinning with acceptable financial performance, a business risks rejection and thus denial or curtailing of resources from its bankers, shareholders and other stakeholders interested in its financial success. The strategic objectives, whilst having an apparent aura of being non-financial, do ultimately impinge on financial performance since they are intended to strengthen an organisation's business and competitive standpoint - in areas such as competitiveness, market share, rate of growth, quality, customer satisfaction and so on.

Another facet on strategic vision is to recognise on whose behalf any corporate activity is carried on. Popular belief has it that the owners are the shareholders but the head of Mitsubishi, the largest and a world-class company thinks otherwise. He says*: "I think we have to lead people by being good listeners"*. And to a question on corporate governance, he replied: *".... if you were to list who owns the company, it is first the employees and then the shareholders."*[6]

Real Differentiation

How top managers go about turning scattered personal unconnected values into co-ordinated company-wide values, or as Ansoff describes it, *"into the strategic culture of the group"*[7] is what strategic management is really about.

Some 40 years ago, Guth and Tagieri identified the following six value orientations as major determinants of peoples' decisions:[8]

1. Theoretical - with emphasis on truth, knowledge, and rational thinking.
2. Economic – with orientation toward practicality, usefulness, and the creation of wealth.
3. Political - with emphasis on power and recognition.
4. Social – with orientation toward positive relationships, affection, and the absence of conflict.
5. Aesthetic - with a strong desire for artistic factors such as harmony, composition, form, and symmetry.
6. Religious - with an orientation toward unit in the universe.

Although Guth and Tagieri found that managers tend to emphasise economic, theoretical, and political values more than of the others - each of the six values can lead to the following types of goal preferences in orientation values[9]:

1. Theoretical - Long-term research and development goals, emphasis on precision and possibly an acceptance of detail and complexity even to the point of distraction (take a look at *"The Art of Motor Cycle Maintenance"* by Robert Pirsig to see what this can mean).
2. Economic - Growth and profitability goals, successful financial performance measures but its myopic emphasis on the financial implications can mean that other factors are forgotten.
3. Political - Emphasis on goals relating to size, such as total assets, sales volume, or number of employees, number of subsidiaries, and so on – perhaps a little dangerous (again, in its myopia).
4. Social - Goals that stress social responsibility and participation with "indirect rather than direct competition or positive organisational atmosphere rather than possibly threatening congeniality". This is all well and good but it can go too far and lead to products and people becoming stale and out of touch with current trends.
5. Aesthetic - Goals that place emphasis on product colour, design and quality – the differentiation features that distinguish from rival products – but carried too far can lead to the detriment of profitability.
6. Religious - Goals stressing ethical matters, spiritual concepts, and moral obligations – but with so many different factions, it's very hard to please everybody and in trying to do so, some will feel offended.

Turning to motivation, in 1978, Deal and Kennedy[10] argued that the real challenge for management was *"to imbue thousands and thousands of employees with a strongly ingrained sense of the company's values"*. They came up with six ways in which corporate visionaries (they call them "heroes" - rare people who *"personify the aspirations of employees"*) can *"reinforce the basic values of the (strategic) culture"*.

1. Make success attainable by employees through demonstrating and rewarding the superior performance of outstanding employees who embody the critical company values.
2. Provide role models by finding ways to transmit to employees understanding of how heroes attained their status.

3. Represent the company's values to the outside world.
4. Find a way to preserve the values that make the company special, to keep them current and in employees' minds.
5. Set standards of performance for employees that are appropriate to the organisation's values.
6. Search out and employ a means for motivating employees to perform in a way consistent with, and supportive of, organisation values.

Turning to marketing, reflecting the pace of change and the great emphasis placed in this decade on creativity and innovation, Nigel MacLennan[11] wrote about opportunity spotting and *"creativity for corporate growth"*. He argued that innovation didn't just apply to science and technology and acknowledges that creativity is "*an emerging discipline"*. Yet the risk of not embracing opportunity spotting is what he calls *"corporate stagnation"* – for example, all products and services have in-built obsolescence, but the trick is to know when the life cycle is back at ground level. Some of the things that MacLennan picks out are shown below and he encourages corporate and individual thinking towards using these as clues towards identifying future opportunities:

- Convergence of technologies – bringing together two (or more) unrelated technologies can create real advantage – such as telephony: the integration of computers and telephones, or Desktop Publishing: the integration of artistic design with computer software, or Facsimile machines: the integration of telephones, copier technology and picture digitalisation.
- Using Demographic data – gaining advantage through watching people and population changes such as in the birth rate, mortality statistics, quality of health, retirement trends, educational factors, wealth spend statistics, political changes and so on – to provide specific products to a particular group or sector.
- One thing leads to another – in any outside event, there is always at least a single key significant point or consequence of that thing having happened. The assassination of a leader, the bringing down of trade barriers and so on – these all have a consequence and being able to second-guess what might happen can create competitive advantage.
- Market analysis strategies – knowing what customers really need (rather than want) is at the heart of marketing. For example, in many technological advancements, the customer doesn't actually realise what he wants as awareness of the product may not yet exist. But when he/she sees it, they've "just got to have one" - such as with the Sony Walkman. Another example is the need of a group of the population to have "idiot-proof" electronic equipment such as VCRs or Televisions – a sector that some companies, such as Amstrad, actively and specifically target.
- Speciality marketing – this is strongly related to symbolism and strategies to identify the specific associative needs of customers to a product can reap large rewards – such as in Heinz baked beans (with children not wishing to be at any table with their friends if Mum serves any other tea time alternative), or Body Shop products (because you know that they are good for you and no animal has been killed in testing their products).
- Alternative uses of technology – using today's technology to create new opportunities, such as with Internet trading and conversion of books to CD–ROM text.
- Learning from others – an example is given about absenteeism. In Japanese companies, absenteeism is half the rate of British companies. Research shows that in Japan, when an absentee returns to work, he/she has a formal interview. It's a simple approach and illustrates how businesses can benefit from knowing and sometimes copying, what others are doing in the same or even a different industry. This is part of a benchmarking approach.

Gary Hamel[12] emphasised how important innovation is when he said:
"Strategy innovation is the only way for newcomers to succeed in the face of enormous resource disadvantages, and the only way for incumbents to renew their lease on success".

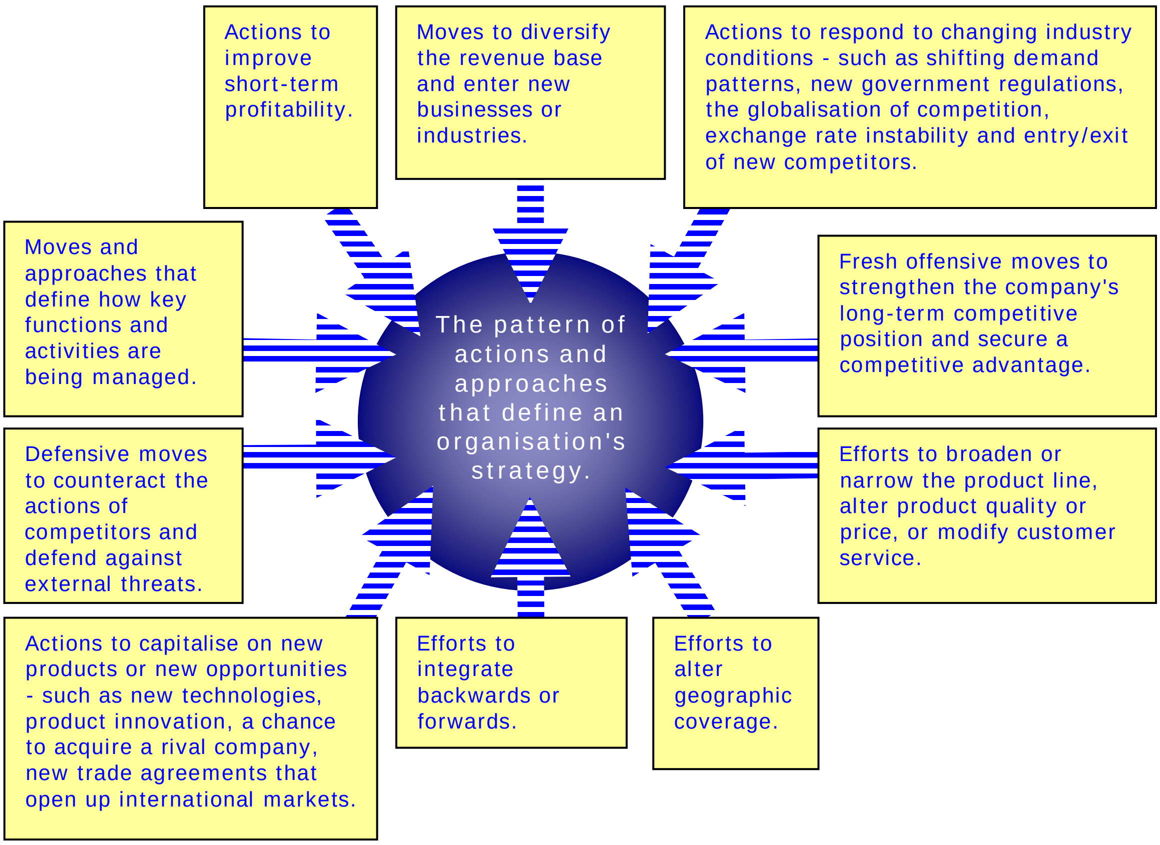
Strategy Innovation is something that warms the cockles of a shareholder's heart. Yet few companies achieve stardom. According to Hamel[13], less than 40 *Fortune 1000* companies grew their revenues in the ten years to 1995 by more than 25% a year and those that did, improved operating margins by 6.7% a year. This means that there had to be focus on sales growth - something quite at variance with the usual trend to focus first on cost cutting.

So, how did this elite bunch of corporations achieve these extraordinary returns? They did so, by what Hamel calls *"non-linear strategies"*

- Competing differently - radically changing the competition rules in their industries
- Inventing - either inventing totally new industries and markets or dramatically re-inventing the existing ones
- Acknowledging the changes in strategic thinking - such as foresight, competencies, networking, coalitions and alliances etc as well as the importance of strategy creation

Strategy Formulation

The table set out below indicates the actions and approaches a company might take into account in formulating its overall strategy - some elements may be public (and can be derived from public announcements etc) whilst others are more closely guarded by the managers within the business who don't wish to show their hand and possible market advantage until the time is right.



Source: Page 10, "Strategic Management: Concepts and cases", by Arthur A Thompson & A J Strickland, published by Irwin, 1996, ISBN 0-256-16205-0

Taking stock

The objective of successful corporate strategists is to:

- capture their company's best growth opportunities; and
- create defences against threats to the organisations competitive position and future performance
- seek to capitalise on what a company does best - its expertise, strengths, core competencies and its strongest competitive capabilities

Managers should therefore take stock of their company's position – it's likely that they learned something about SWOT analysis at business school and its ease of use – to identify a company's internal strength and weaknesses and their external weaknesses and opportunities. This is how it works:

- Strengths - what a company is good at doing, such as: core competency in important sectors, available resources, better all-round skills than elsewhere, economies of operating, advanced position technologically, cost advantages, experienced management and so on.
- Weaknesses – what is lacking or is done poorly, such as: out-of-date equipment, limited resources, poor management, weak distribution and sales networks, higher cost base than competitors, missing key skills, poor market image, no brand name and so on.
- Opportunities – how new options open new horizons, such as: the chance to expand into new markets, competitor complacency, availability of new technology, expansion of product lines to meet new customer demands, joint-venturing to exploit skills or technology edge, positioning in relation to new and increased market demand, and so on.
- Threats – how the company is exposed externally in areas such as: market growth has slowed down, substitute products entering the market, high exposure to recession or other adverse business cycle, new and costly compliance with regulatory obligations, changing patterns in customer needs, new competitor threat from market entrants, and so on.

One of the tools that managers can use to determine where their company sits on a performance scale is benchmarking – by comparing the performance of their company's activities against its competitors and other best practice companies both within the same industry as well as with world leaders. It provides hard evidence of the company's overall cost and differentiation competitiveness.

Industry and Competitive Analysis Summary Profile	
Dominant Economic Characteristics of the Industry Environment - concerned with: • Market growth, geographic scope, industry structure, scale economies, experiences curve effects, capital requirements, etc. Competition Analysis – concerned with: • Rivalry among competing sellers (a strong, moderate, or weak force/weapons of competition) • Treat of potential entry (a strong, moderate, or weak force/assessment of entry barriers) • Competition from substitutes (a strong, moderate, or weak force/why) • Power of suppliers (a strong, moderate, or weak force/why) • Power of customers (a strong, moderate, or weak force/why) Driving Forces – these have the biggest influence on the kinds of change that are taking place in the industry or those that are likely to happen – affecting its structure and competitive environment.	Competitive Position of Major Companies/Strategic Groups • Favourably positioned/why • Unfavourable positioned/why Competitor Analysis: • Strategic approaches/predicted moves of key competitors • Whom to watch and why Key Success Factors – in areas such as: • Technology • Distribution • Marketing • Organisationally • Image • Overall low cost base • Location • Patents Industry Prospects and Overall Attractiveness: • Factors making the industry attractive • Factors making the industry unattractive • Special industry issues/problems • Profit outlook (favourable/unfavourable)

In order to consider what strategic issues a company faces, managers ought to consider the following questions[14]:

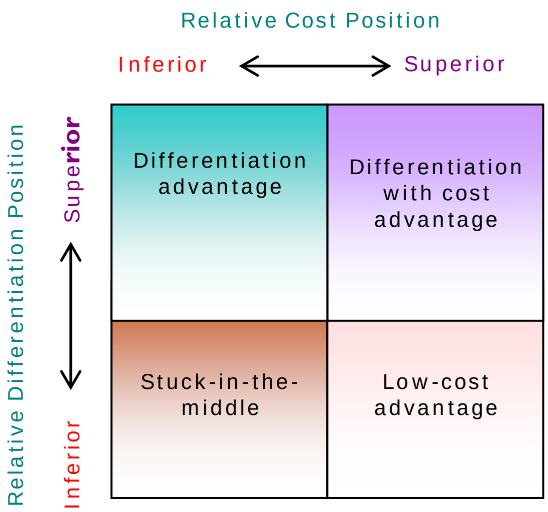
- Is the current strategy working given the market forces that exist?
- Is the current strategy congruent with the future success factors of the industry?
- Does the current strategy provide an adequate defence against the five competitive forces – and how well does it protect against external threats and internal weaknesses?
- If one or more rivals were to mount a significant competitive effort, where would the company be most vulnerable?
- What are the strong points and weak spots about the present strategy?
- Does the company have a competitive advantage it can exploit or is there a competitive disadvantage it must address?
- Are additional actions needed to enhance the current cost position, or to take advantage of emerging opportunities or to strengthen the present competitive position?

Competitive Strategy and Competitive Advantage

All over the world, companies are trying every conceivable way to attract customers and to retain their loyalty whilst at the same time enabling the company to out compete rivals and win and maintain an edge in the marketplace. But, according to Michael Porter[15] there are five categories of competitive strategy, which stand out above all others:

- A low-cost leader strategy – here, the organisation aims to be the overall low-cost provider of a product or a service that appeals across a broad range of customers.
- A broad differentiator - seeking to differentiate the organisation's product or service from that offered by rivals, across a broad range of customers.
- A best-cost provider strategy – giving customers added value for money via a low- cost plus an emphasis on additional features/differentiation from competitors.
- A focussed or market niche based on lower cost – focussing on a narrow market segment and out-manoeuvring rivals with lower costs.
- A focussed or market niche based on differentiation – focussing on a narrow market segment and out-manoeuvring rivals by offering products or services customised to their specific needs.

To illustrate the concept of the low-cost advantage company[16], it enjoys a relative cost advantage if its costs are less than the industry average – when it has this advantage, a company has two choices – to price what it sells at a lower price than rivals to gain volume market share increase or match the price offered elsewhere and thereby enjoy additional profit margins. This is demonstrated below:



Thompson and Strickland capture[17] the distinctive features of these five competitive strategies in a table that makes the comparisons easier to understand.

Type of feature	Low-cost leadership	Broad differentiator	Best-cost provider	Focussed low-cost and focussed differentiator
• Strategic target	• A broad cross-section of the market.	• A broad cross-section of the market.	• Value conscious buyers.	• A narrow market niche where the needs of the buyer are distinctively different from the rest of the market.
• Basis of competitive advantage.	• Lower costs than rivals.	• Able to offer customers something different from rivals.	• Give customers more value for money	• Lower cost in serving the niche or the ability to offer niche customers something to meet their customised requirements and tastes.
• Product line.	• A good basic product with few frills, acceptable quality, and limited selection.	• Many product variations, Wide selection, strong emphasis on the selected different features.	• Good to excellent attributes; Several-to-many upscale features.	• Customised to fit the specialised needs of the market segment.
• Production emphasis.	• A continuous search for cost reduction without sacrificing acceptable quality and essential features.	• Invent ways to create vale for buyers; strive for product superiority.	• Incorporate upscale features and attributes at low cost.	• Tailor-made for the niche.
• Marketing emphasis.	• Try to make a virtue out of product features that lead to low cost.	• Build in whatever features buyers are willing to pay for; Charge a premium price to cover the extra costs of differentiating features	• Underprice rival brands with comparable features.	• Communicate the company's unique ability to satisfy the customer's specialised requirements.
• Sustaining the strategy.	• Economical prices/good value; All elements of strategy aim at contributing to a sustainable cost advantage – the key is to continue to drive costs down in every area of the business.	• Communicate the points of difference in credible ways; Stress constant improvement and use innovation to stay ahead of would-be imitative competitors; Concentrate on a few key differentiating features and tout them to create a reputation/brand image.	• Unique expertise in managing costs down and product/service calibre up at the same time.	• Remain totally dedicated to serving the niche better than other competitors; Don't be distracted and thus blunt the company's image and efforts by entering other segments or adding other product categories to widen market appeal.

Competitive strategy is about being *different* - either in the nature of the products or services that an organisation sells as compared to rivals, or in the manner in which those products or services are sold. The whole essence of competitive strategy is in the performance of activities in different ways to that of competitors. But it isn't something that you do and hope it will last forever.

Choosing a "position" is one thing. But choosing a unique position that guarantees a sustainable advantage without attracting attack from rivals wishing to imitate may be hard to do. With focus on one thing, there's a good chance of success. Spreading the net too widely with conflicting messages about what an organisation actually does, can be courting disaster. For example, Continental Airlines decided to copy the Southwest Airlines "no frills" approach and, with its own Continental Lite service eliminated meals and First Class service, increased the frequency of departures and lowered fares. But they maintained their full-service operation on other routes, which probably confused everyone - customers and Continental alike. As Porter puts it: *"A sustainable strategic position requires trade-offs because they create the need for choice and they purposefully limit what a company offers".* [18]

Gilbert and Strebel[19] said, and they were quite right, that *"different industries offer different competitive opportunities and thus, successful strategies vary from one industry to another"*. They capture the whole sense of strategy when they advise that a company ought not to be thinking about competing in *an industry* but rather within a *business system* – in the same way a chess player uses his resources (pawns, rooks, knights etc) when considering options at a chessboard.

You should be able to identify which strategies can lead to competitive advantages by looking at:

- Defining the industry – and its boundaries. What are the rules for each industry?
- Identifying possible competitive moves – the degree of effectiveness depends on many factors and evolves with the industry life cycle – and is influenced by the moves of rival firms.
- Selecting among generic strategies – one thing leads to another – successful strategies rely on a sequence of competitive moves and the room for manoeuvre varies from industry to industry

As in Wars, in a competitive, vigorous and dynamic market, companies can expect and are subject to challenge (attack in military terms) from competitors. So, how does a company protect its competitive position?

Again Michael Porter has the answer[20]. He believes that there are several ways for a company to protect itself, or rather its competitive position, from the attacks of rival companies, such as:

- Shutting off routes that rivals can take in mounting offensive actions - positioning the company so that its capabilities provide the best defence against the competitive force.
- Signalling to rival challengers the consequences of an attack with strong retaliation - influencing the balance of the forces through strategic moves, thereby improving the company's position.
- Dissuading rivals from attack by foregoing short-term profitability (reducing margins to make the market less attractive) or using a different accounting treatment or policy to obscure real profitability - Anticipating shifts in the factors underlying the forces and responding to them, with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognise it.

Factors affecting Competitive Advantage

Factors that affect competitive advantage are shown in the table below:

Factor / Characteristic	Strategic Importance
Market Size	Small markets tend not to attract big/new competitors; large markets often draw the interest of companies looking to acquire competitors with established positions in attractive industries.
Market growth rate	Fast growth breeds new entry, growth slowdowns spawn increased rivalry and a shake-out of weak competitors
Capacity surpluses or shortages	Surpluses push prices and profit margins down; shortages pull them up.
Industry profitability	High-profit industries attract new entrants; depressed conditions encourage exit.
Entry/exit barriers	High barriers protect positions and profits of existing firm; low barriers make existing forms vulnerable to entry
Product is a big-ticket item for buyers	More buyers will shop for lowest price.
Standardised products	Buyers have more power because it is easier to switch from seller to seller.
Rapid technological change	Raises risk factor; investments in technology facilities/equipment may become obsolete before they wear out.
Capital requirements	Big requirements make investment decisions critical; timing becomes important; create a barrier to entry and exit.
Vertical integration	Raises capital requirements; often creates competitive differences and cost differences among fully versus non-integrated firms.
Economies of scale	Increases volume and market share needed to be cost competitive.
Rapid product innovation	Shortens product life cycle; increases risk because of opportunities for leapfrogging.

Strategic Group Mapping

A useful technique for displaying the different competitive positions that competitors occupy in the industry in which the organisation plays is called Strategic Group Mapping. This is shown in the table below in which categorising the objectives and strategies of competitors can be undertaken:

Competitive Scope	Strategic Intent	Market Share Objective	Competitive Position / Situation	Strategic Posture	Competitive Strategy
• Local • Regional • National • Multi-country • Global	• Be the dominant leader • Overtake the present industry leader • Be among the industry leaders (top 5) • Move into the top 10 • Move up a notch or two in the industry rankings • Overtake a particular rival (not necessarily the leader) • Maintain position • Just survive	• Aggressive expansion via both acquisition and internal growth • Expansion via internal growth (boost market share at the expense of rival firms) • Expansion via acquisition • Hole on to present share (by growing at a rate equal to the industry average) • Give up share if necessary to achieve short-term profit objectives (stress profitability, not volume	• Getting stronger; on the move • Well-entrenched; able to maintain its present position • Stuck in the middle of the pack • Going after a different market position (trying to move from a weaker to a stronger position) • Struggling, losing ground • Retrenching to a position that can be defended	• Mostly offensive • Mostly defensive • A combination of offence and defence • Aggressive risk-taker • Conservative follower	• Striving for low cost leadership • Mostly focusing on a market niche • High end • Low end • Geographic • Buyers with special needs • Other • Pursuing differentiation based on: • Quality • Service • Technological superiority • Breadth of product line • Image and reputation • More value for the money • Other attributes

The Strategy Team

The strategy team is usually comprised of:

- Strategic-makers - these are senior and middle managers that will have the lead role in strategy making and responsibility for strategy implementation. These are the people who actually make the strategy.
- Strategic-planners - these are specialists in planning and strategic analysis and helping to identify, collect and organise information that the senior and middle managers will need if the real strategic issues to be addressed are to be crystallised. The planners are not empowered to make decisions.

And where does the Board of directors fit with the strategic obligations of an organisation? Their task (recognising that crafting and implementing strategy is the remit of senior and middle managers) is:

- to ensure the overall task of managing strategy is done (and done properly); and
- that the calibre of the team is of the appropriate order.

But what does this mean: *"managing strategy"?* The Board will review and ultimately approve significant strategic plans but perhaps its main task is to make sure the managing director or CEO is doing a good job of strategic management - if he/she is, then bonuses and other rewards flow accordingly. If the MD/CEO's strategic actions are inferior or otherwise flawed, then marching orders may swiftly follow! The Board is also responsible for creating the environment in which a meaningful, robust and workable strategy may be developed. There are tasks that need to be done and allocation between the various members of the strategy team is required when the strategy making process starts as can be seen from the Table below.

The multi-business (diversified) Company

The Single Business Company

STRATEGY LEVEL	WHO IS PRIMARILY RESPONSIBLE	WHAT'S DONE AT EACH MANAGERIAL LEVEL
Corporate level strategy.	The MD/CEO and other key executives with review (usually) by the main Board	The right mix - building and managing a high performing mix of business units - involving making acquisitions, and disposals and divestments of businesses that no longer fit in with the overall strategic plan Creating advantage - capturing the synergy among related businesses units into a cohesive whole to achieve competitive advantage Investing in the right things - establishing investment priorities and steering corporate resources towards businesses with the best/most attractive pay-back opportunities Conducting - reviewing, revising, and unifying the major strategic approaches, moves and concerns of business unit managers
Business Strategies	General managers and heads of business units	Strategising the field - devising moves and approaches to compete successfully to achieve sustainable competitive advantage Responsive - forming responses to the changing economic and political environment Uniting - bringing together the strategic initiatives of various key functional departments Acting - taking action to deal with both company-wide and specific operating difficulties Overseeing - reviewing and approving the work and effectiveness of the functional managers
Functional Strategies	Functional managers	Crafting moves - to support business strategy and to achieve functional and departmental performance objectives Conducting - reviewing, revising, and unifying the major strategic approaches, moves and concerns of lower level managers
Operating Strategies	Field unit heads and lower level managers within functional areas	More focus - crafting still narrower and more specific approaches and actions intended to support functional and business strategies as well as achieving operating-unit objectives

Source: Page 38-39, "Strategic Management: Concepts and cases", by Arthur A Thompson and A J Strickland, published by Irwin, 1996, ISBN 0-256-16205-0

As can be seen from the table above, a multi-business or diversified company adds another level (the corporate level) to the strategy-making structure. There are fundamental differences when identifying strategies for a single business company compared with the larger multi-business or diversified company.

The single business company

The basic competitive approach for a single business company[21] should be:

- Do we want to be a cost differentiator - low cost and low price?
- Do we want to be a differentiator - how can we be different other than on price?
- Do we want to focus on a specific market niche?

These are essentially marketing issues as much as they are strategic business issues. With the answers to the above, the business has to be able to respond to changing industry and market conditions as well as other influencing factors such as political and environmental changes. It also has to take into account *how* it intends to make moves to secure its competitive and sustainable advantage in the marketplace.

The key functional strategies for a single business company will be concerned with:

- Manufacturing and operational issues
- Marketing, sales, promotion and distribution
- Technology and research and development
- Human resources and people management and their development
- The financial implications

The multi-business/ diversified company

Since a diversified company by its very nature is a collection of different businesses, making strategy for it is a bigger-picture exercise than for a single-business organisation, because:

- In a single-business organisation, managers need to know about their own industry and their company's competitive position within it.
- In a diversified company, managers need to craft strategies on a multi-business and multi-industry basis and know about the business and industry environments of each element and their company's position in relation to each of them.

The basic competitive approach[22] for a multi-business and diversified company is somewhat different to that of a single business company, as questions should be asked such as:

- How much diversification?
- What kind of diversification?
- How does the diversification impact on the corporate identity?

Factors that need to be taken into account are:

- How to allocate investment funds across various business units.
- When to get out - divesting businesses that are either unprofitable or those that do not fit with the objectives for the organisation as a whole.
- When to get in - what new businesses need to be added in industry sectors that are attractive to the organisation as a whole.

Strategic Options

Strategic options, from a possible diversification perspective, open to a company are captured in the next table, with each of the options shown in the probable order of attractiveness.

Competitive Position

Weak ⟷ Strong

Market Growth Rate: Fast ⟷ Slow

Market Growth Rate	Weak	Strong
Fast	**Strategy options** • Reformulate single-business concentration strategy (to achieve turnaround) • Buy another company in the same industry (to strengthen position) • Vertically integrate (forward or backward if it strengthens the company's competitive position) • Diversify • Be acquired or sell out to a stronger rival. • Abandon (if all else fails!)	**Strategy options** • Continue the single-business concentrated focus – international expansion (if market opportunities exist) • Vertically integrate (if it strengthens the company's competitive position) • Related diversification (to transfer skills and expertise built up in the company's core business to adjacent businesses)
Slow	**Strategy options** • Reformulate single-business concentration strategy (to achieve turnaround) • Merger with rival company (to strengthen competitive position) • Vertical integration (only if it substantially the strengthens competitive position) • Diversification • Harvest or divest • Liquidation (if all else fails!)	**Strategy options** • International expansion (if market opportunities exist) • Related diversification • Unrelated diversification • Joint ventures into new areas • Vertical integration (if it strengthens the competitive position) • Continue single-business concentration (achieve growth by taking market share from weaker rivals)

Derived from: "Policy Formulation and Administration" by C R Christensen, N A Berg and M S Salter, published by Homewood; Richard D Irwin, 1976, pp 16-18.

There has to be a good reason for a company to diversify… there is - it's all to do with building value for the shareholders of the company. Thompson and Strickland[23] put it like this: *"To create shareholder value, a diversifying company must get into businesses that can perform better under common management than they could perform as stand-alone enterprises"*.

Porter[24] suggests three tests for examination pre-launching into a diversification programme (if all three are satisfied, diversification will offer the greatest prospect for success):

- The attractiveness test – this is the most obvious test. An attractive industry (that is with favourable competitive conditions and a market environment in which long-term profitability is likely) able to provide good investment returns on a consistent basis is what the strategist is looking for.

- The cost of entry test – if it costs too much to enter the market of the target industry, the potential for good profitability will be too low to attract the clever strategist. Start-ups are always going to be costly and the prospect of success is uncertain.
- The better-off test – the strategist will be looking for a new business that will provide better returns than the existing business or, with an added competitive advantage brought to the new business, it will provide the opportunity to create a sustainable competitive advantage and, with it, added profitability and increased shareholder returns.

There are five types of industry environments[25] and the strategies for each are shown below.

Environment	Some of the challenges	Possible strategies
Emerging (formative stage) industries	- Many uncertainties exist – no previous track record. - Low entry barriers usually exist. - Little competitor information. - Marketing is focussed in creating customer demand and overcoming scepticism. - Potential customers prefer not to be guinea pigs and wait until technology and product design mature. - Sometimes, supply of raw materials/parts is a problem.	- Broad or focussed differentiation strategies with product superiority offer best chance for early competitive advantage. - Push to perfect technology, product design improvement with high performance features. - Search out new consumer groups. - Make it easier to buy-and-try. - Use price cuts to bring next layer of price-sensitive buyers into the market.
Maturing industries	- Buyers are sophisticated – harder to sell to. - Greater emphasis on cost/service. - Slower industry growth equals slowdowns in capacity expansion - New product innovation and new end-use ideas are harder to find. - International competition increases.	- Prune the product range. - Emphasise product innovation. - Strong focus on cost reduction. - Sell more to existing customers. - Buy rival companies cheaply - Expand internationally.
Stagnant or declining industries	- Adjusting to the realities. - Emphasis on Cashflow and Return on Investment. - Danger from strong competitors. - Growth may only be possible by acquisition.	- Focus on identifying, creating and exploiting growth elements in the industry. - Emphasise differentiation based on quality improvement and product innovation. - Drive costs downwards.
Fragmented industries	- Low entry barriers allow small firms to compete. - Often, sales volumes are too small to support big-firm manufacture, marketing and distribution. - High transport and other costs. - The market is too local or presents geographical problems for big-firms	- Keep costs down by adopting standardised facilities. - Become a low-cost operator. - Specialise by product type and by customer type. - Focus on niches – such as a limited geographical area. - Increase customer value.
International markets	- Different cost variations from one country to the next. - Currency rate fluctuations. - Foreign trade policies and laws. - Language variations. - Cultural differences.	- License the company's technology or manufacturing processes. - Manufacture in one place and export to foreign locations. - Craft the strategy country by country. - Consider global low-cost, or global differentiation or focus

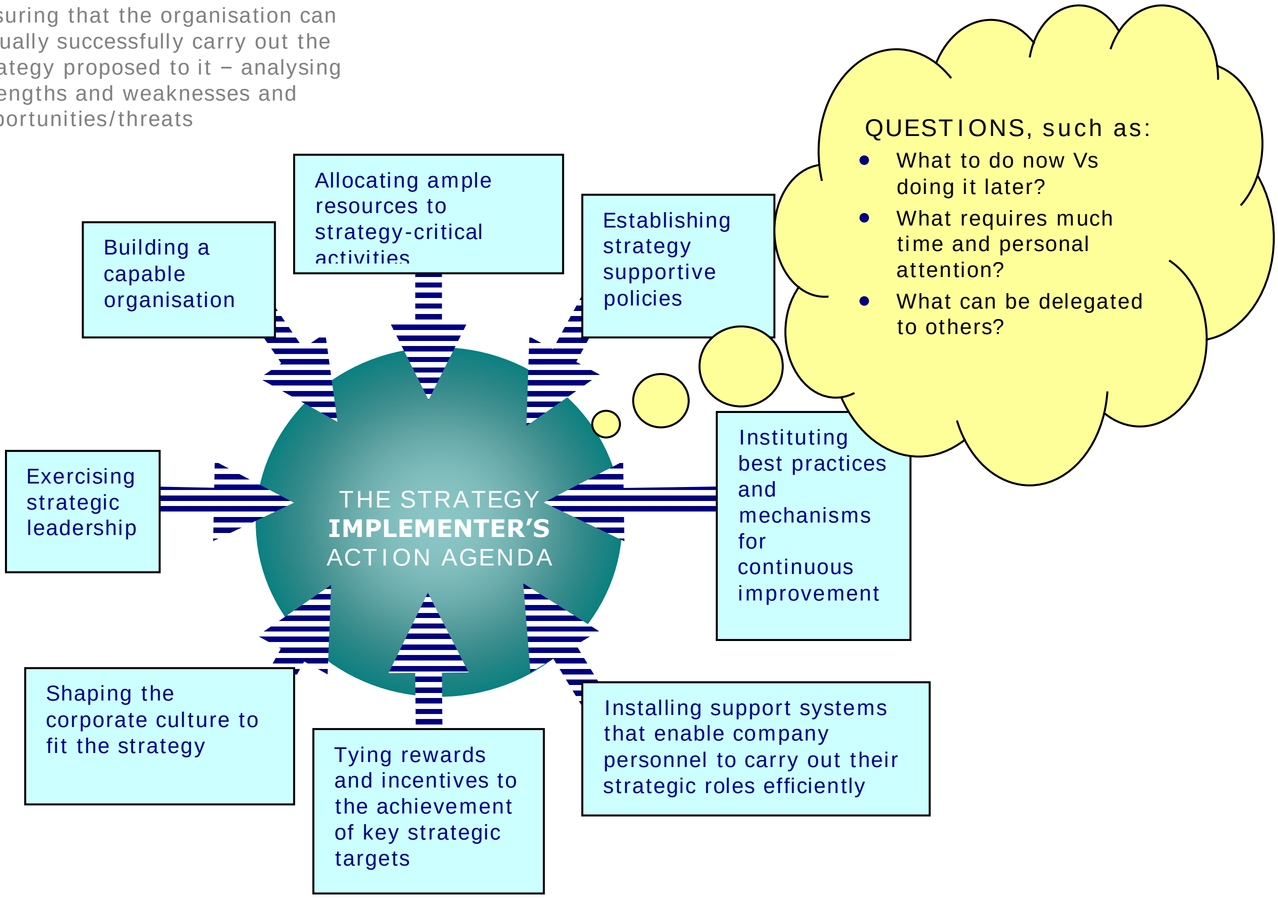
Strategy Implementation

After managers have decided on a strategy, the next step is to convert it into actions and achieve results that make shareholders smile - in order words implementation. Putting a strategy into place and getting an organisation to execute it calls for entirely different managerial skills from those engaged in crafting strategy:

- Strategy crafters are largely market-driven entrepreneurs
- Strategy implementers are concerned with driving operations and managing people as they convert the strategic plan into action

How strategy implementers actually do their work depends on each specific situation, but there are certain core matters that have to be covered such as:

- Establishing an organisation with the right operating and support systems, best practices, policies and procedures in place
- Ensuring that the organisation can actually successfully carry out the strategy proposed to it – analysing strengths and weaknesses and opportunities/threats
- Organising financial (and non-financial) budgets and the budgetary process so that sufficient resources are made available to "steer those chain-value activities critical to strategic success" and engaging in strategic control activities to ensure the goals are attained
- Creating a work environment and putting a reward systems in place that is conducive to employee motivation
- Implementing the strategy and having strong, direct clear and motivating leadership – establishing a clear mission and goals.



Source: Page 243, "Strategic Management: Concepts and cases", by Arthur A Thompson and A J Strickland, published by Irwin, 1996, ISBN 0-256-16205-0

Further Information

This guide is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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[21] See Page 41, "Strategic Management: Concepts and cases", by Arthur A Thompson and A J Strickland, published by Irwin, 1996, ISBN 0-256-16205-0.
[22] See Page 40, Ibid.
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Important Notice

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